

## Chapter 7: Bangladesh exports to India: composition, trends and prospects under an FTA

As discussed previously, Bangladesh's exports to India, after increasing quite rapidly in the early 1990s from almost negligible levels, levelled off after 1995/96 and in 2003/04 were about the same in nominal US dollars, and lower in inflation adjusted dollars, than they had been 9 years earlier (Fig 5.2). From India's perspective they are a miniscule share of its total imports (less than 0.1%) and are only about 1% of Bangladesh's total exports. Since 2001/02 they have been increasing fairly rapidly, and according to the most recent Indian import statistics, this increase was sustained until India's 2005/06 fiscal year at roughly a 30% rate, rising to \$120 million in 2005/06. However it was from a very low level of only \$50-60 million in 2001/02<sup>69</sup>. These levels are much too low to be confident in projecting longer term trends, because the exports are dominated by just a few products, changes in which can cause large proportionate changes in the totals. For example, the increase between 2002/03 and 2003/04 was almost entirely due to increased exports of just one product, anhydrous ammonia.

About two thirds of Bangladesh's exports to India consist of this one product, (which is imported duty free as an input into India's urea industry) plus raw jute. In 2003/04 there were only seven products (including these two) with exports exceeding \$1 million, and between them these seven accounted for 87% of Bangladesh's total exports. As indicated in Table 7.1, there were only 29 products (defined at HS 6-digit level) with Indian imports exceeding \$100,000.

To what extent is the very low level and slow growth of Bangladesh exports to India a consequence of high tariffs and/or other restrictions in India? In discussing this it is useful to distinguish four broad categories of imports for which there are different protection policies in India.

Industrial products (other than textiles and clothing) without SAPTA preferences. As noted in section 3, since 20001/01 India has been providing SAPTA preferences to Bangladesh on about 2925 6-digit tariff lines, about 58% of the total number of lines. This leaves about 2075 products without SAPTA preferences. Omitting textiles and clothing and the "agricultural" HS products (discussed separately below), there are still a large number of mainly manufactured products for which imports from Bangladesh are treated on an MFN basis in the same way as imports from other countries without preferences. More products fall into this category to the extent that preferences are or would be precluded for Bangladesh by the SAPTA rules of origin. For these products typical Indian industrial MFN tariffs came down from 44.9% in 20001/04 to 30.8% in 2003/04, to 20% in 2004/05, and to 15% in 2005/06. Despite this steep decline in India's protection rates (illustrated in Fig 3.6) only 7 Bangladesh industrial products without SAPTA preferences appear in India's 2003/04 import basket as summarized in Table 7.1, and then at very low annual import levels of no more than about \$300,000 per product. Very little change is apparent from the import data for the first three quarters of 2004/05. Moreover, during this period none of these products were subject to India's general import licensing system, which was already lifted for Bangladesh and the other SAFTA countries in 1998. This suggests that most of these industrial products are not being produced in Bangladesh, or if they are, that the Bangladesh producers have not found it profitable to compete either with producers in other countries in supplying India, or with domestic Indian producers even though Indian industrial tariffs are now at historically low levels.

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<sup>69</sup> According to export data from the Bangladesh Export Promotion Bureau, Bangladesh exports to India shot up to \$242 million in Bangladesh's fiscal 2005/06, compared to \$144 million in the preceding year. Divergence between the two data is partly due to the difference in fiscal years: April-March for India and July-June for Bangladesh.

