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# NON-RECIPROCITY IN BANGLADESH-INDIA BILATERAL TRADE: A CASE FOR MARKET ACCESS & DOMESTIC COMPETITIVENESS

## INTRODUCTION

The current trade pattern between Bangladesh and India is increasingly becoming a problematic for the fragile Bangladesh economy. The volume of bilateral trade between the two countries has grown up significantly over the last decade and a half. But, the trade reciprocity between the two trade partners deteriorated severely at a sky-rocketing annual growth rate, resulting in a colossal bilateral trade deficit against the country during the recent years. Although, trade imbalance against a country is not necessarily an evil, there are some strong arguments to apprehend that the existing trend of almost complete non-reciprocity of Bangladesh-India bilateral trade has gone far beyond the absorbing capacity of the country's brittle economy, and the domain of mutually beneficial trade. One of the major negative impacts of such persistent erosion of bilateral trade reciprocity is the stinging strain on the country's weak external balance which ultimately undermines the country's growth as well as development potential. The problem compounds as the two trade partners are moving toward a free market regime within the framework of structural adjustment at an uneven pace and manner.

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Against the backdrop, it is imperative to objectively study the problem in its totality, especially, within a dynamic general equilibrium framework. And, most importantly, the need is to devise a set of effective strategies capable of arresting the current trend of escalating non-reciprocity of the bilateral trade with an ultimate aim to restore a mutually beneficial trade pattern between the two development partners. However, given the complexities associated with the problem and the urgency of the remedial measures, the country's development elites, especially, the international trade practitioners, are ironically, in grave silence about any objective study on the subject. Apart from some stray articles in the national dailies, and some occasional statements from the business chambers, one can hardly find any study that reviews the issue on some objective basis and suggests some feasible options for the remedy purpose. But, by no means, it bridles the gravity of the problem and the urgency for scientific research in this regard.

Concomitantly, there is another important dimension of the problem. Most of the currently available studies are only centered around the official merchandise trade between the two countries. As a result, other integral components of the bilateral trade, and the actual extent of non-reciprocity are currently almost unknown, and they eventually fall outside the research agenda as well as any action plan. Although, yet to be precisely quantified, it is anticipated that parallel to the official merchandise trade, there is a huge volume of illegal crossborder trade between the two countries, coupled with a significant volume of transaction of official/unofficial trade in services which are thought to be characterized by the similar type of non-reciprocity. Consequently, most of the existing studies on the subject are partial and simplistic in the sense that they deal with only a subset of the entire non-reciprocity and ignore the organic linkages among the individual components.

However, one must admit that for any optimal solution in this regard, the existing unknowns concerning illegal cross-border trade and trade in services must be minimized and they must be incorporated into the decision making calculus.

Also, both at the policy and the research levels there is a tendency of undermining the domestic supply side and dumping the desired actions and the incidence of failures of the country's development practitioners to the unaccountable external side. Most of the country's policy makers, local businessmen, media, and even the researchers, to a significant extent, perceive the growing trend of bilateral trade non-reciprocity to have originated mainly due to the numerous trade prohibitive barriers prevailing in India. The fact of the matter is that it stems and reinforces from the incompetitiveness of the domestic supply side and inefficiencies due to policy induced distortions associated with misgovernance of the domestic economy. Consequently, as for the policies devised, desired actions of the domestic policy-lords are quite often surrendered to the good will of the external side, without paying due attention to the domestic economy or improving the quality of the country's economic governance.

Against the above mentioned backdrop, there is an immediate need for addressing the problem in its totality *e.g.*, internalizing the currently unknowns into the information set and identifying some durable solution of the problem mending the pitfalls of the domestic supply side. With this view in mind, the broad scope of the paper is (i) to review the trends of Bangladesh-India trade pattern, (ii) to provide a more complete picture of non-reciprocity of bilateral trade to the extent possible on the basis of currently available information, and (iii) search for identifying some feasible remedial measures to curb the severe bilateral trade imbalance against the country.

Section-I of the paper explores the trends of bilateral official merchandise trade and the pattern of its commodity composition. In order to study the magnitude and development of non-reciprocity of the bilateral trade, the paper estimates some standard trade intensity indices in Section-II of the current paper. To provide a more complete picture of the bilateral trade pattern, illegal cross-border trade between the two countries is brought into the scenario in Section-III. Section-IV seeks to identify some feasible strategies in order to prevent the ongoing trend of rapid recession of bilateral trade reciprocity. Since, the whole matter is a game of two players with uneven competitiveness amidst a global trading environ, the study reviews both the supply and the demand side strategies for any durable solution to the problem. The paper, concludes with some final observations and identifying some further research agenda to be immediately addressed by the country's international trade practitioners.

## I. TRENDS AND PATTERN OF OFFICIAL BILATERAL MERCHANDISE TRADE

### A. Trends and Pattern of Official Bilateral Trade

The pattern and trends of official bilateral merchandise trade between Bangladesh and India are reviewed here at an aggregate level. In this order, the paper looks into the relevant trade indicators for a period of 1979-80 to 1996-97.

Table-1 reveals that starting from a very nascent volume during the early years of the reference period, the country's aggregate official import from India steadily increased during the subsequent periods and became a huge total during the recent years. On the other hand, country's export to India had been only a fraction of country's import from India since

Figure-1: Trends of Bangladesh's Trade with India, 1979/80 to 1996/97

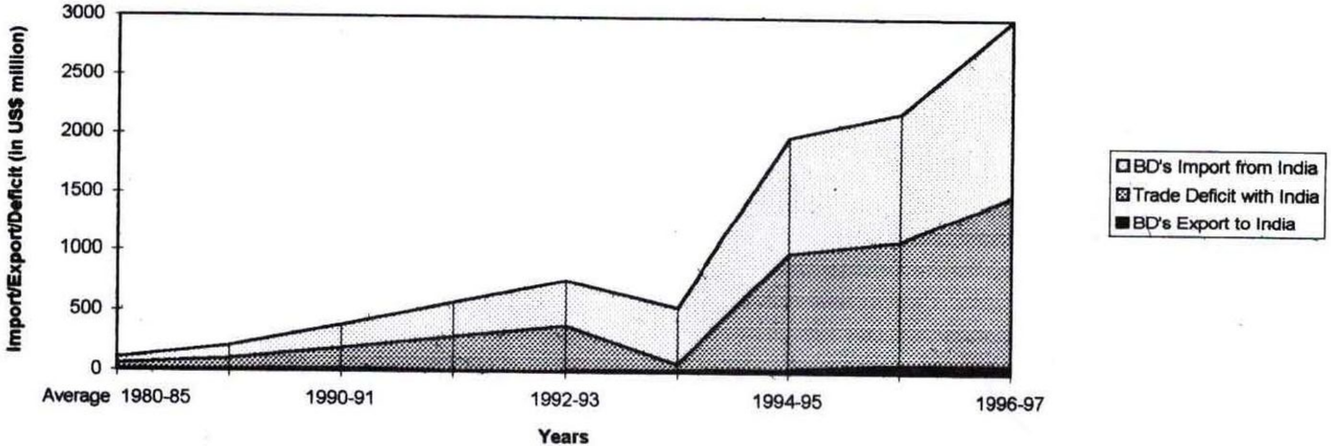
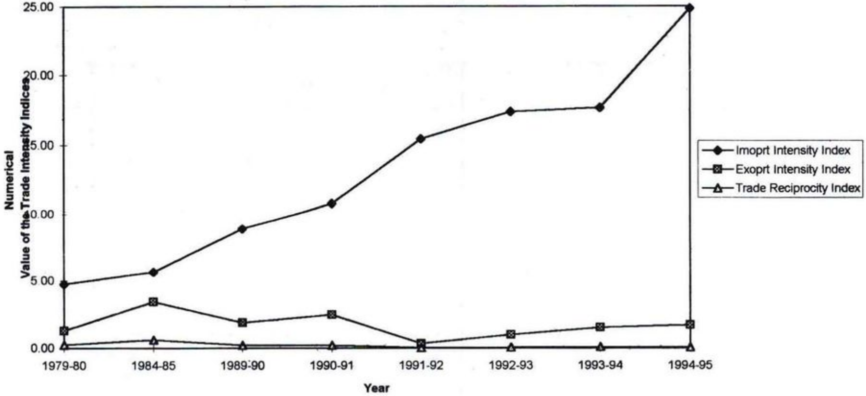


**Figure-2: Trends of Bangladesh-India Bilateral Trade Intensity Indices, 1979/80 to 1994/95**



the very beginning (average 33.4 percent during 1980-85) and it grew only marginally during the subsequent years. It resulted in a colossal amount of persistently growing bilateral trade deficit against the country. In statistical terms, country's aggregate import from India had been US$ 56 million in 1979-80, while export to India had been only US$ 8 million, registering a trade deficit of US$ 48 million against Bangladesh in the official trade account. As for the recent snapshot, aggregate official import from India amounts to US$ 1.5 billion in the fiscal year 1996-97, as opposed to only US$ 80 million export receipt, setting an all time record of bilateral trade deficit at US$ 1.42 billion against Bangladesh. At the aggregate level, between the study period (1980 to 1997), Bangladesh imported a cumulative total of around US$ 5.8 billion worth of goods and commodities from India in the official trade account. During the same period, corresponding export figure is only US$ 437 million implying a huge cumulative trade deficit of around US$ 5.4 billion against the country in official bilateral trade account. The aggregate export of the country to India during the reference period is only 7.5 percent of the total official import from India.

A look into the trends of official bilateral trade at different junctures reveals that although the country's import from India increased steadily with ever increasing higher growth rates during the following years, it registered a drastic leap during 1994-95, reaching US$ 994 million from US$ 467 million in 1993-94. Since 1994-95, country's import from India is proceeding along a higher trend path from its earlier historical expansion path. It is interesting to note that country's import from India recorded successive upward shifts with the major shifts of country's trade regime towards liberalization at different junctures. During 1980-85, average annual official import from India was US$ 52 million as against an average

US$ 18 million export and an average trade deficit of US$ 34 million during the same period. While, the average annual official import from India upsurged at US$ 103 million during 1986-90 and surprisingly, average annual export to India registered a significant decline (US$ 12 million), widening the average trade deficit at US$ 91 million during the same reference period. During 1991-97, average annual import had been US$ 702 million compared to US$ 36 million average annual export receipt coupled with average US$ 666 million yearly trade deficit against the country in the official account.

As for the trends, the following observations on the behaviour of relevant trade indicators may be made:

i) Average annual growth rate of import registered more than 10 percent increase at each successive junctures of the entire study period. During 1980-85, average annual growth of import was 12.64 percent, that increased to 22.88 percent during 1986-90 and further to 39.68 percent during 1991-97.

ii) Annual growth rate of imports were quite unstable during the initial years(1980-85), but, it became stable during the subsequent junctures. Roughly, it indicates the sustainability of imports at a persistently higher level.

iii) Interestingly, average annual growth rate of import during the early period, had been higher than the average annual growth rate of bilateral trade deficit (the former 12.64 percent during 1980-85, while the latter 10.58 percent per annum during the same time). But, during the following years, average annual bilateral trade deficit against Bangladesh far exceeded the average annual growth rate of import which continues to date. It eventually reflects a serious deterioration of the bilateral trade reciprocity and an escalating colossal trade deficit against Bangladesh.

As regards the magnitude of non-reciprocity, Table-1 also provides some primary information on the severity and development of unevenness of bilateral trade over the study period. Roughly, country's export receipts from India during 1980-85 had been around 33 percent of the country's import payments to India. The percent share records the highest peak during 1983-84 reaching at 47.1 percent. During 1986-90, export receipts became only 11.9 percent of corresponding import payments to India. While, during the recent years (1991-97), country's export receipts are on average only 5.4 percent of the country's annual import payments to India. The above observation is indicative of the existence of escalating non-reciprocity of the country's bilateral trade with India.

## B. Commodity Composition of Official Bilateral Trade

A careful study of the commodity composition reveals some important characteristics of country's bilateral trade with India and also some clues concerning the development of non-reciprocal trade against the country. Besides, the trends and pattern of commodity composition of import and export have some important bearings on the supply capacity and competitiveness of the country which would be discussed at length in the following section.

### *Commodity Composition of Import*

Table-2 shows the commodity composition of Bangladesh's import from India at standard commodity classification level. At the aggregate terms, it is evident that in terms of percent value share in total bilateral trade, textile and textile articles (Section XI; chapters 50-63) is the country's major item imported from India (average 44.44 percent during 1991-96). It is interesting to note that the value share of the sector is steadily decreasing over the successive years. The trend perfectly conforms to the lack of linkage facilities of the country's major export sector (ready made garments) and some recent horizontal expansion of country's production capacity in the concerned sector. The observation has some important implications for the current study and will be discussed during the subsequent section. In terms of value share, vegetable products (Section II; chapters 06-14) is the next major band (average 12.98 percent during 1991-96). It is interesting to observe that import of live animals through official channel accounts only meager (average 0.70 percent) share, whereas, it is the major item imported from India through cross-border illegal trade (Table-5). The next major category is the mineral products (Section V; chapters 25-27). The ranking follows as: machinery and mechanical appliances, and electric equipments (Section XVI chapters 84-85, with average share of 6.79 percent), chemical and allied products, (Section VI, chapter 28-38, average 6.29 percent), base metal and articles of base metal (Section XV; chapter 72-83; average 5.30 percent), vehicles and transport equipments (Section XVII; chapter 86-89, 6.46 percent), and plastic products (Section VII; chapter 39-40, 3.56 percent ). From the table, it could be inferred that although textile accounts for almost half of the country's total official import from India, the bilateral import structure is quite diversified and manufacturing products account for quite a sizable pie. However, the study admits that a further disaggregated classification of commodities would more justify the statement.

