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BANGLADESH-INDIA BILATERAL TRADE : CURRENT TRENDS, NEW PERSPECTIVES, NEW CHALLENGES

Introduction

The current bilateral economic relationship between Bangladesh and India is driven by three new developments which encompass the dynamics of recent changes at both regional and global levels: firstly, the global context: the Bangladesh-India bilateral trade relationship is being influenced by the very important and fundamental changes brought about by the successful completion of the Uruguay Round and the establishment of rule-based trade regime under the WTO; secondly, the regional context: the bilateral trade relationship is being influenced by the preferential treatments negotiated under the two SAPTA agreements, and the decision to establish a free trade area in South Asia by the year 2001; and thirdly, the sub-regional context: this bilateral relationship is an integral part of the envisaged growth quadrangle that covers Bangladesh, Nepal, Bhutan and the North-eastern regions of India. All the aforementioned three dimensions are interlinked, *albeit* at different levels, in a way that promises to open windows of opportunities for both Bangladesh and India as well as pose new challenges to the future development of relationship between them.

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An important issue here is whether we will be able to transform our bilateral relationship in a manner which can supersede the developments at plurilateral and multilateral levels, or whether our bilateral relationship will develop only at the pace dictated by these extra-bilateral developments. As a matter of fact, these two can be mutually reinforcing - a proactive policy of enhancing Bangladesh-India bilateral cooperation will be an important catalyst for deepening the economic cooperation at South Asian regional level as well as integration of the two economies at the global level. On the other hand, the global and regional pace of economic integration would play a stimulating role in accelerating the pace of promotion of our bilateral relationship by providing the bottom line at which this relationship has to grow.

As is known, the ninth SAARC summit held in Male in 1997 has pledged to form a free trade area in South Asia by the year 2001. Obviously, realisation of this goal will critically hinge on the manner the relationship of the predominant economy of the region, that of India, develops with her neighbouring countries in the SAARC. As a matter of fact, whether the optimism of politicians is matched by realism on the ground will, to a critical degree, be tested out by how India's trade relationship with her neighbours actually evolves in the near future. It is here that the emerging Bangladesh-India bilateral trade scenario acquires such importance, not only in terms of the economic policies of the two countries, but also in terms of the economic future of the region as a whole.

From the above vantage point, the present paper makes an attempt to locate areas, and identify issues which are of critical importance in terms of meeting the challenges and realising the opportunities arising out of Bangladesh-India bilateral relationship. The paper focuses on three areas: Section I looks at the current state of Indo-Bangladesh trade; Section II deals with some of the major problems that inhibits Indo-Bangladesh trade relations, and Section III attempts to identify some important emerging issues which would need to be tackled in order to stimulate bilateral economic relationship in the near future.

Section - I: Existing Pattern of Bangladesh-India Trade: A Deepening Dependence

For Bangladesh, trade with India comprises a very important component of the country's global trade relations. In recent years, India's importance as a source of imports has registered a significant increase, while Bangladesh's role as exporter to India has been further marginalised. This has given rise to an increasing balance of trade deficit with India, which has become a cause of genuine concern in Bangladesh. It is to be noted, however, that a significant amount of these imports constitutes inputs to export oriented industries of Bangladesh, specially yarn and fabrics for the ready made garments (RMG) sector, which has helped Bangladesh to maintain a favourable balance of payments position with such important trading partners as the USA and the EU. It is equally true that this bilateral trade deficit, substantial and increasing at a fast rate, reflects not only the relative comparative advantages of these two countries but also, to some extent, from the Bangladesh perspective, both an absence of level playing field as well as hitherto untapped potentials of as yet unrealised opportunities. Before dealing with these two issues, let us analyse the existing pattern of trade between the two countries.

As was mentioned earlier, Bangladesh's trade deficit with India has registered significant increase in recent years. As can be seen from Table-1, this deficit has increased 27 fold over the last decade. In FY 1996 exports to India stood at Tk. 296 crore while imports stood at a staggering Tk. 4490 crore. This would mean that import payments was 15 times higher than the export accruals, leading to a deficit of Tk. 4190 crore. Trade deficit with India alone accounted for 35% of the total trade deficit of Bangladesh in FY 1996.

