

*Mohammad Jasim Uddin*  
*Nahian Reza Sabriet*  
*Md Rafid Abrar Miah*

## **ECONOMIC DIMENSIONS OF BANGLADESH-INDIA RELATIONS: AN ASSESSMENT**

### **Abstract**

The study evaluates the economic dimension of Bangladesh-India relations to explore the untapped potentials and maximise gains. It provides a three-pronged framework by incorporating three major areas of relationship: harnessing the advantages of bilateral economic cooperation; earning economic gains from connectivity links and regional arrangements; and Bangladesh's journey towards its LDC graduation in 2026. In terms of bilateral economic cooperation, the paper delves into the quantitative and qualitative distributions of export-import, FDIs and the prospect of CEPA between the two countries. Regarding connectivity linkages and regional arrangements, it looks forward to assessing Bangladesh's gains from land, road and rail linkages with India, particularly with its northeastern region. It investigates Bangladesh's gains and losses from the existing regional trade networks and how these have affected bilateral relationships. It also brings out the associated challenges in these two areas and suggests some policy recommendations targeting Bangladesh's LDC graduation.

**Keywords:** Indo-Bangladesh, LDC Graduation, Bilateral Economic Cooperation, CEPA, SAFTA.

### **1. Introduction**

Bangladesh and India have a long-standing economic partnership that complements their strong diplomatic ties. The year 2021 marked the golden jubilee of the relationship between the two countries. The Indo-Bangladesh Treaty of Friendship, Cooperation and Peace signed in 1972 was crucial to the bilateral relations. However, since the late 1970s, the relations had to deal with the trust deficit<sup>1</sup> after the killing of the Father of the Nation, Bangabandhu Sheikh Mujibur Rahman and subsequent regime changes. Bangladesh-India economic relations thus went through a stagnant

---

**Mohamamd Jasim Uddin, PhD**, is Research Director at Bangladesh Institute of International and Strategic Studies. His email address is: [jasim@biiss.org](mailto:jasim@biiss.org). **Nahian Reza Sabriet** is Research Officer at Bangladesh Institute of International and Strategic Studies. His email address is: [nahiansabriet@biiss.org](mailto:nahiansabriet@biiss.org). **Md Rafid Abrar Miah** is Research Officer at Bangladesh Institute of International and Strategic Studies. His email address is: [rafidabrar@biiss.org](mailto:rafidabrar@biiss.org)

© Bangladesh Institute of International and Strategic Studies, 2023.

<sup>1</sup> Pratip Chattopadhyay, "The Domestic Dimension of Foreign Policy: Revisiting Indo-Bangladesh Relations," *The Indian Journal of Political Science* 74, no. 2 (April - June 2013): 279-288.

phase until it produced visible outcomes during the mid-1990s, e.g., the signing of the Ganges Water Treaty. These changes uplifted political relations, trust, and a sense of cordiality between the two countries. It is observed that between 2001 and 2008, domestic politics and regime-oriented political considerations dominated the bilateral ties.<sup>2</sup> However, from 2009 onwards, the ties again fast-tracked, particularly, following the signing of the Framework Agreement on Cooperation for Development in 2011.

It is apparent that promoting trade and investment is always a key focus of Bangladesh-India relations and it was also evident through the signing of the Framework Agreement. Both sides agreed to use power-grid connectivity to promote power imports for mutual economic benefits. At the same time, Bangladesh's consent to provide transit facilities to India deepened the ties on connectivity, trade, energy and infrastructure development.<sup>3</sup> The resolution of the maritime boundary dispute in 2014, the implementation of the Land Boundary Agreement (LBA) in 2015 as well as the Prime Minister Sheikh Hasina's visit to India in 2017 led to several deals covering a wide range of issues, i.e., the Memorandum of Understanding (MoUs) on defence cooperation and increasing Indian Line of Credit (LoC) to some Bangladeshi projects. On the other hand, Indian Prime Minister Narendra Modi's visit to Bangladesh in 2021 ushered hope in connectivity and institutional developments.<sup>4</sup> The visit echoed Modi's erstwhile visit in 2015 which had a major focus on India's "Look East" Policy and South-South Cooperation through connectivity and trade linkages, particularly the Bangladesh Bhutan India Nepal Motor Vehicle Agreement (BBIN-MVA). It became evident that both countries are now interested in capitalising on their opportunities from bilateral economic cooperation, regional trade and connectivity linkages.

Eventually, the five decades of Bangladesh-India bilateral relations set the example that the economic dimension always helped the ties grow. Both countries are now considered some of the fastest-growing economies in the world. Regrettably, only 10 per cent of Bangladesh's and 1 per cent of India's trade are conducted by bilateral trade, as suggested by the World Bank. Contrarily, intraregional trade makes for 50 per cent and 22 per cent of total trade in East Asian nations and 22 per cent

<sup>2</sup> Harsh V. Pant, *Politics and Geopolitics: Decoding India's Neighbourhood Challenge* (New Delhi: Rupa Publications, 2021).

<sup>3</sup> Mustafizur Rahman, "Bangladesh: A Journey of Dual Graduation and the Attendant Challenges," in *Bangladesh at 50: Development and Challenges*, eds. S. Narayan and Sreeratha Datta (Hyderabad: Orient Blackswan Private Limited, 2020), 9-35.

<sup>4</sup> Joyeeta Bhattacharjee, "Prime Minister Narendra Modi's Bangladesh visit boost ties," *Observer Research Foundation*, April 5, 2021, <https://www.orfonline.org/expert-speak/prime-minister-narendra-modi-bangladesh-visit-boost-ties/>.

in Sub-Saharan African economies respectively.<sup>5</sup> Undeniably, deepening cooperation and integration at bilateral and regional levels will help them both explore new avenues in the global economic platforms.

The relationship is also vital when it comes to the post-Least Developed Country (LDC) graduation and economic expansion of Bangladesh. Moreover, it is becoming a major area to investigate because of India's unilateral approach toward duty-free (DF) market access for almost all products for LDCs and the introduction of goods and services tax in 2017. Hence, Bangladesh's LDC graduation may have a negative impact on DF access in the Indian market. Making better use of India's offer for DF market access necessitates bilateral trade opportunities like the Preferential Trade Area (PTA), Bilateral Free Trade Agreement (BFTA) and Comprehensive Economic Partnership Agreement (CEPA).<sup>6</sup> Further discussions on these areas will take the discourse beyond bilateral trade deficit to areas of trade creation by actualising opportunities and advantages of preferential market access.

Against this backdrop, this study aims to reap potential benefits from existing bilateral and regional arrangements that will promote Bangladesh's trade and investment with India. In doing so, it is built on the following research questions: How can Bangladesh harness the advantages of Bilateral Economic Cooperation (BEC) with India? What are the probable ways that Bangladesh can earn economic leverage from connectivity links and regional arrangements (that also include both Bangladesh and India)? And, by what means can Bangladesh maximise gains from India and regional arrangements following its LDC graduation in 2026?

By analysing the aforementioned issues, the study will bring out some policy implications. It will help Bangladesh undertake appropriate measures in gaining economic benefits from multiple arrangements where Bangladesh and India are involved as partners. It will also provide some policy guidelines considering LDC graduation in areas related to trade and economics.

The article is based on qualitative analysis; however, it also depends on quantitative data collected from secondary sources. These include literature from public and private policy resources, i.e., academic journals, book chapters,

---

<sup>5</sup> World Bank, *Connecting to Thrive: Challenges and Opportunities of Transport Integration in Eastern South Asia* (Dhaka and New Delhi: World Bank, 2021).

<sup>6</sup> Pinak Ranjan Chakrabarty, "Bangladesh-India ties: Crossing a threshold," *Observer Research Foundation*, March 25, 2021, <https://www.orfonline.org/expert-speak/bangladesh-india-ties-crossing-threshold/>

reports from newspaper articles and print media. Eight key Informant Interviews with practitioners, academics and policy analysts from Bangladesh and India have been utilised to substantiate and validate the points of arguments and collected data/information. Statistical interpretation has been used to measure the average explanatory effects of variables, representativeness or frequency of subsets of data, and visual display of data (using graph, chart and tabulation), and replicability. These helped in the organisation and processing of quantitative data. Descriptive statistical data has been sourced based on yearly statistical assessments. It follows an interpretative approach for qualitative parts. For analysis, a thick interpretation approach has been adopted.

The remaining sections of the article have been organised as follows. Section 2 discusses the literature review and key research gaps. Section 3 analyses the conceptual framework while Section 4 discusses BEC and subsequent trade issues between Bangladesh and India. Section 5 analyses major connectivity linkages and regional networks in detail. Section 6 chalks out the probable trade scenario of Bangladesh after graduation from LDC in 2026. Section 7 suggests a set of policy recommendations for the Government of Bangladesh taking into account the major hurdles of trade and investment. Finally, Section 8 ends with concluding remarks.

## **2. Literature Review and Research Gap**

Documents available on the economic dimensions of Bangladesh-India relations mainly capture the trade and connectivity scenarios and the existing unevenness in the relationships. Analysis of Islam<sup>7</sup> has shown that except for Average Trade as (per cent) of the country's Gross Domestic Product (GDP, which is almost similar on both sides), India is stronger in Goods and Services Exports World Rank as well as Goods and Services Exports as a percentage of World Rank. Based on Revealed Comparative Advantage (RCA), the author has also illustrated that India had a relative comparative advantage in a huge number of products, i.e., among the top 18 products in the HS-2-digit product category, Bangladesh has positive RCA for 8 products, whereas India has positive RCA for 10 products.

Although the two countries have maintained a stable economic partnership for more than 50 years, some lopsided arrangements restricted Bangladesh's potential

---

<sup>7</sup> Amsul M Islam, "Bangladesh Trade with India: Trends and Patterns," *Athens Journal of Business & Economics* 5, no. 2 (2019): 123-40.

in terms of harnessing the actual benefits. Kabir and Sabriet<sup>8</sup>, based on a gravity model, show that the potential of export to India is highly untapped. On the other hand, LDC graduation in Bangladesh may lead to high trade costs, inadequate trade diversification or trade facilitation and LDC-specific preference erosion.<sup>9</sup>

Another set of literature emphasises the trade logistics and policy aspects. According to Sarker and Rahman,<sup>10</sup> inadequate infrastructural arrangements and the lack of bilateral free trade agreements (FTA) have contributed to the existing setbacks more than anything else. Trade is hampered at both policy and implementational levels. They have also highlighted the issue of overusing land ports, particularly the Petrapole-Benapole land border and the lack of facilities at the customs stations. On the other hand, Hossain et al.<sup>11</sup> have talked about the ready-made garment (RMG) sector in particular. Bangladesh's lack of export diversification has made her dependent on particular sectors like this and also increased dependency on the source countries for raw materials, i.e., India in this case.

In general, there is a consensus among scholars that South Asian connectivity networks are not tapping their full potential.<sup>12</sup> According to De, Raihan, and Kathurias,<sup>13</sup> gravity model analysis of Bangladesh-India bilateral trade, transit trade in South Asia is crucial, and improving transit will greatly enhance Bangladesh's exports to India and the rest of the region. The greatest impact on Bangladesh's bilateral trade would come from better trade facilitation (as measured by the trade facilitation index): a 1 per cent increase in trade facilitation would lead to a 4 per cent rise in Bangladesh's exports. Furthermore, regional agreements such as the Asia Pacific Trade Agreement (APTA) and the South Asian Free Trade Area (SAFTA) are mostly concerned with preferential treatment in product export, while neglecting other important areas like investments and services.<sup>14</sup>

<sup>8</sup> Mahfuz Kabir and Nahian Reza Sabriet, "Bangladesh-India Cooperation in Trade, Investment, and Connectivity: A Bangladesh Perspective," *BISS Journal* 41 no. 3 (2020): 239-65.

