

## India-Bangladesh Bilateral Trade: Problems and Prospects.

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### Abstract

With the start of a new phase in Indo-Bangladesh relations, which has put the bilateral relations on an upswing, it is only natural that both sides should try to give a boost to bilateral trade. Though the bilateral trade is also not problem free, the issues involved are far easier to resolve than many others. At the same time, closer economic ties could also help in resolving other bilateral issues. There is significant bilateral trade between India and Bangladesh. India an emerging economic powerhouse caters too many of the needs of Bangladesh. But this has also skewed the balance of trade in favour of India. The imports of Bangladesh are far more than its exports. What is more significant is that even the large volume of informal trade that exists between the two countries is dominated by India. The resultant trade deficit has led to complaints from Bangladesh. Now, it is expected that Narendra Modi's government will not only resolve the pending issues but also enhance the relationship with Bangladesh.

**Key Words:** Trade Agreement, Trade Deficit, Tariff and Non-tariff Barriers, Informal and Illegal Trade, Weak Economic Ties, Connectivity and Transit.

### Introduction

India's relations with Bangladesh have traversed a topsy-turvy path since 1971. India had played a major role in the liberation of Bangladesh yet this relationship could not sustain the initial euphoria of mutual goodwill and interest. The bilateral trade between India and Bangladesh started after the latter was liberated from Pakistan in 1971. Immediately after liberation Bangladesh required consumer goods, especially food, which came from India. Soon after Bangladesh also started opening up its economy. The country introduced economic reforms in 1982. This led to the increase of Indian exports to Bangladesh. The formal and informal exports of India grew because of the appreciation of the real taka/rupee exchange rate by about 50 per cent between the mid- 1980 and 1999. At the same time it retarded the growth of Bangladesh exports to India. Though an attempt was made to correct the anomalies, after 1999, but Bangladesh's exports to India continued to stagnate.<sup>1</sup> In the 1980s the main exports of Bangladesh were basic manufactures, including leather, rubber, paper and chemicals. Gradually, the list has grown and Bangladesh today exports medicines, textiles, iron and steel, raw jute, Jamdani sarees, medical appliances and clothing accessories. These have found a growing market in India. Bangladesh imports from India include food grains, fabrics, cotton yarn, machinery, instruments, glass and glassware, ceramics and coal. The study of the trade relation between India and Bangladesh shows that Bangladesh experiences chronic bilateral trade imbalance in her trade with India. Both India and Bangladesh are members of SAARC and also of several other regional blocs e.g. BIMSTEC, IOR-ARC etc. They are also signatories of various plurilateral preferential trading agreements like Bangkok Agreement, SAPTA, and Global System of Trade Preferences (GSTP) etc. These bodies are to promote regional trade but huge bilateral trade deficit becomes a contending issue in regional cooperation between the two countries and remains a major topic of discussion in India-Bangladesh trade talk.

### Trade Agreement

The first Indo-Bangladesh trade agreement viz., 'Trade Agreement between the Government of India and the Government of the People's of Bangladesh' signed on March 1972 provides for border trade for the people within the 16-kilometer belt of the border between West Bengal, Assam, Meghalaya, Tripura and Mizoram on one hand and Bangladesh on the other.<sup>2</sup> The Indo-Bangladesh trade treaty has provided for 'border trade' between the two countries, whereby permits would be issued to people living on either side of the border. Persons holding such permits would be allowed to carry across the border personal consumption goods in specified quantities and money up to a value of Rs 100 only once a day in each direction or any two specified days of a week and only through some specified routes. As 95 per cent of the population of Bangladesh lives in non-urban centres, almost the entire population along the border would be in a position to take advantage of the provisions. However, in view of the stringent limits placed on the quantum of goods and cash that could be taken across the border, traders would find it difficult to operate. In all probability, goods thus traded will travel beyond the 16 km limit even though people residing only within the 'belt' are permitted to carry on the border trade. Moreover, in the present unsettled conditions in Bangladesh and the inadequate administrative machinery, the government would find it difficult to delimit the border trade to people living in the 16 km limit.<sup>3</sup>

