

Impact of India-Bangladesh Trade Relations on its Bilateral Trade

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Abstract

Bangladesh is an immediate neighbouring country of India. Before India's independence, it was the part of India. Bangladesh is the eighth most populous country in the world. It is more densely populated than any other country except Hong Kong. However, in terms of per capita income, it is among the five poorest countries in the developing countries. The economy of Bangladesh is largely dominated by few basic agricultural commodities as jute, tea and rice. Bangladesh has heavy trade deficits since its emergence and it has narrow export base. Export performance is highly dependent on raw processed jute.

India, because of its central role in the independence of Bangladesh initially had very cordial relations with the country. It also had a sense of obligation and thankfulness towards India. Both India and Bangladesh acknowledge the genocide of Bengalis perpetrated by Pakistan in the 1971 Bangladesh atrocities.

Moreover, Bangladesh was faced with an economic crisis after independence and its population was 8th largest in the world at that time. India gave large amounts of aid to Bangladesh and thousands of Bangladeshi refugees immigrated to India. Sheikh Mujibur Rahman's first foreign visit as Prime Minister was to India and it was then decided Indo-Bangladesh relations would be guided by principles of democracy, socialism, nonalignment and opposition to colonialism and racism. Indira Gandhi too visited Bangladesh in 1972 and assured that India would never interfere in the internal affairs of the country. In 1972, both the countries signed a 'Treaty of Friendship and Peace'. An Indo-Bangladesh Trade Pact was also signed.

Reference to this paper should be made as follows:

Received: 11.02.2019

Approved: 28.02.2019

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*RJPP 2019,
Vol. XVII, No. 1,
pp. 01-12
Article No.1*

Online available at :
https://anubooks.com/?page_id=5286

Introduction

Modern Bangladesh was formerly known as East Pakistan which emerged as an independent country in 1972 as Bangladesh. India had played a decisive role in its creation. India was the first country which recognized Bangladesh as an independent country and had rendered significant economic assistance in the consolidation and strengthening of its economy.

During the [partition of India](#) after independence in 1947, the [Bengal](#) region was divided into two territories: [East Bengal](#), which is called [Bangladesh](#) today and [West Bengal](#). East Bengal was made a part of the [Islamic Republic of Pakistan](#) due its overwhelmingly large [Muslim](#) population (more than 85%). In 1955, the government of Pakistan changed its name from East Bengal to [East Pakistan](#).

However confrontations between East and [West Pakistan](#) started soon after. In 1948, [Jinnah](#) declared that only [Urdu](#) would be the official language of the entire nation while more than 95% of the population in East Pakistan spoke [Bengali](#). When protests broke out in East Pakistan on [February 21, 1952](#), Pakistani police fired on the protestors, killing hundreds of people. East Pakistan was also given an inferior treatment by the federal government of Pakistan (situated in West Pakistan) and small funds were allocated for the development of the region, despite of it being significant contributor in the revenue generation. Therefore, a separatist movement started to grow in present day Bangladesh. When in 1970 elections, the main separatist party, the [Awami League](#), headed by [Mujibur Rehman](#) won 167 of the 169 seats and got the right to form the government, the [President of Pakistan](#) under [Yahya Khan](#) refused to recognize the elections and arrested Mujibur Rehman. This led to widespread protests in East Pakistan and in 1971, the [Bangladesh Liberation War](#) started.

India-Bangladesh Relations

An issue which continues to be a major part of Indian politics is the issue of [illegal Bangladeshi immigrants](#) in India, especially in nearby [states](#) like [West Bengal](#), [Assam](#) and [Tripura](#). India allege that continued illegal immigration changed in the border area demography of India resulting in ethnic imbalance, electoral irregularity and loss of employment opportunities.

The rise of [Islamic fundamentalist](#) forces in Pakistan and use of these forces by [Inter-Services Intelligence](#) to carry out anti-India activities has also aggravated India. India complains that ISI is using Bangladesh to carry out terrorists operations in India and blames Bangladeshi government of not doing enough to prevent such activities.

India and Bangladesh share a common history, socio-cultural heritage and a land border of 4096 km. This commonality is reflected in multidimensional relations with Bangladesh at several levels of interaction. High level exchanges, visits and

meetings take place alongside the wide-ranging people-to-people interaction. Our Mission in Dhaka issues about half a million visas every year and thousands of Bangladeshi students study in India on self financing basis and over 100 annual GOI scholarships. These exchanges and interactions serve as an important adjunct to the official-level interaction.

