

Bangladesh and International Trade: a Case Study on Bangladesh-India Bilateral Business

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Abstract

Bangladesh has been suffering from historic trade deficits with India since its independence. This imbalance makes Bangladesh dependent on India and causes a serious concern posing economic and political implications. For this study, the authors have reviewed Bangladesh Economic Review, BBS Directory, International publications, Government documents etc. They also discussed the issue with the responsible people. Recently it has increased exponentially. Our findings suggest that the trade deficit may be reduced by increasing exports. Forced reduction of imports from Bangladesh is a contradictory urge to improve trade balance. This paper attributes to issues, prospects and constraints of Bangladesh-India bilateral business and suggests some policy measures to improve this trade deficit. To neutralize the adverse effects of India favored trade, necessary provisions should be incorporated in the policy documents and bilateral agreement. There should have guaranteed market access of Bangladeshi products to India. EPB and the trade bodies in their export promotion efforts should award on improvement of trade facilitation and infrastructure development. A cordial and proactive cooperation between these two SAARC countries is considered as crucial to materialize these measures.

Keywords: Bangladesh-India, Bilateral Trade, Trade imbalance, FTA, BTPA, EPB, Free Trade Agreement, Free Trade Group etc.

Introduction

Bangladesh is a close neighbor of India. Due to this geographic setting both the countries have historical, cultural and socio-political equations. Bangladesh after its emergences signed a “Treaty of Friendship, Cooperation and Peace” on March 19, 1972 for 25 years. Following this treaty both the countries signed trade agreements at different times. An analysis of

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current business volume with India indicates that Bangladesh has historical trade imbalance with India posing Bangladesh as its business frontier. Official data exhibits that from March 2009 to July 2010 Bangladesh exported goods to India worth USD 257.41 million while during the same period Bangladesh imported goods from India worth USD 2307 million. So far the economic cooperation is concerned; India is ranked as the third largest business partner of Bangladesh just after USA and China. An informal discussion with a group of traders, professionals, and people living in the boarder edge, who are casually, involved in unofficial boarder trade, articulate the following intrinsic of this regional trade:

Like official trade, unofficial India-Bangladesh trade is essentially one-way

Unofficial imports from India are about 20 times larger than unofficial exports to India;

Unofficial imports at the present could be about 1.5 times more than official imports;

Livestock and Cattle are the major import items but many other commodities of everyday use are also imported. While items of unofficial export are limited;

Actual trade imbalance with India would be much larger if unofficial trade keeps into account

Attributes

Bangladesh –India business cooperation exhibits virtual strength of dynamic development initiative of both the countries. Socio-economic bond and cultural equations of both the countries are the potent of this development intervention. Since Bangladesh – India have unique socio-economic and cultural heritage bilateral business cooperation will proliferate economic growth and advancement of these two countries undoubtedly but imbalance will be the barrier. In spite of the impediments, concerted efforts with dynamic development mood will change the fate of the people of this region. The following attributes of mutual business cooperation will support economic progress of this region.

Due to large population size and location advantage, India is a conglomerate and has diverse demand for Bangladeshi products ;

For industrialization, Bangladesh can import capital machineries and raw materials from India at a cheaper price. This is because of its geographical proximity, abundance of natural resources and diverged production support ;

Bangladeshi business community prefers to do business with India due to communication and price advantage ;

SAPTA and SAFTA contain provisions to boost business cooperation amongst the SAARC countries.

Objectives of the Study

Bangladesh business runs behind India. It has trade deficits with India since emergence. This imbalance causes Bangladesh to depend on India seriously. Conscious section and civil society term it as serious concern viewing economic and political dilemma. This presentation has an understanding imperative which will pursue regional industrialization through regional cooperation. Keeping this proponent in mind this presentation has outlined the following objectives:

- ◆ the policy makers will understand the roots of the problems on the way of trade expansion and will be able to formulate and execute the appropriate policy measures to remove these problems;
- ◆ to articulate the issues of bilateral trade relationship between Bangladesh and India and opts the frontiers of economic cooperation;
- ◆ to discuss the impact proponents of Free Trade Agreement(FTA);and
- ◆ to policy implication

Methodology

For this paper the authors have meticulously reviewed documents like- Bangladeshi Economic Review, govt. documents and other research papers. The researchers also collected data from Directory of BBS and other institutions. They have studied the articles in the international journals to conceptualize current scene of Bangladesh –India bilateral business and articulated the attributes in this paper. Important international publications which the authors studied are:

‘Present and Future’ of Bangladesh –India bilateral trade by Centre for Policy Dialogue(CPD) Report No.25, Dhaka;

Economic Liberalization and Institutional Reforms in South Asia: Recent Experiences and Future Prospects, New Delhi, by Atlantic Publishers and Distributors;

A Case of Bangladesh-India Economic Relations by Centre for Policy Dialogue;

The authors also discussed the issues with the responsible business people.

Bangladesh –India Business: Document Review

Performance Snap

Bangladesh and India business cooperation is stitched by the comparative advantage. The following tables exhibit the trade volume and exposes India favored propositions.

