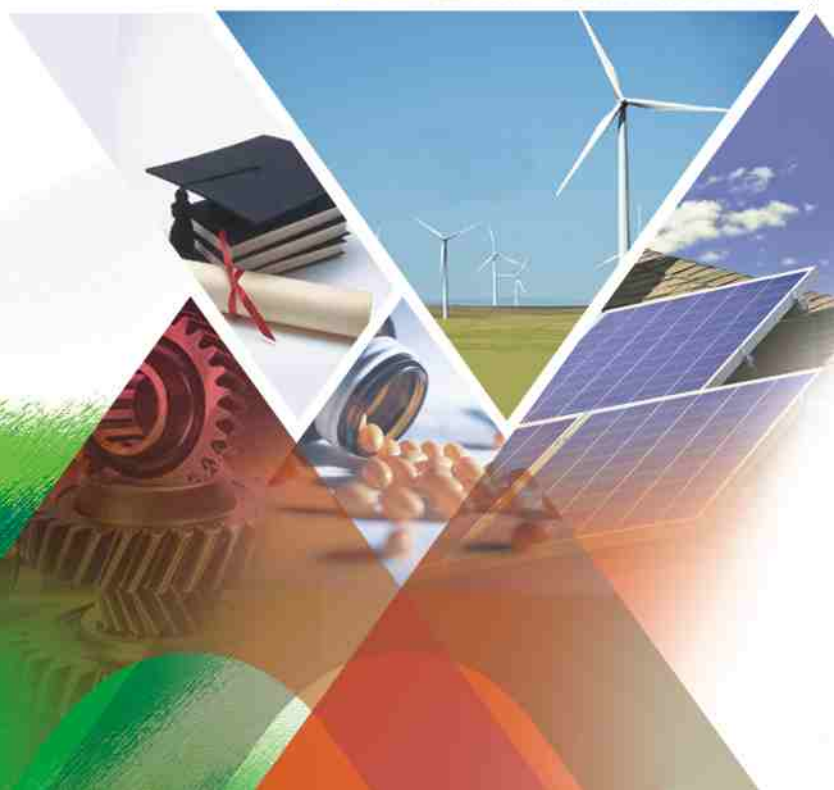
Status Paper on

INDIA - BANGLADESH ECONOMIC RELATIONS

DECEMBER 2012





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BANGLADESH ECONOMY

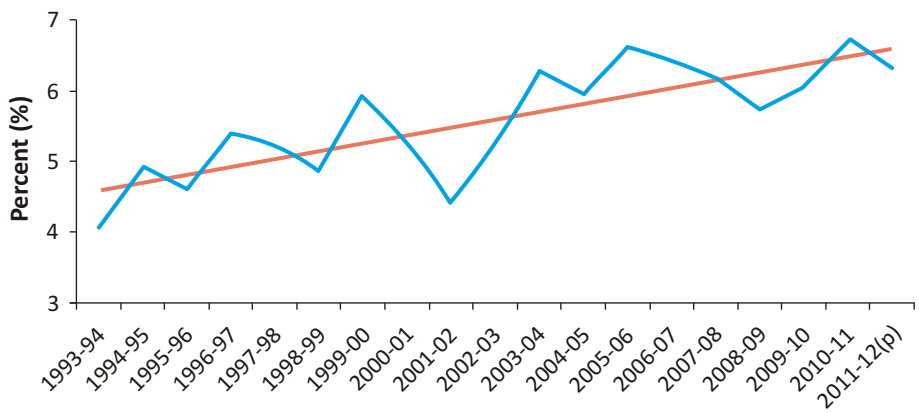
1 Bangladesh Economy

Gross Domestic Product (GDP)

Bangladesh's economy has been one of the best performing economies in South Asia in recent times, averaging a growth rate of around 6 percent in the last five years. Fig 1.1 shows the annual growth rate of GDP of Bangladesh from FY1994[1] to FY2012. The economy registered the highest annual growth of 6.73 percent in FY2011. Since FY2004 the growth has consistently been over 6 percent, except on two occasions. The linear trend of growth has been positive.

Bangladesh remained virtually unscathed from the global financial crisis, with growth dipping slightly from 6.2 percent in FY2008 to 5.7 percent in FY2009. The following year the growth rate recovered to 6.07 percent and increased to 6.7 percent in FY2011. However, the growth rate moderated to an estimated rate of 6.3 percent in FY2012.

Fig 1.1 : Annual Growth Rate of GDP



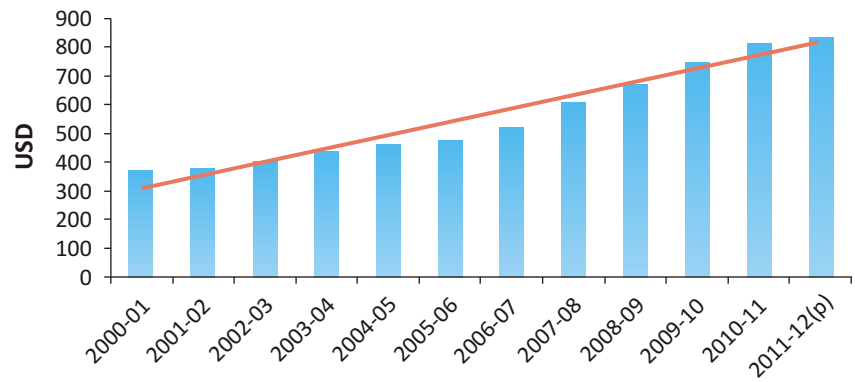
Source: Bureau of Statistics, Bangladesh

[1] *Bangladesh's fiscal year runs from July to June. While, India's fiscal year runs from April to March.*

Per capita income

Bangladesh currently falls under low income country category, but aims to become a middle income country by FY2021. However, this will require the economy to grow at an average rate of 8 percent per annum. As per the target set by the Government of Bangladesh, the rate of targeted growth needs to increase from 6 percent in FY2010 to 8 percent by FY2015 and further should accelerate to 10 percent by FY2017. As per the World Bank definition, lower-middle-income economies have per capita income in the range of USD 1,026 to USD 4,035. Bangladesh's current per capita income is USD 868.

Fig 1.2 : Per Capita Income



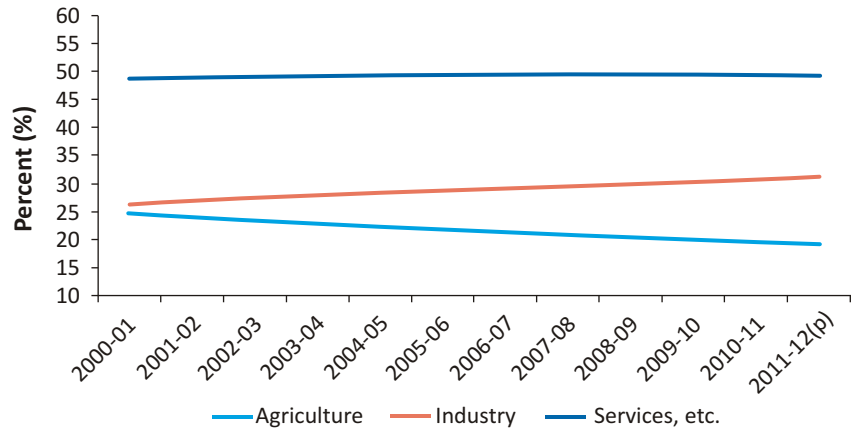
Source: Bureau of Statistics, Bangladesh

Sector wise value addition

Bangladesh's economy is predominantly agricultural. Majority of the population is still dependent on agriculture for its livelihood. However, the value added by the sector has consistently declined from more than 30 percent in the early 1980s and 1990s to around 25 percent in the beginning of 2000s. By the end of FY2012 the share of agriculture in the value added was just over 19 percent. The loss in agriculture's share has been made up by the gain seen in the industrial sector. The share of industry increased from 20 percent in FY1981 to more than 31 percent in FY2012. The services sector's contribution has more or less remained stagnant, hovering around 50 percent.

For Bangladesh, the major concern has been the stagnant share of the manufacturing sector's contribution to GDP, which seems to have stagnated in the recent years. To generate more employment, this sector needs to grow at a more rapid pace. Moreover, the overdependence on the agricultural sector for employment needs to be reduced.

Fig 1.3 : Sector Wise Value Added

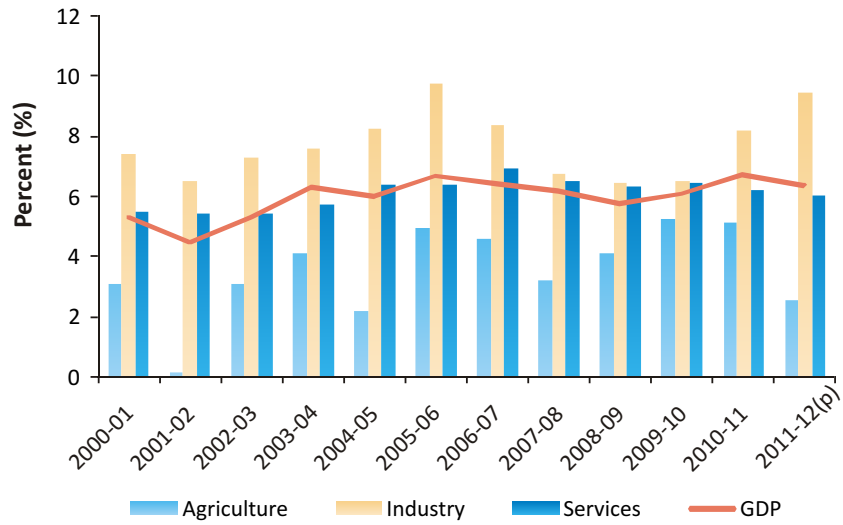


Source: Bureau of Statistics, Bangladesh

Sector wise growth rates

The agriculture sector saw a decline in its growth rate from 5.13 percent in FY2011 to 2.53 percent in FY2012. The slowdown can be attributed to lower growth rate of crop production, which declined sharply from 5.7 percent in the FY2011 to 0.9 percent in FY2012. The growth rate declined slightly in the services sector, while the industrial

Fig 1.4 : Sector Wise Growth Rates



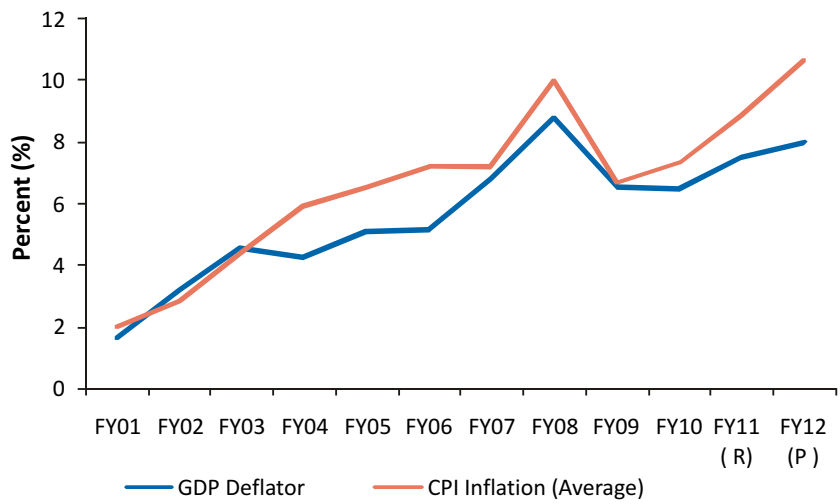
Source: Bureau of Statistics, Bangladesh

sector maintained its growth momentum. In the industrial sector - power, gas and oil saw a marked increase in growth rate from 6.6 percent in FY2011 to 14.1 percent in FY2012. Fig 1.3 clearly shows that the services sector growth has more or less equaled the GDP growth rate, while the industrial sector has been growing at a much faster rate. The agricultural sector growth has fluctuated between 2 to 5 percent growth rate.

Price level

Bangladesh has been facing higher prices owing to mounting global food and commodity prices, as well as domestic demand pressures. Moreover, a hike in administratively fixed fuel and power tariffs and depreciation of the taka from early 2011 further contributed to the rising inflation. Average inflation, rose rapidly from 6.06 percent in FY2009 to reach 10.62 percent in FY2012. However, by June 2012 inflation rate had declined to 8.6 percent. Food inflation had softened to 7.6 percent in June 2012 compared to a year before. In FY2012, inflationary pressures, in particular from an increase in non-food prices, in excess of 10 percent, worsened due to rising commodity prices and strong aggregate demand. The Bangladesh Bank's monetary policy statement for the second half of FY2012 aims at further tightening and focuses on achieving single digit levels of inflation.

Fig 1.5 : Price Level



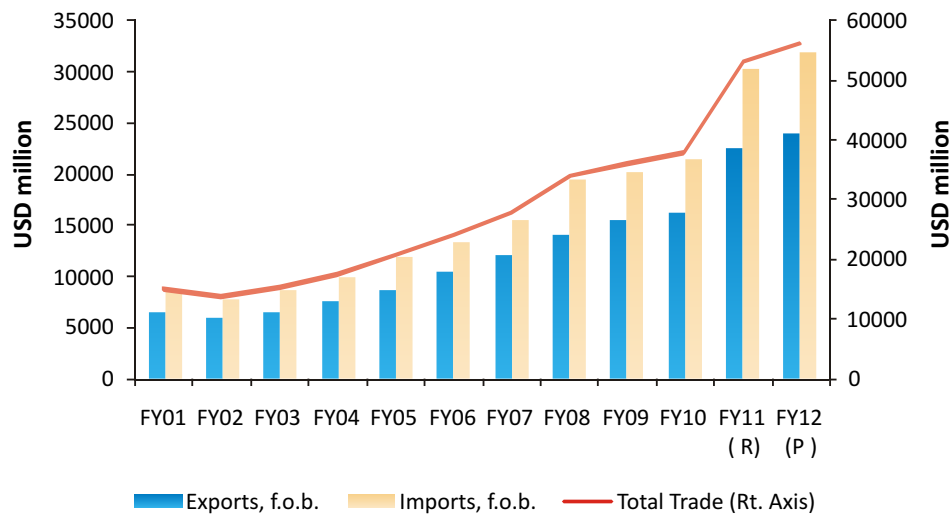
Source: Bureau of Statistics, Bangladesh

International trade

Bangladesh's trade with the World increased at a Compounded Annual Growth Rate (CAGR) of 12.8 percent from FY2001 to FY2012. Total trade has increased from 14.85 billion in FY2001 to 55.91 billion in FY2012. Incidentally, the exports and imports have grown over the period at almost similar rates. Exports have grown at a CAGR of 12.7 percent, while imports have grown at a CAGR of 12.9 percent during the same period. This has resulted in widening of the trade gap.

Following a slowdown in the global economy in the late 2008, Bangladesh's exports and imports recovered very strongly by FY2011. In FY2011, exports grew by more than 39 percent and imports at around 41 percent. However, the rate of growth in trade again slowed down in FY2012 to below 7 percent. Moreover, Bangladesh's trade deficit has been widening over the years.

Fig 1.6 : Trade with the World



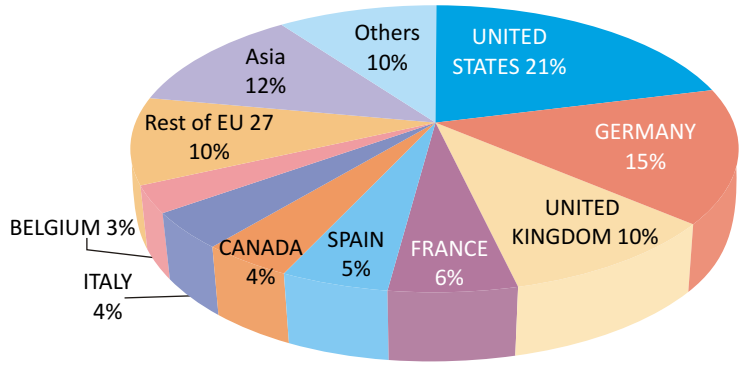
Source: Bank of Bangladesh

Merchandise exports destinations and product mix - FY2012

Bangladesh's major exports destinations were the European Union and the United States. 78 percent of exports, largely dominated by readymade garments, went to European and North American markets. Bangladesh's exports are highly concentrated both in terms of the destinations and the product mix. Textile sector accounts for 87 percent of all the commodities exported.

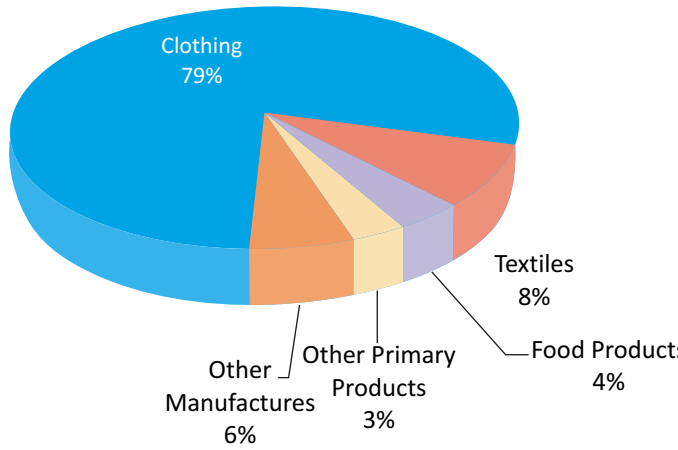
Many countries give duty free access to Bangladesh- European Union, Canada, Australia, Japan, Norway, and China. The United States does not provide duty-free access for some key Bangladesh exports, and only a few goods qualify under the U.S. Generalized System of Preferences. At present, 96 percent of Bangladesh's exports to the United States consist of readymade garments and textile products, which are bought by retail groups such as Walmart, Gap, and Target. India has also allowed for duty free access to 10 million pieces in the RMG sector and also preferential access is available under the SAFTA regime.