Table 1: Bangladesh-India Trade Balance: FY 1986 - FY 1996

(Taka in crores)

Year	Import	Export	Trade balance	Exports as percentage of imports
1985-86	180.09	30.64	-149.45	16.6%
1986-87	196.37	33.39	-162.98	16.8%
1987-88	272.18	29.07	243.11	10.7%
1988-89	332.47	31.99	-300.48	9.6%
1989-90	478.40	64.04	-414.36	13.4%
1990-91	944.49	109.53	-834.96	11.5%
1991-92	882.37	7.89	-874.48	0.8%
1992-93	1338.47	38.25	-1300.22	2.8%
1993-94	1657.95	66.97	-1590.98	3.9%
1994-95	2767.97	181.16	-2586.81	6.5%
1995-96	4492.60	296.48	-4196.12	6.6%

Source: Bangladesh Bank, and Export Promotion Bureau, Bangladesh.

If we look at the structure of imports we will see that in case of some major items India has become one of the most important sources of imports to Bangladesh, demonstrating an increasing dependence on India as a trading partner. Table - 2 provides data on this trend. As the table shows, within the last five years, between FY 1991 and FY 1996, India's share in Bangladesh's global imports has registered a three-fold increase from 5.21% to 16.62% of her global imports.

Table - 2: Share of Imports from India as a Percentage of Global Imports to Bangladesh

Import Structure	FY 1991	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996
Cereal and vegetable products	9.98%	15.05%	14.98%	17.92%	24.74%	60.15%
Textile and Textile Articles	18.05%	18.53%	18.04%	19.10%	18.26%	19.25%
Machineries and Accessories	15.85%	8.55%	7.39%	8.63%	9.88%	10.91%
Products of Chemical and Allied Industries	5.17%	7.25%	10.86%	12.80%	18.01%	18.34%
Base Metals	3.55%	4.64%	14.15%	12.24%	16.14%	12.38%
Mineral Products	4.14%	4.62%	9.91%	17.16%	16.29%	12.90%
Total Imports	5.21%	6.68%	8.58%	10.19%	12.21%	16.62%

Source : Computed from National Board of Revenue (NBR) and Bangladesh Bank Data.

As can be seen from Table - 1, in the 1990s between FY 1991 and FY 1996, exports from Bangladesh to India has increased from the low level of Tk. 109.5 crore to only Tk. 196.5 crore; the share of export earnings as percentage of imports payments coming down from 11.5% to 6.6% over the matched period. To compare, as was mentioned earlier, the corresponding share was 16.6% a decade back. Currently, as Table-3 shows, the number of items exported to India with a value of more than one crore taka is only six. As a matter of fact, as Table-3 shows, in FY 1996 chemical fertiliser, raw jute and frozen fish accounted for about 90% of Bangladesh's exports to India, demonstrating a very high level of export concentration. This can be compared with the import structure: as Table - 4 shows, out of the 5985 items classified in the *Import Schedule* of Bangladesh at 8 digit H.S. Code level the number of commodities imported by Bangladesh in FY 1996 was 4601 of which the number of commodities imported from India was 2129, demonstrating significant diversification and a significantly wide base of exports to Bangladesh from India.

Table - 3: Structure of Bangladesh's Exports to India

Commodities	FY 1994	FY 1995	FY 1996
Chemical Fertilizer	20.6%	57.0%	60.7%
Raw Jute	48.8%	33.1%	16.1%
Frozen Fish	0.1%	3.8%	11.8%
Other Mfg. Goods	0.1%	0.1%	5.9%
Leather	12.7%	4.1%	3.3%
Tea	3.2%	-	0.9%
Others	14.5%	1.9%	1.3%
Total	100.0%	100.0%	100.0%
(Amount in Crore Taka)	(66.97)	(181.16)	(296.48)

Source: Export Promotion Bureau of Bangladesh.

