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Bilateral Trade between India and Bangladesh: The Dumping Issue

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My research paper on “Bilateral Trade between India and Bangladesh: The Dumping Issue” which I prepared and hereby submit to fulfill the partial requirement for the completion of my BSECO program. This study discusses the various aspects on dumping and antidumping issues between two neighbouring countries, Bangladesh and India.

Sincerely yours,

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Declaration by the Student

I declare that, the research on the anti-dumping issue; “Bilateral Trade between India and Bangladesh: The Dumping Issue”- has been prepared to fulfill partial requirement of my BSECO program.

This paper is my own work and has not been submitted anywhere for any degree or diploma program.

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Abstract

The trades between two countries were long before the liberation war of Bangladesh but as soon as both economies started flourishing India played different strategy on restricting imports from Bangladesh. There were several cases that got filed for unfair antidumping between nations. The economic and trade relationship between India and Bangladesh is like, between an elephant herd going over an ant colony. The paper is about the trade dispute settlement issue between India and Bangladesh. The allegation of dumping and using counter veiling measures on lead acid battery import to India, compelled Bangladeshi battery exporter's to go against Indian government. A least developing country going against a bigger and greater economy is a huge challenge to present at the World Trade Organization (WTO). It is unlikely for a weaker nation to stand against its neighbouring country with many political leverage and border security issues. As a least developing country (LDC) this unfair duty had an impact on its balance of trade with India and lead to drawbacks in fair business profits. There were several rounds of error and trial consultation between Bangladesh and India that took place at WTO for this case. To get a settlement by uplifting this duty imposed on lead acid battery, and which was also pointed out that it was not a legit antidumping duty, from the calculations of Bangladeshi battery exporter Rahimafrooz. This paper will show a case solving matter on anti-dumping act in reducing bilateral trade deficit between nations. Also, what are the necessary policies the foreign mission may resort to remove trade deficit and to protect local industries without hindering bilateral trade.

Key words: Trade, Antidumping, WTO, Nontariff barrier, Dispute Settlement Body

Introduction

India is our neighbouring country. Trade with India is important for Bangladesh because of the proximity of the border and the friendship we enjoy. Since our independence the trade volume increases day by day. Still we face problem in trade with India. We have issues regarding trade deficit and antidumping allegations. This paper is about the issue on dumping.

This paper is based on secondary data. The data is compiled from internet, government reports from the ministry, WTO reports, online news journals and articles. Documents and conference papers were reviewed to gather information on theme of this paper. There are many cases filed at WTO on dumping issues, and Bangladesh as a Least Developing Country (LDC) won its first case against Indian antidumping policy. It is a classic case. The limitation of this paper may be due to inaccessibility by the confidential nature of the case. This paper is divided into five chapters. Chapter one discusses the history and trade relation between Bangladesh and India. The formation of Asian countries under one free trade area. Although there are some privileges of trade between India and Bangladesh, however there is an enormous deficit between these two neighbouring countries. Chapter two describes the dumping issue that India faced, and antidumping allegation that Bangladesh faced. And lastly the procedures and investigation of Rahimafrooz case which the Indian battery manufacturer put dumping allegation against it.

Chapter I

History and trade relations between Bangladesh and India

Bangladesh and India has been sharing a culture long before the effect of globalization and any trade relations taking place. India also played a vital role for the liberation war in 1971 and soon the neighbouring country became one of the leading partners in import and export. And not long ago, the economic complex and business unrest between these two countries was not an issue. Background search and reading found out that from early 1990s Bangladesh- India trade deficit has increased over time. It is true that Bangladesh and India are bilateral in trade, but recent studies and proves of trade relations show that it is not the scenario of bilateral trade. In August 2012, De et al, published in their Policy Research Working Paper “Bangladesh has a high deficit in its trade with India—having risen from US\$ 44 million to US\$ 2.5 billion from 1981-2009”. In another study by the World Bank, Indian policy is exploiting the means to be under SAFTA and bilateral FTA. “Indian exporters to Bangladesh are successfully competing with exporters in the rest of the world (ROW) and have achieved substantial shares in Bangladesh’s import markets, while in most cases paying relatively high tariffs which in principle are the same for all exporters. If Bangladesh’s MFN tariffs for the rest of the world were to remain the same while India received duty free treatment under SAFTA or a bilateral FTA, for most of these products Indian exporters would have a substantial price advantage in products in which it appears from the trade data they are already highly competitive”, (Patel, P.C. et al, 2006)

