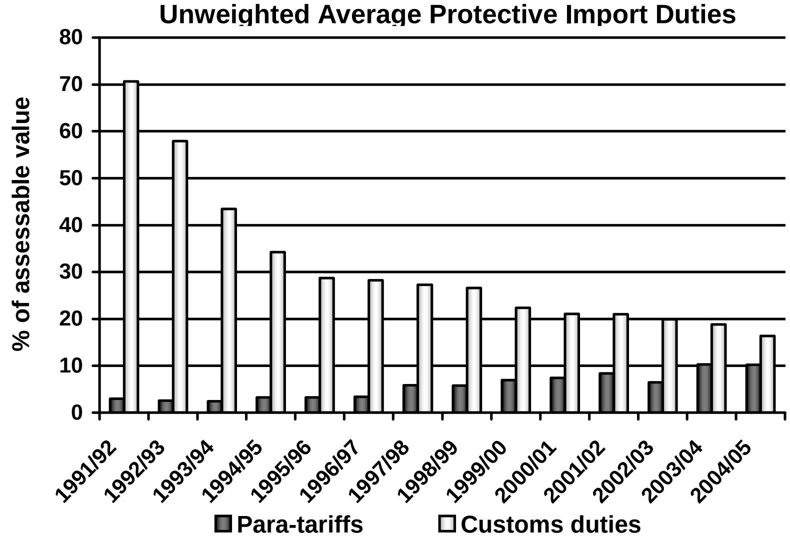
Chapter 4: Bangladesh's trade policies

There is a detailed description and analysis of Bangladesh's trade policies in the recent World Bank trade policy *Overview* report[27]. This section summarises some of the main findings of that report that are relevant for the Bangladesh's trading relationship with India, and includes new information that is now available for 2004/05, especially on Bangladesh's para-tariffs which during 2004/05 continued to increase their role in Bangladesh's policies of protecting domestic producers from import competition. Various aspects of Bangladesh's import policies are considered first and at most length, since they would be most directly affected if there were an FTA between India and Bangladesh. This is followed by a brief discussion of some relevant aspects of export policies.

Non tariff barriers During the late 1980s and early 1990s, most explicit QRs were abolished. Of the continuing restrictions the most important by far was the ban on textile fabric imports for use in the domestic market, which protected the textile industry. This was finally removed in January 2005. But there are still QRs on the import of chicks, eggs, salt and some packaging materials, and also on a few other products (e.g. mosquito insecticides) ostensibly for health, safety environmental and other grounds. Various permits, clearances and approvals are also required for extensive lists of other products, even though they are not formally subject to import licensing. In addition, the Bangladesh Bank requires that all imports be financed by an LC issued by an authorised bank in Bangladesh, and until December 2003 it required the importer to deposit a 30% cash margin. Moreover, in order to curb imports when the central bank thought the foreign exchange situation was weak, the margin was periodically increased for particular commodities. In the various studies undertaken as part of this project, except for sugar and textile fabrics, explicit QRs did not emerge as an impediment or special issue either for Indian exporters or in Bangladesh, possibly because the products still subject to QRs were not covered in the studies. Import procedures in Bangladesh and the resulting transaction costs for importers were also not covered explicitly, but they did come up in some of the work in India on transaction costs and the financing of Indian exports to Bangladesh. In particular the Bangladesh Bank LC rules and more generally the credibility of the Bangladesh banks were reported to constrain Indian exports to Bangladesh, and as one of the factors responsible for illegal practices in the border trade, especially at the Petrapole-Benapole border crossing.

An important general non-tariff constraint on Bangladesh's imports from India is the fact that only four out of the 42 Customs posts on the land border with India are allowed to clear all imported goods: the others are limited to dealing with a very short list of products and must obtain case-by-case authorization from the National Board of Revenue for clearing anything not on this list (see discussion below). In addition- ostensibly in the interests of limiting illegal imports- since July 2002 Bangladesh has required that two of its principal imports from India – sugar and textile yarns-can only be

Fig 4.1
Bangladesh 1991/92-2004/05:All Tariff Lines, Unweighted Average Protective Import Duties



[27] World Bank *Trade Policies in South Asia: an Overview.* Report no 29949, September 7, 2004. Three volumes.

imported through its sea ports. Restrictions on what land border Customs posts are allowed to handle also exist on the Indian side, as discussed previously in the section on India's trade policies.

General tariff trends. During the first five years of the 1990s, up to 1995/96, Bangladesh's tariffs were cut drastically (Table 4.1 and Figs 4.1, 4.2, and 4.3). The unweighted average protective rate of all tariff lines fell from 73.6% in 1991/92 to 32% in 1995/96. After 1995/96 this liberalizing impetus stalled, and during the following ten years up to 2004/05 tariffs declined only slightly. Average industrial tariffs came down modestly (by 6.4 percentage points from 31.9% to 25.4%) but the average protective rate for agriculture (including fisheries, livestock and processed foods)[28] was 32.7% in 2004/05, slightly higher

Fig 4.2
Bangladesh 1991/92-2004/05: Industrial Tariff Lines. Unweighted Average Protective Import Duties