Table - 4: Number of Commodities Imported by Bangladesh at 8 Digit H.S. Code Level

Commodities	1991-92	1992-93	1993-94	1994-95	1995-96
Number of commodities covered under global imports	3708	4056	4404	4533	4601
Number of commodities covered under imports from India	1308	1708	2104	2078	2129
Number of commodities imported from India as a Percentage of global imports	35.3%	42.1%	47.8%	45.8%	46.3%

Note: Total number of H.S. Code at 8-digit level classified in the First Schedule of Imports is 5985.

Source: Computed from the NBR Data.

It is, however, to be remembered here that the actual level of dependence in the bilateral trade relationship will be further accentuated if we factor-in the unofficial (illegal cross border) trade with India into the equation. Estimates of the level of unofficial trade varies: for example, Bakht (1996) has estimated that in FY 1994 the illegal imports to Bangladesh was 1.5 times higher than the legal imports (about Tk. 25,300 crore or $ 622 million as against official imports of Tk. 1657 crore or $ 392 million).[1] Contrastingly, illegal exports constituted only $ 126 million over the same period. Thus, as Table-5 shows, the actual trade deficit with India stood at a staggering

1 Another study (Chaudhuri, S., 1995) estimates cross border trade with India to be about $ 0.36 billion in FY 1994 which is roughly equivalent to official imports to Bangladesh in the corresponding period, but somewhat less than estimates arrived at by Bakht, Z. (1996). Unofficial exports from Bangladesh was found to be confined to a small band of commodities, particularly synthetic fabrics and spices. Most of the payments against imports to Bangladesh was in the form of gold and Bangladeshi taka.

$ 0.88 billion in FY 1994 if both legal and illegal trade with India is accounted for.

Table - 5: Bangladesh's Balance of (Legal and Illegal) Trade with India in FY 1994

Exports and Imports	Million $
Legal Imports	413
Legal Export	21
Trade (legal Deficit	392
Illegal Import (Illegal Channels)	519
Illegal Import (legal Channels)	103
Total Illegal Import	622
Illegal Exports	126
Trade (Illegal) Deficit	496
Total Trade Deficit with India	888

Source: Bakht, Z. (1996).

We have mentioned earlier that a significant part of the official imports from India constitutes inputs to the export-oriented industries of Bangladesh. If we take into account the data presented in Table - 6 in the text, this would mean that about one fourth of the total imports from India were registered under back to back L/C. If we add other intermediate inputs which go into export oriented industries this share would go up - it has been estimated that about a third of the imports (including imported inputs under b/b L/Cs) from India constitute inputs to export-oriented industries. However, if we look at the structure of illegal imports (Bakht, Z. 1996 and Chaudhuri, S. 1995) we would find that most of the commodities smuggled into Bangladesh constitute consumption-oriented goods.[2] This would

2 Bakht, Z. (1994) estimates that 70% of illegal imports are on account of livestock, fish and poultry related products, agro-products and processed food and tobacco.

mean that export-intensity of the total import (legal and illegal) bundle is relatively less, reinforcing the argument of a deepening import dependence on India in recent times. If we include both official and unofficial trade with India, then in recent years the imports from India constituted roughly 25% of the total imports to Bangladesh, while imports by India from Bangladesh constituted on average 0.5% of her global imports.

Table - 6: Share of Imported Inputs in Official Imports from India

(in crore taka)

Years	Total import from India	Duty payable import from India	Estimated import under back to back L/C (EPZ)	Share of imports under b/b L/C in total imports from India
1991-92	882.37	761.25	121.12	13.7%
1992-93	1338.47	896.60	441.87	32.9%
1993-94	1657.95	1453.15	204.80	12.3%
1994-95	2767.97	2167.05	600.92	21.7%
1995-96	4492.60	3353.92	1138.68	25.3%

Source: Estimated from Bangladesh Bank and NBR data base.

