

Bhutan-Bangladesh Trade Relations

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IV. To accord to each other the MFN treatment whereby both sides agreed to accord on reciprocal basis and to their mutual advantage, tariff concessions and removal of quantitative barriers on selected items subject to GATT provisions and subject further to the condition that these will not adversely affect bilateral trade with a third country.

V. To consult each other when necessary and review the implementation of the Protocol and to make such modifications as may be mutually agreed upon.

VI. That the Protocol of Trade Agreement shall come into force from April 5, 1984, and shall remain in force as long as the Trade Agreement remains valid or unless terminated by either Government.

Although the signing of the Protocol to the Trade Agreement in 1984 was a milestone in our bilateral trade relationship, actual trade with Bangladesh did not materialize immediately since the trade routes agreed upon were not viable. Bilateral trade talks were held between the two countries in 1985 and 1987 to review the progress of trade and implementation of the Protocol.

The first round of Trade talks was held in January 1985 in Dhaka during which both countries underscored the need for increased cooperation in Trade and Commerce and assured to take all possible measures in that direction. To this end, Bhutan proposed a complete waiver or maximum reduction of tariffs on a reciprocal basis. In response the Government of Bangladesh agreed to explore the ways and means of granting each other the maximum tariff reductions, keeping in view their commitment to relevant GATT provisions. Other issues discussed included the reviewing and identification of potential products that could be immediately traded and the proposal for a Special Trading Agreement (STA) between the State Trading Organizations of the two countries.

It may be noted that in January 1986, subsequent to the first Trade Talks, Bhutan unilaterally offered to waive off tariffs on goods imported from Bangladesh on the basis of the agreed goods as indicated in the revised schedule annexed to the 1984 Protocol.

The second round of Trade Talks was held on 19 Oct 1987 in Thimphu. During the Talks both countries reaffirmed their desire to further strengthen trade and economic relations and take steps to realize the objectives of the Trade Agreement. The most far reaching outcome of the 1987 Trade Talks was that both Governments agreed to take steps for the implementation of their decision to completely waive customs duties and other taxes on a reciprocal basis on mutually agreed items. Another important issue discussed was the availability of suitable transit routes and the possibility of their inclusion in the Trade Agreement. During the talks it was also agreed that

annual review meetings at the Secretary level would be held alternatively in the two capitals. Bangladesh offered to host the first of such regular talks in 1988.

It may be mentioned here that, subsequent to the 1987 Trade Talks, the Government of Bangladesh on 19 October, 1987 issued the SRO, 252-Law 187/1087 whereby exempting from all taxes on 18 items imported from Bhutan. Although a significant development, the exemption did not completely include the goods indicated in the revised schedule annexed to the Protocol to the Trade Agreement. Bhutanese canned/processed food products were not adequately covered by the SRO-law which included only fruits juices. Even the fruit juice exemption was subject to the exclusion of pineapple and tomato juice.

Another significant outcome of the 1987 Trade talks was the inclusion of a new and viable transit route for Bhutan-Bangladesh trade, i.e. the transit route through Chagrabandh in India and Burimari in Bangladesh.

With the aforementioned developments actual trade between Bhutan and Bangladesh commenced in 1988.

Trade Relations Since 1988

Although the year 1988 is a milestone in the history of trade relations between Bhutan and Bangladesh, total quantum of trade was not very significant. However in the following

years there was a substantial increase in trade between the two countries. It may be mentioned that, from the very beginning, trade between the two countries has been in favour of Bhutan.

Review of Trade Agreement 1989: The third round of trade talks was held in Dhaka from 28 December 1989 to 5 January 1990, during which both countries agreed to:

i) consider the prospects of setting up joint-ventures in dairy farming in Bhutan, cement plant and timber plant in Bangladesh.

ii) that warehousing facilities should be developed in the border areas.

iii) to study the possibilities of crushing/refining raw boulders and marbles in Bangladesh.

iv) to hold regular trade fairs in both countries and exchange trade delegations.

Of the above agreed upon items, only the agreement to hold of trade fairs and exchange delegations has materialized. Even here the achievements have been one-sided. So far trade delegations and trade fairs have been fielded/held only by/and in Bhutan.

