BANGLADESH ECONOMIC OUTLOOK

Vol.2 No.4 and Vol.3 No.1 March 2010

A Note from the Editor

We are pleased to present to our readers another issue of Bangladesh Economic Outlook. A number of important issues have been covered in this edition, starting with issues of non-tariff barriers for Bangladesh's exports to South Asian countries. The article identified a number of NTBs that are holding back the export potentials of Bangladesh in South Asia, especially in India. Among the NTBs this article briefly pointed out issues like compliance of quality standards, phyto-sanitary or sanitary certificate, packing and labelling of processed food, pre-shipment inspection certificate, environment-related certificate, non-acceptance of SAFTA certificates. The article also suggested some policy issues to overcome these problems.

The second article is an econometric exercise on remittance and poverty in Bangladesh. The article ended up with the conclusion that remittance plays a very important role in Bangladesh with regard to macroeconomic stability and household well being measured by consumption level and poverty incidence.

Editor
Selim Raihan

Contributors
Selim Raihan
M Abu Eusuf
Syed Al Helal Uddin
A K Iftekharul Haque
Md Soeb Iftekhar

Graphic Design
Hiranmay Chanda

Our third article explores the competition Issues in the trucking Sector in Bangladesh. This is the first ever comprehensive study on this important sector. The study identifies the barriers to enhancing competition in this sector. The study suggests that there are some important anti-competitive practices in the trucking sector. There are also some important barriers to entry in the market. All these lead to undermine the competitiveness of this sector as well.

Our fourth article draws the potential implications for the excluded low income economies in Asia and Africa due to EU-India bi-lateral FTA. The study used the Global Trade Analysis Project (GTAP) model as the analytical instrument. The study finds that there are important negative welfare implications and chances of preference erosion for Bangladesh and many other LDCs in the EU and Indian market because of this FTA.

Another article of this issue is on rules of origin (ROO) and sensitive list under SAFTA and bilateral FTAs among South Asian Countries. This study analyzes the implications of the proliferation of ROO under bilateral FTAs among South Asian countries on SAFTA.

In addition to these articles, we have also included our usual macroeconomic update and inflation for the marginalised. I would like to extend my gratitude to all the members of the Outlook team, who have shown time and again that they are indeed comitted to providing insightful research into current economic issues that shape the country's socio-economic development. I must thank co-researchers, namely Syed Al-Helal Uddin, M. Abu Eusuf, A.K. Iftekharul Haque, Md. Soeb Ifthekhar and A.K.M. Muksudul Alam, for their valued contributions. We hope that this publication will be useful for various stakeholders, media professionals and policy makers.

Issues of Non-Tariff Barriers for Bangladesh's Exports to South Asian Countries

Selim Raihan[1]

Non-Tariff Barriers (NTBs) refer to the wide and heterogeneous range of policy interventions other than border tariffs that affect and distort trade of goods, services, and factors of production. For Bangladesh being the only South Asian country without any bilateral FTA (Free Trade Agreement) with other South Asian countries, NTBs are crucial in the context of intensifying its trade under SAFTA (South Asian Free Trade Area). One of the main reasons of SAFTA not being able to enhance intra-regional trade at the desired level is the presence of NTBs as SAFTA is yet to address the NTB issues directly. The NTBs, distorting exports from Bangladesh to her neighbouring countries, mostly have to do with standards, testing and certification procedures in food processing, textiles and other such areas. Other major NTBs faced by Bangladeshi exporters include licensing, classification of goods, custom valuation, countervailing duties. Besides the lack of trade facilitation is also acting as a NTB.

It should be mentioned that in the context of intra-regional trade, Bangladesh is the second largest importer in South Asia. In 2007, Bangladesh accounted for 26 percent of total intra-regional import. In contrast, in the same year Bangladesh's exports to the region accounted for only 2.3 percent of the total regional exports. Bangladesh's trade with her neighbouring countries is also highly unequally distributed. Bangladesh trades very little with Bhutan, Nepal and Sri Lanka. In South Asia, India is the major trading partner of Bangladesh followed by Pakistan. But, the trade with India is largely one-sided, as the volume of imports from India to Bangladesh is considerably very large, whereas the volume of exports from Bangladesh to India is very low. Therefore, it appears that Bangladesh has a high bilateral trade deficit with India. Bangladesh exports a miniscule (one percent) share of India's imports, a negligible share (one percent) of its own exports, and a small range of products (fertilizer and jute goods made up two-thirds of exports). Though ready-made-garments (RMG) is the major export item for Bangladesh, its exports to India are quite insignificant.

The major NTBs the Bangladeshi exporters face in South Asia are in the Indian market. There are also some NTBs in the Pakistan market. Discussions with the exporters of Bangladesh have helped listing a number of such major NTB's, which are discussed below:

- For the export of cross section of products including cement, gelatine, condensed milk, electrical appliances, mineral water, steel products, leather products, X-ray equipments, dry cell battery and thermometers to both India and Pakistan, prospective exporters are required to obtain license regarding compliance of quality standards from concerned agency which is often highly time and cost-consuming.
- For the export of agricultural products to India, there are requirements of bio-security and sanitary and phyto-sanitary requirement for import permit. Eligibility for import permit requires risk analysis of the products which is a complex process and lacks transparency. India continues import licensing of about 600 items on the ground that restrictions are needed to ensure protection for "human, animal or plant life or health". Imports of nearly all livestock, agricultural and food products require some kind of phyto-sanitary or sanitary certificate and import permit under the general supervision of the Ministry of Agriculture of India.
- For processed food products, compliance of Food Adulteration (Prevention) Act 1954 of India requires shelf life to be not less 60 percent of original shelf life at the time of import. Determination of shelf life is often done arbitrarily and without transparency.
- In the case of pre packaged products (such processed foods, cosmetics, toiletries, spices, etc.), all commodities, imported into India, shall carry the following declarations: (a) name and address of the importer; (b) generic or common name of the commodity packed; (c) net quantity in terms of standard unit of weights and measures. If the net quantity in the imported package is given in any other unit, its equivalent in terms of standard units shall be declared by the importer; (d) month and year of packing in which the commodity is manufactured or packed or imported; and (e) maximum retail sale price at which the commodity may be sold to the ultimate consumer. This price shall include all taxes local or otherwise, freight, transport charges, commission payment to dealers, and all charges towards advertising, delivery, packing, forwarding and the like, as the case may be.
- Rule 32 of the Prevention of Food Adulteration Rules (PFA), 1955 of India deals with packing and labeling of foods. This rule alone has 30 provisos and provisos within provisos. In addition there are also cross-references to other rules. These rules prescribe the contents to be specified on the label, the size of the label, the design of the label, the areas specified for display panels, details of colours & flavours, trade name or description of food contained in the package, names of ingredients used in the product by weight and volume etc. Goods are cleared only on receipt of the test report. No certificate from the country of origin is accepted. The results of the laboratory

tests cannot be challenged. Separate regulations have been enacted for different food items.

- For textile and textile products exported to India, there is a requirement of pre-shipment inspection certificate from textile testing laboratory accredited to the National Accreditation Agency of the country of origin. Non-availability of the certificate requires testing from the notified agencies in India for each and every consignment. In some cases, even certificates by EU accredited labs on this account have been rejected by Indian Customs and such consignments are subjected to repeat tests in India. In addition, Textile (consumer protection) Regulation of 1988 imposes some strict marking requirements for yarns, fibres, fabrics imported into India.
- In the case of pharmaceutical products exported to both India and Pakistan, there are stringent requirements of drug registration with the Central Drug Standard Control Organization, which involve an arduous and highly time consuming procedure. In case of India, foreign manufactures must register and subject their premises to inspection along the lines of rules prepared by the BIS.
- For the export of jute products to India, there is a requirement of a certificate from exporting country regarding content of non-homogenate hydrocarbon (jute batching oil) which should not exceed 3 percent by weight. In the case of jute bags/sacks, Indian authority asks for special labelling requirements so that each jute bag/sack carries machine stitched marking of country of origin.
- The exports of chemical fertilizer and lead acid batteries to India requires environment-related certificate. For the leather, leather goods and melamine products, Indian authority asks for chemical testing which is often extremely time-consuming. Exports of poultry, dairy products and meat (frozen, chilled or fresh) there is a requirement of import permit from the Department Animal Husbandry and Dairy of India.
- There are cases of non-acceptance of SAFTA certificate issued by the Export Promotion Bureau (EPB) of Bangladesh by the Indian authority at Akhaura/Agartala border customs for the exports of hand pump, rube well filters, cast iron pipes, cast iron bends & T's water heaters, plastic pipes of various diameters, power paddy thrasher, power tiller, hand spray, engine filter-oil, fuel and air.
- India has banned the export of betel nut from Bangladesh through land customs stations by their notification No, 49/2006, dated 20 February 2007.

Many of the aforementioned NTB's are holding back the export potentials of Bangladesh in South Asia, especially in India. It can be argued that to do away with the trade-impeding effects of these measures, there should be mutual recognition agreements among respective organizations of Bangladesh and its trading partners in South Asia, and in particular with India. There is also a need for harmonization of TBT and SPS measures. It can further be argued that the accreditation bodies or agencies of India may set up accreditation centres in Dhaka in collaboration with designated national Agency of Bangladesh to facilitate mutual cooperation with necessary capacity building under technical and financial assistance. Non-acceptability of conformity assessment certificates of any particular product, if and when arise, should be resolved by mutual cooperation programmes without restricting its trade. Finally, it is also important to note that non tariff measures (NTMs) and para-tariff measures (PTMs) not notified in WTO should be prohibited. A code of good practice should be followed before introduction of any new NTMs.

Endnotes

[1] Dr. Selim Raihan is Associate Professor, Department of Economics, University of Dhaka and Executive Director, South Asian Network on Economic Modeling (SANEM). Email: selim.raihan@gmail.com

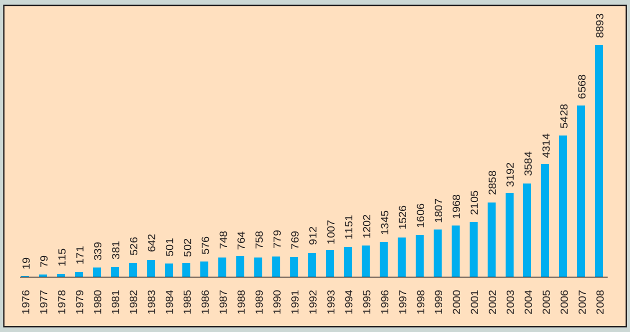
Remittance and Poverty in Bangladesh: Some Econometric Exercises

Selim Raihan[1] and Syed Al-Helal Uddin[2]

International remittance is an important source of foreign exchange income for the developing countries including Bangladesh. The remittance has become a focal issue in economic literature over two or more decades for its increasing volume and important role in poverty reduction. The huge amounts of remittances compared with other internal flows into the economy have macroeconomic effects which may be critical and important for many developing countries. There has been little quantitative research with regard to the impacts of foreign remittances on household welfare and poverty in Bangladesh.

In Bangladesh, international remittance has been increasing at a faster rate for more than one decade. Figure 2.1 shows that inflow of remittances experienced sharp rise during 2000s and it actually showed remarkable growth during recent years. Bangladesh is now among the top ten remittance recipient countries.

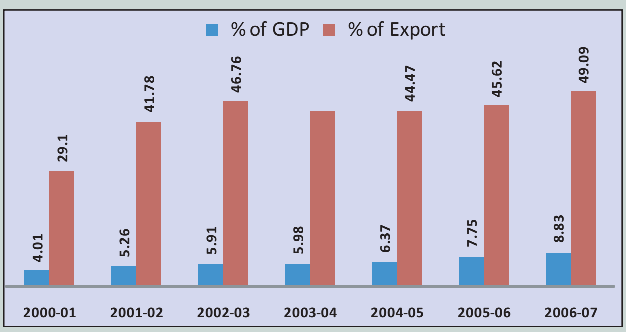
Figure 2.1: Remittances flows in Bangladesh during 1976-2008 (million US$)



Source: IMF (2008)

The money earned through remittance is spent on domestic economy creating demand for goods and services. Thus, it is one of the key components of sustaining the GDP growth. Figure 2.2 shows that total amount of official remittance as percentage of GDP has increased over time. In 2001-02, official remittance was 4.01 percent of GDP which increased to 8.8 percent of GDP in 2006-07.

Figure 2.2: Remittance as % of GDP and Exports: 2000-01 to 2006-07



Source: Bangladesh Economic Review, 2007

Remittance also plays a critical role in providing the foreign currency and financing the trade deficit of Bangladesh. In 2000-01, official remittance as percent of total exports was 29.10 percent which increased to 49.09 percent of total exports in 2006-07. This tells that official remittance flow increased at a much faster rate than export. As total exports contains the cost of imported raw materials and capital machineries, if net export receipt is calculated, it will be less than the official remittance flow.

The remarkable increase in remittances caused the rise of foreign currency reserve even though Bangladesh recorded large trade deficits. This, in one hand, stabled the Taka-US Dollar exchange rate and on other hand enabled import of capital machineries in large quantities. Because of this large official remittance, Bangladesh is the only country in South Asia where the value of Taka (local currency) has remained stable against all the major currencies during current global economic crisis.

Table 2.1: Remittance inflow and Balance of Payments of Bangladesh in Recent Years (US$ million)

	2002-03	2003-04	2004-05	2005-06	2006-07
Goods Trade Balance	-2215	-2315	-3297	-2889	-3458
Services Trade Balance	-691	-874	-870	-1023	-1261
Loan servicing, interest payment etc	-358	v	-680	-702	-883
Total Balance	**-3264**	**-3563**	**-4847**	**-4614**	**-5602**
Remittances	**3062**	**3372**	**3848**	**4802**	**5979**

Source: Bangladesh Economic Review, 2007

Household Income and Expenditure Survey (HIES), conducted by Bangladesh Bureau of Statistics (BBS), is the prime source of socio-economic information at the household level. Since 2000 HIES, much emphasis was given to collect information on income in addition to expenditure and consumption. The latest HIES, conducted in 2005, includes more comprehensive coverage of different income sources of households compared to the earlier rounds. The major purposes of HIES 2005 were to obtain detailed information on household income, expenditure and consumption; determine poverty profile for both rural and urban; household level information on health status, educational level, standard of living by administrative division and other detailed data on socio-economic characteristics.

In HIES 2005, household income in a particular period was defined as the sum of the earnings (wage and salaries, pensions, agricultural activities, land and property, business, professional fees, rent and gifts and all other types) of all members of the household in cash or kind in the same period of time. However, household expenditure comprises of household consumption and non-consumption expenditure. Consumption expenditure is the sum of goods and services household actually consumed and non-consumption expenditure includes income taxes and other taxes, insurance premium gifts and other taxes.

