



**Government of the People's Republic of Bangladesh  
Bangladesh Regional Connectivity Project (BRCP-1)  
Ministry of Commerce**

**Review of Bilateral Trade Agreement and Way Forward**

**Bhutan**



**August 2023**



**The Institute for Policy, Advocacy,  
and Governance (IPAG)**



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**e.Gen Consultants. Ltd.**

# **Government of the People's Republic of Bangladesh**

Bangladesh Regional Connectivity Project – 1

Ministry of Commerce

Level 12 (Westside), Prabashi Kallyan Bhaban, 71-72 Eskaton Garden Road  
Dhaka- 1000, Bangladesh.

## **Review of Bilateral Trade Agreement and Way Forward Bhutan**

### **SUBMITTED TO:**

**The Project Director**

Bangladesh Regional Connectivity Project -1

Level 12 (Westside), Prabashi Kallyan Bhaban, 71-72 Eskaton Garden Road  
Dhaka- 1000, Bangladesh.

### **CONDUCTED BY:**

**The Institute of Policy, Advocacy, and Governance (IPAG)**

14B Chandrashila Suvastu Tower, 69/1 Bir Uttam Qazi Nuruzzaman Road,  
Dhaka 1205, Bangladesh.

Email: [emran.hossain@ipag.org](mailto:emran.hossain@ipag.org); Website: [www.ipag.org](http://www.ipag.org)

### **With Joint Venture Partner**

**e.Gen Consultants Ltd.**

14A Chandrashila Suvastu Tower 69/1 Bir Uttam Qazi Nuruzzaman Road  
Dhaka 1205, Bangladesh.

Email: [info@egenconsultants.com](mailto:info@egenconsultants.com); Website: [www.egenconsultants.com](http://www.egenconsultants.com)



## Preamble

This report has been prepared by The Institute for Policy, Advocacy, and Governance (IPAG) in joint venture partnership with e.Gen Consultants Ltd. in accordance with the terms of reference of the ‘Consultancy/ Research firm for Review of Bilateral and Regional Trade Agreements suggested by Ministry of Commerce in FY2021-22 (National)’ under the BRCP project 1. The study has been prepared to identify the reforms in Institutional, infrastructural, legal capacity, and present prioritized recommendations for necessary improvement in the bilateral trade between Bangladesh and Bhutan, improve Bangladesh’s trade policies to make it more trade friendly, and curb the negative impact that might be incurred by the 2026 LDC graduation. We have initiated a review of existing bilateral agreements with Bhutan to provide policy feedback to the government for advancing the concept of cooperation in trade, transport, and transit facilitation of Bangladesh. These will also promote policy advocacy for issues related to traders and facilitate policy coherence between national development priorities and bilateral trade expansion.

The core objectives of the project such as conducting a comparative analysis of bilateral trade agreements/policies, reviewing current tariff and non-tariff barriers, reviewing the process of harmonization of trade related agencies policy/regulations, and identifying trade diversification prospects have been placed at the forefront of this study among others. Additionally, scope of Free Trade Agreements (FTA), Economic Partnership Agreements, and regional trade blocs have been weighed along with export promotion, trade facilitation for advancing the concept of cooperation in trade, transport and transit facilitation between Bangladesh and Bhutan. Drawing references from the scope and objectives of the project, the study was designed to assist in preparing recommendations for trade facilitation and diversification by first analyzing existing trade agreements; analyzing the trade volume; reviewing the existing tariff structure and non-tariff measures and assessing the institutional and infrastructural capacity based on the data that has been collected. A Preferential Trade Agreement (PTA) between Bangladesh and Bhutan has been signed, prospects of CEPA as an option has also been assessed in this study.

We are hopeful that the policy recommendations this study will bring forward will be beneficial for policy makers and other stakeholders in supporting trade expansion and diversification of Bangladesh’s exports.



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**Md. Mijanur Rahman**  
Project Director (Joint Secretary)  
Bangladesh Regional Connectivity Project-1  
Ministry of Commerce



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This work would not have been possible without the valuable input we received during the data collection period from relevant stakeholders involved in Key Informant Interviews (KII) and Focus Group Discussions (FGD).

Given the consistent guidance we have received throughout the duration of this project, we were able to ensure that the study design is closely knit with the current scenario of bilateral, trade agreement, tariff and non-tariff measures, prospects for export diversification and the current state of trade harmonization in Bangladesh in retrospect to the government institutions responsible for trade facilitation and negotiations. Besides, the research provided us with the opportunity to reflect on the existing trade practices in Bangladesh and how it may be improved via inspiration from international best practices to ease the process of LDC Graduation in 2026.



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**Md. Abdul Karim**  
Team Leader



## Acronyms and Abbreviations

APTA	Asia-Pacific Trade Agreement
ASYCUDA	Automated System for Customs Data
BBIN	Bangladesh-Bhutan-India-Nepal
BEPZA	Bangladesh Export Processing Zone Authority
BEZA	Bangladesh Economic Zones Authority
BFTI	Bangladesh Foreign Trade Institute
BIDA	Bangladesh Investment Development Authority
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
BLPA	Bangladesh Land Port Authority
BPO	Business Process Outsourcing
BRCP-1	Bangladesh Regional Connectivity Project 1
BSB	Bhutan Standards Bureau
BSTI	Bangladesh Standards and Testing Institution
CEPA	Comprehensive Economic Partnership Agreement
CEPII	Centre d'Etudes Prospectives et d'Informations
CGE	Computable General Equilibrium
CPTU	Central Procurement Technical Unit
DFQF	Duty-Free Quota-Free
DTIS	Diagnostic Trade Integration Study
EDP	Economic Development Plan
EPB	Export Promotion Bureau
EU	European Union
FBCCI	Federation of Bangladesh Chambers of Commerce and Industries
FDI	Foreign Direct Investment
FGD	Focus Group Discussion
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GoB	Government of Bangladesh
GSP	Generalized Scheme of Preferences
GTAP	Global Trade Analysis Project
HIES	Households' Income and Expenditure Survey
ICT	Information and Communications Technology
IDA	International Development Association
IP	Intellectual Property
IPPC	International Plant Protection Convention
ISPM-15	International Sanitary and Phytosanitary Measures-15
IT	Information Technology
KII	Key Informant Interview
LDC	Least Developed Countries
MCCI	Metropolitan Chamber of Commerce & Industry
MFN	Most Favored Nation
MoC	Ministry of Commerce
MOEA	Ministry of Economic Affairs



MRA	Mutual Recognition Agreement
MVA	Motor Vehicles Agreement
NBR	National Board of Revenue
NTM	Non-Tariff Measures
PPP	Public Private Partnership
PTA	Preferential Trade Agreement
RCA	Revealed Comparative Advantage
RCEP	Regional Comprehensive Economic Partnership
RoT	Rules of Thumb
RTA	Regional Trade Agreement
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asian Free Trade Area
SAM	Social Accounting Matrix
SASEC	South Asia Subregional Economic Cooperation
SEZ	Special Economic Zones
SMART	Software for Market Analysis and Restrictions on Trade
SME	Small and Medium Enterprise
SPS	Sanitary and Phytosanitary Measures
TAO	Tariff Analysis Online
TBT	Technical Barriers on Trade
TFA	Trade Facilitation Agreement
TRS	Time Release Studies
UN	United Nations
UN COMTRADE	United Nations Commodity Trade Statistics Database
UNCTAD	United Nations Conference on Trade and Development
VAT	Value Added Tax
WB	World Bank
WCO	World Customs Organisation
WDI	World Development Index
WIPO	World Intellectual Property Organisation
WITS	World Integrated Trade Solution
WTO	World Trade Organization

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## Executive Summary

This is the country report for Bhutan, which has been prepared by The Institute for Policy, Advocacy, and Governance (IPAG) in a joint venture partnership with e. Gen Consultant Ltd. for the assignment "Consultancy/Research Firm for Review of Bilateral and Regional Trade Agreements Suggestions by the Ministry of Commerce in FY2021–22 (National)," which is under the umbrella of Bangladesh Regional Connectivity Project 1 (BRCP-1) jointly being implemented by Bangladesh Land Port Authority (BLPA), National Board of Revenue (NBR), and Ministry of Commerce (MoC). BRCP-1 is jointly financed by the Government of Bangladesh and the International Development Association (IDA), a member of the World Bank Group. The assignment aims to deepen the understanding of scopes for trade facilitation and export promotion considering LDC graduation as Bangladesh stands to lose duty-free access to the richer economies of the world, concessional credits from the multilateral development institutions, and exemption from intellectual property rights enforcement. Therefore, Bangladesh must ensure a planned graduation. The scope of this study is to understand the current scenario of bilateral trade between Bangladesh and Bhutan, non-tariff barriers and their implications, trade diversification prospects, institutional, infrastructural, and legal gaps in trade management and negotiation, review bilateral trade agreements and policies, and make appropriate recommendations.

Bhutan and Bangladesh have a friendly and cooperative trade relationship that is based on historical and cultural ties, as well as common interests in regional and international affairs. Both countries are members of SAARC and BIMSTEC and share common views on issues such as climate change, water resources management and regional integration. The trade volume between Bhutan and Bangladesh is relatively low, compared to their potential. Bhutan and Bangladesh have signed several bilateral agreements to facilitate trade, investment, and cooperation in various sectors. In 2017, the two countries signed a memorandum of understanding (MoU) to establish a Joint Working Group on Trade to review and enhance their trade relations. A PTA between Bhutan and Bangladesh came into effect from July 1, 2021. It was the first PTA that Bangladesh signed with any country since its independence in 1971. Under the PTA, Bangladesh enjoys duty-free facility on export of 100 local products and Bhutan enjoys duty-free facility on its 34 products.

Chapter 1 of the report provides a brief overview of the project by introducing its key concepts, rationale, objectives, and the scope of the study. This chapter provides a brief overview of Bhutan and Bangladesh's trade relationship, current exports, and current agreements between the two countries. Prior to LDC graduation, Bangladesh must navigate bilateral trade agreements with important partners to limit substantial revenue loss and remain competitive in the international market, thus, an evaluation of Bangladesh's existing trade agreements with Bhutan before Bangladesh's LDC graduation is necessary. Therefore, this study aims to assess the current trade relationship between Bhutan and Bangladesh to identify reforms and address gaps in current agreements, trade policies and practices which will provide feedback to the government of Bangladesh and support in advancing cooperation in trade, transport, and transit facilitation in the future.

Chapter 2 investigates the research methodology and tools of data collection such as document review, key informant interviews (KIIs) and focus group discussion (FGD) that have been utilized to collect both primary and secondary data. As Bangladesh graduates to a middle-income country, it is the best time for the country to explore new routes of trade, and strengthen existing trade relations, in addition, the UN has highly recommended Bangladesh to explore the possibility of Free Trade Agreements (FTAs). Three types of quantitative economic modeling techniques have been used for FTA Analysis: (i) Computable General Equilibrium (CGE) Model (ii) Software for Market Analysis and Restrictions on Trade (SMART) Model (iii) Gravity Model for FTA analysis. Moreover, CGE is the best model to investigate the economy-wide impact analysis. The main benefit associated with CGE models is that they offer a theoretically sound and detailed framework for trade policy analysis. Bhutan's data is not available in the GTAP Model. Data in the context of the rest of South Asia (Maldives, Afghanistan and Bhutan) have been used, however, it may not bring true results. Similarly, for the gravity model, necessary data is not available. In addition, the scope of a Comprehensive Economic Partnership Agreement (CEPA) between the two countries has been analyzed in detail.

In Chapter 3, the current trade relationship between Bhutan and Bangladesh is thoroughly examined including the current agreements which are in place. In addition to this, the regional trade relations of both Bangladesh and Bhutan as well as trade volumes have also been assessed in this chapter. As per data from Bangladesh Bank and Export Promotion Bureau (EPB), the volume of total imports from Bhutan to Bangladesh in the fiscal year 2021-22 was approximately US\$ 27.8 million whereas the volume of total exports from Bangladesh to Bhutan was US\$ 9.6 million. Chapter 4 contains a review of the current trade agreement and highlights changes/ revisions to the agreements.

Chapter 5 illustrates the export diversification prospects of Bangladesh and identifies the top 10 products which hold the most potential for export to Bhutan. A thorough study of Bangladesh's export priorities, Revealed Comparative Advantage (RCA), export strengths, Bhutan's top imports, and even top exports of Bangladesh has revealed products that exhibit promising export potential. The analysis has revealed that soybean, garments, pharmaceuticals, and foodstuff have strong export potential to Bhutan.

A comparison of trade policies and practices of both Bangladesh and Bhutan has been presented in chapter 6 of the report. Trade policy components such as trade agreements, tariff structure, non-tariff measures, intellectual property rights, the flow of Foreign Direct Investments (FDI), investment incentives, and provisions for Special Economic Zones and Export Processing Zones, have been examined and compared in detail in this chapter. A thorough examination of trade policies and practices has led to the identification of gaps in processes that can be addressed to ensure efficient trade facilitation.

Chapter 7 showcases the results of the economic modeling/ simulation and also includes simulation and recommendations on CEPA. While assessing the prospects of CEPA, components such as foreign direct investment (FDI), trade in services, and Micro, Small, and Medium Enterprises (MSMEs) were taken into consideration.

Chapter 8 provides comprehensive findings from the primary survey using tools such as Key Informant Interviews (KIIs) and Focus Group Discussions (FGD). The pool of informants included personnel from government institutions, think tanks, export-oriented private companies, and trade associations, among others. KIIs have been conducted with senior officials from the Ministry of Commerce, Export Promotion Bureau, National Board of Revenue, Bangladesh Land Port Authority as well as private companies such as Walton. The FGD for this study was held with Bangladesh Women's Chamber of Commerce & Industry (BWCCI).

In Chapter 9, the recommendations have been drawn from an in-depth analysis of primary survey findings and desk research. Recommendations have been provided on measures that may be taken to improve current trade agreements and the trade harmonization process, instill good trade practices and trade and investment diversification prospects, address gaps in institutional, infrastructural, and legal capacity as well as tariff and non-tariff measures following which, a concise conclusion has been provided in chapter 10.

Institutional, and infrastructural weaknesses as well as procedural hindrances act as barriers to Bangladesh realizing its full export potential. Lack of export diversification, longer clearance times, as well as licenses and permits, and inadequate digitalization are reasons behind the country's failure to properly support trade facilitation. A stakeholder analysis of mandates and interests has revealed a gap between organizations responsible for trade policy formulation such as the Ministry of Commerce and National Board of Revenue. Differences in mandates and expectations of the trade negotiating and harmonization agencies have led to coordination and implementation gaps. Bangladesh has a high import tariff structure, and the country is dependent on customs duty for revenue (customs duties currently make up about 29% of the government's total revenue). In fact, CGE simulations conducted under this study have indicated Bangladesh's exports and imports will increase with a bilateral tariff elimination and reduction. As Bangladesh graduates from its LDC status, the country needs to gear up for signing FTAs, and regional trade agreements to overcome the shocks after graduation, however, trade negotiators in Bangladesh lack negotiation skills. In addition, trade negotiation teams in most countries include lawyers who specialize in international trade law, however, trade negotiation teams in Bangladesh don't have any legal representative. There are gaps in infrastructure at Bangladesh's main seaport in Chittagong affecting port efficiency. The most reported obstacles Bangladesh faces in border trade include excessive documentation, delays in receiving authorization, inconsistent procedures and regulations, and expectations of informal payments.

Major reform is necessary in policy space and infrastructure for Bangladesh to enhance export diversification, competitiveness, and trade. However, in the policy space, institutional capacity building on the economic fundamentals of international trade, and cost-benefit analysis is necessary for officials from the Ministry of Commerce involved in trade negotiation, arrangement, and management. From an economic perspective, most economists would recommend that even developing nations should, in general, set their tariff rates quite low. While high tariffs can give protection to certain domestic industries, consumers pay in terms of either higher prices and/or lower quality of goods. With low tariffs, however, high-productivity domestic manufacturers can adopt technologies from abroad and sell to



export markets that are far richer and grow larger, while low-productivity manufacturers become smaller or are forced to exit the market – increasing the overall competitiveness of the economy. Bangladesh has a high import tariff structure, and in 2016, even after major policy changes, Bangladesh's average applied tariff rate was the highest in South Asia and much higher than those of the countries in Southeast Asia. Tariff rationalization is of utmost importance for Bangladesh to boost exports as high tariffs act as trade barriers for the signing of PTAs/ FTAs. In addition, Bangladesh must export its export basket.

Infrastructural gaps must be addressed since these gaps increase Bangladesh's cost of doing business. Automation is urgent in NBR, customs procedures, port management, and certification processes. Certification processes must be simplified, and privatized, if necessary; risk-based testing should be introduced, and processing time should be cut down, cold storage should be introduced at various ports to aid Bangladesh's trade facilitation efforts. As per the export policy for 2021- 2024, there is export potential in garment accessories, light engineering, jute and agro products, active pharmaceutical ingredients and reagents, shoes, and pharmaceuticals, among others. This study has found that export potential lies in many products, including jute, light engineering, pharmaceuticals, motorcycles, electronic goods (refrigerators, television), agro-products, and high-value garment products, among others. Bangladesh can take inspiration from its neighboring countries when it comes to good trade practices such as cutting down red tape, digitizing processes, cargo management, implementing a national single window to improve ease of doing business, streamlining customs procedures, and improving border compliance.

## 1 Introduction

Bangladesh has witnessed a remarkable decline in poverty, progress in employment, greater access to health and education, enhanced basic infrastructure, and significant progress in achieving food security. Bangladesh's export business substantially contributes to the growth of its GDP and economy. Bangladesh maintains amicable trade relations with several countries among which, some of Bangladesh's important trading partners include Japan, Turkey, European Union, Nepal, India, Bhutan, Sri Lanka, Thailand, China, India, and South Korea.

Bhutan was the first country to recognize Bangladesh following Bangladesh's independence. The two nations formally established diplomatic ties in 1973. Bhutan and Bangladesh cooperate in trade, cultural exchange, interpersonal relationships, human resource development, agriculture, healthcare, standards, and civil aviation. Bangladesh is currently Bhutan's second-largest export market and its eighth-largest source market for imports. Both Bhutan and Bangladesh are regionally engaged with UNESCAP, BIMSTEC, SAARC, and the Climate Vulnerable Forum.

On 6 December 2020, both countries signed a Preferential Trade Agreement (PTA) with provisions for free trade in certain goods. The signing of the PTA was witnessed by the Prime Minister of Bangladesh and the Prime Minister of Bhutan. Under the PTA, some 100 Bangladeshi products get duty-free access to Bhutan, while 34 Bhutanese products get duty-free access to the Bangladeshi market. Bhutan exports chemicals, pulp, boulders, fruits, and vegetables to Bangladesh. Bhutan imports garments, food products, plastics, pharmaceuticals, furniture, and electrical products from Bangladesh.

Bangladesh is interested in importing electricity from Bhutan's abundant hydropower resources. The two countries have agreed to cooperate on developing cross-border power transmission lines and power trade mechanisms. In addition, Bangladesh and Bhutan have agreed to enhance their transport connectivity through road, rail, air and waterways. They have signed agreements on road transport, motor vehicle movement, transit, and transshipment of goods, etc. Bangladesh and Bhutan have agreed to enhance their transport connectivity through road, rail, air and waterways. They have signed agreements on road transport, motor vehicle movement, transit and transshipment of goods, etc. Furthermore, both countries have strong cultural ties and people-to-people contacts. They have exchanged visits of students, academics, artists, journalists, etc. Bangladesh is a popular destination for Bhutanese tourists, especially for medical purposes.

Despite the two countries being in close geographical proximity and members of the SAARC and BIMSTEC, Bhutan and Bangladesh are yet to address the gaps in their current bilateral ties including the relatively new PTA. Trade between these two countries has been relatively limited due to a number of factors including logistical challenges and inadequate infrastructure. Given both countries have shared a keen interest in strengthening their friendship and are invested in building and diversifying their economies, there is scope in focusing on areas such as trade and investment, tourism, and energy and connectivity among others.

## 1.1 Rationale of the Study

The review of trade agreements is important for Bangladesh now because the country is expected to graduate from the least developed country (LDC) status in 2026. This means that it will lose some of the preferential market access and trade benefits that it currently enjoys as an LDC, such as the European Union's Generalized System of Preferences (GSP) which allows duty-free access for Bangladeshi exports to the EU market.

To maintain its competitiveness and export growth, Bangladesh needs to explore, negotiate, and sign bilateral trade agreements and play a more active role in regional and sub-regional initiatives such as BIMSTEC, SAFTA, SAARC, among others. Bilateral as well as regional agreements can help reduce tariffs and non-tariff barriers, increase market access, diversify export products and destinations, and enhance regional integration. Bangladesh has already signed its first PTA with Bhutan and is negotiating agreements with important trading allies such as Nepal, Sri Lanka, Japan, China, among others.

Therefore, MoC must evaluate Bangladesh's existing trade agreements with existing trading partners to strengthen trade relations, realign both countries' priorities, and formulate active policies. Additionally, the revaluation of trade agreements will also provide feedback to the government of Bangladesh and support in advancing cooperation in trade, transport, and transit facilitation which is vital before LDC graduation.

## 1.2 Objective of the Study

The overarching objective of the study is to support the Ministry of Commerce in understanding the existing status of the trade scenario with important trading partners through a review of trade agreements which will promote policy advocacy for trade-related issues and create synergy between national development priorities and trade growth, in turn, expanding trade. The review of existing agreements with Bhutan will give an understanding of the current state of the bilateral trade situation of Bangladesh with Bhutan, findings of good practices, gaps in current practices, ways to expand trade, steps to facilitating an enabling environment when it comes to trade harmonization, deeper understanding of import and customs related policies as well as guidelines developed at a global level.

## 1.3 Scope of the Study

The scope of the study includes the following:

1. Comparative analysis (quantitative using economic analysis and further validated through qualitative data) of bilateral trade agreement/ policies of Bangladesh and what is the status of the Bangladesh Bilateral Trade development, incentives, and tariff structure with Nepal, Bhutan, Sri Lanka, South Korea, Thailand, Vietnam, Indonesia, and regional trade with SAFTA.
2. What agency is authorized for trade negotiations and under which ministry/ authority and how harmonization of trade-related agencies' policy/ regulations is taking place?

3. Review the list of trade diversification prospects of at least 10 diversified products and product-wise strategies in these countries as potential export destinations by using Economic Modeling.
4. What are the international good practices utilized by the different countries to facilitate better trade policy instruments to expand trade and development? Good practices should reflect applicable comprehensive policy guidelines for the promotion of trade.
5. Are there any possibilities for a Comprehensive Economic Partnership Agreement (CEPA) with these countries including the potential service and investment sector that can be utilized?
6. Overall suggestions on what kind of reform of changes can be made in the bilateral and regional trade agreements with a view to expanding trade between the countries.
7. Identify the major institutional weakness for trade negotiation and management in Bangladesh including implementation gaps and procedural hindrances identified.
8. Review the current scenario of tariff and non-tariff measures in Bangladesh and its institutional framework, infrastructure facilities, and legal structure to facilitate trade in bilateral and regional trade agreements.
9. Identify the specific items which have the potential for exports from the country and are subject to SPS/ TBT measures of the importing countries.
10. Identify the reforms in institutional, infrastructure, and legal capacity and present prioritized recommendations for necessary improvement in the bilateral trade of the countries and SAFTA to face the LDC graduation challenges.

## 2 Methodology

### 2.1 Document Review

Keeping this research in consideration, the team of consultants reviewed both primary and secondary documents.

**Primary Documents:** Primary documents included trade agreement, policy papers, associated statistics, KII and FGD transcripts.

**Secondary Documents:** Secondary documents included journal articles, news articles, and commentaries by trade experts, among others.

### 2.2 Key Informant Interview

Under the scope of the study, qualitative data has been collected in the form of KII. The sample size is 10, and the 10 key informants have been selected by the National Trade Expert/ Trade Economist in consultation with the Team Leader using purposive sampling technique for each study.<sup>1</sup> The sample consists of government officials from various ministries and their subdivisions, trade agencies, exporters & importers, as well as think tanks. The list of participants who were involved in this study has been provided in Annex 1.

