

# ISAS Insights

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## India-Bangladesh Relations: Moving towards Friendship

*India-Bangladesh relations are advancing rapidly in recent times. There are of course some impediments such as non-tariff barriers (NTBs) in trade, and the Teesta water-sharing dispute that need to be overcome through negotiations. But if the maritime agreement is any guide, the road ahead appears to be smooth, provided there is sufficient political will on both sides.*

Chandrani Sarma<sup>1</sup>

India and Bangladesh enjoy cultural, social and economic ties over civilizations. Bengal, now Bangladesh, was previously a part of India and then Pakistan; the Indian army was instrumental in leading Bangladesh to victory in its armed struggle for independence against Pakistan and India was one of the first countries to recognize Bangladesh as a sovereign nation. Despite the shared history and immense potential, Bangladesh-India relations have not always been amicable. Over the years, it has been wrought with distrust and non-cooperation. Things are changing slowly and probably because both the countries realise the indispensability of its neighbour's assistance towards the road for development. This paper looks at some broad economic issues of contention

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between the two countries, the progress made and the immense potential in improving overall relations between the two neighbours.

## Contention Issues

### *Trade Deficit*

India and Bangladesh, simply by being geographically proximate to each other, have a huge scope to trade. They are also both rich in natural resources and market exposure. As shown in Table 1, India's main export item to Bangladesh is cotton and constitutes a quarter of total Indian exports to Bangladesh. This is followed by cereals, vehicle parts, machinery and animal fodder. India mainly imports paper yarn and clothing accessories from Bangladesh, followed by edible fruits and nuts, cement and lime, among others.

**Table 1: Products traded between the countries**

S. No.	Top 5 products exported to Bangladesh	Top 5 products imported from Bangladesh
1	Cotton (25.5%)*	Paper yarn (17%)
2	Cereals (15%)	Clothing accessories (16%)
3	Vehicle parts (6%)	Edible fruits and nuts (11.7%)
4	Machinery (4.3%)	Made-up textile articles (10%)
5	Prepared animal fodder (3%)	Salt, plastering materials, lime, cement etc (4.3%)

\*(Share of total export given in parenthesis)

Source: Ministry of Commerce, Government of India

Within a decade, the total goods bilateral trade between India and Bangladesh grew from around US\$ 1.6 billion (in 2004) to US\$ 6.1 billion (in 2014), with an average annual growth of 18.66%. Table 2 gives a summary of the export and import values compared to the rest of the world. As can be seen from the table, the growth in bilateral trade is mainly driven by an increase in India's exports to Bangladesh and an insignificant contribution from Bangladesh's exports to India.

**Table 2: Bilateral trade between India and Bangladesh**

<b>Year</b>	<b>India's export to Bangladesh</b>	<b>India's import from Bangladesh</b>	<b>Share of total imports by India from the world (in %)</b>	<b>Trade deficit for Bangladesh</b>
2004-05	1,631	59	0.05	-1,572
2005-06	1,664	127	0.08	-1,537
2006-07	1,629	228	0.12	-1,401
2007-08	2,923	257	0.10	-2,666
2008-09	2,497	313	0.10	-2,184
2009-10	2,433	254	0.08	-2,179
2010-11	3242	446	0.12	-2,796
2011-12	3789	585	0.12	-3,204
2012-13	5144	639	0.11	-4,505
2013-14	6166	484	0.13	-5,682

*All values in US\$ Millions*

*Source: Ministry of Commerce, Govt. Of India*

Bangladesh has always suffered a deficit with India since its formation in 1971. As can be seen from Table 2, the deficit has only been rising over the years. India's import from Bangladesh, compared to the rest of the world, has been on a rise but it was still a miniscule 0.13% in 2013. In the same year, Bangladesh's import from India was 18% of what it imports from the world. Unfortunately, this is not an economic issue anymore and has become a political one. Many, in Bangladesh, believe that this vast deficit remains because of India's protectionist policies, creating a sense of deprivation in the minds of Bangladeshi policy-makers.

The justification for this claim is that there are many products that are being imported by Bangladesh from other countries at a higher cost than the export price of India for those products. Bangladesh actually has a larger deficit with China compared to India.<sup>2</sup> In 2003, India was Bangladesh's second largest trading partner after the USA<sup>3</sup> and the largest import origin country, but it now has been replaced by China. The similarity in the basket exported by China to

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<sup>2</sup>"India-Bangladesh Trade Potentiality: An Assessment of Trade Facilitation Issues" (2014), CUTS International.

