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A bilateral agreement in limbo

Biswajit Dhar, Mint

October 8, 2012: Just over a year back, the Prime Ministers of India and Bangladesh signed the framework agreement on cooperation for development, which was universally regarded as a milestone in the relations between the two countries. The agreement provided the basis for an extensive engagement between the two countries for mutual benefit.

A year has passed since then. There has been virtually no movement in implementing various parts of the agreement, which is important for strengthening bilateral economic relations. Given the substantial gains waiting to be reaped, it is imperative that the two governments draw up a roadmap for securing these gains.

India's offer to give Bangladesh duty free and quota free market access to all the products that are of interest for the latter's export basket was regarded as the most important step forward in strengthening the trade ties between the two countries. For reasons that are only of historical relevance, India had included a large number of products in its sensitive list for the least developed countries in South Asia. These products were thus denied the preferential tariffs that India had offered under the South Asian Free Trade Agreement.

What was most disturbing for Bangladesh was that this list of sensitive products included garments, the sector on which it has been heavily dependent for its export earnings. With India denying preferential access to garments, these products were virtually non-existent from its list of products imported from Bangladesh. Not surprisingly, therefore, Bangladesh faced a trade imbalance with India, something that has increased over time. India has faced constant criticism on this score.

While India should take some blame for this distorted trade structure, it has to be pointed out that Bangladesh imports from India products that are then processed to form a part of its country's export basket. Cotton and man-made staple fibres and filaments have constituted one-third of India's exports to Bangladesh. In other words, the contribution that India has been making to Bangladesh's exports of garments cannot be underestimated.

Bangladesh's exports to India provide another positive facet, which is that it provides an opportunity to the country to diversify its exports. Most of the items figuring in India's import basket are, in fact, non-traditional items. That these are getting an opportunity for export in Indian markets means that Bangladesh's export base is getting a chance to expand.

It is in this Bangladeshi effort to expand its export base to which India can lend its support. Producers of several non-traditional items face supply-side bottlenecks, a problem that can be addressed by Indian enterprises through establishment of joint ventures in Bangladesh. In the past, Indian firms have shown interest in large investment projects in Bangladesh, some of which failed because of the internal political dynamics in that country. Some of these failures involved large investment projects and in their aftermath, potential investors turned their back on the neighbour.

One strategy that can be fruitfully employed is to harness the potential of the small and medium enterprises (SMEs) in Bangladesh. India will do well to contribute to this by providing the opportunities to link Bangladeshi SMEs to resources and markets in India. The food processing sector presents itself as an ideal candidate for the establishment of value chains between the two neighbours. Through a strengthening of this sector in Bangladesh, India can export the abundant horticulture products available in its north-eastern states. These states can then provide the necessary market to the producers in Bangladesh. What this example shows is that there are opportunities through which the resources available in India's east and the north-eastern states can be matched with those available in Bangladesh in order to create a sub-region of prosperity.

Alongside preparing the blueprint for such production networks, governments and industry in both countries have to work in unison to ensure that obstacles to trade and investment are removed. Enterprises in the two countries have often complained of procedures and policies in their respective countries that hamper and even inhibit their operations, and the governments would have to invest adequate resources to ensure that these barriers are removed.

In this context, one area where India must focus on is the upgrading of the facilities available at the land customs stations (LCS) existing between the two countries. At present, most of these LCS provide only rudimentary facilities for conducting trade, with many essential services yet not available. Programmes were initiated during the 11th five-year Plan period for modernizing several of these LCS and converting them into integrated check posts (ICP), which would provide in a single modern complex, customs facilities, banks, food testing laboratories, all equipped with state of the art amenities for the conduct of trade. Under these programmes, seven LCS between India and Bangladesh are to be converted into ICPs in a two-phase programme. Setting up of these ICPs will not only provide greater opportunities for trade and commerce, but will also help in the development of the border regions, which are among the least developed in both countries.

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In Guwahati, new hope for India-Bangla ties

Jyoti Malhotra, Business Standard

3 December 2012, Guwahati: The sun sets over the Brahmaputra in Guwahati as it has over centuries, the boats sail placidly along and people living on banks carry on their trade in small goods or big business just as they did the day before.

Some things are different though over this weekend, the highlight of which has been the visit of a group of members of Parliament from Bangladesh. They have met a variety of stakeholders, including chief minister of Assam Tarun Gogoi, the local business community, representatives from Assam's intellectual class and the press.

Guwahati is an easy-going Tier-II town, as most towns of its ilk spread across the country, but as the news of the visit of the Bangladeshi parliamentary delegation spread, its small, unassuming press club was inundated with journalists. On Sunday morning, the Eastern Chronicle screamed the following headline and other newspapers adapted variants: "Illegal immigrants in Assam? Bangladesh not aware."

In a state that has been roiling with agitations against "foreigners", code-word for illegal Bangladeshi and other immigrants for some decades now, you could look at the statements by the visiting Bangladeshis in two ways: The first, a denial of the problem that Assam has borne the brunt of in recent years, and the second, for both sides to admit that these refugees are primarily motivated by economic considerations — just like the thousands of Indians who illegally move to the US and Europe — in the hope that a better life awaits them across the porous border into India.