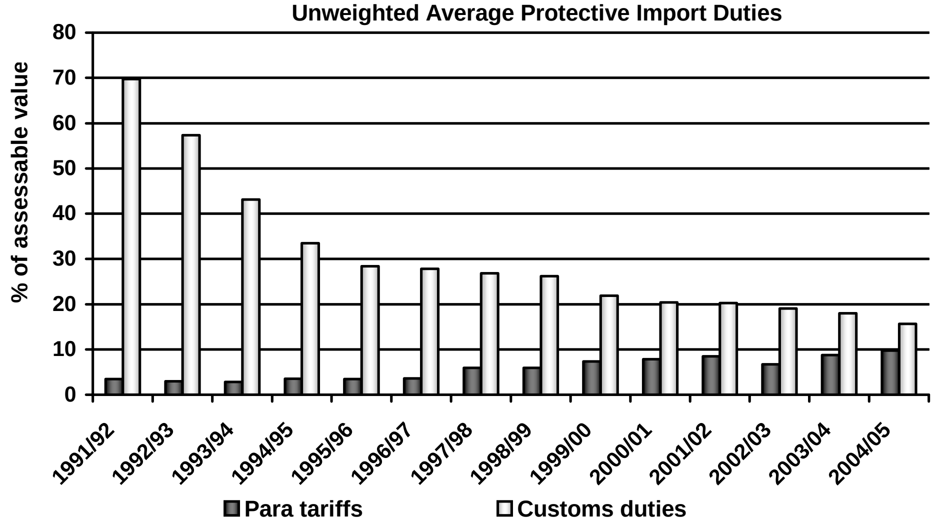
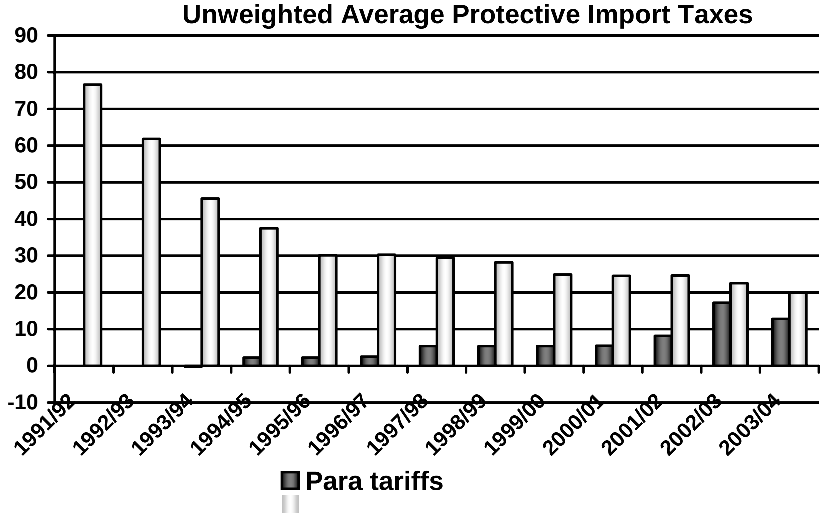


Fig 4.3
Bangladesh 1991/92-2004/05: Agriculture Tariff LInes. Unweighted Average Protective Import Taxes



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[28] HS 1-24. This definition of "agriculture" differs somewhat from the WTO definition of the sectors covered by the Agreement on Agriculture, mainly by including fisheries and marine products (HS 03) and excluding hides and skins and various natural textile fibres such as jute, cotton and wool.

than it had been 10 years earlier. In fiscal 2006/07, over all tariff lines, the unweighted average protective rate declined by 7.7 percentage points, from 32% in FY1995/96 to 24.3%.

Para-tariffs This slowing of tariff reduction occurred because continuing cuts in Customs duties were offset by increases in the scope and levels of a variety of para-tariffs which were imposed on top of Customs duties. By 2004/05 (see Table 4.1) about 40% of the unweighted average protection level was due to para-tariffs, and para-tariffs were being applied to 21% of total tariff lines. How these para-tariffs interact with Customs duties and with each other and affect protection levels is complex. Formulas were developed as part of this and the earlier trade policy *Overview* report for estimating the resulting total protection rates for different combinations of para-tariffs. These are given in Annex I, together with some examples.[29]

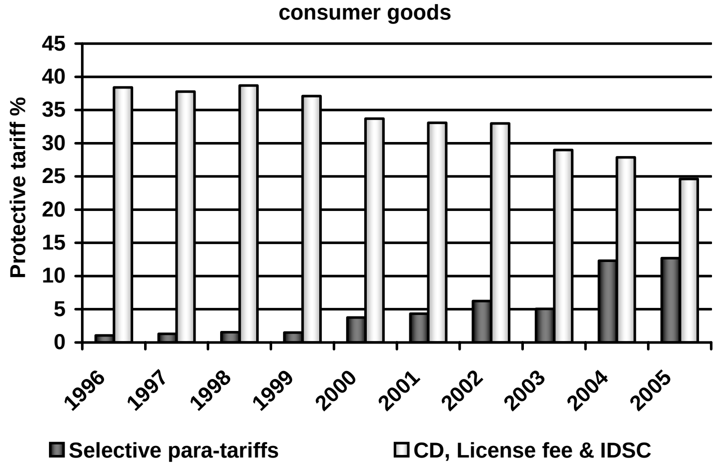
Five different para-tariffs have been used at different times since the early 1990s viz:

License fee (LF): from 1991/92 until it was discontinued in 2002/03, at a fixed rate on assessable value (AV). The assessable value of an imported good is usually the cif price +1%.

- *Regulatory duties (RD)*: from 2000/01 at varying rates on assessable value (AV) until discontinued in 2004/05.
- *Infrastructure Development Surcharge (IDSC)*: since 1997/98 to the present. Currently at the rate of 4% on assessable values
- *Supplementary duties (SD):* since 1991/92 to the present: at varying rates on assessable values plus Customs duty. The rates generally used during 2004/05 were 15, 25, 30, 35, 60, and 90 percent. Imposed as was usually the case on top of a 25% Customs duty, these correspond to considerably bigger increases in the protection rate (e.g, a 15% supplementary duty increases protection by 18.8 percentage points, and a 90% supplementary duty increases protection by 112.5%).