Fig 1.7 : Top 10 Export Destinations FY2012



Source: Export Promotion Bureau, Bangladesh

Fig 1.8 : Export Product Mix FY2012

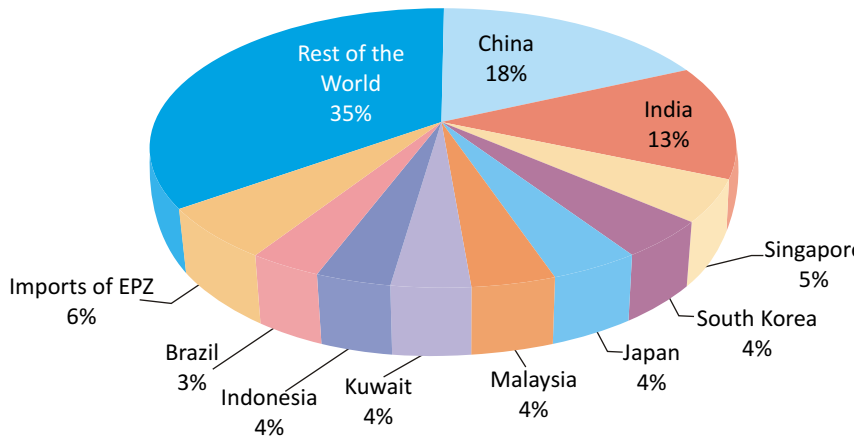


Source: Export Promotion Bureau, Bangladesh

Merchandise import partner and product mix - FY2012

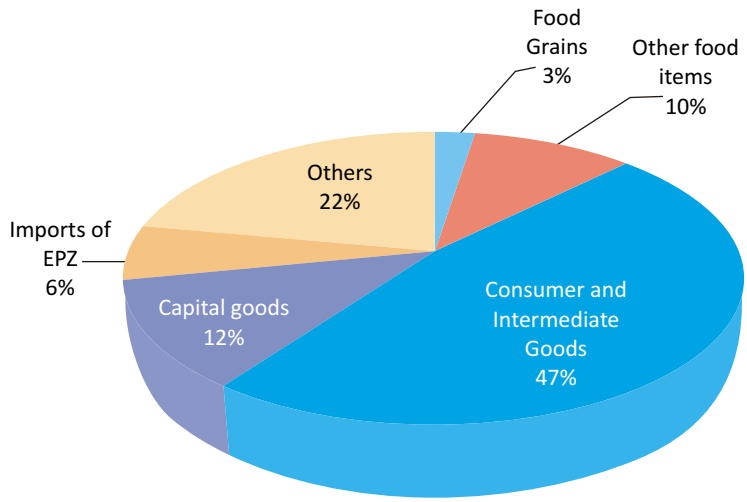
Bangladesh sources its imports mainly from China and India. In striking contrast to exports, most of the imports are from Asia. The majority of imports, of around 47percent, are dominated by consumer and intermediate goods. Much of the inputs of the burgeoning textile sector are imported, and form a major part of Bangladesh's imports.

Fig 1.9 : Top 10 Import Partners 2012



Source: Bank of Bangldesh

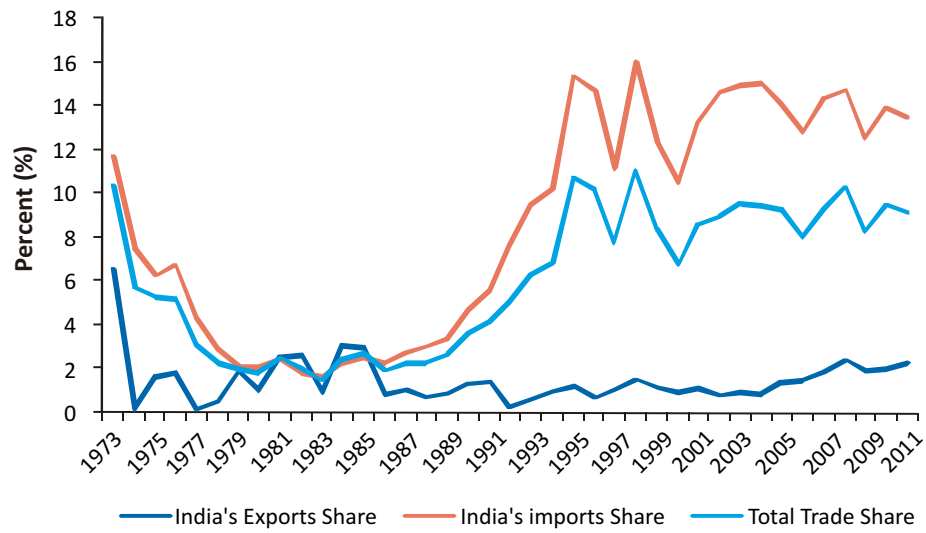
Fig 1.10 : Import Product Mix



Source: Bank of Bangldesh

India's share in Bangladesh's World Trade

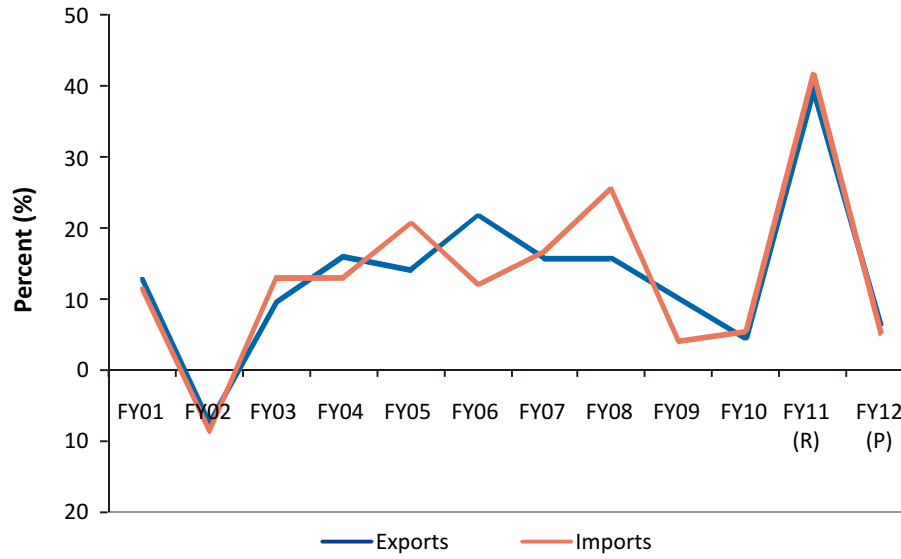
Fig 1.11 : India's Share in Bangladesh Trade



Source: Bank of Bangladesh

Fig 1.11 gives India's share in Bangladesh's trade. India accounted for more than 6 percent of Bangladesh's total exports in 1973. However, its share declined to around 2 percent in 2011. On the other hand, India's share in Bangladesh has slightly increased from around 12 percent in 1973 to around 14 percent in 2011. There is immense scope for Indo-Bangladesh trade to flourish.

Fig 1.12 : Indo- Bangladesh Trade (YoY Change)



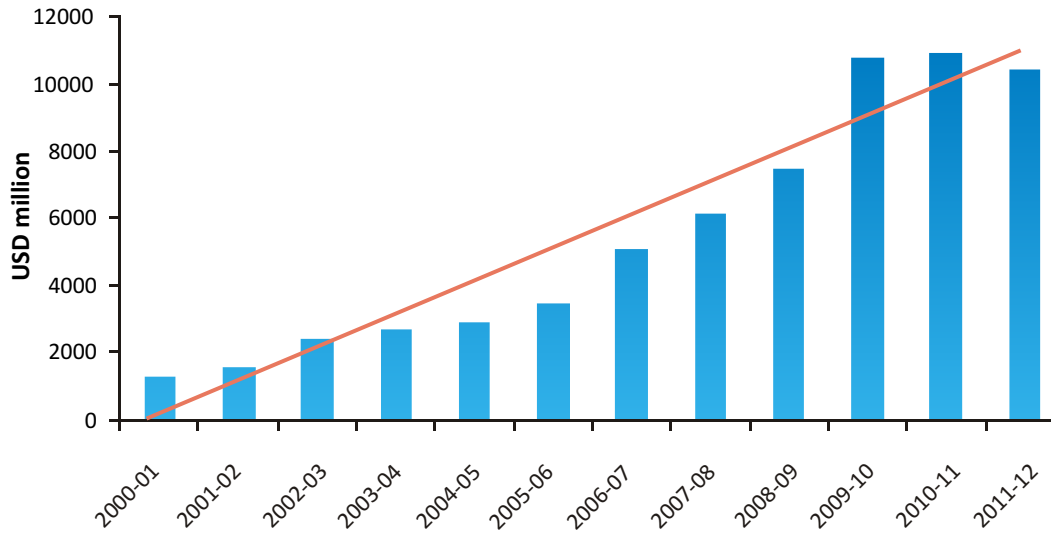
Source: Bank of Bangladesh

Forex Reserves

Bangladesh's gross official reserves have consistently increased from USD 1.3 billion in FY2001 to USD 10.9 billion in FY2011. However the reserves declined to USD 10.4 billion in FY2012.

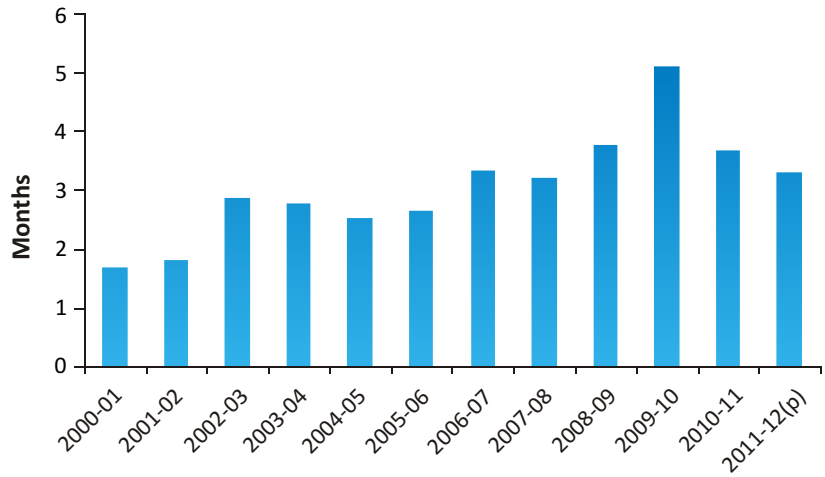
Among the main aim of reserves is to cover the imports of a country; this is often referred to as import coverage ratio. Import coverage ratio provides the number of months the reserves will suffice to support the current import payments. Fig 1.14 gives Bangladesh's import coverage ratio. While there is no agreement on the optimal amount of reserves, a rule of thumb is to have enough reserves to cover three months of imports. The decline in import coverage has been rapid and is bordering just above the comfort zone of 3 months. Import covers have declined from 5.14 months in FY2010 to 3.3 months in FY2012. If the global economic scenario continue to be gloomy and the global commodity prices do not soften, the import coverage ratio is likely to worsen further. This is likely to result in stricter norms on the foreign exchange outflow.

Fig 1.13 : Forex Reserves



Source: Bank of Bangldesh

Fig 1.14 : Import Coverage Ratio

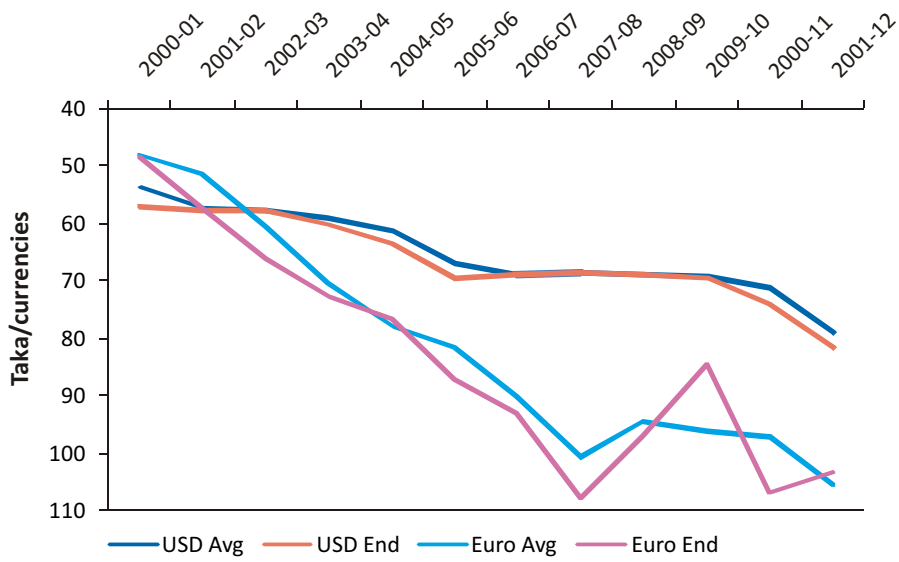


Source: Bank of Bangldesh

Exchange rate

Bangladesh currency is known as Taka. The currency has consistently depreciated against the USD, boosting exports. The currency has depreciated much more against the Euro, even when accounting for Euro's decline against Dollar. What stands out is the fact that the currency fluctuated strongly against the Euro, which is reflected in the divergence of average and end period values.

Fig 1.15 : Exchange Rate



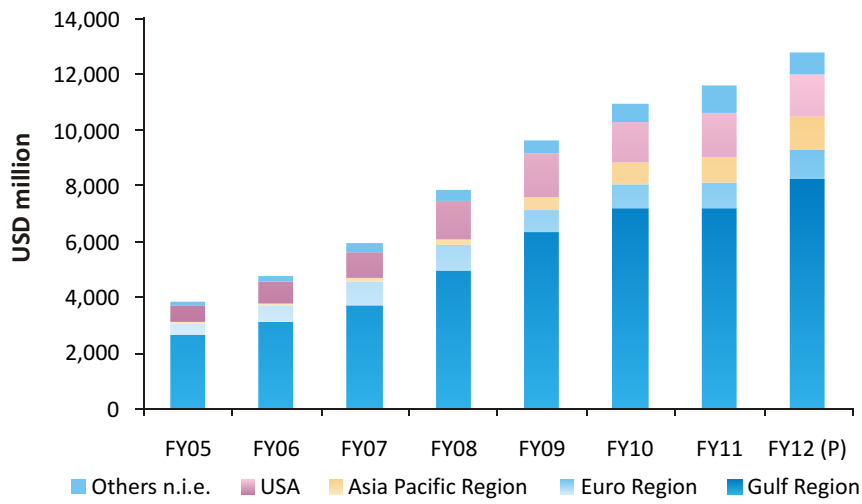
Source: Bank of Bangldesh

Worker's Remmitances

Bangladesh received around USD 12.8 billion dollars in remittances in FY2012, an increase of more than 10.2 percent over FY2011's figure. Remittances are a major source of external income for Bangladesh. Remittances were almost 13 times higher than FDI inflows and equivalent to more than 50 percent of exports revenue for the same year. Bangladesh's major sources of remittances were-Gulf Region (65 %), USA (12 %), Asia Pacific (9 %) and Euro Zone (8 %).

Due to the global economic slowdown, the rate of growth of remittance flows had slowed down from a high of 32 percent in FY2008. However, FY2012 saw an acceleration in the rate of growth from 6 percent in FY2011. Despite the global economic slowdown, continued large outflows of Bangladeshi workers to middle-eastern countries, taka depreciation since January 2011, and better banking services encouraged out-of-country workers to send more remittances through official channels. The number of people leaving Bangladesh for out-of country jobs grew strongly by 57.4% in FY2012. During FY2012, 691,402 Bangladeshis found jobs abroad compared with 439,375 in FY2011. This can be attributed to a sharp rise in recruitment (68.6%) in the United Arab Emirates and Oman. Singapore became another important labor destination, absorbing 54,709 (7.9% of total) Bangladeshi workers in FY2012, up from 27.7% in FY2011.

Fig 1.16 : Worker's Remmitances



Source: Bank of Bangldesh

Vision 2021[2]

The Government of Bangladesh announced a national policy called Vision 2021, in the year 2009. This document outlines strategies to achieve a number of long-term social and economic development goals to be achieved by the year 2021. The vision aims for Bangladesh to graduate to a middle-income country by 2021, raising per capita income to USD 2,000 from an estimated USD 763 in FY2012. A number of targets ranging from achieving a higher growth rate, to reduction in poverty have been identified. Table 1.1 lists these targets. The Vision will be implemented through the 6th (2011-15) and 7th (2016-20) five-year plans. Prior to that, the Government also adopted the National Strategy for Accelerated Poverty Reduction (NSAPR)II for FY 2009/11 as the first phase in implementing Vision 2021.

[2] *Planning Commission (2010).*

Table 1.1 : Macroeconomic indicators and targets of the Perspective Plan of Bangladesh

	Benchmark FY2009	Target FY2015	Target FY2021
Annual Real GDP growth rate percent	6.1	8	10
As a percentage of GDP:			
Gross investment	24.4	32.5	38
Gross national savings	30	32.1	39.1
Total Government revenue	10.9	14.6	20
Total Government expenditure	14.6	19.6	25
Exports (US$ billion)	16.2	38.8	82
Imports (US$ billion)	21.4	52.8	110.5
Remittances (US$ billion)	10.9	17.8	38.5
CPI Inflation (percent)	7.5	6	5.2
Unemployment rate	30	20	15
Poverty (head count percent)	31.5	22.5	13.5

Source: Perspective Plan of Bangladesh 2010-21: Making Vision 2021 a Reality.

Economic development & initiatives

a. **Meeting basic needs:** With a view to providing food, clothing, shelter, education and health care to the citizens in accordance with the Article 15 of the Constitution, gross domestic product will be raised to 8 percent by 2013 and 10 percent by 2021 which will be sustained thereafter.

b. **Population and labour force:** Population in 2021 is estimated at 165 m, and labour force at 105 m. Programmes will be taken up for employment of at least 85 percent of the work force.

c. **Alleviation of poverty:** By 2021, poverty in terms of head count will be reduced from the current level of 31.5 percent to 15 percent.

d. **Food & nutrition:** Food deficiency will be removed and self-reliance in food production will be achieved by 2012, which will enable to meet the nutrition needs of 85 percent of the population.

e. **Health care:** By 2021, a minimum daily intake of 2,122 kilo calories of food, elimination of contagious disease, primary health care and sanitation for all will be ensured. Average longevity will be increased to seventy years, and efforts will be made for the reduction of child and maternal mortality.

f. **Education:** Enrolment at the primary level will be increased to 100 percent net by 2010. Elimination of illiteracy by 2014, improvement in the quality of education, creation of a generation educated in science and technology, graduation degree level education made free by 2013 and ensuring higher salary for teachers are the other educational goals.

g. **Industry:** A strong foundation for industrialization will be established by 2021. Contribution of the industrial sector to national GDP will be doubled. Primacy will be given to agro and labour intensive industries and the highest emphasis will be given to the information technology sector. The investment policy will be geared to implement a strategy for attracting both domestic and foreign investment.