As India is a giant country India which is also a developing country compared to Bangladesh in all aspects. We can also see in an empirical approach that this is the scenario between neighbouring countries. The unrest factors between countries took place in an event of trade disputes. A silent retaliation to stop battery imports to India. The dumping case of lead acid battery is a minor case but it is one sort of a step to discourage Bangladeshi products to export to India. There are other products also like jute, jute goods, hydrogen peroxide where anti-dumping duty is also imposed. And broaden the trade deficit between the two countries. Dumping is known as protectionism from foreign country products to protect domestic products from low priced competition of foreign products. On this issue an author said that economists from India claims that the trade pattern between India and Bangladesh is of comparative advantage trade.

There are goods that India produces that Bangladesh needs, but most of the goods that Bangladesh produces are not needed by India. In one way, India was looking for a loophole to impose restriction on Bangladeshi products to get its domestic market flourished both in their market and to rest of the world. Bangladesh faces non-tariff barrier from India in a significant amount, which is also strategy made by Indian government by implementing policies. Non-tariff barriers are other sort of tariff; it means tariff in an indirect way. Imposing restrictions like quotas, embargoes, anti-dumping duty for protection of local industries by the importing country (Taslim, 2006).

Bangladesh-India Bilateral Trade Statistics

Upper value Tk. in m
(Converted to US \$ in m)