Section II: Problems Inhibiting Indo-Bangladesh Trade

In the previous section we have noted that in the recent past there has been a significant increase in imports from India to Bangladesh, while exports to India from Bangladesh have so far failed to keep up with this pace. The resultant outcome of this was that of all the major trading partners of Bangladesh the most spectacular change in the trade intensity index was with India - the index was 11.1 for India compared to 2.0 for China, 1.9 for Hong Kong and 1.1 for U.S.A. (Table -7). While proximity of import sourcing, the resultant cost

Table 7: Trade Intensity Index of Selected Countries

Countries	Export Intensity Index			Import Intensity Index			Trade Intensity Index		
	1980	1985	1994	1980	1985	1994	1980	1985	1995
India	1.32	3.4	1.6	4.5	4.0	17.2	3.1	3.8	11.5
China	3.8	0.9	0.2	3.9	2.1	2.9	3.7	1.7	2.0
Hong Kong	1.8	0.7	0.8	0.4	1.1	2.7	0.9	1.1	1.9
U.S.A.	0.7	1.1	2.2	1.8	0.7	0.4	1.0	0.9	1.1
Japan	0.5	1.1	0.4	1.6	1.1	0.8	0.8	0.7	0.7
U.K.	0.8	0.9	1.8	1.0	0.6	0.4	0.9	0.9	0.9

Source : Computed from Direction of Trade Statistics, IMF.

advantages and other factors do contribute to India's comparative advantage over other potential sources of imports, a number of other factors need to be closely scrutinised in order to explain why in the very recent period the trade imbalance between the two countries has registered such a sharp increase. Here the issues of tariff and non-tariff barriers need to be closely looked at.

As is known, Bangladesh has initiated the programme of tariff liberalisation relatively early, in the mid-1980s; the phasing, sequencing and pacing of the reforms have also been much radical compared to the reforms carried out by India. The average tariff rates (import weighted) currently stands at 17.3% in Bangladesh compared to about 30% for India. It is interesting to note that the level of Bangladesh's import-weighted tariff rates for imports from India, which stood at 12.05% in FY 1996, was much lower than her global import-weighted tariff rates in the matched period. This would mean that rationalisation of tariffs on commodities of export interest to India was done at a relatively faster rate. The other interpretation could be that Indian exporters have availed of the opportunity of exporting to Bangladesh particularly those items in which the tariff reductions had been relatively more radical. Table - 8 brings out this trend very clearly.

Table - 8: Dynamics of Decline in Average Import-Weighted Tariffs: Global Imports and Imports from India

Average Tariff Rates	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996
Weighted average of tariff for global import	24.14	23.56	24.09	20.79	17.33
Weighted average of tariff for import from India	31.16	23.48	25.09	13.77	12.05

Source: Computed from NBR database.

It is to be noted here that, although Indian tariff rates had remained higher compared to Bangladesh's actual tariffs to be paid by Bangladeshi exporters are much lower because of the preferential treatment under the Bangkok Agreement, under GSTP and under the SAPTA. Here, it needs to be mentioned that the concessions provided to Bangladesh under the second round of SAPTA negotiations is much wider in coverage and deeper in cuts. In fact, although Bangladesh received preferential treatment for 62 commodities under the first round of SAPTA negotiations from India, only two of these commodities had any export importance for Bangladesh. It has been estimated that India's share in the total exchange of preferences was only 16.8% of the total concessions, compared to 50% provided by Sri Lanka. However, as Table - 9 shows, under the second round of negotiations India has offered tariff concessions on 513 items in the range of 25-50% of existing tariffs[3] These items include 164 of 210 items requested by Bangladesh on a priority basis. The base of Bangladesh's exports to India being narrow, these concessions are of limited value in terms of enhancing exports to India in the immediate future. Although these commodities are potentially exportable to India a lot more needs to be done to translate this export potential into real exports to India. It is here that the issue of investment comes as a means of realising the comparative advantages not in a static but in a dynamic sense.

The issue of non-tariff barriers (NTBs) encountered by exporters to the Indian markets needs special mention here. Bangladesh's business community perceives the NTBs in India to be a real cause of concern. Although it has been agreed that India will withdraw non-tariff barriers from commodities which have been offered concessional treatment during the second round of the SAPTA negotiations, the NTBs will continue to remain on other items as far as Indian market

3 The number of commodities for which Bangladesh was offered preferential treatment is 591, of which India alone has offered concessional treatment on 513.