Prime Minister Begum Khaleda Zia visited India on March 2006. During the visit she held comprehensive discussions with the Prime Minister of India on the entire gamut of bilateral relations. They also discussed regional and international issues of mutual interest. Two agreements were signed during the visit. These being the Revised Trade Agreement and the Agreement for Mutual Cooperation between India and Bangladesh for Preventing Illicit Trafficking in Narcotic Drugs and Psychotropic Substances. Both sides agreed that the institutionalized bilateral mechanisms such as Joint Rivers Commission, Joint Economic Commission, Joint Boundary Working Groups and Home Secretary level talks would meet more frequently to ensure movement in a positive direction and their outcome monitored by the political leadership on a continuous basis.

India's Trade With Bangladesh- Recent Trends

In present study the trend of India's Trade with Bangladesh for the period 2001-2006 has been analyzed in three parts

- (a) India's Export to Bangladesh
- (b) India's Import from Bangladesh
- (c) India's Trade balance with Bangladesh

(a) India's Export to Bangladesh

India has made marked progress in the field of agriculture in recent years. India is in a position to export not only some of the agricultural and horticultural products but also seeds of various types. At present India is exporting the following major items to Bangladesh

- 1 TEA
- 2 COFFEE
- 3 PULSES
- 4 RICE
- 5 SPORTS GOODS
- 6 WHEAT
- 7 CEREALS
- 8 DAIRY PRODUCTS
- 9 FLORICULTURAL PRODUCTS
- 10 TOBACCO UNMANUFACTURED

11 SPICES

12 SUGAR

13 MARINE PRODUCTS

14 COTTON RAW INCLUDING WASTE

15 COAL

16 POULTRY PRODUCTS

17 IRON ORE

18 MICA

India's Export to Bangladesh:

In the present scenario India's export to Bangladesh has not increased at a fast rate as it has accelerated in earlier years. Table no. 1 depicts the India's recent export to Bangladesh. As per table India's export to Bangladesh reaches to Rs. 5691 Cr. in year 2002-03 from Rs. 4494 Cr. in the year 2001-02. Thus there was only a surplus of 26% on the 2001-02 exports of India's to Bangladesh. Figure 1 also reflects the increased export with the help of green bar diagram during the year 2002-03 in which it has improved its height as compared with the 2001-02 bar. Table no. 2 gives the commodity wise details of export to Bangladesh for the said year.

During the year 2003-04 India's export to Bangladesh were gone to Rs. 7564 Cr. from Rs. 5691 Cr. in 2002-03, resulting again a significant increase of 33% on exports of 2002-03 to the Bangladesh.

In the preceding year 2002-03 the increase was 26% and in the year 2003-04 it became 33% thus the rate of exports to Bangladesh were increased to difference of 9%. It is also evident from the figure 1 that the growth of India's export to Bangladesh during the year 2003- 2004 has improved. Table no. 2 gives the commodity wise increase/ decrease details of export to Bangladesh for the said year.

In the year 2004-05 India's exports to Bangladesh were Rs. 7329 Cr. as compared with the 2003-04 when it were Rs. 7564 Cr. Thus instead of increase in exports trend the India's export to Bangladesh during the year were decreased. Comparing both the export values the decrease was only of 3% on the 2003-04 exports which is not significant but even then this decrease was not appreciable for both the economies.

Table 1 also brings out that India's export to Bangladesh during the year 2005-06 were Rs. 7227 Cr. which in the year 2004-05 were Rs. 7329 Cr. Comparing both the values the conclusion comes that there had again been a decrease in the India's export to Bangladesh and on computing this decrease is approx. 1% on the export of 2004-05 which means that in the present scenario the India's export to Bangladesh has become almost constant. Table no. 2 gives

the commodity wise increase/ decrease details of export to Bangladesh for the said years.

TABLE - 1
INDIA'S EXPORT TO BANGLADESH

YEAR	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
VALUE IN RS. LAKHS	449406.96	569128.68	756393.13	732887.77	722737.59

