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Bangladesh Regional Connectivity Project (BRCP-1)
Ministry of Commerce

Review of Bilateral Trade Agreement and Way Forward

Nepal

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

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Review of Bilateral Trade Agreement and Way Forward Nepal

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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-1 project. The study has been prepared to identify the reforms in Institutional, infrastructural, legal capacity, and present prioritized recommendations for necessary improvement in bilateral trade between Bangladesh and Nepal, 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 Nepal 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 Preferential Trade Agreements (PTA), Free Trade Agreements (FTA), Economic Partnership Agreement (EPA), 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 Nepal. 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 current and past trade trends; reviewing the existing tariff structure and non-tariff measures and assessing the institutional and infrastructural capacity based on the data that has been collected. Bangladesh and Nepal's relationship is at a growing stage with a PTA in the pipeline.

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.

Md. Mijanur Rahman
Project Director (Joint Secretary)
Bangladesh Regional Connectivity Project-1
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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.

Md. Abdul Karim
Team Leader

Acronyms and Abbreviations

API	Active Pharmaceutical Ingredient
APTA	Asia-Pacific Trade Agreement
ASYCUDA	Automated System for Customs Data
BBIN	Bangladesh Bhutan India Nepal
BDFA	Bangladesh Dairy Farmers' Association
BEPZA	Bangladesh Export Processing Zone Authority
BEZA	Bangladesh Economic Zone Authority
BFTI	Bangladesh Foreign Trade Institute
BIDA	Bangladesh Investment Development Authority
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
BIT	Bilateral Investment Treaty
BLPA	Bangladesh Land Port Authority
BRCP-1	Bangladesh Regional Connectivity Project 1
BSTI	Bangladesh Standards and Testing Institution
BWCCI	Bangladesh Women Chamber of Commerce & Industry
CEPA	Comprehensive Economic Partnership Agreement
CEPII	Centre d'Etudes Prospectives et d'Informations
CGE	Computable General Equilibrium
CPTU	Central Procurement Technical Unit
CRT	Center for Regional Trade
D-8	Developing-8
EIF	Enhanced Integrated Framework
EPB	Export Promotion Bureau
EU	European Union
FBCCI	Federation of Bangladesh Chambers of Commerce and Industries
FDI	Foreign Direct Investment
FGD	Focus Group Discussion
FOC	Foreign Office Consultation
FTA	Free Trade Agreement
FY	Fiscal Year
GDP	Gross Domestic Product
GoB	Government of Bangladesh
GSP	Generalized Scheme of Preferences
GTAP	Global Trade Analysis Project
HIES	Households Income and Expenditure Survey

HS Code	Harmonized System Code
IBN	Investment Board Nepal
ICT	Information and Communications Technology
IIFT	Indian Institute of Foreign Trade
IP	Intellectual Property
IPR	Intellectual Property Rights
KII	Key Informant Interview
LDC	Least Developed Countries
MFN	Most Favored Nation
MoC	Ministry of Commerce
MoU	Memoranda/ Memorandum of Understanding
MRA	Mutual Recognition Agreement
MVA	Motor Vehicles Agreement
NBR	National Board of Revenue
NEC	Nepal-Bangladesh Joint Economic Commission
NEP	National Enquiry Point
NTIS	Nepal Trade Integration Strategy
ODC	Other Duties and Charges
PTA	Preferential Trade Agreement
RCA	Revealed Comparative Advantage
RKC	Revised Kyoto Convention
RoO	Rules of Origin
RTA	Regional Trade Agreement
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asian Free Trade Area
SAM	Social Accounting Matrix
SAPTA	SAARC Preferential Trading Arrangement
SEZ	Special Economic Zones
SMART	Software for Market Analysis and Restrictions on Trade
SPS	Sanitary and Phyto-sanitary Measures
SSP	Socio-economic Pathways
TAO	Tariff Analysis Online
TBT	Technical Barriers to 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 Indicators
WIPO	World Intellectual Property Organisation
WITS	World Integrated Trade Solution
WTO	World Trade Organization

Table of Contents

List of Tables

List of Figures

Executive Summary

This is the country report for Nepal, 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 suggested by 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 Nepal, 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.

Nepal and Bangladesh have a friendly and cooperative trade relationship that dates back to 1972 when Nepal was one of the first countries to recognize Bangladesh's independence. Nepal and Bangladesh have signed several bilateral agreements to facilitate trade, transit and civil aviation. In 2019, Nepal and Bangladesh signed an agreement to avoid double taxation and prevent fiscal evasion. The two countries have also established mechanisms such as the Joint Economic Commission (JEC), the Technical Committee for Promotion of Trade, and the Commerce Secretary-level Meeting to review and enhance their trade relations.

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 Nepal and Bangladesh's trade relationship, current exports, and the status of the much-anticipated Preferential Trade Agreement (PTA) 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 Nepal before Bangladesh's LDC graduation is necessary. Therefore, this study aims to assess the current trade relationship between Nepal and Bangladesh in order 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 looks into 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. The simulation results indicate that the easing of non-tariff measures may lead to an increase in GDP and an FTA between the two countries would be beneficial for Bangladeshi imports and exports. 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 Nepal 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 Nepal as well as trade volumes have also been assessed in this chapter. As per data from Export Promotion Bureau and Bangladesh Bank, the total volume of exports from Bangladesh to Nepal for FY22 was approximately US$ 105.50 million while the volume of imports for FY22 was US$ 4.43 million, therefore, allowing Bangladesh to enjoy a trade surplus with Nepal. Chapter 4 contains a review of the current trade agreement and highlights changes/ revisions to the agreements. The current agreements between Bangladesh and Nepal are Trade and Payment Agreement Transit Agreement, and these two agreements have been reviewed here.

Chapter 5 illustrates the export diversification prospects of Bangladesh and identifies the top 10 products which hold the most potential for export to Nepal. Top Products A thorough study of Bangladesh's export priorities, Revealed Comparative Advantage (RCA), export strengths, Nepal's top imports, and even top exports of Bangladesh has revealed products that exhibit promising export potential. Products such as jute, pharmaceuticals, footwear, motorcycles, potatoes, and electronics have strong export potential to Nepal.

A comparison of trade policies and practices of both Bangladesh and Nepal 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 was held with the 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 representatives. 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 of red tape, digitizing processes, cargo management, implementing of 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.

Nepal and Bangladesh have maintained a cordial relationship for decades and are currently engaged in talks for expanding bilateral cooperation through trade. Nepal recognized Bangladesh in 1972 and was the seventh country to do so. BIMSTEC, SAARC, WTO, NAM, and the UN are some of the organizations with which Bangladesh and Nepal currently work. Following their relationship, in 1997, both countries set up the Nepal-Bangladesh Joint Economic Commission (NEC) at the ministerial level.

Nepal and Bangladesh maintain two agreements with each other which are the Trade and Payment Agreement signed in 1976 and the Transit Agreement which was also signed in 1976 and last amended in 2020. At present, a PTA between Nepal and Bangladesh and the signing of the Bilateral Investment Promotion and Protection Agreement (BIPPA) with Bangladesh is pending. However, both agreements are anticipated to be instrumental in reshaping Nepal Bangladesh relations with the latter formalizing USD 1 billion FDI from Bangladesh to Nepal and USD 2 billion from the private sector in Bangladesh. Despite the two countries being in close geographical proximity and members of the SAARC, BBIN and BIMSTEC, Nepal and Bangladesh are yet to address the gaps in their current bilateral ties. Trade between these two countries has been relatively limited due to a number of factors including logistical challenges, lack of bilateral trade agreements, 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.

Major products exported from Bangladesh to Nepal include ready-made garments, pharmaceutical products, jute and jute goods, plastic products, and food items. On the other hand, Nepal's primary exports to Bangladesh include lentils, cardamom, vegetables, and juice.

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 Generalised 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 Nepal will give an understanding of the current state of the bilateral trade situation of Bangladesh with Nepal, 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 is mentioned below:

1. Comparative analysis (quantitative using economic analysis and further validated through qualitative data) of bilateral trade agreement/ policies of Bangladesh and what is the current 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 Modelling.
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. Is there any possibility for a Comprehensive Economic Partnership Agreement (CEPA) with these countries including the potential service and investment sector can be utilized?
6. Overall suggestions on what kind of reform changes can be made in the bilateral and regional trade agreements to expand 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.[1] 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 2.

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. The FGD was conducted with Bangladesh Women Chamber of Commerce & Industry (BWCCI), FGD participants were selected using snowball or commonly known as purposive sampling.[2] The FGD transcript has been shared in Annex 3.

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

[1] 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.

[2] 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.

benefits assessment of an FTA with a sequential FTA strategy with domestic trade policy reform is critical for its long-term market access plan.

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).[3] 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

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

related to the income received from endowment factors and taxes (Walmsley & Minor, 2013).[4] 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, 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 consumptions, 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 Tukey. 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

[4] 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.

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
Total	**100**		**100**		**100**

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 to 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)5, 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

[5] $X_{ij,t} = A_t Y_{i,t}^{\alpha_1} Y_{j,t}^{\alpha_2} D_{ij}^{\alpha_3}, \alpha_1 > 0, \alpha_2 > 0, \alpha_3 < 0,$ where $X_{ij,t}$ is the value of export, import or trade from country *i* to *j*, $Y_{j,t}$ and $Y_{j,t}$ 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.

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 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 data6.

[6] $E(e_{rp}^k | Y_r^k, Y_p^k, Y^k, \tau_{rp}, \Pi_r^k, \rho_p^k) = E(ln\ e_{rp}^k | Y_r^k, Y_p^k, Y^k, \tau_{rp}, \Pi_r^k, \rho_p^k) = 0$

3 Trade Agreements, Relations, and Volume

3.1 Trade Agreements and Relations

3.1.1 Bilateral Agreement between Bangladesh and Nepal

Bangladesh maintains 49 generalized bilateral trade agreements with more than 40 countries.[7] It continues to benefit from numerous countries' Generalized System of Benefits schemes (Australia, Canada, European Union, Iceland, Japan, New Zealand, Norway, Switzerland, United States) and is eligible for additional LDC-specific preferences under some schemes. It also received support to achieve economic development goals, including export diversification, under the Aid for Trade Work Programme and the Enhanced Integrated Framework (EIF) initiatives. Bangladesh is currently negotiating FTAs with a number of countries, including China, Malaysia, Sri Lanka, and Thailand, as it approaches graduation from LDC status.

Nepal has bilateral trade agreements with 17 nations, including the Treaty of Trade, Treaty of Transit, the Railways Services Agreement, and a Cooperation Agreement to Control Unauthorized Trade with India. Nepal can trade with other nations through the Kolkata/Haldia ports, while Vishakhapatnam in India has been used as an extra port since 2016. Nepal has been collaborating with India and China on railway connectivity. However, railway presence is still limited.

At present, there are two trade agreements between Bangladesh and Nepal, those being

- **Trade and Payment Agreement**
- **Transit Agreement**

The Trade and Payment Agreement was signed in 1976 to encourage both countries to strengthen bilateral trade relations, ease the transit of goods, and allow both countries to trade under the “most favored nation” category with each other.[8] The agreement specifies exports from Bangladesh to Nepal and vice versa which will be traded at MFN rates. The list of products specified in the agreement is mentioned in the table below

Schedules A: Exports from Nepal to Bangladesh	Schedule B: Exports from Bangladesh to Nepal
1. Rice, wheat, and other cereals **2.** Pulses **3.** Mustard seeds and oil **4.** Other oilseeds and oilcake	A. Primary Commodities a. Raw Cotton b. Tea c. Fish- fresh, dried, and salted

[7] 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.

[8] Bangladesh Customs - Government of the People’s Republic of Bangladesh “Trade and Payments Agreements Between His Majesty's Government of Nepal and the Government of the People's Republic of Bangladesh,” http://bangladeshcustoms.gov.bd/download/NEPAL_BGD_TRANSIT_AGREEMENT_And_PROTOCOL_1976.pdf Accessed June 29, 2022,

5. Timber and wood products **6.** Boulders and shingles **7.** Catechu **8.** Bidi and tobacco **9.** Big cardamom, ginger, and chilies **10.** Medicinal plants and herbs **11.** Wool **12.** Bristles **13.** Cheese and ghee **14.** Strawboard **15.** Synthetic textiles **16.** Stainless steel utensils **17.** Woolen carpets 18. Curios and handicrafts	B. Semi-manufactures and manufactures. a. Cotton threads and textiles b. Hosiery goods c. Specialized textile and handlooms products such as bed covers, pillowcases, bed sheets, etc. d. Brass and copper sheets e. Newsprint f. Paper and paper board g. Pharmaceuticals h. Chemical i. Soaps and cosmetics j. Ware and cosmetics k. Electric goods and batteries l. Tents and canvass m. Cycle tire and tubes n. Coir products o. Jute carpets p. Feature films q. Fertilizers and insecticides

Table 2 Category of Products Traded between Bangladesh and Nepal under MFN Tariff Rates

The agreement has not been updated ever since it was signed by the two countries in 1976, and the list of products remains the same whereas the export baskets have changed a lot over the years. The top exports from Bangladesh to Nepal in recent years include oil cake, soya beans, potatoes, medicaments, and lead-acid accumulators, and the current agreement does not have any provision for residues and wastes from food industries or agro products. On the other hand, the export basket from Nepal to Bangladesh mainly comprises edible vegetables, live animals, and seeds among others, most of which are mentioned in the agreement. **Hence, the product schedules need to be updated in the agreement as per recent trends and demands of both countries.**

The Transit Agreement was signed in 1976 and originally included the following transit points: Khulna-Chalna (Mongla Port), Chattogram Port, Biral (Pashchimbanga, India), Banglabandha, Chilahati, and Benapolea.[9] In 2016, Nepal and India signed a letter of exchange to use the Singabad railway transit for expanding trade in Bangladesh.[10] Later, the Agreement was amended in 2020 to include Rohonpur in Chapainawabganj (Bangladesh) as a railway transit entry and exit point for easing trade between the two countries. The transit points have not been fully operational to date. In fact, India has been providing Bangladesh with a transit facility since 1976 for importing and exporting goods to and from Nepal in 'traffic-in-transit' mode. However, Bangladesh is required to seek special permission from India before utilizing the 'traffic-in-transit' mode for Nepal. Currently, goods are transported through two Bangladesh-India railway routes which are: Rohanpur-Singhabad and Birol-Radhikapur. To support sub-regional connectivity and

[9] Rejaul Byron, "Trade with Nepal to Get a Leg-up after Govt Approves a New Transit Route," The Daily Star, August 10, 2020, https://www.thedailystar.net/business/news/trade-nepal-get-leg-after-govt-approves-new-transit-route-1943129.
[10] Rejaul Byron, "Trade with Nepal to Get a Leg-up after Govt Approves a New Transit Route," The Daily Star, August 10, 2020, https://www.thedailystar.net/business/news/trade-nepal-get-leg-after-govt-approves-new-transit-route-1943129.

collaboration, India eased the transfer of fertilizer export from Bangladesh to Nepal via the Rohanpur-Singhabad rail route. A total of 52 thousand metric tons of urea was imported from Bangladesh and arrived in Nepal in July 2022.[11] Nepal has also shown interest in using Bangladesh's Saidpur Airport for trade, but it is yet to be approved by the cabinet. Since Nepal is a landlocked country, it is dependent on India for the purchase of goods. If India paves the way for liberalizing transit facilities to other South Asian countries, India first, risks losing leverage over Bangladesh and Nepal and second, risks losing revenue via the discounting or removal of tariffs and customs fees. Although it is quite possible that the increased flow of goods might create net positive economic benefits for the Indian economy, the protectionist mindset of loss of immediate revenue seems to dominate.[12]

In 2021, talks over the Preferential Trade Agreement were at the final stages between Bangladesh and Nepal discussing prospects for investment, reflecting both countries' LDC graduation in 2026.[13] However, as of 2022, Nepal is yet to share the offer and requests list with Bangladesh. The FOC meeting was scheduled for early April; however, it has not yet taken place, further delaying the signing of the PTA with negotiations stretching over three years. Bangladesh was willing to have dialogues on the subject of ODC on enumerated goods while recurrently deferring signing the first preferential trade agreement with Nepal.[14] Nepali officers said a contract between the two neighbors was unlikely until the ODC is dropped to zero. The ODC is normally added as an indirect cost.[15] Though Bangladesh sent a product list to the Nepalese government, the former was advised by the latter to limit the request list to 20 items, leading to the Ministry of Commerce, Bangladesh sharing a revised list with Nepal.[16] However, Nepal has claimed that this is the case since, among the 42 goods proposed by Bangladesh, five goods are medicinal products which go against Nepal's policy to retain the local pharmaceuticals. Moreover, 30 of the goods are part of SAFTA's sensitive goods list.[17]

Nepal is yet to sign the PTA and pushed it beyond December 2021 as Bangladesh is yet to agree on lifting duties or charges (ODC) on listed goods. If ODC is not lifted, Nepal is set to suffer from a deficit in the balance of trade.[18] This year, Bangladesh has plans of putting forth a few proposals in the upcoming FOC.

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[11] unb.com.bd, "India OKs Transit for Bangladeshi Exports to Nepal," Accessed September 12, 2022, https://unb.com.bd/category/Bangladesh/india-oks-transit-for-bangladeshi-exports-to-nepal/64621.
[12] The Business Standard, "Bangladesh, Nepal to Trade Goods on 225km Rail Route," August 10, 2020, https://www.tbsnews.net/economy/trade/bangladesh-nepal-trade-goods-225km-rail-route-117820.
[13] The Financial Express, "Bangladesh-Nepal PTA in Final Stage," The Financial Express, thefinancialexpress.com.bd, Accessed June 29, 2022, https://thefinancialexpress.com.bd/trade/bangladesh-nepal-pta-in-final-stage-1639540079.
[14] "Nepal-Bangladesh Trade Pact Stuck over Other Duties or Charges," kathmandupost.com, June 29, 2022, Accessed June 29, 2022, https://kathmandupost.com/money/2021/03/10/nepal-bangladesh-trade-pact-stuck-over-other-duties-or-charges.
[15] "Nepal-Bangladesh Trade Pact Stuck over Other Duties or Charges," kathmandupost.com, June 29, 2022, Accessed June 29, 2022, https://kathmandupost.com/money/2021/03/10/nepal-bangladesh-trade-pact-stuck-over-other-duties-or-charges.
[16] The Financial Express, "Bangladesh Set to Move PTA Proposal to Nepal," The Financial Express, thefinancialexpress.com.bd, Accessed June 29, 2022, https://thefinancialexpress.com.bd/trade/bangladesh-set-to-move-pta-proposal-to-nepal-1649564688.
[17] "Nepal-Bangladesh Trade Pact Stuck over Other Duties or Charges," tkpo.st, June 29, 2022, Accessed June 29, 2022, https://tkpo.st/3rxkFgl.
[18] "Nepal-Bangladesh Trade Pact Stuck over Other Duties or Charges," tkpo.st, June 29, 2022, Accessed June 29, 2022, https://tkpo.st/3rxkFgl.

Among them is the signing of the PTA-a key focus, followed by proposals on rationalizing the sensitive lists under SAPTA/APTA, removal of para-tariff measures and non-tariffs, reduction of tariffs, and finalization of the Bilateral Investment Treaty (BIT), as Bangladesh has BIT with 29 countries, but not with Nepal so far.

3.2 Regional Trade Agreements

The Bangladesh Bhutan India Nepal (BBIN): The BBIN pact was signed on 15 June 2015, Thimphu, Bhutan to facilitate the cross-border movement of passenger and cargo vehicles via the Motor Vehicle Agreement (MVA). 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.[19] 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. There are still some agreements halting the concluding procedures, together with matters like insurance and bank guarantees, and the size and regularity of freight carriers into each country, which they hope to settle soon.[20]

In January 2022, the World Bank pledged $745 million as loans to support Bangladesh's implementation of phase-1 of the BBIN Regional Transport and Trade Facilitation Program. Under BBIN, Bangladesh has already moved forward with steps to make policy reforms and modernize infrastructures including land ports, regional roads, and naval ports among others. Given that of the pledged loan, $250 will allegedly be used for developing infrastructures and the capacity of the Benapole, Bhomra, and Burimari land ports via BLPA, the BBIN MVA is expected to promote seamless connectivity between Bangladesh and other countries in the Indian subcontinent, especially India, and increase Bangladesh's real income by 17 percent as per the World Bank. Under BBIN and with the support of World Bank, Bangladesh is also working towards developing revenue stations and modernizing the custom houses in Chittagong and Dhaka, which is to be overseen by NBR. BBIN is expected to have significant positive outcomes for Bangladesh's economy. First, it will increase cross border trade between the BBIN countries by multifold. Even though trade between BBIN countries grew sixfold between 2005 and 2019, the unexploited potential remains massive, estimated at 93% for Bangladesh, 50% for India and 76% for Nepal. Second, it will make cross

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

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

border trade cheaper. As a result, through the project, Bangladesh will gain a seamless multimodal transport system, greater sub regional trade cooperation, and trade connectivity.