Table - 9: Commodities (at H.S. 6 digit level) Granted Preferential Treatment During the Second Round of SAPTA Negotiations (Offers and Receipts by Bangladesh)

SAARC Countries	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka	Total
A. No. of preferential commodities offered by Bangladesh	1	204	2	16	13	5	241
Rate of tariff concessions on existing MFN rates	10%	10%	10%	10%	10%	10%	10%
B. No. of preferential commodities received by Bangladesh	1	513	3	41	26	7	5921
Range of tariff concessions on existing MFN rates	10%	25%, 50%	15%	10%	15%	10%, 50%,	10%, 15% 25%, 50%

Source : Ministry of Commerce, Government of Banglaesh (G.O.B).

is concerned. In Table - 10 we have identified six types of non-tariff barriers which apply to imports to India. These NTBs cover thousands of items and it is often complained by Bangladeshi exporters that there is lack of transparency and clarity as to the application of these NTBs because much is left to the discretion of the customs authorities in India. Despite significant fiscal reforms in the 1990s trade policy pursued by India is perceived to be highly complex and restrictive.

Table 10: Structure of Non-Tariff Barriers (NTBs) in India

Types of NTB	Sectors Involved
Imports of commodities which are permitted only under license or in accordance with a public notice.	Almost all consumer goods.
Canalised imports permitted only thru' state trading corporations.	Some categories of agro-commodities.
Imports permitted only against a license on the recommendation of various concerned departments.	For example, frozen semen allowed only under permission of Dept. of Agriculture.
Imports which are not allowed except in accordance with a public notice notifying permission.	Applicable in case of some non-consumer commodities e.g. fish meal.
Imports of inputs to export oriented units against a license or in accordance with a public notice which is issued favouring such imports.	For example, crude granite which is only applicable for export purposes.
Prohibited	Some particular commodities/drugs.

Source : Various EXIM Notifications, Government of India.

The issue of rules of origin (ROO) needs to be also looked at. The SAPTA agreement on rules of origin distinguishes between two groups of exportables: (a) exports which wholly originate in the exporting member country and (b) exports which are not wholly originated in the member countries. In terms of the second category of exportables the ROO stipulates that local content has to be at least 50% of f.o.b. value of the product in order that it receives preferential treatment, while in respect of goods processed in more than one member country the rules specify that aggregate content originating in the member country is not less than 60% of its f.o.b. value. Available information tends to show that exports of items like pharmaceuticals and cosmetics from Bangladesh to India are being constrained by the current level of local value addition under the existing ROO. Moreover, it is a generally accepted principle that it is the country of origin which provides the rules of origin certificate; however in case of exports to India the *Assistant Collectorate of Customs* has to be satisfied as to whether a particular export item complies with the ROO criteria. The delay in assessment sometimes takes more than 10-12 days. Both the Bangladeshi exporter and the Indian importer suffer from lack of transparency in the rules. For example, some time back an export consignment of battery was refused entry to India when the rules were interpreted as having restrictions on imports of non-rechargeable batteries. Since the manufacturing base in Bangladesh is limited, the ROO poses a limiting factor on exports to India. These rules need to be revised in order to promote Bangladesh's export potential. Bangladesh has requested that the ROO be revised to allow exports to India of commodities with 25% local value addition contents.