Protective VAT: since 1991/92 to the present. This is the practice of imposing the normal 15% VAT on an imported product but exempting the same product from VAT when it is produced domestically. The base for the VAT on imports is (AV+CD+RD+SD)-it does not include the IDSC. Whether the exemption of the domestically produced product actually provides extra protection depends on whether the subsequent buyer is also subject to VAT and loses the normal VAT credit. As discussed in the World Bank trade policy *Overview* report, this technique has generally been used for final or near final stage consumer goods and provides

Fig 4.4
Bangladesh FY 1996-FY 2005 Average protective tariffs for final consumer goods



[29] When starting this study we did not find any conceptually sound methods for measuring the combined protective rate of Customs duties and the para-tariffs, either at NBR or elsewhere in writings and research on Bangladesh's trade policies. Perhaps for this reason, there is no discussion or recognition in Bangladesh either in official publications or elsewhere, of the total protection rates resulting from the tariff system. Most discussions just mention the Customs duties, but this is meaningless without taking account of the para-tariffs. Elucidating and publicising the protection rates resulting from Customs duties and para- tariffs would appear to be a straightforward and obvious task for the National Board of Revenue or the Tariff Commission.

extra protection since the VAT system in Bangladesh does not effectively extend to wholesale and retail distribution.[30]

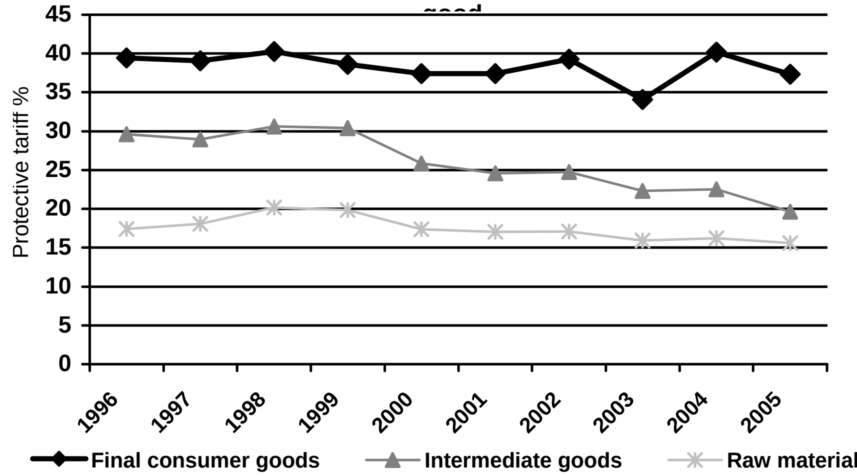
In addition importers have to pay a tax called *advance income tax (AIT)* This is charged on nearly all imports at 3% of assessable value, and can be credited against the importer's income tax liability. For this reason in principle it is not a protective tax, insofar as the domestic producers of the product are also subject to income taxes. For this reason it has not been considered a protective tax in this study, but if income taxes are not imposed or not collected on domestic production, it would operate as another protective para-tariff.

During the first part of the period covered by the India-Bangladesh trade study, the last four of the protective para-tariffs listed above were in force, and since July 2004 when the regulatory duties were discontinued, the last three have been in force. The IDSC for the most part is an across-the-board import tax at a flat rate from which relatively few imported products are exempt. During FY 04 and 05 the rate was 4%, so the effect in most cases is just to increase the Customs duty by this amount. In 2004/05 this means that the four standard Customs duty "slabs" of 25, 15, 7.5 and 0 percent are in practice 29, 19, 11.5 and 4 percent, and the distortionary effects resulting from the dispersion of the four Customs duty rates is actually slightly reduced.[31]

By contrast, the three other para-tariffs have been used selectively to provide very high protection levels to a wide range of import substitution industries, in some cases to intermediate manufactured products, but in the vast majority of cases to protect domestically produced final consumer goods. The deployment of the selective para-tariffs has been growing especially rapidly, albeit somewhat erratically, since 1998/99. In 2004/05 about a fifth (21.07%) of all tariff lines (1405 out of a total of 6667 lines) were subject to either a supplementary duty, a protective VAT, or both (Table 4.2)[32]. In 2003/04 there was a sudden spurt in the use of regulatory duties, with the number of products subject to them jumping from 35 to 334, but for unknown reasons they were all cancelled in the 2004/05 budget (Table 4.3).However this change was more than offset by a big expansion (a 55% increase) in the number of products subject to supplementary duties. Consequently both the absolute number of tariff lines and subject to one or more para-tariff, and the proportion of total tariff lines subject to para-tariffs, once again increased in this year.

The concentration of extra para-tariff protection in consumer goods is apparent from Table 4.4, which shows unweighted average total protection rates distinguishing basic raw materials, intermediate goods, capital goods and final consumer goods over the 10 years since 1995/96. In 2004/05, without the selective para-tariffs, the maximum normal protection

Fig 4.5
Bangladesh FY 1996 - FY 2005: Average protective tariffs by type of good



[30] See especially the discussion in the appendix (p. 69) of Volume III.
[31] It is increased in relation to unsubsidized exports, however.
[32] The tariff lines referred to here are Bangladesh's 8-digit HS classification of MFN tariffs i.e. leaving out special discounted tariffs for specified "end users" and preferential tariffs (for example under SAPTA)

resulting from the maximum Customs duty (25%) and the IDSC tax (4%) and with VAT applied to both imports and the domestic product, was 28.5%.[33] But in 2004/05 the average final consumer good protection rate was 37.3%, reflecting the effect of the selective para-tariffs. Also, during the 10 years since 1995/96 there has been no downward trend in this protection rate (Figs 4.4 and 4.5) despite reductions in Customs duty rates during the period and the discontinuance of the license fee in 2002/03. By contrast the average protection rates on basic raw materials, intermediate goods and capital goods are much lower, and in the case of raw materials and intermediate goods have been trending down since 1998/99 (Fig 4.5). The downward trend in intermediate good tariffs is especially marked, and suggests the existence of a consistent policy which seems to have started in about 1998/99, of increasing the protection to the processing margins of import competing industries selling in the domestic market, by pushing up the tariffs protecting their outputs while reducing the tariffs on their intermediate inputs. One of the key reasons for these much lower protection levels and divergent trends during the five years is the much lower incidence of the selective para-tariffs among raw materials and intermediate goods, and to a lesser extent capital goods (Table 4.3). Thus, in 2004/05 the selective para-tariffs added 12.75 percentage points to the average protection of final consumer goods, but only 0.87, 1.30. and 3.06 percentage points respectively to the average protection of raw materials, intermediate goods and capital goods.