### 2.3 Focus Group Discussion

The consultant team carried out the FGD in mixed groups and ensured women participants. The preferred size of the group was between 6 – 8 participants as opposed to a group size of 10 – 12 because if the FGDs incorporate too many experts, it might put forth varying opinions, and divert from the subject matter. One FGD was conducted, and the FGD participants were selected using snowball or commonly known as purposive sampling.<sup>2</sup> The team of consultants held a discussion with the Metropolitan Chamber of Commerce & Industry, Dhaka (MCCI) for the purpose of this study. The FGD transcript has been shared in Annex 2.

## 2.4 Economic Modelling/ Simulation/ Analysis

### 2.4.1 Modeling Framework for FTA analysis

Bangladesh is actively exploring its FTA options. Recently, Bangladesh has signed its first PTA with Bhutan, and a PTA negotiation with Nepal is in the final stages. Bangladesh is also actively considering FTAs with Korea, Nepal, Bhutan, Sri Lanka, Malaysia, Thailand, Vietnam, and India. A robust potential costs and benefits assessment of an FTA with a sequential FTA strategy with domestic trade policy reform is critical for its long-term market access plan.

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<sup>1</sup> Purposive sampling, also commonly referred to as judgmental, selective, or subjective sampling, is a type of non-probability sampling in which a researcher's own judgement is applied to select members of the population to participate in a study.

<sup>2</sup> Snowball sampling or chain-referral sampling is defined as a non-probability sampling technique in which the samples have traits that are rare to find.

Three types of quantitative modeling techniques have been used in this study and detailed methodologies have been discussed in the following sections.

1. **Computable General Equilibrium (CGE) Model:** For CGE modeling, Bangladesh SAM 2014 and GTAP version 10 databases will be used for macroeconomic impact analysis. We will develop a baseline for 2030 incorporating GDP and productivity shocks as shown in the inception report and then will run some policy shocks to explore potential impact after graduation.
2. **Software for Market Analysis and Restrictions on Trade (SMART) Model:** The World Bank's SMART model will be used for robustness check and sector static analysis. World Bank's WITS dataset will be used for the SMART model.
3. **Gravity Model:** A structure gravity model will be used for FTA analysis. The impact of SAFTA, APTA, BIMSTEC, EU GSP and bilateral impact will also be explored. The main data sources will be UN COMTRADE (Trade), WB (WDI), Centre d'Etudes Prospectives et d'Informations (CEPII) for distance and other gravity data, and TAO-WTO (Tariff) data will be used for structural gravity analysis for counterfactual impact analysis.

#### 2.4.2 General Equilibrium Modelling for Impact Analysis

The most comprehensive modeling techniques for estimating the economy-wide impacts of trade policy involve computable general equilibrium (CGE) modeling of the global trade analysis project (GTAP) database and model. The detailed structure of the GTAP database, assumptions, model, equations, closures, elasticity, and parameters, are presented in Hertel (1997).<sup>3</sup> Gilbert et al. (2018) provides a detailed systematic literature review of CGE and discuss the strength and limitations of the CGE model in the international trade model. The GTAP framework structure includes regional households, governments, different sectors and their nests, and global sectors across countries and how they are linked.

In this study, we use the MyGTAP program and model developed by (Walmsley & Minor, 2013), a customized extended version of the standard GTAP model (Hertel, 1997). This MyGTAP interface allows us to incorporate country-specific data and investigate the impacts of different domestic policies on the household level, which is essential for country-specific analysis. We assume a single regional household in the GTAP model. However, in the MyGTAP model, we eliminate the single 'regional' household that allows the incorporation of private households and a government agent where their expenses are directly related to the income received from endowment factors and taxes (Walmsley & Minor, 2013).<sup>4</sup> In the MyGTAP framework, the government collects income from taxes and duties revenue and foreign aid and spends this income on public consumption outlay, transfers to households,

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<sup>3</sup> T Hertel, "Global Trade Analysis: Modeling and applications," 1997, Accessed June 29, 2022, <https://econpapers.repec.org/bookchap/gtagtapbk/7685.htm>.

<sup>4</sup> P Minor and T Walmsley, "MyGTAP Data Program: A Program for Customizing and Extending the GTAP Database," GTAP Working Paper No. 79, 2013, Accessed June 29, 2022, <https://gtap.agecon.purdue.edu/resources/download/6660.pdf>.

foreign aid outflow, and subsidies. The model incorporates remittances, foreign aid, capital, and government income. It also permits incorporating additional factors of production and multiple private households. Similarly, private households receive and accumulate their income from factors of production, transfers from the government and other households, and foreign remittances. This earned income could be spent on different sectors, including consumption, transfers, remittances outflow, and savings.

### 2.4.3 Data extension and aggregation to MyGTAP

The main features of the MyGTAP framework allow us to incorporate country-specific data on households and endowment factors. We integrate the Bangladesh social accounting matrix (SAM) data prepared from households' income and expenditure survey (HIES) with the GTAP Version 10 dataset (Angel et al., 2019), applying the MyGTAP program ([Minor & Walmsley, 2013](#)). The latest Bangladesh social accounting matrix is available for 2012 and was updated in 2014.

We aggregate the 141 regions in the GTAP 10 dataset into 20 areas (as suggested by the MoC) and the 65 sectors into ten aggregate sectors. Our regional aggregation emphasizes countries that are the leading trading partner of Bangladesh, including the United States and European Union, China, India, Thailand, Malaysia, Nepal, Bhutan, Vietnam, and Turkey. We have aggregated the 65 GTAP sectors into ten sectors considering Bangladesh SAM. A complete mapping is required between the sectors of the Bangladesh SAM with GTAP sectors and with the aggregated regions. We then used the household consumption and ownership weights acquired from the SAM (2014) and incorporated them into the MyGTAP model. The ten newly aggregated sectors are mapped to the corresponding sectors in the Bangladesh SAM to define each household's consumption share of the 10 GTAP sectors. We also incorporate income and consumption data for ten households based on the income level of Bangladesh's rural and urban regional households. These earnings were then allocated to each of the ten households according to factor ownership shares. Household incomes were then adjusted for net foreign income, remittances, and capital depreciation, as suggested by [Minor & Walmsley \(2013\)](#).

**Closures:** Model closure statements define which variables are endogenous and which are exogenous. The standard GTAP closure has been considered for this analysis. Hertel & Tsigas (1997) and Burfisher (2016) discuss the detailed structure of GTAP closure and how to modify the closure for a detailed analysis. Changing the model's standard closure statement requires swapping exogenous variables for endogenous variables. In this study, we assume that there is perfect competition in all sectors. Production factors, i.e., capital and labor, are believed to be fully mobile between sectors, whereas land and natural resources are treated as sluggish to move (Burfisher, 2016). A static balance of trade is a country that allows domestic savings to adjust to maintain a fixed ratio between trade balance and national income. Government spending is assumed as a constant share of government income. The expected rate of return drives investment as in the standard GTAP model, and total domestic savings is by the sum of private household savings and the government budget. Hence, the trade balance is endogenous.

The global bank in the GTAP model uses receipts from the sale of a homogeneous savings commodity to individual regional households to purchase shares in a portfolio of restricted investment goods. The size of this portfolio adjusts to accommodate changes in global savings. Therefore, the worldwide closure of this model is neoclassical (Hertel, 1997).

A summary of the Bangladesh social accounting matrix and database used in this study is described in Table 1. Table 1 shows Bangladesh's structure and share of different economic sectors in 2014, as shown in the SAM. Grains and crops are the top categories in agriculture, contributing 11.3 percent of value addition. On the other hand, in the industry sector, textile and clothing is the top category that contributes 7.6 percent of the economy. The apparel sector is also highly export-oriented. Bangladesh heavily relies on importing in the heavy manufacturing sectors, which is about 41 percent of total imports, especially intermediate capital goods. About 87 percent of exports come from the textiles and clothing sectors, while imports by this sector are about 20 percent, as shown in the SAM.

Aggregated Sectors	Value - added	Export on total output	Export share	Import share on Output	Import share
1. Grains and Crops	11.12	0.39	0.86	8.5	8.15
2. Livestock, Fisheries and Meat Products	1.34	0.07	0.31	2.45	0.32
3. Mining and Extraction	6.8	0.16	0.10	1.92	0.68
4. Processed Food	1.45	1.53	1.57	17	9.12
5. Textiles and Clothing	7.16	51.68	87.06	17.6	20.1
6. Light Manufacturing	1.88	2.41	1.84	23.3	9.43
7. Heavy Manufacturing	1.02	1.17	1.26	59.1	41.22
8. Utilities and Construction	17.02	-	-	-	-
9. Transport and Communication service	28.31	2.87	6.3	4.99	4.65
10. Other Services	23.9	0.25	0.7	4.88	6.33
<b>Total</b>	<b>100</b>		<b>100</b>		<b>100</b>

Table 1 Structure of the Bangladesh Economy in the Updated SAM 2014 (%) - Source: SAM (2014)

#### 2.4.4 SMART Model for FTA Analysis

The SMART model focuses on the changes in imports into a particular market when there is a change in trade policy. The demand side of the market in SMART is based on the Armington assumption that commodities are differentiated by their country of origin. This assumption implies that, for a particular commodity, imports from one country are an imperfect substitute for imports from another country. Thus, even though an FTA entails preferential trade liberalization, import demand does not completely shift to a source from within the FTA. The SMART model also assumes that consumers' demand is decided in a two-stage optimization process that involves allocating their spending by commodity and by national variety.



At the first stage, consumers decide how much to spend on the commodity given changes in the price index of this commodity. The relationship between changes in the price index and the impact on import demand for this commodity is determined by a given import demand elasticity. At the second stage, the chosen level of spending for this commodity is allocated among the different national varieties, depending on the relative price of each variety. The extent of the between-variety response to a change in the relative price is determined by the substitution elasticity. Different countries compete to supply (export to) the market and the model simulates changes in the composition and volume of imports into that market after a tariff reduction or another change in trade policy. The degree of responsiveness of each foreign exporter's supply to changes in the price is known as the export supply elasticity. The SMART model, by default, assumes that the export supply elasticity of each foreign country is infinite, which implies that each foreign country can export as much of the good as possible at a certain price. This assumption may be appropriate for an importing country whose import quantity is too small to affect the prices of foreign exporters (i.e., the price-taker assumption). If changes in the country's import quantity can have a price effect on the foreign exporter, SMART can operate with a finite export supply elasticity, but the value of this parameter must be found and incorporated into the analysis.

SMART requires the following data, which can be extracted from WITS or imported from alternative sources of information, for the simulation of an FTA: (i) the import value from each foreign partner, (ii) the tariff faced by each foreign partner, (iii) the import demand elasticity for the commodity, (iv) the export supply elasticity for the commodity, and (v) the substitution elasticity between varieties of the commodity.

#### 2.4.5 Gravity Modelling for Partial Equilibrium Impact Analysis

The gravity model of international trade, first proposed by Tinbergen (1962)<sup>5</sup>, has been extensively used for trade policy analysis over the decades. One of the most well-known structural gravity models is that developed by Anderson & van Wincoop (2003), in which a multilateral resistance term (henceforth, MRT) for estimating bilateral trade cost. In their seminal work, Anderson & van Wincoop (2003) show that trade flows between two countries not only depend on bilateral trade measures but also multilateral measures. This structural gravity model has been used extensively in trade policy analysis to estimate bilateral trade cost. For example, Anderson & Yotov (2012) and Head & Mayer (2014) show the empirical success of gravity with aggregate data. Aichele et al. (2014) and Anderson et al. (2015) demonstrate different sectoral level gravity estimates. Pfaffermayr (2019), Yotov et al. (2016), Santos & Tenreyro (2011) show how maximum likelihood estimation techniques can be used in estimating international trade flows. Nevertheless, Novy (2013) recognizes that a shift in bilateral trade measures does not only affect international trade but also domestic trade. This means that if a country's

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<sup>5</sup>  $X_{ij,t} = A_t Y_{i,t}^{\alpha_1} Y_{j,t}^{\alpha_2} D_{ij}^{\alpha_3}$ ,  $\alpha_1 > 0$ ,  $\alpha_2 > 0$ ,  $\alpha_3 < 0$ , where  $X_{ij,t}$  is the value of export, import or trade from country  $i$  to  $j$ ,  $Y_{j,t}$  and  $Y_{i,t}$  are the GDP's of countries  $i$  and  $j$  in period  $t$ ;  $A_t$  is a period-specific constant term; and  $D_{ij}$  presents bilateral distance between the importing and exporting countries or bilateral trade costs indices.  $MRT_i$  and  $MRT_j$  corresponds to multilateral resistance terms for country  $i$  and country  $j$  respectively.

tariffs or NTMs increase, some trade can be diverted to international markets and some may be diverted to the national economy.

We will use the PPML estimation technique for gravity estimation. Santos Silva & Tenreyro (2006) show the PPML estimator outperforms other linear and nonlinear estimators across a wide range of heteroskedastic and measurement errors in the data<sup>6</sup>.

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<sup>6</sup>  $E(e_{rp}^k | Y_r^k, Y_p^k, Y^k, \tau_{rp}, \Pi_r^k, \rho_p^k) = E(\ln e_{rp}^k | Y_r^k, Y_p^k, Y^k, \tau_{rp}, \Pi_r^k, \rho_p^k) = 0$

## 3 Trade Agreements, Relations, and Volume

### 3.1 Trade Agreements and Relations

#### 3.1.1 Bilateral Trade Agreement

Bangladesh and Bhutan began implementing bilateral relations in 1980 through the signing of the Trade Agreement, granting them facilities under Most Favored Nation (MFN) status. At present, Bhutan and Bangladesh are involved in the following bilateral agreement:

**Agreement on Transit:** the agreement was signed in September 1980. Via this agreement, Bangladesh agreed to provide Bhutan with exits or breakpoints, points of entry, and storage port facilities such as transit sheds and warehouses. Though the agreement was signed in 1980, it was not until Bhutan and India signed an Agreement on Trade and Commerce in 1983 that Bhutan and Bangladesh began to trade (Indian territory facilitated the movement of goods).<sup>7</sup> However, trade routes were only articulately mentioned in the amended Agreement on Trade in December 2014.

**Agreement on Trade (amended in 2014):** In 1984, 2003, 2009, and 2014, the agreement was amended. Following the amendment in 2014, Bangladesh enjoys Most Favored Nation status and was granted duty-free access to 90 products from schedule B of the Trade Agreement, that is, exportable of Bangladesh to Bhutan, and Bangladesh grants Bhutan duty-free access to 18 products under Schedule A, that is, exportable from Bhutan to Bangladesh.<sup>8</sup> Under this agreement, Bhutan and Bangladesh have designated the following points of entry and exit:

Bhutan Trade Routes:	Bangladesh Trade Routes:
(a) Samdrup Jongkar	(g) Moghalhat
(b) Gelephu	(h) Noonkhawa
(c) Sarpang	(i) Nakugaon
(d) Phuentsholing	(j) Haluaghat
(e) Samtse	(k) Banglabandha
(f) Paro Airport	(l) Burimari
	(m) Hazarat Shahjalal International Airport, Dhaka
	(n) Shah Amanat International Airport, Chittagong
	(o) Tamabil

Table 2 Trade Routes of Bangladesh and Bhutan

The arrangement between India and Bangladesh allows Bangladesh to transport goods to Bhutan using Indian roads, water, and railways.<sup>9</sup> The arrangement also permits trucks from Bhutan to pass through Bangladesh through Indian corridors to transport goods without having to return from the Indo-Bangladesh border, Burimari, 117km from Phuentsholing. The key trading route with Bhutan is over the

<sup>7</sup> Ministry of Economic Affairs, Royal Government of Bhutan, "Report on Bhutan's External Trade," Department of Trade, Ministry of Economic Affairs, Royal Government of Bhutan, July 2021, <https://www.moea.gov.bt/wp-content/uploads/2017/10/Report-on-Bhutans-External-Trade-2020.pdf>.

<sup>8</sup> Ministry of Economic Affairs, Royal Government of Bhutan, "Report on Bhutan's External Trade," Department of Trade, Ministry of Economic Affairs, Royal Government of Bhutan, July 2021, <https://www.moea.gov.bt/wp-content/uploads/2017/10/Report-on-Bhutans-External-Trade-2020.pdf>.

<sup>9</sup> Kuensel. "New Prospects for Bhutan-Bangladesh Trade," April 13, 2015, [kuenselonline.com, Accessed June 30, 2022, https://kuenselonline.com/new-prospects-for-bhutan-bangladesh-trade/](https://kuenselonline.com/new-prospects-for-bhutan-bangladesh-trade/).

Phuentsholing border coming through Hasimara and Chengrabandha in India and entering Bangladesh at Burimari along SAARC Road Corridor 8.<sup>10</sup> Bhutan generally hinges on the single trade route Phuentshogling to import goods.<sup>11</sup> **Not all trade routes as specified in the agreement are being utilized by Bhutan and Bangladesh to trade due to Bhutan being landlocked and dependent on Indian border routes for trade.**

Our experts are not including the review of the existing agreements in this report since there is already a PTA between the two countries.

### 3.1.2 Regional Trade Agreements

Bhutan has been in three trade agreements with Bangladesh including **SAFTA, BIMSTEC, and the BBIN Motor Vehicle Agreement (MVA)**. All regional agreements included some of the South Asian countries as well as a few Southeast Asian countries in the case of BIMSTEC.

**SAFTA:** Both Bhutan and Bangladesh signed the regional agreement on SAFTA in 2004, with Bangladesh having a sensitive list of 987 products for LDCs, 993 for NLDCs, and Bhutan having a sensitive list of 156 products.<sup>12</sup> SAFTA came into effect to maximize the extent of trade and development within the SAARC region with special and differential treatment for LDCs.<sup>13</sup>

Member State	Number of Products in Original Sensitive List <sup>1</sup>	Number of Products in Revised Sensitive List (in 2012)
Bangladesh	1233 for LDCs	987 for LDCs
	1241 for non-LDCs	993 for NLDCs
Bhutan	150	156

Table 3 List of Sensitive Items, Source: Export Promotion Bureau

Bangladesh and Bhutan receive smaller sensitive lists as they are still considered LDCs under SAFTA, the value addition is 50% for LDCs and 60% for Non-LDCs. The sensitive lists for Bangladesh have been updated and reduced from the original agreement in 2012 while the sensitive item list increased for Bhutan during the same revision. Details are mentioned in the table below.

**BIMSTEC:** Both Bhutan and Bangladesh are a part of BIMSTEC. Previously known as BIST-EC, formed in 1997, and was renamed BIMSTEC after Bhutan and Nepal joined in 2004. While Bangladesh is in

<sup>10</sup> Tasneem Mirza and Eleanor Bacani, "Addressing hard and Soft Infrastructure Barriers to Trade in South Asia," Key Trade Regions in Bhutan and Bangladesh, Bangladesh and Bhutan – Key Border Points for Subregional Trade, February, 2013, researchgate.net, Accessed June 30, 2022, [https://www.researchgate.net/figure/Key-Trade-Regions-in-Bhutan-and-Bangladesh\\_fig1\\_269280360#:~:text=The%20main%20trading%20route%20with,at%20Burimari%20along%20SRC%208.](https://www.researchgate.net/figure/Key-Trade-Regions-in-Bhutan-and-Bangladesh_fig1_269280360#:~:text=The%20main%20trading%20route%20with,at%20Burimari%20along%20SRC%208.)

<sup>11</sup> BBSCL, "Government Studies on Trade Route to Bangladesh via Sunkosh," www.bbs.bt, December 2, 2021. <http://www.bbs.bt/news/?p=162016>.

<sup>12</sup> Export Promotion Bureau-Government of the People's Republic of Bangladesh, "Market Access Facilities," February 2016, <http://www.epb.gov.bd/site/page/7bd7d4d7-cdba-4da3-8b10-f40da01e49b6/a>.

<sup>13</sup> Bangladesh Customs – Government of Bangladesh, "Agreement on South Asian Free Trade Area (SAFTA)," n.d, bangladeshcustoms.gov.bd, Accessed June 30, 2022, [http://www.bangladeshcustoms.gov.bd/download/SAFTA\\_AGREEMENT.pdf](http://www.bangladeshcustoms.gov.bd/download/SAFTA_AGREEMENT.pdf).

the lead of Trade & Investment and Climate Change whereas Bhutan is in the lead of Cultural Cooperation under BIMSTEC. BIMSTEC countries are part of the BIMSTEC Free Trade Area Framework Agreement, ideally facilitating trade and investment within the region and encouraging member countries to attract FDI.

**BBIN Motor Vehicle Agreement:** A framework signed on June 15, 2015, between Bangladesh, Bhutan, India, and Nepal for strengthening regional connectivity and seamless transport to boost trade among the BBIN countries. Though Bhutan has not yet ratified the Agreement, Bangladesh, India and Nepal, have already ratified it. It is an initiative that aims to improve and streamline regional connectivity and road networks. Although, due to Bhutan's "*current infrastructure*" and top priority of remaining a "*carbon negative*" country, Bhutan decided not to be a part of MVA.<sup>14</sup> As Bhutan continues to abstain from the MVA of the sub-regional Bangladesh-Bhutan-India-Nepal (BBIN) group, the other three countries discussed the next steps in the execution of the agreement for the free flow of goods and people between them. However, advancement on the seven-year-old plan has been slow, despite numerous trial runs being conducted on the Bangladesh-India-Nepal road route for passenger buses and cargo trucks. Under BBIN, Bangladesh is developing the infrastructure of land ports, and even modernizing custom houses in Chittagong and Dhaka. BBIN is expected to have significant positive outcomes for Bangladesh's economy because it will increase cross border trade and make it cheaper too. Through BBIN, Bangladesh will be gaining a seamless multimodal transport system, greater sub regional trade cooperation, and trade connectivity.

While Bangladesh and Bhutan are both approaching LDC Graduation, Bhutan is different in two aspects: first, Bhutan is not a member of the WTO and hence, is not under any mandate for implementing WTO provisions. Second, Bhutan is also overly dependent on India in terms of trade, with an approximate of 80% of its total global exports going to India and has a bilateral agreement with India. Bhutan shares a significantly liberal bilateral trade agreement with India since 1972, a Trade and Economic Cooperation Agreement with Thailand since 2013<sup>15</sup>, and has a proposed agreement with Nepal.

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<sup>14</sup> The Hindu, "Bangladesh, India, Nepal Move Ahead on Motor Vehicle Agreement Project," [www.thehindu.com](https://www.thehindu.com/news/national/bangladesh-india-nepal-move-ahead-on-motor-vehicle-agreement-project/article65205145.ece), March 8, 2022, <https://www.thehindu.com/news/national/bangladesh-india-nepal-move-ahead-on-motor-vehicle-agreement-project/article65205145.ece>.

<sup>15</sup> Ministry of Economic Affairs, Royal Government of Bhutan, "Diagnostic Trade Integration Strategy Update 2020", [www.moer.gov.bt](http://www.moer.gov.bt), March 14, 2023

## 3.2 Bilateral Trade

### 3.2.1 Bilateral Trade Volume

The following table shows the trade balance between Bangladesh and Bhutan from 2006 to 2022, and Bangladesh has a trade deficit with Bhutan. In the ranking order of imports to Bhutan, Bangladesh ranked 5<sup>th</sup> while India ranked 1<sup>st</sup> for 2021. A detailed overview of the top exports from Bangladesh to Bhutan and vice versa has been mentioned in the latter part of this section.