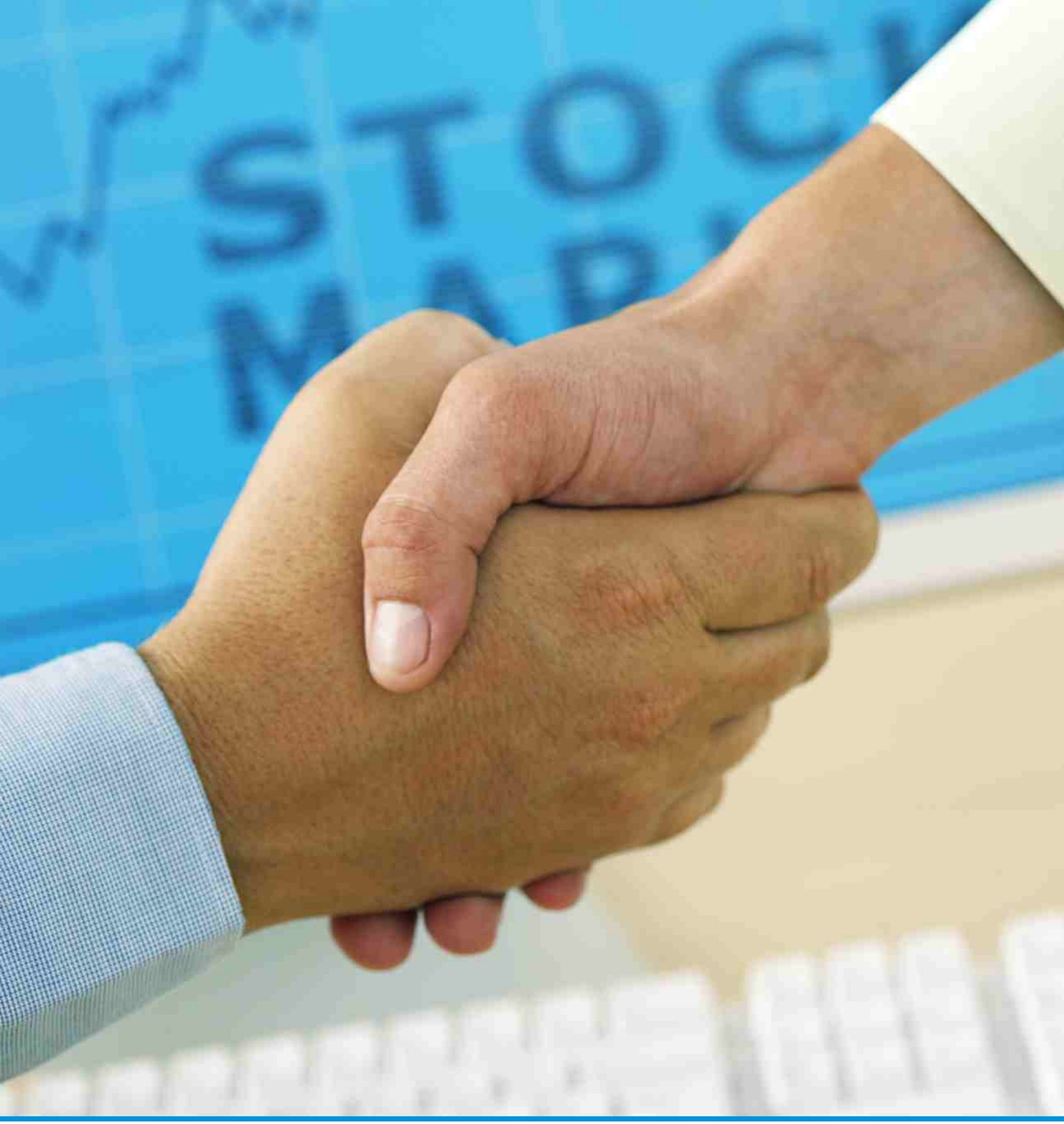
h. **Energy security:** An energy policy will be adopted tapping all sources of traditional and non-traditional energy to ensure an accelerated rate of economic development and industrialization. A three year crash programme will be taken up to meet the existing crisis. By 2015, electricity production will be increased to 8,000 megawatt. By 2021, demand for electricity is projected to increase to 20,000 megawatt. All possible actions aiming at enhancing our generation capacity will be undertaken. To increase gas production, regular survey of gas resources and work on well development will be undertaken. To meet energy demand, efforts will be undertaken for regional energy security through mutual cooperation in addition to exploring internal sources.

i. **Infrastructural development:** Road, rail, river and air transport and telecommunication systems will be expanded. Construction of bridges and tunnels for Padma and Karnaphuli rivers, connecting Bangladesh with the Asian highway and Asian railway, improvement of port facilities, building of a deep sea port to open up Bangladesh's ports to countries of Asia will be implemented. In Dhaka, construction of a metro tunnel, elevated rail and circular rail to remove traffic jams and to solve public transport problems will be studied forthwith in order to undertake a feasible project. The project will then be implemented on a priority basis.

j. **Housing:** By 2015, housing for all will be ensured. In every union and upazila, 'growth center' centric village housing and in towns housing with modern amenities will be implemented.

k. **Environment:** All measures will be taken to protect Bangladesh, including planned migration abroad, from the adverse effects of climate change and global warming. Facing natural calamities, planned reduction of air pollution, prevention of industry and transport related air pollution and disposal of waste in scientific manner will be ensured. Steps will be taken to make Bangladesh an ecologically attractive place through retention of forests and water bodies and prevention of river erosion.

l. **Water resources:** Bangladesh Awami League will take the initiative to formulate a comprehensive regional water policy along with India, Nepal and Bhutan for regional water security. In addition, in keeping with comprehensive water policy, articulated earlier by Bangladesh Awami League, measures will be taken for development of water resources and their rational use.



INDO – BANGLADESH TRADE RELATIONS

2 Indo – Bangladesh Trade Relations

India and Bangladesh share more than 4096 km contiguous border. Both the countries can benefit immensely by enhancing bilateral trade and investment. Being one of the major players in South Asia, both India and Bangladesh greatly impact the socio-political and economic demography of the region and relations between them influences the fate of South Asia. Thus, both will have to play a major role in the 21st century, which is hailed as the Asian century. India ranks 2nd and Bangladesh 8th, in terms of most populated countries are is home to almost 20 percent of the global population. A strong cultural, linguistic and religious bond is shared by both the countries. Among other things, both the countries have carried out reforms to achieve higher growth rates and share the common goal of reducing poverty and improving the livelihood of their masses. Bangladesh has been more successful than India in achieving its social development goals and certainly offers lessons for its larger neighbours. The realization that globalization is the way to go forward has been the mainstay of the economic model followed by both the countries.

The challenges faced by both the economies for enhancing economic development are also common – infrastructural barriers, governance, procedural hurdles, sustainability, and employment generation. Geographically Bangladesh shares its borders with the North Eastern region of India, which continues to experience much lower level of development as compared to the rest of India. One of the major reasons often cited for this is the difficult terrain and inaccessibility from the center of development. However, Bangladesh is located ideally to cater to this region and also provides a major market for North Eastern goods.

India is poised to become the third largest economy in the World. It will mean that Bangladesh can get access to its burgeoning middle class market, estimated between 350-400 million people. Many studies have indicated that when a major economy coexists side by side with smaller countries, spillover effects of the major economy's growth on the smaller economies is often high. In case of South Asia, the benefit of India's growth are visible but are lower as compared to other regions. For the region to benefit from India's accelerated growth following measures are likely to prove useful - enhanced real and financial flows, improved trade and financial channels. Addressing

the challenges in infrastructure, business environment and trade restrictions would also make a huge difference. Considering that even with low trade and financial linkages India's growth spillovers in the region are positive, there is reason to believe that increased intra - South Asia trade and financial linkages would provide stronger outcomes, consistent with what has been obtained in other regions (IMF, 2012).

Bilateral Trade

India's trade with Bangladesh has witnessed rapid growth in recent years. Currently, China is the largest trading partner of Bangladesh. However, India is likely to emerge as the largest trading partner in the coming years[3].

In terms of merchandise trade, the total trade has increased from USD 1 billion in FY2001 to around USD 4.4 billion in FY2012. Currently, the trade balance is heavily in India's favour. India's share in the bilateral trade is around 86 percent of the total trade. However, it can be seen that Bangladesh's share is steadily increasing.

Fig 2.1 : India Bangladesh Bilateral Trade



Source: Ministry of Commerce, Goverment of India

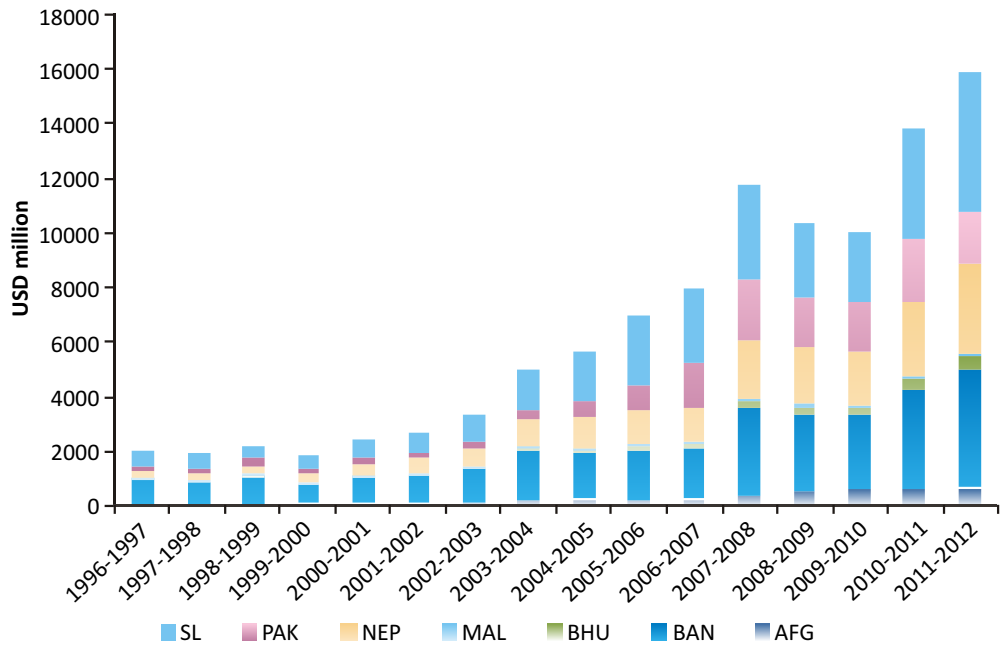
[3] *Ghulam Muhammed Quader, Bangladesh Commerce Minister in an interview given to Business Standard on Oct, 2012*

India's exports to Bangladesh reached USD 1 billion in FY2002, when exports jumped by 47 percent over the previous year. The next major jump in exports came in the FY2004 increasing by 48 percent to reach USD 1.74 billion by FY2005. In the following year, exports declined by 6 percent and remained stagnant for the next two years. The FY2008 saw exports registering a phenomenal growth of 79 percent, reaching USD 2.92 billion. The global economic and financial crisis had an impact on Indian exports. Consequently, Indian exports to Bangladesh declined by 15 percent in FY2009. The decline in exports bottomed out the next year and recovered in FY2011, increasing by 33 percent to cross USD 3.2 billion. The momentum in exports growth continued with a 17 percent increase in FY2012 to reach USD 3.8 billion.

India's imports from Bangladesh have remained low, but are showing an increasing trend. In the year FY2001, India imported USD 80 million worth of goods from Bangladesh. The following year, imports declined sharply by 27 percent to USD 59 million. By FY2004 imports increased to USD 78 million, however there was a sharp decline of 23 percent in the same in FY2005. In the subsequent seven years, imports from Bangladesh increased in 6 years and declined in 1 year. The fiscal years 2006 and 2007, saw phenomenal increase in imports, growing by 114 percent and 80 percent respectively. On back of this growth imports crossed USD 100 million in 2005-06 and reached USD 228 million in FY2007. By FY2009 imports increased and reached USD 313 million, however declined in the following year, when the global trade had also contracted. The decline in FY2010 was to the tune of 19 percent and reached USD 255 million. The following year saw a strong revival in imports reaching USD 447 million, an increase of 75 percent in FY2011. The momentum continued in FY2012, imports increased to USD 585 million an increase of 31 percent over the previous year's figure.

Bangladesh's share in India's total exports in South Asia was as high as 48 percent in FY1997. By FY2001, this share declined to 41 percent and by FY2007 it further dipped to 23 percent. The following year, the share jumped 4 percentage points to reach 27 percent. Since then, the share has remained almost stagnant. In the FY2012, majority of Indian exports in South Asia went to Sri Lanka (32%), Bangladesh (28 %) and Nepal (21%).

Fig 2.2 : India's Trade with South Asia



Source: Ministry of Commerce, Government of India

Fig 2.3 : Bangladesh's Share in India's trade with South Asia

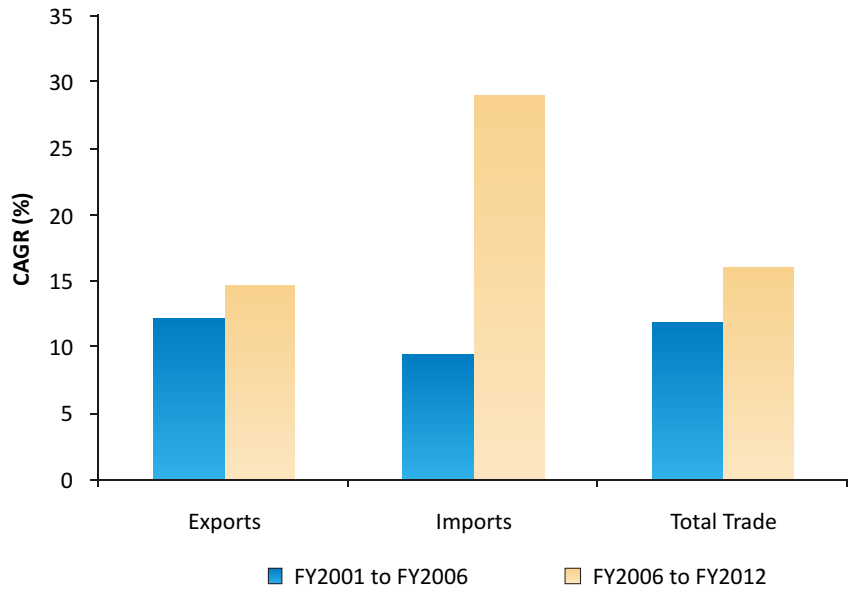


Source: Ministry of Commerce, Government of India

From FY2001 to FY2012, exports increased at a CAGR of 13.75 percent. Fig 2.4 gives the CAGR for two periods-FY2001 to FY2006 and FY2006 to FY2012. The time periods are divided based on the time when SAFTA came into effect. As we can see from fig 2.4, exports and imports both increased much more in the second period.

Exports grew in the first period by CAGR of 12.2 percent and in the second period by CAGR of 14.7 percent. However, imports show a very distinct rates in the two periods, between FY2001 to FY2006 imports from Bangladesh grew by a CAGR of 9.6 percent, compared to this the CAGR for the period FY2006 to FY2012 was 29 percent. The growth in the import has been much higher in the second period.

Fig 2.4 : India Bangladesh Bilateral Trade



Source: Ministry of Commerce, Government of India

Commodity[4] wise analysis: Exports

Table 2.1 gives the top 10 Indian exports to Bangladesh for the FY2012. The share of the top 10 exports was 70 percent, while the share of the top 5 exports was 54 percent.

[4] *Analysis is done at HS 2 digit level.*

Table 2.1 : India's Exports to Bangladesh Top 5 commodities

(in USD million)

HS Code	Commodity	2010-2011	2011-2012	Growth (%)
52	Cotton	1,081.39	1,076.74	-0.43
87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	248.27	320.67	29.16
10	Cereals	172.41	266.97	54.85
23	Residues and waste from the food industries; prepared animal foder	245.88	208.26	-15.3
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	122.95	196.6	59.91

Source: Ministry of Commerce and Industries, Government of India

HS 52 - Cotton

Bangladesh's major exports to the world are ready made garments (RMGs). The main raw material for RMGs is cotton. Indian exports to Bangladesh are dominated by cotton which accounted for 28 percent of its total exports to Bangladesh in the FY2012.

India's total exports of cotton to the World increased by 29 percent to reach USD 8.9 billion in FY2012. The top 3 export destinations for this commodity were-China (45.07 %), Bangladesh (12.07%) and Egypt (2.78%). China's share in India's cotton exports increased from 27 percent in FY2011 to 45.07 percent in FY2012, whereas during the same period the share of Bangladesh declined from 16 percent to 12 percent. India is the second largest producer of cotton in the world.

Cotton accounts for less than 3 percent of India's total exports while the share of cotton in Bangladesh's total imports was 14.8 percent in FY2012.

HS 87 - Vehicles other than railway or tramway rolling stock, and parts and accessories thereof

The HS 87 category is the second largest export item to Bangladesh, accounting for 8.46 percent of India's total exports to Bangladesh. The exports registered a hike of 29 percent over the previous year, amounting to USD 320 million.

India's exports to the world of HS 87 reached USD 10.9 billion in FY2012, an increase of 17 percent over FY2011 values. The top 3 destinations for India's exports were – Sri Lanka (9.3 %), USA (8.4 %) and South Africa (6.5 %). Bangladesh ranked 11th largest destination for this category, accounting for 2.9 percent of India's total exports. On the other hand, Indian exports of this category accounted for less than 3 percent of Bangladesh's total imports in FY2012.

HS 10 - Cereals

Cereals accounted for 7.05 percent of India's total exports to Bangladesh in FY2012, an increase of 54.85 percent from FY2011. The jump in exports was mainly on account of hike in wheat and rice exports. The other major export item under this category was maize. Of India's total wheat exports, Bangladesh accounted for 42 percent in FY2012. India's exports of cereals to the World increased by 87 percent in FY2012 as compared to FY2011, amounting to USD 6.3 billion. The share of cereals in India's total exports was 2.1 percent. The top 3 destinations for India's cereal exports were – UAE (14.3 %), Saudi Arabia (12.2%) and Iran (9.6 %). Bangladesh with a share of 4.3 percent, was the 7th largest destination for Indian cereal exports.

Bangladesh's imports of cereals declined by 7 percent, from USD 2.10 billion in FY2011 to USD 1.03 billion in FY2012. Indian exports of cereals accounted for 3.3 percent of its total imports.

There is ample opportunity for both the countries to cooperate in the agricultural sector and enhance bilateral trade. While Bangladesh's imports of cereals from World declined by 50 percent between FY2011 and FY2012, its imports from India actually increased by 99 percent.

HS 23 - Residues and waste from the food industries; prepared animal fodder

India's exports of HS 23 registered a decline of 15.3 percent, dropping from USD246 million in FY2011 to USD 208 million in FY2012. Also, Bangladesh's share in India's total exports of the same slipped from 7.6 percent in FY2011 to 5.5 percent in FY2012.

India's total export of HS 23 to the World was USD 2.5 billion and remained stagnant relative to the previous year. The top 3 export destinations were - Japan (18.7%), Vietnam (13.3%) and Bangladesh (8.2%). Bangladesh's share declined from 9.8 percent in FY2011 to 8.2 percent in FY2012.

HS 23 accounted for around 1.1 percent of Bangladesh's total imports from the World in FY2012, amounting to USD 436 million. India accounted for 5.2 percent of Bangladesh's imports of HS 23.

HS 84 - Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof

HS 84 accounted for the 5th largest Indian exports to Bangladesh, amounting to USD 197 million in FY2012, contributing 5.2 percent to the total share of Indian exports to Bangladesh. Exports of HS 84 increased by 60 percent in FY2012 compared to the previous FY2011. India's exports to the World increased in the corresponding period from USD 9 billion to USD 10.8 billion. The share of HS 84 in India's total exports to the World was 21 percent. The top 3 exports destinations were - USA (14.6%), UAE (6.7%) and Germany (5.8%). Bangladesh's share in total Indian exports of HS 84 to the World was around 1.8 percent.