During this round of talks it was proposed from Bhutan's side that items gum resin and dried chilies be deleted from the Schedule A of the Trade Agreement of 1980 and that six items, that is, timber and allied products, fresh vegetables, marble, activated carbon, calcium carbide and HDPE pipes, be added to Schedule A of the Trade Agreement. The Bhutan side assumed that the inclusion of the new items in the Trade Agreement would automatically be exempted from duties and taxes.

It was however clarified by the Bangladesh side that exemption of duties and taxes was not automatic and that the question of exemption of duties of the new items should have to be examined in consultation with relevant Government agencies in Bangladesh. As per the Bangladesh Tariff Schedule for 1993-1994 the items gum resin and dried chilies still enjoy duty and tax exemption. The proposal for inclusion of the six items in Schedule A of the Trade Agreement has not yet been favourably considered by Bangladesh.

During the talks the Bangladesh side also proposed that nine items be included in the Schedule A of the Trade Agreement. The inclusion of the nine items, that is, telephone cables, electric wires, table wares, ready-made garments, toiletries, cosmetics, electronics, locks & padlocks and stainless steel items have been favourably considered by Bhutan and the items listed enjoy 100% duty and tax exemption.

Lastly, Bangladesh offered to supply the entire requirement of jute goods of Bhutan. The offer was partly accepted by Bhutan. As a gesture of goodwill, Bhutan still imports some of her jute bags requirements from Bangladesh.

Trade Review 1990: The fourth round of trade talks was held in Thimphu in October 1990. During the talks, in view of the imbalance in trade, Bhutan agreed to import locally assembled vehicles, jute bags and dry fish worth US\$ 0.5 million from Bangladesh immediately. Ten Pajero Jeeps and three bags worth US\$ 0.3 million were imported. Although Bhutan continues to import jute bags from Bangladesh as a gesture of goodwill, import of vehicles and dried fish could not be sustained due to their relatively high prices.

The need to enter into a Special Trading Arrangement between the two State Trading Organizations was also reiterated by Bangladesh during this meeting. Bhutan, however, stressed the need to study the ramifications of trade under STA before final arrangements are made.

Lastly Bhutan proposed that nine items, that is, timber and allied products, marble, cement, HDPE pipes, calcium carbide, fresh vegetables, ferro-silicon, activated carbon and knockdown furniture be exempted from custom duties, and items mushroom and asparagus be deleted from the revised Schedule A. This proposal has not as yet been considered favourably.

Trade review 1992: The fifth round of trade talks was held in Dhaka from 7-11 March 1992. During the talks Bhutan reiterated that efforts have been made to increase imports from Bangladesh as mentioned that the import of Pajero jeeps from Bangladesh could not be sustained due to high differences in prices. With regard to import of dry fish, the Bangladesh side was informed that Bhutan was interested in the import of this item providing prices were competitive. It may be noted here that Bangladesh has still not been able to export dry fish to Bhutan due to their exorbitantly high prices as compared to those from India.

Prospects for establishing a cement factory by using clinkers from Bhutan and supply of stones from Bhutan for construction of roads, bridges and railways was identified during this round of talks. The idea of establishing a cement factory in Bangladesh has however not materialized. Negotiations for supply of stones from Bhutan for the Jamuna Multipurpose Bridge were initiated.

During the meeting Bhutan requested Bangladesh to reconsider the imposition of duties, previously exempted, on imports from Bhutan as the Royal Government may be pressurized

to levy reciprocal duties on Bangladesh goods. Bhutan felt that imposition of duties was premature and would run counter to the efforts and investments made by both sides.

Bangladesh explained that, due to requests for similar concessions on tariff from other countries of the region, who like Bhutan were accorded MFN treatment, the Government of Bangladesh was compelled to impose the new duty on imports from Bhutan. In addition, Bangladesh also pointed out that the imbalance of trade in Bhutan's favour should also be taken into consideration. Furthermore, Bangladesh felt that even with 50% import duty Bhutanese imports would retain their competitiveness.

It may be mentioned here that 50% duties have been applicable on imports from Bhutan since their imposition in 1992. Nevertheless, there is scope for inclusion of those items like cement, marble, ferro-silicon and timber & allied products, that are presently subject to full application, into the category of items that at least enjoy 50% duty concession.

Despite the decision of Bangladesh to impose 50% duties, Bhutan has not reciprocated. Imports of Bangladesh products identified in the revised Schedule A of the Trade Agreement still enjoy 100% duty exemption.