Fiscal Years	Export to Bhutan	Import from Bhutan	Trade Balance
2008 - 2009	0.61	12.16	-11.55
2009-2010	2.24	11.98	-9.74
2010-2011	3.12	18.60	-15.48
2011-2012	9.13	20.71	-11.04
2012-2013	1.82	24.67	-22.85
2013-2014	1.37	18.14	-9.01
2014-2015	4.74	21.60	-16.86
2015-2016	3.21	33.13	-36.34
2016-2017	3.21	33.13	-29.92
2017-2018	4.38	32.38	-28
2018-2019	7.56	49.91	-42.35
2019-2020	4.36	40.89	-36.53
2020-2021	6.89	38.83	-31.94
2021-2022	9.60	27.80	-18.20

Table 4 Trade Balance between Bangladesh and Bhutan; Source: EPB/ Terms of Reference/ Bangladesh Bank

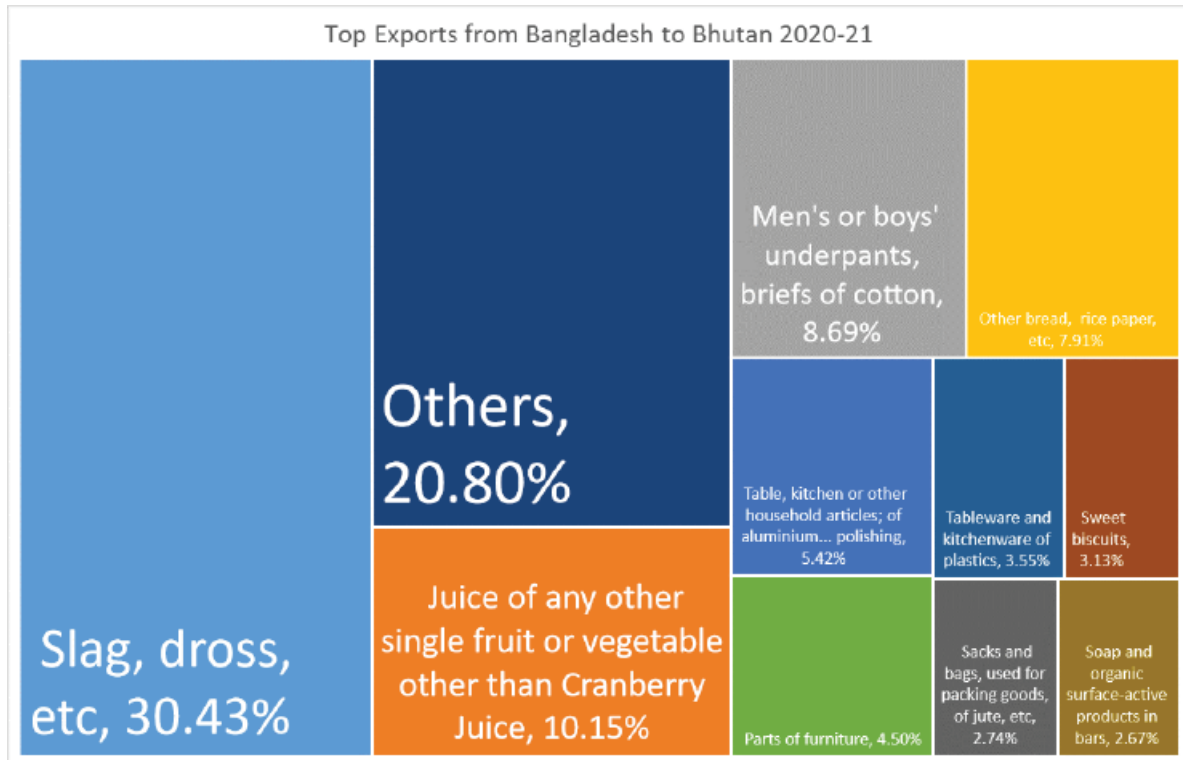


Figure 1 Top Exports from Bangladesh to Bhutan 2020 - 2021, Source: Export Promotion Bureau

While between 2020 and 2021, slag, garments, table ware, juice, and sweet biscuits dominated the export basket to Bhutan, the same products were among the top ten exported items to Bhutan from Bangladesh between 2016 and 2019 (except for slag). About 21.19% of the total exports were food items represented by 3 products, 11.64% of the exports represent household items such as soap, furniture, or even kitchenware and 8.69% of the exports were ready-made garments.

Sugar confectionary, jute packaging, and medicaments were some of the other top exported products from Bangladesh to Bhutan between 2016 and 2021; a detailed snapshot of the top ten exports to Bhutan from Bangladesh is given in the table below. Bangladesh's export of readymade garments has grown significantly to US\$ 31.46 billion in 2021 from US\$ 12.5 billion in 2010 – an almost three-fold increase in a decade. Thus, Bangladesh has a good opportunity of expanding garments exports to Bhutan. Since Bangladesh is attempting to diversify its exports with emerging sectors like agriculture, it also has a great opportunity to increase its food exports – processed or raw agro products – relevant exports to Bhutan may be increased since already more than one-fifth of exports to Bhutan accounts for food products

Top Ten Exports from Bangladesh to Bhutan 2016 to 2021											
2020 - 2021		2019 - 2020		2018 - 2019		2017 - 2018		2016 - 2017		USD	
HS Code	USD	HS Code	USD	HS Code	USD	HS Code	USD	HS Code	USD	HS Code	USD
261900: Slag, dross, etc, from the manufacture of iron or steel	6889193.09	261900: Slag, dross, etc, from the manufacture of iron or steel	4355816	300320: Medicaments of other antibiotics, not for retail sale	7563714.97	200989: Juice of any other single fruit or vegetable other than Cranberry Juice	4379977.11	190590: Communion wafers, empty cachets f pharm use&sim prod&bakers wares nes	3214976.547	190590: Communion wafers, empty cachets f pharm use&sim prod&bakers wares nes	511,498.81
200989: Juice of any other single fruit or vegetable other than Cranberry Juice	2,096,253.39	200989: Juice of any other single fruit or vegetable other than Cranberry Juice	1,187,244.26	261900: Slag, dross, etc, from the manufacture of iron or steel	2,303,040.21	190590: Other bread, etc, nes; communion wafers, rice paper, etc	648,447.40	200989: Juice of any other single fruit or vegetable	415,925.08	200989: Juice of any other single fruit or vegetable	415,925.08
620711: Men's or boys' underpants and briefs of cotton	699,098.80	190590: Other bread, etc, nes; communion wafers, rice paper, etc	496,410.89	200989: Juice of any other single fruit or vegetable other than Cranberry Juice	1,581,379.60	392410: Tableware and kitchenware of plastics	586,368.46	392410: Tableware and kitchenware of plastics	338,159.68	392410: Tableware and kitchenware of plastics	338,159.68
190590: Other bread, etc, nes; communion wafers, rice paper, etc	598,541.63	442,285.56	442,285.56	190590: Other bread, etc, nes; communion wafers, rice paper, etc	806,976.09	261900: Slag, dross, etc, from the manufacture of iron or steel	557,546.26	220290: Non-alcoholic beverages nes, excluding fruit/veg juices of headg No	266,573.58	220290: Non-alcoholic beverages nes, excluding fruit/veg juices of headg No	266,573.58
620711: Men's or boys' underpants and briefs of cotton	545,021.88	324,265.15	324,265.15	190590: Other bread, etc, nes; communion wafers, rice paper, etc	535,742.12	392410: Tableware and kitchenware of plastics	379,648.01	620711: Mens/boys underpants and briefs, of cotton, not knitted	223,063.39	620711: Mens/boys underpants and briefs, of cotton, not knitted	223,063.39
761510: Table, kitchen or other household articles and parts thereof, of aluminium... polishing	373,656.19	310,693.50	310,693.50	620711: Men's or boys' underpants and briefs of cotton	372,019.00	620711: Men's or boys' underpants and briefs of cotton	359,858.15	100630: Rice, semi-milled or wholly milled, whether or not polished or glazed	194,042.49	100630: Rice, semi-milled or wholly milled, whether or not polished or glazed	194,042.49
940390: Parts of furniture	309,759.90	190531: Sweet biscuits	217,164.58	190531: Sweet biscuits	316,030.32	190531: Sweet biscuits	248,980.30	761010: Doors, windows and their frames and thresholds for doors of aluminium	189,670.21	761010: Doors, windows and their frames and thresholds for doors of aluminium	189,670.21
392410: Tableware and kitchenware of plastics	244,593.11	203,927.30	203,927.30	392410: Tableware and kitchenware of plastics	274,352.12	300490: Other medicaments of mixed or unmixed products, for retail sale, nes	188,175.41	300490: Medicaments nes, in dosage	170,090.50	300490: Medicaments nes, in dosage	170,090.50
190531: Sweet biscuits	215,884.22	940390: Parts of furniture	147,391.92	300490: Other medicaments of mixed or unmixed products, for retail sale, nes	192,609.05	761010: Doors, windows and their frames and thresholds, of aluminium	153,717.38	621040: Mens/boys garments nes, made up of impreg.ctd, cov,etc; textile woven fab	164,540.07	621040: Mens/boys garments nes, made up of impreg.ctd, cov,etc; textile woven fab	164,540.07
630510: Sacks and bags, used for packing goods, of jute, etc	189,010.39	761010: Doors, windows and their frames and thresholds, of aluminium	105,683.61	200931: Of a Brix value not exceeding 20	122,335.21	200931: Of a Brix value not exceeding 20	144,840.30	200931: Single citrus fruit juice, unfermented, Brix value <= 20 at 20°C, whet	137,687.71	200931: Single citrus fruit juice, unfermented, Brix value <= 20 at 20°C, whet	137,687.71
340111: Soap and organic surface-active products in bars, etc, for toilet use	184,232.68	170490: Sugar confectionery (incl. white chocolate), not containing cocoa, nes	93,998.60	170490: Sugar confectionery (incl. white chocolate), not containing cocoa, nes	109,365.52	940350: Wooden furniture of a kind used in the bedroom (excl. seats)	112,942.99				

Table 5 Top Exports to Bhutan from Bangladesh, Source: Export Promotion Bureau



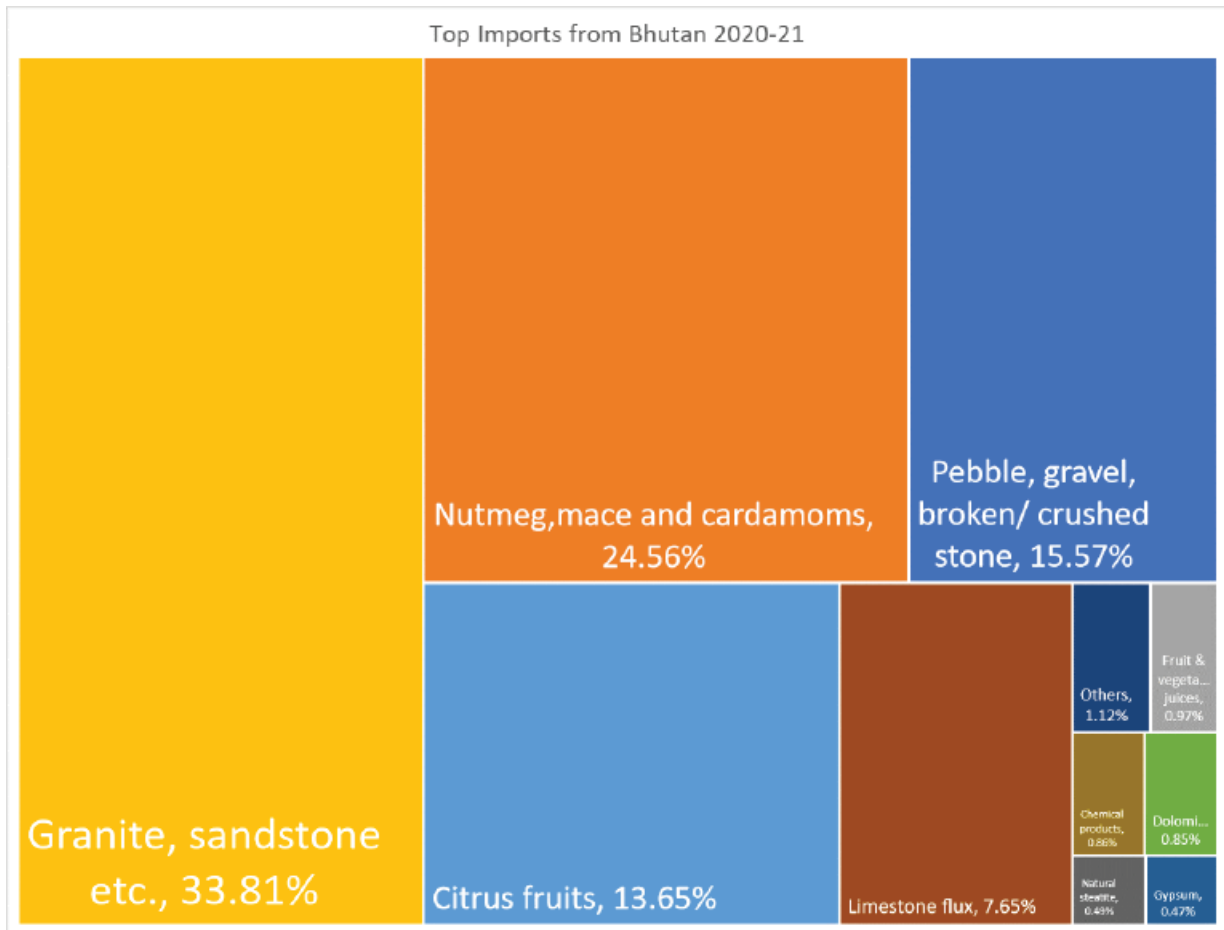


Figure 2 Top Ten Imports from Bhutan 2020 - 21, Source: Export Promotion Bureau

Between 2016 and 2021, citrus fruits accounted for the top-imported item from Bhutan to Bangladesh. The import basket from Bhutan to Bangladesh is composed mainly of spices, fruit, vegetables, juices, limestone, dolomite, and chemicals. The following tables show the top ten imports from Bhutan over 5 years.

Top Ten Imports from Bhutan to Bangladesh from 2016 - 2021										
HS Code : Product	2020-21		2019-20		2018-19		2017-18		2016-17	
	USD	HS Code : Product	USD	HS Code : Product	USD	HS Code : Product	USD	HS Code : Product	USD	HS Code : Product
<b>Total</b>	<b>38,834,000</b>	<b>Total</b>	<b>40,884,000</b>	<b>Total</b>	<b>49,911,000</b>	<b>Total</b>	<b>32,278,000</b>	<b>Total</b>	<b>33,133,000</b>	<b>Total</b>
20805: Citrus fruits, fresh or dried	5,300,000	20805: Citrus fruits, fresh or dried	5,331,000	20805: Citrus fruits, fresh or dried	7,620,000	20805: Citrus fruits, fresh or dried	3,444,000	20805: Citrus fruits, fresh or dried	9,649,000	20805: Citrus fruits, fresh or dried
20908: Nutmeg,mace and cardamoms	9,538,000	20908: Apples,pears & quinces, fresh	278,000	20908: Nutmeg,mace and cardamoms	8,779,000	20908: Nutmeg,mace and cardamoms	8,714,000	20908: Nutmeg,mace and cardamoms	9,006,000	20908: Nutmeg,mace and cardamoms
42009: Fruit & vegetable juices	377,000	20908: Nutmeg,mace and cardamoms	7,151,000	52516: Granite, porphyry,basalt,sandstone etc.	17,915,000	52516: Granite, porphyry,basalt,sandstone etc.	7,071,000	52516: Granite, porphyry,basalt,sandstone etc.	2,504,000	52516: Granite, porphyry,basalt,sandstone etc.
52516: Granite, porphyry, basalt, sandstone etc.	13,129,000	42009: Fruit & vegetable juices	269,000	52517: Pebble, gravel, broken or crushed stone	5,736,000	52517: Pebble, gravel, broken or crushed stone	4,712,000	52517: Pebble, gravel, broken or crushed stone	4,320,000	52517: Pebble, gravel, broken or crushed stone
52517: Pebble, gravel, broken or crushed stone	6,047,000	52516: Granite, porphyry, basalt, sandstone etc.	16,144,000	52518: Dolomite all kind	2,147,000	52518: Dolomite all kind	2,161,000	52518: Dolomite all kind	2,222,000	52518: Dolomite all kind
52518: Dolomite all kind	332,000	52517: Pebble, gravel, broken or crushed stone	5,613,000	52520: Gypsum;anhydrite plasters	844,000	52520: Gypsum;anhydrite plasters	818,000	52520: Gypsum;anhydrite plasters	511,000	52520: Gypsum;anhydrite plasters
52520: Gypsum;anhydrite plasters	184,000	52518: Dolomite all kind	1,756,000	52521: Limestone flux	3,296,000	52521: Limestone flux	3,274,000	62836: Carbonates; peroxocarbonates	220,000	62836: Carbonates; peroxocarbonates
52521: Limestone flux	2,970,000	52520: Gypsum;anhydrite plasters	412,000	62836: Carbonates; peroxocarbonates	515,000	62836: Carbonates; peroxocarbonates	292,000	20808: Apples,pears & quinces, fresh	797,000	20808: Apples,pears & quinces, fresh
52526: Natural steatite; crushed or not crushed	190,000	52521: Limestone flux	2,457,000	52701: Coal;briquettes oroid etc.	304,000	20808: Apples,pears & quinces, fresh	375,000	157202: Ferro-alloys	1,271,000	157202: Ferro-alloys
63800: Miscellaneous chemical products	334,000	62836: Carbonates; peroxocarbonates	574,000	178704: Motor vehicles for goods transport	574,000	157202: Ferro-alloys	609,000	115210: Woven fabrics of cotton ;> weg 85%+ , <= 200g/m.sq	174,000	115210: Woven fabrics of cotton ;> weg 85%+ , <= 200g/m.sq

Table 6 Top Ten Imports from Bhutan 2020 - 21, Source: Export Promotion Bureau

### 3.2.2 Global Trade Volume

The following tables represent the top ten countries in terms of export for both Bangladesh and Bhutan in FY21 and FY 22. Top destinations for export from Bangladesh includes USA, Germany, Britain, Spain, among others whereas top destinations for export from Bhutan include India, Nepal, Italy among others.

<b>Bangladesh</b>		
Country	2021 (in million US\$)	2022 (in million US\$)
United States	6974.008653	10417.71892
Germany	5953.507565	7590.970863
Great Britain	3751.270716	4828.082436
Spain	2343.988443	3166.370398
France	1962.141443	2711.056923
Poland	1503.636885	2139.241712
Italy	1308.622471	1702.292203
INDIA	1279.669865	1991.390836
Netherlands	1277.44399	1775.00569
Japan	1183.638727	1353.852285

Table 7 Top Export Destinations of Bangladesh, Source: EPB

<b>Bhutan</b>			
Country	2020 (in million US\$)	Country	2021 (in million US\$)
India	173	India	322
Nepal	6.95	Nepal	10.4
Italy	5.29	Italy	6.16
Turkey	0.854	South Korea	1.45
Singapore	0.630	Germany	1.3
Japan	0.542	Singapore	0.851
Switzerland	0.491	Turkey	0.734
US	0.390	Brazil	0.399
Brazil	0.389	US	0.315
Germany	0.239	Japan	0.306

Table 8 Top Export Destinations for Bhutan, Source: The Observatory of Economic Complexity

## 4 Top Products for Trade Diversification

A thorough study of Bangladesh’s export priorities, export strengths, Bhutan’s top imports, and even top exports of Bangladesh to other parts of the world has revealed that the following products exhibit promising export potential. Detailed observations are provided in the figure and tables below.

1. Refined petroleum
2. Soyabean
3. Rice
4. Garments
5. Pharmaceutical products

Top Ten Imports of Bhutan from the World						
HS4	Product	Bangladesh's Export to Bhutan (in US\$)	% Of Total Export to Bhutan	Bangladesh's export to the world (in million US\$)	Total Addressable Market (in million US\$)	% Of Total Import from the World to Bhutan
2710	Refined Petroleum	0	0.00%	20.711	81.337	9.81%
8802	Planes, Helicopters	0	0.00%	0.000	77.602	9.36%
4402	Wood Charcoal	0	0.00%	3.219	28.025	3.38%
7203	Iron Reductions	0	0.00%	0.000	26.720	3.22%
8525	Broadcasting Equipment	0	0.00%	0.009	24.466	2.95%
5513	Synthetic Cotton Fabrics	0	0.00%	1.406	22.816	2.75%
2704	Coke, semi-coke of coal	0	0.00%	0.000	20.503	2.47%
1006	Rice	0	0.00%	13.799	21.049	2.54%
8703	Cards	0	0.00%	17.012	25.169	3.04%
1507	Refined soya-bean oil	0	0.00%	19.166	10.532	1.27%

Table 9 Comparison of Exports to Bhutan and the World, Source: Export Promotion Bureau

From the table above, it can be deduced that

- Bangladesh has not exported to Bhutan in any of the top ten importing industries for FY21, yet it has the potential to export multiple of Bhutan’s top imports such as Refined Petroleum (2700), Rice (1006), and Refined Soyabean oil (1507).
- Since Bhutan has a high demand for refined products and the total addressable market is roughly 81 million US\$, Bangladesh may tap into this market to increase its volume of exports to Bhutan. Bangladesh imports crude petroleum and refines it, the country has already exported over 20 million US\$ worth of refined petroleum to the world. Similarly, Bangladesh can export

refined soya bean oil to Bhutan, which has a total addressable market of over 10 million US\$. In fact, in FY21 Bangladesh exported nearly 19 million US\$ worth of soya bean oil to the world.

- In the case of some products such as planes or spacecraft (8802), Iron Reductions (7203), Broadcasting Equipment (8525), and coal (2704) – Bangladesh does not have the scope for exporting such products to Bhutan due to a lack of its capacity. Bangladesh’s combined export in these areas is almost zero.

Similarly, an analysis has also been conducted in the following table on Bangladesh’s priority sectors for export (as per Export Policy 2021 – 2024).

Bangladesh’s Priority Sectors (as per Export Policy 2021 – 2024)							
HS4	Product	Bangladesh’s Export to Bhutan (in US\$ million)	% of Total Export to Bhutan	Bangladesh’s export to the world (in million US\$)	% of Total Export from Bangladesh to the World	Total Addressable Market (in million US\$)	% of Total Import from the World to Bhutan
<b>Textiles</b>							
6109	T-shirts, singlets	0.013	19.13%	6615.483	17.07%	1.922	0.23%
6104	Women’s or girl’s dresses	0.000	0.00%	2026.833	5.23%	0.304	0.04%
6110	Pullovers, cardigans	0.000	0.00%	4051.830	10.45%	2.630	0.32%
6307	Made up articles (textile)	0.000	0.00%	116.932	0.30%	1.240	0.15%
6304	Furnishing articles	0.000	0.00%	8.875	0.02%	0.435	0.05%
6210	Garments made up of textile felts	0.000	0.00%	378.420	0.98%	0.722	0.09%
6211	Men’s, boys’ garments	0.000	0.00%	310.887	0.80%	0.035	0.00%
6111	Babies Garments	0.000	0.00%	546.111	1.41%	0.097	0.01%
5303	Jute and other textiles	0.000	0.00%	138.148	0.36%	0.001	0.00%
5209	Fabrics of cotton	0.000	0.00%	53.439	0.14%	0.027	0.00%
5211	Mixed Cotton Fabrics	0.000	0.00%	17.059	0.04%	0.011	0.00%
<b>Mechanical appliances and electrical machinery</b>							
8415	Air Conditioner	0.000	0.00%	6.231	0.02%	2.193	0.26%

Bangladesh's Priority Sectors (as per Export Policy 2021 – 2024)							
HS4	Product	Bangladesh's Export to Bhutan (in US\$ million)	% of Total Export to Bhutan	Bangladesh's export to the world (in million US\$)	% of Total Export from Bangladesh to the World	Total Addressable Market (in million US\$)	% of Total Import from the World to Bhutan
8528	Television, monitors, projectors	0.000	0.00%	6.439	0.02%	3.552	0.43%
8418	Refrigerators	0.000	0.00%	12.268	0.03%	2.765	0.33%
8414	Compressors for refrigerating equipment	0.000	0.00%	5.438	0.01%	1.769	0.21%
<b>Vehicles, aircraft, vessels, and associated transport equipment</b>							
8711	Motorcycles	0.000	0.00%	0.152	0.00%	0.632	0.08%
8712	Bicycles, other cycles, not motorized	0.000	0.00%	130.886	0.34%	0.237	0.03%
8714	Bicycle parts	0.000	0.00%	12.170	0.03%	0.086	0.01%
<b>Miscellaneous manufactured articles</b>							
9403	Furniture parts	0.000	0.00%	18.361	0.05%	1.927	0.23%
<b>Pharmaceutical Products</b>							
3004	Medicaments	0.291	4.22%	140.225	0.36%	3.184	0.38%
3002	Blood, toxins, cultures, medical use	0.000	0.00%	0.276	0.00%	8.230	0.99%
3003	Medicaments formulated	0.000	0.00%	26.575	0.07%	0.029	0.00%
3005	Medical dressings	0.000	0.00%	0.048	0.00%	0.224	0.03%
<b>Miscellaneous manufactured articles</b>							
9404	Bedding products	0.000	0.00%	31.431	0.08%	2.308	0.28%
<b>Prepared foodstuffs</b>							
2106	Food preparations	0.009	0.14%	0.767	0.00%	5.319	0.64%
2202	Non-alcoholic beverages	0.069	1.00%	29.407	0.08%	1.599	0.19%
2009	Fruits Juices	0.764	11.09%	61.693	0.16%	0.715	0.09%
<b>Animal or vegetable fats and oils</b>							
1507	Soya-bean oil crude	0.000	0.00%	19.166	0.05%	10.532	1.27%
<b>Vegetable Products</b>							
1006	Rice	0.000	0.00%	13.799	0.04%	21.049	2.54%

Bangladesh's Priority Sectors (as per Export Policy 2021 – 2024)							
HS4	Product	Bangladesh's Export to Bhutan (in US\$ million)	% of Total Export to Bhutan	Bangladesh's export to the world (in million US\$)	% of Total Export from Bangladesh to the World	Total Addressable Market (in million US\$)	% of Total Import from the World to Bhutan
713	Shelled Legumes	0.000	0.00%	0.011	0.00%	1.730	0.21%
810	Fruits	0.000	0.00%	4.063	0.01%	0.006	0.00%
710	Frozen vegetable	0.000	0.00%	4.767	0.01%	0.061	0.01%
711	Preserved Vegetables	0.000	0.00%	55.881	0.14%	0.155	0.02%
<b>Plastics and Rubbers</b>							
3901	Ethylene Polymers	0.000	0.00%	4.872	0.01%	2.865	0.35%
3920	Plastic Sheets/Films/Foils	0.000	0.00%	7.098	0.02%	1.313	0.16%
3906	Acrylic polymers	0.000	0.00%	5.026	0.01%	0.011	0.00%
3908	Primary Polyamides	0.000	0.00%	2.989	0.01%	0.003	0.00%
3904	Polyvinyl chloride	0.000	0.00%	1.736	0.00%	0.010	0.00%
<b>Footwear</b>							
6402	Footwear, outer soles	0.000	0.00%	93.567	0.24%	0.960	0.12%
6404	Textile Footwear	0.000	0.00%	220.305	0.57%	0.366	0.04%
6403	Sports footwear	0.000	0.00%	569.882	1.47%	1.039	0.13%
<b>Live animals</b>							
301	Ornamental fish, live	0.000	0.00%	6.321	0.02%	N/A	N/A

Table 10 Comparison of Existing and Possible Exports to Bhutan and the World, Source: Export Promotion Bureau

From the table above, the following deductions can be made

- Bangladesh exports USD 6615 Mn, USD 2027 Mn, and USD 4052 Mn worth of t-shirts, pullovers, and activewear to the world, neither of which holds a significant position among Bhutan's total import basket. Under the PTA, Bangladesh will be getting duty-free access to ready-made garments. Although Bhutan imports a small number of T-shirts from Bangladesh (about USD 13,000), it does not represent a significant import value as it only accounts for 0.23% of total imports to Bhutan. The situation is similar for a pullover (0.317%) and active wear

(0.037%). However, even these small scopes may be utilized by Bangladesh due to the country's incredible capacities in the case of these three products.