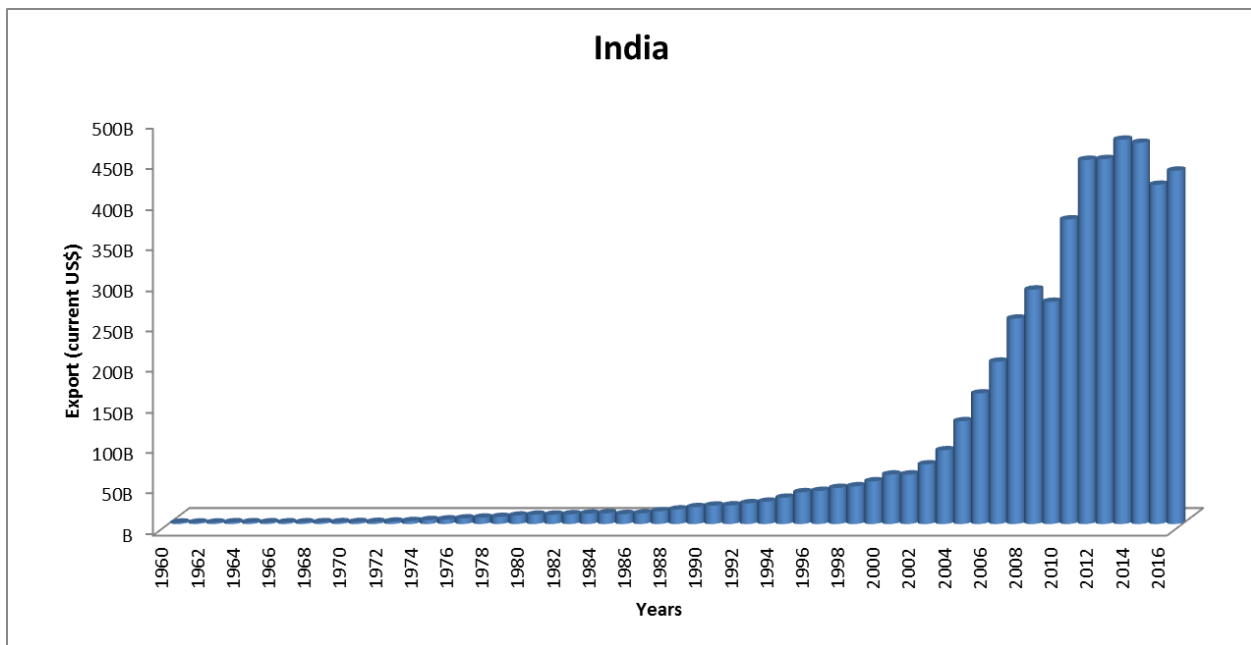
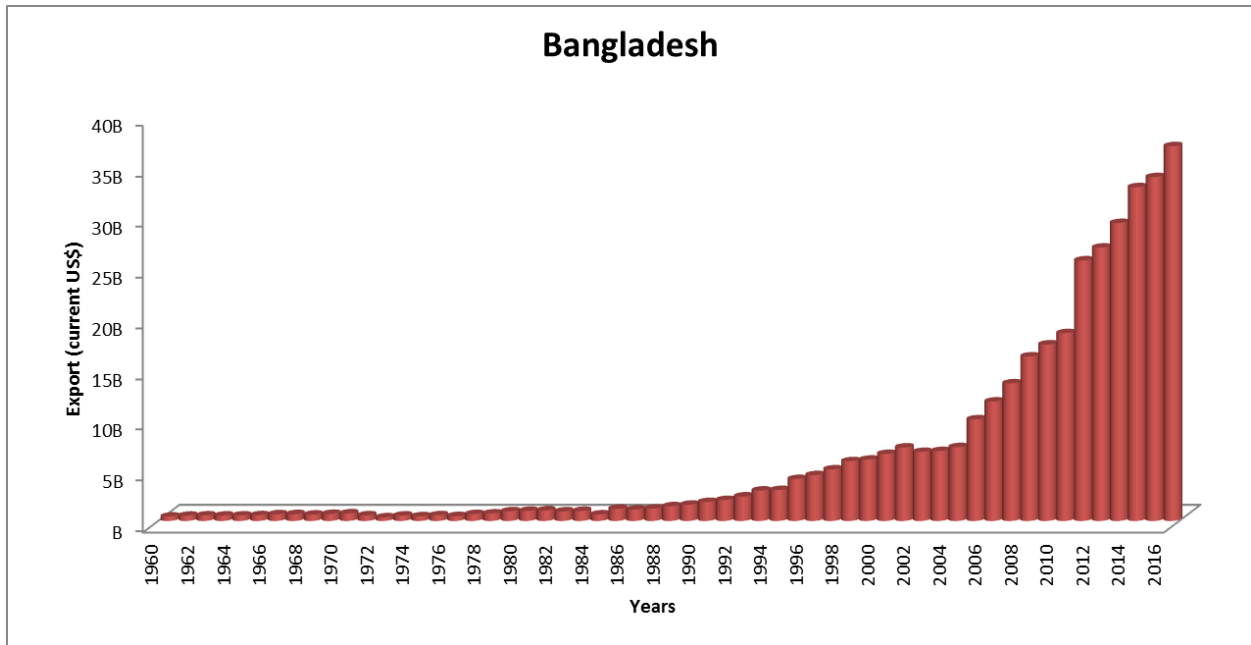
| Year | Export | Import | Trade Ratio |
|---------|-----------------------|-----------------------|-------------|
| 2009-10 | 21680 (304.62) | 221573 (3202.1) | 1:11 |
| 2010-11 | 36475 (512.5) | 324832 (4560) | 1:9 |
| 2011-12 | 38792 (490.42) | 376428.5 (4758.89) | 1:10 |
| 2012-13 | 45071.68 (563.96) | 381598 (4776.9) | 1:8.47 |
| 2013-14 | 35448.42 (456.633) | 469080 (6035.5) | 1: 13.22 |
| 2014-15 | 40944.83 (527.16) | 452668.2 (5828.10) | 1:11.05 |
| 2015-16 | 53969.82 (689.622) | 426847.35 (5452.9) | 1:7.9 |

Source: Bangladesh Bank import data and Export Promotion Bureau export data.