Lastly, it was also agreed upon during the talks that the STA in its original form was no longer appropriate and that the two State Trading organizations should enter into an agreement suitable to the new environment of market economy.

Bhutan's Exports to Bangladesh

Bhutan's exports to Bangladesh mainly consist of fruits, namely apples and oranges. These two items alone accounted for more than 80% of total foreign exchange earnings from export to Bangladesh through the years 1988-1993. Other important exports include minerals (limestones, dolomite, coal, etc.), stones and boulders, cement, timber and cardamom. Processed fruit products are also gaining wide popularity in Bangladesh. In terms of foreign exchange earnings, exports to Bangladesh has generated over US\$30 million during the period 1988-1993. Exports to Bangladesh since 1988 are as follows:

1988-US\$ 1.95 million
1989-US\$ 2.20 million
1990-US\$ 7.64 million
1991-US\$ 5.34 million
1992-US\$ 10.44 million
1993-US\$ 6.63 million
1994-US\$ 4.11 million

In 1992, there was a major increase in our export to Bangladesh with total exports earnings amounting to more than US\$10 million as compared to earlier years and the

exports figure of 1993. However, this surge in 1992 could almost wholly be attributed to a bumper harvest of oranges and an increase in its exports by more than US\$6 million. Exports of items like cardamom, coal, dolomite, limestones, fruit products registered a decline in their earnings either due to fall in prices or decrease in the quantities exported.

In 1993, total export earnings stood at US\$6.6 million and registered a decline of more than US\$3 million. This was mainly due to poor orange harvest and therefore, decline in the export of oranges by more than US\$2 million. Export earnings of other items like cardamom, boulders, cement, dolomite, limestones, fruit products also declined in 1993.

Imports from Bangladesh

Major imports from Bangladesh consist of jute bag, jute carpets, condensed milk, ready-made garments, pharmaceutical products, ceramic and melamine products. Total imports from Bangladesh during the period 1988-1994 amounted to approximately US\$1.15 million. Imports from Bangladesh are as follows:

1988-US\$ 0.09 million
1990-US\$ 0.19 million
1991-US\$ 0.29 million
1992-US\$ 0.16 million
1993-US\$ 0.18 million
1994-US\$ 0.23 million

Trade Balance:

As mentioned earlier trade has from the very beginning been in favor of Bhutan. Figure of exports and imports to and from Bangladesh are as follows:

Exports and Imports to and from Bangladesh

Year	Export (US\$M)	Import (US\$M)	Balance (US\$M)
1980	7.64	0.19	7.45
1991	5.34	0.29	5.05
1992	10.44	0.16	10.28
1993	6.63	0.18	3.93
1994	4.11	0.23	3.88

As seen in the above table, the trade balance is skewed in

favour of Bhutan. In 1992, Bhutan recorded a surplus of over US\$ 10 million in her trade with Bangladesh, largely due to the surge in the export of oranges from Bhutan. This imbalance in trade in Bhutan's favour has caused some concern among certain quarters in Bangladesh. It has been said that the imposition of 50% duties on imports from Bhutan was mainly due to imbalance in trade against Bangladesh. It may be noted that Bhutan however did not reciprocate the decision to impose 50% of applicable duty and continues to accord 100% duty exemption on Bangladesh imports identified in the Trade Protocol.

Bhutan is aware of the imbalance in trade and has taken many steps to improve the situation. The Royal Government has made significant efforts to increase imports from Bangladesh. Ten import companies were established in Bhutan with a specific mandate for imports exclusively from Bangladesh. Several single country trade fairs have been held in Bhutan, with the latest held in November 1995, solely to promote products from Bangladesh in the Bhutanese market. These fairs have been organised by Bhutanese Import Companies with the support of the Bhutan Chamber of Commerce and Industry. Various trade delegations from Bhutan over the past few years have been visiting Bangladesh to meet exporters and to identify products that have a potential market in Bhutan. It may be mentioned here that a trade delegation, representing seven import houses of Bhutan, visited Dhaka in April 1994. The purpose of fielding this delegation was to identify potential Bangladesh exports for the exhibition held in September 1994. Since then more than four trade exhibitions of products from Bangladesh have been held in Bhutan.

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