Agreement on South Asian Free Trade Area (SAFTA): Both countries signed the SAARC Preferential Trading Arrangement (SAPTA) signed in 1993 and SAFTA in 2004 which succeeded SAPTA in 2006.[21] SAFTA has Rules of Origin (RoO) which is common among all members and is used to determine whether a member is eligible for tariff benefits.[22] Bangladesh and Nepal receive smaller sensitive lists as they are still considered LDCs under SAFTA, the value addition is 50% for LDCs and 60% for Non-LDCs.[23] The sensitive list for both Bangladesh and Nepal has been updated and reduced from the original agreement to its revision in 2012 as per the table below:

Member State	No. of Products in Original Sensitive List[24]	No. of Products in Revised Sensitive List (in 2012)
Bangladesh	1233 for LDCs; 1241 for non-LDCs	987 for LDCs; 993 for NLDCs
Nepal	1257 for LDCs; 1295 for non-LDCs	998 for LDCs; 1036 for non-LDCs

Table 3 Sensitive Lists of Nepal and Bangladesh

Both countries have shared a provisional sensitive list which is to be reduced to 450 products by 2030 for Bangladesh and to 500 products by 2030 for Nepal.[25]

Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC): Bangladesh is also a member of BIMSTEC and so is Nepal. BIMSTEC pursues to create a more comprehensive free trade area through richer and more substantial sector coverage of services and an open and competitive investment regime. BIMSTEC is considered different from other regional blocs because of its sector-driven nature. The priority areas of collaboration, for BIMSTEC, are its numerous sectors like *trade, energy, transport, fishery, security, culture, tourism, and so on*. Though the pace of BIMSTEC's progress reflects nothing but a lack of productivity and competency. Due to inadequate financial

[21] South Asian Free Trade Area (SAFTA) | LDC Portal - International Support Measures for Least Developed Countries, "South Asian Free Trade Area (SAFTA) | LDC Portal - International Support Measures for Least Developed Countries," www.un.org, Accessed June 29, 2022, https://www.un.org/ldcportal/content/south-asian-free-trade-area-safta.
[22] Bangladesh Customs, National Board of Revenue (NBR) - Government of the People's Republic of Bangladesh, "Bangladesh Customs, National Board of Revenue (NBR)," www.bangladeshcustoms.gov.bd, Accessed June 29, 2022, http://www.bangladeshcustoms.gov.bd/trade_info/pte_safta.
[23] South Asian Free Trade Area (SAFTA) | LDC Portal - International Support Measures for Least Developed Countries, "South Asian Free Trade Area (SAFTA) | LDC Portal - International Support Measures for Least Developed Countries," www.un.org, Accessed June 29, 2022, https://www.un.org/ldcportal/content/south-asian-free-trade-area-safta.
[24] Export Promotion Bureau - Government of the People's Republic of Bangladesh, "Export Promotion Bureau," www.epb.gov.bd, Accessed June 29, 2022. http://www.epb.gov.bd/site/page/7bd7d4d7-cdba-4da3-8b10-f40da01e49b6/a.
[25] 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

and workforce assistance, BIMSTEC's operational activities are lagging.[26] For regional transport connectivity, seven BIMSTEC nations agreed on the Master Plan for Transport Connectivity. *The BIMSTEC Motor Vehicles Agreement (MVA)* aims to smoothen the hassle-free movement of cargo and passenger vehicles through borders in the BIMSTEC region that includes seven nations, five of eight are SAARC members.[27] BIMSTEC aims to form a mutual security space -- which SAARC was unsuccessful to attain in the previous three decades -- to deal with joint security issues.

Bangladesh is also a member of APTA (formerly known as the Bangkok Agreement) which is the oldest preferential regional trade agreement in the Asia-Pacific regime signed in 1975 and also Developing-8 (D-8) consisting of Indonesia, Iran, Malaysia, Nigeria, Pakistan, and Turkey signed in 2006.

3.3 Trade Volume

3.3.1 Bilateral Trade Volume

The following table shows the trade balance between Bangladesh and Nepal from 2006 to 2022. From 2006 to 2014, Bangladesh had a negative trade balance. Till 2014, bilateral trade between Bangladesh-Nepal was in Nepal's favor. However, following a decline in the export of lentils, Nepal experienced a gradual trade deficit. From 2015 onwards, the volume of exports to Nepal from Bangladesh increased drastically leading to a positive trade balance. A detailed overview of the top exports from Bangladesh to Nepal has been mentioned below

Fiscal Years	Export to Nepal (in US$ million)	Import from Nepal (in US$ million)	Trade Balance (in US$ million)
2006- 2007	0.85	5.98	-(5.13)
2007- 2008	6.71	52.96	-(46.25)
2008- 2009	8.06	68.80	-(60.74)
2009- 2010	8.79	43.15	-(34.36)
2010- 2011	10.84	49.03	-(38.20)
2011- 2012	41.58	26.16	15.42
2012- 2013	26.41	35.68	-(9.27)
2013- 2014	13.68	21.50	-(7.82)
2014- 2015	25.05	12.06	-(12.99)
2015- 2016	17.89	9.40	7.82
2016-2017	47.40	10.00	37.40
2017-2018	45.30	10.11	35.19
2018-2019	38.05	9.86	28.19
2019-2020	46.01	9.48	36.53
2020-2021	68.66	4.82	63.84
2021-2022	105.50	4.43	101.07

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

[26] The Hindu, "Explained | What is the BIMSTEC Grouping and How is it Significant?," www.thehindu.com, Accessed June 29, 2022, https://www.thehindu.com/news/international/explained-what-is-the-bimstec-grouping-and-how-is-it-significant/article65275690.ece.
[27] Deccan Herald, "BIMSTEC Nations to Adopt Plan for Regional Transport Connectivity," www.deccanherald.com, March 29, 2022, https://www.deccanherald.com/national/bimstec-nations-to-adopt-plan-for-regional-transport-connectivity-1095954.html.

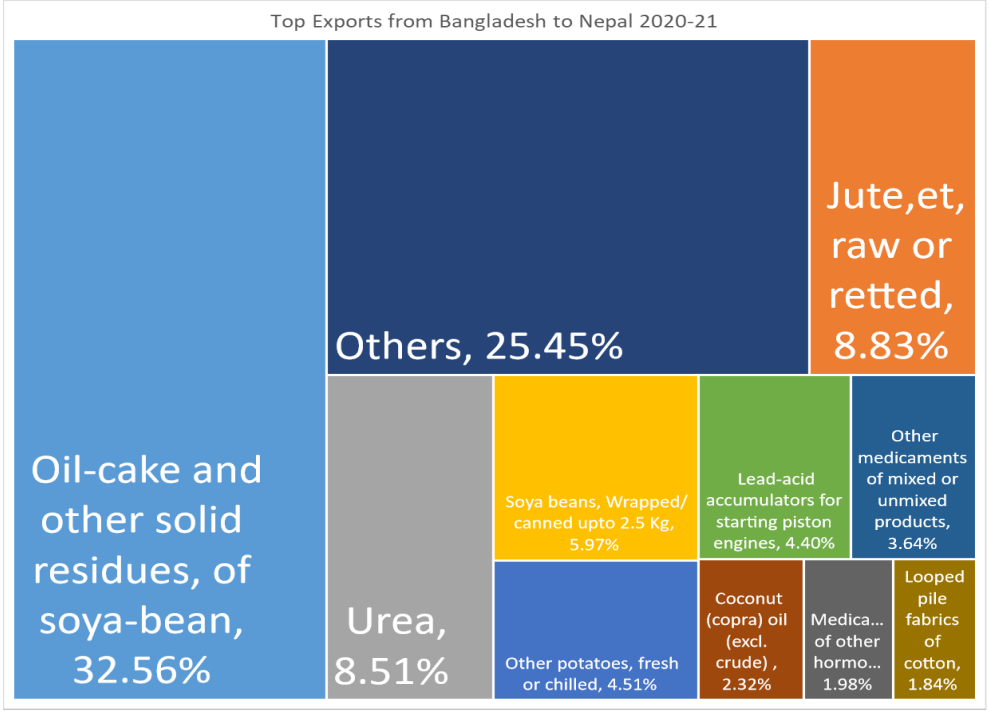

Figure 1 Top Exports from Bangladesh to Nepal 2020 - 2021, Source: Export Promotion Bureau

Figure 1 shows the top ten export products in the fiscal year 2020 – 2021 from Bangladesh to Nepal. Oilcake which was the top export for FY21 took up one-third of the total export share to Nepal alone. Besides oilcake, jute, potatoes, and lead-acid accumulators dominated the export basket to Nepal. The table below shows the disaggregate export data to Nepal over the last 5 years. The same set of products dominated the export basket over the last five years. MoC imposed a ban on the export of soybean meal (oil-cake, the top exported product to Nepal) in October 2021, in a bid to control rising prices of the key element of poultry and cattle feed as well as to protect the country's dairy and poultry sectors. The decision was taken following requests of the Bangladesh Dairy Farmers' Association (BDFA). If the government withdraws the existing export ban, prices of dairy and other related food items may see a further hike in the short run. However, bans on exports of a good often demotivate local producers of that good from investing in the expansion of production capacity eventually. Hence, there is a trade-off, and such decisions need to be guided by an economic cost-benefit analysis of the trade-offs involved. Nepalese poultry sector entrepreneurs have requested the Bangladesh government to lift the ban on the export of soybean de-oiled cake, as their poultry industry has been severely hit following the ban decision.[28]

[28] The Daily Star, "Nepal-Bangladesh Relations: Beyond Bilateralism," March 19, 2021, www.thedailystar.net, Accessed June 29, 2022, https://www.thedailystar.net/opinion/news/nepal-bangladesh-relations-beyond-bilateralism-2063485.

Top Exports from Bangladesh to Nepal from 2016 to 2021									
2020 - 2021		2019 - 2020		2018 - 2019		2017 - 2018		2016 - 2017	
HS Code: Product	USD	HS Code: Product	USD	HS Code: Product	USD	HS Code: Product	USD	HS Code: Product	USD
Total	**68659904.7**	**Total**	**46008139.22**	**Total**	**38045817.28**	**Total**	**45297987.04**	**Total**	**47400785.11**
230400: Oil-cake and other solid residues, of soya-bean	22,358,020.51	100590: Maize (excl. seed)	15,867,431.44	530310: Jute,etc (excl. flax, true hemp and ramie), raw or retted	7,286,109.00	200990: Mixtures of juices, unfermented, not containing added spirit	8,576,311.68	010690: Live animals (excl. mammals, reptiles, birds, fish, crustaceans, mollu	103.50
530310: Jute,etc (excl. flax, true hemp and ramie), raw or retted	6,061,947.40	530310: Jute,etc (excl. flax, true hemp and ramie), raw or retted	9,482,331.12	200990: Mixtures of juices, unfermented, not containing added spirit	5,799,679.77	530310: Jute,etc (excl. flax, true hemp and ramie), raw or retted	7,604,321.80	030462: Catfish (Pangasius spp, Silurus spp, Clarias	4,263.52
310210: Urea	5,841,790.00	850710: Lead-acid accumulators for starting piston engines	2,685,327.59	850710: Lead-acid accumulators for starting piston engines	2,910,975.36	170199: Cane or beet sugar, in solid form, nes	3,135,373.11	030479: Other than Alaska Pollack (Theragra chalcogr	16,344.98
120190: Soya beans, whether or not broken other than Seed, Wrapped/canned upto 2.5 Kg	4,100,125.18	070190: Other potatoes, fresh or chilled	1,956,201.83	300490: Other medicaments of mixed or unmixed products, for retail sale, nes	1,622,422.63	850710: Lead-acid accumulators for starting piston engines	2,732,077.20	040221: Milk and cream powder unsweetened exceeding 1.5% fat	50,947.21
070190: Other potatoes, fresh or chilled	3,094,996.37	100510: Maize seed	1,281,973.19	480269: Other paper and paper board, of which more than 10% by weight of the total fibre...,NES	1,415,255.50	070190: Other potatoes, fresh or chilled	2,087,116.51	040229: Milk and cream powder sweetened exceeding 1.5% fat	28,456.77
850710: Lead-acid accumulators for starting piston engines	3,020,515.38	300490: Other medicaments of mixed or unmixed products, for retail sale, nes	1,129,057.06	190590: Other bread, etc, nes; communion wafers, rice paper, etc	1,200,199.56	220210: Waters (incl. mineral and aerated), with added sugar, sweetener, etc	1,774,591.31	040390: Buttermilk,curdled milk & cream,kephir & ferm or acid milk & cream nes	3,242.26
300490: Other medicaments of mixed or unmixed products, for retail sale, nes	2,496,346.93	190540: Rusks, toasted bread and similar toasted products	877,953.34	850422: Liquid dielectric transformers, power handling capacity 650-10000kva	983,388.97	300490: Other medicaments of mixed or unmixed products, for retail sale, nes	1,562,892.83	071090: Mixtures of vegetables, frozen	1,744,811.34
151319: Coconut (copra) oil (excl. crude) & its fractions,refined or not but not chem. modified	1,592,968.73	300439: Medicaments of other hormones, for retail sale, nes	805,738.12	281511: Sodium hydroxide (caustic soda), solid	953,953.02	190590: Other bread, etc, nes; communion wafers, rice paper, etc	1,546,918.56	090421: Fruits of the genus Capsicum...,: Dried or n	13,130.06
300439: Medicaments of other hormones, for retail sale, nes	1,357,877.11	230400: Oil-cake and other solid residues, of soya-bean	789,048.08	300439: Medicaments of other hormones, for retail sale, nes	936,237.40	871120: Motorcycles with reciprocating engine of capacity 50-250cc	1,444,557.93	091091: Mixtures of two/more of the prods of different headgs to this chapter	30,168.62
600121: Looped pile fabrics of cotton, knitted or crocheted	1,263,717.15	480300: Toilet... similar paper, in rolls or sheets	658,673.92	480300: Toilet... similar paper, in rolls or sheets	881,786.84	480269: Other paper and paper board, of which more than 10% by weight of the total fibre...,NES	1,210,923.46	100630: Rice, semi-milled or wholly milled, whether or not polished or glazed	4,733,871.33

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

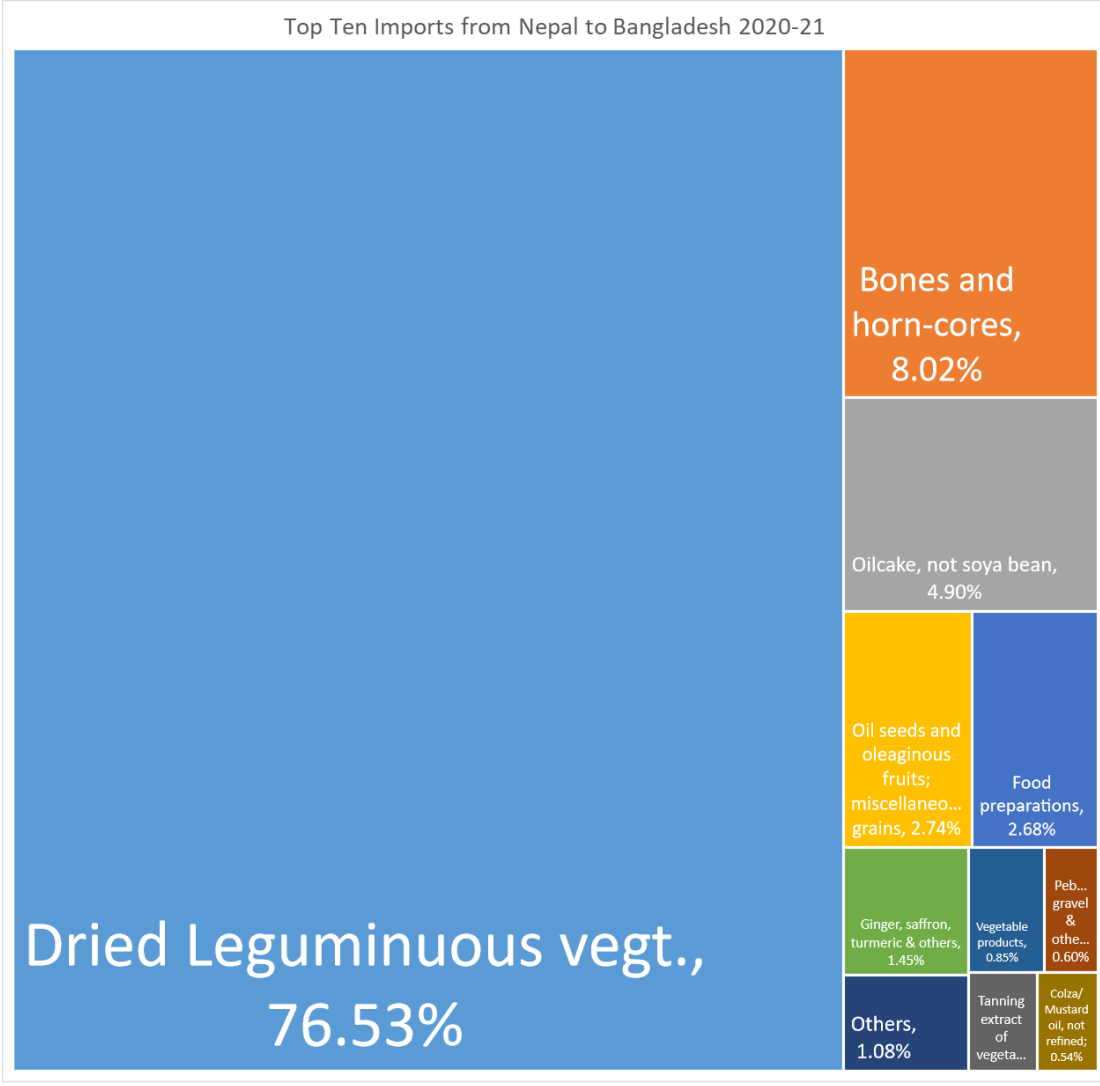

Figure 2 Top Ten Imports from Nepal 2020 – 21

Figure 2 shows the top ten imports from Nepal to Bangladesh between 2020 - 2021. Edible vegetables have dominated the import basket from Nepal, followed by animal products, oil seeds, and spices. The table below shows the disaggregate import data from Nepal to Bangladesh over the last 5 years

Top Ten Imports from Nepal to Bangladesh from 2020 - 2021									
2020-21		2019-20		2018-19		2017-18		2016-17	
HS Code: Product	USD	HS Code: Product	USD	HS Code: Product	USD	HS Code: Product	USD	HS Code: Product	USD
Total	4,815,000	Total	9,481,000	Total	9,855,000	Total	10,110,000	Total	9,755,000
20700: Edible vegetable and certain roots and tubers	3,685,000	20700: Edible vegetable and certain roots and tubers	9,214,000	20700: Edible vegetable and certain roots and tubers	8,902,000	20700: Edible vegetable and certain roots and tubers	8,709,000	20700: Edible vegetable and certain roots and tubers	8,973,000
10000: Live Animals and Animal Products	386,000	21209: Seed,fruit & spores for sowing	10,000	42100: Miscellaneous edible preparations	122,000	21211: Plants & parts of plants for perfum/pharmacy	98,000	21211: Plants & parts of plants for perfum/pharmacy	61,000
42300: Residues and waste from the food industries; Prepared animal fodder	236,000	21211: Plants & parts of plants for perfum/pharmacy	74,000	137000: Glass and glassware	101,000	42100: Miscellaneous edible preparations	141,000	21400: Vegetable plaiting meterails; Vegetable products not elsewhere specified or included	23,000
21200: Oil seeds and oleaginous fruits; miscellaneous grains; seeds and fruit; industrial or medicinal plants; straw and fodder	132,000	21400: Vegetable plaiting meterails; Vegetable products not elsewhere specified or included	11,000	157800: Lead and articles thereof	96,000	20900: Coffee, tea, mate and spices	39,000	42000: Preparations of vegetables, fruit, nuts or other parts of plants	73,000
42100: Miscellaneous edible preparations	129,000	41700: Sugars and sugar confectionery	12,000	100000: Pulp of wood or of other fibrous cellulosic material; recovered (waste and	51,000	42302: Bran sharps and othere residues	190,000	42100: Miscellaneous edible preparations	153,000
20900: Coffee, tea, mate and spices	70,000	42000: Preparations of vegetables, fruit, nuts or other parts of plants	8,000	21211: Plants & parts of plants for perfum/pharmacy	101,000	42306: Oilcake ,not soya-bean / ground-nut oil	537,000	42300: Residues and waste from the food industries; Prepared animal fodder	257,000
21400: Vegetable plaiting materials	41,000	42100: Miscellaneous edible preparations	77,000	42306: Oilcake ,not soya-bean / ground-nut oil	75,000	42309: Preparations of a kind used in animal feeding	61,000	52500: Salt; sulphur; earths and stone; plastering materials, lime and cement	22,000
52500: Salt; sulphur; earths and stone; plastering materials, lime and cement	29,000	42300: Residues and waste from the food industries; Prepared animal	20,000	21100: Products of the milling industry; Malt; Starces; Inulin; Eheat gluten	96,000	52521: Limestone flux	32,000	63201: Tanning extract of vegetable origin;	46,000
63200: Tanning extract of vegetable origin	29,000	63201: Tanning extract of vegetable origin;	27,000	147106: Silver unwrought, in powder form	81,000	115500: Man-made staple fibres	31,000	63805: Gum, wood/sulphate turpentine etc.	28,000
31500: Animal or vegetable fats and oils	26,000	63805: Gum, wood/sulphate turpentine etc.	23,000	147116: Articles of natural / cultured pearls	68,000	150000: Base Metals & Articles of Base Metal	131,000	84100: Raw hides and skins and leather	78,000

Table 6 Top Imports from Nepal to Bangladesh, Source: Export Promotion Bureau

3.3.2 Global Trade Volume

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

Bangladesh		
Country	2021 (in million US$)	2022 (in million US$)
United States	6974.008	10417.718
Germany	5953.507	7590.970
Great Britain	3751.270	4828.082
Spain	2343.988	3166.370
France	1962.141	2711.056
Poland	1503.636	2139.241
Italy	1308.622	1702.292
India	1279.669	1991.390
Netherlands	1277.443	1775.005
Japan	1183.638	1353.852

Table 7 Top Export Destinations of Bangladesh, Source: EPB

Nepal		
Country	Exported Value in 2022 (NPR, in million)	Exported Value in 2021 (NPR, in million)
India	117362.304	157669.443
USA	18467.771	15676.494
Germany	4096.1641	3529.754
Turkey	3279.904	2562.727
U.K.	2985.443	2783.081
France	1656.933	1480.523
Australia	1355.819	1111.109
Japan	1301.740	919.903
Canada	1277.201	946.847
Italy	1241.325	947.957

Table 8 Top Export Destinations of Nepal, Source: Nepal Trade Information Portal

4 Review & Analysis of Trade Agreement between Nepal and Bangladesh

Our trade experts have analyzed the agreement and the following table includes suggested changes for the agreement. However, any amendments made to this current agreement would be deemed redundant if Bangladesh and Nepal were to move forward with the PTA.