Prepared by: Dhaka Chamber of Commerce and Industry, Research Department.

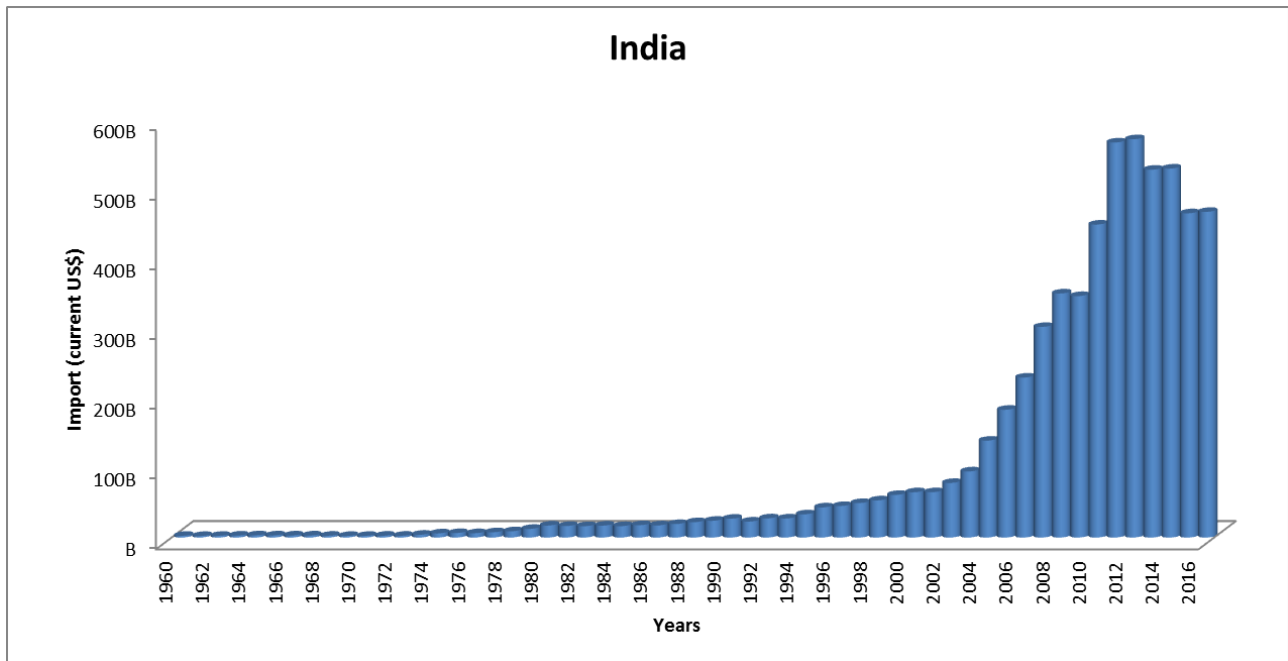
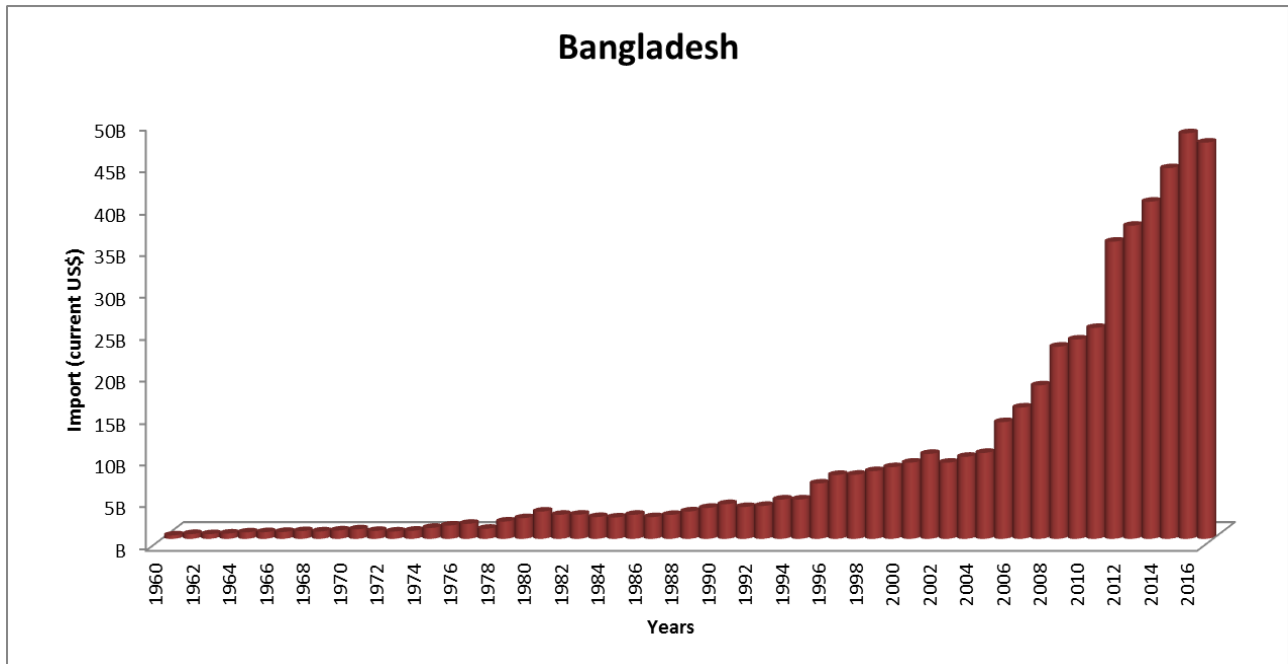
The numerical values that are in brackets represent the total items exported to India and imported from India in current US dollar. The trade ratio indicates that for every one exported item to India, the number of imports brought from India. The most highest import was during the fiscal year 2013-14, the lowest from 2015-16. We can conclude that there is bilateral trade deficit between Bangladesh and India. The ratio is always heavy on the Import from India to

