# Indo-Bangladesh bilateral trade deficit: Seize the opportunities to reduce it

MUSTAFIZUR RAHMAN

THE growing bilateral trade deficit with India has risen from $774 million in FY 2000, to $1,933 million in FY 2005, and $2,910 million in FY 2010. Bilateral trade also takes place through informal trade between the two countries. As a consequence, the actual deficit (formal plus informal) would be significantly higher, notwithstanding the fact that, with tariffs coming down, informal bilateral trade has perhaps been on the decline in recent years.

India is Bangladesh's second most important import source (after China), and ranks fifth as Bangladesh's export destination. Share of Bangladesh's export in total import by India was only about 0.2% in FY 2011, while Bangladesh's import from India accounted for about 13.2% of her total import in the same year. If one considers that Bangladesh's global trade deficit in FY 2010 was $5,200 million ($7,300 million in FY 2011), then the significance of the large deficit with India may be more appropriately contexualised. However, there is a need to look at the attendant issues in more detail in order to adequately appreciate the dynamics of the deficit and the attendant reasons, as also to identify the possible modalities to reduce it.

The discussion on deficit ought to first consider the dynamics of trade between the two countries. It is important to take into cognisance that Bangladesh's export to India in recent years has from $97 million in FY 2005 to $305 million in FY 2010, and $512 million in FY 2011. This growth was significantly higher than that of Bangladesh's imports from India (about two-fold rise in imports over the corresponding period against five-fold rise in exports).

If one looks at the structure of imports from India, it will be seen that a significant share was accounted for by cotton, yarn and fabrics, and other inputs which are used by Bangladesh's export-oriented industries such as readymade garments. Indeed, such imports from India help Bangladesh maintain a trade surplus with some of the other important trading partners, including the US (Bangladesh's bilateral trade surplus with the US was about $3,480 million in FY 2010). Many of Bangladesh's import-substituting and other industries get their raw materials, intermediate inputs and capital machineries from India.

With India's rising economic power and growing supply-side and competitive capacities, she has been able to realise her comparative and locational advantages, and capture a significant part of Bangladesh's import market, substituting in some cases some of our traditional overseas suppliers. It is to be kept in mind in this context that it is Bangladesh's private sector that accounts for the bulk of imports from India. Bangladesh's producers, entrepreneurs and traders import from India because they find Indian goods to be competitive and good value for money.

The task for Bangladesh is to explore and exploit the opportunities in the growing import market of India so that exports to India can grow further and a larger share of imports can be paid for by the exports so that the bilateral trade deficit can be reduced.

Along with traditional exports such as raw jute, fish and fertilizer, non-traditional export items have made their place in the export basket of Bangladesh, indicating growing scale and scope of our exports. Export of apparels, leather products, cement, plastics and melamine articles, prepared foodstuffs and beverages is on the rise. Whilst Bangladesh's global export is overwhelmingly tilted towards RMG (RMG's share being almost 80% of total export), the composition of her export to India is much more diversified (RMG accounts for only about 10%, with the rest being accounted for by traditional and non-traditional items).

Most exporters to the Indian market are small-scale business operators who take advantage of a neighbouring market with which they are familiar. A study carried out by the CPD shows that the share of Bangladesh's export items in the total Indian import of those items (barring raw jute) is rather small, indicating potential opportunities for increased export of those items. It was also found that there are a number of items which are exported by Bangladesh to the global market, but not to India, whilst India imports those items from the global market, but not from Bangladesh. There is, thus, an opportunity to enhance Bangladesh's export of this particular subset of items to India if supply-side capacities in Bangladesh can be further strengthened and supportive policies favouring SME exporters are pursued.

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It is pertinent to note that India has fast-tracked the process of reduction of tariffs on non-sensitive list items exported by LDC members of the SAFTA. These items are at present getting duty-free market access in India. The Tariff Rate Quota (TRQ) on RMG has also been raised by India to ten million pieces recently. The number of items in the sensitive list of India has also been reduced to 460 from the original 744. As a matter of fact, most of Bangladesh's export to India is now carried out either under SAFTA, or under the TRQ for apparels.