So far the effects of the para-tariffs on average protection levels have been discussed, but the essential feature of these instruments is that they are selective and flexible and provide wide discretion in deciding the level of protection to be afforded to particular products and the firms and industries that produce them. For example, the government can decide whether to impose a 15%, a 35% or a 90% supplementary duty on top of a normal Customs duty, whether or not to provide a domestic VAT exemption, or perhaps to provide a combination of both. In this way the para-tariffs directly contradict and appear to have largely undermined a number of key objectives of the 1990s tariff reforms, which were to cut tariffs and make them more uniform, reduce their complexity by cutting the number of Customs duty slabs, and in these ways to also reduce the scope for discretion in decisions on protection levels.

Some indication of the selective use of the para-tariffs to provide high protection levels is given Table 4.5. This reproduces the total protection rates in 1997/98 and 2003/04 for a sample of 55 products and product groups analysed in the World Bank trade policy overview report[34] and adds the total protection rates in 2004/05 for the same products. For most industries producing this group of products, there has been a massive increase in tariff protection during the years since 1997/98, even though protection rates were high to start with. Between 1997/98 and 2003/04 the simple average protection rate for the group of products went up by approximately 24 percentage points, from 50.8% to 74.7%. It increased for 50 of the 55 products, in most cases very substantially e.g. processed seafood from 35% to 88%, milk powder from 47% to 62%, sugar from 47% to 85%, sweet biscuits from 47% to 131%, cement from 25% to 66%, soaps and detergents from 61% to 98%, plastic tableware from 51% to 91%, textile fabrics from 65% to 72%, glass and glass products from 47% to 85%. For only five of the products did the total protection rate decline, and this reduction was minimal and from already high levels e.g. the salt protection rate fell from 150.8% to 143.2%, and the protection rate for after shave preparations fell from 64.6% to 54.6%. During 2004/05, the total protection rates of most of the products in this group fell, but the majority remained considerably higher than they had been in 1997/98. The average protection rate of the group declined to the still very high level of 66%, with protection rates of individual products and product groups ranging from 47.2% to 141%.

33 Because the base for the import VAT does not include the IDSC tax, whereas the base for VAT paid by a domestic producer is the ex-factory price, the effect of the VAT is to slightly reduce the total protection rate, in this case by about 0.52 percentage points.

34 Op cit , Vol II, Table 3.15

"End user" tariff concessions. As well using the para-tariffs to raise the protection for the outputs of domestic industries, the government has developed a system of special "end user" tariffs which provide low concessional tariffs on the inputs and capital equipment for specified industries or for specified uses. In 2004/05, corresponding to the 6667 MFN tariff lines, there were 2503 "end user" concessional tariffs (Table 4.6), often more than one for the same product. These concessional tariffs are much lower than normal MFN tariffs, and in the case of machinery and parts used by exporters, the concessional protective tariff is zero. On average the "end user" tariff was 7.4%, and 10.5% if the zero machinery and part tariffs for exporters are excluded. This compares with the average MFN protective rate of 26.6% and with the following protective structure if only the four normal Customs duties and IDSC tax are imposed:

Customs duty %	*Protective rate %*
0	3.48
7.5	10.98
15	18.48
25	28.48

As indicated in Table 4.6, there are only two major industries which receive special end-user concessions for their intermediate materials, namely the pharmaceutical industry and the insecticide industry. Bangladesh has well developed systems (mainly export processing zones and bonded warehouses) for providing duty free intermediate materials for its export firms, and this is not handled as part of the "end user" concessional tariff system. Hence, except for these two industries, the end user concessions do not appear to be systematically used to increase the effective protection (processing margins) of import substitution industries. Instead, this is generally done by applying the lower standard Customs duty rates to inputs and adding para-tariffs to the protection for final products. For example, the HS chapter covering plastics and plastic products includes the following protective tariffs:

HS code		*2004/05 protection rate %*
3924.10.00	Plastic tableware & kitchenware	83.7
3924.90.90	Household toilet articles of plastic	83.7
3922.10.00	Baths, showers, sinks, washbasins of plastic	59.7
3922.20.00	Lavatory seats and covers	59.7
3922.90.00	Toilet systems of plastic	59.7
3918.10.00	Floor coverings of PVC	47.2
3918.10.00	Floor coverings of other plastics	47.2
3919	Plastic adhesive rolls and foil	47.2
3920	Plate, sheet, film of plastic-other	47.2
3901-3914	Plastic polymers in primary form (PVC, polyethylene, polystyrene etc)	18.5

The high protection rates for the final products on this list (and for other final plastic products not shown here) are due to supplementary duties (applied to 35 products in this chapter) and the use of the protective VAT in combination with a supplementary duty in the case of tableware, kitchenware and household toilet articles. Para-tariffs are not applied to the intermediate plastic polymers which are just subject to the 15% Customs duty and the 4% IDSC. The protection rate for a variety of other final plastic products (presumably not yet produced in Bangladesh?) is generally 28.5%. Similar patterns of tariff escalation are found both within and between other HS tariff chapters: for example the average MFN tariff for iron and steel (HS 71) is 13.6% while the average protective tariff for iron and steel products is 30%, and closer investigation of these two product groups and others will almost always reveal cases of much steeper tariff escalation, where para-tariffs have been applied to finished products.

