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Tariff and Non-Tariff Barriers in South Asia Trade: A Bangladesh Perspective

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Abstract

After 25 years of SAARC, 15 years of SAPTA, and another 6 years of SAFTA, there is scant progress in the area of trade and investment under the regional accord umbrella. Intra-South Asia trade lagged far behind the growth of the region's trade with the rest of the world due to the persistence of substantial tariff and non-tariff barriers to trade in the region, thereby impeding growth of trade and investment despite efforts at regional cooperation. Though tariffs have come down in all the countries, they are still high compared to other major regions of the world, thus presenting the first barrier to economic integration. Realizing that South Asian countries had some of the highest tariffs globally - something that was surely hurting intra-regional trade- the leaders agreed to scale down these tariffs on an accelerated schedule under the auspices of SAFTA in order to improve market access. Though SAFTA does provide preferential access to these markets, NTBs and sensitive lists remain major impediments to smooth access to markets for competitive exports from Bangladesh. Given that the common dominant theme of national policies in the region is to accelerate growth and reduce poverty, boosting intra-regional trade could be an integral part of that strategy, which gives SAFTA the sound basis and the greatest opportunity for more tangible results in the future than has been observed in the past. This paper articulates how the key challenges need to be addressed to make SAFTA yield results.

Regional cooperation leading to economic integration in South Asia in the form of intra-regional trade and investment was paramount in the minds of South Asian leaders who gathered to form the South Asian Association for Regional Cooperation (SAARC) in December 1985. Since then, top political leaders of member countries have met in Summits as many as sixteen times. Yet, after 25 years of SAARC, 15 years of SAPTA, and another 5 years of SAFTA, progress on the ground has faltered in the area of trade and investment under the regional accord umbrella. This occurred despite several institutional processes having been put in place, like periodic summits of policymakers and officials with the objective of removing barriers to trade and investment.

The total volume of regional trade lags far behind the quantum of intra-regional trade in other regions of the world, such as in East Asia, where such trade hit 25%; in NAFTA, where it is 40%, and, in Europe, where it is as high as 70%[1]. At the close of 2010, the volume of trade within the region is estimated to be barely 4% of total trade of South Asian countries. It used to be about 20% back in 1947 when the Indian subcontinent was partitioned. A logical inference would be that political barriers created after 1947 seem to have played a big role in curtailing trade within the region.

This is not to say that the region as a whole was not making progress on the trade front. All the major countries of South Asia[2] embarked on trade reforms in the early 1990s, opening up their economies for trade and investment flows. Consequently, the volume of trade expanded significantly as is evident from the rise in trade-GDP ratio in all of the countries (Figure 1). For more than two decades, thus, South Asian countries as a group have been marching in step with the rest of the world. In these circumstances, a fair question to ask is: why has intra-South Asia trade lagged far behind the growth of the region's trade with the rest of the world (Table 1). The short answer to this question is that tariff and non-tariff barriers to trade in the region remain substantial, thereby impeding growth of trade and investment despite efforts at regional cooperation.

This study examines tariff and non-tariff barriers to trade from the Bangladesh perspective as part of a regional effort to identify and remove existing impediments and boost intra-regional trade and investment.

This paper will seek to explore the reasons behind the lack of progress in intra-regional trade despite the progress in trade openness, examine the veracity of some of the hypotheses that have been put forward, and then lay down a road map for greater regional integration through removing barriers to trade and investment in the region. The principal focus of this paper will be on the tariff and non-tariff barriers that arguably impedes intra-regional trade in South Asia, from a Bangladesh perspective.

Figure 1: Merchandise Trade as Percentage of GDP

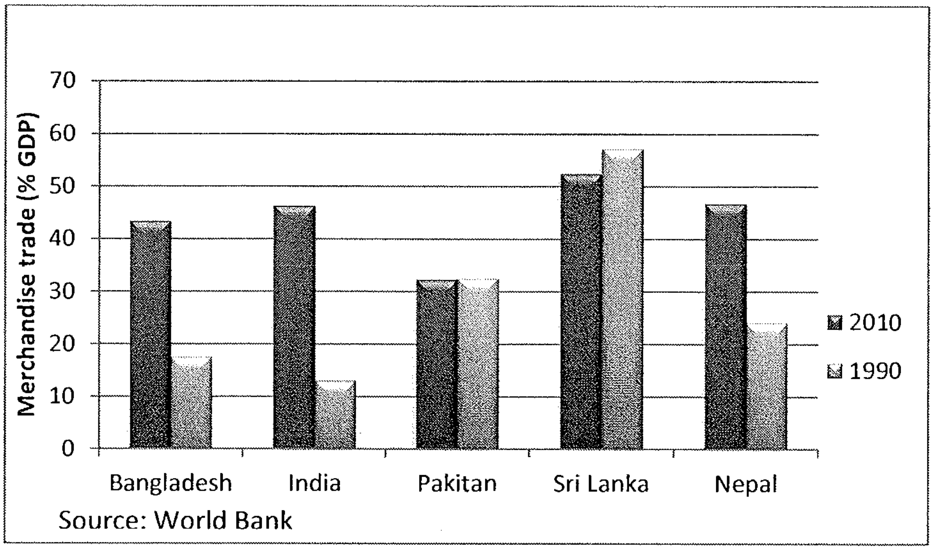


Table 1: Trade Indicators for SAFTA Countries, 2010

Country	Population (thousand)	GDP current US $m	Trade (current US$m)	Trade (% of GDP)	SAFTA Trade % of Total Trade
Afghanistan*	29,021	17,243	11,906	69	16.8
Bangladesh	150,000	100,357	43,577	43	9
Bhutan	687	1516.078205	2073	137	79.4
India	1,139,965	1,727,111	799,976	46	2.3
Maldives	305	1,908	2,233	117	18.1
Nepal	28,810	14,445	6,761	47	59.6
Pakistan	166,111	176,870	57,160	32	8
Sri Lanka	20,156	49,552	26,020	53	16.8
South Asia	**1,545,055**	**2,089,002**			**4.4**
East Asia & Pacific	**583,651**	**16,184,757**	**10,188,664**	63	
Low Income	976,220	416,486	216,623	52	

Source: World Development Indicators, The World Bank Group; UN Comtrade

Lack of Integration Hypotheses

Several hypotheses have been put forward by analysts to provide the rationale behind the lack of trade integration in the region. The major ones may be listed as follows:

- South Asia is the least integrated region of the world;
- Countries in the region discriminate against their neighbors in favor of rest of the world (ROW);
- Similarity of exports of the region put countries in competition with each other;
- There is lack of trade complimentarity among the region's trading partners;
- Tariff and non-tariff barriers are significant enough to impede growth of trade.