After that, a bilateral trade agreement between Bangladesh and India was signed in 1980 and was later amended and formalised in March 2006. This came into force on April 1, 2006 and was valid till March 2009. This agreement provided for expansion of trade and economic cooperation, making mutually beneficial arrangements for the use of waterways, railways and roadways; the passage of goods between two places in one country through the territory of the other; exchange of business and trade delegations and annual consultations to review the working of the agreement.<sup>4</sup>

#### **Hurdles in Indo-Bangladesh Trade**

Two countries start trading with each other when they perceived clear comparative advantages in exporting products required by each other. India has a 'revealed comparative advantages' in many goods that are required by Bangladesh. This is one reason why Indian exports to Bangladesh have been growing over the years. On the other hand, Bangladesh lacks a similar 'revealed comparative advantages'. As a result, its products have not been able to find an easy market in India. Trade is also facilitated when two countries have a complementarity in their products. This complementarity has to be both of products as well as quantity. India has the capability to meet the import requirements of Bangladesh. But in most cases, the reverse is not true. Thus, there exists a case of partial complementarity or one way complementary between the two countries. In the case of sea-borne trade certain products have to go to specific ports for customs clearance. This has given rise to bootleg smuggling which bypasses custom posts altogether or even "official smuggling" involving bribes to customs and other officials on both sides of the border. Trade between the two countries has also been constrained by the lack of trans-shipment/transit facilities between Bangladesh and India. Although some policy decisions have been taken in this regard, but progress on ground is still awaited. Trans- Shipment through Bangladesh is expected to benefit India by cutting the distance between India's northeast and the mainland, thus facilitating the transport of goods. These goods can also be expected through Chittagong Port. This will also bring in significant amount of revenue to Bangladesh as port fee.<sup>5</sup>

#### **Trade Deficit**

The nature of Indo-Bangladesh relations has created a trade deficit for Bangladesh. The huge trade deficit is a most important concern for Bangladesh with regard to bilateral trade. The annual deficit shows a rising trend. It went up from \$ 166.69 million to \$2.48 billion in 2009 with some major fluctuations during the second half of 1990s. It, however, peaked in 2008 at \$3.18 billion. Apart from an exponential trend in the annual deficit, the cumulative trade deficit has touched \$24.79 billion over the last three decades. In addition, to its trade deficit with India, Bangladesh's trade deficit with the world has also increased significantly over the years. From only 2.6 per cent in 1980, it increased to as high as one-third of Bangladesh's total trade deficit. Recently some initiatives have been taken by India to reduce the huge trade imbalance. During his visit to Bangladesh, the Indian Commerce Minister said that India has agreed to increase the import of readymade garment products from the existing 8 million to 10 million pieces. Bangladesh, however, demanded that this be increased to 20 million pieces.<sup>6</sup>

#### **Tariff and Non-tariff Barriers**

In Bangladesh there is a general perception that tariff and non-tariff barriers (NTBs) imposed by India significantly restricts the market access of Bangladeshi products to India compared to that of Indian products in Bangladesh. It has been calculated that India imposes a higher average tariff on Bangladesh products compared to the tariff imposed on Indian products in the Bangladesh market. Out of ten board products groups, six products of Bangladesh attract higher applied average tariffs in the Indian market. These are (i) meat, fish, dairy products, etc.; (ii) cereals, oil, sugar, etc.; (iii) edible preparations, beverage, tobacco, etc.; (iv) pharmaceuticals, fertilizers, plastics; (v) glass, metal products, etc.; and (vi) mechanical and electrical products. Bangladesh's exports to India, however, have not been constrained by tariff protection. India has been giving Bangladesh extensive tariff preferences under SAPTA (South Asia Preferential Tariff Arrangement, which was a precursor of SAFTA) and many of the tariff barriers applicable to other countries are not imposed on Bangladesh exports. This shows that India's trade policy has not been discriminatory towards Bangladesh and that the slow growth of the latter's exports to India's due to other factors such as a low degree of complementarity and weak comparative advantages. India has dismantled most of its tariff protection regime for industrial goods. It has also brought down its general tariff levels and Indian markets are full of imported goods from all over the world.

