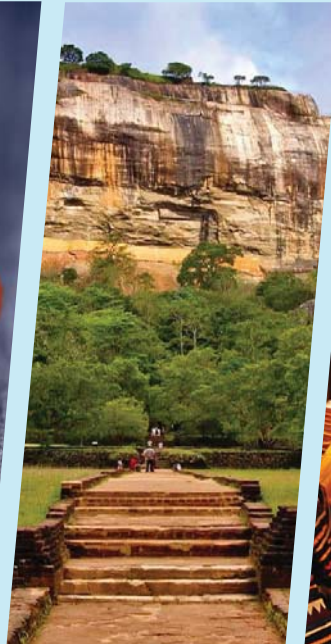




# Government of the People's Republic of Bangladesh Bangladesh Regional Connectivity Project (BRCP-1) Ministry of Commerce

## Review of Bilateral Trade Agreement and Way Forward

### Sri Lanka



August 2023



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



*empowering people*  
e.Gen Consultants. Ltd.

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

Bangladesh Regional Connectivity Project – 1

Ministry of Commerce

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

## **Review of Bilateral Trade Agreement and Way Forward Sri Lanka**

### **SUBMITTED TO:**

**The Project Director**

Bangladesh Regional Connectivity Project -1

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

### **CONDUCTED BY:**

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

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

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

### **With Joint Venture Partner**

**e.Gen Consultants Ltd.**

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

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



## Preamble

This report has been prepared by The Institute for Policy, Advocacy, and Governance (IPAG) in joint venture partnership with e.Gen Consultants Ltd. in accordance with the terms of reference of the ‘Consultancy/ Research firm for Review of Bilateral and Regional Trade Agreements suggested by Ministry of Commerce in FY2021-22 (National)’ under the BRCP project 1. The study has been prepared to identify the reforms in Institutional, infrastructural, legal capacity, and present prioritized recommendations for necessary improvement in the bilateral trade between Bangladesh and Sri Lanka, 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 Sri Lanka 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 Agreements, and regional trade blocs have been weighed along with export promotion, trade facilitation for advancing the concept of cooperation in trade, transport and transit facilitation between Bangladesh and Sri Lanka. Drawing references from the scope and objectives of the project, the study was designed to assist in preparing recommendations for trade facilitation and diversification by first analyzing existing trade agreements; analyzing the trade volume; reviewing the existing tariff structure and non-tariff measures and assessing the institutional and infrastructural capacity based on the data that has been collected. Bangladesh and Sri Lanka’s relationship is currently at a growing stage with FTA negotiations 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.



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



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

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



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**Md. Abdul Karim**  
Team Leader



## Acronyms and Abbreviations

API	Active Pharmaceutical Ingredients
APTA	Asia-Pacific Trade Agreement
ASYCUDA	Automated System for Customs Data
B2B	Business to Business
BEPZA	Bangladesh Export Processing Zone Authority
BEZA	Bangladesh Economic Zones Authority
BFTI	Bangladesh Foreign Trade Institute
BIDA	Bangladesh Investment Development Authority
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
BLPA	Bangladesh Land Port Authority
BOI	Board of Investment
BPO	Business Process Outsourcing
BRCP-1	Bangladesh Regional Connectivity Project 1
BSC	Bangladesh Shipping Corporation
BSCIC	Bangladesh Small and Cottage Industries Corporation
BSTI	Bangladesh Standards and Testing Institution
CEPA	Comprehensive Economic Partnership Agreement
CEPII	Centre d'Etudes Prospectives et d'Informations
CGE	Computable General Equilibrium
CSC	Ceylon Shipping Corporation
DFQF	Duty-Free Quota-Free
EBA	Everything But Arms
EPB	Export Promotion Bureau
EPZ	Export Processing Zone
ERL	Eastern Refinery Limited
EU	European Union
FDI	Foreign Direct Investment
FGD	Focused Group Discussion
FOC	Foreign Office Consultation
FTA	Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GoB	Government of Bangladesh
GSP	Generalized Scheme of Preferences
GTAP	Global Trade Analysis Project
HIES	Households' Income and Expenditure Survey
ICT	Information and Communications Technology
IDA	International Development Association



IP	Intellectual Property
IPR	Intellectual Property Rights
ISM	International Support Measure
IT	Information Technology
KII	Key Informant Interview
LDC	Least Developed Countries
LPI	Logistics Performance Index
MCCI	Metropolitan Chamber of Commerce & Industry
MFN	Most Favored Nation
MoC	Ministry of Commerce
MoU	Memorandum of Understanding
MRA	Mutual Recognition Agreement
MRT	Multilateral Resistance Term
NBR	National Board of Revenue
NES	National Export Strategy
PTA	Preferential Trade Agreement
RCA	Revealed Comparative Advantage
RCEP	Regional Comprehensive Economic Partnership
RMG	Ready-Made Garment
RoT	Rules of Thumb
RTA	Regional Trade Agreement
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asian Free Trade Area
SAM	Social Accounting Matrix
SAPTA	SAARC Preferential Trading Arrangement
SEZ	Special Economic Zones
SMART	Software for Market Analysis and Restrictions on Trade
SME	Small and Medium Enterprise
SPS	Sanitary and Phytosanitary Measures
SSP	Socio-economic Pathways
TAO	Tariff Analysis Online
TBT	Technical Barriers to Trade
TFA	Trade Facilitation Agreement
TRIPS	Trade-Related Aspects of Intellectual Property Rights
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



WDI	World Development Index
WIPO	World Intellectual Property Organisation
WITS	World Integrated Trade Solution
WTO	World Trade Organization



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## Executive Summary

This is the country report for Sri Lanka 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 planned graduation. The scope of this study is to understand the current scenario of bilateral trade between Bangladesh and Sri Lanka, non-tariff barriers and their implications, trade diversification prospects, institutional, infrastructural, and legal gaps in trade management and negotiation; review the bilateral trade agreements and policies; and make appropriate recommendations.

Sri Lanka and Bangladesh have a friendly and cooperative trade relationship that is based on historical and cultural ties, as well as common interests in regional and international affairs. Sri Lanka and Bangladesh have also explored opportunities for joint ventures and investments in sectors such as hydropower, tourism, agriculture, fisheries, education, and health. Sri Lanka has expressed interest in importing electricity from Bangladesh under the SAARC Framework Agreement for Energy Cooperation. 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 Sri Lanka before Bangladesh's LDC graduation is necessary. Therefore, this study aims to assess the current trade relationship between Sri Lanka 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 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 Sri Lanka and Bangladesh's trade relationship, current exports, and current agreements, among others.

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. CGE is the best model to investigate economy-wide impact analysis. We used the MyGTAP model and program which is an extended version of GTAP. Results of the CGE model show that both parties will benefit from the signing of an FTA whereas gravity model results are inconclusive. 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 Sri Lanka 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 Sri Lanka, as well as trade volumes, have also been assessed in this chapter. As per reports from the Bangladesh Bank and Export Promotion Bureau (EPB), the volume of exports from Bangladesh to Sri Lanka between 2021-2022 was worth US\$ USD 58.12 million whereas the volume of imports was worth US\$ 85.59 million. Chapter 4 contains a review of the current trade agreement and highlights changes/ revisions to the agreements.

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

A comparison of trade policies and practices of both Bangladesh and 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 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 Metropolitan Chamber of Commerce & Industry (MCCI).

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 goods from its export basket.

Infrastructural gaps must be addressed since these gaps increase Bangladesh's cost of doing business. Automation is urgently required 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 on red tape, digitizing processes, cargo management, implementing a national single window to improve ease of doing business, streamlining customs procedures, and improving border compliance.

## 1. Introduction

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

Sri Lanka is a vital trading partner for Bangladesh. Political relations between Sri Lanka and Bangladesh were established in 1972, following Bangladesh's freedom. As critical South Asian economies, the two nations share a positive relationship in their Commonwealth history, which has driven them to be a part of multilateral platforms like the South Asian Association for Regional Cooperation (SAARC) and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), which further fostered engagement between the two nations. In recent years, the two countries have engaged in regional multilateral trade agreements such as the Asia-Pacific Trade Agreement (APTA) and the South Asian Free Trade Area (SAFTA).

Sri Lanka and Bangladesh, both nations, were looked up to as success stories for low-income countries. However, currently, Sri Lanka is going through a severe financial and economic crisis, the worst since its independence in 1948. Bangladesh and Sri Lanka in the past have reflected a surge in their bilateral relationships and initiative to increase connectivity, having said that, there is still potential to further develop the existing ties, by pursuing bilateral initiatives.

As per data from the Export Promotion Bureau, the volume of exports from Bangladesh to Sri Lanka between 2021-2022 was worth US\$ USD 58.12 million, the top exports were pharmaceutical products, articles of apparel, inorganic chemicals, edible vegetables, and paper and paperboards. On the other hand, Sri Lanka exported goods and services worth US\$ 85.59 million to Bangladesh in 2022. The top exports were rubber and articles thereof, copper and articles thereof, machinery, nuclear reactors, boilers, knitted or crocheted fabric and cereals.

Bangladesh is one of the largest exporters of clothing to Sri Lanka, accounting for about 40% of Sri Lanka's clothing imports in 2019. Bangladesh is also a major supplier of leather and leather products to Sri Lanka, exporting about \$18 million worth of leather goods in 2019. Bangladesh's clothing and leather products enjoy duty-free access in Sri Lanka under SAFTA. Bangladesh is a net exporter of cement, which is used for construction and infrastructure development. Bangladesh exports cement to Sri Lanka, which is a growing market for cement in the region.

The trade relationship between Bangladesh and Sri Lanka has the potential to grow further by exploring new areas of cooperation, such as ICT, agriculture, health, environment, etc. The two countries have also agreed to enhance their transport connectivity through road, rail, air, and waterways to facilitate trade and investment flows. Trade relations between Sri Lanka and Bangladesh have been growing

steadily over the years, but they are still relatively low compared to the potential and proximity of the two countries.

## 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 Sri Lanka will give an understanding of the current state of the bilateral trade situation of Bangladesh with Sri Lanka, 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 strategy 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 with a view to expand trade and development; Good practices should reflect applicable comprehensive policy guidelines for the promotion of trade.
5. Are there any possibilities for a Comprehensive Economic Partnership Agreement (CEPA) with these countries including the potential service and investment sector that can be utilized?
6. Overall suggestions on what kind of reform of changes can be made in the bilateral and regional trade agreements 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 with a view 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 KIIs. The sample size is 10, and the 10 key informants have been selected by the National Trade Expert/ Trade Economist in consultation with the Team Leader using purposive sampling technique for each study<sup>1</sup>. The sample consists of government officials from various ministries and their sub-divisions, 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. FGD participants were selected using snowball or commonly known as purposive sampling.<sup>2</sup> 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. FTA negotiation with Sri Lanka is in the final stage. Bangladesh is also actively considering FTAs with Korea, Nepal, Bhutan, Sri Lanka, Malaysia, Thailand, Vietnam, and India. A robust potential costs and benefits assessment of an FTA with a sequential FTA strategy with domestic trade policy reform is critical for its long-term market access plan.

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

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

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

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

#### 2.4.2 General Equilibrium Modelling for Impact Analysis

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

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

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

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



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 segregated the 65 GTAP sectors into ten sectors considering Bangladesh SAM. A complete mapping is required between the sectors of the Bangladesh SAM with GTAP sectors and with the aggregated regions. We then used the household consumption and ownership weights acquired from the SAM (2014) and incorporated them into the MyGTAP model. The ten newly aggregated sectors are mapped to the corresponding sectors in the Bangladesh SAM to define each household's consumption share of the 10 GTAP sectors. We also incorporate income and consumption data for **ten** households based on the income level of Bangladesh's rural and urban regional households. These earnings were then allocated to each of the ten households according to factor ownership shares. Household incomes were then adjusted for net foreign income, remittances, and capital depreciation, as suggested by [Minor & Walmsley \(2013\)](#).

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

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

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

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

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

#### 2.4.4 SMART Model for FTA Analysis

In this section, we describe the framework of a partial equilibrium model known as the SMART (Software for Market Analysis and Restrictions on Trade) model that can be used in assessing the trade, tariff revenue, and welfare effects of an FTA. The SMART model focuses on the changes in imports into a particular market when there is a change in trade policy. The demand side of the market in SMART is based on the Armington assumption that commodities are differentiated by their country of origin. This assumption implies that, for a particular commodity, imports from one country are an imperfect substitute for imports from another country. Thus, even though an FTA entails preferential trade liberalization, import demand does not completely shift to a source from within the FTA. The SMART model also assumes that consumers' demand is decided in a two-stage optimization process that involves allocating their spending by commodity and by national variety.

At the first stage, consumers decide how much to spend on the commodity given changes in the price index of this commodity. The relationship between changes in the price index and the impact on import demand for this commodity is determined by a given import demand elasticity. At the second stage, the

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

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

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

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

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

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

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

## 3. Trade Agreements, Relations, and Volume

### 3.1 Trade Agreements and Relations

#### 3.1.1 Bilateral Agreement between Bangladesh and Sri Lanka

The trade agreements between Bangladesh and Sri Lanka are as follows

- **General Trade Agreement**
- **Memorandum of Understanding on Economic Partnership**
- **Memorandum of Understanding between Export Promotion Bureau (EPB) and Export Development Board (EDB)**

The **General Trade Agreement** between Bangladesh and Sri Lanka was signed in 1977 to expand and strengthen economic and trade relations between the two countries. Both parties agreed to allow each other most-favored-nation treatment per the provision of the General Agreement on Tariffs and Trade (GATT). The agreement specifies a list of exports from Bangladesh to Sri Lanka and vice versa which were supposed to be traded at MFN rates. The list of products specified in the agreement is mentioned in the table below:

Products from Sri Lanka		Products from Bangladesh	
i.	Tea	i.	Raw jute
ii.	Rubber	ii.	Jute manufactures
iii.	Copra	iii.	Jute carpets
iv.	Coconut Oil	iv.	Tea
v.	Desiccated Coconut	v.	Newsprint
vi.	Fresh Coconut	vi.	Writing and Printing paper
vii.	Coir fiber	vii.	Low grammage paper
viii.	Coir Yarn	viii.	Rayon yarn
ix.	Other coconut products	ix.	Cellophane
x.	Essential Oils	x.	Hard board
xi.	Cocoa beans and cocoa products	xi.	Molasses
xii.	Spices (pepper, cinnamon, cloves, etc.)	xii.	Dry fish
xiii.	Graphite	xiii.	Safety Matches
xiv.	Handicrafts products including batiks handwoven products	xiv.	Fresh fruits & Vegetables
xv.	Parquet flooring	xv.	Frozen prawns and shrimps
xvi.	Tobacco for the manufacture of cigarettes	xvi.	Drugs and medicines
xvii.	Papain	xvii.	Animal and human hair
xviii.	Canned and fresh fruits	xviii.	Crushed bones
xix.	Canned fruit juices	xix.	Chemicals and pharmaceuticals
xx.	Manufactures of rubber and leather	xx.	Tanned and semi-tanned leather
xxi.	Tyres and tubes	xxi.	Silk and silk products
xxii.	Automotive batteries	xxii.	Textiles
xxiii.	Dry cell batteries	xxiii.	Specialized textiles
xxiv.	Antimonial lead	xxiv.	Spices (ginger, turmeric, coriander seeds, chilies, etc.)
xxv.	Coconut fatty acids	xxv.	Tamarind
xxvi.	Ilmenite	xxvi.	Handicrafts and handloom products
xxvii.	Rutile	xxvii.	Cotton waste
xxviii.	Other rare earths	xxviii.	Handicrafts and handloom products
xxix.	Mica	xxix.	Cotton waste
xxx.	Non-ferrous metals, ores and concentrates	xxx.	Oil cakes
		xxxii.	Pipes
		xxxiii.	Felding electrodes
			Tube-light

Products from Sri Lanka		Products from Bangladesh	
xxxii.	Precious and semi-precious stones	xxxiv.	Lathe machine
xxxiii.	Rubberized coir fiber	xxxv.	Drilling machine and different machine tools
xxxiv.	Striking instruments	xxxvi.	Machinery and spares
xxxv.	Chanke	xxxvii.	Super enamel copper wires
xxxvi.	Miscellaneous	xxxviii.	Electrical wires and cables
		xxxix.	Telephone cables and Accessories
		xl.	Laundry soap
		xli.	Cosmetics
		xlii.	Shaving cream
		xliii.	Agar ettar and agar batti
		xliv.	Henna leaves and powder
		xlv.	Cane and bamboo and products thereof
		xlvi.	Kapka
		xlvii.	Furnace oil
		xlviii.	Miscellaneous

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

The Memorandum of Understanding between EPB and EDB signed in 2011 mentions the following:

- Exchange of technical expertise to facilitate the promotion of trade between the two countries
- Support investments in areas of mutual interests
- Information exchange and facilitation of publications regarding the development of trade
- Support the arrangement of trade missions, fairs and exhibitions and joint meetings to evaluate the progress made toward the MoU
- Participation in training programs on trade promotion and techniques

The Memorandum of Understanding on Economic Partnership between the two countries was signed in 2017 and comprehensively looks into furthering and strengthening economic engagements in areas of trade, investment, finance, and logistics between the two countries. The agreement specifies that both countries will deepen trade initially in areas of high-end apparel and textiles, pharmaceuticals, IT, food and agro-processing, horticulture, light engineering, religious and eco-tourism, among others. The agreement specifies

- Creation of institutional linkages between the countries
- Encouraging greater cooperation between the Chambers of Commerce and Industries and national trade bodies
- Facilitation of delegations, buy seller meetings, and participation at trade fairs/exhibitions
- Information exchange and products of publications to further develop trade relations
- Capacity building in areas of comparative advantages especially in textiles and apparel, pharmaceuticals, logistics, agriculture, health, and management.
- Involvement of private sector stakeholders of both countries

The agreement explicitly mentions the launching of a joint study between the countries for a bilateral FTA to identify a list of products for duty waiver and the creation of a Committee at the Ministerial level which will support the formation of joint working groups. **Even though a joint study had been**

conducted,<sup>7</sup> Prime Minister Sheikh Hasina and Sri Lankan Prime Minister Mahinda Rajapaksa reiterated the interests of both countries in signing the FTA which is still under hold.<sup>8</sup> In the meantime, the leaders of the two countries have agreed upon forming a joint commission to oversee the progress of all bilateral cooperation activities between the two nations.

## 3.2 Trade Volume

### 3.2.1 Bilateral Trade Volume

Despite several trade partnerships with Sri Lanka, the trade volume is far from reaching its potential. As per data from the Export Promotion Bureau and Bangladesh Bank, the volume of exports from Sri Lanka to Bangladesh increased from 49.92 million US\$ in FY17 to 117.72 million US\$ in FY21 whereas, the volume of exports from Bangladesh to Sri Lanka grew only slightly from 42.25 million US\$ in FY17 to 47.32 million US\$ in FY21 leading to a bilateral trade surplus for Sri Lanka. The following table shows the trade balance between Bangladesh and Sri Lanka from 2007 to 2022. From 2007 to 2011, Bangladesh had a positive trade balance. However, from there onwards, the volume of imports from Sri Lanka increased sharply leading to a negative trade balance. A detailed overview of the top exports from Bangladesh to Sri Lanka has been mentioned in the latter part of this section.

Fiscal Years	Export to Sri Lanka (in US\$ million)	Import from Sri Lanka (in US\$ million)	Trade Balance (in US\$ million)
2007- 2008	19.32	15.27	4.05
2008- 2009	18.67	18.56	0.11
2009- 2010	23.74	22.76	0.98
2010- 2011	34.73	27.50	7.23
2011- 2012	42.59	32.40	10.19
2012- 2013	23.69	39.80	(16.11)
2013- 2014	26.81	66.07	(39.89)
2014- 2015	23.92	44.10	(20.18)
2015- 2016	30.45	45.00	(14.55)
2016-2017	42.25	49.92	(7.67)
2017-2018	31.60	47.77	(16.17)
2018-2019	45.60	62.58	(16.98)
2019-2020	38.40	54.71	(16.31)
2020-2021	47.32	117.72	(70.4)
2021-2022	58.12	85.59	(27.47)

Table 3 Trade Balance between Bangladesh and Sri Lanka

<sup>7</sup> The Business Standard, "Bangladesh, Sri Lanka Agree to Sign FTA," www.tbsnews.net, March 20, 2021, <https://www.tbsnews.net/bangladesh/bangladesh-sri-lanka-bilateral-talks-begin-219265>.