Table-2 also shows the sectionwise annual growth rate of major imported items from India. The most important observation is that import of all the items, especially, the leading sectors in terms of value share, are experiencing a robust annual growth during the recent years (1992 to 1996). It has some important implications: first, country's internal

**Figure-3: Commodity Composition of Bangladesh's Import from India, Average 1991-96**
**(percent value share)**

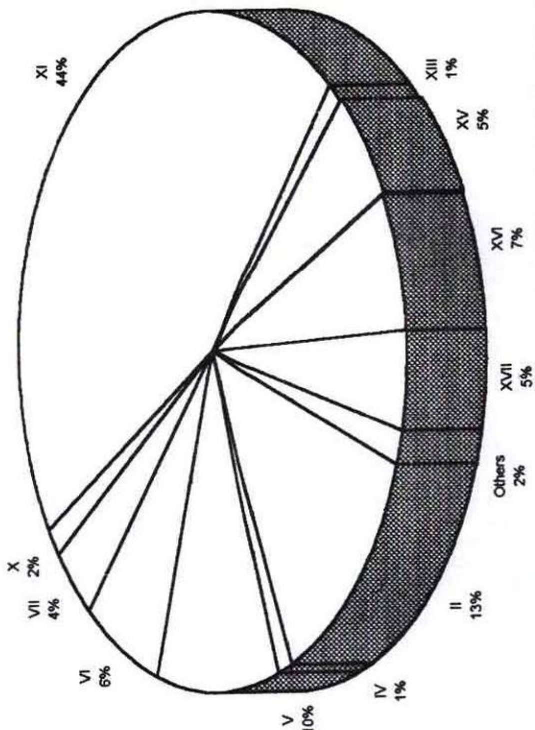
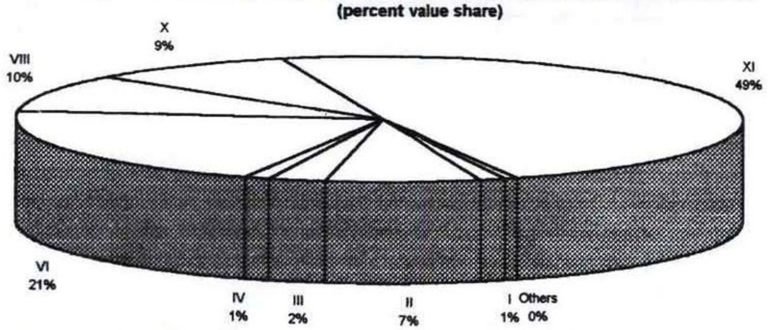


**Figure-4: Commodity Composition of Bangladesh's Export to India, Average 1991-95 (percent value share)**




SECTION I: LIVE ANIMALS, ANIMALS PRODUCTS (CHS.01-05);
SECTION II : VEGETABLE PRODUCTS (CH 6-14);
SECTION III : ANIMAL OR VEGETABLE FATS AND OIIS AND THEIR CLEAVAGE PRODUTS : PREPAERD EDIBLE FATS : ANIMAL OR VEGETABLE WAXES (CH.15);
SECTION IV : PREPARED FOODSTUFFS ; BEVERAGES, SPIRITS AND VINEGAR; TOBACCO AND MANUFACTURED TOBACCO SUBSTITUTES (CHS 16-24);
SECTION V : MINERAL PRODUCTS (CHS. 25-27);
SECTION VI : PRODUCTS OF THE CHEMICAL OR ALLIED INDUSTRIES (CHS. 28-38);
SECTION VII : PLASTIC AND ARTICLES THEREOF; RUBBER AND ART, CLES THEREOF (CHS. 39-40);
SECTION VIII : RAW HIDES AND SKINS, LEATHER, FUR SKINGS AND ARTICLES THEREOF; SADDLERY AND HARNESS; TRAVEL GOODS, HANDBAGES AND SIMILAR CONTAINERS; ARTICLES OF ANIMAL GUT (OTH.THAN SILKWORM) (CHS. 41-43);
MANUFACTURES OF STRAW, OF ESPARTO OR OF OTHER PLAITING MATERIALS; BASKETWARE AND WICKER WORK (CHS. 44-46);
SECTION X: PULP OF WOOD OR OTHER CELLULOSIC MATERIAL; WASTE AND SCRAP OF PAPER OR PAPER BOARD ; PAPER AND PAPER BOARD AND ARTICLES THEREOF (CHS.. 47-49);
SECTION XI: TEXTILE AND TEXTILE ARTICLES (CHS. 50-63);
SECTION XII: FOOTWEAR,HEADGEAR,UMBRELLAS,WALKING STICKS,PREPARED FEATHERS, ARTIFICIAL . FLOWERS, ETC, (CHS. 64-67);
SECTION XIII: ARTICLES OF STONE, PLASTER CEMENT, ASBESTOS,MICA OR SIMILAR MATERIALS ,CERAMIC PRODUCTS GLASS AND GLASSWARE (CHS. 68-70);
SECTION XV: BASE METALS AND ARTICLES OF BASE METAL (CHS. 72-83);
SECTION XVI : MACHINERY AND MECHANICAL APPLIANCES; ELECTRICAL EQUIPMENT AND PARTS THEREOF, SOUND RECORDERS AND REPRODUCERS, TELEVISION IMAGE AND SOUND RECORDERS AND REPRODUCERS, AND PARTS AND ACCESSORIES OF SUCH ARTICLES (CHS 84-85);
SECTION XVII: VEHICLES, AIRCRAFT, VESSELS AND ASSOCIATED TRANSPORT EQUIPMENT (CHS. 86-89);
SECTION XVIII: OPTICAL, PHOTOGRAPHIC, CINEMAGRAPHIC, MEASURING, CHECKING, PRECISION, MEDICAL OR SURGICAL INSTRUMRNTS AND APPARATUS; CLOCKS AND WATCHES; MUSICAL INSTRUMENTS, PARTS AND

demand for the imported items from India is increasing every year and the country's internal supply capacity is disproportionately lagging behind to meet the ever increasing internal demand. Secondly, supply side of India is significantly vibrant and dynamic as they are instantaneously responding and generating exportable surplus to the growing demand generated in Bangladesh. Due to the combined effect of persistent spurt of demand for importables from India in Bangladesh, and a super dynamic supply response from Indian side, one finds the country's bilateral import base very buoyant and elastic.

As aggregate import from India in 1995 jumped at a higher expansion path from its earlier historical trend line, a comparative study of changes in commodity composition in that year, with the earlier year (1993-94) merits special attention. As evident in Table-2, compared to the previous years, import of certain sectors experienced a sudden spurt during 1994-95. In 1995, import of vegetables which is second largest sector in terms of value share, experienced a 221.46 percent growth compared to the previous year. A decomposition of the sector reveals that during 1993-94, import of cereals from India had been Tk 32,19000, while it jumped at Tk.329,33,16,000 during 1994-95. This perfectly corresponds with the lackluster growth of the country's agriculture sector and particularly, a significant short fall of domestic cereal production during the period. The import of chemical products in 1994-95 experienced a 112.42 percent growth compared to the previous year, taking the total import for these products from Tk 117,18,56,000 to Tk 248,92,97,000. Again, a decomposition of the sector shows a huge spurt of fertilizer import during that year. Similar leap in other sectors is clearly visible from the changes in the composition profile of importables as shown in the same table. What is important here is that the spurt of import in all the sectors during 1994-95 had not been once for all. Rather, the whole trend path shifted upward. In other words, the supply shortage in Bangladesh became a permanent feature and dynamic response of the Indian supply side became a permanent behaviour.

***Commodity Composition of Export***

Table-3 shows the commodity composition of Bangladesh's export to India for the recent years. At a first glance what strikes most is that country's bilateral export base to India is extremely narrow and disproportionately concentrated over few commodities. One can see that only four sectors (Section XI, Section VI, Section II and Section VIII) account for almost three-fourths of the country's total export receipts from India. In other words, the country's bilateral export base with India is highly skewed and inelastic. The acute concentration syndrome of the export base has several important implications for the country's bilateral trade account. First, if any set back takes place in any of the particular sector/sectors due to any reason, there would be serious set back in the whole export structure resulting in a disproportionate erosion of reciprocity of the bilateral trade. Secondly, the inelasticity of the export base also implies that during the coming years, escalating bilateral trade deficit against the country will further deteriorate, since, the bilateral import base is very buoyant.

Concomitantly, another important aspect evident from the table is that the export receipts both at aggregate and individual commodity level are extremely inconsistent. It is reflected through a highly erratic pattern of annual growth rate of the country's bilateral exportables over the different years. As for the annual growth rate, not a single sector in the entire export band shows any consistent trend. This could be attributable to the oscillation either in the country's export capacity, or in the demand for our exportables in India, or due to a combined effect of the both. Whatever the reason, it seriously cautions against a higher incidence of uncertainty of country's export proceeds from India. Also, it shows that over the past decade, the country has failed to develop a stable export base with its major trade partner. It eventually validates the existence of pervasive incompetitiveness of the supply side as well as ineffectiveness of the prevailing policy regime, especially, concerning the external sector.

## II. THE MAGNITUDE AND TRENDS OF NON-RECIPROCITY: A LOOK INTO THE BILATERAL TRADE INTENSITY INDICES

In order to explore the country's bilateral trade pattern with India and to capture trends and magnitude of bilateral trade non-reciprocity more accurately, the study estimates some standard trade intensity indices, for the entire study period. The first two measures, export intensity index and import intensity index are popularly known as "Kojima trade intensity indices"[1] and the "trade reciprocity index" had been earlier devised by C.D. Wadhva (1982, 1985, 1987)[2]. All the above indices for

[1] K. Kojima, "The Pattern of International Trade Among Advanced Countries", in *Hitotsubashi Journal of Economics*, Volume 5, No. 1, June, 1964. Also, see, P. Drysdale and R. Garnaut, "Trade Intensities and the Analysis of Bilateral Trade Flows in a Many Country World: A Summary", in *Hitotsubashi Journal of Economics*, Volume 22, No. 2, February, 1982.

[2] Charan D. Wadhva and Mukul G. Asher (eds.), *ASEAN-South Asia Economic Relations*, Institute of Southeast Asian Studies, Singapore, 1985. Also, see, Charan D. Wadhva, S. A. L. Reza, H.G. Siddique, Zafar Mahmood, S. Sureshwaran, and Y. Schokman (eds.), *Regional Cooperation in South Asia*, Allied Publishers Private Limited, New Delhi, 1987.

the country had been earlier estimated by Reza in the context of trade with ASEAN and, later, with SAARC countries (1985, 1987)[3]. Also, Aggarwal and Pandey (1992), have estimated trade intensity indices for the South Asian countries for a period of 1965-87[4]. In his study, Reza measured the indices for the year 1980. Since then, there is no study available that provides any opportunity for any comparative statics of the present scenario with the earlier snapshots. Moreover, estimates of Reza only provide a static snapshot. Against the above scenario, the current study estimates the indices for the whole reference period of 1980-1995. Also, the annual growth rate of the indices are shown to explore their dynamic trends.

However, there are some methodological shortcomings involved with the indices coupled with some operational limitations, that slightly erode their explanatory power. They had been well documented by Wadhva during the earlier study[5]. Nevertheless, the indices fairly provide some objective basis for studying the pattern of bilateral or regional trade. It should be noted that the values of the above trade intensity indices are influenced by several factors such as the historical patterns of trade, geographical proximity, political relationships among nations, degree of competitiveness and/or complementarities in the trade and economic structures of the partner countries, trade barriers, brand loyalties, and so forth; that is, by both objective and subjective resistances.

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[3] S. A. L. Reza, "Bangladesh-ASEAN Trade Relations", in *ASEAN-South Asia Economic Relations*, Charan D. Wadhva and Mukul G. Asher (eds.), *ibid.*, p.234. Also, see, the Country Paper on Bangladesh by Reza in *Regional Cooperation in South Asia*, Charan D. Wadhva, S. A. L. Reza, H.G. Siddique, Zafar Mahmood, S. Sureshwaran, and Y. Schokman (eds.), *op.cit.*, p.56.-74.

[4] R. M. Aggarwal and R. P. Pandey, "Prospects of Trade Expansion in the SAARC Region", in *Developing Economies*, Volume XXX, No. 1, March 1992.

[5] Charan D. Wadhva and Mukul G. Asher (eds.), *op.cit.*, p.17-18.

Appendix I provides the definitions of the select indices for the estimation purpose. For the sake of simplicity, all the select indices are defined in general terms.

***Results of the Estimates***

Results of the estimated trade indices are presented in Table-4. At a first glance, it could be observed that since the very beginning of the study period, country's import intensity index significantly suffers from "India bias" compared to its trade intensity with the rest of the world. However, the torrid growth of the value of the index, over the following years, reached at a precarious level of higher import intensity with India for the recent years. A value of $m_{ij}$ around 1 would represent a balanced intensity of the country's import with India compared to its share in the world trade. An average numerical value of $m_{ij}$= 4.42 during 1980-85 shows a moderately over-representation of import intensity with India, compared to its import intensity with the rest of the world. A comparative statics between the value of the index during the earlier years with the recent snapshot shows that the value of $m_{ij}$ during 1979-80 had been 4.73, whereas, it was 24.83 in 1994-95. The escalating "India bias" in the country's import intensity reflects a dynamic spurt of the country's import from India. Also, it reflects a growing dependency syndrome of the domestic economy on its import from India.