Each of these hypotheses is examined below in turn. The paper concludes with some directions and suggestions for the way forward.

South Asia the Least Integrated Region

South Asia lags behind other regions in economic integration for several reasons. First, high border barriers have traditionally limited all trade – political borders have become barriers to economic integration through trade and investment. Though the situation has improved recently, the region has been historically less welcoming of foreign direct investment, a powerful integrating force in other regions. Political hostilities between India and Pakistan have curtailed officially recognized trade. The attempt in the mid-1990s to promote trade through a preferential trading arrangement (SAPTA) was less successful than similar efforts in other regions in generating intra-regional trade. Though tariffs have come down in all the countries, they are still high compared to other major regions of the world (Figure 2), thus presenting the first barrier to economic integration. Bangladesh tariffs sit uncomfortably on the high side, thus accentuating trade barriers.

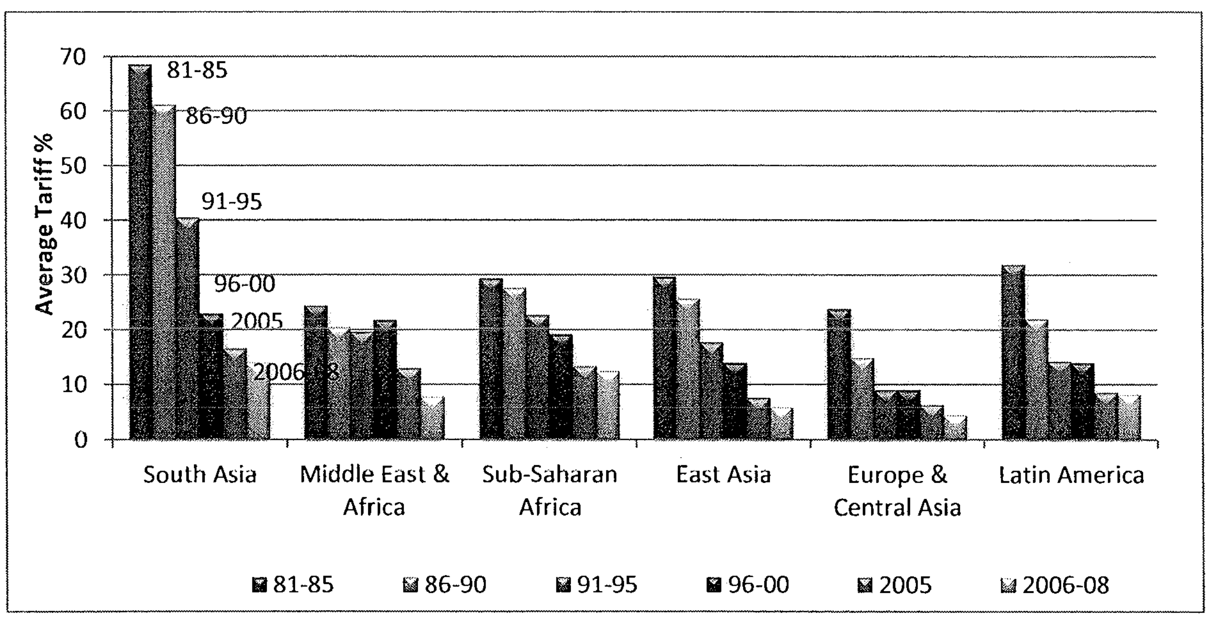
Countries Favor Trade with the Rest of the World (ROW)

While the average overall trade-GDP ratio for the region is estimated to be 35%, intra-regional trade-GDP ratio works out to less than 5% in 2010, indicating the region's preference for trading with the rest of the world. The two largest economies – India and Pakistan – whose potential for bilateral trade annually is estimated by businesses in the region of \$10 billion, actually traded in the amount of \$1.7 billion in 2009 officially[3]. The fact that Pakistan continues to deny MFN status to India – a signatory to SAARC and SAFTA – and trades on the basis of a limited positive list of importables serves as the biggest barrier to growth of trade, thus weighing down the quantum of intra-regional trade. Land ports, which should have been the principal gateway for intra-regional trade, are characterized by limited cargo handling capacity. Moreover, absence of transportation throughput across borders leaves the use of seaports as the only viable channel for trade in large volumes. Consequently, the comparative advantage of contiguity that South Asian countries have over ROW is all but lost. As Bangladesh is nestled between the Northeastern region of India and the rest of its territory, without any transportation across borders, it is a victim as well as the cause of a lack of connectivity between countries of the sub-region: NE India, Bangladesh, Nepal and Bhutan.

Is Export Similarity a Problem?

The similarity among export basket of South Asian countries has been cited by several researchers as the

Figure 2: Average Tariffs in Major Regions of the world



reason for lack of intra-regional trade[4]. Though all countries in the region now have a predominant share of manufacturing exports, they compete with each other in global markets of textile and clothing, erect high trade barriers for these and other products in which they have export interest, resulting in minimal intra-regional trade in these products. Using data for 1999-2006, Usman Khan (2010) shows that India and Pakistan have the highest export similarity index, which has also remained practically unchanged for the entire period. Bangladesh and Nepal have much lower indices implying that they have higher potential for exports within the region, provided tariff and non-tariff barriers are lifted.

While the export similarity indices in Table 2 might give the impression that South Asian countries export similar products to the rest of the world, they are unlikely to be trading much amongst themselves. Then consider the case of the huge volume of trade between Europe and North America which takes place in a wide set of largely similar products – agricultural products or technologically sophisticated goods. What makes trade possible and sustained of course is the differentiation and brand sophistication even within similar class of products. Such a stage in trade might also happen in South Asia once their exports undergo sufficient transformation from low end to high value products. Indications are that, that of product transformation providing impetus to rising trade volumes might occur within the decade.

Is Trade Complimentarity the Problem?