FIGURE - 1

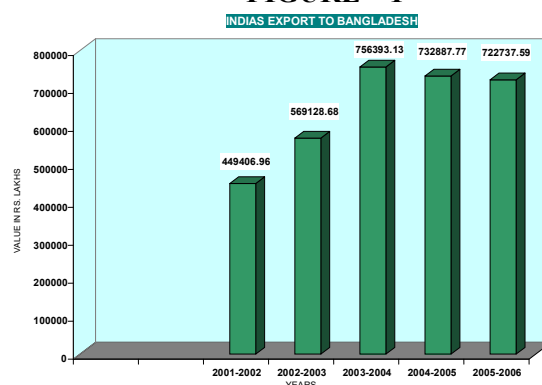


TABLE - 2

India's Export to Bangladesh by Principal Commodities

VALUE IN RS. LAKHS

SN	EXPORTS TO BANGLADESH	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
	Commodities	VALUE	VALUE	VALUE	VALUE	VALUE
1	TEA	0.01	7.58	18.32	256.06	13.26
2	COFFEE	22.74	0	65.2	80.93	12.17
3	PULSES	10166.77	13297.22	12540.51	16120.35	30517.57
4	RICE -BASMOTI	66.80	1004.32	1053.46	416	589.15
5	RICE(OTHER THAN BASMOTI)	7655.35	55486.43	88052.97	83253.18	55556.83
6	WHEAT	1005.70	46740.45	86738.74	85274.97	45326.81
7	OTHER CEREALS	5713.23	3755.53	15664.81	15019.44	18684.61
8	DAIRY PRODUCTS	4557.61	4246.38	1710.34	10944.05	7382.88
9	FLORICLTR PRODUCTS	7.25	11.06	21.08	11.25	25.84
10	TOBACCO UNMANUFACTURED	625.85	1125.09	1324.69	1685.84	1096.11
11	TOBACCO MANUFACTURED	230.97	184.74	272.18	320.57	77.54
12	SPICES	4642.86	4990.25	6250.26	7614.95	4685.98
13	SUGAR	17998.90	32745.21	14484.97	871.6	9377.68
14	MARINE PRODUCTS	3834.84	562.6	202.67	663.8	118.4
15	COTTON RAW INCLD. WASTE	201.69	82.53	11191.53	2642.91	20801.2
16	SPORTS GOODS	212.59	271.45	159.36	248.82	160.7
17	POULTRY PRODUCTS	665.80	377.27	315.81	0	0.08
18	IRON ORE	6.03	538.2	2.69	1518.92	522.52
19	MICA	0	1.44	43.74	22.01	17.65
20	COAL	18914.24	21425.47	22284.92	19357.38	17545.44
	OTHER COMMODITIES	12443.68	48645.09	15804.54	11051.95	9803.22
	TOTAL EXPORTS	449406.96	569128.68	756393.13	732887.77	722737.59

SOURCE : Foreign Trade Statistics, IIFT, DELHI

Trends of India's Export To Bangladesh

Using Least Square Trend Value Equation: $Y = a + bX$

Where

Y = Required Trend Value of Export to Bangladesh.

X = Unit of time

a = Constant Value $a = \frac{\sum Y}{N}$

b = Intercept $b = \frac{\sum XY}{\sum X^2}$

1. Table for Computing the Value of Constants

(Values in 000' Rs. Lakhs)

YEAR	Y (EXPORT VALUE) IN 000' Rs. LAKHS	X (TIME DEVIATIONS) BASE YEAR= 2003-2004	X ²	XY
2001-2002	449.40	-2	4	-898.80
2002-2003	569.12	-1	1	-569.12
2003-2004	756.39	0	0	00.00
2004-2005	732.88	+1	1	+732.88
2005-2006	722.73	+2	4	+1445.46
N = 5	$\sum Y = 3230.52$		$\sum X^2 = 10$	$\sum XY = 710.42$

2. Computation of the Value of Constants and Trend Value Equation

(Values in 000' Rs. Lakhs)

Value of Constant (a)	Value of Constant (b)	Trend Value Equation
$a = \frac{\sum Y}{N}$	$b = \frac{\sum XY}{\sum X^2}$	$Y = a + bX$
$a = 3230.52 / 5 = 646.10$	$b = 710.42 / 10 = 71.04$	$Y = 646.10 + 71.04X$

3. Forecasting the Trend Value of Total Exports to Bangladesh for 2006-07

(Values in 000' Rs. Lakhs)

$$Y_{2006-2007} = a + b(+3)$$

$$Y_{2006-2007} = 646.10 + 71.04(+3)$$

$$Y_{2006-2007} = 646.10 + 213.12$$

$$Y_{2006-2007} = 859.22$$

or say Rs. 8,59,220

So from above we may say that the India's total Exports to Bangladesh for the year 2006-2007 can be Rs. 8,59,220 Lakhs (approx).

