INDIA-BANGLADESH TRADE RELATIONS SINCE 1991

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DECLARATION

I declare that the dissertation entitled **"India-Bangladesh Trade Relations Since 1991"** submitted by me for the award of the degree **MASTER OF PHILOSOPHY** of Jawaharlal Nehru University is my own work. The dissertation has not been submitted for any other degree of this University or any other University.

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CERTIFICATE

We recommend that this dissertation may be placed before the examiner for evaluation.

Prof. P. Sahadevan	**Prof. Partha S. Ghosh**
(Chairperson)	**(Supervisor)**

Dedicated to:

My Late Father

Shri Kedar Nath Pareek

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Abbreviations

AW	:	Awami League
ANVC	:	Achic National Volunteers Council
ATSEC	:	Action against Sexual Exploitation of Children
BDR	:	Bangladesh Rifles
BSF	:	Border Security Force
BFTA	:	Bilateral Free Trade Area
BNP	:	Bangladesh National Party
BIMSTEC	:	Bay of Bengal Multilateral Initiative for Technology and Economic Cooperation
CS	:	Contracting States
CPD	:	Center for Policy Dialogue
CCCI	:	Chitttgong Chamber of Commerce
ESCAP	:	Economic Social Commission for Asia and Pacific
EU	:	European Union
FICCI	:	Federation of Indian Chamber of Commerce and Industry
FDI	:	Foreign Direct Investment
FTA	:	Free Trade Agreement
GDP	:	Gross Domestic Production
HuJI	:	Harkat-ul-Jihad-al-Islami
HNLC	:	Hynniewtrep National Liberation Council
IUJ	:	Islami Oikya Jyot
IGG	:	Inter Government Group
IGEG	:	Inter Government Expert Group
IORAC	:	Indian Ocean Rim Association
IURPI	:	Islamic United Reformation Protest of India

KYKL	:	Khanglei Yanol Khana Lup
LCSs	:	Land Custom Station
LDCs	:	Least Developed Countries
MFN	:	Most Favoured Nation
MNCs	:	Multinational Corporations
MRTP Act	:	Monopoly Restrictive Trade Practices Act
MULTA	:	Muslim United Liberation Tigers of Assam
NDFB	:	National Democratic Front of Bodoland
NTBs	:	Non-Tariff Barriers
NBFCs	:	Non-Banking Finance Companies
PLA	:	People's Liberation Organisation
SAFTA	:	South Asian Free Trade Agreement
SAARC	:	South Asian Association for Regional Cooperation
SAH	:	Shahadat-e-Hikma
SAEU	:	South Asian Economic Union
SMC	:	SAARC Member Countries

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I feel privileged to be able to complete my study under the able supervision of Prof. Partha S.Ghosh. His invaluable guidance, precious advice and co-operation remained with me as a beacon, while I was completing my study. He not only spent his valuable time in improving this work but also guided me to have an overall better understanding of the subject. I am greatly indebted to him for bearing with my mistakes and me.

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Preface

The development experience among countries is varied. Some economies grow rapidly while others limp along. The question that development economists try to answer is why some economies grow and others don't. They have offered theories to explain these differences. New growth theory and cross country regression have given many insights into the growth process initial conditions matter, human capital is important, openness is critical, and so on. However, not all accept these cross-country regressions, mindless regression, as T.N. Srinivasn calls them. The numbers are aggregated. Comparability of concepts across countries and accuracy of data are questionable, political economy situations may differ and reduced from equations that such regressions imply, do not throw any light on them process of development.

Detailed studies of country-specific experiences of growth by relevant experts would be more enlightening than such cross country regressions. Comparison of such studies for different countries would lead to sharper insights. South Asian Countries offer a particularly enticing opportunity for such analysis. They share many common attributes and histories so that certain socio-cultural factors would not confound comparisons.

The study in this dissertation looks at the India-Bangladesh trade relations since 1991, from an integrated perspective. Each chapter addresses the following questions: What were the initial conditions? What were the policy regimes over different periods? What political conditions resulted in such policies? What was the out come of trade growth? What were the turning points in trade? And how did all the above factors affect trade growth.

In my overview chapter-I I have discussed India-Bangladesh relations which covers political and economical relations during different regimes. The chapter-II covers theory of bilateralism in India-Bangladesh context. Chapter-III deals with India-Bangladesh trade before 1991, which covers different trade agreements between India-Bangladesh, economic assistance to Bangladesh and trade balance between India-Bangladesh. Chapter-VI discusses about the liberalisation policies and there impact. Chapter-V deals about how SAFTA can be achieve successfully and various constrains in achieving SAFTA and the last chapter is conclusion in which some suggestions are given to increase trade and would go for a long term and peaceful trade. While going ahead with the study, I have been assisted by numerous friends of mine. The valuable assistance provided by Professor Partho S. Ghosh, my supervisor makes me wholly indebted to him. Still, I remain fully responsible for the opinion suggested in the study and appolize for mistakes that have skipped the usual editing.

Chapter-I

Introduction: India-Bangladesh Relations: An Overview

Chapter I

Indo -Bangladesh Relations: An Overview

The emergence of Bangladesh as an independent country is a landmark in contemporary history. It introduced a qualitative change of a far- reaching character in the international relations of the sub-continent. It was the most significant event in South Asia, which opened a new era of economic cooperation between India and Bangladesh. At the time of independence, Bangladesh was one of the most populous and poorest countries of the world. On December 16, 1971, India accorded recognition to the People' Republic of Bangladesh which was followed by a series of bilateral agreements on defence, foreign relations and trade. India made all out efforts to rehabilitate the war-torn economy of Bangladesh and has always tried to develop broad-based cooperation with the Bangladesh. (Haq 1993: 107).

India and Bangladesh share a common border of 4096 kms running through five Indian states viz. West Bengal, Assam, Tripura, Meghalaya and Mizoram. India's relations with Bangladesh are multidimensional and have traditionally been friendly. Regular high level exchange of visits and meetings take place side by side with wide-ranging people to people interaction. Cultural affinities with India in general and West Bengal in particular and ethnic linkages with India's North Eastern States underpin the people-to-people contact. (Satyamurthy 1979: 52).

Trade and Aid are two important parts of Indo- Bangladesh economic relations. These two countries are not only neighbours but also have a long common historical past and similar cultural and social evolution. The people of both these countries have lived together peacefully for centuries. In 1905, the division of Bengal by Lord Curzon was strongly opposed by Bengalis across communal links though it was less opposed by the Muslims of East Bengal. In 1911, British annulled the partition of Bengal. Even the Indian border with East Pakistan during 1948 and 1965 Indo-Pakistan wars remain relatively peace. (Satyamurthy, 1979:53).

Political Relations

Nature of political relationship has played an important role in the relations between India and Bangladesh. The policies and program of Fazlul Haq in undivided India and later by S. Suhrawardy, Mujibur Rahaman, Maulana Bhasani and the military and democratic regimes played a decisive role in determining its relations with India.

In 1972, the Awami League government headed by Mujib officially announced that friendship. With India is a corner stone of the foreign policy of Bangladesh. Mujib have decelared that Bangladesh was to have special ties with India. Mujib adopted the policies of democracy, nationalism and secularism but Bhasani followed a very narrow strain of policies which had an anti-Indian base. When Mujib signed friendship treaty with India, Bhasani criticised Mujib for having traded political and economic sovereignty of Bangladesh to India. While Mujib wanted to follow a policy of friendship with everyone, Bhasani wanted to identify more with Islamic world. (Bhardwaj, 2003: 264). But the assassination of Sheikh Mujibur Rahaman in 1975 marked a qualitative change in Bangladesh attitude towards India. The successive regime followed the policies of Maulana Bhasani. For the security, they used Islam, which became a solid support of the regimes. They could be sustained on anti- Indian sentiment. (Chakravarty ,1994: 24-25).

Religious factor is another component of Indo-Bangladesh relation. In post-independence period, particularly in the post Mujib period, Islam had become a vital feature in the relations. With the rise of revivalist both India and Bangladesh, the religious factor started affecting the relationship between India and Bangladesh. For example Babri Masjid demolition India and riots that followed in Bangladesh show how deep-rooted this factor is in the minds of people of Bangladesh. (Bhardwaj, 2003: 265).

Military Regime (1975-90)

The assassination of Mujib marked a qualitative change in Indo- Bangladesh relations. Zia was known for his anti- Indian pro west and pro Islamic attitude. (Haq ,1993: 107). Zia regime tried to internationalise the bilateral issues like the Ganga water dispute. The successive regimes established good relations with Pakistan and other Islamic countries at the cost of its good relation with India. (Kamal, 1992: 245). After Zia's assassination the second military regime under General H. M. Ershad came into power. Foreign policy under Ershad regime did not significantly deviate from what it was under Ziaur Rahaman's period. During his regime also, the water sharing issue continued to dominate Indo- Bangladesh relations. (Partha, 1982: 56).

Democratic Regime since 1991.

The restoration of democracy by overthrowing General H. M. Ershad was a result of mass movement launched by Sheikh Hassina and Begum Khalida Zia in the beginning of 1990. In 1991 BNP came into power on the anti-India plank, under the leadership of Begum Khalida Zia. In the wave of liberalisation, globalisation and privatisation, Bangladesh also moved towards enhancing trade investment for the economic development of the country. It was expected that in the economic interest of the nation, the policy makers of Bangladesh would come closer to India for regional and bilateral economic cooperation. (Chakravarty, 1994: 56).

Apart from economic interest, the foreign policy of Bangladesh during Khalida Zia seemed to resemble the policies of previous military regimes. In her government bilateral relations became strain due to violent reactions in Bangladesh as repercussions of the Ayodhya incident of 1992. (De and Samander, 1997: 82-83). BNP always used anti-Indian policies. In spite of this anti-Indian posture, one positive step was taken when Bangladesh recognised sovereignty of India over Tinbigha, at the same time India handed over the Tinbigha on a lease and opened it for use by Bangladeshi passengers and vehicular traffic on June 26, 1992 (Annual Report of MEA, 1992-93).

In 1996, the Awami League led by Sheikh Hassina came into power. The relations between the two countries seemed to be improving during her premiership. Close and regular interaction with the new government began with the visit of foreign secretary Farooq Sobhan to New Delhi in August, 1996 and it signified the revival of meaningful contacts between India and Bangladesh after a gap of nearly four years. In her regime treaty on sharing Ganga water was signed with the Prime Minister of India. The second major step was signing of a historical agreement with Shanti Bahini, (Annual Report of MEA, 1996-97). On the other hand India continued to facilitate the repatriation of Chakma refugees from Tripura to Bangladesh and about 12,000 refugees voluntarily returned to Bangladesh (Annual Report of MEA 1997-98). For people to people contact both the governments have started bus service from Kolkata to Dhaka. (Murad, 1999: 91).

India and Bangladesh are natural friends because of the geographical proximity, cultural affinity and interdependence on trade and commerce but recent time political differences over a number of issues have made them distant neighbours. Indo-Bangladesh relations in present time suffered because of a number of continuous issues. Some of these issues are important from Indian point of view, where others are significant for Bangladesh. There are also issues, which are important for both. (Kumar, 2003: 29-30).

Significant Bilateral Issues.

There are certain issues which India thinks are important for its bilateral relations with Bangladesh. The prominent ones are following.

Illegal Immigration.

For over a decade India has been facing problem of illegal immigration on its eastern and north-eastern border. It is estimated that about 15 to 20 million illegal Bangladeshis are living in many states of the country and creating serious problems to national security. But Bangladesh states that no citizen of that country was residing illegally in India. Un official sources of Bangladesh tells a different story. According to a report of the Action against Sexual Exploitation of Children (ATSEC) presented at a seminar on October 20,2002 in Dhaka 10,000 to 20, 000 women aged between seven and 24 are sent to India, Pakistan and the Middle East every year are used flesh trade. Most of them are either illiterate or poorly educated. The report also highlighted that most women migrate to India or Middle East for jobs, but end up as sex workers. (World Bank, 2003).

The poverty-stricken Bangladeshis migrate to India in search of better opportunities and they are used by different regimes in the bordering states which made their jobs easier to settle in particular state. Sometimes they are also welcomed to get an edge electoral process. (Bahkt, 1996: 66). But it has always been difficult for India to guard its 4, 100 kms. border with Bangladesh, which is highly, porous. The illegal migrants coming from Bangladesh in India's north-eastern region is a serious threat to Indian national security. Bangladeshi are reportedly indulges in criminal activities in India. In recent times, several fringe fundamentalist groups have emerged on the Indo Bangladesh border which maintains links with the terrorists groups operating in India's northeast. Pakistan's ISI has also gained base in Bangladesh indulging in subversive against India. (Dixit ,2001: 205-5).

activities

The immigrants from Bangladesh are an important source of income for the country because of their remittances. Over the years, a large number of Bangladeshis have illegally settled in India. Now Bangladesh is scared at the prospect of so many people returning home as they will cut down the regular inflow of remittances, create the problem of resettlement and disturb law and order. It is feared that illegal migration is likely to increase in the coming years. Every year three million new faces are being added to Bangladesh's total population size of 130 million, which is likely to be doubled by 2050. Bangladesh is the most crowded place on the earth. This will undoubtedly accentuate the problem of illegal migration. (Choudhary, 1995:34).

Cross-border Terrorism

India faces cross-border terrorism not only from the side of Pakistan but also from Bangladesh. At least 30 terrorist and insurgent groups operating in north-east India, have their bases in Bangladesh.

(a) Terror Camps

India believes that top insurgent leaders from the north-eastern part of the country have been operating from Bangladesh and a number of terrorist organisations have established their camps in Bangladesh. The Border Security Force (BSF) handed over a list of 78 militant camps operating from Bangladesh to Bangladesh Rifles (BDR) on October 23, 2003 during their meeting in Shillong. The United Liberation Front of Assam (ULFA) with 27 camps, followed by NSCN (I-M) with 14 camps topped the list. Besides, National Democratic Front of Bodoland (NDFB) has 14 camps, Meghalaya's Achik National Volunteers Council (ANVC) 9 camps Muslim United Liberation Tigers of Assam (MULTA) 5 camps and three camps each of the People's Liberation Organisation (PLA) and a little known outfit Islamic United Reformation

Protest of India (IURPI). The list also includes two camps of Hynniewtrep National Liberation Council (HNLC) and one of Manipur's Khanglei Yanol Khana Lup (KYKL). (Saikia, 2003: 34).

(b) ISI Network

The Indian government has, on a number of occasions accused the external intelligence agency of Pakistan- Inter Services Intelligence (ISI) of making direct use of Bangladeshi territory to infiltrate its agents and saboteurs across the border into India. (Report of FICCI, 2003).

(c) Smuggling of Arms through Bangladesh

For a long time Bangladesh has been used as a transit route for smuggling of arms. Chittagong district, especially its port area, is a major route for arms smuggling. Rohingya refugees supply arms to extremist groups and criminals in Bangladesh, including those in Dhaka. On June 27,2003 Bangladesh police recovered 62,112rounds Chinese rifle bullets and 120 kgs explosives from an abandoned truck in the precincts of one Awami League (AL) leader Syed Akhlakur Rahman Pintu's house at Jogarpara village of Kahalu police station at Bogra. (Report of FICCI, 2003). Subsequent raids in the neighbouring areas yielded more ammunitions and explosives, which were later found deadly RDX. It was the biggest ammunition haul so far in Bangladesh since its formation after the war of liberation. Later investigations confirmed that these arms and ammunition were meant for terrorist operating in north-eastern India. But the Bangladeshi government did nothing for it. (Kumar, 2003:33).

(d) Islamic Fundamentalism

Islamists have become much more powerful in Bangladesh in recent times after the four party coalition came to power in October 2001. Islamists parties like *Jamaat-e Islami* and *Islami Oikya Jote* (IOJ) are important constituents of this coalition. These parties have avowed objective of establishing Islamist rule in Bangladesh. These groups not only pose a threat to the existing democracy in Bangladesh but also pose a challenge for India. Some of the prominent international Islamic extremist organisations like *Al-Qaeda* and *Jemmah Islamiah* have become active in Bangladesh. Though groups like *Al- Qaeda* may not be directly active, a number of local groups are allied to them. The most important of them are *Harkat- ul- Jihad - al- Islami* (HuJI), *Jamaatul Muj*ahdin and *Shahadat-e-Al-Hikma* (SAH). A number of terrorists Harkat- ul- Jihad belonging *to Al- Qaeda* and *Jemmah Islamiah* have taken shelter in

Bangladesh. Which are running anti-Indian activities in Bangladesh. (Sakia ,2003: 216).

Infrastructure

Problem has also arisen between India and Bangladesh over the issue of development of infrastructure. Both the countries have divergent opinion on the issue of trans-shipment and road network.

(a) Transshipment

India wants Bangladesh to provide it with trans- shipment facility, which will facilitate the movement of goods to the landlocked North Eastern states by reducing the distance. (Rehman, 2003:34). It believes that this facility will give major impetus to the development process of this backward area infested by insurgency. Besides, it can also yield some revenue to Bangladesh. But Bangladesh has been unwilling to grant this facility to India, which it interestingly enjoyed while this territory was ruled by Pakistan.

(b) Road network

As Bangladesh has denied India transhipment facility, now the later plans to develop part of the proposed Asian Highway project which links to Thailand via Myanmar bypassing Bangladesh. It plans to construct roads through its north-eastern states of Assam and Manipur connecting to Thailand via Myanmar. (Rehman, 2003:35).

Persecution of minorities

There has been resurgence of violence against the minorities in Bangladesh after the elections of October 2001. (Mukherji, 1999: 12). Hindus who are seen as supporters of Awami League are primary targets of such violence. Though government promised investigation into cases of rapes, beating and burning of property, no information was made public. The continuous violence against minorities has created fear psychosis leading to their exodus to the neighbouring states of India. In 1947, 28 per cent of the population in East Pakistan was Hindu, but it declined to about 8 per cent in 2001.Economic reasons are also behind the violence against Hindus. They are targeted so that their properties can be usurped. Threats are openly issued to them to leave country. (Khosla, 2005:65).

The Chittagong Hill Tracts Problem

The signing of the CHT accord with the Shanti Bahani in December 1997 restored peace in the region. However successive governments have not taken interest to implement the essential features of the treaty. Significantly, the accord promised more autonomy by establishing a regional council. The Chakmas were also assured that their ancestral land would be restored to them and the presence of the Bangladesh army would be reduced. These major outstanding issues have not been solved and the accord was opposed from the beginning by the Bengali settlers and a section of Chakmas. Tribal leaders have alleged that the lawmakers of the ruling party are instigating violence against the indigenous people. India wants an amicable resolution of the CHT problem because it has been hosting a number of Chakma families as refugees. (Ziring, 1992: 217).

There are certain issues, which Bangladesh considers as very important. The prominent among them in recent times has been water sharing of common rivers. Though Bangladesh has also raised issue of trade imbalance at regular intervals, trade related matters are of equal importance to both the countries.

Water sharing

India and Bangladesh have a long history of dispute over water sharing though both side signed the treaty on Ganges waters for a period of thirty years on 12 December 1996, new disputes have emerged in recent times. India is planning to develop its water resources by inter linking Himalayan rivers with those in its peninsular region through thirty inter linking cannel system to provide drinking water, power and irrigation, this proposal is still at a conceptual level and specific project would emerge after the feasibility study is completed and details are prepared. But, it has evoked criticism in Bangladesh. Bangladesh fears that vast quantities of water would be diverted from major rivers, including the Ganges and the Brahmaputra to southern states of India. (Ahmed and Khan 1996: 41).

Some issues are of equal important for both the nations, but a solution has eluded because of different positions taken by both the sides.

Border demarcation

The issue of border demarcation between the two countries became very important after the clashes between Border Security Force (BSF) and Bangladesh Rifles (BDR) at a border outpost in Kurigram in April 2001. India accused Bangladeshi troops for occupying the border village of Pyrdiwh, forcing its residents to flee. This incident left 16 BSF personnel dead. Though low- key clashes between Indian and Bangladeshi border forces were common, the clash at the Kurigram was severest between the border guards of the two countries in last 30 years. This incident seriously affected the bilateral relationship between countries.

The border issue has three sub–parts ---- the undemarcated 5.5 Km long tract, the existence of enclaves in each others territory and the areas in adverse possession on the two sides. Both the sides have agreed to solve the border issue through diplomatic means, but very little progress has been made. Only 6.5 Km out of 41, 100Km is undemarcated, it created immense problem in the bilateral relation ship. (Habib 2001 the Hindu).

Indo-Bangladesh Maritime Dispute

The Indo-Bangladesh maritime dispute primarily focuses on differences in the principles by which the maritime boundary is to be demarcated, as well as disputed sovereignty over a small island. India has consistently favoured the equidistant/median-line principle for the demarcation of maritime boundaries; Bangladesh favours the application of the equitable principle alone.

Both India and Bangladesh also claim an island covering an area of 2 sq. miles, lying in the estuary of the Haribhanga and Raimongal rivers in Bay of Bengal. This island emerged in 1970 due to acute volcanic in the region and is known as 'New Moore' or Purbasha in India, and South Talpatty in Bangladesh. The dispute over the island has more to do with the extent of the maritime zone to be potentially acquired in the oil rich Ganges Brahmaputra delta of the Bay of Bengal, then the island itself. If India is given sovereignty over the island, it can claim an additional 16,000 sq. meters of continental shelf. If Bangladesh is given sovereignty over the island, it will get a much lesser area of continental shelf. Several rounds of talks on Indo- Bangladesh maritime dispute since 1974 have produced, but no result of them. (Kapur, 1994: 134).

Economic and Trade relations

The economic relation between India and Bangladesh constitute a very significant aspect of the overall relations between the two countries. They are of an extensive nature including trade relations, credit arrangements, joint ventures and transport. They benefit both the countries and have an overall stabilising effect on the political relations between them.

The full potentialities of economic cooperation between India and Bangladesh remain to be realised. There has been a lamentable lack of effort on the part of two governments to take conscious and well planed measures to nurture these relations and impart dynamism to them. Mutual trade potentialities between India and Bangladesh depend upon their capacity to meet each other's requirements and their political will in this direction. Since India and Bangladesh are developing and neighbouring countries, the political will and capacity to meet each other' requirements are the pre-requisites for the development of trade relations between them. (Joy, 1995:38).

The roots of Indo- Bangladesh economic relations may be traced since the partition of Indian subcontinent in1947. The closeness of two regions and consequent location advantage in transporting the commodities to each other, developed natural economic links in the past between two countries. But it was only in the early seventies, with the emergence of Bangladesh that India emerged as one of Bangladesh's principal trading partner. The emergence of Bangladesh as an independent state brightened the prospects of closer trade relation and economic cooperation between India and Bangladesh. Since then trade relations between two countries have been rapidly changing both quantitatively and qualitatively. But no systematical study of India's trade relations with Bangladesh has been made so far. The growing importance of trade between these two countries warrants of detailed analysis of past and present economic relations between the two in order to predict a possible course of trade in the foreseeable future. The present work seeks to analysis the entire course of trade between two countries intends to examine the changes in composition, structure and direction of Indo- Bangladesh trade. (Mukherji, 2003:3-4).

Bangladesh-India Trade Issues

The imbalance in the trade between India and Bangladesh is also an important issue. Indo- Bangladesh trade imbalance is in favour of India. Bangladesh trade deficit with India has been increasing at an accelerated rate in the recent years and the deficit grew most visibility in 1990s when the volume of trade between India and Bangladesh began to rise. The deficit in formal trade was from 200 million to about one billion with in the last ten years. According to a study by Centre for Policy Dialogue (CPD) Research Director Mustafizur Rahman says that yearly trade gape between two countries has increased 9.5 times while imports from India have increased 15 times over the last 10 years. Therefore, Bangladesh trade imbalance with India in ten years (1990-91 to 1999-2000) stood at about dollars 6.5 billions. Such deficits are largely market driven. Deficit may be stated as the role of real exchange rate, productivity differentials and pace of liberalisation between two countries. To reduce these huge imbalance of trade with India, Bangladesh has long been trying to get duty free access of 25 categories of goods into Indian market. On 10th April 2002, India had agreed to provide duty free exceeds to 40 Bangladeshi items of 16 categories. (World Development Report, 2003:673-74).

Informal trade between India and Bangladesh

India and Bangladesh trade is highly influenced by informal trade because of porous border, common history, and ethnic similarities in border areas. Informal trade between India and Bangladeshis mainly operated from India's North Eastern States (Assam, Meghalaya, Mizoram, and Tripura) and West Bengal. Informal exports from India are essential consumer goods such as food grain medicines, textiles and coal. Informal imports from Bangladesh are mostly luxury consumer goods including harmful goods like narcotics. Apart from these there is also an inflow of gold and foreign currency (Gurudas 2002:56).

Table 1.1

Commodities Traded

Commodity groups	**India to Bangladesh***	
	Informal	**Formal**
Food	65	75
Machinery	21	11
Textiles	38	12
Table Commodities Traded		
Commodity groups	**India to Bangladesh***	48
	Informal	**Formal**
Food	65	75
Machinery	21	11
Textiles	38	12

In what terms $ or Qe

Source: Economic Survey, Ministry of Finance, Government of India.

Trade through Petrapole (India)–Benapole (Bangladesh)

The road route, the heaviest movement (in value terms) is via Petrapole (India)–Benapole (Bangladesh). Road traffic to Bangladesh via Petrapole converges at Bangaon, situated 4 km from the international border at Petrapole. The access roads including the national highway to Bangaon are mostly narrow and single-lane roads. At Bangaon, trucks have to cross narrow roads passing through residential and market areas. Consequently, trucks heavily congest the areas in and around Bangaon and Petrapole. Quite often 1,400–1,500 trucks queue to enter Bangladesh. This congestion is perceived as an encroachment on civil amenities. In fact, the chaotic conditions prevailing have resulted in diversion of traffic to other LCSs like Hilli, Mohedipur, Changrabandha, and to a newly opened LCS at Bhojadanga, south of Petrapole. In addition, the movement beyond Benapole is slow and time consuming, and subject to the vagaries of weather. Currently, cargoes brought in by Indian trucks and delivered to Benapole are moved by overland routes by Bangladeshi trucks to Goaland–Achira ferry point on Padma River. From here, the trucks are ferried across the river to move on to Dhaka and other destinations in the eastern sector of Bangladesh. However, the commissioning of the rail-cum-road bridge over river Jamuna, along with the strengthening of access roads and roads in the bridge, has eased the congestion of road movement and facilitated road penetration into the more developed and populous eastern part of Bangladesh (Mukherji 2003:44-45).

Table 1.2

India's Exports and Imports to/from-Bangladesh through LCSs in West Bengal in 2004-2005

LCSs	Mode	Export	Import
		($ million)	
Petrapole	Road	808.8	556.5
Changrabanda	Road	62.48	2.39
Hilli	Road	141.59	0.14
Mohendipur	Road	123.6	0.38
Ghojadanga	Road	50.54	1.79
Ranaghat/Gede	Road	194.15	0
Kolkata Port			
(TT Shed)	Rail	12.51	1.86
Singabad	Rail	43.54	0.78
Radhikapur	Rail	10.94	0
Total		1,448.16	63.86

LCSs =land custom station

Source: Chief Commission, Central Excise and CUSTOMS, Government of India, Kolkata.

Table 1.2 shows the LCS-wise (West Bengal– Bangladesh corridors) value of exports and imports between India and Bangladesh in recent years.

Table 1.3

India's top10 Items to Bangladesh through Land Borders*

No.	LCSs	Commodity	1996-97 Share (%)	2003-2004 Share (%)	Changes
1	Hilli and Petrapole	Onions and garlic	57.3	44.6	Fall
2	Hilli and Petrapole	Oranges-fresh and dried	93.4	12.4	Fall
3	Hilli,Petapole, andRadhikapur	Rice	22.5	43	Rise
4	Petrapole	Synthetic organic coloring mat	100	100	No change
5	Petrapole	New pneumatic tires	53.7	86	Rise
6	Petrapole	Woven Cotton	36.5	92	Rise
7	Petrapole	Other articlrs of iron and steel	13	97	Rise
8	Petrapole	Unwrought auminium	88	76.2	Fall
9	Petrapole	Radio receivers,video apparatus	95	97	Rise
10	Petrapole	Chassis fitted with engine	99	95	Fall

LCSs =land custom station
LCSs =land custom station

Source: Calolated based on data provided by DGCIS, Kolkata

Table 1.3 provides the commodity composition of India's overland exports to Bangladesh through land borders. Some of the important items, which have grown in India's exports basket and are increasingly traded formally, are onions and garlic; rice; cotton woven articles (code 5209), including denims; synthetic organic colouring materials; unwrought aluminium; other materials of iron and steel; pneumatic tires; chassis of cars with engines; and radio receivers and video apparatus. These items have shown rising trends in India's export basket. Some important items, including cement, sugar, cotton yarn, coal briquettes, and wheat, do not figure in Table 15. However, most of these items did not show very rapid growth except perhaps wheat and coal briquette. (Mukherji, 2003:50).

Table 1.4

India's overland imports from Banglades through Land Borders

No.	LCSs	Commodity	1996-1997	2003-2004	Changes
			Share (%)**		
1	Petrapole	Hilsa and other fish	100	100	no change
2	Petrapole	Raw jute	100	100	no change
3	Petrapole	Betal nuts	0	100	Rise

LCSs =land custom station

** Percentage of total exports

Source: Calolated based on data provided y DGCIS, Kolkata.

Table 1.4 shows major Indian imports from Bangladesh through LCSs, located in West Bengal. Out of the three major Bangladesh exports to India, two—Hilsa and other fishes, and raw jute—come entirely from land routes. The other major export is ammonia anhydrous or aqueous solution, which is exported to India through the sea.

Overland exports from India to Bangladesh are well diversified. In terms of trade value, Petrapole LCS in road and Ranaghat/Gede LCS in rail carry the bulk of India's overland exports to Bangladesh. The two major transport corridors that serve India's international trade with Bangladesh are those that connect Dhaka with Kolkata and Jawaharlal Nehru with Chittagong Port. Other transport corridors that serve India's international trade with Bangladesh handle much smaller volumes. (shrinivasan, 1999:69).

Customs clearance at land border Customs posts.