Chapter	As stated provision in the Agreement	Unchanged	New Inclusion/ Change	Drop
Article - 1	The Contracting Parties shall take all measures necessary for developing trade between the two countries and agree to promote exchange of goods which one country needs from the other.	N/A	(i) A joint working group with representatives from both countries may be formed to discuss and share ideas on trade promotion. A mutual meeting time for the group can be set (either bi-annually or annually) in either of the capital of the two countries. This can can help understand, analyze trade hurdles between two countries which can be discussed during meetings and addressed easily. (ii) Trade promotion cooperation in the form of fairs, exhibitions, conference, consultancy may be added in this article. (iii) Mutual research to explore new trade potential in goods and services may be mentioned in this article as it will lead to the exploration of mutual areas of trade, and transfer of knowledge.	N/A
Article - 2	The two Contracting Parties shall accord each other the most favored nation treatment in respect of issue of licenses, customs formalities, customs duties and other taxes, storage and handling charges, fees and charges of any kind levied on export and import of goods to be exchanged between the two countries.	Unchanged	N/A	N/A
Article - 3	The provision of article II shall not, however, apply to the grant or continuance of any: (a) Advantage accorded by either Contracting Party to facilitate the border trade.	Unchanged	N/A	N/A

Chapter	As stated provision in the Agreement	Unchanged	New Inclusion/ Change	Drop
	(b) Preferences or advantages accorded by either Contracting Party to any third country before the date entry into force of this Agreement. (c) Advantages resulting from any Custom union or from an Agreement on free trade zone or from regional or multilateral arrangements to which either Contracting Party is or may be the member.			
Article - 4	The two Contracting Parties shall conduct the exchange of goods in accordance with the schedules A and B annexed to this Agreement and within the framework of their respective laws, regulations and procedures relating to import and export of goods. This shall not, however, preclude the Contracting Parties to conduct the exchange of goods not enumerated in the said schedules.	N/A	The schedules A and B may be updated since the products exported from both countries have changed significantly over the years. The schedules should take into consideration the current trade patterns of the countries. Outdated product schedules reflect that the agreements have not been updated as and when necessary. The products which exhibit promising export potential from Bangladesh include jute, pharmaceuticals products, footwear, bicycle, television, refrigerators, potatoes, semi-finished products and rice, and the updated product schedules should consist of these products so that these products can be easily exported to Nepal.	N/A
Article - 5	Notwithstanding the foregoing provision, either Contracting Party may maintain or introduce such restrictions as are necessary for the purpose of: a. Protecting public morals. b. Protecting human, animal, and plant life. c. Safeguarding national treasures. d. Safeguarding the implementation of laws relating to the import and export of gold and silver bullion.	Unchanged	N/A	N/A

Chapter	As stated provision in the Agreement	Unchanged	New Inclusion/ Change	Drop
	e. Safeguarding such other interests as may be mutually agreed upon.			
Article - 6	All payments in connection with exportation or importation of goods as well as other payments shall be effected in any convertible currency unless otherwise agreed upon.	Unchanged	N/A	N/A
Article - 7	The exchange of goods between the Contracting Parties shall take place through the means of transportation and routes as may be mutually agreed upon.	Unchanged	N/A	N/A
Article - 8	For facilitating the movement of goods, the two Contracting Parties agree to provide necessary number and means of transportation, warehousing and handling facilities at point or points of entry, exit or breakpoints, on such terms as may be mutually agreed upon for the storage and speedy movement of trade cargo.	Unchanged	N/A	N/A
Article - 9	The movement of goods between the two Contracting Parties shall be governed by the procedures as laid down in the protocol hereto annexed. Except in case of failure to comply with the prescribed procedure goods to be exported to or imported from either Contracting Party shall not be subject to unnecessary delays or restriction.	Unchanged	N/A	N/A

Chapter	As stated provision in the Agreement	Unchanged	New Inclusion/ Change	Drop
Article- 10	The Contracting Parties shall consult with each other as and when necessary and also review the implementation of this Agreement. For this purpose, representatives of the Contracting Parties shall meet on request by either Party at a place and time to be mutually agreed upon but not later than sixty days after the date of request.	N/A	'*Mutually agreed amendment (s) or supplement(s), if any, to this Agreement shall be made by exchange of letters between the two countries through diplomatic channel*' may be added here.	N/A
Article-11	This Agreement shall come into force from the date of its signing and shall remain valid for a period of three years. Thereafter, it shall continue to remain valid for further periods of three years subject to such modifications as may be mutually agreed upon, unless terminated by either Party by giving six months' notice in writing to the other before the expiry of the extended period.	N/A	A longer validity period may be considered in case a joint working group is established since updates and modifications will be continuously discussed/ made to the agreement within the validity period. Since the two countries have been trading for years, and have plans of further building this relationship, a longer validity period may be more suitable.	N/A

Table 9 Suggestions for Trade and Payment Agreement

Chapter	As stated provision in the Agreement	Unchanged	New Inclusion/ Change	Drop
Article - 1	The Contracting Parties shall accord to "traffic-in-transit" Freedom of Transit across their respective territories through routes mutually agreed upon.	N/A	New trade routes can be identified and may be added such as the addition of Rohonpur in Chapainawabganj as an additional transit entry and exit point for Nepal such as Saidpur Airport. New ports of entries and exits may help to decrease congestion on current trade routes and bring down costs.	N/A
Article - 2	The term "traffic-in-transit" means the passage of goods including unaccompanied baggage across the territory of a contracting party when the passage is a portion of a complete journey which begins or terminates within the territory of the	Unchanged	N/A	N/A

Chapter	As stated provision in the Agreement	Unchanged	New Inclusion/ Change	Drop
	other Contracting Party. The transshipment, warehousing, breaking bulk and change in the mode of transport of such goods as well as the assembly, disassembly, and reassembly of machinery and bulky goods shall not render the passage of goods outside the definition of "traffic-in-transit" provided any such operation is undertaken within the framework of mutually agreed procedure solely for the convenience of transportation.			
Article - 3	Traffic-in-transit shall be exempt from custom duty and all transit duties or other charges except reasonable charges for transportation and such other charges as are with the costs of services rendered in respect of such transit.	Unchanged	N/A	N/A
Article - 4	For the convenience of traffic-in-transit Government of the People's Republic of Bangladesh agrees to provide the points of entry, exit or breakpoints as well as storage and port facilities including warehouse or transit sheds for the speedy movement of the transit cargo on such terms as may be mutually agreed upon.	N/A	New ports of entries and exits may help to decrease congestion on current trade routes and bring down costs. New ports of entries and exits may help to decrease trade congestion and bring down costs. Also, port storage facilities ensure timely and efficient delivery of goods by reducing the risk of cargo damage or loss during transport.	N/A
Article - 5	The procedure to be followed for traffic-in-transit to and from third countries is laid down in the Protocol here to annexed. Except in case of failure to comply with the procedure prescribed, such traffic-in-transit shall not be subject to avoidable delays or restriction.	Unchanged	N/A	N/A
Article - 6	In order to enjoy the freedom of the High Seas, merchant ships sailing under the flag of Nepal shall be accorded, subject to Bangladeshi laws and regulations, treatment no less favorable than that accorded to ships of any other foreign country in respect to matters relating to navigations, entry info and departure from ports, use of ports and harbor facilities, as well	Unchanged	N/A	N/A

Chapter	As stated provision in the Agreement	Unchanged	New Inclusion/ Change	Drop
	as loading and unloading dues, taxes and other levies except that provisions of this article shall not extend to coastal trade.			
Article - 7	Nothing in this agreement shall prevent either Contracting Party from taking any measure which may be necessary for the protection of its essential security interests or in pursuance of general international convention, whether already in existence or concluded hereafter, to which it is a party.	Unchanged	A clause may be added regarding the prevention of smuggling or goods. *Ref: Agreement on Transit Transport between the government of Nepal and The Government of People's Republic of China.*[29]	N/A
Article - 8	The Contracting Parties shall act appropriately to ensure that the provisions of this Agreement are effectively and harmoniously implemented and to consult with each other periodically so that such difficulties as may arise in its implementation are resolved satisfactorily and speedily.	N/A	A joint working group may be created with representatives from both countries comprising of government officials, trade experts to follow up with the implementation of the agreement, discussion, find solutions of problems which may arise from the agreement, and promote bilateral trade. The representatives of the joint working group may meet bi-annually/ annually at a mutually agreed date in either of the country. *Ref: (i) Agreement on Trade between Bhutan and Bangladesh (ii) Trade Agreement between Bangladesh and Indonesia (iii) Trade Agreement between Bangladesh and Vietnam* In addition, the two parties may establish a Bangladesh Nepal Joint Chamber of Commerce for exchange of commercial delegations and convening of specializing seminars and conferences for boosting trade. Joint working groups/ dedicated chamber of commerce will lead to dedicated effort	N/A

[29] Ministry of Industry, Commerce and Supplies – Government of Nepal, "Agreement on Transit Transport Between The Government of Nepal And The Government of People's Republic of China," Accessed September 12, 2022, https://moics.gov.np/public/uploads/shares/treaty_and_agreement(bilateral)/Transit_-_Agreement_on__bwDhvJA.pdf.

Chapter	As stated provision in the Agreement	Unchanged	New Inclusion/ Change	Drop
			towards enhancing trade relations between the two countries.	
Article - 9	This Agreement shall come into force from the date of its signing and shall remain valid for a period of five years. Thereafter, it shall continue to remain valid for further periods of five years subject to such modifications or may be mutually agreed upon, unless terminated by either party by giving six months' notice in writing to the other before the expiry of the extended period.	Unchanged	N/A	N/A

Table 10 Suggestions for Transit Agreement

5 Top Products for Trade Diversification

A thorough study of Bangladesh's export priorities, export strengths, Nepal'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. Jute
2. Pharmaceutical products
3. Footwear
4. Motorcycles
5. Television
6. Refrigerators
7. Bicycle
8. Potatoes
9. Semi-finished products (iron or non-alloy steel)

Top Ten Imports of Nepal from the World[30]						
HS4	Product	Bangladesh's Export to Nepal (in million US$)	% of Total Export from Bangladesh to Nepal	Bangladesh's export to the world (in million US$)	Total Addressable Market (in million US$)	% of Total Import from the World to Nepal
2710	Refined Petroleum	0.484	0.70%	20.711	817.604	9.97%
7207	Semi-Finished Iron	0.000	0.00%	43.758	371.359	4.53%
8525	Broadcasting Equipment	0.000	0.00%	0.009	338.510	4.13%
1006	Rice	0.000	0.00%	13.799	222.642	2.72%
2711	Petroleum Gas	0.000	0.00%	0.034	222.224	2.71%
8711	Motorcycles	0.129	0.19%	0.152	148.697	1.81%
3004	Medicament	4.463	6.50%	140.225	123.060	1.50%
7108	Gold	0.000	0.00%	-	119.440	1.46%
7208	Hot-Rolled Iron	0.000	0.00%	-	117.726	1.44%
1005	Corn	0.000	0.00%	-	113.028	1.38%

Table 11 Top Imports from Nepal to Bangladesh along with Addressable Market, Source: Export Promotion Bureau, The observatory of Economic Complexity

The table above looks at the top imports of Nepal and whether Bangladesh exports any of the top ten products to Nepal or to the world to draw an analysis of potential export markets. Our analysis are as follows:

[30] The table includes: Bangladesh's export volume to Nepal (in millions of US$) of the ten top imports (of Nepal from the world), % Of the total export from Bangladesh to Nepal for these top imports, Bangladesh's export to the world (in million US$) of these ten products, % Of total export from Bangladesh to the world of these ten products, Total Addressable Market in Nepal, and % Share of these ten products in the total share of Nepal's imports.

- **Bangladesh exported 0.484 million US$ worth of petroleum oils to Nepal in FY21 and has the potential to increase the volume as Bangladesh exported around 21 million US$ worth of petroleum to the world in the same year.** Bangladesh is not a petroleum-producing country, and imports crude petroleum, and produces refined petroleum through its sole refinery. The refinery can process 1.3 million metric tons of crude oil annually.[31]
- Nepal imports 4.14% of Transmit-receive apparatus for radio, TV, etc. from the world. **However, products of Bangladeshi brand Walton (Walton accounts for 67% of electronics export in Bangladesh) have a vast probability in the consumer-based electronics market of Nepal which can help expand Dhaka's external trade ties with the country.**[32] To meet local demands, Nepal depends largely on imports. India is now dominating the Nepali market. But since Nepal is looking for alternatives to replace Indian goods, Bangladesh has an enormous opportunity to grow. "*Nepal as a market has great potential for Bangladeshi products. Walton is exporting international standard home appliances*," Roquibul Islam Rakib, head of international marketing from Walton, said. Every year, demand for Walton appliances is growing and the local brand is registering an estimated 80% of growth in sales, said Rakib.[33]
- Semi-finished product, iron or non-alloy steel takes up 4.7% of the total imports of Nepal, however, Bangladesh is not exporting this product to Nepal. Bangladesh has the potential of exporting this product to Nepal as Bangladesh has exported around 44 million US$ worth of iron or non-alloy steel to the world.
- Similarly, Bangladesh can export rice to Nepal since the country has exported around 14 million US$ worth of rice in FY21, and this product takes up 4% of the import share in Nepal.

A similar analysis has also been conducted in the table below using Bangladesh's priority sectors for export (as per Export Policy 2021 – 2024) to assess the demand for the products in Nepal's markets and understand where the current trade volume stands for these products.

[31] Pamela Largue, "Bangladesh Risks power Shortages by Cancelling Ten Coal-Fired Plants," July 2, 2021, https://www.powerengineeringint.com/coal-fired/bangladesh-risks-power-shortages-by-canceling-ten-coal-fired-plants/#:~:text=Bangladesh%20risks%20power%20shortages%20by%20canceling%20ten%20coal%2Dfired%20plants,-Pamela%20Largue&text=Bangladesh%20State%20Minister%20for%20Power,of%20imported%20hydropower%20and%20LNG.

[32] Asian Development Bank, "Nepal – Macroeconomic Update,", Volume 9, No. 2, September, 2021, adb.org, Accessed June 29, 2022, https://www.adb.org/sites/default/files/institutional-document/736026/nepal-macroeconomic-update-202109.pdf.

[33] Kamran Reza Chowdhury, "China to Supply Nearly 40 Percent of Bangladesh's Petroleum Imports," January 12, 2022, benarnews.org, Accessed June 29, 2022, https://www.benarnews.org/english/news/bengali/oil-deal-01122022161400.html.

Bangladesh's Priority Sectors (as per Export Policy 2021 – 2024)							
HS4	**Product**	**Bangladesh's Export to Nepal (in million US$)**	**% of Total Export from Bangladesh to Nepal**	**Bangladesh's export to the world (in million US$)**	**% of Total Export from Bangladesh to the World**	**Total Addressable Market (in million US$)**	**% of Total Import from the World to Nepal**
Textiles							
6109	T-shirts, singlets	0.490	0.71%	6,615.483	17.07%	12.884	0.16%
6104	Women's or girl's dresses	0.030	0.04%	2,026.833	5.23%	16.945	0.21%
6110	Pullovers, cardigans	0.076	0.11%	4,051.830	10.45%	13.575	0.17%
6307	Textile	0.010	0.01%	116.932	0.30%	22.128	0.27%
6304	Furnishing articles	0.000	0.00%	8.875	0.02%	3.733	0.05%
6210	Garments made up of textile felts	0.147	0.21%	378.420	0.98%	12.997	0.16%
6211	Men's, boys' garments	0.002	0.00%	310.887	0.80%	5.396	0.07%
6111	Babies Garments	0.000	0.00%	546.111	1.41%	0.678	0.01%
5303	Jute and other textiles	6.062	8.83%	138.148	0.36%	19.416	0.24%
5209	Fabrics of cotton	0.337	0.49%	53.439	0.14%	10.556	0.13%
5211	Mixed Cotton Fabrics	0.022	0.03%	17.059	0.04%	4.504	0.05%
Mechanical appliances and electrical machinery							
8418	Refrigerators	1.312	1.91%	12.268	0.03%	26.294	0.32%
8414	Compressors for refrigerating equipment	0.205	0.30%	5.438	0.01%	24.397	0.30%
8415	Air Conditioner	0.038	0.05%	6.231	0.02%	13.974	0.17%
8528	Television, monitors	0.120	0.17%	6.439	0.02%	15.226	0.19%
Vehicles, aircraft, vessels, and associated transport equipment							
8711	Motorcycles	0.129	0.19%	0.152	0.00%	154.887	1.89%
8712	Bicycles, other cycles	0.000	0.00%	130.886	0.34%	10.740	0.13%
8714	Bicycle parts	0.023	0.03%	12.170	0.03%	23.678	0.29%
Miscellaneous manufactured articles							
9403	Furniture parts	0.155	0.23%	18.361	0.05%	10.578	0.13%
Pharmaceutical Products							
3004	Medicaments	4.463	6.50%	140.225	0.36%	171.080	2.09%
3002	Blood, toxins, cultures	0.011	0.02%	0.276	0.00%	30.840	0.38%
3003	Medicaments formulated	0.873	1.27%	26.575	0.07%	2.874	0.04%

Bangladesh's Priority Sectors (as per Export Policy 2021 – 2024)							
HS4	**Product**	**Bangladesh's Export to Nepal (in million US$)**	**% of Total Export from Bangladesh to Nepal**	**Bangladesh's export to the world (in million US$)**	**% of Total Export from Bangladesh to the World**	**Total Addressable Market (in million US$)**	**% of Total Import from the World to Nepal**
3005	Medical dressings	0.000	0.00%	0.048	0.00%	3.632	0.04%
Miscellaneous manufactured articles							
9404	Bedding products		0.00%	31.431	0.08%	4.633	0.06%
Prepared foodstuffs							
2106	Food preparations	0.040	0.06%	0.767	0.00%	38.240	0.47%
2202	Non-alcoholic beverages	0.000	0.00%	29.407	0.08%	2.324	0.03%
2009	Fruits Juices	1.055	1.54%	61.693	0.16%	1.551	0.02%
Animal or vegetable fats and oils							
1507	Soya-bean oil crude	0.000	0.00%	19.166	0.00%	3.019	0.04%
Vegetable Products							
1006	Rice	0.000	0.00%	13.799	0.04%	330.867	4.03%
0701	Potatoes	3.114	4.54%	50.781	0.13%	36.042	0.44%
0713	Shelled Legumes	0.000	0.00%	0.011	0.00%	135.048	1.65%
0810	Fruits	0.000	0.00%	4.063	0.01%	5.568	0.07%
0710	Frozen vegetable	0.000	0.00%	4.767	0.01%	5.031	0.06%
0711	Preserved Vegetables	0.000	0.00%	55.881	0.14%	0.006	0.00%
Plastics and Rubbers							
3901	Ethylene Polymers	0.000	0.00%	4.872	0.01%	74.063	0.90%
3920	Plastic Sheets/Films/ Foils	0.000	0.00%	7.098	0.02%	35.292	0.43%
3906	Acrylic polymers	0.000	0.00%	5.026	0.01%	11.652	0.14%
3908	Primary Polyamides	0.000	0.00%	2.989	0.01%	0.337	0.00%
3904	Polyvinyl chloride	0.000	0.00%	1.736	0.00%	13.762	0.17%
Footwear							
6402	Footwear, outer soles	0.000	0.00%	93.567	0.24%	21.740	0.27%
6404	Textile Footwear	0.000	0.00%	220.305	0.57%	12.999	0.16%
6403	Sports footwear	0.012	0.02%	569.882	1.47%	3.390	0.04%
Live animals							

Bangladesh's Priority Sectors (as per Export Policy 2021 – 2024)							
HS4	Product	Bangladesh's Export to Nepal (in million US$)	% of Total Export from Bangladesh to Nepal	Bangladesh's export to the world (in million US$)	% of Total Export from Bangladesh to the World	Total Addressable Market (in million US$)	% of Total Import from the World to Nepal
0301	Fish, live	0.000	0.00%	6.321	0.02%	0.049	0.00%

Table 12 Comparison of Existing and Possible Exports to Nepal and the World, Source: Export Promotion Bureau, The observatory of Economic Complexity

From the table above, the following deductions can be made.