<sup>8</sup> <https://archive.dhakatribune.com/bangladesh/foreign-affairs/2021/03/20/dhaka-eager-to-sign-free-trade-agreement-with-colombo>

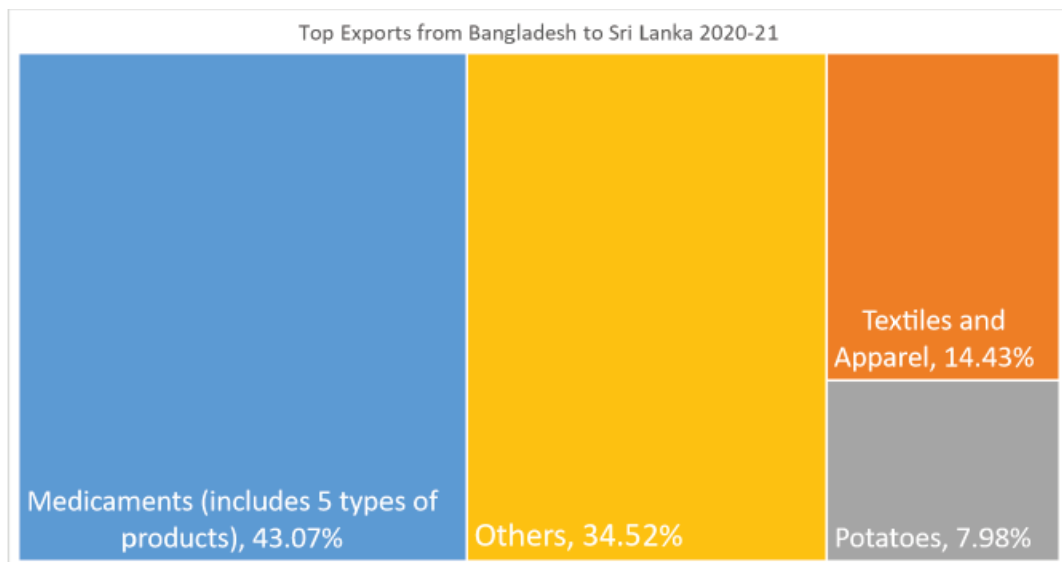


Figure 1 Top Exports from Bangladesh to Sri Lanka, Source: Export Promotion Bureau

In FY21 as per the figure above, the top exports from Bangladesh to Sri Lanka were dominated by medicaments, apparel, and seed potatoes. **Over 43% of the total exports to Sri Lanka comprised of various pharmaceutical products/ chemicals representing five types of distinguished product categories**, followed by apparel, which took over 14% of the total export share represented by three types of distinguished products (as shown in the figure above) – dominates the top ten exports of Bangladesh to Sri Lanka. Similarly, potatoes (seed and frozen) took up about 8% of the total export share in the same year.

Figure above shows the main exports of Bangladesh to Sri Lanka from 2016 to 2021, and over the course of 5 years, pharmaceutical products and textiles took up the major share of export volume. Between 2016 and 2020, sodium hydroxide and lead-based accumulators were among the top ten exports too. Sodium hydroxide and lead-based accumulators were among the top 20 exported products to Sri Lanka.

Upon graduation, Bangladesh will need to align its policies in compliance with WTO trade and intellectual property rules. Bangladesh’s 2018 Active Pharmaceutical Ingredients (API) and Reagents Policy may run into conflict with WTO rules on subsidies, investment performance requirements, and national treatment standards post-graduation.<sup>9</sup> Though Bangladesh pushed for a duly motivated request for a 12-year extension in 2020, before the expiration of the second extension in 2021, it was

<sup>9</sup> Rachel Thrasher, “Why Bangladesh’s Burgeoning Pharmaceutical Sector Is on a Collision Course with Global Trade and Investment Rules,” Global Development Policy Center, www.bu.edu, Accessed July 6, 2022, <https://www.bu.edu/gdp/2021/09/13/why-bangladeshs-burgeoning-pharmaceutical-sector-is-on-a-collision-course-with-global-trade-and-investment-rules/>.



rejected by WTO.<sup>10</sup> The TRIPS waiver for pharmaceuticals will last till 2033 but will only cater to countries that remain an LDC.<sup>11</sup>

From 2018 to 2019, export of pharmaceuticals grew by 25%, and Bangladesh exports pharmaceutical products to 151 countries around the world. **Currently, Sri Lanka is the number one destination for exported pharmaceutical products from Bangladesh, and close to 15% of total pharmaceutical export earnings comes from Sri Lanka.**<sup>12</sup> China and India are the main competitors of Bangladesh when it comes to pharmaceutical exports. Both China and India have their own Active Pharmaceutical Ingredient (API) production facilities giving them a more advantageous position. Bangladesh has embarked on a similar route by constructing the API Industrial Park, spread across 200 acres of land will allow Bangladesh to decrease the cost of locally manufactured drugs adding to the cost-effectiveness of exports.<sup>13</sup> Moreover, Bangladesh can boost pharmaceutical exports by exporting API since it is easier to export, with the global API market standing at over 150 billion US\$.<sup>14</sup> As Bangladesh already has a good market share in Sri Lanka, it may be easier for Bangladesh to increase access to Sri Lanka's pharmaceutical market.

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<sup>10</sup> Asjadul Kibria, "Bangladesh's Case for TRIPS Waiver," The Financial Express, [thefinancialexpress.com.bd](https://thefinancialexpress.com.bd/views/reviews/bangladeshs-case-for-trips-waiver-1603899932), Accessed July 6, 2022, <https://thefinancialexpress.com.bd/views/reviews/bangladeshs-case-for-trips-waiver-1603899932>.

<sup>11</sup> World Trade Organization, "Least Developed Country Members – Obligations Under Article 70.8 and Article 70.9 of the TRIPS Agreement with Respect to Pharmaceutical Products," December 2, 2015, [docs.wto.org](https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=q:/WT/L/971.pdf&Open=True), Accessed July 6, 2022, <https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=q:/WT/L/971.pdf&Open=True>.

<sup>12</sup> Md Abu Zafor Sadek. "Bangladesh: A Rising Star in Pharmaceutical Finished Products Export." The Business Standard. [www.tbsnews.net](https://www.tbsnews.net), January 31, 2021. <https://www.tbsnews.net/thoughts/bangladesh-rising-star-pharmaceutical-finished-products-export-194416>.

<sup>13</sup> Bangladesh Small and Cottage Industries Corporation (BSCIC), "Active Pharmaceutical Ingredients (API) Industrial Park," [bscic.portal.gov.bd](http://bscic.portal.gov.bd), Accessed July 6, 2022, [http://bscic.portal.gov.bd/sites/default/files/files/bscic.portal.gov.bd/page/d1f2a6a9\\_f926\\_4de8\\_9a99\\_daf5d2f6f3bf/API.pdf](http://bscic.portal.gov.bd/sites/default/files/files/bscic.portal.gov.bd/page/d1f2a6a9_f926_4de8_9a99_daf5d2f6f3bf/API.pdf).

<sup>14</sup> Bangladesh Association of Pharmaceutical Industries, "Brief Outline," [www.bapi-bd.com](http://www.bapi-bd.com), Accessed July 6, 2022, <http://www.bapi-bd.com/api-park/brief-outline.html>.

Top Exports from Bangladesh to Sri Lanka 2016 - 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	HS Code: Product	USD	HS Code: Product	USD	
300490: Other medicaments of mixed or unmixed products, for retail sale, nes	12,310,327.16	300490: Other medicaments of mixed or unmixed products, for retail sale, nes	12,271,064.71	100630: Semi-milled or wholly milled rice	10,445,545.00	300490: Other medicaments of mixed or unmixed products, for retail sale, nes	8,191,300.65	300490: Other medicaments of mixed or unmixed products, for retail sale, nes	8,191,300.65	845929: Drilling machines, for removing metal	14,375,027.92	300490: Medicaments nes, in dosage	9,114,506.88	
620462: Women's or girls' trousers, breeches, etc, of cotton	2,995,099.05	600192: Pile fabrics of man-made fibres, nes, knitted or crocheted	4,149,943.59	300490: Other medicaments of mixed or unmixed products, for retail sale, nes	8,174,826.29	300410: Medicaments of penicillins... or streptomycins..., for retail sale	2,614,765.28	300490: Medicaments nes, in dosage	2,614,765.28	070190: Potatoes, fresh or chilled nes	2,102,826.72	850710: Lead-acid electric accumulators of a kind used for starting piston engines	1,111,724.86	
300420: Medicaments of other antibiotics, for retail sale	2,667,673.56	300420: Medicaments of other antibiotics, for retail sale	2,524,063.90	600192: Pile fabrics of man-made fibres, nes, knitted or crocheted	3,084,288.08	850710: Lead-acid accumulators for starting piston engines	3,084,288.08	070190: Potatoes, fresh or chilled nes	2,098,263.45	850710: Lead-acid electric accumulators of a kind used for starting piston engines	1,111,724.86	300390: Medicaments nes, formulated, in bulk	1,044,405.96	
600192: Pile fabrics of man-made fibres, nes, knitted or crocheted	2,585,824.67	300439: Medicaments of other hormones, for retail sale, nes	2,406,932.91	281511: Sodium hydroxide (caustic soda), solid	2,849,393.18	620342: Men's or boys' trousers, breeches, etc, of cotton	1,666,878.46	300390: Medicaments nes, formulated, in bulk	1,459,217.91	300390: Medicaments nes, formulated, in bulk	1,044,405.96	530710: Yarn of jute or of other textile bast fibres, single	1,030,269.49	
300439: Medicaments of other hormones, for retail sale, nes	2,454,353.11	300390: Other medicaments with >=2 constituents, not for retail sale, nes	1,840,671.57	300439: Medicaments of other hormones, for retail sale, nes	2,447,190.71	070190: Other potatoes, fresh or chilled	2,447,190.71	300390: Medicaments nes, formulated, in bulk	1,459,217.91	530710: Yarn of jute or of other textile bast fibres, single	1,030,269.49	300410: Penicillins or streptomycins and their derivatives, in dosage	864,993.86	
070190: Other potatoes, fresh or chilled	1,990,941.62	281511: Sodium hydroxide (caustic soda), solid	1,533,379.22	300420: Medicaments of other antibiotics, for retail sale	2,276,159.29	300420: Medicaments of other antibiotics, for retail sale	2,276,159.29	300420: Medicaments of other antibiotics, for retail sale	1,291,548.84	300410: Penicillins or streptomycins and their derivatives, in dosage	864,993.86	620342: Men's/boys trousers and shorts, of cotton, not knitted	843,079.13	
070110: Seed potatoes	1,782,846.13	621710: Clothing accessories, nes	1,153,584.50	300410: Medicaments of penicillins... or streptomycins..., for retail sale	1,558,477.34	281511: Sodium hydroxide (caustic soda), solid	1,558,477.34	281511: Sodium hydroxide (caustic soda), solid	1,097,961.52	620342: Men's/boys trousers and shorts, of cotton, not knitted	843,079.13	300440: Alkaloids or their derivs, not cntg antibiotics or hormones, in dosage	834,687.80	
300320: Medicaments of other antibiotics, not for retail sale	1,598,785.59	520842: Coloured plain cotton weave, with >=85% cotton, >=100g/m2	1,138,954.64	850710: Lead-acid accumulators for starting piston engines	1,236,680.66	300390: Other medicaments with >=2 constituents, not for retail sale, nes	1,236,680.66	300390: Other medicaments with >=2 constituents, not for retail sale, nes	1,029,726.61	300440: Alkaloids or their derivs, not cntg antibiotics or hormones, in dosage	834,687.80	721049: Flat rolled prod./inas, plated or coated with zinc, >=600mm wide, nes	810,354.26	
300390: Other medicaments with >=2 constituents, not for retail sale, nes	1,352,017.73	300320: Medicaments of other antibiotics, not for retail sale	827,339.37	480255: ECG RECORDING PAPER	937,919.19	530710: Single yarn of jute or of other textile bast fibres of 53.03	937,919.19	530710: Single yarn of jute or of other textile bast fibres of 53.03	978,597.54	721049: Flat rolled prod./inas, plated or coated with zinc, >=600mm wide, nes	810,354.26			
610910: T-shirts, singlets and other vests, of cotton, knitted or crocheted	1,249,075.94	530710: Single yarn of jute or of other textile bast fibres of 53.03	789,300.97	070190: Other potatoes, fresh or chilled	922,496.69	520912: Unbleached 3 or 4-thread twill (incl. cross twill), with >=85% cotton	922,496.69	520912: Unbleached 3 or 4-thread twill (incl. cross twill), with >=85% cotton	732,793.16					

Table 4 Top Exports from Bangladesh to Sri Lanka, Source: Export Promotion Bureau

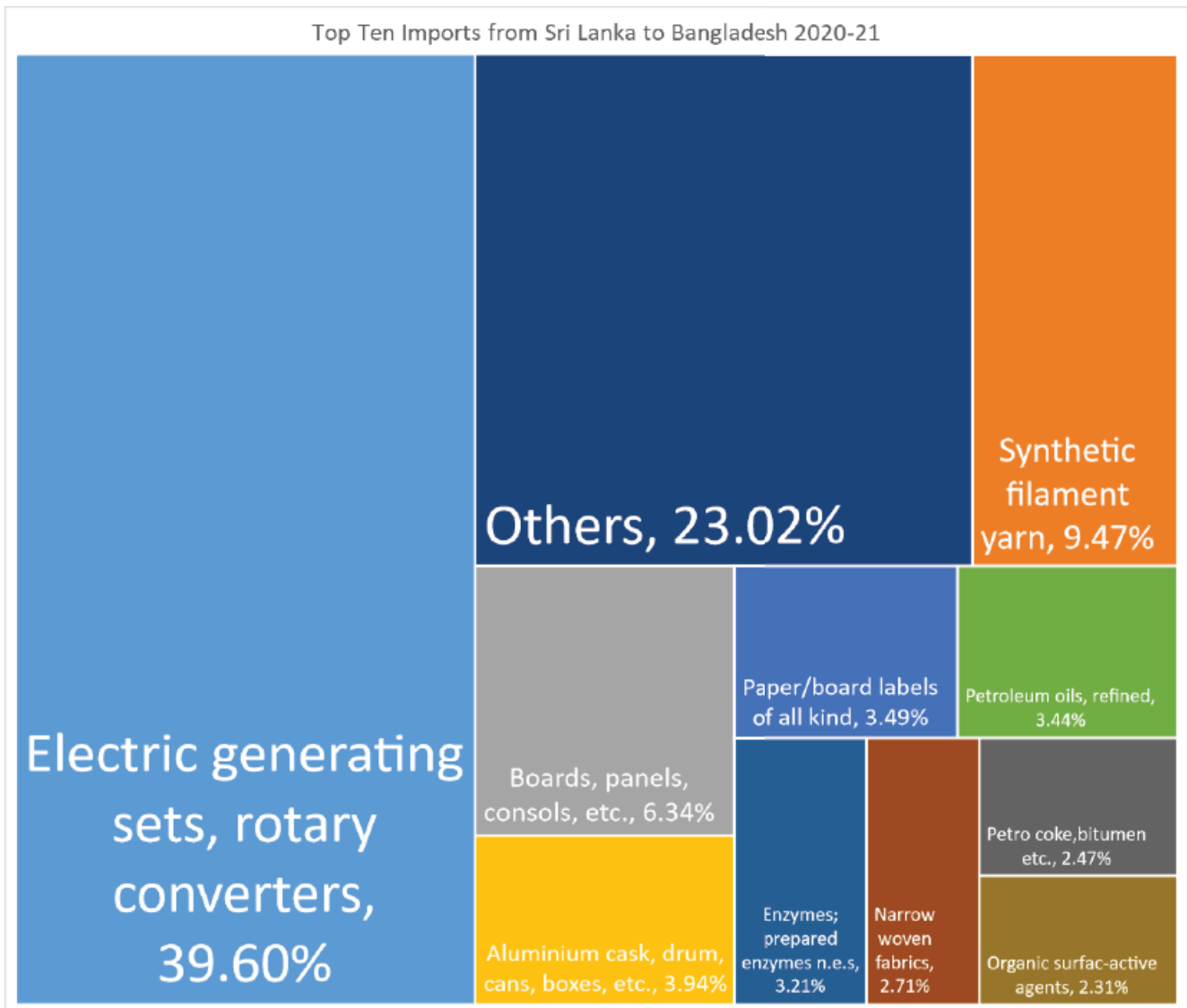


Figure 2 Top Imports from Sri Lanka to Bangladesh, Source: Bangladesh Bank

Between 2020 – 2021, top imports from Sri Lanka to Bangladesh consisted mainly of electric generating sets, aluminum cans/boxes, paper boards, yarn, narrow woven fabric, petroleum oil, and organic reactive agents, among others. The same products dominated the import basket from Sri Lanka between 2016 to 2021, as per the table below.

Top Ten Imports from Sri Lanka to Bangladesh from 2016 - 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
<b>Total</b>	<b>117,724,000</b>	<b>Total</b>	<b>54,714,000</b>	<b>Total</b>	<b>62,853,000</b>	<b>Total</b>	<b>47,774,000</b>	<b>Total</b>	<b>49,919,000</b>
850200: Electric generating sets, rotary converters	46,613,000	853700: Boards, panels, consols, etc.	6,765,000	271000: Petroleum oils, refined	5,657,000	271000: Petroleum oils, refined	4,288,000	520800: Woven fabrics of cotton, >= weg 85%+, > 200g/m.sq.	4,364,000
540200: Synthetic filament yarn	11,148,000	761200: Aluminium cask, drum, cans, boxes, etc.	4,812,000	480500: Other uncoated paper/paperboard	5,001,000	350700: Enzymes; prepared enzymes n.e.s	3,398,000	350700: Enzymes; prepared enzymes n.e.s	4,141,000
853700: Boards, panels, consols, etc.	7,462,000	271000: Petroleum oils, refined	3,994,000	761200: Aluminium cask, drum, cans, boxes, etc.	4,628,000	271000: Petroleum oils, refined	3,201,000	271000: Petroleum oils, refined	3,720,000
761200: Aluminium cask, drum, cans, boxes, etc.	4,642,000	350700: Enzymes; prepared enzymes n.e.s	3,676,000	350700: Enzymes; prepared enzymes n.e.s	3,708,000	480500: Other uncoated paper/paperboard	2,733,000	761200: Aluminium cask, drum, cans, boxes, etc.	3,695,000
482100: Paperboard labels of all kind	4,113,000	380900: Finishing agents dye carriers etc.	2,962,000	580600: Narrow woven fabrics	3,670,000	580600: Narrow woven fabrics	2,716,000	116217: Other made up cloth acceso & parts of garmit	2,601,000
271000: Petroleum oils, refined	4,044,000	482100: Paperboard labels of all kind	2,914,000	360900: Finishing agents, dye carriers etc.	3,014,000	340200: Organic surfac active agents	2,097,000	340200: Organic surfac active agents	1,872,000
350700: Enzymes; prepared enzymes n.e.s	3,780,000	540200: Synthetic filament yarn	2,757,000	470700: Recovered paper/paperboard	2,767,000	380900: Finishing agents, dye carriers etc.	2,096,000	871600: Trailer & semi-trailers;	1,795,000
580600: Narrow woven fabrics	3,192,000	480500: Other uncoated paper/paperboard	2,755,000	853700: Boards, panels, consols, etc.	2,397,000	116217: Other made up cloth acceso & parts of garmit	1,844,000	380900: Finishing agents, dye carriers etc.	1,770,000
271300: Petro coke, bitumen etc.	2,909,000	340200: Organic surfac-active agents	2,075,000	340200: Organic surfac-active agents	2,094,000	871600: Trailer & semi-trailers;	1,472,000	480500: Other uncoated paper/paperboard	1,764,000
340200: Organic surfac-active agents	2,716,000	580600: Narrow woven fabrics	1,673,000	482100: Paperboard labels of all kind	1,761,000	520800: Woven fabrics of cotton, >= weg 85%+, > 200g/m.sq.	1,265,000	853700: Boards, panels, consols, etc.	1,659,000

Table 5 Top Imports from Sri Lanka to Bangladesh, Source: Bangladesh Bank

In 2019, Sri Lanka’s exports totaled USD 16.4 million with textiles and apparel exports as the top export for the year at USD 5.3 billion mainly to USA and EU countries.<sup>15</sup> However, in 2020, Sri Lanka’s economy incurred heavy losses due to COVID-19, gravely impacting the FDI, following which, in the first eight months of 2021, the tourism sector suffered a loss of revenue of USD 3 billion.<sup>16</sup> Sri Lanka’s exports to Bangladesh rose in 2021 to USD 24 million from USD 10 million in 2000 whereas imports from Bangladesh have increased slowly from USD 4 million in 2000 to USD 89.32 million by 2021.<sup>17</sup>

### 3.2.2 Global Trade Volume

The following tables represent the top ten countries in terms of export for both Bangladesh and Sri Lanka for the years of 2021 and 2022. Top destinations for export from Bangladesh include USA, Germany, Britain, Spain, among others whereas top destinations for export from Sri Lanka include India, USA, Germany, India among others.

<b>Bangladesh</b>		
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 6 Top Export Destinations of Bangladesh, Source: EPB

<b>Sri Lanka</b>		
Country	2021 (in million US\$)	2022 (in million US\$)
US	3,210	2,580
UK	964	917
India	1,000	741
Germany	877	685
Italy	606	459
Netherlands	448	312 448
Belgium	350	307 350
China	491	266 491
Canada	251	251 364
UAE	220	220 312

Table 7 Top Export Destinations of Sri Lanka, Source: The observatory of Economic Complexity

<sup>15</sup> The Trade & Export Landscape of Sri Lanka 2019 /2020 - Sri Lanka EDB, “The Trade & Export Landscape of Sri Lanka 2019 /2020 - Sri Lanka EDB,” www.srilankabusiness.com, February 17, 2020, <https://www.srilankabusiness.com/blog/sri-lanka-export-trade-landscape-2019-2020.html>.

<sup>16</sup> Asian Development Bank. “How Can Sri Lanka Recover from COVID-19? By Promoting Integrated Rural Development - Kenichi Yokoyama | Asian Development Bank.” www.adb.org, October 12, 2021. <https://www.adb.org/news/op-ed/how-can-sri-lanka-recover-covid-19-promoting-integrated-rural-development-kenichi>.

<sup>17</sup> Nikhita Panwar, “Deepening Regional Cooperation: A Case for Strengthening Bangladesh-Sri Lanka Economic Relations,” The Lakshman Kadirgamar Institute, lki.lk, January 7, 2021, <https://lki.lk/publication/deepening-regional-cooperation-a-case-for-strengthening-bangladesh-sri-lanka-economic-relations/>.

## 4. Review and Analysis of Trade Agreements/Treaty

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 Sri Lanka were to move forward with the FTA which is under negotiation.