HS 84 accounted for 9.2 percent of Bangladesh's total imports from the World, amounting to USD 2.9 billion in FY2012. India's share in Bangladesh's imports of the same was 5.6 percent for the corresponding year.

Commodity[5] wise analysis: Imports

Table 2.2 gives the top 5 Indian imports, at HS 2 digit level, from Bangladesh. The share of the top 5 imports in FY2012 was 62 percent, compared to 58 percent in FY2011.

Table 2.2 : India's Imports from Bangladesh Top 5 Commodities

(in USD million)

HS Code	Commodity	2010-2011	2011-2012	Growth (%)
53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn	99.5	145.3	46.02
3	Fish and crustaceans, molluscs and other aquatic invertebrates	59.2	75.21	27.11
63	Other made up textile articles; sets; worn clothing and worn textile articles; rags	58.2	68.37	17.4
8	Edible fruit and nuts; peel or citrus fruit or melons	25.8	41.6	60.98
62	Articles of apparel and clothing accessories, not knitted or crocheted	16.3	32.01	96.57

Source: Ministry of Commerce, Government of India

[5] *Analysis is done at HS 2 digit level.*

HS 53 - Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn

HS 53 accounted for 25 percent share of the total Indian imports from Bangladesh in FY2012. The imports increased by 46 percent from USD 99.5 million in FY2011 to USD 145.3 million in FY2012. In the same period, Indian exports to the World of HS 53 increased by 46.3 percent to reach USD 283 million. Bangladesh accounted for more than half of India's total imports from the World. The top 3 import sources were - Bangladesh (51%), China (34%) and Nepal (4%).

HS 3 - Fish and crustaceans, molluscs and other aquatic invertebrates

Fish from Bangladesh tend to be extremely popular in India, especially during the festive season of Durga Puja. They were the second largest import from Bangladesh. The share of HS 3 formed 23 percent of India's total imports from Bangladesh in FY2012. Over the period from FY2011 to FY2012, imports increased from USD 59.2 million to USD 145.3 million, an increase of 27 percent. During the same period, India's imports from the World increased by 28 percent from USD 80 million to USD 102 million. The top 3 import destinations were -Bangladesh (74%), Vietnam (10%) and USA (2%).

HS 63 - Other made up textile articles; sets; worn clothing and worn textile articles; rags

HS 63 accounted for 12 percent of Indian imports from Bangladesh in FY2012. The main imports under this category were jute bags. Imports of HS 63 increased from USD 58.2 million in FY2011 to USD 68.37 million in FY2012, a growth of 17.4 percent. During the same period, India's total imports from the World for HS 63 increased by 46 percent to reach USD 390 million in FY2012. The top 3 import sources were – China (29%), Bangladesh (18%) and USA (17%).

HS 8 - Edible fruit and nuts; peel or citrus fruit or melons

India's imports from Bangladesh under this category grew by 61 percent from USD 25.8 million in FY2011 to USD 41.6 million in FY2012. HS 8 accounted for 7 percent of India's total imports from Bangladesh. Beetle nuts (HS 080290) accounted for almost the entire share under this category.

While India's imports of beetle nuts from the World increased marginally, its imports from Bangladesh increased by 62 percent. India imported USD 58 million worth of beetle nuts from the World in FY2012. The top 3 import sources were – Bangladesh (72%), Nepal (11%) and Indonesia (10%).

HS 62 - Articles of apparel and clothing accessories, not knitted or crocheted

India's imports from Bangladesh under HS 62 category grew by 97 percent from USD 16.3 million in FY2011 to USD 32 million in FY2012. HS 62 accounted for 5.5 percent of India's imports from Bangladesh. India's total imports from the World, in the corresponding period, increased from USD 114 million to USD 190 million, an increase of 67 percent. The main source of imports were China (27%), Bangladesh (17%) and Sri Lanka (10 %).

Informal Trade

As alluded before, India and Bangladesh share a very long and porous border. This has given rise to informal trade between the two countries. Studies of informal trade between India and Bangladesh have found a pattern to the flow of formal trade - large volumes of goods are smuggled from India to Bangladesh, but much smaller volumes are smuggled in the other direction. Estimates of informal trade between India and Bangladesh vary a lot and it is difficult to assess the exact size. Taneja (2004) estimates that the magnitudes of legal and extra-legal trade between Bangladesh and India are roughly the same. Improving border infrastructure and removing other non – tariff barriers (NTBs) to trade, would go a long way in curbing informal trade, and channeling it into formal trade.

Bangladesh and the North East Region of India

The North East Region of India (NER), comprising of Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland and Tripura, sharesalmost 98% of its land border with Bangladesh, Bhutan, China, Myanmar and Nepal. NER is strategically located and can act as India's gateway to South East Asia[6].

The NER is a reservoir of rich natural resources. Blessed with biodiversity, huge hydro-energy potential, oil and gas, coal, limestone, forest wealth, fruits and vegetables, flowers, herbs and aromatic plants, rare and rich flora and fauna, NER has all the potential to transform into a commercial hub and tourist paradise.

The area is also a vibrant source of energy rich in oil, natural gas, coal, limestone and India's largest perennial water system, the river Brahmaputra and its tributaries, which

[6] *RIS 2011, Expansion of North East Trade with Bangladesh and Myanmar: An assessment of Opportunities and Constraints*

can be tapped for energy, irrigation and transportation. The fertile soil around the valley of the river Brahmaputra is a veritable storehouse of horticultural products/plantation crops/vegetables/spices and rare forest products[7].

The Northeast India would immensely benefit from increased trade relations with its neighbours especially with Bangladesh. The NER shares a close relationship with Bangladesh emanating from cultural, emotional and historical heritage.

India and Bangladesh share 4096 km long international border, of which almost 1880 km is with the NER (1434 km is land border and 446 km is riverine tract). Four states of the NER, namely, Assam, Meghalaya, Tripura, and Mizoram share international borders with Bangladesh. With the exception of Meghalaya, the remaining NER states share both land and riverine border with Bangladesh, among which Tripura and Mizoram have the longest land and riverine borders with Bangladesh, respectively[8].

Table 2.3 : NER – Bangladesh Border Length (in Kms)

State	Land border	Riverine	Total
Assam	160	103	263
Meghalaya	443	-	443
Tripura	773	83	856
Mizoram	58	260	318
Total	**1434**	**446**	**1880**

Source: RIS 2011, Expansion of North East Trade with Bangladesh and Myanmar: An assessment of Opportunities and Constraints

A closer economic integration and physical connectivity with Bangladesh would not only reduce economic isolation of the region but also dissolve the seclusion of the northeast region with mainland of India.

Connectivity

The NER is landlocked and is connected to the rest of India by a 22 km wide stretch of land called the Chicken's Neck. However, this route passes through hilly terrain with steep roads and multiple hairpin bends. Agartala is 1,650 km from Kolkata and 2,637 km from New Delhi via Shillong and Guwahati. But the distance between Agartala and

[7] *http://www.chillibreeze.com/articles/North-East.asp*
[8] *Ibid. 6*

Kolkata via Bangladesh is just about 350 km. Moreover, on an average, the distance between important cities of Bangladesh and northeast India is 20-200 km[9].

Thus, Bangladesh can act as an important source of connectivity – rail, road and riverine – between North Eastern India and the rest of India. This would be a win- win situation for all. As India would benefit from cheaper transportation cost, while Bangladesh would benefit economically by facilitating such connectivity. Recently, when Tripura was facing shortage of food grains, and also because of its difficult location, Food Corporation of India (FCI) entered into an agreement with the Bangladesh government to use their Ashuganj river port for swift and safe transportation of the grains to Tripura[10].

Moreover, Bangladesh can provide easier connectivity for North East India to the rest of the world through the Chittagong Port. While, India can act as a source of land connectivity between Bangladesh and other Asian countries (China, Bhutan, Nepal etc).

Opening up trade routes will expand economic opportunities for the NER and accelerate its growth process. The region can regain its place as a centre of flourishing trade with East and Southeast Asia through the land (silk) route to China and Myanmar and through the sea port from Chittagong and Kolkata[11].

Trade[12]

Resource-industry linkages determine the pattern of India-Bangladesh border trade taking place through the NER. Some critical minerals which are available in NER, and whose demand in Bangladesh is plentiful, provide the basis of the NER - Bangladesh trade. Consequently, NER's exports to Bangladesh are distinctly different from major export lines from rest of India to Bangladesh.

Bangladesh lacks mineral resources like coal and limestone which the country imports from the NER. In return, the NER imports finished products from Bangladesh. This provides a firm basis for trade expansion between the two regions.

The major NER exports to Bangladesh include raw materials like coal, limestone, stone chips, bamboo, and the major imports include finished products like cement, plastic goods, readymade garments, process food and soft beverages.

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[9] *http://www.assamtribune.com/scripts/detailsnew.asp?id=aug2312/at047*
[10] *http://www.business-standard.com/india/news/fci-to-transport-grains-within-india-via-bangladesh/192056/on*
[11] *Ministry of Development of North Eastern Council, 2008, North Eastern Vision 2020*
[12] *Ibid. 6*

Potential Sectors for Co-operation

Energy

North Eastern states have hydropower energy of more than 63,000 MW[13]. The region is looking for business investments in the hydroelectricity sector through the build-own-operate and transfer basis.

Large untapped capacity for power generation in North Eastern India can feed power starved Bangladesh. Thus, cooperation in this sector is a win- win situation for all.

Food Processing

The NER, which is a hub of fresh fruits and vegetables, can act as a source of raw materials for the growing food processing sector in Bangladesh. Furthermore, Indian investment and technology can help strengthen Bangladesh's food processing sector.

Tourism

The NER offers unlimited tourism opportunities - with its moderate climate for most of the year, rare flora and fauna, naturals cenic beauty, unique performing arts, and varied cuisine and handicrafts, the region is an ideal spot for tourism. Moreover, there is considerable potential for expanding high - value tourism such as hill and adventure tourism[14].

Thus, the area has every potential for becoming an upcoming tourist spot, specially for neighbouring countries, including Bangladesh.

Manufacturing

Indian companies can set up manufacturing units in Bangladesh, where they can capitalize on Bangladesh's low cost industrious labour, and source raw materials from NER of India. Besides sale in Bangladesh, the manufactured products can be exported to NER of India and rest of the world.

In this way, India's export of raw materials can be matched by its imports of manufactured products from Bangladesh. This pattern of trade, if promoted in a large scale, would certainly enable Bangladesh to export higher value added products and can thus help reduce its large trade imbalance with India.

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[13] *Ibid. 10*
[14] *Ibid. 6*

Border Haats

Prior to partition, trade along the India - Bangladesh border had been going on through border haats. However, it was terminated due to partition. Though it resumed again after a few years, it had to be stopped again after 1971, with the birth of Bangladesh as a separate country after its separation from Pakistan.

To revive the old tradition of border trade, and to provide better market accessibility to products produced locally by people residing near the border, the Indian and Bangladeshi governments have decided to reopen the border haats.

Initially, the Border Haats as pilot projects, were opened at Baliamari (Kurigram District, Bangladesh) - Kalaichar (West Garo Hills, Meghalaya, India) and at Lauwaghar (Dalora) (Sunamganj District, Bangladesh)-Balat (East Khasi Hills, Meghalaya, India) in July 2011.

Both the countries are keen to set up eight more border markets along the India - Bangladesh border in the northeastern states. The Bangladesh government has already agreed to India's proposal to set up four border haats along the border with Tripura. While, a Study is on to set up four more border haats in Mizoram[15].

Box 2.1: Trade in Border Haats across the border at Meghalaya between Bangladesh & India

The following commodities are allowed to be traded in the Border Haats at Baliamari – Kalaichar and Lauwaghar –Balat:

- Vegetables, food items, fruits, spices;
- Minor forest produce e.g. bamboo, bamboo grass, and broom stick but excluding timber;
- Products of cottage industries like Gamcha, Lungi etc;
- Small agriculture household implements e.g., dao, plough, axe, spade, chisel etc;
- Garments, melamine products, processed food items, fruit juice, toiletries, cosmetics, plastic products, aluminum products, cookeries.

Vendors who are allowed to sell their products in the Border Haatsare the residents of the area within five (5) km radius from the location of Border Haat. The vendees may offer immediate consumption items of snack foods/ juices as may be allowed by the Haat Management Committee.

[15] *http://www.dnaindia.com/money/report_northeast-states-trade-with-bangladesh-set-to-rise_1766545*

The commodities are allowed to be exchanged in the designated Border Haats in local currency and / or barter basis. Each individual is allowed to purchase only as much of the commodities produced in Bangladesh/India which are reasonable for bonafide personal/family consumption. Estimated value of such consumption shall not be more than respective local currency equivalent of USD 100 (One Hundred) for any particular day.

Source: DGFT Public Notice No.23/(RE 2012)/2009-14, 15-10-2012

Gains from bilateral trade

A study carried out by the World Bank finds that Bangladesh and India would both gain by opening up their markets to each other. Indian investments in Bangladesh will be very important for the latter to ramp up its exports, including products that would broaden trade complementarity and enhance intra - industry trade, and improve its trade standards and trade-handling capacity. A bilateral Free Trade Agreement would lift Bangladesh's exports to India by 182 percent, and nearly 300 percent if transaction costs were also reduced through improved connectivity. These numbers, based on existing trade patterns, represent a lower bound of the potential increase in Bangladesh's exports arising from a Free Trade Agreement. A Free Trade Agreement would also raise India's exports to Bangladesh. India's provision of duty-free access for all Bangladeshi products (already done) could increase the latter's exports to India by 134 percent. In helping Bangladesh's economy to grow, India would stimulate economic activity in its own eastern and north-eastern states. Challenges exist, however, including non-tariff measures/barriers in countries, excessive bureaucracy, weak trade facilitation, and customs inefficiencies. Trade in education and health care services offers valuable prospects, but also suffers from market access issues. To enable larger gains, Bangladesh-India cooperation should go beyond goods trade and should include investment, finance, services trade, trade facilitation, and technology transfer, and be placed within the context of regional cooperation. (World Bank, 2012)

India-Bangladesh: An Emerging Economic Relationship

Recent times have seen many high profile and meaningful high-level exchanges, visits and meetings take place regularly alongside the wide ranging people-to-people interaction. Dr. Manmohan Singh, Prime Minister of India, visited Bangladesh in September, 2011 following the visit of the Prime Minister of Bangladesh, Ms Sheikh Hasina, to India in the month of January, 2010. A number of path breaking announcements were made and agreements were signed during these recent visits, which would act as a roadmap for future engagements.

Prime Minister Manmohan Singh's 2011 visit saw signing of some major agreements[16]:

1 The two sides signed the following historic accords:

   i. Framework Agreement on Cooperation for Development

   ii. Protocol to the Agreement Concerning the Demarcation of the Land Boundary between India and Bangladesh and Related Matters

2. The following bilateral documents were also signed during the visit:

   i. Addendum to the MoU between India and Bangladesh to Facilitate Overland Transit Traffic between Bangladesh and Nepal

   ii. Memorandum of Understanding on Renewable Energy Cooperation

   iii. Memorandum of Understanding on Conservation of the Sundarban

   iv. Protocol on Conservation of the Royal Bengal Tiger of the Sundarban

   v. Memorandum of Understanding on Cooperation in the field of Fisheries

   vi. Memorandum of Understanding on Mutual Broadcast of Television Programmes

   vii. Memorandum of Understanding between Jawaharlal Nehru University and Dhaka University

   viii. Memorandum of Understanding on Academic Cooperation between National Institute of Fashion Technology (NIFT), India and BGMEA Institute of Fashion and Technology (BIFT), Bangladesh.

In 2010, the Prime Ministers of India and Bangladesh witnessed the signing of the following accords:

- Agreement on Mutual Legal Assistance on Criminal Matters, Agreement on the Transfer of Sentenced Persons, Agreement on Combating International Terrorism, Organized Crime and Illicit Drug Trafficking,
- Memorandum of Understanding on Cooperation in Power Sector and a Cultural Exchange Programme.

The geographical proximity and land connectivity among India, Bangladesh, Bhutan and Nepal provides immense opportunity for mutual transit arrangements for trade across each other's territories. Bangladesh decided to give transit facilities to traders of India, Nepal and Bhutan to Chittagong and Mongla ports through road and rail. In turn, India agreed to grant similar transit facility to Bangladesh. This will allow India easier access to

[16] *Salient points of the Joint Statement relating to Prime Minister Manmohan Singh's visit to Bangladesh in September, 2011 are reproduced in Appendix VII.*

its far-flung north-eastern states. For Bangladesh, it offers access to the markets of Nepal and Bhutan. Bangladesh's staggering economy would also gain from the transit fees of approximately USD 1 billion annually. The connectivity will also ensure higher utilization of the Chittagong and Mongla ports capacity. Currently, they are under-utilized. Sheikh Hasina claimed that only 40 percent capacity of the Chittagong port and 10 percent of the Mongla port is being currently used. Revenue earnings will more than double when the usage is increased.

Bhutan has already begun using a newly agreed trade route through India's north-eastern region to export its products to Bangladesh. Bhutanese trucks with oranges entered Sylhet after crossing Dawki - Tamabil Land Custom stations at the Indo-Bangladesh border. Dawki is in India's north-eastern state of Meghalaya. Tamabil is the adjacent town in Bangladesh. This was the first consignment that Bhutan exported to Bangladesh after New Delhi, Dhaka and Thimpu agreed upon the new transit route through north-eastern India.

Bangladesh is experiencing huge energy shortages which could be between 25 per cent and 50 per cent. Bangladesh's current power production stands at around 4000 MW against an estimated daily demand for 5500 MW. Bangladesh has for long being keen on sourcing hydropower from Nepal and Bhutan but could not do so as any such transaction would need to be routed through India. India agreed to supply to Bangladesh 250 MW electricity from its grid. In this context both countries agreed to expedite inter-grid connectivity and showcased their willingness to cooperate in the development and sale of electricity, including generation from renewable sources.

In 2010, India offered a USD 1 billion line of credit to Bangladesh which is the largest ever one-time bilateral financial assistance by India to any country. It underlined India's resolve to spur the economic development of Bangladesh. In August 2012, Indian Prime Minister announced that it will convert USD 200 million of the USD 1 billion line of credit to Bangladesh into grant.

The credit line will be used for the construction of railway bridges and lines, supply of locomotive coaches and buses. This decision is significant in Indo- Bangladesh relations and has been welcomed by a large section of the people of Bangladesh, including business leaders and intellectuals.

During 1996-2001, Bangladesh government signed two landmark agreements e.g. the 1996 Ganges Water Treaty with India and the 1997 Chittagong Hill Tracts Peace Agreement with tribal representatives.