Bangladesh has submitted a list of 61 more items for exclusion from the Indian sensitive list, taking cognisance of her current export interest (47 of these relate to RMG items). However, the time has come for India to take a more enlightened approach in this regard and consider providing duty-free market access for all items originating from Bangladesh (most other Saarc LDCs already receive similar treatment under bilateral arrangements). CPD analysis indicates that the revenue impact of such an initiative for India will be rather negligible. Given Bangladesh's supply-side and export capabilities, the implications for Indian domestic producers is also likely to be low, although India may have some concern with regard to agriculture and textile items.

The Indian prime minister's forthcoming visit to Bangladesh has been welcomed by all quarters and will be an important milestone in our bilateral relations. A unilateral duty-free market access offer will no doubt create a lot of goodwill at a time when various avenues of bilateral cooperation are being discussed, including more comprehensive transport connectivity. In turn, Bangladesh should also be ready to gradually reduce her own list of 1,254 sensitive items, albeit on a non-reciprocal basis.

Since non-tariff barriers (NTB) pose a formidable challenge for Bangladeshi exporters in terms of accessing the Indian market, addressing these on a priority basis is also critically important. A large number of NTBs in place in India relate to health-hygiene and SPS-TBT related concerns. In this context, building Bangladesh's supply-side capacities at enterprise level, particularly by strengthening the capacities of BSTI (Bangladesh Standardisation & Testing Institute) to meet standardisation, certification, laboratory testing and other forms of quality control requirements in India will be important. Signing of a framework agreement for mutual recognition of testing and certification in these areas needs to be urgently considered (a proposal from India in this regard has been on Bangladesh table for some years; India is also providing some technical assistance to BSTI in these areas).

It is also a positive development that Saarc countries have agreed that the South Asia Regional Standardisation Organisation (SARSO) will be established in Dhaka. Bangladesh will also stand to gain significantly from better trade facilitation, customs harmonisation, speedy crossing of goods across borders and better infrastructure facilities at border points. Investment in these areas will be helpful not only for exporters but also for importers as these will reduce cost of our imports from India, with attendant benefits for both producers and consumers.

Some important initiatives are being considered towards greater and more efficient transport connectivity with India and in the region. These initiatives could contribute to raising trade-related efficiency, and reduce Bangladesh's bilateral deficit with India through export of services. Bangladesh will of course need to make appropriate preparations so that related negotiations result in expected gains for the country.

Special efforts should also be undertaken to enhance exports to the North-Eastern region of India, where Bangladesh could potentially have a strong foothold thanks to her geographical proximity to, and familiarity with, the market. As of now, because of underdevelopment and low purchasing power of this region, Bangladesh's trade, particularly export to this region, has been rather low. However, with the expected economic development of this region, which can be fostered through better and more efficient transport connectivity, significant export opportunities are likely to be created from which Bangladesh could potentially benefit. On the other hand, the North East region of India presents good investment opportunities for Bangladeshi entrepreneurs. Accessing these opportunities will call for removal of barriers that potential investors from Bangladesh face in the North East, and also easing of Bangladesh's own regulations.

Indian investment in Bangladesh, targeting the Indian market, could be another way to enhance export and reduce bilateral trade deficit with India. The DF market access should provide Indian investors an added incentive in this context. Till now, investment flow from India to Bangladesh has been rather low. However, to encourage such flows Bangladesh will need to address factors which constrain the flow of FDI to the country, particularly in addressing the deficits in the areas of energy and infrastructure.

It needs to be kept in mind that in a globalised world it is the global trade deficit which should count, and bilateral trade deficit should not be a matter of unnecessary concern. Nonetheless, the fact remains that the level of Bangladesh's export continues to be low, and is yet to make any visible dent on trade deficit with India. As a matter of fact, as was noted above, Bangladesh's trade deficit with India rose by about 50% between FY 2005 and FY 2010 to reach about $3 billion. However, it may be recalled that India's global import has been growing from $111.5 billion in FY 2005 to $350.5 billion in FY 2010.

That Bangladesh has not been able to capture a greater share of the Indian import market should redirect our attention as to how we could take advantage of the opportunities the growing Indian import market offers us. Thus, it is of critical importance that the current momentum of our export to the Indian market be sustained through concerted and targeted measures so that our ambition of reducing trade deficit with India may be actually realised on the ground.

The writer is Executive Director, Centre for Policy Dialogue (CPD).