MoU on Economic Partnership				
Chapter	As stated, provision in the Agreement	Unchanged	New Inclusion/ Change	Drop
ARTICLE 1: OBJECTIVE	This Memorandum, based on mutual trust respect, benefit and equitable sharing of benefits between the Parties, envisages elevation of the multi-faceted economic ties between Bangladesh and Sri Lanka to higher levels.	Unchanged	N/A	N/A
ARTICLE 2: COOPERATION ON ECONOMIC PARTNERSHIP	<ol style="list-style-type: none"> <li>The parties commit to further strengthening economic engagements, including in the areas of trade, investment, finance, logistics and trans-shipment, tourism, etc. as well as cooperation between the relevant institutions, business and industry bodies/association, with a view to expanding trade and economic relations.</li> <li>In the interest of ensuring sustainable development and furthering economic inter-dependence between the two countries, the Parties commit to deepening and diversifying cooperation initially in trade and investment and the related sectors, namely high-end Apparel and Textiles, Pharmaceuticals, Information Technology and related knowledge industry, Religious and Eco Tourism, Food Processing, Gem and Jewelry and precious metal, ship and boat building, light engineering, electrical and electronic products, Agriculture and Agro-processing, Hospitality, Health management, Infrastructure development and construction, Printing and Packaging, Fisheries, Livestock and Floriculture, Horticulture, Aquaculture, Rubber plantation and industry, Plastic products, Cosmetics and Toiletries, Energy and Power, Renewable Energy and any other areas that the Parties may agree on. Both sides</li> </ol>	N/A	The two parties may also wish to cooperate in the area of Logistics as Colombo has been ranked the most efficient port in South Asia by World Bank and S&P Global Market Intelligence and Financial Services.	N/A

MoU on Economic Partnership			
Chapter	As stated, provision in the Agreement	Unchanged	New Inclusion/ Change
	<p>would work on making beneficial investment in respective Special Economic Zones, Industrial Parks, Hi-Tech Parks, etc.</p> <p>3. The Parties agree to take effective measures to create a conducive environment to further promote economic cooperation for which the measures shall <i>inter alia</i> include:</p> <ol style="list-style-type: none"> <li>a. promote sustainable increase and envelopment of trade, investment and finance between Bangladesh and Sri Lanka to their mutual benefit,</li> <li>b. further rationalization of tariff, and removal of non-tariff barriers,</li> <li>c. cooperates and coordinate between the relevant promotional and developmental Agencies of government, Organizations, Bodies, Institutions to promote trade, investment, finance and tourism between the two countries,</li> <li>d. improve the efficiency, quality assurance and competitiveness of respective export-oriented manufacturing sectors by promoting conditions for fair competition, innovation and for mutually beneficial business collaboration,</li> <li>e. cooperate and use their best endeavors to promote trade and business relations between Bangladesh and Sri Lanka,</li> <li>f. share such information as is publicly available on important economic and trade issues of respective economies,</li> <li>g. to facilitate and promote more collaboration between and among sector parties of both the countries in various forms and modes.</li> </ol> <p>4. In order to expand bilateral economic and trade ties on a sustainable basis and with a long-term perspective, the Parties will establish effective mechanisms for interaction between Bangladeshi and Sri Lankan entities. Specific measures may include, but not limited to:</p>		
			Drop

MoU on Economic Partnership			
Chapter	As stated, provision in the Agreement	Unchanged	New Inclusion/ Change
	<p>a. Establish institutional linkages between respective governments by encouraging cooperation between the relevant Ministries/Agencies/Organizations/Institutions;</p> <p>b. Enhance the quality and international competitiveness of their goods by promoting cooperation between the institutions of quality assurance, testing and standardization and on new technologies and innovation;</p> <p>c. Encourage greater cooperation between the Chambers of Commerce and industries/National Trade Promotion bodies of both countries;</p> <p>d. Establish regular reciprocal exchange of economic and commercial information, market research reports, trade directories and any other publications in the public domain which may enable further appreciation and analyses of market and relevant aspects regarding foreign trade, existing facilities, procedures for the investors of the two countries;</p> <p>e. Take measures to increase interaction between the manufactures/producers of the two countries and facilitate delegations/participation at trade fairs/exhibitions/similar events organized by the two Parties, organization of Buyer Seller Meetings (B2B Meetings), <i>Inter Alia</i> at the Trade fairs/Exhibitions or similar events, and facilitate establishment of facilities by businesses of both countries;</p> <p>f. Facilitate mutual exchange of information and publication to develop trade relations between the two countries and, exchange of expert, research, study visits and training programs in all related sectors;</p> <p>g. Undertake joint activities for promotion of trade, investment, finance, logistics, skill development, tourism, etc.;</p> <p>h. Capacity building in areas of focus by other Partner with comparative advantage, with Special emphasis on Textile and</p>		Drop



MoU on Economic Partnership			
Chapter	As stated, provision in the Agreement	Unchanged	New Inclusion/ Change
	<p>Apparel, Pharmaceuticals, Logistics and Shipping, ITES, Agriculture, and allied sectors, health care and management reflecting on the priorities of each country which shall be discussed periodically between the two sides;</p> <p>i. To Implement programs with the involvement of private sector of both countries in the identified potential areas;</p> <p>5. Taking the above into account and also the range of Agreements, Memoranda of Understanding and the other instrument between the two countries, under this Framework, Bangladesh and Sri Lanka agree that:</p> <p>a. In moving towards a Bilateral FTA, a joint study would be launched no later than August 2017. The two sides would convene respective teams based on agreed Terms of Reference <i>inter alia</i> drawing rapid assessment of existing spread of engagements between the two countries and future potential, identifying list of products for duty waiver/reference, etc.;</p> <p>b. The joint study will work in a time-bound manner drawing on the agreed timeline; and would conclude their work making concrete recommendations on the specifics; and immediately begin negotiations to finalize the FTA and for its eventual signing of both countries by end of 2017 and expeditiously proceed on its implementation.</p>		
ARTICLE 3: IMPLEMENTATION MECHANISM	<p>a. Implementation of this result-oriented Economic Partnership would be vested with a Committee at the Ministerial level. Both sides would be represented by the respective Minister responsible for international trade/commerce. The committee would initially convene annually, and subsequently biannually, as would be agreed mutually; and</p>	N/A	<p>A monitoring group within the joint working group may be formed to evaluate the implementation of the provisions of this MoU especially Article 2. The</p>
			N/A

MoU on Economic Partnership			
Chapter	As stated, provision in the Agreement	Unchanged	New Inclusion/ Change
	<p>b. The Committee will consider formation of sector-specific Joint Working Group(s), with senior-level representation from the relevant authorities/stakeholders.</p>		<p>current agreement between Sri Lanka and Bangladesh is quite detailed, however, it is important to assess and understand whether the issues have been implemented.</p>
ARTICLE 4: CONFIDENTIALITY OF INFORMATION	<p>Each party to this Memorandum shall ensure its best efforts to keep all matters and aspects in strict confidence and shall bind all its employees and agents to keep strict confidence, all commercial and technical information in whatever form acquired by it (directly or indirectly) from or concerning any other party under this Memorandum (<i>hereinafter called 'Confidential Information'</i>).</p> <p>No Party shall utilize such confidential information for any purposes other than those contemplated in this Memorandum. Further no Party shall at any time disclose any Confidential Information to any third party for any purposes other than those contemplated in this Memorandum without the prior written consent of other Party.</p>	Unchanged	N/A
ARTICLE 5: VALIDITY	<p>This Memorandum shall enter into force immediately upon signature and will be valid for a period of five [5] years and thereafter shall continue to remain in force until either Party notifies the other, through diplomatic channels, by serving six (6) months' prior notice, in writing, about its termination without prejudice to anything done there under prior to such termination.</p>	Unchanged	N/A
ARTICLE 6:	<p>Any further Cooperation, undertaking shall be by the two Parties agreed upon by addendum to this Memorandum signed by the two Parties.</p>	Unchanged	N/A

MoU on Economic Partnership			
Chapter	As stated, provision in the Agreement	Unchanged	New Inclusion/ Change
FURTHER COOPERATION			Drop
ARTICLE 7: AMENDMENTS	This memorandum may be amended or supplemented in writing by mutual agreement of the parties. This Memorandum and its supplementary amendments shall enter into force on the date of signature.	Unchanged	N/A
ARTICLE 8: SETTLEMENT OF DISPUTES	All differences arising in the interpretation and/implementation of the provision of this Memorandum shall be settled amicably through mutual consultations between the Parties.	Unchanged	N/A

MoU between EPB and EDB			
Chapter	As stated, provision in the Agreement	Unchanged	New Inclusion/ Change
Article - 1	The Parties shall exchange technical and other expertise to facilitate analysis of business conditions and promote trade between Sri Lanka and Bangladesh with the aim of	N/A	A joint team comprising of representatives from EPB and EDB may be formed to examine the implementation of these agreements, propose
			Drop

Table 8 MoU on Economic Partnership

MoU between EPB and EDB				
Chapter	As stated, provision in the Agreement	Unchanged	New Inclusion/ Change	Drop
	proposing appropriate measures to ensure the optimum development of trade relations between the two countries.		amendments as and when necessary, and find ways for collaboration. This will ensure engagement of experts from both countries to regularly interact, assess level of implementation, and suggest recommendations frequently to enhance the Lanka-Bangla trade relation.	
Article - 2	The Parties shall undertake specific actions to facilitate investments through the identification of sectors and areas of mutual interest and promote actions aimed at the improvement of economic, commercial and business cooperation between companies of the respective countries as well as encourage the establishment of joint ventures.	Unchanged	N/A	N/A
Article - 3	The Parties shall facilitate mutual exchange of information and publications concerning the development of trade relation between the two countries. They agree to establish a regular reciprocal exchange of economic and commercial information, market research reports, trade directories and any other publications in the public domain which may enable an easier analysis of market data and relevant information regarding foreign trade, existing facilities and procedures for the investors of the two countries.	N/A	Annual or bi-annual timelines may be set for regular discussion between the two parties. Frequent engagement between trade specialists from both countries would help to address trade barriers and difficulties easily.	N/A

MoU between EPB and EDB				
Chapter	As stated, provision in the Agreement	Unchanged	New Inclusion/ Change	Drop
Article - 4	The Parties shall facilitate reciprocal assistance in the organization of trade missions, trade fairs, exhibitions including whenever possible offer of appropriate venue to either party for holding exhibition/fairs seminars, training courses or other promotional or informative activities, facilitate to organize Buyer Seller Meetings (B2B Meeting) at the venues of trade fairs exhibitions, facilitation in visa procedures for government officials and businessmen to be agreed upon provided these activities are compatible with priorities of the trade promotion programs such party and are in accordance with domestic laws & regulations.	Unchanged	N/A	N/A
Article - 5	The Parties shall regularly organize meetings to be held alternatively in Sri Lanka and Bangladesh to evaluate the implementation of the provisions of the MoU and determine the most appropriate measures for its improvement.	N/A	Annual or bi-annual timelines may be set for regular interactions between the two parties for updates, and evaluations. Frequent engagement between trade specialists from both countries would help to address trade barriers and difficulties easily.	N/A
Article - 6	The Parties agree to cooperate in organizing training programs on trade promotion activities and techniques and exchanging experts for market diversification, product development and trade opportunities in each country.	N/A	A monitoring committee may be formed within the joint team to oversee transfer of knowledge in the form of training programs.	N/A

MoU between EPB and EDB				
Chapter	As stated, provision in the Agreement	Unchanged	New Inclusion/ Change	Drop
Article - 7	<p>The Parties shall treat as confidential all commercial information exchanged for the exclusive use of the Parties. Each party of this MoU shall use its best efforts to keep in strict confidence and shall bind all of its employees and agents to keep in strict confidence, all commercial and technical information in whatever form acquired by it (whether directly or indirectly) from or concerning any other party under this MoU or in connection with the performance of the MoU (herein after called "Confidential Information"). No Party shall utilize such confidential information for any purposes other than those contemplated in this MoU. Further, no Party shall at any time disclose any Confidential Information to any third party for any purposes other than those contemplated in this MoU without the prior written consent of the other Party.</p>	Unchanged	N/A	N/A
Article - 8	<p>Any omission or difference or dispute arising shall be resolved by mutual consultation between the Parties hereto and both Parties hereby undertake and resolve to act reasonably and diligently in pursuance of resolving such omission or differences or dispute. However, any litigation if</p>	Unchanged	N/A	N/A

MoU between EPB and EDB				
Chapter	As stated, provision in the Agreement	Unchanged	New Inclusion/ Change	Drop
	unavoidable shall be dealt with under the law of the host country.			
Article - 9	This MoU shall enter into force upon signature and will be valid for a period of 05 (five) years and thereafter shall continue to remain in force until either Party notifies the other through diplomatic channels, by giving six months' prior written notice of its intention to Terminate the MoU without prejudice to anything done there under prior to such termination.	Unchanged	N/A	N/A
Article - 10	The title rights, copy right and all rights of whatever nature of any material compiled and performed in the course of the operation of the provisions of this MoU shall be vested exclusively in the Parties concerned.	Unchanged	N/A	N/A
Article - 11	Any further Cooperation, undertaking shall be agreed upon by addendum to this MoU signed by the two Parties.	Unchanged	N/A	N/A

Table 9 MoU between EPB and EDB

## 5. Top Products for Trade Diversification

A thorough study of Bangladesh’s export priorities, export strengths, Sri Lanka’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. Pharmaceuticals
3. Pharmaceutical, and reagents
4. Light rubberized knitted fabric
5. Coal Briquettes
6. Refine Petroleum
7. Electric and electronics (televisions, monitors, refrigerators, compressors)
8. Plastics & rubbers
9. Vegetable products
10. Edible foodstuff

Top Ten Imports of Sri Lanka from the World <sup>18</sup>						
HS4	Product	Bangladesh's Export to Sri Lanka (in million US\$)	% of Total Export from Bangladesh to Sri Lanka	Bangladesh's Export to the world (in million US\$)	Total Addressable Market (in million US\$)	% of Total Import from the World to Sri Lanka
2710	Refined Petroleum	0.000	0.00%	20.711	1,274.026	7.86%
2709	Crude Petroleum	0.000	0.00%	0.000	384.150	2.37%
3004	Medicament	17.609	37.21%	140.225	413.299	2.55%
6002	Rubberized Knitted Fabric	0.000	0.00%	6.201	721.589	4.45%
8525	Broadcasting Equipment	0.000	0.00%	0.009	310.694	1.92%
1001	Wheat	0.000	0.00%	0.000	299.965	1.85%
402	Milk	0.000	0.00%	0.241	304.919	1.88%
1701	Raw Sugar	3.774	7.97%	0.002	259.118	1.60%
2711	Petroleum Gas	0.000	0.00%	0.034	256.118	1.58%
2701	Coal Briquettes	0.000	0.00%	2.563	170.684	1.05%

Table 10 Comparison of Exports to Sri Lanka and the World, Source: Export Promotion Bureau

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:

<sup>18</sup> The table includes: Bangladesh's export volume to Sri Lanka (in millions of US\$) of the ten top imports (of Sri Lanka from the world), % Of the total export from Bangladesh to Sri Lanka 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 Sri Lanka, and % Share of these ten products in the total share of Sri Lanka's imports.



- Rubberized knitted fabric is one of Sri Lanka’s top imports from the world, however, Bangladesh is not exporting this product to Sri Lanka whereas the country exported over US\$ 6 million worth of this product in FY21. Therefore, there is a good possibility for Bangladesh to export this product to Sri Lanka as the total addressable market is valued at roughly 722 million US\$.
- Similarly, Bangladesh exported over US\$ 2.5 million worth of coal briquettes to the world. This is the case since Bangladesh has a nominal reserve of coal. As of March 2021, total coal production of Bangladesh was 29,116.08 tons less than in February 2021.<sup>19</sup> As of 2021, Bangladesh has canceled the construction of ten coal-fired power stations and has plans of importing hydropower and LNG from Nepal and Bhutan.<sup>20</sup> The total addressable market for coal briquettes in Sri Lanka is around 171 million US\$ and takes up about 1% of Sri Lanka’s imports. Bangladesh may try tapping into the market, given that there are nominal reserves of coal.
- Bangladesh can also export refined petroleum to Sri Lanka as it is the most imported item in Sri Lanka and has a high demand (total addressable market stands at 1274 million US\$). In FY21, Bangladesh exported over US\$ 20 million worth of refined petroleum to the world. Though Bangladesh does not produce petroleum, it imports crude petroleum, primarily from Thailand,<sup>21</sup> and produces refined petroleum through its sole refinery, Eastern Refinery Limited (ERL), a subsidiary of the Bangladesh Petroleum Corporation. ERL can annually process 1.3 million metric tons of crude oil.<sup>22</sup>

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 of the products in Sri Lanka’s markets and understand where the current trade volume stands for these products.

Bangladesh’s Priority Sectors (as per Export Policy 2021 – 2024)							
HS4	Product	Bangladesh’s Export to Sri Lanka (in million US\$)	% of Total Export to Sri Lanka	Bangladesh’s Export to the world (in million US\$)	% of Total Export from Bangladesh to the World	Total Addressable Market	% of Total Import from the World to Sri Lanka
<b>Textiles</b>							
6109	T-shirts, singlets	1.249	2.64%	6,615.483	17.07%	6.540	0.04%

<sup>19</sup>Hydrocarbon Unit, Energy and Mineral Resources Division – Government of Bangladesh, “Gas and Coal Reserve & Production,” March, 2021, [https://hcu.portal.gov.bd/sites/default/files/files/hcu.portal.gov.bd/monthly\\_report/e8614ea1\\_53e1\\_4e48\\_b72b\\_66ef7d446fab/2021-06-14-15-46-a9d29e281c89f7dc1a9790760794c56f.pdf](https://hcu.portal.gov.bd/sites/default/files/files/hcu.portal.gov.bd/monthly_report/e8614ea1_53e1_4e48_b72b_66ef7d446fab/2021-06-14-15-46-a9d29e281c89f7dc1a9790760794c56f.pdf).

<sup>20</sup> 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.>

<sup>21</sup> OEC - The Observatory of Economic Complexity. “Crude Petroleum in Bangladesh,” [oec.world](https://oec.world/en/profile/bilateral-product/crude-petroleum/reporter/bgd), Accessed July 6, 2022, <https://oec.world/en/profile/bilateral-product/crude-petroleum/reporter/bgd>.

<sup>22</sup> Petroleum Products – Banglapedia, “Petroleum Products – Banglapedia,” [en.banglapedia.org](https://en.banglapedia.org/index.php/Petroleum_Products), Accessed July 6, 2022, [https://en.banglapedia.org/index.php/Petroleum\\_Products](https://en.banglapedia.org/index.php/Petroleum_Products).

