

## **Bangladesh-India Trade Relations: Historical Foundation, Present Constraints and Future Prospects**

**Muhammad Faridul Alam**

*Associate Professor, Department of International Relations,  
University of Chittagong.*

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### **Abstract**

India and Bangladesh are not only the neighboring states but also share a common history, culture, heritage, social formation etc since the pre-historic period. Indian association during the liberation movement of Bangladesh was another important benchmark of historical bondage. Bangladesh and India have signed several treaties and Protocols in order to promote bilateral trade since the independence of Bangladesh. However, trading relationship between the two countries is yet to reach at a satisfactory level. Despite a lot of potentials and opportunities provided over time to increase the trade relationship between the neighbors, a very little has been achieved till date. This article intends to analyze the historical initiatives of trade relations as well as the obstacles and future directions to foster the bilateral relationship based on economic statecrafts.

**Key words:** Indo-Bangladesh, economy, development, bi-lateral trade, SAARC

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### **I. INTRODUCTION**

Bangladesh and India share more than 4000 km of land boundary which is the fifth longest shared border in the world. The border cuts across heavily populated villages, market places, roads and railways and common agricultural lands. The international border, drawn during the partition of India in 1947, divides a contiguous landscape and a population that was integrated and interdependent for centuries. The highly porous and often indistinguishable Indo-Bangladesh border gave rise to a number of issues that often vitiated friendly relations between the two neighbors. More importantly, millions of people living on either sides of the border continue to suffer economic hardships and physical restrictions due to frequent incidents along the border. While policymakers in faraway capitals are busy to formulate policies to enhance the bilateral relationship between the neighboring countries, the plight and economic hardship of the people living along the border lines continue to be invisible. A harmonious relationship is a must to boost the overall development in both countries, which might start from the border areas to the capitals or vice-versa. Only then we can expect a balanced relationship in all aspects between Bangladesh and India.

Indo-Bangladesh relations are significant not only because three-quarters of Bangladesh is surrounded by India but also because historically, to many aspects they have political and cultural harmony since the pre-partition period. Nevertheless, both the countries were the part of the Indus civilization for thousand years. Moreover, both the nations were ruled by the same regimes, such as the Mughal and the British colonial regimes by the same governing principles. However, relations between Bangladesh and India have often been difficult. During the partition of the Indian Sub-Continent in 1947, present Bangladesh was a part of Pakistan, known as East Pakistan. The past history of both the countries (India and Pakistan) is marked by some significant wars. As part of Pakistan, East Pakistan was at war with India in 1947 and 1948 and again in 1965. Soon after, during the 1971 war of independence Bangladeshi freedom fighters were aided by India, but the country's distrust of its giant neighbor reemerged after Bangabandhu Sheikh Mujibur Rahman, the founding father of Bangladesh was assassinated in 1975 along with his family members by a group of misled army officers.<sup>1</sup> Since then there has been ups and downs in the bilateral relations between the countries. The changes in the political regimes in both the countries influenced and shaped the relationship to a great extent.

Though Bangladesh and India have differences in terms of size and economy and in most other aspects of development indicators, Bangladesh also commands the interest of India because it is equally interested in maintaining smooth relations with Bangladesh for the sake of its national interest.<sup>2</sup> As far as the trade relation is concerned, India is the second largest trading partner of Bangladesh just after the US. For Bangladesh's import,

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<sup>1</sup> Can India Find Way to Bangladesh's Heart? Paper No. 4608, South Asia Analysis Group, India, 20 July 2011.

<sup>2</sup> Faridul Alam, "Monmohon's Upcoming Visit: Expectations and Realities", The Daily Star, 29 Aug'11.

India holds the top position of the world.<sup>3</sup> As mentioned about the geographical shape of Bangladesh in one hand, it's proximity to India and Indian ability to meet the immediate demand of Bangladesh on the other, Bangladesh has no other first choice but India regarding the imports of emergency commodities. As a result, the trade deficit has been increasing exponentially in the recent past. Official data show that compared to 1983, trade deficit in 2003 is more than 46 times higher. In 1983, trade deficit of Bangladesh was US\$31 million. In 2003, it increased to US\$ 1435.83 million. The growing bilateral trade deficit with India has risen from \$774 million in FY 2000, to \$1,933 million in FY 2005, and \$2,910 million in FY 2010.<sup>4</sup>

## II. HISTORICAL BACKGROUND OF BANGLADESH-INDIA TRADE RELATIONS

Immediately after the independence, Bangladesh and India signed the 'Treaty of Friendship, Cooperation and Peace' on March 19, 1972 in Dhaka for a period of 25 years. Following this treaty, both countries signed the first one-year trade agreement on March 28, 1972. In the agreement, fish, raw jute, newsprint and naphtha were identified as the principal exports of Bangladesh to India. On the other hand, India's major export items to Bangladesh were cement, coal, machinery and unmanufactured tobacco leaf. Another significant feature of that period was that the trade between the nations was limited only to the government level.<sup>5</sup> This agreement also provided border trade between Bangladesh and neighboring states of India; and within 16 kilometers of both countries' border, free trade was allowed for certain commodities.<sup>6</sup> However considering some complications like operating illegal trade in the name of free border, in October 1972, as per the consent of the contracting parties it was abolished and the first trade agreement was extended up to September 1973 to attain the desired level of trade between the two countries.