<sup>9</sup> Sanjay Kathuria and Nadeem Rizwan, "Benefits of Cooperating with Big Neighbours: The Case of Bangladesh and India," in *Trade and Regional Integration in South Asia*, eds. Selim Raihan and Prabir De (Singapore: Springer Nature Singapore Pte Ltd, 2020), 111-113.

<sup>10</sup> Md Nazirul Islam Sarker and Md Ziaur Rahman, "Geopolitical influence and trade between Bangladesh and India," *Bangladesh Journal of Public Administration* (2019).

<sup>11</sup> Md Sajib Hossain, Rashedul Kabir, and Enamul Hafiz Latifee, "Export competitiveness of Bangladesh readymade garments sector: challenges and prospects," *International Journal of Research in Business and Social Science* 8, no. 3 (2019): 45-63.

<sup>12</sup> Riya Sinha and Niara Sareen. "India's limited trade connectivity with South Asia," *Brookings Policy Brief, Brookings Institution India Center, New Delhi* (2020): 4-12; Sanjay Kathuria, ed. *A glass half full: The promise of regional trade in South Asia* (Washington, DC: World Bank Publications, 2018).

<sup>13</sup> Prabir De, Selim Raihan and Sanjay Kathuria, "Unlocking Bangladesh-India trade: emerging potential and the way forward," *World Bank Policy Research Working Paper* 6155 (2012).

<sup>14</sup> Amitendu Palit, Bangladesh's Future Export Challenges and the Need for an FTA Strategy.

The United Nations Conference on Trade and Development's (UNCTAD) take on the regional networks shows that Bangladesh's lack of a balanced approach towards import and export sources will lead to some complexities in the post-LDC days: while it sources 75 per cent of imports from the neighbours, only 16 per cent are exported to those countries, including India.<sup>15</sup> Several articles have highlighted the negative impacts on the economic relations between Bangladesh and India after the former's LDC graduation.<sup>16</sup> Although Bangladesh utilises third-party options for a number of items imported by India, several issues will hamper the smoothness and longevity of the future of trade relations: bottlenecks in export-import using land borders, non-tariff barriers, transit issues and trade facilitation which may turn into major obstacles.

It is observed that studies carried out on the economic dimension of Bangladesh-India relations mostly cover trade and connectivity issues. However, there is a lack of discussion on policy perspectives that need to be brought in for understanding bilateral and regional dynamics of trade and connectivity as well as its prospects and challenges considering Bangladesh's LDC graduation. These pieces of literature have also suggested that a broad study regarding the regional networks beyond the issue of (only) goods export is much required at this point. There have been a significant number of studies on LDC graduation based on aggregated data. However, these are mainly sector-specific but not country-specific, and rarely emphasised the bilateral relationships between the two neighboring countries. Therefore, the study will also help the policymakers to make a breakthrough from the unevenness of the economic relations using short-time and long-term interventions which will incorporate trade and connectivity, regional aspects as well as the issue of LDC graduation.

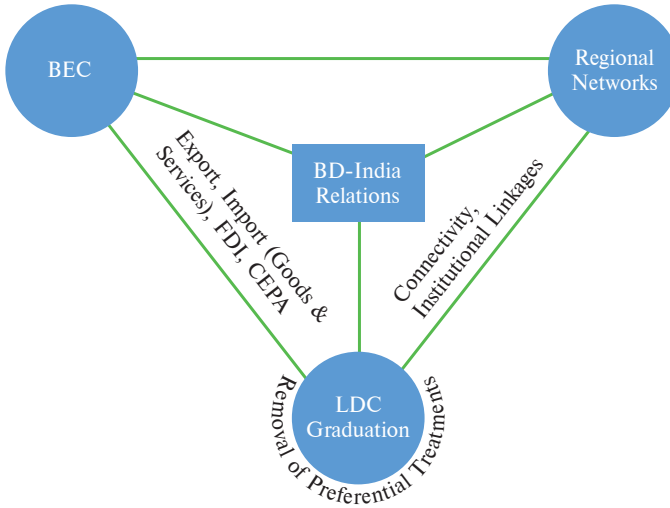
### 3. Conceptual Framework

The study proposes a three-pronged framework (Figure 1) aiming for better utilisation of bilateral and regional cooperative mechanisms that include Bangladesh and India. The framework observes BEC and regional networks as simultaneously operating platforms where trade relations can thrive and seek better outcomes.

<sup>15</sup> United Nations Conference on Trade and Development, "Regional integration as a strategic avenue for Bangladesh: LDC graduation with momentum," UN: 2023; Mustafizur Rahman and Khaleda Akhter, "Addressing the trade facilitation deficit: Raising export competitiveness in the Indian market," in *Bangladesh: History, Politics, Economy, Society and Culture Essays in honour of Professor Alamgir Muhammad Serajuddin* ed. Mahmudul Huque (Dhaka: University Press Limited, 2016).

<sup>16</sup> Mustafizur Rahman, Khaleda Akhter, Naimul Gani Saif, "Trade and transport facilitation in Bangladesh: An audit of the state of play," In *Towards Regional Integration in South Asia: Promoting Trade Facilitation and Connectivity*, ed. Mustafizur Rahman (Dhaka: Centre for Policy Dialogue, 2015); Sanjay Kathuria and Guillermo Arenas, "Border tax distortions in South Asia: The impact on regional integration," in *A Glass Half Full: The Promise of Regional Trade in South Asia*, ed. Sanjay Kathuria (Washington DC: World Bank Group, 2018).

**Figure 1: Three-Pronged Framework for Bangladesh-India Economic Relations<sup>17</sup>**



In BEC, three major issues have been discussed: goods export, services export and Foreign Direct Investments (FDI). A significant emphasis is needed on the discussion of service export since Bangladesh’s service export to India and other parts of the world is lower than expected. Within the discussion parameters of BEC, the Indo-Bangladesh Comprehensive Economic Partnership Agreement (CEPA) has also been analysed. While export-import and FDI constitute the common elements of BEC, CEPA opens up new opportunities to explore.

The second crux of the framework is connectivity linkages. It covers both tangible (connectivity) and intangible (membership) types of linkages that Bangladesh and India are part of. Regional connectivity initiatives in South Asia mostly suffer from the lack of a unified voice. However, the two countries can still utilise this network for facilitating their bilateral connectivity and communications. The tangible networks include rail and roadways, inland waterways, gateway, inland and hinterland<sup>18</sup> connectivity.

In this framework, the phrase “regional networks” refers to regional institutions and bilateral/multilateral agreements. Bangladesh and India share

<sup>17</sup> Authors’ Proposition.

<sup>18</sup> Connecting typically remote or an unaddressed local area.

memberships in most of these arrangements that include SAFTA, APTA, BBIN-MVA, and the (proposed) Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation Free Trade Agreement (BIMSTEC-FTA). Land, road and rail-based connectivity routes are major sources of tangible connectivity linkages and trade facilitators among others. Bangladesh's journey towards becoming a regional connectivity hub in the coming years will be facilitated by the proper utilisation of these connectivity networks.

Both BEC and regional networks are important in harnessing better economic relations between these two neighbouring countries. From Bangladesh's perspective, a cut-off point is its LDC graduation and both BEC and regional initiatives and the framework suggests that they should be analysed keeping an eye on the graduation. Bangladesh's LDC graduation marks a transition from access to competitiveness and requires comprehensive mapping of the challenges and risk factors. In general terms, it will lose the LDC-specific International Support Measures (ISMs) and will affect the associated advantages that Bangladesh has been enjoying in the neighbourhood market.

The framework indicates that these three areas are interconnected when Bangladesh-India economic relations are concerned. In order to make a smooth transition during the LDC graduation, the pre-and post-situations have to be kept in mind. Unless the issues of trade, investment, connectivity, regional networks, FTAs etc. are properly discussed in line with the possible impacts of LDC graduation, relevant policy options cannot be formulated.

#### **4. BEC and Subsequent Trade Issues**

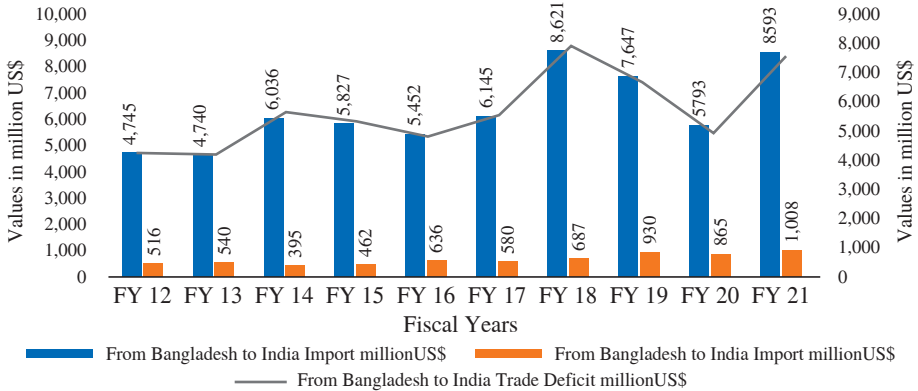
As mentioned before, the bilateral trade between Bangladesh and India faces an imbalance in terms of value. Even though Bangladesh's export to India has increased at an annual rate of 12.1 per cent between 1995 (US\$ 88.6 million) and 2021 (US\$ 1.72 billion), the export ratio between the two countries remains around 1:8.<sup>19</sup> Figure 2 gives an overall picture of Bangladesh-India trade in last decade.

---

<sup>19</sup> Authors' analysis from Export Promotion Bureau, Export Data, Country Wise Export from FY 2012 to FY 2021, [https://epb.gov.bd/site/view/epb\\_export\\_data/](https://epb.gov.bd/site/view/epb_export_data/)



**Figure 2: Bangladesh-India Trade in the Last Decade (in US\$ million)<sup>20</sup>**

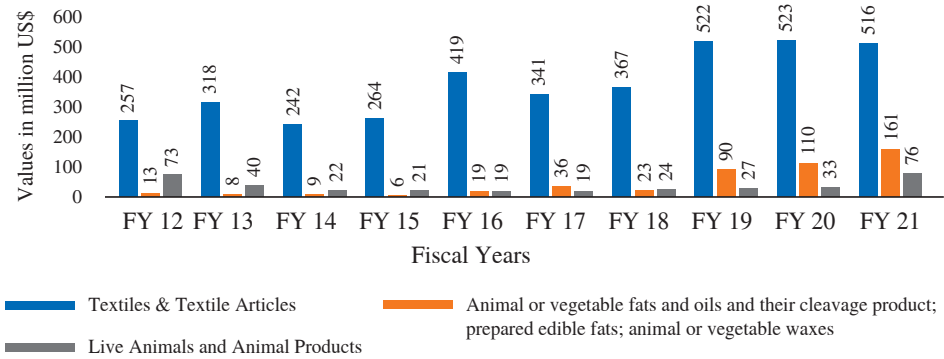


This illustration of the trade gap between Bangladesh and India for the latest decade shows rather a positive trend except for the years of the COVID-19 pandemic. In Fiscal Year 2012, export from Bangladesh to India was only US\$ 516 million whereas the export from India was more than US\$ 4.7 billion. The trade gap in FY 2012 was US\$ 4 billion which gradually spiked till FY 2018 and rose up to US\$ 8 billion. In the following year, it dropped by more than US\$ 2 billion but rose by almost similar volume when the pandemic took place. Though the trade gap increased amid COVID-19, export from Bangladesh increased greatly at that time.

