SECTOR ASSESSMENT (SUMMARY): INDUSTRY AND TRADE

I. BANGLADESH

A. Sector Performance, Problems, and Opportunities

1. **Trade performance**. International trade is increasingly important for Bangladesh's development. The contribution of trade to its gross domestic product (GDP) has significantly increased from 16.8% in 1991 to 40.2% in 2010.[1] There has been a strong rise in trade openness since 2007 as the value of both exports and imports substantially increased. Increasing trade openness is the outcome of systemic and unilateral tariff liberalization and of promoting export-led industrialization within the country since the mid-1980s. Preferential market access under various regional and multilateral trade agreements has also played a key role.[2] After a sharp decline in the 1990s, the tariff structure was liberalized relatively slowly from 2000, and by 2011 the average tariff rate was down to 13.7%.[3] The terms of trade of Bangladesh has also worsened in the past 17 years—even though the export price index has increased by 70 points in 2011, the import price index has risen by 144 points since 1995, resulting in rising trade deficits.

2. **Regional trade.** Outside of India, intraregional trade is not significant in the total trade of Bangladesh and the situation has not changed much since 1995. Of Bangladesh's total exports, the share of exports to the South Asian Association for Regional Cooperation (SAARC) area is only 2%–3%. Bangladesh's imports from SAARC have been growing at a steady rate of 16% per annum since early 2000s, however, it has a negative trade balance with its trading partners in South Asia. Bangladesh's trade in South Asia has focused on India and Pakistan. Around 70% of Bangladesh's total imports come from India and Pakistan, but India has always dominated—its share of Bangladesh's imports from the SAARC region was 72% in 1995, and 80% in 2005.[4]

3. **Trade facilitation**. Bangladesh has made great efforts to implement trade facilitation measures; its major customs posts (Chittagong, Dhaka, Benapole, and Mongla) use the computerized customs management system ASYCUDA++. Bangladesh has also been piloting a single-window system in Chittagong since 2008. As a result, the total steps involved in customs clearance have been brought down from 32 to 7.[5] Despite these encouraging achievements, Bangladesh still fares poorly in trade facilitation. It is ranked 115th of 183 countries on trade competitiveness.[6] This problem is chiefly caused by (i) the large number of required trade documents, (ii) lack of customs automation, and (iii) absence of a risk management system.

B. Government's Sector Strategy

4. **Overall policies related to trade**. Bangladesh's trade regime for the next decade is spelled out in its medium-term and long-term national planning documents: the Sixth Five-Year Plan, 2011–2015 and the Perspective Plan, 2010–2021. In the five-year plan, the country's

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[1] Computation based on UN Comtrade data.
[2] The process of liberalization in the country took place simultaneously with the negotiations under the Uruguay Round, World Trade Organization agreement, development of preferential trade agreements (SAPTA) in the 1990s, and formation of the South Asian Free Trade Area (SAFTA) in 2006.
[3] Sixth Five-Year Plan, FY2011 – FY2015.
[4] Export Promotion Bureau. 2008. *Bangladesh Export Statistics*. Dhaka.
[5] The seven steps involve: import general manifest, bill of entry, assessment of declaration, dues notified, payment to bank, bank notifies receipt of duty payment, and delivery from port.
[6] World Bank. 2011. *Doing Business 2012: Doing Business in More Transparent World*. Washington, DC.

exports and imports are targeted to reach 24% and 32.5% of GDP by FY2015. The perspective plan has set relatively modest targets for exports and imports—22% and 30% of GDP by FY2015 and 26% and 32% of GDP by FY2021. Thus, the ratio of overall trade to GDP is targeted to be 58% by FY2021.

5. **Policies to facilitate trade within SASEC**. The government has given special attention to improving cross border trade with neighboring countries, e.g., under the South Asia Subregional Economic Cooperation (SASEC). The most important factor is the improvement of infrastructure facilities at land customs stations (LCSs), as this affects 50% of trade with India, and 100% of trade with Nepal and Bhutan. At present, there are at least 28 LCSs. The movement of cargo from and to Nepal takes place through three LCSs, and from and to Bhutan through two LCSs. Bangladesh has taken many initiatives to improve the operation of LCSs, including the development of warehouse facilities. Regular meetings between customs officials are also held to discuss the issues that need policy resolution.

II. BHUTAN

A. Sector Performance, Problems, and Opportunities

6. **Trade performance**. Since 1990, Bhutan has experienced a chronic trade deficit, with imports growing more rapidly than exports. In 2010, the trade deficit increased to 21% of GDP, from 7.5% in 2009. This is due to imports of heavy machinery, trucks, and base metal for development of hydropower projects, and a sharp increase in construction in urban areas. However, the trade deficit is viewed as temporary and not structural. Informal trade of Bhutan is significant and it is estimated at $45 million per year, which is about 7% of official goods exports.[7] Informal trade is taken largely through land ports by small traders. Services trade is currently small, at less than 5% of Bhutan's aggregate international trade. Foreign direct investment (FDI) inflows, mostly in tourism and hospitality, began in 2002, after the adoption of the FDI policy in 2002. Net inflows of FDI in FY2010 were 0.9% of GDP. A total of 149 FDI projects were approved from 2009 to 2010, mainly in tourism, manufacturing and information technology.[8]