In trying to explain the low intra-regional trade, some research makes the argument that there is lack of complimentarity in production chains within the region, quite unlike what we see in East Asia[6] where trade in intermediate goods has now reached close to 70% [Brooks and Hua (2009), Hayakawa (2007)]. China has indeed become the super assembler in the region importing much of the parts and components of a wide range of electronic goods, machineries and consumer durables from other countries in East Asia, thus ensuring growth of intra-regional trade. Interestingly, China maintains a trade deficit with source countries for its intermediate inputs, yet ends up with enormous surpluses in its global trade. The strategy of creating inter-linked production chain within East Asia in accordance with the region's comparative advantage has paid huge dividends to China as well as the component suppliers. It is this inter-linkage of supply chains and vertical integration of production that drives the high volume of intra-regional trade, something that South Asia apparently lacks, if the complimentarity argument is to be believed.

But the history of intra-regional trade in South Asia reveals otherwise. At the time of partition in 1947, regional trade within South Asia accounted for 18% of total trade[7], suggesting the existence of adequate production complimentarity within the region. It follows that emergence of political borders since then have impeded, if not significantly curtailed trade transactions within the region, by fragmenting trade and transport infrastructure networks. Political borders thus took the form of economic barriers to cross-border trade and investment resulting in a miniscule volume of intra-regional trade at present.

That said, a closer look at the character of goods trade between Bangladesh and its South Asian neighbors produces interesting insights on the degree of inter-linkages in production chains. An examination of imports from India at a disaggregated level reveals a high degree of intra-industry linkages: basic raw materials (22.1%), intermediate inputs (37.7%), capital goods (16.5%), and final consumer goods (23.7%), for FY2010-11 (Fig.3). This pattern remains practically unchanged for the past three years. It reveals strong intra-industry linkage between India and Bangladesh where the latter's industrial sector relies heavily on inputs from India. However, there is a difference in this form of inter-industry linkage with that of East Asia. Bangladesh's major export industry – RMG – is only partly relying on Indian supplies of yarn while most of its inputs of fabric, cotton, and even yarn are sourced from China, Korea and elsewhere. So Indian inputs are essentially feeding Bangladesh manufacturing which caters to the domestic market. As such the current flow of inputs from India is not generating the kind of jobs and income that is possible were these inputs going into the export-oriented sectors.

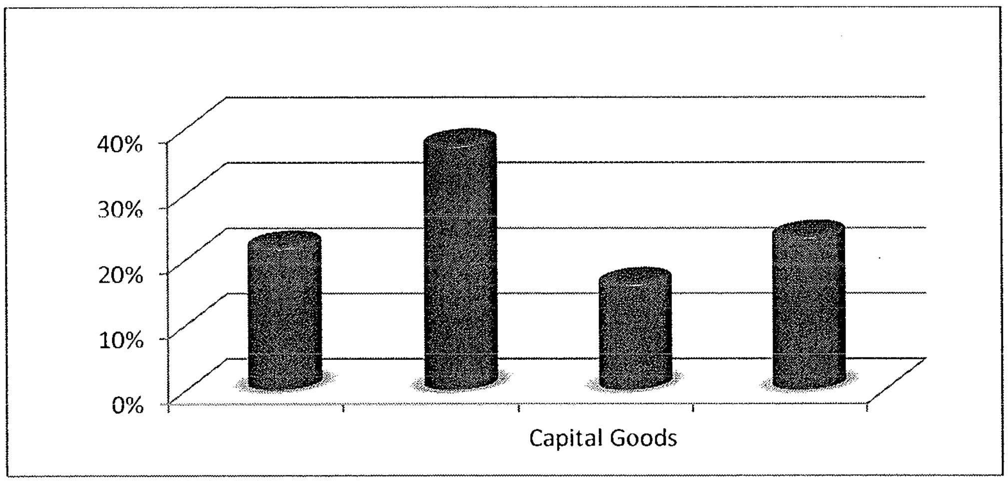
On the other hand, India's exports have been growing at an average of 15-20% over the past two decades while continuing to be significantly diversified. Given strong export-import linkages, and supporting import liberalization, the Indian economy also experienced rapid import deepening, reaching import-GDP ratio of 24% by 2009. With Bangladesh lacking a diversified manufacturing base with little or no production of intermediate goods, Bangladesh could hardly be the supplier of intermediate inputs, parts and components to the rapidly expanding export

Table 2: Intra-SA Export Similarity Index, 1999-2006[5]

Country	1999	2000	2001	2002	2003	2004	2005	2006
Bangladesh	37.3	37.2	36.8	33.9	31.6	31.6	29.2	28.4
India	83.5	83.7	82.6	85.0	84.3	84.2	85.1	85.3
Sri Lanka	53.7	56.3	51.6	49.1	44.6	42.4	43.8	44.7
Nepal	38.7	41.5	44.2	48.2	44.5	45.2	44.4	44.2
Pakistan	51.0	51.9	54.0	52.5	52.4	48.7	51.5	50.4

(*) Closer the Index to 100, more similar are exports, lower the trade potential
Source: Mahbub Ul Haq Human Development Center. (2010).

Figure 3: Bangladesh Imports from India by categories(%)FY10-11



Source: PRI Staff Estimates and NBR ASYCUDA database

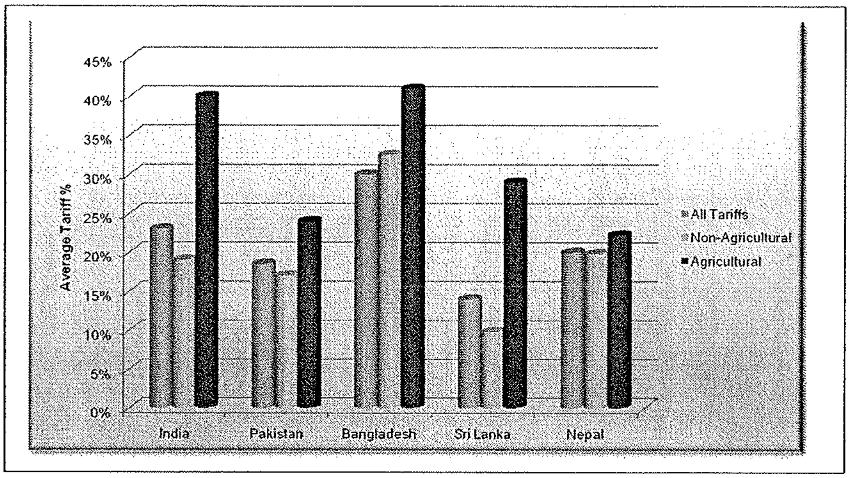
sector of India, at least not yet. That was the case with China playing the assembler of multifarious exports whose parts and components were supplied by the East Asian neighbors. Thus, while strong intra-industry linkage between India and Bangladesh is evident, it is not of the East Asian variety that would have reversed or at least mitigated the large unfavorable trade balance that now exists for Bangladesh with India.