The big question is how poor countries with large populations can hold their people inside their sovereign borders, especially when threat hasn't worked and political promises have remained largely unfulfilled. Stories of how homes on the 4,096 km-long India-Bangladesh border have bedrooms on one side of the border and kitchens on the other side speak of the continuing apathy with which successive governments in both countries have refused to breathe sense into the circa 1947 Radcliffe Line.

But it seems the problem is more unique than plain indifference. Prime Minister Manmohan Singh and Sheikh Hasina signed the Land Boundary Agreement (LBA) during Singh's visit to Dhaka last year, and finally it seems Delhi will move to introduce its ratification in this session of Parliament. External Affairs Minister Salman Khurshid is believed to have already initiated discussions with the Left parties and is expected to also consult the other major political parties to get their points of view. This exercise is essential because the ratification needs an amendment to the Constitution, which needs a two-thirds majority, and the government doesn't have the numbers in the Rajya Sabha.

The ratification of the LBA will pave the way for a hundred acres or so of land to be acceded to Bangladesh, along with the exchange of 111 enclaves and the adjustment of adverse possessions. Once this happens, the last 6.5 km of the border, pending since 1947, will be demarcated. It is believed the Bangladeshi parliamentary delegation also heard assurances to this effect, which is expected to help Hasina's Awami League government push their report card when it goes to the polls a year from now. Truth is, the new boundary will only streamline the map, not stop illegal migration.

For that — governments in Delhi and Dhaka, and much more importantly, governments in Guwahati, Agartala, Kolkata and Dhaka — have to sit together and think up creative solutions.

They will need all the help from local business and industry to transform this decades-old problem. How about turning the problem on its head? If all sides can agree that porous borders are actually an aid, rather than an obstacle, to the development of their peoples, then the natural concomitant is to open up these borders to sub-regional trade in goods as well as transit trade, and fees for the transit country, between the provinces of India's North-East and Bangladesh.

If Dhaka can open up transit for Indian goods and people seeking to move from one corner of the north-east to the other, India would reciprocate by letting in Bangladeshis on valid work visas into its neighbouring north-eastern states.

Remember that Assam is really a country, not only because of its astonishing diversity but also because of its size and amazing richness of raw material.

Just like the Line of Control between the two Kashmirs is slowly opening up to greater trade and connectivity between Kashmiris from India and Pakistan, a porous border between India's north-eastern states — especially Assam and Tripura — and Bangladesh would go a long way in resolving the tinderbox of problems this region is currently sitting on.

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FTA with Bangladesh can boost trade: World Bank

Special Correspondent, Hindu

New Delhi, 18 December 2012: With India seeking to address the “brutal trade imbalance” with Bangladesh, a World Bank report released on Monday said a free trade agreement (FTA) between the two countries could push bilateral trade by over 100 per cent.

“An FTA between the two nations would increase Bangladesh's exports to India by 182 per cent and that of India's to Bangladesh by 126 per cent,” World Bank lead economist Sanjay Kathuria said, while releasing a report titled ‘Unlocking Bangladesh-India Trade’ at a CII function here.

During 2011-12, the two-way trade stood at \$4.3 billion. Bangladesh has long complained that trade with India was unequal, with India selling goods worth over \$3.5 billion to Bangladesh against the latter's export to India of about \$0.6 billion.

Research and Information System for Developing Countries Fellow Prabir De said India's closer economic cooperation with Bangladesh can be an important stepping-stone to reduce the economic isolation of India's North-Eastern states. The agreement would also be beneficial for Bangladesh as more manufacturing activity would take place which would generate more employment opportunities. In 2004, India and Bangladesh had exchanged documents for an FTA and negotiations were underway. However, talks were stalled over a few issues. India's exports to Bangladesh include cotton, cereals, nuclear reactors, boilers and machinery, while imports from the neighbouring country comprise edible fruit and nuts, fish, apparel and textiles articles. The study said to realise the potential of the pact, both the countries need to further liberalise trade, cut tariffs on India's exports to Bangladesh, reduce and remove non-tariff barriers and improve trade facilitation both at borders and inland.

To enable larger gains, Bangladesh and India cooperation should go beyond goods trade and include investment, services and technology transfer, it stated.

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Bangladesh now India's largest trading partner in subcontinent

Asit Ranjan Mishra/ Elizabeth Roche, Livemint

New Delhi, 8 March 2013: Bangladesh has replaced Sri Lanka as India's largest subcontinental trading partner, with tariff issues and New Delhi's growing tensions with its southern island nation hurting the commercial relationship between the two countries.

Meanwhile, India's better ties with Bangladesh have seen an increase in agricultural exports to and textile imports from that country. New Delhi has even allowed concessional tariff rates on textile products from Bangladesh.