The HIES 2005 questionnaire contains nine separate sections. In section 8, under 'Other Assets and Income' the data on remittances are collected. For the current exercise, it is found that in the HIES 2005 dataset only 905 households receive international remittances among the 10080 household. Expenditure profiles of two categories of households (i.e. with and without remittance income) by major expenditure items are reported in Table 2.2.

Table 2.2: Mean expenditure and Average share of Expenditures by category in Bangladesh (in BDT)

	Without Remittances		**With Remittances**	
	Mean Expenditure (per month)	Average Share of Expenditure	Mean Expenditure (per month)	Average Share of Expenditure
Food	3115.1480	52.19	3202.9430	53.20
Education	432.3034	7.24	479.6984	7.97
Health Care	196.9039	3.30	243.4223	4.04
Durable	55.2831	0.93	61.1383	1.02
House Rent & Repair	602.9995	10.10	732.7704	12.17
Others	1566.6751	26.25	1301.1327	21.61
Total Expenditure	**5969.3130**	**100.00**	**6021.1050**	**100.00**

Source: HIES, 2005

Table 2.2 suggests that the mean expenditure of the remittance-recipient households on food, education, healthcare, durables and household repairs are much higher than those of the households who do not receive remittance.

In order to have a more systematic analysis we have also run a number of cross-section regressions considering different types of expenditures (mentioned in Table 2.2) as dependent variables with a view to exploring whether remittance appears as a significant explanatory variable in those regressions. The regressions results are reported in Table 2.3. It appears from Table 2.3 that only in the case of food expenditure and housing related expenditure the dummy variable 'international remittance" appears to be positive and significant, suggesting positive impact on these two types of expenditure by the households because of receipt of international remittance. In the case of medical expenditure and education expenditure the remittance coefficient is positive but insignificant. However, in the case of durable goods expenditure the regression coefficient for remittance variable is negative and insignificant.

Table 2.3: Regressions on Housing related Expenditures

	Housing Related Expenditure		Medical Expenditure		Education Expenditure		Durable Goods Expenditure		Food Expenditure	
	Coeff.	S. E.	Coeff.	S. E.	Coeff.	S. E.	Coeff.	S. E.	Coeff.	S. E.
hh_age	-3.13	2.51	0.68	0.80	7.63*	2.63	0.00	0.78	2.79	3.17
hh_size	0.76	17.00	-8.47	5.44	5.01	17.84	5.00	5.37	581.18*	21.03
religion	-94.77	70.14	3.34	23.40	53.44	77.11	-6.42	27.56	-35.54	92.79
married	25.43	52.94	0.90	16.80	-2.14	53.56	-10.18	15.65	102.13	66.19
int_rem	159.24*	70.14	8.84	22.43	81.80	74.61	-15.58	22.76	423.83*	88.65
urbrur_1	-168.88**	99.63	-84.51*	31.57	-99.06	100.06	-4.02	32.90	-329.78*	125.14
sex_1	-662.01*	196.48	-72.23	66.96	-7.17	227.26	-78.05	58.14	-211.08	258.15
edu	-4.42	8.30	-2.65	2.64	1.03	8.75	1.60	2.61	100.66*	10.36
emp_area	56.96	96.69	17.38	30.36	8.56	97.62	10.90	32.13	205.53*	120.66
emp_sect	-34.37	66.63	-83.11*	21.33	-69.59	71.30	-14.47	21.15	192.98*	83.79
dep_ratio	135.53	166.78	-41.66	53.02	69.29	175.30	-19.72	50.78	-1585.26*	207.75
f_head_1	225.71*	117.83	142.98*	42.89	51.92	133.91	21.86	30.29	716.16*	158.06
R-square	0.0213		0.0273		0.0156		0.0094		0.4109	

Note: * significant at 1% level and ** significant at 5% level.

hh_age = Age of Household
hh_size = Household Size
religion = 1-islam; 2-hinduism; 3-buddhism; 4-christianity; 5-others
married = Marital Status (1-currently married; 2-never married; 3-widowed; 4-divorced; 5-seperated)
Int_rem = Household receive international remittances (dummy variable) (1-remittances received; 0-otherwise)
urbrur_1 = 1= Rural household; 0 = Urban household
edu = Educational level of the household head (0-9 represents class 0-9; 10-secondary; 11-higher secondary; 12-graduate; 13-post graduate; 14-medical degree; 15-engineering degree; 16-others.)
emp_area = Employment area (dummy variable) (1-rural; 0-otherwise)
emp_sect = Employment Sector (dummy variable) (1-non-agriculture; 0-otherwise)
dep_ratio = Dependency ratio:

$$Dependency\ Ratio? \ \frac{1560AgedAged - @}{Aged15/60}$$

f_head_1 = Head of the Household (1- male; 0-otherwise)

It is also important to determine the factors which affect household poverty and to explore whether remittance variable appears to be a significant explanatory variable. In order to identify these factors a logit regression model of the following type, using HIES 2005 database, is applied.

$$pov = \beta_0 + \beta_1 p\_expnd + \beta_2 hh\_size + \beta_3 t\_land + \beta_4 edu + \beta_5 hh\_age + \beta_6 religion + \beta_7 int\_rem + \beta_8 emp\_area + \beta_9 emp\_sect + \beta_{10} dep\_ratio + \beta_{11} f\_head\_1 + \varepsilon$$

where,
pov = Poverty Level (Dependent Variable) (1 = Poor, 0 = Non-poor)
p_expnd = Per Capita Expenditure
hh_size = Household Size
t_land = Total Land of the Household
edu = Educational level of the household head (Years of schooling)
hh_age = Age of Household Head
religion = Religion of the household (1-islam; 2-hinduism; 3-buddhism; 4-christianity; 5-others)
int_rem = Household receive international remittances (dummy variable) (1-remittances received; 0-otherwise)
emp_area = Employment area (dummy variable) (1-rural; 0-otherwise)
emp_sect = Employment Sector (dummy variable) (1-non-agriculture; 0-otherwise)
dep_ratio = Dependency ratio
f_head_1 = Sex of the Head of the Household (1- male; 0-otherwise)

The regression results of (Table 2.4) shows that per capita expenditure, total land, household size, level of education of the household, dependency ratio, and dummy variable for employment area (rural or urban), and international remittances (receive or not) are statistically significant. However, age of household head, religion, and employment sector are statistically insignificant. The results show that for one unit increase in total land of the associated household, the log odds of household's poverty decreases by 0.29. In the same way, with the increase of household size and dependency ratio by one unit, the log odds of the household being poor increases by 0.15 and 1.82, respectively. However, in the case of dummy variable for employment area, a change in working area from urban to rural leads to a rise in the log odds ratio of the households to be non-poor by 0.62. In the case of international remittances, moving from remittance non-receiving households to receiving households, the log odds ratio of the households being poor decreases by 0.26. In the case of education of the household head, with a one year increase in educational qualification, the log odds of the households being poor decreases by 0.03.

Table 2.4: Result of Logit Regression for Poverty

Variables	Coefficients (Std. Error)
Per Capita Expenditure	-0.0011 (0.0001)*
Household Size	0.1493 (0.034)*
Total Land of the Household	-0.3005 (0.065)*
Educational level of the household head	-0.0323 (0.016)*
Age of Household Head	0.0036 (0.004)
Religion of the household	0.089 (0.135)
Household receive international remittances	**-0.254 (0.13)****
Employment area (dummy variable)	-0.664 (0.137)*
Employment Sector (dummy variable)	-0.0394 (0.123)
Dependency ratio	1.8076 (0.334)*
Sex of the Head of the Household	0.2326 (0.222)

Note: * significant at 1% level and ** significant at 5% level.

However, the estimated coefficients of the logit model do not have a direct economic interpretation. In this regard, the most preferred one is the estimation of marginal and income effect of the measures. In Table 2.5 results of the marginal and income effects show that one unit rise in households' size leads to a 3.5 per cent increase in the probability of the household to be poor. In the case of total land, one unit increase leads to the probability of 7.1 per cent decrease of poverty, other things remaining the same. In the same way, with a unit increase in the dependency ratio the probability of the household being poor increases by 43.4 percent. Also, a unit rise in the education of the household head would lead to the probability of the households to be poor by 0.7 percent. Per capita expenditure has a little impact on poverty situation, i.e., with one unit increase in per capita expenditure, the probability of the households being poor decreases by 0.2 percent. In the case of dummy variable of employment area, moving from urban to rural area, the probability of the households being poor decreases by 15.7 percent. Furthermore, the probability of the household to be poor decreases by 5.7 percent when the households receive international remittances.

Table 2.5: Marginal and Income Effects of Logit Regression

Variables	Marginal/Impact effects
Marginal Effects	
Per Capita Expenditure	-0.002*
Household Size	0.035*
Total Land of the Household	-0.071*
Educational level of the household head	0.007*
Dependency ratio	0.43*
Impact Effects	
Household receive international remittances	**-0.059***
Employment area (dummy variable)	-0.157*

The analyses in this paper clearly suggest that remittance plays a very important role in Bangladesh with regard to macroeconomic stability, aggregate demand, household well being measured by consumption level and their poverty incidence. More specifically, the result of marginal and income effects of 'logit' regression suggest that the probability of the household to be poor decreases by 5.9 percent if the household is a receiver of remittances.

There is a growing apprehension in the country that due to global economic crisis (also supported by recent evidence), flow of international remittance to Bangladesh may likely to slow down adversely affecting the economy and the household level welfare. In particular, Bangladeshis, working in the service industry in the US and the United Kingdom, account for at least 30 percent of the total remittance. They have been left vulnerable by the financial shock there. More importantly, the Middle East, a major source of Bangladesh's remittance, is now facing the double whammy of collapsing oil prices and global credit squeeze. Construction activities are slowing down, threatening the future of most Bangladeshi workers.

Government announced stimulus package in the FY10 budget to mitigate the adverse impact of global financial crisis. Some of the resources may be used to support the returning migrants of global crisis through financial support, retraining and other technical assistances such that they would be ready to migrate once the global economic situation is improved. Government may provide extra incentives to the remitters. The government may initiate new programmes to maximize the benefits and reduce the risks of remittances to improve the welfare of migrant workers and their families, especially poor rural households by providing institutional support for the promotion of formal and semi-formal remittance services and other support services taking advantage of Bangladesh's well-established microfinance network. The potential services of such programme may include: (i) encourage increased remittance inflow through formal and semi-formal channels by providing low cost but reliable formal and semi-formal remittance financial services; (ii) enhanced knowledge, awareness and use among the migrant workers and their families about formal and semi-formal remittances and other financial and non-financial services; (iii) promote better investment opportunities for sustainable and productive use of remittance incomes via investment opportunity development, microenterprise development and enterprise development support.

Endnotes

[1] Dr. Selim Raihan is Associate Professor, Department of Economics, University of Dhaka and Executive Director, South Asian Network on Economic Modeling (SANEM). Email: selim.raihan@gmail.com

[2]Syed Al-Helal Uddin is Research Associate at SANEM

Competition Issues in the Trucking Sector in Bangladesh

Selim Raihan[1], Abu Eusuf[2], Soeb Ifthekhar[3]

Introduction

Trucking sector is one of the most important transportation sectors in Bangladesh. There is no denying the fact that an efficient and competitive transport sector is very important for export competitiveness as well as for domestic economic growth. A less developed country like Bangladesh often suffers from weak physical infrastructure and transport sector is a vital part of this physical infrastructure. Bangladesh is a trade dependent country. It appears that major share of the goods meant for export and import are carried from the ports to different parts of the country through the trucking service. There are related concerns with respect to the competitiveness of the trucking sector in Bangladesh as this has important bearings on the competitiveness of exports as well as on the prices of imported commodities. Transport service is a sector that is directly and indirectly attached to many economic activities. All the production units have to be dependent for carrying distributional purpose. That's why all the positive and negative effects of trucking sector have immediate consequence on the related business. Therefore, the nature of the barriers should be addressed and necessary steps are important for the further well-being.

There are several issues to be taken into account as far as the competitiveness of the trucking sector in Bangladesh is concerned. There are issues of intra-firm rivalry, economies of scale and scope and the issue of price and non-price competition among the firms in the trucking sector in Bangladesh. The focus of the study is therefore to assess the competition issues on the trucking sector in Bangladesh.

This study uses the Competition Assessment Framework (CAF), developed by DFID with a view to identifying the barriers to competition in developing countries where it included methods of selection of sectors for assessment, analysis of competition, identification of the relevant markets and the competitors, examination of the market structure, exploration of barriers to entry, examination if government policies or institutions limit competition, consideration of vested interests, examination of signs of anti-competitive conduct by firms etc.

The study deals with both the primary and secondary data. Primary data have been collected through a field survey with the help of well constructed questionnaires. The questionnaire based survey has covered the service providers as well as services receivers in the trucking sector in Bangladesh. Four routes have been selected purposively for collecting data in the trucking sector. These routes are Dhaka-Chittagong, Chittagong-Dhaka, Benapole-Dhaka and Bogra-Dhaka

Overview of the Surveyed Trucking Sector

It appears that, in case of trucking business, predominantly all the four routes have service providers who have been in business for six years or more. However, the Bogra-Dhaka route has more new firms compared to other three routes. This suggests that there have been more new entries in the Bogra-Dhaka route in the recent past compared to the other three routes. Thus compared to other three routes the Bogra-Dhaka route is an expanding route.

It appears that the initial source of investment for trucking business predominantly comes from own savings. The other important sources are 'loan from relatives' and 'bank loan'. Taking loans from the banks appears to be more prominent for the Benapole-Dhaka route. However, all other routes seem to have lesser access to formal credit. In the Bogra-Dhaka route 'loan from truck sales centre' is the second important source of investment financing. For the Dhaka-Chittagong route and the Chittagong-Dhaka route remittance is also a significant source of initial investment. The upshot of the aforementioned discussion is that except Benapole-Dhaka route, the link between the trucking sector and the formal credit market is rather weak.

In general, 'close connection with people at transport agencies or they are relations' is the primary factor influencing people to enter into the trucking business. However, in the Benapole-Dhaka route, 'close connection with C&F agents or they are relations' appears to be most dominant reason. Also, in this route, affiliation with political party, be at personal or family level, play some important role in influencing the entry.

It appears that in the Dhaka-Chittagong route, 70 percent of the service receivers are RMG exporters. Also, leather exporters constitute some important share. In the Chittagong-Dhaka and Benapole-Dhaka routes, however, the major receivers of trucking service are the C&F agents. This is because of the fact that these two routes are the major route of transporting imported goods. In the Bogra-Dhaka route the major service receivers are the large, medium and small traders. This is because of the fact that this route is used for transportation of domestic goods.