Before the expiry of the first trade agreement of 1972, it was replaced by another trade agreement for three years which was signed on 5 July 1973 and became effective from 28 September 1973. Raw jute, fish, newsprint, etc were identified as major exportable items of Bangladesh to India. On the other hand, major exports of India to Bangladesh were unmanufactured tobacco, cement, coal, raw cotton, cotton yarn, cotton textiles and books. This agreement provided for a system of Balanced Trade and Payment Arrangement (BTPA) and 'most favored nation's treatment' to each other.

Later, a Protocol was signed on 17 December 1974 due to the fact that the desired level of trade between the two countries was not achieved and increased trade imbalance as Indian Rupee was found to be a barrier in the bilateral trade. As per the Protocol, it was decided that the trade would be conducted in free convertible currency. Further India and Bangladesh signed trade Protocol on 12 January 1976 for higher volume of trade and long-term arrangements for trade of coal and newsprint. BTPA between Bangladesh and India was extended for another three years till 27 September 1979 on 5 October 1976. On 4 October 1980, the third trade agreement was signed between these two nations initially for three years. By mutual consent, this agreement was extendable for another 3 years. On 8 November 1983, Bangladesh and India renewed a Protocol on trade of 1980 for further three years. In May 1986, the trade agreement of 1983 was extended for another three years till 3 October 1989. Subsequently this agreement was renewed a number of times. Based on available information, this agreement was valid up to 3 October 2001.

### Trade Theories Evolving Cross-country Trade and Commerce

Absolute advantage and comparative advantage are two basic concepts to international trade. Under absolute advantage, one country can produce more output per unit of productive input than another. With comparative advantage, if one country has an absolute (dis)advantage in every type of output, the other might benefit from specializing in and exporting those products, if any exist. A country has an **absolute advantage** economically over another, in a particular good, when it can produce that good at a lower cost. Using the same input of resources a country with an absolute advantage will have greater output. Assuming this one good is the only item in the market, beneficial trade is impossible. An absolute advantage is one where trade is not mutually beneficial, as opposed to a comparative advantage where trade is mutually beneficial.

A country has a comparative advantage in the production of a product if it can produce that commodity at a lower opportunity cost relative to another country. The theory of **comparative advantage** explains why it can be beneficial for two parties (countries, regions, individuals and so on) to trade if one has a lower relative

<sup>3</sup> IMF Direction of Trade Statistics, June 2004.

<sup>4</sup> Rahman, Mustafizur, 'Indo-Bangladesh bilateral trade deficit: Seize the opportunities to reduce it', The Daily Star, August 05, 2011 (<http://cpd.org.bd/indo-bangladesh-bilateral-trade-deficit-seize-the-opportunities-to-reduce-it/>)

<sup>5</sup> Madaan, D.K. 1996. *Indo-Bangladesh Economic Relations and SAARC*, Deep and Deep Publications, New Delhi-110059.

<sup>6</sup> Hassan, M.K. 2002. 'Trade with India and Trade Policies of Bangladesh' in Cookson, Forrest E. and Alam, A.K.M.S. 2002. (ed.) *Towards Greater Sub-regional Economic Cooperation*, chapter 10: 349-401.