- Three of the top imports of Bhutan from the list of priority sectors of Bangladesh include rice, soya-bean oil, and pharmaceutical products for medical use representing 2.54%, 1.27%, 0.8% and 0.99% respectively. However, Bangladesh's export in these three areas is considerably low – accounting for USD 13.80 Mn, USD 19.17 Mn, and USD 0.276 Mn respectively. There is scope to export prepared foodstuff to Bhutan as it represents 1% of the total demand for imports in Bhutan.<sup>16</sup>

Analysis of product diversification potential in terms of Bhutan is constricted due to limitations in data availability.

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<sup>16</sup> The data required for calculating bilateral RCA between Bangladesh and Bhutan is not available.



## 5 Trade Policies and Practices

### 5.1 Trade Policy Formulation

The following table shows the stakeholders involved in trade policy formulation and governance for Bangladesh and Bhutan.

Country	Stakeholder
Bangladesh	Ministry of Commerce (MoC)
	National Board of Revenue (NBR)
	Ministry of Law, Justice and Parliamentary Affairs
Bhutan	Ministry of Economic Affairs (MOEA)

Table 11 Trade Policy Organization

In Bangladesh, the focal point for trade-related affairs is the Ministry of Commerce (MoC) along with the National Board of Revenue under the Ministry of Finance taking a lead role in tariff setting to meet national revenue targets, as tariff is still Bangladesh’s key trade policy instrument. On the other hand, in Bhutan, the Ministry of Economic Affairs is the sole entity dealing with trade affairs. The Ministry of Economic Affairs (MOEA) is made up of nine departments and one of those departments is the Department of Trade. Unlike neighboring countries such as Bangladesh and Nepal, only 1/10th of MOEA concentrates on facilitating international trade policy. Under the Department of Trade, there are three divisions:<sup>17</sup>

- Trade Regulation & Monitoring Division
- Trade Negotiation Division
- Export Promotion Division

The following table gives a detailed look into both Bangladesh and Bhutan’s principal trade policy makers.

Country	Stakeholder Group	Stakeholder Interest	Mandate
Bangladesh	Ministry of Commerce (MoC)	Focal point for bilateral, regional, and multilateral trade negotiations. Various agencies under the MoC <sup>18</sup> oversee the	Takes lead role in the formulation, implementation and coordination of policies and

<sup>17</sup> Ministry of Economic Affairs – Royal Government of Bhutan, “Bhutan’s Domestic & External Trade,” June, 2019, moea.gov.bt, Accessed June 30, 2022, <https://www.moea.gov.bt/wp-content/uploads/2017/10/BHUTAN%E2%80%99S-DOMESTIC-EXTERNAL-TRADE.pdf>.

<sup>18</sup> Different ministries and departments involved in implementation of trade related issues are: Ministry of Agriculture; Ministry of Finance; Bangladesh Bank; Ministry of Industries; Bangladesh Standards and Testing Institute; Bangladesh Small & Cottage Industries Corporation; Department of Patent Designs, and Trademarks; Ministry of Post and Telecommunications; Ministry of Civil Aviation and Tourism; Privatization Commission; Board of Investment; Bangladesh Export Processing Zones Authority (BEPZA); Ministry of Power, Energy and Mineral Resources; Ministry of Shipping (MOS); Ministry of Health; Planning Commission; Central Procurement Technical Unit (CPTU)/Implementation Monitoring and Evaluation Division; Ministry of Textiles and Jute;

Country	Stakeholder Group	Stakeholder Interest	Mandate
		implementation of trade related policies, regulations, and remedies such as the Bangladesh Trade and Tariff Commission and the Export Promotion Bureau (EPB). Various ministries are involved in the implementation of trade related issues.	activities related to international trade <sup>19</sup>
	National Board of Revenue (NBR)	Makes decision on the level of tariffs, para- tariffs and other duties through pre-budget consultation process and is focused on duty collection and revenue.	Takes lead role in tariff setting <sup>20</sup>
	Ministry of Law, Justice and Parliamentary Affairs	Provides legal advisory services to other ministries, divisions, departments, and organizations of the Government	Vets trade policy before cabinet approval <sup>21</sup>
<b>Bhutan</b>	Ministry of Economic Affairs (MOEA)	Administers trade policy <sup>22</sup>	The Department of Trade under the Ministry of Economic Affairs (MOEA) handles international trade policies, pursues trade liberalization, works towards the growth of exports, and supports private sector development. <sup>23</sup> This has been also confirmed by the trade counselor of Bhutan to Bangladesh, Kencho Thinley (KII No.10).

Table 12 Stakeholders involved in Trade Policy Formulation

The Foreign Trade Agreement Wing under the Ministry of Commerce is responsible for bilateral, plurilateral, regional and free trade agreements with other countries and engages in trade negotiations, commerce secretary level meetings, and joint-working groups. On the other hand, the trade negotiation division under the Ministry of Economic Affairs, participates in trade negotiations at bilateral, regional

Ministry of Fisheries and Livestock; Ministry of Food and Disaster Management; Ministry of Environment and Forest; and Ministry of Communications.

<sup>19</sup> World Trade Organization, "Trade Policy Review," WT/TPR/S/385 • Bangladesh, February 6, 2019, wto.org, Accessed June 29, 2022, [https://www.wto.org/english/tratop\\_e/tpr\\_e/s385\\_e.pdf](https://www.wto.org/english/tratop_e/tpr_e/s385_e.pdf).

<sup>20</sup> World Trade Organization, "Trade Policy Review," WT/TPR/S/385 • Bangladesh, February 6, 2019, wto.org, Accessed June 29, 2022, [https://www.wto.org/english/tratop\\_e/tpr\\_e/s385\\_e.pdf](https://www.wto.org/english/tratop_e/tpr_e/s385_e.pdf).

<sup>21</sup> World Trade Organization, "Trade Policy Review," WT/TPR/S/385 • Bangladesh, February 6, 2019, wto.org, Accessed June 29, 2022, [https://www.wto.org/english/tratop\\_e/tpr\\_e/s385\\_e.pdf](https://www.wto.org/english/tratop_e/tpr_e/s385_e.pdf).

<sup>22</sup> Inkyo Cheong, Taeho Bark, and Hon Yun Jeong, "A Framework of Trade Policy for Bhutan Compatible with the Gross National Happiness," ADB South Asia Working Paper Series. No. 39. September, 2015, adb.org, Accessed June 30, 2022, <https://www.adb.org/sites/default/files/publication/174813/south-asia-wp-039.pdf>.

<sup>23</sup> Ministry of Economic Affairs – Royal Government of Bhutan, "Bhutan's Domestic & External Trade," June, 2019, moea.gov.bt, Accessed June 30, 2022, <https://www.moea.gov.bt/wp-content/uploads/2017/10/BHUTAN%E2%80%99S-DOMESTIC-EXTERNAL-TRADE.pdf>.

and multilateral levels, and strengthens trade relations with trading partners. The division is broken down into three sections (i) regional and bilateral trade section (ii) WTO section and (iii) trade enquiry and reference centre. **There are institutional weaknesses when it comes to trade negotiations and management in Bangladesh. 40% of the KII respondents have stated that there is a lack of skilled negotiators, and trade experts, and no retention of institutional memory as government officials get rotated between various ministries. Development of strong trade negotiators and effective trade bodies is crucial, and professional training and capacity building can help in this regard.**

A stakeholder analysis of mandates and interests has revealed a gap in understanding and objectives between organizations responsible for trade policy formulation. NBR has a mandate to investigate trade agreements, and concessions but only from a customs revenue gain/ loss point of view while MoC is responsible for looking at trade arrangements from a holistic point of view. Differences in mandates and expectations of the trade negotiating and harmonization agencies have led to coordination and implementation gaps. **About 40% of the KII respondents have stated that there is a lack of coordination and gaps in the harmonization process when it comes to trade policy formulation, management, and negotiation.**<sup>24</sup>

Trade negotiation teams from most countries typically include lawyers who specialize in international trade law. Countries which include lawyers in their teams include India, Sri Lanka, Singapore, Thailand, Nepal, and South Korea. The lawyers help to ensure that the country's interests are well represented and that the resulting trade agreements comply with international law and the country's own legal framework. This is a gap which Bangladesh can immediately address since the trade negotiation team of Bangladesh doesn't consist of a legal representative.

## 5.2 Trade Policy Objectives and Incentives

**Bangladesh's Export Policy, 2021-2024**, was made effective on March 23, 2022, and aims to reach annualized export earnings of US\$ 80 billion between the years 2021-2024. With a key focus on post-LDC-Graduation challenges, research, and development, curbing the impact of COVID-19 over export sectors, and the fourth industrial revolution. The Policy focuses on boosting trade by tapping into 14 priority sectors with products of high-value potential. For new export items to be added to the list of current exports, value addition needs to hit the 30% benchmark for acquiring export incentives. Exporters can also borrow up to 90% of the amount stated in the confirmed contract or the irrecoverable letter of credit from commercial banks, under the guidance of Bangladesh Bank.<sup>25</sup>

**Bhutan's Domestic and External Trade Policy 2019** prioritizes the diversification of exports and promotes the domestic production of exports. Some of the key priorities in the policy are first, to increase the self-sufficiency of Bhutan's key agricultural products through the implementation of food and

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<sup>24</sup> The sample size for KII for the first phase of study involving countries Nepal, Bhutan, Sri Lanka, and South Korea is 20 participants. This number represents responses received from 20 participants.

<sup>25</sup> The Financial Express, "Bangladesh's New Export Policy Attaches Highest Priority to 14 Sectors," The Financial Express, thefinancialexpress.com.bd, Accessed June 29, 2022, <https://thefinancialexpress.com.bd/trade/bangladeshs-new-export-policy-attaches-highest-priority-to-14-sectors-1648435929>.

nutrition security programs. Second, focus on production, marketing, and the value addition of livestock and agro products and create Enterprise and Value-Chain programs. Third, promote commercial farming and expand the manufacturing sector by establishing a minimum of 100 production and manufacturing industries. Last, to consider hydropower development among others.<sup>26</sup> Similarly, the National Export Strategy of Bhutan also delves into potential exports ranging from high to low potential with 5 exports with high-value potential<sup>27</sup>.

The government of Bangladesh provides incentives to selected export sectors which include textiles, hand-made products, jute produces, agricultural and agri-processed goods, leather goods, furniture, plastic goods, frozen fish, motorcycles, among others. Most of these products are already in Bangladesh's Export Priority List. The rate of subsidy for these items range from 4 – 20 percent. Under the provisions of the Value Added Tax Act, 1991, and the Customs Act, 1969, all duties and taxes paid on inputs/ raw materials used for the manufacturing of exported goods is subject to refund. Export potential sectors in Bangladesh (*include high value-added reRMGs and garment accessories; software and IT-enabling services, information communication technology (ICT) products; pharmaceutical products; ships and ocean-going fishing trawlers; footwear and leather products; jute products; plastic products; agro-products and agro-processed products; furniture; home textiles and terry towelling; home furnishings; and luggage*) enjoy benefits and facilities such as project loans at reduced rates, subsidies for utility services, air transportation facilities on priority basis, income tax rebates, duty free import of equipment, assistance in production and marketing of products, among others.

The Domestic Integration Study (DTIS) 2012 of Bhutan identified a number of potential priority products and additional products have been identified by the Economic Development Plan (EDP) which enjoy fiscal incentives in Bhutan. The EDP specifies incentives which are devoted to raising the contribution of trade in the economic development of Bhutan such as incentives to collaborate with stakeholders in enhancing the level of skills, technology and infrastructure in Bhutan. The main cash crops exported by Bhutan are mandarins, potatoes, cardamoms, and apples. The government is offering tax incentives to the agriculture sector to achieve the development of commercial farming and organic farming.

### 5.3 Export Priority Sectors

The following table states the sectors and products prioritized by Bhutan's National Export Strategy and Bangladesh Export Policy, 2021-2024:

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<sup>26</sup> Ministry of Economic Affairs – Royal Government of Bhutan, "Bhutan's Domestic & External Trade," June, 2019, moea.gov.bt, Accessed June 30, 2022, <https://www.moea.gov.bt/wp-content/uploads/2017/10/BHUTAN%E2%80%99S-DOMESTIC-EXTERNAL-TRADE.pdf>.

<sup>27</sup> Ministry of Economic Affairs – Royal Government of Bhutan, "Domestic Trade Integration Study," 2012, enhancedif.org, Accessed June 30, 2022, [https://enhancedif.org/en/system/files/uploads/bhutan\\_dtis\\_2012.pdf](https://enhancedif.org/en/system/files/uploads/bhutan_dtis_2012.pdf).

High-Priority Exports	
Bhutan's National Export Strategy <sup>28</sup>	Bangladesh Export Policy, 2021-2024 <sup>29,30</sup>
<ul style="list-style-type: none"> <li><b>i. hydropower</b></li> <li><b>ii. base metal and metal products</b></li> <li><b>iii. minerals</b></li> <li><b>iv. chemical products</b></li> <li><b>v. tourism</b></li> </ul>	<ul style="list-style-type: none"> <li>i. denim</li> <li>ii. man-made fiber</li> <li>iii. garment accessories</li> <li>iv. pharmaceuticals</li> <li>v. plastic products,</li> <li>vi. shoes (both leather and synthetic)</li> <li>vii. jute and agro products</li> <li>viii. light engineering</li> <li>ix. shipbuilding</li> <li>x. ocean-going trawler building</li> <li>xi. furniture</li> <li>xii. home textiles and home décor</li> <li>xiii. luggage</li> <li>xiv. active pharmaceutical ingredients and reagents.</li> </ul>

Table 13 Policy Exports

## 5.4 Investment and Export Promotion

In terms of investment, Bangladesh encourages investment by providing incentives to various sectors using many schemes. GoB permits exemptions and tax holidays such as repatriation facilities and capital at the exit. Moreover, Bangladesh also provides 100% duty-free import and foreign ownership. Agencies such as the Bangladesh Economic Zones Authority (BEZA), Bangladesh Export Processing Zone Authority (BEPZA), and the Bangladesh Investment Development Authority (BIDA) are dedicated to facilitating and improving FDI in Bangladesh. Bangladesh provides several incentives for investors who are interested in establishing industries in an SEZ that include tax rebates, dividend tax exemption, custom duty exemptions that are subject to conditions, VAT facility, and tax exemption for the first five years among others. The government of Bhutan started following a more liberal FDI policy from 2010, and nearly all sectors are open for investments. For the first time, a range of priority sectors are open for full foreign ownership in addition to traditional greenfield projects. The government promotes Public Private Partnership (PPP) investment arrangements allowing foreign investors to bring expertise and resources – up to a variable percentage of the investment according to the sector – while a local investor is expected to contribute the remaining part.

The Export Promotion Bureau (EPB) under the Ministry of Commerce is responsible for export promotion, formulation and review of export policies, incentives, and even dissemination fo trade

<sup>28</sup> Ministry of Economic Affairs – Royal Government of Bhutan, “Domestic Trade Integration Study,” 2012, [enhancedif.org](https://enhancedif.org/en/system/files/uploads/bhutan_dtis_2012.pdf), Accessed June 30, 2022, [https://enhancedif.org/en/system/files/uploads/bhutan\\_dtis\\_2012.pdf](https://enhancedif.org/en/system/files/uploads/bhutan_dtis_2012.pdf).

<sup>29</sup> The Financial Express, “Bangladesh's New Export Policy Attaches Highest Priority to 14 Sectors,” The Financial Express, [thefinancialexpress.com.bd](https://thefinancialexpress.com.bd/trade/bangladeshs-new-export-policy-attaches-highest-priority-to-14-sectors-1648435929), Accessed June 29, 2022, <https://thefinancialexpress.com.bd/trade/bangladeshs-new-export-policy-attaches-highest-priority-to-14-sectors-1648435929>.

<sup>30</sup> Ministry of Economic Affairs – Royal Government of Bhutan, “Domestic Trade Integration Strategy (DTIS) Update 2020,” Concept Note V2, December, 2019, [info.undp.org](https://info.undp.org/docs/pdc/Documents/BTN/Project%20Dcument_DTISU%202020.pdf), Accessed June 30, 2022, [https://info.undp.org/docs/pdc/Documents/BTN/Project%20Dcument\\_DTISU%202020.pdf](https://info.undp.org/docs/pdc/Documents/BTN/Project%20Dcument_DTISU%202020.pdf).

information through its information centre, as well as organization of trade fairs and national training programs.

During FY21, Bangladesh’s net inflows rose by 13% to \$2.9 billion. Bangladesh ranked among the top five recipients of flows. The inflow of stock for the same year was \$21.6 Billion.<sup>31</sup> The top three countries with the most investments in Bangladesh were the USA, China, and Singapore.<sup>32</sup> During the same time, Bhutan’s net inflows of Foreign Direct Investment (FDI) totaled USD\$ 2 million, with an FDI stock of USD \$409 Million by 2021.<sup>33</sup> The top three countries which remain the major source of investment for Bhutan are India, Singapore, and Thailand as of 2021. The following figure shows the trend in FDI inflow from 2015 to 2021.

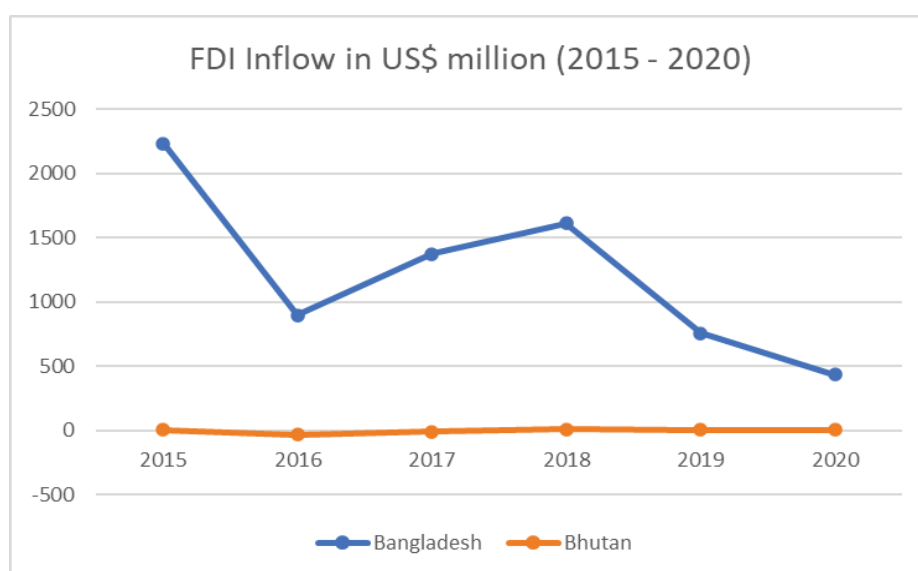


Figure 3 FDI Inflow in US\$ million Source: UNCTAD World Investment Report 2022

Bhutan’s Foreign Direct Investment Policy 2019 encourages investment in sustainable, eco-friendly businesses, culturally and spiritually sensitive industries, knowledge societies, and the diversification of Bhutan’s economy.<sup>34</sup> Incentives for foreign investments are per the Fiscal Incentives Act of Bhutan, 2017, and include incentives such as a Tax Holiday of 5-10 years (depending on which sector), a tax rebate of 15% on the adoption of environment-friendly technology, reinvestment allowance, and

<sup>31</sup> UNCTAD, “World Investment Report 2022: International Tax Reforms and Sustainable Investment,” Geneva, 2022, United Nations, Accessed September 14, 2022, [https://unctad.org/system/files/official-document/wir2022\\_en.pdf](https://unctad.org/system/files/official-document/wir2022_en.pdf).

<sup>32</sup> Bangladesh Bank, “Foreign Direct Investment and External Debt: July-December, 2021,” www.bb.org.bd, Accessed September 14, 2022, <https://www.bb.org.bd/pub/halfyearly/fdisurvey/fdisurveyjuldec2021.pdf>.

<sup>33</sup> UNCTAD, “World Investment Report 2022: International Tax Reforms and Sustainable Investment,” Geneva, 2022, United Nations, Accessed September 14, 2022, [https://unctad.org/system/files/official-document/wir2022\\_en.pdf](https://unctad.org/system/files/official-document/wir2022_en.pdf).

<sup>34</sup> Ministry of Economic Affairs, Royal Government of Bhutan, “Foreign Direct Investment Policy,” Ministry of Economic Affairs, Royal Government of Bhutan, 2019, <https://www.moea.gov.bt/wp-content/uploads/2017/07/FDI-Policy-2019.pdf>.

exemption of Sales Tax and Customs Duty on imports of raw materials, packaging materials, and plant and machinery among others.<sup>35 36</sup>

## 5.5 Customs Clearance

In 2018, Bangladesh LPI<sup>37</sup> rank was 100<sup>th</sup>, whereas, in the same region, India ranked 44<sup>th</sup>. Although Bhutan's LPI Rank fell to 149 in 2018 from 143 in 2014, trade reforms are assisting Bhutan in opening its market, growing its economy, and improving business opportunities. The following table shows the LPI ranking of Bhutan and Bangladesh from 2014 to 2018.

Bangladesh	Year	LPI Rank	LPI Score	Bhutan	Year	LPI Rank	LPI Score
	2014	108	2.09		2014	143	2.29
2016	87	2.66	2016	135	2.32		
2018	100	2.58	2018	149	2.17		

Table 14 The Logistics Performance Index, Source: <https://lpi.worldbank.org/international/scorecard/radar/254/C/NPL/2018#chartarea>

According to a 2022 Time Release Study conducted by a group of World Customs Organisation (WCO)-trained customs officials of the National Board of Revenue (NBR), the customs authorities consume 7-8% time in the customs release process and port authorities consume around 12-20% time. The study was conducted in Chattogram seaport, Benapole landport and Hazrat Shahjalal International Airport where it was found that the average time taken to release all consignments took a minimum of 7 to 11 days. Commodity wise, the average release time differed i.e., food took over 11 days through Chattogram and 5 to 6 days through Benapole and Dhaka ports. Benapole customs took an average of 9 days for pharmaceuticals and 10 days for garments raw materials whereas Dhaka customs takes 8 and 5 days respectively. On the other hand, commodity wise average release time for food is 5 to 6 days through Benapole and Dhaka ports while it is over 11 days through Chattogram port. For pharmaceuticals and garments raw materials, Benapole customs takes 9 days and 10 days respectively while Dhaka customs took 8 days and 5 days respectively. However, with regard to capital machinery, all three customs average 12 days.