Figure 3 shows the trend of exporting three items to India that have topped the list in recent years. This illustration says that the volume of textile export is unparalleled higher than any given goods and it is rising. Export of live animals and animal related goods are also rising these days and it is rising fast. These can be new sectors where Bangladesh can focus to diversify its market.

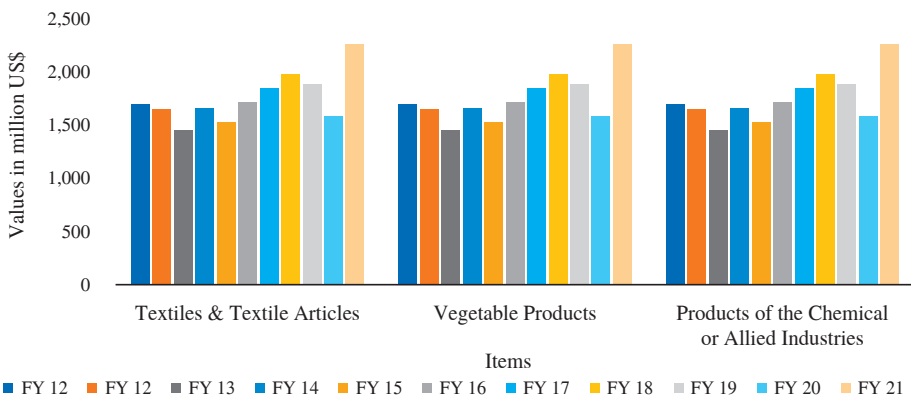
<sup>20</sup> Authors’ Analysis from Bangladesh Bank, Annual Report, Major Country/Commodity-Wise Import Payments from 2012 to 2021, <https://www.bb.org.bd/en/index.php/econdata/impindex> ; Authors’ Analysis from Export Promotion Bureau, Export Data, Country Wise Export from FY 2012 to FY 2021, [https://epb.gov.bd/site/view/epb\\_export\\_data/](https://epb.gov.bd/site/view/epb_export_data/)

**Figure 3: Top Three Export Items to India from Bangladesh (in US\$ million)<sup>21</sup>**



In terms of imports, the top three items are textiles articles, vegetable products, and chemical products for industries (Figure 4). Although the volume of the third is quite low than the other two, it is increasing gradually. Import of vegetable products shows rather an unsteady picture. Two sudden rises were observed in this regard, one in FY18, and another in FY21. Apart from these two years, the volume of imports showed a very slight and gradual increase. For the textiles, the volume is more stable with an exception in FY21 when the number of imports rose more.

**Figure 4: Top Three Import Items from India to Bangladesh (in US\$ million)<sup>22</sup>**

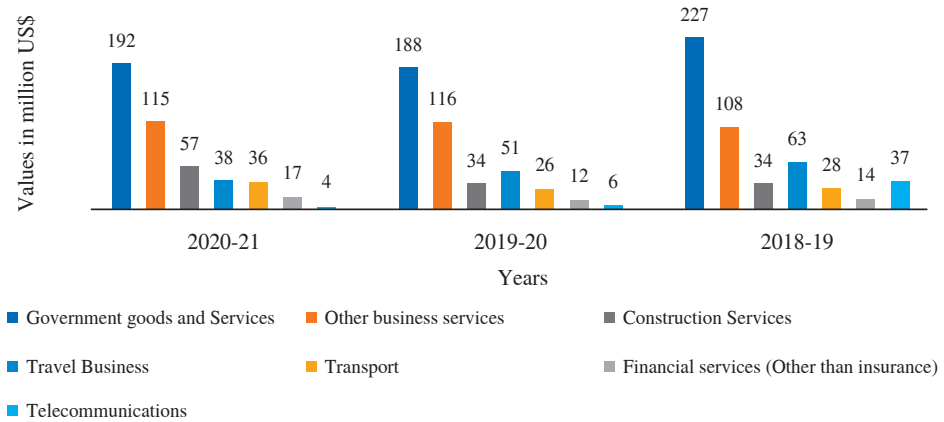


<sup>21</sup> Authors' Analysis from Export Promotion Bureau, Export Data, Country Wise Export (Goods) from FY 2012 to FY 2021, [https://epb.gov.bd/site/view/epb\\_export\\_data/](https://epb.gov.bd/site/view/epb_export_data/)

<sup>22</sup> Authors' Analysis from Bangladesh Bank, Annual Report, Major Country/Commodity wise Import Payments, FY 2011 to FY 2021.

A crucial factor is the lack of exports in the service sector. In 2021, neither Bangladesh nor India exported any services to each other. Essentially, at a time, when Bangladesh’s service export has expanded by around 90 per cent over five years,<sup>23</sup> this is a niche area to explore. Import from India, apart from in FY20, continuously increased during this period.

**Figure 5: Bangladesh’s Export of Services to India (in US\$ million)<sup>24</sup>**



Major services exported in India from Bangladesh are related to government goods and services, business services, construction services, travel business, and the transport sector. Services of these five sectors are exported most from Bangladesh to India in recent years. Among these five sectors, exports of government goods and services are much higher than the rest of the four categories. However, there is a declining trend in exports in this sector. From FY 2019, export of this sector decreased gradually. A similar trend is observed in terms of travel business service export. On the contrary, the export of transport and construction services shows rather a growing trend. In these two sectors, exports increased remarkably in FY21 compared to the previous two years. Export of other business services has rather exhibited a stable magnitude of export in these years. Apart from these sectors, some other sectors also contribute to earning foreign currency by exporting their services. These sectors are related to financial (other than insurance), manufacturing, telecommunications, personal, cultural and recreational, insurance, postal and courier services, and charges

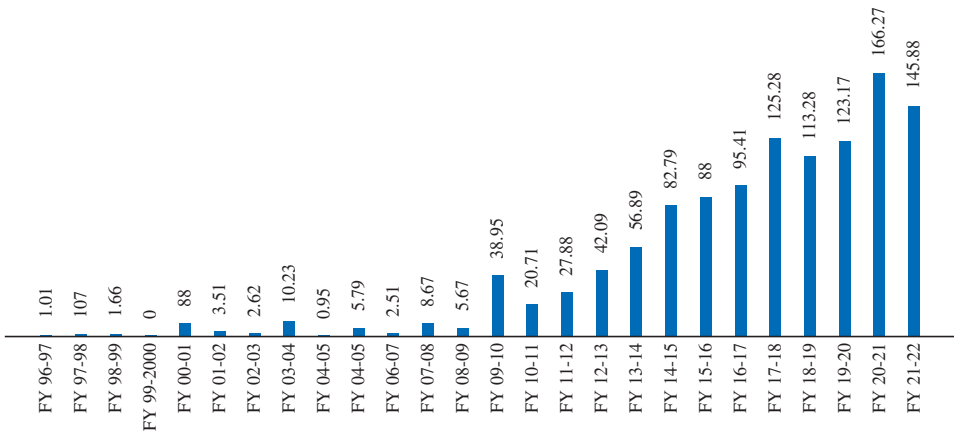
<sup>23</sup> Bangladesh Bank, Annual Report, Payment of Services by Purposes/Countries, 2016 and 2021.

<sup>24</sup> Authors’ Analysis from Bangladesh Bank, Annual Report, Bangladesh Bank, Major Country/Commodity wise Export of Services, FY 2019 to FY 2021, <https://www.bb.org.bd/en/index.php/publication/publicitn/0/15>

for the use of intellectual property, i.e., the volume of exports of these services are yet to be significant and there is room for development in the coming days.

Figure 6 and Table 1 demonstrate year-wise and sector-wise FDI inflow from India to Bangladesh that maintained an uninterrupted growth from FY2010-11 to FY2017-18, increasing at an approximate value of US\$ 125.28 million. The value went down to US\$113.7 million in 2018-19 and again went up to US\$ 123.17 million in FY 2019-20. In FY 2020-21, it peaked at US\$ 116.27 million and then again went down to US\$ 145.88 million. Net FDI inflow from India is increasing, though it is insignificant in comparison with that of other development partners and LoC provided by India.<sup>25</sup> India has so far extended three LoCs to Bangladesh amounting to US\$ 8 billion.<sup>26</sup> This constitutes India’s 28 per cent of global LoC disbursement which makes Bangladesh the largest recipient of LoC funds from India. A major share of LoC is for trade facilitating infrastructure, establishing multi-modal connectivity and capacity-building in various sectors.

**Figure 6: FDI Inflow (NET) From India (Value in US\$ million)<sup>27</sup>**



<sup>25</sup> Mustafizur Rahman, “Bangladesh: A Journey of Dual Graduation and the Attendant Challenges,” in *Bangladesh at 50: Development and Challenges* eds. S. Narayan and Sreeratha Datta, (Hyderabad, India: Orient Blackswan Private Limited, 2020), 9-35.

<sup>26</sup> Prothom Alo, 27-28 December 2021, An Interview of Raheed Ajaj with Indian High Commissioner Vikram K Doraiswami.

<sup>27</sup> Bangladesh Bank, Foreign Direct Investment and External Debt, FY 1997 to FY 2022, <https://www.bb.org.bd/en/index.php/publication/publicitn/1/30>

**Table 1: FDI from India, in million USD (NET)<sup>28</sup> [Major Products]**

	FY 22: 21-22	FY 21: 20-21	FY 20: 19-20	FY 19: 18-19	FY 18: 17-18	FY 17: 16-17	FY 16: 15-16	FY 15: 14-15
Textile and wearing	58.58	27.79	8.49	13.28	14.04	13.85	15.54	17.94
Power	18.57	34.51	25.29	12.36	23.47	10.08	0	6.11
Food	8.66	6.17	3.78	1.9	1.71	1.81	3.11	1.96
Chemicals and pharmaceuticals	6.79	7.09	7.67	6.12	5.48	4.59	2.69	2.85
Trading	5.77	5.75	6.59	6.06	6.69	5.11	5.57	1.09
Agriculture and fishing	1.82	2.74	1.2	0.81	1.69	2.18	2.66	1.64

FDI from foreign countries is generally divided into three types—natural-resource seeking FDI, market-seeking FDI and efficiency-seeking FDI.<sup>29</sup> As Bangladesh has been expanding its economy successfully over the years, market-seeking investment dominated the FDI share, more precisely, the infrastructure sector (i.e., mobile telecommunication or power generation).<sup>30</sup> Currently, investments from India mostly belong to market-seeking FDI share and less to efficiency-seeking FDI. This is true for China as well. On the other hand, investments from other East and Southeast Asian economies like Hong Kong and Singapore investments are mostly associated with efficiency-seeking FDI investments, where an investor looks forward to producing in one country and then selling abroad (i.e., investments in the garments sector).<sup>31</sup> Therefore, India has lots of potential in increasing investments in the efficiency-seeking investment sector.

