

# Bangladesh-India Economic Relations

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# Introduction

- Bangladesh shares a common boundary of 4095 kms running through 5 states of India
- Shared history and socio-cultural heritage
- Characterised by poverty representing 40% of the world's poor
- Frequently suffers from devastating natural calamities, ethnic and religious disturbance

## Introduction (contd.)

- Inability to diversify export base resulted in slower growth and lower value realisation.
- Being an LDC, manage to receive preferential market access in many countries and awarded with quota system (especially for RMG).
- Globalisation stagnated development assistance and increasingly becomes tool for promoting trade objectives of the donor countries.
- This has resulted in intense competition among developing countries for FDI

## Introduction (contd.)

### Challenges for Bangladesh:

- Raise efficiency and international competitiveness
- Implement pro-poor growth strategy
- Overcome regional apprehensions and constraints and move towards regional trade liberalisation
- Cooperation in investment and economic integration

### Which will result in:

- Efficient use of region's resources
- Value addition
- Employment and
- Diffusion of technology

## SAARC and regional prospects

- SAARC – an initiative of seven member countries
- Progress in achieving regional cooperation is not satisfactory
- SAFTA came into place on July 2006 which had an insignificant impact:
  - Intra-regional trade increased from 3.2 % in 1980 to only 5.5 % in 2008 which is pretty meager considering NAFTA (58%), EU (54%), and ASEAN (25%).
- Intra-SAARC investment is just over 1% of its total investment
- Lack of political will hinders the very prospects
- India accounts 80% of South Asia's combined GDP
- Huge trade imbalances with India created asymmetric trade relations among neighbouring countries hindering closer cooperation.

## SAARC and regional prospects (contd.)

- India-Pakistan row created a tensed atmosphere which prompted other nations to enter into bilateral negotiations
  - India already has FTA with Nepal, Bhutan, and Sri Lanka and nearing with the one with Bangladesh
  - BIMSTEC was formed bypassing SAARC
- Trend towards bilateralism raises concern – could hinder greater regional cooperation
- Regarding Bangladesh:
  - Domestic politics plays a distorted role concerning India issue
  - Sheikh Hasina's govt. (1996-2001) tried to create a congenial atmosphere for a dialogue
  - After 2001, the relationship cooled again

## Trends in India-Bangladesh Merchandise Trade

	<b>01-02</b>	<b>02-03</b>	<b>03-04</b>	<b>04-05</b>	<b>05-06</b>	<b>06-07</b>	<b>07-08</b>
Bangladesh's exports to India	50.28	84.08	89.27	144.20	241.96	289.42	358.08
Bangladesh's imports from India	1,011.8	1,354.9	1,599.4	2,030.0	1,864.7	2,268.0	3,273.70
<b>Total trade</b>	<b>1,062.1</b>	<b>1,439.9</b>	<b>1,688.7</b>	<b>2,174.2</b>	<b>2,106.7</b>	<b>2,557.4</b>	<b>3,631.78</b>

*(Source: Bangladesh Bank/EPB. Figures in US \$ million)*

## Bangladesh's imports and exports to India

<b>Year</b>	<b>Import</b>	<b>Export</b>	<b>Total trade volume</b>	<b>Imbalance</b>
2007-08	3.40	0.36	3.76	<b>3.04</b>
2008-09	2.84	0.28	3.12	<b>2.56</b>

*(Source: BBS and EPB; figures in \$ billion)*

## Commodities imported from India in 2008-09

<b>Sl. No.</b>	<b>Item</b>	<b>%</b>
1	Cotton, (all types) cotton yarn/thread and cotton fabrics	<b>21</b>
2	Cereals	<b>8.8</b>
3	Vehicles other than railway or tramway, rolling stock and parts and accessories thereof	<b>7.9</b>
4	Edible vegetables and certain roots and tubers	<b>6.3</b>
5	Residues and waste from the food industries prepared animal fodder	<b>4.9</b>
6	Nuclear reactors, Boilers, Machinery and mechanical appliances, parts thereof	<b>4.8</b>
7	Iron and steel	<b>4.1</b>
8	Organic chemicals	<b>3.5</b>
9	Mineral fuel, mineral oils and product of their distillation, bituminous substances	<b>3.1</b>
10	Electrical machinery and equipment and parts thereof, sound recorders and reproducers, television image and sound recorders and reproducers and parts and accessories of such articles	<b>2.4</b>

## Commodities imported from India in 2008-09 (contd.)

11	Plastics and articles thereof	<b>2.3</b>
12	Aluminum and articles thereof	<b>1.7</b>
13	Rubber and articles thereof	<b>1.6</b>
14	Edible fruit and nuts, peel of citrus fruits or melons	<b>1.6</b>
15	Man-made staple fibers	<b>1.6</b>
16	Salt, Sulphur, earth and stone, plastering materials, lime and cement	<b>1.5</b>
17	Paper and paper board, articles of paper, pulp of paper or of paper board	<b>0.8</b>
18	Knitted or crocheted fabrics	<b>0.7</b>
19	Others	<b>20.9</b>
<b>Total</b>		<b>100</b>

## Bangladesh's export commodities to Indian market in the first quarter of 2009

<b>Sl. No.</b>	<b>Item</b>	<b>%</b>
1	Jute Manufactures	22
2	Raw Jute	18
3	Fish, Shrimps and prawns	10
4	Fertilizer	10
5	RMG	6
6	Leather and leather manufactures	3
7	Others	31
<b>Total</b>		<b>100</b>