The land border trade is subject to very serious administrative constraints in Bangladesh, because 38 out of the 42 land border Customs posts with India severely restrict the imported goods that can be cleared, and only four land border posts can clear all imported goods. In terms of volume the most important by far of the Customs posts with comprehensive Customs clearance powers is at Benapole, which borders Petrapole on the Indian side and which is on main roads linking Kolkata with Jessore and Dhaka. (Phoit and Taneja, 1999:78).

Chapter-II

Theory of Bilateralism in Trade in India-Bangladesh Context

CHAPTER II

Theory of Bilateralism in Trade in India-Bangladesh Context

Trade

Trade is an exchange of goods and services. Foreign trade means commercial exchange between residents of different sovereign political units. When nations formulate national commercial policies then it becomes "international trade". (The Encyclopaedia Americana, 1983: 910).

Trade increases the standard of living for all countries. For some countries foreign products take a third to a half of total market and the standard of living depends crucially on the foreign products.

Domestic Trade or foreign trade involves at least two parties and at least two products and a price or terms of trade at which often trades place. It is thus distinguished from gifts or grants

Early trade was in the form of barter, an exchange of goods for goods, and trade in primitive societies is still of this character. The use of money as a medium of exchange emerged very early, because traders found it much more convenient to have a unit of account and easily transportable store of value. (The Encyclopaedia Americana, 1983: 910).

Trade Theory

Trade is natural economic activity and is a transaction of goods/products or exchange of things of the purpose for earning and meeting needs. It is a flow of commodities from producers to consumers and producers to producers, which take place between persons, human groups and countries. If such exchange of goods is done among neighbouring countries beyond international borders or in the vicinity of it by the people living there, it is known as cross-country trade or border trade.(Hussain, 2002: 130).

Trade is bound to occur or develop between two neighbouring countries or borders and threw it was the countries beyond, for both the countries lies on the periphery of the respective country far from the main land or the production canters. Owing to proximity and social cultural and ethnical relations, the economic linkages and dependability develop automatically for the mutual benefit of people of the borders. Such trading activities have been traditionally going on in most of the border areas of the neighbouring countries of the world. Various physical, political and environmental conditions of the neighbouring countries or borders, however, govern or decide the intensity, volume and the nature of cross country or cross border trade.(Niebuhrand and Stiller, 2002: 179).

Pricing Methods

Whether trade is in barter or involves the use of money, the methods for reaching a mutually agreeable price are much the same. Four methods of determining price can be distinguished: haggling, organized brokerage, auctioning and posted pricing. All four methods of pricing are found in trade. Haggling is the dominant form of determining price when there are few buyers and sellers. Organized brokerage generally prevails when a commodity is uniform in quality and there are large numbers of buyers and sellers. Auctioning is used mainly when commodity is unique and there are several prospective buyers. Posted prising is used most frequently when there are large numbers of buyers and few sellers, or few large numbers of sellers and few buyers. (The Encyclopaedia Americana, 1983: 910).

Terms of Trade and Economic Development

One of the most widely discussed theories concerning the terms of trade of developing countries is the Prebish-Singer hypothesis, published in 1950. This hypothesis proclaimed a structural tendency for the terms of trade of developing countries to deteriorate in their dealing with industrial countries. In the original form this relates mainly to the terms of trade between primary commodities and manufactured goods from industrial countries. The historical statistical basis of trade during 1873-1938 which corresponded to this image of export of manufactured goods in exchange of primary commodity. (Palgrave Dictionary of Economics, 1987: 626).

Patterns of Trade

I Trade among Developed Countries

The greatest volume of trade occurs among the capital rich countries of the world. Especially among the industrial leaders known as "Group of 10" (Belgium, Canada, France, Germany, Italy, the Netherlands, Sweden, the U.K. and the U.S.). Genererally, as a country matures economically its participation in foreign trade grows more rapidly than its gross national product.

Economics of complement among develops

The European Economic Community (EEC) affords an impressive instance of the gains to be derived from free trade. In economic terms, the EEC is simply a plan for unrestricted movement of goods, labour and capital across the boundaries of its member countries. A major part of the increase in real income in EEC countries is the removal of trade barriers. (Encyclopaedia Britannica, 1977: 557).

II Trade among Developed and Underdeveloped Countries

Difficulties problems frequently arise out of trade between developed and underdeveloped countries. Many less developed countries are tropical, frequently relying for income upon the process from export of one or two crops, such as coffee, coca, sugar. Markets for such goods are highly competitive, that is, prices are goods, and the typical exports of developed countries are commonly much more stable. Hence the price if its export commodity fluctuates, the country experiences large fluctuations in its "terms of trade" the ratio of export prices to import prices. (Encyclopaedia Britanica, 1977: 557).

Bilateral Trade

"The Trade between the two countries, that is the quantity and quality of one country's export to other, or sum of export and import between them." The primary objective of bilateral trade and economic cooperation should be to attempt some sort of collective self reliance for the region as a whole. This would involve identification of import needs of the individual countries of the region with a view (i) to determine what could be supplied from within the region itself, and (ii) to obtaining the rest at the lowest possible cost from outside the region. It would also involve determination of export surpluses of individual countries to explore the possibilities of joint marketing and improving unit value realisation. As regards intraregional trade, attempts would have to be made to achieve a balanced trade and to reduce the import surpluses faced by some countries of the region. (Waqif, 1987: 72).

Bilateral Trade Agreement

It refers to trade agreement separately done between two countries on various trade issues like its volume, composition, and mode of payments or for balancing their mutual payments. (Mathur, 2006: 353).

The origins of Bilateralism

Some type of shock generally sets the process of trade bilateralism in motion. Countries then respond to these shocks based on a variety of political-economic factors, and they may negotiate bilateral agreements that vary in scope, strength, and nature. Analyzing the evolutionary process of bilateralism, there are three phases of bilateralism process.

Phase I: The Origins of Bilateralism.

SHOCK	------	Political and Economic Factors affecting Response.	---------	Negotiations	--------	Agreements :(Participants, Strength, Nature, and Scope)

Phase II: The Evolution of Bilateralism.

Demands to change Agreements	-------	Factors Affecting Choice to modify or create new agreement	---------	New or modified agreements: (Participants, strength, Nature, and scope)

Phase III: The impact of Bilateralism.

Type of agreement ----------- Fit of agreement with existing arrangements.

Figure 1. The three phases of bilateralism.

Phase I- That focuses on the origins of bilateralism. In this phase, an external shock - a problem with international institutions or a financial crisis, for example- creates pressure for change. Subsequently, various political and economic factors influence and different countries respond to these shocks. Countries may respond by developing some type of trade agreement to cope with these shocks. If an agreement is concluded we can consider the characteristics of the accord on a number of dimensions. This involves the participation in the accord and speaks to whether the accord is regionally concentrated or distressed. The agreement stands can range from strong to weak, can we of liberalising or more protectionists in nature, and can have a wide or narrow issue scope of coverage.

Phase II- various domestic groups may demand changes, from expanding product coverage to including other countries in the agreement. As in the initial phase, both political and economic factor will affect these decisions. In this phase, we can see how bilateralism may expand, in terms of the number of the participants involved, the strength and the nature and scope of the accord.

Phase III- It depicts how the characteristics or type of agreement will affect existing agreements. Will new trade agreements smoothly fit with in broader regional or multilateral agreements or disrupt the current trading order? This institutional consistency or what can we term nesting with broader agreements. (Aggarwal, 2006: 5-6).

Benefits of Trade

Trade must be mutually beneficial; otherwise people would not engage in it on a sustainable basis. The gain from trade in reproducible commodities arises from differences in production costs between different areas or different groups of people. These differences in underlying productive capability, from differences in the degree of capitalization, or from differences in the taste of consuming public. Each country concentrates on the production of those goods it can produce relatively cheaply, at the same time trade permits each country to diversify consumption, because goods produced in excess of its requirements are exchanged for goods from elsewhere offering lower cost or greater variety. This division of labour among countries leads to greater efficiency in the use of world limited resources. The gain from trade grows larger as differences grow larger in the relative costs of production between trading partners. Trade also brings peoples of diverse background into contact with one another and generally broadens their intellectual horizons. (The Encyclopaedia Americana, 1983: 911).

Varieties of Regionalism

Regionalism was often analysed in terms of the degree of social cohesiveness (ethnicity, race, language, religion, culture, history, consciousness of a common heritage); economic cohesiveness (trade patterns, economic complementarily), political cohesiveness (regime type, ideology), and organizational cohesiveness (existence of formal regional institutions).

The range of factors that may be implemented in the growth of regionalism are very wide and includes economic, social, political, cultural or historical dimensions. There are no 'natural' regions and definitions of region and indicators of regionness vary according to the particular problem or question under investigation. (waqif, 1987: 75).

(a) **Regionalization**

Regionalization refers to the growth of societal integration within a region and to the often undirected process of social and economic interaction. Regionalism as said by earlier thinkers is informal integration but contemporary thinkers describe it as soft regionalism. The term lays particular weight on autonomous economic processes which lead to higher levels of economic interdependence within a given geographical area than between that area and the rest of the world. Although seldom unaffected by state policies, the most important driving forces for economic regionalisation come from markets, from trade and private investment flows, and from policies and decisions of companies.

(b) Regional awareness and identity

Regional awareness is often defined in terms of common culture, history, or religious traditions. It can also be defined againsed some external 'other' which may be understood primarily in terms of security threats (Europe's self image defined as against the Soviet Union or Latin American nationalism defined against the threat of US hegemony) or external cultural challenges. (The long tradition by which ' Europe' was defined in opposition to the non- European and especially, Islamic world, or, more recently, the revival of notions if an Asian identity in contradiction to the best . although concerns with the 'idea' of Europe , the Americas, or Asia are indeed striking features of the ' new regionalism', they are framed by historically deep rooted arguments about the definition of the region and the values and purposes that it represents- although again as with nationalism, there is a good deal of historically rediscovery, myth- making, and invented traditions.

(c) **Regional interstate cooperation**

A great deal of regionalist activities involves the negotiations and construction of interstate or intergovernmental agreements or regime. Such cooperation can be formal or informal and high levels of institutionalization. There is no guarantee of either effectiveness or political importance. Such cooperative arrangements can serve a wide variety of purposes. On the one hand, they can serve as a means of responding to external challenges and of coordinating regional positions in international institutions or negotiating forums. On the other, they can be developed to secure welfare against, to promote common values, or to solve common problems, especially problems arising from increased levels of regional interdependence. In the security field, for example, such cooperation can range from the stabilisation of a regional balance of power, to the institutionalisation of confidence building measures, to the negotiation of a region-wide security regime.

(d) State-promoted regional integration

An important subcategory of Regional Co-operation concerns regional economic integration. Regional integration involves specific policy decisions by governments designed to reduce or remove barriers for mutual exchange of goods, services, capital and people. Early stages of integration tend to concentrate on the elimination of trade barriers and formation of custom union in goods. Integration proceeds, the agenda expands to cover non tariff barriers, the regulation of markets, and the development of common polices at both the micro and macro levels.

(e) **Regional cohesion**

Regional cohesion refers to the possibility that at some point, a combination of these first four processes might lead to the emergence of a cohesive and consolidated regional unit. Cohesion can be understood in two senses: (i) when the region plays a role in defining in the relations between the states (and major actors) of that region and the rest of the world; and (ii) when the region forms the organizing basis for policy within the region across arrange of issues. Regional cohesion might be based on various models. One might indeed the gradual creation of super national regional organization within the context of deepening economic integration. A second model might involve creation of series of overlapping and institutionally strong interstate arrangements or regimes.

Problems in Regional Trade

The most important problem involved in South Asian intra regional trade is the apprehension about India's possible domination or all other countries of the region. As a result, not only is there a lack of willingness to increase trade relations but there appears to be deliberate apathy towards the issues these are strengthened by the fact that India has a huge export surplus with all south Asian countries, except occasional import surplus with Pakistan.

This perhaps explains why Pakistan imports iron ore from Africa and Sri Lanka imports apples from Australia, and not from India. Lack of political will on the part of participating countries appears to be the most serious hurdle in the promotion of the interregional trade. This may be due to the fact that they have not any particular need for inter Regional Corporation. The European Economic Community was successful in achieving its objectives because the members felt a need for economic cooperation to build up their war-torn economies. The role of factors other than tariff preferences is neglected. Tariff advantages become a minor factor. Studies undertaken in this condition have clearly established the fact that exchange of tariff concession alone cannot help the developing countries in achieving trade expansion and more efforts are required in the areas of non- tariff measures also. (Waqif, 1987: 71).

Bilateral Trade in Indo- Bangladesh Context

Origin of Indo- Bangladesh Trade

India depended on Pakistan (East and West) for her raw jute , raw cotton, fish and Pakistan on the other hand, being deficient in industrial products, had to import from India coal, textiles, sugar, jute manufactures, iron and steel and some other manufactured goods. East Pakistan (from 1949 to 1971), had never possessed a complete and autonomous economic administration of its own. In fact East Pakistan together with West Pakistan constituted one economic and political unit that is Pakistan. So India's economic relalations with the eastern wing of Pakistan were governed by its trade agreement with the government of Pakistan. But after the

December 16, 1971 Bangladesh emerged as an independent sovereign republic. Since then the situation has changed and Bangladesh was free to formulate and implement independent policies and programme in respect of its foreign trade. In these situation closer political ties between India- Bangladesh created conditions for improvement in its economic relations with India. (Puri, 2004: 4-10).

It was immediately after the liberation war that the new government of Bangladesh lifted the seven year old ban on Indo- Pakistan (now Bangladesh) trade on January 3, 1972 and trade between India and Bangladesh started picking up once again. Even before the signing of a formal trade treaty, the Bangladesh government was willing to arrive at a permanent arrangement with India with regard to the export of fifty thousand tones of newsprint and twenty five thousand tones of writing paper every year to India. On the other hand, Indian government had assured Bangladesh for two lakh tones of nitro fertilizer, two lakh tones of crude oil, twenty five bales of cotton, one thousand bales of superior yarn and one lakh fifty thousand tones of food grains to Bangladesh. So that Bangladesh economy may revive after the huge damage of physical and social infrastructure caused during the 1971.The commodity trade between the two countries was functioning unofficially also. It all started with unofficial transaction in raw jute because border areas in Bangladesh badly needed kerosene, matches, edible oil and some other consumer goods. In fact both the countries were interested in having trade relations with each other and Indian aid programme to Bangladesh increased the possibilities of mutal economic cooperation between two countries. Later on India-Bangladesh treaty of friendship, on March 19, 1972 as a consequent to which India-Bangladesh signed the Barter Trade Agreement Pact on march 28, 1972 of one year duration. This agreement is considered as a land mark in the history of trade relations between two countries. (Puri, 2004: 4-10).

India's exports to Bangladesh have closely followed changes in political relationship between two countries. The foreign trade sector of Bangladesh constituting of an important part of country's economy in the ratio of imports and exports. These are indicative of the degree of outward orientation of the economy. That these ratios have been continuously increasing in recent years indicates that the economy is diverting more of its incremental GDP to export production. At the same time it also indicates that despite a scarcity of foreign exchange the economy is diverting more of its external resources towards payments for her increasingly larger import requirements. Being a least developed, non-oil producing country Bangladesh, as expected suffers from a chronic deficit in her balance of payment.

Excessive dependence of the country on primary commodity exports has been a major source of instability in foreign exchange earning. In contrast, imports into Bangladesh consist largely of manufactures and oil whose price are almost continuouslt~~ly are~~ rising, which in turn has meant a drastic deterioration in the countries terms of trade. ~~In~~ Bangladesh trade policy is mainly centred on the control of import promotion of exports, and the fixing of exchange rate. Devaluation of exchange rates is probably the government's most controversial policy instrument. (Wadhava, 1987: 51).

Border Trade between India and Bangladesh

There is a huge amount of clandestine border trade between India and Bangladesh. Since it is illegal, the entire transactions characterised as "smuggling". The estimations of the size of the illegal border trade are vary wide. But there is no doubt that it is fairly large and could vary well be as large if not larger then the size of legal trade.

There is a syndrome created by Bangladesh media and political parties that Bangladesh is being drained of its precious resources because they are being smuggled out to India. The reality on the ground would seem to point in just the opposite direction. The economic factors which account for the kind of balance of that prevails in the legal trade are likely to produce the same result in the illegal border trade. (Rahmatullah, 2001: 377).

The prices of agricultural commodities across the border are substantially lower than those in Bangladesh. As the current rate of exchange, the rice price in India is half of that in Bangladesh. This is true of almost every commodity. This would indicate that the flow of the illegal border trade is largely a one sided one that is from India to Bangladesh. There are many advantages in legalising the border trade between the two countries. Some of them are:

(a) It will prevent the harassment of the people from both sides of the border, on the ground of heir indulging in smuggling.

(b) It will provide employment to a large number of Indians and Bangladeshis residing in the border areas.

(c) It will generate new economic activities along the border, based on the short supply of commodities. Trade and small industries of all kinds are likely to spring up on both sides of border.

(d) It can push the trade transition between the two countries to new heights.

(e) If the border trade is legalised there will be a greater flow of exports from India to Bangladesh than the other way round. This will accentuate the imbalance of trade, there by imposing greater compulsion on India to buy more from Bangladesh.

(f) Bangladesh's customs revenue will increase appreciably because of the much larger amount of Indian exports coming under the net of Bangladesh's customs duty. (Lama, 1994: 109-110).

Economic cooperation between India and Bangladesh

Minimum necessary institutional infrastructure for underpinning economic cooperation has long been in place. There is a trade agreement between the two countries and also an agreement to hold regular periodic trade review talks. There is a joint economic commission at the ministerial, level, with four committees dealing respectively with economic matters, trade and transport, science and technology, and agriculture. There is an agreement on inland water transport and memorandum of understanding covering cooperation in specific areas. These institutions have frequently been affected by the neglect of two governments. For example, a high level joint commission between was set up soon after the liberation of Bangladesh. After remaining active a couple of years, the commission went into a long period hibernation until it became dead. As a result, a new a new joint economic commission had to be set up in 1982, but this commission is also having meeting only frequently. (Dubey, 1994: 98). In context of India's trade with the SAARC countries, Bangladesh's contribution is significant. Bangladesh constituted 40.91 percent of India's total trade with the SAARC countries. (Badruddin, 1997: 1958-59).

Scope of Indo- Bangladesh Trade

It must know by India and Bangladesh that the benefits of trade and cooperation will far outweigh the costs involved, and the disadvantages, if any, would only be temporary. On the basis of studies of import-export structure of India as well as available indicators about the economic development plans and programmes made by Indian Institute of Foreign Trade a number of areas have been identified where India could closely cooperate with Bangladesh. These areas are:

Potential for Export Items

There is huge potential to India for export coal, dyestuffs, textiles yarn, clothing chemicals, drugs and iron items, glass wares, agricultural implements and machinery, small tools, hand tools and machine tools, leather and leather manufactures, auto parts, railway vehicles food processing machinery, food grains, dairy products, vegetable seeds , and plastic products to Bangladesh.

Potential for Import Items

India can import Newsprint, pulp and paper, printed matter, fish, bitumen, pulses, jute timber and fertilizers from Bangladesh.

Towards a New Trade Regime

Indian market will play a very significant role in the export development strategy of Bangladesh. In this context, the improved preferential tariff treatment by India may give that required boost to Bangladeshi exports. This can be initiated under two different process viz. the SAARC framework and the bilateral framework. In case of the SAARC framework, a major initiative has already been taken through the South Asian Preferential Trading Arrangement (SAPTA). (Waqif, 1987: 72-73).

SAPTA Framework

SAPTA will allow member countries to import merchandise from each other at a lower tariff than those imposed on similar goods from non-SAARC countries. In order to maximize its gains from the proposed SAPTA, Bangladesh has to (i) produce new items in more competitive price for export (ii) improve drastically the entire spectrum of economic performance including low productivity, low technology and poor manpower and (iii) remove the anomalies in the policies and the tariff structure. Bangladesh has already offered a list of more then seventy items to India for concession under SAPTA. This may open up a new avenue for extending the external market. (Chakravarty, 1994: 121).

Bilateral Framework

In case of a bilateral framework, India and Bangladesh can enter into Indo- Nepal type of trade agreement under which Nepal enjoys excise duty refund by the Indian government on Indian goods exported to Nepal. The exports of primary commodities produced in Nepal are also exempted from basic customs duty and quantitative restrictions. Bangladeshi exports to India also mostly consist of the primary goods, if India and Bangladesh enters into this kind of agreement; this has the potentials to provide a new direction to Bangladesh-India trade relations. Within the present framework there is also, a lot of conciliatory arrangement can be extended.

Both Bangladesh and India used to follow a similar type of substituting industrial policy. They started to move towards more liberal trade policies since the 1980s along with the worldwide move towards more open economies.

Bangladesh has initiated the programme of tariff liberalisation earlier than India- in mid 1980s, and the speed of liberalisation in Bangladesh is faster than that in India. Bangladesh has continued this higher speed of liberalisation till recent years. Bangladesh sharply reduced its tariff rates in all categories of imports, for intermediate and capital goods. (Chakravarty, 1994: 121).

Areas of Industrial Collaborations

There are prospects of cooperation in industrial areas between India and Bangladesh. These areas of industrial collaborations in fertilizers, insecticides, pumps, agriculture implements, textiles, leather, marine products, chemicals, cattle feed, fruit canning and processing, poultry and cycle industries.

Joint Ventures

There are immense possibilities for mutually beneficial joint ventures. Joint ventures could be established by the more developed countries of the region in `the less developed ones possibility with buy-back arrangements. The existing structure of production in the region and the scope for expanding significant trade between India and Bangladesh appears to be limited unless efforts are made to create new manufacturing capacity on a joint basis. For this purpose, useful projects with India supplying technical know-how, plant and equipment, and smaller countries supplying indigenous raw materials and labour. The output thus generated could either be absorbed in the two countries, or exported to third countries.

Joint ventures could be established to manufacture newsprint from the resources of Bangladesh and eastern India. There is Indian joint venture in Bangladesh in the field of high fashion garments. This has been set up with, an eye on the export market in the West where quota restrictions do not apply in the case of Bangladesh, as a least developed country. In a meeting of joint economic commission of the two countries, it has been decided that an Indian team would visit Bangladesh to discuss technical and financial assistance for modernisation of major sugar mills. A large sugar mill set up at Setbaganj in northern Bangladesh, with the Indian equipment, expertise financial assistance. Decision has also been taken to set up a cement plant. The two countries were now actively considering the possibility of the setting up of a sponge iron unit at Chittagong. The Tata group is negotiating for an investment of about US $ 3 billion in Bangladesh for a 1000 MW power station, a steel mill and a fertilizer unit. There have been several rounds of negotiations and further negotiations are likely to take place only after the general election in Bangladesh. It would be the largest ever foreign direct investment in Bangladesh and significantly alter the trade balance of Bangladesh with India. (Waqif, 1987: 78)

The Balance of Trade of Bangladesh with India

Bangladesh had always trade deficit with India since its independence, and it has increased significantly. Trade balance of Bangladesh with India in 1990s, especially in the second half of the decade trade deficit of Bangladesh increased very sharply. In 2003, the trade deficit reached to US $1,435.9 million, which was about four times higher compared to 1993, and more than 46 times higher compared to 1983. The value of exports compared to that of imports is always quite low, and in 2002 and 2003, it was 3.4 and 3.6 percent respectively. This is really a disappointing picture for Bangladesh's bilateral trade enhancing as according to economic theory. Country's exports are to be used to pay for its imports. Though the export-import relationship should be looked at the world trade level rather than bilateral level, yet this trade imbalance still has some economic and political implications for Bangladesh. (Rahman, 1998: 78)

Table 2.1

Bangladesh's Trade Balance with India, 1973-2003 (millions of US $)

Year	Export	Import	Deficit	Export as percentage of imports
1973	23.3	114.8	91.5	20.3
1974	0.4	82	81.6	0.5
1975	5.3	83.3	78	6.4
1976	7.1	58.5	51.4	12.1
1977	0.6	55.2	54.6	1.1
1978	2.3	43	40.7	5.4
1979	12.1	40	27.9	30.3
1980	8	55.6	47.6	14.4
1981	20.2	64	43.8	31.6
1982	20.3	43.3	23	46.9
1983	6.9	37.9	31	18.2
1984	28.3	60.1	31.8	47.1
1985	29.6	64.9	35.3	45.6
1986	7.7	57.2	49.5	13.5
1987	11	74.4	63.4	14.8
1988	8.7	90	81.3	9.7
1989	10.7	120.7	110	8.9
1990	22	170	148	12.9
1991	23	189	166	12.2
1992	4	284	280	1.4
1993	13	380	367	3.4
1994	24	467	443	5.1
1995	36	994	958	3.6
1996	20	1138	1118	1.8
1997	37.2	795.6	758.4	4.7
1998	55	1178.8	1123.8	4.7
1999	49.5	1023.8	974.3	4.8
2000	50.1	945.5	895.32	5.3
2001	60.8	1195.5	1134.7	51
2002	39.3	1145.8	1106.5	3.4
2003	52.9	1488.7	1435.9	3.6

Source: IMF (Various Years), Direction of Trade Statistics Yearbook and author's calculations

Problems causing Indo-Bangladesh trade imbalance

Although the trade deficit with a particular country is not bad if the overall trade balance is satisfactory, yet from distributional aspect of trade policies (the distribution of benefits and cost among groups of producers and groups of consumers) the growing trade deficit with India is a great concern for Bangladesh. Bangladesh's fear is that if this deficit continues, Bangladesh will be dependent only on a few products for its exports, and imports from India displays domestic production to such an extent as to de industrialize Bangladesh. As a result it is argued, a severe polarisation in Bangladesh and high levels of unemployment will occur. Therefore, increasing trade deficit with India is a problem, and attempts are made here to find out the causes of this problem. (Mukherji, 2004: 210).

Patterns for Reducing Trade Deficit

The trade imbalance can greatly and effectively be reduced by cordial and productive mutual cooperation. There are still many opportunities that could be exploited for the greater benefit of both countries, and thus reducing trade deficit of Bangladesh with India. For example, Bangladesh can obtain financial benefits by the greater economic integration with Indian North- Eastern States (NES), which are geographically situated in a disadvantageous location from the main land. A system of joint ventures (JVs) with buy back agreements is to be developed. Such JVs will stimulate FDI to Bangladesh and thus productivity exploits the opportunities of existing complementarities. To meet the demand of NES of India, JVs investment in cement, granite, lime stone and paper, food and fruit processing had already been identified. Other identified sectors where JVs project could be set up, are textile, fertilizer, newsprint, pharmaceuticals, small steel plants, chemicals machine tools, fish processing and leather goods. The JVs in investments in backward linkage textile sector is very important for Bangladesh to enhance the local value addition of the country's major export item, ready made garments.

Both countries can also be benefited from the joint investment in information, communication and financial services. There is also tremendous scope for Indian private investment in Bangladesh's education and health sectors. Bangladesh can reduce its trade deficit by such investment. (Madan, 1998: 98).

why India should invest in B'desh's education and health sector?

Bangladesh can reduce its trade deficit by allowing sea and road transits to India; however the transit issue, is very controversial in the country. Both countries must prepare an appropriate cooperation framework in this regard.

Therefore, potentials and opportunities to improve bilateral trade imbalance between Bangladesh and India are available. The necessary matters are proper initiatives, policy measures, mutual cooperation and above all political will of both countries. Maximum efforts are to be made by the people and governments of these two countries in order to attain the highest possible mutual gains from the bilateral trade exploiting all potentials. (Madan, 1998: 99).

Investment

With total investment of US $ 389.206 million during the period 1971 to September 2006, India is ranked as 12th largest investor in Bangladesh.172 joint venture/100% foreign investment proposals were registered with the Board of Investment of Bangladesh until September 2006. These Investments are in such diverse areas as textiles, constructions, industry, chemicals, paints, pharmaceuticals, hospitals, travel bags, information technology, coconut oil, ayurvedic product, white cement and automobiles etc. (Ministry of External Affairs, 2007).

Fear of Economic Domination by India

Among SAARC countries India shares 77 per cent of population, 72 per cent of area and 78 per cent of gross national product. Further, it shares 88 per cent of export and 81 per cent of imports of the region. Hence Bangladesh with other countries of the region have developed a fear of economic domination by India under the assumption that more trade with India may establish another type of dependency on India. It is also doubted that India alone will gain more through trade. Therefore it is absolutely essential for India to remove the fear of any kind of economic domination by India in the region. The principles of trade co-operation should be based on mutual benefit. The least developed countries of the region should also give preferences and concessions in trade. (Hariharan, 1999: 147).

Problems in Indo-Bangladesh Trade

Contribution of Bilateral Trade between India and Bangladesh is stated to be the prevalence of high incidence of non-tariff barriers (NTBs) in India. Bangladeshi exporters, Government functionaries and academics have often stated that most of the NTBs in India are non transparent and hence are difficult to identify. Some of commonly used NTBs highlighted by them are: Quantitative restrictions such as quotas, prohibitions and import licensing. Requirements of chemical tests, which take a long time as cause goods to be stranded for indefinite periods under the open sky. Imposition of countervailing and anti-dumping duties, often administration in a non-transparent manner, frequent changes in customs regulations and procedures, and Government monopoly in importing through state trading agencies are major problems in bilateral trade. The trade between India and Bangladesh also suffers because of poor infrastructure facilities. The reason behind this underdevlopment of infrastructure has been the reluctance of Bangladesh to provide transhipment facilities to India. This has discouraged both sides for constructing proper road and rail links. (Mukherji, 2004: 3-4).

This is not a fact!

Indian businessmen are not as eager to come to Bangladesh for selling their wares and rendering services as they are rushing to the markets of developed countries. Thus in reality a principal market is psychologically treated as a residual market. Frequent complaints from Bangladeshi businessmen and industrialists, that their Indian partners do not respond to their calls in time and regard the Bangladeshi market as a dumping ground for their inferior products, keeping the superior varieties for the more prosperous markets. Though there is an exaggeration in these complaints, they are at least partly true and constitute constraints to the expansion of economic relation relations between the two countries. (Mukherji, 2004:5).