**Table 7.1: Indian imports from Bangladesh during Indian FY 04: comparison of MFN and preferential SAPTA tariffs**

HS code			Indian imports FY 04		2003/04 tariff		2004/05 tariff		2005/06 tariff	
			\$US million	% of total	MFN	SAPTA	MFN	SAPTA	MFN	SAPTA
					pref rate		pref rate		pref rate	
28	1400	Anhydrous ammonia	31.74	40.9	0	0	0	0	0	0
53	0310	Raw jute	20.43	26.3	5	2.5	5	2.5	5	2.5
03	0269	Hilsa fish	5.01	6.5	35.2	19.6	30	15	30	15
62	0520	M&B woven shirts-cotton	4.17	5.4	49.7	27	44.8	22.4	46.2	23.1
53	1010	Jute fabrics	2.2	2.8	30	14.4	20	8	15	6
08	0290	Betel nuts & other nuts	2.19	2.8	35.2	16.5	30	12	30	12
27	0119	Steam coal	1.85	2.4	30	30	20	20	15	15
56	0710	Twine ropes jute & other fibres	0.64	0.8	24.8	12.3	20	8	15	6
41	0719	Leather whole hide	0.42	0.5	30	27.4	20	18	15	13.5
34	0119	Household soaps	0.25	0.3	36	4.6	20	0	15	0
41	0411	Wet blue	0.24	0.3	30	27.4	20	18	15	13.5
41	0419	Wet-Other	0.24	0.3	30	27.4	20	18	15	13.5
41	0449	Dry-Other	0.22	0.3	30	27.4	20	18	15	13.5
84	4790	Other knitting machines	0.21	0.3	30.8	30.8	20	20	10	10
84	7982	Mixing, stirring etc machines	0.21	0.3	30.8	30.8	20	20	15	15
04	0613	Shrimp & prawns frozen	0.19	0.2	35.2	19.6	30	15	30	15
84	8590	Other machinery-parts	0.19	0.2	30.8	30.8	20	20	15	15
52	0420	Cotton sewing thread -retail sale	0.18	0.2	24.8	14.4	20	10	15	7.5
84	4311	Offset printing machy	0.18	0.2	30.8	30.8	20	20	15	15
84	4511	Cotton carding machines	0.18	0.2	30.8	30.8	20	20	10	10
52	0299	Other cotton waste	0.17	0.2	19.6	11.8	15	7.5	15	7.5
28	0111	Toilet soaps	0.16	0.2	36	4.6	20	0	15	0
22	0290	Fruit juice or pulp based drinks	0.15	0.2	35.2	35.2	30	30	30	30
52	0522	Cotton single yarn	0.15	0.2	24.8	14.4	20	10	15	7.5
85	0790	Accumulator (battery) parts	0.15	0.2	30.8	11.2	20	5	15	3.75
20	0980	Mango & other juices	0.11	0.1	35.2	11.8	30	7.5	30	7.5
39	1729	Tubes & hoses	0.11	0.1	36	17.2	20	8	15	6
85	2510	Broadcast equipment sub-system	0.11	0.1	30.8	30.8	20	20	15	15
62	0590	M&B woven shirts-other fibres	0.1	0.1	84.5	44.9	49.8	24.9	51.4	25.7
Subtotal 29 products-avg tariffs			72.15	92.9	31.5	20.9	22.2	13.7	18.7	11.2
All other imports			5.48	7.1						
Total imports			77.63	100.0						
9 products with no prefs-avg tariffs			34.82	44.9	27.8	27.8	18.9	18.9	13.9	13.9
20 products with prefs-avg tariffs			37.33	48.1	33.1	17.8	23.7	11.4	20.9	10.0
20 products with prefs-wtd avg tariffs					19.6	10.4	16.7	8.1	16.2	7.9

**Notes:** Import data from India Ministry of Commerce DGFT website. Tariffs from Arun Goyal Easy Reference Customs Tariff, various editions. Tariffs for M&B (mens' & boys') shirts are specific tariffs applied to unit value of imports from Bangladesh in 2003/04. The MFN ad valorem tariff equivalents for the MFN tariffs assume the same unit values. The weighted averages are weighted by imports from Bangladesh. Hence the MFN rates show what the weighted average tariff on Bangladesh imports would have been in the absence of preferences. 2003/04 imports are used as weights in estimating the 2004/05 and 2005/06 weighted averages since import data for these years is not available. Note that rules of origin (maximum non-SAPTA content 70%) have to be satisfied for the preferential tariffs to be applied. Note also that the SAPTA preference did not apply to the Indian Sadd import tax so the de facto preference was less than the nominal preference during 2003/04 and before. The Sadd tax was abolished in January 2004.