High Tariffs Remain as Trade Barriers despite SAFTA

The low levels of regional trade cannot be faulted for the dearth of efforts at the highest policy level. Top political leaders have repeatedly endorsed moves to open up respective markets with India taking the lead. These moves notwithstanding, freer trade still faces serious antithetical political economy developments in each member country. At the ground level, therefore, results are not so notable as mind sets of business leaders and bureaucrats are still mired in the old tradition of suspicion and occasional downright resistance to opening their own markets.

Realizing that South Asian countries had some of the highest tariffs globally (Figure 4), something that was surely hurting intra-regional trade, the leaders agreed to scale down these tariffs on an accelerated schedule under the auspices of SAFTA, though giving the LDCs of the region slightly more time to adjust. India moved to the ultimate tariff range of 0-5% within two years of SAFTA implementation. LDCs like Bangladesh had until 2013 to implement the reduction schedule .SAFTA CD rates are significantly below applied general rates of duty (Fig 5). Table 3 shows that, given current CD tariff slabs, Bangladesh will be in compliance of the 0-5% range of customs duty by 2013. However, the problem, as far as Bangladesh is concerned, lies with the

Figure 4: Average Tariffs in South Asia 2003-04



Source: World Bank (2004)

Table 3: Status of Bangladesh Tariffs and SAFTA Reduction Schedule

Tariff Slabs	31st December 2006, Scheduled Reduction: 5% MoP	31st December 2007, Scheduled Reduction: 5% MoP	31st December 2008 – 31st December 2013, 0-5% *
25	23.75%	22.50%	4.50%
12	11.4%	10.80%	2.16%
5	4.75%	4.50%	0.90%
3	2.85%	2.70%	0.54%

* **Subject to reductions of equal annual installments of not less than 10% annually.**

Source: SAFTA Agreement

Table 4: Tariff Concessions Under SAFTA (8 Countries of SAARC)

Concessions exchanged

	To all Countries		To LDCs	
Country	No of products	Concession	No of products	Concession
India			All products except 25	Duty free and quota free
Pakistan			All products except 936	5% duty
Sri Lanka			All products except 1042 items	4.5% duty
Bangladesh	4329	40% of 2006 tariff		
Nepal	All items except 1257 items	30%-40% of 2006 tariff		
Bhutan	All items except 150 items	40% of 2006 tariff		

Source: Ministry of Commerce, Government of Bangladesh significant proportion of para-tariffs[8] in its nominal tariff structure whereas SAFTA reductions only encompass customs duty leaving effective protective tariffs at relatively high levels.

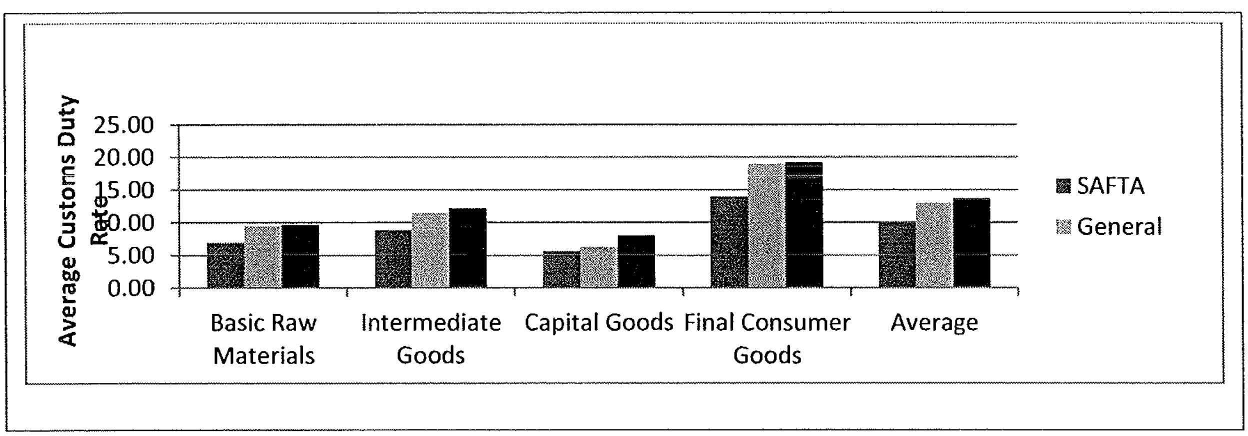
Table 4 presents a snapshot of SAFTA tariff concessions for LDCs and Non-LDCs prevailing as of January 2012. The highlight of the latest situation is the accordance of duty free and quota free exports to India from South Asian LDCs (Bhutan, Nepal, Bangladesh), with the exception of 25 products in the sensitive list. Pakistan and Sri Lanka have also brought their tariffs down to 5% and 4.5%, respectively, for LDCs. These concessions, however, are subject to ROO, listed in Table 6. In order to get the specified tariff concession under SAFTA, a product must satisfy the criteria of change in tariff heading (CTH) at four-digit level and at least a value addition of 40 percent of fob value.

Figure 6 summarizes South Asian tariffs in the post-SAFTA period which are lower than pre-SAFTA tariffs shown in Figure 4. One more problem that remains is the substantial size of sensitive lists (World Bank, 2010). Though members tried hard to limit the proportion of SLs to 10%, they had to reach a cap of 20% of 5224 six-digit HS codes, along with Rules of Origin requirement that did not help matters either. That allowed a lot of scope for keeping markets restricted for most products that members produced (Table 6). In mapping the sensitive lists to imports of SAFTA member countries, Weerakoon (2010) finds that some 53% of South Asian imports are actually excluded from the SAFTA tariff liberalization scheme (Table 5), rendering the tariff reductions largely ineffective in significantly boosting regional trade. The array of sensitive lists formulated by the SAFTA members makes a classic study of the political economy of South Asian trade regimes. A remarkable confluence of protectionist mindsets among bureaucrats, policymakers, and business leaders continue to guide and influence trade policy decisions. When you look at the sensitive lists in their totality, it practically covers the entire spectrum of products produced by the member countries for their respective domestic markets or for exports. The exclusion mechanism of the sensitive lists therefore effectively obliterates potential competing imports from the region.