In case of imports from India as well Bangladeshi importers face problems when state monopolies are involved - grey areas continue to remain in terms of international bids, rate confirmation, date of shipment, specification of goods, period allowed in case of responses to counter offers. It is appropriate here to recollect that a number of banking and infrastructural bottlenecks were identified during the third JBC meeting held in Delhi - these included both payments of bills (payments not being made on due dates, payments not being made if master L/C was not realised, corresponding bank's failure to make payments because of lack of reimbursing authority from opening banks) and opening of L/Cs (Bangladesh Bank L/Cs opened on Indian suppliers and not confirmed through identified credit worthy banks, the L/Cs are restricted, L/Cs do not operate as per contract/proforma invoice, actual interest costs are much higher). Although a number of recommendations were made in order to overcome these difficulties precious little has been done in this respect so far. The term and conditions of export credit provided by the EXIM Bank of India is also becoming less attractive to Bangladesh. The cumulative effect of this is that export potentials remain underutilised. For example, a credit of Rs 30 crore was extended to Bangladesh in 1990, the validity of which was to expire in 1991. It was extended to July 1993 and then to July 1995, upto which time the amount utilised was less than Rs 4 crore (Dubey, 1995). Not surprisingly, in recent times Bangladesh has shown less and less interest in accepting Indian credits.

Infrastructural bottlenecks impose severe constraints on promotion of bilateral trade with India. Excepting Benapole, there is severe lack of infrastructural facilities in all other land-routes. Difficulties faced in exporting black and white and coloured T.Vs by land route to India (a rare new item of export to India) can be a case in point. There is no godown or storage facilities at Petropole so that the exporter has to pay extra *truck detention charge* till the time he can handover the consignment to the importer. The exporter also has to pay additional amount as interest charged by banks because receipt of foreign remittance against the bills takes more than 21 days. This receipt by the negotiating bank is also delayed because transaction is made through ACU (Asian Currency Unit) dollar which is administered by the State Bank of India. One possible way out could perhaps be to expedite customs clearance on the basis of non-negotiable documents before the shipment of the commodity.[4]

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4 The fact that Indian duties discriminate with respect to airport handling charges also does not help much. For example, in case of exports from India

There is no doubt that non-tariff barriers and infrastructural bottlenecks pose considerable constraints to enhancing exports from Bangladesh. Potential exporters have complained that restrictive policies, lack of transparency, and the service and infrastructure sector bottlenecks have discouraged them to explore the Indian markets for products of export interest to Bangladesh. Obviously, it is a step in the right direction that India has agreed to eliminate NTBs on items which have been offered preferential treatment under the second round of SAPTA negotiations. It is perceived by the Bangladeshi business community that all the NTBs with respect to LDCs like Bangladesh should be eliminated on an urgent basis. It is encouraging to note that it has been agreed to restore Jessore-Benapole rail link which is expected to significantly reduce trade traffic in the area (Indian Railways has agreed to provide sleepers for this work). The task of operationalising additional land routes with adequate infrastructural facilities along with the required administrative arrangements for both exports and imports also need to be addressed immediately.[5]

Section - III: New Perspectives, New Challenges

The new perspective in the Bangladesh-India trade relations recognises as its point of departure the emergence of a whole new set of possible routes of bilateral cooperation. There is no doubt that existing bottlenecks, specially the NTBs, need to be dismantled and preferential treatment under the SAPTA need to be enhanced both in coverage and depth. It has already been proposed that for speedy move from SAPTA to SAFTA a two-track policy be followed: in the fast track the four LDCs (including Bangladesh) are given duty free

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the charge is Rs. 0.5 kg or Rs. 100.0 per consignment whichever is higher, while in case of imports to India the matched rates are Rs 6.0/ kg or Rs 500.0 per consignment whichever is higher.

5 The following routes have been proposed: Haldibari-Chilahati; Ghojadanga-Burimari, Barsora-Cherragaon; New Jalpaiguri-Tentulia and S. Jalabazar-Betuli -Fultala.

access to the markets of the three developing countries. Here India could take the initiative of unilaterally taking the decision of providing zero-tariff access to exports from LDCs and dismantling all types of existing non-tariff barriers as far as exports from LDCs are concerned.