**Table-1. India's trade with Peoples Republic of Bangladesh**

Values in US \$ Millions

S.No	Year	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011
<b>1</b>	<b>EXPORT</b>	1,629.57	2,923.72	2,497.87	2,433.77	3,606.39
<b>2</b>	% Growth		79.42	-14.57	-2.57	48.18
<b>3</b>	India's Total Export	126,414.05	163,132.18	185,295.36	178,751.43	251,135.89
<b>4</b>	% Growth		29.05	13.59	-3.53	40.49
<b>5</b>	%Share	1.29	1.79	1.35	1.36	1.44
<b>6</b>	<b>IMPORT</b>	228.00	257.02	313.11	254.66	446.75
<b>7</b>	%Growth		12.73	21.82	-18.67	75.43
<b>8</b>	India's Total Import	185,735.24	251,654.01	303,696.31	288,372.88	369,769.13
<b>9</b>	%Growth		35.49	20.68	-5.05	28.23
<b>10</b>	%Share	0.12	0.10	0.10	0.09	0.12
<b>11</b>	<b>TOTAL TRADE</b>	1,857.57	3,180.74	2,810.98	2,688.44	4,053.15
<b>12</b>	%Growth		71.23	-11.62	-4.36	50.76
<b>13</b>	India's Total Trade	312,149.29	414,786.19	488,991.67	467,124.31	620,905.02
<b>14</b>	%Growth		32.88	17.89	-4.47	32.92
<b>15</b>	%Share	0.60	0.77	0.57	0.58	0.65
<b>16</b>	<b>TRADE BALANCE</b>	1,401.57	2,666.70	2,184.76	2,179.11	3,159.64
<b>17</b>	<b>India's Trade Balance</b>	<b>-59,321.19</b>	<b>-88,521.82</b>	<b>-18,400.95</b>	<b>-09,621.45</b>	<b>-18,633.24</b>

Source: Department of Commerce, Government of India <http://commerce.nic.in/eidb/iecnt.asp>

Bangladesh will have to compete with the foreign goods in the Indian markets, which could prove difficult even with zero duty access. The protection provided by India to agricultural goods is in accordance with WTO rules.<sup>7</sup> Over the years, India has taken several policy measures to encourage exports from Bangladesh. At the 14th SAARC summit held in New Delhi in April 2007, India announced that it would grant duty-free access to Bangladeshi imports that are on the 'positive' list. India also agreed to slash import duty on goods on the 'negative; list (Sensitive List) from 45 per cent to 10 per cent. In fact, India decided to grant Zero-tariff access for products in the positive list to all the Least Developed Countries (LDCs) of SAARC. While India, Pakistan and Sri Lanka are categorized as Non-Least Developed Countries (NLDCs), Bangladesh, Bhutan, the Maldives and Nepal are categorized as the LDCs. This unilateral gesture by India was in keeping with the trade liberalisation and investment enhancing measures as per SAPTA norms with regard to the LDCs of the region, and it came much before the schedule date of 2009. With regard to the demand for duty free entry of 61 Bangladeshi products. India allowed duty free access to 46 products during Prime Minister Manmohan Singh's visit in September 2011 and to another 15 products in November 2011. Amongst these products, 47 are textiles, and the others are leather and leather products. This initiative has been a major milestone in the bilateral trade relations.<sup>8</sup>