As regarding the trend of the $m_{ij}$ at different junctures, the current estimates reveal that on an average, the value of $m_{ij}$ had been 4.42 during 1980-85. Between mid- to the late 1980s, the index grew moderately (average 6.41 during 1986-90) compared to the earlier years. But the index recorded a quantum jump during the 1990s (average 17.22 percent during 1990-95), and, it is increasing persistently during the recent years. As regards the annual growth rate of $m_{ij}$, during 1980-85, it increased at an average annual rate of 12.25 percent, during 1986-90, at a rate of 11.03 percent, while, it grew at an annual rate of 23.98 percent during 1991-95.

As regards the value of $x_{ij}$, the table shows that numerical value of $x_{ij}$ during the entire study period, ranges between 0.33 (1991-92) to 3.43 (1984-85). It is seen that the value of $x_{ij}$ is more or less oscillating around a lower level of equilibrium. The value of $x_{ij}$ is greater than 1 for most of the years. It shows that country's intensity of export with India suffers a moderately over representation compared to its trade with the rest of the world. In other words, it implies that Bangladesh exports more to India than might be expected from its share in world trade. However, a fluctuating pattern of the value of $x_{ij}$ over the time scale, denotes an unstable bilateral export base of the country that ultimately prevents to develop a dynamic export structure.

At the disaggregate level, the average value of $x_{ij}$ had been highest during 1980-85 (2.50). During 1985-90, the value of $x_{ij}$ receded slightly (1.37). While, during 1986-90, $x_{ij}$ records an average value of 1.41. For the recent scenario, one can observe that during 1992, and 1993, country's export intensity with India suffered a dramatic decline, mainly due to a drastic fall of the country's export receipts from India during these two years (Table-1). However, since 1994, the value of the $x_{ij}$ again returned to its historical trend path.

Nevertheless, the value of both $m_{ij}$ and $x_{ij}$ greater than unity reflects the dependency syndrome of the country with its major trade partner. For both export and import, the country is quite vulnerable to its trade with India. Specially, a disproportionately higher value of $m_{ij}$ reflects a severe vulnerability of the country on the bilateral import with India. Concomitantly, the persistent increase of the value exhibits the steady increase of the above dependency syndrome throughout the successive years.

As regards the estimates of trade reciprocity index, the results of the study as presented in Table-4 depict a very well behaved trend of non-reciprocal trade pattern between the two countries. The estimates convincingly show the magnitude and the development of non-reciprocal trade resulting in huge bilateral trade imbalance against Bangladesh. From the table, it is evident that country's bilateral trade with India had been by and large non-reciprocal since the very beginning of the reference period. But, the magnitude of non-reciprocity increased severely at a persistent rate over time, reaching at a level of almost complete non-reciprocity during the recent years. During 1980-85, average trade reciprocity with India had been 0.49 which declined to average 0.21 during 1986-90 and 0.10 during 1991-95. It is interesting to note that in the fiscal year 1991-92 it had been only 0.03 and during the last year of the study period (1994-95), it was 0.07.

## III. THE INVISIBLE SIDE OF NON-RECIPROCITY: BILATERAL CROSS-BORDER ILLEGAL TRADE AND BILATERAL TRADE IN SERVICES

As earlier mentioned, available studies on the current subject provide only a partial scenario of the entire bilateral trade and the extent of the non-reciprocity as they do not provide any information on cross-border illegal trade with India and also, on official/unofficial trade in services. Consequently, the amount of the country's bilateral cross-border illegal trade transactions with India is virtually at the mercy of any body's guess and misguess. The daily newspapers occasionally quote some figures referring to various government sources, however, the discrepancy among the figures is quite severe.

Practically, it is an extremely arduous job to precisely quantify the amount of illegal trade in any where of the world. But in the present context, what is agonizing is that there had been no serious attempt made so far by the concerned quarters to minimize the unknowns and internalize them into an integrated policy analysis framework. In fact, it reflects the text book example of persistence of the "collective ignorance" on an important national issue for such a prolonged time span. As a result, the policies devised as yet, are mostly partial, nondurable, and ineffective. Rather, on many occasions, official measures taken to combat the severity of non-reciprocity, actually widened the overall bilateral trade deficit against the country through inducing cross-border illegal trade. However, thanks to a recently conducted joint study by the country's Bangladesh Institute of Development Studies (BIDS) and National Centre for Applied Economic Research (NCAER), India,[6] that attempts to reduce the information blackout, although, it suffers from some methodological shortcomings as well as operational pitfalls.

## A. Pattern of Cross-border Illegal Trade between Bangladesh and India

At the aggregate level, from the above mentioned study of BIDS and NCAER, it is known that country's total cross-border illegal import from India during 1993-94 was approximately US$ 631 million as opposed to US$ 106 million

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[6] Bangladesh Institute of Development Studies (BIDS), "Cross-Border Trade Between India and Bangladesh" *A Bangladesh Perspective*, Dhaka, 1995, Processed.

cross-border illegal export to India during the same year. However, there are some valid reasons to state that the findings of the study suffer from some serious underestimation. The "Delphi" method that it used is basically based on successive interviews with the concerned persons, especially, the government officials and the illegal traders themselves. It is quite obvious that to protect their own interest, the concerned persons would tend to underreport the amount of illegal trade. Also, the intrinsically clandestine property of the whole business prevents some one to acquire sufficient information on the illegal transactions. In Table-5, one can see that among the major cross-border illegal import items from India as identified by the study, there is no information on the import of illegal drugs that are believed to one of the major items of illegal import from India. It is officially acknowledged that there has been a rapid increase of the phensidyl addicts in the country during the recent years. Available evidences suggest that bulk of the supply of this illegal drug is imported from India.

Despite various limitations, the findings of the study are quite indicative about the nature and the extent of the country's cross-border illegal trade with India. During 1993-94, merchandise import from India through official channel was US$ 467 million against US$ 24 million official export to India during the same year. Aggregating imports from India through both formal and informal channel, total merchandise import from India amounts US$ 1098 million during 1993-94. Similarly, total merchandise export to India during the same year amounts US$ 130 million. Consequently, bilateral trade deficit against the country amounts US$ 958 million during 1993-94, against US$ 443 million on the official trade account.

One can notice that like trade through formal channel, country's cross-border illegal trade with India also suffers from severe non-reciprocity resulting in a huge trade deficit against the country. However, the magnitude of non-reciprocity is slightly less severe compared to the formal trade account. The main reason attributable to this is the fact that a significant volume of consumer durables are imported into the country through formal channel to be later exported to India through informal channel. In fact, this encouraged some "screw driver" factories to crop up in the country during the recent years, particularly, in the electronics sector. The country has no revealed comparative advantage and no observed regular exportable surplus over these items. But, due to the existence of significant border price differences, coupled with prohibitive measures afforded to the domestic industries of these products in India, it is quite profitable to import them in Bangladesh in both final or CKD/SKD form through formal trade channels, and subsequently export them to India through illegal means. Also, the severity of the non-reciprocity of the bilateral illegal cross-border trade is partly compensated by a relatively favourable exchange rate of the domestic currency against the Indian Rupee in the informal transactions than to the exchange rate in the formal trade account.

The BIDS-NCAER study quite elaborately reports the commodity composition of cross-border illegal trade with India. The study identifies 27 major items that are traded with India through illegal channel and most of them are imported in to the Bangladesh. They are: (i) Agricultural goods: fruits, cattle, spices and pulses, `bidi' leaves and tobacco, sugar and `gur', fish, poultry, jute, edible oil; (ii) Yarn and Textiles: yarn (cotton and synthetic), saree (cotton, silk and synthetic), printed clothes and warm clothes, ready made garments, used clothes.; (iii) Industrial Goods: construction materials and fittings, electrical items and fittings, crockery and utensils, machinery and machine parts, fertilizers and pesticides, cigarettes, toiletries, electronics items, medicine and contraceptives; (iv) Industrial raw materials: hides and skins, chemicals, copper, zinc, silver and metal scraps, and pharmaceutical raw materials. It is important to note that the list of the tradables through informal channel is subject to considerable changes, as a significant volume of illegal trade takes place to meet seasonal demands or to meet some irregular shortages. Table-5 reports only the major importables and exportables during 1993-94. During the year, livestock, poultry and fish related products account for 40 percent of total illegal imports from India, followed by, processed food and tobacco (18.1 percent), other consumer good (13.2 percent), agricultural products (12.4 percent), textiles (12.1 percent) and other industrial manufactures (4.3 percent) in order. A further decomposition shows the leading sectors of the major subsections. They are: live animals (mainly cattle, 34.2 percent), cotton sarees (7.9 percent), electronics (6.8 percent), sugar (5.6), and bicycles and parts (2.2 percent). Traditionally, agricultural goods prominently figure in illegal trade between Bangladesh and India. Recent trends show that the number of such goods coming from India to Bangladesh is increasing everyday. On the other hand, Bangladesh has been gradually becoming an importer of these items as its traditional export items are dropping out from the list rapidly.

As regarding the recent changes in the composition of Bangladesh's cross-border illegal export to India, country's garment industries added an important dimension to bilateral illegal trade. High quality garment materials imported tax-free are leaked out of the domestic market through illegal trade channel. Increasingly, these materials are being smuggled out to India in exchange for Indian textile goods. Used clothes are also a traditional item of export in illegal trade in Bangladesh. It is widely known that bulk of these ready-made apparels are not second-hand at all, rather, they carry high fashion-value. Recently, polyester clothing has become a hot export item in illegal trade from Bangladesh. High quality polyester yarns legally imported to Bangladesh are processed by Bangladeshi textile mills. Foreign trade-marks are printed on many items of clothing. Indian printed clothing is pouring into Bangladesh in exchange. Gold and foreign currencies are traditional items in illegal trade. However, the recent liberalization measures in India concerning import of gold, reduced the incentive for using Bangladesh as the transit. On the other hand, the growing phenomenon of `black money' in Bangladesh provides increasing demand for gold in the domestic market as well.

As earlier stated, the BIDS-NCAER study estimated the amount of bilateral cross-border illegal trade only for 1993-94. No follow up study or simulation exercise has been done so far to assess the volume of bilateral cross-border illegal trade for the recent years. Consequently, the recent scenario of cross-border illegal trade with India is arrested in the dark. However, the national dailies provide some cursory information irregularly about the recent trend of cross-border illegal transactions. Quoting an official source, one of the representative national dailies reports that the cross-border illegal import from India amounts US$ 2.5 billion during the first 8 months of the fiscal year 1996-97[7]. If the figure increases at the rate of the previous monthly averages, the total for the whole year would be US$ 3.75 billion. Adding both official and illegal merchandise imports together, total merchandise import from India, during 1996-97 amounts US$

[7] *The Daily New Nation*, Dhaka, 26 March, 1997.

5.25 billion against a tentative total export of US$ 200 million. Consequently, the bilateral trade deficit against the country is more than US$ 5 billion which is almost equal to the country's overall trade deficit. If the above cited figure is true, country's official trade deficit appears to be only one fourth of the actual trade deficit the country suffers against India. Hence, official trade deficit with India is only around 39 percent of the deficit the country suffers in cross-border illegal trade with India. This is quite indicative about the severity of the non-reciprocity, the country suffers on the actual account in her bilateral trade with India as opposed to currently available partial figures. However, it is interesting to note that of late, another national daily quoted different official source reporting the volume of cross-border illegal import from India during the same period (1996-97), totaling US$ 1643 million and cross-border illegal export at US$ 78 million[8]. The discrepancy between the two officially quoted figures are so enormous that it eventually prevents any attempt to use them even for some tentative assessment. But, it is quite obvious that the bilateral trade deficit in the official account is only a fraction of the actual trade deficit the country suffers in the course of trade transaction with India.

## B. The Still Unknowns: Official/Unofficial Bilateral Trade in Services

As stated earlier, another important dimension of Bangladesh-India trade is the rapid expansion of trade between the two countries in various service areas. The volume of trade transaction between the two countries in various services is experiencing a phenomenal increase over the recent years parallel to the merchandise trade. It is anticipated that currently, over a couple of thousand students are studying in

[8] *The Daily Din-Kal*, Dhaka, 21 July, 1997.

different academic institutions of India at different study levels. And the outflow continues to grow at an increasing rate during each year. Another major service area is the medical treatment. A significant number of the country's people are currently going to different hospitals and clinics of India for medical treatment. Besides, the geographical proximity coupled with socio-cultural affinity invite lot of Bangladeshi visitors to travel India every year. However, the outflow has increased tremendously during the recent years. Consequently, a huge amount of money is out pouring from the country into India in order to pay for the above mentioned services. Again, nobody of the country knows in quantitative terms the amount of money that is drained out of the country to India in the payment of these services. There is absolutely no information in the concerned quarters on even the basic statistics concerning the country's bilateral trade in services. No official/unofficial sources can report on how many students of the country are going to India each year for the study purpose, or, how many people are traveling India for medical treatment, or, how many people are visiting India annually for tourism purpose. As a result, one of the major areas of Bangladesh-India trade remains out of any productive study and eventually out of any policy making exercise. It could be quite rationally presumed that the volume of country's payments to India for various services is quite significant. Also, it is quite reasonable to anticipate that the extent of non-reciprocity is most severe in this area. Consequently, bilateral trade deficit is piling up at an increasing rate against the country every year.