In so far as tariffs are concerned, Bangladesh does not sit pretty. Prior to 2002, India had the highest average tariffs and the most restrictive trade regime in South Asia, with Sri Lanka as the most open economy. Now, post war Sri Lanka has become the most protected economy in view of heavy revenue demands coming after the end of its insurgency. Bangladesh continues to have average tariffs at relatively high levels, with para-tariffs assuming significant proportions in the nominal tariff structure (Table 7).

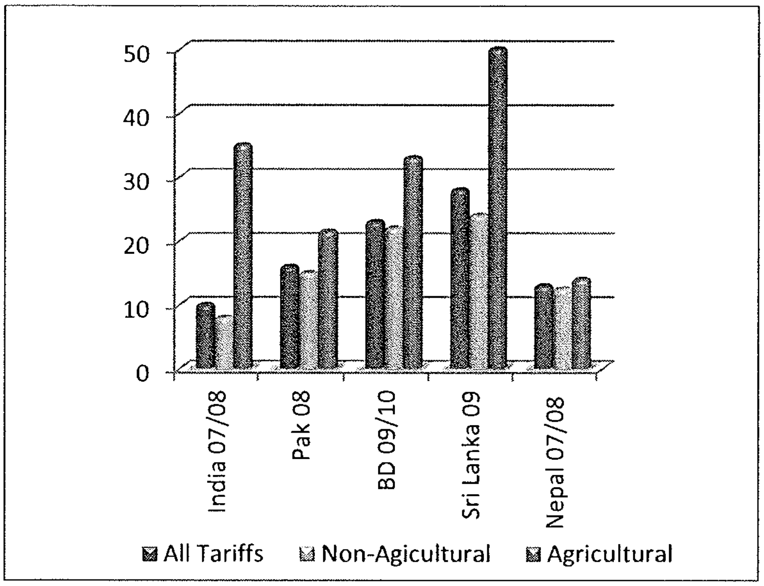
Earlier, we described the state of current Bangladesh tariffs in light of the tariff liberalization program under SAFTA. It was also noted that, like other SAFTA members, Bangladesh is on track to meet the

Figure 5: Bangladesh: Comparison of Un-weighted average SAFTA CD rates with General Applied Rates, FY 2009-10



Source: NBR ASYCUDA database

Figure 6: South Asia Tariffs Post-SAFTA



Source: India and Nepal -- UNCTAD TRAINS database.
Pakistan, Sri Lanka–PRI Staff estimates from various country Reports
Bangladesh -- NBR ASYCUDA database

Table 5: Trade Impact of Sensitive Lists Under SAFTA

Country	Value of imports from SAARC subject to SL (%)	Value of exports to SAARC subject to SL (%)
Bangladesh	65	22
India	38.4	56.5
Maldives	74.5	57.6
Nepal	64	46.4
Pakistan	17.2	34
Sri Lanka	51.7	47
Total	52.9	

*Sensitive List (SL); Source: (Weerakoon, 2010)

Table 6: Size of Sensitive Lists and ROO

Country	SL Tariff Lines 2004	SL Tariff lines 2012	ROO
India	744LDC 865NLDC	25LDC 865 NLDC	CHT+40%
Bangladesh	1249LDC 1254NLDC	987LDC 993 NLDC	CTH+30%
Nepal	1299LDC 1335NLDC	998LDC 1036NLDC	CTH+30%
Maldives	671	152	CTH+30%
Bhutan	157	150	CTH+30%
Pakistan	1191	936	CTH+40%
Sri Lanka	1079	1065	CTH+35%

Source: SAFTA Agreement 2006; Bangladesh Tariff Commission 2012

Table 7: Trends in NPR with CD and Para-tariffs

Fiscal Year	Avg. CD	Avg. Para tariffs	Avg. NPR	Para tariff in NPR (%)
FY 01	21.1	7.44	28.54	26.07
FY 02	21.02	8.41	29.43	28.58
FY 03	19.91	6.51	26.42	24.64
FY 04	18.82	10.29	29.11	35.35
FY 05	16.31	10.19	26.5	38.45
FY 06	15.49	10.98	26.47	41.48
FY 07	14.85	9.42	24.27	38.81
FY 08	15.93	7.94	23.87	33.26
FY 09	13.82	6.26	20.08	31.18
FY 10	13.68	10.2	23.88	42.71
FY 11	13.52	10.16	22.11	38.94

Source: NBR ASYCUDA database, Bangladesh

phased reduction of tariffs in accordance with the agreement. However, it would be premature to make an assessment of the degree of removal of tariff barriers on the basis of reduction in customs duty (CD) alone when Bangladesh's tariff structure comprises other levies and charges on imports in addition to CD. In order to make an assessment of the degree of trade openness created under the SAFTA umbrella, it is necessary to look at the broad structure of tariffs and their restrictive impacts on imports from the region or rest of the world.

In reviewing the structure of Bangladesh tariffs, as presented in Table 7, what is clear is that trends in CD alone fail to give the true picture of trade restrictiveness arising from tariff barriers, because of the existence of other levies and charges, such as supplementary duties (SD), infrastructure development surcharge (IDSC, removed in 2008), and even the supposedly trade-neutral VAT, all of which take the shape of para-tariffs. The fact is that SAFTA tariff liberalization scheme applies only to CDs, leaving para-tariffs out of its ambit.