From the discussion given above, it can be stated that both quantitative and qualitative aspects of FDI are important to understand the investment dynamics between Bangladesh and India. In 2021, 350 Indian companies in total were registered under *Bangladesh Investment Development Authority* (BIDA) with US\$ 3.5 billion.<sup>32</sup> India is also among the top ten (proposed) investors of FY 2020-21 with foreign and joint investments worth US\$ 15.75 million (Figure 7). However, different types of constraints in the special economic zones (SEZs) have interrupted quality investments from Indian private companies over the years. These include mostly infrastructural issues such as lack of gas and electricity and smooth business

<sup>28</sup> Bangladesh Bank, Foreign Direct Investment and External Debt, 2014-15 to 2021-22, <https://www.bb.org.bd/en/index.php/publication/publicatn/1/30>

<sup>29</sup> John H. Dunning, *Multinational Enterprises and the Global Economy* (Wokingham: Addison-Wesl, 1993).

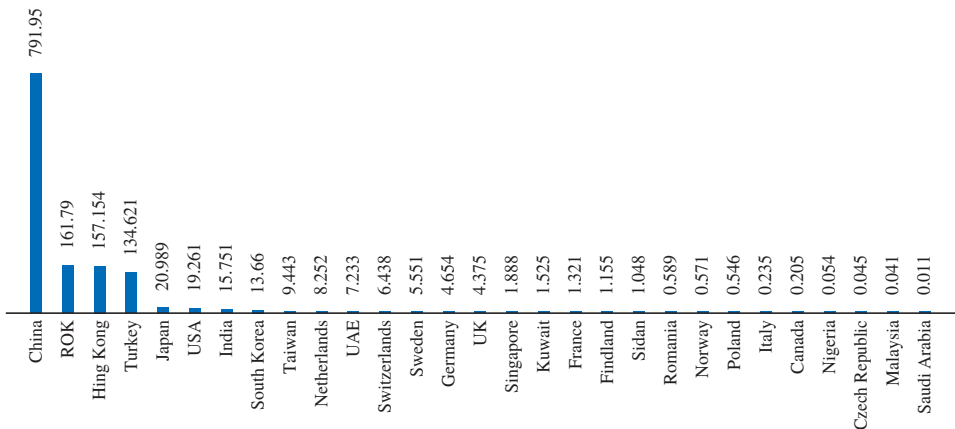
<sup>30</sup> Mahmood, “Where in Bangladesh.”

<sup>31</sup> Mahmood, “Where in Bangladesh”.

<sup>32</sup> Bangladesh Investment Handbook, Bangladesh Investment Development Authority, Dhaka: BIDA, PMO, 2021.

environment and high business costs.<sup>33</sup> The targeted amount of the Five-Year Plans (FYP) by the Government of Bangladesh should be followed as “standards”, as highlighted by several economists over the years. It has to be taken into consideration that the Seventh FYP set the target of Indian FDI as US\$ 9 billion, but only US\$ 2 billion in FDI was accomplished.<sup>34</sup> The Eighth FYP emphasises on one-stop-shop established for managing clearance requirements and reducing the cost of doing business as per the Doing Business Indicators (DBI) of the World Bank.<sup>35</sup> This will attract FDI from both India and other parts of the world. Sheikh Hasina, the Prime Minister of Bangladesh, focused on the “buy-back” arrangements that can make optimal use of time, costs and resources.

**Figure 7: Proposed Investments in Bangladesh (Foreign and Joint Venture, Country Based, 2020-21)<sup>36</sup>**



Cross-border investment in the energy sector has grown noticeably, creating synergy in an overlapping area of national interest.<sup>37</sup> The agreement to

<sup>33</sup> Noted by Dr. Mustafizur Rahman, Distinguished Fellow, CPD, cited in Bangladesh should negotiate that any prospective agreement is on the basis of less than full reciprocity, The Business Standard, September 5, 2022 <https://www.tbsnews.net/features/panorama/bangladesh-should-negotiate-any-prospective-agreement-basis-less-full-reciprocity>

<sup>34</sup> Government of the People’s Republic of Bangladesh, General Economics Division (GED), Bangladesh Planning Commission, 8<sup>th</sup> Five Year Plan, Dhaka: GED.

<sup>35</sup> Bangladesh Planning Commission, 8<sup>th</sup> Five Year Plan, 58.

<sup>36</sup> Bangladesh Investment Development Authority, Annual Report 2021-22 (Dhaka: PMO, 2023), 33-36.

<sup>37</sup> Pinak Ranjan Chakrabarty, “Bangladesh-India ties: Crossing a threshold,” Observer Research Foundation, updated on March 25, 2021, <https://www.orfonline.org/expert-speak/bangladesh-india-ties-crossing-threshold/>.

establish an SEZ on a vast land of 600 acres near the Bangladesh-India border has opened up new grounds for cooperation. It will facilitate the Indian companies' wish to opt for "made in Bangladesh" products for the markets in both countries. The 1,600-megawatt (MW) Godda Power Project has been used for power transmission since March 2023.<sup>38</sup> This is expected to help power generation and export to boost up to a considerable level. However, it is necessary to ensure that Bangladesh gets exemptions, i.e., tax exemptions, associated with an SEZ from this venture. Yet, Indian FDI's overemphasis on certain sectors (textile and apparel, petroleum, gas, power and telecommunication) has led to lopsided improvement over the years. Among these, only textiles and apparel constituted around 40 per cent of the total FDI.<sup>39</sup>

Three Indian SEZs in Mongla, Mirsarai, and Kushtia are expected to increase investments. The majority of the shrimp exports as well as the exports of frozen goods, shrimps and betel nuts are conducted through the Mongla Port. The strategic advantage of the port is supposed to complement international trade through the SEZ when it is established. The 105 acres of proposed land will have employment of 8,000 people.<sup>40</sup> Currently, land development, feasibility study and environmental impact assessment are taking place. At the same time, the 550 acres Mirsarai SEZ in Chattogram has completed the establishment of an electricity network, bridges and pipelines for drinking water.<sup>41</sup> The Bangladesh Economic Zones Authority (BEZA) has also signed an agreement with Adani Ports and SEZ Limited and appointed Mahindra Consulting Engineers Limited from India for the overall development, designing and supervision of the SEZ.<sup>42</sup> For the Indian SEZ in Kushtia, the land acquisition process has been started by BEZA, and the Feasibility Study and Environmental Impact Assessment (EIA) have been completed so far. This 477 acres SEZ is expected to employ around 50,000 people in different industries including agro-food, light engineering, chemical, automobile assembly, garments, and pharmaceutical.

---

<sup>38</sup> "Are Indian businesses ready to invest in 2 dedicated SEZs in Bangladesh?" *India Narrative*, September 8, 2022, <https://www.indianarrative.com/economy-news/are-indian-businesses-ready-to-invest-in-2-dedicated-sezs-in-bangladesh-47172.html> .

<sup>39</sup> Bangladesh Investment Development Authority (BIDA), Annual Report 2021-2022; Syed Akhter Mahmood, "Where in Bangladesh is the Indian FDI going?" *Dhaka Tribune*, March 31, 2022.

<sup>40</sup> Bangladesh Economic Zones Authority, G2G Economic Zones, Indian Economic Zones, Mongla, <https://www.beza.gov.bd/indian-economic-zone-mongla/> .

<sup>41</sup> Bangladesh Economic Zones Authority, G2G Economic Zones, Indian Economic Zones, Mirsarai, <https://www.beza.gov.bd/mirsarai-economic-zone-phase-i/> .

<sup>42</sup> "Two special economic zones in the making for India," *The Business Standard*, September 9, 2022, <https://www.tbsnews.net/world/south-asia/two-special-economic-zones-making-india-492906> .

On the other hand, CEPA is being perceived as a promising trade deal, much bigger than the opportunities provided by FTAs. Parts of it derive from the fact that the negotiation started recently in 2018, and the entire negotiation started with the objective of reducing the trade gap between Bangladesh and India.<sup>43</sup> As yet, significant challenges remain in the process of operationalisation and outcomes. Pre-existing legal barriers may have an adverse impact on Bangladesh's export duties since World Trade Organisation (WTO) regulations.<sup>44</sup> These require border duties as well as restrictive measures with partner countries to be eliminated covering 90 per cent of goods and 100 per cent of the service sectors before concluding an FTA.<sup>45</sup> However, it is expected that CEPA will increase Bangladesh's export by 190 per cent and India's export by 188 per cent, and have a positive impact on the GDPs of the two countries (1.72 per cent increase in Bangladesh's GDP growth rate while a 0.03 per cent increase of India's GDP growth rate).<sup>46</sup> Since India can help enhance export diversification, and these low-export goods are highly exported in India, Bangladesh needs to focus on the goods in addition to two highly dominant RMG products, woven and knitwear in CEPA or other bilateral trade agreements.

CEPA addresses both the supply chain disruption and connectivity issues as well as explores new areas of investment. Another significant factor about CEPA is its potential to act as India's bilateral point of interest in the post-Regional Comprehensive Economic Partnership (RCEP) context. Another key benefit of CEPA is that it already serves empirical evidence from India's similar agreements with other countries, i.e., the United Arab Emirates (UAE), Japan and South Korea. For example, one year of CEPA between India and UAE has shown that trade has grown at a historic height with a 16 per cent year-on-year increase in the FY 2022-23, and a 14 per cent increase during the CEPA implementation period (May 2022 and March 2023).<sup>47</sup> However, in the meantime, one can note that, regarding India's CEPA with South Korea, a concerning factor is the lack of export diversification. For around 10 years, including the period covered by CEPA, the export basket mainly contained raw intermediate goods and raw materials.<sup>48</sup> In the interim, South Korea has diversified

<sup>43</sup> Doreen Chowdhury, "Understanding the proposed Bangladesh-India Comprehensive Economic Partnership Agreement (CEPA)," *The Daily Star*, Sep 5, 2022, <https://www.thedailystar.net/opinion/views/news/understanding-the-proposed-bangladesh-india-comprehensive-economic-partnership-agreement-cepa-3111621> .

<sup>44</sup> Also mentioned in Article XXIV of GATT 1994 and Article V of GATS.

<sup>45</sup> Chowdhury, "Understanding the proposed."

<sup>46</sup> Adam Pitman, "The pros and cons of a Ceps with India: 'Bangladesh's private sector will have time to prepare for India FTA'," *The Business Standard*, August 20, 2022, <https://www.tbsnews.net/features/panorama/pros-and-cons-cepa-india-bangladesh-private-sector-will-have-time-prepare-india> .

<sup>47</sup> Ministry of Commerce & Industry and Press Information Bureau of India, "CEPA is the growth engine for India-UAE bilateral trade," May 01, 2023, <https://pib.gov.in/PressReleasePage.aspx?PRID=1921222>

<sup>48</sup> Mukhopadhyay, Abhijit. "CEPA: Fulcrum of future trade and economic relations?" *India and South Korea: Exploring New Avenues, Outlining Goals* 2014 (2020): 59.



its export basket and mostly incorporated finished goods<sup>49</sup> that gave it leverage over India and resulted in favourable outcomes.

One of the notable impacts of this agreement is the inclusion and expedition of the service sectors. In the case of India-UAE CEPA, positive changes have been brought in the service sectors since India and the UAE each other offered 100 and 110 subsectors respectively. During the interviews and informal talks, the analysts from CPD gave their positive views in favour of undertaking separate studies for (i) goods, (ii) services, and (iii) investments to identify impact-oriented and priority-based strategies for the successful negotiation and implementation of CEPA.<sup>50</sup> Sanjay Kathuria, Senior Visiting Fellow, Centre for Policy Research, India, has pointed out the significance of service sector expertise for Bangladesh which will help the country improve overall competitiveness regarding global manufacturing industries.<sup>51</sup> In addition, investments from Indian services firms can lead to an increase in productivity in Bangladesh's service sectors.