Another major service transaction between the two countries concerns the 'hundi' business. This is considered to be an illegal mode of transaction. It mainly originates due to the failures of the formal financial institutions in both the countries to facilitate smooth trade transaction. It is anticipated that almost the entire amount of cross-border illegal trade coupled with a significant amount of legal trade is currently being financed through "hundi" trade. Moreover, "hundi" is a widely practiced means of capital flight from the country to India and other places. Besides, a large number Bangladeshi workers send their remittance earnings into the country through "hundi" trade.

Against the prevailing blackout situation concerning the areas, the current study initiated some efforts to reduce the unknowns. However, it ended without any success. In spite of some sincere efforts to collect some basic information from both Bangladeshi and Indian official quarters, the study ultimately gave up its efforts in this regard. However, it remains for the country's international trade practitioners to immediately respond to this daunting challenge.

## IV. WHAT TO DO: IN SEARCH OF A DURABLE SOLUTION

In the context of the foregoing discussion, the ultimate question is what to be done to address the non-reciprocity within an acceptable time frame. In this regard, the standard analysis demands an objective study of the casual factors within an appropriate analytical framework. However, detailed causal analysis of the current issue is beyond the purview of the current study. But, in order to identify the appropriate direction of the remedial measures, the study attempts to simultaneously address the nucleus of the problem and the broader dimensions of the remedial measures. It is also to be noted that on the basis of the existing trends coupled with the prevailing state of the fundamentals of the domestic economy, it seems impossible to effect a dramatic result within a short time span. Nor it is desirable to focus solely on the short run measures. In the short run, efforts should be aimed at minimizing the detrimental impacts of the bilateral trade deficit in tandem with pursuing the complementary policies for a durable solution of the problem within a medium and long run time scale. Also it should be clearly spelled that there is no panacea to the problem and the preferred solutions in this regard might involve some trade-off with other priorities, at least, in the short run.

Concomitantly, a dispassionate analysis of the current subject matter relates to two major dimensions of the problem and accordingly indicates the appropriate direction of the remedial measures. The internal dimension of the problem relates to the country's intrinsic economic strength to reap the dynamic gains from the bilateral trade, at the same time, preventing the undesirable outcomes associated with the trade transaction. From the country's internal point of view, durable solution to the escalating bilateral trade non-reciprocity boils down to two major areas. First, in the face of the country's growing demand for the importables in the development process, there is an urgency for a dynamic spurt of the country's efficient import substituting activities in the major economic sectors. Especially, in the dynamic context, the success in this area largely depends on expansion of the country's economic activities coupled with constantly improving upon economic efficiency and competitiveness within an open economic environ. The second, of course, relates to the country's capacity to generate sufficient exportable surplus of the exportables in the face of a steady increase of demand for those in the external market in tandem with the ability of exerting comparative advantage over a wide range of products and services compared to her trade partner. In fact, both the major issues of the internal dimension of the problem ultimately boils down to the efficiency of the country's supply side. In order to attain the dual objectives, e.g. meeting the country's growing needs for the importables, and at the same time, maximizing the export earnings, it is imperative to increase the country's supply side efficiency and competitiveness in a continuous manner. Unless the country succeeds in both the areas, the danger of non-reciprocity would remain for ever. On the other hand, if the country fails to attain the required success and her trade partner attains success in both the areas, in an open trade environ, it would result in a proliferating non-reciprocal trade against the host country. The available evidences tend to suggest that if not effectively addressed, the country is rapidly approaching that direction in her bilateral trade with India. However, the problems compound due to the fact that in a distorted incentive regime, it is an arduous task to attain the dynamic efficiency and competitiveness within short time span, while, severity of the problem often induces for pursuing the nondurable short run measures.

On the other hand, the external dimension of the problem mainly relates to the access of the country's exportables to the Indian market. Also, the internal incentive regimes of India are associated with the problem, as on the actual account, they wedge a difference of the competitiveness between the similar products of the two countries. The problem accentuated due to the fact that the two countries are marching towards a market based economic regime from a protected economic system at an asymmetric speed and manner. In the current context, an uneven pace of liberalization campaign of the two countries quite frequently worsened Bangladesh's bilateral trade position. A highly protected trade regime of India severely discriminates against the country's exportables into the Indian market. This has largely induced to develop a huge volume of cross-border illegal trade between the two countries. Also, protected internal incentive regime of India concerning various domestic sectors is presumed to have erected an artificial competitiveness over the similar sectors of Bangladesh. However, the observation is yet to be supported by sufficient empirical evidence.

A third dimension of the non-reciprocity could be identified as the areas of complementarities of economic activities between the two countries which in fact cuts across both demand and supply side of the two countries. It is popularly argued that the economic structures of both the countries, especially, the export structures lack the complementarities as they are essentially competitive. Consequently, it is argued that the mutual trade flow, at least, in the short run, is destined to be confined at a lower level of equilibrium. However, the current trade pattern between the two countries by and large nullifies the above argument. Although, the current bilateral trade practice is not adequately reciprocal, but, considering both the formal and informal trade, it shows a wide range of growing complementarities between the two countries. Also, it would be explained later that complementarities between the concerned countries can be readily grown with the dynamic growth and integration of the concerned economies. And more importantly, complementarities can be dynamically developed through creative as well as productive cooperation.

Within the above mentioned analytical framework, the following discusses the core issues concerning a durable solution to the current problem. In order to identify a durable solution to the problem, the study mainly focuses on the issues that stretch beyond the short run measures. A durable solution on the real account involves a much arduous exercise compared to the widely advocated short run measures.

## A. Internal Dimension of the Remedial Measures

The basis of mutual trade between a set of countries is the comparative advantage that ultimately rests on the level of economic efficiency and productivity of the concerned countries in the mutual tradable areas. Since trade involves a continuous process, it is imperative to improve upon efficiency and productivity continuously to accrue a steadily positive account from the trade transactions. Consequently, in order to survive as well as to reap the dynamic gains from the trade transactions, at the ultimate end, there is no substitute for augmenting a country's economic efficiency and competitiveness. In the standard trade literature, there is a maze of studies on the state of the art of measuring the efficiency of economic activities on the real account. However, it is an established fact that the differences of efficiency and productivity among the countries are reflected through the domestic resource cost and ultimately the prices of the products and services. A price competitiveness on the rough margin indicates an edge over the efficiency and comparative advantage compared to her trade partner. Currently, there is no reliable studies available on the actual price differentials for the similar products of the two countries. Also, the prices are presumed to be influenced by numerous fiscal measures. However, the earlier mentioned BIDS-NCAER study reports a higher incidence of price incompetitiveness against Bangladesh on a wide range of commodities compared to the prevailing retail prices of India. The summary information of the study is presented in the following box-1.

Agriculture products constitute a sizable portion of the country's bilateral import both on the official and the unoffi-

**Box-1: Range of Price Differentials of Cross-Border Illegal Trade**

| Goods Categories Smuggled-in | Range of price differential (%)(DP/IPx100) | |
|---|---|---|
| A. Agricultural Goods | | |
| 1. Fruits | 242 | 476 |
| 2. Cattle | 127 | 295 |
| 3. Spices | 136 | 437 |
| 4. 'Bidi' and tobacco | 126 | 178 |
| 5. Sugar and molasses | 168 | 187 |
| 6. Edible oil | 133 | 144 |
| 7. Others (rice, paddy, potato) | 148 | 215 |
| B. Industrial Goods | | |
| 1. Electrical goods | 141 | 176 |
| 2. Machinery and spares | 141 | 227 |
| 3. Fertilizer and pesticide | 195 | 436 |
| 4. Cosmetics | 122 | 410 |
| 5. Medicine and contraceptive | 125 | 439 |
| 6. Others (blades, bangles) | 179 | 535 |
| C. Yarn and Textiles | | |
| 1. Saree | 150 | 221 |
| A. Agricultural Goods | | |
| 1. Cattle (goats) | 200 | |
| 2. Fish | 124 | 297 |
| B. Industrial Goods | | |
| 1. Cigarettes | 120 | 134 |
| 2. Electronics (VCR and VCP) | 218 | 233 |

*DP=Dhaka Price; IP= Indian Price

Source : Bakht and Gafur (1995)

cial accounts. Recently, there is a growing trend of importing agriculture commodities, particularly, on the informal trade account. Also, in the dynamic context, the vast Indian market renders opportunity for exporting agricultural commodities with the minimum transaction cost. Against the backdrop, the country's agriculture sector has recorded a modest increase in productivity during the 1980s. However, since the 1990s, the growth of agriculture sector has been totally at stand still[9]. Rather, it recorded a negative growth for some particular years. Also, it is found that the previous expansion of the major crop, namely, the rice, had been effected considerably substituting the acreage of the other competing crops. On the other hand, agriculture sector of India, especially, of West Bengal, has recorded a phenomenal spurt throughout the entire last decade. Consequently, the two opposite trends in the two neighbouring countries proliferated non-reciprocal trade concerning the agriculture sector against Bangladesh. During each year, new agriculture products are joining the import portfolio of the country due to the declining competitiveness of the country's agriculture sector. Especially, the recent trends of country's cross-border illegal trade with India largely support the above observation. In order to remedy the non-receprocity of the bilateral trade, and to derive the dynamic gains, efforts should be focused on improving the productivity of the country's agriculture. The prevailing scenario tends to confirm that the country's agriculture sector desperately needs a technological

[9] In the fiscal year 1995/96, the growth rate of the sector had been 3.7 percent according to the official estimate. Statistically, this higher growth rate is due to a negative growth (-1 percent) during the previous year. The official estimate also shows a 6.0 percent growth of the sector in 1996/97. Whether the increased growth is due to an increase in productivity, or mainly due to a favourable weather condition, would be confirmed by the growth of the sector during the subsequent years. The recent evidences indicate that it is more likely that the observed growth had been due to the latter.

spurt. The prevailing backwardness in this regard could be effectively addressed through developing adequate capacity in agriculture research and extension services. Transfer of technologies, including from India, should be seriously considered. However, to a large extent, the lackluster growth of the country's agriculture sector is attributable to the lack of appropriate incentive regime coupled with a higher incidence of policy induced distortions.

Despite more than a decade long experience of the structural adjustment policies (SAP), the country's development practitioners to date, failed to develop an appropriate incentive structure for the country's agriculture sector. There had been a gradual reduction of input subsidies, although, numerous illegitimate protections barring efficiency significantly prevail. More importantly, the lack of an market based effective output price system seems to have devastated the desired growth of the sector. The entire incentive regime of the country to a great extent is tilted against the viable growth of agriculture sector. Every year, some fiscal measures are pursued in the form of some safety nets, but they bring only marginal gains for augmenting the productivity and efficiency of the sector. Consequently, unless, the incentive regime concerning the agriculture sector is not appropriately addressed, it is impossible to spurt a sustainable level of higher agriculture growth and effectively combat the bilateral trade non-reciprocity in the agriculture sector. In case of the structural rigidities, government could positively intervene towards complementing the market mechanism. Appropriate incentive mechanism is also crucial for developing country's capacity in agriculture research.

As regards industry, the available information tend to suggest that the country's industry, particularly, the manufacturing sector, severely suffers from chronic inefficiency and incompetitiveness. It applies to both public and private sector enterprises. Especially, the incidence of incompetitiveness is found to be much higher in import substituting industries compared to the export sector. Although, there is an acute dearth of reliable studies in this regard, a recent study as summarized in Box-2 reveals a higher propensity of static inefficiency in some of the representative import substituting industries[10]. Concomitantly, the country's export industries had

**Box-2 : Competitiveness of Import-Substituting Industries, 1992/93**

**( in percent )**

| Indicator | Bidi (3143) | Cotton spinning and weaving (3211) | Soap and detergent (3533) | Iron and steel re-rolling mills (3713) | Metal furniture and fixtures (3814) |
|---|---|---|---|---|---|
| Nominal Protection | | | | | |
| from tariff | 51 | 51 | 65 | 66 | 75 |
| observed | 41 | 21 | 30 | N/A | N/A |
| Effective protection | | | | | |
| from tariff | 21 | 151 | 110 | 33 | 57 |
| observed | N/A | 52 | 80 | N/A | N/A |
| Domestic resource cost ratio (DRC) | | | | | |
| at current capacity | 0.91 | 1.16-1.27 | 1.37-1.50 | 1.0 | 1.19 |
| at full capacity | 1.00 | 1.15-1.26 | 1.37-1.47 | 1.3 | 1.30 |
| Profit as percent of output | 11.7 | 10.3 | 8.0 | 9.9 | 4.8 |

Source: Bakht (1995)

[10] Zahid Bakht, "An Analysis of Assistance and Efficiency in Bangladesh Industry", Dhaka, 1995, Processed.

been largely supported through some enclave incentives coupled with preferential access into the external markets[11].