Table-1: **Comparative Import Payment of India and Some Others Countries**

(In million USD)

Financial Year	China	India	Singapore	Japan	Hong Kong	Taiwan	South Korea	USA	Malaysia	Others	Total
2000-01	709	1184	824	846	478	412	411	248	148	4075	9335
2001-02	878	1019	971	655	441	312	346	261	145	3612	8540
2002-03	938	1358	1000	605	433	328	333	223	169	4271	9658
2003-04	1198	1602	911	552	433	377	420	226	255	4929	10903
2004-05	1642	2030	888	559	565	439	426	329	276	5993	13147
2005-06	2079	1868	849	651	626	473	489	345	302	7064	14746
2006-07	2571	2268	1035	690	747	473	553	380	334	8106	17157
2007-08	3137	3393	1273	832	821	478	620	490	451	10134	21629
2008-09	3452	2868	1768	1015	851	498	864	461	703	10027	22507
2009-10*	2833	2307	1095	743	558	374	592	320	920	7449	17191

Source: Bangladesh Economic Review-2010

Table-2: Comparative Export of India and Some Others Countries

(In million USD)								
Country	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10 (July-March)
Afghanistan	2.92	6.07	0.51	0.88	0.76	2.77	3.68	1.92
Bhutan	1.55	3.99	3.35	1.65	1.40	1.35	0.61	1.88
India	99.36	101.16	186.95	279.14	289.41	358.08	276.58	257.41
Maldives	-	-	0.48	0.26	0.27	0.08	0.14	0.46
Nepal	0.30	1.27	0.47	0.83	0.85	6.71	8.06	6.62
Pakistan	38.22	34.78	84.14	50.26	61.06	71.01	76.22	60.74
Sri Lanka	7.06	10.15	12.16	14.39	14.82	19.32	18.67	18.02
Total	149.41	157.42	288.06	347.41	368.57	459.32	383.96	348.13

Source: Bangladesh Economic Review-2010

Business performance

In 2005-06, Bangladesh officially imported goods worth US 1868 million from India while during the same period its exports to India were about US 279.14 million.

During 2007-2008 fiscal years Bangladesh imported goods worth US 3393 million from India, while exports to India were US 358.08 million. During the period imports surged because of huge amount of rice import by Bangladesh in view of an unprecedented increase in food shortage because of natural calamities.

Indian manufacturing sector is strong and have diversified product support, This advantageous position and location advantage attract Bangladesh business community to import capital machinery, raw materials and finished goods from India causing high import growth;

India's strong productive sector, tariff policy and research & development are the factors affecting growth of Bangladesh export market to India;

In 2002-2003, Bangladesh's trade deficit with India was USD 1258.64 million while it was USD 2049.59 million in 2009-2010. This is due to India's diversified manufacturing sector which have high growth and narrow base of Bangladesh's manufacturing sector;

Bangladesh imports textiles, food items, machinery, mineral products, transport equipment, chemical products, fish from India while raw jute, fertilizer, jute goods, betel nuts, jute yarn twine, and frozen fish, are exported to India.

Constraints to Business Cooperation

Bangladesh unofficially imports huge quantity of goods from India which are about 20 times larger than unofficial exports to India. This is an irritating issue. The trade gap between the two countries acts as strong constraints to the improvement of bilateral relations. For this conscious section are highly concerned and voice in meetings, talk shows and media discussions without any results. This gap is caused by some tariff and non-tariff barriers. The impediments attribute to the following causal factors.

(a) Overvalued Exchange rate: Downward adjustment of the taka/rupee make exports uncompetitive and leads to import due to cheaper price of goods and services. In spite of import liberalization, unofficial imports from India have become profitable because of hassle free trade, low cost due to non payment of tariff imposition etc.

(b) Tariffs: Bangladeshi products face tariff, Para-tariff and non tariff barriers. The exporters are subject to pay Rs. 300.00 as laboratory test fee for each type of food items. India imposes tax and VAT as central value added tax on apparels of Bangladesh origin defying SAFTA agreement. Such tariff impositions are also on leather shoes, fruit juices, jams and pickles, fish etc.

(c) Non-Tariff Barriers: It is undeniable that Indian Government has put a number of non-tariff barriers to discourage imports from Bangladesh. Indian Customs authority asks for laboratory tests for each and every consignment of food products, cosmetics, leather and textile products which delays the clearance of consignments and hinders exports of Bangladeshi products to India. Other conditions affecting the entry of Bangladeshi products to Indian market are over classification of goods for customs purposes, bindings of chemical test, customs valuation ,non-acceptance of certificates of rules of origin (ROO),arbitrary imposition of tariff values ,quality standards, permission from Indian government, condition for obtaining ISI certificate, requirement to collect health certificate, sanitary and phytosanitary measures, quarantine requirements, inadequate land customs infrastructure, labeling and marking provision and unexpected harassment like filing false cases for alleged violation of rules regarding health, weights and measures. Refusal to grant SAPTA concessions; rejecting consignments on false pretext, etc. are also the constraints affecting bilateral business.