Bangladesh's Priority Sectors (as per Export Policy 2021 – 2024)							
HS4	Product	Bangladesh's Export to Sri Lanka (in million US\$)	% of Total Export to Sri Lanka	Bangladesh's Export to the world (in million US\$)	% of Total Export from Bangladesh to the World	Total Addressable Market	% of Total Import from the World to Sri Lanka
6104	Women's or girl's dresses	0.397	0.84%	2,026.833	5.23%	4.020	0.02%
6110	Pullovers, cardigans	0.137	0.29%	4,051.830	10.45%	3.513	0.02%
6307	Textile	0.000	0.00%	116.932	0.30%	31.749	0.20%
6304	Furnishing articles	0.000	0.00%	8.875	0.02%	3.386	0.02%
6210	Garments made up of textile felts	0.000	0.00%	378.420	0.98%	3.869	0.02%
6211	Men's, boys' garments	0.000	0.00%	310.887	0.80%	4.602	0.03%
6111	Babies Garments	0.000	0.00%	546.111	1.41%	4.873	0.03%
5303	Jute and other textiles	0.000	0.00%	138.148	0.36%	0.205	0.00%
5209	Fabrics of cotton	0.223	0.47%	53.439	0.14%	179.913	1.11%
5211	Cotton Fabrics	0.036	0.08%	17.059	0.04%	49.294	0.30%
<b>Mechanical appliances and electrical machinery</b>							
8415	Air Conditioner	0.000	0.00%	6.231	0.02%	46.480	0.29%
8528	Television, monitors, projectors	0.000	0.00%	6.439	0.02%	66.972	0.41%
8418	Refrigerator	0.000	0.00%	12.268	0.03%	47.708	0.29%
8414	Compressors for refrigerating equipment	0.000	0.00%	5.438	0.01%	56.901	0.35%
<b>Vehicles, aircraft, vessels and associated transport equipment</b>							
8711	Motorcycles	0.000	0.00%	0.152	0.00%	47.553	0.29%
8712	Bicycles, other cycles	0.000	0.00%	130.886	0.34%	6.453	0.04%
8714	Bicycle parts	0.182	0.38%	12.170	0.03%	53.784	0.33%
<b>Miscellaneous manufactured articles</b>							
9403	Furniture parts	0.009	0.02%	18.361	0.05%	16.733	0.10%
<b>Pharmaceutical Products</b>							
3004	Medicaments	17.609	37.21%	140.225	0.36%	413.299	2.55%

Bangladesh's Priority Sectors (as per Export Policy 2021 – 2024)							
HS4	Product	Bangladesh's Export to Sri Lanka (in million US\$)	% of Total Export to Sri Lanka	Bangladesh's Export to the world (in million US\$)	% of Total Export from Bangladesh to the World	Total Addressable Market	% of Total Import from the World to Sri Lanka
3002	Blood, toxins, cultures	0.000	0.00%	0.276	0.00%	60.449	0.37%
3003	Medicaments formulated	2.951	6.24%	26.575	0.07%	7.179	0.04%
3005	Medical dressings	0.000	0.00%	0.048	0.00%	4.133	0.03%
<b>Miscellaneous manufactured articles</b>							
9404	Bedding products	0.006	0.01%	31.431	0.08%	2.109	0.01%
<b>Prepared foodstuffs</b>							
2106	Food preparation	0.000	0.00%	0.767	0.00%	37.578	0.23%
2202	Non-alcoholic beverages	0.000	0.00%	29.407	0.08%	2.688	0.02%
2009	Fruits Juices	0.570	1.20%	61.693	0.16%	3.719	0.02%
<b>Animal or vegetable fats and oils</b>							
1507	Soya-bean oil crude	0.000	0.00%	19.166	0.05%	0.247	0.00%
<b>Vegetable Products</b>							
1006	Rice	0.000	0.00%	13.799	0.04%	10.136	0.06%
0701	Potatoes	3.774	7.97%	50.782	0.13%	40.597	0.25%
0713	Shelled Legumes	0.000	0.00%	0.011	0.00%	152.446	0.94%
0810	Fruits	0.000	0.00%	4.063	0.01%	3.642	0.02%
0710	Frozen vegetable	0.000	0.00%	4.767	0.01%	1.515	0.01%
0711	Preserved Vegetables	0.000	0.00%	55.881	0.14%	0.259	0.00%
<b>Plastics and Rubbers</b>							
3901	Ethylene Polymers	0.000	0.00%	4.872	0.01%	123.692	0.76%
3920	Plastic Sheets/Films/Foils	0.211	0.45%	7.098	0.02%	75.712	0.47%
3906	Acrylic polymers	0.005	0.01%	5.026	0.01%	16.310	0.10%
3908	Primary Polyamides	0.000	0.00%	2.989	0.01%	2.580	0.02%
3904	Polyvinyl chloride	0.000	0.00%	1.736	0.00%	53.448	0.33%

Bangladesh's Priority Sectors (as per Export Policy 2021 – 2024)							
HS4	Product	Bangladesh's Export to Sri Lanka (in million US\$)	% of Total Export to Sri Lanka	Bangladesh's Export to the world (in million US\$)	% of Total Export from Bangladesh to the World	Total Addressable Market	% of Total Import from the World to Sri Lanka
<b>Footwear</b>							
6402	Footwear, outer soles	0.021	0.04%	93.567	0.24%	6.472	0.04%
6404	Textile Footwear	0.000	0.00%	220.305	0.57%	2.498	0.02%
6403	Sports footwear	0.195	0.41%	569.882	1.47%	4.659	0.03%
<b>Live animals</b>							
0301	Fish, live	0.000	0.00%	6.321	0.02%	0.969	0.01%

Table 11 Comparison of Existing and Possible Exports to Sri Lanka and the World, Source: Export Promotion Bureau

From the table above, the following deductions can be made

- Sri Lanka has good demand for electric and electronic appliance imports (televisions, monitors, refrigerators, compressors) as the total addressable market for just a couple of mechanical and electrical products as noted in the table above is roughly US\$ 215 million. Bangladesh is exporting these products to neighboring countries such as Nepal, and there is an opportunity for Bangladesh to expand machinery exports to Sri Lanka too. Moreover, electrical equipment is one of Sri Lanka's chief imports.
- Bangladesh may also expand trade by exporting plastics and rubbers to Sri Lanka as the country seems to have demand for these products (total addressable market size is roughly 270 million US\$). In FY21, Bangladesh exported over 115 million worth of plastic and rubber as per the Export Promotion Bureau. Sri Lanka already imports most of its plasticizers from Bangladesh which includes products like buttons covered in textiles etc. Sri Lanka is the top importer of Plasticizer from Bangladesh, with a total of 349 shipments from Bangladesh to Sri Lanka by 62 buyers in 2021.<sup>23</sup>
- 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.

<sup>23</sup> Volza, "Plasticizer Imports in Sri Lanka from Bangladesh – Overview," Accessed July 6, 2022, <https://www.volza.com/imports-sri-lanka/sri-lanka-import-data-of-plasticizer-to-bangladesh>.

## 5.1 Revealed Comparative Advantage

The following table shows Bangladesh's bilateral RCA with Sri Lanka.

HS Code	Product	Bangladesh's Export to Sri Lanka (in million US\$)	Export of commodity from the world to Sri Lanka (in million US\$)	RCA <sup>24</sup>
<b>Textiles</b>				
52	Cotton	1.481	655.941	1.08
53	Vegetable textile fibers	1.107	26.713	19.75
61	Apparel and clothing accessories	0.382	67.635	2.69
62	Apparel and clothing accessories; not knitted or crocheted	0.273	156.006	0.83
63	Textiles, made up articles	1.695	32.006	25.24
<b>Mechanical appliances and electrical machinery</b>				
84	Machinery and mechanical appliances	0.120	1433.114	0.04
85	Electrical Machinery (recorders, television)	0.821	1323.727	0.30
<b>Vehicles, aircraft, vessels and associated transport equipment</b>				
87	Vehicles	0.252	1326.858	0.09
<b>Miscellaneous manufactured articles</b>				
94	Furniture, bedding, mattresses	0.001	90.873	0.00
<b>Pharmaceutical Products</b>				
30	Pharmaceutical products	21.612	449.809	22.90
<b>Prepared foodstuffs</b>				
21	Miscellaneous edible preparations	0.397	72.530	2.61
20	Preparations of vegetables, fruits, nuts or other parts of plants	0.214	16.926	6.02
22	Beverages, spirits and vinegar	0.000	74.087	0.00
<b>Animal or vegetable fats and oils</b>				
15	Animal, vegetable or microbial fats and oils	0.000	124.540	0.00
<b>Vegetable Products</b>				
7	Vegetable and certain roots and tubers	0.719	306.220	1.12
8	Fruits and nuts	0.000	66.246	0.00
10	Cereals	0.020	361.591	0.03
<b>Plastics and Rubbers</b>				
39	Plastics and articles thereof	0.894	714.131	0.60
64	Footwear and parts of such articles	0.043	30.351	0.67
<b>Live animals</b>				
3	Fish and crustaceans	N/A	139.644	N/A

Table 12 Bilateral RCA with Sri Lanka, Source: UN Comtrade Data (2019)

<sup>24</sup> 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.

From the table above:

- Bangladesh has a significantly high RCA value in jute product exports, pharmaceutical products, and textiles. These products are already occupying the top exports of Bangladesh to Sri Lanka.
- Bangladesh also has an RCA value higher than 1 for vegetable products. As per UN Comtrade Database 2019, Bangladesh exported 0.7 million US\$ worth of vegetable products to Sri Lanka. As per the Export Promotion Bureau, between 2020 and 2021, over 3 million US\$ worth of vegetable products were exported to Sri Lanka. Therefore, it seems likely that Bangladesh can try to export more vegetable products to Sri Lanka.
- Similarly, Sri Lanka imported 0.7 million US\$ worth of edible foodstuff, and Bangladesh has an RCA of 2.61 in this HS 2 category, showcasing an export strength for Bangladesh.

The following table shows Bangladesh’s bilateral RCA with Sri Lanka of the top 10 exports from Bangladesh.

HS Code	Product	Bangladesh Top Exports to Sri Lanka (in million US\$)	Export of the commodity of the world to Sri Lanka (in US\$)	RCA
300490	Other medicaments of mixed or unmixed products	19.72	359.34	26.16
620462	Women's or girls' trousers	0.05	4.77	4.85
300420	Medicaments of other antibiotics	1.12	15.07	35.48
600192	Pile fabrics	0.01	14.46	0.26
300439	Medicaments	0.02	3.53	2.34
070190	Other potatoes, fresh or chilled	0.72	33.95	10.09
070110	Seed potatoes	0.00	1.75	NA
300320	Medicaments of other antibiotics, not for retail sale	0.56	0.64	414.97
300390	Other medicaments	0.00	1.12	NA
610910	T-shirts, singlets	0.10	5.41	9.21

Table 13 RCA of the top 10 Bangladeshi Export products to Sri Lanka, 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 except for manmade fiber. Even though man-made fiber (HS 600192) is a common item exported from Bangladesh, the same fiber exported to Sri Lanka from Bangladesh is quite low in value – showing a low RCA value. Export products such as medicaments and knit products have greater export potential due to a high RCA value.

## 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 Sri Lanka.

Country	Stakeholder
Bangladesh	Ministry of Commerce (MoC)
	National Board of Revenue (NBR)
	Ministry of Law, Justice and Parliamentary Affairs
Sri Lanka	Department of Commerce
	Ministry of Finance

Table 14 Trade Policy Organization

In Bangladesh, the focal point for trade-related affairs is MoC along with NBR under the Ministry of Finance, taking a lead role in tariff setting to meet national revenue targets. Tariff is still Bangladesh's key trade policy instrument, and a similar policy formulation structure can be seen in Sri Lanka with the Department of Commerce under the Ministry of Industry and Commerce taking a lead in trade-related affairs while the Ministry of Finance deals with tariffs. The following table gives a detailed look into both Bangladesh and Sri Lanka's principal trade policymakers:

Country	Stakeholder Group	Stakeholder Interest	Mandate
Bangladesh	Ministry of Commerce (MoC)	Focal point for bilateral, regional and multilateral trade negotiations. Various agencies under the MoC oversee the implementation of trade related policies, regulations and remedies such as the Bangladesh Trade and Tariff Commission and the Export Promotion Bureau (EPB).	Takes lead role in the formulation, implementation and coordination of policies and activities related to international trade
	National Board of Revenue (NBR)	Makes decision on the level of tariffs, para- tariffs, and other duties through pre-budget consultation process and is focused on duty collection and revenue.	Takes lead role in tariff setting
	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
Sri Lanka	Department of Commerce, Ministry of Industry and Commerce	Coordination and integration of Sri Lanka's bilateral, regional and multilateral trade policy objectives and their implementation.	In charge of developing, implementing, and overseeing policies and strategies relating to international commerce, industrial development,

Country	Stakeholder Group	Stakeholder Interest	Mandate
			and investment, especially, RTAs.
	Trade and Investment Policy Department, Ministry of Finance	Fostering a trade and investment friendly environment to facilitate international economic integration for inclusive development. <sup>25</sup>	Maintenance of industrial friendly tariff regime, implementation of competitive tariff regime under trade agreements, and promotion of Sri Lanka as preferred FDI destination in the region.
	Ministry of Development Strategies and International Trade	Monitor progress on trade-related policies.	Development of trade, investment and related policies. <sup>26</sup>

Table 15 Policy Formulation Stakeholders

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. On the other hand, in the case of Sri Lanka, Department of Commerce, headed by the Director General of Commerce, is responsible for trade negotiations, foreign trade promotion, trade policy formulation, implementation and promotion of multilateral trade affairs, bilateral trade relations, and regional cooperation<sup>27</sup>. Moreover, the Ministry of Development Strategies and International Trade is responsible for the monitoring and formulation of trade and investment policies.

**There are institutional weaknesses when it comes to trade negotiations and management. 40% of the KII respondents have stated that there is a lack of skilled negotiators, and trade experts, and no retention of institutional memory as government officials get rotated between various ministries. Development of strong trade negotiators and effective trade bodies is crucial, and professional training and capacity building can help in this regard.**

A stakeholder analysis of mandates and interests has revealed a gap in understanding and objectives between organizations responsible for trade policy formulation. NBR has a mandate to investigate trade agreements, and concessions but only from a customs revenue gain/ loss point of view while MoC is responsible for looking at trade arrangements from a holistic point of view. Differences in mandates and expectations of the trade negotiating and harmonization agencies have led to coordination and implementation gaps. **About 40% of the KII respondents have stated that there is a lack of coordination and gaps in the harmonization process when it comes to trade policy formulation, management, and negotiation.**<sup>28</sup>

<sup>25</sup>Ministry of Finance, Economic Stabilization and National Policies, "Department of Trade and Investment Policies", Accessed July 6, 2022. <https://www.treasury.gov.lk/web/department-of-trade-and-investment-policies/section/responsibilities>

<sup>26</sup> World Trade Organization, "Trade Policy Review- Report by the Secretariat-Sri Lanka", wto.org, Accessed 8 July 2022. [https://www.wto.org/english/tratop\\_e/tpr\\_e/s347\\_e.pdf](https://www.wto.org/english/tratop_e/tpr_e/s347_e.pdf)

<sup>27</sup> Department of Commerce, 'Overview', doc.gov.lk, Accessed April 4, 2022.

[http://www.doc.gov.lk/index.php?option=com\\_content&view=article&id=1&Itemid=130&lang=en](http://www.doc.gov.lk/index.php?option=com_content&view=article&id=1&Itemid=130&lang=en)

<sup>28</sup> The sample size for KII for the first phase of study involving countries Nepal, Bhutan, Sri Lanka, and South Korea is 20 participants. This number represents responses received from 20 participants.



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

Sri Lanka's National Export Strategy (NES) 2018-2022 was launched on July 19, 2018, in coordination with National Trade Policy, aims to improve the capacity of the enterprises to export and compete in the foreign market. It was launched to attain a share in the global market with a goal of earning \$28 billion in export revenue by 2022. This export strategy is an immediate target for the "Vision 2025" of Sri Lanka, wherein, it aims to graduate into an upper-middle income country. The following are the primary agendas of the NES, Sri Lanka:

- Encourage the development of new trade areas.
- Lay out conditions for existing ventures to increase trade, inclining toward producing new abilities locally.
- Motivate the SME sector to export by facilitating regulatory policy and designated support.
- Enable Sri Lanka to turn into a trade hub, which will draw in foreign investment to the nation.
- Smooth out legal and administrative systems, decreasing bureaucracy across organizations.
- Ensure the inclusion of regions by connecting all possible initiatives to the local production centers.

The E-Marketplace under Sri Lanka's EDB is a virtual promotional tool which brings together international buyers, distributors, and agents and upon registration, provides potential exporters with the opportunity to showcase their products and businesses in order to increase export sales<sup>29</sup>. Even though Bangladesh has a National Trade Portal, this is a good practice that may be utilized in Bangladesh.

In the case of Bangladesh, the Export Policy, 2021-2024, in effect from March 23, 2022, plans to attain an annual export profit of US\$ 80 billion between the years 2021-2024. With the key focus on post-LDC-Graduation in 2026, the fourth industrial revolution, the effect of COVID-19 on the export sectors, and innovation for export diversification. The Policy centers around helping exports by taking advantage of 14 areas of high priority and potential. For new commodities to be added to the list of current products, it has to be a well-promoted product, at par with international standards to attract foreign traders. Exporters can likewise take a loan up to 90% of the sum expressed in the affirmed agreement.<sup>30</sup>

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<sup>29</sup> Sri Lanka Export Development Board, "EDB EMARKETPLACE", [srilankabusiness.com](https://www.srilankabusiness.com), Accessed 9 April, 2022.

<https://www.srilankabusiness.com/edb/online-trading-platform.html>

<sup>30</sup> The Financial Express, "Bangladesh's New Export Policy Attaches Highest Priority to 14 Sectors," The Financial Express, [thefinancialexpress.com.bd](https://thefinancialexpress.com.bd), Accessed June 29, 2022, <https://thefinancialexpress.com.bd/trade/bangladeshs-new-export-policy-attaches-highest-priority-to-14-sectors-1648435929>.

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 range from 4 – 20 percent. Under the provisions of the Value Added Tax Act, 1991, and the Customs Act, 1969, all duties and taxes paid on inputs/ raw materials used for the manufacturing of exported goods is subject to refund. Export potential sectors<sup>31</sup> in Bangladesh 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.

Sri Lanka offers a number of incentives to exporters on a certain goods, such as exemption of customs duty, exemption of ports and airport development levy, reduced corporate income tax, vat deferment facilities, accelerated capital allowance on depreciable assets, and tax concessions<sup>32</sup>.

### 6.3 Export Priority Sectors

The following table states products prioritized by Sri Lanka and Bangladesh Export Policy:

Priority Exports Sri Lanka Trade Policy, 2016	Bangladesh Export Policy
i. Textiles and garments	i. denim, man-made fiber
ii. Tea	ii. garment accessories
iii. Spices	iii. pharmaceuticals
iv. Gems	iv. plastic products,
v. Coconut products	v. shoes (both leather and synthetic)
vi. Rubber	vi. jute and agro products
vii Fish	vii. light engineering
viii. Cotton	ix. shipbuilding
	x. ocean- going trawler building.
	xi. furniture
	xii. home textiles and home décor
	xiii. luggage
	xiv. active pharmaceutical ingredients and reagent.

Table 16 Priority Exports as per Export Policy, Source: National Export Strategy of Sri Lanka 2018-2022, ii. Bangladesh Export Policy, 2021-2024

### 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

<sup>31</sup> 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

<sup>32</sup> EDB, Sri Lanka Export Development Board, “BENEFITS CONCESSIONS”, srilankabusiness.com, Accessed 9 April,2022. <https://www.srilankabusiness.com/electrical-and-electronics/exporter-information/benefits-concessions.html>

(BIDA) are dedicated to facilitating and improving FDI in Bangladesh. Similar to Bangladesh, Sri Lanka encourages investment by has revised its previous policies and introduced new incentives for investors by reducing standard corporate income tax from 28 percent to 14 percent for specific sectors<sup>33</sup> such as export of goods and services, IT, tourism, education, agriculture, and SMEs. The Board of Investment, Sri Lanka (BOI) is responsible for facilitating FDI in Sri Lanka<sup>34</sup>.

However, investment commitments within these countries remain low, it will take longer for FDI inflows to rebound in Bangladesh and Sri Lanka. In 2021, FDI fell in South Asian economies that rely to a significant extent on export-oriented garment manufacturing. Inflows to Bangladesh and Sri Lanka fell by 11% and 43%, respectively. Bangladesh's booming business sector has become one of the most attractive in the world in terms of trade. The gross FDI from CY 2017 to CY 2021 was USD 18481.15 million, and the net FDI stood at USD 14097.95 million. Throughout these years, the country has made progress in the areas of innovation, skills, working age, and investment structure.<sup>35</sup>

### Export Processing Zones

Sri Lanka has utilized 12<sup>36</sup> Export Processing Zones (EPZs) for enhancing its exports. The zones are viewed as financially feasible, creating savings of 23%. Sri Lanka also offers a foreign tax credit to diligent taxpayers who pay within two years after acquiring the foreign income.<sup>37</sup> Similarly, Bangladesh has a sum of 8 EPZs to invigorate the financial growth of the country, primarily through industrialization; the public authority has embraced an Open Door Policy to attract new ventures to Bangladesh.

Given the fact that Sri Lanka was interested in forming a joint venture in Bangladesh's textile garment industry in 2020 and how Bangladesh Export Processing Zone (BEPZA) already has a Sri Lankan company, Fergasm (Bangladesh) Ltd.,<sup>38 39</sup> Sri Lanka should invest further in BEPZA since Bangladesh encourages investments by granting financial incentives such as duty-free import and export, tax holiday, GSP facilities for preferential access and non-fiscal incentives such as 100% ownership, granting MFN status, and no ceiling on foreign investments among others.<sup>40</sup>

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<sup>33</sup> Sri Lanka Export Development Board: Benefits and Incentives for Buyers. [www.srilankabusiness.com](http://www.srilankabusiness.com), Accessed 1 Aug. 2023, [www.srilankabusiness.com/buyers/global-buyer-benefits-incentives](http://www.srilankabusiness.com/buyers/global-buyer-benefits-incentives). <https://www.srilankabusiness.com/buyers/global-buyer-benefits-incentives/>

<sup>34</sup> World Trade Organization, "Trade Policy Review-Report by the Secretariat Sri Lanka", Accessed July 9, 2022 [chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://www.wto.org/english/tratop\\_e/tpr\\_e/s347\\_e.pdf](https://www.wto.org/english/tratop_e/tpr_e/s347_e.pdf)

<sup>35</sup> Bangladesh Bank, "Foreign Direct Investment and External Debt," July-December, 2021, [www.bb.org.bd](http://www.bb.org.bd), Accessed July 6, 2022, <https://www.bb.org.bd/pub/halfyearly/fdisurvey/fdisurveyjuldec2021.pdf>.

<sup>36</sup> EDB, Sri Lanka Export Development Board, "Global Buyer Benefits Incentives", Accessed April 11, 2022 <https://www.srilankabusiness.com/buyers/global-buyer-benefits-incentives/>

<sup>37</sup> PWC Worldwide Tax Summaries, "Sri Lanka - Corporate - Tax Credits and Incentives," June 29, 2022, <https://taxsummaries.pwc.com/sri-lanka/corporate/tax-credits-and-incentives>.

<sup>38</sup> Star Business Report, "Lankans Look for Direct Investment," The Daily Star, January 20, 2020, <https://www.thedailystar.net/business/news/lankans-look-direct-investment-1856830>.

<sup>39</sup> "Bangladesh Export Processing Zones Authority," BEPZA, accessed July 7, 2022, <https://www.bepza.gov.bd/content/chattogram-year-wise-investors>.

<sup>40</sup> "Investment Opportunities in the Epzs of Bangladesh - Bepza.gov.bd," accessed July 7, 2022, [https://www.bepza.gov.bd/public/storage/upload/tender/file\\_1415792654.pdf](https://www.bepza.gov.bd/public/storage/upload/tender/file_1415792654.pdf).

## 6.5 Customs Clearance

Sri Lanka’s Logistics Performance Index (LPI) rank has deteriorated over the years, in 2016, the LPI rank was 35th, and by 2018 the position became 94<sup>th</sup>. In 2018, Bangladesh was positioned 100<sup>th</sup>, still behind Sri Lanka.