<sup>3</sup> Mafizur Rahman, "Bangladesh-India Bilateral Trade: Causes of Imbalance and Measures for Improvement" (2005), University of Sydney

Bangladesh, compared to India, shows the former replacing the latter (textiles, machinery, headwear and footwear).<sup>4</sup>

### *Non-trade Barriers*

Another reason for the two nations not reaching the expected trade levels, despite duty-free access, is because Bangladeshi exporters face high non-tariff barriers. These could be in the form of bureaucratic and customs harassment delays due to manual clearance, visa problems, a lack of banking services or warehouse facilities at the border. Different standards have been set on the same product by countries, leading to discrepancy in the testing procedures. Officials say customs procedures, the trans-shipment of goods and the difference in weighing systems lead to higher transaction costs. However, these issues have not been resolved yet. China, on the other hand, is very proactive in the Bangladeshi market. It has a welcoming and encouraging attitude, inviting Bangladeshi traders for exhibitions on Chinese products, dealing in technology transfers and also exploring commodities that can be imported from Bangladesh.<sup>5</sup>

There are still several products listed in the negative or sensitive lists of either country. At the highest level of government, both sides need to reduce their respective lists. For India, these measures will hardly dent the Indian market and Bangladesh should reciprocate. India's sensitive list for Bangladesh has 25 items while Bangladesh's list for India has 1241 items for non-LDCs. According to a study by CUTS International, there are 9 product lines which can be removed from Bangladesh's sensitive list, which would lead to savings on imports from India of about US\$143.47 million.

### *Border Issues/ Illegal Trade*

A further topic of concern in this bilateral trade between India and Bangladesh is the volume of illegal trade across the border. India and Bangladesh share the 5<sup>th</sup> longest international border in the world - 4096 kilometres (km), most of which is highly porous. In 2009, Bangladesh's High

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<sup>4</sup>Pravakar Sahoo, "India losing ground to China on trade with Bangladesh". 20<sup>th</sup> August 2011, East Asia Forum. Available at: <http://www.eastasiaforum.org/2011/08/20/india-losing-ground-to-china-on-trade-with-bangladesh/>

<sup>5</sup>Pravakar Sahoo (2013) Economic Relations with Bangladesh: China's Ascent and India's Decline. *South Asia Research* 33: 123

Commissioner to India estimated that informal exports from India were about US\$4 billion; this was more than the total formal trade which was around US\$2.7 billion. Mainly occurring in cattle, drugs, textiles and machinery, it is a result of corruption and inadequate border infrastructure as well as prohibition of certain commodities. Substantive development in the border infrastructure needs to be achieved on both ends to not only open the land-locked north-east India and Bangladesh towards economic development, but prevent illegal trade, which results in a loss of tariff revenue as well as lives.

### *Teesta Dispute*

India and Bangladesh share 54 rivers flowing between them. The Ganga Water Sharing Treaty (1996) is the only treaty that is operational between the two countries right now. The Teesta River water sharing is one crucial dispute which has not been resolved for over 18 years. Since the upstream lies in the former country, its attempts to dam and divert the water has evoked sharp reactions from the latter. The treaty, signed in 1983 between the two countries, allocated 39% and 36% of water to India and Bangladesh respectively. Since water allocation is a state issue and the treaty has not been honoured by the local government of West Bengal, the central government is unable to carry forward the peace process independently without resolving this issue. The general perception in Bangladesh, however, is of being deprived of its due share of water resources.

### **Progress**

The leaders of both countries are exceptionally motivated to put the past behind them and bring about a new era of friendship. Sheikh Hasina showed her inclination towards goodwill when she came to power in 2009 and started stamping out terror outfits that were targeting India. Though India was slow at responding with a similar gesture of cooperation under the then Prime Minister Manmohan Singh's government, improving relations with neighboring countries is also a high priority for current Prime Minister Narendra Modi, which he showcased in his two-day visit to Bangladesh. It is said that Mrs. Hasina and Mr. Modi have achieved more in bilateral relations in

one year than any of their predecessors, since Sheikh Rahman and Indira Gandhi.<sup>6</sup> Days after Mr. Modi's visit to Bangladesh, the Chiefs of Army of the two nations also met when Indian Army Chief General Dalbir Singh Suhag went to Dhaka to discuss and strengthen military cooperation with his Bangladeshi counterpart, General Iqbal Karim Bhuiyan.