(b) India's Imports from Bangladesh

The exports basket of Bangladesh is narrow and the principal items in Bangladesh's exports are traditional products such as jute manufactures, tea, leather goods, items which constitute a significant share in India's export. In spite of there are some more items which are available in Bangladesh but India imports them from other countries. At present India is importing the following major items from Bangladesh

- 1 TEA
- 2 COTTON YARN & FABRICS
- 3 MAN-MADE SPUN YARN
- 4 MADEUP TEXTILE
- 5 FRUITS & NUTS
- 6 SPICES
- 7 TEXTILE YARN,FABRICSS,MADEUP ARTICLES
- 8 READYMADE GARMENTS
- 9 VEGETABLE OILS (EDIBLE)
- 10 WOOD AND WOOD PRODUCTS
- 11 JUTE, RAW
- 12 SILK YARN & FABRICS
- 13 RAW HIDES & SKINS
- 14 WOOLEN AND COTTON RAGS ETC.
- 15 LEATHER
- 16 IRON & STEEL
- 17 NON-FERROUS METALS
- 18 MANUFACTURES OF METALS
- 19 MACHINERY

India's Imports from Bangladesh:

Table no. 3 depicts the India's recent import from Bangladesh. As per table India's import from Bangladesh reaches to Rs. 300 Cr. in year 2002-03 from Rs. 282 Cr. in the year 2001-02. Thus there was only a surplus of 6% on the 2001-02 imports of India's from Bangladesh. Figure 3 also reflects the increased import with the help of blue bar diagram during the year 2002-03 in which it has improved its height as compared with the 2001-02 bar. Table no. 4 gives the commodity wise details of import to Bangladesh for the said year.

During the year 2003-04 India's import from Bangladesh were gone to Rs. 286 Cr. from Rs. 300 Cr. in 2002-03, resulting an unexpected decrease of 5% on imports of 2002-03 to the Bangladesh. It is also evident from the figure 3 that the growth of India's import from Bangladesh during the year 2003- 2004 has gone down. Table no. 4 gives the commodity wise increase/ decrease details of import from Bangladesh for the said year.

In the year 2004-05 India's imports from Bangladesh were Rs. 267 Cr. as compared with the 2003-04 when it were Rs. 286 Cr. Thus instead of increase in imports trend the India's import from Bangladesh during the year were decreased. Comparing both the import values the decrease was only of 7% on the 2003-04 imports which is not significant.

Table 3 also discloses that India's import from Bangladesh during the year 2005-06 were Rs. 526 Cr. which in the year 2004-05 were Rs. 267 Cr. Comparing both the values the conclusion comes that there had been a significant increase in the India's import from Bangladesh and on computing this increase is approx. 97% on the import of 2004-05 which means that at present the India's import from Bangladesh has become almost double. Table no. 4 gives the commodity wise increase/decrease details of imports from Bangladesh for the said years.

TABLE - 3
INDIA'S IMPORT FROM BANGLADESH

YEAR	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
VALUE IN RS. LAKHS	28194.03	30029.33	28599	26676.5	52578.44