Industrial products (other than textiles and clothing) with SAPTA preferences. Most of India's 2925 SAPTA preferences for Bangladesh are on industrial products, and the most frequent concession rate is 50%. Assuming this preference rate, a typical industrial preferential tariff for Bangladesh has declined during the past five years as follows:

	<i>MFN tariff %</i>	<i>Preferential tariff %</i>	<i>Price advantage for Bangladesh exporters over MFN exporters<sup>70</sup></i>
2001/02	41.3	23.0	13.0
2002/03	36.0	20.3	11.5
2003/04	30.8	17.7	10.0
2004/05	20.0	10.0	8.3
2005/06	15.0	7.5	6.5

From the perspective of actual or potential Bangladesh exporters to India (or equally from the perspective of Indian importers) the reductions in the preferential tariff since 2001/02 have greatly reduced the price disadvantage of Bangladesh exporters viz a viz domestic Indian suppliers. At the same time, however, the price advantage of Bangladesh exporters over MFN suppliers has also declined, from about 13% in 2001/02 to 6.5% in 2005/06.

Despite the large number of substantial SAPTA preferences and the decline in preferential tariffs during this period, only seven industrial products with preferences appear among India's principal imports from Bangladesh in 2003/04, and the imports of each of these were less than \$500,000 (Table 7.1). For a number of these products the rates of preference are low (e.g. 10% for processed hides and skins) and so the preferential tariffs are not much less than MFN tariffs, but for others imports were very small despite very substantial preferences. In particular, the preferential tariffs for household soaps and toilet soaps were only 4.6% versus MFN tariffs of 36%, but Indian imports from Bangladesh were only \$250,000 and \$160,000 respectively. This almost complete absence of response of Bangladesh exports to the numerous and fairly substantial Indian preferences under SAPTA, and to the decline of the preferential tariffs over the period, suggests once again that Bangladesh producers are probably not producing many products that are in demand in India. Alternatively, if these products are being produced in Bangladesh, it seems that, despite declining Indian tariffs, Bangladesh producers' costs are too high to compete with Indian producers, or with exporters in other countries who have to pay the higher MFN tariffs.

Textile and clothing (T&C)<sup>71</sup> products Three quarters of Bangladesh's exports are ready made garments, most of which go the US and Europe. How have these products been faring in the Indian market, and would Bangladesh's RMG industry export much to India if there were a bilateral FTA with India, or if the T&C sector is not put on a SAFTA negative list? These questions are explored in a case study prepared for the project on the RMG industry.<sup>72</sup> The case study focuses on mens' and boys' woven cotton shirts, which are major Bangladesh RMG exports, in order to make some more general points about the likely consequences of free trade between the two countries in the T&C sector as a whole. As background, the paper points out that Bangladesh RMG producers appear to have a marked labour cost advantage over RMG producers in India, owing to lower wages and similar labour productivity, but that India's specific duties on many fabrics and garments (see section 3 above) –as intended- have succeeded in preventing any substantial penetration of its domestic markets by developing country T&C producers.

<sup>70</sup> Defined as the difference of the preferential tariff inclusive price from the MFN tariff inclusive price, expressed as a percentage of the MFN tariff inclusive price

<sup>71</sup> HS 50-63

<sup>72</sup> Garry Pursell (2005, March). *Free Trade Between India and Bangladesh? A Case Study of the Ready Made Garment Industry*

Under SAPTA, Bangladesh RMGs benefits from Indian preferences –mainly either 50% or 60%-and these are applied to reduce to both the *ad valorem* and the specific components of compound tariffs. These preferences are substantial-for example (see Fig 3.5) in 2005/06 the *ad valorem* equivalent of the preferential specific tariff for Bangladesh on a \$4 cotton shirt is estimated at 23.7%, whereas the *ad valorem* equivalent of the tariff for a \$4 MFN sourced shirt-say from China- would be 47.3%. MFN tariffs at this level appear to be restricting Indian imports from MFN sources to high value brands and products, and to be precluding any substantial penetration from these countries of India’s mass consumption, low priced domestic markets. Presumably helped by this protection and the SAPTA preference advantage, Bangladesh RMG exports to India-almost entirely woven cotton shirts -grew fairly rapidly after 1999/2000 up to 2003/04, but the total level in that year (\$4.57 million) was still tiny both in relation to the Indian domestic RMG market and to Bangladesh’s total RMG exports. This general point is also symptomatic of the low level of Bangladesh exports of other T&C products to India (see Table 7.1).