- Bangladesh exports 6615, 2027, and 4052 million US$ worth of t-shirts, pullovers, and activewear to the world, but the share of these products in Nepal's total import basket is quite low since Nepal is a readymade garments producer and exports readymade garments products to Canada, Australia, and Europe.
- Bangladesh can try exporting more jute products to Nepal since around 9% of Bangladesh's total exports to Nepal comprises of jute products.
- Medicaments take up 2% of Nepal's total import share, and Bangladesh exported 140 million to the world whereas only around 4.5 million US$ worth of medicaments were exported from Bangladesh to Nepal during FY21, thus there is scope for Bangladesh to export more medicaments to Nepal.[34] However, Nepali pharmaceutical businesses requested the government to restrict the import of drugs for the common cold, cough, headache, gastric, diabetes, different types of painkillers, vitamins, and many other types of drugs that are produced in Nepal.[35] Though, in 2020, Nepali suppliers came to Bangladeshi pharmacological firms for a smooth supply of medicines after India limited the export of 26 drugs fearing short supply due to the COVID-19 outbreak.
- Bangladesh exports a huge volume of footwear to the world, whereas only a small quantity is exported to Nepal. There is potential to increase exports of footwear from Bangladesh to Nepal. According to the World Footwear 2021 Yearbook, Bangladesh ranked as the 8th largest footwear producer (423 million pairs) and the 9th largest consumer market (366 million pairs). Most of its production supplies the domestic market: only 72 million pairs were exported in 2020 (making it the 16th largest exporter of footwear).[36]
- Bangladesh exports a major share of its motorbikes (50-250 cc) to Nepal. Respondents from both KII and FGDs have confirmed that there is good demand for Walton-produced motorbikes

[34] Tech Observer Desk, "Walton Accounts for 67% of Electronics Export in Bangladesh," Tech Observer, June 2, 2021, techobserver.in, Accessed June 29, 2022, https://techobserver.in/2021/06/02/walton-accounts-for-67-of-electronics-export-in-bangladesh/.
[35] Dhaka Tribune, "Nepal's Growing Market for Bangladeshi Goods," February 24, 2018, archive.dhakatribune.com, Accessed June 29, 2022, https://archive.dhakatribune.com/business/2018/02/25/nepals-growing-market-bangladeshi-goods.
[36] World Footwear, "Bangladesh: Leather Exports Continue on Growing Mode," April 7, 2022, https://www.worldfootwear.com/news/bangladesh-leather-exports-continue-on-growing-mode-/7690.html.

in Nepal. Hence, Bangladesh can explore increasing the volume of motorbike exports. Given that Walton's electronic products are popular in Nepal, Bangladesh can promote Walton's televisions and air conditioners in Nepal since only a small fraction of Bangladesh's export of air conditioners and television is going to Nepal.

- Even though Bangladesh doesn't export bicycles but exports only a small quantity of bicycle parts to Nepal, there is an unrealized potential of 490,000 US$ to Nepal as per ITC Export Potential Map.[37]
- There is great potential in the export of potatoes to Nepal. Bangladesh grows over 10 million tons of the tuber crop against a yearly domestic requirement of seven million tons. It has an exportable surplus of three million tons of potato but it fares poorly when it comes to finding export markets, managing to export hardly 1,00,000 tons a year. In 2021, Bangladesh exported 14.3 million US$ in potatoes, making it the 35th largest exporter of potatoes in the world. At the same year, potatoes was the 98th most exported product in Bangladesh.

5.1 Revealed Comparative Advantage

The following table shows Bangladesh's bilateral RCA with Nepal.

HS Code	Product	Bangladesh's Export to Nepal (in million US$)	Export of commodity of the world to Nepal (in million US$)	RCA[38]
Textiles				
52	Cotton	0.378	72.466	1.23
53	Vegetable textile fibers	10.676	30.247	83.54
61	Apparel and clothing accessories	1.453	80.948	4.25
62	Apparel and clothing accessories; not knitted or crocheted	0.558	206.783	0.64
63	Textiles, made up articles	0.018	18.886	0.22
Mechanical appliances and electrical machinery				
84	Machinery and mechanical appliances	0.255	1049.314	0.06
85	Electrical machinery and equipment	3.715	690.644	1.27
Vehicles, aircraft, vessels, and associated transport equipment				
87	Vehicles	0.573	780.694	0.17
Miscellaneous manufactured articles				
94	Furniture, bedding, mattresses	0.188	84.562	0.53
Pharmaceutical Products				
30	Pharmaceutical products	3.155	261.111	2.86

[37] Export Potential Map, "Export Potential," exportpotential.intracen.org, April 9, 2022, https://exportpotential.intracen.org/en/products/tree-map?exporter=50&fromMarker=i&toMarker=j&market=524&whatMarker=k

[38] The Revealed Comparative Advantage (RCA) is widely used as a standard indicator of a country's competitive export strength. A country is said to have a revealed comparative advantage in a given product when its ratio of exports to its total exports of all products exceeds the same ratio for the entire world. When the RCA value for a given product is greater than one for a country, that country is a competitive producer and exporter of that product relative to a nation exporting that good at or below the world average.

HS Code	Product	Bangladesh's Export to Nepal (in million US$)	Export of commodity of the world to Nepal (in million US$)	RCA[38]
Prepared foodstuffs				
21	Miscellaneous edible preparations	0.166	88.094	0.45
20	Preparations of vegetables, fruits, nuts, or other parts of plants	4.221	18.882	52.90
22	Beverages, spirits, and vinegar	0.346	53.469	1.53
Animal or vegetable fats and oils				
15	Animal, vegetable or microbial fats and oils	N/A	411.952	N/A
Vegetable Products				
7	Vegetable and certain roots and tubers	0.254	266.306	0.23
8	Fruits and nuts	N/A	187.659	N/A
10	Cereals	15.775	451.898	8.26
Plastics and Rubbers				
39	Plastics and articles thereof	0.519	454.998	0.27
Footwear				
64	Footwear and parts of such articles	0.030	69.702	0.10
Live animals				
3	Fish and crustaceans	0.117	17.675	1.56

Table 13 Bilateral RCA with Nepal, Source: UN Comtrade Data (2019)

From the table above, the following deductions can be made

- Bangladesh has a significantly high RCA value in exporting jute products.
- Although Bangladesh is an agriculture-based country, the RCA on some vegetable products against Nepal is lower.
- RCA for a few textile products is low because Nepal exports readymade garments to Canada, Europe, Australia, and even India.
- For Bangladesh, pharmaceuticals exports to Nepal can be a strength as the RCA value is greater than 1, and there is good scope to boost trade in this sector given that in 2020 Nepal came forward to Bangladeshi pharmaceuticals for smooth supply of medicine, but that may have been due to shortfall in supplies due to COVID-19. Most of the Bangladesh-produced pharmaceuticals are exported to Bangladesh, and with the API Industry Park opening soon in Bangladesh, there is a possibility to tap into the global API market.
- Bangladesh also has an RCA value greater than 1 when it comes to electronics products.
- Bangladesh has export strength in fish and crustaceans too as the RCA value is more than 1.

The following table shows Bangladesh's bilateral RCA with Nepal of the top 10 exports from Bangladesh.

HS Code	Product	Bangladesh Top 10 Exports to Nepal (in million US$)	Export of the top 10 commodities of the world to Nepal (in million US$)	RCA
230400	Oilcake and other solid residues	NA	72.38	NA
530310	Jute	10.02	27.88	85.09
310210	Urea	NA	91.72	NA
120190	Soya beans	NA	71.39	NA
70190	Potatoes	0.25	54.26	1.11
850710	Lead-acid accumulators	3.05	18.42	39.16
300490	Medicaments	2.08	132.69	3.71
151319	Coconut (copra) oil (excl. crude) & amp	NA	0.17	NA
300439	Medicaments	0.42	1.58	62.72
600121	Looped pile fabrics of cotton	0.41	0.41	236.68

Table 14 RCA of the top 10 Bangladeshi Export products to Nepal, Source: UN Comtrade Data (2019)

From the table above, it can be observed that all the top ten exports have an RCA value greater than 1 indicating export strength and comparative advantage. Export products such as jute, oil-cake, medicaments, piles of fabrics (cotton) and lead acid accumulators have greater export potential due to a high RCA values.

6 Trade Policies and Practices

6.1 Trade Policy Formulation

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

Country	Stakeholder
Bangladesh	Ministry of Commerce (MoC)
	National Board of Revenue (NBR)
	Ministry of Law, Justice and Parliamentary Affairs
Nepal	Ministry of Industry, Commerce, and Supplies
	Ministry of Finance

Table 15 Trade Policy Organizations

In Bangladesh, the focal point for trade-related affairs is the Ministry of Commerce (MoC) along with the National Board of Revenue (NBR) 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. Nepal also has a similar structure in trade policy formulation. The following table gives a detailed look into both Bangladesh and Nepal's principal trade policymakers.

Country	Stakeholder Group	Stakeholder Interest	Mandate
Bangladesh	Ministry of Commerce (MoC)	The focal point for bilateral, regional, and multilateral trade negotiations. Various agencies under the MoC oversee the 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.[39]	Takes a lead role in the formulation, implementation, and coordination of policies and activities related to international trade[40]
	National Board of Revenue (NBR)	Makes decisions on the level of tariffs, para-tariffs, and other duties through a pre-budget consultation process and is focused on duty collection and revenue.	Takes a lead role in tariff setting[41]

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

[40] 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.

[41] 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.

Country	Stakeholder Group	Stakeholder Interest	Mandate
	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[42]
Nepal	Ministry of Industry, Commerce, and Supplies	Functions as a National Enquiry Point (NEP) for Trade in Services and serves as a focal point for trade agreement discussions and administration; Leads the development of trade-related legislation in consultation with other ministries and government organizations; Chairs the Board of Trade, which also includes officials from the public and commercial sectors as well as academics	In charge of developing, implementing, and overseeing policies and strategies relating to international commerce, industrial development, and investment[43]
	Ministry of Finance	Responsible for setting tariffs	In charge of tariffs[44]

Table 16 Stakeholder Group and Interest

The Foreign Trade Agreement Wing under the Ministry of Commerce, Bangladesh is responsible for bilateral, plurilateral, regional and free trade agreements with other countries and are commonly known to engage in trade negotiations, commerce secretary level meetings, and joint-working groups. In contrast, the Ministry of Industry, Commerce and Supplies of Nepal is the principal ministry responsible for administration of trade agreements and trade negotiations. **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.[45]**

[42] 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.

[43] World Trade Organization, "Trade Policy Review," WT/TPR/S/381 • Bangladesh, October 8, 2018, wto.org, Accessed June 29, 2022, https://www.wto.org/english/tratop_e/tpr_e/s381_e.pdf

[44] World Trade Organization, "Trade Policy Review," WT/TPR/S/381 • Bangladesh, October 8, 2018, wto.org, Accessed June 29, 2022, https://www.wto.org/english/tratop_e/tpr_e/s381_e.pdf

[45] 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.

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.

6.2 Trade Policy Objectives and Incentives

Nepal's Trade Policy 1992 was amended in 2009, after Nepal joined the WTO, and later on in 2015. The primary objective of the Trade Policy, 2015 is to increase access to intellectual property, goods, and services at regional and international levels. The Trade Policy revolves around strategies first, to promote economic prosperity by increasing export promotion to enhance national contribution. Second, to increase the export of competitive products and services across the globe, and lastly, to strengthen the supply-side capacity.[46] On the other hand, the Nepal Trade Integration Strategy (NTIS), 2016 is on its third round of trade integration strategy which mainly focuses on strengthening trade by creating an export-enabling environment, facilitating trade negotiation and coordination between agencies, ensuring trade-related infrastructures, assert on product development, and similar to the Trade Policy, 2015, focuses on strengthening supply capacity, especially of products that are high priority.[47]

In the case of Bangladesh, the Export Policy, 2021-2024, has been made effective from March 23, 2022. The Policy 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 on 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.[48]

The government of Bangladesh provides incentives to selected export sectors which includes 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 ranges 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

[46] Ministry of Industry, Commerce and Supplies – Government of Nepal, "Nepal Trade Policy Review: 2018," moics.gov.np, Accessed June 29, 2022, https://moics.gov.np/uploads/shares/policy/Trade%20Policy%20Review%202018-Nepal.pdf
[47] Ministry of Industry, Commerce and Supplies – Government of Nepal, "Nepal Trade Policy Review: 2018," moics.gov.np, Accessed June 29, 2022, https://moics.gov.np/uploads/shares/policy/Trade%20Policy%20Review%202018-Nepal.pdf
[48] 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.

potential sectors in Bangladesh[49] 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 the production and marketing of products, among others.

In the Policy Review of Nepal by WTO, it is mentioned that Nepal doesn't provide any export subsidies. Some agricultural products to destinations other than India qualify for support under the Cash Incentive Scheme for Exports.

6.3 Export Priority Sectors

The following table states the sector, products, and services prioritized by NTIS and Bangladesh Export Policy, 2021-2024:

Priority Exports	
Nepal Trade Integration Strategy, 2016[50]	**Bangladesh Export Policy, 2021-2024[51]**
i. large cardamom	i. denim, man-made fiber
ii. ginger	ii. garment accessories
iii. tea	iii. pharmaceuticals
iv. medicinal and aromatic plants	iv. plastic products,
ii.all fabrics, textile, yarn & ropes	v. shoes (both leather and synthetic)
iii. leather	vi. jute and agro-products
iv. footwear	vii. light engineering
v. Chyangra Pashmina	ix. shipbuilding
vi. knotted carpets iii. services	x. ocean-going trawler building
vii. skilled & semi-skilled professionals	xi. furniture
viii. IT & Business Process Outsourcing	xii. home textiles and home décor
viii. tourism	xiii. luggage
	xiv. active pharmaceutical ingredients and reagents.

Table 17 Priority Exports As Per Country Policy

6.4 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, incentives such as Bangladesh also provides 100% duty-free import and foreign ownership. Agencies such as 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. In Nepal, Investment Board Nepal (IBN) facilitates FDI projects[52]. The Export Promotion Bureau (EPB) under the Ministry of Commerce is

[49] 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

[50] Ministry of Industry, Commerce and Supplies – Government of Nepal, "Nepal Trade Policy Review: 2018," moics.gov.np, Accessed June 29, 2022, https://moics.gov.np/uploads/shares/policy/Trade%20Policy%20Review%202018-Nepal.pdf.

[51] 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.

[52] World Trade Organization, "Trade Policy Review," WT/TPR/S/381/Rev.1 • Nepal, February 27, 2019, wto.org, Accessed June 29, 2022, https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=q:/WT/TPR/S381R1.pdf&Open=True.

responsible for export promotion, formulation and review of export policies, incentives, and even dissemination of trade information through its information centre, as well as organization of trade fairs and national training programs. Bangladesh provides several incentives for investors who are interested in establishing industries in an SEZ that includes 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.

Similar to Bangladesh, Nepal provides incentives such as reduced income tax provisions and VAT concessions in specific industries such as quarry, mining, hydropower projects, and manufacturing companies located in SEZs among others[53]. Nepal introduced and replaced its *Foreign Investment and One Window Policy (1992)* with *Foreign Investment Policy 2015* to mobilize foreign capital, technology, skills, and knowledge in priority sectors[54]. A key development in Nepal's policy development was the Investment Board Act (IBN), 2011 and Regulations, 2012 which constituted a high-powered investment board seeking to formulate policy on investment and provide fast-track problem-solving solutions. IBN has already been successful in facilitating export-oriented projects in hydropower, and manufacturing sectors in Nepal. Yet, in Nepal, FDI was down by 32 percent to $126 million in 2020, mostly because of the stall in tourism, one of the country's key industries. In Bangladesh, inflows declined by 11 percent to $2.6 billion. Both general economic activities and FDI shrank in the country's export-oriented garment. Bangladesh's FDI inflows stood at 2564 US$ million in 2020 whereas it was only 126 million US$ for Nepal.[55]

6.5 Customs Clearance

In 2018, Bangladesh ranked 100th in the Logistics Performance Index[56] whereas in the same region India ranked 44th.[57] In the same year, Nepal ranked 114th. Even though Nepal has improved in areas such as customs and clearance, it still lags compared to its neighbor Bangladesh. Nepal has made progress towards custom reform and modernization for trade facilitation by approving two international agreements on expediting the movement, release, and clearance of goods, in the form of the World Customs Organization's Revised Kyoto Convention (RKC) and the WTO's TFA.[58] The LPI ranking for both Bangladesh and Nepal are mentioned in the table below

[53] World Trade Organization, "Trade Policy Review," WT/TPR/S/381/Rev.1 • Nepal, February 27, 2019, wto.org, Accessed June 29, 2022, https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=q:/WT/TPR/S381R1.pdf&Open=True.
[54] Ministry of Industry, Commerce and Supplies, Government of Nepal, "Nepal Trade Policy Review: 2018," moics.gov.np, Accessed September 12, 2022, https://moics.gov.np/uploads/shares/policy/Trade%20Policy%20Review%202018-Nepal.pdf.
[55] UNCTAD, "World Investment Report 2021: Investing in Sustainable Recovery," Geneva, 2021, United Nations, Accessed June 29, 2022, https://unctad.org/system/files/official-document/wir2021_en.pdf.
[56] 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.
[57] Jean-Francois Arvis et. al, "Connecting to Compete: Trade Logistics in the Global Economy," 2018, The World Bank Group, Accessed June 29, 2022, https://openknowledge.worldbank.org/bitstream/handle/10986/29971/LPI2018.pdf
[58] Asian Development Bank, "Nepal – Macroeconomic Update," Volume 9, No. 2. September, 2021, adb.org, Accessed June 29, 2022, https://www.adb.org/sites/default/files/institutional-document/736026/nepal-macroeconomic-update-202109.pdf.

	Year	LPI Rank	LPI Score
Bangladesh	2014	108	2.09
	2016	87	2.66
	2018	100	2.58

	Year	LPI Rank	LPI Score
Nepal	2014	105	2.59
	2016	124	2.38
	2018	114	2.51

Table 18 The Logistics Performance Index, Source: https://lpi.worldbank.org/international/scorecard/radar/254/C/NPL/2018#chartarea

Despite continued efforts, recent reports, and research show that Bangladesh's customs procedures still need to be improved. Bangladesh was placed 168th out of 190 economies in the World Bank Group's 2020 Doing Business Report whereas Nepal ranks 94th in the same report as it had reduced the time and cost spent on trading across borders by opening the Integrated Check Post Birgunj at the Nepal-India border.[59] The improvement in Bangladesh's ranking (ranked 173rd among 190 economies in 2018) came as the country made starting a business less expensive by reducing name clearance and registration fees.[60] According to the World Bank Group's Doing Business data, importing a shipment of products needed 183 hours and USD 1,293.8 in border and documentary compliance, and 144 hours and USD 370, respectively, in 2018.[61] Furthermore, according to a baseline study conducted by the ADB in 2017 on the import of lentils from Nepal through the Banglabandha land port, an ordinary merchant would need to submit 18 documents 71 times to complete the import procedure. According to the 2017 study, the average speed along the transport corridor was below 30 kilometers per hour, and the average time to cross the border for imports was more than six hours.[62]

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 to 8 percent time in the customs release process and port authorities consume around 12 to 20 percent 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

[59] World Bank Group, "Doing Business 2020: Comparing Business regulation in 190 Economies," 2020, documents1.worldbank.org, Accessed June 29, 2022, https://documents1.worldbank.org/curated/en/688761571934946384/pdf/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies.pdf.

[60] World Bank Group, "Doing Business 2020: Comparing Business regulation in 190 Economies," 2020, documents1.worldbank.org, Accessed June 29, 2022, https://documents1.worldbank.org/curated/en/688761571934946384/pdf/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies.pdf.

[61] 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.

[62] 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.

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

6.6 Intellectual Property Rights

Nepal has achieved significant success in the policy domain of the intellectual property rights (IPR) regime. Nepal's Constitution guarantees intellectual property rights by including IPR within the fundamental rights chapter. The Department of Industry in the Ministry of Industry, Commerce and Supplies in Nepal is responsible for policy formulation and the preparation of draft legislation on intellectual property. Nepal released its first National Intellectual Property Policy in 2017. The Policy seeks to encourage the commercialization of IP, and strengthen legal, administrative, and human resources to ensure the protection and enforcement of IP. Other objectives of the policy also include the creation of awareness about social, economic, and cultural aspects and developing a balanced IP system.

In Bangladesh, the Directorate of Patents, Designs, and Trademarks in partnership with the World Intellectual Property Organization (WIPO) initiated a discussion on the National IP policy and the implemented IP Policy in 2018. Again, in 2019, NBR implemented the 'Intellectual Property Rights of Receipts of Imports: Rules of Implementation 2018'.

The following table draws comparison of Bangladesh and Nepal's IP legislations along with the duration of protection:

Bangladesh		Nepal	
Legislation	**Duration of protection**	**Legislation**	**Duration of protection**
Patents and Designs Act 1911, and Patents and Designs Rules, 1933	16 years from date of application, renewable for 5 or 10 years upon application and for industrial designs, 5 years, renewable for two successive 5-year periods	Patent, Design and Trademark Act, 1965	Patents: 7 years, with a possibility of two renewal periods of 7 years (maximum 21 years). Industrial designs: 5 years, with a possibility of two renewal periods of 5 years (maximum 15 years).
Copyright Act, 2000, and Copyright Rules, 2006	Life of author plus 60 years.	Copyright Act, 2002, and Copyright Rules, 2004	Authors' rights: 50 years from the death of the author. Work published in volumes: 50 years from the date of the first publication of such work, or the date on which the work is made public, whichever is earlier.