It is found that RMG and agricultural products are mostly transported by trucks. RMG is the major export item and Chittagong sea port is the only sea port for shipment of such products. Consequently in Dhaka-Chittagong route 65.8 per cent of commodities, which are transported by trucks, are nothing but RMG products. Export-oriented leather is also another important transported item in this route. Again most of the imports enter into the country through Chittagong sea port and Benapole land port. Mostly Benapole-Dhaka route is used to import goods from India, and Chittagong– Dhaka route is used to import goods from the rest of the world. From the rest of the world major import items are RMG accessories and raw materials, machinery, computer, surgical accessories and different type of chemicals. Therefore, these items have major shares of goods transported through Chittagong-Dhaka route. India is one of Bangladesh's major import sources from which agricultural products such as rice, wheat, pulse, flour, sugar, paddy, onion, garlic, zinger, turmeric, fruits etc are imported. Therefore, these products are mostly transported through Benapole-Dhaka route. On the other hand, domestic agriculture produces, such as rice, wheat, pulse, flour, paddy, sugar, onion, zinger, turmeric etc., which are produced in North-western region are transported through the Bogra-Dhaka route.

Growth of the Trucking Sector

In the case of 5 ton trucks, it appears that the average number of trucks per firm in Dhaka-Chittagong route was the highest both at start and at present. All routes have experienced growth in average number of trucks per firm. However, the growth rate of the number of truck per firm is observed to be the highest in Bogra-Dhaka route. In the case of 7 ton truck, the growth in the average number of truck per firm was negative for Dhaka-Chittagong route. The average number of trucks per firm at present appears to be highest in Chittagong-Dhaka route. The growth rate is however highest for the Bogra-Dhaka route. For the 7 ton (covered) truck, there are new entries in Benapole-Dhaka and Bogra-Dhaka routes compared to no trucks at start. Also, Chittagong-Dhaka route experienced positive growth. However, the Dhaka-Chittagong route experienced negative growth. In the case of 20 ton trucks, there were no trucks among the surveyed firms at start in the Dhaka-Chittagong and Chittagong-Dhaka routes and they experienced new entries. There has been no ownership of 20 ton trucks by the surveyed firms in the Benapole-Dhaka route while the Bogra-Dhaka route experienced negative growth.

It appears that majority of the firms in Dhaka-Chittagong, Chittagong-Dhaka and Benapole-Dhaka routes experience the problem of insufficient capacity. This problem is most acute for the Benapole-Dhaka route. However, three-fourth firms in Bogra-Dhaka route have their own capacity to meet the market demand.

Monthly number of trips is the reflection of business growth as most of the business operations are directly or circuitously linked with trucking system. The monthly average number of trip is lowest in Chittagong-Dhaka and is highest in Bogra-Dhaka. Alternative transporting system (Cargo, Ship) in Chittagong-Dhaka route could be a cause of lowest number of trips. On the other hand, Bogra is the key market point in north-west of Bangladesh. Through this transaction point during peak season many of the produced items are transported to Dhaka which resulted in the highest average number of truck trips for this route. Again, these regions are also known as Monga area, where we find a severe production shortfall in a certain season and production shortages automatically induce a great downturn in average number of truck trips. In Bogra-Dhaka, the gap between peak and lean period is highest also. Interestingly, in the case of Dhaka-Chittagong route compared to 2004, in 2008 the numbers of trips declined for all the categories of trucks. Same scenario holds for both peak and lean seasons. As mentioned before, this route is primarily used for export of RMG products. It is learnt that increasingly, many RMG firms in Dhaka are now using their own transport system to carry goods to Chittagong and not hiring trucks as like before. On the other hand, for all other routes, both in the peak and lean periods, the number of monthly trips are rising.

Average number of trucks in truck stand also shows the overall growth of the trucking business. For the Dhaka-Chittagong route, the average number of 5-ton trucks in truck stand declined in 2008 compared to the figures in 2006 and 2004. However, those of other categories of trucks increased over the years. This suggests that in the Dhaka-Chittagong route there have been some substitutions of 5 ton trucks by higher capacity trucks over the years under consideration. In the other three routes, however, the average number increased over the years for all categories of trucks.

Pricing Mechanism in the Trucking Sector

In Dhaka, businessmen hire truck from both independent brokers and transport agencies. Individual brokers' market share is decreasing fast due to the better service provided by transport agencies. RMG industry is the largest player in export market. About 50 percent of them have fixed transport agencies for transporting goods at a negotiated yearly rent contract.

The rest 50 percent also make contract with transport agencies but not at any pre-fixed prices, but at prices prevailing in the market on the day of transportation. The chief reason for selecting transport agencies is that they ensure security of the goods and pay demurrages for any lost or damaged goods. Textile, RMG, plastic and footwear industries that cater the domestic market hire truck both from transport agencies and individual brokers. Earlier this market was entirely serviced by Individual brokers. But now transport agencies have taken a significant share (around 30 percent) of this market. Valuable imported goods - consumer (e.g TV, freeze), machineries parts, cosmetics etc. - are now entirely transported by transport agencies for the very same reason of security and demurrages. Transport market for building materials, i.e., rods, cement, tiles etc. is still dominated by individual brokers. Transport agencies avoid this market as transportation of these materials causes damage to the truck body. A large number of companies – like medicine, agro-processing, and furniture companies – have developed their own fleet for transportation. The reason behind are timely distribution, product safety, reduced transport cost and more customer penetration.

In Chittagong, large importers of raw materials publish tenders at the beginning of the year and ask transport agencies to participate. The transport agencies bid with their quoted price. The importers select the suitable transport agencies based on price and other criteria. The selected transport agencies then transport all the goods and raw materials of those companies at the quoted price. Usually the transport agencies quote a higher price than the market price (at least BDT 1500 – 2000 higher than average market price). There are two major reasons for this higher price – (i) the importers pay the rent monthly, bi-monthly or even half-yearly; and (ii) as the transport agencies are bound to transport goods whenever are asked by the importers, the transport agencies either have to maintain idle capacity or rent trucks from local market at higher prices. Other importers ask their C&F agents to arrange the transport. The C&F agents largely depend on independent brokers to rent a truck. Independent brokers go to Kadomtoli truck market and hire truck at that day's market price. The brokers charge BDT 200-400 as commission fee from the truck owners. Local businessmen who had to transport their goods to Dhaka also depend on independent brokers. In times of excess demand for trucks, the independent brokers contact with truck owners that operate in Comilla, Dhaka etc., and offer them a return trip and higher price. Thus they help the businessmen and importers finding trucks. Small importers mostly rent trucks from transport agencies to secure their goods from theft or robbery. As their capital base is small, they cannot tolerate any risk on the goods. According to the businessmen, roughly 50 percent of the total goods transported from Chittagong to Dhaka and other parts of the country go through transport agencies and rest 50 percent through independent brokers.

All the goods transported from Benapole are imported goods. For these goods, the C&F agents, entrusted by the importers, hire trucks from the transport agencies. The principal reason to hire trucks from transport agencies is that transport agencies deposit a substantial amount of security money to C&F agents. If the goods are damaged due to any accident or mishandling, the C&F agents deduct the demurrages from that deposited money. Because of this practice of depositing security money, small truck owners are forced to drive out from the market and they are now left with the only option to rent out the trucks to transport agencies. These small truck owners now buy trips from these transport agencies. In this case, transport agencies charge around BDT 300-500 per trip for each truck. The C&F agents get a fixed commission from transport agencies. However, the commission play little role in the selection of transport agencies by the C&F agents. Rather, the amount of security money for deposit, long term relationship and reputation of transport agencies are the three major criteria in the selection of transport agencies.

In Bogra, businessmen largely depend on independent brokers to rent trucks. The independent brokers charge around BDT 200 as commission fee from customers and also take commission from truck owners. The domination of independent brokers is so large that truck owners also largely depend on them to rent away their trucks. One of the chief reasons of this practice is that markets of agricultural goods are situated in several locations of this region, and most businessmen in agricultural sector are small in size compared to other sectors. Therefore, it is not possible for the truck owners to keep offices at every bazaar to hunt these businessmen. Therefore, they rely on the brokers who help them to be connected with these small traders. Because of this scattered nature of markets, local transport agencies have not developed in Bogra.

As Dhaka in the main centre of trucking business, all transport agencies throughout the country have their presence in Dhaka. There are around 3000 transport agencies in Dhaka. Of them less than half have license from government which also creates informality and cost difference. Though transport agencies charge higher price (at least BDT 800-1500 per trip) compared to individual brokers, transport agencies are increasingly occupying the share of the market from individual brokers by providing customers with better security and demurrages of goods. When a transport agency hires truck from market, they charge around BDT 1000 as commission. Transport agencies have their own association in Dhaka. On the other hand, they are also member of truck owners association as they own trucks. They use both of these organizations strongly to deal with police and other stakeholders for the security of their trucks as well as business interest.

There are more than 1500 transport agencies now in Chittagong. Of them only 400 have license from government. To renew license, transport agencies have to pay for fitness certificate, taxes regularly. Therefore many small and medium transport agencies avoid licensing. Interestingly many transport agencies (around 30 percent) in Chittagong do not have their own trucks. Instead, they book goods from businessmen or C&F agents and then hire trucks from market. Truck agencies however charge BDT 800-1500 higher than the usual market price. The reason why some businessmen and C&F agents' buys service from them at higher price is that they pay demurrage if goods are lost or damaged. The transport agencies have their own association in Chittagong which works with truck owners and truck labour associations to secure their trucks from any wrongdoing.

The number of transport agencies currently operating in Benapole is more than 350. They maintain offices in the land port area and handle both inbound and outbound transports. There are popular practices to sell trips among transport agencies. For example – a transport agency that got an order from a C&F agent to transport 10 truck of goods to Dhaka but has only 6 trucks in the port area sells the rest 4 trucks trip to another transport agency. Sometimes they also hire individual trucks from market in the face of high demand.

Around 25-30 transport agencies have offices in Bogra for trucks coming to Bogra. Their main job is to ensure that goods sent from Chittagong and Dhaka are unloaded safely and are delivered to the specified recipients. They also collect any unpaid rent. For outbound (while returning to Dhaka or Chittagong) these transport agencies usually do not directly book orders from businessmen rather they very much depend on independent brokers.

In Dhaka, it appears from the FGDs with the relevant stakeholders that though there are some variations in prices based on demand and supply, the transport agencies and individual brokers have some strong influence over the fixation of price. Some other factors of price determinations are – distance, characteristics of transported goods, physical condition of the road, traffic jam in the road, and the possibility of getting a return trip. As mentioned before, RMG exporters and many distributors of imported goods sign fixed rent contract on yearly basis with transport agencies. The price is either negotiated between parties or determined through bidding process. In these contracts, transport agencies usually charge an additional BDT 1000-2000 because they also provide security of goods and demurrages if goods are lost or damaged. For other industries that also buy service from transport agencies, but do not make any pre negotiated price, they negotiate price based on the price prevailing in Tejgaon market on the day of availing the service. The prices in Dhaka market do not fluctuate much. One of the reasons is that a large number of trucks (around 800) enter Dhaka every day carrying agriculture goods and imported food stuffs which are consumed by Dhaka population. Many of these trucks return empty. So, these trucks are happy to get a trip at a price only equal to the fuel and toll cost. The demand for covered van is increasing because of better security, less probability of damage and extra loading capacity. Businessmen now pay around BDT 1000-2000 extra to rent a 7 ton covered van than a 7 ton open truck. Trucks that originate outside Dhaka sometimes pay a commission (around BDT 500) to drivers so that they can find a return trip. Because of the restriction of entering into the city from 8 AM to 8 PM, if any truck is contracted to enter into Dhaka city then the businessmen have to pay addition BDT 2000-3000. This timing restriction does not strictly apply on the covered van. So, it can avoid that delay and therefore many businessmen are increasingly demanding its service. Most trucks carrying agricultural goods charge return toll on bridges and a waiting charge from the beparies. They also ask a premium (BDT 500-1000) to ensure that if the truck encounters an accident or is halted due to mechanical failure, it can hire a new truck and load the goods into that truck so that goods are delivered on time.

In Chittagong, there are informal agreements on the base price among the truck drivers. None will agree on a rent less than BDT 8000 for a Dhaka trip. However, prices vary widely based on the characteristics of imported goods and raw materials. For raw materials, the importers or the C&F agents sign long term contracts with the transport agencies on fixed prices. For other goods, price is determined in the Kadomtali market based on daily demand and supply. One important factor that influences pricing is the amounts of goods that are released from the port on any day. This is actually the demand and has the tendency to fluctuate abruptly. Other than Dhaka, Comilla, and Noakhali, the trucks want a premium charge on the rent as there is less chance to get a return trip in the next day. If the truck is contracted to enter into Dhaka city then the businessmen have to pay additional BDT 2000-3000. For example – the price of the trip for Chittagong to Kanchpur is on average BDT 8500, while the price for the trip for Chittagong to Mirpur is BDT 11000. C&F agents get a commission from transport agencies. This commission varies from BDT 300 to BDT 500. Traffic situation in Chittagong plays a crucial role in determining the price of inbound trip. If there arises a shortage of trucks in Chittagong, trucks from Dhaka, Comilla, etc. charge a minimum rent for a trip to Chittagong. Sometimes they even go empty if contracted by independent broker or transport agency in Chittagong. In case of exporters, inbound market is dominated by large and reputed transport agencies that have covered-van as they want to ensure the security of their goods. Therefore, covered van fetches about BDT 1000-2000 additional price than open vans.

In Benapole, the prices vary for industrial raw materials and other imported goods. For raw materials, the C&F agents sign long term deals with the transport agencies on a fixed price. However, any deal has a condition that transport agency has to deliver the good at factory gate within the stipulated time. For other imported goods, the price is negotiated based on any particular day's supply and demand. The number of individual trucks coming to Beanpole port with inbound goods plays a crucial role here. The traffic situation in Doulotdia-Paturia ferry ghat plays a crucial role in fixing the price. Any traffic jam at this ferry ghay has it impacts in two ways – (i) increases the time needed to reach Dhaka and thus raises price, and (ii) reduce the number of truck available in Benapole and thus makes a crisis of shortage. Sometimes the jam becomes so erratic that trucks have to use the Jamuna bridge which is 100 km more than the usual distance. Transport Agencies prefer Chittagong trip as it is the busiest port of the country and thus the chance of getting trip in the next day is much higher. This intention is reflected in the price. For a Chittagong trip, they only charge an additional BDT 1500-2000 to the price of Dhaka trip. For one way trip to Dhaka, the return charge of ferry is added. Therefore up trip to Dhaka is about BDT 1500-2000 higher than down trip from Dhaka. In the case of inbound trips, traffic situation at ferry ghat also plays a crucial role in determining the price. Inbound market is more competitive as individual trucks compete with the transport agency. These individual trucks, after unloading at port, go to nearby Jessore district to get regular trip or buy trip from transport agencies, as Jessore is the largest vegetable exporting region as far as the market in Dhaka is concerned and thus the chance of getting trip is higher.