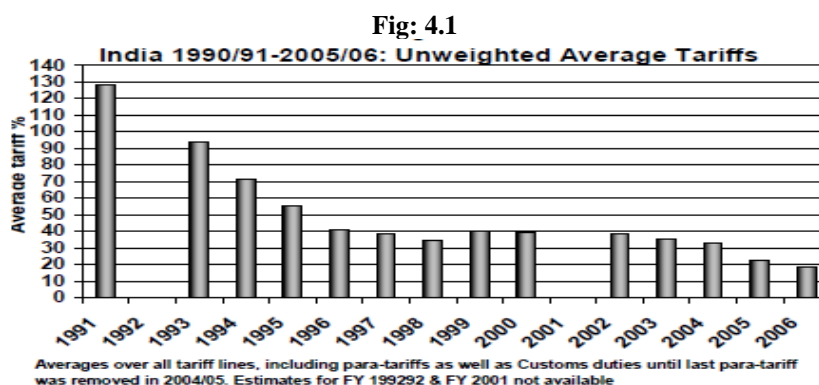
cost of producing some good. What matters is not the absolute cost of production but the opportunity cost, which measures how much production of one commodity, is reduced to produce one more unit of the other product. It also mentions that in a 'two products economy' it can be shown that both Countries can gain from trade even if one country has the absolute advantage in the production of both products. Each country has a **comparative advantage** over its trading partner in the production of that good for which its opportunity cost is lower than that of its trading partner. Contrarily, as per the opportunity cost theory, the cost of the commodity is the amount of the second commodity that must be given up to release just enough resources to produce one additional unit of the first commodity. The opportunity costs can be expressed by the exchange ratio between the two commodities. Considering these, our discussion on Indo-Bangladesh trade relation seems to be based on **Absolute Advantage** theory. However, for the overall interest of the South-Asian region, it may be argued that exploring international trade between India and Bangladesh on the basis of comparative advantage theory can further enhance trade between the nations and hence reduce the balance of payment between the countries.

### Nature of Indo-Bangla Trade

After its independence, Bangladesh was primarily dependent on India for fulfilling requirements of consumer goods, especially food grains. The country has sought easier access to Indian markets for its own products over the years. It has been active in seeking duty reduction and elimination of non-tariff barriers that India imposes on imports from across the border. There already exists a bilateral trade agreement between Bangladesh and India which was signed in 1980 and later amended and signed in March 2006; this came into force on April 1, 2006 and was valid till March 2009.<sup>7</sup> This agreement provides for expansion of trade and economic cooperation, making mutually beneficial arrangement for the use of waterways, railways and roadways, passage for transporting goods between two places in one country through the territory of the other, exchange of business and trade delegations and consultation to review the working of the agreement at least once a year. Implementation of this agreement has the potential to aid trade and investment between the two countries.

India shares the longest land boundary in the region with Bangladesh—stretching 4,096 km. At many places, the border is porous, making it easy for people to cross over and return to their place of domicile frequently. India and Bangladesh could be natural trade partners due to geographical proximity and ethnic ties. There exists a certain degree of complementary trade between the two. However, Bangladesh's imports from India are much higher than India's from Bangladesh. This is obviously because it has a much smaller resource and industrial base as compared to India. However, certain types of goods from Bangladesh are increasingly finding a ready market in India. Now Bangladesh's exports to India are rising much faster than India's exports to Bangladesh.<sup>8</sup>

During the past few years, discussions on trade and other policies in India begun to recognize that the earlier concerns about the ability of local producers to compete without protection from the import licensing system and/or from high tariffs were vastly exaggerated, and there is new confidence in the competitiveness of Indian producers, as evidenced by rapidly growing exports and foreign exchange reserves, and faster overall economic growth. Along with these new perceptions, there are signs of some consequent relaxation of the vigilance with which the various non-tariff protective measures are being pursued. Now, the tariffs during the periods range from 1990-91 through 2005-06 are depicted in the following figure.



Source: World Bank, Dhaka Office report, 2006

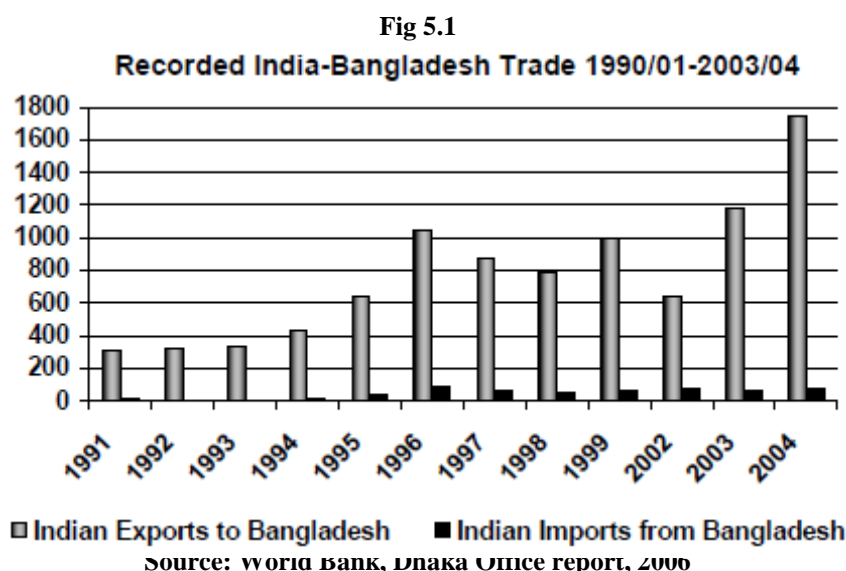
<sup>7</sup> Jayshree Sengupta in Observer Research Foundation (ORF), New Delhi, Issue Brief No. 10, August, 2007, Page-1

<sup>8</sup> See *ibid*, P-2.