The study also found average time for sea cargo arrival to exceed 11 hours whereas it took 7 days via air freight and for land cargoes, an average time of 10 days. KII responses have also pointed toward the need for a unified system to simplify clearance process and also improve connectivity via sea and

<sup>35</sup>Ministry of Finance, Royal Government of Bhutan, "Rules on the Fiscal Incentives Act of Bhutan 2017," Department of Revenue & Customs, Ministry of Finance, Royal Government of Bhutan, Accessed September 14, 2022, [https://www.mof.gov.bt/wp-content/uploads/2014/07/Rules\\_FI2017.pdf](https://www.mof.gov.bt/wp-content/uploads/2014/07/Rules_FI2017.pdf).

<sup>36</sup> The Permanent Mission of Bhutan to the United Nations, New York and The Royal Bhutanese Embassy: Canada, Brazil, "Investment Opportunities in Bhutan," Accessed September 14, 2022. <https://www.mfa.gov.bt/pmbny/investment-opportunities-in-bhutan/>.

<sup>37</sup> The logistics performance by the World Bank is the weighted average of a country based on the efficiency of the clearance process, quality of trade and transport-related infrastructure, ease of arranging competitively priced shipments, quality of logistics services, and ability to track consignments.

land. One respondent suggested revisiting the BBIN Motor Vehicle Agreement to strengthen landport connectivity. Moreover, respondents have also suggested the implementation of more Time Release Studies for consistent monitoring and evaluation.

The Trade Facilitation Program of the South Asia Subregional Economic Cooperation (SASEC) encourages the establishment of modern and efficient customs administrations and management systems.<sup>38</sup> Inadequate domestic and international transport networks and logistics make it difficult and expensive for Bhutan's producers to access global markets. Bhutan's exports are hampered by the high cost of accessing global markets, according to data from the World Bank's Doing Business and the Logistics Performance Index. Trade facilitation is crucial for Bhutan because it is a landlocked nation.<sup>39</sup> While the potential for increasing intraregional trade among SASEC members seems promising, there are barriers to trade such as the high SPS and TBT measures and infrastructural gaps. Other than that, challenges that arise while trading with countries such as Bhutan are:

- (i) Nominal harmonization of nontariff barriers;
- (ii) Gaps in customs procedures and discrepancies in harmonized system codes.
- (iii) Limited automation and computerization
- (iv) Subpar testing facilities, failing to match international standards
- (v) Paper-based documentation and manual processing, which is time-consuming.<sup>40</sup>

## 5.6 Intellectual Property Rights

Both Bangladesh and Bhutan are signatories of the World Intellectual Property Organization (WIPO). Bangladesh has several legislations that oversee the protection of Intellectual Property (IP). The Patents and Designs Act 1911, The Copyright Act 2000, The Trademarks Act 2009, The Geographical Indications Goods (Registration and Protection) Act 2013, and the Plant Varieties Protection Act 2019 have all been ordained to lower the risks of commercialization and unfair competition.<sup>41</sup> Moreover, in Bangladesh, the Directorate of Patents, Designs, and Trademarks in partnership with WIPO, initiated a discussion on the National Intellectual Property Rights (IP) policy and the previously implemented IP Policy in 2018. Again, in 2019, the National Board of Revenue implemented the 'Intellectual Property Rights of Receipts of Imports: Rules of Implementation 2018'. Likewise, the Copyright Act 2001 and the Industrial Property Act of the Kingdom of Bhutan, 2001 ensure the protection of the patents pertaining

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<sup>38</sup> Asian Development Bank, "Customs Reforms Open Up Trade Opportunities in Bhutan," [www.adb.org](http://www.adb.org), April 10, 2018, <https://www.adb.org/news/videos/customs-reforms-open-trade-opportunities-bhutan>.

<sup>39</sup> UNCTAD, "Towards a Smooth Transition Strategy for Bhutan," January, 2022. [unctad.org, https://unctad.org/system/files/official-document/aldc2021d5\\_en.pdf](https://unctad.org/system/files/official-document/aldc2021d5_en.pdf).

<sup>40</sup> Asian Development Bank and SASEC, "Potential Exports and Nontariff Barriers to Trade: Bhutan National Study," November, 2021, [adb.org](http://www.adb.org), Accessed June 29, 2022, <https://www.adb.org/sites/default/files/publication/747036/bhutan-exports-nontariff-barriers-trade-study.pdf>.

<sup>41</sup> Dr Mohammad Islam, "Protection of IP Rights in Bangladesh with Special Reference to SMEs," *The Daily Star*, April 2021, <https://www.thedailystar.net/law-our-rights/news/protection-ip-rights-bangladesh-special-reference-smes-2082653>.



to trade names, industrial designs, trademarks, and protective marks.<sup>42</sup> The Act further oversees that businesses are protected against unfair competition.<sup>43</sup>

## 5.7 Tariff Structure

The following table shows the simple average MFN tariff for Bangladesh and Bhutan.

Simple average MFN applied	Total	Agricultural products	Non-agricultural products
<b>Bangladesh</b>	14	17.5	13.4
<b>Bhutan</b>	22.1	41.9	18.9

Table 15 Simple Average MFN of Bangladesh and Bhutan, Source: World Tariff Profiles (2021) by WTO

The following tables analyze the tariff structure (both MFN and preferential tariff under SAFTA) for the top ten exports of Bangladesh to Bhutan and the top ten imports from Bhutan to Bangladesh for the year 2020 – 2021.

Bangladesh's Top 10 Exports to Bhutan (2020 – 2021)					
HS6	HS2	Product Name	Volume of Export (in US\$ million)	MFN Applied Tariff (%)	Preferential Tariff (%)
261900	'26	Slag, dross, etc.	2.10	10	5 (under SAFTA)
200989	'20	Juice of any other single fruit or vegetable	0.70	10	-
620711	'62	Men's or boys' underpants and briefs	0.60	10	5 (under SAFTA)
190590	'19	Other bread	0.55	10	5 (under SAFTA)
761510	'76	Table, kitchen or other household articles and parts thereof	0.37	10	5 (under SAFTA)
940390	'94	Parts of furniture	0.31	10	-
392410	'39	Tableware and kitchenware of plastics	0.24	10	5 (under SAFTA)
190531	'19	Sweet biscuits	0.22	10	5 (under SAFTA)
630510	'63	Sacks and bags, used for packing goods	0.19	10	5 (under SAFTA)
340111	'34	Soap and organic surface-active products in bars, for toilet use	0.18	10	5 (under SAFTA)

Table 16 Tariff Imposed on Top Ten Exports of Bangladesh to Bhutan, Source: Export Promotion Bureau

<sup>42</sup> Ministry of Economic Affairs, Royal Government of Bhutan, "Foreign Direct Investment Policy," Ministry of Economic Affairs, Royal Government of Bhutan, 2019, <https://www.moea.gov.bt/wp-content/uploads/2017/07/FDI-Policy-2019.pdf>.

<sup>43</sup> Ministry of Economic Affairs, Royal Government of Bhutan, "The Industrial Property Act of the Kingdom of Bhutan, 2001," Department of Intellectual Property, Ministry of Economic Affairs, Royal Government of Bhutan, Accessed September 14, 2022, <http://www.ipbhutan.gov.bt/attachment/legislation/Industrial%20Property%20Act%20of%20the%20Kingdom%20of%20Bhutan%202001.pdf>.

Bangladesh's Top 10 Imports from Bhutan and Tariff Structure (2020 – 2021)					
HS4	HS2	Product Name	Volume of Import (in US\$ million)	MFN Applied Tariff (%)	Preferential Tariff (%)
0805	'08	Citrus fruits, fresh or dried	5.30	5	3 (under SAFTA)
0908	'09	Nutmeg, mace, and cardamoms	9.54	25	5 (under SAFTA)
2009	'20	Fruit & vegetable juices	0.38	25	5 (under SAFTA) [Not all products]
2516	'25	Granite, porphyry, basalt, sandstone etc.	13.13	5 – 25	3 – 5 (Under SAFTA) [Not all products]
2517	'25	Pebble, gravel, broken or crushed stone	6.05	5 – 25	5 (under SAFTA) [Not all products]
2518	'25	Dolomite all kind	0.33	5	3 (under SAFTA)
2520	'25	Gypsum; anhydrite plasters	0.18	0 – 5	0 (under SAFTA)
2521	'25	Limestone flux	2.97	10	0 (under SAFTA)
2526	'25	Natural steatite; crushed or not crushed	0.19	5 – 10	3 (under SAFTA)
3800	'38	Miscellaneous chemical products	0.33	N/A	N/A

Table 17 Tariff Imposed on Top Ten Imports from Bhutan to Bangladesh, Source: Bangladesh Bank and Trade Map (2022) accessed on 18 June 2021; <https://www.trademap.org/Index.aspx>

One of the ways for Bangladesh to improve trade with Bhutan will be to tap the top imports of Bhutan as analyzed in Section 7.3.1. The following table shows the top ten products which Bhutan imported in 2019 and the corresponding tariff on those products.

Top Ten Imports of Bhutan, Addressable Market Size and Tariff					
HS6	HS2	Product Name	Volume of Import (in million US\$)	MFN Applied Tariff (%)	Preferential Tariff (%)
271000	27	Refined Petroleum (271012, 271019)	81.34	10	5 (SAFTA)
880240	88	Planes, Helicopters, and/or Spacecraft	77.59	10	5 (SAFTA)
440200	44	Wood Charcoal (440210, 440290)	28.03	10	5 (SAFTA)
720310	72	Iron Reductions	26.72	10	5 (SAFTA)
852520	85	Broadcasting Equipment (852550, 852560, 852580)	24.46	10	5 (SAFTA)
551323	55	Light Synthetic Cotton Fabrics	22.81	10	5 (SAFTA)
270400	27	Coke, semi-coke of coal	20.50	10	5 (SAFTA)
100630	10	Rice	20.36	10	-

Top Ten Imports of Bhutan, Addressable Market Size and Tariff					
HS6	HS2	Product Name	Volume of Import (in million US\$)	MFN Applied Tariff (%)	Preferential Tariff (%)
870322	87	Cards	11.44	45	5 (SAFTA)
150790	15	Refined soya-bean oil	10.52	10	-

Table 18 Top Ten Imports of Bhutan and Corresponding Tariff, Source: <https://oec.world/en/profile/country/npl?latestTrendsFlowSelectorNonSubnatLatestTrends=flow1&depthSelector1LatestTrends=HS6Depth> and TradeMap (2022)

## 5.8 Non-Tariff Measures

Since Bhutan is not bound to follow the Agreement on TBT nor the Agreement on the Application of SPS Measures since it is not a member of the World Trade Organization. Yet, Bhutan applies high SPS measures to protect the country’s biodiversity from contaminants, diseases, and pollution among others.<sup>44</sup>

Given the fact that Bhutan has only recently begun trading in a diverse international market, the country’s regulatory and legal frameworks of SPS measures are relatively new. The following laws are legally enshrined through documents:<sup>45</sup>

i. Plant Quarantine Act of Bhutan 1993	a. prohibits the import of goods, plant products, and soil that risk endangering the biodiversity b. quarantine inspector may quarantine any items likely to be infested by plant pests
ii. Pesticides Act of Bhutan 2000	An entity planning to import pesticides must file an application to the minister of agriculture and forests. Pesticide will be regulated as per approved list of pesticides.
iii. Livestock Act of Bhutan 2001	Sets the standards for slaughtering facilities for poultry birds and livestock.
iv. Food Act of Bhutan 2005	To ensure the hygiene and safety of food and eating facilities through a food inspectorate system.
v. Biosafety Act of Bhutan 2015	Prohibits the transit and/or import of living modified organisms or genetically modified organisms.

Table 19 Regulatory and Legal Frameworks of SPS Measures in Bhutan

As a member of the WTO and a signatory of the “Final Act” at the Uruguay round negotiations in 1994, Bangladesh has signed the WTO Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement). Other than that, SPS measures are also ensured through legal documents and government orders:

<sup>44</sup> Asian Development Bank and SASEC, “Potential Exports and Nontariff Barriers to Trade: Bhutan National Study,” November, 2021, adb.org, Accessed June 29, 2022, <https://www.adb.org/sites/default/files/publication/747036/bhutan-exports-nontariff-barriers-trade-study.pdf>.

<sup>45</sup> Asian Development Bank and SASEC, “Potential Exports and Nontariff Barriers to Trade: Bhutan National Study,” November, 2021, adb.org, Accessed June 29, 2022, <https://www.adb.org/sites/default/files/publication/747036/bhutan-exports-nontariff-barriers-trade-study.pdf>.

The WTO Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement) 1994	Sanitary or phytosanitary measures conform to international standards and set guidelines to “protect human, animal or plant life or health”. <sup>46</sup>
Plant Quarantine Act 2011	To make provisions for the prevention of the introduction and spreading of insects or pests into Bangladesh, considering phytosanitary and sanitary measures. <sup>47</sup>
Food Safety Act 2013	Ensuring the safety and hygiene of food import, production, processing, stockpiling, supplying, marketing, and sales through the Bangladesh Food Safety Authority. <sup>48</sup>
Import Policy Order 2021-2024	All products imported should comply with IPPC (International Plant Protection Convention) and ISPM-15 (International Sanitary and Phytosanitary Measures-15). <sup>49</sup>

Table 20 Agreement and Government Orders

### Procedural Hindrances for trade between Bangladesh and Bhutan:

- I. Inefficient banking in Bangladesh and Bhutan: banks have lengthy procedures and requirements for documentation in cases of fund transfers. Hence, exporters must face unnecessary delays in transactions and limited business during export seasons.<sup>50</sup>
- II. Lack of information and communication technology: gaps in communication technology and information lead to cumbersome requirements for documentation and higher transaction costs for export clearance. The absence of a single window system for the facilitation of documentation leads to a build-up in paperwork followed by inefficient time management for border officials and traders.<sup>51</sup>
- III. Traffic Congestion: infrastructural limitations and traffic congestion impact the consignments entering Bangladesh from Bhutan, delaying the lead time.<sup>52</sup>
- IV. Procedural complexities: maximum export consignments to Bhutan from most of the countries except for India require an import license which is issued by the Department of Revenue and

<sup>46</sup> World Trade Organization, “WTO | Sanitary and Phytosanitary Measures - Text of the Agreement,” [www.wto.org](http://www.wto.org), Accessed June 30, 2022, [https://www.wto.org/english/tratop\\_e/sps\\_e/spsagr\\_e.htm](https://www.wto.org/english/tratop_e/sps_e/spsagr_e.htm).

<sup>47</sup> Ministry of Agriculture – Government of Bangladesh, “Plant Quarantine Act, 2011,” April 5, 2011, [moa.portal.gov.bd](http://moa.portal.gov.bd), [https://moa.portal.gov.bd/sites/default/files/files/moa.portal.gov.bd/legislative\\_information/5e56c602\\_fe72\\_42c0\\_9486\\_c13f2def380d/plant%20quarantine%20act-2011.pdf](https://moa.portal.gov.bd/sites/default/files/files/moa.portal.gov.bd/legislative_information/5e56c602_fe72_42c0_9486_c13f2def380d/plant%20quarantine%20act-2011.pdf).

<sup>48</sup> Food and Agriculture Organization of the United Nations, “Bangladesh (National Level): Food Safety Act, 2013,” FAOLEX Database, [www.fao.org](http://www.fao.org), Accessed June 30, 2022, <https://www.fao.org/faolex/results/details/en/c/LEX-FAOC153882/#:~:text=This%20Law%20makes%20provisions%20for,to%20ensure%20the%20people's%20right>.

<sup>49</sup> Asian Development Bank and SASEC, “Potential Exports and Nontariff Barriers to Trade: Bhutan National Study,” November, 2021, [adb.org](http://adb.org), Accessed June 29, 2022, <https://www.adb.org/sites/default/files/publication/747036/bhutan-exports-nontariff-barriers-trade-study.pdf>.

<sup>50</sup> Asian Development Bank and SASEC, “Potential Exports and Nontariff Barriers to Trade: Bhutan National Study,” November, 2021, [adb.org](http://adb.org), Accessed June 29, 2022, <https://www.adb.org/sites/default/files/publication/747036/bhutan-exports-nontariff-barriers-trade-study.pdf>.

<sup>51</sup> Asian Development Bank and SASEC, “Potential Exports and Nontariff Barriers to Trade: Bhutan National Study,” November, 2021, [adb.org](http://adb.org), Accessed June 29, 2022, <https://www.adb.org/sites/default/files/publication/747036/bhutan-exports-nontariff-barriers-trade-study.pdf>.

<sup>52</sup> Asian Development Bank and SASEC, “Potential Exports and Nontariff Barriers to Trade: Bhutan National Study,” November, 2021, [adb.org](http://adb.org), Accessed June 29, 2022, <https://www.adb.org/sites/default/files/publication/747036/bhutan-exports-nontariff-barriers-trade-study.pdf>.

Customs under the umbrella of the Ministry of Economic Affairs. Moreover, all imports entering Bhutan by air are subject to DRC regulations along with SPS and TBT measures.<sup>53</sup>

The table below is an overview of Bhutan's TBT and SPS measures and includes some of the potential and current exports of Bangladesh to Bhutan. The information has been taken from a study conducted by ADB in 2021, "Potential Exports and Nontariff Barriers to Trade: Bhutan National Study":<sup>54</sup>

HS Code	Product	SPS and TBT Measures of Bhutan	Details of SPS and TBT Agency of Bhutan
392099	Film and sheet., noncellular, of plastics NES	B14 <sup>55</sup> authorization Requirements for TBT reasons, E111 licensing procedure with no specific ex ante criteria	BSB Sales Tax, Customs and Excise Act, 2000
110100	Wheat or meslin flour	A83 <sup>56</sup> certification requirements	BAFRA BSB DOT, MOEA Sales Tax, Customs and Excise Act, 2000
200989	Juice of fruit or vegetables, unfermented, Whether or not containing added sugar	B14: Authorization requirements for TBT A84: Inspection Requirements Jam, jelly, and marmalade--drafting of national standards ongoing	BAFRA, Food Act, 2005 DOT, MOEA Sales Tax, Customs and Excise Act, 2000
392321	Sacks and bags (Including cones) of polymers of ethylene	B14: Authorization requirements for TBT reasons E111: <sup>57</sup> Licensing procedure with no specific ex ante criteria	BSB, BAFRA, DOT, MOEA
200911	Frozen orange juice, unfermented and not spirited, whether not sugared or sweet	B14: Authorization requirements for TBT reasons A83: Certification requirements BAFRA proposal to develop orange juice standards with Bhutan as the lead agency under SARSO	BAFRA, DOT, MOEA Sales Tax, Customs and Excise Act, 2000
200990	Mixtures of juices, unfermented and not spirited, whether or not sugared or sweet	B14: Authorization requirement for TBT reasons, labelling requirements	BSB DOT, MOEA Sales Tax, Customs and Excise Act, 2000

<sup>53</sup> Asian Development Bank and SASEC, "Potential Exports and Nontariff Barriers to Trade: Bhutan National Study," November, 2021, adb.org, Accessed June 29, 2022, <https://www.adb.org/sites/default/files/publication/747036/bhutan-exports-nontariff-barriers-trade-study.pdf>.

<sup>54</sup> Asian Development Bank and SASEC, "Potential Exports and Nontariff Barriers to Trade: Bhutan National Study," November, 2021, adb.org, Accessed June 29, 2022, <https://www.adb.org/sites/default/files/publication/747036/bhutan-exports-nontariff-barriers-trade-study.pdf>.

<sup>55</sup> Authorization requirement for TBT reasons; Requirement that the importer should receive authorization, permits or approval from a relevant government agency of the destination country, for reasons such as national security, environment protection, etc. Example: Imports must be authorized for drugs, waste and scrap, and firearms, etc.

<sup>56</sup> Certification requirement; Certification of conformity with a given regulation that is required by the importing country but may be issued in the exporting or the importing country. Example: Certificate of conformity for materials in contact with food (containers, papers, plastics, etc.) is required.

<sup>57</sup> Licensing procedure with no specific ex ante criteria Licensing procedure where approval is granted at the discretion of the issuing authority; may also be referred to as a discretionary license. Example: Imports of textile products are subject to a discretionary license

HS Code	Product	SPS and TBT Measures of Bhutan	Details of SPS and TBT Agency of Bhutan
940360	Furniture, wooden, NES	No TBT measures identified	BSB DOT, MOEA
150790	Soybean oil and its fractions, refined but not chemically modified	A83: Certification requirements	BAFRA, BSB
540233	Textured yarn NES, of polyester filaments, not put up for retail sale	SPS and TBT measures in Bhutan not identified	BAFRA BSB

Table 21 Overview of Bhutan's TBT and SPS measures

## 5.9 Trade Facilitation Measures

A detailed trade facilitation update is presented in the following table. Bangladesh has only implemented five Trade Facilitation Measures (TFA) measures and 22 are partially implemented. There are another 17 trade facilitation measures that are in the planning stage and nine measures are not implemented at all. On the other hand, Bhutan has fully implemented 3 TFA measures, while 20 are partially implemented. For Bhutan, 7 TFA measures remain in the planning stage and 21 have not been implemented at all.

## 5.10 International Good Practices

Bangladesh has a lot to learn from its neighboring countries regarding good trade practices. The following table lists out some is which Bangladesh can take inspiration from.

Country	Practice	Benefit
India	<u>Indian Customs EDI System (ICES)</u>	<i>The government of India has introduced several reforms to make the customs clearance process more efficient. An important one is ICES, an end-to-end, paperless, and online customs clearance system. It's a part of the government's broader DIGIT (Digital, Information rich, Green, Inter-operable, Transport) ecosystem aimed at improving the speed and transparency of customs clearance. Prior to the introduction of ICES, customs clearance in India involved lengthy manual processes that were not only time-consuming but also prone to errors and inconsistencies. With ICES, the customs process has become streamlined and largely paperless, leading to faster clearance of goods. For instance, customs clearance for most commodities can be completed within a day if the documentation is correct.</i>
	<u>Turant Customs Initiative</u>	<i>India introduced the "Turant Customs" initiative in 2020 for faceless, contactless, and paperless customs measures. Under Turant Customs, every bill of entry filed by importers or customs brokers is processed electronically by a virtual group irrespective of where it was filed in India. This results in uniform assessment across the country. Turant Customs further improves the clearance process by making it faceless and contactless. It eliminates human intervention, making the process faster and more efficient. Moreover, it reduces</i>

		<i>corruption and favoritism, ensuring that goods are evaluated fairly and objectively, irrespective of where they're imported in India.</i>
	<u>Make in India Initiative</u>	<i>India, in recent years, has made significant strides in improving the ease of doing business by cutting red tape, digitizing processes, and introducing investor-friendly policies. The government launched the "Make in India" initiative in 2014 to attract foreign companies to manufacture their products in India. Apple, for instance, started manufacturing certain models of the iPhone in India, which would not only help Apple reduce the price of iPhones in India but also avoid import tariffs.</i>
	<u>Intellectual Property Rights</u>	<i>India ranks first among the South Asian countries in terms of its IPRs protection in trade. India has a comprehensive legal framework for IPRs, covering patents, trademarks, designs, copyrights, geographical indications, plant varieties, and layout designs of integrated circuits. India also has a dedicated ministry for commerce and industry that oversees the administration and enforcement of IPRs through various offices and agencies.</i>
<b>Sri Lanka</b>	<u>Single Window system</u>	<i>The Sri Lanka Customs launched a Single Window system, which allows traders to lodge information with a single body to fulfill all import or export-related regulatory requirements. Instead of dealing with multiple government bodies, this system simplifies the process for traders, thus reducing time and costs associated with trade. Sri Lanka's Single Window system allows traders to lodge information with a single body to fulfill all import or export-related regulatory requirements. This simplifies trade documentation and reduces bureaucratic delays.</i>
<b>Pakistan</b>	<u>Web-Based One Customs (WeBOC)</u>	<i>Pakistan introduced the WeBOC system, an online real-time, paperless customs clearance system developed by Pakistan Revenue Automation (Pvt) Ltd, allowing the customs department to reduce clearance time and enhance efficiency.</i>
<b>Nepal</b>	<u>Electronic Cargo Tracking System (ECTS)</u>	<i>The ECTS ensures the secure transit of goods from Indian ports to Nepal, reducing theft and smuggling. The system contributes to making trade more reliable and efficient.</i>
<b>Bhutan</b>	<u>Automated Customs System (ACS)</u>	<i>The ACS has allowed Bhutan to modernize its customs procedures in line with international standards. It enables the automatic calculation of customs duties and taxes, electronic payment, and risk-based inspections. As a result, the customs process is faster, more transparent, and less susceptible to corruption.</i>
	<u>Promoting Sustainable Trade Practices</u>	<i>Bhutan is globally known for its commitment to maintaining at least 60% forest coverage in its constitution for all time to come. The country exports hydroelectric power to India, leveraging its abundant water resources, but it carefully manages these projects to reduce environmental impact.</i>
<b>Thailand</b>	<u>National Single Window (NSW)</u>	<i>Thailand has implemented the National Single Window (NSW) for faster and more streamlined customs procedures. Moreover, being a member of the Association of Southeast Asian Nations (ASEAN), Thailand benefits from the ASEAN Free Trade Area (AFTA), which reduces trade barriers within the region.</i>
<b>Vietnam</b>	<u>Double Taxation Avoidance Agreements (DTA)</u>	<i>Vietnam shares DTAs with more than 80 countries and territories as of 2022, whereas Bangladesh has DTAs with only 36 countries as per BIDA. Since these treaties eliminate double taxation, it may be applicable for foreign investors and encourage them to invest further.</i>

<p><b>Singapore</b></p>	<p><u>Port Management and Investment</u></p>	<p><i>Singapore's Pasir Panjang Terminal Building Gate 3 for containerized cargo within the Port of Singapore provides access to eight additional flow-through container lanes. This has led to significantly decreased the time for import and export border compliance and an improvement in the terminal handling.</i></p>
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## 6 Economic Modelling Results

Bhutan's Data is not available in the GTAP Model. Data in the context of rest of South Asia (Maldives, Afghanistan and Bhutan) have been used, however, it may not bring true results. Similarly, for the gravity model, necessary data is not available.