	Year	LPI Rank	LPI Score		Year	LPI Rank	LPI Score
Bangladesh	2014	108	2.09	Sri Lanka	2014	89	2.70
	2016	87	2.66		2016	35	3.42
	2018	100	2.58		2018	94	2.60

Table 17 The Logistics Performance Index, Source: <https://lpi.worldbank.org/international/scorecard/radar/254/C/NPL/2018#chartarea>

### Maritime Trade Bangladesh and Sri Lanka

An MOU was signed between Bangladesh Shipping Corporation (BSC) and Ceylon Shipping Corporation (CSC) in July 2017.<sup>41</sup> The arrangement has expanded the feeder service between the seaports of the two nations, keeping in mind the current and expected sea traffic.

Maritime trade is a vital source of trade finance in Bangladesh and Sri Lanka. Since the port of Colombo has been ranked as the most efficient port in South Asia and 22nd among 370 ports globally,<sup>42</sup> Sri Lanka already boasts wider access to the EU market for Bangladesh. Additionally, Bangladesh, with the least efficient port in Asia, ranking 341 out of 370 in the Global Container Port Performance Index i.e., Chittagong port, could borrow a port framework from Sri Lanka and utilize it as a roadmap towards bettering gaps in infrastructure and logistics.<sup>43</sup>

As of 2022, Sri Lanka has offered Bangladesh greater use of the Colombo port for the transportation of Bangladesh’s goods.<sup>44</sup> Following a stakeholder’s consultation in Colombo organized by the Bangladesh High Commissioner to Sri Lanka, Bangladeshi feeder vessels have been offered priority berthing facilities by Jaya Container Terminal at Colombo Port in July 2022.<sup>45</sup> With the recent development of bilateral discussions, Bangladesh should aim to utilize the Colombo port to access the EU market for its goods, especially textiles and knitwear.

<sup>41</sup> Syful Islam, “Spadework on for BD-Lanka Container Feeder Service,” The Financial Express, January 2018, <https://www.thefinancialexpress.com.bd/trade/spadework-on-for-bd-lanka-container-feeder-service-1514779532?amp=true>.

<sup>42</sup> Marine Insight, “World Bank Ranks Colombo As Most Efficient Port In South Asia,” June 3, 2022, <https://www.marineinsight.com/shipping-news/world-bank-ranks-colombo-as-most-efficient-port-in-south-asia/>.

<sup>43</sup> Mohsin Bhuiyan and Tarif Khan, “Ctg Port Asia’s Least Efficient for Container Handling: World Bank,” The Business Standard, May 26, 2022, <https://www.tbsnews.net/bangladesh/ctg-port-asias-least-efficient-container-handling-world-bank-427602>.

<sup>44</sup> unb.com.bd, “Sri Lanka Offers Greater Use of Colombo Port by Bangladesh,” March 2022, <https://unb.com.bd/m/category/Bangladesh/sri-lanka-offers-greater-use-of-colombo-port-by-bangladesh/90195>.

<sup>45</sup> The Daily Star, “Sri Lanka Offers Special Port Facilities to Bangladeshi Vessels,” July 1, 2022, <https://www.thedailystar.net/business/news/sri-lanka-offers-special-port-facilities-bangladeshi-vessels-3061276>.

## 6.6 Intellectual Property Rights

Both Bangladesh and Sri Lanka are signatories of World Intellectual Property Organization (WIPO) and also the Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement of the World Trade Organization (WTO). Bangladesh has a number of legislations that oversee the protection of Intellectual Property (IP). The Patents and Designs Act 1911, The Copyright Act 2000, The Trademarks Act 2009, The Geographical Indications Goods (Registration and Protection) Act 2013, and the Plant Varieties Protection Act 2019 have all been ordained to lower the risks of commercialization and unfair competition. Moreover, in Bangladesh, the Directorate of Patents, Designs, and Trademarks in partnership with WIPO, initiated a discussion on National Intellectual Property Rights (IP) policy and the previously implemented IP Policy in 2018. Again, in 2019, NBR implemented the '*Intellectual Property Rights of Receipts of Imports: Rules of Implementation 2018*'. In case of Sri Lanka, the Intellectual Property Rights Act 2003 regulates Copyright, Trademark, Industrial Designs and Patents, and is aligned with the WTO TRIPS. All patents must be registered with the Director General in charge of Intellectual Property.<sup>46</sup>

## 6.7 Tariff Structure

Import tariffs are Sri Lanka's primary tool for implementing trade policy. The WTO's new Harmonized Commodity Description and Coding System was included in Sri Lanka Customs' tariff schedule in November 2017. Currently, there are three import tax bands: 0%, 15%, and 30%. In general, raw materials make up 0%, intermediate goods make up 15%, and completed goods make up 30%. The following table shows the simple average MFN tariff for Bangladesh and Sri Lanka.

Simple Average MFN Applied	Total	Agricultural Products	Non-agricultural Products
<b>Bangladesh</b>	14%	17.5%	13.4%
<b>Sri Lanka</b>	9.3%	27.4%	6.4%

Table 18 Simple Average MFN of Bangladesh and Sri Lanka, Source: World Tariff Profiles (2021) by WTO

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

Bangladesh's Top 10 Exports to Sri Lanka (2020 – 2021)					
HS6 Code	HS2 Code	Product Name	Volume of Export (in US\$ million)	MFN Applied Tariff (%)	Preferential Tariff (%)
300490	30	Other medicaments (retail)	12.311	0	-

<sup>46</sup> International Trade Administration, "Sri Lanka - Protecting Intellectual Property," September 28, 2021, <https://www.trade.gov/country-commercial-guides/sri-lanka-protecting-intellectual-property>.

Bangladesh's Top 10 Exports to Sri Lanka (2020 – 2021)					
620462	62	Women's or girls' trousers	2.996	0	-
300420	30	Medicaments of other antibiotics	2.668	0	-
600192	60	Pile fabrics	2.586	0	-
300439	30	Medicaments of other hormones	2.455	0	-
070190	07	Potatoes	1.991	26.49%	-
070110	07	Seed	1.783	0	-
300320	30	Medicaments, not for retail sale	1.599	0	-
300390	30	Other medicaments	1.353	0	-
610910	61	T-shirts, singlets	1.250	0	-

Table 19 Tariff Imposed on Top Ten Exports of Bangladesh to Sri Lanka, 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 Sri Lanka (2020 – 2021)					
HS6 Code	HS2 Code	Product Name	Volume of Import (in US\$ million)	MFN Applied Tariff (%)	Preferential Tariff (%)
8502	85	Electric generating sets	46.613	1	0.65 - 0.85 (APTA) 0 (SAFTA) [Not for all products]
5402	54	Synthetic filament yarn	11.148	1 - 10	3 – 3.50 (SAFTA)
8537	85	Boards, panels, consoles, etc.	7.462	1 - 10	
7612	76	Aluminum cask, drum, cans, boxes, etc.	4.642	5 - 10	0 - 3 (SAFTA) [Not for all products]
4821	48	Paper/board	4.113	25	5 (SAFTA)
2710	27	Petroleum oils	4.044	10 - 25	5 (SAFTA) [Not for all products]
3507	35	Enzymes	3.780	0 - 10	0 - 3 (SAFTA) [Not for all products]
5806	58	Narrow woven fabrics	3.192	25	
2713	27	Petro coke, bitumen etc.	2.909	5 – 10 BDT 4500 per MT	8 (APTA) 0 - 3 (SAFTA) [Not for all products]
3402	34	Organic surface-active agents	2.716	5 - 25	3 - 5 (SAFTA) [Not for all products]

Table 20 Tariff Imposed on Top Ten Imports from Sri Lanka to Bangladesh, Source: Bangladesh Bank and Trade Map (2022) access on 18 June 2021; <https://www.trademap.org/Index.aspx>

One of the ways for Bangladesh to improve trade with Sri Lanka will be to tap into the top imports of Sri Lanka. The following table shows the top ten products which Sri Lanka imported in 2020 and the corresponding tariff on those products.

HS6	Product	Total Addressable Market (in US\$ million)	MFN Duties (%)	Preferential Tariff (%)
271000	Refined Petroleum (271012, 271019, 271020, 271091, 271099)	1,274.027	0 - 15	4.5 (SAFTA countries) [Not all products]
270900	Crude Petroleum	384.149	0	-
300490	Packaged Medicaments	342.394	0	-
600230	Light Rubberized Knitted Fabric, >5% elastomer	314.555	Not Found	-
852520	Broadcasting Equipment	310.191	Not Found	-
100190	Wheat (100191, 100199)	299.957	24.73	-
(0)40221	Concentrated Milk	278.943	35.76	-
170199	Raw Sugar	216.755	28.52	-
600292	Light Rubberized Knitted Fabric (600290)	176.196	0	-
271119	Petroleum Gas	164.705	0	-

Table 21 Top Ten Imports of Sri Lanka and Corresponding Tariff, Source: [https://oec.world/en/profile/country/npl?latestTrendsFlowSelectorNonSubnatLatestTrends=flow1&depthSelector1LatestTrends=HS6Depth and TradeMap \(2022\)](https://oec.world/en/profile/country/npl?latestTrendsFlowSelectorNonSubnatLatestTrends=flow1&depthSelector1LatestTrends=HS6Depth and TradeMap (2022))

## 6.8 Non-tariff measures

The NTMs in Sri Lanka are quite high for animal products, vegetables, minerals, fuels, and even mechanical and electrical appliances while it is quite low for textile and footwear. For vegetables and food products, SPS measures are quite stringent, especially in the form of hygienic, labeling, and certifications requirements. The following tables show Sri Lanka's most imposed NTMs.

Sri Lanka's Non-Tariff Measures by Sector <sup>47</sup>		
Sector	NTM Coverage ratio	NTM Frequency ratio
Hides and Skins	100	100
Animal	100	100
Vegetable	100	100
Minerals	93.46	34.48
Fuels	93.11	59.38
Mach and Elec	92.91	85.92
Food Products	90.65	94.87
Transportation	90.21	78.05
Miscellaneous	74.49	61.65
All Import Products	63.3	46.71
Chemicals	57.72	39.26
Stone and Glass	37.76	18.38
Plastic or Rubber	16.91	23.33

<sup>47</sup> NTM Coverage Ratio: The coverage ratio is calculated by determining the value of imports of each commodity subjects to NTMs, aggregating by applicable HS commodity group, and expressing the value of imports covered as a percentage of total imports in the HS commodity group

NTM Frequency Ratio: The frequency ratio accounts for the presence or absence of a NTM, and indicated the percentage of trade products to which one or more NTMs are applied

Metals	9.22	9.04
Textiles and Clothing	1.67	5.15
Footwear	1.3	8.51
Wood	0.15	5.05

Table 22 Most Imposed NTMs in Sri Lanka (sector-wise)

The following table shows the authorities overseeing the SPS measures in Bangladesh and Sri Lanka

Country	Authorities involved in SPS measures	Country	Authorities involved in SPS measures
<b>Bangladesh</b>	Ministry of Commerce <sup>48</sup>	<b>Sri Lanka</b>	Ministry of Health <sup>49</sup>
	Bangladesh Standardization and Testing Institutions (BSTI) <sup>50</sup>		National Plant Quarantine Service <sup>51</sup>
	Ministry of Health and Family welfare <sup>52</sup>		Department of Animal Production & Health <sup>53</sup>
	Ministry of Agriculture and attached Departments <sup>54</sup>		
	Ministry of Fisheries and Livestock and attached Departments <sup>55</sup>		
Ministry of Environment and Forest <sup>56</sup>			

Table 23 Authorities overseeing the SPS measures in Bangladesh and Sri Lanka.

Gaps in Bangladesh’s SPS capacity include among others: first, lack of expertise and skills among field and technical officers to detect or investigate hazards. Second, complicated and redundant system of

<sup>48</sup> Mafruha Sultana, “SPS and TBT issues: Perspective Bangladesh”, 2013., Ministry of Commerce, Bangladesh, sasec.asia, Accessed December 15, 2022, <http://www.sasec.asia/uploads/events/2013/SPS-Nov2013/SPS%20and%20TBT%20Issues%20-%20Perspective%20Bangladesh.pdf>

<sup>49</sup> Punsara Leeladasa, “National Procedure of Notifications,” n.d., SPS Notification Authority/SPS Enquiry Point, Ministry of Health Sri Lanka, unescap.org, Accessed December 1, 2022, [https://www.unescap.org/sites/default/files/5.b%20Sri%20Lanka%20SPS%20transparency\\_0.pdf](https://www.unescap.org/sites/default/files/5.b%20Sri%20Lanka%20SPS%20transparency_0.pdf).

<sup>50</sup> Mafruha Sultana, “SPS and TBT issues: Perspective Bangladesh”, 2013., Ministry of Commerce, Bangladesh, sasec.asia, Accessed December 15, 2022, <http://www.sasec.asia/uploads/events/2013/SPS-Nov2013/SPS%20and%20TBT%20Issues%20-%20Perspective%20Bangladesh.pdf>

<sup>51</sup> Punsara Leeladasa, “National Procedure of Notifications,” n.d., SPS Notification Authority/SPS Enquiry Point, Ministry of Health Sri Lanka, unescap.org, Accessed December 1, 2022, [https://www.unescap.org/sites/default/files/5.b%20Sri%20Lanka%20SPS%20transparency\\_0.pdf](https://www.unescap.org/sites/default/files/5.b%20Sri%20Lanka%20SPS%20transparency_0.pdf).

<sup>52</sup> Mafruha Sultana, “SPS and TBT issues: Perspective Bangladesh”, 2013., Ministry of Commerce, Bangladesh, sasec.asia, Accessed December 15, 2022, <http://www.sasec.asia/uploads/events/2013/SPS-Nov2013/SPS%20and%20TBT%20Issues%20-%20Perspective%20Bangladesh.pdf>

<sup>53</sup> Punsara Leeladasa, “National Procedure of Notifications,” n.d., SPS Notification Authority/SPS Enquiry Point, Ministry of Health Sri Lanka, unescap.org, Accessed December 1, 2022, [https://www.unescap.org/sites/default/files/5.b%20Sri%20Lanka%20SPS%20transparency\\_0.pdf](https://www.unescap.org/sites/default/files/5.b%20Sri%20Lanka%20SPS%20transparency_0.pdf).

<sup>54</sup> Mafruha Sultana, “SPS and TBT issues: Perspective Bangladesh”, 2013., Ministry of Commerce, Bangladesh, sasec.asia, Accessed December 15, 2022, <http://www.sasec.asia/uploads/events/2013/SPS-Nov2013/SPS%20and%20TBT%20Issues%20-%20Perspective%20Bangladesh.pdf>

<sup>55</sup> Mafruha Sultana, “SPS and TBT issues: Perspective Bangladesh”, 2013., Ministry of Commerce, Bangladesh, sasec.asia, Accessed December 15, 2022, <http://www.sasec.asia/uploads/events/2013/SPS-Nov2013/SPS%20and%20TBT%20Issues%20-%20Perspective%20Bangladesh.pdf>

<sup>56</sup> Mafruha Sultana, “SPS and TBT issues: Perspective Bangladesh”, 2013., Ministry of Commerce, Bangladesh, sasec.asia, Accessed December 15, 2022, <http://www.sasec.asia/uploads/events/2013/SPS-Nov2013/SPS%20and%20TBT%20Issues%20-%20Perspective%20Bangladesh.pdf>



oversight, third, absence of implementing laws and regulations governing SPS measures. Fourth, inadequate physical structure for analyzing hazards and lastly, those responsible for evaluating possible risks do not harbor sound technical and scientific knowledge to conduct concrete assessments<sup>57</sup>. Similarly, Sri Lanka has a shortage of physical and accredited infrastructure for testing facilities, and whatever lab facilities are available, are inadequate and not at par with other advanced technologies. Moreover, there is a lack of trained professionals with appropriate skills and expertise to test for hazards and carry out assessments<sup>58</sup>.

The following table shows gaps in SPS-TBT measures when compared to international best practices.

	Sri Lanka	Bangladesh	Deviations from International Practices
<b>Infrastructure Gaps</b>	<ul style="list-style-type: none"> <li>▪ Shortage of infrastructure (calibration laboratories).</li> <li>▪ Lack of required laboratory facilities for high-end testing.</li> <li>▪ Inadequate staff for domestic food control actions.</li> <li>▪ Lack of accredited laboratories.</li> <li>▪ Lack of technical training</li> </ul>	<ul style="list-style-type: none"> <li>▪ Inadequate facilities for analyzing hazards.</li> <li>▪ Very few labs are well equipped.</li> <li>▪ Limited budget for maintenance of lab facilities.</li> <li>▪ Lack of trained staff.</li> <li>▪ Lack of accredited laboratories.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Food acts are regularly updated in other countries, e.g., New Zealand (Food Act, 2014), India (Food Safety and Standards Act, 2006)</li> <li>▪ Roles of each regulatory agency are clearly defined (e.g., Singapore)</li> </ul>
<b>Institutional Gaps</b>	<ul style="list-style-type: none"> <li>▪ Outdated legislation such as Food Act and Control of Diseases Act which was enacted 35 years ago.</li> <li>▪ Failure to issue regulations in a timely manner.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Absence of laws and regulations on SPS measures.</li> <li>▪ Lack of technical and scientific knowledge to identify possible hazards and investigate them.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Trade Information Portals are available (e.g., India, the Lao People’s Democratic Republic, Thailand, Viet Nam, and Zimbabwe)</li> </ul>
<b>Procedural Difficulties</b>	<ul style="list-style-type: none"> <li>▪ Overlapping of functions (e.g., clearance from both Ministry of Health and Ministry of Agriculture)</li> </ul>	<ul style="list-style-type: none"> <li>▪ No central regulatory authority, and there is little enforcement to ensure compliance.</li> </ul>	<ul style="list-style-type: none"> <li>▪ All regulatory authorities are coordinated by one umbrella organization (e.g., People’s Republic of China)</li> <li>▪ Plant quarantine: India issues online Plant Quarantine Certificates without prior notice</li> </ul>

Table 24 Gaps in SPS & TBT measures and Comparison to International Practices

<sup>57</sup> “Assessing SPS Capacity in Bangladesh”, bookstore.ksre.ksu.edu, Accessed 9 April, 2022. chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://bookstore.ksre.ksu.edu/pubs/SB666.pdf

<sup>58</sup> Sanitary and Phytosanitary Priorities and Challenges in Sri Lanka,” Saman Kelegama UNESCAP, 24-25 November 2013, Bangkok, Thailand”, sasec.asia ,Accessed April 12, 2023.chrome-<http://www.sasec.asia/uploads/events/2013/SPSNov2013//SPS%20Priorities%20and%20Challenges%20in%20Sri%20Lanka.pdf>

## 6.9 Trade Facilitation Measures

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, Sri Lanka has fully implemented 10 TFA measures, while 16 are partially implemented, fewer than Bangladesh. For Sri Lanka, 4 TFA measures remain in the planning stage and 15 have not been implemented at all.

## 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 C which Bangladesh can take inspiration from.

Country	Practice	Benefit
<b>India</b>	<u>Indian Customs EDI System (ICES)</u>	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.
	<u>Turant Customs Initiative</u>	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.
	<u>Make in India Initiative</u>	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.
	<u>Intellectual Property Rights</u>	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.

<b>Sri Lanka</b>	<u>Single Window system</u>	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.
<b>Pakistan</b>	<u>Web-Based One Customs (WeBOC)</u>	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.
<b>Nepal</b>	<u>Electronic Cargo Tracking System (ECTS)</u>	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.
<b>Bhutan</b>	<u>Automated Customs System (ACS)</u>	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.
	<u>Promoting Sustainable Trade Practices</u>	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.
<b>Thailand</b>	<u>National Single Window (NSW)</u>	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.
<b>Vietnam</b>	<u>Double Taxation Avoidance Agreements (DTA)</u>	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.
<b>Singapore</b>	<u>Port Management and Investment</u>	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.

## 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 been exogenously used to forecast the projection. We examine three shared socio-economic pathways (SSP) to estimate the long-term projections as shown in the table below.<sup>59</sup> However, we use SSP2 (middle of the road) for policy shocks, which has been recommended by most of the CGE papers. 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.

	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 25 Baseline Growth Projections (% change) Average of Bangladesh

Tariffs between Bangladesh and Sri Lanka vary drastically across different sectors. Sri Lanka imposes a high 69.7% tariff on Grains and Crops imported from Bangladesh, while Bangladesh imposes tariffs of upwards of 20% on both Extraction goods as well as Textiles and Wearing Apparel.

	Bangladesh's tariff importing from Sri Lanka	Sri Lankan's tariff importing from Bangladesh
GrainsCrops	15.7	69.7
MeatLstk	0	0
Extraction	23.7	0
ProcFood	9.13	18.7
TextWapp	23.3	3.34
LightMnfc	16.7	8.64
HeavyMnfc	14.4	5.62

Table 26 Bilateral Tariff Structure, Source: GTAP Version 10

<sup>59</sup> "SSP Database," tntcat.iiasa.ac.at, Accessed July 6, 2022, <https://tntcat.iiasa.ac.at/SspDb/dsd?Action=htmlpage&page=10>.

This study has simulated two scenarios: (i) all bilateral tariff eliminations between Bangladesh and Sri Lanka; 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 ( $l,r,s$ )” has been introduced to handle bilateral services liberalization as well as other efficiency-enhancing measures that serve to 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  $ams(l,r,s)$  is 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.