Bangladesh. From 2009 to 2016 the trade deficit broadened and few items like jute and jute goods, hydrogen peroxide and lead acid battery took a major hit on dumping allegations. For this the Indian government imposed anti-dumping duties on exports to these items and made a huge trade gap. Bangladeshi jute yarn exports will be facing anti-dumping duties from \$19 to \$162 per ton, for jute \$352 per ton, and for jute bag from \$125 to \$139 per ton (Kibria & Hossain, 2016).



Source: World Bank and OECD data files.

The above data represents the exports of all kinds of goods and services of both Bangladesh and India. From the year 1960 till 2016, the export volume is of a huge difference between both countries. Bangladesh exported around 40 billion US dollar and India approximately 500 billion US dollar, to the rest of the world. Exporting and importing began since the time, before the nation divided and before the liberation war of Bangladesh 1971.



Source: World Bank and OECD data files

The import value between two countries is around 50 billion US dollar for Bangladesh and India around 600 billion US dollar. India as a developing country needs more imports to fulfill country demands. Industrial needs, infrastructure development, standard of living, and all other factors provide a reason for necessary imports from other countries.

The major export items to India are garments clothes, textile goods, leather goods, leather footwear, bicycle, jute goods, food items and others.

The major import items from India are all types of cottons, accessories of vehicles, nuclear reactor machineries, perishable goods like cereal, baby food products, fruits, nuts, citrus fruits vegetables, oils, dairy products, honey, coffee and tea, essential oils, cosmetics, soap, soap organics, perfumery, and washroom preparation items. Chemical, organic chemical and metal items like iron, steel, salt, sulphur, cement, lime, minerals, bituminous substances, mineral oils, others. Tanning and dyeing items like pigments, dyes, colouring materials, varnishes, paints, ink. Rubber, fiber items that made from man-made textiles.

We can conclude that there is bilateral trade deficit between Bangladesh and India. The ratio is always greater on the import from India to Bangladesh. From 2009 to 2016 the trade deficit broadened and few items like jute and jute goods, hydrogen peroxide and lead acid battery took a major hit on dumping allegations too. For this the Indian government imposed anti-dumping duties on exports to these items and made a huge trade gap. As it is written in an article, Bangladeshi jute yarn exports will be facing antidumping duties from \$19 to \$162 per ton; for jute \$352 per ton, and for jute bag from \$125 to \$139 per ton (Kibria & Hossain, 2016).