However, as the existing pattern of both official and unofficial trade (which virtually reflects a zero-tariff scenario) tends to show, the huge bilateral trade deficit between Bangladesh and India is not going to come down, to any significant extent, merely by ensuring a zero-tariff access to India. The issue needs to be looked at from the much broader perspective of regional economic cooperation in the areas of trade, investment and infrastructural network development. In order to address these issues, however, there is a need to give more emphasis to stimulating confidence-building measures in the bilateral relationship. The signing of the Ganges Treaty, the Hill-Tracts Accord, providing of permanent corridors to the Bangladeshi *Chhitmahals* (enclaves) are some of the new developments which, hopefully, has provided a premise in the backdrop of which the urgent task of addressing issues related to closer economic cooperation can be initiated. Bangladesh-India bilateral cooperation is in fact an integral part of the broader sub-regional and regional cooperation and need to be looked upon in that context. However, because of our geographical proximity the challenges and opportunities arising out of our bilateral relationship also need to be recognised and acted upon.

It is to be remembered that for a long time India has denied transit facilities to Nepal and Bhutan for sending their goods overseas through Bangladesh. Similarly Bangladesh has denied India both the corridor facility (movement of goods to and from North Eastern states through Bangladesh) and the transit facility (export and import by India through Bangladeshi ports). As is known,in a recent move India has granted Bhutan and Nepal transit facilities to use the ports of Bangladesh. The issue of a comprehensive transit arrangement has now been put on the agenda.

Simulation exercises carried out to capture the potential benefits from such transit cooperation show that there are important gains to be made by all sides by way of both direct benefit as well as positive externalities. Dubey (1995) points out the followings: (a) India will be able to send goods to its North Eastern states at a cost which will be a fraction of the cost presently incurred; (b) it will help in associating more closely the economies of these states with the mainstream of the Indian economy; this will have a salutary political effect; (c) at current calculation, Bangladesh will earn about Rs. 600 crores by way of freight and other charges leviable on Indian goods; this includes earnings from facilities to be provided at the Chittagong port for the transhipment of Indian goods; (d) India will be prepared to invest a sum of $ 200 million for the expansion of the Chittagong port to enable it to handle the additional volume of Indian cargo; (e) Bangladesh could develop an export trade of 50-100 million dollars with India's North Eastern States; (f) Bangladesh's export earnings to Nepal could increase by 50-100 million dollars because of the provision of transit facilities by India; (g) Nepal's export earnings to Bangladesh and to destinations beyond are also likely to increase; (h) Nepal is willing to invest for the expansion of the Mongla port in Khulna; (i) with the granting by India of transit facilities for trade between Bhutan and Bangladesh, there will be an increase in the two-way trade between these countries. It is a truly positive sum-game from which all partner countries stand to gain. The transits, alternatively, can also be used by Bangladesh for re-export purposes. It has been estimated (Akash, 1997) that about 34 lakh tons of commodities are transported from, and to, the North-East states from rest of India, the cost of which can be substantially reduced if corridor facility is provided by Bangladesh. The negative apprehensions about *misuse* and *abuse* of corridor facilities can be controlled and minimised by putting in place mutually agreed and jointly enforced mechanism of controls and checks. Initially such facilities can be provided for a limited number of commodities.

One of the positive externalities of developing closer economic ties with the North-Eastern states, and more broadly, at the recently agreed growth quadrangle level, is associated with the development of joint ventures. Items like cement, granite and lime stone and paper products had been identified as probable areas of such investments along with perishables (food and fruit) processing plants to cater to the needs of the North Eastern states of India.

An important element of trade expansion, and a proven way of redressing trade imbalance, is the system of joint ventures with buy-back arrangements. Such joint ventures could stimulate the inflow of FDI to Bangladesh, the level of which has so far continued to remain dismally low. The direction of reforms in both the countries would mean that it is the private sectors which will have to take up the required initiatives in this area. However, the state has to provide the adequate incentives and provide the appropriate infrastructural and policy support to promote such initiatives. A delegation of *Joint Economic Commission* has identified a number of sectors where joint ventures projects could be set up, including textiles, cement, fertilizer and newsprint under buy-back arrangement. Some sectors where Bangladeshi entrepreneurs have shown interest in the setting up of joint ventures arrangements with Indian capital are composite textile mills, pharmaceuticals, cement, small steel plants, chemicals, machine tools, fish processing, leather goods and assembly plants for automobiles. In this context, the issue of Bangladesh sustaining her track-record in the export of RMG in the post-MFA era through enhancement of backward linkages is very pertinent. Joint venture enterprises in backward linkage textile sectors could play a critical role in enhancing the local value addition of our major export item. The strategy of promoting joint ventures needs to target not only the regional markets but also extra-regional market and would need to harness the regional complementarities.