During an interview with the authors, Dr Selim Raihan stated that CEPA would benefit both Bangladesh and India by opening up their markets to each other. Indian investments in Bangladesh will be critical for the latter to increase exports, particularly products that will broaden trade complementarity, strengthen intra-industry trade, and improve trade standards and trade-handling capabilities. According to Dr Raihan's analysis, a bilateral FTA via CEPA would increase Bangladesh's exports to India by 182 per cent. This might increase further up to 300 per cent or more if transaction costs were cut through enhanced connectivity. These figures show the lower bound of the potential rise in Bangladesh's exports via an FTA based on existing trade trends. Simultaneously, India would promote economic activity in its own eastern and northeastern states by assisting Bangladesh's economy to expand.

However, CEPA also has some drawbacks for which the policymakers interviewed became slightly critical about its prospects. The biggest concerns come from the possibility of a fall in import-tariff revenue and job loss of local service providers. Dr Prabir De, one of the experts from India, while interviewing, opined that once CEPA is opened for both Indian and Bangladeshi professionals, India with

<sup>49</sup> Banik, Nilanjan, and Misu Kim. "India–Republic of Korea CEPA: Assessment and Future Path." *Economies* 10, no. 5 (2022): 104.

<sup>50</sup> Authors' Interview with Mustafizur Rahman, Distinguished Fellow, Centre for Policy Dialogue, Dhaka, 2022.

<sup>51</sup> Adam Pitman, "The pros and cons of a CEPA with India."

its comparative advantage may harness the benefits of it and there will be an influx of foreign service providers.<sup>52</sup> According to Bangladesh Foreign Trade Institute (BFTI), the largest fall will be seen in motor vehicles, cotton, machinery and equipment, man-made fibre, iron and steel, and coffee/tea/spices.<sup>53</sup> In this context, he shared why Bangladesh needs to protect its skilled labours under CEPA provisions. M.S. Siddiqui, a legal economist and businessman also thinks likewise. To him, CEPA will be harmful to Bangladesh since the service sector (especially the skilled labour sector) will possibly be dominated by Indian professionals. He believes that CEPA between a small and a large country, along with opportunities, will also bring some risks for the smaller one.<sup>54</sup>

Dr Raihan agrees with Mr Siddiqui that there are risks, but he adds that hazards may exist in every FTA agreement. Bangladesh will no longer be entitled to maintain its current high tariff line after graduating from the LDC category. As a result, the country will have to grant duty-free and quota-free market access to India whenever it graduates from LDC status under the existing South Asian FTA negotiations. In this framework, he views CEPA from a critical lens, at least from the perspective of Bangladesh.

## **5. Connectivity Linkages and Regional Networks**

### **5.1 *Tangible Connectivity Networks***

When it comes to tangible linkages, roads and railways have provided sustainable connectivity options for the two countries. Around 70.4 per cent of Bangladesh's exports to India take place through road and rail linkages.<sup>55</sup> During the authors interview with Dr Smruti Pattnaik, she referred to it as a "game changer" in the context of connectivity by pointing out how a significant portion of India's LOC has been devoted to the development of these railways, most importantly, converting the meter gauges to broad gauges.

---

<sup>52</sup> Interview with Prabir De, Professor, Centre for Maritime Economy and Connectivity (CMEC), Research and Information System for Developing Countries (RIS), June 6, 2023.

<sup>53</sup> Bangladesh Foreign Trade Institution, Expectations and risks in Bangladesh-India CEPA (Dhaka: BFTI, 2023).

<sup>54</sup> Interview with M S Siddiquee, Legal Economist, June 7, 2023.

<sup>55</sup> Asian Development Bank and South Asia Subregional Economic Cooperation (SASEC), South Asia Subregional Economic Cooperation (Manila: 2021), 2.

Perhaps the re-establishment of rail links has to be taken into consideration separately. Five rail links between the two countries have already been restored. The Akhaura-Agartala railway is under construction and is expected to be launched in September 2023.<sup>56</sup> Launching of these railways will pave the way for re-establishing three more (Dhaka-Siliguri, Siliguri-Parbatipur and Dhaka-Jalpaiguri). With the successful inauguration of the Indo-Bangladesh Friendship Pipeline in March 2023, this discussion has received new momentum.

Bangladesh and India have been proactive to revive delinked and establish physical, energy and digital connectivity. For India, transit and transshipment across Bangladesh is vital as it is likely to boost the economy of the Northeast Region (NER). Land connectivity with India's Northeast and its access to Southeast Asia through the region may help Bangladesh in its desire of gaining economic affluence.<sup>57</sup> Renewal of Inland Waterway Trade and Transit Treaty; signing of coastal shipping agreement; allowing transit facilities to Nepal and Bhutan through India to use Bangladesh's Mongla, Chattogram and Payra Ports; granting transshipment facility to India to transport goods to Northeastern states through its territory; and approval to use of Chattogram and Mongla Ports for India are significant steps in this regard.

It is crucial to mention that the Coastal Shipping Agreement in 2015, the Protocol on Inland Water Transit and Trade in 2015 and the Agreement on the Use of the Chattogram and Mongla Ports (ACMP) in 2018 together provided some good opportunities for Bangladesh. As reported, the ship turnaround time has been reduced from 4.70 days to 2.43 days as a result of this development.<sup>58</sup> However, Bangladeshi shippers have demanded to facilitate third-country shipping options via Visakhapatnam, Krishnapatnam and Haldia, which may reduce 45 days from each consignment.<sup>59</sup>

Added to that, three expressway trains currently run through Dhaka-Siliguri, Dhaka-Kolkata and Kolkata-Khulna routes, while the initiation of the fourth one is under discussion. Prime Minister Sheikh Haisna's latest visit to India in September 2022 has

<sup>56</sup> "Agartala-Akhaura railway link to be launched in September: Tripura minister," *Hindustan Times*, April 21, 2023, <https://www.hindustantimes.com/cities/others/agartalaakhaura-railway-line-to-begin-operations-in-september-travel-time-reduced-to-10-hours-via-dhaka-85-work-completed-on-indian-side-10168209-0025736.html>.

<sup>57</sup> Prabir De and Mustfizur Rahman, *Regional Integration in South Asia: Essays in Honour of Dr M. Rahmatullah*, (New Delhi: K. W. Publishers, 2017).

<sup>58</sup> "Direct shipping is better than third-country EXIM cargo," *The Business Standard*, November 13, 2022, <https://www.tbsnews.net/thoughts/direct-shipping-better-third-country-exim-cargo-530762>.

<sup>59</sup> "Amend coastal shipping deal with India," *The Daily Star*, Oct 21, 2018, <https://www.thedailystar.net/business/news/amend-coastal-shipping-deal-india-1649773>

also ushered in new opportunities in the realm of connectivity. There have been talks about the modernisation of the railways that will encompass technology and training of the officials.<sup>60</sup> Both countries have also recently become partners in two railway projects to be financed through the LoC which include the establishment of broad-gauge lines and the transformation of the metre gauge line into a dual-gauge line between Parbatipur and Kaunia and between Khulna and Darsana.<sup>61</sup> In May 2023, India provided Bangladesh with diesel-powered 20 broad-gauge locomotives and Information Technology (IT) system equipped with precision techniques based on 1600 satellite images.<sup>62</sup> These initiatives will help Bangladesh gradually reach its vision of capacity building and transforming all rail lines into broad-gauge in the future.

On the other hand, in terms of navigability and reduction of cost, inland waterways provide with least expensive options. In 2022, two national waterways (No. 1 and 2) between the Ganga and Brahmaputra Rivers were connected and two more (No. 5 and 6) are in the pipeline.<sup>63</sup> Routes 5 and 6 are estimated to reduce distances by 1000 km.<sup>64</sup> Bangladesh and India are jointly working on the 2,000 km long waterway through the Jamuna River which will connect Sadiya in Assam and Haldia in West Bengal.<sup>65</sup> The opportunity for the heavy cargo ships to pass from Uttar Pradesh to West Bengal is also expected to boost Indo-Bangladesh trade. The Eastern Waterways Grid, on the other hand, to be built on the existing Indo-Bangladesh Protocol Routes (IBP) network will help both Bangladesh and India to use transit routes for trade. This will also facilitate the import of raw materials like cotton from India at a competitive price.<sup>66</sup> Moreover, the sizeable industry in Bangladesh will have access to India's domestic market and will be able to carry cargo along the Ganges waterways and all the way up to Varanasi and Allahabad.

<sup>60</sup> Raheed Ejaz, "Bangladesh, India focus on connectivity," September 6, 2022, <https://en.prothomalo.com/bangladesh/4afu59ngui> .

<sup>61</sup> "Bangladesh, India sign consultancy contracts for two railway projects," *Dhaka Tribune*, August 25, 2022, <https://www.dhakatribune.com/foreign-affairs/2022/08/25/bangladesh-india-sign-consultancy-contracts-for-two-railway-projects> .

<sup>62</sup> "Bangladesh receives 20 locomotives from India," *The Business Standard*, May 23, 2023, <https://www.tbsnews.net/bangladesh/transport/bangladesh-receives-20-locomotives-india-636858> .

<sup>63</sup> Smruti Pattnaik, "MP-IDSA Issue Brief: Prioritising Connectivity: PM Sheikh Hasina's Visit to India," October 14, 2022.

<sup>64</sup> Smruti Pattnaik, "MP-IDSA Issue Brief: Prioritising Connectivity."

<sup>65</sup> "Trade between Bangladesh, India using inland waterways to get a boost this year," *The Daily Star*, January 10, 2022, <https://www.thedailystar.net/business/news/trade-between-bangladesh-india-using-inland-waterways-get-boost-year-2936191> .

<sup>66</sup> Natalya Stankevich, Erik Nora and Arnab Bandyopadhyay, "Eastern Waterways Grid to benefit Bangladesh, Bhutan, India and Nepal," World Bank, July 1, 2021, <https://blogs.worldbank.org/endpovertyinsouthasia/eastern-waterways-grid-benefit-bangladesh-bhutan-india-and-nepal> .

Figure 8: Indo-Bangladesh Protocol Route<sup>67</sup>



Connectivity and trade with Northeast Indian states are in progress. The NER of India will be benefitted because of the gradual economic integration through such initiatives and connectivity projects. These initiatives will reduce transportation costs and even attract investment in manufacturing based on readily available local raw materials.<sup>68</sup> Previously, Indian investors were reluctant to invest in Bangladesh but this has now been changed. In this aspect, Assam’s participation in trade and commerce with Bangladesh is vital for India.<sup>69</sup> Furthermore, setting up the Bangladesh mission in Guwahati helps to push the flow of investments. Reportedly, Bangladesh has also sought the resumption of air service between Dhaka and Guwahati.<sup>70</sup> The plans to build a four-lane bridge over the Kushiara River and a road link connecting Karimganj-Jakiganj will also facilitate this scheme. Not to mention the Guwahati-Shilong-Dhaka and Agartala-Dhaka-Kolkata bus routes which have been inaugurated will boost road connectivity.

<sup>67</sup> World Bank, 2021.