The case study then considers what would happen under an India-Bangladesh FTA on the assumption that India would retain its specific tariffs on imports from MFN sources but either abolish them just for Bangladesh as part of a bilateral FTA, or for all the SAARC countries as part of SAFTA. Using the example of mens’ and boys’ woven cotton shirts, it works through the economic welfare consequences on various alternative assumptions about the likely demand response in India and the supply response in Bangladesh. This discussion brings out a number of points which overall suggest that there is a quite a low likelihood that there would be very substantial Bangladesh RMG exports to India even under this very favourable policy scenario, at least in the short to medium run. In particular:

- India is also a major exporter of RMGs, in 2003/04 with exports of \$6.2 billion versus Bangladesh’s exports of \$4.9 billion.
- It also has a very large and diversified textile industry which exports on its own account and supplies its RMG firms. By contrast, Bangladesh’s textile industry-especially the fabric sector-is a problem industry with high costs and high domestic prices, and is protected against imports by very high tariffs. As a result, Bangladesh’s RMG exporters rely mainly on imported yarns and fabrics.
- The paper argues that the very high protection levels provided by India’s specific duties on fabrics and garments are mostly redundant by wide margins. That is, actual domestic prices in India of all T&C products-yarns, fabrics, garments, and made-ups-are probably not far above and may even be below prevailing international prices at the cif stage in India. This generalization is partly based on reports that imports for the domestic market (as distinct from duty free imports of textile inputs by RMG exporters) of T&C products not subject to specific duties, have so far been minimal despite substantial reductions in *ad valorem* tariffs. The report also notes that Sri Lanka-which is a major RMG exporter has had negligible RMG exports to India, despite the 75% preference for garments negotiated under the Sri Lanka-India FTA. This preference means that during 2003/04, 2004/05 and 2005/06 Indian preferential *ad valorem* tariffs have been 12%, 5%, and 3.75% , and for garments subject to specific tariffs the tariffs for Sri Lanka are 25% of the MFN tariff. In 2003/04, the *ad valorem* equivalent for Sri Lanka of the Indian specific tariff on a \$4 shirt would have been about 12%. As Sri Lankan exporters have not been competing in India with these substantial preferences, the paper suggests that it would probably also be difficult for Bangladesh RMG exporters to compete there, even if the protective umbrella of India’s specific tariffs continues to keep out suppliers in the rest of the world.
- These likely difficulties of competing in India are compounded by the absence of a competitive low cost textile industry in Bangladesh, more so for fabrics than for yarns. This means that RMG firms exporting to India would have to deal with the usual delays and difficulties of international procurement of their textile inputs, whereas the Indian firms with which they would be competing

would in general obtain their inputs at highly competitive prices nearby in the domestic Indian market.