# Indo-Bangladesh relations: Now and in future

SHEIKH RAHMAN

AN entente between India and Bangladesh on transit will encourage further cooperation on trade and transport, energy, environmental protection, development of infrastructure, and regional security and strategic issues. Sub-regional integration of the economies of Bangladesh, Bhutan, Nepal and India will contribute to poverty alleviation, economic development, and improvement in transport and communications of the region.

This arrangement may be extremely beneficial for landlocked Nepal, Bhutan and the "Seven Sisters."

Negotiations on the terms and conditions for transit shall have to include tariff and fees for use of the infrastructure and facilities, operations-management and maintenance, policy and regulations for the movement of goods across the border, a council for the settlement of disputes, enforcement mechanisms, and a programme for deepening economic cooperation.

Any transit arrangement with India must give due consideration to the needs of Nepal and Bhutan to make it more feasible. Transit facility will be sustainable only if the relations between the neighbours are cooperative. Therefore, any outstanding issues and problems that may negatively impact on the smooth operation of the transit facility may need to be resolved bilaterally.

Governmental programmes may be implemented to encourage the private sector to invest in the "Seven Sisters" for realising the potential for growth of intra-regional trade and commerce. Public-private partnerships may be setup for development of regional connectivity, infrastructure and facilities for improving regional communications and transportation, and environmental protection.

Regional security issues that need attention are prevention of cross-border terrorist activities, enforcement of laws against human trafficking, cooperation on exploitation and production of energy, collaboration for developing regional energy infrastructure -- electric grid, energy assets -- and protection of these installations.

Cooperation with Bangladesh will allow Indian national security forces to counter the threats posed by insurgent movements for the creation of an independent state of Assam by the United Liberation Front of Assam (ULFA); suppress the demand for independence of Nagaland and Mizoram; deal with the menace of the Maoists and the Naxalites in Orissa, Jharkhand, and Paschimbangla.

*Finally, as a party in an asymmetric relationship against a rising Asian power, it may be well for Bangladeshis to remember the wisdom proffered by President John F. Kennedy during the Inaugural Address of January 20, 1961: "Let us never negotiate out of fear, but let us never fear to negotiate."*

Both Bangladesh and India stand to gain by working together to ward off the dangers of radical Islamic terrorist activities spreading throughout the region. Since 1956, Indian security forces have suppressed the rebel movements for independence in the Northeast parts of India.

Transit agreement will have to cover cross-border security aspects of dealing with the problem caused by the clandestine use of the inland and river routes through Bangladesh territory for smuggling of arms and ammunitions for supply to the insurgents, rebels and terrorists.

Arunachal-Pradesh on the Northeast corner of India is a potential area of conflict between the rising powers of Asia, namely China and India. Therefore, any transit corridor connecting NE India may be advantageous to the Indian army for maintaining a forward posture. Indian security forces will be in a better position to counter any potential threats from the insurgents in any unstable area across the border from Bangladesh by deployment of troops to and from the East, West, Northeast and Northwest using the designated transit routes.

Energy security ranks high on the agenda for both sides. Although cooperation on energy may yield significant payoffs for both sides there may be some uneasiness on both sides since neither party is sure of the other's intentions. Indian companies like Tata and Mittal have shown keen interest in the high quality bituminous coal reserve in Northern Bangladesh for their steel industry, but have not been successful in securing access to the resource.

However, India may be more optimistic in negotiating with the Hasina government since the recent deal for the supply of 250 MW electricity may be viewed as a door opener on energy interdependence. Further cooperation on energy security may be realised with an understanding for joint development of the disputed blocks in the Bay of Bengal. It would ensure a means of renewing the supply of natural gas for the energy-hungry neighbours.

Although optimism is expected to prevail during the discussions "on the huge potential for economic development and growth of the region," the downside risk of Bangladesh's vulnerability to the threat from the separatist movements of NE India, the destabilising effect of a growing domestic anti-Indian sentiment due to an unequal treaty symbolising greater dominance by the regional power, and cross-border terrorism, have to be carefully weighed against any such upside potential.

Finally, as a party in an asymmetric relationship against a rising Asian power, it may be well for Bangladeshis to remember the wisdom proffered by President John F. Kennedy during the Inaugural Address of January 20, 1961: "Let us never negotiate out of fear, but let us never fear to negotiate."

The writer is a Specialist on National Security, South Asian regional integration, and International Development.