However, many bottlenecks persist which discourage initiatives to set up joint ventures. For example, Bangladesh has recently shown an interest in India investing in gas based industries and buying back the products for supplying to the markets in the north-eastern part of India. North Eastern states leaders have objected to this proposal as they would like the investments to take place in their own states rather than Bangladesh inspite of the obvious merit of the proposals in terms of cost-effectiveness. On the other hand, it may be noted that foreigners, even Indians, can not purchase land in Assam and Meghalaya and potential Bangladeshi investors are either forced to take tribal people as partners or explore joint-ventures with government corporations. The visa restrictions currently in place must also be relaxed and multiple visa should be issued to businessmen and entrepreneurs on a priority basis.

An issue of some interest in Indo-Bangladesh bilateral relation is that of border trade. As we have mentioned in the first section, the size of clandestine cross border trade between Bangladesh and India is quite substantial. Chaudhuri's (1995) estimates show the ratio between smuggled-in to smuggled out goods to be 21:1. This huge trade deficit on private trade account is being paid through gold, Bangladeshi taka, narcotics etc. In the current context, and considering the decision to establish a FTA by 2001, serious attention needs to be given to the issue of allowing crossborder trade between Bangladesh and India. In fact a Commission has already been set up to look into this issue.

A border trade did in fact exist between the countries prior to the 1965 war. There are many advantages in legalising the border trade between the two countries. Some of the arguments (Dubey, 1995) put forward are: (a) it will prevent the harassment of the people from both sides of the border on the ground of their indulgence in smuggling; (b) it will provide employment to a large number of Indians and Bangladeshis residing in the border areas; (c) it will reveal new complementarities in the economies of the two countries; (d) it will generate new economic activities along the border, based on the assured supply of commodities; trade and small industries of all kinds are likely to spring up on both sides of the border; (e) it can push the trade transaction between the two countries to new heights (for example, the border trade transaction between China and Myanmar is estimated to be $ 1 billion); (f) in a situation of liberalised trade regimes in both the countries, restriction on the border trade does not make much economic sense; (g) Bangladesh's customs revenue will increase appreciably because of a much larger amount of Indian exports coming under the net of Bangladesh's customs duty. A regime of free trade between the two countries will automatically legalise the border trade. As a first step, all barriers to trade in goods and services produced in the border areas on both sides can be removed.

In this section we have delimited our attention to only some of the major issues which need to be urgently addressed by both the countries in the immediate future. Taken in isolation, a particular option may seem to be advantageous to one side, whilst considered under a holistic view, the emerging scenario would demonstrate a positive sum situation within an evolving win-win scenario. Bilateral relationship with India needs to be treated as an integral part of regional and multilateral cooperation and this relationship needs to be strengthened in order to enhance and promote those processes.

Concluding Remarks

The point of departure as regards the bilateral economic relations with India, from the Bangladesh perspective, is the recognition that this relationship is mutually rewarding, can potentially give Bangladesh rich dividends and is a positive-sum game. However, substantial obstacles remain to be overcome if the potentials of such cooperation are to be translated into real opportunities that can be realised on the ground.

We have pointed out in this paper that the current one-sided dependence of the Bangladesh economy on India needs to be transformed into one of mutually beneficial and interdependence, and this calls for resolving a number of important issues. One set of such issues concerns establishment of the level playing field through elimination of NTBs, and a fast-track approach under regional integration. The other set of issues which poses formidable challenges but is potent with enormous opportunities concerns cooperation in the field of investment, infrastructure development and transit arrangements. The paper argues that bilateral relationship with India is an integral part of the plurilateral relationship at the regional level, and that regional integration can be strengthened through this bilateral route, and that in fact these two routes are mutually reinforcing.

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