In Bogra, there are informal agreements on the base price among the independent brokers. One–way trip to Dhaka and other areas, where trucks will have to cross Jamuna bridge, need to pay the return toll of Jamuna bridge in addition to the usual rent. Transport agencies returning trucks takes this opportunity and offer more commission to independent brokers. If truck enters into Dhaka City for unloading then an additional BDT 300-500 is charged with the rent. The rent is also conditioned with timing. If there is a chance of traffic jam in any road, then the businessmen have to pay additional amount depending on time delayed. Beparies who do trade of fresh vegetables, fish and meat usually rent trucks with return trips. They have business connections with Dhaka arotders, and these arotders help them arrange return trips. This enables the arotders to pay around BDT 1000-1500 less for each of round trip. For the inbound trips transport agencies charge return toll in addition to the regular rent. Other than transport agencies, trucks originated in Bogra do not charge the return toll on Jamuna bridge. Their asking rent is very competitive. Sometimes they ask barely the fuel cost only.

Market Concentration, Profitability, Entry and Exit

The respondents were asked to provide information on the share of largest five firms for each route. It can be argued that when the shares of few large companies are very high then there are scopes of market concentration. This market concentration, in general, leads to high fares charged by the large companies. It appears that there are significant market concentrations for all routes, and for all categories of trucks and for all routes, market concentration has increased over time. It also appears that for, the 5 ton trucks, in 2008, the market concentration appears to be the highest in the Dhaka-Chittagong route, where the aggregate share of the largest 5 companies was 38.13 percent. In the case of 7 ton truck, however, the market concentration is the highest in the Benapole-Dhaka route. In the case of 7 to (covered) trucks, Dhaka-Chittagong route has the highest market concentration whereas in the case of 20 ton trucks the Chittagong-Dhaka route has the highest market concentration. Focused group discussions pointed out to the fact that a number of reasons have contributed to the growing number of trucks owned by the large companies. These reasons are long term installment facility provided by truck sellers to the large truck companies, better access to loans from formal financial institutions, and long term agreement between large truck companies and large services receivers (i.e., large exporters or importers or domestic traders). These facilities enjoyed by the large truck companies are anti-competitive in nature as the small truck companies, in most instances, are deprived of such benefits.

In Bangladesh, the cost of business in trucking sector is not only depended on the domestic factors but it also has a strong link with the international market. The major components of costs are spending on diesel, salary of driver and helpers, payment for toll, repairing, maintenance of offices and staff and other costs. The upward trend of diesel price is the one of the key factors of the rise in fares as it appears to have the largest share in the cost of trucking business for all routes and all types of trucks. In the case of 5 ton trucks, Benapole-Dhaka route seems to spend as high as 42 percent of total cost on diesel. This figure is however lowest for Dhaka-Chittagong route (29.55 percent). Almost similar pattern is observed for all other categories of trucks. In the case of 5 ton truck, the profit margin is the highest in the Bogra-Dhaka route and lowest for Chittagong Dhaka route. This suggest that compared to three other routes, the Chittagong-Dhaka route is more competitive. Almost similar pattern is observed for all other categories of trucks. The profit figures appear to be reasonably high (in the range of 20 to 35 percent) compared to the average national return to capital as reflected from the bank deposit interest rate which is less than 10 percent. This indicates to the fact that the market for the trucking service is not competitive.

The reasons of new entry in trucking business can give us an idea about barriers and nature of competition. It also can reflect the situation of transparency and corruption. According to the respondents, the entering in trucking business are sometimes influenced by good relation with ruling political party, huge supply of idle money or remittance, good relation with truck agencies, relationship with agency or C&F agent, possibilities of regular profit and no previous experience is required for starting. However, three reasons, namely easy availability of idle or remittance money, affiliation with truck agencies and affiliation with C&F agents, appear to be the dominant reasons. On the other hand, the reasons which are important for leaving trucking business, are- unable to make a good relation with transport agency, lack of relations with C&F agents, shortage of reliable driver, massive loss by accident or stealing and losses from other business.

Threat of Substitute

An important aspect in the analysis competition is the understanding of the availability of the demand side substitution. Though, trucking business has played the major role for transportation in Bangladesh, the railway and river-way both has implication for the sake of competitiveness. The availability of these options can make the trucking market more competitive as well as efficient. In this way, the service providers will face more competition and the service receivers will have available opportunities for transporting their products. It is also true that sometimes the rail transportation is much cost effective than the trucking service as it can carry more volumes than the other services. On the other hand, river-way is also sometimes useful as many of the production unit is nearer to the river-ports. Therefore, to assess the competitiveness of the trucking service sector we also need to see whether service receivers have options other than trucking to transport their products. It appears from that railway is the only available option for Benapole-Dhaka and Bogra-Dhaka routes. This is also the dominant option for the Dhaka-Chittagong and Chittagong-Dhaka routes. However, for these two routes, river way is also an option.

Barriers to Entry

Availability of loan is one of the basic concerns for the new investors. In many cases, the large trucking firms have the privilege of accessing this loan and small firms face undue hazards. It appears from that high interest rate charged by the financial institution act as a real obstacle for the new investors. Also, difficulty in meeting terms and conditions of loan is another important factor. For the small firms mortgage is an important obstacle. The respondents from Benapole-Dhaka route indicated that not getting required amount of loan is a major problem. In Bogra-Dhaka route, however, one third of the respondents reported of having no major problem in accessing loan. FGDs with relevant stakeholders suggest that smooth process of accessing loan is a prerequisite for healthy growth in the trucking service. Many investors also reported that government could also help the new investors by providing loan with special facilities. This can have a favourable impact on the overall economy as most of the economic sectors have clear connection with the growth of trucking service.

In case of trucking business, another very important issue is insurance. The chances of accidents are relatively high in this service. In this survey, it is reported that a large part of the business people involved in this sector get some support from insurance companies. Trucking sector is also a very important sector for the insurance companies and they also try to maintain the professional relationship for ensuring their good will. This is the probable cause why majority of the service providers are largely satisfied with the insurance companies. But, there are also some problems. The very common allegation against the insurance companies is that the trucking firms do not get the money as per their claims. Also, some respondents mentioned that they didn't receive any money from the insurance companies. The process of claiming insurance money is also too much cumbersome. Another awkward practice is bribery. It, however, appears that the trucking firms in the Bogra-Dhaka route face lesser problems than those in other routes.

FGDs with relevant stakeholders suggest that in Dhaka the minimum requirement is at least 4 trucks. It is suggested that at the current scenario, it better to start with 7 ton covered van and establish good contact with transport agencies. In Chittagong, stakeholders opined to have at least 7-8 trucks to start a feasible business. However, it also appears that there is an option of buying 2-3 trucks, open a transport agency and hire the rest from market according to needs. In Benapole, earlier the requirement was 5-6 trucks. However, as the jam in ferry ghat has increased, now it is more sensible to start with 8-10 trucks. In Bogra, the requirement is at least 5 trucks for a viable business operation.

This study has found that both the existing investors and the people who are interested to enter into the trucking business have negative impression about the registration process and fitness certificate. Most of the respondents in all four routes reported the practice of bribery. Also, police harassment is another issue, which is highly reported in this survey. Again, complexity of documentation and high fees charged by the authority are the other two problems. All of the issues relating with the registration and fitness certificate, not only create corruption but also result in some unfavorable environment for the small and medium firms and thereby they are anti-competitive.

According to the respondents, the tax payment is high and therefore they try to manage the authorized persons to manipulate the imposed figures. This creates loses of government revenues as well as it act as a anticompetitive behavior for the for the small and medium firms. Most of the respondents also identified the problem of too many segments where taxes are imposed. In their view, different types of tax on trucking sectors, which are presently operated, are not justified as they discourage the new investment.

A collective operation can be created for the purpose of enhancement of business support. However, sometimes the process of collective operation can create problems for new business entrepreneurs as they may be anti-competitive. Formation of an association among some dominant service providers can lead to higher price than the market price. It appears that in Bogra-Dhaka route more than 80 percent of the respondents indicated the existence of association in the trucking business. Also in other three routes some significant proportion of the respondents reported the existence of such practice. However, this practice appears to be less prominent in the Dhaka-Chittagong route. In our survey, we tried to focus on the reasons behind the practice of association. Most of respondents reported that when they take their decisions collectively, it would benefit them by lowering their transportation cost. They also get support in case of emergency need and security of goods. An increasing power of associations over influencing prices indicates to the risk of market being increasingly anti-competitive. Our survey results suggest increasing power of such associations across all routes. Almost all the respondents in Dhaka-Chittagong, Benapole-Dhaka and Bogra-Dhaka route confirmed the increasing trend of cartel practices. Also, majority of the respondents in Chittagong-Dhaka route expressed the similar view.

Even if there are available trucks in the routes, large service providers control the market through their reputation and non-price benefits. Sometimes they manage long-term agreements with the service receivers. Also, the advantage of the large firms to provide continued support for 3-6 months are preferable to many service receivers, and this act against the interest of the small and medium firms. This advantage also gives a lead against the new entrants in trucking service. The capacity of extended communication and working area also give superiority for the large firms who have been operating their business for long periods. The market leaders (mostly the trucking agencies) have also opportunities to use more security money and they have very good relations with owner and brokers as well. It also appears that sometimes these dominant groups can attract more skilled labor by providing them higher wages.

Through the analysis of cost of a business, we are able to know the extent of exit cost in comparison with the minimum investment. This calculation gives us some idea about the easiness of entry and exists in the trucking market. In this survey, we collected information on the minimum number of trucks, unit price of trucks, and some other costs (which can be treated as miscellaneous expenditure). Sum of these expenses may reflect the amount of minimum investment required to start a business in any particular route. On the other hand, minimum number of truck multiplied by minimum resale price of each truck can be said as the minimum resale price in each route. The difference between the minimum investment and the minimum resale price for each route shows the minimum exit cost from a business for a particular route. Again, minimum exit cost as a percentage of minimum investment for a particular route indicates the extent of exit costs. If the cost of exit cost is high, this will act as a barrier for new entries. Among the routes, the exit cost is the highest in Chittagong-Dhaka route and the lowest in Benapole-Dhaka route, which suggests that the barriers to entry in terms of exit cost is the highest in the Chittagong-Dhaka route and the lowest in the Benapole-Dhaka route.

Conclusion

This study has made some analysis of the issues related to competition in the trucking sector in Bangladesh. The analyses suggest that there are some important anti-competitive practices in the trucking sector and the market is also, to some large extents, concentrated. There are also some important barriers to entry in the market. Though the extent of competition varies across different routes and for different types trucks, in general, it appears that the trucking market is not competitive enough in Bangladesh. This finding has important negative implications for economic growth as well as export competitiveness of the country.

Endnotes

[1]Associate Professor, Department of Economics, University of Dhaka. selim.raihan@gmail.com

[2]Associate Professor, Department of Development Studies, University of Dhaka.

[3]Research Associate, Unnayan Shamannay, Dhaka

EU-India Bilateral FTA: Potential Implications for the Excluded Low-Income Economies in Asia and Africa

Selim Raihan[1]

Introduction

Since the beginning of the 1990s the world has witnessed ambitious multilateral trade negotiations along with a proliferation of regional trading blocs. With the inception of the World Trade Organisation (WTO) in 1995 as an institution to oversee the multilateral trading system and to promoting trade, many people thought that multilateralism would eventually reduce the scope of regionalism. Nevertheless, since 1995 the number of RTAs has increased from less than 150 to more than 250. Today, the quantum of global trade conducted through RTAs/PTAs is more than 50 percent of total trade flows.

It is rather paradoxical that despite the demonstrated benefits of unilateral liberalisation in the academic literature, bilateral FTAs and RTAs have proliferated. The proponents of regionalism consider RTAs as 'building blocks' to multilateralism, while the opponents recognise them as 'stumbling blocks' to worldwide free trade. Given that the progress on various multilateral trade negotiations is very slow, the emergence of Regional Trading Agreements (RTAs) has been seen by many as a preferred and feasible route to push an aggressive trade liberalisation agenda bypassing the WTO. Concerns have also been expressed that, rising bilateralism can actually weaken the interest of poor and vulnerable developing countries as these countries have to take much greater commitments for opening up and reforms under RTAs than under multilateral agreements.

Given the very nature of the bilateral/regional deals, they are discriminatory. Under such arrangements member countries exchange trade concessions to improve their relative competitiveness in their regional market over the rest of the world suppliers. Almost always the excluded countries that are subject to such discrimination include LDCs and other low income developing countries. By undermining competitiveness, discriminatory preferences may cause terms of trade shocks to suppliers from non-member countries, leading to adverse trade and welfare implications. Even when some poorer countries enjoy non-reciprocal trade concessions in the form of reduced tariffs or relaxed quantitative restrictions under various schemes such as GSP, formation and/or expansion of RTAs involving the preference donor countries will result in loss of preference for the traditionally preference dependent countries.

From the above perspectives, the on-going EU-India FTA negotiations have attracted a lot of attention amongst trade policy makers. In contrast to most of the developing economies, India is regarded as a country with significant supply side capacity. This means that in response to any meaningful trade concessions resulting from a bilateral deal, Indian suppliers can substantially increase their exports to the EU, perhaps at the cost of other developing countries and EU domestic suppliers. In this way, the likely trade diversion in EU may result in reduced imports from other developing and least developed countries and increased imports from India. On the other hand, India's tariff protection on a range of products is relatively high. Therefore, taking advantage of exchanged tariff concessions under the FTA, EU suppliers may replace India's imports from other sources resulting in trade diversion for India. Consequently, the overall welfare gains for India will depend on the relatively strength of the trade creation and trade diversion impacts.

Turning to its potential implications for other excluded developing countries, since the EU has been one of the principal export destinations form most of the LDCs and other low-income African, Caribbean and Pacific (ACP) countries where many of these countries also receive significant trade preferences, extension of similar preferences to India might result in their loss of competitiveness. Furthermore, a number of South Asian countries have now negotiated bilateral and regional FTAs with India, and, for these countries, an EU-India FTA could very well mean competing with EU suppliers in India's market. Needless to mention that, EU-India FTA also have trade consequences for other developing country suppliers in the EU as well as Indian market.

This study uses global databases and a suitable general equilibrium method to meet its specific objectives. Trade issues, by their nature, require an analytical framework that allows a holistic view of world economies. This is not only because of inter-linkages between various sectors in any given economy but also because of relationships between sectors in one economy to the rest of the world. These national, regional and global linkages may occur either in inputs or products markets or, as are usually the case, in both. Therefore, a general equilibrium methodology such as one using the Global Trade Analysis Project (GTAP) model is one of the analytical instruments is used in this study.