### Bangladesh-Bhutan/Maldives/Afghanistan

In the GTAP database, Bhutan represents the rest of South Asia which is commutative of Bhutan, Maldives, and Afghanistan. Overall, since Bangladesh engages in relatively low trade with Bhutan, Maldives, and Afghanistan cumulatively, we can treat them as one unit. Employing Bhutan's\* tariff rates as a representative, we notice a 43.3% rate on Processed Food imports from Bangladesh along with 28.5% on Textiles. On the Bangladeshi side, tariff rates of nearly 25% are imposed on Grains and Crops as well as Processed Foods.

Given the removal of high tariffs on imports of Bangladeshi Processed foods, Bhutan's\* imports are slated to rise in magnitude by 0.36%. Yet, exports decreased by 0.24%. Bangladesh experiences small increases in both exports and imports by 0.04% and 0.05% respectively. It is important to note that because of the FTA, Bhutan's exports are shown to increase by 0.05%, which may positively impact the economies of Bhutan\* and Bangladesh. This may explain the increase in Bhutan's overall real GDP by 0.02%.

In terms of the FTA's impact on Bangladeshi industries, Processed Foods exports unsurprisingly change the most, rising by 1.73%, corresponding to a 0.16% increase in overall output. Apart from a similar rise in imports of Extraction by 0.39% and exports of Heavy Manufacturing goods by 0.33%, the impact of individual sectors is minuscule, being under 0.1%. The isolated, and a small amount of trade between Bangladesh and Bhutan\*, especially in comparison to bigger players such as China and India, explain the limited real impact of the FTA.

Tariff Structure (%)		
	Bangladesh's tariff importing from Bhutan	Bhutan tariff importing from Bangladesh
<b>GrainsCrops</b>	24.5	13.9
<b>MeatLstk</b>	0	0
<b>Extraction</b>	7.07	0
<b>ProcFood</b>	24.8	43.3
<b>TextWapp</b>	0	28.5
<b>LightMnfc</b>	0	21.7
<b>HeavyMnfc</b>	4.32	10.8

Table 22 Tariff Structure (%)

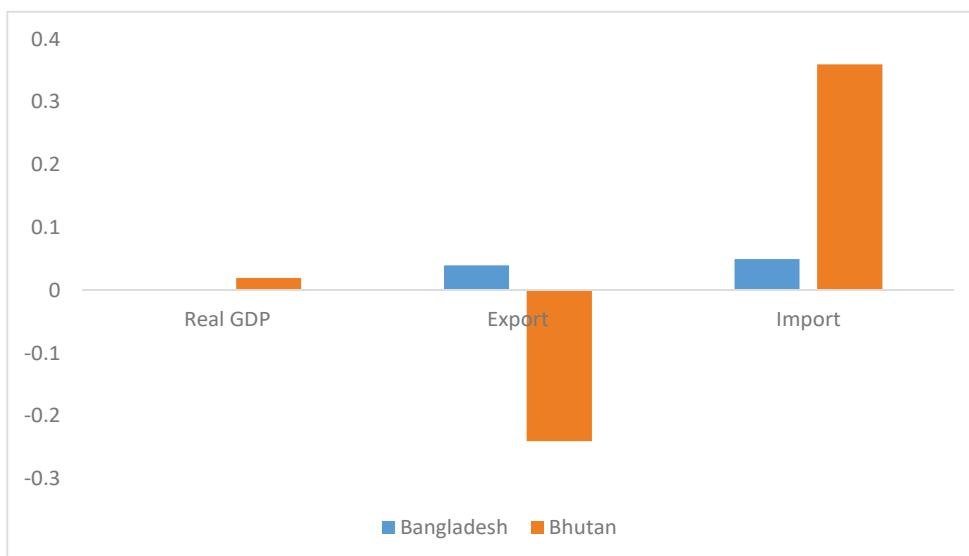


Figure 4 Bangladesh -Rest of South Asia (Bhutan + Maldives + Afghanistan) (% Change)

Impact on Bangladesh's Sectoral output, Export, and Import (% Change)			
	Output	Export	Import
GrainsCrops	-0.03	0.08	0.27
MeatLstk	0	0.1	-0.04
Extraction	-0.01	-0.05	0.39
ProcFood	0.16	1.73	0.01
TextWapp	-0.01	-0.01	0
LightMnfc	0.03	0.2	0.04
HeavyMnfc	0.04	0.33	0.01
Util_Cons	0.02	-0.06	0.05
TransComm	0	-0.05	0.03
OthServices	0	-0.07	0.03

Table 23 Impact on Bangladesh's Sectoral Output, Export, and Import (% Change); Source: Trade Expert's Simulation

## 6.1 Analysis on Comprehensive Economic Partnership Agreement (CEPA)

Comprehensive Economic Partnership Agreement (CEPA) is a comprehensive agreement with several facets covering almost every area under trade, investment, and economic activity. While many CEPAs only contain investment, trade in goods, and trade in services, a few CEPAs also address issues like intellectual property rights, human resource development, small and medium-sized enterprises (SMEs), information and communication technology (ICT), travel, hospitality, and transportation, as well as mutual recognition agreements/arrangements (MRA), technical support, and capacity building. For instance, the Regional Comprehensive Economic Partnership (RCEP) is a CEPA which has been signed to create an economic partnership agreement between the ASEAN Member States and ASEAN's FTA Partners that is contemporary, comprehensive, high-quality, and mutually advantageous.

Studying the Prospects and Concerns of CEPA with Bhutan would involve several issues and considerations for Bangladesh. For this purpose, Bhutan’s Trade and Economy, bilateral trade, investment with Bangladesh including other areas of concern such as existing trade barriers, sector-specific advantages, and the potential for market access have been analyzed. Furthermore, a partial equilibrium analysis was conducted using the SMART online platform of the World Integrated Trade Solution to assess the potential effects of trade creation and diversion for Bangladesh.

### 6.1.1 Foreign Direct Investment (FDI)

According to the data from Bangladesh Bank, as of FY 2020-21, the inward FDI stock of Bangladesh remains 19.94 billion USD compared to 0.37 billion USD of outward stock. Analysis of data for five consecutive years since FY 2016-17 reveals Bangladesh more as an FDI recipient country. As of FY 2020-21 USA, UK, Netherlands, Singapore, Republic of Korea, Hong Kong, China are major countries in terms of inward FDI stock of Bangladesh; each of these contributed at least a 5% of the total. In terms of sectoral contribution, gas & petroleum, textile and wearing, banking, power, food and telecommunication remains the major contributor in terms of total inward FDI stock of FY 2020-21. Analysis of data for the similar five FY reveals that the yearly FDI inflow ranges between 2.37 to 3.88 billion USD compared to a negligible FDI outflow ranges between 0.01 billion USD to 0.14 billion USD. As of FY 2020-21 the United Kingdom, Hong Kong, Nepal, India and United Arab Emirates remain as recipient of FDI outflow from Bangladesh with a share of 86.3% of the total net outflow of Bangladesh. The sectoral contribution reveals that the financial intermediaries, mining and quarrying, chemical and pharmaceuticals, gas and petroleum, trading are sectors where FDI outflow took place as of FY 2020-21. In this context it becomes apparent that Bangladesh remains more as an FDI recipient both in terms of stock and flow.

Global FDI Scenario of Bangladesh (Values in Billion USD)					
	2016-17	2017-18	2018-19	2019-20	2020-21
FDI Inward Stock of Bangladesh	14.46	15.79	18.68	18.72	19.95
FDI Outward Stock of Bangladesh	0.24	0.31	0.32	0.30	0.37
FDI Inflow of Bangladesh	2.45	2.58	3.88	2.37	2.50
FDI Outflow of Bangladesh	0.04*	0.14*	0.03	0.01	0.06

Table 24 Global FDI Scenario of Bangladesh, Source: Bangladesh Bank

According to the UNCTAD statistics, FDI inflows was 6.21 million US\$ in 2005 which reaches 26.25 million US\$ in 2010, then in 2015 it reaches 6.49 million US\$ and declined to 1.57 million US\$ in 2021. There is no FDI Outflow of Bhutan in the same period. To encourage economic growth and development, Bhutan has been attempting to entice FDI in a number of industries. Although Bhutan has received comparatively little foreign direct investments (FDI) compared to other nations in the region, there have been a few noteworthy investments in recent years. Foreign investors have been drawn to Bhutan’s hydroelectric potential. Countries like India have invested in projects like ‘the Punatsangchhu hydroelectric plant’. Moreover, Investors in the tourism industry are interested in Bhutan because of its distinctive cultural history and natural beauty. Hospitality and hotel groups from around the world have expressed interest in building Bhutan’s tourism infrastructure. In addition, Bhutan’s

emphasis on enhancing its manufacturing capacity has drawn foreign investors to industries like cement.

### 6.1.2 Trade in Services

According to The World Trade Statistical Review (2021), Bangladesh is not among the top forty countries which together constitutes 96% of the total global export of commercial services though in terms of import it ranked 40th globally. The total global commercial service trade of Bangladesh stood 10.81 billion USD as of FY 2020-21, of which export and import constitutes 3.77 billion USD and 7.04 billion USD respectively. Analysis of data for five consecutive years reveals that Bangladesh is more import oriented in terms of service trade. Analysis of sectoral contribution reveals that other business services, transportation services and construction services remain the major contributors of export receipt as of FY 2020-21 with their aggregate share of around 67%. On the other hand, in case of import, transportation service itself contributes 68% of the total commercial service import by Bangladesh as of FY 2020-21.

Global Trade in Commercial Services (Values in Billion USD)					
	2016-17	2017-18	2018-19	2019-20	2020-21
Global Export of BD	1.85	2.58	3.34	3.06	3.77
Global Import of BD	4.44	5.94	6.66	6.74	7.04
Total Trade	6.30	8.51	10.00	9.81	10.81

Table 25 Global Trade in Commercial Services, Source: Bangladesh Bank

Statistics from Bangladesh Bank shows that Bangladesh faces trade deficit in trade in services. A significant part of Bangladesh's receipts from services comes from non-commercial government services. Among the commercial Services, business services, transportation, telecommunication, construction, travels (tourism) are the mostly exported services.

Export of Services by Bangladesh to the Global market (Values in Million US\$)		
Name of Services	Fiscal Year	
	2017-18	2018-19
C. Services	4,184	5,857
Government goods and services, n.i.e.*	1,678	2,318
Other business services	681	984
Transportation	589	663
Telecommunications, computer and information services	538	557
Construction services	138	432
Travel	351	368
Manufacturing services on physical inputs owned by others (CMT)	36	361
Financial services (Other than insurance)	148	147
Personal, cultural & recreational	15	15
Charges for the use of intellectual property n.i.e.	0	8
Maintenance and repair services	6	5
.Insurance services	2	1

Table 26 Export of Services by Bangladesh to the Global market, Source: Bangladesh Bank

On the other hand, Transportation captures the lion's share of Bangladesh's services import. This import is basically induced by freight transport for trade in goods. Other business services Travel, Construction services and financial services (Other than insurance) are amongst the mostly imported services.

Import of Services by Bangladesh from Global market (Values in Million US\$)		
Service Sectors and Sub Sectors	Fiscal Year	
	2017-18	2018-19
<b>Total Services</b>	6,081	6,796
Transportation	3,728	4,105
Other business services	656	847
Travel	714	822
Construction services	353	492
Financial services (Other than insurance)	318	170
Government goods and services, n.i.e.*	143	135
Telecommunications, computer and information services	74	92
Maintenance and repair services	32	48
Charges for the use of intellectual property n.i.e.	46	33
Insurance services	3	32
Personal, cultural & recreational	15	20
Manufacturing services on physical inputs owned by others	0	0

Table 27 Import of Services by Bangladesh from Global market, Source: Bangladesh Bank

According to the WTO's Trade Profile, Bhutan's export in Commercial Services in 2020 was worth 133 million US\$ and Import in 2021 was 210 million US\$ which means Bhutan imports more services than export. As a percentage of GDP, Bhutan's trade in services was reported to be 6.2374% in 2021 by the World Bank's collection of development indicators, which is based on official data. The following table shows Bhutan's Export of Services in 2020 and 2021. From the table it can be seen that only Air transport and Travel services are significant in case of export.

Bhutan's Export of Services in 2020 and 2021		
Service label	Exported Value in 2020	Exported Value in 2021
All services	135.00	82.00
--- Air transport	38.00	23.00
--- Passenger transport, All modes (alternative breakdown)	-	-
--- Travel, Business	7.00	-
--- <b>Travel, Personal</b>	<b>78.00</b>	-
--- Reinsurance	2.00	-
--- Explicitly charged and other financial services	6.00	-
--- Telecommunications services	1.00	-
--- Computer services	1.00	-
--- Technical, trade-related, and other business services	-	-
Government goods and services n.i.e.	1.00	-
--- Memo item: Other commercial services	11.00	-

Table 28 Bhutan's Export of Services in 2020 and 2021, Source: ITC Trade Map

The following table shows Bhutan's Import of Services in 2020 and 2021. From the table it can be seen that Other commercial services, Other modes of transport (other than sea and air), Air transport, Government goods and services n.i.e., Technical, trade-related, and other business services,

Telecommunications services, Maintenance and repair services are some of the significant services in case of import.

Bhutan's Import of Services in 2020 and 2021		
Service label	Imported Value in 2020	Imported Value in 2021
All services	226.00	221.00
--- Memo item: Other commercial services	103.00	98.00
--- Other modes of transport (other than sea and air)	42.00	40.00
--- Air transport	16.00	15.00
Government goods and services n.i.e.	11.00	11.00
--- Technical, trade-related, and other business services	9.00	9.00
--- Telecommunications services	5.00	5.00
Maintenance and repair services n.i.e.	4.00	4.00
--- Professional and management consulting services	2.00	2.00
--- Computer services	-	-
--- Passenger transport, All modes (alternative breakdown)	-	-
--- Freight transport, All modes (alternative breakdown)	-	-
--- Other transport (other than passenger and freight), All modes (alternative breakdown)	13.00	-
--- Travel, Business	6.00	-
--- Travel, Personal	44.00	-
--- Construction in the reporting economy	74.00	-
--- Direct insurance	2.00	-
--- Reinsurance	2.00	-
--- Explicitly charged and other financial services	8.00	-
Charges for the use of intellectual property n.i.e.	-	-

Table 29 Bhutan's Import of Services in 2020 and 2021, Source: ITC Trade Map

### 6.1.3 Micro, Small, and Medium Enterprises (MSMEs)

Like many other countries in south Asia, Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in the economic development of Bhutan. The Government of Bhutan recognizes this fact and the importance of MSMEs in generating employment, promoting entrepreneurship, and fostering inclusive growth. In Bhutan, like many other countries MSMEs are categorized based on their annual turnover. The Royal Government of Bhutan has implemented various policies, programs, and financial schemes to support the growth and development of MSMEs. Some of the key initiatives include:

**Bhutan Enterprise Development Corporation Limited (BEDCL):** BEDCL is a state-owned enterprise that provides business development services, access to finance, and business incubation support to MSMEs.

**Cottage and Small Industry (CSI) Division:** The CSI Division, under the Ministry of Economic Affairs, is responsible for formulating and implementing policies and programs to promote MSMEs. It provides training, capacity building, and financial support to MSMEs.

**Financial Support:** The government has established the Cottage and Small Industry (CSI) Fund and the Rural Enterprise Development Corporation Limited (REDCL) to provide financial assistance to MSMEs in the form of loans, grants, and subsidies.

**Business Incubation Centers:** The government has set up business incubation centers to support the growth of innovative startups and provide them with necessary infrastructure, mentorship, and networking opportunities.

**Simplified Regulatory Framework:** The government has taken steps to simplify the regulatory framework for MSMEs, making it easier for them to start and operate their businesses. This includes streamlining licensing procedures, reducing bureaucratic hurdles, and improving access to information.

While the government is actively working towards creating a conducive environment for MSMEs, there are some challenges that MSMEs in Bhutan face. These challenges include limited access to finance, lack of skilled manpower, limited market access, infrastructure constraints, and technological limitations. Considering the above mentioned analysis it can be summarized that MSMEs are an integral part of Bhutan's economy, and the government is committed to supporting their growth and development. The initiatives taken by the government aim to empower entrepreneurs, create employment opportunities, and promote sustainable economic development in the country.

The CEPA recognizes the importance of SMEs/MSMEs in the economic partnership and seeks to provide them with the necessary support, opportunities, and resources to thrive in the international trade environment. Generally, a separate chapter addressing the issue of Micro, Small, and Medium Enterprises (MSMEs) is considered in the Comprehensive Economic Partnership Agreement (CEPA) through various provisions and measures. As discussed, both Bangladesh and Bhutan didn't cover this issue in any FTA. Yet, there are ample potentials through addressing this issue in the future deeper bilateral engagement. According to the SME Foundation of Bangladesh's statistics, the MSME sector of Bangladesh accounts for 80% of employment within the industrial sector and contributes 25% to the country's GDP. The progress of this sector indicates that Bangladesh is on course to achieve the government's target of a 32% contribution to GDP by 2024.<sup>58</sup> Considering the present socio-economic reliance on the MSMEs both in case of Bhutan and Bangladesh, it is evident that both countries can cooperate with each other through promoting the growth and development of MSMEs and enhance their participation in deepening their partnership. In this connection, with a view to facilitating improved market access for MSMEs some provisions such as, reducing or eliminating tariff barriers, streamlining customs procedures, and simplifying trade facilitation measures could be covered in future

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<sup>58</sup> Dhaka Tribune. "Small enterprises are the pillars of sustainable growth in Bangladesh". dhakatribune.com/Accessed August 03, 2023. <https://www.dhakatribune.com/business/2022/06/27/small-enterprises-are-the-pillars-of-sustainable-growth-in-bangladesh>

agreements/arrangements. In this way MSMEs will be given the opportunity to expand their reach and access new markets and new products. Further, provisions regarding capacity building and providing technical assistance specifically targeted at MSMEs could be initiated. These kinds of initiatives may enhance their competitiveness, productivity, and ability to comply with regulatory requirements, enabling them to take advantage of the opportunities created by the agreement. In addition, there may be some dedicated articles or sections to address the specific needs and challenges faced by the MSMEs. Such provisions may cover inter alia, access to finance, intellectual property rights protection, e-commerce facilitation, and dispute resolution mechanisms tailored to the scale and resources of the MSMEs. Furthermore, this kind of comprehensive cooperation of sharing information which include sharing best practices, exchanging market information, fostering business networks, and establishing platforms for dialogue between MSMEs and relevant stakeholders would be a new opportunity for this sector. Finally, the CEPA recognizes the significance of MSMEs in the economic partnership and seeks to provide them with the necessary support, opportunities, and resources to thrive in the international trade environment as can be seen in the Regional Comprehensive Economic Partnership (RCEP) agreement which is the first Free Trade Agreement (FTA) involving all ASEAN countries that includes a specific chapter dedicated to Small and Medium Enterprises (SMEs). The primary aim of this Chapter 14 (Small and Medium Enterprises) of the RCEP Agreement is to enhance information sharing and cooperation, enabling SMEs to effectively utilize and benefit from the opportunities presented by this Agreement.<sup>59</sup> It can be summed up by saying that, through adapting and customizing the knowledge gained from Bhutan’s experience, Bangladesh has the potential to augment the expansion, competitiveness, and sustainability of its Micro, Small, and Medium Enterprises (MSMEs). This, in turn, can contribute to the overall economic advancement of the country, generate employment opportunities, and alleviate poverty.

### 6.1.4 SMART Simulation

A partial equilibrium analysis was conducted using SMART online platform of World Integrated Trade Solution. The latest available data of both the countries were used. The scenario was designed such that both countries are eliminating the entire tariffs imposed on all products for one another-meaning a full-fledged FTA. Key findings have been discussed below.

Importer	Exporter	Trade Creation	Trade Diversification	Increase in Export	Revenue	Welfare
Bangladesh	Bhutan (2015)	5.48	0	5.48	-5.09	0.72
Bhutan (2015)	Bangladesh	0.90	0	0.90	-0.87	0.08

Table 30 Impact on Bangladesh and Bhutan (USD Million) Source: SMART Simulation using WITS online interface.

<sup>59</sup> ASIAN DEVELOPMENT BANK, “THE REGIONAL COMPREHENSIVE ECONOMIC PARTNERSHIP AGREEMENT”, adb.org, Accessed 17 June, 2023 <https://www.adb.org/sites/default/files/publication/792516/rcep-agreement-new-paradigm-asian-cooperation.pdf>



The simulation shows that total bilateral import of Bangladesh will increase by US\$ 5.48 million as a result of trade creation (this shows the net increase of global import as well) and bilateral export will increase only by US\$ 0.90 million. Besides, total consumer surplus will be about US\$ 0.72 million which is insignificant. It was observed that if Bangladesh eliminates the entire tariff for Bhutan, this will incur revenue loss of about 5.09 million US\$. Overall, Bhutan will gain a bit more in terms of export. Revenue impact is a bit higher for Bangladesh. Further, no trade diversion effect was found for both in case of Bangladesh and Bhutan.

Evaluating the impact of a CEPA on market access is vital. Bangladesh would need to consider the reduction or elimination of tariffs in case of negotiating a trade agreement. Assessing potential gains and losses in market access for different sectors is essential for Bangladesh. Bangladesh has a PTA and a regional FTA with Bhutan. Yet, trade is not increasing expectedly. In that case, identifying and addressing non-tariff barriers to trade, such as technical regulations, sanitary and phytosanitary measures, customs procedures, and licensing requirements, is crucial. A comprehensive analysis of these barriers would help ensure a smooth flow of goods and services.

Evaluating the potential for liberalizing trade in services and promoting investment flows between Bangladesh and Bhutan is essential. Assessing the regulatory frameworks, market access restrictions, and investment protection measures would help identify opportunities and challenges for Bangladesh.

Considering the importance of physical infrastructure and connectivity for enhancing trade, Bangladesh would need to assess the state of infrastructure and connectivity with Bhutan. Identifying areas for improvement and potential cooperation in infrastructure development would be beneficial.

