

## Chapter 6: Bangladesh imports from India: composition, trends and potential under an FTA

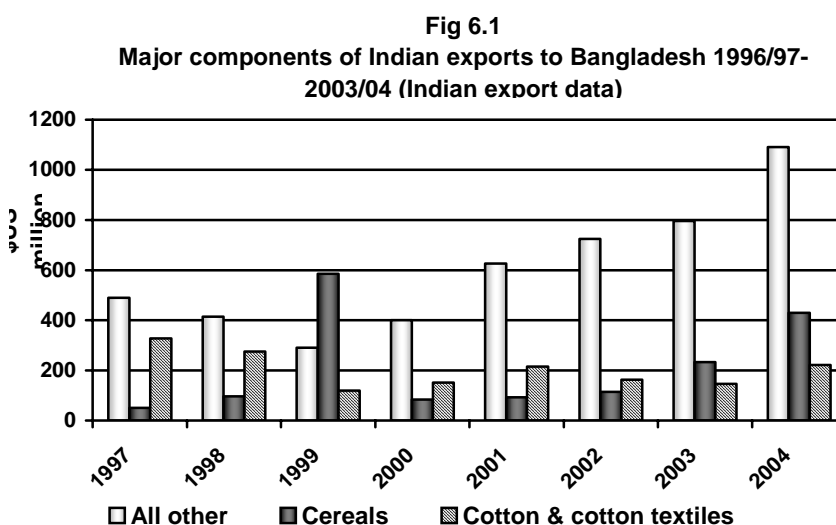
As discussed in the previous section, there are large discrepancies between the Indian statistics of exports to Bangladesh and the Bangladesh statistics of imports from India, both in the aggregate and even more so at the level of individual commodities. Disaggregating the Bangladesh import statistics (Table 6.1) by some major commodity categories shows the following:

- Highly variable but sometimes large imports of cereals (mainly wheat and rice) from India. Bangladesh is also importing from other countries, but India has been the main supplier in recent years.
- An apparently declining role of India as a supplier of duty free intermediate goods (mainly textiles) for Bangladesh's export RMG sector. According to the Bangladesh import data, in 2003/04 "Back-to-back LC" imports from India only accounted for 3.5% of its total "Back-to-back LC" imports
- That India is supplying fairly constant shares of Bangladesh's imports of basic raw materials, intermediate goods used for domestic production, capital goods and non-cereal final consumer goods

The Indian export statistics have been not been sorted into these categories, but a separation into the three categories illustrated in Fig 6.1 (cotton and cotton textiles, cereals and "all other") confirms the importance and variability of cereal exports, and is consistent with a declining Indian role in the supply of inputs to Bangladesh exporters, since this is the main destination of its cotton textile exports. However, according to these statistics, "all other" exports have been growing very rapidly, on average at around 15% annually since 1996/97, with especially big increases in 2002/03 and 2003/04. This suggests that at least one of the following categories of Indian exports to Bangladesh –basic raw materials, intermediate goods used in domestic production, capital goods, or non-cereal consumer goods, have been growing faster than indicated by the Bangladesh import statistics.

India exports a wide range of products to Bangladesh. According to the Indian export statistics for 2003/04, there were at least some exports in all but 4 of the 98 HS chapters. About a third of total exports were primary agricultural, fish and livestock products, 6.6% processed foods and drinks (including animal foods), and most of the rest manufactured products (Table 6.2). Leaving aside textile and clothing exports, most of which go duty free to Bangladesh RMG exporters, India was supplying 21.5% of Bangladesh's total imports for use in the domestic market.

Table 6.3 shows the top 25 product groups (defined by 2-digit HS codes) exported by India to Bangladesh in 2003/04, as recorded in India's trade statistics. To improve comparability with Bangladesh's import data, the textile and clothing (T&C) HS chapters were removed in constructing the table, because duty free imports for exporters ("back-to-back LC" imports) are not included in the NBR database, and these are mostly T&C products for Bangladesh RMG



exporters. India's principal exports are then compared with Bangladesh's total imports of the same product groups as recorded in the NBRs database for Bangladesh's fiscal 2003/04, and Bangladesh's average protective tariffs during 2003/04 are shown for each product group. The average tariffs allow for para-tariffs and have been calculated on three different bases: as an unweighted average of all the MFN 8-digit tariff lines in each chapter; as an unweighted average including all MFN tariff lines plus reduced "end user" tariffs plus all reduced preferential tariffs; and finally, as in the second case but weighting by total imports during the year.