The end user concessions are more important for machinery and equipment, where the protective tariff for machinery and parts used by firms selling in the domestic market is 7.5% and zero for the same machinery and parts if they are used by "100% export oriented" firms. Most users of machinery in Bangladesh probably benefit from these concessions since the 7.5% "capital machinery" concession for non-exporters applies to about 40% of the tariff lines in the two principal HS chapters covering non-electrical and electrical machinery (HS 84 and HS 85). Without these concessions many machines would cost more, since the same standard MFN tariff structure applies to them as shown above for plastic products i.e. Customs duties of zero, 7.5%, 15% or 25% corresponding to protection rates of 3.48%, 10.98%, 18.48% and 28.48%. But the concession is not available unless the machines are used as capital equipment to produce something else, and a close look at these chapters reveals a number of products-mostly durable consumer goods probably being produced domestically-with very high protection rates. For example:

HS code		***2004/05 protective rate %***
8415.1010	Domestic air conditioners <3 bhp	72.2
8607 & 8609	Engines for three wheelers, 4 stroke	72.2
8414.5110	Domestic room fans	59.7
8413.20	Hand air pumps	47.8
8414.20	Hand & foot operated air pumps	47.8
841810	Domestic refrigerators	47.2

These examples suggest that the government is willing to provide high protection to local machinery production when final consumers are the users, but that it prefers low tariffs for industrial machines -e.g. the 3.7% or 7.5% tariffs on textile machinery- in part probably because of the lobbying power of industrial users. In any case these very large differences certainly contribute to a very distorted protection structure in the machinery sector, with negative or very low effective protection rates for most industrial machines and extremely high effective protection rates for a number of consumer durables and perhaps some other machines[35]. The low tariffs on industrial machines also increase the effective incentives of products they help to produce that are sold domestically, but on the other hand the anti-export bias of the incentive system is somewhat lower than it otherwise would be if exporters did not receive this concession.

<u>Agriculture, livestock, fisheries and processed food.</u> Bangladesh's trade policies in these sectors warrant separate treatment because, as in India, they differ in important ways from its manufacturing trade policies, in addition to which Indian agricultural products are generally a large although fluctuating share of its total exports to Bangladesh[36]. Understanding "low" tariffs as 10-15% or below, "moderate" as 15-25%, "high" as 25-40%, and very high as exceeding 40%, these policies can be characterised as follows:

- Relative to other products, low tariffs and other incentives (no large input subsidies) for the major food grain crops -- rice, coarse grains, wheat, and pulses. Together, these account for by far the largest part of agricultural GDP and agricultural employment. They are economically efficient, low cost industries, and trade policies have been managed to keep consumer prices down by allowing imports-most of which come from India- over quite low tariffs (around 10%) during periods when domestic production has lagged behind demand.
- Very high tariffs on frozen shrimp and fish, and quite high tariffs on tea and raw jute, despite the fact that these are all major exports and that competition between exporting producers would be expected to keep domestic prices broadly in line with export prices.

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35 Tariffs on steel and other machinery inputs (e.g. steel, metals, electronic components) are higher than industrial machinery tariffs (zero for machinery used by exporters and up to 7.5% for most domestic market users), so effective protection for local production of these machines and also for replacement parts is probably negative in most cases. By contrast consumer durable tariffs are much higher than the tariffs on most of the inputs that are used to produce them, so the firms that produce them in Bangladesh have extremely high effective protection to their processing margins.

36 For more detail on Bangladesh's trade policies with regard to these products see the trade policy *Overview* report (volume III, Chapter 1, pp 16-18).

- Except for coconut oil, low or moderate tariffs protecting import competing oilseed farmers and edible oil producers. Very high tariffs protecting the sugar industry and a number of other import substitution crops, in particular some vegetables, fruits, nuts, and spices.
- In the livestock sector, high to very high protection for dairy products and the poultry industry, but low for cattle herding as a result of an export ban on live cattle, skins and partially processed leather.

High or very high tariffs protecting import substitution food processing industries, as is apparent from the following unweighted average protective tariffs for the HS processed food chapters:

HS chapter	*Products included*	*Average protection rate 2004/05 %*
04	Dairy products, eggs, honey etc	45.3
15	Animal & vegetable fats and oils etc	33.1
16	Preparations of meat, fish, crustaceans etc	30.2
17	Sugar and sugar confectionery	39.5
18	Cocoa and cocoa preparations	41.1
19	Preparations of cereals, starch or milk; pastry cook products	44.8
20	Preparations of vegetables, fruits, nuts, etc	42.2
21	Miscellaneous edible preparations	32.9
	Average of 8 HS processed food chapters	38.6

As with the rest of manufacturing, protection rates for the processed food industries have been kept up by the widespread use of the selective para-tariffs; otherwise the maximum protection rate in 2004/05 would have been 28.5%. Like other sectors, the averages also conceal large variations in protection rates within individual chapters, with exceptionally high protection rates for some products that have received special treatment, and much lower for others.

The high protection rates for some of the agricultural and other primary products, but especially of processed foods, from the viewpoint of Bangladesh consumers constitute a substantial and highly regressive indirect tax. This has important implications for the likely economic effects of an FTA with India, because if Bangladesh were to import these products duty free there could be large economic welfare benefits for Bangladesh consumers, but also difficult adjustment problems for the Bangladesh producers that lose protection. How the resulting economic costs and benefits might work out is discussed in a project case study paper using the example of the sugar industry. By contrast, it is probable that not much would change for Bangladesh consumers or for producers, if rice and Bangladesh's other cereal crops were included in an India-Bangladesh FTA, because of the Bangladesh protection levels that are already quite low.

<u>Bangladesh's tariff preferences for India.</u> Bangladesh gives tariff preferences to imports from India under the Bangkok Agreement and under SAPTA.[37] The current members of the Bangkok agreement are India, Bangladesh, Sri Lanka, Republic of Korea, Laos and China (China joined in 2001). However, the Bangladesh tariff schedule's list of tariff preferences only mentions India, Sri Lanka and South Korea. In FY 05 in Bangladesh only 132 tariff lines (out of a total of 6667) were subject to preferences under this agreement, the general preference rate was only 10% of Customs duties, and preferences did not apply to para-tariffs. Consequently the tariff advantages accorded were negligible. For example, after allowing for para-tariffs, the preferential total protective rate for car engines > 2600 cc[38] was 25.98% versus a general MFN rate of 28.48%, and the preferential rate for peppers[39] was 66.01%