- In this regard, the potential Bangladesh RMG exporters would need to satisfy whatever rules of origin would be agreed under the FTA. Under SAPTA, the origin rule for Bangladesh is minimum domestic value added of 30%, but for many RMG products this could be difficult to meet unless some of the inputs are purchased in another SAPTA country e.g. India. If that turns out to be the case, it would be crucial to ensure fast and low cost transport and Customs clearance of the textile inputs obtained from India, preferably over the land border. Otherwise, if costs are high and there are unpredictable delays, Indian importers will be deterred from ordering garments in Bangladesh rather than in India.
- The paper also points out that if the Indian RMG market were to be opened preferentially to Bangladesh exporters on a free trade basis, and Bangladesh exporters were able to take advantage of the opportunity, it is likely that some of the RMG exports that go to India will be diverted from other markets. Hence, not all of the increase in RMG to India would represent a net increase in total Bangladesh RMG exports.
- The RMG market in India is far larger and more diversified than RMG production in Bangladesh. Even so, because of the importance of product differentiation in final consumer goods like garments-style, fashion, brands etc-some Bangladesh producers might be able to find market niches in India if they are able to link into strong Indian marketing organizations. However the reverse is also the case, and under an FTA with India, RMG exports from India to Bangladesh based on these considerations might well exceed Bangladesh RMG exports to India. An indication that this could happen is that during 2003/04 Bangladesh RMG imports from India were just over \$5 million<sup>73</sup>. These were mainly cotton trousers and shirts which were being imported over an 85.5% tariff. The paper points out that if RMG imports from India were profitable despite such an extremely high tariff, they would be likely to expand very substantially with a zero tariff under an FTA. This would be especially likely if the Bangladesh textile sector were excluded from the FTA by the use of a negative list, because Bangladesh garment producers selling domestically would then continue to be burdened by much higher textile input costs than their Indian competitors.

Agricultural, fish, livestock and processed food and drink products During 2003/04 exports of these products from India to Bangladesh were \$731 million<sup>74</sup>, but the reverse trade was tiny, just under \$29 million<sup>75</sup>. Of this, approximately \$20 million was raw jute, Hilsa fish (\$5 million), betel and some other nuts (\$2.2 million) and the rest consisted of very small volumes of frozen shrimp and fruit drinks. Once again it is natural to ask whether these almost negligible recorded export levels and their persistent failure to grow can be explained by restrictive Indian import policies. As noted in section 3 and discussed in more detail in the World Bank trade policy *Overview* report, these policies in fact have been and remain much more protective than industrial protection policies. In particular:

- Import of the main foodgrains is still monopolized by parastatals, and some grains and powdered milk imports are subject to tariff rate quotas
- Tariffs on these “agricultural” products were excluded from the tariff reduction program which started in 2002/03 and –except for system of specific duties protecting the T&C sector–remain much higher than industrial tariffs. At present the generally applied tariff is 30%, but tariffs on many products are much higher, so the unweighted average tariff is around 40%.

Does this mean that there would be substantial export opportunities for Bangladesh in India if under an FTA, India were to remove its import restrictions and tariffs for Bangladesh while keeping them

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<sup>73</sup> Ibid pp 27-32

<sup>74</sup> HS 01-24 plus raw cotton exports

<sup>75</sup> HS 01-24 plus raw jute imports

in force for the rest of the world? A thorough answer to this question would require updating and extending earlier studies of the relation of actual prices in both countries to world prices. However, there are a number of reasons for thinking that such studies would find quite limited export opportunities in India for Bangladesh exporters.

Firstly, as is the case of the textiles and clothing sector, the protection policies for some major Indian agricultural and other primary products can be characterized as “just in case” policies. That is, domestic prices are typically close to or even below world prices, but high protection is provided just in case there are downward swings in world prices or discounted shipments that might disrupt farmers and processors. Some obvious examples are for products which are regularly or periodically exported. For example (Table 7.2):

**Table 7.2: Indian protection policies for some major exported commodities**

	<i>Tariff and NTBs in India 2004/05</i>	<i>Total exports 2003/04 \$ million</i>	<i>Exports to Bangladesh 2003/04 \$ million</i>
Rice	87.2%+STE	907	197
Wheat	70% or 80% + STE	520	196
Maize	15% or 50% (TRQ)	77	36
Sugar	60% +NTB	264	32
Tea	100%	338	1
Coffee	100%	162	0
Onions	30%	156	62

Notes: STE=State Trading Enterprise= import monopoly of Food Corporation of India (FCI). TRQ=Tariff Rate Quota i.e. 15% tariff for a specified quantity of imports, 50% tariff for imports in excess of the quota. NTB=Non Tariff Barrier. For sugar this refers to the application of the Essential Commodities Act to sugar imports and to government surveillance of imports. See discussion in the project case study of the sugar industry<sup>76</sup>