"There has been a fair amount of surge in agricultural commodity exports to Bangladesh. Their exports have also increased due to concessions given on textiles. Total trade volumes will be touching in excess of \$5 billion (around Rs.27,350 crore today) in the current financial year," said a commerce ministry official who spoke on condition of anonymity.

Between April and January in the current fiscal year, India's trade with Bangladesh rose to \$4.5 billion from \$3.3 billion in the year earlier, while trade with Sri Lanka fell to \$3.5 billion from \$4.2 billion. Sri Lanka was one of the first countries that India signed a comprehensive economic partnership agreement with in 1998.

The commerce ministry official attributed the drastic fall in trade with Sri Lanka to the increase in customs duty by that country on automobiles imported from India, starting April last year. Sri Lanka increased the import duty on cars from 120-291% to 200-350%; from 51-61% to 100% on three-wheelers; and from 61% to 100% on scooters and motorcycles. Sri Lanka has also substantially increased the excise duty on automobiles. As a result, several Indian auto makers, including Bajaj Auto Ltd and Maruti Suzuki India Ltd, for which Sri Lanka is an important export market, have taken a hit.

"Because automobile exports to Sri Lanka is a high-value item, that one single measure has meant exports to the country have suffered," the commerce ministry official added.

In April-December of the current fiscal year, India's automobile exports to Sri Lanka were \$357 million; automobile exports amounted to \$1 billion in 2011-12.

The relationship between India and Sri Lanka has been testy in recent times over the issue of the treatment of Sri Lankan Tamils and also after some fishermen from Tamil Nadu were captured by the Sri Lankan coast guard for allegedly straying across the maritime boundary.

India has been pushing Sri Lanka to devolve more political rights to the minority Tamils to ensure their integration into the mainstream—something Sri Lanka has been resisting.

A United Nations vote in Geneva on a resolution censuring the Sri Lankan government on its human rights record regarding the treatment of Tamils is expected later this month.

Last year, India had voted in favour of such a resolution, souring relations with Sri Lanka. India's approximately 62 million Tamils share strong cultural links with Sri Lanka's Tamil minority. Sri Lanka's Tamils and majority Sinhalese have a troubled relationship mainly owing to the three-decade-old civil war that ended in May 2009.

A second government official, who also did not want to be identified, said that apart from political reasons and higher tariffs, the dip in India's exports to Sri Lanka was caused by the latter's desire to have more companies "set up manufacturing units in the country".

Still, the strained relationship between the two countries wasn't making it any easier, this person added.

"To move to the next phase of economic ties with Sri Lanka is going to be difficult," the official said. "Let me put it this way—there is no *bonhomie* (between India and Sri Lanka) that they would want to push trade relations to the next level."

Referring to Bangladesh, the government official said there is no rancour in relations. There are three outstanding issues between the two countries that needed resolution—India ratifying the additional protocol to the 1974 land boundary pact; reaching an agreement on the sharing of the waters of the river Teesta; and the killing of people by the border guards of the two countries because of the undemarcated front line.

"But look at the temperature (of political relations between the two countries)," the second official said, pointing to the increase in trade as a natural consequence of a number of steps taken by the Indian government, including allowing duty-free access of textiles, the opening of border *haats* (markets), improved banking facilities and the opening of transport links.

Indian foreign secretary Ranjan Mathai told reporters earlier this month that the choice of Bangladesh as the first country President Pranab Mukherjee visited after taking office reflects the importance India attaches to ties with that country.

"Bangladesh itself is a fast-growing economy. They have recorded something like 6% growth consistently. It is a large market, 150 million, with a very growing middle class. So Bangladesh itself, apart from the export opportunities or the opportunities of access to India, presents a number of opportunities," Mathai said.

India is looking for better ties with Bangladesh as a means to develop its insurgency-riven North-East. Growth in the region should lead to jobs for the young, making it difficult for insurgent outfits to recruit disillusioned and jobless young people, goes the logic.

The second government official said that later this year, India will start exporting 500 megawatts (MW) of power to Bangladesh. While 250MW will be given at concessional rates, the rest will be at market rates, he added.

On the Teesta, the official said Bangladesh was receiving 100% water without any cuts as there is no barrage on the river. "The Teesta pact will be symbolic" rather than anything else, which is also important, the person said.

C. Uday Bhaskar, an analyst with the South Asia Monitor think tank in New Delhi, said India would like to engage with Bangladesh irrespective of who is in power. "But (Prime Minister) Sheikh Hasina has been more receptive to India's overtures, so it's easier to realize India's objectives," he said.

Another expert said that India's emphasis on Bangladesh and Pakistan may have come at the cost of its relationship with Sri Lanka.

"In the process, we have actually neglected Sri Lanka. The negotiations for a services agreement (broke down) after 13 rounds of negotiations. We have not been able to pick it up," said Nisha Taneja, a professor at the Indian Council for Research on International Economic Relations.

Taneja said India should again start focusing on Sri Lanka and reduce its sensitive list with that country, even if it doesn't want to restart the services negotiations.

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