As already been mentioned, there are many NTBs in India that Bangladeshi exporters have to face to enter into Indian markets. These NTBs are real cause of concern for Bangladesh's business community. In table (2) five types of such NTBs are mentioned that are imposed on imports of India. There are thousands of items under these NTBs, and Bangladeshi exporters are generally unhappy with these NTBs As there is a lack of transparency and clarity with regard to application of these NTBs because customs authorities in India mainly apply these NTBs according to their own direction. Though significant fiscal reforms took place in the 1990s in India but trade policy pursued by Indian Government is considered as highly complex and restrictive. (Rehman, 1998: 44).

Table 2.2

Structure of Non- Tariff Barriers (NTBs) in India.

Types of NTB	Goods Involved	
Imports of commodities which are permitted Only under licence/ public notice	Almost all consumer goods	not existent
Canalised imports permitted only through State trading corporations	some categories of agro-commodities	
Imports not allowed except in accordance With a public notice notifying permission	some non-consumer commodities e.g. fish meal	not correct
Imports of inputs to export oriented units Against a licence/ public notice	for example crude granite	not correct
Prohibited	some particular Commodities/ drugs	yes.

Source: Statistic Bulletin of Bangladesh, (1998).

Chapter-III

India-Bangladesh Trade before 1991

Chapter III

Indo-Bangladesh trade before 1991

Bangladesh came into being on December 16, 1971, yet the discussion about trade between India and Bangladesh has been traced out from 1947.because before 1971 Bangladesh was part of Pakistan (East Pakistan).

India's Trade and Economic Relations with East Pakistan (1947-71)

During 1946-47, economic relation between India and East Pakistan (now Bangladesh) were mainly in the area of trade. The trade relations were largely governed by various trade agreements between India and East Pakistan. About twelve trade/payment agreements were signed between India and East Pakistan during this period.

In 1947 'Standstill Agreement' and 'Custom Agreement' were signed between India and East Pakistan under which free trade was established between them. In 1948, trade quota agreement was signed in order to promote trade between them. Further three more trade quota agreements were signed in 1949, 1951 and 1955which lasted till August 1956. However, in March 1953, three year trade agreement was signed in order to liberalise trade between these two nations. In February 1957, Trade and Payments agreement' was signed between them which remained in force till January 1960. This arrangement was under' Most Favoured Nations' (MFN) clause. In March 1960, another Trade- cum Payment was signed which expired in June 1963. This agreement was also under MFN clause and initiated the process of trade in convertible currency. The major items of India's exports to East Pakistan covered under the above agreements were coal, machinery, textiles, building and engineering materials, iron and steel. In case of India's imports from East Pakistan, raw jute, fish, hides and skins were the major items. (Madan, 1998: 53-54).

During 1948-66, East Pakistan had all along been more important trade partner for India than West Pakistan (now Pakistan). The share of East Pakistan in Pakistan's total trade with India during this period was 74.57 per cent per annum on an average. Her share in Pakistan's total export to India was 84.3 per cent per annum on an average during the same period. However, her share in Pakistan's total import from India was 258.60 per cent during 1948-66. Thus, during the above period, the major part of India's trade was with East Pakistan which later on became Bangladesh.

India and East Pakistan was having close trade relations at the very beginning. Since the partition of India in 1947, they were having huge economic interdependence upon each other. East Pakistan remained an important trade partner of India during the first few years after the partition. (Madan, 1998: 54-57).

Table 3.1

India's Trade with East Pakistan during 1948-66

(Value in million US $)

Year (April-March)	Export to Pakistan	Imports from Pakistan	Balance of Trade	Total Trade Turnover
1948-49	109	257	-148	366
1949-50	77	79	-2	156
1951-52	40	83	-43	123
1952-53	61	162	-101	223
1953-54	32	44	-12	76
1954-55	7	39	-32	46
1955-56	10	39	-29	49
1956-57	8	54	-46	62
1957-58	7	23	-16	30
1958-59	9	12	-3	31
1959-60	8	16	-8	24
1960-61	11	25	-14	36
1961-62	15	20	-5	35
1962-63	14	21	-7	35
1963-64	10	18	-8	28
1964-65	13	23	-10	36
1965-66	7	10	-3	17

Source: Indo-Pakistan Trade Statistics, 1951-52, ministry of Commerce, Government of India, New Delhi ;Monthly Statistics of the foreign trade of India,(Various issues) D.G.C.I. &S., Calcutta.

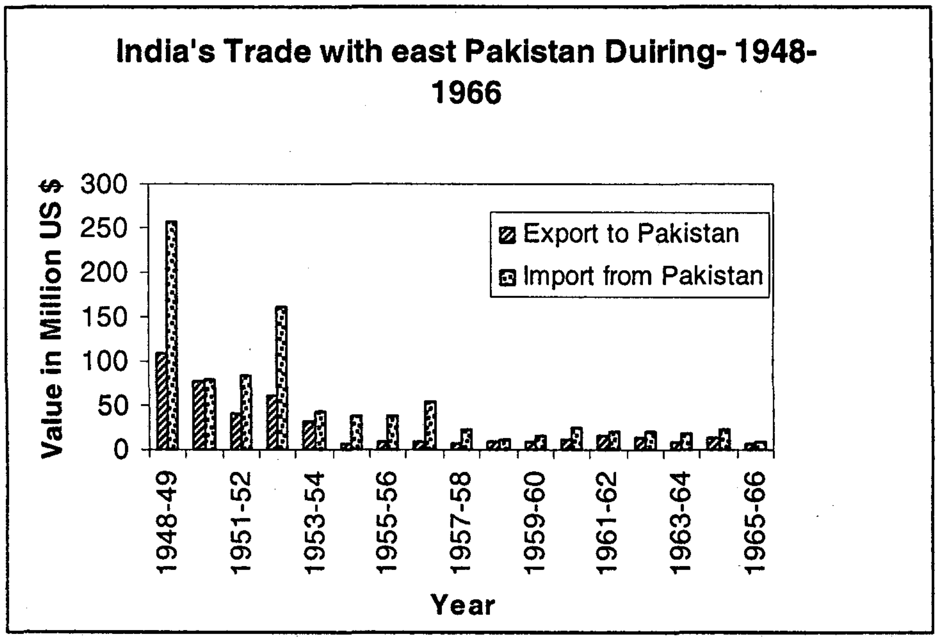

Figure 1

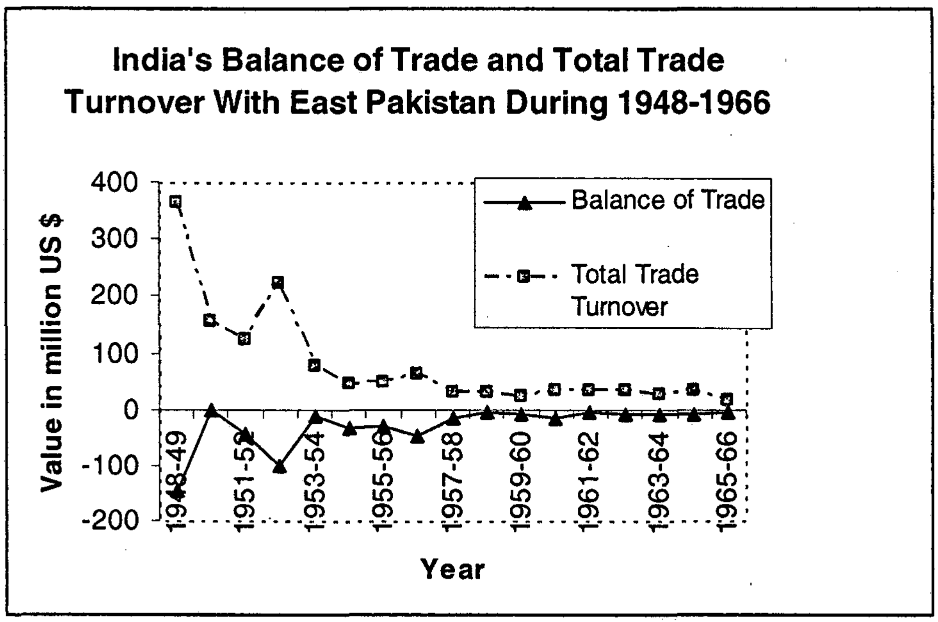

Figure 2

It is clear from this table that in 1948-49, the total trade turnover between India and East Pakistan was US $ 366 million which was an all time record in the history of their trade.

The devaluation of Indian rupee in September 1949 and the subsequent non-devaluation decision by the Government of Pakistan led to substantial fall in the total trade turnover between India and East Pakistan as restrictive and retaliatory policy was adopted by both countries. There was a trade deadlock between them from September 1949 to April, 1950. As such in 1949-50, the total trade turnover between remained only US $ 16 million which was 42.6 per cent of their total trade in 1948-49. It further decreased to US $ 123 million in 1959-51, which was 33.6 percent of their trade in 1948-49.

In February 1951, the par value of Pakistan rupee vis-a vis Indian rupee was accepted by India as a result, the volume of trade in 1951-52, increased to US 223 million which was 60.9 per cent of their trade in 1948-49. However the total trade turnover between them went down up to 1954-55, when it was US $ 49 million. The reasons for such drastic fall in the total trade turnover between them, were mainly restrictive trade policy and high duties on imports adopted by the government of Pakistan. Even the system of open General Licence was cancelled in 1952 and severe restrictions were imposed for issuing Letter of Credit by the government of Pakistan. Further, the increased production of Indian raw jute in 1953-54, also led to contraction in Indian imports of raw jute from East Pakistan.

In July 1955, Pakistan rupee was devaluated and old parity was again established with Indian rupee. Consequently, trade between India and East Pakistan, further strengthened. In 1955-56, the total trade turnover was US $ 62 million between them which increased by 26.53 per cent in comparison to the previous year. But after 1955-56, mutual trade between India and East Pakistan continuously went down. In 1965-66, the total trade turnover between them was US $17 million only. After the Indo-Pakistan war of 1965, Pakistan imposed official embargo on her trade with India which remained in forced for about nine years. (Islam, 1998: 28-30).

It is clear from table 1 that during 1948-66, India had always a deficit in her balance of trade with East Pakistan. Her trade deficit with East Pakistan was highest in 1948-49, which was US $148 million. However it was lowest (US $ 2 million) in 1949-50. The main reason of India's trade deficit with East Pakistan during 1948-66 was her high imports of raw jute in order to meet the requirements of domestic jute industries which earned major foreign earnings for India.

Table 3.2

Composition of India's Exports to East Pakistan during 1948-56

(Value in lakh US $)

Article/Item	**1948-49***	**1949-50***	**1950-51***	**1951-52**	**1952-53**	**1953-54**	**1954-55**	**1955-56**
Tea	0.8	2	6	0.5	0.4	0.4	0.4	0.5
Spices	19.9	-	11.4	64.8	7.9	1	1.6	1.7
Wood & Timber	0.1	-	1.8	8.8	2.8	0.5	0.4	0.2
Crude minerals	3.8	1.1	0.8	0.8	3.8	3.8	4.5	2.9
Crude vegetables	17.2	9	2.2	2.2	9.8	0.6	2.8	1.6
Bidi leaves	9.2	17.9	20.7	99.3	-	2.9	5.2	7.8
Coal & coke	37.3	46.1	7.4	28.8	33.7	24.7	22.1	28.4
Animal and vegetables oil and fats	63.9	38.1	50.5	49.5	53.7	1.8	2	0.7
Chemicals	3.1	3.4	3.6	5	2.3	0.3	0.5	0.7
Drugs & medicines	6	8.6	4.2	7.3	16.7	2.7	5.1	0.7
Textile yarn, fabrics And related products	104.9	41.7	51.3	23	43.6	12.3	36.7	0.7
Glass and glassware	2.1	2.7	2.6	1.4	1.5	0.9	1	2.2
Building and engg. materials	0.3	...	5.9	4.3	7.6	3.8	6.6	2.5
Iron and steel	15.6	9	3.7	2.6	3.8	2.6	2	2.7
Machinery and								
Transport equips.	4.1	11.5	6	7.4	13.5	3.2	3.5	5.3
Printed matter	1.4	4.7	4.9	7.9	11.3	2.3	2.9	2.9
Misc.manufactures	51.2	275.5	34.9	4.2	11.5	3	3.3	2.2
Total (inc.others)	**468**	**624**	**330**	**612**	**320**	**71**	**102**	**80**

Source: Monthly Survey of Economic Condition in East Bengal, December 1950 & May 1952, P.S.B. AND B.C.I.I., Dhaka and Monthly Statistics of the Foreign Trade of India (Various issues), D.G.C.I 7 Calcutta.

Composition and trends of India's Exports to East Pakistan during 1948-65

Table 3.2 and 3.3 depict the composition of India's exports to East Pakistan from 1948-49 to1955-56 and 1957 to 1965. As regards India's exports to East Pakistan, these were highly diversified. The major items of India's exports to East Pakistan were coal and coke, textile yarn, machinery, transport equipments, iron and steel, bidi leaves etc.

Table 3.3

Composition of India's Exports to East Pakistan during 1957-65

(Value in lakh US $)

Article/Item	1957**	1958**	1959**	1960-61	1961-62	1962-63	1963-64	1964-65
Tea	0.5	0.6	0.4	0.5	0.6	0.5	5	2.4
Spices	0.9	0.5	1	3	2.8	4	2.8	2.8
Wood & Timber	1.3	0.7	1.1	1.9	2.5	1.1	1.1	8.4
Crude minerals	4.7	6.7	4.4	3	6	5.5	4.6	8.4
Crude vegetables	2.4	2.1	1.6	3.1	5.5	1.9	3.4	6.7
Bidi leaves	8.2	8.1	12.1	5.9	4.5	6.3	2.3	3.1
Coal & coke	24.2	50.6	29.3	42.3	46.7	56.8	40.7	50.4
Animal & vegetables oil and fats	0.4	0.5	0.7	0.8	1.2	0.5	0.2	1
Chemicals	2.1	1.3	2.1	3.8	2.9	2.8	3	3.1
Drugs & medicans	1.3	1.5	1.2	3.7	3.5	3.8	1.7	3.8
Textile yarn, fabrics and related products	0.4	0.4	0.3	0.3	0.3	0.4	1	0.5
Glass and glassware	1	0.8	1.3	2.1	1.6	1.5	1.6	2.2
Building and engg. materials	6.7	2.7	0.9	2.5	12.3	1.4	10.5	4.2
Iron and steel	-	-	-	-	17.4	9.3	0.8	8.7
Machinery and transport equipts.	4.5	4.4	5.9	6	8.3	10.5	11.8	14.7
Printed matter	2.5	2.7	3.5	2.4	3.2	4.1	4.3	5.6
Misc.manufactures	2.1	2	1.6	-	-	-	1.9	5.5
Total (inc.others)	**68**	**92**	**72**	**108**	**147**	**140**	**105**	**134**

* Financial year July to June

** Calendar years

Source: Monthly Survey of Economic Condition in East Bengal, December 1950 & May 1952, P.S.B. AND B.C.I.I., Dhaka and Monthly Statistics of the Foreign Trade of India (Various issues), D.G.C.I 7 Calcutta.

Up to 1952-53, animal & vegetable oils and fats, textile yarn, machinery and transport equipments, spices were the most important items of India's export to East Pakistan. In 1948-49, textile yarn constituted about 22.4 per cent of India's export to East Pakistan. From 1948-49 onwards, coal and coke occupied a significant place. It constituted about 29.7 per cent of India's export to East Pakistan during 1953-65. In 1965-66, iron and steel accounted about 22.4 per cent of India's export to East Pakistan. (Joy, 1998: 38-39).

Table 3.4

Composition of India's imports from East Pakistan during 1948-1956

(Value in lakh US $)

Article/ item	1948-49*	1949-50*	1950-51*	1951-52	1952-53	1953-54	1954-55	1955-56
Fish	7.2	36.1	54.4	57.1	27.6	32.9	54.5	61.8
Vegetables	3.9	18.6	18	9.1	8.5	6.1	3.7	2.6
Spices	14.2	22.3	26.9	0.2	9.8	1	0.02	0.1
Eggs	-	...	...	4.9	11.2	18.5	23	21.9
Hides and skins	49.1	15.4	28.7	16.6	12.7	11.7	12.2	17.3
Raw jute	2890.9	814.9	1332.7	1522.8	346.1	300.7	273.1	405.8
Kapok (raw)	...	...	...	7.8	4.4	8.6	6.7	5.9
Seeds	1.8	8.2	1.3	0.7	6.4	7.4	0.4	3.3
Total (Incl.others)	**2976**	**910**	**1505**	**1622**	**437**	**392**	**388**	**539**

* Financial year is July to June.

** Calendar years

Source: Monthly Survey of Economic Condition in East Bengal, December 1950 & May 1952, P.S.B. AND B.C.I.I., Dhaka and Monthly Statistics of the Foreign Trade of India (Various issues), D.G.C.I 7 Calcutta.

Composition and trends India's imports from East Pakistan during 1948-65

Table 3.4 and 3.5 during 1948-65 India's major imports from East Pakistan consisted of raw jute, fish, hides and skins, and spices. These four items accounted for more than 96 per cent of India's import from East Pakistan during 1948-56. From 1948-49 onwards, raw jute was the only single item which accounted about 83.7 per cent of India's imports from East Pakistan up to 1965-66.However, the share of raw jute was quite substantial in India's import during 1948-66, yet its import went down in absolute terms over the period. India imported raw jute of US $ 2890.9 lakh in 1948-49, which remained only US $ 59.4 lakh in 1965-66. This was due to the fact that domestic production of raw jute has been increased by India since1958, and export of raw jute in Kutcha bales was banned in December 1954 by the government of Pakistan. Fish also occupied a significant place in India's imports from East Pakistan during 1948-65 its share increased about 2.4 per cent in 1948-49 to 14 per cent in 1954-56. Its share in India's imports from East Pakistan was about one-third during 1957-65. (Joy, 1998: 38).

Table 3.5

Composition of India's imports from East Pakistan during 1957-1965

(Value in lakh US $)

Article/ item	**1957****	**1958****	**1959****	**1960-61**	**1961-62**	**1962-63**	**1963-64**	**1964-65**
Fish	43.2	41.6	59.4	38.8	69.1	67.5	114.9	68.6
Vegetables	4.8	0.02	...	...	0.04	0.02	0.1	...
Spices	2.5	0.1	0.02	...	0.02	0.3	0.1	...
Eggs	18.8	0.5	0.2	...	2.9	4.622.1	...	...
Hides and skins	6.9	6.7	14.5	34.1	12.6	22.1	23.6	15.5
Raw jute	148.4	71.7	30.9	158.4	102.4	62.1	38.9	141.1
Kapok (raw)	0.9	1	1.3	...	2	2.2	...	...
Total (Incl.others)	**234**	**125**	**107**	**255**	**202**	**215**	**184**	**231**

* Financial year is July to June

** Calendar years

Source: Monthly Survey of Economic Condition in East Bengal, December 1950 & May 1952, P.S.B. AND B.C.I.I., Dhaka and Monthly Statistics of the Foreign Trade of India (Various issues), D.G.C.I 7 Calcutta.

India's share in East Pakistan Trade during 1948-66

During 1948-66, the major portion of East Pakistan's trade with India was by land. It was mainly due to geographical location and proximity of two countries. During 1948-66, East Pakistan was highly dependent on India for her trade. It is clear from Table 6 that the share of India in East Pakistan's exports was 57.61 per cent in 1948-49 which decreased to 3.29 percent in 1965-66. Similarly, India's share in East

Pakistan imports was 69.23 per cent in 1948-49 which remained only 2.21 per cent in 1965-66. India's share in East Pakistan total trade decreased from 60.64 per cent in 1948-49 to 2.74 per cent in 1965-66. However, on an average during 1948-66, India's shares in East Pakistan's exports and imports were 19.44per cent and 17.97 per cent respectively. Her share in East Pakistan's total trade was 19.14 per cent during the same period.

The share of East Pakistan in India's total trade during 1948-65 was 2.19 per cent on an average. Clearly, India was far less dependent upon East Pakistan for her trade during the same period. (Rahman, 1998: 18).

Table 3.6

India's share in East Pakistan's trade during 1948-66

(Per cent share)

Year (April-March)	Exports	Imports	Total Trade
1948-49	57.61	69.23	60.64
1949-50	33.9	48.09	39.71
1950-51	24.67	34.13	27.11
1951\52	38.31	30.61	35.84
1952-53	21.53	20.19	25.27
1953-54	20.95	8.57	17.16
1954-55	18.08	11.12	15.99
1955-56	24.73	12.77	22.05
1959-60	7.03	5.83	6.58
1960-61	9.63	5.09	7.6
1961-62	7.35	7.17	7.27
1962-63	8.3	7.04	7.75
1963-64	7.62	3.56	5.39
1964-65	8.6	3.96	6
1965-66	3.29	2.21	2.74
Average	**19.44**	**17.97**	**19.14**

Source: Monthly Statistics of the Foreign Trade of India, (various issues), D.G.C.I. & S., Calcutta; Monthly Statistics; Bulletin of Bangladesh, B.B.S., Dhaka.

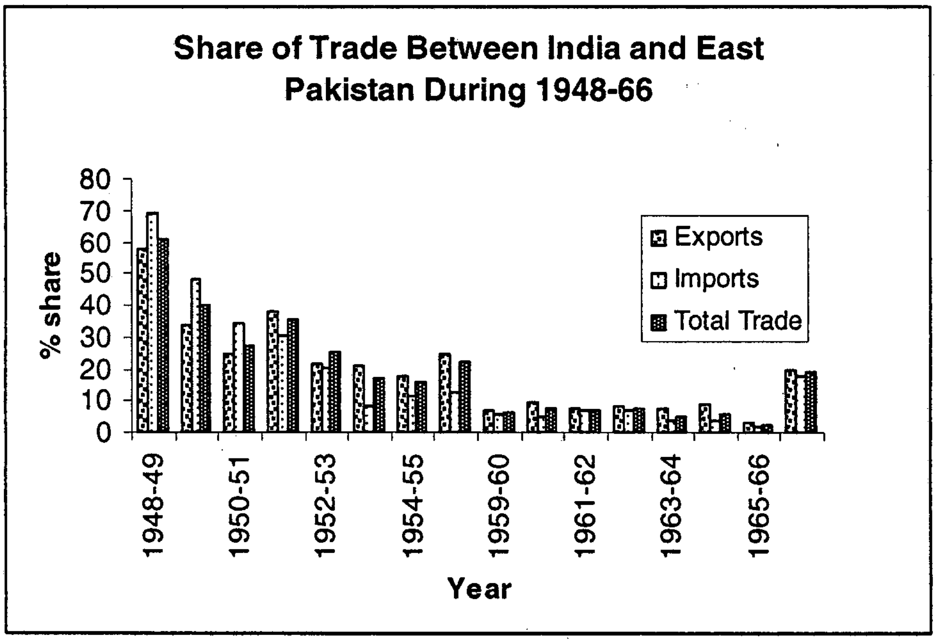

Figure 3

Table 3. 7

East Pakistan's share in India's trade during 1948-66

(Per cent share)

Year (April-March)	Exports	imports	Total Trade
1948-49	8.94	14.91	12.44
1949-50	6.83	5.98	5.72
1950-51	3.16	6.1	4.83
1951\52	3.97	7.96	6.62
1952-53	2.64	2.96	2.81
1953-54	0.64	3.06	1.93
1954-55	0.82	2.81	1.8
1955-56	0.64	3.78	2.13
1959-60	0.6	0.78	0.71
1960-61	0.78	1.06	0.98
1961-62	1.03	0.87	0.95
1962-63	0.93	0.9	0.93
1963-64	0.63	0.72	0.68
1964-65	0.78	0.87	0.8
1965-66	0.41	0.34	0.37
Average	**2.19**	**3.54**	**2.91**

Source: Monthly Statistics of the Foreign Trade of India, (various issues), D.G.C.I. & S., Calcutta.

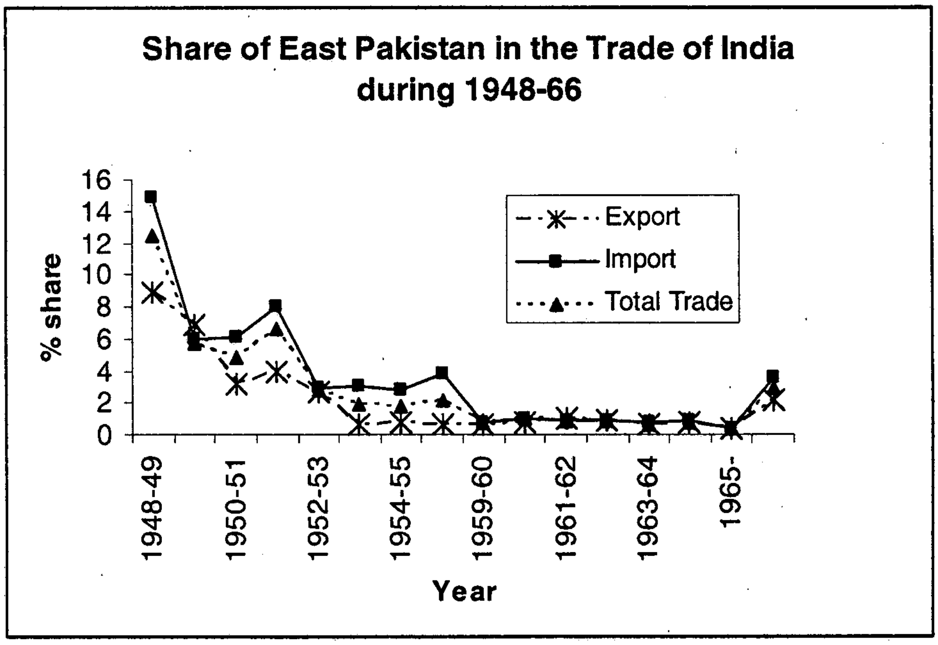

Figure 4

The period 1965-71 witnessed two wars between India and Pakistan. First in september1965, Pakistan attacked India owing to Kashmir dispute, which led to war between them. Immediately after the war Pakistan imposed official embargo on her trade with India. Hence the suspension of trade between India and East Pakistan was a natural outcome. This suspension of trade created problems for both the countries. Both were forced to import many items from the world market at higher prices, which could have been done at lower prices from each other. For example, East Pakistan imported coal from China costing Rs. 172 per ton which could be had from India at Rs. 53 per ton only.

On December 3, 1971, another war started between India and Pakistan due to border violations. It led to the freedom of East Pakistan. On December 16, 1971, with the unconditional surrender of Pakistani forces to the joint forces of India and Bangladesh, East Pakistan came to be known as People's Republic of Bangladesh. India accorded recognition to the Bangladesh which was followed by a series of bilateral agreements on defence, foreign relations and trade. India made all out efforts to rehabilitate the war- torn economy of Bangladesh and has always tried to develop broad- based cooperation with the Bangladesh. (Satyamurthy, 1979: 52-53).

Historical Development of India-Bangladesh Trade Relations

Bangladesh and India signed the "Treaty of Friendship Cooperation" on March 19, 1972 in Dhaka for 25 years. Due to this treaty both countries signed the first one- year trade agreement on March 28, 1972 (Madan 1998 :).The trade between two the nations was limited to government level. Under the agreement, principle commodities for Bangladesh's export to India were fish, raw jute, newsprint, furnance oil and naphtha .On the other hand, cement, coal, machinery, and unmanufactured tobacco were the major items of India's exports to Bangladesh. The trade between these two nations was proposed to be conducted in a three- tier framework: the first would be border exchange, involving ordinary items of daily consumption for the people living within 16 Kms., belt of the border between West Bengal, Assam, Meghalaya, Tripura and Mizoram on one hand and Bangladesh on the other ; the second would consist of 'Limited Payment Trade' on a large scale for a balancing arrangement under which the countries were to import and export, specified items of the value of Rs. 25 crores in each direction. In case of any imbalance with the specified ceiling, an interest free technical credit up to a limit of Rs. 5 crores was to be provided in the form of a swing credit from either side, to balance the two countries at the end of term; and the third would be regular international trade according to economic regulations of the two nations. (Madan, 1998: 69-70).

With the above trade agreement between India and Bangladesh, mutual cooperation was extended by both these nations. On June 10, 1972, these two countries decided to cooperate in the areas of atomic energy, space research and higher education. On November 24, 1972, the Indo- Bangladesh Joint River Commission was set up for the equitable utilization of the water resources to their mutual gains. On January 5, 1973, a Joint Power Board was set up to ensure effective use of their power and energy resources.

The first trade agreement revealed a big gap between the planned and realised targets. By March, 1973, India's exports to Bangladesh were estimated to be around Rs. 18.5 crores and imports at Rs. 14 crores which were far below the target level of Rs. 25 crores each. Further free border trade between India and Bangladesh, led to illicit trade and hence in October 1972, border trade was abolished between two nations by mutual consent. However the first trade agreement was further extended up to September 27, 1973 to attain the desired level of trade. (Madan, 1998:71).

On July 5, 1973, India and Bangladesh entered into a new Balanced Trade and Payment Agreement (BPTA) for a period of three years which became effective from September 28, 1973. The principle commodities identified for Bangladesh's exports to India were raw jute, fish, newsprint, and low grammage paper. On the other hand, unmanufactured tobacco, cement, coal, raw cotton, cotton yarn, cotton textiles and books were major items of India's exports to Bangladesh. Most of the provisions of the trade agreement were same as those of 1972. It emphasised on the need that trade between the countries be balanced itself at the end of one year (Venkatasubbulu 1996: 107).

After a few days of above trade agreement, India and Bangladesh came to an understanding on the fixation of jute prices. Indian government advised the Jute Corporation of India to maintain an average procurement price of Rs. 157.68 per quintal in Calcutta, almost on parity with the Bangladesh's price of Rs. 146 per quintal. On December 29, 1973, both these countries agreed on the long-term bilateral cooperation in regard to the production of raw jute and export of jute goods. (Badruddin, 1997: 58).

The trade agreement of 1973 could not achieve the desired level of trade between India and Bangladesh, and showed large imbalance in their trade in the very first year. The rupee trade was found to be a barrier in the bilateral trade of India and Bangladesh. For example it was beneficial for India to sell coal against foreign exchange. Similarly, Bangladesh was also interested to sell jute against foreign exchange. Therefore, it was decided to abolish rupee payment agreement. On December 17, 1974, a protocol to the trade agreement was signed by India and Bangladesh at New Delhi, which abolished rupee trade from January 1, 1975 and decided to conduct trade in free convertible currency. It was expected that new Protocol would expand bilateral trade between India and Bangladesh. However trade could not reach the desirable level.With the devaluation of Bangladesh's Taka by around 50 per cent in May, 1975, it was hoped that Bangladesh's exports to India would expand which balanced their trade. But none of the benefits seemed to be passed on to the exports of Banglaesh.However the effect of devaluation of Bangladesh's imports were of symmetrical type. (Kumar, Lama and Mukherji,: 75-77).