**Table 6.1: Indian exports to Bangladesh 2003/04 (from Indian export statistics)**

<i>HS code</i>		<i>\$ US million</i>	<i>Share %</i>
1-14	Primary agricultural, fish, and livestock products	571	32.8
15-24	Processed foods and drinks (including animal foods)	115	6.6
25-49	Miscl mineral and manufactured goods	318	18.3
50-63	Textile fibres, textiles and clothing	269	15.4
64-98	All other (including machinery and transport equipment)	468	26.9
<b>TOTAL</b>		<b>1741</b>	<b>100.0</b>

During 2003/04 the 25 product groups accounted for 81% of India's total recorded exports to Bangladesh, and almost 96% of total exports to Bangladesh after excluding T&C exports. The fiscal year difference, the exclusion of T&C imports and other factors discussed previously should be borne in mind in comparing the Indian and Bangladesh statistics, but the data nevertheless provide a useful preliminary overview of the likely consequences for Bangladesh of free trade with India. In particular note that:

- India's share of Bangladesh's total imports of each of these product groups is quite high: more than half for 8 product groups, between 20% and 30% for 7 product groups; between 10% and 20% for 7 product groups; and in only three cases less than 10%.
- Average protective tariffs for most of the product groups are high. Even after allowing for and averaging over "end user" tariff lines, and weighting by imports, only 5 of the 25 product groups (cereals, non-electrical machinery, animal foods, pharmaceuticals and railway equipment) have average tariffs of less than 10% , and the average import weighted tariff of the other 20 product groups is 29%

This means that Indian exporters to Bangladesh are successfully competing with exporters in the rest of the world (ROW) and have achieved substantial shares in Bangladesh's import markets, while in most cases paying relatively high tariffs which in principle are the same for all exporters. If Bangladesh's MFN tariffs for the rest of the world were to remain the same while India received duty free treatment under SAFTA or a bilateral FTA, for most of these products Indian exporters would have a substantial price advantage in products in which it appears from the trade data they are already highly competitive.

The potential for expanded Indian exports to Bangladesh is supported by a very interesting NCAER paper<sup>61</sup> which was prepared as part of the project. The paper outlines the results of a survey carried out in Kolkata by an NCAER team, and a survey in Bangladesh by Data International which asked for information on domestic prices of a set of representative products.<sup>62</sup> The Kolkata survey received responses from 82 firms exporting to Bangladesh and from 50 manufacturers who were supplying them. Many responses were incomplete and the coverage of individual questions (including price information)

<sup>61</sup> Das, Samantak, Somnath Mukherjee and Sowmya Srinivasan, *Study of a Sample of Products/Industries in India*. Mimeo 2003.

<sup>62</sup> The Kolkata survey was done during July and August 2002, and the Bangladesh survey a few months earlier.

was not the same in India and Bangladesh. As regards comparative prices in the two countries, the sample of reasonably reliable responses that could be compared in the end was quite small and covered only 30 products. Nevertheless, the results were striking, indicating that prices of 25 of the 30 products were higher in Bangladesh, and in most cases very considerably higher-on average for the 30 products about 62% higher.<sup>63</sup>

	<i>Number of products with prices</i>			
	Higher in India	Higher in Bangladesh	Total number of products	Average ratio of Bangladesh price to Indian price
Agricultural products	1	9	10	1.83
Processed foods	-	4	4	2.00
Manufactured products	4	12	16	1.39
<b>TOTAL</b>	5	25	30	1.62

The NCAER paper also provides information for these products on indirect taxes in the two countries. In Bangladesh, except for exempted products, there is just the 15% VAT, but in India (also except for exempted products) there is the central government excise tax –usually 16%- and at the time of the survey the central sales and state sales taxes<sup>64</sup>. The paper does not discuss the implications of the indirect taxes for the price comparisons, but a finding of major importance emerges when these are factored in. This is that **the combined incidence of the central excise tax and central and state sales taxes in India is in general much higher than the Bangladesh VAT**. This means that reported retail price comparisons if anything understates the excess of Bangladesh prices over Indian prices after the indirect taxes have been removed. As a rough test of this, for this synthesis, using arbitrary assumptions on retail margins and the indirect taxes reported in the paper, approximate pre-tax ex-factory prices were derived and compared for the five products which according to the surveys had lower retail prices in Bangladesh<sup>65</sup>. For one product, this reversed the comparison, and in the other four it substantially reduced the estimated excess of the Indian price.