Background of the Proposed EU-India FTA

Both EU and India have mutual interests in pursuing for greater cooperation in trade. The EU commission launched its new trade policy named "Global Europe – Competing in the World" with a view to connect external trade policies to EU's internal trade policies of creating a single market by an agenda of progressive liberalization and deregulation. The failure of multilateral trade talks with the stalemate of WTO actually opened the door for a new generation of bilateral agreements on trade and investments. In order to achieve the objective of "competitiveness of European Corporations" the EU planned to aggressively advance issues which cannot be advanced in multilateral talks. Top priority of the plan was to have a hold in the potential markets and the so – called "new areas of growth". The mandates authorized the EU Commission to negotiate the new FTAs comprise of five building blocks: (1) market access for European business due to elimination of tariff and non-tariff barriers; (2) the so-called Singapore issues (investment, government procurement, competition and trade facilitation) which were rejected in Cancun by governments of the South; (3) intellectual property rights (IPR); (4) the service sector which is a stronghold of the EU economy; and (5) a reference to sustainable development including rhetoric about social and environmental standards, core labour rights and decent work. The criteria for the selection of new partners for those competitiveness-driven FTAs are: (1) market potential and size, and (2) high level of protection against EU exports and investors. India is considered as a top priority on this list. On the other hand, in line with its new export-oriented development path India also sees opening of markets as a mutual interest. It has a keen interest in access to the EU market as Europe is India's biggest market, and the top export market for its ten biggest exports. EU-India trade rose from e28 billion in 2003 to e55 billion in 2007, pushing the two to start negotiations on a bilateral trade agreement in 2007.

An EU-India summit was held in 2005 which generated political commitment to increase bilateral trade and economic cooperation and to tackle barriers to trade and investment between the two trading partners. A High Level Trade Group (HLTG) embodied by government representatives and business leaders was formed to explore or submit report on how to widen the bilateral trade and investment and how much was the possibility of bilateral trade and investment agreement. On October 13, 2006 HLTG submitted its report recommending the elimination of duties on 90 percent tariff lines and trade volumes within 7 years and other partial liberalization milestones.

Till 4th February 2009 five rounds of negotiations have been held. Specific areas to be covered by the FTA include trade in goods, trade in services, investments, trade facilitations, public procurement, technical regulations, intellectual property right and geographical indication (GI's), competition policy and dispute settlement.

Market access for goods remains the core component of any FTA. The EU pushed hard that both India and the EU would eliminate duties on 90 percent of tariff lines and tariff volume over a period of seven years (for India, 90 percent represents about 4,500 lines out of 5,000). However, India advocated for an asymmetrical deal by which EU would eliminate 95 percent of tariffs, leaving India at 90 percent reflecting the massively different levels of development between the parties. In the initial proposal, the EU's excluded list included 226 products, mostly chemicals, petrochemicals, plastics, ceramics and glassware. On the other hand, India proposed to have an excluded list of about 150 agricultural goods and 250 manufactured goods. The agricultural goods included processed food, dairy products, sugar, fruit and vegetables, meat products including poultry, maize, honey, mushrooms, egg products, saffron, coriander seeds, vanaspati and cocoa powder. The manufacturing goods included some textiles and clothing (i.e. woolens) textile machinery, rubber, cars, commercial vehicles and two wheelers, paper and paper board, furniture, chemicals, machinery and appliances, fish and fish products, and wines and spirits (Action Aid, 2008). However, there has not been any further agreement on this.

Importance of EU and Indian Markets for Exports from Low Income Countries

Table 4.1 indicates that the EU market is a very important export destination for most of the low-income countries under consideration. Among the Asian countries, the EU market accounts for as high as 54.15 percent of total Bangladesh's exports. Among the African countries, Botswana has more than 70 percent of this share. However, the Indian market is not a major export destination for most of the countries under consideration. Among the Asian countries, Rest of South Asia (comprising Nepal, Bhutan, Maldives and Afghanistan) has the highest share followed by Sri Lanka. Among the African countries, Nigeria has a reasonably high share as far as the Indian market is concerned.

Table 4.1: Share of Exports to India and EU in Country's Total Exports

	IND	EU
Bangladesh (BGD)	0.98	54.15
Pakistan (PAK)	0.91	32.01
Sri Lanka (LKA)	6.13	35.94
Rest of South Asia (XSA)	18.58	35.98
Cambodia (KHM)	0.15	31.42
Lao PDR (LAO)	0.20	46.29
Nigeria (NGA)	19.14	20.87
Senegal (SEN)	11.97	38.09
Ethiopia (ETH)	0.86	36.65
Madagascar (MDG)	1.33	46.99
Malawi (MWI)	1.84	34.55
Mauritius (MUS)	1.60	54.81
Mozambique (MOZ)	1.58	66.51
Tanzania (TZA)	6.19	35.36
Uganda (UGA)	2.26	36.47
Zambia (ZMB)	1.10	11.01
Botswana (BWA)	0.11	71.76

Source: Version 7 of GTAP Database

Trade Similarity of Excluded Low-Income Economies with EU and India

With a view to examining the impact of EU-India FTA deal on the excluded low income economies in Asia and Africa, it is useful to explore the similarity of exports of these countries with India in the EU market and with the EU in the Indian market. One useful way of examining the trade similarity is comparison of the top 50 export products of these countries both in the EU and in the Indian market. Table 4.2 reports the number of commodities at the HS 4 digit level which are common in the export baskets of India and the other low income countries in the EU market as well as the number of commodities which are common in the export baskets of the EU and other low income countries in the Indian market. It seems that in the EU market, among the Asian low income economies, the maximum similarity with India appears to be with Sri Lanka; and among the African low-income economies, the maximum similarity with India is with Madagascar. However, for all other African countries, the export similarity is very low. In the Indian market, for all the low income economies the similarity with the EU is very low.

Table 4.2: Top 50 Export Items: Similarity with India and EU (HS 4 digit)

	EU market: similarity with India	Indian market: similarity with the EU
Bangladesh (BGD)	16	5
Pakistan (PAK)	15	6
Sri Lanka (LKA)	18	8
Rest of South Asia (XSA)	15	6
Cambodia (KHM)	09	4
Lao PDR (LAO)	07	3
Nigeria (NGA)	2	7
Senegal (SEN)	1	4
Ethiopia (ETH)	7	4
Madagascar (MDG)	16	4
Malawi (MWI)	7	5
Mauritius (MUS)	5	5
Mozambique (MOZ)	4	6
Tanzania (TZA)	8	5
Uganda (UGA)	2	4
Zambia (ZMB)	4	3
Botswana (BWA)	11	5

Source: Computed from WITS database

The above mentioned findings are also supported by the F-K index[2] constructed by Winters et al (2009). Table 4.3 reports the values of the index. The general conclusion is that in the EU market, the maximum similarity with India is observed for Sri Lanka, whereas in the EU market, the similarity index is very low for all the countries under consideration.

Table 4.3: Similarity of Composition in Trading Structures

	EU market: similarity with India			Indian market: similarity with the EU		
	1	2	3	1	2	3
Bangladesh	0.179	0.173	0.000	0.020	0.020	0.020
Nepal	0.138	0.126	0.000	0.033	0.033	0.033
Pakistan	0.259	0.241	0.200	0.031	0.031	0.031
Sri Lanka	0.269	0.180	0.152	0.072	0.072	0.072
CARICOM	0.101	0.074	0.001	0.029	0.029	0.029
Central Africa	0.037	0.018	0.000	0.043	0.043	0.043
Eastern and Southern Africa	0.182	0.140	0.001	0.047	0.046	0.046
Pacific- EPA	0.031	0.013	0.002	0.010	0.010	0.010
SADA (less South Africa)	0.044	0.023	0.001	0.025	0.025	0.025
West Africa	0.056	0.034	0.001	0.031	0.031	0.031

Source: Winters et al (2009)

The aforementioned discussions points to the possibility of a low impact on the excluded low-income economies because of the low trade similarity in both the EU and the Indian market. However, it should be kept in mind that the impacts on the excluded economies don't entirely depend on the similarity of trade of these countries with the FTA partners, since many of these countries also enjoy significant preferences in the EU and the Indian market. Such an FTA risks the loss in preferences for these countries. The next section discusses the margin of preferences of the excluded low-income countries in the EU and Indian markets.

Margin of Preferences in the EU and Indian Markets

The GTAP database provides the benchmark level and structure of protection in the EU and India which is useful to understand the initial conditions from which the tariff liberalisation aspects of the FTA would have to be assessed. Most of the low-income economies enjoy some preferences in the EU and Indian market and their margins of preferences for various products can be calculated from the GTAP database. The calculated margins of preferences suggest that, there are some significant margins of preferences for these low-income countries in the EU market compared to the tariff rates imposed on imports from India. For the Asian countries, the margins of preference on textile and clothing, their major export items to EU, are very important. For the African countries, however, the margins of preference on agricultural and agro-recessing are very relevant. On the other hand, in the Indian market, among the Asian countries, Sri Lanka and rest of South Asia enjoy some significant preferences over EU. Some African countries also have some preferences in the agricultural and agro-processing products over EU in the Indian market. It should, however, be mentioned that despite some notable preferences, most of the Asian and African countries (except, rest of South Asia and Sri Lanka) have very low imports into India. Therefore, even the loss in preferences is unlikely to result in large loss in exports into the Indian market from these countries.

Simulation

A scenario of a full FTA between EU and India is simulated using the GTAP model. Under this scenario all tariffs on the imports from EU to India are reduced to zero and all tariffs on the imports from India to EU are also reduced to zero.

Welfare Effects

The welfare effects of the simulation for the countries/regions concerned are presented in Table 4.4. It appears that the in terms of absolute value, maximum welfare gain is attained by the EU followed by India. However, in terms of share in GDP India's welfare gain is much higher than EU's. All the low low-income economies in Asia and Africa under consideration would experience welfare loss. In terms of absolute value, Bangladesh would incur the maximum welfare loss, almost 84 million US$, which is 0.15 percent of her GDP. However, in terms of share in GDP, the rest of South Asia would experience the largest loss in welfare, which is equivalent to 0.5 percent. It appears that in Asia, the welfare losses of the South Asian countries are much higher than those of Cambodia and Lao PDR. This is mainly because of low trade similarity of Cambodia and Lao PDR with India and EU in the EU and Indian market respectively. Among the African low income economies Nigeria would experience largest welfare loss in absolute value and Senegal would experience largest welfare loss in terms of share in GDP. In general, it however appears that the welfare losses of most of these low-income economies are not very high.

Table 4.4: Welfare Results (Million US$)

Countries/Regions	Allocative efficiency effect	Terms of Trade Effects	Investment-Savings effect	Total Welfare Effect	% of GDP
India	-941.4	5533.7	1070.4	5662.6	0.88
European Union 25	14082.8	-2782.2	-304.2	10996.4	0.09
Bangladesh	-23	-57.2	-3.7	-83.9	-0.15
Pakistan	-7.8	-32.1	-3.7	-43.6	-0.06
Sri Lanka	-9.6	-56.5	-2.2	-68.3	-0.34
Rest of South Asia	-23.3	-41.4	-5	-69.7	-0.50
Cambodia	-0.4	-1.4	-0.6	-2.0	-0.02
Lao PDR	0	-0.3	-0.5	-0.8	-0.03
Nigeria	-9.8	-28.3	-8.3	-46.4	-0.07
Senegal	-8.2	-12.5	-5.3	-26.0	-0.36
Ethiopia	-1.3	-1.7	-0.3	-3.3	-0.05
Madagascar	0	-1.9	0	-1.9	-0.04
Malawi	-1	-2.9	0.2	-3.7	-0.21
Mauritius	-2.9	-8.4	-0.1	-11.4	-0.19
Mozambique	-0.6	-2.5	-0.1	-3.2	-0.05
Tanzania	-1.8	-7	0.5	-8.3	-0.07
Uganda	-0.2	-3.8	-0.3	-4.3	-0.06
Zambia	-0.3	-1.7	-0.1	-2.1	-0.04
Botswana	-0.1	-8.5	0.9	-7.6	-0.09

Source: Simulation Results

The decomposition of the welfare effects, presented in Table 4.4, suggests that India's gain from the FTA is primarily driven by terms of trade gain, whereas for the EU the gain is mainly due to the rise in allocative efficiency. India would incur loss in allocative efficiency because of the loss in tariff revenue. India's terms of trade gain is because of the rise in the prices of her export items relative to the prices of imports out of this FTA. However, EU, because of elimination of tariff protection on many of her inefficient production process (especially the agricultural products), would experience large gains in allocative efficiency as resources will divert from the inefficient sectors to the more efficient sectors. The low income economies in Asia and Africa under consideration would suffer from both losses in allocative efficiency and negative terms of trade shock. However, for all these countries, negative terms of trade shocks are the dominant factor behind welfare loss.

Macroeconomic Effects

Table 4.5 presents the impact on some macroeconomic variables for the countries under consideration. It seems that India would experience a fall in real GDP by 0.15 percent from the base run. This is due to the larger increase in imports compared to exports. India's imports would rise by 10.8 percent compared to a small rise in exports by only 1.08 percent. On the other hand, EU would experience a rise in real GDP by 0.11 percent and its imports and exports would rise by 0.28 percent and 0.43 percent respectively. This suggests that the EU-India FTA would result in greater market access for EU in India compared to India's market access in EU.

Table 4.5: Macroeconomic Impacts

Countries/Regions	Real GDP (% change from the base run)	Import (% change from the base run)	Export (% change from the base run)
India	-0.15	10.79	1.08
European Union 25	0.11	0.28	0.43
Bangladesh	-0.04	-0.38	-0.91
Pakistan	-0.04	-0.01	-0.66
Sri Lanka	-0.05	-0.10	-0.90
Rest of South Asia	-0.17	-0.10	-1.32
Cambodia	-0.01	-0.02	-0.08
Lao PDR	0.00	-0.09	-0.02
Nigeria	-0.01	-0.01	-0.12
Senegal	-0.11	-0.95	-0.77
Ethiopia	-0.02	-0.10	-0.08
Madagascar	0.00	-0.01	-0.11
Malawi	-0.05	-0.21	-0.49
Mauritius	-0.05	-0.19	-0.54
Mozambique	-0.01	-0.09	-0.09
Tanzania	-0.02	0.00	-0.23
Uganda	0.00	-0.14	-0.14
Zambia	0.00	-0.06	-0.08
Botswana	0.00	-0.01	-0.24

Source: Simulation Results

The macroeconomic impacts on other low-income countries are also reported in Table 4.5. Bangladesh, Sri Lanka, rest of South Asia, Cambodia, Nigeria, Senegal, Ethiopia, Malawi, Mauritius, Mozambique and Tanzania would experience fall in real GDP whereas other low-income economies would experience no impact on their real GDP. Among the Asian countries, rest of South Asia would incur a loss in real GDP by 0.17 percent. Among the African countries, the largest fall in real GDP would be experienced by Senegal. It also appears that all these low income economies would face loss in exports. The loss in exports for Bangladesh and Sri Lanka would be as high as 0.9 percent of their total exports. The corresponding figure for the rest of South Asia is 1.32 percent. Cambodia and Lao PDR however, experience very low figures of loss in exports. Among the African countries, the largest fall in exports would be faced by Senegal.