Evaluating the regional and global economic and political dynamics is essential. Understanding the geopolitical considerations, regional integration initiatives, and implications for Bangladesh's position in the global value chain would provide a broader context for the deeper engagement with Bhutan.

Bilateral trade between Bangladesh and Bhutan is relatively small, but a deeper engagement could help deepen economic ties and expand trade. Bhutan's economy is relatively small, and the potential gains from a such engagement may be limited compared to larger trading partners.

When negotiating a much deeper engagement with Bhutan, several services sectors of Bangladesh could be potential areas of interest. While the specific sectors may vary depending on the priorities and interests of the negotiating countries, here are some services sectors where Bangladesh has demonstrated immense potential:

**Information Technology (IT) Services:** Bangladesh has a growing IT sector, particularly in software development, IT outsourcing, and business process outsourcing (BPO). Partner countries could seek opportunities for collaboration, technology transfer, and investments in the IT services sector.

**Business Process Outsourcing (BPO):** Bangladesh has a competitive advantage in areas like call centers, customer support services, data entry, and back-office operations. Partner countries may be interested in leveraging Bangladesh's cost-effective and skilled workforce in the BPO sector.

**Telecommunications:** Bangladesh's telecommunications sector has experienced significant growth, particularly in mobile services and internet connectivity. Partner countries may explore opportunities for collaboration, infrastructure development, and knowledge-sharing in the telecommunications sector.

**Financial Services:** Bangladesh's financial services sector, including banking, insurance, and capital markets, has been expanding rapidly. Bhutan may be interested in exploring cooperation in financial services, including market access, regulatory frameworks, and investments.

**Healthcare Services:** Bangladesh has a well-established healthcare sector, including medical tourism and telemedicine. Bhutan may explore avenues for collaboration, technology transfer, and investments in healthcare services.

**Education and Skill Development:** Bangladesh has a growing demand for quality education and skill development. Bhutan may consider opportunities for cooperation in areas such as capacity building, vocational training, curriculum development, and student exchanges.

**Tourism and Hospitality:** Bangladesh has untapped potential in its tourism and hospitality sector, including ecotourism, cultural tourism, and heritage sites. Bhutan may explore cooperation to promote tourism, enhance hospitality services, and facilitate people-to-people exchanges.

**Remarks:** Sussex framework suggests that the higher the percentage of trade with potential partners the more likely the RTA is to be welfare enhancing. If the countries are already trading substantially with each other, tariff preference might lead to a rise in the trade flows and to welfare gains linked to reduction of import prices and to more efficient patterns of production. It can be inferred that bilateral trade with Bhutan is not promising which is only 45.08 million US\$. In this context, from export trade perspective, it can be assumed that Bhutan is not a potential destination for export from Bangladesh. Sussex Rules of Thumb (RoT) suggests that higher the initial tariffs, the greater is the likelihood of both trade creation and trade diversion. In that context, there is likelihood of both trade creation and trade diversion for deepening trade cooperation between Bangladesh and Bhutan. **As both Bhutan and Bangladesh have less experience of engaging CEPA, it can be concluded that such kind of high level of negotiation is not feasible for Bangladesh. Instead, Bangladesh may think of negotiating and increasing number of products under PTA, if feasible. Besides, Bangladesh may work on the non-tariff barriers issues as identified in different diagnostic studies.** Towards deepening further engagement, it is important to note that the specific issues and considerations may vary based on the individual characteristics and priorities of both Bangladesh and Bhutan. Therefore, a comprehensive analysis tailored to Bangladesh's needs and objectives would be necessary to determine the feasibility and potential benefits of such a deeper agreement.

## 7. Findings from Primary Survey

The following findings have been obtained through primary data collection in the form of 10 KIIs and one FGD. The findings have been placed under the appropriate scopes as mentioned in the ToR:

Scope	Findings
<p><b>Scope-1: Overall status of bilateral relations:</b></p>	<p>Out of ten respondents, three respondents addressed Bangladesh's current bilateral ties with Bhutan of whom, two were government officials and one was a commercial counselor at the embassy of Bhutan. As per a high-ranking respondent at the Bangladesh Land Port Authority, Bangladesh and Bhutan were involved in the MVA Agreement, supporting the free movement of vehicles. However, Bhutan backed out due to concerns over its environment.</p>
<p><b>Scope-2: Trade negotiation</b></p>	<p>Three out of ten respondents were aware of the agencies involved in trade negotiations, among them two were government officials. Respondents identified a lack of coordination among agencies facilitating trade negotiation and gaps in the harmonization process. Moreover, according to two respondents, there is a necessity for a specific agency or group to be involved in trade negotiations.</p> <p>Respondents also stated that certain reforms needed to be made in terms of trade facilitation and trade negotiation among whom, one participant also recommended the newly formed Regional Trade Agreement policy guideline as a guideline for reforms: "The RTA policy formed by the government looks into addressing trade negotiation, expansion, and reforms among others".</p>
<p><b>Scope-3: Prospects of Trade Diversification</b></p>	<p>The ten KII respondents recommended various prospects for trade diversification which included seafood, biscuits and bread, agro-processed food, leather, plastic, light engineering, electronics, home appliances, and pharmaceuticals. A respondent sided with the diversification of Bangladesh's apparel industry to boost trade. One respondent stated that "the government is providing several chances for investors to participate in new areas, encouraging entrepreneurs to invest more, and focusing on certain industries like agro-processing, light engineering, plastics, and others".</p>
<p><b>Scope-4: International best practices</b></p>	<p>During the FGD, one participant stated: "for export diversification, we need to consider rising sectors such as leather, agro-processing, and man-made non-woven items for RMG" which reiterates the KII findings. v</p> <p>For improving land port systems in Bangladesh and maintaining international standards, one participant recommended that Bangladesh follow "Freight of Cost" and "Free on Board" practices like developed countries. Another respondent asserted on the need for Bangladesh to avail GSP preferences. A respondent addressed how the Export Promotions Bureau is striving to adopt the electronic certification for Europe guidelines.</p>

	<p>Another respondent recommended that Bangladesh should learn from ASEAN and strengthen SAFTA by focusing on the overall participants, not just India. Also, Bangladesh and other SAFTA members need to go into RCEP like ASEAN.</p>
<p><b>Scope-5: Prospects for Comprehensive Economic Partnership Agreement (CEPA)</b></p>	<p>Three out of ten respondents stated that Bangladesh has prospects of entering CEPA, however, one of the respondents also stated that even though there are prospects, CEPA would not bring in opportunities. However, one respondent said that Bangladesh should go forward with an FTA instead for diversifying its market. On the other hand, one respondent recommended going into an agreement with countries under ASEAN and SAFTA.</p> <p>During the FGD, participants stated that the private sector wants to increase exports and, is in support of government moving forward with FTA/PTA at bilateral level.</p> <p>Suggestions from respondents for the government included adopting a trading strategy, utilizing foreign diplomacy for bringing about reforms, diversification of the export basket, and considering the demands of the other countries while reforming trade agreements.</p>
<p><b>Scope-6: Reforms in existing trade agreements</b></p>	<p>Additionally, while one respondent said Bangladesh needs to apply more taxes, another respondent favored reduced Corporate Income Tax (CIT) for industrial undertakings engaged in the processing of locally grown fruits and vegetables for 5 to 10 years. Another respondent suggested that depending on the region, Bangladesh needs to go through internal changes to meet international market standards. The same respondent also stated that the government needs to revisit its policies for reforms.</p> <p>During the FGD, one respondent said: "As long as there are matters of bilateral agreements, this is an agreement between two parties. While going into such agreements, we need to ensure that the clauses ensure our interests so that we do not fall behind. Otherwise, single or double, whatever tariff system we follow, our clause needs to address these legally... I just wanted to focus on one more thing, in any bilateral trade agreement, we must prioritize from a legal aspect that in cases of dispute, we must be able to settle it amicably".</p>
<p><b>Scope-7: Major institutional and infrastructural gaps in trade negotiation and trade management</b></p>	<p>All respondents pointed out several institutional and infrastructural gaps related to trade negotiations and trade management. Out of ten respondents, four stated that there is a lack of experienced negotiators and trade-specific jobs followed by a loss of institutional memory due to frequent rotation of government employees. One respondent stated that the government needs to involve the "future leaders" in trade negotiations. Two respondents out of ten identified the need for capacity building through training.</p> <p>Three respondents pointed towards gaps in infrastructural and port facilities as a source of major gaps in trade negotiation and trade management. In fact, one respondent stated how people in charge of land ports in Bangladesh are not aware of the rules that are applicable. Two respondents mentioned how there were discrepancies in the customs and clearance procedures.</p>

	<p>One respondent associated the gaps with an overly dependent private sector, placing the burden of responsibility on the government. On the other hand, one respondent identified gaps in research and development along with gaps in the process of implementation.</p> <p>Due to an increase in freight prices, exporters are facing trouble shipping our items as per one respondent. The quantity of accessible boats is insufficient to carry products to purchasers. According to one respondent, the business community needs policy backing to expand further because it employs the most people. Lastly, one respondent who is a identified a need for increased accessibility of ports and stated the following: "More number of land ports could be made available for Bhutan to avoid the congestion and delay due to the existing ports being used by three countries via Bhutan, India &amp; Nepal for their trade with Bangladesh".</p>
<p><b>Scope-8: Barriers to trade</b></p>	<p>Barriers to trade cited by KII respondents were maintenance of SPS/TBT measures, maintenance of hygiene standards, NTMs, compliance of FSSI certification, IGST and embargos as barriers, high tariff structure, absence of tariff policies, CAROTER, rules of origin, and prolonged testing of products in land ports, and lack of storage facilities at land ports.</p>
<p><b>Scope-9: export products subject to SPS/TBT measures</b></p>	<p>Respondents suggested a number of products that should be subjected to SPS and TBT measures whilst trading, those being: food in general, seafood, meat, processed meat, spices, cooking oil, agriculture products, and chemicals.</p>
<p><b>Challenges and recommendations</b></p>	<p>As per a respondent who was a government official, one challenge that Bangladesh faces while trading with countries such as Nepal and Bhutan are that: "Nepal and Bhutan are forced to depend only on India in such cases even though Bangladesh has the potential to provide goods and facilities at a cheaper price". Another respondent mentioned that 100% tax for exporting products is a challenge for Bangladeshi exporters. Moreover, institutional reform was recommended by one respondent.</p> <p>During the FGD, participants raised concerns regarding the Lack of negotiation skills and how there is a need for a wing under the Ministry of Commerce dedicated to negotiation.</p> <p>An expert who participated in the FGD opined the following: "After graduating in 2026, our biggest concern is market access since we are going to lose DFQF and market access, everyone from the Ministry of Commerce and Ministry of Foreign Affairs is working towards addressing the concern. The government is working on a plan for moving forward after 2026. EU, GSP, and rules of origin are also a concern. UK is starting a GSP scheme in 2023". Another expert noted that "There must be a win-win situation when signing an FTA".</p>

## 8. Analysis and Recommendations

The table below depicts the analysis and recommendations for this report that have been formed by synthesizing the overall findings for this study.

Findings:	Recommendations:
<p style="text-align: center;"><b>Review of Current Trade Agreement (Scope of Work from ToR: 1, 6)</b></p> <ul style="list-style-type: none"> <li>The current trade agreements between Bangladesh and Bhutan (recently revised), lists out the trade routes which is to be used by the two countries. The main trading route with Bhutan is through the Phuentsholing border coming through Hasimara and Changrabandha in India and entering Bangladesh at Burimari. <b>Bhutan has shown interest to use the Banglabandha port to carry goods from and to Bangladesh through India.</b> GoB has agreed to designate new 'ports of call' for use by Bhutanese traders from Aricha, Chilmari, Sirajganj, Mongla, Chattogram, and Payra Port.<sup>60</sup> Bhutan and Bangladesh have discussed operating river routes between them to expand trade.<sup>61</sup></li> </ul>	<ul style="list-style-type: none"> <li>The transit deal can be boosted by the addition of more ports as suggested and discussed by the governments which will improve the connectivity of landlocked Bhutan. However, this is only possible through increased port efficiency and port capacity. Once production begins at full scale in all SEZs and EPZs in Bangladesh, Chittagong port will not be able to handle the increased traffic and pressure. Expansion and enhancement of capacity may yield at least a 5% reduction in the cost of doing business, as per recommendations at an FBCCI Standing Committee on Ports and Shipping in January 2022.<sup>62</sup></li> <li>Though the Ministry of Commerce is not in charge of Chittagong port, the Ministry can advocate for a feasibility study on port expansion and capacity building in collaboration with the Ministry of Shipping.</li> </ul>
<p style="text-align: center;"><b>Trade Negotiating Agency and Harmonization Process (Scope of Work from ToR: 2)</b></p> <ul style="list-style-type: none"> <li>A stakeholder analysis of mandates and interests has revealed a gap between the organizations responsible for trade policy formulation. In the case of Bangladesh, NBR has a mandate to investigate trade agreements, and concessions but from a customs revenue gain/ loss point of view. While it may be true that some trade concessions can lead to net negative values financially but can be net positive from a holistic economic point of view. While MoC is responsible for looking at trade negotiations and arrangements from a holistic point of view, there seems to be a gap in terms of capacity in carrying out a comprehensive economic cost-benefit analysis of potential trade agreements and concessions (considering both financial costs and overall economic benefits) for the whole economy. <b>2 respondents out of 10 made</b></li> </ul>	<ul style="list-style-type: none"> <li>Creation of expert positions: trade economists with advanced degrees (Ph.D. in trade economics or relevant area) in the ministry capable of carrying out cost-benefit analysis and holistic simulation of hypothetical trade agreements or concessions.</li> <li>Creating efficient task forces/ working groups with members from agencies such as MoC, NBR, EPB, BFTI, private sector's chamber of commerce, and think tanks, among others to jointly discuss, and approve trade procedures, and policies.</li> </ul>

<sup>60</sup> Maritime Gateway, "Bangladesh Offers New Ports of Call for Bhutan," June 7, 2022, <https://www.maritimegateway.com/bangladesh-offers-new-ports-of-call-for-bhutan/>.

<sup>61</sup> Pathik Hasan, "Bhutan and Bangladesh Can Benefit from Growing Trade Ties," Pressenza, December 6, 2021, <https://www.pressenza.com/2021/12/bhutan-and-bangladesh-can-benefit-from-growing-trade-ties/>.

<sup>62</sup> The Financial Express, "Apex trade body suggests upscaling Chittagong seaport for trade expansion", thefinancialexpress.com.bd., January 7, 2022, <https://www.thefinancialexpress.com.bd/trade/apex-trade-body-suggests-upscaling-chittagong-seaport-for-trade-expansion-1641523990>.

<u>Findings:</u>	<u>Recommendations:</u>
<p><b>similar statements about the lack of harmonization and priorities between policy formulation agencies.</b></p> <ul style="list-style-type: none"> <li> <p><b>4 respondents mentioned that MoC lacks experts who can handle trade bilateral trade negotiations. FGD respondents have validated this statement.</b> There are only a handful of people (2-3) within the government agency who have the required expertise needed for FTA negotiation. In addition, there is no retention of institutional memory as (i) government service is a transferable job, (ii) due to retirement. Moreover, there is no dedicated person for formulating policies.</p> </li> <li> <p>Participants in FGD and KII stated that the private sector should be involved in policy formulation, trade negotiation, and management process. The government has a mandate of involving private stakeholders in a discussion process too, however, private stakeholders are not properly involved in the policy negotiation and formulation process. <b>1 FGD respondent mentioned the lack of a legal perspective/opinion during trade negotiations.</b></p> </li> </ul>	<ul style="list-style-type: none"> <li>Creation of a knowledge management system inside the ministry to retain organizational memory (i.e., stack overflow subscription, which is around USD 6 per month per employee)</li> <li>Creation of a pool of trade experts within MoC. These experts will be trained in trade policy formulation, negotiation, and specialized topics on trade. Even with the government's rotation policy and retirement issues, experts from this pool can be used. Moreover, a policy must be developed to retain institutional memory and make skills transferrable.</li> <li>Develop negotiating skills of policymakers/ experts for yielding better outcomes in trade agreement discussions.</li> <li>Training programs for ministry officials to teach the basic economic fundamentals behind international trade.</li> <li>Adoption of an evidence-based approach to decision-making when it comes to trade policies.</li> </ul>
<p><b>Trade and Investment Diversification Prospects (Scope of Work from ToR: 3, 9)</b></p> <ul style="list-style-type: none"> <li> <p>KII participants have stated that there is scope for Bangladesh to export refined petroleum and processed fish to Bhutan.</p> </li> <li> <p>From the desk review, it has been found that Bangladesh can export pharmaceuticals, soya bean oil, and rice to Bhutan.</p> </li> </ul>	<ul style="list-style-type: none"> <li> <p>Trade diversification prospects are in food products, refined petroleum, and pharmaceuticals. <b>Bhutan is already importing juices and other food products from Bangladesh. Bangladesh can export other varieties of food products since there is a ready-made market for Bangladeshi food products in Bhutan.</b></p> </li> </ul>
<p><b>International good practices (Scope of Work from ToR: 4, 10)</b></p> <ul style="list-style-type: none"> <li> <p>Bangladesh has only implemented five TFA measures and 22 are partially implemented. 17 trade facilitation measures are in the planning stage and nine measures have not been implemented. One of the respondents has also emphasized the implementation of trade facilitation measures as it may help move forward with FTA negotiations, and finalization.</p> </li> </ul>	<ul style="list-style-type: none"> <li> <p>Bangladesh can take inspiration from its neighboring countries when it comes to good trade practices. India has improved ease of doing business by cutting red tape, and digitizing processes. Singapore is making changes in cargo and container management to decrease time required for imports, and border compliance. Sri Lanka, Thailand have already implemented a single window system for faster and streamlined custom procedures.</p> </li> </ul>

Findings:	Recommendations:
<ul style="list-style-type: none"> <li>Time Release Studies (TRS) of Chittagong and Benapole Port were conducted in 2013 and 2014 respectively.<sup>63</sup> <b>One of the KI respondents mentioned the lack of data which has proven to be a barrier in carrying out necessary studies and making required improvements in the ports.</b></li> <li>Implementation of a national single window will cut down costs, make trade more efficient, and reinforce control. 2 respondents have emphasized the urgency of developing and executing a national single window for Bangladesh. KI and FGD responses have stated that Bangladesh's port and custom clearance lacks automation which is leading to inefficient port management, making trade paper-heavy, and increasing cost of doing business.</li> <li>Risk-based inspections are becoming increasingly common. In September 2017, China implemented a national trade single window, which includes its own risk-management module. This risk-management module has enabled risk-based inspections and, as a result, the overall process of export and import customs clearance has become faster. Similarly, in December 2018, Oman integrated a risk-assessment system into the national Single Window. Bayan, to streamline customs clearance and physical inspections, reducing the time to comply with border requirements for imports and exports. Uzbekistan also launched a risk management system.</li> <li>Inadequate infrastructure is one of the main burdens in international trade, and it can severely impact trade facilitation. The importance of infrastructure is most evident when considering the efficiency of ports—</li> </ul>	<ul style="list-style-type: none"> <li>As found via the FGD, Bangladesh is already focusing on implementing the remaining TFA measures through the formation of sub-committees, but respondents from the FGD have mentioned the need of a concrete document illustrating the allocation of tasks and operations and the concerned ministries. The aforesaid measure may speed up the implementation of the TFA measures.</li> <li>More studies/ time release studies should be commissioned by the GoB as it is proven to provide comprehensive data on the speed of clearance control and the efficiency of border control - both factors are critical for evaluating the impact trade reforms have on trade facilitation.<sup>64</sup> Studies will also bring out port inefficiencies which may lead to improvements.</li> <li>GoB has already decided to implement a national single window financed by the World Bank which is being led by NBR. Once the system is implemented, it is expected to enhance trade operations by significantly reducing the time and cost of trading. <b>As suggested by a KI respondent, the concerned ministries need to prioritize implementation over ideas. Hence, more focus needs to be placed on operations.</b></li> <li>In Bangladesh, border compliance takes up a lot of time especially testing time for inspections. Risk- based inspection has to be adopted to cut down time, lab officials has to be rigorously trained, systems have to be automated to make the process more efficient.</li> </ul>

<sup>63</sup> Rama Dewan and A.H.M. Shafiquzzaman, "Implementation Status of Bangladesh Towards Paperless Trade Facilitation," Trade Facilitation – WTO, unescap.org, Accessed June 29, 2022, <https://www.unescap.org/sites/default/d8files/Bangladesh-Presentation.pdf>.

<sup>64</sup> World Bank Blogs, "Time release studies: Making trade faster and more predictable in Europe and Central Asia", blogs.worldbank.org, Accessed July 1, 2022, <https://blogs.worldbank.org/trade/time-release-studies-making-trade-faster-and-more-predictable-europe-and-central-asia#:~:text=Measurement%20of%20time%20to%20release%20is,impact%20o%20trade%20facilitation%20reforms.&text=The%20TRS%20provide%20border%20agencies,control%20and%20clearance%20process>.



Findings:	Recommendations:
<p>their ability to ensure timely cargo transfers is a vital dimension of their competitiveness.</p> <ul style="list-style-type: none"> <li>Border compliance especially phytosanitary inspections may take up a lot of time especially for agricultural products. Enhanced inspections and procedures are required for these processes to be carried out efficiently.</li> </ul>	<ul style="list-style-type: none"> <li>Substantial improvement is needed in port infrastructure to facilitate and make trade efficient. Chattogram Port as a key international gateway, critical both for the functioning of the transport system and the economic success of the country. In order for Chattogram Port to continue to be able to handle growing export demand, timely implementation of additional port capacity and improving port infrastructure will be crucial.</li> <li>Joint dialogues can be held to ease SPS and TBT measures.</li> </ul>
<p><b>3 respondents stated that CEPA can be explored between Bangladesh and Bhutan.</b> However, they have also stated that to implement CEPA, Bangladesh needs to improve its tax regime and enable a trade-friendly environment.</p>	<p><b>Possibility of CEPA (Scope of Work from ToR: 5)</b></p> <ul style="list-style-type: none"> <li>Bhutan has a lot of surplus hydropower. Bangladesh has shown interest in buying this electricity. However, Bhutan's Prime Minister Lotay Tshering has stressed the need for trilateral talks to involve India (India is already importing hydropower from Bhutan).<sup>65</sup> No agreement has been reached yet. Sheikh Hasina and Lotay Tshering have agreed on building the necessary infrastructure to avail the maximum benefits of the PTA signed between Bangladesh and Bhutan. The two leaders discussed cooperation in various sectors including trade and connectivity.<sup>66</sup> However, since India is Bhutan's largest trading and development partner, India's cooperation is instrumental and vital in this regard and must be sought before finalizing an agreement.</li> <li>CEPA can be explored by setting up production facilities in SEZs as Bangladesh is encouraging foreign investment. By allowing Bhutan to set up production facilities in Bangladesh, Bangladesh will be giving Bhutan access to the global market through its ports without involving or using any trade routes in India. However, as both Bhutan and Bangladesh have less experience of engaging CEPA, it can be concluded that such kind of high level of negotiation is not feasible for Bangladesh. Instead, Bangladesh may think of negotiating and increasing the number of products under PTA, if feasible</li> </ul>

<sup>65</sup> South Asia Subregional Economic Cooperation, "Bhutan's Electricity Export to India Continues to Increase," August 2020, <https://www.sasec.asia/index.php?page=news&nid=1178&url=bhu-hydro-export-aug2020>.

<sup>66</sup> Pressenza, "Bhutan and Bangladesh Can Benefit from Growing Trade Ties," [www.pressenza.com](https://www.pressenza.com/2021/12/bhutan-and-bangladesh-can-benefit-from-growing-trade-ties/), Accessed June 29, 2022, <https://www.pressenza.com/2021/12/bhutan-and-bangladesh-can-benefit-from-growing-trade-ties/>.