Key Issues in India-Bangladesh Economic Relations

To gain from bilateral trade, there is no alternative but to increase the productivity in all the sectors. For this purpose, more research and development, transfer of technologies, market based effective price system and appropriate incentive mechanisms are very important to enhance the country's productivity. To increase the productivity in the industrial sector, development of the country's technical base and technological capacity building are crucial.

To develop the technological capacity building, huge investments are required. Hence the signing of Bilateral Investment Promotion and Protection Agreement (BIPPA) between India and Bangladesh was the right step in this direction to boost Indian investments into Bangladesh and vice versa.

Nevertheless, there are certain issues which need to be addressed for creating a favorable investment climate in Bangladesh:

- Developing single window clearance for new business proposals.
- Setting an Industrial Park for India in Bangladesh outside EPZ with all the needed infrastructure facilities.
- Upgrading the tax holiday system.
- Harmonizing HS Code System.

At the same time, it is equally important to promote Bangladesh's investment opportunities in India.

India shares more than 4000 kms of land border with Bangladesh. Development of appropriate transport connectivity between the two countries is a pre-requisite for smooth trade and investments flows. Cross country movement of goods through rail and road should be promoted. Free movement of goods shall provide boost to Bangladesh economy as a whole host of services will have to be developed all along the route. This will enhance large number of employment opportunities in Bangladesh. At the same time, air and marine connectivity are also limited in extensiveness, and need to be improved.

Infrastructure bottlenecks related to power, ports, energy and telecommunication are severe. These significantly increase the cost of production, impede productivity growth and thus hamper export competitiveness of Bangladeshi firms.

Table 2.4 : NTBs reported at the Committee of Experts' (CoE) meetings by SAARC member countries and related response[17]

Type of NTB	Response from Bangladesh
Ban on import (poultry related products)	To protect human and animal/health. In view of recent partial spread of Avian Influenza, Bangladesh needs to continue such measures.
Same name registration of drug in a developed country (drugs)	Registration and Free Sale Certificate (FSC) duly signed in original by the Health Authority of the country of origin and at least one FSC from a developed country.
15% VAT (all goods)	15% VAT is also imposed on domestic products. Therefore, imposition of VAT should not be treated as para-tariff.
Non-issue of Khamarbari Certificate (Potatoes)	Potatoes are not importable into by any means from any country; where three serious pests, namely Black wart, Golden nematode and potato beetle, unless they are accompanied by Phyto-sanitary Certificate from the country of origin.
Allowed through land route only (Yarn)	This measure is not applicable for a specific country. The provision has been relaxed for yarn imported under back-to-back LC through land customs.
GSP certificates (Fabric)	At present, the EU is considering the revision of Rules of Origin of GSP. Therefore, the EU GSP scheme should be considered at large.
Non acceptance of cargo by road/rail/rover routes (all goods)	Currently, necessary equipments and physical infrastructure are not available to handle containerized cargoes. Thus, containerized cargoes via land, river and rail routes are not permitted.
L/C requirement (all products)	Bangladesh Bank feels that this instruction is necessary to ensure entry of imported materials / goods into the country against paid money and this has not been applied as a non-tariff barrier.
Radioactivity test (directly consumable stuff)	All imports of food items require radioactivity test report. However, radioactivity test requirement has been relaxed for SAARC countries.

[17] *The 4th SAFTA Sub-Group Meeting of the CoE was held in Kathmandu.*

Type of NTB	Response from India
PSI certificate	Any exporter from any part of North East India can get the service of the PSI office in Shilong within 24 hours. Moreover, it must be noted that most of the products exported to Bangladesh from North East India are non-PSI items
Non-payment of irrevocable L/Cs by various banks in (all exports)	The issue is being addressed by a joint group on Banking sector.
Reluctance to open new trade routes and certain notified Land Customs Stations	Teghamukh and Ramgarh are situated in remote areas where traveling and communication is very difficult. Besides, there are 4/5 land customs stations close to these places, which can cover the trade with Mizoram.
License from Bureau of Indian Standards cement, gelatin, condensed milk, electrical appliances, mineral water, steel products, leather products, x-ray equipments, dry cell battery, thermometers,, helmets and gas cylinders)	The following steps have been taken: 1) number of items for which certification is needed has been reduced from 109 to 68, 2) marking fees for BIS license has been reduced for SAARC countries, and 3) processing charge for SAARC countries has been abolished.
Requirement of laboratory testing (all products)	100% checks are done on only 14 high risk food items.
Requirement of chemical testing (leather and melamine)	The following steps have been taken; 1) mandatory license is required only for safety boots and shoes for minors, 2) license for safety boots and shoes for minors can be obtained from BIS, and 3) every consignment is not required to be checked by BIS.
Detailed product information (all prepackaged goods)	These are statutory requirement under the Consumer Protection Act.
Bio-security and sanitary permit (Primary agricultural products)	Requirement has been set as per Articles 2 of the Agreement on Sanitary and Phyto Sanitary Measures (SPS) under WTO.
Compliance of Food Adulteration Act regarding shelf life of goods (processed food products)	Compliance of shelf life is mandatory for all processed food item but determination is not arbitrary. It is based on PFA Rules 1955.
Special labeling of country of origin (jute bags/sacks)	The rationale is that the country of origin on product is to be mentioned because if there is any irregularity in the quality of the imported item, the source could be tracked.

Type of NTB	Response from India
Certificate of non-halogenated hydrocarbon (jute products)	Domestic producers face the same stipulation.
Pre-shipment certificate about presence of no hazardous dyes (textile and textile products)	The provisions are also in effect for domestic industries.
Registration of the drug with the Central Drug Standard Control Organization (pharmaceutical products)	No import license is required for import of pharmaceuticals. All import of bulk drugs are set as per the EXIM policy 2004-2009.
Requirement of import license (mostly consumer goods)	Requirement of import licenses are under exception clauses of Article XX and Article XXI of GATT.

Source: Addressing NTBs to Trade in South Asia: The Next Challenge, MustafizRahman,presented at Regional Economic Integration, Climate Change and Food Security Agenda for the Decade 2011-2020

Trade facilitation and trade related infrastructure: Bangladesh and India's performance in trading across border

Making trade between countries easier has become increasingly important for business in today's globalized world. Excessive document requirements, burdensome customs procedures, inefficient port operations and inadequate infrastructure all lead to extra costs and delays for exporters and importers, stifling trade potential. Trade facilitation tools such as electronic data interchange systems, risk-based inspections, and single windows help improve a country's trading environment and boost firms' international competitiveness.

The World Bank's Doing Business survey ranks countries on number of parameters for ease of doing business. One of the criteria's identified is “Trading Across Border”. Bangladesh ranked 119 in 2013, a slight improvement over 2012's rank of 120. Bangladesh ranks better than the South Asian average across different aspects. However, when compared to global standards, a lot more needs to be done to ease international trade. Delays raise cost and ultimately hurt competitiveness of the firms. Reforms need to be carried out to improve trading environment to make businesses more competitive in the global arena.

Table 2.5 : Trading Across Border - Ease of Trading

Indicator	Bangladesh	India	South Asia
Documents to export (number)	6	9	8
Time to export (days)	25	16	32
Cost to export (USD per container)	1,025	1,120	1,603
Documents to import (number)	8	11	9
Time to import (days)	34	20	33
Cost to import (USD per container)	1,430	1,200	1,736

Source: World Bank

Table 2.6 : Bangladesh Days and Costs Involved in Trade Procedures

	Exports		Imports	
Nature of Procedures	Duration (days)	USD Cost	Duration (days)	USD Cost
Documents preparation	14	225	22	370
Customs clearance and technical control	3	150	3	150
Ports and terminal handling	5	450	7	650
Inland transportation and handling	3	200	2	260
Totals	**25**	**1,025**	**34**	**1,430**

Source: World Bank

Table 2.7 : Bangladesh Days and Costs Involved in Trade Procedures

Export documents	Import documents
Bill of Lading	Bill of lading
Certificate of origin	Cargo release order
Commercial Invoice	Certificate of origin
Customs export declaration	Commercial invoice
Packing list	Customs import declaration
Pre-shipment inspection clean report of findings	Packing list
	Technical standard/health certificate
	Terminal handling receipts

Source: World Bank

Some of the infrastructural bottlenecks affecting Indo - Bangladesh trade are appended below:

- Lack of adequate border infrastructure and traffic planning causes immense traffic congestion at the ports. Port congestion results in demurrage, which hikes the cost of production.
- Moreover irregular and inadequate supply of electricity has forced many firms to rely on power from captive generators which further aggravates production costs.
- Lack of adequate infrastructure facilities at the Petropole Border (majority of the trade is routed through the Petropole (Indian side) - Benapole Border).
- The road - rail connectivity is poor and there is lack of alternative transport options.
- Limited air cargo and container service (especially from / to Benapole and Darshana) between India and Bangladesh, inadequate Land Border Stations, limited facilities at the existing Land Border Stations as well as undeveloped infrastructure with delays in valuation and clearance at Land Customs Stations, etc.
- Inadequate warehousing, cargo handling equipments, customs and immigration facilities, and means of communication, etc. at some of the road and rail based land ports on both sides. Bangladesh has already taken some key initiatives through Bangladesh Land Port Authority (BLPA) to develop the necessary infrastructures through the public private route.



INVESTMENT OPPORTUNITIES

3 Investment Opportunities

Why Bangladesh?

- JP Morgan has listed Bangladesh among its "Frontier Five" emerging economies, in which it is worth investing.
- Goldman Sachs included Bangladesh in the "Next" emerging countries to watch following BRIC countries.
- A McKinsey survey identified Bangladesh as a "Next hot spot" destination for sourcing Ready Made Garments.
- Bangladesh offers many investment opportunities for Indian firms. Bangladesh in itself is home to 160 million people. In addition, it provides much easier access to India's north eastern region. Moreover, abundant availability of low cost labour acts as a major incentive for setting up manufacturing plants in Bangladesh.
- As demanded earlier by FICCI, an India specific SEZ would help in attracting FDI from India. These firms will not only be able to sell to the domestic market in Bangladesh but also export to India utilizing lower duties. This will go a long way in reducing the trade deficit which at present is heavily in India's favour.
- Also, Bangladesh has preferential access to around 38 countries; this will immensely benefit the Indian firms investing in Bangladesh and using it as a hub for exports.
- Supply chain synergies can be established between the North Eastern states of India and Bangladesh especially in the area of Agro processing.

Bangladesh FDI

Bangladesh in recent years has been trying to woo investors across the globe. In order to achieve its goal of becoming a middle income country, the current savings and investments rate need to grow at a much higher rate. For FY2012, gross domestic investments as a percentage of GDP were 25.5 percent. To increase the GDP growth rate to 10 percent by 2021, investment rates need to increase to 38 percent level.

Table 3.1 : FDI inflows by sector and origin

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Total FDI inflows (USD million)	744.6	792.7	768.7	960.6	913.0	779.0
% of GDP	1.2	1.2	1.0	1.1	0.9	0.7
	(Per cent of total)					
(a) Main sectors						
Power generation	3.7	3.1	3.3	2.4	4.0	6.7
Gas and petroleum	24.4	25.9	17.3	2.4	4.0	9.6
Manufacturing	16.2	18.6	16.8	19.2	25.6	42.4
Textiles and clothing	9.9	13.3	12.2	13.6	17.3	28.9
Services	55.4	51.8	62.2	73.9	65.1	39.8
Banking	17.5	11.6	20.4	11.5	12.2	26.8
Insurance	0.8	0.8	0.9	0.5	1.2	2.0
Telecommunication	36.0	38.4	39.0	60.3	48.8	6.7
(b) Main countries of origin						
United States	25.2	20.4	7.1	3.8	3.8	12.1
EU27	15.5	20.6	24.4	18.0	14.9	30.5
Netherlands	2.0	2.3	2.9	4.2	5.3	9.2
United Kingdom	10.5	15.6	19.5	11.0	7.3	18.6
United Arab Emirates	13.5	7.8	17.5	7.3	3.6	2.8
Hong Kong, China	5.8	7.9	5.4	5.0	8.0	12.0
India	0.8	0.3	1.1	0.6	4.3	2.7
Japan	3.0	3.6	3.5	6.1	2.4	4.5
Singapore	3.5	1.5	4.9	1.5	34.2	2.9
Republic of Korea	6.7	3.8	4.8	4.3	5.1	9.5

Source: Bangladesh Trade Policy Review, 2012

Owing to a lower savings rate, in FY2012 it was less than 19.4 percent. Bangladesh will depend heavily on foreign investments. In FY2012, FDI inflows were USD 995 million[18], an increase of 28 percent over FY2011. Table 3.2 gives the FDI inflows by sector and origin.

[18] *Breakup of FDI inflows for 2011-12 are not available.*

Over the five years period from FY2006 to FY2011, gas and petroleum, telecommunications, textiles and clothing, and banking have emerged as the major recipients of FDI inflows in Bangladesh. During FY2011, textile sector received almost 29 percent of the total FDI inflows, while the share of telecommunication declined compared to previous year and was only 6.7 percent. A major increase was also observed in the banking sector.

The main sources of FDIs are the United States, United Kingdom, Hong Kong, Netherlands and South Korea. India accounted for less than 3 percent of the total investments in FY2011.

As per the UNCTAD World Investment Report 2012, Bangladesh was the 16th largest recipient of FDI in the world.

Potential investment areas

To achieve its target of becoming a middle income country, Bangladesh requires to raise its investment from the current level of 25 percent of GDP to 38 percent of GDP by 2021:

- Majority of this investment will have to be directed towards removing the infrastructural bottlenecks. The main areas where investments will have to flow into are:
  - Energy and power
  - Transportation (both land and waterways)
  - Urban infrastructure
  - Border infrastructure
  - Information, communication and technology
  - Warehousing and cold storage facilities
  - Education services and skill development
- For improving the investment climate following are required - a vibrant private sector, effective Public Private Partnership (PPP), planned urbanization, skill development, removing regulatory constrains and maintaining financial inclusion.
- Over the next decade, Bangladesh requires USD 7 billion to upgrade its transport system.

Bangladesh industrial policy 2010 identifies a number of industries which offer prospective investments. It can be clearly seen that most of the industries identified are of interest to Indian firms. Bangladesh offers several incentives for investments in Bangladesh.

Table 3.2 : Prospective areas for Investment (as per the Industrial Policy 2010)

1. Agro-based & agro- processing industry	17. Pharmaceutical goods
2. Jute & jute-mixed goods	18. Leather and leather products.
3. Flower cultivation	19. Herbal medicines
4. Commercial plantation	20. Ceramics
5. Horticulture	21. Frozen Food
6. Silkworm & silk industry	22. Integrated shrimp cultivation
7. Furniture	23. Infrastructure
8. Handicrafts	24. Jewellery and diamond cutting polishing
9. Home Textiles	25. Oil and gas
10. Textiles industry	26. Tourism industry
11. Readymade garments industry	27. Basic chemicals/raw materials used in industries.
12. High value added RMG	28. Dye and chemicals used in textiles industry.
13. Computer software & ICT goods	29. Cosmetics and toiletries.
14. Electronics	30. Information & Communication Technology
15. Light engineering	31. Health care
16. Automobiles	32. Pharmaceutical goods

Energy and power sector

- As Bangladesh continues to struggle with power shortage, immense opportunity exists for cooperation.
- Bangladesh has signed a USD 1.5 billion deal with India's NTPC to build a 1,320 MW coal-fired power plant, the country's biggest, to help ease acute power shortages.
- NTPC will export 250 MW power to Bangladesh.
- India has agreed in principle for Bangladesh's participation in specific hydro power projects in Arunachal Pradesh, Sikkim and Mizoram and smaller gas-based projects in Tripura and West Bengal.
- Opportunities exist in creation of sub regional grid and revival of Myanmar-Bangladesh – India gas pipeline.

Health care, skill development and tourism

- Looking at India's success in the Information, Communication and Technology Sector, Bangladesh could benefit immensely from Indian experience.
- Like India, Bangladesh has a challenging task of moving its large pool of population dependent on agriculture and absorbing it in the manufacturing and services sector. This opens up opportunities for large number of institutions for providing skills training like ITIs.
- Opportunities exist in the areas of educational services as well.
- Considering the large population of Bangladesh and rising per capita income, health care related services demand is growing. There are vast opportunities both in pharmaceuticals as well as areas related to health care delivery mechanisms.
- Transit treaty will reduce the distances and result in easier access: combined efforts can be put to develop Tourism zones inclusive of Nepal, Bhutan, North East of India and Bangladesh.

Indian investments in Bangladesh

India and Bangladesh signed “the treaty on bilateral investment and protection” to strengthen the framework for trade and investment between the two countries which has encouraged several Indian Investments and Joint Venture projects in Bangladesh. In 2007, India removed the prohibition on investments into India by citizens of Bangladesh or an entity in Bangladesh with the prior approval of the Foreign Investment Promotion Board of the Government of India. Bangladesh and India signed a Bilateral Investment Promotion and Protection agreement in February 2009 in Dhaka that provides protection to investments in both the countries. During the visit of the Prime Minister of Bangladesh to India in January 2010, the Prime Ministers of the two countries agreed that investments, including joint investments and joint ventures, shall be encouraged by both the countries. They agreed that the participation of the private sector in both the countries will give an added fillip to economic integration between the two countries.

Indian companies are spreading their wings and are investing overseas in their quest to become global multinationals. Indian companies are increasingly looking at Bangladesh as a major investment destination. A large number of Indian firms from both public and private sector have been working on different turnkey projects in Bangladesh in sectors such as power, transmission lines, telecom, textiles, chemicals and pharmaceutical, glass, plastics and engineering.

Indian investment in Bangladesh for FY2011 was USD 210 million. Cumulatively Indian investments amount to just under USD 850 million till FY2011.

Bharti Airtel has invested USD 300 million in Bangladesh for expansion of the operations of Warid Telecom. This is the largest investment in Bangladesh by an Indian company. The acquisition by Bharti Airtel has been partly by purchase of existing shares held in Warid Telecom Ltd. The new funding has been utilized for expansion of the network, both for coverage and capacity and introduction of innovation products and services. As a result of the additional investment, the total investment is around USD 1 billion.

Tata's International Ltd. has invested USD 15 million (USD 5 million in footwear and USD 10 million in bicycle industry). The Tatas have signed a MoU with Bangladesh's Nitol-Niloy group in this regard.

A Memorandum of intent was signed between Meru cabs and Tata Motors – Nitol Group to invest in Bangladesh with 10,000 – 20,000 radio control taxis in January 2010.

Marico announced its plan to invest additional Tk 50-60 croresas part of its expansion plans to take the total investment to Tk 100 crores (around USD 12.5 million). It is listed in the Dhaka Stock Exchange and was the first Indian company to have a manufacturing location in Bangladesh.

CEAT has announced its plan to set up a Rs. 250-crore tyre manufacturing plant in Bangladesh. Almost 95 percent of Bangladesh's tyre requirements are imported. The initial capacity would be 65 tonnes per day and production will commence in FY2013. Of the total production capacity, 80 per cent will be of truck and light-truck tyres and the rest of two- and three-wheelers and last-mile vehicles[19].