Loss in Exports in the EU and Indian Markets

From the GTAP simulation results it is also possible to isolate the loss in the exports of the low-income economies in the EU and the Indian market (Table 4.6). It should be noted here that the loss in exports by these countries would be driven by loss in preferences of these countries in EU and India as well as due to diversion of trade in EU and India because of the FTA deal. It appears that the patterns on impacts on the low-income economies as far as the export losses in the EU and Indian markets are concerned. In South Asia, Bangladesh and Pakistan would experience bulk of their losses in the EU market, whereas, Sri Lanka and rest of South Asia would incur major losses in the Indian market. Cambodia and Lao PDR would experience virtually no loss in exports in the Indian market. Among the African countries only Nigeria and Senegal would face larger export loss in the Indian market. However, for most of the other African countries, the losses in exports in the EU market are higher than those in the Indian market.

Table 4.6: Loss in Exports (million US$)

	EU Market	Indian Market	Total
Bangladesh	-56.3	-7.5	-63.8
Pakistan	-79.2	-2.7	-81.9
Sri Lanka	-10.1	-55.3	-65.4
Rest of South Asia	-2.8	-47.0	-49.8
Cambodia	-12.4	0	-12.4
Lao PDR	-2.2	0	-2.2
Nigeria	-3.6	-14.1	-17.7
Senegal	-0.7	-21.6	-22.3
Ethiopia	-1.8	-0.5	-2.3
Madagascar	-5.0	-0.6	-5.6
Malawi	-1.1	0	-1.1
Mauritius	-16.0	-3.9	-19.9
Mozambique	-1.3	-0.8	-2.1
Tanzania	-6.9	-3.4	-10.3
Uganda	-1.5	-0.2	-1.7
Zambia	-0.9	-3.1	-4.0
Botswana	-40.6	-0.1	-40.7

Source: Simulation Results

Table 4.7 reports the losses in the exports in major commodities in the EU market by these low-income economies. It is very evident that for Bangladesh, textile and wearing apparels are the two dominant products which suffer from loss exports in the EU market. For Pakistan, paddy and processed rice as well as textile and wearing apparels would constitute the bulk of the loss in exports. For the African countries, mainly the agricultural and agro-processing commodities would experience loss in exports.

Table 4.7: Loss in Exports of Major Commodities in the EU (Million US$)

	Paddy Rice	Crops	Meat	Processed rice	Sugar	Food products	Textile	Wearing apparels	Leather products
Bangladesh	-1.0	-0.1		-0.3		-0.9	-21.8	-23.4	-0.5
Pakistan	-35.1			-8.8	-0.5		-18.5	-10.7	
Sri Lanka	-0.2	-0.5		-0.8				-4.1	
Rest of South Asia				-2.6					
Cambodia	-0.2		-0.4	-3			-4.8	-4.1	
Lao PDR	-0.9		-0.3	-1			-0.1	-0.4	
Nigeria	-0.1	-1.1	0	0		-0.2	-0.4		-0.6
Senegal	-0.1		-0.3	-0.3					
Ethiopia		-0.5	-0.2		-0.1		-0.1	-0.1	
Madagascar		-0.1	-0.1	-0.7	-0.1	-0.2	-1	-1	
Malawi		-0.6			-0.1				
Mauritius			-0.3		-0.6	-0.1	-8.3	-3.4	
Mozambique	-0.1	-0.2	-0.1		-0.1	-0.2			
Tanzania	-0.8	-0.6	-1.4	-0.4	-0.1	-0.8	-0.1	-0.2	
Uganda		-0.6	-0.1			-0.2			
Botswana			-34.6						

Source: Simulation Results

Table 4.8, on the other hand, lists the major products of the low-income economies which would suffer from export losses in the Indian market. Bangladesh would inure some notable export loss in the case of chemicals, rubber and plastic products. Sri Lank and rest of South Asia would however, experience losses in exports in a number of mineral and manufacturing commodities. For Sri Lanka the largest loss would be in the case of exports of metals. For Nigeria, some notable loss would be in the case of exports of oil. Senegal would experience loss in exports of chemicals, rubber and plastic products. For other African countries, the figures of the losses in exports in the Indian market are minimal.

Table 4.8: Loss in Exports of Major Commodities in India (Million US$)

	Oil	Minerals	Food products	Beverage and tobacco products	Wood product	Paper products	Chemical, rubber and plastics	Mineral products	Ferrous metal	Metals	Metal products	Machinery
Bangladesh			-0.2	-0.1	-0.1		-5.2	-0.1	-0.3	-0.2	-0.6	-0.3
Pakistan		-0.2				-0.1	-1.5		-0.1			-0.4
Sri Lanka		-0.1	-0.2		-2.6	-1.5	-5	-3.2	-3.2	-22.1	-2.6	-15.3
Rest of South Asia		-1	-1.3	-2.9	-1.6	-1.1	-14.1	-0.3	-15.4	-4.5	-1.2	-1.8
Nigeria	-13.5	-0.4							-1.5	-1.2		-0.2
Senegal		-0.3					-20.9		-0.4			
Mauritius	-0.1	-0.1				-0.1	-0.1		-0.7			-2.7
Tanzania		-1.9	-0.1		-0.1	-0.1	-0.5		-0.5			-0.1
Zambia		-2.4							-0.1	-0.6		

Source: Simulation Results

Conclusion

This paper provides an analysis on and insights into welfare, macroeconomic and trade impacts on a number of low-income economies as a result of a proposed bilateral FTA deal between the EU and India. A global general equilibrium modelling technique is applied for the analysis. A simulation of a scenario depicting a full FTA between India and EU is conducted. A summary of the simulation results is as follows:

- The EU-India FTA would result in welfare gains for both India and the EU. In absolute terms, the gains of EU would be much higher than that of India. However, in terms of share in GDP the gains of India would be much large than that of EU. India's welfare gain is mainly driven by the gain in terms of trade, whereas, EU's welfare gain is primarily because of gain in allocative efficiency.
- All the low-income economies under consideration would experience loss in welfare, and the welfare losses for the South Asian countries are much higher than the other low income economies in Asia and Africa. Bangladesh would appear to experience largest loss in welfare in absolute value, whereas rest of South Asia would incur largest loss in terms of share in GDP. The welfare losses of these low-income economies are mainly driven by the loss in terms of trade. However, in general, the extents of welfare loss in terms of share in their GDP for most of these countries are not very high.
- Most of these low-income countries would also experience loss in real GDP and loss in exports. For rest of South Asia, the loss in real GDP is as high as 0.17 percent and loss in exports is as high as 1.32 percent. Other South Asian countries like Bangladesh and Sri Lanka would also experience loss in exports by more than 0.9 percent. However, for most of the other countries, the loss in real GDP and loss in exports are not very large.
- Most of the low income countries under consideration would experience fall in exports both in the EU and Indian market mainly because of loss in preferences and diversion of trade in the EU and Indian market. However, the pattern of export loss is different for different countries. Countries like Bangladesh and Pakistan would suffer from larger export losses in the EU market compared to the Indian market whereas for Sri Lanka and rest of South Asia the impacts will be just the opposite. Most of the other low-income countries would however experience larger loss in exports in the EU market.

- The product wise figures suggest that Asian low-income countries' loss in exports in the EU market will be dominated by the loss in exports of textile and wearing apparels. Most of the African countries would however experience loss in exports of agricultural and agro-processing products in the EU market. In the Indian market, Sri Lanka and rest of South Asia would experience loss in exports in a number of mineral and manufacturing products. Bangladesh's loss in exports in the Indian market would be primarily the loss in exports of chemicals, rubber and plastics products. Most of the African countries would incur loss in exports of oil, minerals and mineral products in the Indian market.
- The simulation results in general suggest that the impacts of the EU-India FTA on most of the excluded low-income economies are not very large. It should however be mentioned that the impacts, as derived from the simulation results, are static in nature and the dynamic impacts could be much larger than the static impacts. For example, though the static loss in preference for Bangladesh's exports of textile and clothing in the EU market might appear to be small, such loss in preference might result in long term loss in competitiveness and thus the dynamic losses could be much larger than the static losses.

Endnotes

[1]Associate Professor, Department of Economics, University of Dhaka. selim.raihan@gmail.com

[2]The F-K index of import similarity between country m and n can be defined, in general, as . Where and are the share of imports from country m in product i and the share of imports from country n in product i, respectively. This index was computed at the 6-digit level of disaggregation. The FK index is equal to one when the structure of trade (defined by the share of each sector in total trade) across the two countries being compared is identical and is equal to zero when the structure of trade is completely different.

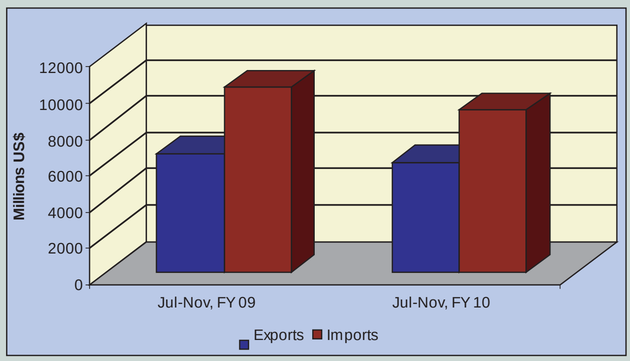
Brief Update of Macroeconomic Indicators

Selim Raihan[1] and AK Iftekharul Haque[2]

Exports and Imports

Bangladesh's trade deficit narrowed over FY 10. Both the values of imports and exports decreased during FY 10 compared to the same period in FY 09. The value of imports during this period stood at US$8977 million, a decrease of 12 per cent from the same period in FY 09, while the value of exports over the same period stood at US$6097 million, a decrease of 6.9 percent from the same period of previous fiscal year. The negative growth of exports is not surprising given the fact that the US and the EU, two main destinations of Bangladeshi exports, experienced the greater shock of the global financial crisis. With the exception of a slight increase in the export of jute and jute goods, exports of knitwear, woven garments, chemical products, frozen food, leather, engineering & electronic goods, tea and agricultural products declined during July - November, 2009 compared to the same period of the previous year.

Figure 5.1: Exports and Imports FY 09 vs. FY 10 (Provisional)



Source: Major Economic Indicators: Monthly Updates, Bangladesh Bank, January 2010

Imports by Sector

Share of Letter of Credit (L/C) openings for consumer goods in total L/C opening during July-December FY 10, as compared to the same period of FY 09, rose from 8.28 percent to 13.74 percent (Table 5.1). For capital machinery, this proportion increased slightly from 5.63 per cent to 6.55 per cent. However, proportion of industrial raw materials decreased from 41.05 per cent to 35.78 per cent. This might have important negative effects on the future growth of industrial output.

Table 5.1: L/C Opening by Sector (% share in total)

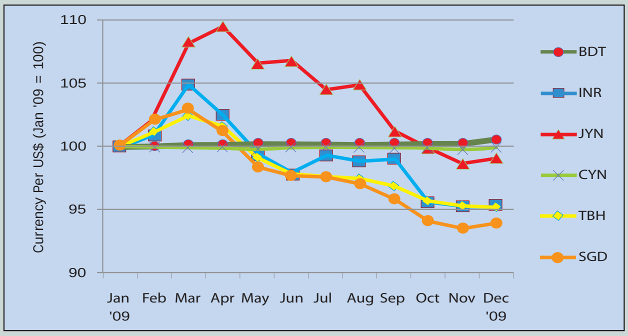
SECTOR	JUL-DEC,FY 09	JUL-DEC, FY 10
Consumer Goods	8.28	13.74
Intermediate Goods	10.53	8.51
Industrial Raw Materials	41.05	35.78
Capital Machinery	5.63	6.55
Machinery for misc. Industry	7.74	7.48
Petroleum & petroleum Products	10.41	8.87
Others	16.37	19.08
Total	100.00	100.00

Source: Major Economic Indicators: Monthly Updates, Bangladesh Bank, January 2010

Exchange Rate

Figure 5.2 presents the monthly average nominal exchange rates against the US dollar for the currencies of Bangladesh and some of its major Asian trading partners over a 12- month period beginning January 2009, taking that month as the base. Bangladeshi taka along with Chinese Yuan has been stable through this period. As the figure shows, the other currencies faced depreciation in the initial few months followed by significant appreciation during the later months against US Dollar. This suggests that towards the end of 2009, Bangladeshi taka has become more competitive than most of the Asian countries listed in Figure 5.2 and also the costs of imports into Bangladesh from these countries have seemed to decline.

Figure 5.2: Monthly Average Nominal Exchange Rates vs. US $ (Jan '09 = 100)

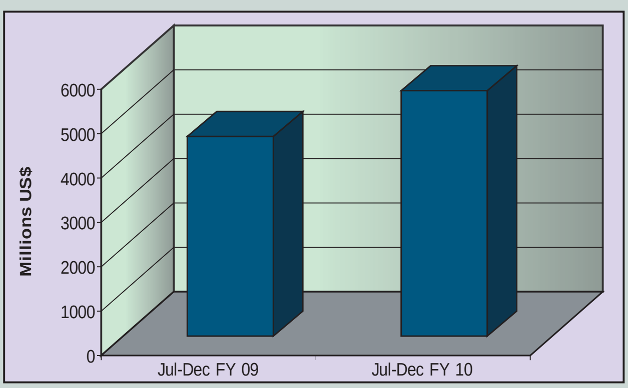


Note: BDT = Bangladeshi taka, INR = Indian Rupee, JYN = Japanese Yen, CYN = Chinese Yuan, TBH = Thai Baht, SGD = Singapore Dollar
Source: Central banks of the respective countries

Remittances

Remittances from abroad were about 22.83 per cent higher in the first half of FY 10 than the same period of FY 09. Although there were anticipations about negative growth of remittances at the beginning of global financial crisis, the growth of remittances was rather robust during the first half of the current fiscal year.

Figure 5.3: Inflow of Remittances, Jul-Dec, FY 09 vs. Jul-Dec, FY 10

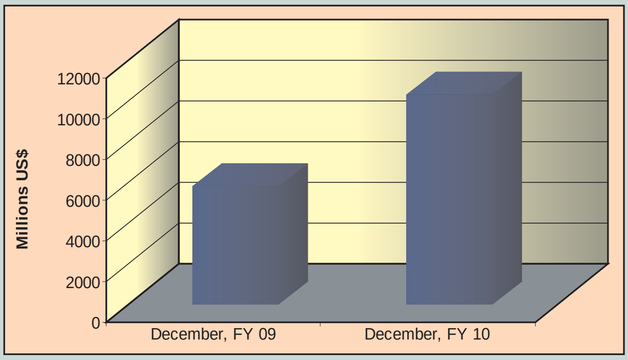


Source: Major Economic Indicators: Monthly Updates, Bangladesh Bank, January 2010

Foreign Reserves of Bangladesh Bank

Bangladesh managed to maintain a high growth in case of foreign currency reserves. Despite the negative growth of export earnings the gross foreign exchange reserves of Bangladesh bank crossed the mark of US$ 10 billion at the end of the first half of the fiscal year largely due to the robust growth of remittances. This amount was about 78.73 per cent higher than the reserves held at the end of 2008.