During the 1980s and before India had a comprehensive import licensing system under which imports of many products were effectively banned and most others were subject to stringent import licensing. The principal exceptions were inputs needed by exporters and a number of essential products such as food grains that could only be imported by government import monopolies. The restrictions on imports of raw materials and manufactured intermediates were removed during India's 1991/92 reforms. As well as removing QRs from intermediates and capital goods, the 1991/92 reforms reduced tariffs and pre-announced a tariff reduction program. Under this program tariffs came down steadily from prohibitive levels at the beginning (average almost 130% in 1990/91) to much lower levels (average about 35%) in 1997/98 (Fig 4.1). At the same time, imports of nearly all industrial consumer goods and agricultural products continued to be restricted.

### **Bilateral trade**

In 2004 India's officially recorded exports to Bangladesh were about \$1.7 billion but its imports from Bangladesh were just \$78 million. Indian exports to Bangladesh grew very rapidly during the 1990s, and have continued to grow since 2000 (Fig 5.1). In contrast Bangladesh exports to India-almost zero in the early 90s-have stagnated at very low levels at well below \$100 million annually. In inflation adjusted US dollars, they are presently about the same as they were 20 years ago during the 1980s. Since 1996/97 Indian exports to Bangladesh (in nominal US dollars) have been growing at 9.1% annually, just slightly above the general rate of growth of its total merchandise exports (8.4%), but India's imports from Bangladesh over the same period have grown on average at only 3% annually, compared to average growth of its total imports of 9.2%. Consequently Bangladesh's bilateral trade deficit with India has been increasing rapidly, on average at about 9.5 % annually.



### **Bangladesh's Import from India**

According to the statistics provided by Export Promotion Bureau (EPB) of Bangladesh, imports from India have dropped by around 8 percent, totaling \$1,868 million in the fiscal 2005-06 from \$2,025.78 in the fiscal 2004-05 which indicates the narrowing down the trade deficit between Bangladesh and India by around 14 percent in those particular periods.<sup>9</sup> However, since India is the neighboring as well as the major suppliers of the basic commodities, Bangladesh has sometimes no other choice but to import from India. Though Bangladesh is also depending on some other countries for importing basic commodities, India has been the main supplier of cereals (mainly wheat and rice). On the other hand, India is supplying fairly constant shares of Bangladesh's imports of basic raw materials, intermediate goods used for domestic production, capital goods and non-cereal final consumer goods.

India exports a wide range of products to Bangladesh. According to the Indian export statistics for the year 2003/04, about a-third of total exports were primarily agricultural, fish and livestock products, 6.6% processed foods and drinks (including animal foods), and most of the rest manufactured products. Leaving aside textile and clothing exports, most of which go duty free to Bangladesh RMG exporters, India was supplying

<sup>9</sup> Statistics of EPB, Bangladesh in 2006.

21.5% of Bangladesh's total imports for use in the domestic market.<sup>10</sup> This means that 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. The following chart depicts the export of India to Bangladesh over a period from January 2012 to January 2013.<sup>11</sup>

**Table 01: Indian export to Bangladesh**



### **Bangladesh's Export to India**

There has been a massive increase in the export of Bangladesh to India in the recent past. It has risen by 68%, amounting to \$241.96 million in 2005-06 fiscal. In the preceding year, they stood at \$143.66 million only. This increase of exports has largely been to northeastern states.<sup>12</sup>

It is a matter of record that policy of trade liberalization pursued by South Asian countries in the 1990s led to significant opening of markets of these countries, though to varying degrees. It is important to examine in the above context that the dynamics of change took place in the formal trade between Bangladesh and India over the recent past. It is important to note that Bangladesh's export to India, through formal trade, experienced a four- fold increase within the span of the last five years, whilst Bangladesh's global export had only doubled over the comparable period. Indeed, between FY2003- 04 and FY2007- 08, export to India rose from USD 89.3 million to USD 358.1 million. The export figure, however, dropped to USD 276.6 million in FY2008- 09, to a large extent, due to the global financial crisis when Indian imports posted significant decline. Although the significance of such high growth rates should be observed from the perspective of the low- base of exports from Bangladesh to start with, this is no doubt indicative of the potential opportunities to expand Bangladesh's exports to an increasingly expanding Indian market.