On July 30, 1975, trade agreement was signed by five developing countries of Economic and Social Commission for Asia and Pacific (ESCAP), namely, India, Bangladesh, Sri Lanka, Republic of Korea and Laos, at Bangkok. It is known as Bangkok Agreement. Under this agreement, India and Bangladesh extended tariff and non-tariff trade preferences to each other. India gave major trade concessions in various items of exports interest to Bangladesh. These items included dried fish, molasses, glycerine, etc. similarly, Bangladesh offered concessions in various items of India's export interest. These items included twine, cordage, unmanufactured tobacco, ropes and cables, etc.

Indo- Bangladesh faced a huge setback when Sheikh Mujibur Rahaman, Prime Minister of Bangladesh was assassinated in an army coup on August 26, 1975 and political power was captured by Khondakar Mushtaque, Mujib's Minister of Commerce. However, Mushtaque on August 26, 1975, reassured India of his close cooperation with her. But due to anti Indian tirade in Bangladesh, their mutual relations started deteriorating. On November 7, 1975, Bangladesh faced another coup and political power was captured by General Ziaur Rehaman. (Madan, 1998:72).

On January 12, 1976, India and Bangladesh signed a trade protocol which visualized higher volume of trade and long- term arrangement for trade of coal and newsprint in order to balance the trade. On August 14, 1976 India and Bangladesh agreed on Nepal's trade with through Indian territory.

On October 5, 1976, BPTA between India and Bangladesh was extended for three years till September 27, 1979, on the request of Bangladesh. The emphasis was given on increasing the volume of their mutual trade. On April 18, 1979, the then Prime Minister of India Morar ji Desai visited Dhaka in order to improve relations between India and Bangladesh. Bangladesh President Ziaur Rehaman agreed with Desai for mutual cooperation between two countries in the fields of economic technology and agriculture.

India and Bangladesh signed another three years trade agreement on October 4, 1980 and reiterated the 'Most Favoured Nation Treatment' (MFN) to each other. The agreement was extendable for another three years by mutual consent. Up to September 1980, their mutual trade was governed by BPTA, which was extended twice. It did not mention earlier balanced trade provision. Trade agreement of 1980 was basically similar to BPTA, 1973. It made clear that all payments were to be given in freely convertible currencies. Both the countries discussed to offer mutually beneficial transportation facilities for trade between them. The protocol on inland water transit and trade between India and Bangladesh was also signed for three years at this occasion. It provided transit facilities for Indian vessels carrying specified goods from Calcutta to Dhubri and Krimganj in Assam and back. India agreed to give Taka 25 lakhs as annual conservancy charges for this purpose. (Madan, 1998: 73-74).

On December 30, 1980, a cultural protocol was signed between India and Bangladesh for regular exchange of ideas in science, education, and other social activities. Afterwards, on December, 1981, first technical cooperation agreement was signed between these two nations. On March 24, 1982, General Ershad captured power of Bangladesh in a coup. A summit took place between Indira Gandhi and H. M. Ershad in New Delhi on October 7, 1982, which gave fillip to indo- Bangladesh economic relations. At this time, they decided to set up a Joint Economic Commission (JEC) in order to promote mutual trade and to identify the areas of Joint Ventures and mutual economic cooperation. With the establishment of JEC, private trade was also allowed. (Prajapati, 1988: 55).

The first meeting of JEC between India and Bangladesh took place on November 17, 1982, which agreed to promote mutual trade and economic cooperation between them. Cement, fertilizers and the sponge iron were the areas of joint ventures in Bangladesh, the produce of which could be exported from Bangladesh to India in order to balance their mutual trade. A five year agreement on scientific and technological cooperation was also signed between these two countries.The second meeting of JEC was held in Dhaka during the third week of August 1983. The meeting emphasised on the need of mutual cooperation in the areas of economic, commerce and industry. It decided to renew trade agreement of for another three years. The trade continued to be governed on MFN in freely convertible currency. India agreed to import large quantity of urea, bitumin and newsprint from Bangladesh. (Das, 1998: 149-150).

On November 8, 1983, India and Bangladesh renewed a Protocol, to raise the annual conservancy rate from present Taka 25 lakhs to 50 lakhs at the request of Bangladesh. In May 1986, India and Bangladesh extended their bilateral trade agreement of 1983 for another three yeas till October 3, 1989. India agreed to import more quantity of urea, leather, newsprint and books from Bangladesh and to export coal and wheat to Bangladesh. A Protocol on inland water transit and trade between them was also extended till October 3, 1989. In second week of September 1989, the Indo-Bangladesh trade review talks were held in Dhaka which renewed the existing trade agreement for another three years from October 4, 1989 to October 3, 1992. At this time, the two countries agreed to countries agreed to explore the possibilities of entering into a long–term agreement for export of urea and newsprint from Bangladesh to India. India's major items of export to Bangladesh included engineering goods, transport equipments, textile yarn, coal, machinery, chemicals, fruits and vegetables. Bangladesh's major items to export to India were newsprint, books, periodicals and chemicals. Afterwards, on September 22, 1989, the existing Protocol on inland water transit and trade between India and Bangladesh was further extended for two years till October 3, 1991. (Das, 1998: 151).

The third meeting of Indo- Bangladesh Joint Economic Commission was held in New Delhi in the third week of May 1990. This meeting was held after a long gap of seven years though would be held annually. At this meeting, both sides recognised the trade imbalances and agreed to increase the exports from Bangladesh to India by establishment of Joint Ventures in Bangladesh with Indian participation and buy back agreements in order to bridge their mutual trade gap. Bangladesh offered to increase the export of newsprint, jamdani sarees, jute carpets, etc. for India. Both sides laid emphasis on mutual cooperation in the areas of trade, science and technology, economic and culture. During trade talks between Federation of Indian Chamber of Commerce and Industry (FICCI) of India and Chittgong Chamber of Commerce and Industry (CCCI) of Bangladesh on October 25, 1991, President of FICCI said that project exports could be executed by India to Bangladesh, particularly in the areas of power, transport, communication and other services. (Chari, 1997: 193).

Balance of Trade between India and Bangladesh from 1972 to1991

India's exports were higher than imports from Bangladesh which led to favourable balance of trade for India. At current prices, India's total trade turnover with Bangladesh was US $ 3590 million from January 1972 to March 1991. India's exports were US $ 3380 million and imports were only US $ 260 million. Hence US $ 3070 million remained surplus in India's favour during above period. Table 3.8 shows the magnitude of India's trade with Bangladesh during1972-1991 at constant prices it is clear from this table that during1972-73, the very first year after the liberation of Bangladesh, India's exports to Bangladesh amounted to US $ 423 million which were highest up to 1990-1991. During 1979-80, India's exports to Bangladesh amounted to US $115 million which was a record during 1974-1991. It was due to the formation of new Janta Government in India which was rather more cordial to Bangladesh. (Banerjee, 2002: 180).

Table 3.8

India's Balance of Trade with Bangladesh during 1972-1991 at Constant Prices

(Base =1978-79 = 100)

year (April-March)	Export to Bangladesh	Imports from Bangladesh	Balance of Trade	Total Trade Turnover
1972-73	423	13	410	436
1973-74	120	44	76	164
1974-75	68	14	54	82
1975-76	86	5	81	91
1976-77	68	7	61	75
1977-78	60	2	58	62
1978-79	64	2	62	66
1979-80	115	6	109	121
1980-81	87	11	76	98
1981-82	58	16	42	74
1982-83	34	7	27	41
1983-84	39	7	32	46
1984-85	53	24	29	77
1985-86	62	8	54	70
1986-87	72	9	63	81
1987-88	74	7	67	81
1988-89	77	5	72	82
1989-90	99	5	94	104
1990-91	104	7	97	111
Total	**2031**	**209**	**1822**	**2240**

Source: Monthly Statistics of the Foreign Trade of India, (various issues), D.G.C.I. & S., Calcutta.

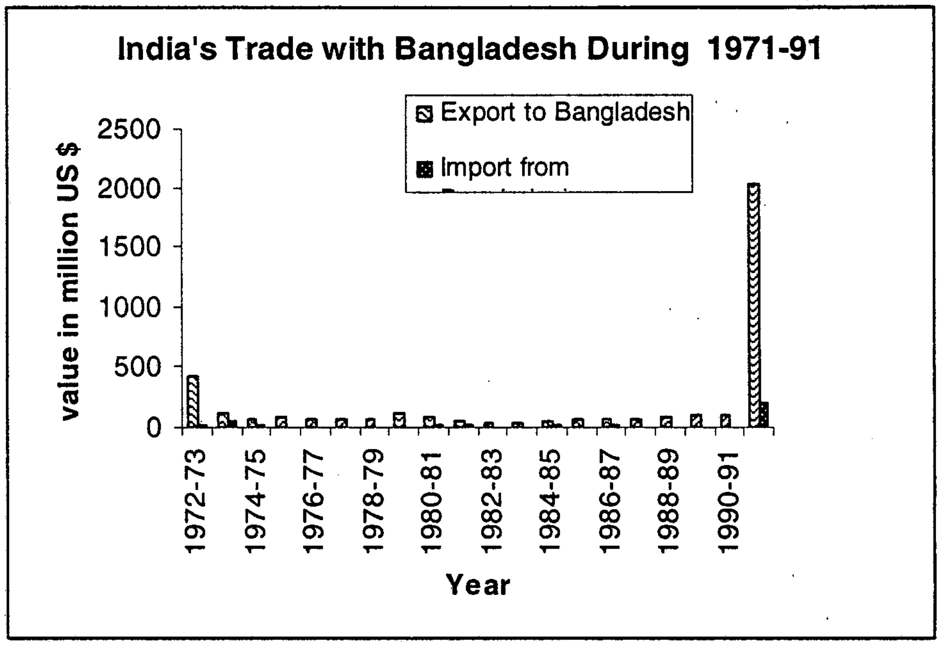

Figure 5

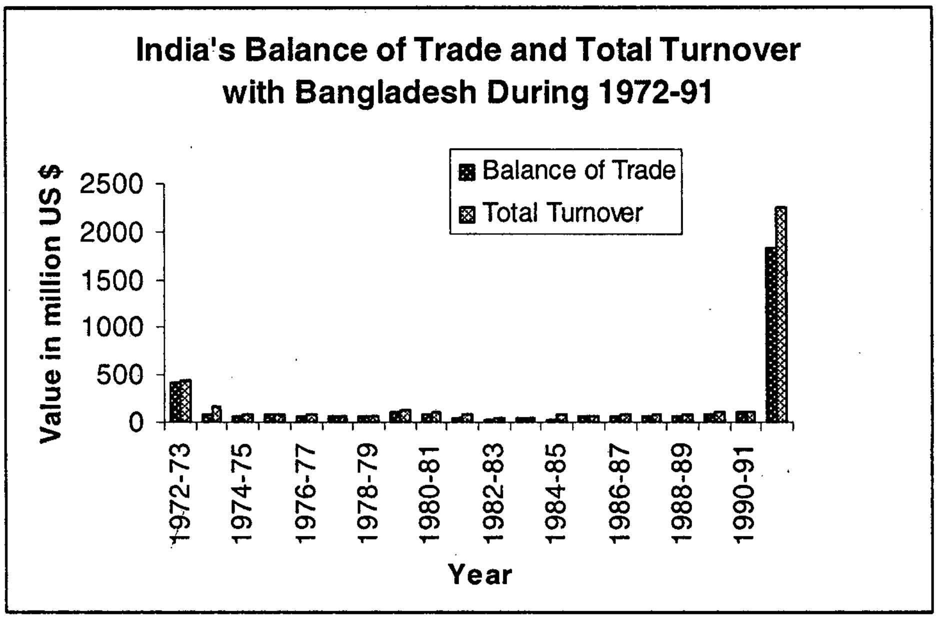

Figure 6

Composition and trends of India's Export to Bangladesh during 1972-1991

Table 3.9, 3.10 and 3.11 depict composition and trends of India's export to Bangladesh during 1972-1971. As regards the composition of India's exports to Bangladesh, food and live animal, coal, textile yarn, iron and steel, machinery and transport equipments, and fruits and vegetables were the major items. During the first year of Bangladesh liberation, India exported about 42.7 per cent of food items, of her total export to Bangladesh. The share of this item in India's export to Bangladesh declined to about 28.5 per cent in 1979-80 and to 1.3 per cent in 1981-82. Because in 1972-73, agriculture was hit hard by bad monsoons in Bangladesh and further in 1974 -75 severe floods caused great set back to agriculture. Therefore Bangladesh's imports of food items were much more in the initial period of Indo- Bangladesh trade. The excellent monsoon in 1975-76 improved the food production considerably in Bangladesh. Hence fall in imports of food items, of Bangladesh from India since 1975-76 was due to the increased domestic production of food items. The share of machinery and transport equipments, coal, textile yarn and fibers had also accounted a large proportion in India's export to Bangladesh during 1972-1991. While the share of machinery and transport equipments was only about 8 per cent in 1972-73, this increased to 52 per cent in 1981-82 which however, decreased to about 9 per cent in 1990-91. The share of this item increased due to the industries began to develop in Bangladesh since 1976-77. The share of coal in India's export to Bangladesh increased from 1 per cent in 1972-73 to 5 per cent in 1981-82, and remained 4 per cent in 1990-91.

The share of textile yarn and fibers in India's export to Bangladesh in 1972-73 was only 3 per cent which increased to 7 percent in 1981-82. This was the first major item of India's exports to Bangladesh during 1982-91. In 1982-83 its share in India's total exports to Bangladesh was only about 14 percent which picked up to more than 52 per cent in 1989-90 and 46 per cent in 1990-91. During 1982-99, its share remained more than 43 per cent of India's total exports.

During 1986-91, textiles constituted about 45.7 per cent of India's total export to Bangladesh. This item feed the garment industry of Bangladesh. Before 1986-87, India could not export textiles to Bangladesh on a large scale due to quota restrictions at home. Since 1990-91, the share of textiles in India's exports to Bangladesh has remained more than 47 per cent. There it appears that Bangladesh's dependence on Indian textiles is quiet significant (www.worldbank.org.bd/bds).

Table 3.9

Composition of India's Exports to Bangladesh during 1972-79

(Value at current prices, in lakh US $)

Article/ Item	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79
Food and live animals	924.3	6.9	6.1	19.5	6.9	34.6	6.8
Vegetetable and fruits	0.1	1	0.8	6	7.7	13.9	25.3
Crude minerals	9.8	8.1	28.8	18.1	28.3	36.6	3.3
Metalliferous ores	0.3	9	0.5	0.2	12	7.9	0.5
Crude animal and veg. oils &fats	10.5	12.7	2.1	2	3.2	7.2	7.6
Coal and other mineral fuels	19	32.3	57.9	149	79.1	63.3	37
Inorganic chemicals	4.5	1.1	7.6	4.7	3.4	12.1	10
Dyes, tanning and colouring materials	3.6	2.3	3	14	23.6	13	49.5
Medical and pharm products	20.7	9.9	3.4	2.2	4.9	3.2	2.2
Essential oil and perfume materials	2.2	0.5	0.3	0.2	0.1	0.9	0.4
Artificial resin & plastic materials	5.7	0.3	1	0.5	2.6	2.2	6.6
Chemical materials and products	2.8	1.9	2.8	1.6	2.7	1.4	3.3
Rubber manufactures	9.6	5.2	4.3	3.9	2.5	2.7	3.8
Wood and timber	4.1	6	12.4	16.6	12.8	9.1	3.8
Textile yarn' fibers and related products	67.4	31.3	3.8	3.8	9.1	78	50
Paper and paper board	13.8	8.4	7.5	9.1	1.1	12.8	5.1
Non-metallic mineral manufactures	52.3	35.6	18.7	28.9	22.6	28.7	30.6
Iron and steel	23.6	16.5	2.1	56.7	27.4	59.9	105.9
Non-ferrous metals	3.5	6.7	11.4	6.7	26.5	37.1	10
Metal manufactures	8.8	8.1	19.9	14.1	16.9	9.7	26.2
Machinery and Transport equips.	177.6	19.1	73.2	55	152	58.7	203.1
Printed matter	3.9	11.8	3.4	2.2	3.5	3.7	6
Misc.manufactures	29.9	15	6.3	7	11	5.5	21.6
Total (inclu. Others)	**2163**	**747**	**529**	**719**	**610**	**603**	**641**

Source: Monthly Statistics of the Foreign Trade of India, (various issues), D.G.C.I. & S., Calcutta.

Table 3. 10

Composition of India's Exports to Bangladesh during 1979-86

(Value at current prices, in lakh)

Article/ Item	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86
Food and live animals	346.2	58.3	9.3	9.5	29.6	55.6	8.4
Vegetetable and fruits	38.5	34.5	36.8	35.3	35.2	60.1	64.2
Crude minerals	13	22.1	17.4	33.8	51.3	28.5	49.5
Metalliferous ores	0.7	0.8	0.4	0.4	0.9	0.2	0.3
Crude animal and veg. oils &fats	11.3	1.6	8.1	3.5	9	10.5	5.7
Coal and other mineral fuels	22.9	31	35.3	29.2	12.6	24.9	49
Inorganic chemicals	9.2	8	8	6.3	10.7	12.1	6.9
Dyes, tanning and colouring materials	50.8	48.2	50	27.8	22.6	34.1	24.5
Medical and pharm products	4	2.7	5	2.4	5.4	8.7	6.6
Essential oil and perfume materials	0.4	0.4	0.7	1.9	1.6	1.3	0.5
Artificial resin &plastic materials	6.6	15.1	7.1	2.2	1.4	4.9	0.8
Chemical materials and products	2.6	3.5	8	2.5	4.9	4.2	3.7
Rubber manufactures	5.3	11.8	7.1	5.5	20.1	50.5	57.3
Wood and timber	3.1	6.2	1.4	0.1	0.2	0.4	0.4
Textile yarn' fibers and related products	132	35	49.3	64.1	65.5	196.2	246.9
Paper and paper board	4.1	5.4	3.6	1.8	3.7	2.5	1.9
Non-metallic mineral manufactures	45.8	46.5	24.8	23	21.5	22.7	32.4
Iron and steel	27.4	42.5	11.9	7.1	24.7	4.3	4.4
Non-ferrous metals	45.1	102.9	14.4	6.5	27.1	19.8	27.2
Metal manufactures	79.2	49.2	14.6	14.6	17.8	25.5	12.6
Machinery and Transport equipts.	260	388.1	377.3	154.1	198	273.8	401.3
Printed matter	8.4	13	21.5	8.7	12.6	10.9	6.8
Misc. manufactures	7.3	20	10	12.2	5.5	18.3	17.8
Total (inclu. Others)	**1213**	**946**	**725**	**454**	**590898**	**1052**	**1284**

Source: Monthly Statistics of the Foreign Trade of India, (various issues), D.G.C.I. & S., Calcutt

Table 3.11

Composition of India's Exports to Bangladesh during 1986-91

(Value at current prices, in lakh)

Article/ Item	**1986-87**	**1987-88**	**1988-89**	**1989-90**	**1990-91**
Food and live animals	8.5	48.4	41.4	27.6	37.1
Vegetetable and fruits	47.3	100.6	162.2	248.6	219.9
Crude minerals	42.6	40.5	62	71.3	105.8
Metalliferous ores	0.3	0.4	0.4	1	...
Crude animal and veg. oils &fats	4.4	4.9	7.3	7.3	7.6
Coal and other mineral fuels	22	35.9	53	102.2	33.4
Inorganic chemicals	8.1	6.9	12.1	17.4	11.3
Dyes, tanning and colouring materials	35.5	35.2	32.8	47.9	55.7
Medical and pharm products	20.4	22	24.9	16.2	29.9
Essential oil and perfume materials	0.7	0.2	2.6	0.2	0.1
Artificial resin & plastic materials	1.2	3.5	8.2	8.5	7.1
Chemical materials and products	8	6.2	9.9	11.8	10.1
Rubber manufactures	45.2	55.1	86.5	100.8	116.5
Wood and timber	0.9	0.5	2.1	0.5	0.3
Textile yarn' fibers and related products	394.2	543	731.2	1164	1388.4
Paper and paper board	1.6	4.7	6.8	18.2	3.8
Non-metallic mineral manufactures	25.1	27.7	29.6	63.7	40
Iron and steel	19.3	11.2	50.7	89.7	101.7
Non-ferrous metals	21.3	29.3	53.7	94.6	48.2
Metal manufactures	15.6	7.6	11.8	5.2	9
Machinery and Transport equipts.	523.9	437.6	393.9	565	678.2
Printed matter	0.2	16.9	19.9	24	34.7
Misc. manufactures	29.8	3.3	6.1	7.4	48.8
Total (inclu. Others)	**1284**	**1437**	**1797**	**2752**	**3051**

Source: Monthly Statistics of the Foreign Trade of India, (various issues), D.G.C.I. & S.,Calcutta.

Composition and trend of India's import from Bangladesh during 1972-1991

As shown in table 3.12, 3.13 and 3.14 during 1972-77 in composition of India's import from Bangladesh raw jute and jute manufactures were accounted about 63.7 per cent. Further, its share was about 67 per cent in India's total imports from Bangladesh in 1984-85, which was due to the acute world shortage of jute in that year. Its share in India's impost from Bangladesh remained about 44 per cent during 1982- 1991. The share of newsprint and fish were 17.3 per cent and 13.4 per cent respectively in India's total imports from Bangladesh during 1972-77. Since 1976-77 India had not imported fish from Bangladesh due to her increase in domestic production. Newsprint accounted for about 84 per cent of India's total imports from Bangladesh during1977-80. But in 1980-81, its share declined to 7.1 per cent, which however increased to 38.5 per cent in 1981-82. During 1982- 91, its share remained about 26.2 per cent in India's total imports from Bangladesh (www.worldbank.org.bd/bds).

Table 3.12

Composition of India's Imports from Bangladesh during 1972-79

(Value at current prices, in lakh)

Article/ Item	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79
Leather, hides and skins	...	0.1	...	...	...	...	...
organic chemicals							
Chiefly glycerene	...	0.3	0.4	0.1	0.4	...	0.2
Newsprint	8.5	29.4	45.3	...	2.8	12.8	20.8
Raw jute and							
jute products	13.6	154	47	38.5	63.8	...	...
Fish	9.4	26.2	18.8	12.4	...	...	...
Special transaction							
and commodities	0.1	...	0.1	0.1	0.1	...	...
Misc. manufactures	0.3	...	0.1	0.1	...	0.1	0.1
Total (Including others)	**45**	**215**	**115**	**54**	**68**	**14**	**22**

Source: Monthly Statistics of the Foreign Trade of India, (various issues), D.G.C.I. & S.,Calcutta.

Table 3.13

Composition of India's Imports from Bangladesh during 1979-86

(Value at current prices, in lakh)

Article/ Item	**1979-80**	**1980-81**	**1981-82**	**1982-83**	**1983-84**	**1984-85**	**1985-86**
Leather, hides and skins	...	7	20.3	22	18.6	51.1	27.3
organic chemicals Chiefly glycerene	...	17.3	0.2	5.6	5.9	9.7	11.8
Newsprint	50.9	10.5	80.5	27.4	25.7	66.7	70.2
Raw jute and jute products	12.9	5.9	0.1	3.4	8.9	255.3	19.2
Fish	...	...	...	...	...	...	...
Special transaction and commodities	...	0.3	0.1	...	...	...	...
Total (Including others)	**0.1**	**0.1**	**100**	**90**	**383**	**130**	**129**

Source: Monthly Statistics of the Foreign Trade of India, (various issues), D.G.C.I. & S.,Calcutta.

Table 3.14

Composition of India's Imports from Bangladesh during 1986-91

(Value at current prices, in lakh)

Article/ Item	**1986-87**	**1987-88**	**1988-89**	**1989-90**	**1990-91**
Leather, hides and skins	8.2	19.7	12.4	1.4	2.3
organic chemicals Chiefly glycerene	18.8	6.6	7	5.4	3.1
Newsprint	68.5	68.4	39.2	22.5	33
Raw jute and jute products	18.9	15.7	27.9	72.9	132.8
Misc. manufactures	0.2	0.3	0.4	0.2	0.1
Total (Including others)	**129**	**112**	**89**	**117**	**174**

Source: Monthly Statistics of the Foreign Trade of India, (various issues), D.G.C.I. & S, Calcutta.

It is evident from above analysis of the composition of exports and imports between India and Bangladesh during 1972-91 that the number of India's export items to Bangladesh is relatively large as compared to that of Bangladesh. In fact, India is not in the need of major export item of Bangladesh. It is, therefore suggested that if the two countries want to expand their mutual trade, Bangladesh will have to add more items to her exports basket to India. Identification of commodities of stable and large potentials is imperative in this context. Many items of their mutual trade during 1972-94 were similar to their trade during 1948-66. Therefore, the only alternative for Bangladesh is to create production capacities of such articles as India would be prepared to import.

Joint Ventures

The entire trade surplus enjoyed by India in her trade with Bangladesh can be rectified by Indian joint ventures in Bangladesh on buy back agreement in the areas in which India's trade requirements are fulfilled from other countries, and Bangladesh has abundant supply of natural resources for producing those goods for India. In this context, the establishment of joint industrial ventures assumes significance for India and Bangladesh.

After the liberation of Bangladesh in 1971, four joint ventures were identified for which credit was to be provided by India. These ventures were a urea factory based on natural gas in Bangladesh; a sponge iron plant based on iron ore in India and natural gas in Bangladesh; cement plant at Chhatak (Meghalaya) based on lime stone in India; and clinker plant in Meghalaya based on clinker in India. These joint ventures discussed so many times by India and Bangladesh since 1975 and the lack of adequate political-will have eluded all possibilities of such collaboration

There are eight Joint Ventures between India and Bangladesh during 1972-1991. All these Joint Ventures are with in Bangladesh. At present, only three Joint Ventures have been commissioned so far, of which two have started production. The share of Indian equity in all these Joint Ventures is less than fifty percent. (Madan, 1998: 89-91).

Table 3.15

Indo-Bangladesh Joint Ventures during 1972-91

(Value: Taka lakh)

Name if Indian Investor M/s	Name of Firm in Bangladesh	Field of Activity	Date of Approval	Capital investment Total	Capital investment Indian	Share of Indian Equity	Implementation Status
Mohan Export Ltd. New Delhi	Amdee Mohan ExportsLtd. Dhaka	Redymade Garments	April 1980	120 (62)	54 (28)	49%	Production suspended
Shalimar Inds. Pvt.Ltd.,Calcutta	Navana Shalimar Ltd. Dhaka	Jute and Textile mill machinery and parts	23.07.1980	350 (175)	130 (65)	8.57%	In production
RPK Group of Inds., Calcutta	International Woolen Industries, Pvt. Ltd., Barisal	Woolen Text-iles goods	29.08.1987	95.98 (41)	37.23 (16)	49%	Under implemen-tation
Birla Technical Services, Calcuta	Bangladesh Steel Engg. Ltd. Dhaka	Spong iron	08. 12. 1987	50*	1.88*	3.76%	Under imple-mentation
Lundon Rubber Co. India Ltd.	Population Planning Pharmaceutical Inds. Public Ltd., Ddaka	160 million pieces condom	10. 10. 1988	2458 (1229)	1750024** (875)	10%	Under implemen-tation
Liquer & Flavour pvt. Ltd., Calcutta	Diana Dyes Pvt. Ltd., Dhaka	Dyes and chemical	10 10. 1988	81.63 (41)	40 (20)	49%	Under imple-mentation
Elegant Apparels pvt. Ltd., Bombay	Sunypun Pharmaceutical& Chemicals, Dhaka	Paracetamol B.P.Powder (Crystalline form)	06. 09. 1990	199.5 (104)	79.8 (20)	40%	In propduc-tion since July,1991
Tata Engg. And Locomotive Co.,	Nita Company Ltd., Dhaka	Mini bus, Bus, Truck, Pickup and Estate car	18. 10 1991	400 (300)	80 (60)	40%	In propduc-tion since december 1991

Source: Office of the Director, Board of investment, Dhaka (Bangladesh); and Ministry of Commerce, Government of India, New Delhi.

Economic Assistance

Since the emergence of Bangladesh, her economy has been suffering from adverse balance of payments and is forced by the circumstances to depend on foreign aid to meet her import requirement and development needs. At the time of independence, the total cost of rebuilding the damaged Bangladesh economy was estimated by the then Bangladesh's government at approximately US $3 billion, about eight times the total annual revenue of East Bengal in 1969-70. Most of the economic assistance has been financed to her through grants and loans.

Up to June 1972, India provided massive economic assistance to Bangladesh as she was politically involved in his liberation. India topped the list of Bangladesh's donors with her share of 36 per cent of total committed aid and 67 per cent of the total disbursed aid. But this assistance could not be continued due to India's domestic economic restrictions as she was her self receiving aid from abroad. There was no doubt about the long-term need of substantial aid for Bangladesh to propel her economy. Therefore, Bangladesh requested all major countries of the world for possible economic assistance to finance her imports and development needs. India appealed to international community to grant economic assistance to Bangladesh for relief operations. Initially Bangladesh refused assistance from USA, China and Pakistan, who were against her liberation. But after some time, she began to receive assistance from them due to domestic compulsions for vital aid. This caused deterioration of indo- Bangladesh economic relations. (Mahmood, Reza, Schokman, Siddiqi and Wadhva, 1987: 89).

Chapter-IV

Liberalization Policies and Their Impact

Chapter IV

Liberalization Policies and Their Impact

Economic Reforms in South Asia

Economic reforms began earliest in Sri Lanka in the late 1970s supported by various facilities provided by the International Monetary Fund (IMF). The measures involved stabilization package together with structural measures in the areas of trade and financial sector reforms, including deregulation of interest rates. But there were delays in implementing the reform programmes in mid-1980s due to political turmoil. In Pakistan, the reform process began in 1993 with a macro-economic and structural adjustment programme. The process accelerated in July 1993 when a caretaker government came to power (Quibria 1997:7).