In Decmeber, 2010, SAAG RR Infra Ltd was awarded a Rs. 42 crore contract from Garisan Etika Bangladesh Pvt. Ltd. SAAG RR was nominated as the subcontractor for civil, preliminaries and mobilization work for the 2x36 MW combined cycle power plant at Adamjee Export Processing Zone in Bangladesh[20].

PRAN Group (Programme for Rural Advancement Nationally) of Bangladesh, set up in 1980, which manufactures snacks, confectionery, juices, beverages, culinary products, dairy and premium rice, exports to 75 countries. The PRAN Group would be investing Taka 10 crores[21] (around Rs 6.80 core) in Tripura for setting up agro processing plants. PRAN has been permitted by Bangladesh Revenue Board to invest 10 crore Bangladeshi Taka in the state.

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[19] *Announced by Mr. Anant Goenka, Deputy Managing Director, CEAT reported in The Hindu Businessline http://www.thehindubusinessline.com/companies/article2872650.ece*

[20] *Reported in Business Standard http://www.business-standard.com/india/news/saag-rr-bags-ordergarisan-etika-bangladesh/120612/on*

[21] *Reported in Business Standard http://www.business-standard.com/india/news/bangladeshi-group-to-invest-rs-680-cr-in-tripura/166055/on*

Box 3.1: Incentives offered by Government of Bangladesh to attract investments

Main incentives offered by the government are as follows:

Tax Holiday:

Tax holiday facility is available for 5 or 7 years depending on the nature and location of the industrial enterprise. Industrial undertaking eligible for tax holiday are textile, jute goods, high value garments, pharmaceuticals, melamine, plastic products, ceramics, sanitary ware, steel from iron ore, fertilizer, insecticide & pesticide, computer hardware, petro-chemicals, agriculture machinery, boilers, compressors, basic raw materials of drugs, chemicals, pharmaceuticals, agro-processing, ship building and diamond cutting. Physical infrastructure investment eligible for tax holiday include sea or river port, container terminals, internal container depot, container freight station, LNG terminal and transmission line, gas pipe line, telecommunication other than mobile phone, large water treatment plant & supply through pipe line, waste treatment plant, solar energy plant, export processing zone. Power generation company can enjoy tax holiday for 15 years (up to June 2012, thereafter 5 years). Tax holiday facilities are provided in accordance with the existing tax laws.

Accelerated Depreciation:

New industrial undertakings not enjoying tax holiday can enjoy accelerated depreciation allowance on cost of machinery in the first year of commercial production at 50%, in the second year at 30% and in the third year at 20%.

Concessionary Duty on Imported Capital Machinery:

Import duty, at the rate of 1% is payable on capital machinery and spares imported for initial installation of the industry or Balancing, Modernization, Rehabilitation and Extension (BMRE) of the existing industries. For 100% export oriented industries, no import duty is charged in case of capital machinery and spares. Value Added Tax (VAT) is not payable for imported capital machinery and spares.

Other Incentives:

Tax exemption on royalties, technical know-how fees received by any foreign collaborator, firm, company and expert. Tax exemption on the interest on foreign loans under certain conditions. Avoidance of double taxation in case of foreign investors on the basis of bilateral agreements.

Exemption of income tax up to 3 years for the foreign technicians employed in industries specified in the relevant schedule of income tax ordinance.

Facilities for full repatriation of invested capital, profit & dividend.

Tax exemption on capital gains from the transfer of shares of public limited companies listed with a stock exchange.

Special facilities and venture capital support is provided to export-oriented industries under "Priority Sectors"

There is no discrimination in case of duties and taxes for the same type of industries set up by foreign and local investors and in the public and private sectors.

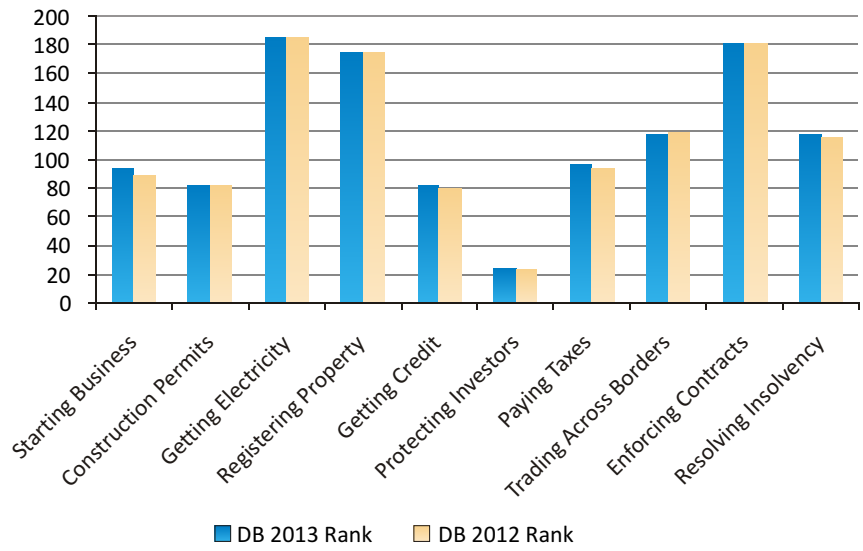
Source: Board of Investment Bangladesh; WTO

Ease of Doing Business

Bangladesh's ranking in the global ease of doing business saw a worsening of investment climate. Its ranking slipped by 5 points from 129 in Doing Business Survey 2013 as compared to 124 in the previous year's survey.

The survey uses ten criteria to calculate the final ranking of ease of doing business. Out of the ten parameters, Bangladesh had lower scores in five criteria in 2013 rankings, as compared to the previous year's rankings. Fig 3.1 gives the 2012 and 2013 rankings for Bangladesh based on the ten parameters. The highest decline has been seen in the area of starting a business where the ranking has declined from 89 to 95. Other areas which saw decline are getting credit (-3), protecting investors (-1), paying taxes (-2) and resolving insolvency (-3).

Fig 3.1 : Bangladesh Ease of Doing Business

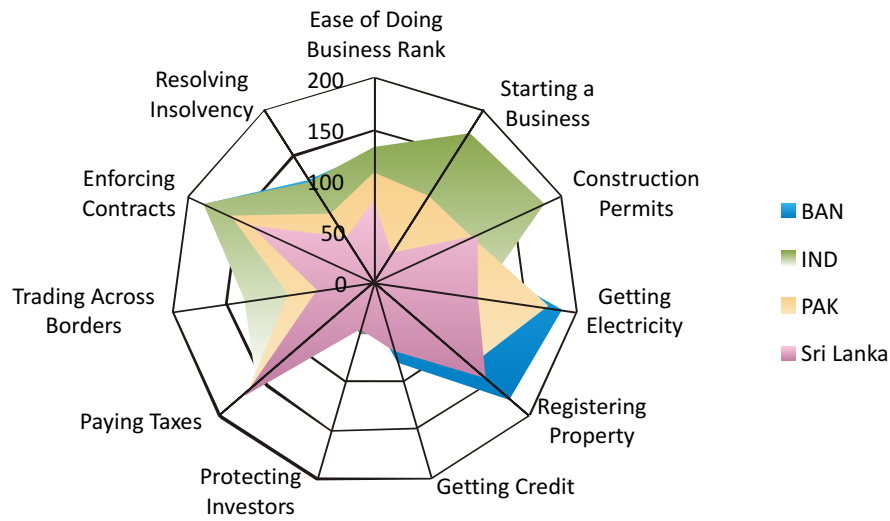


Source: World Bank

Fig 3.2 gives a comparison of Bangladesh with select economies from South Asia. The South Asian countries rank as follows, Sri Lanka (81), Pakistan (107), Bangladesh (129) and India (132). It fares much better than others in the following three criteria- Construction permits (83), Protecting investors (25) and Paying taxes (97). It scores lowest in the following criteria- Getting electricity (185), Registering property (175), Getting credit (83) and Resolving insolvency (119).

To fulfill its goal of reaching a Middle Income Country by 2021, Bangladesh will be heavily dependent on both FDI and exports earnings. However, to maintain its competitiveness and attract foreign investors a lot more will have to be done in terms of improving infrastructure and reducing the cost of doing business. Infrastructural bottlenecks add to the costs and need to be tackled with utmost urgency.

Fig. 3.2: Ease of Doing Business South Asia (Selected economies)



Source: World Bank



POLICY RECOMMENDATIONS

4 Recommendations for Enhancing Economic Linkages

Infrastructure and connectivity

- Validity of business visas for Indian business man should be co-terminus with work permits.
- Comprehensive Motor Vehicular Agreement is needed for seamless cross movement of cargo up to the delivery point and undoing the inconvenience of physical trans-shipment of goods at borders. According to various studies, long delays to cross the borders restrict LDCs' potential for diversifying exports and more importantly, it limits their potential to participate in some of the most dynamic sectors of the economy.
- Maintaining and development of infrastructure at Land Custom Stations (checkpoints, especially at Petrapole border) through which trade takes place, such as road, bridges, telegrams, facilities, electricity connection, weighbridges, customs offices and warehouses. Moreover larger number of land border stations need to be opened.
- Bilateral transport agreement is needed between India and Bangladesh which would to a large extent help in overcoming the present requirement of trans-shipment of cargo at the border points.
- All future trade can be containerized except boulders, coal, etc. In addition, strict control needs to be enforced on overloaded trucks' movement. It is imperative that container handling facilities are developed at Benapole followed by Darshana and other stations.
- The possibility of allowing direct container movement by barges from the State of Kolkata to Narayanganj, containing rice, sugar, milk power and cotton yarn, bottle grade, and pet resin (100 percent food grade and recyclable polymer) can be looked into.
- Some direct links through customs station need to be established to facilitate trading with the Indian State of Mizoram perhaps through Thegamukha.

- The Indian side stated that all feasible transhipment may be allowed to continue with the existing infrastructure at Ashuganj port without waiting for upgradation of infrastructure.
- Allowing transit facilities will help Bangladesh earn as much as USD 1 billion per annum.
- Loop lengths and yard holding lines in Darshana and Rohanpur need to be extended to accommodate full length Indian trains.
- Port restrictions imposed by Bangladesh particularly on items like yarn, milk powder, fish, sugar, potatoes are affecting Indian exports (particularly West Bengal and North-Eastern States). These restrictions need to be removed.
- Recent decision on signing of MoU to connect Agartala and South Eastern city of Akhaura is a welcome address. This will help to connect India with Chitagong international port, Sylhet and Dhaka.
- A joint study can be undertaken to explore the potential of Inland Water Trade as an important mode for enhancing bilateral trade between India and Bangladesh.

Dealing with para tariff and non-tariff barriers

- Custom sealed container movement needs to be promoted to increase employment opportunities and hence economic activity and development. For instance, sealed containers should move from North East India to Petrapole in India via Banglabandha in Bangladesh or use of Mongla port in Bangladesh for export to third countries.
- Customs cooperation is the need of the hour to resolve disputes at customs entry points; simplification of export licensing and banking procedures for import financing.
- Standardization of basic customs nomenclature regulations, documentation and clearing procedures, adoption of simplified and transparent procedures to cut down the cargo clearance time, facilitation measures (such as EDI/IT installation, etc).
- A majority of NTBs and perceived NTBs relate to Sanitary and Phytosanitary – Technical barriers to trade (SPS-TBT), and health-hygiene related standards. Progressive harmonization of product safety and technical standards, reciprocal recognition to test and accreditation of testing laboratories. In other words adoption of international standards can create a level playing field for all competitors.

- Many of the perceived NTBs relate to state taxes, surcharges, cess, VAT etc. These are, as a rule, general in nature and not country-specific. Since zero-tariff preferential access provided relates to only customs duties at border points, these continue to remain in case of products that enter under SAFTA Duty Free facilities. However, SAARC member countries may think about providing preferential treatment that covers such non-border barriers, on a mutual basis, to address at least some of these concerns.
- Private sector should be included in the SAARC Committee of Experts on Non-Tariff Barrier.
- Capacity building programmes should be conducted to share knowledge and experience between South Asian countries to enhance trade facilitation.
- There are problems of valuation because of arbitrary price fixation for exporting fruits, food grains and such commodities. Sometimes permissible export prices were much lower than market prices. This practice encourages informal trade.

Trade promotion and market access

- A decision on proposed Free Trade Agreement between India and Bangladesh needs to be explored further.
- Bilateral economic discussions need to be widened beyond goods trade. Opportunities in the areas of services sector-Education, Skills, Health, ICT, Construction, Tourism and Hospitality need to be explored.
- At a time when Indian firms are going global, Bangladesh can benefit by giving incentives to attract Indian FDI. Setting up of India Specific Economic Zones will go a long way in this regard.
- Initiatives like the 'Made in India Show' and also 'Made in Bangladesh' exhibition are needed to sensitize and create greater awareness about the opportunities that exist in each other's economy.
- Smooth exchange of information on products and services, market practices and intelligence should be exercised.
- Synergy between trade in goods and services – services negotiation should also focus on trade facilitation component with emphasis on visa liberalisation, improvement in rail, road and air connectivity and other trade logistic facilities.
- Develop viable supply chain networks – domestic reforms aimed at improving investment climate are important in this regard. Also, cross border infrastructure needs to be developed.

- Need to study the reasons for informal trade and to make recommendations to bring informal trade into the formal channel. However, improved market access is likely to discourage trade by unofficial means.

Banking and Trade Finance

- A number of Indian firms have faced problems related to payment defaults by Bangladeshi importers arising out of non honouring of irrevocable Letters of Credit; not honouring of UCs on due date, nonpayment of interest for delays and returning UCs without payment by the Bangladesh Banks.
- Indian exporters face problem in remitting money back to India, especially: (i) remittance of converted dollars (from Taka) can be done only as royalty, consultancy and "other charges" and (ii) there is a ceiling on the repatriable amount (under 'royalty', for instance, only 6% of the sale proceeds in Bangladesh). This is creating problems for knowledge-process intensive operations like software, IT and telecom, architecture, etc. It should be noted that Bangladesh (Banks) does not provide Letter of Credit (L/C) to service providers. In such a case, the import items which are intangible in nature have to undergo the same import procedure as that for tangible items. This often leads to delays and high customs duty burden. A long term solution of developing a separate separate L/C for services category could be introduced which simplifies the procedure and allows free movement of intellectual and intangible property into and out of the country.
- The process of remittance from Bangladesh to India needs to be improved. Reliable financial instruments and mutual recognition of instruments issued by domestic banks are required.
- Goods may also be allowed to be sent through appropriate customs bond rather than insisting on bank guarantees which add unnecessarily to the freight costs.
- The central banks of the SAARC countries will need to coordinate the respective regulations, particularly with respect to trade with North-Eastern states by facilitating setting up of banking facilities in those areas.



FICCI'S INITIATIVES IN FOSTERING INDO - BANGLADESH TIES

5 FICCI's Initiatives in Fostering Indo - Bangladesh Ties

FICCI has played a pivotal role in sensitizing private sectors of both India and Bangladesh for enhancing bilateral economic relations among the two countries.

FICCI and FBCCI have jointly formed 'Bangladesh – India Chamber of Commerce and Industry' to foster economic cooperation between the two countries.

FICCI and FBCCI are primary members of SAARC Chamber of Commerce and Industry and have been actively promoting regional economic cooperation in south Asia

FICCI and FBCCI also interact under ADB's initiative to promote South Asia sub-regional economic cooperation. In the month of November 2009, FICCI jointly with Asian Development Bank, Ministry of External Affairs, Government of India and SAARC Chamber of Commerce and Industry organized a Conference on Harnessing Business Opportunities for South Asian Economic Integration. The conference brought together 150 participants, including several high-level government officials and private sector representatives from SAARC countries, to discuss the role of private sector, challenges faced and indentify practical ways to harness business opportunities for South Asian economic integration. It was inaugurated by Mr S M Krishna, Hon'ble Minister of External Affairs, Government of India.

FICCI is part of the official Joint Working Group between Bangladesh and India on trade.

FICCI had conducted spot surveys to identify infrastructure bottlenecks at Petrapole/Benapole (Road) and Gede/Darshana (Rail) which resulted in Government of India, forming a high level committee on development of Petrapole.

In 2009, FICCI mounted a 55 member strong business delegation to Bangladesh. The delegation was led by Mr Harsh C Mariwala, the then Vice President, FICCI and Chairman & Managing Director, Marico Limited. The delegation called on H E Sheikh Hasina, Hon'ble Prime Minister of Bangladesh, H E Dr Dipu Moni, Hon'ble Foreign Minister of Bangladesh and H E Mr Faruk Khan, Hon'ble Commerce Minister of Bangladesh and discussed key issues pertaining to India-Bangladesh economic relations.

In the month of January 2010, FICCI along with CII and ASSOCHAM organized a business session with H E Sheikh Hasina, Hon'ble Prime Minister of Bangladesh at New Delhi. The session deliberated on various opportunities and impediments to trade and investments between India and Bangladesh and stressed on the ways to promote trade between the two countries. An exclusive meeting was also organized with H E Sheikh Hasina, Hon'ble Prime Minister of Bangladesh, wherein the Indian businessmen had an interactive discussion on various prospects and avenues of investments in Bangladesh and India.

FICCI organized an interactive business meeting H E Muhammad Faruk Khan, Hon'ble Commerce Minister of Bangladesh in October, 2010. The meeting provided a platform for interaction among Governments, businessmen and policymakers and also an opportunity to understand Bangladesh's perspective on improving bilateral economic relations between the two countries.

In April 2011, FICCI mounted a high powered business delegation to Dhaka accompanying Mr Anand Sharma, Hon'ble Commerce, Industry & Textiles Minister, Government of India.

In August 2011, before Dr Manmohan Singh's, Hon'ble Prime Minister of India, visit to Dhaka, FICCI organized its monthly Foreign Policy Forum on 'Synergizing Business Opportunities between India and Bangladesh', where H E Mr Tariq Karim, Bangladesh High Commissioner to India also presented his views.

In December 2012, FICCI, with the support of Ministry of Commerce and Industry, Government of India, is organizing India Show at Dhaka, Bangladesh. Under the overarching theme- 'India Show Bangladesh: Partnerships for Progress', is an attempt to enhance and deepen India's economic engagement with Bangladesh. The India Show will showcase the best of India in the 21st century through a mega Exhibition. A Business Conference and B2B meetings will also be organized on the sidelines. The Business conference would help in gaining insights into the various sectoral opportunities in Bangladesh & Indian markets. Further this will also explore linkages between Bangladesh and North East region of India. The B2Bs would provide both sides an excellent opportunity for networking and forming new partnerships.

FICCI, as the voice of the whole of Indian business and industry, will work vigorously to further build upon the gains and initiatives already undertaken and seek new opportunities for promoting business ties between India and Bangladesh. FICCI continues to play a pro-active role towards deepening regional integration in South Asia.