<sup>10</sup> World Bank report on "India and Bangladesh: Bilateral Trade", web: <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/SOUTHASIAEXT/0,,contentMDK:21177520~pagePK:146736~piPK:146830~theSitePK:223547,00.html>

<sup>11</sup> Available at : <https://tradingeconomics.com/india/exports-to-bangladesh>

<sup>12</sup> South Asia Analysis Group, Report no. 1992, 16 October, 2006.

**Table 01: Bangladesh's Trade Balance with India (In Billion USD)**

Period	Export	Import	Trade Balance
FY 2003-04	0.09	1.60	-1.51
FY 2004-05	0.14	2.01	-1.86
FY 2005-06	0.24	1.85	-1.61
FY 2006-07	0.29	2.23	-1.94
FY 2007-08	0.36	3.38	-3.03
FY 2008-09	0.28	2.84	-2.56

**Source:** Export Promotion Bureau and Bangladesh Bank (Various years)

The new Bangladeshi products which were being exported to the Indian market in recent times include textile fabrics, plastic goods, cement, furnace oil, battery, cut flower, pharmaceutical products, copper wire, melamine, etc. Increased export flow to India indicates some export diversification taking place with regard to trade with India. It is, thus, important that a renewed effort needs to be undertaken from the Bangladesh side to support this trend by pursuing appropriate trade and investment policies.<sup>13</sup>

Despite this increase of exports, Bangladeshi exporters are not happy as they continuously face some non-tariff barriers like mandatory testing required by India, inadequate banking facilities and poor infrastructural facilities at the land ports as well as lack of knowledge and information of the Indian land customs officials about the preferential market access given to Dhaka by New Delhi.

In spite of these problems the visit of Indian Prime Minister Dr. Manmohan Singh in Bangladesh in 2011 opened up some opportunities. The Prime Ministers agreed to promote trade, investment and economic cooperation in a sustainable manner and facilitate trade by road, rail, inland waterways, shipping and air. Both sides underscored the need to increase trade volumes and address trade imbalance.<sup>14</sup> The Indian PM has fulfilled the demand of our corporate sector by allowing duty free access to 46 items, which will surely play a vital role in promoting our industrial as well as economic development. Though the number is less than the expectation of Bangladesh, the smooth functioning of this facility will enable us to bargain further.<sup>15</sup> According to a report of *The Economic Times*, "Encouraged by duty-free entry of its textile products into India, the value of total exports from Bangladesh to India is expected to double to \$1 billion by the end of June 2012."<sup>16</sup> Later in 2015, Indian Prime Minister Mr. Narendra Modi paid a visit to Bangladesh. During his visit the two Prime Ministers welcomed the renewal of the bilateral Trade Agreement with the new trade facilitation provisions which would not only further widen bilateral trade, investment and economic cooperation in a balanced and sustainable manner to mutual benefit but also open up opportunities for regional trade. Recalling Article 1 of the Framework Agreement on Cooperation for Development, the two Prime Ministers directed concerned officials to remove all barriers to ensure unfettered bilateral trade. Both sides underscored the need to narrow the trade imbalance.<sup>17</sup>

### **Trade within SAARC and Rationale of Regional Trade Enhancement**

Though South Asia was relatively late in developing an institutional framework, the South Asian Association for Regional Cooperation (SAARC) is a platform of hope and expectation for the people of South Asia. In spite of economic trouble, South Asia has significant potentialities for overall development.

After the end of the Second World War, different types of international and regional institutions were created to ensure security, cooperation as well as economic development. Apart from the United Nations, to make the third world countries united out of bloc politics, it was the need of the then time to establish an institutional body like the Non-Aligned Movement (NAM). On the other hand, despite being aligned with the US bloc, the Western European states felt the necessity to establish another sort of institutional body that would ensure regional development which gradually led to the creation of the best instance of functionalism, the European Union.<sup>18</sup> In the real sense, EU was definitely one of the encouraging factors for the leaders of South

<sup>13</sup> Bangladesh's exports Opportunities in the Indian Market: Addressing Barriers and Strategies for Future, CPD Occasional Paper, 90, July, 2010.

<sup>14</sup> Ministry of External Affairs, Government of India; Available at <http://mea.gov.in/bilateral-documents.htm?dtl/5147/Joint+Statement+on+the+occassion+of+the+visit+of+the+PM+of+India+to+Bangladesh>

<sup>15</sup> Faridul Alam, Manmohan's Visit: Lessons for Bangladesh, *The Daily Star*, 9 September, 2011.

<sup>16</sup> *The Economic Times*, 20 Feb, 2012.