In contrast to these countries, the latest spurt in the reform occurred in the other South Asian countries like India, Nepal and Bangladesh only a year after in 1991 as newly elected governments took over India, the Narsimha Rao government, which came to power in mid-1991, reversed the previous inward-looking approach. A number of high-level committees were established to design reform programmes in many sectors of economy. The collapse of Former Soviet Union, with which the country had close trade and investment relations, also added some urgency to the reform process in India (Quibria 1997:8-12). Similarly, Nepal and Bangladesh are now pushing on export-led developmental strategy.

In these South Asian countries both tariff and non-tariff barriers have been reduced and the exchange rate, barring the existence of some regulations, is largely market determined under the economic reforms.

In an attempt to mobilize large amount of resource in the public sector, India and Pakistan have simplified their taxation systems and expanded coverage. The public expenditure system has been streamlined in many South Asian countries. (Quibria, 1997: 13-14).

Economic Reforms in India

The origin of economic crisis

The problems of the Indian economy which assumed crisis proportions in 1991 did not develop suddenly. They had accumulated over several years. The origin of economic crisis is attributed to macro management of economy during 1980s which led to large and persistent macro-economic imbalances. The widening gap between the revenue and expenditure of the government resulted in growing Fiscal deficits which had to be met by borrowing at home. Further, the steadily growing difference between the income and expenditure of economy as a whole resulted in large current account deficits in the balance of payments which were financed by borrowing from abroad and the economy was pushed into a deep economic crisis. The Gulf crisis in the late 1990s sharply accentuated macroeconomic problems. There was also political instability in the country at this juncture. All these together eroded international confidence in the Indian economy and as a result countries credit rating in the international market declined steeply. The oil shock of 1990 made large impact on the economy and a macro-economic crisis erupted in the form of unstable fiscal and current account deficits and accelerating inflation (Mishra and Puri 2003: 904).

In response to the economic crisis situation of 1990-91 the Narsimha Rao government and the then Finance Minister Manmohan Singh decided to introduce economic policy reform which consisted two distinct strands –macroeconomic stabilization and structural reforms. Stabilization deals with demand management and structural reforms deals with sectoral adjustments designed to tackle the problems on supply side of economy (Chandra and Mukherjee 2002: 366).

Macroeconomic Stabilization

Macroeconomic stabilization involves returning to low and stable inflation and a sustainable Fiscal and Balance of Payment position. Stabilization is necessary to overcome a crisis but it assumes that special importances of structural reforms are also introduced together with stabilization. This is because structural reforms often add to macroeconomic pressure. In the short run, trade liberalization may increase deficits in the balance of payments and financial sector reforms may worsen fiscal position by raising the cost of public borrowing. Therefore, stabilization must accompany structural reforms and stabilization policies have to be bold and effective otherwise extra macroeconomic strains generated in the reform process can disrupt latter completely. In the long run, structural reform is helpful for stabilization just as stabilization is for structural reform. In the reform, losses of public enterprises would continue to burden on the budget, trade restrictions would hamper the growth of exports, and compulsory government capture of private savings would erode the fiscal discipline (Joshi and Little 1993: 2659).

India's Economic Reform

The congress government which came to power in end of June 1991 responded quickly to the economic crisis. A policy to control inflation was adopted, and measures for fiscal correction and improving the balance of payments were undertaken.

The Narsimha Rao government broke through the traditional mindset and attempted an unprecedented, comprehensive change at a time when both the ideological opposition and the resistance of the vested interest were at a weak point (Nayyar 1993: 639).

The process of reforms, started in 1991, involved inter alia, an immediate fiscal correction, making the exchange rate more realistically linked to the market, liberalization of trade and industrial controls like freer system and the abolition of MRTP, reform of public sector including gradual privatization, reform of capital markets and the financial sector, removing a large number of the restrictions on multinational corporations and foreign investment and welcoming them, particularly foreign direct investment, and so on. In short, it was an attempt to free the economy from shifting internal controls as well as equip it to participate in the worldwide globalization process to its advantages.(Nayyar, 1993: 641).

Control of Inflation

The rate of inflation in 1990-91 was above 10 percent per annum. This could be brought down by introducing fiscal and monetary discipline in the economy and other by improving output and supply position. In 1991-92, output failed to increase over the 1990-91 level, the money supply rose by 20.6 percent as a result of large accretion of foreign exchange reserves which were not stabilized. This naturally fuelled inflation.

In 1992-93 agricultural growth was satisfactory and industrial production also increased at a modest rate. As a result, net national production rose by 5 percent. On the demand the government followed a cautious approach and thus the supply of money (M_3), rose by only 14.8 percent. The fiscal deficit of Central Government was also brought down to 4.8 percent of GDP. These disinflationary measures did make some impact on the price situation and the rate of inflation declined at around 7 percent at the beginning of 1993. The Central Government did not attempt to enforce much fiscal and monetary discipline. Thus the fiscal deficit rose by 6.4 percent of GDP in 1993-94 and remained 4.7 percent of GDP in 1994-95. Supply of money rose by 18.4 percent in 1993-94 and 22.4 percent in 1994-95 (Joshi and Little 1993: 46).

Under the circumstances, the inflation rate increased over 10 percent per annum in 1993-94 and 1994-95. Due to moderate money supply growth the inflation came down sharply in January 1996 at the rate of around 5 percent. During 1996-97 the expansion of broad money (M_3) by 16.2 percent was marginally above the target of 15.5 to 16 percent for the year. The fuel price also remained frozen on account of political considerations. Hence the average annual inflation rate remained at a modest level of 6.4 percent. In 1997-98, inflation rate remained at 5.3 percent to point-to-point basis. The point to point annual rate of inflation rose during 1998-99 to a peak of 8.8 percent. It declined to 5.5 percent in 2000-01 and further to 1.6 percent in 2001-02 (Joshi and Little 1993: 47-50).

Fiscal Adjustment

Fiscal adjustment is necessary for dealing with the twin problems of high domestic inflation and large deficits in the balance of payments. Fiscal deficit of the government (Central and Union Territories together) was less than 6 percent of GDP at the beginning of the 1970s. It rose to about 8.5 percent of GDP by the beginning of 1980s and was large as 11.2 percent of GDP in 1990-91. The factor which contributed most to the growing fiscal deficit was the sharp deterioration of the balance on revenue account.

The Central Government initiated a programme of fiscal adjustment under which the fiscal deficit which was around 6.6 percent of GDP in 1990, was reduced to 4.7 percent in 1991-92 and stood at 4.8 percent in 1992-93. The central government also announced its fiscal adjustment programmes for the medium term according to which its fiscal deficit was expected to be brought down to about 3 to 4 percent by the mid 1990s (Report of Government of India on eight five year plan 1992-97: 94).

Balance of Payment Adjustment

In 1990-91 balance of payment situation was precarious. Before economic reforms, the level of foreign exchange reserves was $ 2.2 billion. After introducing economic reforms in June 1991, foreign exchange reserves had rose from a meager $ 2.2 billion in March 1991 to $ 79.2 billion on May 16, 2003. The accumulation of foreign exchange reserves suggests that the Indian economy has moved to somewhat stable and sustainable balance of payments position in the last ten years (Economic Survey 2002-2003: 124).

Structural Reforms

Trade and Capital Flows Reforms

The main focus of economic reforms has been on trade and capital flows. Since July 1991, the government has introduced a series of reforms in the trade sector which will help the integration of the Indian economy better with the world. Among these reform measures, devaluation of rupee in July 1991 and subsequently its depreciation against the currencies of the leading industrial countries, introducing of convertibility of the rupee first for on trade account and then for the entire current account transaction, liberalization of import regime, substantial reduction in customs tariff rates, wide ranging measures to give a thrust to exports are important (Viramani 1995: 309-313).

As a first step towards a gradual reduction in the tariffs, the 1991-92 budget had reduced the peak rates of import duty from more than 300 percent to 150 percent. The process of lowering the customs tariff rate was carried further in the subsequent budgets. The 1995-96 budgets reduced the peak rate of import duty from 65 percent to 50 percent. This was further reduced to 40 percent in the 1997-98 budget and 25 percent in the 2003-04 budget. Over the past few years substantial import duty cuts have been made in the case of machine tools, steel ores, leather industry, electronics and telecommunication sectors, and prevailing system of import duties has also been considerably nationalized with the purpose of establishing a parity in prices of goods produced domestically and internationally (Joshi and Little 1993: 2663).

A large number of exports and imports used to be canalized through public sector agencies. During the 1990s, large number of export and import items has been decanalized. Decanalization of exports and imports is an important step towards opening of more areas of the external sector to the private sector. The government has also liberalized capital flows in the form of foreign direct investment as a part of the package of external sector reforms. Foreign companies are now allowed to use their trademarks, accept appointments as technical and management advises, borrow and accepts deposit from public and repatriate profits. These liberalization measures in respect of foreign investment through highly acclaimed in the official circles have exposed the industrial activity to extensive control of Multinational Corporations (MNCs) (Swamy 1994: 268).

Industrial Deregulation

In industrial reforms, limit on the size of the companies which were earlier enforced under the Monopoly Restrictive Trade Practices Act (MRTP Act) has now been scrapped. This will allow industrial units to grow INTO optimum size and enjoy the benefits of economies. Until this relaxation was made the anti-monopoly legislation units had prevented many firms from growing to optimum size and thus achieve higher efficiency levels. The industrial location policy has been both simplified and liberalized. The phased manufacturing programme under which domestic manufacturers were required to increase domestic input-output of their products in a specified period has also been abolished under the new industrial policy (Bhagwati and Desai 1970: 499). pl √ this ref

The new industrial policy announced in July 1991 is on the deregulation of the industrial economy in a substantial manner and opening up of large number of industries to the private sector. The requirement of industrial licensing has been abolished for all products. But not for six categories of products; these are alcohol, cigarettes, hazardous chemicals, industrial explosives, electronic aerospace and drugs & pharmaceuticals.

In another significant step the number of industries reserved for the public sector has been reduced from 17 to 3. now core industries like iron and steel, electricity, air transport, ship building, heavy machine industries etc and even strategic industries like defence production have been opened for the private sector (Ahluwalia 1985: 163).

Public sector reforms and disinvestment made by the government which will decide to give greater marginal autonomy to public enterprises to enable them to work efficiently. Two other key elements of the government's strategy for public enterprises reforms are the promotion of increased private sector competition in areas where social considerations are not paramount and partial disinvestment of equity in selected enterprises. The government has taken concrete steps for encouraging private entry into sectors previously dominated by the public sector. Disinvestment in the form of transfer of a part of the ownership of state owned enterprises to the public is another form of privatization undertaken by the government. The government set up the Disinvestment Commission in August 1996 for suggesting the modalities for undertaking disinvestment of equity in selected public sector undertakings. The process of disinvestment is being looked after by the Ministry of Disinvestment (Jha 1985: 8-9).

Initially the government had talked of disposing off loss making Public Sector Undertaking (PSUs) while well performing PSUs were to be given autonomy to enable them develop as global Indian Multinational Corporations. The government policy seems to be entirely limited to selling off shares prime PSUs with the aim of bridging budget deficits (Raj 1985: 26-27).

Financial Sector

In January 1993 a package of financial sector reforms was announced that included permission to new private sector banks including foreign joint ventures. The government has also established a policy regime for functioning of private Non-Banking Finance Companies (NBFCs) and agencies for rating their credit worthless. The above discussion thus shows that the government since 1991 has undertaken a comprehensive reform of the economy (Jalan 1991: 76).

Trade Policy Reforms

A major reform of trade policy regime has been acted since 1991. The import licensing system has been dismantled. All Non-Tariff Barriers (NTBs) had been phased out from all tradable except consumer goods. The peak tariff rates have been brought down to maximum 30 percent by 2002 from upto 35.5 percent in 1980s. The average tariff rates have come down to 20 percent by 1988-90 (Mishra and Puri 2003: 914).

Exchange Rate Reforms

The rupee was devalued twice in July 1991 leading to 20 percent depreciation in its value. The partial convertibility of rupee on the trade accounts was announced in the 1992-93 budget. That was subsequently broadened to full convertibility on current account by August 1994. India is moving cautiously towards capital account convertibility following a roadmap provided by Tarapore Committee (Mishra and Nandagopal 1993: 163).

Trade policies of India after Liberalization

During India's 1991-92 reforms but imports of nearly all industrial consumer goods and agriculture products continued to be restricted. Among other things these imports restrictions affected SAPTA, especially in the first two negotiating rounds in 1995 and 1997,when other South Asian countries complained that it was meaningless for India to grant tariff preferences when the same products was subject to import licensing. In response to these complaints in 1998, India exempted the SAARC countries from its general system of import licensing. At about same time, it started removing these controls over the rest of the world, and final 715 tariff lines were freed on April1, 2001. India has 83 Custom posts on its land with Bangladesh. All except three are formally authorized to clear all kinds of exports and imports. Apart from removing quantitative restrictions from intermediates and capital goods, the1991 reforms reduced tariffs and pre announced tariff reduction program. Under this program tariffs came down steadily from the prohibitive levels (130 percent in 1990-91) to about 35 per cent in 1997-98. For most industrial goods, there was an especially large tariff reduction in 2004-05 resulting from a cut in the generally applied maximum custom duties. This was followed by a further reduction on maximum industrial tariff to 15 per cent in 2005-06 and to 12.5 per cent in 2006-07. Just before the withdrawal of import licensing from textiles and garments in April 2001, the government imposed specific duties on a large number of textile fabrics and garments in order to protect domestic producers against low price import competition. At present these tariffs are greater of the standard 15 per cent rate, all or the specific amount.

At present India has given preferences to Bangladesh under SAPTA on approximately 2925 tariff lines. Two third of these preferences where agreed in third SAPTA negotiating round and came in to force during India's 2000-01 fiscal year. India introduced during the 1990s, a way of providing extra protection and its tariffs came down and its import licensing system was dismantled. As of June 2004, 117 anti-dumping majors were enforced effecting exporters in 29 different countries and 166 different products. Since 2000 India has become the world's most active user of anti dumping provisions. Three major points of anti dumping practices in World Bank are, nearly all products that have been subjected to anti dumping duties were being exported to India at generally prevailing international prices. In a number of cases Indian farms which obtained anti dumping protection were exporting the same products at the same prevailing international prices. The anti dumping duties are applied to imports from individual exporting farms. They usually vary from farm to farm and are imposed on top of normal import duties. In many cases the anti dumping are prohibitively high and effectively exclude the affected farms from the Indian market. The anti-dumping duties imposed in early cases are intended as a warning to the exporters in other countries to charge fair and reasonable prices in exporting to India. This intimidation factor may be more important in restraining import competition than the direct effects of the anti-dumping duties that are actually imposed. India operates an extremely comprehensive set of export policies which have been an outcome of many years of efforts to remove barriers disincentives for exporters. Two aspects of these policies that are relevant-India's trading relationship with Bangladesh and rebates for its exporters under duty nutralisation schemes such as duty drawback has been substantially reduced during the past five years as tariff levels have decline rates ~~for~~ exported garments which were 16 per cent during 2002-03 had been reduced to a range of between 3.2 per cent and 8.5 per cent in December 2004.As pointed out in the readymade garments case study, it means that Indian domestic prices, and garments are likely to be not far above fob exports prices. In recent years India has demonstrated that it is willing to subsidize its exports of rice when there have been large domestic surpluses. Bangladesh is the largest trading partner of India in South Asia. Since 1991 in the wave of liberalization, globalization and privatization Bangladesh also moved towards enchasing trade and investment of the country. It was expected in the economic interest of nation that policy makers of Bangladesh would come closer to India for regional and bilateral economic cooperation.

Impacts of Policy Reforms in India

The performance of Indian economy in the post-reform period has been judged by standard criteria of growth rates of national income and per capita income, external balance and inflation rate. In these respect, India has done well. In between 1992-93 and 2000-01 the average annual growth rate reached 6.3 percent. With a slowing down of the population growth rate, the per capita income growth rate in the nineties has been 3.8 percent. During 1992-93 to 2000-01, the industrial growth rate was 6.6 percent and the growth rate in services was 7.9 percent. The gross domestic savings rate of the economy on an average during the period 1992-93 to 1999-2000 has remained at 23.1 percent of GDP.

Inflation rate as measured by the Whole Sale Price index (WPI), though high in the early nineties, started declining from 1995-96 and the average inflation rate has been around 5 percent since then. The current account deficit after reaching as high as 3.1 percent of GDP in 1990-91 has been steadily declining during the nineties and has been around 1 percent of GDP in the past few years. Foreign exchange revenues have increased from US $ 5.8 billion in 1990-91 to US $ 38 billion by March 2000. Thus the macroeconomic indicators showed a distinct improvement in the performance as compared with the previous periods (Rangarajan 2004:237-238).

Economic Reforms in Bangladesh

I Macroeconomic and Sector Reforms

Fiscal Reform

VAT is introduced in July 1991 as a major effort in the area of tax reforms. As a result, tax-GDP ratio has shown an increasing trend. Efforts have been made to expand the tax base and compliance rate for the VAT.

On the side of expenditure a number of procedural changes have been introduced in relation to the implementation of the annual development programme including the introduction of the three-year rolling plan (Quibria 1997: 18).

Financial Sector reforms

The most important reform in this sector relates to interest rates now essentially market oriented, and deregulation of interest rates. Role of direct credit declined and NCB given greater freedom, a new loan provisioning system introduced, private and foreign banks allowed, NCBs have been partially recapitalized and securities exchange commission established in 1993 (Quibria 1997: 19).

External Trade

Imports are liberalized through the reduction of tariff and quantitative restrictions on imports liberalized considerably: 192 to 112 items in 1993, level of tariff and strict use of tariff rates improved. Presently only two products (cigarette and alcohol beverages) still have tariffs over 100 percent, maximum rate on others is 60 percent. Tax exemption on imports of capital machineries was there for 100 percent export oriented industries (Young 1993: 406).

Exchange Rate

Dual exchange rate system was abolished in 1992 and Taka was fully convertible for current account transaction (Rana 1994: 102).

II Microeconomic Reforms

Agricultural Sector & Land Issues

Most of the distortions in the agriculture sector had been eliminated by the removal of subsidies and privatization of the input distribution system. Some actions were taken in land reforms during 1980s (Sachs and Woo 1993: 36-37)

Industrial Policy& Public Enterprises Reform

Investment sanctioning regulations (for both domestic and foreign investors) have been released significantly; progress in restructuring and privatizing enterprises has been slow. In 1991, the government had announced a list of 26 state-owned enterprises stated for the first stage, privatization. However, privatization has been finalized for only a total of 18 enterprises of which only 11 have actually been handed over to the private sector, industrial licensing system abolished.

And reforms in labour market and public administration were also slow in Bangladesh.

Trade policies of Bangladesh after Liberalization

During the late 1980s and early 1990s, the Non-Tariff Barriers (NTBs) like the most explicit quantitative restrictions were abolished. The most important restrictions were the ban on textile fabric imports for use in the domestic market, which protected the textile industry. This was finally removed in January 2005. But there are still quantitative restrictions on the import of chicks, eggs, salt and some packaging materials as also for a few other products (e.g. mosquito insecticides) ostensibly on health, safety, environmental and other grounds. Bangladesh Bank requires that all imports be financed by a licensee issued by an authorized Bank in Bangladesh and until December 2003 it required the importer to deposit a 30 per cent cash margin. In order to curb imports when the central Bank thought the foreign exchange situation was weak, the margin was periodically increased for particular commodities. In particular the Bangladesh bank license rules and credibility of Bangladesh Banks were reported to constrain Indian exports to Bangladesh and as one of the factors responsible for illegal practices in the border trade, especially at the patrapole-benapole border crossing.An important general non-tariff barrier on Bangladesh's import from India is that only four out of 42 custom ports are allowed to clear all imported goods, others are limited to dealing with a very short list of products and must obtain case-by-case authorization from the National Board of Revenue for clearing any thing not on this list. To limiting illegal imports, since July 2002 Bangladesh has required that two of its principle imports from India - sugar and textile yarns - can only be imported through its sea ports.

During the first five years of the 1990s, Bangladesh tariffs were cut drastically. The un-weighted average protective rate of all tariff lines fell from 73.6 per cent in 1991-92 to 32 per cent in 1995-96. After 1995-96 this liberalizing impetus stalled and during the following ten years up to 2004-05 tariffs declined only slightly. Average industrial tariffs came down modestly. But the average protective rate for agriculture was slightly higher than it had been ten years earlier. In 2006-07, among the over all tariff lines, the un-weighted average protective rate declined by 7.7 per cent points from 32 per cent in fiscal year 1995-96 to 24.3 per cent. By 2004-05 about 40 per cent of the un- weighted average protection level was due to para-tariffs and para-tariffs were being applied to 21 per cent of total tariff lines.

Since 1991-92 to the present, the practice is of imposing the normal 15 per cent VAT on an imported product but exempting the same product from VAT when it is produced domestically. Importers have to pay a tax called advance income tax (AIT); this is charged on nearly all imports at 3 per cent assessable value, and can be credited against the importer's income tax liability.

Bangladesh trade policy in agriculture, livestock, fisheries and processed food sectors warrant separate treatment because, as in India, they differ in important ways from its manufacturing trade policies. Indian agricultural products are generally wide-ranging although the share of its total exports to Bangladesh keeps fluctuating. These policies are relative to other products, low tariff and other incentives for the major food grains crops - rice, coarse grain, and pulses. These account for the largest part of agricultural GDP and agricultural employment. They are economically efficient, low cost industries.

Trade policies have managed to keep consumer price down by allowing imports- most of which come from India- over quite low tariffs during periods when the domestic production has lagged behind demand. Very high tariffs on frozen shrimp and fish and quite high tariffs on tea and raw jute - these are all major exports and the competition between exporting producers would be expected to keep domestic price broadly with export price. Except for coconut oil, low or moderate tariffs protecting import competing oilseed farmers and edible oil producers. Very high tariffs protecting sugar industry and a number of other import substitution crops, in particular some vegetables fruits, nuts and spices. In livestock sector, there is high to very high protection for dairy products and the poultry industry but is low for cattle herding as a result of an export ban on live cattle, skins and partially processed leather. Bangladesh gives tariff preferences to imports from India under the Bangkok Agreement and under SAPTA. In fiscal year 2005 in Bangladesh only132 tariff lines (out of total 6667) were subject to preference under this agreement, the general preference rate was only 10 per cent of custom duties and preferences did not apply to para-tariffs. Bangladesh exports are dominated by ready made garments, most of which are exported to US and EU. There are a number of non standard export policies which would need to be discussed with India in context of bilateral FTA or with India and the other South Asian countries in context of SAFTA.

Impacts of Policy Reforms in Bangladesh

Reforms, which covered all sectors of the economy, have had a major impact on trade, finance public enterprises, foreign investment and taxation. The liberalization measures had led to booming of exports. They have attracted the attention of foreign investors and the size of middle class started to increase. Reforms have led to macroeconomic stability in Bangladesh. For example, the growth rate of money supply and the inflation rate have slowed considerably in Bangladesh in the post reform period. The fiscal and current account deficits have also been reduced significantly. The inflation rate stands at around 2.5 percent per annum, the fiscal deficit around 5 percent of GDP, and foreign exchange reserves at eight months imports. The reform programmes have led to a sustained improvement in the real sector of Bangladesh. In Bangladesh the GDP growth rate is running at around 4 percent per annum on an average. A number of factors account for the trends outlined above. The first is the lagged response to many policies. This is the J-curve effect. The second is the issue of design and sequencing policy reforms. It was the sluggish economic performance in the real sector of Bangladesh. (Quibria, 1997: 15).

The reform activities have led to several major successes as mentioned earlier. The overall budget deficit has been reduced, the inflation rate has fallen, foreign reserves have steadily increased, and female literacy and work participation rates have increased. But the reform agenda failed to make a significant impact in relation to economic growth, infrastructure development and poverty alleviation. This is due to the fact that in spite of recent economic reforms, the growth of FDI remained almost stagnant. Several foreign companies have left the country by selling their enterprises.

Unless administration is made accountable, transparent, and efficient and corruption is uprooted through strict administrative reforms, foreign and domestic private investments will not improve. It is found that a very small section of population is taking the advantage of the economic reforms due to corrupt administrative procedures and as a result economic disparity has been rising. Since imports are increasing due to government's economic liberalization but exports are not expanding accordingly, balance of payment is deteriorating (Quibria 1997:16-18).

Impact of Trade Policy Reforms on Industrial Capacity

In the absence of reliable and up-to-date data on industrial investment, then growth performance of the manufacturing sector can be used as a good indicator of how industrial capacity has been affected by trade liberalization. World Bank estimate shows that the average annual growth rate of the manufacturing sector during the 1980s was 3%. Overall performance of the manufacturing sector had improved in the 1990s, with an average annual growth rate of 6.6% between1992-93 and 1998-99.There is difference in growth between the large and medium scale sector and the small and cottage industry sector. Thus, while the average annual growth rate of large and medium industry during the period 1992/93-1998/99 was 8.2%, small and cottage industry grew at an average annual rate of 4.1%. A declining growth trend is observed for large industry (http://joaag.com./vploals/5_palit.pdf).

The capital goods sector in Bangladesh is still quite undeveloped, and as a result there is a heavy dependence on imported capital machineries and equipments. The growth rate of capital goods import in 1989-90 was 55.9%, while the average annual growth rate between 1990-91 and 1997-98 were about 11%. There was negative growth in Capital goods in 1990-91, 1992-93 and 1993-94, while the growth rate was only0.2% in 1996-97 and 3.3% in 1997-98.The average annual growth rate of imports of intermediate inputs between 1990-91 and 1997-98 was nearly 8%, compared to the growth rate of 4.8% in 1989/90. This indicates an increase in capacity utilization during the nineties (http:// sci pub. Org /fulltex/jss/2254).

Impact of Trade Policy Reforms on Industrial Employment

A major objective of economic development is to improve the economic and social well-being of the population. Economic objective of the Government of Bangladesh has therefore been to achieve growth with equity, implying a reduction in poverty and attainment of a more equal distribution of income. Poverty alleviation and greater equity in the distribution of the benefits of growth and a rapid increase in employment. Effect of policy reforms can examine by the data on the civilian labour force and employment are available from 1974 till 1995-96 from Census and Labour Force Surveys. Employment has increased from 50.1 million in 1989 to 54.6 million in 1995-96. The number of unemployed persons has also increased from 0.6 million to 1.4 million during this period. This increase in employment and unemployment at the same time indicates that the labour force has grown at a faster rate than the creation of job opportunities. The data shows that open unemployment had declined consistently from 8.68% to 1.18% between 1974 and 1989. However, the unemployment rate increased to 1.96% in 1990-91 and 2.50% in 1995-96. Unemployment of women has increased at a faster rate than that of men (http:// saprin.org/Bangladesh/research/ban_trade.pdf.).

Absolute level of employment has fallen sharply in the industrial sector between 1989 and 1995-96. For industry as a whole, employment has declined from 7.8 million to 5.2 million, i.e. a fall of 33%.The contraction in employment has been sharper for manufacturing industry where employment has shrunk from 7 million in 1989 to 4.1 million in 1995-96. As a result, the share of manufacturing industry in total employment has come down from 14% to 7.5% during the above period. It was noted above that employment in large and medium-scale industry should have increased in the face of a healthy growth of output, albeit concentrated in a few industries. Hence, the sharp reduction in employment in the manufacturing sector as a whole, which is observed from has evidently occurred in the small and cottage industry sector. A large part of this unemployment is likely to have taken place in informal sector industries in both urban and rural areas ((http:// saprin.org/Bangladesh/research/ban_trade.pdf.).

India- Bangladesh trade after 1991

Table 4.1
India's Trade with Bangladesh during 1991-2006

(Million US $)

Year (April-March)	Export to Bangladesh	Imports from Bangladesh
1991-1992	88	2
1992-1993	84	2
1993-1994	96	6
1994-1995	N.A	N.A.
1995-1996	N.A.	N.A.
1996-1997	868.96	62.23
1997-1998	786.46	50.81
1998-1999	995.64	62.4
1999-2000	636.31	78.15
2000-2001	935.04	80.51
2001-2002	1002.18	59.12
2002-2003	1176	62.05
2003-2004	1740.75	77.63
2004-2005	1606.56	59.26
2005-2006	179	251.61

Source: Monthly Statistics of the Foreign Trade of India. (Various Issues), D.G.C.I. & s. Calcutta.

Check, can not be this low. The graph shows different picture

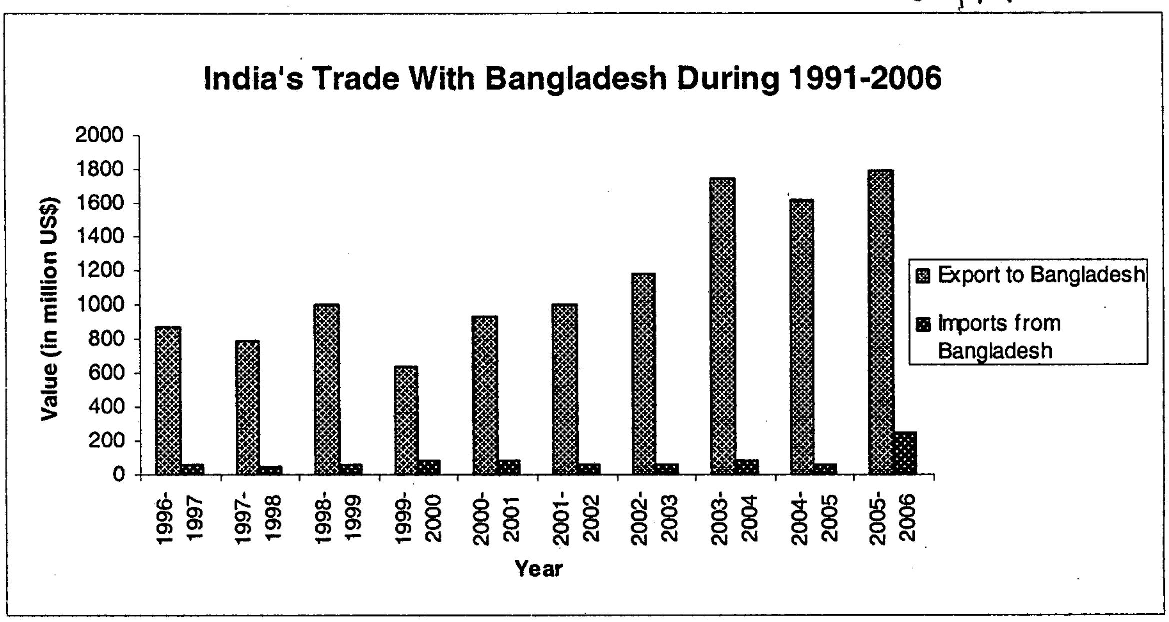

Table 4.1 shows that India's exports to Bangladesh were highest in 2003-04 and lowest in 1992-93. Imports from Bangladesh were highest in 2005-06 and lowest in 1991 to 93. India has imported raw jute, jute products, leather, organic chemicals, newsprint and printed matter from Bangladesh share of jute and jute products accounted about 44 percent in 1991-95, and newsprint accounted for about 0.9 percent of India's total imports from Bangladesh. India had not imported fish from Bangladesh due to her increase in domestic production. Since 1992-93, India was also importing tea and urea from Bangladesh. The share of these two items in India's import from Bangladesh was more then 43 percent during 1991-95.