APPENDICES

Appendix-I

SAFTA Sensitive List

Member State	Number of Products in the earlier Sensitive Lists	Number of Products in the Revised Sensitive Lists (Phase-II) w.e.f. 1 January 2012
Afghanistan	1072	850
Bangladesh	1233 (LDCs) 1241 (NLDCs)	987 (LDCs) 993 (NLDCs)
Bhutan	150	150
India	480 (LDCs) 868 (NLDCs)	25 (LDCs) 695 (NLDCs)
Maldives	681	152
Nepal	1257 (LDCs) 1295 (NLDCs)	998 (LDCs) 1036 (NLDCs)
Pakistan	1169	936
Sri Lanka	1042	845 (LDCs) 906 (NLDCs)

Source: SAARC Secretariat

Appendix-II

Bangladesh Tariff Structure

Tariff structure, 2005/06 and 2011/12			
	MFN applied		SAFTA
	2005/06	2011/12	2011/12
Bound tariff lines (% of all tariff lines)	17.4	17.8	
Simple average rate	15.5	14.9	11.7
Agricultural products (HS 01-24)	19.6	19.4	14.1
Industrial products (HS 25-97)	14.7	13.9	11.2
WTO agricultural products	18	17.8	13.1
WTO non-agricultural products	15.1	14.3	11.5
ISIC 1 - Agriculture, hunting and fishing	17.1	16.9	12.4
ISIC 2 - Mining	9.8	10.4	6
ISIC 3 - Manufacturing	15.5	14.8	11.7
Manufacturing excluding food processing	14.8	14	11.3
First stage of processing	14.9	15	10.6
Semi-processed products	14.4	13.4	10.7
Fully processed products	16.3	15.6	12.6
Domestic tariff "peaks" (% of all tariff lines)[a]	0	0	0
International tariff "peaks" (% of all tariff lines)[b]	42.1	42.6	41.9
Overall standard deviation of tariff rates	8.8	9.3	8.3
Coefficient of variation of tariff rates	0.6	0.6	0.7
Tariff quotas (% of all tariff lines)	0	0	0
Duty-free tariff lines (% of all tariff lines)	7.5	4.3	7.7
Non-*ad valorem* tariffs (% of all tariff lines)	0.1	0.3	0.1
Nuisance applied rates (% of all tariff lines)[c]	0	0	0
Number of lines	6,637	6,106	6,106
Ad valorem	6,631	6,086	6,102

Tariff structure, 2005/06 and 2011/12			
	MFN applied		SAFTA
	2005/06	2011/12	2011/12
Per cent of total tariff lines	99.9	99.7	99.9
Duty-free lines	495	260	469
Non-*ad valorem*	6	20	4
Specific	6	20	4
Compound	0	0	0
Alternate	0	0	0
Memo:			
WTO agriculture	18	17.8	13.1
Animals and products thereof	22.3	22.2	14.5
Dairy products	25	23.5	20.7
Fruit, vegetables and plants	20.6	20.2	14.7
Coffee and tea	22	21.8	16.3
Cereals and preparations	14.1	13.2	10.3
Oil seeds, fats and oils and their products	10.3	10	7.2
Sugars and confectionary	25	19.4	16.4
Beverages, spirits and tobacco	25	25	22.8
Cotton	4	3.3	1.9
Other agricultural products n.e.s.	12.5	12.6	9
WTO non-agriculture	15.1	14.3	11.5
Fish and fishery products	23.5	23.4	16
Minerals and metals	14	13.7	10.2
Chemicals and photographic supplies	12.2	11.2	8.7
Wood, pulp, paper and furniture	16.6	15.7	13
Textiles	20.4	19.7	16.8
Clothing	24	24.5	19.6
Leather, rubber, footwear and travel goods	14.9	14.8	10.7
Non-electric machinery	8.7	6.7	5.4
Electric machinery	14.7	13.6	11.5

Tariff structure, 2005/06 and 2011/12			
	MFN applied		SAFTA
	2005/06	2011/12	2011/12
Transport equipment	16.3	16.7	16
Non-agricultural articles n.e.s.	14.6	13.2	10.6
Petroleum	16.7	16	15.4

a. Domestic tariff peaks are defined as those exceeding three times the overall simple average applied rate.

b. International tariff peaks are defined as those exceeding 15%.

c. Nuisance rates are those greater than zero, but less than or equal to 2%.

Note: The 2005/06 tariff is based on HS02 nomenclature and the 2011/12 tariff is based on HS07. Calculations for tariff averages, domestic and international peaks, exclude specific rates.

Source: Trade Policy Review, Bangladesh 2012

Appendix-III

India's Reduced Sensitive List under SAFTA for Least Developed Countries (HS 8 a Digit Level)

S. No.	DESCRIPTION	HS Code
1	Beer made from malt	220300
2	-Sparkling wine	220410
3	Other wine; Grape must with fermentation prevented or arrested by the addition of alcohol: In containers holding 2L or less	220421
4	Other	220429
5	Other grape must	220430
6	Vermouth and other wine of fresh grapes flavoured with plants or aromatic substances: In containers holding 2L or less	220510
7	Other	220590
8	Other fermented beverages (for example, cider, perry mead); mixtures of fermented beverages and non-alcoholic beverages, not elsewhere specified or included.	220600
9	Undenatured ethyl alcohol of an alcoholic strength by volume of 80% vol or higher	220710
10	Spirits obtained by distilling grape wine or grape marc	220820
11	Whiskies	220830
12	Rum and tafia	220840
13	Gin and Geneva	220850
14	Vodka	220860
15	Liqueurs and cordials	220870
16	Other	220890
17	Unmanufactured tobacco not stemmed or stripped	240110
18	Tobacco partly or wholly stemmed or stripped	240120
19	Tobacco refuse	240130
20	Cigars, cheroots and cigarillos containing tobacco	240210
21	Cigarettes containing tobacco	240220

S. No.	DESCRIPTION	HS Code
22	Other cigarettes/cigarillos of tobacco substitutes	240290
23	Smoking tobacco whether or not containing tobacco substitutes in any proportion	240310
24	Homogenised or reconstituted tobacco	240391
25	Other tobacco	240399

Source: Central Board of Excise and Customs, Government of India

Appendix-IV

Bangladesh's List of Controlling Importable Products, 2012

HS heading	HS code	Description of product and import conditions number
12.07	All HS code	Poppy seeds and "Postadana2 banned ("Postadana" shall not also be importable as spices or in any other way)
12.11	All HS code	Import of Grass (Andropogen Spp.) and Bhang (Cannabis Sativa)
13.02	All HS code	Import of Opium is banned. Agar agar and pectin are importable with prior clearance from the Director, Drugs Administration
23.07	2307.00	Imports of wine lees, argol are banned
27.10	2710.00.71	In case of import of furnace oil for use in own industry/firm: (i) Bangladesh Petroleum Act, 1974 (Act LXIX of 1974) and Rules issued by the Government, from time to time, in this respect will be applicable; (ii) importer must inform Bangladesh Petroleum Corporation regarding quantity and quality of the importable furnace oil on or before 5th of every month; and (iii) the importer must obtain explosive licence and other required licence(s) as per prevailing rules. In case of import for sale/marketing to other consumers: (i) an agreement is to be signed with Bangladesh Petroleum Corporation as per Bangladesh Petroleum Act 1974 (Act LXIX of 1974) and rules issued by the Government from time to time, in this respect these rules will be applicable; (ii) quality of the salable petroleum product must be as per specification of BSTI; (iii) all arrangement is to be made by the importer for collection, storage and marketing of furnace oil; (iv) representatives of Bangladesh Petroleum Corporation and BSTI can inspect any establishment of the importer to examine the quality of the salable item; (v) imported furnace oil is to be sold at the market rate; (vi) the importer must obtain explosive licence and other required licence(s) as per prevailing rules; (vii) furnace oil is to be sold only to the user industry and a statement regarding quantity and quality of monthly imported and marketed furnace oil is to be sent to Bangladesh Petroleum Corporation on or before 5th of every month
27.11	All HS code	Except Liquefied natural gas (LNG), liquefied propane and butanes (which are part of LPG.), petroleum gas and other gaseous hydrocarbons are banned for import
27.13	All HS code	All items including petroleum oil residues are banned except petroleum coke and petroleum bitumen
29.29	2929.90.00	Import of Sodium Cyclamate (semi-solid sugar) is banned

HS heading	HS code	Description of product and import conditions number
29.30	2930.909	Import of Aliyl isothiocyonate (artificial mustard oil) is banned
38.08	All HS code	Insecticides, namely Heptachlore-40, WP, DDT, Bidrin Brand in the generic name: Dicrotopes, Methyl Bromide, Chlorden-40, WP and Daildrin are banned. But all other items classifiable under this heading are importable subject to the certain conditions: (i) importable subject to the prescribed conditions at para. 25(14) of this Order; (ii) Deltramethrine of synthetic pyrithroid group shall be importable with the prior permission of the Ministry of Commerce but only by those firms who will be certified and guaranteed by the Ministry of Health that the item will be used only for public health purpose; (iii) insecticides of the Synthetic Pyrithroid group (Cyhalothrin, Cypermethrin, Cyfluthrin, Fenvelarate, Alpha Cypermethrin, Es-Fenvalarate, Deltamethrin, Danitol 10 EC (Fenpropathrin)) may be imported by fulfilling the following conditions: (a) description of the imported insecticides must be communicated to the Agricultural Extension Directorate and it will monitor the use of the imported insecticides; and (b) the imported insecticides must be used as per the approved level provided by the Pesticide Rules, 1985
56.08	All HS code	Code Fishing nets (Gillnet) with meshes of 4.5 cm or less in width or length. With the prior permission from the Director General of Fisheries Department only deep-sea fishing vessels shall be allowed to import nets with meshes of 4.5 cm or above under Sea Fish Ordinance, 1983 (Ord. No. XXXV of 1983). Director General Fisheries Department shall give permission for an importer per trawler to import 4.5 cm radius/mesh-net up to maximum 8 bags/sacks per year
63.05	6305.31	Import of Polypropylene bag is banned
84.08	8408.90	Import of chassis with two stroke engines of three wheeler vehicles (tempo, auto rickshaw etc.) is banned
87.01-87.04	All HS code	Motor car of any cc. and microbus, minibus, jeeps including other old vehicles and tractors are importable under the following conditions: (i) no vehicle will be more than five years old in the case of shipment; (ii) old vehicles will be importable only from the country of its origin. Old vehicles will not be importable from any third country, "provided that old vehicles cannot be imported from third country except those which were to be used personally and are to be used personally and in case of import from third country , certificate of registration and certificate of cancellation of registration (from the country of use)) will have to be submitted to the customs authority"; (iii) a certificate containing age, model number and chassis number of the old car will have to be submitted to the custom authority from Japan Auto Appraisal Institute (JAAI). In case of import of cars from Japan and from the recognised Automobile Association in case of import of old cars

HS heading	HS code	Description of product and import conditions number
		from other countries; (iv) for determining date/age of the imported old car the date/age will be calculated from the first day of the next year of manufacture of chassis; (v) in case of import of cars from Japan date of manufacture will be ascertained/ determined after examining the chassis book published by Japan Automobile Association and for import from other countries by examining the chassis book published by the concerned Government approved Automobile Association. No old car or vehicle will be importable from a country which do not publish chassis book; (vi) with respect to catalytic converter in petrol driven car and connection of diesel particulate filter in diesel driven car, action will be taken as per S.R.O.29-law /2002, 16 February 2002, issued by the Ministry of Environment and Forest; (vii) no car will be importable without seat belt; and (viii) wind shield glass and both sides window glasses of driving seat must be transparent so that inside of the car is visible. Old Taxicab from 1,250 cc to 2,000 cc, subject to fulfilment of conditions laid down at clause (ii) to (vi) above. Taxicab of less than three years old will be importable
	8703.221	Three-wheeler vehicles of two-stroke engine (tempo, auto rickshaw etc.) are banned for import
87.08	All HS code	Following used parts of motor vehicles will be importable subject to conditions mentioned below: (i) body parts (bumper, front grill, door assy, wind shield/wind shield glass, mirrors, radiator assy, light/lamps, dash board assy, bonnet assy, felder assy, door mirror assy, seats, rear mudguard assy, cabin assy/bodies, head lights(excluding bulb), tail lamps (excluding bulb), side sights assy, wiring sets, EFI control unit, starter, alternator, eddy compressor/condenser/cooling, chamber assy, other rubber channels and rubber mouldings condenser, fuse box, distributor, dumper, and nose cart); and (ii) under teren parts (power steering assy, suspension shock absorbers, steering wheels assy, steering column and steering boxes, differential assy, propeller shaft assy, axles assy, brake drum and hubs assy, vacuum booster with brake master pump assy, brake drums assy, wheel cylinder assy, silencer and exhaust pipes, mounting, fuel pump, and air cleaner box). Conditions: (i) above mentioned parts will be importable by the recognized repairing and servicing industry registered with Board of Investment (BOI)/BSCIC/recognized association of repairing servicing industries/registrar joint stock company and firms; (ii) commercial import of used motor vehicles parts will not be allowed; (iii) a preshipment certificate from an internationally reputed surveyor regarding quality of the above mentioned used parts is to be submitted; (iv) the seller or the assembler shall give a written guarantee for two year for the sold or assembled parts; (v) the repairing and Assembling industry must be a member of the related Automobile and Repairing Association; (vi) the repairing and servicing Industry shall maintain a proper sale register of the

HS heading	HS code	Description of product and import conditions number
		imported used parts and a quarterly sales statement is to be sent to CCI&E; (vii) after import, CCI&E shall regularly monitor regarding use of the imported used parts; and (viii) the importer must have VAT registration and TIN number as a repairing and servicing organisation and related documents and papers are to be submitted to the Custom Authority
87.11	All HS code	More than three years old and above 155 cc motor cycle are banned. However, above more than 150 cc limit will not be applicable for the Police Department. In case of import of three years old motor cycles, this three-year period will be calculated from the first day of the calendar year next to the manufacturing year. To determine the age of old motor cycle, certificate (PSI) from internationally recognized and the National Board of Revenue (NBR) approved inspection company may be accepted as alternative to registration cancellation certificate
90.18	9018.31	Import of glass syringe is banned
93.02	All HS code	All items including revolver and pistol are importable by authorized dealers of firearms subject to prior permission of the Ministry of Home Affairs. For private sectors one NPB revolver/pistol with 50 rounds of cartridges/ammunitions and .22 bore rifle/.12 bore short gun/ gun with 100 rounds of cartridges/ammunitions shall be importable by TCB/appointed authority/persons on approval of the Ministry of Commerce on NOC/recommendation from the Ministry of Home Affairs
93.03-93.05	All HS code	All items including other firearms (except banned bore) are importable by authorized dealers subject to prior permission of Ministry of Home Affairs. For private sector these items shall be importable by TCB/appointed authority/person on approval of the Ministry of Commerce on NOC/Recommendation from the Ministry of Home Affairs
93.06	All HS code	Air gun ammunition for sports, hunting etc. is importable by authorized dealers of firearms subject to prior permission of the Ministry of Home Affairs. For private sector these items shall be importable by TCB/appointed Authority/person on approval of the Ministry of Commerce on NOC/recommendation from Ministry of Home Affairs. Other ammunitions are importable by Ministry of Defence
Footnote of the restricted list		
The following goods shall not be importable: (i) maps, charts, and geographical globes which do not indicate the territory of Bangladesh in accordance with the maps published by the Department of Survey; (ii) horror comics, obscene and subversive literature including such pamphlets, posters, newspapers, periodicals, photographs, films, gramophone records, and audio and video cassette tapes etc.; (iii) books, newspapers, periodicals, documents and other papers, posters photographs, films, gramophone records, audio and video cassettes, tapes etc. containing matters likely to		

outrange the religious feelings and beliefs of any class of the citizens of Bangladesh; (iv) unless otherwise specified in this order, old, second-hand and reconditioned goods, factory rejects and goods of job-lot/stock-lot or secondary/sub-standard quality; (v) reconditioned office equipment, photocopier, type-writer machine, telex, phone, and fax; (vi) unless or otherwise specified in this order, all kinds of waste; (vii) goods (including their containers) bearing any words or inscriptions of a religious connotation the use or disposal of which may injure the religious feelings and beliefs of any class of the citizens of Bangladesh; (viii) goods (including their containers) bearing any obscene picture, writing inscription or visible representation; and (ix) import of live Swine and any item prepared from swine is banned

n.a. Not applicable.

Source:Ministry of Commerce (2009), Annexure 1, Import Policy Order 2009-12. Trade Policy Review, Bangladesh 2012

Appendix-V

Bangladesh's List of Controlling Exportable Products, 2012

A. List of export-prohibited products

All petroleum and petroleum products except those produced from natural gas (such as naphtha, furnace oil, lubricant oil, bitumen, condensate, MTT ,and MS). However, this prohibition shall not apply to the export of petroleum and LNG as shares of the foreign investment companies under the product-sharing contracts

Any passenger going abroad shall be allowed to carry as accompanied baggage, in excess of his or her personal goods, US$200 worth of goods, which are neither export-prohibited nor included in the list of conditional export. In this case, no facilities/incentives like duty draw back adjustment, subsidy etc. shall be awarded

Jute and "Shan" seeds

Wheat

Fire arms, ammunition and related materials

Radioactive materials

Archaeological relics

Human skeleton, blood plasma, or anything produced of human beings or human blood

All types of pulses (except processed ones)

All shrimps except chilled, frozen and processed ones (SRO No. 60-L/76, 14 February 1976)

Onions (SRO No. 250-L/77, 13 August 1977)

Sweater shrimps of 71/90 count or smaller, except the species Harin/harina and Chaka including sea species PUD. Cooked shrimp (SRO No. 345/L/83, 20 October 1983)

Cane, wood, wood logs/thick pieces of wood (except handicrafts made from these materials)

All types of frogs (alive or dead) and frog legs

Raw and wet blue leather

B. List of conditional export products

Urea fertilizer produced in all factories except KAFCO can be exported with the prior approval of the Ministry of Industries

Entertainment programmes, music, drama, films, documentary films etc. can be exported in the form of audio cassettes, video cassettes, CDs, DVDs etc. subject to "no objection" from the Ministry of Information

Petroleum and petroleum products produced from natural gas (such as naphtha, furnace oil, lubricant oil, bitumen, condensate, MTT and MS) can be exported under "no objection" from the Energy and Mineral Resources Division

Chemical products enlisted in schedules 1, 2, 3 of Chemical Weapons (Control) Act, 2006 will be controlled (exported or prohibited to export) by Section 9 of the ACT

Source:Ministry of Commerce, Export Policy 2009-12. Trade Policy Review of Bangladesh 2012

Appendix-VI

Summary record of India-Bangladesh Commerce Secretary level discussions held at New Delhi on 28th - 29th March, 2012

1. TRADE ISSUES

1.1 Recognition of certificates issued by Bangladeshi testing laboratories for export products:

Both sides agreed that BIS and BSTI will finalise the Agreement on bilateral cooperation to enable mutual recognition for each other's standards for specified products.