A revised *Land Boundary Agreement* (LBA) was signed on 6<sup>th</sup> June as a pre-condition by Mr Modi before his Bangladesh visit. On 1<sup>st</sup> August 2015, in a landmark move, 162 enclaves were formally exchanged between the two countries.

### *New routes*

The India-Bangladesh joint declaration of June 2015 has a lot of promise and its consequences can be felt strongly on both sides. There is a lot of enthusiasm and motivation to improve relations between the two countries since it will be a win-win situation for both sides. The enormous potential benefits from connectivity can be gauged from Figure 1.

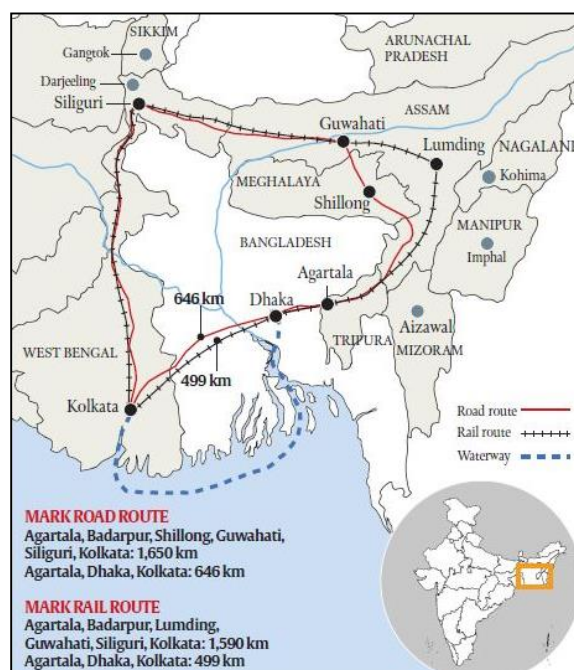
On 1 November 2015, the first cargo vehicle carrying tradable goods ran through Kolkata-Dhaka-Agartala route, cutting travel distance by a 1000 kilometres. Bus routes for passengers were also inaugurated from Dhaka during Mr. Modi's visit and Mrs. Hasina expressed keenness to re-open India-Bangladesh rail routes that operated prior to 1965. Currently, India is engaged in building a Rs. 1000 crore, 15-km railway line, which will reduce the Agartala-Kolkata distance to 499 km from 1590 km.<sup>7</sup>

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<sup>6</sup>K. AnisAhmed, "View from Bangladesh: Ten take-aways from the Modi visit", Dawn 10<sup>th</sup> June 2015. Available at: <http://www.dawn.com/news/1187353>

<sup>7</sup>Samudra Gupta Kashyap, "Through Bangladesh, a development shortcut for Northeast", 30<sup>th</sup> November 2015, The Indian Express. Available at: <http://indianexpress.com/article/explained/through-bangla-a-development-shortcut-for-northeast/#sthash.7bnHvw0F.dpuf>

**Figure 1: Potential in connectivity**



*Source: Indian Express*

*(Note: The Institute of South Asian Studies (ISAS), an autonomous research institute at the National University of Singapore, cannot confirm the authenticity of the above map.)*

The recent inauguration of the Integrated Development Complex (IDC), in Tripura in January 2016, which is located 60 km away from the capital Agartala, is another example towards the peace process. The IDC was built at a cost of Rs.16 million on 2.83 acres of land, which is almost like an integrated check-post. Facilities like a weigh bridge, a warehouse, a computerized immigration system and a bank with a currency exchange facility can be found there. India has been in the process of undertaking development of LCSs (Land Custom stations) and ICPs (Integrated Check Posts) along the border, which includes Petrapole, Hili, Changrabandha, Dawki, Sutarkandi and Demagiri. On the Bangladesh side, the government is in the process of improving some of the ports including Benapole, Burimari, Bhomra, Tamabil and Gobraakura.<sup>8</sup> Though the progress has been slow for years and a lot still needs to be accomplished, this is the beginning of a smooth passage of citizens and goods between the two countries.