A review of trends in Bangladesh's overall tariff structure, based on *ex ante* levels of tariffs and para-tariffs during the past decade, reveals the actual state of affairs. Average un-weighted CDs(Table 7) have indeed trended downwards, from 21% in 2001 to 13.7% in 2010. But the decline in average nominal protection rate (NPR) appeared less steep thanks to the presence of para-tariffs which trended upwards, their share in NPR rising from 26% in 2001 to 43% in 2010. A closer look at the trend in para-tariffs reveals the predominance of supplementary duties (SDs) which were ostensibly levied on top of the top CD rate of 25% in order to discourage imports of luxury and non-essential consumption goods. In reality, a closer examination of the range of goods subject to SDs shows that roughly 70% of SDs imposed on some 1100 tariff lines serves protective ends[9]. To conclude, NPR trends give a better picture of the restrictiveness of Bangladesh tariffs on imports from SAFTA countries as well as from ROW. With over 40% of protection coming from para-tariffs SAFTA tariff concessions that apply only to CD are of little consequence in stimulating SAFTA imports into Bangladesh (Table 8). Consequently, growth of SAFTA imports has lagged typical growth of imports from ROW.

Non-Tariff Barriers to SAFTA Trade

As far as tariffs are concerned, SAFTA trade liberalization program appears to be on track with all members complying with the agreed phased reduction in tariffs. India took early initiatives and implemented an accelerated schedule. In the previous section, we described the problem with Bangladesh tariff structure where the existence of significant para-tariffs undermines SAFTA tariff reductions. Nevertheless, it is fair to conclude that tariffs facing intra-regional trade are now substantially lower than a decade ago. Yet the outcome in terms of trade volumes appears pathetic with little or no noticeable improvement in intra-regional trade. In the circumstances, attention has now shifted to non-tariff barriers (NTBs) within regional trade. In the circumstances, attention has now shifted to non-tariff barriers (NTBs) with a

Table 8: Bangladesh Imports from SAFTA Countries (US$ million)

Country	2006-07	2008-09	2010-11
India	2126.02	2328.88	4,572.49
Nepal	0.17	3.90	48.55
Bhutan	0.00	0.01	18.62
Sri Lanka	17.30	21.83	27.63
Maldives	0.00	0.00	1.46
Pakistan	252.60	348.07	672.05
Afghanistan	12.68	0.55	12.66
China	3394.89	4191.04	5,923.92
Other	12161.95	15584.31	22,443.92
Total	17,966	22,479	33,721.29
Imports from SAFTA As % of Total	**13.4%**	**12%**	**15.9%**

Source: World Development Indicators, World Bank

chorus of complaints from members about significant NTBs faced by exporters to the region.

By far the largest number of NTB complaints has been directed against India, the largest importer and exporter of the region. These complaints range from problems with inter-state movement of imported goods to the standard WTO compatible rules relating to sanitary and phyto-sanitary (SPS) and Technical Barriers to Trade (TBT) measures. There often appears to be confusion with regard to SAFTA tariff concessions and the WTO compliant practice of national treatment when imports into India cross state boundaries leaving SAFTA concessions at the border. It turns out that imports are subject to the same state taxes and levies as domestically produced goods. However, it is also true that WTO-compliant rules such as SPS, TBT, anti-dumping and countervailing duties could all be stretched to serve protective ends and restrict trade. This is seen to happen in bad times such as the recent global economic crisis that saw enormous growth of anti-dumping proceedings, including by India. There is ample evidence around the globe of countries manipulating WTO-compliant rules to serve protectionist ends. Such efforts tend to rise when times are bad. The challenge for SAFTA policy makers is to ensure that member countries, while adhering to WTO-compliant regulations, do not let administrators get carried away to the point that these legitimate rules turn into trade barriers or NTBs in the region.

Potential Non-Tariff Barriers (NTBs) for Exports to Bangladesh

1. *Specific Limitations on Trade*:

   (a) Sensitive list: The first NTB faced by SAFTA exporters to Bangladesh is the large sensitive list (1245 tariff lines). (b) Quotas: Bangladesh has a clean slate as far as protective QRs are concerned, though restrictions apply for health, national security, religious or environmental grounds. (c) Import Licensing requirements were also eliminated back in 1991. (d) Proportion restrictions of foreign to domestic goods (local content requirements) are non-existent.

2. *Customs and Administrative Entry Procedures:*

   (a) Valuation system: Though Bangladesh is a signatory to WTO Agreement on Valuation, which stipulates duty assessment on the basis of normal values (typically invoice values of imports), the Customs Administration is generally suspicious of invoice values and tends to impose its own valuation criteria. PSI certification (CRF), now covering some 50% of tariff lines, usually averts any valuation hassles. Typically, imports from South Asian countries are valued at an average of 5%

above invoice values for assessment purposes. Disputes over valuation could delay import clearance unless the importer chooses to go along with the customs assessment of value. (b) Though all SAFTA members follow WCO classification standards of 6-digit Harmonized System Codes, at the 8-digit national classification in Bangladesh, some classification disputes arise due to discrepancies between SAFTA notification and Bangladesh Customs Tariff. (c) For a number of tariff lines with bulk imports (e.g. sugar), tariff values are assigned which amounts to arbitrary fixation of value. (d) Anti-dumping practices: this could assume the role of an NTB but Bangladesh has not instituted any anti-dumping proceedings so far, though the requisite Act exists. (e) Documentation requirements: Bangladesh has adopted UNCTAD's import-export clearance package, ASYCUDA++, which does help rapid clearance. There is plenty of scope to improve electronic clearance of customs cargo with greater utilization of ASYCUDA capacity with the imminent installation of the next version, ASYCUDA World.

3. *Standards – SPS and TBT:*

   (a) Lack of harmonization of standards creates hurdles for cargo clearance. (b) Bangladesh Standards Testing Institute is not recognized for its efficiency and competence in performing an acceptable job of testing and certification and lacks regional or international recognition. Intergovernmental acceptances of testing methods and standards can improve the situation. Efforts are under way to raise the capacity of BSTI. (c) Packaging, labeling, and marking: These TBT requirements are being applied universally. Improvements in Bangladesh domestic market on these aspects of product marketing will ensure minimal hassles for cross-border trade.

4. *Para-tariffs:*

   (a) Supplementary and Regulatory duties: Bangladesh applies supplementary duties on the top rate of customs duty (25%) for a wide range of consumer products – 1100 tariff lines. Though originally conceived as a trade neutral tax to ostensibly discourage import of luxury and non-essential goods, SD has over the years taken the form of a protective para-tariff that restricts competing imports. Regulatory Duty (RD) is frequently applied as an ad hoc measure to raise revenue or restrict certain types of imports. (b) Variable levies: a number of variable levies exist, such as advance trade VAT (ATV) of 2.5%, and advance income tax (AIT), and a 1% administrative fee levied as landed charge. An across-the-board infrastructure development surcharge (IDSC) was removed in 2008.