In the current context, the problems are basically two-pronged. First, the country's industry, manufacturing and the export sectors are confined into a skewed band and the structures are highly inelastic. It resulted in a disproportionate concentration on the existing exportable items and a shortage of exportable surplus over a wide range of products. The second is the problem of inefficiency and incompetiveness which resulted in comparative disadvantage in the country's trade transactions. Both the problems are organically associated with the country's prevailing incentive system. For the solution of nondiversified industrial base, there needs to be a dynamic momentum in the country's investment capacity, particularly, the private investment. In the Bangladesh context, there are some structural rigidities that tend to arrest the country's investment potential at a suboptimal level. However, there is unanimity among the country's development ponderers that the ultimate constraint to the country's desired investment growth is not the structural bottlenecks. Rather, the distorted incentives are mainly responsible for a suboptimal investment growth and to the chronic inefficiency in the existing industrial sectors. Historically, the industrial base of the country has been developed under numerous state sponsored unproductive protections. Consequently, the whole industrial base rests on protection, not having much incentives to augment productivity and can not withstand the efficiency augmenting competition in the open economic environ. More agonizing is

[11] World Bank, *Bangladesh: Trade Policy Reform for Improving the Incentive Regime*, a World Bank report, No. 15900-BD, Dhaka, October, 1996. Also, see, World Bank, *Bangladesh: Selected Issues in External Competitiveness and Economic Efficiency*, a World Bank report, No. 10265-BD, Dhaka, March, 1992.

the fact that the incentive systems had been largely geared at maximizing the unproductive rent-seeking activities. As a result, there is a growing trend of unproductive transactions in the economy, displacing the opportunities of productive investment activities. Also, the country's development experience suggests that, merely isolated reform measures pertaining to the macroeconomy is not sufficient to generate the desired investment spurt. The recent experience of the country indicates that liberalization concerning the institutional bottlenecks and lacunae are to be immediately addressed. Unless the whole incentive system of the economy is reoriented towards pro-investment and an pro-growth direction, the country's industrial base is destined to be arrested within a narrow band. Also, it is imperative to design the incentive mechanisms towards pro-efficiency, proproductivity and pro-competitiveness directions.

In the context of the foregoing discussion, the study draws attention to two broader dimensions of the optimal action plan. First, it is imperative to diversify the existing industrial base, particularly, in the export sector. A dynamic investment spurt led by the private sector is the most appropriate solution. For this purpose, country's prevailing anti-investment bias of the incentive regime must be ameliorated coupled with appropriate institutional reforms. Numerous forms of pervasive government controls must be immediately dismantled coupled with the gradual down size of the government itself. However, for some selective areas like, infrastructure, human resource development, technical capacity building, government can play creative role, parallel to the market mechanism. Secondly, in order to develop efficiency and productivity, an appropriate market based incentive system of reward and punishment should be erected in order to reap the optimal results. For a long run solution of the non-reciprocity of bilateral trade, there is no alternative to augmenting efficiency and competitiveness of the country's productive sectors. In this regard, development of technical base of the country, coupled with technological capacity building appear to be very much crucial. The government has to effect an appropriate incentive mechanism to foster technical education in the country. In order to effectively combat the bilateral trade non-reciprocity in the long run, the country needs to possess superior technology compared to her trade partners. The wisdom of the newly industrialized countries suggests that apart from the private investors, creative intervention of the government, supported by a healthy inflow of foreign direct investment could play positive role to develop the technological capacity building[12].

Also, the trends and patterns of the bilateral trade on the illegal trade account largely confirm a higher incidence incompetitiveness of the country's tradables compared to the tradables of India. However, as has been elaborately discussed by the BIDS-NCEAR study, a disproportionately higher volume of illegal trade between the two countries has been developed mainly due to numerous control measures coupled with distorted incentive regimes in both the countries. Transactions through illegal channel mainly originate due to the failures of the required trade transactions through the formal channel due to numerous reasons. Also, the incentive regime in both the countries make it sufficiently profitable to indulge in illegal trade despite a higher level of risks associated in illegal trade transactions. Especially, the presence of numerous pervasive controls in both the countries, pertaining

[12] For different forms of creative government interventions to develop technological capacity building in the ASEAN countries, see, C.Y. Ng, R. Hirono and Robert Y. Siy, Jr. (eds.), *Technology and Skills in ASEAN: An Overview*, Institute of Southeast Asian Studies, Singapore, 1988.

to the formal trade transactions make it virtually impossible to timely respond to needs of the respective economies, eventually, resulting in cross-border illegal trade to meet the demands. Moreover, in the Bangladesh context, it has been frequently observed that the government's incentive regime, particularly pertaining to the external sector, often encouraged illegal trade transactions[13]. In order to prevent the growing trend of cross-border illegal trade between Bangladesh and India, both the countries require deep-cut liberalization measures concerning the trade sector coupled with removing numerous institutional bottlenecks. Developing an appropriate payment mechanism would be crucial in this area. The proposed implementation of the South Asian Free Trade Area (SAFTA) in the South Asian region renders the opportunity for internalizing the bulk of the illegal trade transaction between Bangladesh and India. Also, the study suggests a further liberalization of the country's external sector regime, even it might involve some negative impacts on the country's bilateral trade balance in the short run. A deep-cut trade liberalization might put some pressures on the country's infant industries. Appropriate incentive measures should be designed to protect the economically justified import substituting sectors. Concomitantly, in order to curb the illegal bilateral trade, it is imperative to develop an appropriate market based incentive mechanism rather than the costly measures. It is more viable to make the illegal trade practice economically unprofitable rather than the conventional costly preventive measures.

In order to address the escalating non-reciprocity in the service sector, the country immediately needs to develop productive capacity in the vital service areas. The prevailing

[13] World Bank, *Bangladesh: Trade Policy Reform for Improving the Incentive Regime*, *op.cit.*, p.7.

anarchy in the country's education and the health sectors could exert a much higher toll on the country's growth capacity, in addition to worsening the bilateral trade deficit. In order to prevent the growing trend of migration of the country's students in India, the country urgently needs a rapid expansion of the country's capacity in technical education, coupled with significantly improving the quality of education. Appropriate incentive structure should be designed for a dynamic involvement of the country's private sector in this area. Unless, an efficient import substituting capacity is developed very rapidly in this area, the prevailing trend of non-reciprocity is likely to be further proliferated during the coming years. The same argument could also be advanced in order to curb the growing number of visitors from the country to India for the medical treatment purpose. It should be kept in mind that education and health services are basically non-substitutabe priorities. The main competitiveness of India in the above service areas is that it has been able to develop the capacity to provide quality services which is affordable by the middle income, or even the low income people. The growing trend of migration of the people of the country to India for receiving the above services clearly shows that there is a vast domestic market for efficient import substitution in these areas. A dynamic spurt of private investment in education and health services coupled with removing the prevailing anarchy and distortions seems to be the most appropriate solution to arrest the growing trend of non-reciprocal trade against the country in the major service areas. As regards the "hundi" trade, it is more difficult to remedy the problem on the real account. However, development of financial service institutions in both the country's could partly remedy the problem. Besides, appropriate payment mechanism for bilateral trade through formal channel could reduce the severity of the problem.

In order to find a durable solution of the escalating non-reciprocity of the bilateral trade, it is particularly relevant to improve the country's external competitiveness. In spite of more than a decade long liberalization efforts of the country's external sector regime, the available studies suggest that the country's trade regime still suffers from "anti-export" bias. A deep cut reduction of the nominal tariff rate, reduced the average import duties from 89 percent in 1990/91 to 25 percent in 1995/96, a drop of 64 percentage points. The import weighted average protection rate fell by 21 percentage point. Concomitantly, most of the earlier practiced quantitative restrictions has been dismantled. Due to sustained reform measures, effective rate of protection (ERP) significantly reduced since 1992. Excluding some relatively protected industries like steel and engineering, food and diary industries, ERP has declined by 48 percent between 1992/93 and 1995/96. Although, the average dispersion of tariff rates has been reduced from 54 percent in 1990/91 to 16 percent in 1996, still the dispersion is sufficiently high to bar a neutral incentive regime. Existing tariff schedule seems to be extremely complicated due to the continuing proliferation of end-user concessions. More importantly, the current policy regime provides high ERP to domestic industries, maintains incentives for smuggling and facilitates export growth only under enclave arrangements[14]. The available studies confirm that there is still a higher incidence of "water in the tariff" which is detrimental to the growth of an efficient manufacturing sector[15]. The current incentives mainly focus on manufacturing on the limited domestic market, rather than the bigger external markets. A dynamic growth in exports would require a fundamental shift in the current incentive regime as well as

[14] *Ibid.*, p.17.

[15] *Ibid.*, p.17.

growth in productivity and efficiency of enterprises. Besides, the prevailing ERP tends to suffer a discrimination against the country's agriculture sector. The country's trade regime concerning the agriculture sector has been more liberalized compared to the highly protected manufacturing, particularly, the consumer good sector. Besides, reforms concerning appropriate customs clearing system tops the trade liberalization agenda. Concomitantly, further reforms are needed to remove the distortions of the country's exchange rate regime. The distortions stemming from numerous controls resulted in a distorted incentive regime. So, in order to initiate a dynamic export led growth, the country's external sector regime must be immediately reoriented towards the efficient and dynamic exportables as well as the competitive import substituting sectors. In this regard, several fiscal measures are necessary to augment the country's external competitiveness. The ever growing size of the government's current expenditure tends to favour the non-tradables of the country at the cost of the tradables. The substantial shift in the composition of public expenditure in favour of current expenditures exerts an upward pressure on domestic prices with a tendency to appreciate the real exchange rate. It ultimately encourages the allocation of resources to the nontradables at the cost the tradables coupled with an erosion of the country's external competitiveness. Also, institutional liberalization campaign needs to be initiated in tandem with the conventional liberalization measures.

**B. The External Dimension of the Remedial Measures**

The external dimension of the remedial measures mainly relates to the access of the country's exportables and the smooth import of the required importables to/from the Indian market. Besides, the internal incentive regime of India pertaining to various economic sectors is also to be considered as it potentially wedges artificial competitiveness for the domestic products in the form of higher ERP compared to her trading counterpart. In order to evolve an optimal trade pattern between a pair of countries, it is essential to provide mutual access of the concerned countries' tradables into each others markets.

**Box-3: A Comparison of Nominal Rate of Protection between Bangladesh and India**

| | Year | Maximum Tariff | Unweighted average | Coefficient of variation | Import-weighted average |
|---|---|---|---|---|---|
| Bangladesh | 1995 | 50 | 25 | 73 | 21 |
| India | 1991 | 509 | 89 | 79 | 42 |

Source: World Bank, Report No. 15900-BD, p.15

**Box-4 : Level of India's Non-Tariff Barriers, 1995**

| | Industry | Frequency Index (percent) |
|---|---|---|
| I | Consumer goods | |
| | A Primary | 64.55 |
| | B Semi-finished and finished food and beverage | 30.04 |
| | C Textiles | 66.28 |
| II | Intermediate goods | |
| | A Primary | |
| | A-1 Agro-based | 76.67 |
| | A-2 Others | 11.37 |
| | B Semi-finished and finished | 40.52 |
| III | Capital goods | 35.48 |
| | Total | 44.0 |

Source: Rajesh Mehta, "Trade Policy Reforms, 1991-92 to 1995-96", *Economic and Political Weekly*, April 12, 1997, p.780.

A lopsided pattern of openness eventually results in escalating non-reciprocity and a stimulus to the illegal trade transactions. In the current context, it has been earlier mentioned that both the countries, Bangladesh and India, are marching toward liberalization and deregulation at an asymmetric pace. Particularly, although India is moving towards trade liberalization coupled with deregulation of the economy since the 1990s, still it is considered to be the most protected economy in the world. There remains a higher incidence of multifaceted nontariff barriers (NTBs), that in reality prevents the access of the foreign goods into the Indian market on the formal account. Box-3 of the current section shows a comparative scenario of the nominal import tariff rates between the two countries, while, Box-4 presents a recent quantitative assessment of the level of NTBs prevailing in India. In addition, Appendix II shows numerous variants as well as the sectors, that are currently under the umbrella of NTBs. The available evidences tend to support the allegation often made by the country's businessmen that exportables of Bangladesh are denied the legitimate access into the Indian market due to numerous NTBs and other trade prohibitive controlling measures. It is clearly evident that almost all the key economic sectors of India, especially, the consumer sector is heavily protected within the citadel of NTBs. Consequently, it is impossible to export on the real account, despite the reduction of the nominal tariff rates. The country's various business chambers on several occasions provided the list of the exportables where the country is presumed to have the exportable surplus and price advantage relative to the Indian side, but the goods are denied access into the Indian market due to numerous extra tariff measures. It eventually encouraged illegal trade and impinged upon the development of a dynamic export base in the country with her bilateral trade with India. Recently, the Indian government has granted a preferential tariff concession to a number of Bangladesh products in addition to the existing items given preference under the LDC status within the SAPTA framework. But the point is, only a few items of the preferential set is of export interest to Bangladesh. And most importantly, the higher incidence of NTBs makes it impossible to enjoy the access on the real account. Besides, the prevailing product-by-product approach of tariff concession proved to be ineffective. It also deters a neutral incentive regime. Rather, deep-cut-across the board tariff reduction would yield better result. Against the backdrop, efforts must be strengthened to ensure the legitimate access of the country's exportables to the Indian market through effective negotiations. The prevailing numerous counterveiling measures of the Indian side are also to be dismantled to provide effective access for the country's exportables to India.

Another dimension of the problem is the incentive regime of India coupled with various fiscal measures that tend to create a higher ERP for the domestic sectors and exerts artificial comparative advantage compared to the Bangladesh products. Numerous subsidies and protections to the domestic economic activities generate artificial price differences between the two countries. The problem worsened for Bangladesh as it significantly withdrew the subsidies in most of the key economic sectors. In this context, it is imperative for both the countries to develop a neutral incentive regime and harmonization of economic policies between the two neighbours.