			Cinematographic or audiovisual works: 50 years from the first publication. Performers: 50 years from the first publication. Producers of phonograms: 50 years from the first publication. Producers of film: 50 years from the first publication. Broadcasting organizations: 50 years from the first publication. Photographs: 25 years from the year of preparation of such work.
Trademarks Act, 2009, and Trademarks Rules, 2015	7 years from date of registration, renewable for 10-year periods thereafter.	N/A	N/A
Geographical Indication of Goods, 2013, and Geographical Indications of Goods Rules, 2015	5 years, subject to renewal.	N/A	N/A
N/A	N/A	Seeds Act, 1988	Grant of ownership upon registration.

Table 19 IP Rights Legislation in Bangladesh and Nepal

6.7 Tariff Structure

Nepal has a two-tier tariff rate system for most of its imports – one for imports from SAARC nations and another for non-SAARC countries.[63] Additionally, the simple average of MFN is 12.2% whereas it is 14% for Bangladesh, with the average rate of industrial goods being lower than the agricultural goods. However, 25% is the maximum MFN applied rate to date. With rates ranging from 5-25%, products that fall under this category include finished goods, intermediate goods, raw materials, and general input items.[64] The following table shows the simple average MFN tariff of Bangladesh and Nepal

Simple average MFN applied	Total	Agricultural products	Non-agricultural products
Bangladesh	14	17.5	13.4
Nepal	12.2	14.9	11.8

Table 20 Simple Average MFN of Bangladesh and Nepal, Source: World Tariff Profiles (2021) by WTO

[63] International Trade Administration, "Nepal - Import Tariffs," www.trade.gov, September 18, 2021, https://www.trade.gov/country-commercial-guides/nepal-import-tariffs.

[64] International Trade Administration, "Bangladesh - Import Tariffs," www.trade.gov, September 17, 2021, https://www.trade.gov/country-commercial-guides/bangladesh-import-tariffs#:~:text=The%20average%20Most%20Favored%20Nation,applied%20rate%20is%2025%20percent.

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

Bangladesh's Top 10 Exports to Nepal and Tariff Structure (2020 – 2021)					
HS6	**HS2**	**Product Name**	**Volume of Import (in US$ million)**	**MFN Applied Tariff (%)**	**Preferential Tariff (%)**
230400	'23	Oilcake	22.36	10	6 (under SAFTA)
530310	'53	Jute	6.06	5	-
310210	'31	Urea	5.84	5	
120190	'12	Soya beans	4.10	10	9 (under SAFTA)
070190	'07	Potatoes	3.09	15	9 (under SAFTA)
850710	'85	Lead-Acid Accumulators	3.02	15	
300490	'30	Other medicaments	2.50	10	9 (under SAFTA)
151319	'15	Coconut (copra) oil	1.59	15	7.25 (under SAFTA)
300439	'30	Medicaments of other hormones	1.36	15	14 (under SAFTA)
600121	'60	Looped pile fabrics of cotton	1.26	15	-

Table 21 Tariff Imposed on Top Ten Exports of Bangladesh to Nepal, Source: Export Promotion Bureau and Trade Map (2022) access on 18 June 2021; https://www.trademap.org/Index.aspx

Bangladesh's Top 10 Imports from Nepal and Tariff Structure (2020 – 2021)					
HS4	**HS2**	**Product Name**	**Volume of Import (in US$ million)**	**MFN Applied Tariff (%)**	**Preferential Tariff (%)**
0713	'07	Dried leguminous vegt. shelled	3.69	0 – 5	0 (under SAFTA)
0506	'05	Live Animals and Animal Products	0.39	10	3 (under SAFTA)
2306	'23	Oilcake, not soya bean	0.24	0 – 10	0 (under SAFTA)
1211	'12	Oil seeds and oleaginous fruits; miscellaneous grains	0.13	0 – 10	3 (under SAFTA) [some products]
2106	'21	Food preparations	0.13	25	3 (under SAFTA) [some products]
0910	'09	Ginger saffron, turmeric & other spices	0.07	5 – 25	3 – 5 (under SAFTA)
1404	'14	Vegetable products	0.04	10 – 25	3 – 5 (under SAFTA)
2517	'25	Pebble, gravel, broken or crushed stone	0.03	5 – 25	5 (under SAFTA) [some products]
3201	'32	Tanning extract of vegetable origin	0.03	5	0 (under SAFTA)
1514	'15	Animal or vegetable fats and oils	0.03	10 – 25	3 – 5 (under SAFTA)

Table 22 Tariff Imposed on Top Ten Imports from Nepal 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 Nepal will be to tap the top imports of Nepal. The following table shows the top ten products which Nepal imported in 2019 and the corresponding tariff on those products.

Nepal's Top Ten Imports from the World, Addressable Market Size and Tariff

HS6	HS2	Product	Total Addressable Market (in US$ million)	MFN Duties (%)	Preferential Tariff (%)
271000	'27	Oils petroleum, bituminous, distillates, except crude	817.604	N/A	N/A
720719	'72	Semi-finished product, iron, or non-alloy steel <0.25%C	371.359	5	-
852520	'85	Transmit-receive apparatus for radio, TV	338.510	N/A	N/A
100630	'10	Rice, semi-milled or wholly milled	222.642	10	9 (under SAFTA)
271119	'27	Petroleum gases & gaseous hydrocarbons	222.224	5	-
871120	'87	Motorcycles	148.697	30	30 (under SAFTA)
300490	'30	Medicaments	123.060	10	9 (under SAFTA)
710812	'71	Gold in unwrought forms	119.440	18.15	-
720824	'72	Hot rolled iron	117.726	N/A	N/A
100590	'10	Maize except seed corn	113.028	10	9 (under SAFTA)

Table 23 Top Ten Imports of Nepal and Corresponding Tariff, Source: https://oec.world/en/profile/country/npl?latestTrendsFlowSelectorNonSubnatLatestTrends=flow1&depthSelector1LatestTrends=HS6Depth and TradeMap (2022)

6.8 Non-Tariff Measures

Bangladesh's exports to Nepal and other neighboring countries are low with huge unrealized potential. Our experts have analyzed the non-tariff measures when it comes to exporting to Nepal. The NTMs are high for vegetables, machinery, food products, and animal products whereas it is quite lenient when it comes to plastic or rubber products. For vegetables and food products, SPS measures are quite stringent especially in the form of hygienic requirements and restrictions on the use of a certain substance in food whereas for machinery TBT measures such as licenses, quotas and other quantity control measures prevail.

Nepal's Top Ten Most Imposed Non-Tariff Measures				
Measure	**NTM Coverage Ratio**	**NTM Frequency Ratio**	**NTM affected product – Count**	**NTM affected Trade**
Testing requirement (B820)	10.51	0.74	34	982,042.19
Internal taxes and charges levied on imports n.e.s. (F790)	10.51	0.74	34	982,042.19
State trading enterprises, for importing (H110)	10.51	0.74	34	982,042.19
Product identity requirement (B600)	7.2	1.57	72	672,553.96
Restricted use of certain substances in foods and feeds	6.95	1.6	73	649,629.69

Nepal's Top Ten Most Imposed Non-Tariff Measures				
Measure	**NTM Coverage Ratio**	**NTM Frequency Ratio**	**NTM affected product – Count**	**NTM affected Trade**
and their contact materials (A220)				
Prohibitions other than for SPS and TBT reasons (E300)	6.52	10.93	500	609,314.76
Tolerance limits for residues of or contamination by certain (non-microbiological) substances (A210)	5.65	0.61	28	527,906.58
Special Authorization requirement for SPS reasons (A140)	5.52	6.84	313	515,279.25
Certification requirement (A830)	4.18	0.72	33	390,705.08
Prohibitions/restrictions of imports for SPS reasons n.e.s. (A190)	4.13	0.68	31	385,882.42

Table 24 Nepal's Top Ten Most Imposed Non-Tariff Measures, Source: WITS Database

Nepal's Non- Tariff Measures by Sector					
Sector	**NTM Coverage ratio**	**NTM Frequency ratio**	**NTM affected product - count**	**NTM affected trade**	**NTM affected duty free imports**
Fuels	100	100	34	982,042.19	
Chemicals	55.23	50.94	353	504,570.59	2
Vegetable	48.57	18.35	51	562,261.02	
Mach and Elec	47.26	65.97	502	616,554.49	7.08
Food Products	37.12	18.44	33	145,042.48	
All Import Products	33.69	21.97	1005	3,147,323.78	1.18
Animal	31.77	17.95	21	20,802.54	
Stone and Glass	22.15	0.57	1	170,289	
Minerals	19.55	3.53	3	36,666.55	
Metals	5.25	0.19	1	62,007.20	
Transportation	4.73	3.6	4	47,067.79	
Miscellaneous	0	0.29	1	9.79	
Plastic or Rubber	0	0.49	1	10.15	

Table 25 Nepal's Non-Tariff Measures by Sector, Source: WITS Database

There are impediments while exporting to Bangladesh from Nepal. As per the Import Policy Order of Bangladesh 2012 – 2015,[65] SPS constraints include

- Bangladesh has zero tolerance for radioactive levels in edible products, but this issue is not addressed by Nepalese standards.

[65] Asian Development Bank and SASEC, "Potential Exports and Nontariff Barriers to Trade: Nepal National Study," May, 2019, adb.org, Accessed June 29, 2022, https://www.adb.org/sites/default/files/publication/507016/nepal-exports-nontariff-barriers-trade-study.pdf.

- Bangladesh's import policy stipulates certain products to be free of added melamine which is yet again not addressed by Nepalese standards.
- The presence of chloramphenicol and nitrofuran is prohibited in meat as well as fish, poultry, and animal feed.
- Mandatory certification marks scheme by the Bangladesh Standards and Testing Institution (BSTI) for wheat flour, crude soya bean oil, sweet biscuits, and frozen orange juice, among others.

On the other hand, while exporting to Nepal, Bangladesh may face the most reported obstacles in Nepal are:

- Inconsistent procedures, regulations, and requirements are applied at customs.
- Customs officials lack the knowledge and capacity to consistently oversee the procedures.
- Excessive documentation requirements, which in many cases is not legally applicable and only a means for receiving informal payments.
- Significant loss of time and procedure might become costly due to lengthy procedure and excessive documentation.
- Lack of coordination among customs check points and quarantine posts due to which, products may enter the market without being adequately checked.
- Process is bureaucratic as there is a need to obtain the approval of several government entities, hence there is a delay in receiving authorization and approval.
- The procedures are outdated and not at par with international standards, therefore, there is difficulty for exporters to comprehend and comply with due process.
- The procedures are paper-heavy and there is a need for automation.

6.9 Trade Facilitation Measures

The TFA is one of the key WTO agreements to simplify and harmonize the export and import processes to reduce trade costs. Bureaucratic delays, customs inefficiency, and "red tape" pose a huge burden for trading goods across borders. The WTO has reckoned that the full realization of the TFA could slash trade costs by an average of 14.3 percent and improve global trade by up to US$1 trillion (S$1.36 trillion) per year, with the biggest gains in the poorest countries.[66]

Bangladesh has only implemented five 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, Nepal has fully implemented 6 TFA measures, while 22 are partially implemented similar to Bangladesh. For Nepal, 8 TFA measures remain in the planning stage and 14 have not been implemented at all.

[66] WTO | Trade facilitation, "WTO | Trade Facilitation," Accessed September 12, 2022, https://www.wto.org/english/tratop_e/tradfa_e/tradfa_e.htm.

6.10 International Good Practices

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

Country	Practice	Benefit
India	Indian Customs EDI System (ICES)	*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.*
	Turant Customs Initiative	*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 corruption and favoritism, ensuring that goods are evaluated fairly and objectively, irrespective of where they're imported in India.*
	Make in India Initiative	*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.*
	Intellectual Property Rights	*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.*
Sri Lanka	Single Window system	*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.
Pakistan	Web-Based One Customs (WeBOC)	*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.*
Nepal	Electronic Cargo Tracking System (ECTS)	*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.*
Bhutan	Automated Customs System (ACS)	*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.*
	Promoting Sustainable Trade Practices	*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.*
Thailand	National Single Window (NSW)	*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.*
Vietnam	Double Taxation Avoidance Agreements (DTA)	*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.*
Singapore	Port Management and Investment	*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.*

Table 26 International Good Practices

7 Economic Modelling Results

7.1 Baseline development for long-term dynamic simulations

We developed a baseline global growth and trade projection over 2012–2031, where we incorporated the GTAP version 10 dataset into the GTAP version 7 model. The population, labor force, and GDP per capita growth have exogenously used to forecast the projection. We examine three shared socio-economic pathways (SSP)[67] to estimate the long-term forecast, as shown in Table 27. However, we use SSP2 (middle of the road) for policy shocks, which most Computable General Equilibrium (CGE) papers have recommended. The model assumes standard GTAP closures and macroeconomic trade balance. We then run different simulations of eliminating tariffs, NTMs, and trade facilitation between Bangladesh and its trading partners, as suggested by the MoC, to explore alternative policy options for Bangladesh after graduation.

Baseline growth projections (% change) average of Bangladesh				
	Y2012-2016	Y 2017-2021	Y2022-2026	Y2027-2031
		SSP1		
Population	0.99	0.88	0.67	0.47
GDP Growth Rate	6.40	7.18	7.15	7.08
Population (Aged 15-64)	1.94	1.63	1.03	0.59
GDP Per Capita	5.36	6.25	6.43	6.57
		SSP2		
Population	0.99	0.88	0.67	0.47
GDP Growth Rate	6.55	7.03	6.10	5.26
Population (Aged 15-64)	1.94	1.60	1.04	0.76
GDP Per Capita	5.36	5.89	5.14	4.49
		SSP4		
Population	1.01	0.91	0.69	0.47
GDP Growth Rate	6.42	6.60	5.05	3.57
Population (Aged 15-64)	1.88	1.54	0.90	0.47
GDP Per Capita	5.36	5.64	4.33	3.08

Table 27 Trade Expert's Estimations

Bilateral Import tariff Structure (%)		
	Bangladesh's tariff importing from Nepal	Nepal's tariff importing from Bangladesh
GrainsCrops	5.01	5.0
MeatLstk	11.9	0.0
Extraction	0.0	0.0
ProcFood	4.37	25.0
TextWapp	23.9	12.3
LightMnfc	0.828	9.39
HeavyMnfc	11.1	14.5

Table 28 Bilateral Import Tariff Structure - Source: GTAP Version 10

[67] "SSP Database," tntcat.iiasa.ac.at, Accessed June 29, 2022, https://tntcat.iiasa.ac.at/SspDb/dsd?Action=htmlpage&page=10.

Between Bangladesh and Nepal, the former has placed high tariffs of 23.9% on Nepalese imports of Textiles and Wearing apparel, possibly owing to the significance of the garment industry to Bangladesh's economy. Similarly, Nepal has imposed high tariffs of 25% on Bangladeshi Processed Food products and nearly 15% on the Heavy Manufacturing sector, as shown in Table 28.

This study has simulated two scenarios: (i) all bilateral tariff eliminations between Bangladesh and Nepal; and (ii) improvement of trade facilitation by 25 percent. Here, the iceberg trade costs "ams" import-augmenting "technical change" variable has been used to represent trade facilitation. The parameter *"ams (i,r,s)"* has been introduced to handle bilateral services liberalization and other efficiency-enhancing measures that reduce the effective price of goods and services imports. The introduction of this variable facilitates the simulation of efficiency improvements such as customs automation or e-commerce. When *ams (i,r,s)* are shocked by 25 percent, 25 percent more products become available to domestic consumers, given the same level of exports from the source country. To ensure that producers still receive the same revenue on their sales, effective import prices *(pms)* fall by 25 percent.

The impact of bilateral FTA can be investigated at both the macroeconomic and household levels of analysis. This section presents the simulation results that show the potential implications for macroeconomic indicators, industry outputs, and trade. The overall macroeconomic impact of the FTA is presented in figure below. The simulation results show that if the bilateral tariff is eliminated and reduced by 25 percent NTMs through increased trade facilitation, Bangladesh's GDP may increase by 0.02 percent. However, simple bilateral tariff elimination has no impact on Bangladesh's GDP. It is evident from the simulations that the elimination of tariffs and NTM will increase Bangladesh's exports and imports. An FTA between the two countries would benefit Bangladeshi exports and imports, increasing the former by 0.06% and the latter by 0.17%. Nepalese exports are predicted to decrease by 1.35%, with imports rising by 0.52% (not presented in the graph). There is little evidence of trade creation or diversion as the exports and imports of the two nations' other trading partners remain unmoved.

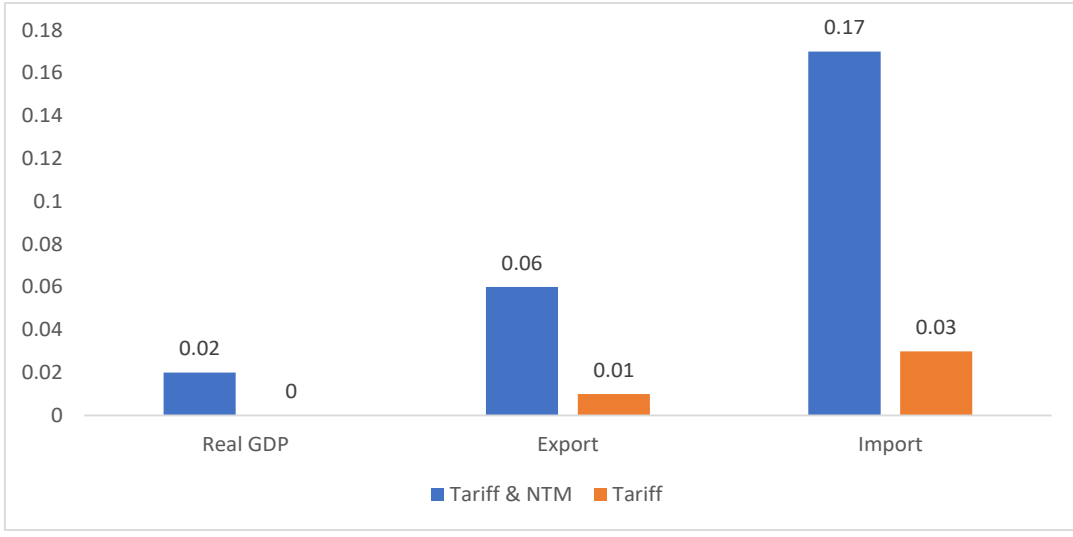

Figure 3 Macroeconomic Impact of Bangladesh -Nepal FTA (% Change) in 2031, Source: Trade Expert's Estimations

Focusing on individual sectors, the FTA almost unanimously has a positive impact on outputs for Grains & Crops, Meat & Livestock, processed food and textiles, and clothing which increase by 0.01 percent, 0.04 0.36 percent, and 0.28 percent, respectively. At the same time, imports are positively impacted for all sectors, the highest increase being that of Processed Foods by 1.69 percent.

Impact on Bangladesh's Sectoral output, Export, and Import (% Change)			
	Output	Export	Import
GrainsCrops	0.01	3.74	1.48
MeatLstk	0.04	-0.85	1.23
Extraction	-0.21	-3.6	0.55
ProcFood	0.36	0.32	1.69
TextWapp	0.28	0.33	0.49
LightMnfc	-0.49	-2.24	0.8
HeavyMnfc	-0.51	-1.03	0.14
Util_Cons	0.34	-2.29	0.41
TransComm	-0.07	-1.65	0.86
OthServices	0.03	-1.93	0.92

Table 29 Impact on Bangladesh's Sectoral Output, Export, and Import (% Change); Source: Trade Expert's Simulation

7.2 Impact on households

Given the MyGTAP modeling extension developed in this paper, we can supplement the macroeconomic results with a distributional analysis of household income. The simulation results reveal that real household income and consumption remained unchanged due to bilateral tariff elimination, so we did not present any graphical information on household impact. Given our focus in this study is on household impacts which rely on data from the 2014 SAM for which projections into the future are not available, it would not be appropriate to draw detailed household insights from this updated dataset.

7.3 Gravity Modelling for FTA Impact Analysis

As per the gravity model in Annex I, the value for Trade FTA Creation and Diversion are not significant when it comes to Nepal. Therefore, indicating that FTA between Bangladesh and Nepal may not prove to be significant. However, the same model shows that FTA between Bangladesh-USA, Bangladesh-Korea, and Bangladesh-Vietnam may prove to be beneficial. It is worthwhile to mention that, the computable equilibrium model considers all macroeconomic issues, while the gravity model captures only the partial equilibrium model and sectoral trade. Therefore, the findings from each model are different and not directly comparable. As bilateral trade between Bangladesh and Nepal is tiny, the gravity analysis may not provide e a robust result. Sectoral or product- wise more disaggregate comparative analysis would be more appropriate in that case.

7.4 Analysis on Comprehensive Economic Partnership Agreement (CEPA)

Comprehensive Economic Partnership Agreement (CEPA) is an 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 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.

Analyzing the viability of a CEPA with Nepal would entail the examination of various factors and aspects that Bangladesh needs to take into account. To achieve this objective, an assessment was carried out to analyze Nepal's trade and economy, bilateral trade relations, investments, and other relevant aspects. Additionally, factors such as existing trade barriers, sector-specific advantages, and the potential for market access were thoroughly examined. 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.