<sup>8</sup> “India-Bangladesh Trade Potentiality: An Assessment of Trade Facilitation Issues” (2014), CUTS International.

### *Resolution of Maritime Issues*

The decades-long maritime dispute between the two countries ended in 2013 after a verdict was passed by the United Nations tribunal in Hague. However the present sea route between the two countries is through a third nation port – Colombo or Singapore. A development in this front is the Standard Operating Procedure (SOP) signed between India and Bangladesh on 15<sup>th</sup> November 2015 to operationalize an agreement on coastal shipping (which was signed in June earlier that year). According to the press release by the Indian government, “The Standard Operating Procedure contains provisions which stipulate that India and Bangladesh shall render same treatment to the other country's vessels as it would have done to its national vessels used in international sea transportation”.<sup>9</sup> This would drastically reduce transportation cost on EXIM cargo and enhance bilateral trade, which would also lead to greater employment on both sides.

### *Sharing Energy*

The scope of electricity-sharing between the two nations has also expanded. The Indian government would soon be providing 100 megawatt (MW) of power to Bangladesh, which is in dire need of about 8000 MW energy, from the Palatana plant in Tripura. This project was a hallmark of cooperation because free transportation of equipment was allowed from West Bengal's Haldia port to Tripura, through Bangladesh in 2013. The supply of electricity to Bangladesh had not started since there was disagreement on the selling rate, but it has been resolved now, and the supply is expected to start from February 2016.

## **The Road Ahead**

Geography alone makes India and Bangladesh dependent on each other. For Bangladesh, India is an extremely critical strategic and economic partner. Not only is Bangladesh surrounded by India on three sides, barring the coast in the South, it is also dependent on India for a variety of consumer products, energy and water. India, on the other hand, is virtually separated from seven of its north-

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<sup>9</sup>Press Information Bureau, Government of India, Ministry of Shipping. 15<sup>th</sup> November 2015. Available at: <http://pib.nic.in/newsite/PrintRelease.aspx?relid=130487>



eastern States with Bangladesh in the middle. Cooperation with Bangladesh is crucial for the development of this region. The BCIM (Bangladesh-China-India-Myanmar) corridor is an indicator of socioeconomic development in the region - connecting the four countries by road, which is the cheapest route of trade. This will not only give a thrust to the goods, energy and services trade in South Asia, it inevitably also improve relations between the two nations. At bilateral meetings between India and Bangladesh, issues relate to the BCIM corridor were resolved and both parties were satisfied with the progress of the project. A third meeting will take place in India this year.

However, there are complexities in the bilateral relations. While on a national level, the current government is extending the hand towards reconciliation, on a state-level it is coming hard on illegal immigration from Bangladesh. During the run-up to the Assam state elections in June 2016, the Bharatiya Janata Party has blamed the incumbent government for turning a blind eye towards illegal migration as they provided vote banks. Home Minister Rajnath Singh has promised a fenced border in Assam by December 2016 if the BJP is brought to power. It is yet to be seen how Bangladesh would react to this controversial topic. The prospects for future cooperation and development are immense, and a continuation of positive relations has the potential to provide tremendous economic development, cultural exchange and security support for the entire region in the coming years.

## Appendix

**Table 3: Top export destinations of the countries (2012)**<sup>10</sup>

S.No.	Bangladesh		India	
1	USA	19%	UAE	11.8%
2	Germany	15%	USA	11.3%
3	UK	10%	China	5.8%
4	France	6.8%	Singapore	5.5%
5	Spain	5.2%	Hong Kong	4.3%

**Table 4: Top import origins of the countries (2012)**

S.No.	Bangladesh		India	
1	China	29%	China	11%
2	India	18%	UAE	7.5%
3	Singapore	6%	Saudi Arabia	6.5%
4	Malaysia	5.4%	Switzerland	6.2%
5	South Korea	5.3%	USA	4.2%

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<sup>10</sup> OEC Country Database. Available at: <http://atlas.media.mit.edu/profile/country/>

Source: Feenstra, R. C., et al. (2005). World Trade Flows, 1962–2000. NBER working paper 11040 and BACI International Trade Database (1995-2012).