7. Cross-border trade in road and air transport services are particularly important because Bhutan is a landlocked country. Given its underdeveloped air transport, the country still largely relies on road transport. As a result, transaction costs are high, mainly due to high transport costs and reliance on transit for access to seaports. Bhutan is ranked 168th of 183 countries in trading across borders, largely due to infrastructural bottlenecks.[9] In addition, Bhutan’s trade competitiveness and market opportunities are hampered by (i) regulatory constraints, (ii) complicated trade procedures and formalities, (iii) absence of automated customs systems, and (iv) weak coordination between domestic agencies.

8. **Regulatory constraints.** Bhutan’s regulatory framework for cross-border trade of merchandise is relatively complex. In the absence of a comprehensive set of import and export regulations, the legal framework consists of pieces of subsidiary legislation, such as notifications and regulations issued by various agencies. This creates an overlapping and complex legal context for trade. It lacks central control and creates legal uncertainty. For example, cross-border trade transactions fall into two categories: (i) trade with India and (ii) trade with third countries other than India. Third-country imports are regulated by the Rules of Procedures for Imports from

[7] Royal Monetary Authority. 2011. *Annual Report*. Bhutan.
[8] Royal Monetary Authority. 2011. *Annual Report*. Bhutan.
[9] World Bank. 2011. *Doing Business 2012*.

Third Countries, while a different trade framework applies to bilateral trade with India, based on the Bhutan–India trade agreement. As Bhutan is a member of SAARC, the rules of the South Asia Free Trade Agreement apply to Bhutan's trade with other SAARC countries.

9. As for customs regulations, the customs law, which dates back to 2000, does not comply with the latest international customs practices, as outlined in the 2005 Revised Kyoto Convention (RKC). Thus, most of Bhutan's customs practices are not aligned. Although Bhutan is a member of the World Customs Organization (WCO), it has not signed the RKC. In addition, many regulatory documents do not conform with international standards such as the United Nations (UN) Layout Key for Trade Documents, and the UN Trade Data Elements Directory. Data elements on the forms are not coded and do not use international codes.

B. Government's Sector Strategy

10. The development strategy of Bhutan is based on strengthening exports—goods and services—as a pillar of the country's economic growth. International trade has become increasingly important for Bhutan, especially in its transformation from a self-sufficient economy to a more open and trade-dependent economy. The Government of Bhutan has therefore taken steps to mainstream trade into its national development policies by recognizing it as an essential cross-border component in the progress of pursuing its core strategies for poverty reduction. The 10th Five-Year Plan, 2008–2013 and the 2010 Economic Development Policy recognize trade as a critical ingredient for poverty alleviation and sustained economic growth. The plan's core strategies for the trade sector involve diversification of the export base and markets, trade facilitation and liberalization, and private sector and infrastructure development. Bhutan has also enacted various laws since the early 2000s to facilitate trade, such as the Sales Tax and Customs Excise Act in 2000, Rules and Procedures for Imports from Third Countries in 2002, Bhutan Foreign Direct Investment Policy in 2002, and the Bhutan Standards Act in 2010.

III. NEPAL

A. Sector Performance, Problems, and Opportunities

11. **Trade performance.** Nepal is one of the most open and trade-dependent economies in South Asia. In the 1990s, a series of market-oriented reforms opened up the economy to trade in goods and services, technology, and investment. These reforms have contributed to a rise in the trade–GDP ratio, which reached a top of 65.3% in 1997. However, this ratio fell markedly after 2001 due to the global economic slowdown, and domestic political challenges and insurgency.

12. **Regional trade.** Nepal is closely integrated with India. Transit and preferential trading treaties have existed between the two countries since 1950.[10] A long, porous border permits free movement of labor. The Nepalese rupee is pegged to the Indian rupee. These factors and the proximity emphasized by gravity models of trade, as well as historical and cultural links, explain the dominant role of trade with India. Since the early 2000s, this integration has increased as the Indian economy expanded and Nepal's exports to third-country markets stalled. Nepal's merchandise trade with India averaged about 28% of its total merchandise trade in the first half of

[10] They were governed by a single Treaty of Trade and Transit until 1978, after which trade was de-linked from transit. The Nepal–India Treaty of Trade was modified and renewed several times. It was last renewed for 7 years in October 2009. The Nepal–India Treaty of Transit was also renewed several times, last in March 2006 with a validity until January 2013.

the 1990s, but increased to 60% in 2005 and 66.39% in 2010.[11] In 2010, India accounted for 65.5% of Nepal's merchandise exports and 57.5% of imports, while the rest of South Asia accounted for 7.5% of merchandise exports and only 0.4% of imports.