Regarding acceptance of test certificates issued by BSTI labs for products accredited by NABL(India), it was agreed that Indian side will make necessary arrangements so that such certification is accepted for purposes of clearance of the import consignments. Indian side clarified that random sampling may still be necessary and consignments could be cleared provided the test certificates have been obtained for all mandatory standards.

1.2 Ban on Export of goods by India

Concern was expressed by Bangladesh side for ensuring uninterrupted export of cotton by India. It was decided that a contractual agreement between the Cotton Corporation of India and its counterpart Organization in Bangladesh needs to be worked out. Bangladesh side emphasized that they would require uninterrupted export of at least 15 lakh bales every year. In this regard, both sides would hold further discussions before end of May, 2012.

1.3 Border Haats

It was decided that operationalization of second Border Haat (Balatlauwaghar) may precede its formal inauguration. Bangladesh side has conveyed their approval for opening of four Border Haats along the border of Tripura. They are examining the proposal for opening of Border Haats along the border of Mizoram.

Addendum to the Mode of Operation of Border Haats for liberalizing trade was also handed over for consideration of Bangladesh side.

1.4 Problem faced by Bangladeshi Jamdani saree/soap exporters

As per the request of Bangladesh side, Notification for operationalizing the testing unit for Jamdani Sarees at Kolkatta will be issued before 1st May, 2012.

Indian side agreed that necessary arrangements would be made to allow import of soap through all land customs stations.

1.5 Problems in use of Bangladesh waterways by India.

The Indian side stated that all feasible Transhipment may be allowed to continue with the existing infrastructure at Ashuganj port without waiting for upgradation of infrastructure. Movement of food grains for Tripura may also be facilitated. Goods may also be allowed to be sent through appropriate customs bond rather than insisting on bank guarantees which add unnecessarily to the freight costs. Bangladesh side indicated that since it has been agreed to renew the existing Trade treaty, the Protocol on Inland Water Transit and Trade may be renewed in line with this Trade Agreement. It was agreed that while this was done, both sides could also engage in shaping even better alternatives which more comprehensively address the emerging economic opportunities.

1.6 Motor Vehicles Agreement

Bangladesh side stated that the Indian draft of the Agreement for the Regulation of Passenger and Cargo Vehicular Traffic is being examined. Both sides agreed that early conclusion of such Agreement would help greatly in better regional integration and commercial opportunities for trade/tourism.

1.7 Removal of 225 items from Bangladesh sensitive list

Indian side stated that its list of 225 items for removal from Bangladesh sensitive list is awaiting consideration of Bangladesh.

Bangladesh side assured that Indian request will be favourably considered for substantial reduction before the next meeting of the SAFTA Committee of Experts to be held in May, 2012.

1.8 Non-inclusion of Vulcanized rubber thread through Akhaura, LCS

Indian side stated that port restriction on export of Vulcanised rubber thread via Akhaura LCS is adversely affecting trade opportunities. Bangladesh side agreed to examine and revert at the earliest.

1.9 Imposition of supplementary duty over 60% on import of plastic.

Indian side highlighted that these high tariff rates are affecting the export of plastic products. Bangladesh side agreed to examine this issue and revert expeditiously.

1.10 Port Restrictions in Bangladesh hindering bilateral trade.

Indian side stated that port restrictions imposed by Bangladesh particularly on items like yarn, milk powder, fish, sugar, potatoes are affecting Indian exports (particularly West Bengal and North-Eastern States). Indian side requested that these port restrictions be removed.

Bangladesh side assured positive consideration regarding liberalisation of land port restrictions.

INFRASTRUCTURE ISSUES

2.1 Development of Land Customs Stations

Indian side informed that trade infrastructure is being upgraded in a phased manner through Development of 8 Land Custom Stations and 7 Integrated Check Posts (lCP) along India -Bangladesh Border. It was decided that a list of Land Custom Stations prioritizing the development of infrastructure will be shared. Sub-group on LCS will meet before end of May 2012 and submit its recommendations.

2.2 Permission for construction of infrastructure at Nakugaon LCS

It was decided that a consolidated list of Land Custom Stations where construction within 150 yards of the zero line is required will be shared between both sides. In principle, essential construction for purposes of land custom stations/transport connectivity would be allowed by both sides, through mutual consultations.

2.3 Rail connectivity

The Indian side conveyed that the revised MOU draft for establishing Agartala-Akhaura rail connectivity has been sent to BD side. BD side stated that the draft MoU is under consideration and an amended MoU shall be forwarded to the Indian side within about a month.

2.4 Technical survey for construction of bridge over River Feni and the other State Govt. issues.

The Indian side stated that while BD has conveyed concurrence for undertaking a technical survey to construct a bridge over river Feni, Border Guards Bangladesh (BGB) have not permitted the technical survey team to cross border.

Bangladesh side requested the specific dates for visit of team and duration of survey. In principle, there was no objection to the visits for the proposed construction activity.

3. MISCELLANEOUS ISSUES

3.1 Business Visas

The Indian side stated that validity of visa should be co-terminus with work permits. Indian side suggested that reciprocal arrangements can be discussed and finalized during forthcoming meeting to be scheduled between relevant Ministries of both countries.

Bangladesh side agreed to the suggestion. Both sides affirmed that reputed businesspersons should normally be granted long-term, multiple entry visas.

3.2 Delivery of export goods to “C & F" agent without Bank Guarantee/ Bank Endorsed document

Bangladesh side stated that 22 garment consignments were cleared by Indian C&F Agent, on the basis of non-valid documents leading to payment problems for exporters. Bangladesh side handed over related documents during the meeting.

Indian side assured due consideration to this issue.

3.3 Opening of branch office in India by Bangladeshi Companies

Bangladesh side cited a specific instance of a company not being allowed to open its branch in India. They stated that RBI had rejected the application after two years, without giving proper justification.

Indian side assured early resolution of this issue. It was agreed to revisit the present restrictions, if any, on investments from Bangladesh.

3.4 Banking Problems faced by Indian companies invested in Bangladesh/Indian businessmen on visit.

Indian side handed over a folder containing payment defaults by Bangladeshi importers arising out of non honouring of irrevocable Letters of Credit; not honouring of UCs on due date, non payment of interest for delays and returning UCs without payment by the Bangladesh Banks.

Bangladesh side assured that the matter would be conveyed to the appropriate authority for early resolution.

3.5 Difficulty in sending remittances back to India

Indian side pointed out two particular problems being faced by Indian exporters: (i) remittance of converted dollars (from Taka) can be done only as royalty, consultancy and "other charges" and (ii) there is a ceiling on the repatriable amount (under 'royalty', for instance, only 6% of the sale proceeds in Bangladesh). This is creating problems for knowledge-process intensive operations like software, IT and telecom, architecture, etc. Indian side therefore, requested for allowing LC for services similar to LC for goods with no caps on the limit of remittance. Bangladesh side requested India to send a formal Note through Diplomatic Channels.

In the concluding session, Indian side also made presentations on:

(a) Land Custom Stations construction on Indian side, especially the Petropole and Agartala LCS.

(b) Better customs cooperation/coordination for preventing third countries taking undue benefits of privileges granted under SAFTA trade.

(c) Need for decisions on further trade possibilities in the power sector.

The Meeting was conducted and concluded in a cordial atmosphere.

Appendix-VII[22]

Key Points from Joint Statement on the occasion of the visit of Dr. Manmohan Singh, Hon'ble Prime Minister of India, to Bangladesh

1 The two sides signed the following historic accords:

i. Framework Agreement on Cooperation for Development

ii. Protocol to the Agreement Concerning the Demarcation of the Land Boundary between India and Bangladesh and Related Matters

2. The following bilateral documents were also signed during the visit:

i. Addendum to the MoU between India and Bangladesh to Facilitate Overland Transit Traffic between Bangladesh and Nepal

ii. Memorandum of Understanding on Renewable Energy Cooperation

iii. Memorandum of Understanding on Conservation of the Sundarban

iv. Protocol on Conservation of the Royal Bengal Tiger of the Sundarban

v. Memorandum of Understanding on Cooperation in the field of Fisheries

vi. Memorandum of Understanding on Mutual Broadcast of Television Programmes

vii. Memorandum of Understanding between Jawaharlal Nehru University and Dhaka University

viii. Memorandum of Understanding on Academic Cooperation between National Institute of Fashion Technology (NIFT), India and BGMEA Institute of Fashion and Technology (BIFT), Bangladesh.

3. The two Prime Ministers noted with satisfaction that the following decisions flowing from the Joint Communiqué of January 2010 had been implemented:

a) Dredging of the river Ichhamati along the common reach between Angrail and Kalanchi bridges has been completed;

b) The river bank protection works along Mahananda, Karatoa, Nagar, Kulik, Atrai, Dharla, Punarbhaba, Feni, Khowai, Surma etc. are being carried out in phases.

4. Prime Minister Sheikh Hasina expressed deep appreciation of the Government of Bangladesh for facilitating 24-hour unfettered access to Bangladesh nationals

[22] *This includes only select points from the Joint Statement. In total there are 65 points.*

through the Tin Bigha Corridor. She noted that the fulfillment of the long pending promise would have a significantly positive impact on the lives of the people of Angarpota-Dahagram.

5. The Prime Ministers agreed to promote trade, investment and economic cooperation in a sustainable manner and facilitate trade by road, rail, inland waterways, shipping and air. Both sides underscored the need to increase trade volumes and address trade imbalance. Prime Minister Dr. Manmohan Singh announced the decision of the Government of India to remove all forty six textile lines which are of interest to Bangladesh from India's Negative List for LDCs under the provisions of SAFTA, thereby reducing the applicable duty rate to zero with immediate effect. Prime Minister Sheikh Hasina conveyed appreciation for this major step on improved market access extended to Bangladesh aimed at reducing the existing trade imbalance.

6. The Prime Ministers underscored the importance of harmonization of standards and mutual recognition of certificates for promoting bilateral trade and expressed appreciation for efforts being taken towards this end. The Prime Minister of Bangladesh thanked the Indian side for undertaking the upgradation of laboratories of the BSTI and for training of the Bangladesh Standards Testing Institute (BSTI) personnel in India. It was agreed that a bilateral cooperation agreement between the Bureau of Indian Standards (BIS) and the Bangladesh Standards Testing Institute (BSTI) would be concluded at an early date.

7. Recognizing the need to address factors including non tariff and para tariff barriers and port restrictions that hamper the natural growth of bilateral trade, the Prime Ministers directed concerned officials to identify and remove all barriers to unfettered bilateral trade.

8. The two Prime Ministers welcomed the opening of Banglabandha-Fulbari Land Port for bilateral trade between Bangladesh and India. They also expressed satisfaction at the Indian initiative to develop seven Integrated Check Posts (ICPs), and noted that this would facilitate trade between the two countries. They directed the concerned officials to hold the meetings of the Sub-Group on Infrastructure so that necessary infrastructure could be developed at the identified Land Ports / Land Custom Stations (LCS) on both sides expeditiously.

9. The two Prime Ministers welcomed the inauguration of the border haat in Baliamari (Kurigram)-Kalaichar (West Garo Hills) and the proposed inauguration in Balat (East Khasi Hills)-Dalora (Sunamganj) as a fulfillment of the long standing demand of the

local people of the area. They noted that the resulting economic activity would contribute to the economic upliftment of the people of the area surrounding the border haats. Both sides agreed to open new border haats at mutually agreed locations.

10. Welcoming the exchange of Instruments of Ratification of the Bilateral Investment Promotion and Protection Agreement, the two Prime Ministers reiterated their call for increasing investments including joint ventures in each other's country. They underscored the role of the private sector as very important in bringing qualitative and quantitative change in the development process. The Indian Prime Minister appreciated the announcement of the Bangladesh Prime Minister regarding the establishment of a Special Economic Zone for Indian investments.

11. Both sides agreed to examine the establishment of new land ports / LCS / immigration points to facilitate trade and movement of people.

12. The two Prime Ministers noted that both sides had already signed the Standard Operating Procedures allowing movement of trucks carrying goods from Nepal and Bhutan to Land Customs Stations in Bangladesh. It was agreed to work towards concluding Motor Vehicles Agreement for regulation of Passenger and Cargo traffic.

13. Prime Minister Dr. Manmohan Singh thanked the government of Bangladesh for allowing passage of ODC cargo for the Palatana power project in Tripura.

14. The Prime Ministers noted with satisfaction the operationalisation of Ashuganj and Silghat as additional Ports of Call under the bilateral Inland Water Transit and Trade Protocol. He also expressed his appreciation for the successful commencement of trial run of the bulk cargo for Tripura using multi-modal facilities through Ashuganj port. It was agreed that the construction of an Inland Container Terminal at Ashuganj would be expedited and pending that, the port could be used for movement of bulk cargo immediately as far as practicable.

15. Both sides agreed to expedite works for enabling night navigation facilities on the Protocol routes. They agreed to allow movement of containerized cargo by rail and water and to work towards its early operationlisation.

16. Both the Prime Ministers directed that necessary steps be taken to expedite construction of a bridge over river Feni as per the alignment already agreed between the two sides.

17. The Prime Ministers directed the concerned officials that the MoU regarding development of railway infrastructure at the border point between Agartala and

Akhaura should be concluded and the execution of rail line commenced at the earliest.

18. Bangladesh Prime Minister expressed her appreciation to the Indian Prime Minister for amendment of the MoU between the Bangladesh and Indian Railways allowing Rohanpur-Singabad as an additional route for both bulk and container cargo for Nepalese rail transit traffic. Bangladesh side also appreciated the assistance from India for the movement of fertilizers from Bangladesh to Nepal by rail route. They also agreed to re-establish rail connections between Chilahati-Haldibari and Kulaura-Mahishashan in the spirit of encouraging revival of old linkages and transport routes between the two countries.

19. The Prime Ministers directed that necessary formalities for the use of Chittagong and Mongla seaports for movement of goods to and from India through water, rail and road should be completed urgently.

20. Both the Prime Ministers noted that road, rail and waterways were building blocks to an inter-dependent and mutually beneficial relationship among the countries of the region. The establishment of physical infrastructure would promote exchange of goods and traffic, and lead to the connectivity of services, information, ideas, culture and people.

21. The two sides welcomed the signing of the MoU for cooperation in the Renewable Energy sector between the two countries, noting that cooperation in this sector was essential to meet the growing energy demands of the two countries and to supplement the conventional sources.

22. The two Prime Ministers urged expeditious conclusion of Power Purchase Agreement between BPDB and NTPC for purchase of 250MW power from India by Bangladesh. It was agreed that Bangladesh would procure the additional 250MW of power from the open market in India utilizing the full capacity of the power transmission line being established through inter-grid connectivity at Bheramara and Behrampur.

23. The two Prime Ministers noted that BPDB and NTPC were working towards concluding a Joint Venture Agreement for setting up of 1320MW coal based power plant in Bagerhat. They directed the concerned officials to complete all formalities for operationalising the project expeditiously. They also directed the concerned officials to undertake necessary steps for conducting feasibility reports for the setting up of a similar 1320MW coal based power plant at a suitable location in Chittagong.

24. Recognizing the urgent need of trained doctors and specialists in the field of healthcare in Bangladesh, the two Prime Ministers agreed to set up a programme for training of Bangladesh doctors in premier Indian medical institutes.

25. Bangladesh Prime Minister appreciated the concurrence of the Government of India to the opening of a Deputy High Commission of Bangladesh in Mumbai. In addition, both sides agreed to consider further strengthening diplomatic and consular presence in each other's countries.

26. Recognizing the value of television channels as a means to promote cultural exchange and dissemination of information, the two Prime Ministers welcomed the signing of MoU on Mutual Broadcast of Television Programmes between Doordarshan and Bangladesh Television. Noting that there are no restrictions, they encourgaed private channels to explore opportunities to expand the viewership in each other's countries.

27. The Prime Ministers expressed satisfaction at the utilisation of the US$ 1 billion Line of Credit extended by India and noted that it would significantly enhance infrastructure and capacities in Bangladesh. The credit would finance a number of projects identified by Bangladesh, including for supply of BG locomotives, tank wagons, passenger coaches and infrastructure projects such as Khulna-Mongla rail line and rail bridges over Titas and Bhairab rivers for strengthening Bangladesh Railways, purchase of buses for Dhaka city public transportation and dredgers for capital and maintenance dredging of Bangladesh rivers. They directed the concerned officials of both India and Bangladesh to complete all necessary measures for the speedy implementation of the projects so that the benefits would accrue to the people at an early date.

28. The Prime Minister of India Dr. Manmohan Singh announced grant to Bangladesh for several cooperation and developmental projects and other initiatives, including :

    a) Construction of state-of-the-art India-Bangladesh Culture Centre in Dhaka;
    b) Undertaking feasibility study for upgradation of Dhaka-Chittagong railway line;
    c) Construction of railway line between Akhaura and Agartala;
    d) New Indian Scholarship to 100 students at graduate, post graduate and Doctoral/ research level;
    e) Setting up of an IT Lab in a model school in each of the 64 districts in Bangladesh;

f) Setting up of IT centres in Bangladesh Public Administration Training Centre, Military Institute of Science and Technology and Bangladesh Police Academy;

g) Provision of solar lanterns to 2800 families affected by the Sidr Cyclone.

29. Reiterating the role of SAARC in promoting regional cooperation, they agreed to work together in further strengthening SAARC, including by expanding areas of cooperation, and as partners in achieving the full implementation of all existing SAARC projects and Agreements.

30. Both sides reviewed various steps taken to strengthen sub-regional and regional cooperation, including under BIMSTEC and other regional initiatives.

31. Both Prime Ministers agreed that the two sides would harness advantages of regional and sub-regional cooperation in power, water resources, transport and other forms of connectivity, food security, education, environment and sustainable development to mutual advantage. They directed relevant authorities of both sides to study and formulate, in consultation with experts of the countries of the region, necessary terms for undertaking joint projects in the field of water resources management and hydro-power.

32. The two leaders agreed to promote trade in services under the SAARC Agreement on Trade in Services and directed early completion of work for harmonization of education curricula and mutual recognition of degrees between the two countries.

33. The two Prime Ministers underscored the need for strengthening and reform of multilateral financial institutions and enhancing the voice and participation of developing countries in international economic decision-making.

34. Both sides agreed that climate change was one of the most important global challenges. They reaffirmed the provisions and principles of the United Nations Framework Convention on Climate Change (UNFCCC), including that of common but differentiated responsibilities. It was agreed that adaptation programmes for environment protection were essential to combat climate change. They agreed to collaborate on matters of mutual interest to preserve common eco-systems and coordinate their response in international fora. They also stressed the need to meet the over-riding priority of poverty eradication and sustainable development and agreed to enhance cooperation on issues related to bio-diversity.

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