## Free Trade Area

There have been some strong arguments for regional economic integration in South Asia, as it will generate significant intraregional trade and welfare gains for South Asian Countries. The potential benefits expected from South Asian Free Trade Area (SAFTA) and other regional trading arrangements in South Asia are minimal because there are limited complementarities in the region as the main trading partners of individual South Asian countries are in the West. It is also alleged that a Regional Trading Arrangements (RTA) in South Asia will lead to substantial trade diversion rather than trade creation and it may become a stumbling block for multilateral trade liberalisation. Keeping these in mind, it is imperative for Bangladesh to look for some other alternatives in order to reduce its mounting trade deficit with India. One of such options would be to go in for bilateral Free Trade Agreements (FTAs). Two scenarios can be considered in this regard:

(i) FTA with India to reduce trade imbalance. (ii) FTA with another major trading partner in South Asia to reduce trade deficit with India. As per Hossain and Kabir (2011), the application of the partial equilibrium model in the case of Bangladesh- India FTA, would lead to a substantial increase in exports between them, while Bangladesh's imports from its other neighbours would decrease to some extent. The result of the Bangladesh – India FTA in Global Trade Analysis Project (GTAP) model reveal that by entering into a bilateral FTA, Bangladesh would come up with an overall positive trade balance effect of \$ 108 million while for India it would be about \$97 million. It indicates that an FTA would exert a positive influence on the trade balance of both countries.<sup>9</sup>

## Trade Facilitation Measures

Both India and Bangladesh are reluctant to implement trade facilitation measures. One of the key areas for the trade facilitation is to improve the efficiency of customs authorities to facilitate efficient management of cross border trade. Customs clearance procedures are generally cumbersome and time consuming. However, some changes have taken place because of customs automation, which has improved the overall state trade facilitation.<sup>10</sup> The countries also suffer from inefficient ports (sea and land based) and airports, which lead to serve congestion and delay. Most of the land customs stations have been found to be inefficient; only one station in India (Raxaul) has recently been found to be efficient. Bangladesh also suffers from congestion and inefficiency at major ports, especially Chittagong (sea) and Benapole (land), while affects its trade with India and other parts of the world.

## Informal and Illegal Trade

Ever since Bangladesh's independence there has been a substantial informal unrecorded trade across the India-Bangladesh land borders, and a number of studies both in Bangladesh and in India have dealt with different aspects of it. Much of this trade is quasi legal and is best characterized as "informal" rather than illegal, because there is wide participation by local people in the border areas, the trade generally bypasses Customs posts, and because –as S.K. Chaudhuri's classic study noted–"the field operators generally operate in liaison with the anti-smuggling enforcement agencies". Informal trade of this kind usually involving large numbers of local people individually transporting small quantities-often just as head loads or by bicycle rickshaw-and in Bangladesh is sometimes called "bootleg" smuggling. At the other extreme there is trade which goes in larger quantities-mostly by truck-through the formal legal Customs and other channels, but which involves explicitly illegal practices such as under invoicing, misclassification and bribery of Customs and other officials, and which in Bangladesh is sometimes called "technical" smuggling.<sup>11</sup> The Indo-Bangladesh trade is characterised by a plethora of regulations, absence of information transparency, the bureaucratic approach of public agents, infrastructure bottlenecks in transportation, communication, and the rent seeking activities of public servants. All these factors translate into additional costs for traders prompting them to go in for informal trade. The problems faced by the Bangladesh traders are in the area of licensing, refunds and custom dealing, whereas the Indian traders face more problems with banks and transportation. Institutional factors are responsible for encouraging informal trade between India and Bangladesh. In informal trade, payment is realized quickly. There is no paperwork or procedural delay. Besides, the transportation costs are also lower. Interestingly, trade policy barriers like tariffs and quantitative restrictions are not factors that lead to informal trade. However, people do resort to informal trade because they do not know much about trade rules due to lack of education.<sup>12</sup> It has also been found that a larger proportion of goods sent from India to Bangladesh are procured from other states in India. This shows that informal trade is at least as –if not better- organised as formal trade. It has also been found that some goods meant for poor people in India that are distributed through the public distribution system are sent to Bangladesh through informal trade. This difference in tariff levels between India and Bangladesh is not much. This evident from the fact that goods moving from Bangladesh to India are generally not of third country origin. At present, 1.5 million cattle are exported informally to Bangladesh. Cattle from India are a major source of hides and skins needed for manufacturing export quality finished leather in Bangladesh's more modern slaughterhouse and