**An FTA between the two countries would increase imports for both countries with a % change of 0.17% for Bangladesh and 0.37% for Sri Lanka. On the export front, Bangladesh will witness an increase of 0.15% while Sri Lanka will experience a reduction of 0.06%. Overall, while Bangladesh’s GDP remains unchanged, the Sri Lankan real GDP will increase slightly by 0.01% if we eliminate bilateral tariff while NTMs have a significantly positive impact on both countries’ bilateral trade.**

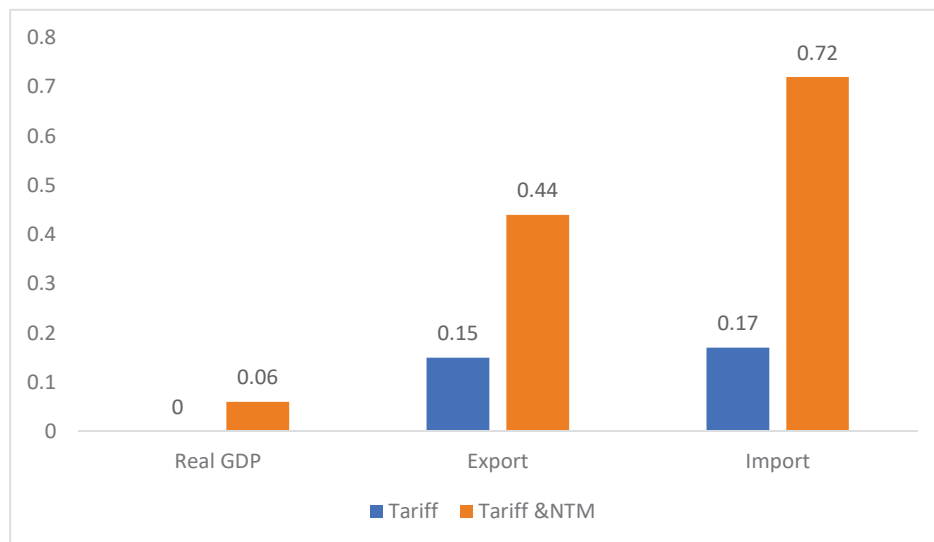


Figure 3 Macroeconomic Impact of Bangladesh –Sri Lanka FTA (% Change) in 2031, Source: Trade Expert’s Estimations

Since Sri Lanka’s extraordinarily high tariff on grains and crops will be removed, Bangladeshi exports of the same will increase by 4.78%. Similarly, the removal of high tariffs on Sri Lankan Textiles and Wearing Apparel may contribute to an increase in Bangladeshi imports of the same, which are slated to experience a 0.49% rise. Looking at the FTA’s sectoral impact on Bangladesh broadly, exports decrease for all other industries, while imports remain slated to rise. Still, overall output for all sectors except for grains and crops is shown to decrease.

The disparity in existing tariff structures indicates that Bangladesh and Sri Lanka have undiversified trade patterns, which explains the similarly focused impact an FTA may have on the Bangladesh economy. Still, given the agrarian nature of the nation, the benefits may outweigh the costs.

Impact on Bangladesh's Sectoral output, Export, and Import (% Change)			
	Output	Export	Import
Grains Crops	0.05	4.78	0.13
Meat Lstk	0	-0.38	0.16
Extraction	-0.01	-0.13	0.2
Proc Food	-0.03	-0.07	0.03
Text Wapp	0.15	0.17	0.49
Light Mnfc	0.16	0.11	0.26
Heavy Mnfc	0.03	0.76	0.08
Util Cons	0.04	-0.1	0.1
Trans Comm	-0.01	-0.09	0.05
Oth Services	-0.01	-0.11	0.05

Table 27 Impact on Bangladesh's Sectoral Output, Export and Import (% Change); Source: Trade Expert's Simulation

## 7.2 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 Sri Lanka, leading to inconclusive results. However, the gravity model captures only the partial equilibrium and sectoral trade while CGE considers macroeconomy, therefore, the findings from each model are different and not directly comparable. As bilateral trade between Bangladesh and Sri Lanka is too small, the gravity analysis may not provide a robust result. However, the same model shows that FTA between Bangladesh-USA, Bangladesh-Korea, and Bangladesh-Vietnam may prove to be beneficial.

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

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

Studying the Prospects and Concerns of a Comprehensive Economic Partnership Agreement (CEPA) with Sri Lanka involves several issues and considerations for Bangladesh. For this purpose, Sri Lanka's trade and economy, bilateral trade, investment with Bangladesh including other areas of concern such as existing trade barriers, sector-specific advantages, and the potential for market access have been analyzed. Moreover, a partial equilibrium analysis was conducted using SMART online platform of

World Integrated Trade Solution to assess the potential effects of trade creation and diversion for Bangladesh.

### 7.3.1 Foreign Direct Investment (FDI)

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

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

Table 28 Global FDI Scenario of Bangladesh, Source: Bangladesh Bank

According to CEIC data Sri Lanka's Foreign Direct Investment (FDI) increased by 306.8 USD mn in Dec 2022, compared with an increase of 341.7 USD million in the previous quarter.<sup>60</sup> According to the World Investment Report 2022, the growth rate of Inward FDI between 2020-2021 was 37.7 percent and Outward FDI growth rate in the same period was 19.9 percent. But over the period during 2017-2021 the Inward FDI gradually decreased until 2020 then it started increasing in 2021. Following table shows the Foreign direct investment (FDI) overview of Sri Lanka from 2017-2021

Foreign direct investment (FDI) overview of Sri Lanka during 2017-2021 (Values in Million US\$)							
FDI Flow	2017	2018	2019	2020	2021	2020-2021 Growth Rate (%)	
Inward	1373	1614	743	434	598	37.7	
Outward	72	68	77	15	17	19.9	

Table 29 Foreign direct investment (FDI) overview of Sri Lanka during 2017-2021, Source: Compilation from World Investment Report 2022

<sup>60</sup> [https://www.ceicdata.com/en/indicator/sri-lanka/foreign-direct-investment#:~:text=Sri%20Lanka%20Foreign%20Direct%20Investment%20\(FDI\)%20increased%20by%20306.8%20USD,mn%20in%20the%20previous%20quarter.](https://www.ceicdata.com/en/indicator/sri-lanka/foreign-direct-investment#:~:text=Sri%20Lanka%20Foreign%20Direct%20Investment%20(FDI)%20increased%20by%20306.8%20USD,mn%20in%20the%20previous%20quarter.)



### 7.3.2 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 30 Global Trade in Commercial Services, Source: Bangladesh Bank

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

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

Table 31 Export of Services by Bangladesh to the Global market, Source: Bangladesh Bank

On the other hand, Transportation captures the lion's share of Bangladesh's services import. This import is basically induced by freight transport for trade in goods. Other business services such as travel,

construction services, and financial services (Other than insurance) are amongst the mostly imported services.

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

Table 32 Import of Services by Bangladesh from Global market, Source: Bangladesh Bank

According to the WTO's Trade Profile, Sri Lanka's export in Commercial Services in 2021 was worth 2,456 million US\$ and Import was 2,896 million US\$ which means Sri Lanka imports more services than export. In 2021 the share of Sri Lanka's Commercial Services in world total exports was 0.04% and share in world total imports was 0.05 %. According to the UNCTAD statistics, analysis of services exports of Sri Lanka by main category estimated that in 2021 as a percentage of total service Sri Lanka's service export in Transport sector was 24.6%, Travel sector was 20.5% Other services was 50.4%. The following table shows Sri Lanka's Export of Services in 2020 and 2021. From the table it can be observed that telecommunications, computer, and information services, transport, travel, financial services, insurance, and pension services are significant in case of export.

Sri Lanka's Export of Services in 2020 and 2021		
Service label	Exported Value in 2020	Exported Value in 2021
All services	3,035.00	2,475.00
Memo item: Commercial services	3,009.00	2,456.00
Telecommunications, computer, and information services	995.00	1,201.00
Transport	1,174.00	608.00
Travel	682.00	507.00
Financial services	96.00	95.00
Insurance and pension services	39.00	20.00
Government goods and services n.i.e.	26.00	19.00
Other business services	16.00	16.00
Construction	7.00	10.00

Table 33 Sri Lanka's Export of Services in 2020 and 2021, Source: ITC Trade Map

The following table shows Sri Lanka's Import of Services in 2020 and 2021. From the table it can be seen that commercial services, transport, insurance and pension services, travel, telecommunications, computer, and information services, financial services are some of the significant services in case of import.

Sri Lanka's Import of Services in 2020 and 2021 (Values in Million US\$)		
Service label	Imported Value in 2020	Imported Value in 2021
All services	3,821.00	2,953.00
Memo item: Commercial services	3,751.00	2,896.00
Transport	2,504.00	2,114.00
Insurance and pension services	242.00	244.00
Travel	449.00	239.00
Telecommunications, computer, and information services	288.00	171.00
Financial services	220.00	102.00
Government goods and services n.i.e.	70.00	56.00
Other business services	37.00	17.00
Construction	10.00	11.00

Table 34 Sri Lanka's Import of Services in 2020 and 2021, Source: ITC Trade Map

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

Like many other countries, MSMEs play a crucial role in Sri Lanka's development by generating significant employment opportunities. However, they also face similar obstacles in terms of their growth and progress. Despite contributing over 50 percent to the country's economic output, many Sri Lankan MSMEs have not reached their full potential due to capacity constraints, including limited access to finance, low technology adoption, and insufficient connections to domestic and global value chains. One key challenge is the lack of financial literacy and difficulties in accessing formal financial institutions, leading many small businesses to rely on unregistered money lenders who charge exorbitant interest rates. This reliance on informal lending puts entrepreneurs at risk of struggling to meet high interest costs, which can jeopardize the viability of their ventures. The informal nature of such lending activities makes it challenging to monitor and regulate effectively. Additionally, limited information availability further hinders the comprehensive assessment of MSMEs in Sri Lanka and makes it difficult to implement targeted strategies for their advancement. Various governmental and non-governmental entities have made efforts to support these businesses at different periods. One notable example is the Ministry of Industry and Commerce's National Policy Framework for Small and Medium Enterprises (SMEs) Development in 2016, which outlines comprehensive action plans for the advancement of the MSME sector. However, there are still weaknesses in implementing and coordinating such policies, indicating the need for further improvements in the implementation process. The Central Bank also plays a crucial role in facilitating support for small businesses through its regional development agency function.

The CEPA recognizes the importance of SMEs/MSMEs in economic partnership and seeks to provide them with the necessary support, opportunities, and resources to thrive in the international trade environment. A separate chapter addressing the issue of Micro, Small, and Medium Enterprises (MSMEs) is considered in the Comprehensive Economic Partnership Agreement (CEPA) through various provisions and measures. As discussed, both Bangladesh and Sri Lanka didn't cover this issue in any FTA. Yet, there is ample potential through addressing this issue in the future deeper bilateral engagement. According to the SME Foundation of Bangladesh's statistics, the MSME sector of Bangladesh accounts for 80% of employment within the industrial sector and contributes 25% to the

country's GDP. The progress of this sector indicates that Bangladesh is on course to achieve the government's target of a 32% contribution to GDP by 2024.

Considering the socio-economic reliance on the MSMEs both in case of Sri Lanka 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 and new products. Further, provisions regarding capacity building and providing technical assistance specifically targeted at MSMEs could be initiated. These kinds of initiatives may enhance their competitiveness, productivity, and ability to comply with regulatory requirements, enabling them to take advantage of the opportunities created by the agreement. In addition, there may be some dedicated articles or sections to address the specific needs and challenges faced by the MSMEs. Such provisions may cover inter alia, access to finance, intellectual property rights protection, e-commerce facilitation, and dispute resolution mechanisms tailored to the scale and resources of the MSMEs. Furthermore, this kind of comprehensive cooperation of sharing information which include sharing best practices, exchanging market information, fostering business networks, and establishing platforms for dialogue between MSMEs and relevant stakeholders would be a new opportunity for this sector. Finally, the CEPA recognizes the significance of MSMEs in the economic partnership and seeks to provide them with the necessary support, opportunities, and resources to thrive in the international trade environment as can be seen in the Regional Comprehensive Economic Partnership (RCEP) agreement which is the first Free Trade Agreement (FTA) involving all ASEAN countries that includes a specific chapter dedicated to Small and Medium Enterprises (SMEs). The primary aim of this Chapter 14 (Small and Medium Enterprises) of the RCEP Agreement is to enhance information sharing and cooperation, enabling SMEs to effectively utilize and benefit from the opportunities presented by this Agreement.

By drawing upon Sri Lanka's experience and customizing it to meet the specific requirements of Bangladesh, the nation can amplify the growth, competitiveness, and long-term viability of its MSME sector. This, in turn, will contribute to economic development, generate employment opportunities, and alleviate poverty.

#### 7.3.4 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	Sri-Lanka (2021)	29.08	0	29.08	-17.02	4.66
Sri-Lanka (2021)	Bangladesh	0.53	0	0.53	-0.76	0.13

Table 35 Impact on Bangladesh and Sri Lanka (USD Million)

The simulation shows that total bilateral import will increase by US\$ 29.08 million as a result of trade creation (this shows the net increase of global import as well) and bilateral export will increase only by US\$ 0.53 million. Besides, Total consumer surplus will be about US\$ 4.66 million which is also insignificant. It was observed that if Bangladesh eliminates the entire tariff for Sri Lanka, this will incur revenue loss of about 17.02 million US\$. Overall, Bangladesh will loss in most cases where Sri Lanka will be in a better position. Revenue impact is higher for Bangladesh. Further, no trade diversion effect was found for both in case of Bangladesh and Sri Lanka.

Bangladesh has a no bilateral PTA with Sri Lanka, but both the countries are engaged through regional PTA/FTA through SAPA, SAFTA and APTA. Yet, trade is not increasing expectedly. In that case, identifying and addressing non-tariff barriers to trade, such as technical regulations, sanitary and phytosanitary measures, customs procedures, and licensing requirements, is crucial 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 87 out of these 142 products shown in HS 6-digits are subject to TBT/SPS measures by Sri Lanka. Among these 87 products, 4 belong to HS Chapter 85 (Electrical and Electronic Machinery and Equipment and Parts Thereof). 3 belong to HS Chapter 20 (Preparations of Vegetables, Nuts, Fruits, or other Parts of Plants), reflecting Sri Lanka’s priority on food safety and quality. 2 products belong to HS Chapter 40 (Rubber and Articles Thereof). The rest of 10 the products are single products of HS 6-digit code and cannot be shown clustered under 2-digit HS Chapters. In that study, it was found that most of these regulations pertain to certification and inspection requirements due to sanitary and phytosanitary (SPS) and technical barriers to trade (TBT) concerns. Additionally, some regulations focus on labeling requirements to provide information and ensure product safety and compliance with performance standards.

Technical barriers to trade and sanitary and phytosanitary measures need to ensure that standards, technical regulations, and conformity assessment procedures do not create unnecessary obstacles to trade. In order to facilitate trade in goods, both sides may explore opportunities for mutual recognition in the area of technical regulations, standards and conformity assessment procedures.

Bangladesh would need to consider the reduction or elimination of tariffs before engaging future bilateral cooperation. Bangladesh receives Special Concession in 951 products from Sri Lanka as an LDC through APTA. After graduation in 2026 Bangladesh will fall under the General Concessions list of Sri Lanka where only 568 products were covered as of fourth round.

The issue of technological cooperation, technology transfer, accreditation and mutual recognition of standards remain major concerns for Bangladesh.

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

Evaluating the potential for liberalizing trade in services and promoting investment flows between Bangladesh and Sri Lanka is essential. Assessing the regulatory frameworks, market access restrictions, and investment protection measures would help identify opportunities and challenges for Bangladesh. But at present both countries are negotiating only on trade in goods. When negotiating a much deeper engagement with Sri Lanka, 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. Sri Lanka 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. Sri Lanka 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. Sri Lanka 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. Sri Lanka 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. Sri Lanka may explore cooperation to promote tourism, enhance hospitality services, and facilitate people-to-people exchanges.

In this context, further sector-specific study is required. As trade in services data are not available at the desired level, stakeholder' concerns may be considered with the existing data.

Sri Lanka has an established trade relationship with Bangladesh, and both countries have complementary sectors such as textiles and garments. A deeper cooperation could potentially lead to enhanced market access, reduced tariffs, and increased investment flows. Sri Lanka's relatively larger economy and geographical proximity makes it a viable candidate for a deeper engagement with Bangladesh.

The Sussex framework suggests that the higher the percentage of trade with potential partners the more likely the RTA is to be welfare enhancing. If the countries are already trading substantially with each other, tariff preference might lead to a rise in the trade flows and to welfare gains linked to reduction of import prices and to more efficient patterns of production. It can be inferred that bilateral trade with Sri Lanka is increasing over time although not in an expected manner which is only 167.22 million US\$. In this context, Sri Lanka is a potential export destination for Bangladesh. On the other hand, Sussex Rules of Thumb (RoT) suggests that higher the initial tariffs, the greater is the likelihood of both trade creation and trade diversion. In that context, there is likelihood of both trade creation and trade diversion for deepening trade cooperation between these two economies.

**Remarks:** Bangladesh is already engaged with Sri Lanka through SAFTA, SAPTA and APTA where there is immense potential to utilize the tariff preference given by Sri Lanka. In addition, both countries started negotiating PTA in which many other products and areas of cooperation may be included. In this situation, instead of negotiating CEPA, Bangladesh may think of negotiating increasing number of products under PTA and increase the areas of bilateral cooperation and mutual recognition agreements. Besides, Bangladesh may work on the non-tariff barriers issues as identified in different diagnostic studies.

Regarding service trade, Bangladesh is yet to be in a negotiable position to explore export potentials. Considering temporary labor migration from Bangladesh, in the present context, Sri Lanka is not a potential destination for Bangladesh. Apart from these issues Bangladesh needs to be far sighted regarding the potential graduation from LDC which would result in loss of flexibilities enjoyed under SAFTA and APTA. In this context, as both Sri Lanka and Bangladesh have less experience of engaging CEPA, 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 ongoing negotiations of preferential trade agreements (PTAs) 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 KIs and one FGD. The findings have been placed under the appropriate scopes as mentioned in the ToR:

Scope	Findings
<b>Scope-1: Overall status of bilateral relations:</b>	<p>Out of ten respondents, three respondents addressed Bangladesh's current bilateral ties with Sri Lanka of whom, two were government officials.</p>
<b>Scope-2: Trade negotiation</b>	<p>Respondents identified a lack of coordination among agencies facilitating trade negotiation, identified gaps in the harmonization process of which, one was a government official of Bangladesh, and another participant was a government official of Sri Lanka. Two respondents involved at government level felt that a specific agency or group should be involved in trade negotiations. One respondent stated otherwise. A few respondents 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 and said the following: "The RTA policy formed by the government looks into addressing trade negotiation, expansion, and reforms among others". Lastly, according to one respondent, a separate ministry is required for trade negotiation</p>
<b>Scope-3: Prospects of Trade Diversification</b>	<p>KI respondents recommended light engineering, exporting and diversifying Bangladesh's apparel industry, exploring electronics and home appliances as potential exportable items. Moreover, respondents also identified agro-products, pharmaceuticals, batteries, footwear, and plastic were also identified as potential exports. Outsourcing Bangladesh's skilled manpower was identified as a means of boosting trade by one respondent.</p> <p>One FGD participant stated the following: "For export diversification, we need to consider rising sectors such as leather, agro-processing, and man-made non-woven items for RMG".</p>
<b>Scope-4: International best practices</b>	<p>One respondent addressed how the Export Promotions Bureau is striving to adopt the electronic certification for Europe guideline. Another respondent recommended establishing direct air connectivity with important trading destinations. Respondents also suggested ensuring customs law is at par with international standard, periodical assessment of market dynamic and sector specific assessment, strengthening of research institute, ensuring fairtrade, and incorporating Sri Lanka's 'garments without guilt' initiative.</p>
<b>Scope-5: Prospects for Comprehensive Economic Partnership Agreement (CEPA)</b>	<p>Four out of ten respondents stated that Bangladesh has prospects of entering CEPA. Two respondents stated that CEPA will bring in numerous opportunities. However, one respondent said that Bangladesh should go forward with an FTA. As per expert opinions obtained via FGD findings, the private sector supposedly wants to increase exports and is in support of the government moving forward with FTA/PTA at bilateral level.</p>



<p><b>Scope-6: Reforms in existing trade agreements</b></p>	<p>One out of ten respondents said Bangladesh should adopt a trading strategy. One respondent suggested utilizing foreign diplomacy for bringing about reforms and suggested the diversification of the export basket. One respondent stated how Bangladesh should consider the demands of the other countries while reforming trade agreements.</p> <p>While one respondent said Bangladesh needs to apply more taxes, another recommended reduced Corporate Income Tax (CIT) for industrial undertakings engaged in the processing of locally grown fruits and vegetables for 5 to 10 years, depending on the region.</p> <p>Another respondent suggested analyzing the tariff structure and rationalization of tariff, establishing direct air connectivity with important trading destinations, reforming custom laws, periodical assessment of market dynamic and sector-specific assessment, and strengthening of research institutes.</p> <p>During the FGD, one participant who is also a legal expert opined: “as long as there are matters of bilateral agreements, this is an agreement between two parties. While going into such agreements, we need to ensure that the clauses ensure our interests so that we do not fall behind. Otherwise, single, or double, whatever tariff system we follow, our clause needs to address these legally...in any bilateral trade agreement, we must prioritize from a legal aspect that in cases of dispute, we must be able to settle it amicably”.</p>
<p><b>Scope-7: Major institutional and infrastructural gaps in trade negotiation and trade management</b></p>	<p>As per observations of respondents based on KIIIs, there is a lack of experienced negotiators and trade-specific jobs followed by a loss of institutional memory due to frequent rotation of government employees. The need for capacity building through training was also addressed during KIIIs. Also ease of doing business and negotiation skills needed to be addressed. A respondent also stated that the decision-making process was bureaucratic at the government level. One respondent stated that the government needs to involve younger people in trade negotiations.</p> <p>Three respondents pointed towards gaps in infrastructural and port facilities as a source of major gaps in trade negotiation and trade management. Due to an increase in freight prices, exporters are facing trouble shipping items. Moreover, the quantity of accessible boats is insufficient to carry products to purchasers.</p> <p>Lastly, it has been noted as per the opinions of respondents that the business community needs policy backing to expand further because it employs the most people. On a similar note, Lastly, one respondent associated the gaps in trade management with an overly dependent private sector, placing the burden of responsibility on the government.</p>
<p><b>Scope-8: Barriers to trade</b></p>	<p>Barriers to trade cited by KII respondents were maintenance of SPS/TBT measures, maintenance of hygiene standards is a challenge for Bangladesh, NTMs, absence of blanket import duty in pharmaceuticals, compliance of FSSI certification, IGST and embargos as barriers, high tariff structure, CAROTER, and Rules of Origin.</p>
<p><b>Scope-9: export products subject to SPS/TBT measures</b></p>	<p>Respondents suggested the following export products that should be subject to SPS/TBT measures: Seafood, agriculture products, and leather. Moreover, one respondent suggested the sensitive list to be reviewed under SAFTA.</p>
	<p>Some of the challenges identified by respondents include high import costs after LDC graduation. Similarly, during the FGD, one participant stated “After graduating in 2026, our biggest concern is market access since we are going to lose</p>

<b>Challenges and recommendations</b>	<p>DFQF and market access, everyone from the Ministry of Commerce and Ministry of Foreign Affairs is working towards addressing the concern. The government is working on a plan for moving forward after 2026. EU, GSP, and rules of origin are also a concern. UK is starting a GSP scheme in 2023”.</p> <p>While negotiating with Sri Lanka, one respondent recalled how the negotiations stopped since Bangladesh refused to provide concessions for wholly obtained goods. They further opined that “Sri Lanka’s export and import procedures are utopian. Sri Lanka did not even ensure LC or Government tax; there should be some control”.</p> <p>One respondent stated a need for a separate wing under the Ministry of Commerce that would be dedicated to trade negotiation. Lastly, as per one FGD participant, “there must be a win-win situation when signing an FTA”.</p>
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## 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.