In recent years Indian rice and wheat exports have been heavily subsidized in order to cover the difference between domestic procurement prices and prevailing world market export prices. However owing to international and domestic transport costs, cif prices are much higher than fob prices, and domestic procurement and wholesale prices have typically exceeded the former –thus necessitating subsidies if there are to be exports-but have usually been below or only slightly above cif prices, and cif prices plus internal transport costs at inland Indian domestic markets. In any case, domestic prices have been far below the theoretical landed cost of imported rice and wheat were they to pay India’s prohibitive tariffs. These tariffs therefore are essentially supplements to FCI’s import monopoly over these and other food grains<sup>77</sup>, and would be reduced with special exemptions if ever the government decided to allow some imports. Domestic prices of maize and other coarse grains have also typically been within their fob-cif bands i.e. above fob prices but lower than cif import prices in most years. Similarly, domestic prices of tea and coffee have not been very different from export prices; in fact, in the case of tea, traders who sell in both export and the domestic market buy the tea at the same auctions, so the expectation is that at this level domestic prices for given qualities would be about equal. Finally, onion prices in India are highly sensitive politically, and onion exports are subject to export controls, with the result that domestic onion prices are generally well below export prices. All this suggests that there would be limited prospect for

<sup>76</sup> Garry Pursell, 2004, December. *Free Trade Between India and Bangladesh? A Case Study of the Sugar Industry.*

<sup>77</sup> All food grains except maize and barley

exports of these products from Bangladesh to India with an FTA, certainly not in the case of rice, wheat, coarse grains, sugar and onions which Bangladesh is importing from India on a fairly large scale.

Secondly, of Bangladesh's principal primary and processed food exports-frozen shrimp, raw jute, fish, tea, vegetables, and tobacco –all except raw jute are also exported on a much larger scale by India (see Table 7.4). In 2003/04 Indian imports of shrimp and fish from Bangladesh were minimal despite a relatively low 15% tariff resulting from a 50% SAPTA preference, and imports of vegetables and tobacco were zero. This again suggests that domestic prices in India are probably close to, or not far above export prices, probably leaving few opportunities for Bangladesh exporters even if an FTA were to cut the Indian tariffs they face to zero.

Thirdly, as noted previously, in the project price surveys<sup>78</sup>, of 14 agricultural and processed food products for which Indian and Bangladesh prices were compared, only one had a lower retail prices in Bangladesh, and only two had lower wholesale prices.

**Table 7.3: Some agricultural products and processed foods: comparisons of prices and tariffs in India and Bangladesh**

	<i>Ratio of Bangladesh price to Indian price</i>		<i>Indian tariff 2004/05 &amp; NTB</i>	<i>Bangladesh tariff 2003/04</i>
	Retail	Wholesale	%	%
Rice	1.77	1.48	87.2+STE	7.5
Wheat	1.15	n.a.	70 or 80 + STE	7.5
Apple	2.09	2.20	50	86
Cumin seed	2.95	n.a.	30	66.5
Grapes	1.60	1.52	40	86
Lentils	1.23	0.89	30	11
Mango	4.74	5.12	30	86
Onion	2.39	2.74	30	26.5
Red dry chilly	0.85	0.78	70	26.5/49
Turmeric	1.26	1.32	87.2	49/66.5
Soya oil	1.10	1.20	45	7.5
Mustard oil	1.05	1.10	85	7.5
Milk powder	3.68	n.a.	15 or 60 (TRQ)	63.25 +NTB
Sugar	1.47	1.85	60+ NTB	98.4

Although there are large margins of error in these price comparisons<sup>79</sup>, they are broadly consistent with what is known about the relation between past studies of Indian agriculture which have quantified the prevalence of tariff redundancy in rice<sup>80</sup>, wheat and sugar. In addition, these comparisons also suggest the likely existence of tariff redundancy in apples, cumin seeds, grapes, mangoes, onions, and milk powder, because the excess of Bangladesh prices over Indian prices in these cases is too large to be explained by

<sup>78</sup> Das, Samantak et al (op cit)

<sup>79</sup> Among others, the observed prices are affected by many factors, including quality, specification, type of retail or wholesale outlet, location, and seasonal influences.