Figure 5.4: Foreign Exchange Reserves of Bangladesh



Source: Major Economic Indicators: Monthly Updates, Bangladesh Bank, January 2010

Endnotes

[1] Dr. Selim Raihan is Associate Professor, Department of Economics, University of Dhaka

[2] AK Iftekharul Haque is Lecturer, BRAC University

Rules of Origin and Sensitive List under SAFTA and Bilateral FTAs among South Asian Countries

Selim Raihan[1]

Introduction

SAFTA has come into force since July 01, 2006, with the aim of boosting intraregional trade among the seven SAARC members. Some South Asian countries are also a signatory of inter-regional FTA initiatives such Bay of Bengal Initiative for Multisectoral and Technical Cooperation (BIMSTEC) FTA and Bangkok Agreement. Many South Asian countries have also signed bilateral FTAs among themselves and with countries outside the region. Bilateral FTAs among South Asian countries, which currently operate in parallel with SAFTA, including those between: (i) India and Nepal; (ii) India and Sri Lanka; (iii) India-

Bhutan; (iv) Pakistan-Sri Lanka; (v) Pakistan-Nepal (limited to trade in tea). There are also on-going discussion for bilateral FTAs between India-Bangladesh, and Bangladesh-Sri Lanka.

The proliferation of bilateral and regional FTAs has necessarily been accompanied by overlapping Rules of Origin (ROO). The main reason for the existence of ROO in FTAs is to prevent trade deflection, by which is meant that the country with the lowest external tariff acts as port of entry for the entire bloc's imports, depriving partners of tariff revenue. However, the proliferation of ROO can lead to what Bhagwati termed as the "spaghetti bowl effect". ROO induces efficiency costs in production and restricts market access. Complex ROO increases administrative, compliance and business costs, particularly for small and medium-sized enterprises, which have limited capacity to deal with them. Furthermore, the demands of negotiating multiple ROOs increasingly strains the scarce trade negotiation resources of many South Asian countries, particularly the least developed countries, which have limited trade policy capacity.

Multiple ROO (e.g., value-added rules or changes in customs classification) arising from overlapping agreements among South Asian countries under different bilateral FTAs and that under SAFTA would have significant implications for enhancing trade and welfare in the region within SAARC framework. Depending upon how they are specified, ROO under South Asian bilateral FTAs and those under SAFTA can – to varying degrees- restrict trade, misdirect investment, inhibit productivity growth and reduce welfare from levels otherwise attainable. SAFTA would be relatively less attractive to bilateral FTA among South Asian countries if its ROO is more restrictive and costly to those under later categories. Thus, any potential economic gains of SAFTA in terms of increasing trade and welfare would be diluted by bilateral FTAs. Consequently, SAFTA would lose its relevance to enhance trade and welfare among SAARC member countries.

In addition to the ROO, all these bilateral and regional FTA agreements allow the member countries to maintain sensitive lists of products which will be outside of the trade liberalisation programme. It has been observed that under SAFTA the sensitive lists maintained by the developing countries in this region, especially by India, are too stringent and long to allow the LDC members expanding their exports significantly into the markets of these developing countries.

Against this backdrop, this study analyzes the implications of the proliferation of ROO under bilateral FTAs among South Asian countries on SAFTA. In this regard this study makes a comparative assessment of different ROO arrangements under different bilateral FTAs as well as under SAFTA and BIMSTEC with a view to finding out the relative flexibility of SAFTA ROO vis-à-vis ROO in other regional and bilateral FTAs in South Asia.

Rules of Origin in the Regional Trading Arrangements

'Rules of origin' are the criteria used to define where a product was made. They are an essential part of trade rules because a number of policies discriminate between exporting countries: quotas, preferential tariffs, anti-dumping actions, countervailing duty (charged to counter export subsidies), and more. Because the preferential treatment provided for in a free trade agreement is usually granted only to products originating from members of that FTA, rules of origin are important. These are the criteria which determine the national origin of a product. The country of origin of a product is usually seen as the country where the last substantial transformation took place.

Enforcing and defining rules of origin for goods or services poses major problems. This issue has been very controversial in a number of agreements and trade unions and other critics have campaigned to highlight the ways in which rules of origin can be used and abused by governments and corporations alike. In particular there are concerns about the ease with which goods processed partly or fully in a third country can get duty-free access under a bilateral agreement by being re-exported with just enough processing to satisfy rules of origin requirements. This is further complicated by the fact that different bilateral free trade agreements use different criteria to set rules of origin.

The proliferation of free trade areas and consequently of bi-lateral and regional trade agreements within the multilateral trading system have encouraged the use of preferential rules of origin. Such preferential rules of origin are aimed at distinguishing products that are entitled to preferential tariff treatment from products that are not. Though covered in Annex II of the Rules of Origin Agreement as the Common Declaration with regard to preferential rules of origin, they contain no prohibition barring them from being used as "instruments to pursue trade policy objectives." Rules of Origin have become problematic mostly in the context of preferential trade agreements; exactly the arena where WTO rules do not apply.

The 2001 Doha Ministerial declaration reaffirmed WTO's commitment to the least developed countries (LDCs) through trade preferences and trade-related technical assistance. It did so by laying down the objective of "duty free, quota free market access for products originating from LDCs" while also committing to "consider other measures for progressive improvements in market access for LDCs." Schemes such as the Generalized System of Preferences (GSP) providing duty-free access to products from developing countries and other initiatives like the European Union's Everything But Arms (EBA) Agreement are some examples of preferential treatment in tariffs accorded to both developing countries and LDCs. However, as much as these initiatives have been taken to "secure beneficial and meaningful integration into the multilateral trading system and the global economy" for the developing countries and LDCs, its objectives are undermined by the rules of origin criteria they impose.

Apart from these schemes, rules of origin are used extensively in other preferential trade agreements like bi-lateral trade treaties and Regional Trade Agreements (RTAs). In such arrangements, members confer origin to products if a pre-specified proportion of its value added takes place within the union. By bypassing the multilateral trading system's principle of most favoured nation (MFN), members of preferential arrangements make a politico-economic decision to exclude third parties from receiving any preferences. At the same time, if members of such arrangements face stringent rules of origin requirements, their exporters might opt to forego available preferences and pay MFN rates instead. Whether rules of origin requirements in preferential arrangements are actually beneficial or not is a matter for debate. The importance of rules of origin has grown significantly as preferential agreements expand and countries have treated similar imported products differently according to where the product was made. Though justified as a means to avoid trade deflection particularly in preferential arrangements, rules of origin are also being seen as discriminatory trade policy instruments. Since the liberalization of tariffs barriers, countries have turned to narrowly drawn rules of origin as the second best means of providing a measure of protection to domestic industries.

WTO Agreement on Rules of Origin

With a rise in the aforementioned issues regarding rules of origin, particularly those concerning the adoption of individual rules of origin requirements by WTO Members, a harmonization of the rules was sought. In order to make them simpler, uniform and stable, the Rules of Origin Agreement was adopted in 1994. The Agreement lays down guidelines for broad approaches in formulating the harmonized rules (Das, 1999). But this agreement is only confined to non-preferential rules of origin.

This agreement is divided into four parts containing nine Articles and two annexes:

- Article 1 in Part I of this agreement defines Rules of Origin as those laws, regulations and administrative determinations of general application applied to determine the country of origin of goods except those related to the granting of tariff preferences.
- Article 2 in Part II covers the disciplines to govern the application of rules of origin and lists out disciplines applicable to all WTO Members during the transition period. The work to harmonize the rules of origin is being carried out by a Committee on Rules of Origin (CRO) in the WTO and a Technical Committee on Rules of Origin (TCRO) under the auspices of the World Customs Organization (WCO).
- Article 3 in Part II of the agreement outlines disciplines to be adhered to after the transition period.
- Article 4, 5, 6, 7 and 8 in Part III of the agreement outline Institutions, Information and procedures for modification and introduction of New Rules of Origin, Review, Consultation and Dispute Settlement respectively.
- Article 9 in Part IV defines objectives and principles, work programme and the role of the committee in the harmonization of rules of origin.
- Annex I outlines the roles and responsibilities of the Technical Committee on Rules of Origin.
- Annex II covers the Common Declaration with regard to preferential rules of origin.

For the determination of the origin of a product as defined in Article 9 of the Rules of Origin, there are several criteria, such as (i) substantial transformation: when a product is accepted as being wholly obtained in the country, there is no dispute on its origin but whenever a product is manufactured with a combination of imported and domestic materials, origin disputes arise. So far, in such disputes, origin is conferred to the country where the product is considered to have undergone 'substantial transformation'. (ii) process criterion: Imported inputs are considered to have undergone 'substantial transformation' if the finished products fall under a different HS code than they did when those inputs were first used in the manufacturing process. (iii) percentage criterion: If a certain percentage of value is added to the imported inputs, they are considered to have undergone 'substantial transformation'. One way is to predetermine the maximum percentage of imported inputs in production. For example, the percentage value of imported inputs must not exceed 40 percent. The other way is to predetermine the minimum percentage of domestic inputs in the production process. For example, the value of domestic inputs used in the production process must not be less than 40 percent.

ROO under SAFTA

The rules of origin criterion are contained in SAFTA as the SAFTA Rules of Origin in Annex IV of the agreement. Its Rule 5 contains a list of products or types of products which will be considered as wholly produced or obtained in the territory of the exporting Contracting State. Besides the wholly produced criterion, SAFTA rules of origin also contain Single Contracting State Content criterion. It uses both the Process and Percentage criterion and outlines the conditions which will grant originating status to a Contracting State as follows:

- The final product is classified in a heading at the four digit level of the Harmonised Commodity Description and Coding System differently from those in which all the non-originating materials used in its manufacture are classified and
- Products worked on or processed as a result of which the total value of the materials, parts or produce originating from other countries or of undetermined origin used does not exceed 60 percent of the free on board (FOB) value of the products and the final process of manufacture is performed within the territory of the exporting Contracting State. Least Developed Contracting States will be allowed a favourable 10 percentage points.

It thus appears that SAFTA allows differential rules of origin for the LDC and non-LDC members. The ROO agreed under SAFTA are general in nature (i.e. one criterion for all products) barring 1991 products for which product specific rules are applied. SAFTA ROO requires that in order to enjoy the preference under SAFTA a product must undergo sufficient processing for changing the tariff heading from the non-originating inputs and for having value of at least 40 percent value addition measures as percentage of fob value. However, value addition requirements are lower for Sri Lanka and LDCs, which are 35 percent and 30 percent respectively.

In terms of regional cumulation, Members are eligible for preferential treatment if the value of inputs from other Members plus domestic value addition is not less than 50 percent of FOB value. For domestic value content (value of inputs originating in the exporting Member State plus domestic value addition in further manufacture in the exporting Member State), must not be less than 20 percent of the FOB value.

ROO under BIMSTEC

The idea of establishing Bangladesh-India-Thailand-Sri Lanka Economic Cooperation was first initiated by Thailand in 1994 to explore economic cooperation on a sub regional basis involving contiguous countries of South and South East Asia surrounding the Bay of Bengal. It was formally launched as BIST-EC (Bangladesh-India-Sri Lanka-Thailand Economic Cooperation) on 6 June 1997 in Bangkok with the adoption of the Bangkok declaration. In a special ministerial meeting, held in Bangkok on 22 December 1997, Myanmar was accorded full membership of the group, and following the Myanmar's entry it was renamed as BIMST-EC (Bangladesh-India-Myanmar-Sri Lanka-Thailand Economic Cooperation). At the Ministerial meeting held in February 2004, Bhutan and Nepal were welcomed as new members. Subsequently, the Grouping was renamed as “Bay of Bengal Initiatives on Multi-Sectoral Technical and Economic Cooperation (BIMSTEC).

The draft proposal of BIMSTEC's ROO was submitted during the Burma round talks during April 2006. Seven South and East Asian member countries of the (BIMSTEC) put their heads together on the most crucial issues. The developing countries - Thailand, India and Sri Lanka - proposed changes in customs tariff. Along with such change, India and Sri Lanka favoured 35 to 40 per cent value addition. But the least developed countries (LDCs) - Bangladesh, Burma, Nepal and Bhutan - wanted to fix the ROO criteria only on value addition basis and it to be fixed at 30 percent. However, concrete decision on the ROO under the BIMSTEC agreement is yet to be taken.

ROO under India-Nepal Trade Act

Historically India has remained the largest trading partner of Nepal. Trade relations between Nepal and India are governed by bilateral treaties on trade. Nepal signed its first trade and transit treaty with India in 1950. They were subsequently renewed in 1960, 1971, 1978, 1991, 1996 and 2002. The trade treaty that was signed in 2002 is due to be renewed in March 2007. India and Nepal have signed three trade treaties. These are:

1. India-Nepal Treaty of Trade: This treaty of trade to regulate bilateral trade was last revised and renewed for a period of 5 years with effect from 6th March 2002 up to 5th March 2007.
2. India-Nepal Treaty of Transit: This treaty was renewed in March 2006 for a period of 7 years with effect from 1st April 2006.
3. India-Nepal Agreement of Cooperation to control unauthorised trade between the two countries: This was last renewed for a period of 5 years with effect from 6th March 2002.

Nepal – India Treaty of Trade, 2002 is a continuation of the Treaty of Trade 1996 in a revised form. Some of the major provisions made in the treaty are exemption from basic customs duties and quantitative restrictions on imports of primary products on a reciprocal basis. Nepali manufacturing exports has been given access to the Indian market free of basic customs duties and quantitative restrictions on the basis of non-reciprocity. Also, manufacturing goods imported from Nepal have been granted preferential entry, without any quantitative restrictions. Preferential Access for Nepali manufacturing exports to the Indian market is subjected to Rules of Origin (ROO) conditions that have changed over time. The 90 percent value added condition of the 1960 trade treaty was reduced to 50 percent in the 1992 treaty. Under the 1996 trade treaty, the value addition requirement was further reduced to 40 percent of ex-factory prices and included the provision that ROO certificate could be issued by the FNCCI. The 1996 trade treaty also substantially reduced the negative list to include only items such as alcoholic liquors/beverages and their concentrates except industrial spirits, perfumes and cosmetics with non-Nepali/non-Indian brand names, cigarettes and tobacco.

The Nepal- India Treaty of Trade, 2002 also introduced several changes in the ROO. Firstly, the new ROO provisions include domestic content value addition requirement of 30 percent of ex-factory prices and changes in tariff heading (CTH) at four digit level of the harmonized system code. Secondly, this treaty emphasises clear specification of safeguard clauses. The treaty denotes "safeguards" against significant damages to the domestic producers, from an "export surge". Thirdly, a provision has been made for submission of information regarding the basis of calculating ROO to the Indian government by the Nepal government on an annual basis.