5. *Others:*

   (a) Restricting imports through land borders, partly on grounds of capacity limitation and partly to restrict imports (Figure 7). The restriction is implemented through the framing of a positive and/or negative list. (b) Customs administration in Bangladesh has ways to go before taking full advantage of available IT capacities. Bangladesh ranks poorly in terms of days taken for import clearance [World Bank (2010)], thanks to inefficiencies or corruption in customs administration, which becomes an NTB. (c) Inadequate port infrastructure (land and sea port) could pose serious problems for handling import-export cargo. Lack of warehousing and testing facilities at land ports are problems. (d) Rules of Origin requirement, if made too stringent, could pose as NTBs as well. Together, these conditions could severely impede trade facilitation.

SAFTA, Regional Trade and Bangladesh

Post-war developments of the world economy showed the potential of trade as an engine of growth and a catalyst for improving living standards across the globe. With that record before them, South Asian leaders saw the need for stimulating trade in the region as a way to prop up When the 1995 their own growth performance and reduce poverty. preferential trading arrangement, SAPTA, failed to stimulate regional trade, SAARC member countries agreed to undergo deeper liberalization of their trade regimes for one another, in the hope that it will eventually foster greater intra-regional trade. The signing of SAFTA in 2006 brought about deeper tariff cuts but

Figure 7: Restrictions on Imports via Land Ports, 2009

Land Port (Tax Stations)	Importable Goods	
	Positive List	Negative List
Benapole	All other importable goods	Milk Powder and Yarn
Jakiganj	Livestock, fries, fresh fruits, plant, seed, wheat, stone and boulders, coal, chemical fertilizer, china clay, wood, timber, onion, chilli, garlic, ginger, quartz, ball clay, dry fish, limestones and those goods that satisfy the rules and regulations of the cicular posted by ERD on September 19, 2002, SRO 255-law/2002/1973/tax by maintaing the quality of the good, amount, price and tax classification certified	Fish, yarn, milk powder, sugar, potato (HS code 0701.90.19 and 0701.90.29
Hilly	All other importable goods	Duplex board, newsprint, craft paper, cigarette paper, all kinds of paper and paper board, yarn, milk powder, juice, tobacco.
Dorshona	Livestock, fries, fresh fruits, plant, seed, wheat, stone and boulders, coal, chemical fertilizer, china clay, wood, timber, onion, chilli, garlic, ginger, quartz, rice corn, poultry feed, ball clay limestone	Fish, yarn, milk powder, sugar, potato (HS code 0701.90.19 and 0701.90.29
Shona Mosjid	All other importable goods	Duplex board, newsprint, craft paper, cigarette paper, all kinds of paper and paper board, yarn, milk powder, juice, tobacco.

Source: National Board of Revenue , Bangladesh

intra-regional trade still shows no sign of picking up. In 2010, while the South Asia region recorded a total trade volume of $711 billion, intra-regional trade at $31.2 billion was barely 4 %(See Table 1)

Just as more trade has been good for the world economy and its standards of living, so also is expansion of regional trade expected to accelerate growth in South Asia and reduce poverty. Why is SAFTA not yielding results? What more can be done within or outside the SAFTA regime that will remove barriers to trade further and augment trade volumes in the region?

From the Bangladesh perspective, the key rationale behind its membership in an RTA lies in the opening of markets. The largest market of course is that of India, but other regional markets are no less important to a country whose domestic market is far too limited to create jobs for the millions joining the labor force every year. SAFTA does provide preferential access to these markets but, as we have seen earlier, NTBs and sensitive lists remain major impediments to smooth access to markets for competitive exports from Bangladesh. Its primary export – RMG – adorns the sensitive list of all SAFTA partners thus robbing it of significant immediate economic benefits from an RTA like SAFTA. It proves the point that preferential arrangements are not enough to open markets if such arrangements are riddled with provisos that render them quite ineffectual.

That said it is also important to reflect on the fact that the largest potential market, India, has reduced tariffs to internationally competitive levels thus opening up its own market for stiff international competition, particularly in manufactures. To take advantage of this openness along with SAFTA concessions, Bangladesh has to come up with items of non-traditional exports that are internationally competitive. This is where Bangladesh's own trade regime does not help. First, Bangladesh's manufacturing is dominated by production of final consumer goods which are produced under high tariff protection not geared to facing stiff international competition. Second, domestic incentive structure is heavily biased in favor of final consumer goods with practically little support for intermediate goods industry that is yet to emerge. If the present East Asian model of production chain segregation across diffused regional networks is to be emulated, one particular configuration would see a South Asian hub and spoke system with India (in place of China) as the chief assembler for global markets and with SAFTA members supplying inputs, parts and components. This means that for Bangladesh the current dependence on India for manufacturing inputs need to be reversed, something that will take time. Yet this interpretation of SAFTA market access presents a different perspective as well as a challenge for right positioning of Bangladesh's manufacturing sector to take advantage of regional preferences. This is not to say that Bangladesh should be ignoring further development of a competitive consumer goods sector but that policy needs to be geared for developing backward linkages to the present manufacturing industries.

Making SAFTA Effective in South Asia

For all its shortcomings, SAFTA is a trading arrangement that can deliver benefits to its members depending on what they put into it. At least five key challenges need to be addressed to make SAFTA yield results:

- *Sensitive list.* For one, the sensitive list ought to be phased out if trade augmentation is to become reality. Just like the tariff reduction schedule, a phased elimination of SLs should be formally agreed to and made binding upon members. With perhaps the longest SL, Bangladesh has a long way to go. Perhaps this is where Bangladesh policymakers face the most formidable political economy challenge. But not dealing with it makes a mockery of the intent to foster regional trade. At present, Bangladesh's SL covers almost all manufactured consumer products assembled in the country. To shield them from regional competition as is done for the ROW will not make these products competitive in the long run, globally or regionally.

- *Trade diversion costs.* Benefits of SAFTA will depend on whether it is trade creating. If trade diversion costs outweigh any trade creation, negative welfare outcomes will follow. On this score, Bangladesh is in a bind. The existence of high tariffs exacerbate trade diversion costs as preferences are biased in favor of high cost imports from Preferential Trade Agreement (PTA) members. Since China and India are the two largest sources of Bangladesh's imports, China's exclusion from SAFTA raises the likelihood of high trade diversion costs. These costs can be minimized only through unilateral tariff reductions.