37 For more on the Bangkok Agreement and SAPTA, see the World Bank trade policy *Overview* report, volume II chapter 5.

38 HS 84082030

39 HS 04091120

versus a general MFN rate of 69.31%. Under SAPTA, Bangladesh gives preferences on 561 tariff lines to India as one of the three more developed SAARC countries (the others are Pakisan and Sri Lanka). However, the preferences are once again only 10% of Customs duties and do not apply to para-tariffs, so the margins of preference are negligible. For example in FY05 the preferential total protective rate for India on processed meats[40] (in “wrapped/canned” form) was 44.88% versus 47.75% on meat from non-preferential sources. For raw materials and intermediate inputs where Bangladesh’s protection rates are generally very low, the SAPTA preference margins are also extremely small and in a number of cases where the Customs duty has been cut to zero, the preference margin is also zero e.g. both the preferential and the MFN total protective rates of a number of mineral ores[41] are 3.48%. Overall, the tariff preferences Bangladesh has given to India (and to the other member countries) under both the Bangkok Agreement and SAPTA are purely symbolic: their main effect has been to further increase the complexity of the tariff schedule and Customs administration rather than to provide any substantive preferences for imports from India of any of the other Bangkok Agreement or SAPTA countries. In studies and surveys done as part of the India-Bangladesh trade project, they were never mentioned and for all practical purposes can be ignored.

Customs clearance at land border Customs posts Actual or prospective Indian exports to Bangladesh in principle are subject to the same Customs clearance as rules any other exports if they go by sea to the main Bangladesh sea ports (i.e. Chittagong & Mongla) or by air, and similarly Bangladesh exports to India that are sent through India’s principal sea ports or by sea or air are also subject to the same Customs clearance rules as other exports to India. But for exports originating in the Indian states near the land border, land and/or river transport over the land border is frequently the most direct and least expensive route, especially if the market for the goods is in the nearby border areas of Bangladesh, and for trade between the north-east and eastern Indian states and Bangladesh the land border is the *only* feasible route. But the land border trade is subject to very serious administrative constraints in Bangladesh, because 38 out of the 42 land border Customs posts with India severely restrict the imported goods that can be cleared, and only four land border posts can clear all imported goods. In terms of volume the most important by far of the Customs posts with comprehensive Customs clearance powers is at Benapole, which borders Petrapole on the Indian side and which is on main roads linking Kolkata with Jessore and Dhaka. Two others are at Hili and Shonamosjid on the north west border with West Bengal, and the fourth at Tamabil in the far north east, on the border with Meghalaya. Of the others, 36 Customs posts can only deal with 17 specified (mostly agricultural) products, [42] and to clear other products special permission has to obtained from the National Board of Revenue. Two other Customs posts are restricted to clearing products included in a different small list.

In addition to these general constraints on imports by the land border, both Bangladesh and India have periodically constrained imports of certain products by specifying the ports at which they can be cleared by Customs. Bangladesh did this in July 2002, when it imposed a ban (still in force) on the import of sugar and textile yarns through any of its land ports-including and especially Benapole- and required all imports to come by sea. These are consistently two of the principal products which Bangladesh imports from India, and the ostensible reason was to reduce “official” smuggling with the connivance of Customs, which was alleged to be particularly prevalent at the Petrapole-Benapole crossing.[43]

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[40] Most meats in HS chapter 02

[41] Mineral ores, ash etc in HS 26 e.g. HS 26264000 (ash and residues containing aluminium)

[42] Livestock, fish-pona, fresh fruits, seeds, rice, wheat, stone & boulders, coal, chemical fertilisers, china clay, timber, lime stone, onions, garlic, ginger, ball-clay, quartz

[43] These measures are discussed in the project case studies on sugar and ready made garments (pp 28 and 34 respectively)

As noted in the previous discussion of India's trade policies, from time to time India has also placed limits on the imports from neighbouring countries that can be cleared at its land border Customs posts, but in June 2005 it seems that this "port notification instrument" was not deliberately being used as a way of restricting imports from Bangladesh.[44] More important, India restricts the ports which can administer its various export incentives, and in June 2005 it was reported that DEPB-which is the most widely used-was not available at any of the land border Customs posts with Bangladesh except at Petrapole, resulting in the diversion of Indian exports to Bangladesh, to this crossing[45]. In Bangladesh, however, it seems that there are no limits on the exports that can be cleared by Customs at its land border Customs posts.

Potential exports from India to Bangladesh that are not eligible to be cleared by Bangladesh Customs at a nearby border crossing will be often faced with the alternative of either transporting the goods –perhaps a thousand kilometres or more- to the Petrapole crossing or one of the other three unrestricted crossing places, or to a distant port such as Haldia for shipment by sea. For the north east and eastern Indian states, these alternatives will often be prohibitively costly, so the restrictions amount to a ban on exports from these states to the nearby regions of Bangladesh, in products that are not listed. This in turn provides a strong incentive to send the goods illegally, either by "bootleg" smuggling which bypasses the Customs posts altogether, or by "official" smuggling involving bribes to Customs and other officials on both sides of the border (see the section below on informal trade).

There are a number of obvious reasons for the limits on the products that can be cleared at land border Customs posts. It is principally a legacy of the long period of highly restrictive import policies followed by both countries in the past, involving pervasive QRs of all kinds and prohibitively high tariffs which discriminated above all against trade between each other and with other developing countries, much more than against trade with developed countries. The consequent low volumes of legal trade meant that there was no, or very little, need to incur the expense of installing capacity for Customs clearance at large numbers of small border Customs posts, or to even establish Customs posts at all at many border crossings. For example, India's *de facto* ban on the import of all consumer goods (including agricultural products and textiles) which was only finally phased out in April 2001, meant that there was no point in maintaining the capacity for clearing imports of these goods, except at major ports to handle exceptional cases. A further consequence was that there was also no point in building transport and storage and other infrastructure at these places, since the volume of legal trade that was feasible trade did not justify it.