As regard the composition of India's export to Bangladesh, food and live animal, coal, textile yarn, iron and steel, machinery and transport equipments and fruit and vegetables were the major items. The share of machinery and transport equipment, coal, textile yarn and fibres had accounted a large portion in India's export to Bangladesh after 1991. The share of machinery and transport equipment decrees to about 9 percent in 1993-94, the share of coal in India's export to Bangladesh remain 4 percent in 1993-94. Textile yarn and fibres was the major items of India export to Bangladesh. Its share in total export to Bangladesh was more than 52 percent in 1992-93 and 46 percent in 1993-94. Its share remained more than 43 percent of India's total; export to Bangladesh. India could not export textiles to Bangladesh on a large scale due to quota restrictions at home. Since 1991 the share of textiles in India's exports to Bangladesh has remained more than 47 percent. Therefore it appears that Bangladesh dependence on Indian textiles is quite significant. It is evident from above export import analysis between India and Bangladesh that the number of India's export item is relative large as compared to Bangladesh. In fact India is not in need of major export items of Bangladesh. It is therefore suggested that if the two countries wants to expand their mutual trade, Bangladesh will have to add more items to her export to India.

Chapter-V

Impact of SAPTA and SAFTA: Various Constraints

Chapter V

Impact of SAPTA and SAFTA: Various Constraints

The South Asian Association for Regional Cooperation (SAARC) comprises seven countries of South Asia i.e., India, Bangladesh, Bhutan, the Maldives, Nepal, Pakistan and Sri Lanka. SAARC is a manifestation of the determination of the people of South Asia to work together towards finding solutions to their common problems in a spirit of friendship, trust and understanding to create an order based on mutual respect, equity and shared benefits. The primary objective of the association is the acceleration of the process of economic and social development in member states through collective action in agreed areas of cooperation (Chaudhury 2006: 150-151).

SAPTA and SAFTA

Towards A South Asian Trade Regime

The South Asian countries have made several attempts at enhancing trade in the region under the aegis of the South Asian Association for Regional Cooperation (SAARC) formed in 1985. The idea of South Asian Preferential Trading Arrangement (SAPTA) was mooted at the sixth SAARC seminar in Colombo in 1991. Finally it came into being on December 7, 1995 during the eighth SAARC summit in New Delhi. SAPTA was made amongst the SAARC countries with the ultimate goal of achieving a South Asian Free Trade Area (SAFTA).There had been several FTAs within the region. India has FTA with Nepal and Sri Lanka. FTAs are negotiated between Pakistan and Sri Lanka and between Bangladesh and Pakistan. The signing of the SAFTA at the twelfth SAARC summit held in Islamabad paved the way for its implementation by January 2006 (Chaudhury 2006: 154-56).

SAPTA Preamble

The governments of Bangladesh, the Maldives, India, Nepal, Bhutan, Sri Lanka and Pakistan were motivated by the commitments to promote regional cooperation for the benefit of their citizens, in a spirit of mutual accommodation with the full respect for the principles of sovereign equality, independence and territorial integrity of all these states.

The expansion of trade could act as a powerful stimulus to the development of their national economies by expanding investment and production, thus providing greater opportunities of employment and help securing higher living standards for their population, convinced by the need to establish and promote regional preferential trading arrangement for strengthening interregional economic cooperation and the development of national economies (Siriwardana 2007: 21-30).

The direction given at the fourth SAARC summit meeting held in Islamabad in December 1988 that specific areas be identified where economic cooperation might be feasible, guided by the declared commitment of the Heads of the States or the governments of the member countries at the sixth SAARC summit held in Colombo in December 1991 to the liberalization of the trade in the region by step by step approach in such a manner that countries in this region share the benefits of trade expansion equitably. The mandate given by the sixth SAARC summit, Colombo to formulate and seek for the arrangement on an institutional framework under which measures for trade liberalization among the SAARC Member States could be furthered and to examine the Sri Lankan proposal to establish the Preferential Trading Arrangement (SAPTA) by 1997, recognizing that a preferential trading arrangement is a first step towards higher level of trade and economic cooperation (Siriwardana 2007: 31-38).

SAPTA –A Reality

The arrangement of SAPTA is an umbrella framework of rules providing step by step intra regional trade. The framework document contains a preamble, 25 articles and three annexure, including one which contains the nationality agreed schedule of tariff commissions (preferential tariffs) for selected products and extent of tariff cuts and several additional preferences to the Least Developed (member) Countries (LDCs) of the (annexure of SAPTA) SAARC region. These LDC member states as defined by the United Nations are: Bangladesh, Nepal, Bhutan and the Maldives. Article 2 of the agreement defines the aims of establishing SAPTA so as to "promote and sustain mutual trade and economic cooperation among the contracting states, through exchanging concessions in accordance with this agreement".

SAPTA envisages periodic trade negotiations for exchange of trade concessions on tariff and non-tariff lines. The contracting states have agreed to negotiate the tariff preferences on a product by product basis for an initial period (Gupta 2002: 54-55).

The SAPTA contains provision for special and favorable treatment in South Asia. Some of these measures are:

- Duty free areas, exclusive tariff preferences or deeper tariff cut for export;
- The removal of non-tariff barriers;
- The negotiations of long term contacts for achieving reasonable and sustainable level of exports of their products to favor the LDCs;
- Special considerations of export from LDCs in application of safeguard measures and greater flexibility in the restrictions on imports by the LDCs from other members;
- The removal of para tariff barriers where it is needed.

An Intra Government Group (IGG) on the trade liberalization had been established to negotiate trade concessions within the SAARC. The agreement provides scope for trade liberalization with a combination of four approaches and procedures. These are product by product approach, across the board tariff reduction, sectoral approach and direct trade measures. Article 21 of SAPTA provides scope for any member to withdraw from the agreement at any movement after its coming into force. According to the agreement the "rules of origin for the commodities make them favorable for preferential treatment. The decisions were already taken by the commerce sectaries in November 1995 to reconstitute the IGG for fresh negotiations on tariff cuts and removal of non-tariff barriers. It has been proposed to grant tariff preferences to all items barring a few on the 'negative list' (Rahman 2000: 16-19).

Four rounds of trade negotiations have been completed under SAPTA. In SAPTA-I, which came into force in 1995, after being ratified by all SAARC member states, the trade concessions are offered to 226 commodities by all the member countries. In SAPTA-II, which came into existence from 1997, trade concessions are offered to 1871 products along with removal of various on Ttariff barriers (NTBs) for the LDCs. It has envisaged the formation of South Asian Free Trade Area (SAFTA) by 2001. In

SAPTA-III, trade concessions are offered not only to the commodities but also to several sectors at two-digit levels (Chaudhury 2006: 163).

During the first and second rounds, trade negotiations were conducted on a product by product basis. In the two rounds of SAPTA 2097 (226 +1871) commodities are offered for concessions. In the third round, the negotiations concluded chapter-wise. For the fourth round, it has been decided that the negotiations would be conduced chapter-wise sectoral and across the board basis as far as possible The fourth round of SAPTA negotiations were expected to be held in Katmandu in January 29-30, 2000. But unfortunately, it did not take place due to internal problems At last, the meeting of Inter Government Group (IGG) on trade liberalization to initiate the fourth round of SAPTA negotiations were held at the SAARC secretariat, with the participation of all SAARC member states on 27-28 March, 2002 where member delegations exchanged request lists containing deeper tariff reductions among themselves, and again the IGG held its second meeting to conclude the fourth round of trade negotiations at the secretariat on 30 October –1 November, 2002 (http://www.saarc-sec.org).

In the first round of SAPTA, the SAARC countries identified 226 items for exchange of tariff concessions ranging from 10 percent to 100 percent. India agreed to extend tariff concessions to 106 items while Bangladesh agreed to offer concessions on 12 items, the Maldives on 17, Nepal on 14, Pakistan on 35, Sri Lanka on 31 and Bhutan on 11. Out of these 106 items selected by India, 62 were for the LDCs of this region. 50 percent tariff deductions were on 49 items out of 62 and remaining 13 were 100 percent tariff free. On 44 items out of total 106, India offered uniform tariff concessions to all member states. These were 50 percent tariff concessions on 33 items, 25 percent on one item and 10 percent tariff cut on 8 items offered by India. As against 106 items, India gained tariff cuts for 43 tariff line through bilateral trade (http://www.indiaabroaddaily.com/2001/01//19sapta.html).

The SAPTA agreement has also laid down the 'Rules of Origin' for commodities that made them eligible for preferential treatment. The 'Rules of Origin' distinguish between two categories of products, namely:

- Products wholly produced or obtained in exporting member country, and,
- Products not wholly produced or obtained in exporting member country.

With regards to products in the second category, the rules indicate that the 'local content' should be at least 50 percent of the f.o.b. value of products in order to claim preferential concessions.

The agreement has also provided for 'Cumulative Rules of Origin' in respect to goods processed in more than one member country in the SAARC region. These rules specify that the aggregate content originating in the territory of the member country is not less than 60 percent of its f.o.b. value. The procedures of finalizing the lists of products for preferential treatment involve the exchange of lists of products for trade connections among the member countries (Chaudhury 2006: 165).

The concessions agreed under the SAPTA shall be unconditionally extended to all the member countries except those made exclusively to the LDCs. It has also been provided under rule 10 of the 'Rules of Origin' contracting states of SAPTA that the products originating in the LDCs can be allowed a favorable 10 percent points applied to the establishment of the rules 3 and 4. SAPTA has no significant impact in changing the existing trade. Except India none of the other contracting states had called for meaningful tariff cuts (Upreti 2000: 23).

Negotiations on SAFTA (South Asian Free Trade Area)

The SAARC council of ministers that was held in New Delhi in December 1995 emphasized that the expression of political will by member states was imperative for the realization of SAFTA (South Asian Free Trade Area) and agreed that the member states should strive for the realization of SAFTA preferably by year 2000 but not later than 2005.

The mandate given by the Heads of the states at ninth SAARC summit held in Mali in May 1997, towards creating a SAFTA treaty which was the first meeting of Inter Government Expert Group (IGEG) on transaction from SAPTA to SAFTA was held in Kathmandu in June 1997. The IGEG decided that the following areas should be included whle launching the SAFTA Treaty:

- Tariff elimination without any import restrictions,
- Removal of structural impediments,
- Normalization of customs procedures and documentation,
- Banking facilitation,
- Port and transport facilities,
- Facilitation of trade related services, and,
- Establishment of a reviewing and monitoring mechanism.

The progress of economic cooperation under the SAPTA umbrella and the design of a SAFTA agreement got delayed during the period 1999-2001 due to the deteriorations of Indo-Bangladesh relationship. An attempt was made in December 2000 by a newly formed South Asian Citizens' Commission to pressurize SAARC member states to get the SAFTA 'Framework Treaty' by late 2001 but no quit. A summit could not be held during this three years period and eleventh SAAARC summit took place in January 2002 in Kathmandu. In this summit, a decision was taken to have the SAFTA treaty ready by the twelfth SAARC summit (http//:www.saarc-sec.org/main.php

The SAARC secretariat coordinated the work of commerce ministers of the respective SAARC member countries in preparing the SAFTA agreement. Meanwhile, the fourth round of SAPTA negotiations took place in October 2002. The four rounds of SAPTA had resulted in coverage of over 5000 tariff lines items. The process contributed very little in stimulating intra-regional trade (Mukherji 2004: 86-91).

Due to the slow progress of the regional initiatives of promoting trade, a number of SAARC member countries decided to embark on Bilateral Free Trade Agreements (BFTA). The Indo –Lanka BFTA was signed in the late 1998 and came into operation in early 2000. Long existing Indo –Nepal treaties were formalized as a BFTA in 1996. A number of triangles (Sri Lanka, the Maldives, and South India) were mooted and some of these were initiated. These sub –regional initiatives were not considered for preferential trading but for sectoral cooperation.

Several South Asian countries joined wider regional groupings in Asia such as the Indian Ocean Rim Association for Regional Cooperation (IORARC initiated in 1997) and BIMSTEC (Bay of Bengal Multilateral Initiative for Technology and Economic Cooperation formulated in 1997). Both of these groupings were not preferential trading blocs. IORARC was based on open regionalism where unilateral trade liberalization was advocated. But BIMSTEC was initially based on sectoral cooperation. Membership in such pan – Asian regional groupings was obtained for some South Asian countries in the hope of gaining more economic benefits, which the SAPTA process was not delivering.

SAFTA agreement had come at a time when the trading environment in South Asia was complicated by the slow progress of SAPTA, and a number of parallel regional and pan –regional initiatives are in place (Batra 2005: 867).

The South Asia Free Trade Agreement is an agreement signed in twelfth South Asian Association for Regional Cooperation (SAARC) summit at Islamabad on 6th January 2004. It formulated a framework for the creation of free trade zone covering 1.4 billion people in India, Pakistan, Bangladesh, Bhutan, Nepal, Sri Lanka and the Maldives. The seven foreign ministers of the region signed a framework agreement on SAFTA with zero custom duty on the trade of practically all products in the region by the end of 2012.

The SAARC Preferential Trading Arrangement (SAPTA) with concessional duty on sub-continental trade was supposed to transform into SAFTA in January 2006, but it had been implemented from July 2006. The new arrangement will be operational following ratifications of the agreement by the seven governments. SAFTA requires the developing countries in South Asia such as India, Pakistan and Sri Lanka, to bring their duties down to 20 percent in the first phase of the of the two year period ending in 2007. In the final five year phase ending 2012, the 20 percent duty will be reduced to zero in a series of annual cuts. The least developing country group in South Asia consisting of Nepal, Bhutan, Bangladesh and the Maldives get an additional three year to reach zero duty so that they have time till 2017 (Lama 1999; 10-15).

Commodity Composition of India's Imports under SAPTA

The imports of India under first three Rounds of SAPTA made a six-fold increase between1994-95 to 2000-01 as shown in Table1. Except for three sections (gems and jewelleries, vehicles and arms & ammunitions), India is importing huge number of products covering all other broad product segments from the region. Agricultural imports constitutes about one-third of India's total imports from the region under the SAPTA process in 2000-01. Traditionally import of vegetable products is the most important import, but currently import of fats and oils are becoming important for India. Imports are quite substantive in case of chemicals and textiles. It has sizable imports in broad product groups like animal products (Section 1), prepared food stuffs, plastic products, wood products, Base metal and mechanical appliances (www.worldbank.org.bd/bds).

The results show that SAPTA process has augmented India's imports not only in manufactured products but also in agricultural products from the region. While concessional agricultural imports are concentrated in a few specific product groups, the manufactured products are more diversified.

India's Exports to South Asia under SAPTA

The impact of trade concessions offered by regional countries on India's trade relationship with SAARC member countries (SMCs) is very small as compared to India's total trade with the region. The implications of trade concessions to India in different Rounds of SAPTA were different for India's exports to the region as shown in Table2. As discussed earlier, the bundle of commodities in each Round of SAPTA by individual country is different from other.

The results indicate that the first two Rounds of SAPTA are, rather, more important than the Third Round in terms of volume of commodity trade. From the first three Rounds, the Second Round remained more important from the point of India's exports to the region.

The use of 'before-after approach' on the implementation of different episodes of SAPTA indicates that the trade liberalisation process in the region was not very promising for India's exports to the region. If we compare growth of India's exports and after the commencement of each Round of SAPTA in Specific SMCs, it was quite significant in case of Bangladesh, Sri Lanka and Nepal. On the contrary, it may not be very favourable in case of Bhutan, Maldives and Pakistan.

The level of preferential trade is very little in comparison with other trade, which is outside the preview of SAPTA. The ratio of concessional to non-concessional trade remained very high for Pakistan, Sri Lanka and Nepal and low for Bangladesh, Bhutan, and Maldives. This ratio is increasing over time in many countries (Mukherji 2004: 201-203).

Commodity Composition of India's Exports under SAPTA

India's exports to the region under the SAPTA process have been heavily concentrated in a few sectors. Agricultural exports played a very important role in India's total exports to the region under the regional PTA. Exports for oils and fats and the export of other agricultural products have been quite impressive as compared to other broad sectors in the manufacturing sector. The highly concentrated exporting areas are processed food products, chemicals, textile products and base metals. In other areas, India's exports are quite substantial such as vegetable products, mineral products, and vehicles (Section17). In other areas, the concession exports from India have been at a low-key level. They are animal products, plastic products, leather products, mechanical appliances, optical products and other manufactured items.

In certain important product segments, India is consistently improving its market presence in the region. They are processed food products (Section 4), chemicals (Section 6), textile products (Section 11) and base metals (Section 15). In some other product segments, the export performance is quite alarming. Those areas are vegetable products (Section 2) and vehicles (Section 17).

India's exports to the region have been subjected to high degrees of fluctuations, particularly in those products, which are falling with in the purview of SAPTA. If we compare the growth rate of India's exports to the region in different product groups under the SAPTA process, only a few important product groups show relative stability in growth during the period 1994-95/2000-01. These are processed food products (Section 4), chemicals (Section 6), textile products (Section 11) and base metals (Section 15). India's exports to the region in the first three Rounds of SAPTA are growing since1994-95 except for the period 1998-99/1999 (Mukherji 2004: 199-202).

India's SAPTA preferences for Bangladesh

India has been progressively reducing tariffs for Bangladesh items under the Bangkok Agreement and under SAPTA. India has extended tariff concessions to Bangladesh on more than 2000 tariff lines under SAPTA. All Quantitative Restrictions have been removed in full for SAARC country imports from 1st August 1998.Bangladesh has been requesting for unilateral tariff concessions on select items of export interest to Bangladesh to help them reduce trade deficit with India. During PM's visit to Bangladesh in 1999, he had announced India's acceptance, in principle, of the request for duty-free access on a non-reciprocal basis for select items of export interest to Bangladesh.

As a gesture of goodwill, India had offered 100% tariff concessions on 16 products groups consisting of 40 tariff lines to Bangladesh during the Trade Review Talks in April 2002. Duty free access was announced for items under another 39 tariff lines during the Trade Review Talks held in March 2003. Thus India offers duty free access to Bangladesh on 79 items. These are all from the request lists forwarded by the Bangladesh side to India. At present India has given preferences to Bangladesh on approximately 2925 tariff lines, about 58% of the total number of its approximately 5000 6-digit HS lines. Two thirds of these preferences were agreed in the third SAPTA negotiating round and came into force during India's 2000/01 fiscal year. A majority of the preferences are special "LDC-only" preferences: most of these are 50%, some are 60%, and a few 15%, 75% or 100 (www.worldbank.org.bd/bds).

In practice Bangladesh is the only relevant beneficiary of India's LDC-under SAPTA preferences, since Nepal and Bhutan have long had duty free access to the Indian market under their bilateral treaties, and the Maldives trade is negligibly small (at least from India's perspective). Therefore, in a sense, these preferences constitute a *de facto* bilateral asymmetric preferential trade arrangement between India and Bangladesh, asymmetric because many substantial preferences have been given by

India, but for all practical purposes few and negligible preferences for Indian imports have been given by Bangladesh (Lama 1994: 8).

In order to qualify for India's SAPTA preferences, products imported from Bangladesh would have to satisfy the SAPTA origin rule, which is that the cif value of non-SAPTA imported inputs included in the exported product should not exceed 70% of the fob price. In the case of the ready made garment industry, this provision is extremely important for firms in Bangladesh wishing to export woven garments to India, because value-added margins in cutting, sewing and assembling garments from imported fabrics are typically around 30% of fob prices, and may be less. To get around this constraint, they can use imported Indian fabrics, even though they might not have done so if they had a free choice unconstrained by this consideration (World Bank 2005).

Impact of SAPTA

Macro Impact Assessment on SAPTA

Impact on Preferential Imports

The share of India's preferential imports from Bangladesh increased from 42 percent in 1996 to 66 percent in 2000. The value of preferential import increased very rapidly during 1996-98, but since then the pace of increase has declined.

India's imports from Nepal increased steadily during 1996-2000, and the export share too showed an increasing trend. This possibly reflects that Nepal's relative competitiveness may not have been adversely affected owing to India's offer of concessions to similar products from other Contracting States (CS) in the region. Unlike India's imports of the products negotiated with other CS, India's imports of such products from Bhutan declined substantially in value in 2000 as compared to 1999. In this case, there is a need to ascertain whether India's offer of concessions to other CS in the region could have affected Bhutan's competitiveness (Raghavan 2002: 35).

The value of India's preferential imports from Pakistan was quite stagnant during 1996—98, but started improving since then. Similarly, India's import share declined markedly during 1996—98 but has shown positive improvement since then. There is a need to relate this to the worsening political relationships between these two countries following the Nuclear Blast in 1998 and Kargil conflict in the following year.

India's import from Sri Lanka reflects consistency at a low level of imports. The import share too did not show any marked change. It is possible with the signing of a bilateral free trade agreement between these two countries; the SAPTA track may have lost its significance. It appears that except for Sri Lanka and Bhutan, India's share of preferential imports had been showing an increasing value as well as share with other CS (Banerjee 2002: 111-114).

Impact on Export of Products Offered Concessions

India's preferential exports to Bangladesh doubled over the five—year period (1996-2000). During this period, the value share also increased from 3.28 percent to 4.68 percent.

India's preferential exports to Bhutan have been going down steadily through the period 1996—2000, even the value share has shown a marginal improvement. It is possible that due to the offer of Bhutan's tariff preference to other CS, India's competitiveness in the Bhutanese market may have come down. India's preferential exports to Nepal had seen an increasing trend also in the value share. The trends tend to suggest that unlike the case of Bhutan, India's competitiveness in the Nepalese market may not have adversely affected by Nepal's offers of concessions to other CS. India's preferential exports to Pakistan have gone up only modestly over the period 1996—2000, the value share appears to have improved marginally. India's preferential exports to Sri Lanka have increased slowly over the period 1996—2000, the value share declined marginally over the period. It appears that except for Bangladesh and Pakistan, there was no significant increase in India's preferential exports to other CS (Bantered 2002: 114-115).

Impact on Indo- Bangladesh Trade's Commodity Composition

India's import of Industrial Products from Bangladesh without SAPTA preferences

India has been providing SAPTA preferences to Bangladesh on about 29256-digits tariff lines, about 58 % of the total number of lines since 2000-2001. This leaves about 2075 products without SAPTA preferences. There are large number of manufactured products for which imports from Bangladesh are treated on an MFN basis in the same way as imports from other countries without preferences. For these products typical Indian industrial MFN tariffs came down from 44.9% IN 2001 -04 to 30.8 % in 2003-04, to 20% in 2004-05, and to 15% in 2005-06. products without SAPTA preferences appear in India's 2003-04 import basket at very low annual imports level not more than $ 300,000 per product. Very little change is visible from the import data for the first three quarters of 2004-2005. During this period none of these products were subject India's general import licensing system, which was already lifted for Bangladesh and the other SAFTA countries in 1998 (World Bank 2006).

Impact of SAFTA

Future predictions about impacts of SAFTA can be as such but in real sense we can not predict its impacts because one and half year is not enough for making any conclusion.

Gains from SAFTA

Operationalization of SAFTA augurs very well for both the countries in South Asia and outside for the following vital reasons:

- This will help to integrate rather 'reintegrate' the most bourgeoning market for 1.4 billion people. This is likely to have trade creations and trade diversion impacts both in classical sense and in terms of easy access of the consumers from across the region.
- Besides the easy and free exchange of goods, it opens up a huge opportunity to regional investors. This would happen as the level of confidence among the investors to invest and operate in each others country. This would further boost the level of intra—regional trade.
- Effective implementation of SAFTA will pave the way for creating a Custom Union and in the long run an Economic Union. The ongoing liberalization process is exactly moving in this direction.
- If the present trends of improving political relations remain both within South Asia and in India's relation with other countries particularly China, then the

expansion of the South Asian market towards much larger Asian market is quite likely to happen.

- There are strong possibilities of having infrastructural linkages within South Asia and with countries outside Asia. This could doubly enhance the scope of SAFTA to a huge portion of Asia (Lama 2005: 14).

Negative Impacts of SAFTA

Geographical proximity could help to reduce transportation costs. It could also create political tensions and disagreements that have continuously hampered the success of SAFTA. High pre Free Trade Area (FTA) tariffs exist, but the goods targeted by SAFTA are not the highly headed goods that could make a large impact on trade and Gross Domestic Product (GDP) levels. Many of the concessionary goods are not traded at all.

Unilateral and bilateral trade liberalization can bring about greater welfare benefits than FTAs can. The Bundera and Yu study (2003) based on the GTAP model, found that India would be only country to realize a significant welfare gain under SAFTA. The smaller countries would see only marginal welfare gains, and Bangladesh would be at a loss. In welfare effects, the study examined allocation efficiency, production and export changes. It concluded that SAFTA will not produce significant efficiency gains and smaller countries could be expected to lose from inefficient resource utilization. Because all seven countries have similar production structures, SAFTA implementation cannot be expected to result in increased production. It also believes that SAFTA will contribute to the "spaghetti bowl" phenomenon, in which many applicable tariff rates combine with multiple sources of origin to create confusions and difficulties for customs, and producers (Bhagawati et al, 1990).

Rules of origin are applied to prevent both transshipment of goods imported from states with low external tariffs to states with higher one and for the conversion of non originating goods in one member state for export to other members (Cadot et al, 2002). Thus the rules of origin can be manipulated, resulting in a large and chaotic set of tariff rates on the same good. This contributes to trade diversion because it increases compliance costs for intra-bloc exporters, even though outside suppliers would be cheaper. In short, the consequences of the "spaghetti bowl" phenomena are at an increase in transaction costs and protectionism (Cadot et al, 2002)

SAFTA will be an efficient reducing agreement, containing more efficient, non discriminatory liberalizations that have more potential for welfare gains (Bundera and Yu, 2003). Additional problems with implementation of SAFTA include individual country's unwillingness to increase interdependencies, a lack of communication among the countries and a lack of exportable surpluses (Kemal et al, 2000). Further, with the exception of India, percentage shares of intra—regional exports are declining overall (Siriwardana and Yang: 2007: 21-38).

Constraints in the Way of SAPTA and SAFTA

Economic Constraints

Even though three Rounds of Negotiations have been concluded and tariff concessions agreed have been given effect to and value addition criteria has been downwardly revised, intra-regional trade has not expanded as expected due to a number of reasons. Although tariff concessions have been exchanged on a large number of products, the value of items, which have been subject to tariff concessions, has been too small to make an impact on intra-regional trade. Most of the items on which tariff concessions have been granted are not produced or actively traded by the member countries. In other words, preferences have not been exchanged on items, which are being traded on a large scale. Some of the tariff preferences are not of practical value as they duplicate preferences granted under other preferential arrangements such as the Bangkok Agreement. Secondly, trade negotiations were confined to reduction of tariffs. The reduction of para-tariffs and non-tariff measures was not addressed. The positive effect of tariff concessions can be effectively negated by non-tariff measures such as licensing, state trading, canalization etc. Furthermore, the depth of tariff cuts offered under the SAPTA has not been deep enough to stimulate trade flows among member states. India has offered a 100 to 50 per cent (on 13 items offered to LDCs) reductions on its basic duty while most of the other countries have offered a preferential margin of ten to twenty per cent reductions in their national list of concessions. The experience of preferential trading arrangements shows that the tariff cuts below threshold level do not have a substantial impact on trade flows (Dhanda and Puri 2007: 217-18).

Trade liberalization among SAARC countries has not progressed at the desired pace due to a number of constraints which have hampered the SAPTA process. These constraints include political distrust, economic asymmetries among member countries and the nature of the framework agreement which does not make compulsory the reduction of tariff and elimination of NTBs within a stipulated time frame etc (Das 2000:143-149).

Political Distrust

The political will and a common perception of economic interests form a major driving force behind the success of a regional trading arrangement. Franco-German political rapprochement has been the anchor for the successful economic co-operation in the European community. Mutual suspicion and political distrust among SAARC members which of course are not singular to the SAARC region-has been the major obstacle, which impeded economic and trade co-operation among SAARC countries. The regional conflicts and tension among major partners in the region notably India and Pakistan, has had a dampening effect on the trade liberalization process.

The trade potential between SAARC countries, in particular between India and Pakistanis immense, but political distance between the two countries has become a constraint for any meaningful economic co-operation between these two major players and in turn among the rest of the SAARC countries. Partition of India and Pakistan had fragmented an integrated economic structure built over a long period of time. The political division has been matched by an equal economic division. The logic of economics has been tampered by political prejudice (Basu Raychaudhury 1996: 186).

Economic Asymmetries

The level of economic development of the seven member states of SAARC is not uniform. Bangladesh, Nepal, Bhutan and Maldives belong to the category of Least Developed Countries (LDCs), while India, Pakistan and Sri Lanka are categorized as developing countries. Among these three countries India and Pakistan are far ahead in the industrialization process compared to Sri Lanka. On the other hand, Sri Lanka and Bangladesh were well on the way to trade liberalization at the time SAPTA was negotiated, while many of the other SAARC countries had restrictive trade regimes, which emphasized import substitution and self-sufficiency.