<sup>80</sup> The considerable excess of Bangladesh rice prices over Indian prices in the surveys summarized in the NCAER paper is puzzling, since there were substantial exports of rice from India to Bangladesh at the time of the survey. One of a number of possible explanations is that retail and wholesale rice prices in West Bengal (where the Indian survey was carried out) were depressed by local supply surpluses, whereas the export prices for Bangladesh were based on procurement prices in the surplus areas of north-west India. These were then subsidized to bring them down to whatever was needed to undercut import prices that Bangladesh importers might otherwise have paid for rice from Thailand or other exporting countries.

the excess of Bangladesh tariffs over Indian tariffs. Tariff redundancy might also explain lower prices in India than Bangladesh for soya oil, mustard oil and turmeric despite much higher Indian tariffs than Bangladesh tariffs. Only two comparisons –for red chillies and lentils-suggest some *prima facie* possibility of exports from Bangladesh to India under an FTA.

Bangladesh's secondary exports So far the prospects for Bangladesh exports to India have been considered according to product groups which are treated differently by India's import policies. Table 7.2 supplements this with some data on Bangladesh's principal secondary exports, which usually account for about 20% of its total exports. Exports of the principal 28 products and product groups during 2002/03 as reported by the Bangladesh Export Promotion Bureau, are given in the first column, and data on Indian imports, exports and tariffs in the adjacent columns. Note the following:

- Total exports of the 26 products in 2002/03 were approximately \$1.4 billion, but only \$51 million of this total -3.6%-were exports to India<sup>81</sup>
- Exports to India were accounted for almost entirely by four products-fertilizers, raw jute, jute manufactures, and frozen fish. Of the remaining 24 products, for 12, exports to India were zero, for 10, less than \$1 million, and 2 could not be quantified but were probably also zero or very small.
- Exports to India were zero or low even though India's preferential tariffs for most of them are very low. In 2005/06 India's tariffs on 22 of the products were 15% or less, and most were below 10%. Only 6 of the products were subject to high or relatively high tariffs in India: tea (100%), vegetables, tobacco, and cigarettes (30%) and textile fabrics and terry towels (both subject to specific duties)
- India is also exporting 21 of the 28 products, in most cases in much larger volumes than Bangladesh.

These observations suggest that the prospects for exporting these products to India under an FTA are quite limited. This is because (1) the Indian tariffs on the products that are currently being exported to India in non-negligible quantities-fertilizers and raw jute- are zero and 2.5%, so an FTA would make little difference; (2) exports of the other products to India are zero or negligible despite low Indian preferential tariffs in most cases (sports footwear and ceramic tableware 3.75%, tents 7.5%); (3) with only five exceptions, exports would have to compete in India with Indian firms that are exporting themselves and are likely to be highly competitive in their domestic markets. This leaves five products which are not being exported by India in which Bangladesh exporters conceivably might have better prospects in the Indian market under an FTA viz caps (headgear), tents, ceramic tableware, camera parts, and golf shafts. However, the advantage for these products of an FTA over the situation in 2005/06, would be quite limited in view of the already low 2005/06 preferential tariffs (respectively 15%, 7.5%, 3.75%, 7.5%, and 15%)

Summary: The very low level and slow growth of Bangladesh's exports to India is not primarily attributable to restrictive import policies in India. Indian tariffs on industrial goods have fallen dramatically in the past three years and are now at historically low levels, and even lower on many products on which India has given large numbers of substantial preferences to Bangladesh under SAPTA. Important exceptions to these developments are textiles and clothing, where many fabrics and garments are protected by specific duties, and "agriculture" (understood in the broad WTO sense to include to also include fish and livestock products and processed foods) where there are still government import monopolies and other NTBs, and tariffs are still vary from high to prohibitive. But there is a great deal of tariff redundancy in both these two sectors, with domestic prices of most T&C products (including ready