<u>Export policies</u> Bangladesh's exports are dominated by ready made garments, most of which are exported to the US and the EU. Nearly all garment exports are from firms operating in export processing zones or as bonded warehouses. In both cases they can import their textile and other inputs free of Customs duties and all other import taxes (including the 3% advance income tax) with the use of "back-to-back LCs" i.e. letters of credit based on LCs issued for their exports. As noted previously, machinery used by exporters is also exempt from all import taxes under the "capital machinery" provision for exporters. Until June 2005 there was also an arrangement which paid subsidies on domestic fabrics used by garment exporters. Apart from these, there is a standard array of duty neutralization schemes (e.g. duty drawback) and export incentives (e.g. preferential export credit) and export promotion institutions and activities of the kind used in many developing countries (see the trade policy *Overview* report for a summary). In addition, however, there are a number of non-standard export policies which would need to be discussed with India in the context of bilateral FTA, or with the India and the other South Asian countries in the context of SAFTA. These combine export bans and restrictions on a number of

[44] Personal communication from Arun Goyal, June 3 2005.
[45] Ibid

unprocessed or partially processed primary products[46], and export subsidies when some of these products are exported in processed form. The intention of these measures is to make processed exports more profitable by increasing gross margins by lowering the prices of the raw materials and increasing the return from the exported finished products, but both measures contravene WTO rules and the Agreement on Agriculture in particular. They are also likely to run into trouble if used to promote exports to India or to one of the other South Asian countries as part of a free trade agreement.

Table 4.1: Bangladesh 1991/92-2004/05: Unweighted Average Protective Import Duty Rates

	All tariff lines			**Industrial tariff lines**			**Agriculture tariff lines**		
	Customs duties	Para-tariffs	Total prot rate	Customs duties	Para-tariffs	Total prot rate	Customs duties	Para-tariffs	Total prot rate
1991/92	70.64	2.98	73.62	69.72	3.44	73.16	76.64	-0.01	76.63
1992/93	57.93	2.59	60.52	57.34	2.99	60.33	61.83	-0.03	61.80
1993/94	43.47	2.43	45.90	43.13	2.84	45.97	45.58	-0.17	45.41
1994/95	34.24	3.30	37.55	33.52	3.54	37.06	37.49	2.23	39.72
1995/96	28.70	3.26	31.96	28.40	3.47	31.87	30.07	2.28	32.36
1996/97	28.24	3.38	31.61	27.79	3.58	31.37	30.25	2.48	32.73
1997/98	27.27	5.88	33.15	26.80	5.98	32.78	29.42	5.42	34.83
1999/99	26.59	5.82	32.41	26.23	5.92	32.15	28.19	5.37	33.56
1999/2000	22.40	6.99	29.39	21.86	7.33	29.19	24.87	5.41	30.28
2000/01	21.10	7.43	28.54	20.39	7.84	28.23	24.53	5.46	30.00
2001/02	21.02	8.41	29.43	20.28	8.47	28.75	24.60	8.15	32.74
2002/03	19.91	6.51	26.42	19.08	6.74	25.82	23.85	5.44	29.29
2003/04	18.82	10.29	29.11	18.02	8.81	26.82	22.56	17.22	39.77
2004/05	16.39	10.23	26.62	15.67	9.76	25.43	19.89	12.81	32.70

Table 4.2: Bangladesh 2003/04 and 2004/05: Distribution of tariff lines with extra protection above Customs duties plus IDSC tax, provided by VAT exemptions, supplementary duties and regulatory duties

	2003/04		**2004/05**	
Extra protection from	**No of tariff lines**	**Percent of total lines**	**No of tariff lines**	**Percent of total lines**
VAT only	372	5.41	339	5.08
SD only	389	5.66	823	12.34
RD only	145	2.11	0	0.00
VAT+SD	233	3.39	243	3.64
VAT+RD	122	1.77	0	0.00
SD+RD	67	0.97	0	0.00
Subtotal	1328	19.31	1405	21.07
No extra protection	5549	80.69	5262	78.93
Total lines	6877	100.00	6667	100.00

IDSC=Infrastructure Development Surcharge; VAT=Value added tax; SD=Supplementary duty;RD=Regulatory duty. SourceL:World Bank staff estimates from NBR database

[46] Raw hides, wet blue leather, and unfrozen and unprocessed prawns and shrimps are among the banned exports. A complete list of banned and restricted exports is given in the trade policy *Overview* report (see Vol III, Table 1.6 p 24).

Table 4.3: Number of tariff lines subject to selective paratariffs FY 03-FY 05

	2002/03	2003/04	2004/05
Number of tariff lines			
With protective supplementary duties	356	691	1066
With protective VAT	442	727	582
With regulatory duties	35	334	0
Change from previous year			
Protective supplementary duties		+335	+375
Protective VAT		+285	-145
Regulatory duties		+299	-334

Table 4.4: Unweighted average total protection rates by type of product (% of assessable values)

FY	Basic raw materials	Intermediate goods	Capital goods	Final consumer goods	All goods
1996	17.4	29.6	23.0	39.4	31.9
1997	18.1	28.9	23.2	39.1	31.6
1998	20.2	30.6	25.2	40.2	33.1
1999	19.9	30.4	25.4	38.6	32.4
2000	17.4	25.9	19.4	37.5	29.4
2001	17.0	24.6	17.7	37.4	28.5
2002	17.1	24.8	18.0	39.3	29.4
2003	15.9	22.3	18.7	34.1	26.4
2004	16.2	22.5	19.2	40.2	29.1
2005	15.6	19.6	18.1	37.3	26.5

Notes: Calclulated from NBR database. The tariff lines averaged are MFN rates only: the averages do not include many "end user" tariff reductions, including tariff exemptions for end users who are exporters. The averages for intermediate and capital goods are considerably lower than shown here if these "end user" tariff reductions are averaged with the general MFN rates. Thje product definitions are adapted from the World Bank SINTIA protection software

Table 4.5: Bangladesh FY 1998, FY 2004 and FY 2005: some examples of total protection rates resulting from selective paratariffs on top of Customs duties, the license fee and the IDSC