Access of the country's exportables to India could also be effected through an effective multilateral preferential trading arrangement within the South Asian Preferential Trading Arrangement (SAPTA) framework. The second round of SAPTA negotiation has just been concluded widening the coverage of the preferential list. However, the existing list is not sufficient enough to significantly ameliorate the non-reciprocity of the bilateral trade. Moreover, no progress has been made so far on removing the existing NTBs. However, a speedy as well as effective implementation of SAFTA in the region could improve the situation coupled with a potential scope for internalizing the bulk of the illegal trade transactions.

### C. Maximizing Creative and Productive Cooperation

Parallel to the country's own efforts to steer the economic fundamentals in the right direction supported by effective bilateral/multilateral trade negotiations, creative as well as innovative cooperation efforts could be devised to curb and compensate for the bilateral trade non-reciprocity. This is important due to the fact that domestic adjustment measures would take a considerable amount of time to attain the required supply side efficiency, and merely the access of the country's exportables would not be enough to combat the non-reciprocity, at least, in the short run. Consequently, some innovative solutions could be sought through maximizing productive cooperation between the two development partners. The recent move towards subregional cooperation in the region, including Bangladesh and India, renders potential opportunities for both exploiting and creating complementarities between productive sectors of the two countries. Potentially, a wide spectrum of productive opportunities can be devised within various forms of mutual cooperation. Joint cooperation in the field of water management, infrastructure, power and energy, technology transfer, human resource development, agriculture and industrial research could yield handsome rewards. Moreover, for a durable solution to the problem of non-reciprocity, the economic relation between the two countries desperately needs to grow beyond trade transactions. One of the viable means to the current problem is the vast areas of joint-investment collaboration between the two countries. Currently, bulk of the exportables of the country is denied the access into the Indian market due to the "Rules of the Origin" *e.g* the low domestic value added content of the Bangladeshi products. The problem could be eased with increased joint-investment collaboration between the two countries, although it is imperative for the country to rapidly develop the linkage activities in key economic areas. The opportunities of existing complementarities could be productively exploited with the increased joint-investment collaboration. More importantly, the complementatrity-possibility-set could be dynamically shifted outward with the increased joint investment participation and the opening of the Indian market. Although, there is no comprehensive study currently available on the areas of joint-investment complementarities between the two countries, the earlier studies sufficiently validate that there is a wide range of areas where the Indian private investors can productively invest individually or jointly in Bangladesh. For example, cement industries could be set up in Bangladesh using the limestone of northeastern states of India. It could be produced for both the mutual and the external markets. The country's seaports could be used for exporting the output into the external markets. Similarly, in the country's leading export sector, the ready made garments sector which enjoys preferential access in EU and the US markets, the Indian private investors could invest in setting up composite textile mills in Bangladesh. It would be mutually beneficil and could curb the bilateral trade non-reciprocity. The Indian investors could enjoy the preferential access into the external markets which Bangladesh currently enjoys, at the same time, it would reduce a significant amount of the country's import of fabrics from India. Scientific studies could identify numerous areas where the two countries could benefit from the joint-investment cooperation. Also, there is a tremendous scope for joint-investment cooperation in nontraditional areas. For example, Indian success in developing solar energy for the rural households could be productively invested in Bangladesh. The existing trends overwhelmingly support lucrative opportunities for Indian private investment in the country's education and health sectors. Joint investment in information, communication, and financial services could pay handsome rewards. Strategically, the country seems to enjoy an unique advantage since geographically, it is the watershed between the East and Southeast Asian countries with the South Asian region. This strategic advantage of the country could be utilized in trade and investment areas. Within an appropriate cooperation framework, the country's seaports could play positive role in curbing the unequal bilateral trade flow between the two countries. However, all these are conditional upon the nature and the magnitude of mutual cooperation between the two countries. Unless, the two countries maximize the mutually beneficial productive as well as creative cooperation efforts, the potentials would never be actually realized.

## CONCLUDING REMARKS

The current study attempted to provide a more complete scenario of the current bilateral trade between Bangladesh and India. In this area, the major observation is that the bilateral trade pattern seriously suffers from an escalating trend of non-reciprocity which puts immense pressure on the country's fragile economy. The study also attempted to explore the actual extent of the non-reciprocity through incorporating bilateral trade scenario in cross-border illegal trade and trade in service account. The actual extent of the bilateral non-reciprocity is much higher than the prevailing anticipation, even though, there is an acute shortage of reliable information pertaining to the concerned areas. The study also notes that in all the accounts, the severity of the non-reciprocity of bilateral trade accentuated significantly since the early 1990s in the face of lackluster growth of the country's bilateral exportables and a disproportionate increase of importables from India. The growing trend of deteriorating price competitiveness is fattening the band of importables in each year on both the official and unofficial accounts.

In order to identify a durable as well as effective solution to the problem, the study draws attention to two major dimensions of the remedial measures. The internal dimension of the problem calls for enhancing the country's economic efficiency and competitiveness. The study repeatedly underscores the imperative that the crux of a durable solution of the problem lies within the fundamentals of the domestic economy. The centre piece of the durable solution is to diversify the country's export base coupled with generating sufficient exportable surplus, and attaining efficiency at a sustained basis in the country's key economic sectors. For this purpose, the paper emphasizes a need for developing a market based incentive regime towards augmenting efficiency and productivity of the concerned sectors. Appropriate incentive system is also to be developed to infuse a massive private investment in the country. Concomitantly, the study calls for immediately removing numerous distortions concerning the incentive regime which tend to reinforce unproductive rent-seeking activities. The economy needs to be further liberalized and deregulated to tilt the incentives in favour of the exportables and the efficient import substituting sectors. In the Bangladesh context, recent experience shows that the institutional bottlenecks concerning the micro and the meso-economy are the major hindrances to a desirable incentive regime rather than the structural bottlenecks. The internal dimension of the problem clearly points to improvement the quality of the country's economic governance.

The external dimension of the problem relates to the fair access of the country's tradables into the Indian market. The study emphasizes the fact that unless various forms of NTBs are removed, the current practice of only tariff reduction would be of no help to bring the desired results. Instead of product-by-product approach, a deep-cut tariff reduction across the board would yield better result. Also, the fiscal measures of the two countries are needed to be harmonized for developing a neutral incentive regime. Effective bilateral/multilateral trade negotiations should be pursued in this regard. Also, the study underscores the need for maximizing innovative as well as productive cooperation endeavours within appropriate bilateral, or multilateral cooperation framework. The existing economic relation between the two countries must step beyond trade, towards an extensive form of joint-investment cooperation. However, the potentials are conditional upon the intensity of productive cooperation. It should be well remembered that the potential rewards of productive cooperation at the dynamic context is much higher than the anticipation as higher is the potential cost of noncooperation.

Finally, the study underscores the urgency for undertaking scientific research in a number of areas by the country's development practitioners, especially, the international trade practitioners. First, elaborate study is to be conducted on the entire gamut of the bilateral trade, especially, the prevailing information blackout concerning the illegal trade transactions and bilateral trade in services must be immediately addressed. Another major area of study is the determination of comparative advantages of the major economic activities between the two economies. Currently, there is no objective basis for determining the efficiency level of the country's key economic sectors. A detailed study is required to identify various distortions concerning the country's incentive regime. The extent of distortions also needs to be precisely quantified. Research should be undertaken to assess the adjustment process of the economy due to the proposed reorientation of the incentive regime. Particularly, objective analysis is required to assess the impact on the country's infant industries and the priority sectors due to the proposed liberalization of the country's external sector regime. Currently, there is a serious lacunae regarding vital trade and investment information of India. Particularly, NTBs must be clearly identified and incentive regime of India must be critically reviewed to postulate potential implications for the Bangladesh economy. An extensive data base is also required regarding the prices of different commodities in different parts of India. Finally, the study calls for research on identifying both the existing and potential trade-investment complementarities among the two countries. The researchers of both the countries must provide the productive inputs, appropriate directions, and vision to the policy practitioners, so that a mutually beneficial economic relation can be developed between the two development partners.

Table-1: Trends of Bangladesh's Trade with India 1979-80 to 1996-97 (in $US million)

| Year | BD's Import from India | Annual Growth rate of Import (%) | BD's Export to India | BD's Trade Deficit with India | Annual Growth rate of Deficit (%) | Export as % of Import |
|---|---|---|---|---|---|---|
| 1979-80 | 56 | 39.00 | 8 | -48 | 70.61 | 14.4 |
| 1980-81 | 64 | 15.11 | 20 | -44 | -7.98 | 31.6 |
| 1981-82 | 43 | -32.34 | 20 | -23 | -47.49 | 46.9 |
| 1982-83 | 38 | -12.47 | 7 | -31 | 34.78 | 18.2 |
| 1983-84 | 60 | 58.58 | 28 | -32 | 2.58 | 47.1 |
| 1984-85 | 65 | 7.99 | 30 | -35 | 11.01 | 45.6 |
| Total 1980-85 | 326 | | 113 | -213 | | |
| **Average 1980-85** | **54** | **12.64** | **19** | **-35** | **10.58** | **34.0** |
| 1985-86 | 57 | -11.86 | 8 | -50 | 40.23 | 13.5 |
| 1986-87 | 74 | 30.07 | 11 | -63 | 28.08 | 14.8 |
| 1987-88 | 90 | 20.97 | 9 | -81 | 28.23 | 9.7 |
| 1988-89 | 121 | 34.11 | 11 | -110 | 35.30 | 8.9 |
| 1989-90 | 170 | 41.09 | 22 | -149 | 35.09 | 12.7 |
| Total 1986-90 | 513 | | 60 | -453 | | |
| **Average 1986-90** | **103** | **22.88** | **12** | **-91** | **33.39** | **11.9** |
| 1990-91 | 190 | 11.27 | 23 | -167 | 12.18 | 12.0 |
| 1991-92 | 284 | 49.87 | 4 | -280 | 67.97 | 1.4 |
| 1992-93 | 381 | 34.01 | 13 | -368 | 31.28 | 3.4 |
| 1993-94 | 467 | 22.71 | 24 | -443 | 20.52 | 5.1 |
| 1994-95 | 994 | 112.85 | 36 | -958 | 116.25 | 3.6 |
| 1995-96 | 1100 | 10.67 | 72 | -1028 | 7.28 | 6.6 |
| 1996-97 | 1500 | 36.36 | 80 | -1420 | 38.17 | 5.3 |
| Total 1991-97 | 4915 | | 252 | -4663 | | |
| **Average 1991-97** | **702** | **39.68** | **36** | **-666** | **41.95** | **5.4** |
| Cumulative Total | 5754 | | 425 | -5328 | | 7.4 |