<i>Product</i>	<i>Estimated ratio of Bangladesh price to Indian price: retail incl indirect taxes</i>	<i>Estimated ratio of Bangladesh price to Indian price: tax free wholesale or ex-factory</i>	<i>Bangladesh: % of VAT to retail price</i>	<i>India: % of indirect taxes to retail price</i>
Domestic soap	0.85	0.98	11.8	22.8
Dry red chilly	0.89	0.95	nil	6.5
Ceiling fan (sweep type 900-1200 mm)	0.78	0.85	12.5	18.3
UPS (600-625 VA)	0.99	1.15	11.9	22.7
Paints	0.70	0.81	nil	13.8*

\* The comparison for paints is of wholesale prices only

<sup>63</sup> 27 of these comparisons are of retail prices and 3 of wholesale prices. 12 of the retail price comparisons were confirmed by comparisons of wholesale prices of the same products. Details of the comparisons are given in Table A.4 of the NCAER report.

<sup>64</sup> The NCAER paper reports state sales taxes in West Bengal only, and not central sales taxes or sales taxes in other states. Some products shipped to West Bengal from other states might be subject to central sales tax in addition to the state sales tax, so the total incidence of indirect taxes could be even higher than indicated in the paper.

<sup>65</sup> For this exercise it was assumed that in Bangladesh the VAT is collected at ex-factory and wholesale levels in Bangladesh but not at retail level.

The surveys were not able to obtain adequate data on tax free ex-factory or tax free wholesale prices which could be compared directly, but the higher incidence of indirect taxes in India suggests that the potential for exports from India to Bangladesh is even greater than suggested by the comparisons of tax inclusive prices at retail level, since legal exporters are exempt from these indirect taxes, in addition to which they are exempt from or receive rebates of import duties and indirect taxes on their inputs. Conversely, allowing for the indirect tax difference—at least for this small sample of products—reduces even further the likelihood that there would be many exports from Bangladesh to India under free trade. However, this has to be interpreted carefully, since the NCAER sample was of products already being exported by India, so it is unlikely to include products that would be traded in the other direction<sup>66</sup>.

The incidence of indirect taxes also confirms suggestions in some of the industry case studies that illegal “bootleg” smuggling from India to Bangladesh in border areas is inhibited by the fact that some if not all of the smugglers on the Indian side pay tax inclusive prices for the goods that are smuggled. As pointed out in the case study on sugar, this means that both the Indian central government and the Indian state governments are obtaining part of the smuggling economic rents from the excise tax and the sales taxes on the smuggled goods, which in effect constitute an Indian export tax on products which are smuggled to Bangladesh.

The NCAER survey also asked Indian traders who were already exporting to Bangladesh by what percentage they would expect their exports to expand under three different hypotheses on Bangladesh tariff reductions (50%, 75% and 100%). For the free trade alternative (100% tariff reduction) the average estimated increase for 58 products was 34 %, distributed as follows:

<i>Type of product</i>	<i>Number of products</i>	<i>Average of expected increases in exports to Bangladesh %</i>
Agricultural	14	31
Processed food	4	45
Manufactured	39	35
Mineral	1	10
All products	58	34

For only 4 of the 58 products was the expected increase in exports 10% or less (wheat, C.I. sheets, paints, and bauxite), and not surprisingly three of these products were already facing low Bangladesh protective tariffs<sup>67</sup>.

The aggregated data on Indian exports to Bangladesh and the NCAER exporter survey suggest that there is considerable potential for trade diversion with an FTA i.e. Indian exporters would be able to undercut ROW suppliers and substantially increase their shares in Bangladesh’s import markets. This in turn would have important economic welfare consequences. One immediate consequence would be lost government revenue from the protective tariffs that would no longer be applied to imports from India. For the product groups for which Indian export data is provided in Table 6.2, assuming that under an FTA India would not supply crude oil and petroleum products and omitting the mineral fuels and oils HS chapter, a very approximate estimate of the total government revenue from protective tariffs on 2003/04

<sup>66</sup> A similar survey was not carried out on the Bangladesh side. A useful follow up to this study would be to put similar questions to Bangladesh traders exporting to India. However, the sample would be much smaller than the Indian sample, owing to the low volume of this trade and the relatively few products involved (see section 7 below).