Trade negotiations among SAARC countries have been constrained by the vast economic asymmetries in terms of geographical size, population, industrial and technological development, levels of economic development and natural resource endowment that exist in the SAARC countries because of the fear of small countries that they would have to bear the burden of adjustments to a greater extent than the larger economies. Due to different levels of economic development, industrialization, resource endowment and economic policies followed by the member countries there are product coverage and depth of tariff cuts. This has become an impediment for expanding the product coverage and deepening tariff cuts. Differences in the perceptions among the member countries of SAPTA about the product coverage and depth of tariff cuts. This has become an impediment for expanding the product. The level of economic development of the seven member states of SAARC is not uniform (Mukherji 1999: 26).

Lack of Commitment

SAARC Preferential Trading Arrangement does not specify a definite and binding timeframe for reduction product coverage and depth of tariff cuts. This has become an impediment for expanding the product coverage and deepening tariff cut or elimination of tariff, para-tariff and non-tariff measures. It is therefore, not compulsory for member countries to open their markets to other member countries within a specific timeframe. This rather negative and non-binding nature of the agreement though not a constraint has contributed to the slow pace at which trade liberalization takes place under SAPTA. These shows that even at the time of drafting the Agreement, member countries had adopted a cautious approach, intentionally or otherwise. The Agreement also specifies four components of SAPTA namely tariff, para-tariff, non- tariff measures and direct trade measures. As there is no compulsion for members to adopt these components in trade policy regimes, only tariffs have been subjected to negotiation during the three rounds negotiated so far. Although tariff concessions have been granted on a large number of items during trade negotiations, most of these items have not been of export interest to other member countries demonstrating lack of genuine commitment for expansion of trade in the region (Basu Raychaudhury 1996: 187).

Lack of Information

Lack of information on trade policy measures in particular tariff, para-tariff and non tariff measures has acted as a constraint to some extent in SAPTA negotiations. There are several instances where tariff concessions offered during the negotiations have been effectively negated by imposition of para-tariff and non-tariff barriers such as canalization and import restrictions. Although member countries are expected to exchange expansion of trade in the region information on tariff, para-tariff and non-tariff measures at the beginning of each round of negotiations, exchange of information has not taken place in any comprehensive manner (Iqubal 1996:56).

Existence of Preferential/Free Trade Arrangements among Member Countries

A few member countries of the SAPTA have entered into bilateral Free Trade Agreements, with India. Nepal, Bhutan and recently Sri Lanka have concluded free trade agreements with India. Since these countries have liberalized trade among themselves, there is no necessity for them to exchange tariff concessions under the SAPTA. For example, Bhutan and Nepal did not exchange tariff concessions with India during the Third Round of Negotiations, as there was no necessity for them to exchange tariff concessions under the SAPTA framework. Similarly, Sri Lanka may also not negotiate with India during the next round of negotiations as the two countries have concluded a free trade agreement for removal of tariffs (Bhattacharya and Mehta 2000: 94).

Lack of Transport Communication Links

Because of the poor communication links production, consumption, and trade patterns of potential trading partners sometimes are unknown to the partner countries. The inadequate trade facilitation mechanisms such as high handling and transportation Charges and delays in delivery, implies that potential of intra-regional trade cannot be fully utilized. The land route and railway links in SAARC depend on the transit facilities provided by India. Pakistan, Bangladesh and Nepal have to pass through India. The shipping facilities are also inadequate and many a products could not be traded in SAARC because of such facilities (Mukherji 2007:56).

Political Problems

Apart from problems on the economic front, political differences have undermined efforts to foster regional economic cooperation especially in SAARC. Political differences between Pakistan and India have been the main constraining factor towards trade expansion within SAARC. In general the smaller countries in the region have been generally skeptic towards regional economic cooperation initiatives. The political conflicts as well as differences in economic outlooks have been strong impediments to intra-regional trade (Dhanda and Puri 2007: 17-20).

Chapter-VI

Conclusion

Chapter VI

Conclusion

In 1947 the British Colonial rulers partitioned the Indian subcontinent into India and Pakistan, and then the present Bangladesh became the eastern wing of Pakistan. The movement for autonomy of East Pakistan started with the language movement of 1952. The demand was for the recognition of Bengali as one of the state languages of the country. It was the first step towards independence. East Pakistan was politically and economically neglected by West Pakistan as well. All thus led to submission of the charter of demands, the so called the Magna Carta in 1966 by which in effect laid the foundation for the eventual creation of Bangladesh on 16 December 1971.

India shares the longest border with Bangladesh. On the other hand most of Bangladesh is locked by India. Besides, India shares ethnic, religious and cultural affinities with Bangladesh. Hence both the countries attach great importance to each other. Various historical and political factors impact Indo-Bangladesh relations. It is generally assumed in India that the Awami League is pro-India while the BNP is anti-India but the real situation is much more nuanced. As has been shown in the foregoing chapters, Bangladesh will have to give primacy to its relations with India. The fact is that neither the Awami League nor the BNP is either pro-India or anti-India. Their attitude towards India is governed by domestic compulsions and both are worried about their respective regime security.

Democracy in Bangladesh has a chequered history. Presently it is in a state of uncertainty. From the past experience one can say that for the mobilisation of the masses for political purposes, kinship, religion and language have always been used. It is often certain situations, therefore the use of Islamic identity is accepted, and that Islamic ideology has been used for political purposes.

India's Trade and Economic Relations with East Pakistan (1947-71)

During 1946-47, the trade relations between India and East Pakistan were largely governed by various trade agreements. About twelve trade/payment agreements were signed between India and East Pakistan during this period. In 1947 the 'Standstill Agreement' and the 'Custom Agreement' were signed under which free trade was established between them. In 1948, trade quota agreement was signed in order to promote bilateral trade. Further, three more trade quota agreements were signed in 1949, 1951 and 1955 which lasted till August 1956. However, in March 1953, a three year trade agreement was signed in order to liberalise trade between these two nations. In February 1957, 'Trade and Payments Agreement' was signed between them which remained in force till January 1960. This arrangement was under' Most Favoured Nations' (MFD) clause. In March 1960, another Trade-cum payment was signed which expired in June 1963. This agreement was also under MFN clause and initiated the process of trade in convertible currency. The major items of India's exports to East Pakistan covered under the above agreements were coal, machinery, textiles, building and engineering materials, iron and steel. In case of India's imports from East Pakistan, raw jute, fish, hides and skins were the major items.

During 1948-66, East Pakistan had all along been the more important trade partner for India than West Pakistan. The share of East Pakistan in Pakistan's total trade with India during this period was 74.57 per cent per annum on an average. Her share in Pakistan's total export to India was 84.3 per cent per annum on an average during the same period. However, her share in Pakistan's total import from India was 258.60 per cent during 1948-66. Thus, during the above period, the major part of India's trade was with East Pakistan.

India and East Pakistan had huge economic interdependence during the first few years after the partition. In 1948-49, the total trade turnover between India and East Pakistan was US $ 366 million which was an all time record in the history of their trade. The devaluation of Indian rupee in September 1949 and the subsequent non-devaluation decision by the Government of Pakistan led to substantial fall in the total trade turnover between India and East Pakistan as restrictive and retaliatory policy was adopted by both countries. There was a trade deadlock between them from September 1949 to April, 1950. As such in 1949-50, the total trade turnover between them remained only US $ 16 million which was 42.6 per cent of their total trade in 1948-49. It further decreased to US $ 123 million in 1959-51, which was 33.6 percent of their trade in 1948-49. In February 1951, the par value of Pakistan rupee vis-a vis Indian rupee was accepted by India as a result, of which the volume of trade in 1951-52, increased to US 223 million which was 60.9 per cent of their trade in 1948-49. However the total trade turnover between them went down up to 1954-55, when it was US $ 49 million. The reasons for such drastic fall in the total trade turnover between them, were mainly restrictive trade policy and high duties on imports adopted by the government of Pakistan. Even the system of open General Licence was cancelled in 1952 and severe restrictions were imposed for issuing Letter of Credit by the government of Pakistan. Further, the increased production of Indian raw jute in 1953-54, also led to contraction in Indian imports of raw jute from East Pakistan.

In July 1955, Pakistan rupee was devalued and old parity was again established with Indian rupee. Consequently, trade between India and East Pakistan, was strengthened. In 1955-56, the total trade turnover was US $ 62 million between them which increased by 26.53 per cent in comparison to the previous year. But after 1955-56, mutual trade between India and East Pakistan continuously went down. In 1965-66, the total trade turnover between them was US $17 million only. After the Indo-Pakistan war of 1965, Pakistan imposed official embargo on her trade with India which remained in force for about nine years.

During 1948-66, India had always a deficit in her balance of trade with East Pakistan. Her trade deficit with East Pakistan was highest in 1948-49, which was US $148 million. However it was lowest (US $ 2 million) in 1949-50. The main reason of India's trade deficit with East Pakistan during 1948-66 was her high imports of raw jute in order to meet the requirements of domestic jute industries which earned major foreign earnings for India. During 1948-65 India's major imports from East Pakistan consisted of raw jute, fish, hides and skins, and spices. These four items accounted for more than 96 per cent of India's import from East Pakistan during 1948-56. From 1948-49 onwards, raw jute was the only single item which accounted about 83.7 per cent of India's imports from East Pakistan up to 1965-66. However, the share of raw jute was quite substantial in India's import during 1948-66, yet its import went down in absolute terms over the period. India imported raw jute of US $ 2890.9 lakh in 1948-49, which remained only US $ 59.4 lakh in 1965-66. This was due to the fact that India's domestic production of raw jute had increased by India since1958, and export of raw jute in Kutcha bales was banned in December 1954 by the government of Pakistan. Fish also occupied a significant place in India's imports from East Pakistan during 1948-65. Its share increased from about 2.4 per cent in 1948-49 to 14 per cent in 1954-56. Its share in India's imports from East Pakistan was about one-third during 1957-65.

The period 1965-71 witnessed two wars between India and Pakistan. First in September 1965, Pakistan attacked India owing to Kashmir dispute, which led to war between them. Immediately after the war Pakistan imposed official embargo on her trade with India. This suspension of trade created problems for both the countries. Both were forced to import many items from the world market at higher prices, which could have been done at lower prices from each other. For example, East Pakistan imported coal from China costing Rs. 172 per ton which could be had from India at Rs. 53 per ton only.

On 3rd December, 1971, another war started between India and Pakistan due to disturbances in East Pakistan. It led to the freedom of East Pakistan. On 16 December, 1971, with the unconditional surrender of Pakistani forces to the joint forces of India and Bangladesh, East Pakistan became independent and came to be known as People's Republic of Bangladesh. India accorded recognition to the Bangladesh which was followed by a series of bilateral agreements on defence, foreign relations and trade. India made all out efforts to rehabilitate the war-torn economy of Bangladesh and tried to develop broad-based cooperation with the Bangladesh.

Developments in India-Bangladesh Trade Relations

Bangladesh and India signed the "Treaty of Friendship and Cooperation" on 19 March, 1972 in Dhaka for 25 years. Due to this treaty both countries signed the first one- year trade agreement on 28 March, 1972. Under the agreement, principle commodities for

Bangladesh's export to India were fish, raw jute, newsprint, furnace oil and naphtha .On the other hand, cement; coal, machinery, and unmanufactured tobacco were the major items of India's exports to Bangladesh. The trade between these two nations was proposed to be conducted in a three-tier framework: the first would be border exchange, involving ordinary items of daily consumption for the people living within 16 Kms. Belt of the border between West Bengal, Assam, Meghalaya, Tripura and Mizoram on one hand and Bangladesh on the other ; the second would consist of 'Limited Payment Trade' on a large scale for a balancing arrangement under which the countries were to import and export, specified items of the value of Rs. 25 crores in each direction. In case of any imbalance with the specified ceiling, an interest free technical credit up to a limit of Rs. 5 crores was to be provided in the form of a swing credit from either side, to balance the two countries at the end of term; and the third would be regular international trade according to economic regulations of the two nations.

With the above trade agreement between India and Bangladesh, mutual cooperation was extended by both these nations. On June 10, 1972, these two countries decided to cooperate in the areas of atomic energy, space research and higher education. On 24 November, 1972, the Indo- Bangladesh Joint River Commission was set up for the equitable utilization of the water resources to their mutual gains. On 5th January, 1973, a Joint Power Board was set up to ensure effective use of their power and energy resources.

The first trade agreement revealed a big gap between the planned and the realised targets. By March 1973, India's exports to Bangladesh were estimated to be around Rs. 18.5 crores and imports at Rs. 14 crores which were far below the target level of Rs. 25 crores each. Further, free border trade between India and Bangladesh led to illicit trade and hence in October 1972 border trade was abolished between two nations by mutual consent. However the first trade agreement was further extended up to 27th September, 1973 to attain the desired level of trade.

On 5th July, 1973, India and Bangladesh entered into a new Balanced Trade and Payment Agreement (BPTA) for a period of three years which became effective from 28th September, 1973. The principle commodities identified for Bangladesh's exports to India were raw jute, fish, newsprint, and low grammage paper. On the other hand, unmanufactured tobacco, cement, coal, raw cotton, cotton yarn, cotton textiles and books were major items of India's exports to Bangladesh. Most of the provisions of the trade agreement were the same as those of 1972. It emphasised on the need that trade between the countries be balanced itself at the end of one year.

After a few days of above trade agreement, India and Bangladesh came to an understanding on the fixation of jute prices. Indian government advised the Jute Corporation of India to maintain an average procurement price of Rs. 157.68 per quintal in Calcutta, almost on parity with the Bangladesh's price of Rs. 146 per quintal. On 29th December, 1973, both these countries agreed on the long-term bilateral cooperation in regard to the production of raw jute and export of jute goods.

The trade agreement of 1973 could not achieve the desired level of trade between India and Bangladesh, and showed large imbalance in their trade in the very first year. The rupee trade was found to be a barrier in the bilateral trade of India and Bangladesh. For example it was beneficial for India to sell coal against foreign exchange. Similarly, Bangladesh was also interested to sell jute against foreign exchange. Therefore, it was decided to abolish rupee payment agreement. On 17th December, 1974, a protocol to the trade agreement was signed by India and Bangladesh at New Delhi, which abolished rupee trade from 1st January, 1975 and decided to conduct trade in free convertible currency. It was expected that new Protocol would expand bilateral trade between India and Bangladesh. However trade could not reach the desirable level. With the devaluation of Bangladesh's Taka by around 50 per cent in May 1975, it was hoped that Bangladesh's exports to India would expand which balanced their trade. But none of the benefits seemed to be passed on to the exports of Bangladesh. However the effects of devaluation of Bangladesh's imports were of symmetrical type.

On 30 July, 1975, trade agreement was signed by five developing countries of Economic and Social Commission for Asia and Pacific (ESCAP), namely, India, Bangladesh, Sri Lanka, Republic of Korea and Laos, at Bangkok. It is known as Bangkok Agreement. Under this agreement, India and Bangladesh extended tariff and non-tariff trade preferences to each other. India gave major trade concessions in various items of exports interest to Bangladesh. These items included dried fish, molasses, glycerine, etc. similarly, Bangladesh offered concessions in various items of India's export interest. These items included twine, cordage, unmanufactured tobacco, ropes and cables, etc.

Indo-Bangladesh trade faced a huge setback when Sheikh Mujibur Rahaman, Prime Minister of Bangladesh was assassinated in an army coup on 15th August, 1975 and political power was captured by Khondakar Mushtaque Ahmed, Mujib's Minister of Commerce. However, Mushtaque on 26th August, 1975, reassured India of his close cooperation with her. But due to anti-Indian tirade in Bangladesh, their mutual relations started deteriorating. On 7th November, 1975, Bangladesh faced another coup and political power was captured by General Ziaur Rehaman.

On 12th January, 1976, India and Bangladesh signed a trade protocol which visualized higher volume of trade and long- term arrangement for trade of coal and newsprint in order to balance the trade. On 14th August, 1976 India and Bangladesh agreed on Nepal's trade with Bangladesh through Indian territory. On 5th October, 1976, BPTA between India and Bangladesh was extended for three years till 27th September, 1979, on the request of Bangladesh. The emphasis was given on increasing the volume of their mutual trade. On 18th April, 1979, the then Prime Minister of India Morar ji Desai visited Dhaka in order to improve relations between India and Bangladesh. Bangladesh President Ziaur Rehman agreed with Desai for mutual cooperation between two countries in the fields of economic technology and agriculture.

India and Bangladesh signed another three years trade agreement on 4th October, 1980 and reiterated the 'Most Favoured Nation Treatment' (MFN) to each other. The agreement was extendable for another three years by mutual consent. Up to September 1980, their mutual trade was governed by BPTA, which was extended twice. It did not mention earlier balanced trade provision. Trade agreement of 1980 was basically similar to BPTA, 1973. It made clear that all payments were to be given in freely convertible currencies. Both the countries discussed to offer mutually beneficial transportation facilities for trade between them. The protocol on inland water transit and trade between India and Bangladesh was also signed for three years at this occasion. It provided transit facilities for Indian vessels carrying specified goods from Calcutta to Dhubri and Karimganj in Assam and back. India agreed to give Taka 25 lakhs as annual conservancy charges for this purpose.

On 7th December, 1981, first technical cooperation agreement was signed between these two nations. On 24th March, 1982, General Ershad captured power of Bangladesh in a coup. Shortly afterwards, a summit took place between Indira Gandhi and H. M. Ershad in New Delhi on 7th October, 1982, which gave fillip to Indo- Bangladesh economic relations. At this time, they decided to set up a Joint Economic Commission (JEC) in order to promote mutual trade and to identify the areas of joint ventures and mutual economic cooperation. With the establishment of JEC, private trade was also allowed. The first meeting of JEC between India and Bangladesh took place on 17th November, 1982, which agreed to promote mutual trade and economic cooperation between them. Cement, fertilizers and the sponge iron were the areas of joint ventures in Bangladesh, the produce of which could be exported from Bangladesh to India in order to balance their mutual trade. A five year agreement on scientific and technological cooperation was also signed between these two countries. The meeting emphasised on the need of mutual cooperation in the areas of economy, commerce and industry. It decided to renew trade agreement for another three years. The trade continued to be governed on MFN terms in freely convertible currency. India agreed to import large quantity of urea, bitumen and newsprint from Bangladesh.

On 8th November, 1983, India and Bangladesh renewed a Protocol, to raise the annual conservancy rate from present Taka 25 lakhs to 50 lakhs at the request of Bangladesh. In May 1986, India and Bangladesh extended their bilateral trade agreement of 1983 for another three yeas till 3rd October, 1989. India agreed to import more quantity of urea, leather, newsprint and books from Bangladesh and to export coal and wheat to Bangladesh. A Protocol on inland water transit and trade between them was also extended till 3rd October, 1989. In second week of September 1989, the Indo-Bangladesh trade review talks were held in Dhaka which renewed the existing trade agreement for another three years from 4th October, 1989 to 3rd October, 1992. At this time, the two countries agreed to explore the possibilities of entering into a long–term agreement for export of urea and newsprint from Bangladesh to India. India's major items of export to Bangladesh included engineering goods, transport equipments, textile yarn, coal machinery, chemicals, fruits and vegetables. Bangladesh's major items to export to India were newsprint, books, periodicals and chemicals. Afterwards, on 22nd September, 1989, the existing Protocol on inland water transit and trade between India and Bangladesh was further extended for two years till 3rd October, 1991.

The third meeting of Indo- Bangladesh Joint Economic Commission was held in New Delhi in the third week of May 1990. This meeting was held after a long gap of seven years though it was expanded to be held annually. At this meeting, both sides recognised the trade imbalances and agreed to increase the exports from Bangladesh to India. It was to be achieved by the establishment of joint ventures in Bangladesh with Indian participation and buy back agreements in order to bridge their mutual trade gap. Bangladesh offered to increase the export of newsprint, jamdani sarees, jute carpets, etc. for India. Both sides laid emphasis on mutual cooperation in the areas of trade, science and technology, economic relations and culture. During the trade talks between the Federation of Indian Chamber of Commerce and Industry (FICCI) of India and Chittgong Chamber of Commerce and Industry (CCCI) of Bangladesh on 25th October, 1991, President of FICCI said that project exports could be executed by India to Bangladesh, particularly in the areas of power, transport, communication and other services.

Balance of Trade between India and Bangladesh

India's exports were higher than imports from Bangladesh which led to favourable balance of trade for India. At current prices, India's total trade turnover with Bangladesh was US $ 3590 million from January 1972 to March 1991. India's exports were US $ 3380 million and imports were only US $ 260 million. Hence US $ 3070 million remained surplus in India's favour during above period. The magnitude of India's trade with Bangladesh during 1972-1991 at constant prices shows that during 1972-73, the very first year after the liberation of Bangladesh, India's exports to Bangladesh amounted to US $ 423 million which were highest up to 1990-1991. During 1979-80, India's exports to Bangladesh amounted to US $115 million which was a record during 1974-1991.

In terms of the composition of India's export items to Bangladesh during 1972-1991, the major items were food and live animal, coal, textile yarn, iron and steel, machinery and transport equipments, and fruits and vegetables. During the first year of Bangladesh's liberation, the food items constituted 42.7 per cent of her total export to Bangladesh. This share however declined to about 28.5 per cent in 1979-80 and to only 1.3 per cent in 1981-82. This trend can be explained by the fact that in 1972-73, agriculture was hit hard by bad monsoons in Bangladesh and in 1974 -75 severe floods further caused great set back to agriculture. Therefore Bangladesh's imports of food items were much more in the initial period of indo- Bangladesh trade. The excellent monsoon in 1975-76 improved the food production considerably in Bangladesh. Hence fall in imports of food items, of Bangladesh from India since 1975-76 was due to the increased domestic production of food items. The share of machinery and transport equipments, coal, textile yarn and fibres had also accounted a large proportion in India's export to Bangladesh during 1972-1991. While the share of machinery and transport equipments was only about 8 per cent in 1972-73, this increased to 52 per cent in 1981-82 which however, decreased to about 9 per cent in 1990-91. The share of this item increased due to the industries began to develop in Bangladesh since 1976-77. The share of coal in India's export to Bangladesh increased from 1 per cent in 1972-73 to 5 per cent in 1981-82, and remained 4 per cent in 1990-91.

The share of textile yarn and fibres in India's export to Bangladesh in 1972-73 was only 3 per cent which increased to 7 percent in 1981-82. This was the first major item of India's exports to Bangladesh during 1982-91. In 1982-83 its share in India's total exports to Bangladesh was only about 14 percent which picked up to more than 52 per cent in 1989-90 and 46 per cent in 1990-91. During 1982-99, its share remained more than 43 per cent of India's total exports.

During 1986-91, textiles constituted about 45.7 per cent of India's total export to Bangladesh. This item fed the garment industry of Bangladesh. Before 1986-87, India could not export textiles to Bangladesh on a large scale due to quota restrictions at home. Since 1990-91, the share of textiles in India's exports to Bangladesh has remained more than 47 per cent. There it appears that Bangladesh's dependence on Indian textiles is quite significant.

In so far the composition and trend of India's import from Bangladesh during 1972-1991 is concerned, India's import from Bangladeshi raw jute and jute manufactures accounted for about 63.7 per cent of India's total imports from Bangladesh. It grew to about 67 per cent in 1984-85, due to the acute shortage of jute that year in the world market. The share of newsprint and fish were 17.3 per cent and 13.4 per cent respectively in India's total imports from Bangladesh during 1972-77.

Bangladesh after 1991 is importing raw jute, jute products, leather, organic chemicals, newsprint and printed matter from Bangladesh share of jute and jute products accounted about 44 percent and newsprint accounted for about 0.9 percent of India's total imports from Bangladesh. India had not imported fish from Bangladesh due to her increase in domestic production. Since 1992, India was also importing tea and urea from Bangladesh. The share of these two items in India's import from Bangladesh was more then 43 percent in 2004-05.

As regard the composition of India's exports to Bangladesh, food and live animal, coal, textile yarn, iron and steel, machinery and transport equipments and fruit and vegetables were the major items. The share of machinery and transport equipment, coal, textile yarn and fibres had accounted for a large portion in India's export to Bangladesh after 1991. The share of machinery and transport equipment decreased to about 9 percent in recent years, the share of coal in India's export to Bangladesh remained at 4 percent. Textile yarn and fibres were the major items of India export to Bangladesh. Their share in the total export to Bangladesh was more than 52 percent in 2004-05. India could not export textiles to Bangladesh on a large scale due to quota restrictions in India. Since 1991 the share of textiles in India's exports to Bangladesh has remained more than 47 percent. Therefore it appears that Bangladesh dependence on Indian textiles is quite significant. It is evident from above export import analysis between India and Bangladesh that the number of India's export item is relatively large as compared to that of Bangladesh. In fact India is not in need of major export items of Bangladesh. It is therefore suggested that if the two countries wants to expand their mutual trade, Bangladesh will have to add more items to her export to India.

There is huge bilateral trade imbalance between India and Bangladesh. Bilateral trade imbalance between the two countries is because of the prevalence of high incidence of Non-Tariff Barriers (NTBs) in India. Bangladeshi exporters, government and functionaries have often stated that most of the NTBs in India are non-transparent and hence difficult to identify. Some of the commonly used NTBs highlighted by them are: quantitative restrictions such as quotas, prohibitions and import licensing, requirement of chemical tests, which take a long time. Imposition of countervailing and anti-dumping duties is often administrated in a non- transparent manner, the frequent changes in customs regulations and procedures also come in the way. India should remove or reduce these NTBs to enhance bilateral trade between India and Bangladesh. Bangladesh too is expected to take a few corrective measures. For example there is no good road infrastructure in Bangladesh. So only mini trucks can be pass through the road in many places. It increases the cost of loading and unloading. Hence the price of Bangladeshi goods increases. It affects its trade negatively. Hence Bangladesh should improve infrastructure facilities to enhance its trade and reduce its trade deficit.

A few members of the SAPTA have entered into bilateral free trade agreements, Such as Nepal Bhutan and recently Sri Lanka. These countries have liberalised trade among themselves. There is no necessity for them to exchange tariff concession under SAPTA. If confidence in SAFTA processes eroded then SAPTA would become irrelevant.

To make SAFTA an effective measure, to gain economic integration and to make SAARC a successful forum to achieve objectives of socio-economic developments, political issues must be kept out of its influence. SAFTA should have to explore the scope for a Custom Union, as any move towards an Economic Union can not limit itself to a Free Trade Area (FTA).

But before that the member countries of SAARC have to make more liberal trade concessions to each other, should minimise their negative list, and should give special financial and technological support to the Least Develop Countries. Should enhance greater civil society cooperation among each other and should strengthen their inter-state political relations. And above all the people of the region should make their governments accountable for working together to build a common future. Only then one can think of a South Asian Economic Union (SAEU).

The rationale behind choosing Indo-Bangladesh trade as the subject of the present study is the geographical and cultural closeness of two countries which leads to certain locational advantages in the transportation of the commodities from one country to another. Secondly as Bangladesh has been looking for a strategy of development that would help a rapid growth of industries based on indigenous raw materials and skills. India's industrial base and structure can enable the latter to supply a wide range of industrial products to Bangladesh. In fact there can also be many advantages of cooperation between two countries. These include appropriateness of Indian technology particularly in the context with the similarity in the natural endowments of two countries, advantages offered by India for training and back-up support and above all, the versatility of Indian experience in industrialisation. Thirdly, there can also be a possibility of stepping up trade relations between India and Bangladesh through bilateral trade agreements, supply of credit and establishment of joint industrial ventures. The government of Bangladesh has embarked on a policy of encouragement to private investment in several fields. Fiscal and other incentives are being provided and infrastructure facilities are being developed. The Bangladesh government has positive attitude towards import of technology, equipments and foreign participation. In this context also Bangladesh throws up possibility for increased trade and overall economic cooperation.

Bangladesh and India by channelling trade away from the bootleg routes to the formal routes and by reducing the incentives and scope for corrupt practices in formal routes should make number of policy and other reforms that would serve the economic interests of both. The reforms should be Bangladesh should bring down its present very high tariffs protecting imports substitution industries by reversing the policies under which protection rates have been drastically increased over the past 6 or 7 years by the use of para- tariffs on top of customs duties. Secondly both the countries should improve the infrastructure-physical and administrative at their land border customs posts. This should need to be done in a coordinated way- there should no point if the infrastructure were improved on one side of the border but bottlenecks were to remain or even increase on the other side of the border. Thirdly both countries should continue and accelerate efforts to streamline and improve the administrative structure that affect land border trade, especially Customs administration. For Customs, the purposes would be to speed up and simplify Customs clearances and to reduce the incentives for, and scope of corrupt practices. The present pre- shipment inspection system at present operating in India on behalf of Bangladesh Customs would be part of this effort. Fourthly, the administrative reforms should include expanding the facilities and the Customs clearances powers available at Bangladesh's smaller land border Customs posts. Fifthly, Bangladesh should continue to expand the effective coverage and improve the administration of its VAT system. Sixthly, both the countries do and should share a common vision for economic, social and political development. They should resolve bilateral issues by peaceful negotiations and avoid bickering sideshows.

(1) Demarcation of chapters are not well done.

(2) Lots of spelling and gramatical mistakes. Editing is very much required.

(3) Overlapping is too much.

(4) Subject coverage need to be improved

(5) SAFTA analysis should be improved.

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Appendixes

India - Bangladesh Joint Press Statement

February 18, 2002

His Excellency Mr. Shatter M. Chowdhury, BB, Foreign Secretary of Peoples's Republic of Bangladesh who is on a goodwill-working visit, met Smt. Chokila Iyer, Foreign Secretary of India this afternoon (Feb 18). He was accompanied by Mr. Mahmood Hasan, Director General (South Asia), Ms Ismat Jahan, Acting High Commissioner of Bangladesh and Mr. Md. Touhid Hossain, Deputy High Commissioner of Bangladesh, Kolkata.

Mr. Chowdhury's meeting with India's Foreign Secretary was outside the framework of regular Foreign Office Consultations and also touched on the need to establish substantive, long-term economic linkages on trade and investment, infrastructure and communications for mutual benefit. Commerce Secretary-level talks are being scheduled as also meeting to discuss border demarcation and related issues. The two Foreign Secretaries also agreed on the need for early convening of the regular Foreign Secretary level consultations due to be held in Dhaka.

Mr. Chowdhury reiterated Bangladesh's commitment towards not to allow its territory to be used for any kind of activity detrimental to the interest of any country including India. (In course of the talks, the Bangladesh Foreign Secretary informed his Indian counterpart that the Bangladesh Government was in the process of setting up an Independent National Human Rights Commission).