7.4.1 Foreign Direct Investment

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 30 FDI Scenario of Bangladesh, Source: Bangladesh Bank/ UNCTAD

According to CEIC data in July 2022, Nepal's Foreign Direct Investment (FDI) witnessed a growth rate of 0.4% in relation to the country's Nominal GDP. This growth is consistent with the 0.4% growth observed in the previous year. The recorded data reached its highest point in July 2012, at 0.5%, and reached its lowest point in July 2006, at -0.1%. According to the World Investment Report 2022 the growth rate of FDI between 2020-2021 was 54.9 percent and inward FDI flow in 2021 was 196 million US$. But over the period during 2017-2021 the Inward FDI was stagnant and decreased in a few years. Following table shows the Foreign direct investment (FDI) overview of Nepal from 2017-2021.

FDI Overview of Nepal during 2017-2021 (value in million USD)						
FDI Flow	**2017**	**2018**	**2019**	**2020**	**2021**	**2020-2021 Growth Rate (%)**
Inward	198	67	185	126	196	54.9
Outward	-	-	-	-	-	-

Table 31 FDI Overview of Nepal, Source: World Investment Report 2022

7.4.2 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 32 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 (value in million USD)		
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 33 Export of Services by Bangladesh, Source: Bangladesh Bank

On the other hand, Transportation captures the lion's share of Bangladesh's services import. This import is basically caused 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 (value in million USD)		
Service Sectors and Sub Sectors	**Fiscal Year**	
	2017-18	**2018-19**
Total Services	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 34 Import of Services by Bangladesh, Source: Bangladesh Bank

According to the WTO's Trade Profile, Nepal's export in Commercial Services in 2021 was worth 708 million US$ and Import was 1,514 million US$ which means Nepal imports more services than export. In 2021 the share of Nepal's Commercial Services in world total exports was 0.01 % and Share in world total imports was 0.03%. According to the UNCTAD statistics, analysis of services exports of Nepal by main category estimated that in 2021 as a percentage of total service Nepal's service export in Transport sector was 5.5%, Travel sector was 15.0 % Other services was 79.5 %. The following figure shows Nepal's Export of Services in 2015-2019.

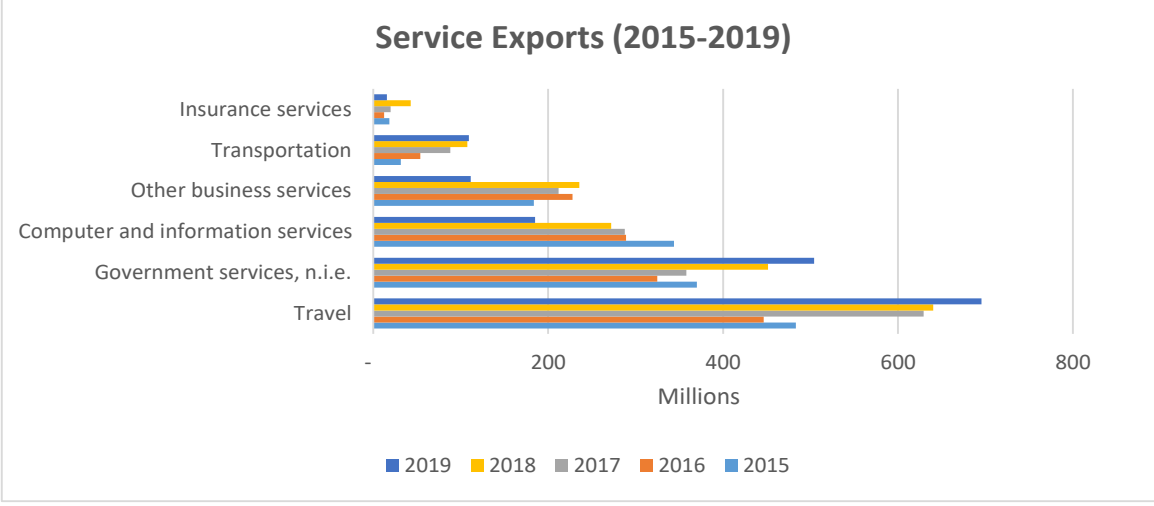

Figure 4 Export of Services by Nepal, Source: The observatory of economic complexity

The following figure shows Nepal's Import of Services during 2015-2019. From the figure, it can be seen that travel, transportation, insurance, computer and information services, government services are some of the significant services in case of import.

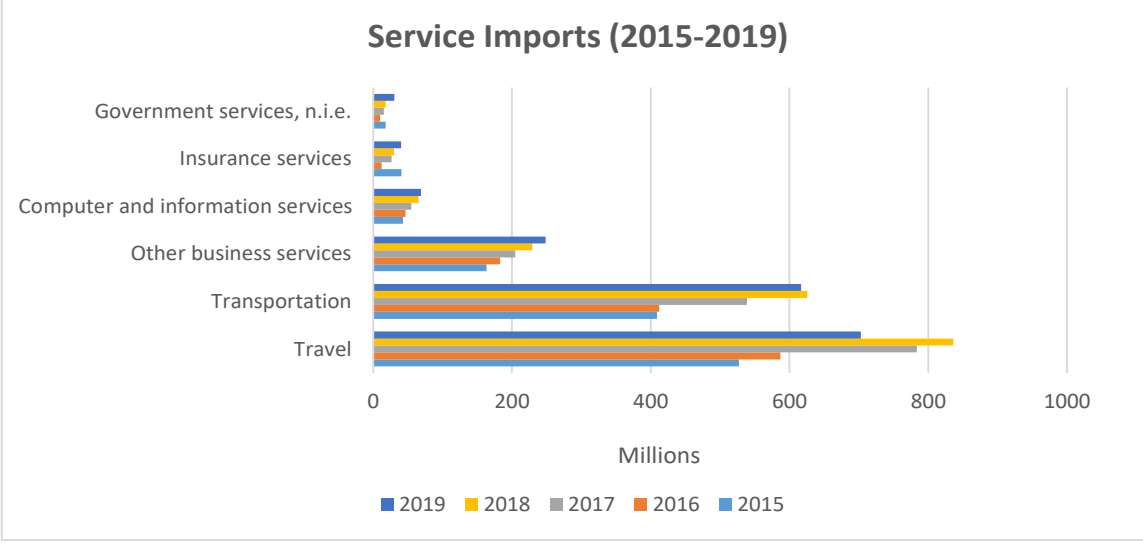

Figure 5 Imports of Services by Nepal, Source: The observatory of economic complexity

7.4.3 Micro, Small, and Medium Enterprises (MSMEs)

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.

On the other hand, Nepal's economy relies heavily on the MSMEs, which forms the fundamental backbone of the country's economic structure. According to estimates, Nepal has over 923,000 registered businesses, with approximately 90 percent of them being MSMEs. These MSMEs contribute to 45 percent of all jobs in Nepal. Additionally, around 12 percent of the registered businesses are classified as small and medium-sized enterprises, accounting for 40 percent of employment opportunities. Considering the socio-economic reliance on MSMEs, both in case of Nepal 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 agreements/arrangements. In this way, MSMEs will be given the opportunity to expand their reach and access new markets as well as 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. Regional Comprehensive Economic Partnership (RCEP) agreement which is the first Free Trade Agreement (FTA) involving all ASEAN countries can be an example here since it has a specific chapter dedicated to to Small and Medium Enterprises (SMEs). The primary aim of 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.

7.4.4 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	**Nepal (2015)**	0.01	0	0.002	-0.01	0
Nepal (2015)	**Bangladesh**	10.75	0	10.75	-6.31	1.11

Table 35 Impact on Bangladesh and Nepal (USD Million)

The simulation shows that total bilateral import of Bangladesh will increase by US$ 0.002 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$ 10.75 million. Besides, total consumer surplus will be about US$ 0.00 million which is insignificant. It was observed that if Bangladesh eliminates the entire tariff for Nepal, this will incur revenue loss of about 0.01 million US$. Overall, Bangladesh will gain a bit in terms of export. Revenue impact is a bit higher for Nepal. Further, no trade diversion effect was found for both in case of Bangladesh and Nepal.

Market access is a vital element of either ex-ante or ex-post analysis of evaluating the impact of a CEPA with any country. Form the trade perspective, assessing potential gains and losses in market access for different sectors is essential for Bangladesh.

Bangladesh has no bilateral PTA with Nepal but both the countries are engaged through regional PTA/FTA through SAPA, SAFTA. Yet, trade is not increasing as expected. 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 for Bangladesh. A study titled "*Identification of Potential Exports Facing Sanitary-phytosanitary and Technical Barriers to Trade Measures in the SASEC Subregion*" conducted by ADB reveals that, "Investigation on TBT and SPS related measures for potential export products from Bangladesh reveals that all 92 out of these 92 products shown in HS 6-digits are subject to TBT/SPS measures by Nepal. These measures are related to license and authorization requirement for TBT reasons for the Nepalese importers from their government." In that study it was found that the majority of these regulations pertain to certification and inspection requirements due to SPS and TBT concerns.

Bangladesh would need to consider the reduction or elimination of tariffs before engaging in future bilateral cooperation. The issue of technological cooperation, technology transfer, accreditation and mutual recognition of standards remain major concerns for Bangladesh.

When negotiating a much deeper engagement with Nepal, 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. Nepal 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. Nepal 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. Nepal 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. Nepal 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. Nepal may explore cooperation to promote tourism, enhance hospitality services, and facilitate people-to-people exchanges.

In this context, further sector-specific study is required. Moreover, trade in services data are not readily available. A deeper cooperation between the two countries could potentially lead to enhanced market access, reduced tariffs, and increased investment flows. Nepal is relatively a smaller economy and geographical proximity make it a viable candidate for a deeper engagement with Bangladesh.

Remarks: Bangladesh is already engaged with Nepal through SAFA, SAPTA where there is some form of potential to utilize the tariff preference given by Nepal. In this context, both countries may start negotiating for future cooperation in which many other products and areas of cooperation may be included. **In this situation, instead of negotiating CEPA, Bangladesh may think of utilizing existing benefits given under SAFTA**. **Besides, Bangladesh may work on the non-tariff barriers related 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 Nepal. 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.

Regarding trade in goods, the existing preferential arrangements suggest that Bangladesh might not be in dire need of FTA or CEPA with Nepal. Regarding service trade, Nepal is not a potential destination for Bangladesh. About temporary labor migration from Bangladesh, in the present context, Nepal is not a potential destination for Bangladesh. There are also less possibilities in terms of FDI from Nepal. In this context, the question is whether CEPA would be a feasible option for Bangladesh to address all

these issues in a single legal framework. Bangladesh and Nepal are yet to be in a position to explore full benefits from CEPA. In this context, it can be concluded that such kind of higher level of integration is not feasible at this moment for Bangladesh. It is advisable to further explore the existing regional frameworks and future negotiations of preferential trade agreements (PTAs)/Free Trade Agreement (FTAs) to identify ways in which they can be effectively utilized.

8 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
Scope-1: Overall status of bilateral relations	Out of ten respondents, four respondents addressed Bangladesh's current bilateral ties with Nepal of whom, two were government officials, one was a trade expert, and another respondent is a former member of the Nepal Bangladesh Chamber of Commerce and Industry. As per a high-ranking respondent at the Bangladesh Land Port Authority, Bangladesh and Nepal are also involved in the MVA Agreement, supporting the free movement of vehicles. On the other hand, as per another government official at the FTA Wing under the Ministry of Commerce, PTA negotiations are still ongoing with Nepal.
Scope-2: Trade negotiation	Six out of ten respondents were fully aware of the agencies involved in trade negotiations, among them three were government officials. Respondents identified a lack of coordination among agencies facilitating trade negotiation and also identified gaps in the harmonization process. However, one respondent felt there was no need for a harmonization process. Additionally, a number of respondents felt that a specific agency or group should be involved in trade negotiations. Of the ten participants involved, four participants believed 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 further stating: "The RTA policy formed by the government looks into addressing trade negotiation, expansion, and reforms among others". On the other hand, only one participant addressed the need for private sector's involvement in the trade negotiation process.
Scope-3: Prospects of Trade Diversification	Two of participants out of ten respondents recommended seafood. Two participants recommended light engineering. Four out of ten respondents sided with exporting and diversifying Bangladesh's apparel industry. Only one respondent identified ICT as a potential opportunity for diversifying Bangladesh's market. Energy also has prospects according to one respondent. Four respondents identified electronics and home appliances as potential exportable items to Nepal. Four respondents among the ten participants identified agro-products as a potential export for Bangladesh. Similarly, only one respondent identified tourism as a potential sector for boosting bilateral ties. Pharmaceuticals were identified as a potential export by two respondents among the ten interviewed whereas snacks such as bread and biscuits were identified by another respondent. While plastic was identified as a potential export by two respondents, investment in EPZs, outsourcing Bangladesh's skilled manpower, and exporting chemicals were identified as a means of boosting trade by three respondents. Lastly, leather was suggested by two respondents. During the FGD, exporters suggested exporting handicrafts and fusion jamdani products to Nepal and believed that there is a demand for such products in Nepal's market.

Scope-4: International best practices	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. One respondent addressed how the Export Promotions Bureau is striving to adopt the electronic certification for Europe guideline. Another respondent stated the following: "First, WTO Compliance standards would be beneficial. Second, a single-window policy like Singapore for facilitating paperless transactions and reducing time. Third, a flow-chart system like Sweden for allocating tasks as per expertise. For instance, IP experts will handle the IP chapters, and investment experts will handle the investment chapters".
Scope-5: Prospects for Comprehensive Economic Partnership Agreement (CEPA)	Five out of ten respondents stated that Bangladesh has prospects of entering CEPA and two respondents stated CEPA would not bring in opportunities. However, one respondent said that Bangladesh should go forward with an FTA instead.
Scope-6: Reforms in existing trade agreements	KII respondents suggested adopting a trade strategy, utilizing foreign diplomacy for bringing about reforms, diversification of the export basket, raising awareness on NTBs among exporters, and that Bangladesh consider the demands of the other countries while reforming trade agreements. Respondents also suggested zero-tariff measures, reduction of tax, and improvement of transport facilities, strengthening backward linkages and domestic markets and applying tax. Additionally, one respondent further opined that there is a need to focus more on implementation and solution-oriented approaches. During the FGD, exporters suggested the inclusion of information on all exporters in the trade portal for greater convenience.
Scope-7: Major institutional and infrastructural gaps in trade negotiation and trade management	Respondents identified a lack of experienced negotiators and trade-specific jobs followed by a loss of institutional memory due to the frequent rotation of government employees. Respondents also 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. As per the opinions of a few respondents, there is a need for capacity building through training and a persistent lack of coordination among trade agencies. Furthermore, respondents mentioned how there were discrepancies in the customs and clearance procedures and further associated the gaps with limited resources and limited skilled manpower. However, one of the ten respondents also identified gaps in time management, high transport costs, and corruption as possible sources of gaps in the existing system. Lastly, one respondent associated the infrastructural and institutional gaps with an overly dependent private sector, placing the burden of responsibility on the government. Participants in the FGD shed light on how, as per their experiences travelling back from Nepal, they were subjected to arbitrary practices by Bangladesh customs.
Scope-8: Barriers to trade	Barriers to trade cited by KII respondents included export bias, absence of tariff policies, high import duties, maintenance of SPS/TBT measures, NTMs, compliance of FSSI Certification, IGST, Country of Origin, prolonged testing of products at land ports, and limited resources and capacity as a barrier of trade.

	While conducting the FGD, participants who have previously exported to Nepal stated how SPS/TBT measures posed as barriers to trade and also, how Bangladeshi exporters are unaware of the specific product-wise tariffs for Nepal as the Nepal customs has not clarified it, only placing a 35% tax on invoice.
Scope-9: export products subject to SPS/TBT measures	Products recommended by KII respondents that should be subject to SPS/TBT measures include food in general, seafood, agriculture products, chemicals, and medicines.
Challenges and recommendations	Specific to Bangladesh's trade with Nepal, one respondent said, "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". While one respondent suggested reliance on the domestic market and to increase self-sufficiency of domestic industries another respondent recommended considering ASEAN. Another respondent recommended moving forward with an FTA with Nepal, fulfilling WTO criteria, and adopting GSP measures. Another respondent suggested striving to comply with international guidelines. Moreover, a respondent recommended increasing the number of in-depth stakeholder level studies. Lastly, three respondents believed that trade should also be a political decision.

9 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.

Analysis:	Recommendations:
Review of Current Trade Agreement (Scope of Work from ToR: 1, 6)	
• The current trade agreements between Bangladesh and Nepal have been signed 46 years ago, and except for regional trade agreements such as SAFTA, BIMSTEC, there has not been any update on the bilateral trade agreement between the two countries except for revisions made to the transit agreement. • PTA between Nepal and Bangladesh has not been signed yet as Bangladesh is yet to agree to lift duties on listed goods. **The findings from the simulation between Bangladesh and Nepal also show that an FTA agreement between the two countries would be beneficial for Bangladeshi exports and imports, increasing the former by 0.06% and the latter by 0.17%. Nepalese exports are predicted to decrease by 1.35%, with imports increasing by 0.52%.**	• The product schedule needs to be updated in the current Trade and Payment Agreement. Nepal has expressed its interest in using Saidpur Airport as an addition entry and exit point, thus, newer routes can be added to the transit agreement. Other recommendations for the two agreements between Bangladesh and Nepal are provided in tables 5 and 6. • To expedite the process of the PTA with Nepal, Bangladesh can consider moving forward with lifting the ban on importing yarn from Nepal. Since yarn constitutes a large fraction of Nepal's exports, the ban adversely affects the country's revenue. Opening the land port to Nepalese yarn exporters would further Nepal's confidence over Bangladesh and possibly speed up the negotiation process of the pending PTA between the two nations.
Trade Negotiating Agency and Harmonization Process (Scope of Work from ToR: 2)	
• 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 look into 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. **2 respondents out of 10 made similar statements about the lack of harmonization and priorities between policy formulation agencies.**	• Creation of expert positions: trade economists with an advanced degree (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. • 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. • 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). • Creation of a pool of trade experts within MoC. These experts will be trained in trade policy formulation, negotiation, and specialized topics

Analysis:	Recommendations:
• **Four respondents mentioned that MoC lacks experts who can handle trade bilateral trade negotiations.** 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, and (ii) due to retirement. Moreover, there is no dedicated person for formulating policies. • **KII participants stated that the private sector should be involved in the 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. One FGD respondent mentioned the lack of a legal perspective/opinion during trade negotiations.	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. • Develop negotiating skills of the policymakers/ experts for yielding better outcomes in trade agreement discussions. • Training programs for ministry officials to teach the basic economic fundamentals behind international trade. • Adoption of an evidence-based approach to decision-making when it comes to trade policies.
Trade and Investment Diversification Prospects (Scope of Work from ToR: 3, 9)	
• **FGD and KII respondents have stated that Nepal has a good demand for motorbikes especially those produced by Walton.** The FY21 export values show that the trade value of motorbikes (50-250 cc) shows that out of 152220 US$ of total exports, 129349 US$ worth of motorbikes were exported to Nepal (85% of total 50-350 CC motorbike export). As a result of rising inflation, consumers are more price sensitive. The fact that Bangladeshi electronics, refrigerators, and motorcycles have competitive prices due to lower production costs, is an opportunity to gain a quick hold in this market. • Nepal is dominated by Indian exports, and India controls many of its trade routes as Nepal is landlocked. **KII respondents have also stated that Nepal wants to diversify its trade and is keen on diversifying its trade prospects and partnering with Bangladesh.**	• Pharmaceuticals, electronics, light engineering, and agro-food processing are among some of the untapped markets in Nepal that Bangladesh can aim for. **The simulation results found that an FTA would have positive outputs for agro-food products.** • Since 2018, Nepal has experienced a hike in demand for electronic goods and imported refrigerators, which led to the import of fans, refrigerators, and air conditioners worth NPR 3.69 billion in the first 10 months of FY 2018-2019.[68] Bangladesh can focus on increasing exports of motorbikes to Nepal since there is a demand, and due to rising inflation, Bangladeshi electronics (motorcycles, refrigerators, television, air conditioners) are more competitive in prices. This can be an opportunity for Bangladesh as it can quickly gain a hold of this market. • Tourism holds great prospects for boosting both nations' economies as one hosts the world's highest peak (Nepal), and the other boasts the

[68] Krishana Prasain, "Consumer Electronics Sees Spike in Demand," June 16, 2018, https://kathmandupost.com/money/2018/06/16/consumer-electronics-sees-spike-in-demand.

Analysis:	Recommendations:
	world's longest beach (Bangladesh).[69] Many KII respondents have stated the same.
International good practices (Scope of Work from ToR: 4, 10)	
• 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 at all. One of the respondents has also emphasized the implementation of trade facilitation measures as it may help move forward with FTA negotiations, and finalization. • Time Release Studies (TRS) of Chittagong and Benapole Port were conducted in 2013 and 2014 respectively.[70] One of the respondents mentioned the lack of data which has proven to be a barrier in carrying out necessary studies. • Implementation of a national single window will cut through costs, make trade more efficient, and reinforce control. Two respondents have emphasized the urgency of developing and executing a national single window for Bangladesh. • 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	• 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. • Bangladesh is already focusing on implementing the remaining TFA measures through the formation of sub-committees, but there is a lack of 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. • 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. In fact, studies will also bring out port inefficiencies which may lead to improvements.[71] • The government of Bangladesh 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.

[69] Ministry of Commerce - Government of the People's Republic of Bangladesh, "Export Policy 2018-21," mincom.gov.bd, Accessed June 29, 2022, https://mincom.gov.bd/sites/default/files/files/mincom.portal.gov.bd/policies/6461bc10_3603_461e_99a2_00c408e51395/English%20Version-Export%20Policy%202018-21-1%20(1)EPB%20Report%2025.05.2020.pdf.