<sup>67</sup> Wheat 7.5%, C.I. sheets 10%, bauxite 3.5%. The NCAER questionnaire did not attempt to distinguish protective tariffs from the (in principle) non-protective import taxes i.e. the VAT and the advance income tax. It is likely that the respondents may have had in mind all the Bangladesh import taxes including these.

imports is \$738 million, of which \$207 million was from imports of these products from India<sup>68</sup>. Under an FTA the government revenue loss would therefore at least be \$207 million, and it would be greater than this to the extent that Indian exporters were to increase their shares in these import markets. But increased market share would be the outcome of lower prices and/or better quality and service for Bangladesh buyers of the imports, and at the same time would increase competition for Bangladesh producers. In evaluating the net economic welfare effect of the FTA in Bangladesh, these benefits to Bangladesh buyers and some potential economic costs for producers would need to be weighed with the government revenue effects. Under the project, a methodology for doing this kind of evaluation at the level of individual industries was developed and some industry case studies were undertaken. This work is briefly summarised in section 10.

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<sup>68</sup> These are very rough estimates made by applying the import weighted tariff rates given in Table 6.3 to total 2003/04 imports and are indicative of orders of magnitude only. They assume that para-tariffs as well as Customs duties would be zero under an FTA, but that Bangladesh's VAT would be applied in the normal way to imports from India. The estimates would ideally be done at a more disaggregated level and using if available actual tariff collections.

**Table 6.2: Bangladesh Imports FY 1996 & FY 2001-FY 2004: Composition and Indian shares  
(using Bangladesh trade statistics)**

Description	1995-96		2000-01		2001-02		2002-03		2003-04	
	Imports million \$	Share %	Imports in million \$	Share in %	Imports million \$	Share in %	Imports million \$	Share in %	Imports million \$	Share in %
<b>Imports from World</b>										
Basic Raw Materials	758	11.5	903	10.8	852	9.1	1,015	10.7	1,409	12.8
Intermediate Goods: total	3,632	54.9	4,956	59.3	4,761	51.1	5,240	55.3	5,899	53.4
Intermediate Goods: Domestic Consumption	1,936	29.3	2,082	24.9	2,169	23.3	2,445	25.8	2,702	24.5
Intermediate Goods: Back- to-Back-L/C & EPZ Imports	1,696	25.7	2,874	34.4	2,592	27.8	2,795	29.5	3,197	29.0
Capital Goods	1,165	17.6	1,463	17.5	2,555	27.4	1,447	15.3	2,016	18.3
Final Consumer Goods: Total	1,057	16.0	1,036	12.4	1,151	12.3	1,775	18.7	1,720	15.6
Final Consumer Goods: Wheat & Rice	479	7.2	251	3.0	246	2.6	345	3.6	332	3.0
Other Final Consumer Goods	578	8.7	785	9.4	905	9.7	1,430	15.1	1,387	12.6
Total	6,612	100.0	8,357	100.0	9,319	100.0	9,477	100.0	11,044	100.0
<b>Imports from India</b>										
Basic Raw Materials	117	11.1	84	10.4	126	13.0	135	11.2	218	16.8
Intermediate Goods: Domestic Consumption, Back-to-Back L/C	442	42.1	405	50.2	400	41.1	436	36.0	448	34.5
Intermediate Goods: Domestic Consumption	276	26.3	227	28.2	264	27.1	340	28.1	336	25.9
Intermediate Goods: Back- to-Back-L/C	165	15.8	178	22.0	136	13.9	95	7.9	112	8.6
Capital Goods	125	11.9	115	14.3	176	18.1	156	12.9	178	13.7
Final Consumer Goods: Total	367	34.9	202	25.1	272	27.9	484	40.0	455	35.0
Final Consumer Goods: Wheat & Rice	273	26.0	73	9.0	116	11.9	274	22.7	231	17.8
Other Final Consumer Goods	93	8.9	129	16.0	156	16.0	209	17.3	224	17.2
Total	1,051	100.0	807	100.0	974	100.0	1,210	100.00	1,299	100.0
<b>Indian share of imports %</b>										
Basic Raw Materials	15.4		9.3		14.8		13.3		15.5	
Intermediate Goods: Total	12.2		8.2		8.4		8.3		7.6	
Intermediate Goods: Domestic Consumption	14.3		10.9		12.2		13.9		12.4	
Intermediate Goods: Back- to-Back-L/C	9.8		6.2		5.2		3.4		3.5	
Capital Goods	10.8		7.9		6.9		10.8		8.8	
Final Consumer Goods: Total	34.7		19.5		23.6		27.3		26.5	
Final Consumer Goods: Wheat & Rice	57.1		29.1		47.0		79.6		69.5	
Other Final Consumer Goods	16.1		16.5		17.2		14.6		16.1	
Total	15.9		9.7		10.5		12.8		11.8	