Chapter II

Dumping and Antidumping Investigation Process

Dumping is a trade tool when a foreign country sells its goods to another country below the market price of that good. This type of dumping is known to be predatory dumping. The purpose of writing this paper is to prove the unfair strategy of imposing antidumping duty on Bangladeshi battery exports to India. The battery export to India was from 1996, as it is a required product and licensed under India's Special Import license. Commerce Ministry, Bangladesh Tariff Commission, Bangladesh Geneva Mission and Bangladesh High Commission in New Delhi were very supportive towards the case of Rahimafrooz. Exporters and manufacturers of lead acid battery provided information to the government about the price and listed imports to India. There was a 100 percent antidumping duty charged to Rahimafrooz batteries in Indian markets. This was the first move from a least developing country against an advanced developing country with many advantages at World Trade Organization. Apart from the advantage, Bangladesh as a LDC received support from Advisory Centre on WTO Law (Kibria and Hossain, 2016).

Dumping allegation was complained to Indian Directorate General of Anti-Dumping and Allied Duties by two Indian battery manufacturers Exide Industries Ltd and Amara Raja Ltd. And they petitioned against Rahimafrooz. While at it, they also mentioned that Technolink and Amaz-K Techtrade as Bangladeshi companies dumping into India when it was clear that Rahimafrooz was the only battery exporter to Indian. It was nothing new to in the international competition market, the battery manufacturers from India wanted the domestic market to establish and drive Rahimafrooz out of the competition.

There are two criteria to be met, one, if there is any "material injury" which means if the profitability of the local products declined. Two, if the price of the foreign or dumping product is listed as "less than fair value" (LFTV). In order to provide evidence of dumping, gather information of the foreign products price in their domestic country and the price charged in the complaining country (Knetter and Prusa, 2000). The unfair anti-dumping issue of Bangladesh was later taken to the World Trade Organization (WTO)'s Dispute Settlement Body (DSB) for further proceeding of the case. By rule, the complaining country may negotiate with the country

that imposed the anti-dumping duty with a mediator assigned by the DSB within 60 days. If there is no outcome from this, then a consultation will take place between two countries abiding the WTO trade rules and regulation. The jute industry from Bangladesh faced duties according to product basis, as investigation took place through certain legal procedures between the countries. It was also seen while investigation that the complaining country, Bangladesh dumped any product on each other's nation while the investigation was going on (Kibria and Hossain, 2016). Both of the country is under the Free Trade Area (FTA) (SAFTA). South Asian Free Trade Area or South Asian Association of Regional Cooperation is a panel for South Asian countries like Afghanistan, Pakistan, Bangladesh, India, Nepal, Bhutan, Sri Lanka and Maldives. SAARC should have a capable committee of expert's body to assess the case of disputes and settlements. It is by the rule that SAARC countries should look into matters like nontariff barriers disputes, but another better strategy to tackle with situations regarding nontariff barrier would be the World Trade Organization's Dispute Settlement Body (Rahman, 2010b). In August 2012, De *et al*, published in their Policy Research Working Paper "Bangladesh has a high deficit in its trade with India having risen from US\$ 44 million to US\$ 2.5 billion from 1981-2009". This finding is true in numbers shown in the tables of trade statistics between India and Bangladesh. In another research paper, the fear of retaliating with foreign country has led to less filings of antidumping duty. Also, antitrust issues are there to these settlement bodies. Economists believe that these antidumping laws are used in such a way that policymaker's are unaware of it (Blonigen and Prusa, 2001). Since, there are many cases filed against "developing countries", there is a record that around 300 antidumping cases are filed at the end of 2002-03. Most of the products that have been imposed with antidumping duties are chemicals and petrochemicals, pharmaceuticals, textiles, iron and steel (Baruah, 2007)

SAARC or SAFTA both serve as free trade area and agreements for Asian nations to be developed with fair rules and policy among countries. But it is not the scenario when the case of anti-dumping aroused. There was debate among the Bangladesh Accumulated Battery Manufacturers Association (BABMA) and finally the challenge was taken to the WTO Dispute Settlement Body. It was a disagreement in those governing bodies since the economic power, policy, and strategy between Asian countries differ. The neighbouring country India will somehow always look forward to impose allegations to a LDC country like Bangladesh.