(d) Weak Production Structure: We always keep in mind that India has a negative attitude to import goods from Bangladesh but it is also undeniable that Bangladesh lack capacity to manufacture export quality goods. India itself is a big producer and exporter of most of the products that Bangladesh can export. However, India's restrictive trade policies are the root cause of Bangladesh's slow growth of exports to India

Rationale for Bilateral Free Trade with India

It is possible to reduce Bangladesh –India trade gap but India's attitude to reduce imports from Bangladesh is a contradictory urge to improve trade balance. On the other hand, it is very difficult to cut down essential imports from India without jeopardizing growth. Piecemeal efforts by Government of Bangladesh in the past to obtain trade concessions from India failed to raise exports. Keeping the imperatives of business cooperation with India, Free Trade Agreement (FTA) may be a good solution. Free Trade Group (FTG) constituted by the Ministry of Commerce of Bangladesh in September 2003 recommended the following propositions:

- ◆ Bangladesh products should have true market access to India which will be free from all tariff, non-tariff and Para-tariff barriers and opened up opportunities for investment;
- ◆ The principle of asymmetry and non-reciprocity should be recognized;
- ◆ Bangladesh will offer tariff concession for some products to India. Similarly Bangladesh will also seek tariff concession for some products from India;

Impact of Free Trade Agreement (FTA)

- ◆ Despite high tariffs on Indian goods by Bangladesh, Indian exporters can successfully compete in Bangladesh market. Due to sound manufacturing base, India enjoy a substantial price advantage which encourages Bangladeshi traders to import from India ;
- ◆ Duty free imports from India will stream economic welfare and benefits in the form of lower prices and better quality products for Bangladeshi consumers;
- ◆ Low-duty imports will bring down cost of production as result Bangladeshi local industries will flourish ;
- ◆ These welfare benefits will considerably exceed the economic losses of Bangladeshi producers.

Beneficial Proponents:

At present India imposes high import duties on Bangladeshi goods exporting to India. In a situation, when Bangladeshi good will enjoy tariff concession exports of these goods will increase. Intrinsic of benefits will be the following:

- ◆ Long term benefits would be much higher;
- ◆ In free trade environment, the entrepreneurs will be encouraged not only to raise investment in existing export ventures but also set up new industries and produce new products for the large Indian market.
- ◆ Bilateral business cooperation will attract Indian entrepreneurs to invest in Bangladesh;

Snap of other Benefits

- ◆ Cheaper imports of raw material will strengthen manufacturing activities in Bangladesh and create additional employment;
- ◆ Bilateral business will make goods and services globally competitive as production cost will be lower;
- ◆ Government revenue from VAT/Excise will increase and outweigh the revenue loss from custom duty;
- ◆ Reasonable price and lower cost will increase consumer welfare;
- ◆ Investment, both foreign and local, will be encouraged;
- ◆ Competitative situation will force domestic industries to raise efficiency and productivity.

Disadvantages of FTA

- ◆ Certain sectors may face threats as protection will be lowered;
- ◆ Infant industries will be seriously affected due to low technology base, narrow market channel and financial support;

Policy Recommendations

To neutralize the adverse effects of India favored trade, necessary provisions should be incorporated in the policy documents and bilateral agreement. The following proponents may be embedded in the bilateral agreement:

- ◆ Government should seriously study the effects of existing business with India. There should have guaranteed market access of Bangladeshi products to India (liberal rules of origin, no tariff and non-tariff barriers);
- ◆ Tariffs on “fast track” items should be eliminated immediately;
- ◆ Indian restrictions on Bangladeshi normal products should phased out over an agreed timeframe;
- ◆ Export quality Bangladeshi products should not be in India’s negative list;
- ◆ Eliminate all non tariff and para-tariff barriers;
- ◆ Free Trade Agreement should contain safeguard provisions to protect Bangladesh’s infant industries;
- ◆ Since Bangladesh manufacturing sector is growing steadily, the rules of origin should be made more favorable than the India-Sri Lanka trade agreement;
- ◆ Bangladesh manufacture sector specially the small and medium enterprise(SME) sector should be expanded to meet competitive market situation;

EPB and the trade bodies in their export promotion efforts should award on improvement of trade facilitation and infrastructure development. Proponents of infrastructure development are the following:

- ◆ Infrastructural facilities should be improved at the land customs stations on both sides of two countries;
- ◆ Improvement in infrastructure should be done in a coordinated way. It would not reap the benefits if the infrastructures are improved on one side of the border and bottlenecks remain on the other side of the border;
- ◆ Petrapole-Benapole land custom stations should work round the clock;
- ◆ New land customs stations should be opened between Bangladesh and the neighboring Eastern and North-Eastern Indian States;
- ◆ For improvement of business cooperation, India -Bangladesh may sign an Investment Promotion and Protection Agreement and Double Taxation Avoidance Agreement;
- ◆ Remove Indian State Government-imposed levies, for example luxury tax, on Bangladeshi products.



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