HS code	Product or product group	Total protection rates FY 1998	FY 2004	FY 2005	Change FY 98 to FY 04	Change FY 04 to FY 05
0302	Fish, fresh	35.0	64.0	32.0	29.0	-32.0
0302	Fish, wrapped/canned	35.0	88.0	50.8	53.0	-37.3
0402	Milk Powder	47.2	61.9	86.7	14.8	24.8
0405-0406	Dairy Products	68.9	90.9	86.7	22.0	-4.2
0805, 0806, 0808	Fruits:oranges, grapes, apples (fresh)	47.5	86.0	86.7	38.5	0.7
0906, 0907	Cinnamon, cloves	46.9	66.5	63.3	19.6	-3.3
1701	Cane sugar	34.7	98.4	73.2	63.7	-25.1
1704, 1806	Sugar confectionery	47.2	85.5	137.0	38.3	51.5
1905	Bakery products (sweet biscuits etc)	47.2	131.0	137.0	83.8	6.0
2007,2009 & 2103	Food Preparation (Juice, Jam, Jelly, Tomato-ketchup etc)	47.2	85.5	86.7	38.3	1.2
220210	Soft drinks	46.0	68.6	56.7	22.6	-12.0
2501	Salt	150.8	143.2	141.0	-7.6	-2.2
25232910	Portland Cement	25.4	66.0	72.2	40.6	6.3
3208-3210	Paint & Varnish	47.2	66.0	59.7	18.8	-6.3
33,033,307	Perfumes	68.5	98.5	72.7	29.9	-25.8
3304-3305	Cosmetics	64.6	65.4	43.5	0.8	-21.9
3305	Shampoos	64.6	65.4	56.6	0.8	-8.8
3306	Toothpaste	47.2	98.5	72.2	51.3	-26.3
3307	After Shave preparation	64.6	58.8	72.2	-5.8	13.5
3401	Soap & detergent	61.4	98.5	72.2	37.1	-26.3
3605	Safety Matches	54.3	53.0	47.2	-1.3	-5.8
3919-3921	Sheet Polythene	47.2	53.0	47.2	5.8	-5.8
3922	Plastic Sanitary-ware	47.2	66.0	59.7	18.8	-6.3
3924	Plastic Table & Kitchenware	54.6	90.9	83.7	36.3	-7.2
4410-4412	Ply wood & particle board	47.2	53.0	47.2	5.8	-5.8
5208-5212,5407-5408 & 5512-5516	Textile Fabrics	64.8	71.6	69.3	6.8	-2.3
5701-5705	Jute Carpet	47.2	75.9	83.7	28.8	7.8
5701-5705	Other Carpet	47.2	53.0	59.7	5.8	6.8
610910, 620342, 620520	RMG Products: cotton shirts, trousers & T-shirts	47.2	85.5	47.2	38.3	-38.3
6302	Cotton sheets	47.2	85.5	47.2	38.3	-38.3
6402-6404	Sports Footwear	54.3	53.0	47.2	-1.3	-5.8
6402-6405	Other Footwear	54.3	66.0	59.7	11.7	-6.3
6802	Ceramic Tiles: Other	47.2	61.3	49.8	14.1	-11.5
6904-6906	Ceramic Bricks, Blocks, Roofing Tiles etc.	47.2	53.0	47.2	5.8	-5.8
6907-6908	Ceramic Tiles: Glazed/Unglazed	47.2	54.6	64.0	7.4	9.5
6910	Ceramic Sanitary ware	47.2	89.0	64.0	41.9	-25.0
6911-6912	Ceramic Tableware & Kitchenware	47.2	98.5	72.7	51.3	-25.8
7003-7005, 7009,7013	Glass & Glass Products	47.2	85.5	72.7	38.3	-12.8
7304, 7306	Iron & Steel Pipe: Other	47.2	53.0	47.2	5.8	-5.8
7306	Iron & Steel Pipe: ERW pipe	47.2	85.5	59.7	38.3	-25.8
7324, 7418	Iron, Steel & Copper Sanitary-ware	47.2	85.5	72.2	38.3	-13.3
821210	Razor	47.2	53.0	47.2	5.8	-5.8
8301	Lock	47.2	53.0	47.2	5.8	-5.8
8414	Electric Fan	47.2	66.0	59.7	18.8	-6.3
85061020	Dry Cell Battery	47.2	85.5	72.2	38.3	-13.3
850710	Lead acid Battery	47.2	85.5	72.2	38.3	-13.3
8527	Radio & Cassette player	47.0	58.7	47.2	11.8	-11.5
85281290	Colour TV	47.1	53.7	47.2	6.7	-6.5
853929	Light bulbs	54.3	66.0	47.2	11.7	-18.8
8539	Fluorescent lamps	54.3	53.0	47.2	-1.3	-5.8
85441920	Electric cables: Co-axial cable	47.2	66.0	59.7	18.8	-6.3
8544	Electric cables: Other	47.2	85.5	59.7	38.3	-25.8
8712	Bicycle & other Cycle	34.7	85.5	47.2	50.8	-38.3
9403	Furniture	47.2	53.0	59.7	5.8	6.8
9501-9503	Toys	47.2	85.5	72.2	38.3	-13.3
Average		**50.8**	**74.7**	**65.4**	**23.9**	**-9.3**

Table 4.6: Bangladesh tariff schedule 2004/05: Tariff lines with "end user" tariff concessions

Concession code	End use category	No of tariff lines	Average protective rate %
10	General exemption	9	4.0
11	General exemption, under certain conditions	31	10.1
15	General exemption, within a period	2	3.5
20	Capital machinery	505	7.5
21	Capital machinery, parts	231	7.5
25	Machinery textile industry (Table-1)	24	3.7
26	Machinery textile industry (Table-2)	41	7.5
30	Capital machinery, 100% export oriented	505	0.0
31	Capital machinery (parts), 100% export oriented	231	0.0
45	Parts for manufacturing solar panels	13	4.0
50	Raw materials for insecticides: Annex 1	56	4.1
51	Raw materials for insecticides: Annex 2	83	20.2
5A to 5K	Poultry sector (feeding systems etc)	72	3.9
61,62,64,65, 6A to 6E	Pharmaceutical & antibiotic raw materials	700	14.2
	All "end user" tariff lines	2503	7.4
	Total number of MFN tariff lines	6667	26.6

Note: Compiled from NBR tariff database