<sup>68</sup> Nagesh Kumar and Joseph George, “Harnessing the Potential of Regional Value Chains for Sustainable Development in Southern Asia: Towards a South Asia Comprehensive Economic Partnership (SACEP),” in Selim Raihan and Prabir De eds. 42-49; Pinak Ranjan Chakrabarty, “PM Modi’s visit to Bangladesh has set the tone for future cooperation to bring two countries even closer,” June 9, 2015, <https://economictimes.indiatimes.com/blogs/et-commentary/pm-modi-visit-to-bangladesh-has-set-the-tone-for-future-cooperation-to-bring-two-countries-even-closer/>.

<sup>69</sup> Joyeeta Bhattacharjee, “Factoring Assam in the India–Bangladesh relations,” March 25, 2021, <https://www.orfonline.org/expert-speak/factoring-assam-in-the-india-bangladesh-relations/>.

<sup>70</sup> “Momen for direct air connectivity with Guwahati,” *Prothom Alo*, December 14, 2022, <https://en.prothomalo.com/bangladesh/2rmdyx6qu8>.

Many areas of Assam are now able to get commodities more quickly and conveniently due to the inauguration of Chattogram Port and for the transshipment of goods for Indian states, especially NER. In this way, informal trade that has developed between the two nations via Assam and Tripura has been formally established. Moreover, Assam is ready to gain from Bangladesh's economic development and already has become a reliable provider for Bangladeshi companies, especially those involved with textiles and silk.

As far as transport connectivity of South Asia and Southeast Asian (SEA) countries is concerned, the BIMSTEC's Master Plan addresses several changes to the existing transport infrastructure. It takes into account the congestion at Chattogram due to the first Inland Container Depots (ICDs) and proposes the second one at Dhirasham, Gazipur, Dhaka as the second rail-connected ICD.<sup>71</sup> It may reduce pressure on trade via road linkages between India and Bangladesh (which accounts for 70 per cent) and open up options through container trains.<sup>72</sup> This will also help Bangladesh to become a regional connectivity hub in the future.

It is worth mentioning that transit and connectivity have also become a topic of regional and sub-regional interests. The decision to promote interregional trade among the South Asian Association for Regional Cooperation (SAARC) community has been long overdue—a decision that was taken in 2010. After a decade, the talks between the premiers of Bangladesh and India are going to pave the way.<sup>73</sup> This pledge to allow transit via Indian territory will connect Bangladesh with other South Asian countries that do not have borders with Bangladesh (namely Bhutan, Nepal, Sri Lanka and Pakistan) as well as China—an important partner of SEA—when it comes to trade and investment opportunities for Bangladesh.

The two countries are all set to establish ports connecting Bangladesh with the Seven Sisters, in addition to the five erstwhile land ports: Nakugaon and Tamabil Ports connecting Bangladesh and Meghalaya; Akhaura and Bibirbazar Ports connecting Bangladesh and Tripura; and Sonahat Port connecting Bangladesh with Dhubri in Assam.<sup>74</sup> Bangladesh giving Indian access to the Chattogram Sea Port also

<sup>71</sup> Asian Development Bank, *BIMSTEC Master Plan for Transport Connectivity* (Philippines: ADB, 2023).

<sup>72</sup> Sriparna Banerjee, Raisina Debates, *Driving connectivity*, Observer Research Foundation, June 9, 2023.

<sup>73</sup> Khawaza Main Uddin, Third-country transit via India, September 13, 2022, <https://thefinancialexpress.com.bd/views/third-country-transit-via-india-1663085346>

<sup>74</sup> "Bangladesh setting up 7 new land ports with Northeast India," *Dhaka Tribune*, August 26, 2021, <https://archive.dhakatribune.com/bangladesh/foreign-affairs/2021/08/26/bangladesh-setting-up-7-new-land-ports-with-northeast-india>.

played a major role in boosting economic and diplomatic relations. While this gives a transit option for the landlocked Seven Sisters in India, it is important to note that this region also serves as a significant route to connect with Nepal, Bhutan as well as China and Myanmar, or to say in other words, a hub among SAARC, Association of Southeast Asian Nations (ASEAN) and China.<sup>75</sup> The Northeastern part of India can be a good market for Bangladesh's fresh vegetables, seafood and other consumer goods if the opportunities are availed properly. Nevertheless, this will require a strong understanding between the Northeastern provincial government and Bangladesh and policy support and promotion of private stakeholders. The Feni Bridge connecting Sabroom and Chattogram as well as the Akhaura-Agartala rail line will also help Tripura go beyond its "landlocked" predicaments and engage in better ways with Bangladesh.

At the same time, power-grid connectivity, trading of energy and internet bandwidth have been one of the hallmarks of bilateral relations. Bangladesh is importing 1160 MW of power from India, including exporting internet bandwidth to the state.<sup>76</sup> There is a project to connect a 760 KV line from Northeast India through Bangladesh. It will provide scope for hydropower export to Bangladesh. Overall, the NER is a source of hydropower worth 63,000 MW.<sup>77</sup> Forming a joint venture with Tripura in the energy sector is crucial. Bangladesh has pleaded for access to Nepal and Bhutan's power through India.

Indeed, cooperation in the power sector has been significant for bilateral relations. It is a matter of hope that India's involvement in building Bangladesh's nuclear power plant is in process. With 90 per cent completion, the Rampal Coal-fired Power Plant has recently started its trial run with a production capacity of 1,320 MW.<sup>78</sup> Based on the agreement signed in 2010 between Bangladesh Power Development Board (BPDB) and National Thermal Power Corporation (NTPC) Limited, India—two state-owned companies, the construction process started in 2017 to meet the electricity demand of Bangladesh. The 1,600 MW Adani Power Plant set up in Jharkhand, India is supposed to be the supplier of electricity for the next

---

<sup>75</sup> "Seven sister provinces of India: Markets for Bangladesh goods," *The Independent*, November 13, 2019, <https://www.theindependentbd.com/printversion/details/223439>.

<sup>76</sup> "Bangladesh to extend deal with India on power import," *The Financial Express*, October 17, 2021, <https://www.tbsnews.net/bangladesh/energy/bangladesh-extend-deal-india-power-import-317242>.

<sup>77</sup> Chandan Kumar Sharma, "Dam, development and popular resistance in Northeast India," *Sociological Bulletin*, 67, no. 3, (2018): 317-333.

<sup>78</sup> "Rampal coal-fired power plant starts trial run again," *The Business Standard*, November 25, 2022, <https://www.tbsnews.net/bangladesh/energy/rampal-coal-plant-starts-trial-run-538934>.

25 years. With Bangladesh's own 4,500 MW coal-fired capacity (and another 3,500 on the pipeline), it is an optimal complementary source for electricity generation. However, some experts have pointed out that Bangladesh is not a beneficiary of tax exemption despite Adani's Godda Plant being declared an SEZ.<sup>79</sup>

However, specific attention is needed to the technical hurdles during the transit and transshipment procedure. World Bank rightly notes the impediment at the transit level of freight delivery. Trucks at the Bangladesh and India border zones are not allowed to deliver freight by crossing the border. This adds up to the pre-existing high transport cost in South Asia compared to other parts of the world where India and Bangladesh have to pay 20 per cent more while trading with each other than with European countries.<sup>80</sup>

A unique manifestation of BEC between Bangladesh and India is the border haat. This refers to establishing meeting points or trading ports at the borders between the two countries where people could engage in mutual trade of commodities produced locally. This form of trade does not require to be navigated through documentation processes entailed by international travel and trade.<sup>81</sup> Recently, the Chhagalnaiya border haat in Feni which was closed due to the COVID-19 pandemic was reopened after three years. At the same time, on 07 May 2023, the first-ever border haat in Sylhet was inaugurated.<sup>82</sup>

Currently, 14 border haats have been operating since 2011. They benefit locals in many ways. First, border residents get a much-needed marketplace for their goods. Second, they provide alternative livelihoods for men and women by reducing out-migration and informal trading. Factors such as resource availability; efficient transport and logistics services; smooth customs procedures and border management; congruent regulatory standards; and a trade-facilitating regime free of tariffs and

---

<sup>79</sup> "Adani Power Taken without Settling Disputes," *The New Age*, March 10, 2023.

<sup>80</sup> Cecile Fruman, Matias Herrera, and Dappe Charles Kunaka, "How valuable is connectivity? In Bangladesh and India, transport links could boost income significantly," World Bank, May 6, 2021, <https://blogs.worldbank.org/endpovertyinsouthasia/how-valuable-connectivity-bangladesh-and-india-transport-links-could-boost>.

<sup>81</sup> Shristi Dutta, "Tripura Government Proposes Setting Up Eight More Border Haats Along Indo-Bangladesh Border," *India Times*, May 19, 2023, <https://www.indiatimes.com/news/india/proposal-for-eight-new-border-haats-in-tripura-603133.html>.

<sup>82</sup> "Sylhet gets its first border haat, expected to boost trade," *The Financial Express*, May 7, 2023, <https://thefinancialexpress.com.bd/trade/sylhet-gets-its-first-border-haat-expected-to-boost-trade>.



other non-tariff barriers—all contribute to the success of cross-border value chains.<sup>83</sup> Third, they also function as a source of people-to-people contacts.

The new idea which is being more popular among trade analysts is the empowerment of ground-level stakeholders or the “third space”. In this case, the first space is laid out by government-to-government (G2G) or political relations; the second level includes the affinity and trade exchanges between different industries; and the third level or the third space includes the stakeholders and entrepreneurs operating at ground level.<sup>84</sup> The emerging strong connectivity at the first and second spaces is supposed to trickle down to the third space. There is already a significant level of people-to-people connectivity along the border haats of the two regions. However, there are options for further engagement of younger generations, civil society and entrepreneurs. A tourist footfall around the locations of Tripura and Meghalaya can benefit both India and Bangladesh and also work as a means of further connectivity, engagements and people-centric/public diplomacy.

## 5.2 *Institutional Networks*

Bangladesh is a member of BBIN-MVA, Bangladesh, China, India and Myanmar Economic Corridor (BCIM-EC), regional energy grid, South Asian Free Trade Agreement (SAFTA), BIMSTEC-FTA and APTA, where India is a crucial partner. Bangladesh, a new member of the New Development Bank (NDB), wishes to join India-Myanmar-Thailand trilateral highway project to improve connectivity with SEA. Land customs stations as part of the BBIN projects, proposed initiatives under BCIM-EC and energy trade with India are some ongoing joint ventures to be leveraged for targeting higher exports from Bangladesh to South Asia and beyond, and attracting FDI.<sup>85</sup> BIMSTEC, which is negotiating a regional FTA, yet to have a specific architecture, has significance for Bangladesh’s growing trade and investment. Bangladesh’s bilateral trade with BIMSTEC countries decreased in FY 2019-20 compared to FY 2018-19. However, the percentage of export in India compared to total trade in the BIMSTEC region has decreased slightly, by 0.37 per cent (Table 2).

<sup>83</sup> Indranil Bose and Bijaya Roy, “Border haats as a platform for cross-border value chains,” *The Financial Express*, October 2, 2020, <https://thefinancialexpress.com.bd/views/reviews/border-haats-as-a-platform-for-cross-border-value-chains-1601480404>.

<sup>84</sup> Sabyasachi Dutta, “Bangladesh–India relations: Empowering the third space for a way forward,” March 25, 2021, <https://www.orfonline.org/expert-speak/bangladesh-india-relations-empowering-third-space-way-forward/>.

<sup>85</sup> Shamsheer M. Chowdhury, “Five Decades of Bangladesh-India Relations,” in *Bangladesh at 50: Development and Challenges* eds. S. Narayan and Sreeradha Datt (Hyderabad, India: Orient Blackswan Private Limited, 2020), 222-241.