<u>Recommendations:</u>	
<b>Scope 1 and 6: Current Trade Agreement Review</b>	
<p><u>Findings:</u></p> <ul style="list-style-type: none"> <li>The first agreement between Bangladesh and Sri Lanka was signed 44 years ago, in 1977. Even though the two countries have signed several MoUs in the meantime, the product list on the very first agreement is not updated as the composition of the export basket has changed for both countries.</li> <li>Even though a joint feasibility study was conducted in 2018 to understand the pros and cons of an FTA between the two countries, Bangladesh and Sri Lanka did not move forward with an FTA due to various reasons including the political turmoil in Sri Lanka.<sup>61</sup> One of the key respondents stated that the FTA negotiation was delayed as the countries could not agree to tariff concessions on certain products. The countries have decided to sign a PTA to pave way for an FTA.</li> <li>From the economic analysis, it was found that an FTA between the two countries would <b>increase imports for both countries with a percentage change of 0.17% for Bangladesh and 0.37% for Sri Lanka. On the export front, Bangladesh will witness an increase of 0.15% while Sri Lanka will experience a reduction of 0.06%. Overall, while Bangladesh’s GDP remains unchanged, the Sri Lankan real GDP will increase slightly by 0.01% if bilateral tariffs are eliminated.</b></li> </ul>	<ul style="list-style-type: none"> <li>The product schedule needs to be updated in the General Trade Agreement if a PTA/FTA is not signed in the meantime.</li> <li>The Sri Lankan government wants to safeguard its investment and increase merchandise shipment for them to move ahead with the PTA.<sup>62</sup> <b>Results of the CGE model shows that both parties will benefit from the signing of an FTA whereas gravity model results are inconclusive. Even relevant stakeholders have emphasized the benefits which the FTA will bring forward for both countries in areas of ICT, tourism, agriculture, and shipping.</b><sup>63</sup></li> </ul>

<sup>61</sup> The Financial Express, “BD-Lanka FTA Signing Halts on Political Turmoil,” The Financial Express. thefinancialexpress.com.bd, Accessed July 6, 2022, <https://thefinancialexpress.com.bd/public/index.php/trade/bd-lanka-fta-signing-halts-on-political-turmoil-1543901049>.

<sup>62</sup> The Daily Star, “FTA with Sri Lanka This Year,” www.thedailystar.net, July 14, 2017, <https://www.thedailystar.net/frontpage/fta-sri-lanka-yr-1433335>.

<sup>63</sup> The Business Standard, “Sri Lanka Wants to Collaboratively Work on the Blue Economy of Bangladesh,” www.tbsnews.net, April 5, 2022, <https://www.tbsnews.net/economy/corporates/sri-lanka-high-commissioner-calls-dcci-president-397834>.

Findings:

**Scope 2: Trade Negotiating Agency and Harmonization Process**

Recommendations:

- 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.**
- **4 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.
- **3 respondents 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 the discussion process, however, private stakeholders are not being properly involved. **1 FGD respondent mentioned the lack of a legal perspective/opinion during trade negotiations.**

- 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 the MoC. These experts will be trained in trade policy formulation, negotiation, and specialized knowledge on trade. Even with the government's rotation policy and retirement issues, experts from this pool can be used. Moreover, a policy must be set in to retain institutional memory and make skills transferrable.
- Enhancing 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.

### Findings:

#### **Scope 3 and 9: Trade and Investment Diversification Prospects**

- Major exports from Bangladesh to Sri Lanka consist of pharmaceutical products, and low-value textiles/ apparel. There is a lot of scope for Bangladesh to diversify its export basket.
- As per the **MoU on Economic Partnership, the two countries decided to build capacity in areas with comparative advantage.** During delegations, both countries have expressed interest in extending cooperation and training in various areas such as IT, agriculture, maritime security, pharmaceutical, and disaster management.<sup>64 65</sup>
- **Bangladesh already utilizes Sri Lanka's port for 37% of its exports to the West. This is the case since Sri Lanka's ports will cut down Bangladesh's lead time to USA and Europe by ten days.**<sup>66</sup>

### Recommendations:

- Pharmaceuticals and reagents (especially after the API industry park opens), electronics, refined petroleum, plastics and rubber, and agro-products are among some of the untapped markets Bangladesh should explore with Sri Lanka. **A study by Bangladesh Trade and Tariff Commission has also listed these products noting that these have substantial export potential to Sri Lanka.**<sup>67</sup>
- Desk review has revealed that there is good export potential in jute, light rubberized knitted fabric, electric and electronics, plastics and rubbers, and edible food products.
- In the case of the health sector, Bangladesh and Sri Lanka can enjoy a mutually beneficial relationship. Bangladesh can benefit from the core training of Bangladeshi nurses and health professionals in Sri Lanka whereas Sri Lanka can benefit by importing larger volumes of pharmaceutical products from Bangladesh.<sup>68 69</sup> Sri Lanka's healthcare system was relatively advanced in comparison to the healthcare system of its Indian subcontinent counterparts. Sri Lanka was once lauded for its free healthcare system, catering to all citizens. However, the economic collapse has left Sri Lanka's healthcare at an impasse. Medical supplies are running out since Sri Lanka imports around 85% of its medicine and are unable to rely on the foreign currency reserve.<sup>70</sup>

<sup>64</sup> The Business Standard, "Bangladesh, Sri Lanka Agree to Sign FTA," [www.tbsnews.net](http://www.tbsnews.net), March 20, 2021, <https://www.tbsnews.net/bangladesh/sri-lanka-bilateral-talks-begin-219265>.

<sup>65</sup> <https://archive.dhakatribune.com/bangladesh/foreign-affairs/2021/03/20/dhaka-eager-to-sign-free-trade-agreement-with-colombo>

<sup>66</sup> Expanding Sri Lanka-Bangladesh connectivity | Daily FT, "Expanding Sri Lanka-Bangladesh Connectivity," [www.ft.lk](http://www.ft.lk), April 20, 2021, <https://www.ft.lk/columns/Expanding-Sri-Lanka-Bangladesh-connectivity/4-716458>.

<sup>67</sup> The Financial Express, "BD-Lanka FTA Signing Halts on Political Turmoil," The Financial Express, [thefinancialexpress.com.bd](http://thefinancialexpress.com.bd), Accessed July 6, 2022, <https://thefinancialexpress.com.bd/public/index.php/trade/bd-lanka-fta-signing-halts-on-political-turmoil-1543901049>.

<sup>68</sup> Daily News, "Sri Lanka and Bangladesh Should Sign FTA," [www.dailynews.lk](http://www.dailynews.lk), July 6, 2021, <https://www.dailynews.lk/2021/11/22/features/265232/sri-lanka-and-bangladesh-should-sign-fta>.

<sup>69</sup> <https://archive.dhakatribune.com/bangladesh/foreign-affairs/2021/03/20/dhaka-eager-to-sign-free-trade-agreement-with-colombo>

<sup>70</sup> BBC News, "Sri Lanka Healthcare on Verge of Collapse in Economic Crisis," [www.bbc.com](http://www.bbc.com), Accessed July 6, 2022, <https://www.bbc.com/news/world-asia-61111405>.

**Findings:**

**Recommendations:**

- Sri Lanka and Bangladesh can boost tourism through mutual investment and commercialization of their tourist spots. For instance, Sri Lanka can boost religious tourism through spots such as Anuradhapura, Adam's peak in Central Sri Lanka, Bogoda Bridge, and the Temple among others.<sup>71</sup> Other than that, there are other potential tourist spots such as the Yala National Park, Arugam Bay, Trincomalee, and Nuwara Eliya among others.<sup>72</sup> In Bangladesh, potential spots for boosting religious tourism among many are Bayazid Bostami Mazar in Chittagong, Shait-Gumbad Mosque in Khulna, and St. Mary's Cathedral in Dhaka.<sup>73</sup> Additionally, the world's longest beach in Cox's Bazar, Jaflong in Sylhet, Sajek, and Kuakata beach among others.<sup>74</sup>
- Sri Lanka boasts strong maritime links which Bangladesh may leverage for availing shipping services. Bangladesh at present depends on Sri Lanka besides Singapore and Malaysia for the transshipment of major containers. Bangladesh can export apparel to Sri Lanka and re-export to other destinations such as the EU to reduce lead time as using Singaporean ports for export purposes that takes about 26-27 days for the products to reach final destinations.<sup>75</sup>
- **The Port of Colombo has been ranked as the most efficient port in South Asia and 22<sup>nd</sup> among 370 ports globally whereas**

<sup>71</sup> Pilgrim, "Sri Lanka Tourism - The Official Website of Sri Lanka Tourisms," srilanka.travel, Accessed July 6, 2022, <https://srilanka.travel/pilgrimimage#:~:text=Sri%20Lanka%20is%20known%20for,of%20religious%20and%20historical%20significance.&text=A%20central%20Buddhist%20city%2C%20holding,offers%20pilgrims%20a%20religious%20experience.&text=Known%20as%20Daidala%20Malligawa%20is%20located%20in%20the%20city%20of%20Kandy.>

<sup>72</sup> Neha D'souza, "18 Most-Visited Sri Lanka Tourist Places For Your 2022 Trip," traveltriangle.com, October 28, 2021, <https://traveltriangle.com/blog/sri-lanka-tourist-places/>.

<sup>73</sup> Tripadvisor, "Religious Sites in Bangladesh," tripadvisor.com, Accessed July 6, 2022, <https://www.tripadvisor.com/Attractions-g293935-Activities-c47-t10-Bangladesh.html>.

<sup>74</sup> Tripadvisor, "Things to Do in Bangladesh," tripadvisor.com, Accessed July 6, 2022, <https://www.tripadvisor.com/Attractions-g293935-Activities-aa90-Bangladesh.html>.

<sup>75</sup> The Financial Express, "Feasibility Study on FTA with SL to Be Finalised This Month," The Financial Express, [www.thefinancialexpress.com.bd](http://www.thefinancialexpress.com.bd), Accessed July 6, 2022, <https://www.thefinancialexpress.com.bd/public/trade/feasibility-study-on-fta-with-sl-to-be-finalised-this-month-1599320733>.

### Findings:

### Recommendations:

Chittagong port has been ranked as the least efficient port.<sup>76</sup> Bangladesh has a lot to learn from Sri Lanka in maritime port performance and can use the existing MoU and good economic cooperation as tools to gain this knowledge.

#### **Scope 4 and 10: International good practices**

- 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 all 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.<sup>77</sup> 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 effective, 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

- 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.
- As found via the FGD, Bangladesh is already focusing on implementing the remaining TFA measures through the formation of sub-committees, but respondents from the FGD have mentioned the need of a concrete document illustrating the allocation of tasks and operations and the concerned ministries. The aforesaid measure may speed up the implementation of the TFA measures.
- More studies/ time release studies should be commissioned by the government of Bangladesh as it is proven to provide comprehensive data on the speed of clearance control and border efficiency of border control-both factors are critical for evaluating the impact trade reforms have on trade facilitation.

<sup>76</sup> M1 News Network, "World Bank Ranks Colombo As Most Efficient Port In South Asia," Marine Insight, <https://www.marineinsight.com/shipping-news/world-bank-ranks-colombo-as-most-efficient-port-in-south-asia/>.

<sup>77</sup> Rama Dewan and A.H.M. Shafiguzzaman, "Implementation Status of Bangladesh Towards Paperless Trade Facilitation," Trade Facilitation – WTO, unescap.org, Accessed June 29, 2022, <https://www.unescap.org/sites/default/files/Bangladesh-Presentation.pdf>.

<b><u>Recommendations:</u></b>	
<p>the time to comply with border requirements for imports and exports. Uzbekistan also launched a risk management system.</p> <ul style="list-style-type: none"> <li>Inadequate infrastructure is one of the main burdens in international trade, and it can severely impact trade facilitation. The importance of infrastructure is most evident when considering the efficiency of ports—their ability to ensure timely cargo transfers is a vital dimension of their competitiveness.</li> <li>Border compliance especially phytosanitary inspections may take up a lot of time especially for agricultural products. Enhanced inspections and procedures are required for these processes to be carried out efficiently.</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> <li>In Bangladesh, border compliance takes up a lot of time especially testing time for inspections. Risk-based inspection has to be adopted to cut down time, lab officials have to be rigorously trained, systems have to be automated to make the process more efficient.</li> <li>Substantial improvement is needed in port infrastructure to facilitate and make trade efficient. Chattogram Port is a key international gateway, critical both for the functioning of the transport system and the economic success of the country. In order for the Chattogram Port to continue to be able to handle growing export demand, timely implementation of additional port capacity and improving port infrastructure will be crucial.</li> <li>Joint dialogues can be held to ease SPS and TBT measures.</li> </ul>
<b>Scope 5: Possibility of CEPA</b>	
<ul style="list-style-type: none"> <li><b>4 respondents stated that CEPA can be explored by Bangladesh.</b> However, they have also stated that to implement CEPA, Bangladesh needs to improve its tax regime and enable a trade-friendly environment.</li> </ul>	<ul style="list-style-type: none"> <li>Bangladesh welcomed students from Sri Lanka in 2017. In 2021, Bangladesh was once again, the hub for medical studies in South Asia with at least 200 seats reserved in public institutions for foreign students.<sup>78</sup> On that note, Bangladesh can expedite and increase the scope for hosting an increasing number of Sri Lankan students via the Comprehensive Economic Partnership Agreement (CEPA). Other possibilities for cooperation may include, food security, healthcare, ICT, Tourism, and the blue economy as discussed at a</li> </ul>

<sup>78</sup> Mahadi Hasnat, "A Haven for South Asian Medical Students," Dhaka Tribune, June 19, 2017, <https://archive.dhakatribune.com/bangladesh/education/2017/06/19/haven-south-asian-medical-students>.



**Findings:**

**Recommendations:**

meeting between Foreign Minister A.K. Abdul Momen and Sri Lankan President Gotabaya Rajapaksa in March 2022.<sup>79</sup>

- As both Sri Lanka and Bangladesh have less experience of engaging CEPA, 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 ongoing negotiations of PTA to identify ways in which they can be effectively utilized.

**Scope 8: Non-Tariff Measures:**

- Bangladesh needs to develop its institutional capacity, ease the customs clearance process, and improve export-related compliance. BSTI is limited in terms of human resources, adequate facilities and has limited or cold storage capacity (respondents have stated). For exports, BSTI has to issue phytosanitary certificates and testing may take up to 7 days.<sup>80</sup> 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. **2 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.

- 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.<sup>83</sup>

- 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.

- 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.

<sup>79</sup> unb.com.bd, "Sri Lanka Offers Greater Use of Colombo Port by Bangladesh," March 2022, <https://unb.com.bd/m/category/Bangladesh/sri-lanka-offers-greater-use-of-colombo-port-by-bangladesh/90195>.

<sup>80</sup> Clifford Zimmes et. al., "Bangladesh Trade Facilitation Project" Baseline Evaluation," August 12, 2021, NORC at the University of Chicago, USDA, Accessed June 29, 2022, [https://pdf.usaid.gov/pdf\\_docs/PA00XRG9.pdf](https://pdf.usaid.gov/pdf_docs/PA00XRG9.pdf).

<sup>83</sup> World Bank Blogs, "COVID-19 Highlights Need for Digitizing and Automating Trade in South Asia," blogs.worldbank.org, August 14, 2020, <https://blogs.worldbank.org/endpovertyinsouthasia/covid-19-highlights-need-digitizing-and-automating-trade-south-asia>.

**Findings:**

- Plant Quarantine Wing must check containers visually at the entry point for permits and phytosanitary certificates for pests and diseases, based on which certificates are issued. However, different locations of the wing have different approaches based on their capacity.
- Trade in Bangladesh is paper-heavy and not automated. With the absence of an adequate computerized system, Bangladesh is not realizing the full economic benefits of trade facilitation.<sup>81</sup> Staff lacks the capacity for new techniques, approaches, and customs practices and procedures.
- 6 respondents stated that NTMs are high in Bangladesh. However, the simulation results show implications of NTMs have a significantly positive impact on both countries' bilateral trade. A study by the Institute of Policy Studies of Sri Lanka has found that there will be trade gains for Bangladesh and Sri Lanka if tariffs and sensitive lists are eliminated.<sup>82</sup>

**Recommendations:**

- Introducing and increasing the capacity of cold storage at the border will support expanding the trade of perishable goods.
- Initiatives may be taken to conclude Mutual Recognition Agreement (MRA) with major trading partners so that certificate issued 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.
- Joint dialogues can be held between Sri Lanka and Bangladesh to ease SPS and TBT measures.

**Scope 7 and 10: Institutional, Infrastructural and Legal Capacity**

- 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 will increase national revenue collection.<sup>84</sup> Tariff rationalization and modernization are crucial for Bangladesh to remain competitive. The corporate tax structure in Bangladesh is 30% whereas it is only 20% in neighboring countries like Viet Nam, Sri Lanka, Cambodia, Laos, and even India.<sup>85</sup> Moreover, four

- A follow-on activity could work with NBR to adopt a policy of 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.

<sup>81</sup> Asian Development Bank, "Regulatory Impact Analysis Report on the Current Customs Regulatory Framework in Bangladesh," April 28, 2014, [adb.org](http://adb.org), Accessed June 29, 2022, <https://www.adb.org/sites/default/files/publication/179665/ria-customs-bangladesh.pdf>.

<sup>82</sup> Asanka Wijesinghe and Chathurrdhika Yogarajah, "Bangladesh – Sri Lanka Preferential Trade Agreement: Gains and Policy Challenges," [asiaresearchnews.com](http://asiaresearchnews.com), Accessed July 3, 2022, <https://www.asiaresearchnews.com/content/bangladesh-%E2%80%93-sri-lanka-preferential-trade-agreement-gains-and-policy-challenges-0>.

<sup>84</sup> World Trade Organization, "World Trade Report 2015 – Speeding Up Trade: Benefits and Challenges of Implementing the WTO Trade Facilitation Agreement," [wto.org](http://wto.org), Accessed June 29, 2022, [https://www.wto.org/english/res\\_e/booksp\\_e/world\\_trade\\_report15\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/world_trade_report15_e.pdf).

<sup>85</sup> The Financial Express, "Rational Tariffs, Ensuring Quality Products: Better Dealmaking Emphasised," The Financial Express, [thefinancialexpress.com.bd](http://thefinancialexpress.com.bd), Accessed June 29, 2022, <https://thefinancialexpress.com.bd/trade/rational-tariffs-ensuring-quality-products-better-dealmaking-emphasised-1646194900>.

**Findings:**

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.<sup>86</sup> The main features of the system used include declaration processing, selection of lane, assessment of goods, payment and release of goods, and log register of users.<sup>87</sup>
- 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.**<sup>88</sup>

- Even though major progress has been in trade facilitation in Bangladesh such as the introduction of the Bangladesh Trade Portal, MoC either does

**Recommendations:**

- 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.
- Rigorous capacity building of staff at the Ministry of Commerce 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 ICT mechanisms is an important component of the harmonization of customs procedures and practices.
- A system should be put in place by MoC to regularly update, maintain the trade portal, and even inform the necessary stakeholders, and if needed educate stakeholders such as the chamber of commerce on the use of the website.
- 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.

<sup>86</sup> Bangladesh Foreign Trade Institute, "The Scoping Study on Paperless Trade Reform in Bangladesh," August, 2017, Bangladesh Foreign Trade Institute (BFTI), Accessed June 29, 2022, [https://bfti.org.bd/pdf/Final\\_The%20Scoping%20Study%20for%20PROKAS%20Programme.pdf](https://bfti.org.bd/pdf/Final_The%20Scoping%20Study%20for%20PROKAS%20Programme.pdf).