- *Behind-the-border issues.* So far SAFTA agreement has not focused much attention on several behind-the-border issues that impede if not restrict intra-regional trade. Trade and transport infrastructure – ports, rail and road links, waterways, transport throughput, connectivity – could facilitate trade and significantly augment trade volumes in the region, if properly managed to create seamless movement of goods within the regional trading arrangement. More attention is needed to improve the payments mechanism for trade in the region. Banking and financing arrangements need to be modernized in order to speed up payment for goods and services in intra-regional trade. This applies to Bangladesh as well as its SAFTA partners.

- *Services and investment.* It has been argued by most researchers on South Asia trade that an important complement to goods trade that is missing under SAFTA is the scope of cross-border investment. Investment regimes in member countries are still riddled with significant restrictions on movement of capital and in sectors open to investment. These restrictions have to be ironed out to make intra-regional investment profitable without limits on profit repatriation. Moreover, as another complement, the focus has to shift beyond trade in goods on to services – e.g. health, education, finance, tourism.

- *Trade facilitation.* One common problem that South Asia encounters in trade originates from the Customs Administration which, for all countries, is still geared to the collection of revenue. Trade facilitation is still far from the minds of customs officials whose primary objective is to maximize revenue collection at the border. Such an objective is clearly at odds with the need for trade facilitation that can augment intra-regional trade. It is for this reason that in the component, *Trading across borders,* World Bank's *Doing Business* report shows poor scores for most South Asian countries. Nevertheless, improvements in the time taken for customs clearance are expected as Customs Administration in all countries move into the electronic environment with post-clearance audits becoming the norm. Bangladesh needs to consider unilateral or joint actions to make a mark on trade facilitation. Steps that may be considered in future include (a) one-stop border posts with single customs declaration and unified or border crossing processes, (b) harmonization of transit charges, (c) throughput across borders, with door-to-door delivery of cargo in the offing, regional carriers license, and regionally valid insurance. Finally, there is no question that trade can be amply facilitated with simplification of visa and travel rules to facilitate movement of people.

The Way Forward

Overall, the regional effort at trade augmentation through the auspices of SAPTA (1995) and SAFTA (2006) has not produced tangible results so far. This paper has shown that tariff and non-tariff barriers are still significant though India has done its part in substantially scaling down its tariffs in the past decade. Bangladesh remains a laggard in this respect when it comes to its multilateral tariff stance. Though technically it is in compliance of SAFTA schedules, the existence of para-tariffs in its tariff structure mars the progress made in terms of CD reduction. Yet, perhaps the one factor that hits SAFTA initiative the hardest is the combined coverage of sensitive lists of all members which, as one estimate shows, preclude some 53% of regional imports from taking advantage of SAFTA concessions. Strong protectionist under-currents among business leaders and policymakers alike play a key role in bolstering the political economy of formulating and sustaining large sensitive lists, thus undermining efforts at meaningful trade openness for intra-South Asia trade.

Yet all cannot be lost on the regional trade front as globalized production and supply chains take hold across the globe. With regard to tariffs members should continue bringing down tariff peaks unilaterally providing impetus to their own trade openness on an MFN basis while embedding regional policies in their overall trade strategy. In modernizing customs administration with strong IT capacities, the goal should be to shift the focus of customs from revenue collection to trade facilitation in a cooperative venture amongst members. This is likely to happen as revenue authorities shift their emphasis from reliance on trade taxes to internal domestic taxes – the way of the future in revenue mobilization.

Opening up trade in services – banking and finance, tourism, health and education – ought to be made an integral part of the SAFTA trade liberalization process. The scope in this area is vast as is the potential for cross-border investment that could be the catalyst for cementing inter-industry linkages within a South Asian framework of "fragmented agglomeration" of production in the future, something akin to the highly successful inter-industry linkage forged in East Asia. The strategic policy choice needed for this to happen is keeping rules of origin simple and aspirations for investment protocol limited.

Given that the common dominant theme of national policies in the region is to accelerate growth and reduce poverty, boosting intra-regional trade could be an integral part of that strategy, which gives SAFTA the sound basis and the greatest opportunity for more tangible results in the future than has been observed in the past.

Endnotes

1. PRI staff estimates from Direction of Trade Statistics, IMF

2. Sri Lanka was the first among South Asian countries to embark on substantial trade liberalization at the close of 1970s decade
3. UN Commodity Trade Statistics (UN COMTRADE)

4. The latest report from Mahbub-Ul-Haq Human Development Center, "Human Development in South Asia 2009", cites "high export similarity" as a reason for untapped potential for intra-regional trade in South Asia.

5. Drawn from Usman Khan (2010)

6. Athukorala P and Nobuaki Yamashita (2007); Feenstra (1998); Dobson, W and C. S.Yeu (1997)

7. World Bank (2004)

8. Para-Tariff refers to various taxes and levies on imports other than custom duty.

9. Structure of Tariffs and Rationalization (2010), unpublished report, NBR

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APPENDIX

Abbreviations

AIT	- Advance income tax
ATV	- Advance trade VAT
ASYCUDA	- Automated System for Customs Data
BSTI	- Bangladesh Standards Testing Institute
CD	-Custom Duty
CHT	- Change in Tariff Heading
CRF	- Clean Report of Finding
IDSC	- Infrastructure Development Surcharge
LDC	-Least Developed Country
MFN	-Most Favored Nation
MoP	-Margin of Preference
NPR	-Nominal Protection Rate
NAFTA-	-North American Free Trade Agreement
NTB	-Non-Tariff Barrier
PSI	-Pre-Shipment Inspection
PTA	-Preferential Trade Agreement
QR	-Quota Rates
RMG	-Read Made Garments
ROO	-Rules of Origin
ROW	-Rest of World
RTA	-Regional Trade Agreement
SAARC	-South Asian Association for Regional Cooperation
SD	-Supplementary Duties
SAPTA	-South Asia Preferential Trade Agreement
SL	-Sensitive List
SPS	-Sanitary and Phyto-Sanitary
TBT	-Technical Barriers To Trade
WCO	-World Customs Organization
WTO	-World Trade Organization

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