ROO under India-Sri Lanka FTA

India and Sri Lanka signed an FTA deal in 1998. The rules of origin under this FTA deal state that products worked on or processed as a result of which the total value of the materials, parts or produce originating from countries other than the Contracting Parties or of undetermined origin used does not exceed 65 percent of the f.o.b. value of the products produced or obtained and the final process of manufacture is performed within the territory of the exporting Contracting Party shall be eligible for preferential treatment, subject to the provisions of clauses (b), (c), (d) and (e) of rule 7 and rule 8.

Non-originating materials shall be considered to be sufficiently worked or processed when the product obtained is classified in a heading, at the four digit level, of the Harmonised Commodity Description and Coding System different from those in which all the non-originating materials used in its manufacture are classified.

For cumulative rules of origin, in respect of a product, which complies with the origin requirements provided in rule 5(b) and is exported by any Contracting Party and which has used material, parts or products originating in the territory of the other Contracting Party, the value addition in the territory of the exporting Contracting Party shall be not less than 25 per cent of the f.o.b. value of the product under export subject to the condition that the aggregate value addition in the territories of the Contracting Parties is not less than 35 per cent of the f.o.b. value of the product under export.

ROO under Pakistan-Sri Lanka FTA

Free Trade Agreement (FTA) between Pakistan and Sri Lanka is operational from June 12, 2005. Under the Free Trade Agreement, Sri Lanka and Pakistan have agreed to offer preferential market access to each others' exports by way of granting tariff concessions. Sri Lanka would be able to enjoy duty free market access on 206 products in the Pakistani market including tea, rubber and coconut. Pakistan, in return, would gain duty free access on 102 products in the Sri Lankan market. These products include oranges, basmati rice and engineering goods.

Annex C deals with the rules of origin, which have to be complied with by the exporters of the two countries in order to qualify their products for preferential duty benefits. Based on the origin, the Rules of Origin categorize the products exported under the PSFTA into the following two main segments.

a) products wholly produced or obtained in the territory of the exporting country such as agricultural, fishery and mineral products.

b) products, not wholly produced or obtained in the territory of the exporting country (manufactured products).

All manufactured products falling under the category of "products, not wholly produced or obtained in the territory of the exporting country (manufactured products)" should contain a minimum of 35 percent of Domestic Value Addition of their FOB value in order to qualify for preferential treatments. Further, it is also necessary that all non-originating materials, used by the exporters change their HS codes at six-digit level against that of the final product as a result of the manufacturing process undertaken in the exporting country.

The Cumulative Rules of Origin encourages exporters to source their inputs from the other contracting country. However, the Domestic Value Addition in the territory of the exporting country shall not be less than

25 percent of the FOB value of the final product, while the aggregate value addition in both contracting parties should be minimum of 35 percent of the FOB value. In addition, the respective products should also conform to the Change of HS code requirement (at six digit level) as in the case of the manufactured goods, referred to under category (b) above.

A Comparison of ROOs under different Regional and Bilateral FTAs in South Asia

Table 6.1 presents a comparison of different ROO requirements under different regional and bilateral FTA agreements in South Asia. The comparison is made on the basis of three criteria: the value-addition requirement, change in tariff heads and requirement for regional cumulation. It appears that in terms of value-addition and change in tariff heads requirements, SAFTA does not differ much from India-Sri Lanka BFTA and India-Nepal Trade Treaty. As an LDC, Nepal's export products are subject to 30 percent value-addition requirement as well as are subject to change in tariff head at the four digit HS code. However, though the value-addition criteria under the Pakistan-Sri Lanka BFTA is similar to SAFTA, the provision for change of HS codes at six-digit level, has made the ROO of this BFTA relatively more flexible. In the case of regional cumulation, SAFTA appears to be more stringent than other BFTAs in South Asia.

Table 6.1: Comparison of ROOs

RTAs	Value addition requirement	Change in Tariff Heads	Regional Cumulation
SAFTA	30% for LDCs, 35% for Sri Lanka and 40 % for India and Pakistan	Change in tariff head at the four digit HS code	Value of inputs from other Members plus domestic value addition is not less than 50% of FOB value. Domestic value content must not be less than 20% of the FOB value.
BIMSTEC	Proposed: 35-40% for the developing countries and 30 percent for LDCs	Proposed: change in tariff head to be included in the ROO, but not yet decided	Not yet decided
India-Sri Lanka BFTA	35%	Change in tariff head at the four digit HS code	Value of inputs from other Member plus domestic value addition is not less than 35% of FOB value. Domestic value content must not be less than 25% of the FOB value.
India-Nepal Trade Treaty	30% for Nepal. But, India doesn't enjoy any preference Therefore, India-Nepal Trade Treaty is silent about ROO (value addition) requirement for India's exports to Nepal. In actual practice, India's exports to Nepal have never been subjected to ROO requirements.	Change in tariff head at the four digit HS code	No mention
Pakistan-Sri Lanka BFTA	35%	Change in tariff head at the six digit HS code	Value of inputs from other Member plus domestic value addition is not less than 35% of FOB value. Domestic value content must not be less than 25% of the FOB value.

Sensitive List: A Major Hindrance to Trade Expansion

In addition to the ROO requirement, the sensitive list or the negative list act has a major hindrance to trade expansion in South Asia. There is a political economy of the selection of excluded sectors and ROO. When countries are allowed to choose sectors that can be excluded from tariff preferences in an FTA, domestic lobbies make sure that the sectors in which they may not withstand competition from the union partner are the ones that get excluded. In addition, the ROO can also be subject to abuse by the bureaucrat administering them. In cases where imports from the partner may be threatening an inefficient domestic competitor, bureaucratic discretion may be employed to block entry of the imports.

Sensitive List under SAFTA

The Agreement provides scope for maintaining of sensitive lists, which are not subject to tariff reduction programme. Although the Agreement maintains that sensitive list shall be different for LDCs and non-LDCs, only three countries namely Bangladesh, India and Nepal maintain different sensitive lists for LDCs and non-LDCs. Besides, the LDCs maintain longer sensitive lists than the non-LDCs.

Table 6.2: Sensitive Lists among the SAFTA Members

Country	Total number of Sensitive List		Coverage of Sensitive List as % of Total HS Lines	
	For Non-LDCs	For LDCs	For Non-LDCs	For LDCs
Bangladesh	1,254	1,249	24.0	23.9
Bhutan	157	157	3.0	3.0
India	865	744	16.6	14.2
Maldives	671	671	12.8	12.8
Nepal	1,335	1,299	25.6	24.9
Pakistan	1,191	1,191	22.8	22.8
Sri Lanka	1,079	1,079	20.7	20.7

Continued on page 28

Inflation for the Marginalised Groups in Bangladesh

Selim Raihan[1] and A K Iftekharul Haque[2]

In the first issue of the Bangladesh Economic Outlook (Vol.1, No.1, September 2007) we provided an alternative method for the calculation of inflation for selected marginalised groups living in Dhaka city. A survey was conducted to capture the typical food baskets of these groups of people. Detailed methodology is elaborated in the first issue of BEO. From the second issue of the Bangladesh Economic Outlook (Vol.1, No.2, December, 2007), in addition to Dhaka city, we included marginalized groups in rural areas. Table A and Table B provide the figures of inflation rates faced by the marginalised people living in Dhaka City and rural areas in Bangladesh respectively.

Table A: Food Inflation Rates for the low Income Groups in Dhaka City

Household Category	Per cent share of Food Expenditure in total expenditure	Point to Point Food Inflation Rate				
		Sep-09 over Sep-08	Oct-09 over Oct-08	Nov-09 over Nov-08	Dec-09 over Dec-08	Jan-10 over Jan-10
Small traders	63.58	9.84	10.63	10.72	12.35	13.65
RMG workers	63.61	9.72	10.58	10.67	12.26	13.58
Rickshaw puller	65.34	9.88	10.65	10.42	12.05	13.46
Day laborer	67.00	9.67	10.48	10.35	12.03	13.40
Average for four groups	64.88	9.78	10.59	10.54	12.17	13.56

Note: The prices are taken from the Department of Agricultural Marketing, Ministry of Agriculture

Table B: Food Inflation Rates for the low Income Groups in Rural Areas

Household Category	Per cent share of Food Expenditure in total expenditure	Point to Point Food Inflation Rate				
		Sep-09 over Sep-08	Oct-09 over Oct-08	Nov-09 over Nov-08	Dec-09 over Dec-08	Jan-10 over Jan-10
Farmers	81.77	9.65	10.55	10.05	11.65	12.40
Rickshaw/ Van Pullers	84.03	9.55	10.25	9.86	11.55	12.60
Day Laborer	81.17	9.72	10.40	9.90	11.44	12.37
Small Traders	80.51	9.45	10.12	9.68	11.37	12.07
Average for four groups	81.86	9.59	10.33	9.87	11.50	12.36

Note: The prices are taken from the Department of Agricultural Marketing, Ministry of Agriculture

We are also interested to know the inflation rate for the typical food basket which has been used by the BBS and World Bank for estimating poverty in Bangladesh. BBS and World Bank use Cost of Basic Needs (CBN) method where a basket of food, as specified by Alamgir (1974) (Alamgir, M. (1974), "Some Analysis of Distribution of Income, Consumption, Saving and Poverty in Bangladesh", Bangladesh Development Studies, 2:737-818), is considered to calculate the food poverty line income. Table C presents point-to point inflation rate calculated on the basis of typical food poverty basket for four major cities in Bangladesh.

Table C: Inflation According to Poverty Line Food Basket

City	Point to Point Food Inflation Rate					
	Aug-09 over Aug-08	Sep-09 over Sep-08	Oct-09 over Oct-08	Nov-09 over Nov-08	Dec-09 over Dec-08	Jan-10 over Jan-10
Dhaka	6.88	9.58	10.45	10.55	11.75	12.68
Chittagong	7.22	10.55	10.85	10.62	11.90	12.87
Rajshahi	7.25	10.85	10.02	9.92	11.43	12.50
Khulna	6.55	9.45	10.12	9.84	11.55	12.35
Average for four Cities	6.98	10.11	10.36	10.23	11.66	12.60

Note: The prices are taken from the Department of Agricultural Marketing, Ministry of Agriculture

Table D shows official rate of point to point food inflation published by BBS.

Table D: Official Rate of Food Inflation

Aug-09 over Aug-08	Sep-09 over Sep-08	Oct-09 over Oct-08	Nov-09 over Nov-08	Dec-09 over Dec-08	Jan-10 over Jan-10
4.93	4.98	7.78	*7.84*	*9.50*	10.56

Source: BBS Website: www.bbs.gov.bd

Endnotes

[1] Dr. Selim Raihan is Associate Professor, Department of Economics, University of Dhaka.

[2] Lecturer, Economics and Social Sciences Department, BRAC University.

However, a major flaw of the SAFTA Treaty is that it does not subscribe categorically to phasing out the negative list or eliminating non-tariff barriers (NTBs), let alone prescribing time limits for doing so. It only provides that the negative list shall be reviewed after every four years with a view to reducing the number of items. It is also a matter of grave concern for the LDCs in South Asia, i.e., Bangladesh and Nepal with regard to the size of the negative list maintained especially by India.

Sensitive List under India-Nepal Trade Treaty

Under the India-Nepal Trade Treaty the MFN list of articles which will not be allowed preferential entry from Nepal to India are

(i) alcoholic liquors/beverages and their concentrates except industrial spirits,
(ii) perfumes and cosmetics with non-Nepalese/non-Indian Brand names, and
(iii) cigarettes and tobacco.

However, government of India may, in consultation with government of Nepal, modify this list.

Sensitive List under India-Sri Lanka Trade Treaty

Of Sri Lanka's rather extensive negative list of 1180 items, a relatively high share of nearly 623 products actually being imported from India stood to be excluded from receiving any benefits. By contrast, of the Indian negative list of 429 products, Sri Lankan exports consisted of only 50 items. Where both countries have offered zero tariff reduction, India's export interests are again receiving only marginal benefits. Of 319 items on which Sri Lanka reduced its tariffs to zero, the actual number of Indian exports that received immediate benefits stood at only 3 items. By contrast, on the 1351 items on which India offered immediate zero tariffs, Sri Lankan exporters stood to gain from at least 68 products traded products.

Sensitive List under Pakistan-Sri Lanka Trade Treaty

The Negative list of Pakistan consists of 540 HS tariff lines (products) at six digit level. Being on the Negative List, these products will not be entitled to enjoy any tariff concessions, when imported from Sri Lanka. On the other hand, the Negative list of Sri Lanka contains a total of 697 HS tariff lines (products) at six digit level and these products will not be entitled to enjoy any tariff concessions, when exported to Sri Lanka.

A Comparison of Sensitive Lists under different Regional and Bilateral FTAs in South Asia

It appears that among all the regional and bilateral FTAs, the India-Nepal Trade Treaty possess least negative list for Nepal as far as Indian market is concerned. For example, under this trade treaty only three categories of products are specified in the Indian negative list, whereas under SAFTA, as an LDC, Nepal is supposed to receive no concession on the exports of 744 items at the four digit HS code to the Indian market. When compared to other bilateral FTAs, i.e., India-Sri Lanka BFTA and Pakistan-Sri Lanka BFTA, the negative lists of the SAFTA member countries appear to be too long.

Conclusion

Given the fact that value-additions of most of South Asian LDCs' export products are very low, a 30 percent value-addition requirement under SAFTA would act as a significant barrier for export expansion by these countries in the South Asian market, especially in India. Therefore, the problem of ROO will need to be resolved, keeping an eye on the manufacturing/processing capability of the LDCs. In addition, the other criteria of the ROO, namely the change in tariff head, under SAFTA should also be made consistent with those that are currently in force in the bilateral trade agreements within the SAARC region, which happen to be more liberal than the prevailing SAFTA rules. For example, the Pakistan-Sri Lanka BFTA has a relatively flexible rule in this regard. Note that a free trade area (FTA) needs a strict system of proof of origin mainly for preventing trade deflection. Since trade deflections can occur only when there are wide differences in the members' external tariffs, due importance should be given both to reduce the absolute levels of the members' external tariffs and to narrow down the inter-country differences in tariff rates. Wide differences in the members' external tariffs will make the ROO difficult to implement.

It also appears that SAFTA sensitive list is too stringent to allow significant rise in exports from the LDCs to other member countries' markets. In almost all the cases, the products, which are included in the sensitive list, have significantly high export potentials. It can thus be concluded that if these sensitive lists are not phased out, there will be very little to gain from SAFTA by LDCs in this region.

Endnotes

[1] Dr. Selim Raihan is Associate Professor, Department of Economics, University of Dhaka.

SHAMUNNAY
a centre for research
and development @ Unnayan Shamannay
মানুষের জন্য
manusher jonno
2/E/1-B, Mymensingh Road, Shahabag, Dhaka-1000
Tel 880-2-8610332, 8650015, Fax 880-2-8622320
E-mail: shamunnay@sdnbd.org, shamunnaybd@gmail.com
Web: www.shamunnaybd.org