Source: Calculated from *Direction of Trade Statistical Yearbook*, IMF

Table-2 : Commodity Composition Bangladesh's Import from India, 1991 to 1996

| Commodity Section | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | Av. 1991-96 | Leading sector Ranked by % value share | Leading sector Ranked by average annual growth rate |
|---|---|---|---|---|---|---|---|---|---|
| I ( In 000, Tk.) | 19775 | 44789 | 174425 | 98609 | 226595 | 303142 | 144556 | | |
| % value share | 0.31 | 0.51 | 1.30 | 0.60 | 0.82 | 0.67 | 0.70 | | |
| Annual growth rate | | 126.49 | 289.44 | -43.47 | 129.79 | 33.78 | 107.21 | | |
| II (In 000. Tk.) | 412155 | 798286 | 598946 | 1198139 | 3851566 | 16463650 | 3887124 | 2 | 5 |
| % value share | 6.53 | 9.05 | 4.47 | 7.25 | 13.91 | 36.65 | 12.98 | | |
| Annual growth rate | | 93.69 | -24.97 | 100.04 | 221.46 | 327.45 | 143.53 | | |
| III (In 000, Tk.) | 631 | 683 | 1011 | 1897 | 33196 | 15662 | 8847 | | 1 |
| % value share | 0.01 | 0.01 | 0.01 | 0.01 | 0.12 | 0.03 | 0.03 | | |
| Annual growth rate | | 8.24 | 48.02 | 87.64 | 1649.92 | -52.82 | 348.20 | | 2 |
| IV (In 000, Tk.) | 40922 | 52674 | 240195 | 226726 | 363033 | 675854 | 266567 | 10 | 8 |
| % value share | 0.65 | 0.60 | 1.79 | 1.37 | 1.31 | 1.50 | 1.20 | | |
| Annual growth rate | | 28.72 | 356.00 | -5.61 | 60.12 | 86.17 | 105.08 | | |
| V (In 000, Tk.) | 695363 | 754357 | 1485248 | 2273416 | 2990588 | 2948343 | 1857886 | 3 | |
| % value share | 11.01 | 8.56 | 11.10 | 13.75 | 10.80 | 6.56 | 10.30 | | |
| Annual growth rate | | 8.48 | 96.89 | 53.07 | 31.55 | -1.41 | 37.71 | | |
| VI (In 000, Tk.) | 273014 | 456235 | 797557 | 1171856 | 2489297 | 2791940 | 1329983 | 5 | |
| % value share | 4.32 | 5.17 | 5.96 | 7.09 | 8.99 | 6.21 | 6.29 | | |
| Annual growth rate | | 67.11 | 74.81 | 46.93 | 112.42 | 12.16 | 62.69 | | |
| VII (In 000, Tk.) | 336890 | 427333 | 526709 | 553516 | 523497 | 909254 | 546200 | 8 | |
| % value share | 5.33 | 4.85 | 3.94 | 3.35 | 1.89 | 2.02 | 3.56 | | |
| Annual growth rate | | 26.85 | 23.25 | 5.09 | -5.42 | 73.69 | 24.69 | | |
| VIII (In 000, Tk.) | 2483 | 2659 | 1196 | 4296 | 44400 | 1981 | 9503 | | 3 |
| % value share | 0.04 | 0.03 | 0.01 | 0.03 | 0.16 | 0.00 | 0.04 | | |
| Annual growth rate | | 7.09 | -55.02 | 259.20 | 933.52 | -95.54 | 209.85 | | |
| IX (In 000, Tk.) | 343 | 1062 | 11624 | 23965 | 44605 | 48391 | 21665 | | 2 |
| % value share | 0.01 | 0.01 | 0.09 | 0.14 | 0.16 | 0.11 | 0.09 | | |
| Annual growth rate | | 209.62 | 994.54 | 106.17 | 86.13 | 8.49 | 280.99 | | |
| X (In 000, Tk.) | 37082 | 70888 | 413385 | 184814 | 700066 | 750463 | 359450 | 9 | 4 |
| % value share | 0.59 | 0.80 | 3.09 | 1.12 | 2.53 | 1.67 | 1.63 | | |
| Annual growth rate | | 91.17 | 483.15 | -55.29 | 278.79 | 7.20 | 161.00 | | |
| XI (In 000, Tk.) | 3373818 | 4866101 | 6551992 | 7702238 | 9699872 | 12324589 | 7419768 | 1 | |
| % value share | 53.42 | 55.19 | 48.95 | 46.58 | 35.04 | 27.43 | 44.44 | | |
| Annual growth rate | | 44.23 | 34.65 | 17.56 | 25.94 | 27.06 | 29.89 | | |
| XII (In 000, Tk.) | 1196 | 1868 | 5031 | 21961 | 43687 | 11240 | 14164 | | 6 |
| % value share | 0.02 | 0.02 | 0.04 | 0.13 | 0.16 | 0.03 | 0.07 | | |
| Annual growth rate | | 56.19 | 169.33 | 336.51 | 98.93 | -74.27 | 117.34 | | |
| XIII (In 000, Tk.) | 65945 | 52411 | 301167 | 188527 | 289148 | 271876 | 194846 | 11 | 9 |
| % value share | 1.04 | 0.59 | 2.25 | 1.14 | 1.04 | 0.61 | 1.11 | | |
| Annual growth rate | | -20.52 | 474.63 | -37.40 | 53.37 | -5.97 | 92.82 | | |
| XIV (In 000, Tk.) | 1407 | 3327 | 6954 | 7475 | 4892 | 9359 | 5569 | | |
| % value share | 0.02 | 0.04 | 0.05 | 0.05 | 0.02 | 0.02 | 0.03 | | |
| Annual growth rate | | 136.46 | 109.02 | 7.49 | -34.56 | 91.31 | 61.95 | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| XV (In 000, Tk.) | 196481 | 278053 | 1033179 | 1050453 | 2172080 | 1628649 | 1059816 | 6 | 11 |
| % value share | 3.11 | 3.15 | 7.72 | 6.35 | 7.85 | 3.63 | 5.30 | | |
| Annual growth rate | | 41.52 | 271.58 | 1.67 | 106.78 | -25.02 | 79.30 | | |
| XVI (In 000, Tk.) | 581405 | 703665 | 692020 | 955311 | 1784041 | 2767662 | 1247351 | 4 | |
| % value share | 9.21 | 7.98 | 5.17 | 5.78 | 6.45 | 6.16 | 6.79 | | |
| Annual growth rate | | 21.03 | -1.65 | 38.05 | 86.75 | 55.13 | 39.86 | | |
| XVII (In 000, Tk.) | 245740 | 266045 | 342597 | 801438 | 2319223 | 2900347 | 1145898 | 7 | |
| % value share | 3.89 | 3.02 | 2.56 | 4.85 | 8.38 | 6.46 | 4.86 | | |
| Annual growth rate | | 8.26 | 28.77 | 133.93 | 189.38 | 25.06 | 77.08 | | |
| XVIII (In 000, Tk.) | 7608 | 12599 | 22840 | 43746 | 69665 | 51703 | 34694 | | |
| % value share | 0.12 | 0.14 | 0.17 | 0.26 | 0.25 | 0.12 | 0.18 | | |
| Annual growth rate | | 65.60 | 81.28 | 91.53 | 59.25 | -25.78 | 54.38 | | |
| XIX (In 000, Tk.) | 0.00 | 0.00 | 0.00 | 0.00 | 1049 | 0.00 | 175 | | 10 |
| % value share | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | |
| Annual growth rate | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | |
| XX (In 000, Tk.) | 7195 | 15427 | 5889 | 19812 | 28299 | 48548 | 20862 | | |
| % value share | 0.11 | 0.17 | 0.04 | 0.12 | 0.10 | 0.11 | 0.11 | | |
| Annual growth rate | | 114.41 | -61.83 | 236.42 | 42.84 | 71.55 | 80.68 | | |
| Others (In 000, Tk.) | 15758 | 7849 | 172690 | 6551 | 0 | 0 | 33808 | | |
| % value share | 0.25 | 0.09 | 1.29 | 0.04 | 0.00 | 0.00 | 0.28 | | |
| Annual growth rate | | -50.19 | 2100.15 | -96.21 | -100.00 | 0.00 | 370.75 | | |
| Total | 6315311 | 8816311 | 13384855 | 16534746 | 27679364 | 44925876 | 19609377 | | |

**Source: Bangladesh Bank, *Annual Import Payments***

SECTION I: LIVE ANIMALS, ANIMALS PRODUCTS (CHS.01-05);
SECTION II : VEGETABLE PRODUCTS (CH 6-14);
SECTION III : ANIMAL OR VEGETABLE FATS AND OIIS AND THEIR CLEAVAGE PRODUTS : PREPAERD EDIBLE FATS : ANIMAL OR VEGETABLE WAXES (CH.15);
SECTION IV : PREPARED FOODSTUFFS ; BEVERAGES, SPIRITS AND VINEGAR; TOBACCO AND MANUFACTURED TOBACCO SUBSTITUTES (CHS 16-24);
SECTION V : MINERAL PRODUCTS (CHS. 25-27);
SECTION VI : PRODUCTS OF THE CHEMICAL OR ALLIED INDUSTRIES (CHS. 28-38);
SECTION VII : PLASTIC AND ARTICLES THEREOF; RUBBER AND ART, CLES THEREOF (CHS. 39 -40);
SECTION VIII : RAW HIDES AND SKINS, LEATHER, FUR SKINGS AND ARTICLES THEREOF; SADDLERY AND HARNESS; TRAVEL GOODS, HANDBAGES AND SIMILAR CONTAINERS; ARTICLES OF ANIMAL GUT (OTH.THAN SILKWORM) (CHS. 41-43);
SECTION IX : WOOD AND ARTIC CLES OF WOOD; WOOD CHARCOAL;CORK AND ARTICLES OF CORK; MANUFACTURES OF STRAW, OF ESPARTO OR OF OTHER PLAITING MATERIALS; BASKETWARE AND WICKER WORK (CHS. 44-46);
SECTION X: PULP OF WOOD OR OTHER CELLULOSIC MATERIAL; WASTE AND SCRAP OF PAPER OR PAPER BOARD ; PAPER AND PAPER BOARD AND ARTICLES THEREOF (CHS.. 47-49);
SECTION XI: TEXTILE AND TEXTILE ARTICLES (CHS. 50-63);
SECTION XII: FOOTWEAR,HEADGEAR,UMBRELLAS,WALKING STICKS,PREPARED FEATHERS, ARTIFICIAL . FLOWERS, ETC, (CHS. 64-67);
SECTION XIII: ARTICLES OF STONE, PLASTER CEMENT, ASBESTOS,MICA OR SIMILAR MATERIALS ,CERAMIC PRODUCTS GLASS AND GLASSWARE (CHS. 68-70);
SECTION XIV: NATURAL OR CULTURED PEARLS,, PRECIOUS OR SEMI -PRECIOUS STONES, PRECIOUS METALS METALS CLAD WITH METAL AND ARTICLES THEREOF, IMITATION JEWELLERY, COIN (CH. 71);
SECTION XV: BASE METALS AND ARTICLES OF BASE METAL (CHS. 72-83);
SECTION XVI : MACHINERY AND MECHANICAL APPLIANCES; ELECTRICAL EQUIPMENT AND PARTS THEREOF, SOUND RECORDERS AND REPRODUCERS, TELEVISION IMAGE AND SOUND RECORDERS AND REPRODUCERS, AND PARTS AND ACCESSORIES OF SUCH ARTICLES (CHS. 84-85);
SECTION XVII: VEHICLES, AIRCRAFT, VESSELS AND ASSOCIATED TRANSPORT EQUIPMENT (CHS. 86-89);
SECTION XVIII: OPTICAL, PHOTOGRAPHIC, CINEMAGRAPHIC, MEASURING, CHECKING, PRECISION, MEDICAL OR SURGICAL INSTRUMRNTS AND APPARATUS; CLOCKS AND WATCHES; MUSICAL INSTRUMENTS, PARTS AND ACCESSORIES THEREOF (CHS. 90-92);
SECTION XIX: ARMS AND AMMUNITION, PARTS AND ACCESSORIES THEREOF (GH. 93);
SECTION XX : MISCELLANEOUS MANUFACTURED ARTICLES (CHS. 94-96);
SECTION XXI. WORKS OF ART, COLLECTORS PIECES, AND ANTIQUES (CHS. 97-99);

**Table-3. Commodity Composition Bangladesh's Export to India, 1991 to 1996**

| Section/Year | 191 | 1992 | 1993 | 1994 | 1995 | 1996 | Av. 1991-96 |
|---|---|---|---|---|---|---|---|
| **I (in, 000, Tk.)** | 0 | 569 | 0 | 15412 | 36837 | 348870 | 66948 |
| % value share | 0.00 | 0.19 | 0.00 | 1.80 | 3.20 | 11.77 | 1.83 |
| **II (in 000, Tk.)** | 29932 | 720 | 82197 | 34102 | 0 | 28933 | 29314 |
| % value share | 3.46 | 0.25 | 27.71 | 3.99 | 0.00 | 0.98 | 6.06 |
| **III (in 000, Tk.)** | 4329 | 5947 | 22173 | 10702 | 6883 | 0 | 8339 |
| % value share | 0.50 | 2.04 | 7.47 | 1.25 | 0.60 | 0.00 | 1.98 |
| **IV (in 000, Tk.)** | 5061 | 7950 | 3464 | 8676 | 0 | 8492 | 5607 |
| % value share | 0.59 | 2.72 | 1.17 | 1.01 | 0.00 | 0.29 | 0.96 |
| **IV (in 000, Tk.)** | 10655 | 839 | 58240 | 3809635 | 423635 | 1802839 | 446195 |
| % value share | 1.23 | 0.29 | 19.63 | 44.56 | 36.83 | 60.82 | 27.23 |
| **VIII (in 000, Tk.)** | 67821 | 57082 | 5889 | 84297 | 115817 | 99629 | 71756 |
| % value share | 7.85 | 19.54 | 1.99 | 9.86 | 10.07 | 3.36 | 8.78 |
| **IX (in 000, Tk.)** | 82 | 0 | 0 | 16 | 489 | 0 | 98 |
| % value share | 0.01 | 0.00 | 0.00 | 0.00 | 0.04 | 0.00 | 0.01 |
| **X (in 000, Tk.)** | 79451 | 84039 | 21903 | 7873 | 1215 | 3839 | 33053 |
| % value share | 9.20 | 28.77 | 7.38 | 0.92 | 0.11 | 0.13 | 7.75 |
| **XI (in 000, Tk.)** | 661055 | 133893 | 101129 | 307902 | 563021 | 496665 | 377278 |
| % value share | 76.51 | 45.83 | 34.09 | 36.01 | 48.94 | 16.76 | 43.02 |
| **XII (in 000, Tk.)** | 0 | 0 | 0 | 0 | 198 | 0 | 33 |
| % value share | 0.00 | 0.00 | 0.00 | 0.00 | 0.02 | 0.00 | 0.00 |
| **XV (in 000, Tk.)** | 2692 | 1091 | 1621 | 1175 | 1617 | 0 | 1366 |
| % value share | 0.31 | 0.37 | 0.55 | 0.14 | 0.14 | 0.00 | 0.25 |
| **XVI (in 000, Tk.)** | 0.20 | 20 | 1390 | 428 | 742 | 433 | |
| % value share | 0.00 | 0.01 | 0.01 | 0.16 | 0.04 | 0.03 | 0.04 |
| **XVIII (in 000, Tk.)** | 0 | 0 | 0 | 494 | 0 | 0 | 82 |
| % value share | 0.00 | 0.00 | 0.00 | 0.06 | 0.00 | 0.00 | 0.01 |
| **Others (in 000, Tk.)** | 2864 | 0 | 0 | 2014 | 239 | 174211 | 29888 |
| % value share | 0.33 | 0.00 | 0.00 | 0.24 | 0.02 | 5.88 | 1.08 |
| **Total (in 000, Tk.)** | **864042** | **292130** | **296636** | **855016** | **1150379** | **2964314** | **1070419** |