FIGURE - 3

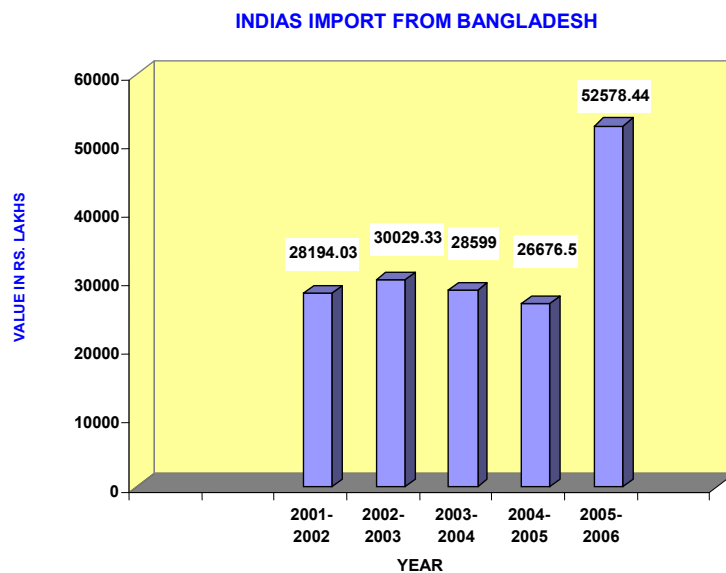


TABLE - 4
India's Import from Bangladesh by Principal Commodities

SN	Commodities	VALUE IN RS. LAKHS				
		2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
		VALUE	VALUE	VALUE	VALUE	VALUE
1	CEREAL PREPARATION	11.69	31.62	28.03	28.17	36.27
2	TEA	13.50	1.23	0	215.62	0
3	COTTON YARN & FABRICS	84.96	200.12	172.39	37.55	88.42
4	M-MADE F' MNT/SPUN YRN(INC.WAS)	98.62	15.09	10.36	5.67	63.49
5	MADEUP TEXTILE ARTICL	520.99	277.6	14.99	250.21	6313.23
6	FRUITS & NUTS EXCL CASHEW NUTS	210.31	1174.58	650.42	302.99	1148.55
7	SPICES	1.45	129.72	83.34	124.44	0.76
8	OTHR TXTL YRN,FABS,MADEUP ARTL	514.69	1086.37	981.66	753.48	5462.18
9	READYMADE G'MENTS(WOVN & KNIT)	885.07	1234.94	1617.49	371.06	332.51
10	VEGETABLE OILS FIXED (EDIBLE)	0	0	24.5	45.68	380.68
11	WOOD AND WOOD PRODUCTS	0	0	0.5	0	0
12	JUTE, RAW	81.63	13449	4961.87	3177.57	7233.28
13	SILK YARN & FABRICS	7.03	0.16	0	0.76	0.47
14	RAW HIDES & SKINS	20.56	84.26	39.63	15.19	68.4
15	WOOLEN AND COTTON RAGS ETC.	0.57	433.32	0	0	21.68
16	LEATHER	69.77	771.29	582.01	852.38	909.34
17	IRON & STEEL	15.33	6.08	36.29	1.28	11.35
18	NON-FERROUS METALS	182.66	0.4	2.23	425.21	820.69
19	MANUFACTURES OF METALS	15.34	63.02	5.09	7.89	3.18
20	MACHRY EXCPT ELEC & ELECTRONIC	110.81	95.86	488.01	45.01	201.28
21	OTHER COMMODITIES	25349.05	10974.64	18900.19	20016.34	29482.68
	TOTAL IMPORTS	28194.03	30029.30	28599.00	26676.50	52578.44

SOURCE : Foreign Trade Statistics, IIFT, DELHI

TRENDS OF INDIA'S IMPORT FROM BANGLADESH

Using Least Square Trend Value Equation: $Y = a + bX$

Where

Y = Required Trend Value of Import from Bangladesh.

X = Unit of time

a = Constant Value $a = \frac{\sum Y}{N}$

b = Intercept $b = \frac{\sum XY}{\sum X^2}$

1. Table for Computing the Value of Constants

(Values in 000 Rs. Lakhs)

YEAR	Y (IMPORT VALUE) IN 000 Rs. LAKHS	X (TIME DEVIATIONS) BASE YEAR= 2003-2004	X ²	XY
2001-2002	28.19	-2	4	-56.38
2002-2003	30.23	-1	1	-30.23
2003-2004	28.59	0	0	00.00
2004-2005	26.67	+1	1	+26.67
2005-2006	52.58	+2	4	+105.16
N = 5	$\sum Y = 166.26$		$\sum X^2 = 10$	$\sum XY = 45.22$

2. Computation of the Value of Constants and Trend Value Equation

(Values in 000 Rs. Lakhs)

Value of Constant (a)	Value of Constant (b)	Trend Value Equation
$a = \frac{\sum Y}{N}$	$b = \frac{\sum XY}{\sum X^2}$	$Y = a + bX$
$a = 166.26/5 = 33.25$	$b = 45.22/10 = 4.52$	$Y = 33.25 + 4.52X$

3. Forecasting the Trend Value of Total Imports from Bangladesh for 2006-2007

(Values in 000 Rs. Lakhs)

$$Y_{2006-2007} = a + b(+3)$$

$$Y_{2006-2007} = 33.25 + 4.52(+3)$$

$$Y_{2006-2007} = 33.25 + 13.56$$

$$Y_{2006-2007} = 46.81$$

or say Rs. 46,810 Lakhs

So from above we may say that the India's total imports from Bangladesh for the year 2006-2007 can be Rs. 46,810 Lakhs (approx).

(c) India's Balance of Trade with Bangladesh:

Table no. 5 brings out India's recent balance of trade with Bangladesh. It is evident from the table that in recent years India has undergone to positive balance of trade with Bangladesh. Figure no. 5 depicts the India's balance of trade with bar diagrams in positive axis direction which supports the favorable balance of trade of India. The same figure depicts the exports by green color bar diagrams and imports by blue color bar diagrams.