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<sup>81</sup> Exports to India are from the Indian import statistics and are given for Indian fiscal 2002/03 for comparability with the Bangladesh EPB's 2002/03 export data. There were no major changes in India's imports of these products during the Indian fiscal 2003/04.

made garments) and of many agricultural products are at or even below international prices. In addition, in the industrial sector, many more Indian industries than in the past are exporting, and domestic markets are increasingly competitive. This means that the prospects for the expansion of Bangladesh exports to India are at present quite limited, and would remain modest even if Bangladesh from an FTA with India under which Bangladesh exporters would have duty free access to the Indian market, while the present tariffs and other restrictions on imports into India from the rest of the world would remain the same.

**Table 7.4: Bangladesh's principal exports other than garments: Indian exports, imports and tariffs**

Bdesh		Bangladesh exports during 2002/03		Indian imports	Indian exports	Indian tariff 2005/06	
HS code		Total	To India	2003/04	2003/04	MFN	Pref for Bdesh
		\$ million	\$ million	\$ million	\$ million	%	%
030613	Shrimp	297.0	0.3	61.7	836	30	15
4107	Leather (bovine)	191.2	-	1.5	135	15	13.5
5310??	Jute manufactures	133.7	3.3	1.1	65	15	6
5307/5607	Jute yarn/twine	122.8	0.1	1.0	76	15	7.5, 6.0
5303	Raw jute	82.4	20.4	20.5	1	5	2.5
6504	Cap	81.7	0.0	0.0	1	15	15
310210	Urea#	78.6	25.3	102.8	-	0	0
281420	Anhydrous ammonia#			238.8	3	5	0
8712	Bicycles	52.5	-	0.0	44	15	15
630619	Tent	46.8	0.1	0.0	2	15	7.5
6404/6405	Leather footwear	35.1	0.0	0.0	557	15	7.5
5802	Terry towel	29.6	0.0	0.2	12	15+S	6+S
630710	Shop towel	26.9	-	0.2	22	15	7.5
0303	Frozen fish	24.8	1.9	12.4	124	30	15
691110	Ceramic tableware	18.8	0.0	0.1	3	15	3.75
900691	Camera parts	17.3	-	0.3	1	15	7.5
49	Printed materials	16.6	0.1	26.6	95	0 or 15	0 or 7.5
27101950	Furnace oil	16.2	-	-	185	10	10
Various	Textile fabrics	15.2	?	818.0	4186	15+S	6 or 7.5+S
2710	Naphtha	15.0	-	-	861	5 or 10	5 or 10
090240	Bulk tea	13.7	0.0	22.6	236	100	100
07	Vegetables	13.2	0.0	18.8	329	30	30
950631	Golf shaft	10.3	-	0.1	0	15	15
240220	Cigarettes	10.3	-	0.8	29	30	30
39232910	PVC bags	9.9	-	0.1	13	15	7.5
64	Sports footwear	9.0	-	37.0	768	15	3.75
85392190	Indicator lamp	7.2	-	0.2	5	15	6
2401	Tobacco	6.7	-	0.4	174	30	30
Various	Handicrafts	5.9	?	?	?	15	7.5 ?

**Notes:** Bangladesh total exports in 2002/03 from Export Promotion Bureau website at [www.epbbd.com](http://www.epbbd.com) EPB treats sales of somelocally produced intermediate to Bangladesh exporters as "exports" : these have been excluded from this table (e.g. zippers and acrylic yarn). # "Chemical fertilizer" exports in the EPB statistics are urea and "anhydrous ammonia" in the Indian import statistics (Table 7.1) HS codes are not given for some of the product groups so in these cases the comparisons with the Indian trade statistics are approximations, and could not be made in the case of "handicrafts" Indian tariffs from Goyal *Easy Reference Customs Tariff 2005-06*. Indian exports and imports in 2003/04 and Bangladesh export to India in 2002/03 from DGFT trade database. 0.0=<\$0.5 million, -=zero Geater of ad valorem or a specific duty indicated by ad valorem duty rate and +S