<sup>17</sup> Ministry of External Affairs, Government of India; <http://www.mea.gov.in/bilateral-documents.htm?dtl/25346/Joint+Declaration+between+Bangladesh+and+India+during+Visit+of+Prime+Minister+of+India+to+Bangladesh+quot+Notun+Projonmo++Nayi+Dishaquot>

<sup>18</sup> Faridul Alam, SAARC 2011: Why do we need regional cooperation, *The Daily Star*, 5 November, 2011.

Asia to be assembled under a common umbrella as paragraph 1 of the preamble of the SAARC Charter states, "Desirous of promoting peace, stability, amity and progress in the region through strict adherence to the principles of the United Nations Charter and Non-Alignment, particularly respect for the principles of sovereign equality, territorial integrity, national independence, non-use of force and non-interference in the internal affairs of other States and peaceful settlement of all disputes".<sup>19</sup> At the same time paragraph 4 stresses on the importance of regional cooperation which states "Convinced that regional cooperation among the countries of South Asia is mutually beneficial, desirable and necessary for promoting the welfare and improving the quality of life of the peoples of the region." Hence, it becomes clear that regional cooperation is the precondition to acquire acceptability from the greater sphere. But since the emergence of SAARC, the achievement has been considered very insignificant and the level of intra-regional trade among SAARC countries is still very low. With the present low level of intra-regional trade and the perceived competitiveness among the SAARC countries, a question has arisen whether regionalism would benefit countries of this region. Compared to the rest of the world, this region is not open enough in international trade, rather, it is very much inward oriented. Intra-region's trade flow in this region is also very insignificant. This is partly because the major economies such as India, Pakistan and Bangladesh are not outward-oriented.<sup>20</sup>

In the first two negotiating rounds of South Asian Preferential Trade Agreement (SAPTA) in 1995 and 1997, the other South Asian countries complained that it was meaningless for India to grant tariff preferences when the same products were subject to import licensing. In response, India exempted the SAARC countries from its general system of import licensing in 1998. At about the same time (following pressure at the WTO) it started removing these controls vis-a-vis the rest of the world, and the final 715 tariff lines were freed on April 1, 2001. With the present low level of intra-regional trade and the perceived competitiveness among the SAARC countries, a question has arisen whether regionalism would benefit countries of this region. In the 17<sup>th</sup> SAARC Summit, the role of the Indian Prime Minister was worthy to note as there was a popular view for longtime that the commercial relations within SAARC cannot function perfectly due to non-cooperation of India by imposing tariff barriers. Mr. Mahmoan Singh, the then Indian Prime Minister, in his address at the inaugural speech on November 10 had set the tone of the summit when he declared that India would reduce the 'sensitive list' for least developed countries in the regional association. He also said, "in a major trade liberalization effort, the Government of India has issued a notification to reduce the Sensitive List for the Least Developed Countries under the South Asian Free Trade Area Agreement from 480 tariff lines to just 25 tariff lines. Zero basic customs duty access will be given to all items removed with immediate effect".<sup>21</sup> So from this decision it was expected that the economy of the member states through the enhancement of trading relations among themselves would boost the overall economy as currently, the intra-trade between SAARC nations is clipped at 5 percent of their gross domestic product which would undoubtedly increase.

### **Major Constraints**

Informal and illegal trade between India and Bangladesh, by some estimates, could be as high as three quarters of recorded trade. It is mostly one way; from India to Bangladesh. Quite apart from the well-known cross-border informal trade, this study notes the existence of significant volumes of illegal imports into Bangladesh through legal channels (technical smuggling) by under-invoicing, misclassification, and bribery of customs.

According to Federation of Indian Chamber of Commerce and Industry (FICCI), the high incidence of informal trade between India and Bangladesh continues to be a cause for concern for trade and industry. The volume of unofficial exports to Bangladesh is reportedly in the range of USD350-500 million each year. The Apex Trade Association of India, FICCI also opines that informal trade between the two countries in commodities includes food items and live animals, apart from consumer goods.<sup>22</sup>

India's trading relationship with Bangladesh is much less significant for it than it is for Bangladesh. Closer economic integration with Bangladesh is nevertheless seen as a very important factor of reducing the economic and political isolation of the seven Indian eastern and north eastern states from the rest of the country. Both countries have long shared common objectives for closer economic integration within the South Asia region, and these have recently been reemphasized by signing on to SAFTA.<sup>23</sup>

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<sup>19</sup> SAARC Charter.

<sup>20</sup> Ershad Ali and Dayal K. Talukder, Preferential Trade among the SAARC Countries: Prospects and Challenges of Regional Integration in South Asia, *JOAAG*, Vol. 4. No. 1, P-50.

<sup>21</sup> Available at: <http://www.pib.nic.in/newsite/erelcontent.aspx?relid=77088>

<sup>22</sup> Business Line, India, November 11, 2004.