[70] 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

[71] 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%20release%20is,impact%20of%20trade%20facilitation%20reforms.&text=The%20TRS%20provide%20border%20agencies,border%20control%20and%20clearance%20process.

Analysis:	Recommendations:
requirements for imports and exports. Uzbekistan also launched a risk management system. • 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—their ability to ensure timely cargo transfers is a vital dimension of their competitiveness. • Border compliance specially inspections, 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.	• KII and FGD responses have stated that Bangladesh port and custom clearance lacks automation which is leading to inefficient port management, making trade paper-heavy, and increasing cost of doing business. • 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.
Possibility of CEPA (Scope of Work from ToR: 5)	
• **Four respondents stated that CEPA can be explored by Bangladesh. However, they have also stated that to implement CEPA, Bangladesh needs to improve its tax regime and enable a trade-friendly environment.** • A joint study is being conducted by India and Bangladesh for examining the feasibility of CEPA between the two countries. From Bangladesh's side, BFTI is responsible for conducting the study sponsored by the FTA wing under MoC. From the Indian side, the Center for Regional Trade (CRT) under the Indian Institute of Foreign Trade (IIFT) was assigned to conduct the study.	• In 2021, Bangladesh was the hub for medical studies in South Asia with at least 200 seats reserved in public institutions for foreign students. Bangladesh welcomed students from Nepal among others.[72] On that note, Bangladesh can expedite and increase the scope for hosting an increasing number of Nepalese students via CEPA. • Bangladesh has offered Nepal Saidpur airport and the Mongla seaport for facilitating trade between Nepal and • other countries. It would be a cost-effective and relatively less time-consuming measure for Nepal whereas it would bring in revenue for Bangladesh.[73] • Since Nepal is prioritizing its transition towards manufacturing, Nepal can invest in the special economic zones (SEZs) in Bangladesh. As Nepal is a landlocked country, by offering access to investment in SEZs and port facilities in Bangladesh, Bangladesh will be giving Nepal access to the global market. However, Bangladesh will first need to increase and improve its port efficiency.

[72] Dhaka Tribune, "Bangladesh, Hub of Medical Studies in Asia," archive.dhakatribune.com, July 7, 2021, https://archive.dhakatribune.com/bangladesh/2021/07/07/bangladesh-hub-of-medical-studies-in-asia.

[73] Dhaka Tribune, "Where Do Things Stand with Transit of Goods to Nepal and Bhutan," archive.dhakatribune.com, July 4, 2021, https://archive.dhakatribune.com/business/commerce/2021/07/04/where-do-things-stand-with-transit-of-goods-to-nepal-and-bhutan.

Analysis:	Recommendations:
	• Similar to the joint study being conducted by Bangladesh and India, Bangladesh and Nepal can conduct a feasibility study before agreeing to CEPA. This step would comply with the Regional Trade Agreement Policy (RTA) as evident from the following "*Before initiating negotiation of an RTA in general, a feasibility study, independently or jointly with the interested country or trade bloc, will be conducted to identify potential and challenges, including offensive and defensive interests*".
Institutional, Infrastructural, and Legal Capacity (Scope of Work from ToR: 7)	
• 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. Research studies indicate that implementing key trade facilitation measures actually will increase national revenue collection.[74] 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.[75] Moreover, four respondents have stated that the tax regime in Bangladesh is not very friendly. • 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. The scenario is similar to other government agencies as most of them have a rotation process. • 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.[76] The main features of the system used include declaration	• 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. • A group of experts can be created for the Ministry of Commerce who will be trained in trade negotiation, and even with the government's rotation system, the trade experts can be easily replaced from this pool. • 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. • 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.

[74] 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.

[75] 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.

[76] 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

Analysis:	Recommendations:
processing, selection of lane, assessment of goods, payment and release of goods, and log register of users.[77] • Automation is lacking in a lot of areas such as the exchange of SPS certificates, limited internet connection, and frequent disruptions to customs and other trade control agencies at the border crossings. • 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&P Global Market Intelligence have ranked Chittagong port as Asia's least efficient trade hub.**[78] • 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.	• Substantial infrastructure improvement is needed at ports in Bangladesh to facilitate the supply chain of exports and importers. • Bangladesh doesn't have any legal representative in its trade negotiation team, and this is a gap which can be immediately addressed.
Non-Tariff Measures: (Scope of Work from ToR: 8, 10)	
• While Nepal needs to work on its regulatory framework to establish a national quality policy, autonomous bodies for standardization, and increase institutional capacity, 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, and adequate facilities and has limited or cold storage capacity (respondents have stated). For exports, BSTI has to issue phytosanitary	• Nepal and 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.[82] • Bangladesh should introduce risk-based testing to ease pressure on BSTI and cut down testing time on imports. • Focus can be given to building the capacity of labs in terms of testing through the development of manuals.

[77] 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/tfforum_bang.pdf

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

[82] 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.

Analysis:	Recommendations:
certificates and testing may take up to 7 days.[79] The testing capacity of both government and private institutions is limited. • As per the Import Policy Order, all edible substances imported into Bangladesh have to 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. **Two respondents have mentioned that there is a lack of risk assessment and concrete policies.** • There are limited cold storage options, and ports do not have enough storage space. **Two of the respondents have stated the urgency of increasing the capacity of cold storage for perishable goods.** Given the time taken by testing authorities at border crossings, many times, perishable goods get ruined. • Plant Quarantine Wing has to 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. • 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.[80] Staff lacks the capacity for new techniques, approaches, and customs practices and procedures. • 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 delay in export time.[81] The simulation results show that if the bilateral tariff is eliminated and reduced	• To speed up the testing and certification process, private institutions can be allowed to inspect, test, and issue certificates. • 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. • Introducing and increasing the capacity of cold storage at the border will support expanding the trade of perishable goods. • 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. In the past, BSTI and the Nepal Bureau of Standards and Metrology reportedly signed an MoU reaching a consensus on Bangladesh giving access to 100 items of duty-free goods while Nepal gave access to 50.[83] Assessment needs to be done as to whether the MoU has brought in any results, and if not, the MoU can be revised to be effective. • Joint dialogues can be held between Nepal and Bangladesh to ease SPS and TBT measures.

[79] Dr. Clifford Zinnes 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.

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

[81] Dr. Khairuzzaman Mozumdar et. al., "A Study on Identification of Non-Tariff Barriers Faced by Bangladesh in Exporting Potential Exportable Products to Major Export Markets," May, 2019, Bangladesh Foreign Trade Institute (BFTI), Accessed June 29, 2022. https://bfti.org.bd/pdf/Final_NTM%20Study.pdf.

[83] Apparel Resources, "Bangladesh & Nepal Agree to Eliminate TBT to Boost Bilateral Trade; Sign MoU | Trade News Bangladesh," apparelresources.com, May 19, 2016. https://apparelresources.com/business-news/trade/bangladesh-nepal-agree-to-eliminate-tbt-to-boost-bilateral-trade-sign-mou/.

Analysis:	Recommendations:
by 25 percent NTMs through increased trade facilitation, Bangladesh's GDP may increase by 0.02 percent. However, just simple bilateral tariff elimination has no impact on Bangladesh's GDP. It is evident from the simulations that the elimination of tariffs and NTM will increase Bangladesh's exports and imports.	

Table 36 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.

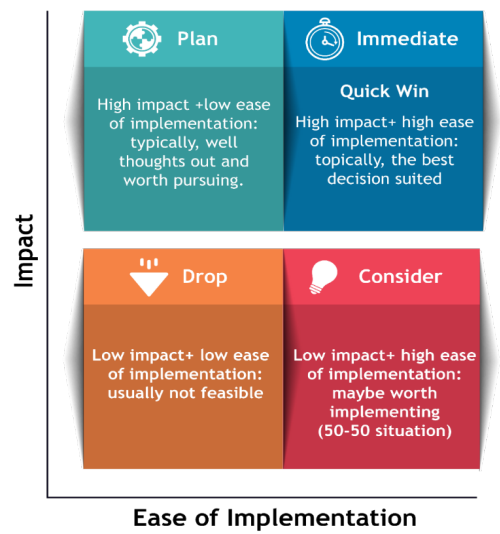

Figure 6 Impact vs Ease of Implementation

Plan	Immediate (Quick Win)
• Automation of customs procedures. • Encouraging Nepal to invest in the SEZs of Bangladesh. • Planning trade diversification prospects with Nepal in sectors such as electronics, pharmaceuticals, light engineering, and agro-food processing. • Systems to be brought in to automate lab reports and certificates. • Capacity building and building human resources at BSTI, and other testing facilities such as Plant Quarantine Wing. • Full implementation of a national single window. • Increasing the capacity of cold storage at ports. • Improvement of port efficiency and making infrastructural changes to facilitate the supply chain. • Creation of a pool of trade experts with specialized knowledge and rigorous capacity building in trade negotiation, and management skills.	• Necessary made to the Trade and Payment Agreement as well as the Transit Agreement. • Creating a 'win-win' situation to expedite the PTA agreement between Nepal and Bangladesh. • 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. • Creation of tasks forces composed of government agencies and private stakeholders to jointly discuss and approve trade policies. • Inclusion lawyers in Bangladesh's trade negotiation team. • Commissioning more time-release studies at sea and land ports to identify infrastructural gaps and time delays. • Introduction of risk-based testing to ease pressure on BSTI and cut down processing time. • Privatization of certification process and testing. • Implementation of all TFA measures. • Joint dialogues between Bangladesh and Nepal to ease NTMs.
Drop	**Consider**
	• Initiatives for MRAs with major trading partners to eliminate certification issues when it comes to exports. • CEPA with Nepal for increasing the scope of Nepalese medical studies and even boosting tourism for both Bangladesh and Nepal. • CEPA with Nepal to allow access to ports and invest in SEZs.

Table 37 Categorization of Recommendations

10 Conclusion

Nepal and Bangladesh are capable of forging ties that can benefit both nations. In that regard, the study touched upon several components that entail an efficient, diversified, and resilient economy for a country like Bangladesh. Using a mixed method approach, research data was collected from numerous stakeholders and secondary sources, using which a few notable observations have been drawn.

A PTA between Bangladesh and Nepal may prove to be beneficial as suggested by simulation, and qualitative data, and hence the two countries should hold discussions to create favorable conditions for both parties and expedite the PTA signing process. The findings from the Computable General Equilibrium (CGE) simulation between Bangladesh and Nepal show that an FTA agreement between the two countries would be beneficial for Bangladeshi exports and imports, increasing the former by 0.06% and the latter by 0.17%. Nepalese exports are predicted to decrease by 1.35%, with imports increasing by 0.52%. The simulation results show that if the bilateral tariff is eliminated and reduced by 25% through increased trade facilitation, Bangladesh's GDP may increase by 0.02%. On the other hand, the gravity model result for the two countries is inconclusive as the trade creation and trade diversion values are insignificant. This is not surprising given the small size of the Nepalese economy.

Keeping in consideration the prospects of diversifying Bangladesh's export basket, Bangladesh has a Revealed Comparative Advantage (RCA) value greater than one in jute products, pharmaceuticals, electronics, and fish products with Nepal indicating export strength. RCA is widely used as a standard indicator of a country's competitive export strength. Desk research and KII findings have already revealed that Bangladesh also has good export potential in electronics. In FY21, Bangladesh exported US$ 6 million worth of pharmaceuticals to Nepal. With API Industry Park opening soon in Bangladesh, the country might be able to expand the export of pharmaceuticals to Nepal as Bangladeshi-produced pharmaceuticals will become more cost-competitive.

Since Bangladesh's current basket is dominated by textiles and apparel (83% of the total export share in FY20), other promising sectors that the country may embark on are firstly, electronic goods and appliances, especially with emerging companies such as Walton, and Vision, among others. 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. Since 2018, Nepal has experienced a hike in demand for electronic goods and imported refrigerators, which led to the import of fans, refrigerators, and air conditioners worth NPR 3.69 billion in the first 10 months of FY 2018-2019. The FY21 export values from Export Promotion Bureau (EPB) show that 85% of Bangladesh's trade value of motorbikes (50-250 cc) was generated by exporting to Nepal.

Secondly, pharmaceuticals is also a promising sector. 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. 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. In terms of Nepal, there is export diversification prospects in jute, pharmaceutical products, footwear, motorcycles, bicycle, potatoes, among others.

Given that 40% of the KII respondents have stated that Bangladesh can explore a CEPA with Nepal only if Bangladesh adopts a trade-friendly regime, CEPA can be explored between Bangladesh and Nepal in areas of investment, tourism, and medical studies, among others. CEPA can also be an option for Bangladesh to leverage its access to the sea for Nepal which is landlocked. By allowing Nepal to set up production facilities in Bangladesh through SEZs, Bangladesh will be giving Nepal access to the global market through its ports. However, port management and capacity in Bangladesh are inefficient and will act as a bottleneck. Expansion and enhancement of port 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. Thus, MoC may advocate for a feasibility study on port expansion and capacity building with the Ministry of Shipping. On the other hand, instead of negotiating CEPA, Bangladesh may also think of utilizing existing benefits given under SAFTA.

However, there are advances that need to be taken for Bangladesh to achieve export diversification and build stronger alliances with other countries such as Nepal. The country is yet to address certain 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, Nepal has fully implemented 6, partially implemented 22, with 8 in the planning stage and 14 not implemented at all. 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.

The most reported obstacles Bangladesh faces include excessive documentation, delay in receiving authorization, inconsistent procedures and regulations, and expectation of informal payments. A Mutual Recognition Agreement (MRA) will ease SPS hurdles for Bangladesh. Bangladesh Standards and Testing Institution (BSTI) has an MoU with the Nepal Bureau of Standards and Metrology easing TBT for 100 Nepali exports and 50 Bangladeshi exports. An assessment may be carried out to evaluate the effectiveness of the MoU, make revisions, and add more products. Joint dialogues may also be organized to discuss, and outline policy recommendations to ease SPS and TBT measures. Moreover,

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 indicate that Bangladesh's main seaport in Chittagong is Asia's least efficient port. 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.

A stakeholder analysis of mandates and interests 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. There are cross-learning opportunities from countries such as Nepal 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. 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.

25% of the respondents have stated that Bangladesh has a high import tariff structure, lacks proper tariff policy, and needs tariff rationalization and modernization which is hindering trade promotion. Computable General Equilibrium (CGE) simulations conducted under this study have shown that a bilateral tariff elimination and reduction will increase Bangladesh's exports and imports. On that note, Tariff modernization and rationalization are crucial as they can support Bangladesh's export diversification and LDC graduation.

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.

All in all, the review of existing agreements provided a depiction of the bilateral trade situation of Bangladesh with Nepal, 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 Nepal. 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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Annex 1: Gravity Model

Gravity Modelling for FTA Impact Analysis:

The gravity model of international trade, first proposed by Tinbergen (1962), has been extensively used for trade policy analysis over the decades[84] [85]. One of the most well-known structural gravity models is that Anderson & van Wincoop (2003) developed a multilateral resistance term for estimating bilateral trade costs.[86] In their seminal work, Anderson & van Wincoop (2003) show that trade flows between two countries depend on bilateral and multilateral measures. This structural gravity model has been used extensively in trade policy analysis. For example, Anderson & Yotov (2012) and Head & Meyer (2014) show the empirical success of gravity with aggregate data.[87] [88] Agnosteva et al. (2014), Aichele et al. (2014) demonstrate different sectoral level gravity estimates.[89] [90] Pfaffermayr (2019), Yotov et al. (2016), and Santos Silva & Tenreyro (2011) speak about how to use likelihood estimation techniques in estimating international trade flows.[91] [92] [93] The MRT_i and MRT_j is the inward and outward multilateral resistance variable of Anderson & van Wincoop (2003), which can be easily included in the basic gravity equation as a set of fixed importer (MRT_i) and exporter effects (MRT_j) to estimate the impact of time-invariant country-specific characteristics[94] [95].

$$\boldsymbol{ln\, X_{ij}^t = \alpha + \beta_1 ln\, Y_i^t + B_2 ln\, Y_j^t + \beta_3 lnD_{ij}^t + \gamma_1 TradeCreate_{ij}^t + \gamma_2 TradeDivert_{ij}^t + \delta_1 MRT_i + \delta_2 MRT_j + Years + u_{ij}^t} \quad (1)$$

[84] J. Tinbergen, "Shaping the World Economy: Suggestions for an International Economic Policy," 1962, New York, USA: The Twentieth Century Fund.

[85] $\ln X^t_{ij} = \alpha_t + \beta_1 \ln Y^t_i + \beta_2 \ln Y^t_j + \beta_3 \ln D^t_{ij}$, $\beta_{1>0}, \beta_{2>0}, \beta_{3<0}$, where $X_{ij,t}$ is the value of export, import or trade from country *i* to *j*, $Y_{j,t}$ and $Y_{j,t}$ are the GDPs of countries *i* and *j* in period *t*; α_t is a period-specific constant term; and D_{ij} presents bilateral distance between the importing and exporting countries or bilateral trade costs indices.

[86] J. E. Anderson & E. van Wincoop, "Gravity with Gravitas: A Solution to the Border Puzzle,' American Economic Review, 93(1) (2003): 170-192. https://doi.org/10.1257/000282803321455214.

[87] J. E. Anderson & Y. Yotov, "Gold Standard Gravity," NBER No. 17835 (2012). https://doi.org/10.3386/w17835.

[88] K. Head & T. Meyer, "Gravity Equations: Workhorse, Toolkit and Cookbook," In Gopinath, G., Helpman, E. & Rogoff, K. (Eds.), Handbook of International Economics: Volume 4, (2014): 131-195. Amsterdam, Netherlands: North Holland.

[89] D. E. Agnosteva, J. E. Anderson & Y. Yotov, "Intra-National Trade Costs: Measurement and Aggregation," NBER Working Paper 19872 (2014). https://doi.org/10.3386/w19872.

[90] R. Aichele, G. Felbermayr & I. Heiland, "Going Deep: The Trade and Welfare Effects of TTIP," CESifo Working Paper No. 5150 (2014). https://www.cesifo.org/DocDL/cesifo1_wp5150.pdf.

[91] M. Pfaffermayr, "Gravity models, PPML estimation and the bias of the robust standard errors," Applied Economics Letters, 26(18), (2019): 1467-1471. https://doi.org/10.1080/13504851.2019.1581902.

[92] V. Y. Yotov, R. Piermartini, J. A. Monteiro & M. Larch, "An Advanced Guide to Trade Policy Analysis: The Structural Gravity Model," 2016, United National Conference on Trade and Development (UNCTAD), https://www.wto.org/english/res_e/booksp_e/advancedwtounctad2016_e.pdf.

[93] J. M. C. Santos Silva & S. Tenreyro, "Further simulation evidence on the performance of the Poisson pseudo-maximum likelihood estimator," Economics Letters, 112(2), (2011): 220-222. https://doi.org/10.1016/j.econlet.2011.05.008.

[94] Here, a fixed effect is a binary variable that indicates whether or not an observation is of an individual country. For example, to construct a fixed importer effect for Bangladesh, we set a variable equal to 1 whenever the importing country is Bangladesh and zero otherwise.

[95] J. E. Anderson & E. van Wincoop, "Gravity with Gravitas: A Solution to the Border Puzzle,' American Economic Review, 93(1) (2003): 170-192. https://doi.org/10.1257/000282803321455214.

For the analysis of an FTA, we add two variables to the structured gravity equation of Anderson & van Wincoop (2003).[96] The first is an indicator variable (Trade Creation) for observations where both the importing and exporting countries are members of the FTA, while the second is an indicator variable (Trade Diversion) for observations where the importing country is a member of the FTA, but the exporting country is not. As the variable names suggest, the first variable measures trade creation, which are to be positive under the FTA, and the second, trade diversion, which is to be negative under the FTA. The following gravity model for evaluating an FTA is, therefore:

$$InX_{ij}^{t} = \alpha + \beta_1 In\beta Y_i^t + \beta_2 InY_j^t + \beta_3 InD_{ij}^t + SAFTA\ TradeCreation + SAFTA\ TradeDiversion + APTA\ TradeCreation + APTA\ TradeDiversion + BIMSTEC\ TradeDiversion + +EUGSP\ TradeCreation + EUGSP\ TradeDiversion + MRT_i + MRT_j + Years + U_{ij} \quad (2)$$

We 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.

$$X_{ij}^{t} = exp(\beta_1 InD_{ij}^t + SAFTA\ TradeCreation + SAFTA\ TradeDiversion + APTA\ TradeCreation + APTA\ TradeDiversion + BIMSTEC\ TradeCreation + BIMSTEC\ TradeDiversion + +EUGSP\ TradeCreation + EUGSP\ TradeDiversion + MRT_i + MRT_j + Years) * U_{ij} \quad (3)$$

Data: We have updated the Yotov et al. (2016) dataset.[97] [98] They have balanced panel data of 69 countries from 1986-2006. This dataset's data for Bangladesh, Nepal, and Sri Lanka was unavailable, which we have incorporated and updated using the latest available data till 2019. All-bilateral trade data is collected from UN Comtrade (2021), denominated in US dollars.[99] Data considering GDP and trade were collected from the World Development Indicators (WDI) of the World Bank (WDI, 2021).[100] Bilateral ad-valorem tariff data was collected from the World Integrated Trade Solutions (WITS) of the World Bank (WITS, 2021).[101] Data regarding distance and other related variables were collected from CEPII (CEPII, 2021).

[96] J. E. Anderson & E. van Wincoop, "Gravity with Gravitas: A Solution to the Border Puzzle,' American Economic Review, 93(1) (2003): 170-192. https://doi.org/10.1257/000282803321455214.