Source : Bangladesh Bank, *annual Export Receipts*
SECTION I : LIVE ANIMALS, ANIMALS PRODUCTS (CHS. 01-05);
SECTION II : VEGETABLE PRODUCTS (CI-6-14);
SECTION III : ANIMAL OR VEGETABLE FATS AND OLLS AND THEIR CLEAVAEGE PRODUTS : PREPAERE ANIMAL OR VEGETABLE WAXES (CH. 15);
SECTION IV : PREPARED FOODSTUFFS ; BEVERAGES, SPIRITS AND VINEGAR; TOBACCO AND MANL TOBACCO SUBSTITUTES (CHS 16-24);
SECTION VI : PRODUCTS OF THE CHEMICAL OR ALLIED INDUSTRIES (DHS. 28-34);
SECTION VIII : RAW HIDES AND SKINS, LEATHER, FUR SKINGS AND ARTICLES THEREOF; SADDLER AND HARNESS; TRAVEL GOODS, HANDBAGES AND SIMILAR CONTAINERS; ARTICLES OF ANIMAL GI (OTH. THE SILKWORM) (CHS. 41-43);
SECTION IX : WOOD AND ARTICCLES OF WOOD, WOOD CHARCOAL; CORK AND ARTICLES OF COR MANUFACTURES OF STRAW. OF ESPARTO OR OF OTHER PLAITING MATERIALS; BASEETWARE AND WICKER WORK (CHS. 44-46);
SECTION X : PULP OF WOOD OR OTHER CELLULOSIC MATERIAL; WASTE AND SCRAP OF PAPER OR BOARE ; PAPER AND PAPER BOARD AND ARTICLES THEREOF (CHS. 47-49);
SECTION XI : TEXTILE AND TEXTILE ARTICLES (CHS. 50-63);
SECTION XII : FOOTWEAR, HEADGEAR, UMBRELLAS, WALKING STICKS, PREPARED FEATHERS, ARTIFI FLOWERS, ETC, (CHS. 64-67);
SECTION XV : BASE METALS AND ARTICLES OF BASE METAL (CHS. 72-83);
SECTION XVI : MACHINERY AND MECHANICAL APPLIANCES; ELECTRICAL EQUIPMENT AND PARTS T SOUND RECORDERS AND REPRODUCERS, TELEVISION IMAGE AND SOUND RECORDERS AND REP ADN PAPRTS AND ACCESSORIES OF SUCH ARTICLES (CHS. 84-85);
SECTION XVIII : OPTICAL, PHOTOGRAPHIC, CINEMAGRAPHIC, MEASURING, CHECKING, PRECISION, SURGICAL INSTRUMRNITS AND APPARATUS; CLOCKS AND WATCHES; MUSICAL INSTRUMENTS, PAF.

**Table-4: Trends of Bangladesh's Trade Intensity Indices with India, 1979-80 to 1994-95**

| Year | Import Intensity Index | Growth rate of Import Intensity (%) | Export Intensity Index | Growth rate of Export Intensity (%) | Trade Reciprocity Index |
|---|---|---|---|---|---|
| 1979-80 | 4.73 | 14.71 | 1.32 | -54.96 | 0.25 |
| 1980-81 | 6.49 | 37.20 | 3.38 | 156.94 | 0.48 |
| 1981-82 | 3.16 | -51.30 | 2.72 | -19.70 | 0.64 |
| 1982-83 | 2.79 | -11.65 | 1.01 | -62.97 | 0.31 |
| 1983-84 | 3.73 | 33.73 | 3.17 | 214.95 | 0.64 |
| 1984-85 | 5.63 | 50.81 | 3.43 | 8.30 | 0.63 |
| Average 1980-85 | 4.42 | 12.25 | 2.50 | 40.43 | 0.49 |
| 1985-86 | 4.87 | 13.51 | 1.19 | -65.38 | 0.24 |
| 1986-87 | 5.93 | 21.83 | 1.47 | 23.60 | 0.26 |
| 1987-88 | 6.14 | 3.54 | 0.98 | -33.49 | 0.18 |
| 1988-89 | 6.24 | 1.54 | 1.31 | 33.80 | 0.16 |
| 1989-90 | 8.84 | 41.74 | 1.89 | 44.74 | 0.23 |
| Average 1986-90 | 6.41 | 11.03 | 1.37 | 0.65 | 0.21 |
| 1990-91 | 10.80 | 22.07 | 2.49 | 31.84 | 0.21 |
| 1991-92 | 15.43 | 42.94 | 0.33 | -86.89 | 0.03 |
| 1992-93 | 17.39 | 12.70 | 0.99 | 202.93 | 0.07 |
| 1993-94 | 17.66 | 1.52 | 1.53 | 54.16 | 0.10 |
| 1994-95 | 24.83 | 40.65 | 1.71 | 11.88 | 0.07 |
| Average 1991-95 | 17.22 | 23.98 | 1.41 | 42.78 | 0.10 |

Source: Calculated from *Direction of Trade Statistical Yearbook*, IMF

**Table-5: A Macro Scenario of Illegal Cross-Border Trade between Bangladesh and India**

| Commodity | Value (US$ million) | Share of exports/ imports (percent) |
|---|---|---|
| IMPORTS | | |
| Livestock, poultry, fish and related products | 252.2 | 40.0 |
| Live animals (cattle) | 216.0 | 34.2 |
| Agricultural Products | 78.0 | 12.4 |
| Sugar | 35.0 | 5.6 |
| Processed food and tobacco | 114.2 | 18.1 |
| Textiles | 76.2 | 12.1 |
| Sarees (cotton) | 50.0 | 7.9 |
| Other industrial manufactures | 26.9 | 4.3 |
| Bicycles and parts | 13.9 | 2.2 |
| Other consumer goods | 83.6 | 13.2 |
| electronics | 43.1 | 6.8 |
| Total Imports | 631.0 | 100.0 |
| EXPORTS | | |
| copper, brass and other metals | 61.7 | 58.0 |
| fish | 35.1 | 35.1 |
| synthetic textiles | 4.6 | 4.3 |
| electronics, spares | 5.1 | 4.8 |
| Total Exports | 106.0 | 100.0 |
| Total Illegal Trade | 737.0 | |

Source: World Bank, *Report No. 15900-BD, 1997.*

## APPENDIX-I

Import intensity index ($m_{ij}$) is defined as:

$$m_{ij} = \frac{\dfrac{M_{ij}}{M_i}}{\dfrac{X_j}{X_w - X_i}} \qquad (1)$$

where,

$m_{ij}$ = import intensity index of trade of country i with country j
$M_{ij}$ = imports of country i from trading partner j
$M_i$ = total imports of country i in a particular year
$X_j$ = total exports of country j in a particular year
$X_w$ = total world exports
$X_i$ = total exports of country i

The explanations of the relevant terms of the above formula are pretty straight forward. The first term on the right hand side of (1) implies the proportion of aggregate imports of the reference country i (in the current case, Bangladesh) accounted for imports from its trading partner j (in the above formula, India). The second term shows country j's share of world exports, net of country i's share. It should be obvious that if the estimated value of the index $m_{ij}$ is equal to unity ($m_{ij}$=1), that is, when these two terms are equal, it would imply that country i accounts for the proportion of country j's exports identical to country j's importance in the total (net) world exports. If this index is numerically greater than one ($m_{ij}$>1), it would imply over-representation of country j in country i's imports. On the contrary, a value of less than one of this index ($m_{ij}$<1)would imply under-representation.

Similarly, export intensity index ($x_{ij}$) is defined as:

$$x_{ij} = \frac{\dfrac{X_{ij}}{X_i}}{\dfrac{M_j}{M_w - M_i}} \tag{2}$$

where,

$x_{ij}$ = export intensity index of trade of country i with country j
$X_{ij}$ = exports of country i to trading partner j
$X_i$ = total exports of country i in a particular year
$M_j$ = total imports of country j in a particular year
$M_w$ = total world imports
$M_i$ = total imports of country i
Similarly, export intensity index:

The first term on the right hand side of (2) above indicates the proportion of total exports of country i accounted for by country j. The second term indicates total world imports, net of country i's share accounted for by country j. The equality of these two terms would again lead to the value of this index being unity ($x_{ij}$=1), which would imply that country j accounts for country i's exports in the same proportion as country i's share in total (net) world imports. Again, a value of this index which is greater than unity ($x_{ij}$>1) would imply over-representation of country j in country i's exports, while a value of less than unity ($x_{ij}$<1) would imply under-representation.

Index of Trade Reciprocity (θ) as defined by Wadhva is:

$$\theta = 1 - \frac{\sum_{j=1}^{n}\left[\frac{|a_{ij} - a_{ji}|}{(a_{ij} - a_{ji})}\right]\sum_{i=1}^{n} a_{ij}}{(\eta - 1)\left[\sum_{i=1}^{n}\sum_{j=1}^{n} a_{ij}\right]}$$

where,

$a_{ij}$ = exports of country i to country j
$a_{ji}$ = exports of country j to country i
n = total number of countries involved in the context of the bilateral or regional trade

The numerical value of the index θ will always lie between zero and one ($0 \leq \theta \leq 1$). When trading partners in a group tend to have a balanced bilateral trade (case of perfectly balanced two-way trade), the value of θ reaches its maximum ($\theta = 1$). On the other hand, when there exists only one-way flow of trade between the pair of trading partners (say, complete dependence of country i on country j for its imports or exports), the value of θ is at its minimum (that is, $\theta = 0$). This index thus measures the degree of trade reciprocity between a set of trading partners. It may be measured at bilateral as well as multilateral levels for a group of countries.

## Appendix II : Imports under Non-Tariff Barriers (NTBs) in India

| Broad Categories of Restriction | Nature of Restriction/ Canalising Agency | Broad Categories of Commodities |
|---|---|---|
| Prohibited items | not permitted to be imported | 1. Tallow, Fat and/or Oils, rendered, unrendered or otherwise, of any animal origin. |
| Restricted items | not permitted to be imported except against a Licence with a Public Notice issued in this behalf.<br><br>import permitted for export | 1. All consumer goods, howsoever described of industrial, agricultural, mineral or animal origin, whether in SKD/CKD condition or ready to assemble sets or in finished form; including, consumer electronic goods, consumer telecommunication equipments, cotton, woolen, silk, man-made and blended fabrics including cotton terry towel fabrics, concentrates of alcoholic beverages, wines, saffron, cloves, cinnamon and cassia. |

| | | |
|---|---|---|
| | against a Licence with a Public Notice issued in this behalf. | 2. Precious, semi-precious and other stones. |
| | not permitted to be imported except against a Licence with a Public Notice issued in this behalf. | 3. Safety, security and related items. |
| | do | 4. Seeds, plants and animals. |
| | not permitted to be imported | 5. Any pesticide, insecticide, weedicide, herbicide, rodenticide and miticide, which has not been registered or which is prohibited for import under the Insecticides Act 1969 and formulations thereof |
| | do | |
| | | 6. DDT-technical 75 Wdp |
| | do | |
| | | 7. Drugs and pharmaceuticals including all types of penicillin, 6-APA, Tetracycline/Oxytertracycline and their salts, |
| | do | Rifamcin, intermediates of Rifamcin, Vitamin B.1, B.2 and their salts. |
| | do | |
| | | 8. Chemicals and allied items |
| | | 9. Items related to small sector, namely, copper oxycloride, dimethyl sulphate, DNPT, flavouring essence of all types, |
| | do | niacin/nicotinic acid/ niacinamide/ nicotinamide/ acidamide, mixtures of odoriferous substances/ mixtures of resinoids, phthalate plasticisers. perfumery compounds/ synthetic essential oils, paper cutting knives, paper cutting machines, domestic water meters. |
| | do | |
| | | 10. Miscellaneous items: aircraft and helicopters, ships, trawlers, boats and other water transport crafts, commercial and passenger automobile vehicles, including two |

| | | |
|---|---|---|
| | | wheelers, three wheelers and personal types of vehicles, coir (fibre/yarn/fabrics), raw silk/ silk cocoons, radio active material, rare earth oxide, including sand, cinematograph feature films and video films, crude palm stearin, feed grade maize, naptha, batteries and tyres of all kind of vehicles.<br><br>11. Special categories: restricted items required by hotels, restaurants, travel agents and tour operators, restricted items required by recreational bodies. |
| Canalised items | imports are permitted only through concerned govt. bodies | |
| | Indian Oil Corporation Limited | 1. Petroleum products, namely, aviation turbine fuels, crude oils, motor spirit bitumin (asphalt)-paving grade, furnace oil (except low sulpher heavy stock/ low sulphar waxy residue) and high speed disel. |
| | Minerals and Metals Trading Corporation of India Limited | 2. All types of nitrogenous, phosphatic and potassic fertilisers except DAP, MOP, MAP, SOP, NP and NPK fertilisers. |
| | The State Trading Corporation of India Limited and Hindustan Vegetable Oils Corporation Limited | 3. Coconut oil, RBD palm oil, and RBD palm stearin. |
| | do | 4. Seeds (copra, groundnut, rapeseed, sufflower, soybean, sunflower, cotton). |
| | do | 5. All non-edible oils but excluding tung oil/ China wood oil and natural essential oils; seeds or any other material from which oil can be extracted. |
| | The State Trading Corporation of India Limited | 6. Palm stearin, excluding crude palm stearin; palm kernal oil; and tallow amines of all types. |
| | Food Corporation of India | 7. Cereals, excluding feed grade maize for poultry or animals. |

Sources: *Import and Import Policy*, Ministry of Commerce, Government of India, p.61-72.