**Table 2: Bilateral Trade of Bangladesh with BIMSTEC (+INDIA) Countries (Value in million USD)<sup>86</sup>**

Country	Fiscal Year			
	2018-19		2019-20	
	Export	Import	Export	Import
India	1248.05	7647.52	1096.38	5793.57
Total	1,415.82	8,817.81	1,248.91	6,819.79
Percentage of export in India compared to total trade in BIMSTEC region	88.15 per cent	86.72 per cent	87.78 per cent	84.95 per cent

However, it must be taken into account that connectivity and trade are not separate from trade dynamics. Development in cross-border trade can facilitate regional connectivity and vice-versa. Regional trade linkages in the South Asian region have grown over the years still now, it is not enough in terms of volume. This is happening at a time when the entire world is getting benefited by intraregional trade. Compared to the ASEAN intraregional trade, which accounts for 24 per cent of the overall trade of its member states, BIMSTEC intraregional trade accounts for only 5.9 per cent.<sup>87</sup> Mercy Tembon, Former Country Director of World Bank (Bangladesh and Bhutan), has mentioned that Bangladesh has yet to tap into the huge percentage of untapped intraregional trade which, for Bangladesh, stands at 93 per cent.<sup>88</sup> Articles of apparel (HS61) and textile articles (HS63) have the potential to create a supply chain in South Asia, reinforcing the possibility of regional interdependence.

Regarding SAFTA, Bangladesh benefits from flexibilities offered to LDC, in terms of longer concession periods on relaxation of tariffs and continuation of quantitative restrictions on imports. SAFTA’s lack of farsightedness regarding the impact of nontariff barrier (NTB) or nontariff measures (NTM) and its list of sensitive issues accompanied by political connotations has created obstacles in

<sup>86</sup> BTTC, “REGIONAL TRADE AGREEMENTS OF BANGLADESH,” Bangladesh Trade and Tariff Commission, 2021, [http://www.btc.gov.bd/sites/default/files/files/btc.portal.gov.bd/publications/ff51f649\\_6889\\_4ff0\\_a192\\_a05f56ac0a7c/2021-11-29-04-14-5f0340f33f4c2f8af991ecf6a31e5a1d.pdf](http://www.btc.gov.bd/sites/default/files/files/btc.portal.gov.bd/publications/ff51f649_6889_4ff0_a192_a05f56ac0a7c/2021-11-29-04-14-5f0340f33f4c2f8af991ecf6a31e5a1d.pdf).

<sup>87</sup> Fahmida Khatun, “Significance of BIMSTEC during turbulent times,” *The Daily Star*, September 25, 2022, <https://www.thedailystar.net/opinion/macro-mirror/news/significance-bimstec-during-turbulent-times-3127831>; Dr Sreeradha Datta, Head of the Neighbourhood Studies Centre of the Vivekananda International Foundation also emphasised on the importance of a BIMSTEC FTA during her conversation with the authors in November 2022. She also pointed out that Bangladesh-India CEPA would be India’s first CEPA in South Asia and should be properly utilised.

<sup>88</sup> Press Release, “Regional Trade and Connectivity in South Asia Gets More Than \$1 Billion Boost from World Bank,” World Bank, accessed no August 25, 2022, <https://www.worldbank.org/en/news/press-release/2022/06/28/regional-trade-and-connectivity-in-south-asia-gets-more-than-1-billion-boost-from-world-bank>.

trade.<sup>89</sup> Bangladesh’s bilateral trade with SAFTA countries decreased in FY 2019-20 compared to FY 2018-19. However, the percentage of export in India compared to total trade in the BIMSTEC region has decreased slightly, by 0.76 per cent (Table 3).

**Table 3: Bilateral Trade of Bangladesh with SAFTA (+India) Countries (Value in million USD)<sup>90</sup>**

Country	Fiscal Year			
	2018-19		2019-20	
	Export	Import	Export	Import
India	1248.05	7647.52	1096.38	5793.57
Total	1363.87	8274.18	1208.19	6398.06
Percentage of export in India compared to total trade in the SAFTA region	91.50 per cent	92.42 per cent	90.74 per cent	90.55 per cent

Within APTA, Bangladesh benefits from more flexible provisions in the Region of Origin (RoO) for LDC. Although Bangladesh’s bilateral trade with APTA countries decreased in FY 2019-20 compared to FY 2018-19, the percentage of export in India compared to total trade in the APTA region increased by 3 per cent (Table 4).

<sup>89</sup> UNESCAP, *Towards Sustainable Graduation of South Asian LDCs in the aftermath of COVID-19: Challenges, Prospects and Policy Lessons*, United Nations, 2020, <https://www.unescap.org/resources/towards-sustainable-graduation-south-asian-lDCs-aftermath-covid-19-challenges-prospects>.

<sup>90</sup> BTC, *REGIONAL TRADE AGREEMENTS OF BANGLADESH*, Bangladesh Trade and Tariff Commission, 2021, [http://www.btc.gov.bd/sites/default/files/files/btc.portal.gov.bd/publications/ff51f649\\_6889\\_4ff0\\_a192\\_a05f56ac0a7c/2021-11-29-04-14-5f0340f33f4c2f8af991ecf6a31e5a1d.pdf](http://www.btc.gov.bd/sites/default/files/files/btc.portal.gov.bd/publications/ff51f649_6889_4ff0_a192_a05f56ac0a7c/2021-11-29-04-14-5f0340f33f4c2f8af991ecf6a31e5a1d.pdf).

**Table 4: Bilateral Trade of Bangladesh with APTA (+India) Countries  
(Value in million USD)<sup>91</sup>**

Country	Fiscal Year			
	2018-19		2019-20	
	Export	Import	Export	Import
India	1248.05	7647.52	1096.38	5793.57
Total	2496.41	22664.40	2089.26	18368.57
Percentage of export in India compared to total trade in the APTA region	49.99 per cent	33.74 per cent	52.47 per cent	31.54 per cent

When the South Asian Preferential Trade Agreement (SAPTA) succeeded SAFTA in 2006, three trade agreements were formed in the South Asian region for active and easy expansion of trade: India-Bhutan Bilateral Free Trade Agreement, Pakistan-Sri Lanka Bilateral Free Trade Agreement, and India-Sri Lanka Bilateral Free Trade Agreement.<sup>92</sup> SAFTA lacks two sets of problems: the inherent “trust issues” among the SAARC countries, particularly between India and Pakistan and its emphasis on trade diversion (and not on trade creation and lack of infrastructural linkages. Despite having close relations since its Independence, Bangladesh and India did not and still do not have a bilateral FTA.<sup>93</sup>

Reduction in India’s sensitive list, different percentages of tariff reductions in different phases, and removal of specific duties for LDCs have increased Bangladesh’s access and export to the Indian market under SAFTA.<sup>94</sup> The average

<sup>91</sup> UNESCAP and DESA Data, 2017-2020.

<sup>92</sup> Md Gazi, Md Zahangir Alam, Md Abdul Hakim, Ahmed Sharif Talukder, and Md Sifat Nahyan, “Widening of Trade and Economic Relations Between Bangladesh And SAARC Countries: A Sensible Study on International Trade Scenarios,” *Journal of Commerce & Accounting Research* 11, no. 4 (2022): 88-89.

<sup>93</sup> Gazi et al, “Widening of Trade.”

<sup>94</sup> Export from BD to India in FY20 was 90.74 per cent. Indo-Bangla Business Ties,” *Hindu Businessline*, 2018, <https://www.thehindubusinessline.com/opinion/sea-change-in-indo-bangla-business-ties/article20339404.ece1> ; Nisha Taneja, Shravani Prakash and Pallavi Kalita, “India’s Role in Facilitating Trade under SAFTA,” Working Paper, Indian Council for Research on International Economic Relations, 2013, [https://icrier.org/pdf/working\\_paper\\_263.pdf](https://icrier.org/pdf/working_paper_263.pdf) .; Selim Raihan and Fayeza Ashraf, “Review of Bangladesh’s Engagement in Preferential Trading Arrangements,” Country Study Series No.1 for the Development Account Project *Enhancing the Contribution of Preferential Trade Agreements to Inclusive and Equitable Trade*, UNESCAP; Bangladesh Trade and Tariff Commission (BTTC), Regional Trade Agreements of Bangladesh, 2021, [http://www.btc.gov.bd/sites/default/files/files/btc.portal.gov.bd/publications/ff51f649\\_6889\\_4ff0\\_a192\\_a05f56ac0a7c/2021-11-29-04-14-5f0340f33f4c2f8af991ecf6a31e5a1d.pdf](http://www.btc.gov.bd/sites/default/files/files/btc.portal.gov.bd/publications/ff51f649_6889_4ff0_a192_a05f56ac0a7c/2021-11-29-04-14-5f0340f33f4c2f8af991ecf6a31e5a1d.pdf) .

Margin of Preference (MoP) being provided under APTA is 31.52 per cent. LDC members are entitled to greater concessions on 1249 items with an average MoP of 81 per cent.<sup>95</sup> Geographical proximity and cultural ties with India have played a role in increasing trade (export from BD to India in FY20 was 52.47 per cent) between the two countries. According to Bangladesh Trade and Tariff Commission (BTTC), Bangladesh's export to India under BIMSTEC in FY20 was 87.78 per cent.

## 6. Post-2026 Days: LDC Graduation and Its Aftermath

Due to its LDC status, India now grants duty-free, quota-free (DFQF) treatment to 94.1 per cent of Bangladesh's tariff lines.<sup>96</sup> Graduation would trigger either SAFTA, APTA (non-LDC), or MFN pricing, depending on the commodity. Bangladesh's primary exports to India will be subject to tariffs ranging from 0 to 10 per cent (or 5 per cent for most jute goods). Current APTA and SAFTA standards mean that Bangladesh cannot take advantage of the more favorable RoO for LDC. Vegetable textile fibers, home textiles, and footwear items exported from Bangladesh will be subject to a 5 per cent duty under SAFTA.<sup>97</sup>

Bangladesh currently benefits from India's Duty-Free-Quota-Free (DFQF) treatment on 94.1 per cent of tariff lines related to its LDC status. Before LDC graduation under SAFTA, Bangladesh could enjoy 30 per cent rule-based Change in a Tariff Sub-Heading (CTSH) and Regional Value Content (RVC) for LDCs (local value addition content).<sup>98</sup> After graduation, it will rise to 40 per cent. From APTA, LDCs get 35 per cent RVC, whereas, other parties are entitled to 45 per cent (for non-LDCs). A large portion of Bangladesh's exports, particularly textiles, travel to India under SAFTA because India has liberalised maximum tariff lines for LDCs of SAARC (excluding 25 products, the remainder of commodities are duty-free for imports from SAARC LDCs). However, the terms of the bilateral FTA will not change upon completion of the graduation. Bangladesh would face difficulties after graduation because India's tariff liberalisation schedule does not include the

<sup>95</sup> Bangladesh Trade and Tariff Commission (BTTC), Regional Trade Agreements of Bangladesh, 2021.

<sup>96</sup> Committee for Development Policy (CDP), "Ex ante assessment of the possible impacts of the graduation of Bangladesh from the category of Least Developed Countries (LDCs)," Secretariat of the Committee for Development Policy, United Nations Department for Economic and Social Affairs, 2019, <https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/IA-Bangladesh-2019.pdf>.