Chapter III

The loophole of antidumping: Rahimafrooz case

The final finding of the case was DGAD Directorate General of Anti-Dumping and Allied Duties released its data on the tariff imposed on the product. The Indian Minister suggested a way to raise the price of the battery. But it was not possible under the act of Article 8, because the investigation was completed yet. However, Bangladeshi exporter was convinced that the anti-dumping was somehow imposed on the product. Here, the *ad valorem* duty was imposed on weight of the batteries. A sneaky trick the Indian tariff commission did that no one understood while the investigation was going on. Reviewing the recommendations given by DGAD, *ad valorem* duty is supposed to be induced on to battery pieces per unit; rather it was imposed on per unit of weight. Such small amount of duty would accumulate to large amount if it is on per unit of weight (Taslim, 2006).

| Fiscal Year | Tariff rate |
|-------------|-------------|
| 1998 | 47.2% |
| 2001 | 69.3% |
| 2003 | 75.3% |
| 2004 | 85.5% |
| 2005 | 72.2% |

Source: www.worldbank.org.bd/bds

The table above shows the tariff imposed on lead acid battery substantially increased over years. In news reported and published, by the Economic Times collected from The Indian Times, it was said that anti-dumping duty was imposed from 22nd May 2002, and was effective till 21st November 2002, and which was paid in Indian currency. The different types of batteries that had been imposed with antidumping duties are motorcycle batteries, automotive and industrial. Each of these batteries values were ranged from \$2.0475 per kg for automotive batteries to \$3.7350 per kg for motorcycle batteries. These countervailing duties were taken off as soon as the case was rested at WTO's Dispute Settlement Body.

Chapter IV

Policy Recommendation

The Commerce Ministry, Ministry of Foreign Affairs, Bangladesh Trade Commission played important role for this case of lead acid battery. For least developing country like Bangladesh it is like having no or less chance of having a fair trial at WTO or at any other trade settlement body. SAARC and under SAFTA treatment by rule it should be looking into matters like this. But since competition between economy and industry is like this, it is necessary to have a standard dispute settlement body. Anti-dumping did not only increased trade deficit but it also disrupted trade flow and international relation. There are cases like hydrogen peroxide, jute and other small items which the government might look into to reduce a negative balance of trade from India and different countries. As least developing countries are by nature politically unstable and does not have an efficient governing body. And it is also beside a country which also has the similar traits but using tricky strategy in achieving economic goals. Under SAARC framework, tariff rules should be reviewed properly for most favored nations. Along with this, Bangladesh needs some strong data collection and evidence of every products supplying to developing nation. A separate body from the government and private sector would keep data evidence initiating for further procedures of similar cases like this. Tariff records and price of products of both exporting and importing country would ease the necessary calculations.

Concluding remarks

Despite the fact of winning, Bangladesh was nervous about the case that it would win or not at the WTO. But the Bangladesh Tariff Commission was a support at Permanent Mission of Bangladesh in Geneva that acted a psychological support to get a fair role. It was a necessary step to go to DSB because LDC and Developing countries are like younger brother and elder brother fighting over something that they can never reach to a conclusion. The strategy of trade between upper hand and lower hand nation is supposed to be unfair. As the pace of the competition is tortoise and rabbit. In order for any country with similar condition like Bangladesh and India, it would be better to go to WTO and resolve matters. The deficit of trade broadens in charging antidumping, and if it is unfair like the lead acid battery case, action of allegation should be taken to WTO. As WTO's dispute settlement body investigation rules and regulations, having a neutral body would give a fair judgement in conclusion.

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