[97] V. Y. Yotov, R. Piermartini, J. A. Monteiro & M. Larch, "An Advanced Guide to Trade Policy Analysis: The Structural Gravity Model," 2016, United National Conference on Trade and Development (UNCTAD), https://www.wto.org/english/res_e/booksp_e/advancedwtounctad2016_e.pdf.

[98] Yotov et al. (2016) dataset STATA do file is available at https://www.wto.org/english/res_e/publications_e/advancedguide2016_e.htm

[99] UN Comtrade, International Trade Statistics," 2021, https://comtrade.un.org.

[100] WDI (World Development Indicators), "Trade (% of GDP). [Data File]," 2021, World Bank, https://databank.worldbank.org/source/world-development-indicators.

[101] WITS (World Integrated Trade Solutions), "Tariff data by Country. [Data set]," 2022, https://wits.worldbank.org/tariff/trains/country-byhs6product.aspx?lang=en.

Estimation Procedure: First, we run various regressions from the OLS for the fixed effect model for panel data. We also use the PPML estimation technique, widely used in dealing with heteroskedasticity. 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.[102] However, Santos Silva & Tenreyro (2011a) identify potential convergence shortcomings of the Poisson command in Stata when estimating the gravity equations recommended in Santos Silva and Tenreyro (2006).[103] To solve these problems, Santos Silva & Tenreyro (2011a) suggest constructing a subset of explanatory variables, dropping one variable, checking if there are any collinearities with dependent variables, and identifying if they can be included in the model.[104] Yotov et al. (2016) also suggest a reduced form of regression, dropping variables one by one and test-checking the model's fitness.[105]
Following this approach to deal with the convergence issue, we drop the average applied tariff rate from the model, finding collinearity with the dependent variable. We then check the MFN tariff, the weighted average applied tariff, and distance variables one by one and run the likelihood ratio (LR) test, which confirms that these variables are significant. The deviance goodness of fit (13.9) and Pearson goodness of fit (12.4) are also very high, indicating a good fitting model.

Findings from the Simulations

Regional Impact: A gravity model was estimated with data from 71 trading partners from 1986–2019. The gravity model is estimated first without any FTA-related variables as shown in equation (1), and then with FTA-related variables as shown in equations (2-3). The trade agreements of SAFTA, APTA, BIMSTEC, and EU GSP/ (EBA) are then evaluated for FTA impact analysis.

Table 38 depicts PPML estimates which give more robust results as they allow control of heteroskedasticity. We observe a different pattern of coefficients while using PPML estimations compared to OLS. The OLS estimates show a higher value on the GDP and distance coefficients. In particular, the value of coefficients on the partner's GDP and distance drops when using the PPML estimator, which is consistent with Santos Silva & Tenreyro (2006).[106] For example, the coefficient estimate on the importing country's GDP is equal to 0.37, which implies that a 1.0 percent increase in the GDP of the importing country raises its imports by 0.37 percent. The MFN tariff rate estimate is a very high coefficient while the applied tariff coefficient is much lower; this indicates that MFN tariff significantly impacts trade.

[102] J. M. C. Santos Silva & S. Tenreyro, "The Log of Gravity," The Review of Economics and Statistics, 88(4), (2006): 641-658. https://doi.org/10.1162/rest.88.4.641.
[103] J. M. C. Santos Silva & S. Tenreyro, "The Log of Gravity," The Review of Economics and Statistics, 88(4), (2006): 641-658. https://doi.org/10.1162/rest.88.4.641.
[104] J. M. C. Santos Silva & S. Tenreyro, "Poisson: Some Convergence Issues,"
The Stata Journal: Promoting communications on statistics and Stata, 11(2), (2011a): 207-212. https://doi.org/10.1177/1536867X1101100203.
[105] V. Y. Yotov, R. Piermartini, J. A. Monteiro & M. Larch, "An Advanced Guide to Trade Policy Analysis: The Structural Gravity Model," 2016, United National Conference on Trade and Development (UNCTAD), https://www.wto.org/english/res_e/booksp_e/advancedwtounctad2016_e.pdf.
[106] J. M. C. Santos Silva & S. Tenreyro, "The Log of Gravity," The Review of Economics and Statistics, 88(4), (2006): 641-658. https://doi.org/10.1162/rest.88.4.641.

Table 38 shows the tariffs, distance, and partner GDP coefficients under the gravity framework, which are statistically significant at the 1 percent level. The coefficient of partners' GDP is positive and highly significant, which implies that the country tends to import more from larger economies. Distance also negatively affects imports and is significant at the 1 percent level. Tariffs are still a considerable import barrier to Bangladesh, as shown by the relatively large coefficient for tariffs.

Regressions Explaining Regional Trade[107]		
	OLS	PPML
Ln GDPi	0.57	
	(11.5)**	
Ln GDPj	0.37	
	(17.44)**	
In Distance	-1.332	-0.412
	(31.43)**	(6.8)**
In Applied Tariff	-2.87	-1.98
	(7.68)**	(5.87)**
Adjusted R2	0.78	0.28
N	54,656	67,308

*Table 38 Regression; Trade Expert's Estimation. Notes: Robust t-statistics in parentheses and * p<0.05; ** p<0.01. All variables except dummies taken in the log. GDP and trade were taken in the model at current US$ value. Tariffs were taken 1+tariff rate.*

Table 39 depicts the regression estimates from estimating the gravity model formulated in equations (2&3). This estimation differs from the previous one because the variable for SAFTA trade creation and diversion are included. The results for GDP and distance are almost the same as the prior estimation. However, the estimated coefficient on *Trade Creation* is negative, and that for *Trade Diversion* is positive, which is the opposite of what was unexpected. Their signs and statistical significance suggest that SAFTA reduced intraregional trade and increased extra-regional trade. The percentage reduction in intraregional trade can be computed as $e^{(-0.201)} - 1 = -18\%$,[108] while the percentage increase in extra-regional trade is $e^{(0.310)} - 1 = 35\%$. The change in extra-regional trade is double compared to intra-regional trade in South Asia. That the value of extra-regional trade in South Asian countries was about five times higher than that of intraregional trade in this period suggests that the net effect of SAFTA was an absolute rise in trade.

Suppose we dig into SAFTA's intra-regional and additional regional trade. In that case, South Asian countries mostly trade with non-South Asian countries, and intraregional trade is about 3 percent of its total trade. China is the leading importing partner of all South Asian countries. At the same time, the main export destinations are the EU, the USA, the UK, Japan, Canada, and Korea, which indicates that the SAFTA tariff eliminations were not very practical for intraregional trade in South Asia.

In terms of APTA the intra-regional trade creation increases by 16% which is ($e^{(0.151)} - 1$) while extra-regional trade also increased by 12% ($e^{(0.114)} - 1$). It indicates that APTA has positively impacted intraregional trade compared to extra-regional trade. Under APTA, China, India, and Korea have been

[107] The dependent variables in Table 3, 4 and 5 are Ln trade for OLS and trade for PPML regressions.
[108] This formula is used to interpret the coefficient on an explanatory variable when the variable is an indicator (or dummy) variable, and the dependent variable is in logarithmic form.

offering almost zero duties on imports from Bangladesh, and bilateral trade between member countries has increased significantly over the years.

About BIMSTEC, the impact of trade creation is very low which is about 5 percent ($e^{(0.051)} - 1$), and insignificant, while trade diversion is positive and much higher at 13 percent ($e^{(0.123)} - 1$). Nevertheless, the strange trade creation and diversion results suggest either that preferential BIMSTEC tariffs were ineffective or specific problems in the model, such as omitted variables.

Concerning the EU GSP/EBA for Bangladesh, the intra-regional coefficient is much higher, which is 53 percent ($e^{(0.431)} - 1$), while the extra-regional trade is negative at 19 percent ($e^{(-0.213)} - 1$). This indicates that the EU GSP has a tremendous positive impact on intraregional trade with Bangladesh compared to extra-regional trade with other LDCs under the EBA. Bangladesh's export to the EU was about US$ 7 billion in 2001, which increased to 27 billion in 2019 before the pandemic.

Regressions Explaining Regional Trade		
	OLS	PPML
Ln GDPi	0.57	
	(11.5)**	
Ln GDPj	0.37	
	(17.44)**	
ln Distance	-1.332	-0.412
	(31.43)**	(6.8)**
ln Applied Tariff	-2.87	-1.98
	(7.68)**	(5.87)**
SAFTA Trade Creation	-0.421	-0.201
	(6.11)**	(2.04)*
SAFTA Trade Diversion	-0.72	0.31
	(7.22)**	(2.98)**
APTA Trade Creation	0.181	0.151
	(6.21)*	(4.67)*
APTA Trade Diversion	0.22	0.114
	(4.83)*	(3.45)*
BIMSTEC Trade Creation	0.211	0.0512
	-1.25	-1.05
BIMSTEC Trade Diversion	0.22	0.123
	-1.71	-0.915
EUGSP Trade Creation	0.62	0.431
	(14.1)*	(11.98)*
EUGSP Trade Diversion	-0.34	-0.213
	(7.21)*	(6.73)*
Adjusted R2	0.88	0.21
N	54,656	67,308

*Table 39 Regression, Trade Expert's Estimation. Notes: Robust t-statistics in parentheses and * p<0.05; ** p<0.01. All variables except dummies taken in the log. GDP and trade were taken in the model at current US$ value. Tariffs were taken 1+tariff rate.*

Notes: Robust t-statistics in parentheses and * p<0.05; ** p<0.01. All variables except dummies taken in the log. GDP and trade were taken in the model at current US$ value. Tariffs were taken 1+tariff rate.

4.3.2 Bilateral Impact

We consider eight alternative scenarios using Bangladesh-USA, Bangladesh-India, Bangladesh-Nepal, Bangladesh-Sri Lanka, Bangladesh-Korea, Bangladesh-Vietnam, Bangladesh- Indonesia, Bangladesh-

Thailand FTA to explore the potential counterfactual impact of bilateral FTAs. The results indicate that while the FTA with the USA may have a significant positive effect, the FTA with India is inconclusive as the estimates are insignificant. Trade creation and diversion effects of Bangladesh's FTA with other South Asian countries, including Nepal and Sri Lanka, are negligible.[109] While trade creation impacts are similar results with Vietnam, Korea, Thailand, and Indonesia. Still, trade diversion effects are significant in East Asian countries.

Potential FTA Partners for Bangladesh	OLS	PPML
Ln GDPi	0.57	
	(11.5)**	
Ln GDPj	0.37	
	(17.44)**	
In Distance	-1.332	-0.412
	(31.43)**	(6.8)**
BD-India FTA Trade Creation	0.192	0.098
	(0.64)	(-1.27)
BD-India FTA Diversion	-0.211	-0.16
	(3.22)*	(2.15)*
BD-USA FTA Trade Creation	0.127	0.073
	(3.75)**	(2.95)**
BD-USA FTA Diversion	-0.021	-0.201
BD-Nepal FTA Trade Creation	0.06	0.01
	(0.13)	(-1.1)
BD-Nepal FTA Diversion	-0.211	-0.16
	(1.22)	(1.7)
BD-Sri Lanka FTA Trade Creation	0.02	0.04
	(0.14)	(-0.9)
BD-Sri Lanka FTA Diversion	-0.21	-0.13
	(1.22)	(1.65)
BD-Korea FTA Trade Creation	0.05	0.11
	(1.2)	(1.9)*
BD-Korea FTA Diversion	-0.21	1.13
	(1.22)	(2.65)*
BD-Thailand FTA Trade Creation	0.05	-0.11
	(1.1)	(1.6)
BD-Thailand FTA Diversion	-0.02	1.3
	(1.1)	(2.2)*
BD-Vietnam FTA Trade Creation	0.02	0.94
	(0.14)	(1.6)
BD-Vietnam FTA Diversion	-0.21	1.13
	(1.22)	(2.98)**
BD-Indonesia FTA Trade Creation	0.09	0.14
	(1.2)	(1.73)
BD-Indonesia FTA Diversion	-0.18	0.53
	(1.21)	(1.65)
Adjusted R2	0.63	0.19
N	54,656	67,308

*Table 40 Potential FTA Partners, Trade Expert's Estimation. Notes: Robust t-statistics in parentheses and * p<0.05; ** p<0.01. All variables except dummies taken in the log. GDP and trade were taken at current US$ value. Tariffs were taken 1+tariff rate.*

Bangladesh's main export destinations are the EU, the USA, the UK, Canada, and Japan. Trade between Bangladesh and its neighbors is very low except for India, an important trading partner

[109] Bhutan was removed from this analysis due to unavailable of time series data.

(Bangladesh Bank, 2021)[110]. Bangladesh's export to India is only US$1 billion and only a few million to other South Asian countries. Bangladesh and India cooperate in many forms, including in the SAFTA, APTA, BIMSTEC, and Bangladesh, Bhutan, India, and Nepal (BBIN) initiatives. However, Bangladesh imported 27 percent of its total imports from China and only 15 percent from India in 2021. Concerning adjacency, we note that Bangladesh's main borders are with India and Myanmar and that imports from neighboring countries are much lower than other trading partners (Basu & Debabrata, 2007; Kabir & Razzaque, 2020; Bangladesh Bank, 2020) [111] [112] [113]. Bangladesh faces numerous NTMs, especially anti-dumping and regulatory measures to access the Indian market (Frederick & Staritz, 2020; Kabir & Razzaque, 2020) [114] [115]. India has prohibited the trade of wheat, ceramics, and electronics goods through land customs stations. Recently, India imposed anti-dumping duty on Bangladesh's jute products (Director General of Trade Remedies, 2019) [116] [117]. However, business with the Myanmar land border has been suspended for some time due to the Rohingya crisis.

On the other hand, the USA withdrew GSP on the RMG sector in 2013, significantly impacting Bangladesh's apparel exports to the USA market. Bangladesh's export to the USA was US$8 billion in 2021 (Bangladesh Bank, 2021), where MFN tariff on RMG was about 11 percent [118]. Duty-free RMG exports in the USA market could have benefited the Bangladesh garments industry tremendously. Rahman & Strutt (2022) show that Bangladesh's export potential to the USA market is projected to be about 19 billion in 2030 if the USA eliminates the tariff on RMG importing from Bangladesh [119].

Conclusions

Bangladesh is set to graduate from the LDC category by 2026. The country aims to become an upper-middle-income country by 2031 and a developed nation by 2041. Graduating from the LDC status will mean that Bangladesh will lose its preferential market access. The country will face stricter competition for market access with Vietnam, India, Indonesia, China, and several others, as these countries have free trade agreements (FTAs) with many developed countries. Against this backdrop, Bangladesh is

[110] Bangladesh Bank, "Major Country/Commodity-Wise Export Receipt [Yearly] [Data file]," 2021, https://www.bb.org.bd/en/index.php/econdata/index.
[111] Bangladesh faces numerous NTMs, especially antidumping and regulatory measures to access to the Indian market (Frederick & Starlitz, 2020; Kabir & Razzaque, 2020).
[112] S. Basu & D. Datta, "India-Bangladesh Trade Relations: Problem of Bilateral Deficit," Indian Economic Review, 42(1), (2007): 111-129. https://www.jstor.org/stable/29793878.
[113] M. Kabir & M. A. Razzaque, "Promoting Bangladesh's Exports to India," In Razzaque M. A. (Ed.), Navigating New Waters: Unleashing Bangladesh's Export Potential for smooth LDC Graduation, 2020: (pp. 150-192). Dhaka, Bangladesh: Bangladesh Enterprise Institute.
[114] S. Frederick & C. Staritz, "Developments in the Global Apparel Industry after the MFA Phaseout," In Lopez-Acevedo, G., & Robertson, R. (Eds.), Sewing Success? Employment, Wages and Poverty following the End of the Multi-Fibre Agreement, (2012): 41-85. Washington, DC: World Bank Publications.
[115] M. Kabir & M. A. Razzaque, "Promoting Bangladesh's Exports to India," In Razzaque M. A. (Ed.), Navigating New Waters: Unleashing Bangladesh's Export Potential for smooth LDC Graduation, 2020: (pp. 150-192). Dhaka, Bangladesh: Bangladesh Enterprise Institute.
[116] Director General of Trade Remedies, "Shaping International Trade: Annual Report 2018-19," 2019, https://www.dgtr.gov.in/sites/default/files/Annual%20Report%202018-19.pdf.
[117]Director General of Trade Remedies (DGTR), Department of Commerce, New Delhi, http://www.dgtr.gov.in/sites/default/%1Fles/Jute_FF_NCV_20.10.16.pdf.
[118] Bangladesh Bank, "Major Country/Commodity-Wise Export Receipt [Yearly] [Data file]," 2021, https://www.bb.org.bd/en/index.php/econdata/index.
[119] M. M. Rahman & A. Strutt, "Costs of LDC Graduation on Market Access: Evidence from Emerging Bangladesh," 25th Annual Conference on Global Economic Analysis, (2022).

actively exploring its FTA options. Against this background, this study examines the impact of a free or preferential trade arrangement on Bangladesh using the gravity model. Trade creation and diversion impact are investigated by looking at the effects of SAFTA, APTA, BIMSTEC, and EU GSP on Bangladesh under the LDC category of the Everything But Arms (EBA) arrangement. We have also conducted an alternative counterfactual impact analysis of a potential FTA between Bangladesh and its major trading partners, including the USA, EU, India, and some South Asiana and East Asian markets.

The analysis shows that SAFTA has been very ineffective for intra-regional trade creation but has contributed to trade diversion. The intraregional trade is about 4.5 percent of its total trade in 2021 (WDI, 2021). This result is also aligned with south Asian intra-regional trade [120]. On the other hand, the APTA has had a significant positive impact on both trade creation and diversion, indicating that APTA has been more effective than SAFTA for intraregional trade creation. The potential impact of the BISMTEC on trade creation and recreation is insignificant [121]. However, the EU GSP (EBA) in Bangladesh has had a tremendous trade creation impact on bilateral trade, and Bangladesh has been prosperous in increasing its bilateral trade with the EU countries. This finding also indicates that any imposition of EU tariffs on imports from Bangladesh will adversely impact bilateral trade. The alternative counterfactual analysis shows that if Bangladesh signs an FTA with the USA, its exports will likely have a substantial positive impact. Still, an FTA with India may not increase bilateral trade between the two countries. Bangladesh's bilateral FTAs with small South Asian countries have no significant impact on trade creation and diversion, but FTAs with Southeast Asian countries will have a trade diversion impact.

However, an FTA not only removes trade barriers but also builds greater confidence and transparency among the partner states and reflects a positive image globally to attract foreign direct investment. Although import duty is still a significant source of fiscal revenue for Bangladesh, eliminating tariffs could substantially benefit its economy and outweigh this temporary revenue loss. Tariff elimination is expected to boost the country's industrial productivity, lower production costs, and make the Bangladesh economy globally competitive. Moreover, the FTA strategy should be integrated into the national policy agenda, especially in the Fifth Five-Year Plan and the long-term Perspective Plan. Bangladesh should develop a dedicated FTA negotiation team to lead the FTA negotiations over the years. Coordination among different ministries is vital in bringing all stakeholders onto the same page when differing views are prominent among various stakeholders. Aside from these measures, the country needs to play an active role in the WTO to ensure preferential treatment after graduation.

[120] WDI (World Development Indicators), "Trade (% of GDP). [Data File]," 2021, World Bank, https://databank.worldbank.org/source/world-development-indicators.
[121] We have only used the BIMTEC dummy for the last three years as BIMTEC FTA is still under negotiation.

Annex 2: List of KII Participants

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

No.	Person	Designation	Organization
1	Khalid Hossen	Deputy Chief of Party	Land O'Lakes
2	Sudip Chowdhury	Consultant – IT, Customs Modernization, Trade Facilitation	Freelance
3	Nusrat Jabeen Banu	Additional Secretary	Ministry of Commerce, Export Wing
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 Intl Trade & Customs Exemption and Project Facilities	National Board of Revenue
7	Mamun-ur-Rashid	Joint Chief	Bangladesh Trade and Tariff Commission, Ministry of Commerce
8	Sarwar Alam	Project Director, BRCP-1	Bangladesh Land Port Authority
9	Mohd. Riad Hossain	Former commercial associate	Nepal Bangladesh Chamber of Commerce and Industry
10	S M Tasneef Nafee	Project Manager, Sales and Marketing, Global Business Division (GBD) – Export	Walton, Bangladesh

Table 41 List of KII Participants

Annex 3: 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	Ms. Lily Akter	Businesswoman and Representative	Bangladesh Women Chamber of Commerce and Industries (BWCCI)
2	Ms. Saba Nowreen	Businesswoman and Representative	Bangladesh Women Chamber of Commerce and Industries (BWCCI)
3	Mr. Zahin Ahmed	Representative	Bangladesh Women Chamber of Commerce and Industries (BWCCI)
4	Dr. Masudur Rahman	National Trade Expert	Institute for Policy, Advocacy, and Governance (IPAG)
5	Prof. Syed Munir Khasru	Chairman	Institute for Policy, Advocacy, and Governance (IPAG)_
6	Ms. Shahtaj Mahmud	Program Coordinator	Institute for Policy, Advocacy, and Governance (IPAG)
7	Ms. Zulfa Kamal	Representative	Institute for Policy, Advocacy, and Governance (IPAG)

Table 42 List of FGD Participants

Annex 4: 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[1]	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 43 List of Team Members (as Proposed in the Technical Proposal)

[1] Mostafa Abid Khan has been replaced by Prof. Syed Munir Khasru approved by the Ministry on 3 May 2023.

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