13. **Trade facilitation.** Nepal has taken several initiatives to facilitate trade—e.g., important policy reforms such as application of harmonized system codes for customs tariffs; adoption of the World Trade Organization Customs Valuation Agreement; enactment of a new Customs Act, and rules and regulations for further transparency and simplification of the customs administration process; limitation of import restrictions to safeguard health, environment, security, and archaeological properties; and the establishment of ASYCUDA++ for customs operations and clearances in major customs offices (although this system appears to be used mainly for archiving purposes). To facilitate trade with SASEC economies, Nepal has also constructed an inland clearance depot at Kakarbhitta with support from the Asian Development Bank (ADB). Despite these initiatives, Nepal still fares poorly in trade facilitation.

14. According to the Global Enabling Trade Report 2012, Nepal ranks 124th of 132 countries on trade facilitation, the lowest ranking in South Asia. It ranks 113th in border administration, 107th in transport and information and communication (ICT) infrastructure, and 117th in business environment required for promotion and facilitation of trade. Conversely, its ranking on domestic and foreign market access is fairly high (29th of 121). This suggests that Nepal's poor trade facilitation infrastructure, institutions, and regulatory structure have overshadowed potential gains from greater market access. Likewise, Nepal ranks 107th of 183 countries on ease of doing business.

B. Government's Sector Strategy

15. **Overall trade-related policies and strategies.** Nepal's trade continues to be guided by the Trade Policy 2009 and Nepal Trade Integration Strategy 2010 (NTIS). The strategy includes an action plan for the development of the country's export sector over the next 3 to 5 years. Key objectives are: (i) strengthening trade negotiations (especially bilateral ones); (ii) strengthening domestic regulatory and technical capacity; (iii) strengthening the export capacity of "inclusive" export sectors; and (iv) strengthening government capacity to coordinate trade-related technical assistance, including Aid for Trade.

16. **Strategies to facilitate trade.** To improve trade facilitation, Nepal has formulated a Customs Reform and Modernization Plan, 2009–2013. Nepal also has a transit agreement with Bangladesh, signed in 1976. This includes the use of two seaports and four land ports.[12] In 2004, Nepal concluded the Rail Service Agreement with India, which lays down the procedure for rail movements to Nepal's inland container depots. In 2011, Nepal signed the Bilateral Investment Promotion and Protection Agreement and the Double Taxation Avoidance Agreement with India. Nepal is further establishing four integrated check points at the border with India with financial support from the Government of India. It also envisages a plan for improving customs valuation, developing post-clearance audit capability, developing a risk management plan, strengthening the National Trade Facilitation Committee, establishing and strengthening food-testing

[11] This figure has to be taken as under-representing the value of actual trade with India—the open and porous border that the countries share makes it hard to capture the level of informal trade between the two. Despite this, survey-based research suggests that the figure for Nepalese informal trade is 30%–40% of formal merchandise trade. (B.K. Karmacharya et al. 2004. "Informal Trade in SAARC Countries: Case of Nepal, India and Sri Lanka", S*outh Asia Economic Journal*, Vol. 5, No. 1, January–June, pp. 27–54.

[12] The two seaports are Khulna-Chalna and Chittagong. The four land ports are Biral, Banglabandh, Chilhari, and Benapole.

laboratories, and harmonizing computerized systems with India (NTIS 2010). Likewise, Nepal recognizes the need for customs harmonization, standards accreditation, electronic data interchange, a single-window concept for trade (one-stop shop), and cross-border trade and transport agreements. With ADB support, Nepal is seeking to (i) develop a strategic plan for its Customs Reform and Modernization Program, 2013–2017; (ii) implement its e-customs master plan; and (iii) accede to the RKC.

IV. ADB SECTOR EXPERIENCE

17. ADB endorsed South Asia's Regional Cooperation Strategy (RCS), 2011–2015, which sets three sector priorities: (i) cross-border transport, (ii) trade facilitation, and (iii) regional energy cooperation. ADB is designing various technical assistance projects to help SASEC countries implement trade facilitation measures. At the SASEC Transport and Trade Facilitation Working Group meetings in Bangkok in October 2011, and in Kolkata in March 2012, ADB agreed to consider a combination of technical assistance and policy-based program to improve trade facilitation in SASEC.

18. ADB's country partnership strategy, 2011–2015 for Bangladesh is aligned with the RCS, as it aims to deepen Bangladesh's integration into a rapidly growing South Asia. ADB's approach will support operations that have significant regional cooperation effects, such as (i) regional power grid, rail, highway, trade logistics and trade facilitation projects; (ii) Bangladesh's participation in SAARC, the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), and SASEC, all of which aim to harmonize policies, strategies, plans, and investments conducive to subregional economic cooperation in energy, environment, ICT, tourism, trade, and transport; and (iii) developing knowledge products that build awareness and contribute to the exchange of good practices.

19. In Nepal, the ongoing Subregional Transport Enhancement Project supports the preparation of an e-customs master plan. ADB will continue to coordinate closely with other development partners to ensure that the activities under the proposed SASEC Trade Facilitation Program and follow-up technical assistance will complement those carried out by other development partners, notably the proposed Nepal Trade and Transport Facilitation Project of the World Bank.