<sup>23</sup> South Asia Free Trade Area. Under the Trade Liberalization Program of SAFTA, India pares down its tariffs to 0-5% by 2013 while Bangladesh has until 2016 to do the same, subject to exclusion of sensitive lists (India's 763 tariff lines versus Bangladesh's 1254).

All the literature on the India-Bangladesh unrecorded trade confirms that this trade is essentially one-way, from India to Bangladesh. Omitting gold, silver and currency which are imported into India to pay for Indian goods, the 1994 NCAER survey estimated Bangladesh to India unrecorded trade at only about \$10 million, compared with an India to Bangladesh estimate of \$371 million. In order to update previous studies on the latter, quick surveys were carried out during April-May 2002 in five smuggling-prone zones along Bangladesh's western borders with India, and in three zones in its north and eastern borders with India. Based on the opinions of police, security forces and others, and on earlier more complete surveys, these eight zones were considered to account for 77% of the total of bootleg imports.<sup>24</sup>

In the mid- 1990s Bangladesh's informal trade with India was estimated to be about 1.4 times more than that of formal trade. With significant reduction in rates of MFN tariffs and formalization of some of the illegal trade (e.g. cattle) in recent years, the size of the informal trade is perceived to have come down, but is still reckoned to be equivalent to about three- fourths of the formal trade (World Bank 2006).

### **Future Prospects**

Commenting on the current economic and commercial relations between the two nations, Federation of Indian Chamber of Commerce and Industries (FICCI) has said that with implementation of SAFTA, the process of economic integration would be much faster and intensive. On steps to be taken to address the trade imbalance between the two countries, the chamber said that the export basket of Bangladesh needs to be diversified with identification of new product export potential to India, promoting gas export from Bangladesh to India, and trans-shipment of Indian goods from mainland to the North-East through Bangladesh.<sup>25</sup>

India- Bangladesh trade and commerce has witnessed significant growth in recent times - during the first nine months (April-December) of fiscal 2008-09, the Indo-Bangla trade was USD 2.26 billion.<sup>26</sup> The Indian Chamber of Commerce (ICC) team explored that sectors like Energy, Power (Hydel and Thermal), Steel, Telecommunications, Healthcare, Fertilizer, Oil and Gas, Coal, Limestone and Forest-based Industries like Paper, Export of plantation crops, Spices, Fruits, Vegetables, Flowers, Herbs and Processed Foods are some of the areas which can drive a stronger bilateral economic relationship in the near future, and thus both the countries must put in concerted efforts in promoting two-way trade and economic exchanges in these areas/ sectors.

Transit versus transshipment is another important issue that can ease the trade interest for both countries. According to IPCS special report no. 97

*Transshipment refers to the shipment of goods or containers to an intermediate destination, and then to yet another destination. This has been achieved by India in its relationship with Bangladesh. Transit refers to the passage of Indian goods across Bangladeshi borders to and from the North Eastern states of Indian owned surface transport, while transshipment may also refer to the same movement using Bangladesh- owned transport. This remains an issue of contention. Bangladesh, on the 31 May, 2010 signed an agreement to finalize a transshipment deal with India to allow Indian goods to be transported to the northeastern city of Tripura in the state of Assam through Bangladeshi territory. Anything produced in the northeast region of India faces the difficulty of marketing to the rest of the country, the main reason being the distance to the port of Kolkata. With globalization and the policy of liberalization no foreign or private company is going to be inclined to invest in the north- east corner of India owing to several hassles, including the rise in transportation cost and thus hampering the development of the North Eastern market. To deal with such logistical problems of linking the Northeast with the rest of India, New Delhi is left with the only option of urging the reopening of the northeastern routes through Bangladesh to its West, and with Myanmar and south- East Asia to the East. The region that is also rich in energy resources like natural gas and hydro- electricity can progress, thus addressing problems that give rise to long- standing grievances, which in turn encourage insurgency surrounding the region. The benefits of transit facility between India and Bangladesh are not limited to the Indian growth list. Bangladesh, whose average GDP is 6% per year, can also become a regional hub.*<sup>27</sup>

<sup>24</sup> Chaudhuri, S.K. (NCAER) 1995. *Cross Border Trade Between India and Bangladesh*, p.27.

<sup>25</sup> See *ibid*.

<sup>26</sup> Statistics shown at Bangladesh - North-East India trade and investment conclave organized jointly by the Indian Chamber of Commerce (ICC) and the India-Bangladesh Chamber of Commerce and Industry (IBCCI) held here on February 24 and 25.