tanneries. The annual value of informal exports to Bangladesh from India in the year 2000 was estimated at between \$1 billion. Consumer goods of international quality are also informally traded at the border.<sup>13</sup> It is quite obvious that informal trade between the two countries does not take place because of trade policy distortions. The informal traders engage in illegal trade to avoid the problems they face while transacting legal channels. Thus it is possible that even in a zero duty regime some informal trade would persist.

#### **Weak Economic Ties**

The economic basis of bilateral ties between India and Bangladesh remains weak and lacks any constructive agenda, making it even more difficult for the two states to move forward on other issues. This is despite the fact that India and Bangladesh are members of both SAARC and also the Bay of Bengal Initiative for Multi Sectoral Technical and Economic Cooperation (BIMSTEC). The Indo- Bangladesh Joint Working Group on Trade Issues was established in 2003 and has held regular meetings ever since. Nonetheless, it has failed to reorient economic ties between the two states in a meaningful way. Although bilateral trade hovers around \$1.6 billion, it is illegal trade that is the real winner. India's efforts to secure transit and transshipment facilities for accessing Northeast states through the territory of Bangladesh have been rebuffed by Dhaka.<sup>14</sup>

#### **Trade in Services**

Trade in service is problematic from the Indian point of view. This is because it is often difficult to keep track of these services. Health and education constitute a major part of the services sector. Other important constituents are foreign travel, transportation, insurance, investment income, transfer payments and so on. The trade in health and education services goes unrecorded because it hardly ever takes place through official channels. If all these were properly accounted for then possibly one would get a better picture of bilateral trade. A large number of people from Bangladesh come to India for medical treatment. The reason for this lies in the pattern of wealth creation in Bangladesh which has placed private hospitals in their own country out of the reach of most people. In terms of health infrastructure, Bangladesh does not fare too well. Most of the patients travelling to India are on a tourist visa; hence the amount paid by them for medical treatment is not reflected in the import of health services account in the official BOP but in the service account of tourism. Often money is also paid through informal channels or hundis as they are called in Bangladesh. Development of the health service infrastructure in Bangladesh could help improve the situation. If we talk about the trade in education service, the problem area for Bangladesh has been higher education. In the absence of sufficient technical colleges and specialised institutions a considerable number of students come to India to study business management, computer science, engineering and medicine. Around 30 per cent of students also study humanities and social science or related subjects in India. Interestingly, a considerable number of Bangladeshi students studying in India assume an Indian identity. Most of them do not have a no-objection certificate from the education department of the government of Bangladesh. The per capita average expenditure incurred by Bangladeshi for medical treatment in India comes to about \$600. The average annual expenditure of a Bangladeshi student in India was estimated at \$1400. The number of patients in 1998-99 was estimated to be 40,000 while the number of students was estimated at 53000.<sup>15</sup>