**Findings:** **Recommendations:**

**Institutional, Infrastructural, and Legal Capacity (Scope of Work from ToR: 7)**

<ul style="list-style-type: none"> <li>NBR's focus on meeting revenue targets can hinder rather than facilitate trade if revenue considerations are not counterbalanced by overall long-term cost-benefit considerations for the whole economy. <b>Research studies indicate that implementing key trade facilitation measures will increase national revenue collection.</b><sup>67</sup> Tariff rationalization and modernization are crucial for Bangladesh to remain competitive. The corporate tax structure in Bangladesh is 30% whereas it is only 20% in neighboring countries like Viet Nam, Sri Lanka, Cambodia, Laos, and even India.<sup>68</sup> <b>Moreover, 4 respondents have stated that the tax regime in Bangladesh is not very friendly.</b></li> <li>NBR's current system of rotating officials within the Customs, Revenue, and Value Added Tax (VAT) agencies are incompatible with retaining a cadre of trained officials in customs functions.</li> <li>The NBR has introduced an automated customs system through the Automated System for Customs Data (ASYCUDA) World. However, as per a study by BFTI, many important components of the software remain unused.<sup>69</sup> The main features of the system used include declaration processing, selection of lane, assessment of goods, payment and release of goods, and log register of users.<sup>70</sup></li> <li>Automation is lacking in a lot of areas such as the exchange of SPS certificates. Infrastructural issues such as limited internet connection</li> </ul>	<ul style="list-style-type: none"> <li>A follow-on activity could work with NBR to adopt a policy of setting realistic targets for revenue collection and promote a culture of facilitating trade rather than maximizing revenue and including more trade experts to conduct an economic cost-benefit analysis of trade agreements and concessions.</li> <li>A pool of experts can be created within MoC who will be trained in trade negotiation, and even with the government's rotation system in place, the trade experts can be easily replaced from the pool.</li> <li>Rigorous capacity building of staff at MoC is required in terms of conducting economic cost-benefit analysis, negotiating in bilateral trade discussions, and management of trade agreements as the agency lacks skilled trade experts.</li> <li>Resources to automate procedures should be committed to ensuring that customs offices are gradually upgraded. Incorporating Information and Communications Technology (ICT) mechanisms is an important component of the harmonization of customs procedures and practices.</li> <li>A system should be put in place by MoC to regularly update, maintain the trade portal, and even inform the necessary stakeholders, and if needed educate stakeholders such as a chamber of commerce on the use of the website. Centers/ knowledge booths can be set up for</li> </ul>
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<sup>67</sup> World Trade Organization, "World Trade Report 2015 – Speeding Up Trade: Benefits and Challenges of Implementing the WTO Trade Facilitation Agreement," wto.org, Accessed June 29, 2022, [https://www.wto.org/english/res\\_e/booksp\\_e/world\\_trade\\_report15\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/world_trade_report15_e.pdf).

<sup>68</sup> The Financial Express, "Rational Tariffs, Ensuring Quality Products, Better Dealmaking Emphasised," The Financial Express, thefinancialexpress.com.bd, Accessed June 29, 2022, <https://thefinancialexpress.com.bd/trade/rational-tariffs-ensuring-quality-products-better-dealmaking-emphasised-1646194900>.

<sup>69</sup> Bangladesh Foreign Trade Institute, "The Scoping Study on Paperless Trade Reform in Bangladesh," August, 2017, Bangladesh Foreign Trade Institute (BFTI), Accessed June 29, 2022, [https://bfti.org.bd/pdf/Final\\_The%20Scoping%20Study%20for%20PROKAS%20Programme.pdf](https://bfti.org.bd/pdf/Final_The%20Scoping%20Study%20for%20PROKAS%20Programme.pdf).

<sup>70</sup> Dr. Khairuzzaman Mozumdar, "Challenges of Customs Automation in Bangladesh and Future Prospects," November 26, 2009, UNESCAP, Accessed June 29, 2022, [https://artnet.unescap.org/tid/projects/tforum\\_bang.pdf](https://artnet.unescap.org/tid/projects/tforum_bang.pdf).

Findings:	Recommendations:
<p>and frequent disruptions at custom houses and other trade control agencies at the border crossings limit trade.</p> <ul style="list-style-type: none"> <li>Inefficient port management is increasing Bangladesh's cost of doing business. Bangladesh's main seaport in Chittagong which is considered the heart of the country's export-import trade has weak port logistics leading to supply chain disruptions. The World Bank and S&amp;P Global Market Intelligence have ranked Chittagong port as Asia's least efficient trade hub.<sup>71</sup></li> <li>Even though major progress has been in trade facilitation in Bangladesh such as the introduction of the Bangladesh Trade Portal, MoC either does not have the capacity to constantly make necessary updates to the website or there is no set mandate for monitoring the website. <b>The FGD participants have stated that the Bangladesh Trade Portal has only been newly introduced, and they do not find the required resources or information expected from such a website.</b> Women entrepreneurs would prefer an information desk rather than a website as many of them are not comfortable with using websites. Furthermore, women traders face primary barriers such as lack of access to finance, lack of information, knowledge, and export opportunities.</li> <li>Trade negotiation teams from most countries typically include lawyers who specialize in international trade law. Countries which include lawyers in their teams include India, Sri Lanka, Singapore, Thailand, Nepal, and South Korea. The lawyers help to ensure that the country's interests are well represented and that the resulting trade agreements comply with international law and the country's own legal framework.</li> </ul>	<p>women entrepreneurs in conjunction with the Bangladesh Women Chamber of Commerce.</p> <ul style="list-style-type: none"> <li>Substantial infrastructure improvement is needed at ports in Bangladesh to facilitate the supply chain of exports and importers. A study by FBCCI stated that expansion and enhancement of port capacity may yield at least a 5% reduction in the cost of doing business.</li> <li>Bangladesh doesn't have any legal representative in its trade negotiation team, and this is a gap which can be immediately addressed.</li> </ul>
<b>Non-Tariff Measures (Scope of Work from ToR: 8, 10)</b>	

<sup>71</sup> The Business Standard, "CTG Port Asia's Least Efficient for Container Handling: World Bank," [www.tbsnews.net](https://www.tbsnews.net), May 26, 2022, <https://www.tbsnews.net/bangladesh/ctg-port-asias-least-efficient-container-handling-world-bank-427602>.

Findings:	Recommendations:
<ul style="list-style-type: none"> <li>While Bhutan needs to work on its regulatory framework to lessen SPS and TBT measures (licenses and certifications), Bangladesh also needs to develop its institutional capacity, ease the custom clearance process, and improve export-related compliance. BSTI is limited in terms of human resources, adequate facilities and has limited cold storage capacity (respondents have stated). For exports, BSTI must issue phytosanitary certificates and testing may take up to 7 days.<sup>72</sup> The testing capacity of both government and private institutions is limited.</li> <li>As per the Import Policy Order, all edible substances imported into Bangladesh must undergo testing, and currently, there is no risk-based testing being done. There is no risk-based testing for radioactivity tests too as Bangladesh requires all food products to be tested for radioactivity levels. <b>2 respondents have mentioned that there is a lack of risk assessment and concrete policies.</b></li> <li>There are limited cold storage options, and ports do not have enough storage space. <b>2 of the respondents have stated the urgency of increasing the capacity of cold storage for perishable goods.</b> Given the time taken by testing authorities at border crossings, many times, perishable goods get ruined.</li> <li>Plant Quarantine Wing must check containers visually at the entry point for permits and phytosanitary certificates for pests and diseases, based on which certificates are issued. However, different locations of the wing have different approaches based on their capacity.</li> <li>Trade in Bangladesh is paper-heavy and not automated. With the absence of an adequate computerized system, Bangladesh is not realizing the full economic benefits of trade facilitation.<sup>73</sup> Staff lacks the</li> </ul>	<ul style="list-style-type: none"> <li>Bangladesh can consider developing an automated risk management system to identify high-risk shipments for scrutiny and low-risk shipments to facilitate trade by allowing them to flow through the border without any impediments.</li> <li>Bangladesh should introduce risk-based testing to ease pressure on BSTI and cut down testing time on imports.</li> <li>Focus can be given to building the capacity of labs in terms of testing through the development of manuals.</li> <li>To speed up the testing and certification process, private institutions can be allowed to inspect, test, and issue certificates.</li> <li>Systems can be developed to automate lab reports and certificates to cut down processing time especially by reducing the time required to release agricultural goods and streamlining the process.</li> <li>Introducing and increasing the capacity of cold storage at the border will support expanding the trade of perishable goods.</li> <li>Initiatives may be taken to form Mutual Recognition Agreement (MRA) with major trading partners so that certificate issues by Bangladeshi agencies are accepted by the relevant countries. MRA will necessitate enhancement of capacity and standard of the testing and certifying agencies of the country.</li> <li>Joint dialogues can be held between Bhutan and Bangladesh to ease SPS and TBT measures as Bangladesh's export basket to Bhutan</li> </ul>

<sup>72</sup> Dr. Clifford Zimmes et. al., "Bangladesh Trade Facilitation Project" Baseline Evaluation," August 12, 2021, NORC at the University of Chicago, USDA, Accessed June 29, 2022, [https://pdf.usaid.gov/pdf\\_docs/PA00XRG9.pdf](https://pdf.usaid.gov/pdf_docs/PA00XRG9.pdf).

<sup>73</sup> World Bank Blogs, "COVID-19 Highlights Need for Digitizing and Automating Trade in South Asia," blogs.worldbank.org, August 14, 2020, <https://blogs.worldbank.org/endpovertyinsouthasia/covid-19-highlights-need-digitizing-and-automating-trade-south-asia>.

<u>Findings:</u>	<u>Recommendations:</u>
<p>capacity for new techniques, approaches, and customs practices and procedures.</p> <ul style="list-style-type: none"> <li>As per a study by BFTI, it has been found that major exports such as potatoes, plastics, jute, shrimps, and footwear from Bangladesh to important trading partners suffer barriers created by unnecessary documentation, labeling requirements, and certifications posing an unnecessary burden on exporters, and cause a delay in export time.<sup>74</sup> The same study has stated that 20 potential export products have no or limited export to Bhutan to NTMs.</li> </ul>	<p>mainly comprises food products that are subject to Bhutan's stringent SPS measures.</p>

*Table 31 Findings and Recommendations*

The following diagram shows the classification of opportunities into the following matrix: quick wins and possible prospects. Quick wins can be targeted first as these opportunities come with high impact and high ease of implementation too. Next, the focus should be on the possible prospects which will have a high impact but will require appropriate planning, resources, and time.

<sup>74</sup> Asian Development Bank, "Regulatory Impact Analysis Report on the Current Customs Regulatory Framework in Bangladesh," April 28, 2014, [adb.org](https://www.adb.org/sites/default/files/publication/179665/ria-customs-bangladesh.pdf). Accessed June 29, 2022.

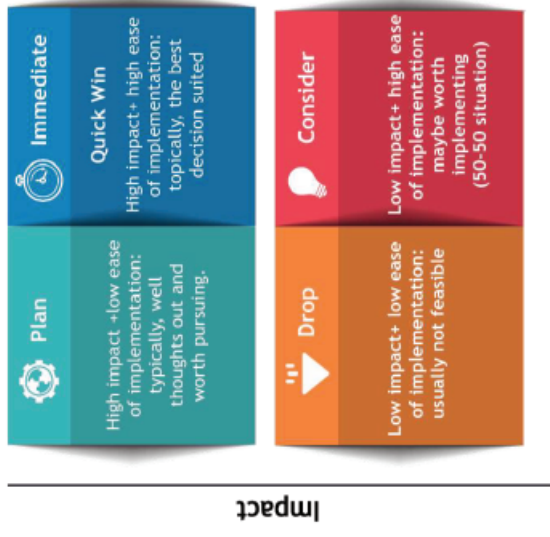


Figure 5 Impact vs Ease of Implementation

Plan	Immediate (Quick Win)
<ul style="list-style-type: none"> <li>Automation of customs procedures.</li> <li>Encouraging Bhutan to invest in the SEZs of Bangladesh.</li> <li>Planning trade diversification prospects with Bhutan in sectors such as refined petroleum, pharmaceuticals, light engineering, and agro-food products.</li> <li>Capacity building and building human resources at BSTI, and other testing facilities such as Plant Quarantine Wing.</li> <li>Full implementation of a national single window.</li> <li>Increasing the capacity of cold storage at ports.</li> <li>Improvement of port efficiency and making infrastructural changes to facilitate the supply chain.</li> <li>Automation of lab reports and certificates to cut down processing time.</li> </ul>	<ul style="list-style-type: none"> <li>Updating and increasing the trade routes between Bhutan and Bangladesh in the existing agreement and allowing Bhutan access to more ports in Bangladesh.</li> <li>Hiring and placing more trade economists in both NBR and MoC to conduct a cost-benefit analysis of tariff reductions and adopting other trade facilitation measures.</li> <li>Creation of tasks forces composed of government agencies and private stakeholders to jointly discuss and approve trade policies.</li> <li>Commissioning more time-release studies at sea and land ports to identify infrastructural gaps and time delays.</li> <li>Introduction of risk-based testing to ease pressure on BSTI and cut down processing time.</li> <li>Privatization of certification process and testing.</li> </ul>

<ul style="list-style-type: none"> <li>• Creation of a pool of trade experts with specialized knowledge and rigorous capacity building in trade negotiation, and management skills.</li> </ul>	<ul style="list-style-type: none"> <li>• Implementation of all TFA measures.</li> <li>• Joint dialogues between Bangladesh and Bhutan to ease NTMs.</li> <li>• Inclusion lawyers in Bangladesh's trade negotiation team.</li> </ul>
<b>Drop</b>	
-	<b>Consider</b>
	<ul style="list-style-type: none"> <li>• Initiatives for MRAs with major trading partners to eliminate certification issues when it comes to exports.</li> <li>• CEPA with Bhutan for the trading of hydropower, or investment in SEZs.</li> </ul>

Table 32 Categorization of Recommendation

## 9. Conclusion

Bhutan and Bangladesh are capable of forging ties that can benefit both nations. In that regard, the research touched upon several components that entail an efficient, diversified, and resilient economy for a country like Bangladesh. Since there is a PTA between the two countries, updating the Agreement on Trade (last amended in 2014) and the Agreement on Transit between the two countries may not prove to be beneficial. In addition, since both countries don't have experience in implementing CEPA, both Bhutan and Bangladesh may negotiate and increase the number of products under PTA, if feasible.

Desk review has revealed that Bangladesh exports food products to Bhutan, and since there is already a ready-made market for Bangladeshi food products in Bhutan, Bangladesh may export other varieties of food products including seafood. Even though one of Bhutan's top imported products is refined petroleum and Bangladesh exports refined petroleum to the world, Bangladesh has not tapped into this market in Bhutan which remains a lost opportunity.

Considering Bangladesh's current basket is dominated by textiles and apparel (83% of the total export share in FY20), other promising sectors besides petroleum that the country may embark on are firstly, electronic goods and appliances, especially with emerging companies such as Walton, and Vision, among others. Viet Nam, South Korea, and China have made similar transitions in the past (from ready-made garments to electronics). Moreover, with inflation rising globally, consumers have become price sensitive which brings forward an opportunity for Bangladeshi manufacturers to offer competitively priced electronics, taking advantage of cheaper production and assembly costs in Bangladesh. As of date, electronic goods and appliances only represent 0.43% of Bangladesh's export.

Secondly, pharmaceuticals is also a promising product. 20% of the KII respondents for this study have stated that Bangladesh should export seafood and pharmaceuticals to Bhutan. As the API Industry Park opens in Bangladesh, the country can tap into the global API market which stands at over 150 billion US\$. As of date, pharmaceuticals represent 0.44% of Bangladesh's export. Thirdly, agro-products and food exports from Bangladesh have been growing at a CAGR of 18% for the last five years, in particular the exports of processed snacks. The global demand for agricultural products is also expected to grow by 15% between 2019-2028 which provides a great opportunity for the Bangladesh processed food industry to expand its exports.<sup>75</sup>

Lastly, jute, high-end apparel, light engineering, and plastics are promising sectors for Bangladesh. Bangladesh has a high RCA value when it comes to jute products with countries like Nepal, Bhutan, Sri Lanka, and South Korea indicating export strength. Light engineering and plastics are evolving sectors in Bangladesh and have been identified as high-priority exports in the Export Policy 2021- 2024 of Bangladesh.

However, there are measures that need to be taken for Bangladesh to achieve export diversification and build stronger alliances with other countries such as Bhutan. The country is yet to address certain

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<sup>75</sup> BIDA - Agro Processing, "BIDA - Agro Processing," Accessed September 13, 2022, <https://bida.gov.bd/agro-processing>.



gaps at policy, institutional, infrastructural, and legal levels to build resiliency for becoming a middle-income country. While there are 54 trade facilitation measures, Bangladesh has fully implemented only 5 and is planning implementation for 22. 17 measures are in the planning stage, and 9 have not been implemented. On the other hand, Bhutan is lagging behind Bangladesh as the country has fully implemented only 3 measures, and partially implemented 20, with 7 in the planning stage and 21 not implemented.

KII findings have revealed that full implementation of all trade facilitation measures will also support FTA negotiations and finalization. KII findings have also indicated that Bangladesh is focusing on the implementation of trade facilitation measures, and sub-committees have been formed to handle, and expedite the implementation of all trade facilitation measures. A concrete document stating the allocation of tasks and operation within concerned representatives may speed up the implementation of all trade facilitation measures.

In terms of transport and connectivity, data obtained via interview and desk review has revealed that Bhutan is negotiating with Bangladesh to add more ports since the country is not able to utilize all trade routes as specified in previous agreements due to being dependent on Indian border routes for trade. 85% of Bhutan's trade is with India, and due to being landlocked, Bhutan has limited access to form direct trade connectivity with the rest of the world. Inefficient port management is increasing Bangladesh's cost of doing business, and export-related compliance is poor. Data from World Bank and S&P Global Market Intelligence indicates that Bangladesh's main seaport in Chittagong is Asia's least efficient port.

Also, inefficient port management is increasing Bangladesh's cost of doing business, and export-related compliance is poor. Paper-heavy trade, lack of automation in certification processes, limited internet connection and cold storage options, frequent disruptions in customs procedures, and inept trade control agencies at the border crossings add to port inefficiency. As per the KII findings, 45% of the respondents have stated that there is an infrastructural lacking and port inefficiency which can be improved. Automation in NBR, customs procedures, port management, and BSTI/ standards certification processes would be beneficial.

Moreover, there is room for improvement with regard to SPS measures. In the case of Bhutan, the country is not bound to follow the Agreement on TBT nor the Agreement on the Application of SPS Measures since it is not a member of the World Trade Organization (WTO). Yet, Bhutan has stringent SPS measures to protect the country's biodiversity from contaminants, diseases, and pollution among others. On that note, 30% of the respondents stated that SPS/ TBT poses the biggest barrier to trade between Bangladesh and Bhutan.<sup>76</sup> To address this issue, it is necessary to evaluate the existing MoU between Bangladesh Standards & Testing Institution (BSTI) and Bhutan Standards Bureau (BSB) which focuses on recognizing test certificates and exchanging information on product certification.

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<sup>76</sup> The sample size for the country report of Bhutan is 10 key informants.

Additionally, joint dialogues may also be organized to discuss, and outline policy recommendations to ease SPS and TBT measures.

Delving into the study from an institutional level, a stakeholder analysis of mandates and interests conducted by the team has revealed a gap between organizations responsible for trade policy formulation. About 40% of the KII respondents have stated that there is a lack of coordination and gaps in the harmonization process when it comes to trade policy formulation, management, and negotiation.<sup>77</sup> To address these gaps, institutional capacity building in trade economics and trade negotiation can be arranged for ministry officials on the economic fundamentals of international trade on economic cost-benefit analysis. Further, trade economist positions (with Ph.D. in economics) can be created inside MoC with expertise in cost-benefit analysis of trade negotiations. Such expertise can be hired or existing personnel from the Ministry can be sent overseas to acquire Ph.D. level training in economics. In addition, task forces can be created from members of trade agencies, think tanks, and the private sector to discuss, and approve trade policies. Trade negotiation teams from most countries typically include lawyers who specialize in international trade law and this is a gap which Bangladesh can immediately address since the trade negotiation team of Bangladesh doesn't consist of a legal representative.

There are also cross-learning opportunities from countries such as Bhutan which are also set to graduate from Least Developed Countries (LDC) status like Bangladesh. Trade-related policymakers and officials in these countries are likely to face similar situations in terms of adapting to the post-LDC graduation realities. This offers cross-learning opportunities among officials that can be explored through working group meetings, idea-sharing programs, and joint dialogues, among others.

Furthermore, the lack of Intellectual Property (IP) rights legal framework in Bangladesh may become a hindrance to investment very shortly. As strong IP protection in the legal system is a prerequisite to attracting high-tech investments, Bangladesh must develop a concrete legal framework to protect its innovative aspects of trade.

The review of existing agreements provided a depiction of the bilateral trade situation of Bangladesh with Bhutan, and the findings shed light on good practices, steps to facilitating an enabling environment when it comes to trade harmonization, and a deeper knowledge of import and customs related policies as well as guidelines that were developed at a global level. Through research, it was possible to acquire an understanding of the existing status of the trade scenario with important trading partners such as Bhutan. Following the careful review of trade agreements, it was possible to draw recommendations using which, the Government of Bangladesh may promote policy advocacy for trade related issues and create synergy between national development priorities and trade growth, in turn, expanding trade.

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<sup>77</sup> The sample size for KII for the first phase of study involving countries Nepal, Bhutan, Sri Lanka, and South Korea is 20 participants. This number represents responses received from 20 participants.

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## Annex 1: List of KII Participants

The following table indicates the ten key informants who were asked to participate in this study.

No.	Person	Position	Organization
1	Khalid Hossen	Deputy Chief of Party	Land O'Lakes
2	Kamruzzaman Kamal	Marketing Director	Pran RFL
3	Fazlay Elahi (Rupam)	Senior Manager	ACI Consumer Brands
4	Sadeq Ahmad	Deputy Secretary	Ministry of Commerce, FTA Wing
5	Kumkum Sultana	Director	Export Promotion Bureau
6	Md. Khairul Kabir Mia	First Secretary, Customs International Trade & Customs Exemption and Project Facilities	National Board of Revenue (NBR)
7	Sumaiya Zabeen	Deputy Chief	Bangladesh Trade and Tariff Commission, Ministry of Commerce
8	Sarwar Alam	Project Director, BRCP-1	Bangladesh Land Port Authority
9	Kencho Thinley	Trade Counsellor	Royal Bhutanese Embassy
10	S M Tasneef Nafee	Project Manager, Sales and Marketing, Global Business Division (GBD) -Export,	Walton, Bangladesh

Table 33 List of KII Participants

## Annex 2: List of FGD Participants

The following table indicates the participants who were asked to participate in the Focus Group Discussion (FGD):

No.	Person	Position	Organization
1	Mr. Santosh Kumar Dutta	Deputy Secretary General	Metropolitan Chamber of Commerce and Industry (MCCI)
2	Mr. Moksud Belal Siddiqui	Deputy Secretary General	Metropolitan Chamber of Commerce and Industry (MCCI)
3	Mr. M. Abdur Rahman	Deputy Chief	Metropolitan Chamber of Commerce and Industry (MCCI)
4	Mr. Md. Saidul Islam	Legal Expert	Metropolitan Chamber of Commerce and Industry (MCCI)
5	Mr. Tahseen Salman Chaudhury	Senior Research and Publication Officer	Metropolitan Chamber of Commerce and Industry (MCCI)
6	Dr. Masudur Rahman	National Trade Expert	Institute for Policy, Advocacy, and Governance (IPAG)
7	Prof. Syed Munir Khasru	Chairman	Institute for Policy, Advocacy, and Governance (IPAG)_
8	Ms. Shahtaj Mahmud	Program Coordinator	Institute for Policy, Advocacy, and Governance (IPAG)
9	Ms. Zulfa Kamal	Representative	Institute for Policy, Advocacy, and Governance (IPAG)

Table 34 List of FGD Participants

## Annex 3: List of Team Members

The studies have been implemented by The Institute of Policy, Advocacy, and Governance (IPAG) in joint venture partnership with e.Gen Consultants Ltd. The following table indicates the list of team members as was mentioned in the original proposal:

No.	Person	Position
1	Md. Abdul Karim	Team Leader
2	Mohammad Masudur Rahman	National Trade Expert 1/ Trade Economist 1
3	Mostafa Abid Khan <sup>1</sup>	National Trade Expert / Trade Economist 2
4	Margub Kabir	Legal Expert 1
5	Junayed Ahmed Chowdhury	Legal Expert 2
6	Tapan Chandra Banik	Research Associate 1
7	Altap Hossen	Research Associate 2

Table 35 List of Team Members (as Proposed in the Technical Proposal)

<sup>1</sup> Mostafa Abid Khan has been replaced by Prof. Syed Munir Khasru approved by the Ministry on 3 May 2023.





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