*(Source: Bangladesh Bank)*



## The key factors for Bangladesh's persistent trade imbalance with India

- Narrow export base
- Backward industries
- Inadequate infrastructure
- Lower productivity
- Exchange rate policy
- Non-tariff and para-tariff barriers
- India's diversified exports and technologically advanced industrial base

## Non-Tariff and Para-Tariff Barriers faced by Bangladeshi Products in Indian Market

<b>NTBs</b>	<b>Description</b>
Classification of Goods	Customs authorities in India, in many cases, do not agree with the HS classification declared by exporters. There is a tendency of reclassifying the products in such a manner so that higher duties can be imposed.
Customs Valuation	Indian customs authority often does not accept the value declared by Bangladeshi exporters. Arbitrary valuation by of goods makes the products uncompetitive.
Testing Requirements	Often each consignment of food products is subject to certificate from the Port Health Officer. Samples are sent to testing laboratories which are far from the customs stations. Such chemical tests are applicable to leather and leather goods, plastic, and melamine products. For leather goods, NOC from Wildlife Department is also required.
Mandatory Requirement for Labeling and Marking	All pre-packaged products are to carry such information as: name and address of the importers, generic common name of the product, net quantity in standard unit of weights and measures, month and year of packing, maximum retail sales price including all taxes, freight, transport charges, commission payable to dealers.
Special Labeling for Jute Bags	Every jute bag carry, 'bag made in - ' which must be machine stiched.
Mandatory Standard Requirement	Since August 2003, mandatory marking from Bureau of Indian Standards (BIS) is required for import of 159 commodities. These products include, amongst others, cement, steel tubes, stoves, electrical and electronic items, steel products, leather products, helmets, gas cylinder, batteries, and mineral water. Foreign manufactures intending to export these products will have to set up an office in India, with the permission of the Reserve Bank of India.

## Non-Tariff and Para-Tariff Barriers faced by Bangladeshi Products in Indian Market (contd.)

<b>NTBs</b>	<b>Description</b>
Sanitary and Phyto-sanitary Measures	All primary agricultural products are subject to bio-security and sanitary and phyto-sanitary import permits. Determination of eligibility procedure suffers from lack of transparency.
Technical Regulations	<p>(1) Import consignment containing textile and textile products shall have to accompany a pre-shipment certificate from a textile testing laboratory accredited to the National Accredited Agency of the country of origin. If such a certificate is not available, consignment will be cleared only after testing the same from the notified agencies.</p> <p>(2) All pharmaceutical products must be registered by the Central Drugs Standard Control Organisation headed by the Drugs Controller of India.</p> <p>(3) For jute products, a certificate is required from a national testing agency confirming that the content of non-halogenated hydrocarbon (jute batching oil) in the jute bags for packaging purposes shall not exceed three percent by weight.</p>
Quarantine Requirement	All imports of plants, fruits, and seeds have to obtain an import permit at least one month in advance and all imports shall be subject to inspection by officer in charge of plant quarantine station. Jute and jute products are often subject to such requirement even though they are not living organisms.
Tariff Value	Import of C.I. sheet is subject to a tariff value of US\$590/600, while the price of such product from Bangladesh is not above US\$450.
Countervailing Duty	Countervailing duty at a rate of 16 percent is imposed on agro-products, toiletries and cosmetic items.

(Source: Raihan 2008, pp. 21-22)

# Informal Trade

- Huge volume of informal/unrecorded trade (estimated to be almost 80% of the formal trade)
- Four major determinants of this informal trade:
  - Institutional
  - Economic
  - Non-economic
  - Legal constraints

## Bilateral negotiation -- Key issues

- Bangladesh's highly unfavorable trade balance.
- Huge informal trade
- Bangladesh's non reciprocal duty free and quota free access into Indian market
- Removal of all NTB/PTB to exports to India
- Links from Bangladesh to Bhutan and Nepal
- India's multimodal links to its North-Eastern states through Bangladesh

## Bilateral negotiation -- Key issues (contd.)

- Concerns that if allows transit for Indian North-Eastern states, Bangladesh risks losing its natural market to those states
- India's investment in Bangladesh
- Fast track approval of Bangladesh's investment proposal in India, particularly in North-Eastern states
- Signing of FTA

## Reforms and capacity building measures

- Improvement of road and railway network
- Liberalisation of aviation services
- Develop and link inland waterways
- Trade facilitation reforms
- Standardisation of basic customs nomenclature regulations, documentations, and clearing procedures
- Progressive harmonisation of product safety and Technical Standards
- Use of electronic data interchange system at the border
- Renovating land custom stations, ware house facilities
- Facilitate movement of businessmen for long duration -- at least one year multiple visas

# Opportunities & Potentials

- Increasing bilateral cooperation
- Investment in cross border infrastructure
- Joint venture investment
- Third country exports
- Production sharing agreements
- Coordinated programme to address insurgency, smuggling, challenge to environment, social development and other fields spills over national boundaries
- Investment in water resources which could be used to generate electricity and meet the growing energy needs of the region

## Opportunities & Potentials (contd.)

- As the gateway between ASEAN and SAARC, Bangladesh could emerge as the hub of the region
- Chittagong port would be the nodal point of regional trade
- Equitable water sharing
- Maritime boundary



# Conclusion

- We must have a clear vision of our economic role, capabilities, and expectation
- Need to identify the areas of potential benefits and growth
- Realistic actions to harness benefits of engagement
- No way but to engage in cooperation which could bring in long-term mutual benefits

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**Thank You**