#### **Connectivity and Transit**

India was granted transit facilities for movement of goods and personnel to the North-Eastern States until the Indo-Pak war of 1965. This issue has eluded a solution despite the fact that Bangladesh committed both bilaterally and multilaterally, to permit transit. Bangladesh would benefit enormously, particularly from revenue collection by levying charge on all such movements, in addition to improving and expanding its existing, poor infrastructure. Bangladesh is mandated under the bilateral Trade Agreement, SAPTA and SAFTA to provide transit, but successive Bangladesh Government has consistently shown great reluctance and has not taken any steps towards changing their policy of denying transit facilities. For many years International Organisation and States have talked about creating Trans-Asian Highway (TAH). Bangladesh rejected this proposal and has denied Highway through Bangladesh. Probably they fear that this road will be coming from India and ending inside India and that brings up the question of Transshipment. The two countries have not been able to sign a transit treaty during Prime Minister Manmohan Singh's visit as agreement on Teesta could not be reached. In the context of transit Bangladesh is now discussing whether it needs to levy transit fee or whether there is any international precedence for this. India had earlier requested for a corridor or permission to send vehicles through Bangladesh from West Bengal to its North-Eastern States. Otherwise, they have to take the long route around the Siliguri region bypassing Bangladesh. This raises transport cost and the time required for trade and supply. For inexplicable reasons, Bangladesh has not acted positively in this regard. A Bangladesh minister termed imposition of transit fee as 'uncivilised' creating more controversy. There are also doubts whether Bangladesh infrastructure would be able to handle such a transit. India's one billion dollar loan is aimed at improving and developing infrastructure in Bangladesh. Though some security analysts have cited security reasons while

arguing against transit to India the situation is slowly changing. Bangladesh's own desire to grow economically and emerge as an economic hub and a land bridge between South and South East Asia has made it to look by granting such facilities to Nepal and Bhutan thereby connecting the northeastern part of the region. The two countries have signed an inland waterway transit agreement that facilitates transport of goods between one parts of India to the other. The road and rail transit between the two had stopped during the 1965 war. The genuine desire for enhancing economic engagements often takes political colour in Bangladesh. Good connectivity and cheaper means of transport is foremost condition for smooth trade. Therefore New Delhi and Dhaka have been discussing for long to provide transit facility to each other. Sheikh Hasina approved the renewal of the bilateral trade agreement between Bangladesh and India. This agreement permits both the neighbours to use their waterways, roadways and railways for transportation of goods between two places in one country through the territory of other. Bangladesh has also agreed to provide India transshipment facility to send goods from Kolkata to Tripura through Bangladeshi territory. Some South Asian experts believe that if both India and Bangladesh open up transit through their land and water routes as per their mutual commitment, Bangladesh is likely to emerge as a regional hub for inter-state trade and ton his will fetch her lot of transit revenue.<sup>16</sup>

### Conclusion

India and Bangladesh have long shared the common objective of fostering closer economic integration in South Asia. Bilateral trade and investment relations are currently of special interest to both countries. After the India visit of Sheikh Hasina in January 2010, there has been a genuine effort to boost indo-Bangladesh relations. India also indicated its desire to bring in more investment and informed Bangladesh that about \$3.5 billion worth private investment was in a pipeline. This investment is expected to provide employment to people in Bangladesh. Bangladesh exports received a major boost when the Indian Prime Minister, Dr. Manmohan Singh, visited Dhaka in September 2011. Announced duty-free access to 46 textile items from the country.

Since at present there are few complementarities from the point of view of Bangladesh, India can help by encouraging its private sector to make investment in that country. Efforts are already underway to this effect but a lot would depend also on Bangladesh which needs to provide an environment that is conducive for Indian businesses. Narendra Modi's commitment to bring about economic recovery and create jobs can only be executed when peace prevails inside India and with its neighbours. Bangladesh is a huge market for India, which could be one reason for the Modi government not to disrupt the existing relations. It is believed the Modi government, with its huge majority in the parliament, can resolve the pending issues but also enhance the trade relationship with Bangladesh. This is necessary for both the political parties;

To promote trade, investment and economic cooperation, which is balanced, sustainable and builds prosperity in both countries. Both Parties shall take steps to narrow trade imbalances, remove progressively tariff and non-tariff barriers and facilitate trade, by road, rail, inland waterways, air and shipping. Both parties will encourage the development of appropriate infrastructure, use of sea ports, multi-modal transportation and standardization of means of transport for bilateral as well as sub-regional use.

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