<sup>97</sup> Government of India, Ministry of Commerce, Agreement on SAFTA, 2020 Update.

<sup>98</sup> Sanjay Kathuria and Priya Mathur, "South Asia: A Work in Progress," in *A Glass Half Full: The Promise of Regional Trade in South Asia*, ed. Sanjay Kathuria (Washington, DC: World Bank, 2018), 27-85.

apparel industry. Bangladesh will have to ship goods to India at the current tariff rate. Additionally, LDCs will be subject to a more stringent RoO in order to export under SAFTA.<sup>99</sup>

A joint study conducted by the World Bank and World Trade Organisation’s the Enhanced Integrated Framework (EIF) in 2020 showed that 12 prospective countries in the graduation pool will result in a weighted tariff increment (average) of 4.2 per cent.<sup>100</sup> However, among the group, Bangladesh and Nepal have shown much higher increments (8.9 per cent and 8.1 per cent). For Bangladesh, the impact of becoming an LDC is projected to be significantly higher than that of other graduating LDCs due to its overwhelming reliance on T&C exports to markets with high preferential tariff margins. The analysis of the study using a “partial equilibrium model” predicted an export loss ranging from 14.3 per cent for Bangladesh, compared to only 1.45 per cent for Lao PDR (Table 3).

**Table 3: Potential Export Shocks for Merchandise Exports in the Asian Economy from LDC Graduation<sup>101</sup>**

Exporter	Initial Export (US\$ ‘000)	Estimated changes in exports after LDC graduation (US\$ ‘000)	Loss of exports as per cent of initial exports
Bangladesh	37,633,733	-5,372,278	-14.28 per cent
Lao PDR	4,581,917	-66,313	-1.45 per cent
Myanmar	13,028,355	-499,133	-3.83 per cent
Nepal	812,796	-20,139	-2.48 per cent

The overall post-LDC challenges in the BEC between Bangladesh and India can be clustered into three basic areas: (i) loss of market access under preferential schemes; (ii) removal of Trade-Related Aspects of Intellectual Property Rights (TRIPS) waiver for pharmaceutical products; and (iii) shift from concessional to non-concessional loans or borrowings.<sup>102</sup> During interviews, analysts have also pointed

<sup>99</sup> Amitendu Palit, “Bangladesh’s Future Export Challenges and the Need for a FTA Strategy,” in *Bangladesh at 50: Development and Challenges*, eds. S. Narayan and Sreeradha Datta (Hyderabad, India: Orient Blackswan Private Limited, 2020), 36-56.

<sup>100</sup> Mohammad A. Razaque, “Synthesis Report: Textiles and clothing in Asian graduating LDCs: Challenges and Options,” WTO, EIF, UNCTAD and ECOSOC, 2022.

<sup>101</sup> World Trade Organisation (WTO) & Enhanced Integrated Framework (EIF), *Trade impacts of LDC graduation*, 2020.

<sup>102</sup> Mustafizur Rahman, “Bangladesh’s Upcoming LDC Graduation: Coping with Anticipated Challenges,” Nepal Economic Forum, 2022.

out an associated challenge regarding Bangladesh's graduation from a "lower" to a "lower middle income" country in terms of World Bank criteria. The impact of this transition mainly associates with the third cluster or loss of concessional borrowings.

Notwithstanding the potential or actual graduation of Maldives from the status of LDC, it shall be accorded treatment in this Agreement and any subsequent contractual undertakings thereof no less favorable than that provided for Least Developed Contracting States.<sup>103</sup> This provision is found in Article 12 of SAFTA. Sri Lanka was given more leeway (i.e., lesser levels of commitment in tariff liberalisation) than other non-LDC members even during APTA fourth-round negotiations. Bangladesh must seriously consider the prospect of negotiating an extension of the SAFTA LDC treatment.

## **7. Policy Options for Bangladesh**

### **7.1 *Export Diversification***

Since three of Bangladesh's low export goods i.e., vegetable textile fibres (2 per cent in FY 2017-2018), home textiles (3 per cent in FY 2017-2018), and footwear (2 per cent in FY 2017-2018) are exported to India, it can help Bangladesh in diversifying export basket. Hence, in CEPA or other bilateral trade agreements, Bangladesh must focus on these three goods rather than the two highly dominant RMG products (woven and knitwear).

### **7.2 *Utilising CEPA***

Regarding CEPA, three areas can particularly be taken into consideration:

### **7.3 *Trading Goods***

India currently provides duty-free access to its market for Bangladesh; in exchange, Bangladesh must provide India with the same access. This means that in terms of tariffs, both countries will be on equal footing. However, Bangladesh's export capacity (especially export items) is low, leading to a substantial trade deficit. Hence, Bangladesh must exercise caution in light of this reality.

<sup>103</sup> UNESCAP, *Towards Sustainable Graduation of South Asian LDCs in the aftermath of COVID-19: Challenges, Prospects and Policy Lessons* (United Nations, 2020), <https://www.unescap.org/resources/towards-sustainable-graduation-south-asian-lDCs-aftermath-covid-19-challenges-prospects> .

#### **7.4 *Product Selection and Skill Development***

Experts opined that Indian products will take over the market of some sectors. Thus, in such FTA agreements like CEPA, some products have to be kept out of the agreement. Bangladesh has to cautiously find out the probable products it needs to keep out of CEPA with India. At the same time, to cope with the influx of foreign service providers, the skill development of local service providers has to be taken seriously.

#### **7.5 *Non-tariff Barriers***

Concerns about non-tariff barriers to Bangladeshi exports to India are warranted. Such examples include various forms of administrative red tape. Businesses have been discouraged from exporting to India as a result of these obstacles. High transition and shipping expenses are the issues that need fixing within a short period. Otherwise, nothing would change even if CEPA is implemented.

#### **7.6 *Improving Transaction Efficiencies***

Bangladesh needs to be internally ready for harnessing the benefits of bilateral arrangements like CEPA or FTA. For example, the import tariff is significantly high in Bangladesh, and it needs to be reduced. At the same time, follow-up of World Trade Organisation (WTO) provisions and their internal and external arrangements should be taken care of. This also needs the utilisation of strong diplomatic skills. In addition, to be internally ready, multi-sectoral coordination among the Ministry of Commerce, Bangladesh Customs, Export Promotion Bureau (EPB), Bangladesh Foreign Trade Institution (BFTI), and National Board of Revenue (NBR) is necessary.

#### **7.7 *Holistic Connectivity Planning***

In terms of connectivity, Bangladesh should make consideration of holistic impacts of parallel connectivity networks and schemes. Apart from the India, Myanmar, Thailand (IMT) highway, BIMSTEC's new connectivity modules, i.e., the Conclave Port Agreement linking Ranong (Thailand) and Chennai (India), the BIMSTEC Coastal Shipping Agreement and BIMSTEC Free Trade Agreement can lead to new economic ventures. At the same time, the modernisation of rail, road and waterways have to be in tandem.



### **7.8     *Infrastructural Development and Border Issues***

As much as connectivity and logistics are pertinent, infrastructural development must also complement such progress. These include upgrading the Land Customs Stations (LCS). The establishment of LCS without port restrictions in the NER should be an important step in this regard. Notably, the BBIN Agreement has already identified the significance of this issue especially the key routes, both on the western and eastern sides of Bangladesh-India borders. Infrastructural developments at ports have to be taken as a national priority. As opined by Dr Pattanaik, testing laboratories should be brought closer to the land borders. On the other hand, there should be separate measures for perishable and non-perishable goods.

Another set of progress can be made in this regard by utilising the Mutual Recognition Agreement between Bangladesh Standards and Testing Institution (BSTI) and the Bureau of Indian Standards (BIS) and maintaining industry control standards. At the same time, there is a specific need to talk about anti-dumping duties and other non-tariff barriers. Two areas of export from Bangladesh have extremely suffered from anti-dumping duties: Jute and lead acid battery exports. Particularly in the case of the latter product, the duty was imposed on the weight rather than quantity which impacted the situation even more negatively.

### **7.9     *Logistical Support Measures***

There should be more warehouses for the protection of goods. Real-time communication with the buyers is also desired and this needs to be actualised. Furthermore, logistic issues need to be taken care of. The truck fare from anywhere in the country to the port city is not determined by the buyers and sellers rather by the association of the truck owners. This causes extra costs to the companies, and it dissatisfies the buyers. Hence, the current slow pace of logistical support has to be fastened.

### **7.10    *Ensuring Investment-friendly Environment***

To decrease the trade deficit with India, investment is one of the important tools. Getting substantial investment from India and the ability to use that investment to produce goods and in turn export to India and the rest of the world, will increase Bangladesh's trade integration with India and help close the trade gap. For attracting investors, measures mentioned in points 5 and 6 are to be met with no exception.

### **7.11 *Diplomatic Intervention***

Leveraging this type of accorded agreement depends on diplomatic and negotiation skills. A high-level committee and seven sub-committees under Prime Minister's Office (PMO) have been set up already for mapping strategies in the post-LDC scenario. An example of such good strategic maintenance was evident in Bangladesh's EPB's role in the case of custom rule provisions vs RoO. Upon confusion related to the SAFTA provisions, EPB was successful to promote that SAFTA's provisions did not contradict EPB certification and it would suffice as the sole source.

### **7.12 *Establishing Trade and Commerce Wing in Foreign Missions***

Bangladesh may think to establish a trade and commerce wing as part of the foreign missions in India to smoothen the process of bilateral trade. This will also assist the missions to explore opportunities and promote different goods for ensuring export diversification.

## **8. *Concluding Remarks***

The economic dimension of Bangladesh-India relations has evolved over time and incorporated diverse types of elements. However, as the relationship has matured significantly, it is high time for the two countries to emphasise the qualitative aspects of each variable that constitute the relationship. The study has shown, Bangladesh can harness gains from BEC and regional networks if policies are placed based on empirical data and evidence. The untapped potential of this relationship has to be explored with farsightedness and clear strategic visions that can support the pre- and post-LDC graduation periods.

In terms of BEC, trade diversification and enhancement of export basket is undoubtedly an important issue to be taken into account. At the same time, Bangladesh should consider facilitating and utilising CEPA with India in line with the areas mentioned in this study. India's former experiences and empirical studies with other CEPA partners will provide adequate guidance. At the same time, regional networks and connectivity linkages must be well-equipped with infrastructural developments and an emphasis on tariff and non-tariff barriers. The article has also shown how developments in the connectivity realm have gradually shifted to more advanced

and multi-dimensional aspects. Capacity building and modernisation in connectivity through rail, road and waterways also facilitate Bangladesh's trade opportunities.

The study also provides an avenue for future research. Since it aims at providing a holistic view of the issues discussed, the subtopics require further assessment and empirical studies. In terms of BEC, there is much scope for researching trades in services between the two countries and trade diversification under CEPA. The future of transport connectivity, particularly through the container train routes will be useful for implementing BIMSTEC Transport Connectivity Master Plan. Finally, further policy options can be identified to get DFQF facilities besides exports through SAFTA RoO.

One has to remember, even though LDC graduation comes with several challenges, addressing proper policy options will help smooth transition. As the paper has illustrated, the critical route toward this transition is shifting from preference-based options to skill-driven options. On the other hand, LDC-related predicaments also derive from a lack of diversified elements in the supply chain. If equity and equilibrium are ensured in CEPA, other FTAs, and provisions of regional arrangements, Bangladesh's LDC graduation can result in lofty outcomes, and Bangladesh-India relations can act as a role model for such cases in the future.