<sup>87</sup> Khairuzzaman Mozumdar, "Challenges of Customs Automation in Bangladesh and Future Prospects," November 26, 2009, UNESCAP, Accessed June 29, 2022, [https://artnet.unescap.org/tid/projects/tforum\\_bang.pdf](https://artnet.unescap.org/tid/projects/tforum_bang.pdf).

<sup>88</sup> 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>.

**Findings:**

not have the capacity to constantly make necessary updates to the website or necessary and timely updates are not being made.

- 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.

*Table 36 Findings and Recommendations*

**Recommendations:**

The following diagram shows the classification of recommendations/ 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.

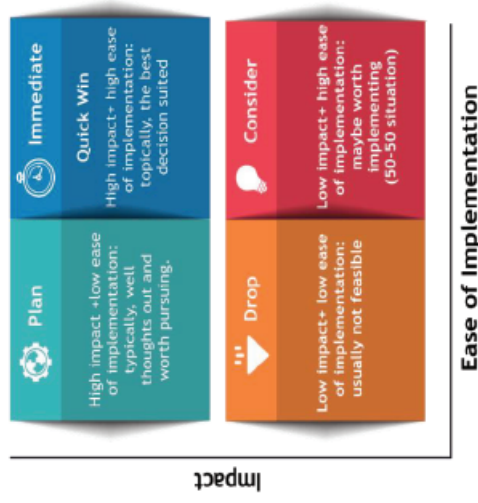


Figure 4 Impact vs Ease of Implementation

Plan	Immediate (Quick Win)
<ul style="list-style-type: none"> <li>Automation of customs procedures.</li> <li>Planning trade diversification prospects with Sri Lanka, especially in pharmaceuticals, plastics and rubbers, electronics, agro-products, and religious tourism.</li> <li>Utilizing the current MoU and arranging for capacity building of port officials and gathering knowledge on port efficiency techniques.</li> <li>Systems to be brought in to automate lab reports and certificates.</li> <li>Capacity building and building human resources at BSTI, and other testing facilities such as Plant Quarantine Wing.</li> <li>Full implementation of a national single window.</li> <li>Increasing the capacity of cold storage at ports.</li> <li>Improvement of port efficiency and making infrastructural changes to facilitate the supply chain.</li> <li>Creation of a pool of trade experts with specialized knowledge and rigorous capacity building in trade negotiation, and management skills.</li> </ul>	<ul style="list-style-type: none"> <li>Product List Update in the bilateral trade agreement between Bangladesh and Sri Lanka if a PTA/ FTA does not finalize soon.</li> <li>Creating a ‘win-win’ situation to expedite the PTA/ FTA agreement between Sri Lanka and Bangladesh.</li> <li>Hiring and placing more trade economists in both NBR and MoC to conduct a cost-benefit analysis of tariff reductions and adopting other trade facilitation measures.</li> <li>Creation of tasks forces composed of government agencies and private stakeholders to jointly discuss and approve trade policies.</li> <li>Commissioning more time-release studies at sea and land ports to identify infrastructural gaps and time delays.</li> <li>Introduction of risk-based testing to ease pressure on BSTI and cut down processing time.</li> <li>Privatization of certification process and testing.</li> <li>Implementation of all TFA measures.</li> <li>Joint dialogues between Bangladesh and Sri Lanka to ease NTMs.</li> <li>Inclusion lawyers in Bangladesh’s trade negotiation team.</li> </ul>
Drop	Consider
-	<ul style="list-style-type: none"> <li>Initiatives for MRAs with major trading partners to eliminate certification issues when it comes to exports.</li> <li>CEPA with Sri Lanka for increasing the scope of Sri Lankan medical studies. CEPA can also be explored for tourism and ICT.</li> </ul>

Table 37 Classification of Recommendations

## 10. Conclusion

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

The findings from the CGE simulation indicate that an FTA agreement between the two countries will be beneficial since it may lead to an increase in imports for both countries with a % change of 0.17 for Bangladesh and 0.37 for Sri Lanka. On the export front, Bangladesh will witness an increase of 0.15% while Sri Lanka will experience a reduction by 0.06%. Overall, while Bangladesh's GDP remains unchanged, the Sri Lankan real GDP will increase slightly by 0.01% if we eliminate bilateral tariffs. On the other hand, the gravity model result for the two countries is inconclusive since trade creation and trade diversion values are insignificant. This is not surprising since Sri Lanka's economy is small in size. Economic simulation and desk review have shown that both countries will benefit from signing an FTA as exports will not only increase but Bangladesh will be able to use Sri Lanka's ports instead of Singaporean ports to export to the West which will significantly cut down lead time, and while Sri Lanka can invest in the Special Economic Zones (SEZs), industrial parks and learn about the value additive opportunities in Bangladesh's agriculture sector. Even though a joint feasibility study was conducted for FTA in 2018, an agreement has not been signed yet. The authorities may want to speed up the signing of an agreement between the countries to expand trade. With regard to CEPA, approximately 40% of respondents of this research CEPA may be explored with Sri Lanka. Prospects of CEPA can be considered in medical studies as well as tourism between the two countries. Extensive research and data collection implies that Sri Lanka and Bangladesh can boost religious tourism through the temples, mosques, and other sights of religious importance present in both countries. Moreover, Bangladesh welcomes medical students from South Asia and has reserved seating in public institutions for foreign students. However, as both Sri Lanka and Bangladesh have less experience of engaging CEPA, 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 ongoing negotiations of PTA to identify ways in which they can be effectively utilized.

Since Bangladesh's current basket is dominated by textiles and apparel (83% of the total export share in FY20), other exports that the country may embark on are firstly, light rubberized knitted fabric as it is one of Sri Lanka's top imports from the world, however, Bangladesh is not exporting this product to Sri Lanka whereas the country exported over US\$ 6 million worth of this product in FY21. Therefore, there is a good possibility for Bangladesh to export this product to Sri Lanka as the total addressable market is valued at roughly 722 million US\$.

Secondly, desk research indicates that Sri Lanka is the number one destination for exported pharmaceuticals from Bangladesh and 20% of the KII respondents stated that Bangladesh should

diversify RMG products. With the API Industry Park opening in Bangladesh, the cost of production will go down and Bangladesh can potentially tap into the international API market which stands at over 150 billion US\$. Since there is an existing demand for Bangladesh-produced pharmaceuticals in Sri Lanka, Bangladesh can potentially increase exports to Sri Lanka because of the cost advantage from using domestically produced API.

Sri Lanka has good demand for electric and electronic appliance imports (televisions, monitors, refrigerators, compressors) as the total addressable market for just a couple of mechanical and electrical is roughly US\$ 215 million, there is an opportunity for Bangladesh to expand machinery exports to Sri Lanka too.

Lastly, Bangladesh may also expand trade by exporting plastics and rubbers to Sri Lanka as the country seems to have demand for these products (total addressable market size is roughly 270 million US\$). In FY21, Bangladesh exported over 115 million worth of plastic and rubber as per the Export Promotion Bureau. Sri Lanka is the top importer of Plasticizer from Bangladesh, with a total of 349 shipments from Bangladesh to Sri Lanka by 62 buyers in 2021.<sup>89</sup>

However, there are measures that need to be taken for Bangladesh to achieve export diversification and build stronger alliances with other countries such as Sri Lanka. The country is yet to address certain gaps at policy, institutional, infrastructural, and legal levels to build resiliency for becoming a middle-income country.

KII findings have revealed that full implementation of all trade facilitation measures will also support FTA negotiations and finalization. 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, Sri Lanka is ahead of Bangladesh having 10 measures fully implemented, and 16 partially implemented. Furthermore, 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. To support the process, a concrete document stating the allocation of tasks and operation within concerned representatives may speed up the implementation of all trade facilitation measures.

In terms of port connect efficiency, Bangladesh must make significant improvement to be at par with the global market since the Port of Colombo has been ranked as the most efficient port in South Asia while Chittagong port has been ranked as the least efficient port. As per the research findings, inefficient port management is increasing Bangladesh's cost of doing business, and export-related compliance is poor. Paper-heavy trade, lack of automation in certification processes, limited internet connection and cold storage options, frequent disruptions in customs procedures, and inept trade control agencies at the border crossings add to port inefficiency.

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<sup>89</sup> Volza, "Plasticizer Imports in Sri Lanka from Bangladesh – Overview," Accessed July 6, 2022, <https://www.volza.com/imports-sri-lanka/sri-lanka-import-data-of-plasticizer-to-bangladesh>.

In this regard, Bangladesh has a lot to learn from Sri Lanka in maritime port performance and should seize the opportunity to benefit from Sri Lanka's expertise. As per the Memorandum of Understanding (MoU) on Economic Partnership between Bangladesh and Sri Lanka, the two countries agreed to build capacity in areas of comparative advantage. On that note, Bangladesh can use the existing MoU as an effective tool to acquire knowledge from Sri Lanka and improve port performance.

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.

Delving into the study from an institutional level, a stakeholder analysis of mandates and interests conducted by the team has revealed a gap between organizations responsible for trade policy formulation. About 40% of the KII respondents have stated that there is a lack of coordination and gaps in the harmonization process when it comes to trade policy formulation, management, and negotiation.<sup>90</sup> 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. 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.

All in all, the review of existing agreements provided a depiction of the bilateral trade situation of Bangladesh with Sri Lanka, 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 Sri Lanka. Following the careful review of trade agreements, it was possible to draw recommendations using which, the Government of Bangladesh may promote policy advocacy for trade related issues and create synergy between national development priorities and trade growth, in turn, expanding trade.

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<sup>90</sup> The sample size for KII for the first phase of study involving countries Nepal, Bhutan, Sri Lanka, and South Korea is 20 participants. This number represents responses received from 20 participants.



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## Annex 1: 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.<sup>91 92</sup> 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.<sup>93</sup> 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.<sup>94 95</sup> Agnosteva et al. (2014), Aichele et al. (2014) demonstrate different sectoral level gravity estimates.<sup>96 97</sup> Pfaffermayr (2019), Yotov et al. (2016), and Santos Silva & Tenreyro (2011) speak about how to use likelihood estimation techniques in estimating international trade flows.<sup>98 99 100</sup> 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.<sup>101 102</sup>

(1) For the analysis of an FTA, we add two variables to the structured gravity equation of Anderson & van Wincoop (2003).<sup>103</sup> 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,

<sup>91</sup> J. Tinbergen, "Shaping the World Economy: Suggestions for an International Economic Policy," 1962, New York, USA: The Twentieth Century Fund.

<sup>92</sup>  $\ln X_{ij}^t = \alpha_t + \beta_1 \ln Y_i^t + \beta_2 \ln Y_j^t + \beta_3 \ln D_{ij}^t$ ,  $\beta_1 > 0$ ,  $\beta_2 > 0$ ,  $\beta_3 < 0$ , where  $X_{ij,t}$  is the value of export, import or trade from country  $i$  to  $j$ ,  $Y_{i,t}$  and  $Y_{j,t}$  are the GDPs of countries  $i$  and  $j$  in period  $t$ ;  $\alpha_t$  is a period-specific constant term; and  $D_{ij}$  presents bilateral distance between the importing and exporting countries or bilateral trade costs indices.

<sup>93</sup> 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>.

<sup>94</sup> J. E. Anderson & Y. Yotov, "Gold Standard Gravity," NBER No. 17835 (2012). <https://doi.org/10.3386/w17835>.

<sup>95</sup> 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.

<sup>96</sup> 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>.

<sup>97</sup> 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](https://www.cesifo.org/DocDL/cesifo1_wp5150.pdf).

<sup>98</sup> 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>.

<sup>99</sup> V. 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](https://www.wto.org/english/res_e/booksp_e/advancedwtounctad2016_e.pdf).

<sup>100</sup> 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>.

<sup>101</sup> 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.

<sup>102</sup> 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>.

<sup>103</sup> 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>.

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:

(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.

(3) **Data:** We have updated the Yotov et al. (2016) dataset.<sup>104 105</sup> 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.<sup>106</sup> Data considering GDP and trade were collected from the World Development Indicators (WDI) of the World Bank (WDI, 2021).<sup>107</sup> Bilateral ad-valorem tariff data was collected from the World Integrated Trade Solutions (WITS) of the World Bank (WITS, 2021).<sup>108</sup> Data regarding distance and other related variables were collected from CEPII (CEPII, 2021).

**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.<sup>109</sup> 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).<sup>110</sup> 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.<sup>111</sup> Yotov et al. (2016) also suggest a reduced form of regression, dropping variables one by one and test-checking the model's fitness.<sup>112</sup>

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

<sup>104</sup> 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/advancedwtoundtad2016\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/advancedwtoundtad2016_e.pdf).

<sup>105</sup> 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/advancedwtoundtad2016\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/advancedwtoundtad2016_e.pdf).

<sup>106</sup> UN Comtrade, International Trade Statistics," 2021, <https://comtrade.un.org>.

<sup>107</sup> WDI (World Development Indicators), "Trade (% of GDP). [Data File]," 2021, World Bank, <https://databank.worldbank.org/source/world-development-indicators>.

<sup>108</sup> WITS (World Integrated Trade Solutions), "Tariff data by Country. [Data set]," 2022, <https://wits.worldbank.org/tariff/trains/country-byhs6product.aspx?lang=en>.

<sup>109</sup> 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>.

<sup>110</sup> 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>.

<sup>111</sup> 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>.

<sup>112</sup> 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/advancedwtoundtad2016\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/advancedwtoundtad2016_e.pdf).

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.

The table below 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).<sup>113</sup> 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.

The table below 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 <sup>114</sup>		
	OLS	PPML
Ln GDP <sub>i</sub>	0.57 (11.5)**	
Ln GDP <sub>j</sub>	0.37 (17.44)**	
Ln Distance	-1.332 (31.43)**	-0.412 (6.8)**
Ln Applied Tariff	-2.87 (7.68)**	-1.98 (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.

<sup>113</sup> 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>.

<sup>114</sup> The dependent variables in Table 3, 4 and 5 are Ln trade for OLS and trade for PPML regressions.



The table below 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  $e^{(-0.201)} - 1 = -18\%$ ,<sup>115</sup> 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 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 GDP <sub>i</sub>	0.57 (11.5)**	
Ln GDP <sub>j</sub>	0.37 (17.44)**	
Ln Distance	-1.332 (31.43)**	-0.412 (6.8)**

<sup>115</sup> 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.

In Applied Tariff	-2.87 (7.68)**	-1.98 (5.87)**
SAFTA Trade Creation	-0.421 (6.11)**	-0.201 (2.04)*
SAFTA Trade Diversion	-0.72 (7.22)**	0.31 (2.98)**
APTA Trade Creation	0.181 (6.21)*	0.151 (4.67)*
APTA Trade Diversion	0.22 (4.83)*	0.114 (3.45)*
BIMSTEC Trade Creation	0.211 -1.25	0.0512 -1.05
BIMSTEC Trade Diversion	0.22 -1.71	0.123 -0.915
EUGSP Trade Creation	0.62 (14.1)*	0.431 (11.98)*
EUGSP Trade Diversion	-0.34 (7.21)*	-0.213 (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  $1 + \text{tariff rate}$ .

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  $1 + \text{tariff rate}$ .

#### 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.<sup>116</sup> While trade creation impacts are similar for Vietnam, Korea, Thailand, and Indonesia, trade diversion effects are significant in East Asian countries.

Potential FTA Partners for Bangladesh		
	OLS	PPML
Ln GDP <sub>i</sub>	0.57 (11.5)**	
Ln GDP <sub>j</sub>	0.37 (17.44)**	
ln Distance	-1.332 (31.43)**	-0.412 (6.8)**
BD-India FTA Trade Creation	0.192 (0.64)	0.098 (-1.27)
BD-India FTA Diversion	-0.211 (3.22)*	-0.16 (2.15)*

<sup>116</sup> Bhutan was removed from this analysis due to unavailability of time series data.

BD-USA FTA Trade Creation	0.127 (3.75)**	0.073 (2.95)**
BD-USA FTA Diversion	-0.021	-0.201
BD-Nepal FTA Trade Creation	0.06 (0.13)	0.01 (-1.1)
BD-Nepal FTA Diversion	-0.211 (1.22)	-0.16 (1.7)
BD-Sri Lanka FTA Trade Creation	0.02 (0.14)	0.04 (-0.9)
BD-Sri Lanka FTA Diversion	-0.21 (1.22)	-0.13 (1.65)
BD-Korea FTA Trade Creation	0.05 (1.2)	0.11 (1.9)*
BD-Korea FTA Diversion	-0.21 (1.22)	1.13 (2.65)*
BD-Thailand FTA Trade Creation	0.05 (1.1)	-0.11 (1.6)
BD-Thailand FTA Diversion	-0.02 (1.1)	1.3 (2.2)*
BD-Vietnam FTA Trade Creation	0.02 (0.14)	0.94 (1.6)
BD-Vietnam FTA Diversion	-0.21 (1.22)	1.13 (2.98)**
BD-Indonesia FTA Trade Creation	0.09 (1.2)	0.14 (1.73)
BD-Indonesia FTA Diversion	-0.18 (1.21)	0.53 (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 (Bangladesh Bank, 2021).<sup>117</sup> 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).<sup>118 119 120</sup> Bangladesh faces numerous NTMs, especially anti-dumping and regulatory measures to access the Indian market (Frederick & Staritz, 2020; Kabir &

<sup>117</sup> Bangladesh Bank, "Major Country/Commodity-Wise Export Receipt [Yearly] [Data file]," 2021, <https://www.bb.org.bd/en/index.php/econdata/index>.

<sup>118</sup> Bangladesh faces numerous NTMs, especially antidumping and regulatory measures to access to the Indian market (Frederick & Starlitz, 2020; Kabir & Razzaque, 2020).

<sup>119</sup> 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>.

<sup>120</sup> 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.

Razzaque, 2020).<sup>121</sup> <sup>122</sup> 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).<sup>123</sup> <sup>124</sup> 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.<sup>125</sup> 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.<sup>126</sup>

### 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 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 Asian 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.<sup>127</sup> 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 BIMSTEC

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<sup>121</sup> 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.

<sup>122</sup> 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.

<sup>123</sup> 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>.

<sup>124</sup> Director General of Trade Remedies (DGTR), Department of Commerce, New Delhi, [http://www.dgtr.gov.in/sites/default/%1Ffiles/jute\\_FF\\_NCV\\_20.10.16.pdf](http://www.dgtr.gov.in/sites/default/%1Ffiles/jute_FF_NCV_20.10.16.pdf).

<sup>125</sup> Bangladesh Bank, "Major Country/Commodity-Wise Export Receipt [Yearly] [Data file]," 2021, <https://www.bb.org.bd/en/index.php/econdata/index>.

<sup>126</sup> M. M. Rahman & A. Strutt, "Costs of LDC Graduation on Market Access: Evidence from Emerging Bangladesh," 25th Annual Conference on Global Economic Analysis, (2022).

<sup>127</sup> WDI (World Development Indicators), "Trade (% of GDP). [Data File]," 2021, World Bank, <https://databank.worldbank.org/source/world-development-indicators>.

on trade creation and recreation is insignificant.<sup>128</sup> 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.

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<sup>128</sup> We have only used BIMTEC dummy for last three years as BIMTEC FTA is still under negotiation.

## Annex 2: List of KII Participants

The following table indicates the 10 key informants who were asked to participate in this study:

No.	Person	Position	Organization
1	Kumkum Sultana	Director	Export Promotion Bureau
2	Md. Khairul Kabir Mia	First Secretary, Customs Intl Trade & Customs Exemption and Project Facilities	National Board of Revenue
3	Sadeq Ahmad	Deputy Secretary	Ministry of Commerce, FTA Wing
4	Kamruzzaman Kamal	Marketing Director	Pran RFL
5	Srimali Jayarathna	Trade councilor	Sri Lankan High Commission
6	S M Tasneef Nafee	Project Manager, Sales and Marketing, Global Business Division (GBD)-Export.	Walton Hi-Tech Industries PLC
7	Khalid Hossen	Deputy Chief of Party	Land O'Lakes
8	Md. Delwar Hossain	Group Deputy Managing Director	Hameem Group
9	Nahid Afroz	Deputy Secretary	Export wing, Ministry of Commerce
10	Rabbur Reza	COO	Beximco

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	Mr. Santosh Kumar Dutta	Deputy Secretary General	Metropolitan Chamber of Commerce and Industry (MCCI)
2	Mr. Moksud Belal Siddiqui	Deputy Secretary General	Metropolitan Chamber of Commerce and Industry (MCCI)
3	Mr. M. Abdur Rahman	Deputy Chief	Metropolitan Chamber of Commerce and Industry (MCCI)
4	Mr. Md. Saidul Islam	Legal Expert	Metropolitan Chamber of Commerce and Industry (MCCI)
5	Mr. Tahseen Salman Chaudhury	Senior Research and Publication Officer	Metropolitan Chamber of Commerce and Industry (MCCI)
6	Dr. Masudur Rahman	National Trade Expert	Institute for Policy, Advocacy, and Governance (IPAG)
7	Prof. Syed Munir Khasru	Chairman	Institute for Policy, Advocacy, and Governance (IPAG)
8	Ms. Shahtaj Mahmud	Program Coordinator	Institute for Policy, Advocacy, and Governance (IPAG)
9	Ms. Zulfa Kamal	Representative	Institute for Policy, Advocacy, and Governance (IPAG)

Table 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 <sup>1</sup>	National Trade Expert / Trade Economist 2
4	Margub Kabir	Legal Expert 1
5	Junayed Ahmed Chowdhury	Legal Expert 2
6	Tapan Chandra Banik	Research Associate 1
7	Altap Hossen	Research Associate 2

*Table 43 List of Team Members (as Proposed in the Technical Proposal)*

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





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