**Sources:** NBR database (Customs clearance basis) and Bangladesh Bank for Back-to-Back LC imports (payment basis). Total imports from India during FY 04 in this Table are much less (by about \$400 million) than total exports to Bangladesh during Indian FY 04 shown in the Indian export statistics. See discussion in section 5 above

**Table 6.3: Indian exports to Bangladesh 2003/04: 25 principal products exported (as defined by HS 2-digit product codes) . Textile and clothing HS chapters 50-63 excluded**

	HS code	Indian exports (X)	Bdesh total imports (M)	Share of X in M	Bangladesh protective tariffs rates % Unwtd avg MFN lines	Unwtd avg all lines	Wtd by total imports all lines
		\$ million	\$ million	%			
<b>25 largest exported product groups</b>							
Cereals (mainly rice and wheat)	10	429.2	357.7	120.0	11.00	11.00	6.82
Non-electrical machinery	84	98.9	1185.8	8.3	18.86	10.93	7.75
Vegetables	7	92.4	166.9	55.3	32.22	31.48	11.08
Vehicles-cars, trucks, buses, tractors	87	82.4	354.9	23.2	42.87	38.92	24.19
Articles of iron & steel	73	81.9	86.3	94.8	32.68	30.34	21.90
Iron & steel	72	74.3	268.5	27.7	18.35	18.19	13.13
Animal food	23	72.9	63.2	115.4	1.65	1.50	0.16
Mineral fuels, mineral oils etc	27	67.5	813.1	8.3	29.64	27.68	43.65
Electrical machinery	85	52.3	438.1	11.9	25.61	19.83	15.07
Aluminium & articles thereof	76	37.1	69.1	53.7	23.88	20.25	14.22
Salt, lime & cement, earths, stone etc	25	36.7	220.3	16.6	23.43	22.20	25.38
Rubber & rubber articles	40	34.6	59.9	57.8	22.73	19.13	25.78
Organic chemicals	29	34.4	183.9	18.7	15.17	14.03	10.71
Plastics and plastic articles	39	33.4	235.1	14.2	26.42	23.91	18.62
Sugar and sugar confectionery	17	32.1	134.4	23.9	54.59	46.67	92.78
Dyes, pigments, tanning agents, paints etc	32	29.1	84.9	34.3	20.07	19.45	11.52
Edible fruit and nuts	8	25.7	37.3	68.9	35.23	35.23	76.15
Inorganic chemicals	28	21.7	81.2	26.7	17.38	16.53	16.85
Paper, paperboard, paper articles	48	14.3	106.5	13.4	28.92	27.25	28.68
Pharmaceuticals	30	14.0	94.1	14.9	8.58	9.22	3.86
Coffee, tea, spices	9	13.8	37.3	37.0	45.23	44.71	43.04
Miscl chemical products	38	12.3	74.3	16.5	22.89	20.76	16.34
Railway equipment	86	5.6	9.1	61.3	21.18	21.18	8.24
Optical, photographic etc equipment	90	5.4	94.1	5.8	13.50	8.50	10.13
Books, newspapers etc	49	5.1	14.9	34.2	16.68	16.68	20.05
<b>Total: 25 principal products exported</b>		1406.8	5271.0	26.7	n.a	n.a	n.a
<b>69 other product groups</b>		65.5	1589.3	4.1	n.a	n.a	n.a
<b>Total : all product groups (84 HS chapters)</b>		1472.3	6860.4	21.5	n.a	n.a	n.a

Notes: The Indian export statistics are for the April-March 2003/04 fiscal year whereas the Bangladesh NBR statistics of total imports are for Bangladesh's July-June 2003/04 fiscal year. This is probably the principal reason Indian cereal and animal food exports exceed Bangladesh total imports. Duty free intermediate inputs imported by Bangladesh exporters are not included in the Bangladesh NBR database. Most of these are textiles which are included in the Indian export statistics. To make the two data sets more comparable the textile and clothing HS product groups (HS 50-63) have been omitted from this table i.e. from both Indian exports and Bangladesh imports. The protective tariffs include para-tariffs as well as Customs duties and are averages of the 8-digit products included in each 2-digit HS chapter. The unweighted average of MFN lines excludes all "end user" and preferential tariffs within each 2-digit chapter. The unweighted average for all lines includes the MFN tariff lines and end-user and preferential tariffs which are shown as separate tariff lines for each 8-digit product to which they are applied. The import weighted tariffs are calculated using all the tariff lines including the end-user and preferential reduced tariffs.