<sup>27</sup> Institute of Peace and Conflict Studies (IPCS), 97, report, 2010, B-7/3, Safdarjung Enclave, New Delhi, 110029



Also, it was felt that India's North-East can play a huge role in taking bilateral relations to the next level, the proximity of India's North-East with South Asian neighbors like Bangladesh is the key factor which can drive a closer bilateral cooperation in the near future. There is immense scope for investments and joint ventures in the North-East states, particularly in sectors like horticulture, rubber, bamboo, tourism, hydro-electricity, agro and food processing, handicrafts and handloom, etc.<sup>28</sup>

Mr. Farooq Sobhan, the former Foreign Secretary of Bangladesh emphasized on deeper cooperation between India and Bangladesh particularly in terms of India's North East and West Bengal which can explore greater connectivity, including transit and access to the Chittagong Port. Energy cooperation is an area where there are enormous opportunities, both at the bilateral as well as the regional levels.<sup>29</sup> Author of India's Open Economic Policy, Mr. Jalal Alamgir adds, "A strong footing in economic diplomacy would strengthen our overall foreign policy not just vis-à-vis India, but with other key countries".<sup>30</sup>

### III. RECOMMENDATIONS

India and Bangladesh are not only the neighboring nations; they also share a common ancestry. During the pre-independence period many parts of both the states were interconnected for trade, commerce and administrative functions; the use of Chittagong port and Assam Bengal Civil Service can be cited in this connection. Considering the reality of world politics and adapting the absolute advantage theory, both countries can be benefitted which have happened in many parts of the world. The European Union and Association of Southeast Asian Nations (ASEAN) can be the best examples for reshaping the bilateral relations as well as rebuilding the confidence within SAARC.

- There are several bilateral issues with India, according to Bangladesh, that need to be resolved. These include India's proposed river-linking mega project involving common rivers, sharing the waters of common rivers, proper and full implementation of the 1996 Ganges Treaty, Implementation of land boundary demarcation under the 1974 Land Demarcation Agreement, delimitation of maritime boundary, India's fencing of the international land boundary and the 'illegal' presence of millions of Bangladeshis in India.<sup>31</sup>
- Trade between the two countries has also been constrained by the lack of transshipment facilities between Bangladesh and India. If such facilities were granted, trade between India and its own North East could become a major source of revenue gain for Bangladesh.<sup>32</sup>
- Promotion of foreign direct investment in the sub region from sources within the sub region through, among others, framing of necessary regulations; Tracking and promoting deployment of proper infrastructure at and around Land Customs Stations (LCS) to facilitate easy movement of consignments across borders; and simplification of visa norms; Evaluation of the state of connectivity between Bangladesh and NE states of India along with detailing of modalities for facilitating improvement in such connectivity; to carry out two different studies: Benefits going to different countries such as India, Bhutan, Nepal and Bangladesh from transit and trans-shipment; and Need for border infrastructure and patterns of trade at the LCS.<sup>33</sup>

### IV. CONCLUSION

Before establishing a good trading relationship, it is important to merge the political gaps between the two countries which can construct confidence of the governments as well as the private investors. Both the countries have long outstanding political issues like water sharing, border fixing, cross border terrorism and so on which have become a barrier to smooth trading relation. Besides this, to ensure people-to-people contact, this is the high time to initiate visa free movement which has been satisfactorily experienced in many parts of the world. Moreover, keeping in mind the highness of Indian diplomatic efficiency, Bangladesh government should take necessary footstep to building the capacity for economic diplomacy. Of necessity, the centerpiece of Bangladesh's diplomacy has to be economics, whether it is reflected in labor, garments, food trade, energy investment, or infrastructure development. Considering these factors, our domestic political structures should be revisited by emphasizing economic statecrafts. Since there are lot of similarities like history, social formation, culture and institutions, there should be no obstacles of building a peaceful and harmonious relationship between India and Bangladesh.

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<sup>28</sup> Discussion at Indo-Bangla Trade and Investment Conclave jointly organized by Indian Chamber of Commerce and India-Bangladesh Chamber of Commerce and Industry at Dhaka on 24-25 February, 2010.

<sup>29</sup> ORF Discourse, published by Observer Research Foundation, New Delhi, Vol: 03, Issue: 03, May, 2008.

<sup>30</sup> FORUM, Vol: 5, Issue 09, The Daily Star, September 2011.

<sup>31</sup> Harun ur Rashid in 'Holiday', February 20, 2004.

<sup>32</sup> Indo-Bangladesh Dialogue on Trade, Investment and Connectivity, Dhaka August 2005, Centre for Policy Dialogue.

<sup>33</sup> Report of Proceedings Stakeholder Consultation on Indo-Bangla Trade June 20, 2010, Agartala, Tripura.