In the year 2001-02 India's exports to Bangladesh were Rs. 4494 Cr. and imports were Rs. 282 Cr. which resulted in a positive trade balance of Rs. 4212 Cr. during the year. In the year 2002-03 India's total exports to Bangladesh jumped Rs. 5691 Cr. whereas the imports reached to Rs. 300 Cr. which again resulted to a favorable balance of trade of Rs. 5391 Cr. This favorable effect has an increase of 28 % p.a. on the 2001-02 trade balance of India. Figure no. 5 also depicts the same in the positive axis direction which is considerably more than the trade balance in the year 2001-02.

As per table no. 5 the positive trade balance has increased significantly in the year 2003-04. In the year 2003-04 India's total exports to Bangladesh amounts to Rs. 7564 Cr. whereas the total imports from Bangladesh were Rs. 286 Cr. Thus this brought again a favorable trade balance of Rs. 7278 Cr. in 2003-04 as compared to the preceding year 2002-03 where it was Rs. 5391 Cr. As such there was a considerable increase in the positive effect @ 35% p.a. on the 2002-03 India's exports to Bangladesh.

The performance of India’s export to Bangladesh during the year 2004-05 was Rs. 7329 Cr. where the imports were Rs. 267 Cr. Comparing both the figures again a positive figure (i.e favorable trade balance) of Rs. 7062 Cr. comes. In Table no. 5 the positive trade balance in the year 2003-04 was Rs. 7278 Cr. and it went to Rs. 7062 Cr. resulting a decrease of 3% p.a. to the 2003-04 trade balance. Figure no. 5 represents the favorable balance of trade of the 2004-05 year in positive axis direction.

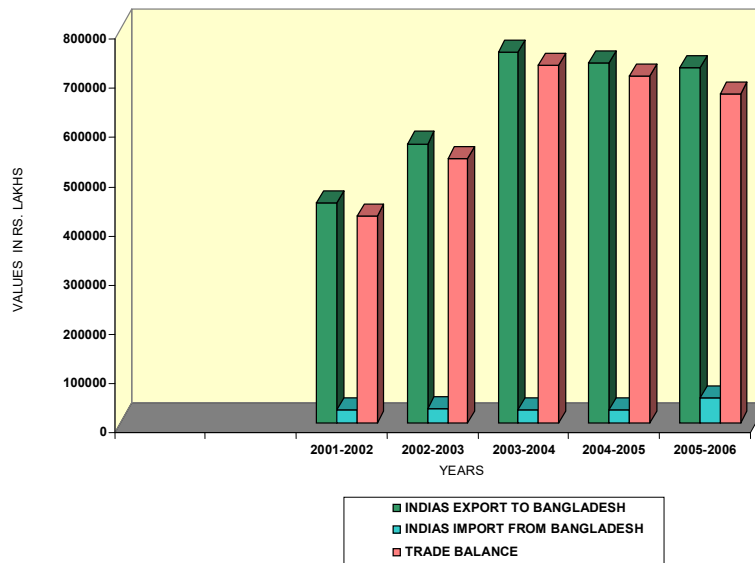
While in 2005-06 India’s exports to Bangladesh increased to Rs. 7227 Cr. and imports went to Rs. 526 Cr. accounting a positive balance of trade of Rs. 6701 Cr. On comparing it with the trade balance of the year 2004-05 of Rs. 7062 Cr. a decrease of 5% p.a. on the trade balance 2004-05 is recorded. Figure no. 5 represents the favorable balance of trade of the said year in positive axis direction.

TABLE - 5
INDIA’S TRADE BALANCE WITH BANGLADESH

VALUE IN RS. LAKHS

YEAR	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
INDIAS EXPORT TO BANGLADESH	449406.96	569128.68	756393.13	732887.77	722737.59
INDIAS IMPORT FROM BANGLADESH	28194.03	30029.33	28599.00	26676.50	52578.44
TRADE BALANCE +/-	+421212.93	+539099.35	+727794.13	+706211.27	+670159.15

FIGURE - 5



Conclusion

India’s exports to Bangladesh many times higher than India’s imports from Bangladesh. But it can be more increased. The economy of Bangladesh is highly

underdeveloped so there is immense scope for Indian industrial goods to find their place in that country. India can increase the export of engineering items particularly machinery electrical and non-electrical, transport equipment such as bicycles and auto rickshaw and items such as hand tools and small tools, sewing machines, ceiling fans, electrical and electronic items.

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