Mr. Chowdhury called on Shri Jaswant Singh, External Affairs Minister. External Affairs Minister conveyed India's firm commitment towards expanding and diversifying ties between the two countries.

India-Bangladesh, Joint Statement

April 29, 2003

The Foreign Secretary of India Mr. Kanwal Sibal visited Dhaka, Bangladesh from 28-30 April 2003 at the invitation of the Bangladesh Foreign Secretary, Mr. Shamsher M. Chowdhury, BB for Foreign Office consultations. During his stay in Dhaka the Foreign Secretary of India called on H.E. Begum Khaleda Zia, Hon'ble Prime Minister of Bangladesh, Mr. M. Saifur Rahman, MP, the Finance Minister, Mr. M. Morshed Khan, MP, Minister for Foreign Affairs and Mr. Reaz Rahman, State Minister for Foreign Affairs. While receiving the Indian Foreign Secretary, the Bangladesh leaders reaffirmed the importance attached by the people and the Government of Bangladesh to close ties with India. They stressed their keen desire and commitment to continue to work with India and to further strengthen the bonds of friendship between the two countries.

During the consultations, the Indian Foreign Secretary was accompanied by H.E. Mr. Manilal Tripathi, High Commissioner of India to Bangladesh, Ms. Neelam Deo, Joint Secretary, Ministry of External Affairs of India and other officials of the Ministry of External Affairs of India and the High Commission of India in Dhaka. The Bangladesh Foreign Secretary was assisted by the Bangladesh High Commissioner to India, H.E. Mr. Tufail Karim Haider, Mr. Liaquat Ali Chowdhury, Director General (South Asia) and representatives of the Ministries of Foreign Affairs, Commerce and Land. The two sides extensively discussed all issues of common interest in a candid and frank manner covering the entire gamut of their bilateral relations and important regional issues including SAARC.

Issues relating to the completion of demarcation of the Indo-Bangladesh land boundary, exchange of enclaves and of territories in adverse possession, peaceful management of the borders, cross-border illegal movement of people and specific security concerns of both India and Bangladesh and the larger question of economic cooperation between the two countries were discussed by the two Foreign Secretaries.

It was agreed that the Joint Boundary Working Groups would be revived and would meet soon to work towards early resolution of border demarcation and related issues. It was also agreed to strengthen and fully implement the existing agreed procedures to stop cross border illegal movement of people.

In response to Indian concerns regarding the activities of Indian insurgent groups in Bangladesh, the Bangladesh side reaffirmed the commitment not to allow its territory to be used for any activities inimical to the interests of India.

On the economic side, it was agreed to hold the sixth meeting of the Joint Economic Commission, co-chaired by the respective Foreign Ministers, in July 2003, where all areas of economic interest to the two countries would be comprehensively discussed. The two sides discussed issues relating to enhancement of rail and road connectivity. They expressed the hope that the Bilateral Investment Protection and Promotion Agreement and Agreement on Cooperation for preventing Illicit Trafficking in Narcotics and Psychotropic Substances, finalisation of which are at an advanced stage, will be signed soon marking a significant forward movement in the close relations between India and Bangladesh.

The Indian Foreign Secretary reiterated the importance of crafting innovative trading relationships such as a Free Trade Agreement in tune with global trends and which are working successfully in regional contexts.

The two Foreign Secretaries also welcomed the prospect of a visit by the Finance Minister of Bangladesh to India at a mutually agreed date in May 2003.

The Indian Foreign Secretary proposed cooperation in the IT sector through a project to provide Bangladesh with 650 computers for district schools and the training of 250 teachers in IT applications in India. He also proposed the commissioning of a Joint Storm Surge Disaster Reduction Project which can benefit both India and Bangladesh. The Bangladesh Foreign Secretary thanked the Indian Foreign Secretary for the offer.

The Indian Foreign Secretary invited the Bangladesh Foreign Secretary to visit New Delhi early next year for the next Foreign Office consultations which was accepted with thanks. The meeting concluded with an expression of desire by both the Foreign Secretaries to carry on constructive engagement and discussions at all levels to further enrich Indo-Bangladesh relations.

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Agreement on South Asian Free Trade Area (SAFTA)

06/01/2004

The Governments of the SAARC (South Asian Association for Regional Cooperation) Member States comprising the People's Republic of Bangladesh, the Kingdom of Bhutan, the Republic of India, the Republic of Maldives, the Kingdom of Nepal, the Islamic Republic of Pakistan and the Democratic Socialist Republic of Sri Lanka hereinafter referred to as "Contracting States"

Motivated by the commitment to strengthen intra-SAARC economic cooperation to maximise the realisation of the region's potential for trade and development for the benefit of their people, in a spirit of mutual accommodation, with full respect for the principles of sovereign equality, independence and territorial integrity of all States;

Noting that the Agreement on SAARC Preferential Trading Arrangement (SAPTA) signed in Dhaka on the 11th of April 1993 provides for the adoption of various instruments of trade liberalisation on a preferential basis;

Convinced that preferential trading arrangements among SAARC Member States will act as a stimulus to the strengthening of national and SAARC economic resilience, and the development of the national economies of the Contracting States by expanding investment and production opportunities, trade, and foreign exchange earnings as well as the development of economic and technological cooperation;

Aware that a number of regions are entering into such arrangements to enhance trade through the free movement of goods;

Recognising that least developed countries in the region need to be accorded special and differential treatment commensurate with their development needs; and

Recognising that it is necessary to progress beyond a Preferential Trading Arrangement to move towards higher levels of trade and economic cooperation in the region by removing barriers to cross-border flow of goods;

Have agreed as follows:

Article 1

Definitions

For the purposes of this Agreement:

1. Concessions mean tariff, para-tariff and non-tariff concessions agreed under the Trade Liberalisation Programme;
2. Direct Trade Measures mean measures conducive to promoting mutual trade of Contracting States such as long and medium-term contracts containing import and supply commitments in respect of specific products, buy-back arrangements, state trading operations, and government and public procurement.
3. Least Developed Contracting State refers to a Contracting State which is designated as a "Least Developed Country" by the United Nations;
4. Margin of Preference means percentage of tariff by which tariffs are reduced on products imported from one Contracting State to another as a result of preferential treatment.
5. Non-Tariff Measures include any measure, regulation, or practice, other than "tariffs" and "para-tariffs".
6. Para-Tariffs mean border charges and fees, other than "tariffs", on foreign trade transactions of a tariff-like effect which are levied solely on imports, but not those indirect taxes and charges, which are levied in the same manner on like domestic products. Import charges corresponding to specific services rendered are not considered as para-tariff measures;
7. Products mean all products including manufactures and commodities in their raw, semi-processed and processed forms;
8. SAPTA means Agreement on SAARC Preferential Trading Arrangement signed in Dhaka on the 11th of April 1993;
9. Serious injury means a significant impairment of the domestic industry of like or directly competitive products due to a surge in preferential imports causing

substantial losses in terms of earnings, production or employment unsustainable in the short term;

10. Tariffs mean customs duties included in the national tariff schedules of the Contracting States;

II. Threat of serious injury means a situation in which a substantial increase of preferential imports is of a nature to cause "serious injury" to domestic producers, and that such injury, although not yet existing, is clearly imminent. A determination of threat of serious injury shall be based on facts and not on mere allegation, conjecture, or remote or hypothetical possibility.

Article 2

Establishment

The Contracting States hereby establish the South Asian Free Trade Area (SAFTA) to promote and enhance mutual trade and economic cooperation among the Contracting States, through exchanging concessions in accordance with this Agreement.

Article 3

Objectives and Principles

1. The Objectives of this Agreement are to promote and enhance mutual trade and economic cooperation among Contracting States by, inter-alia:

   a) eliminating barriers to trade in, and facilitating the cross-border movement of goods between the territories of the Contracting States;
   b) Promoting conditions of fair competition in the free trade area, and ensuring equitable benefits to all Contracting States, taking into account their respective levels and pattern of economic development;
   c) Creating effective mechanism for the implementation and application of this Agreement, for its joint administration and for the resolution of disputes; and
   d) Establishing a framework for further regional cooperation to expand and enhance the mutual benefits of this Agreement

2. SAFTA shall be governed in accordance with the following principles:

a) SAFTA will be governed by the provisions of this Agreement and also by the rules, regulations, decisions, understandings and protocols to be agreed upon within its framework by the Contracting States;

b) The Contracting States affirm their existing rights and obligations with respect to each other under Marrakesh Agreement Establishing the World Trade Organisation and other Treaties/Agreements to which such Contracting States are signatories;

c) SAFTA shall be based and applied on the principles of overall reciprocity and mutuality of advantages in such a way as to benefit equitably all Contracting States, taking into account their respective levels of economic and industrial development, the pattern of their external trade and tariff policies and systems;

d) SAFTA shall involve the free movement of goods, between countries through, inter alia, the elimination of tariffs, para tariffs and non-tariff restrictions on the movement of goods, and any other equivalent measures;

e) SAFTA shall entail adoption of trade facilitation and other measures, and the progressive harmonisation of legislations by the Contracting States in the relevant areas; and

f) The special needs of the Least Developed Contracting States shall be clearly recognised by adopting concrete preferential measures in their favour on a non-reciprocal basis.

Article 4

Instruments The SAFTA Agreement will be implemented through the following instruments:

1. Trade Liberalisation Programme
2. Rules of Origin
3. Institutional Arrangements

4. Consultations and Dispute Settlement Procedures
5. Safeguard Measures
6. Any other instrument that may be agreed upon.

Article 5

National Treatment

Each Contracting State shall accord national treatment to the products of other Contracting States in accordance with the provisions of Article III of GATT 1994.

Article 6

Components

SAFTA may, inter-alia, consist of arrangements relating to:

a) tariffs;
b) para-tariffs;
c) non-tariff measures;
d) direct trade measures.

Article 7

Trade Liberalisation Programme

1. Contracting States agree to the following schedule of tariff reductions:

a) The tariff reduction by the Non-Least Developed Contracting States from existing tariff rates to 20% shall be done within a time frame of 2 years, from the date of coming into force of the Agreement. Contracting States are encouraged to adopt reductions in equal annual installments. If actual tariff rates after the coming into force of the Agreement are below 20%, there shall be an annual reduction on a Margin of Preference basis of 10% on actual tariff rates for each of the two years.

b) The tariff reduction by the Least Developed Contracting States from existing tariff rates will be to 30% within the time frame of 2 years from the date of coming into force of the Agreement If actual tariff rates on the date of coming into force of the

Agreement are below 30%, there will be an annual reduction on a Margin of Preference basis of 5 % on actual tariff rates for each of the two years.

c) The subsequent tariff reduction by Non-Least Developed Contracting States from 20% or below to 0-5% shall be done within a second time frame of 5 years, beginning from the third year from the date of coming into force of the Agreement. However, the period of subsequent tariff reduction by Sri Lanka shall be six years. Contracting States are encouraged to adopt reductions in equal annual installments, but not less than 15% annually.

d) The subsequent tariff reduction by the Least Developed Contracting States from 30% or below to 0-5% shall be done within a second time frame of 8 years beginning from the third year from the date of coming into force of the Agreement. The Least Developed Contracting States are encouraged to adopt reductions in equal annual installments, not less than 10% annually.

2. The above schedules of tariff reductions will not prevent Contracting States from immediately reducing their tariffs to 0-5% or from following an accelerated schedule of tariff reduction.

3. a) Contracting States may not apply the Trade Liberalisation Programme as in paragraph 1 above, to the tariff lines included in the Sensitive Lists which shall be negotiated by the Contracting States (for LDCs and Non-LDCs) and incorporated in this Agreement as an integral part. The number of products in the Sensitive Lists shall be subject to maximum ceiling to be mutually agreed among the Contracting States with flexibility to Least Developed Contracting States to seek derogation in respect of the products of their export interest; and

b) The Sensitive List shall be reviewed after every four years or earlier as may be decided by SAFTA Ministerial Council (SMC), established under Article 10, with a view to reducing the number of items in the Sensitive List.

4. The Contracting States shall notify the SAARC Secretariat all non-tariff and para-tariff measures to their trade on an annual basis. The notified measures shall be reviewed by the Committee of Experts, established under Article 10, in its regular meetings to examine their compatibility with relevant WTO provisions. The Committee of Experts shall recommend the elimination or implementation of the measure in the least trade restrictive manner in order to facilitate intra SAARC trade.

5. Contracting Parties shall eliminate all quantitative restrictions, except otherwise permitted under GATT 1994, in respect of products included in the Trade Liberalisation Programme.

6. Notwithstanding the provisions contained in paragraph 1 of this Article, the Non-Least Developed Contracting States shall reduce their tariff to 0-5% for the products of Least Developed Contracting States within a timeframe of three years beginning from the date of coming into force of the Agreement.

Article 8

Additional Measures

Contracting States agree to consider, in addition to the measures set out in Article 7, the adoption of trade facilitation and other measures to support and complement SAFTA for mutual benefit. These may include, among others:

a) harmonisation of standards, reciprocal recognition of tests and accreditation of testing laboratories of Contracting States and certification of products;

b) simplification and harmonisation of customs clearance procedure;

c) harmonisation of national customs classification based on HS coding system;

d) Customs cooperation to resolve dispute at customs entry points;

e) simplification and harmonisation of import licensing and registration procedures;

f) simplification of banking procedures for import financing;

g) transit facilities for efficient intra-SAARC trade, especially for the land-locked Contracting States;

h) removal of barriers to intra-SAARC investments;

i) macroeconomic consultations;

j) rules for fair competition and the promotion of venture capital;

k) development of communication systems and transport infrastructure;

l) making exceptions to their foreign exchange restrictions, if any, relating to payments for products under the SAFTA scheme, as well as repatriation of such payments without prejudice to their rights under Article XVIII of the General Agreement on Tariffs and Trade (GATT) and the relevant provisions of Articles of Treaty of the International Monetary Fund (IMF); and

m) Simplification of procedures for business visas.

Article 9

Extension of Negotiated Concessions

Concessions agreed to, other than those made exclusively to the Least Developed Contracting States, shall be extended unconditionally to all Contracting States.

The initial notification shall be made within three months from the date of coming into force of the Agreement and the COE shall review the notification in its first meeting and take appropriate decisions

Article 10

Institutional Arrangements

1. The Contracting States hereby establish the SAFTA Ministerial Council (hereinafter referred to as SMC).
2. The SMC shall be the highest decision-making body of SAFTA and shall be responsible for the administration and implementation of this Agreement and all decisions and arrangements made within its legal framework.
3. The SMC shall consist of the Ministers of Commerce / Trade of the Contracting States.
4. The SMC shall meet at least once every year or more often as and when considered necessary by the Contracting States. Each Contracting State shall chair the SMC for a period of one year on rotational basis in alphabetical order.

5. The SMC shall be supported by a Committee of Experts (hereinafter referred to as COE), with one nominee from each Contracting State at the level of a Senior Economic Official, with expertise in trade matters.

6. The COE shall monitor, review and facilitate implementation of the provisions of this Agreement and undertake any task assigned to it by the SMC. The COE shall submit its report to SMC every six months.

7. The COE will also act as Dispute Settlement Body under this Agreement.

8. The COE shall meet at least once every six months or more often as and when considered necessary by the Contracting States. Each Contracting State shall chair the COE for a period of one year on rotational basis in alphabetical order.

9. The SAARC Secretariat shall provide secretarial support to the SMC and COE in the discharge of their functions.

10. The SMC and COE will adopt their own rules of procedure.

Article 11

Special and Differential Treatment for the Least Developed Contracting States

In addition to other provisions of this Agreement, all Contracting States shall provide special and more favourable treatment exclusively to the Least Developed Contracting States as set out in the following sub-paragraphs:

a) The Contracting States shall give special regard to the situation of the Least Developed Contracting States when considering the application of anti-dumping and/or countervailing measures. In this regard, the Contracting States shall provide an opportunity to Least Developed Contracting States for consultations. The Contracting States shall, to the extent practical, favourably consider accepting price undertakings offered by exporters from Least Developed Contracting States. These constructive remedies shall be available until the trade liberalisation programme has been completed by all Contracting States.

b) Greater flexibility in continuation of quantitative or other restrictions provisionally and without discrimination in critical circumstances by the Least Developed Contracting States on imports from other Contracting States.

c) Contracting States shall also consider, where practical, taking direct trade measures with a view to enhancing sustainable exports from Least Developed Contracting States, such as long and medium-term contracts containing import and supply commitments in respect of specific products, buy-back arrangements, state trading operations, and government and public procurement.

d) Special consideration shall be given by Contracting States to requests from Least Developed Contracting States for technical assistance and cooperation arrangements designed to assist them in expanding their trade with other Contracting States and in taking advantage of the potential benefits of SAFTA. A list of possible areas for such technical assistance shall be negotiated by the Contracting States and incorporated in this Agreement as an integral part.

e) The Contracting States recognise that the Least Developed Contracting States may face loss of customs revenue due to the implementation of the Trade Liberalisation Programme under this Agreement. Until alternative domestic arrangements are formulated to address this situation, the Contracting States agree to establish an appropriate mechanism to compensate the Least Developed Contracting States for their loss of customs revenue. This mechanism and its rules and regulations shall be established prior to the commencement of the Trade Liberlisation Programme (TLP).

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Special Provision for Maldives

Notwithstanding the potential or actual graduation of Maldives from the status of a Least Developed Country, it shall be accorded in this Agreement and in any subsequent contractual undertakings thereof treatment no less favoumble than that provided for the Least Developed Contracting States.

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Notwithstanding the measures as set out in this Agreement its provisions shall not apply in relation to preferences already granted or to be granted by any Contracting State to other Contracting States outside the framework of this Agreement, and to third countries through bilateral, plurilateral and multilateral trade agreements and similar arrangements.

Article 14

Exceptions

a) Nothing in this Agreement shall be Construed to prevent any Contmcting State from taking action and adopting measures which it considers necessary for the protection of its national security.

b) Subject to the requirement that such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the similar conditions prevail, or a disguised restriction on intra-regional trade, nothing in this Agreement shall be construed to prevent any Contracting State from taking action and adopting measures which it considers necessary for the protection of:

(i) public morals;

(ii) human, animal or plant life and health; and

(iii) articles of artistic, historic and archaeological value.

Article 15

Balance of Payments Measures

1. Notwithstanding the provisions of this Agreement, any Contracting State facing serious balance of payments difficulties may suspend provisionally the concessions extended under this Agreement.

2. Any such measure taken pursuant to paragraph 1 of this Article shall be immediately notified to the Committee of Experts.

3. The Committee of Experts shall periodically review the measures taken pursuant to paragraph 1 of this Article.

4. Any Contracting State which takes action pursuant to paragraph 1 of this Article shall afford, upon request from any other Contracting State, adequate opportunities for consultations with a view to preserving the stability of concessions under SAFTA.

5. If no satisfactory adjustment is effected between the Contracting States concerned within 30 days of the beginning of such consultations, to be extended by another 30 days through mutual consent, the matter may be referred to the Committee of Experts.

6. Any such measures taken pursuant to paragraph 1 of this Article shall be phased out soon after the Committee of Experts comes to the conclusion that the balance of payments situation of the Contracting State concerned has improved.

Article 16

Safeguard Measures

1. If any product, which is the subject of a concession under this Agreement, is imported into the territory of a Contracting State in such a manner or in such quantities as to cause, or threaten to cause, serious injury to producers of like or directly competitive products in the importing Contracting State, the importing Contracting State may, pursuant to an investigation by the competent authorities of that Contracting State conducted in accordance with the provisions set out in this Article, suspend temporarily the concessions granted under the provisions of this Agreement. The examination of the impact on the domestic industry concerned shall include an evaluation of all other relevant economic factors and indices having a bearing on the state of the domestic industry of the product and a causal relationship must be clearly established between "serious injury" and imports from within the SAARC region, to the exclusion of all such other factors.

2. Such suspension shall only be for such time and to the extent as may be necessary to prevent or remedy such injury and in no case, will such suspension be for duration of more than 3 years.

3. No safeguard masure shall be applied again by a Contracting State to the import of a product which has been subject to such a measure during the period of implementation of Trade Liberalisation Programme by the Contracting States, for a period of time equal to that during which such measure had been previously applied, provided that the period of non-application is at least two years.

4. All investigation procedures for resorting to safeguard measures under this Article shall be consistent with Article XIX of GATT 1994 and WTO Agreement on Safeguards.

5. Safeguard action under this Article shall be non-discriminatory and applicable to the product imported from all other Contracting States subject to the provisions of paragraph 8 of this Article.

6. When safeguard provisions are used in accordance with this Article, the Contracting State invoking such measures shall immediately notify the exporting Contracting State(s) and the Committee of Experts.

7. In critical circumstances where delay would cause damage which it would be difficult to repair, a Contracting State may take a provisional safeguard measure pursuant to a preliminary determination that there is clear evidence that increased imports have caused or are threatening to cause serious injury. The duration of the provisional measure shall not exceed 200 days, during this period the pertinent requirements of this Article shall be met.

8. Notwithstanding any of the provisions of this Article, safeguard measures under this article shall not be applied against a product originating in a Least Developed Contracting State as long as its share of imports of the product concerned in the importing Contracting State does not exceed 5 percent, provided Least Developed Contracting States with less than 5% import share collectively account for not more than 15% of total imports of the product concerned.

Article 17

Maintenance of the Value of Concessions Any of the concessions agreed upon under this Agreement shall not be diminished or nullified, by the application of any measures restricting trade by the Contracting States, except under the provisions of other articles of this Agreement.

Article 18

Rules of Origin Rules of Origin shall be negotiated by the Contracting States and incorporated in this Agreement as an integral part.

Article 19

Consultations

1. Each Contracting State shall accord sympathetic consideration to and will afford adequate opportunity for consultations regarding representations made by another Contracting State with respect to any matter affecting the operation of this Agreement.

2. The Committee of Experts may, at the request of a Contracting State, consult with any Contracting State in respect of any matter for which it has not been possible to find a satisfactory solution through consultations under paragraph 1.

Article 20

Dispute Settlement Mechanism

1. Any dispute that may arise among the Contracting States regarding the interpretation and application of the provisions of this Agreement or any instrument adopted within its framework concerning the rights and obligations of the Contracting States will be amicably settled among the parties concerned through a process initiated by a request for bilateral consultations.
2. Any Contracting State may request consultations in accordance with paragraph 1 of this Article with other Contracting State in writing stating the reasons for

the request including identification of the measures at issue. All such requests should be notified to the Committee of Experts, through the SAARC Secretariat with an indication of the legal basis for the complaint.

3. If a request for consultations is made pursuant to this Article, the Contracting State to which the request is made shall, unless otherwise mutually agreed, reply to the request within 15 days after the date of its receipt and shall enter into consultations in good faith within a period of no more than 30 days after the date of receipt of the request, with a view to reaching a mutually satisfactory solution.

4. If the Contracting State does not respond within 15 days after the date of receipt of the request, or does not enter into consultations within a period of no more than 30 days, or a period otherwise mutually agreed, after the date of receipt of the request, then the Contracting State that requested the holding of consultations may proceed to request the Committee of Experts to settle the dispute in accordance with working procedures to be drawn up by the Committee.

5. Consultations shall be confidential, and without prejudice to the rights of any Contracting State in any further proceedings.

6. If the consultations fail to settle a dispute within 30 days after the date of receipt of the request for consultations, to be extended by a further period of 30 days through mutual consent, the complaining Contracting State may request the Committee of Experts to settle the dispute. The complaining Contracting State may request the Committee of Experts to settle the dispute during the 60-day period if the consulting Contracting States jointly consider that consultations have failed to settle the dispute.

7. The Committee of Experts shall promptly investigate the matter referred to it and make recommendations on the matter within a period of 60 days from the date of referral.

8. The Committee of Experts may request a specialist from a Contracting State not party to the dispute selected from a panel of specialists to be established by the Committee within one year from the date of entry into force of the Agreement for peer review of the matter referred to it. Such review shall be submitted to the

Committee within a period of 30 days from the date of referral of the matter to the specialist.

9. Any Contracting State, which is a party to the dispute, may appeal the recommendations of the Committee of Experts to the SMC. The SMC shall review the matter within the period of 60 days from date of submission of request for appeal. The SMC may uphold, modify or reverse the recommendations of the Committee of Experts.

10. Where the Committee of Experts or SMC concludes that the measure subject to dispute is inconsistent with any of the provisions of this Agreement, it shall recommend that the Contracting State concerned bring the measure into conformity with this Agreement. In addition to its recommendations, the Committee of Experts or SMC may suggest ways in which the Contracting State concerned could implement the recommendations.

11. The Contracting State to which the Committee's or SMC's recommendations are addressed shall within 30 days from the date of adoption of the recommendations by the Committee or SMC, inform the Committee of Experts of its intentions regarding implementation of the recommendations. Should the said Contracting State fail to implement the recommendations within 90 days from the date of adoption of the recommendations by the Committee, the Committee of Experts may authorise other interested Contracting States to withdraw concessions having trade effects equivalent to those of the measure in dispute.

Article 21

Withdrawal

1. Any Contracting State may withdraw from this Agreement at any time after its entry into force. Such withdrawal shall be effective on expiry of six months from the date on which a written notice thereof is received by the Secretary-General of SAARC, the depositary of this Agreement. That Contracting State shall simultaneously inform the Committee of Experts of the action it has taken.

2. The rights and obligations of a Contracting State which has withdrawn from this Agreement shall cease to apply as of that effective date.

3. Following the withdrawal by any Contracting State, the Committee shall meet within 30 days to consider action subsequent to withdrawal.

Article 22

Entry into Force

1. This Agreement shall enter into force on 1st January 2006 upon completion of formalities, including ratification by all Contracting States and issuance of a notification thereof by the SAARC Secretariat. This Agreement shall supercede the Agreement on SAARC Preferential Trading Arrangement (SAPTA).

2. Notwithstanding the supercession of SAPTA by this Agreement, the concessions granted under the SAPTA Framework shall remain available to the Contracting States until the completion of the Trade Liberalisation Programme.

Article 23

Reservations

This Agreement shall not be signed with reservations, nor will reservations be admitted at the time of notification to the SAARC Secretariat of the completion of formalities.

Article 24

Amendments

This Agreement may be amended by consensus in the SAFTA Ministerial Council. Any such amendment will become effective upon the deposit of instruments of acceptance with the Secretary General of SAARC by all Contracting States.

Article 25

Depository

This Agreement will be deposited with the Secretary General of SAARC, who will promptly furnish a certified copy thereof to each Contracting State. **In witness whereof** the undersigned being duly authorised thereto by their respective Governments have signed this Agreement.

Done In Islamabad, Pakistan, On This The Sixth Day Of the Year Two Thousand Four, In Nine Originals In The English Language All Texts Being Equally Authentic.

M MORSHED KHAN
Minister for Foreign Affairs
People's Republic of Bangladesh
NADO RINCHHEN
Officiating Minister for Foreign Affairs
Kingdom of Bhutan
YASHWANT SINHA
Minister of External Affairs
Republic of India
FATHULLA JAMEEL
Minister of Foreign Affairs
Republic of Maldives
DR BHEKH B THAPA
Ambassador-at-Iarge
for Foreign Affairs Majesty's
Government of Nepal
KHURSHID M KASURI
Minister of Foreign Affairs
Islamic Republic of Pakistan
TYRONNE FERNANDO
Minister of Foreign Affairs
Democratic Socialist Republic of Sri Lanka

Agreement on South Asian Free Trade Area (SAFTA)

06/01/2004

The Governments of the SAARC (South Asian Association for Regional Cooperation) Member States comprising the People's Republic of Bangladesh, the Kingdom of Bhutan, the Republic of India, the Republic of Maldives, the Kingdom of Nepal, the Islamic Republic of Pakistan and the Democratic Socialist Republic of Sri Lanka hereinafter referred to as "Contracting States"

Motivated by the commitment to strengthen intra-SAARC economic cooperation to maximise the realisation of the region's potential for trade and development for the benefit of their people, in a spirit of mutual accommodation, with full respect for the principles of sovereign equality, independence and territorial integrity of all States; Noting that the Agreement on SAARC Preferential Trading Arrangement (SAPTA) signed in Dhaka on the 11th of April 1993 provides for the adoption of various instruments of trade liberalisation on a preferential basis;

Convinced that preferential trading arrangements among SAARC Member States will act as a stimulus to the strengthening of national and SAARC economic resilience, and the development of the national economies of the Contracting States by expanding investment and production opportunities, trade, and foreign exchange earnings as well as the development of economic and technological cooperation;

Aware that a number of regions are entering into such arrangements to enhance trade through the free movement of goods;

Recognising that least developed countries in the region need to be accorded special and differential treatment commensurate with their development needs; and

Recognising that it is necessary to progress beyond a Preferential Trading Arrangement to move towards higher levels of trade and economic cooperation in the region by removing barriers to cross-border flow of goods;

Have agreed as follows:

Article 1

Definitions

For the purposes of this Agreement:

1. Concessions mean tariff, para-tariff and non-tariff concessions agreed under the Trade Liberalisation Programme;
2. Direct Trade Measures mean measures conducive to promoting mutual trade of Contracting States such as long and medium-term contracts containing import and supply commitments in respect of specific products, buy-back arrangements, state trading operations, and government and public procurement.
3. Least Developed Contracting State refers to a Contracting State which is designated as a "Least Developed Country" by the United Nations;
4. Margin of Preference means percentage of tariff by which tariffs are reduced on products imported from one Contracting State to another as a result of preferential treatment.
5. Non-Tariff Measures include any measure, regulation, or practice, other than "tariffs" and "para-tariffs".
6. Para-Tariffs mean border charges and fees, other than "tariffs", on foreign trade transactions of a tariff-like effect which are levied solely on imports, but not those indirect taxes and charges, which are levied in the same manner on like domestic products. Import charges corresponding to specific services rendered are not considered as para-tariff measures;
7. Products mean all products including manufactures and commodities in their raw, semi-processed and processed forms;
8. SAPTA means Agreement on SAARC Preferential Trading Arrangement signed in Dhaka on the 11th of April 1993;
9. Serious injury means a significant impairment of the domestic industry of like or directly competitive products due to a surge in preferential imports causing

substantial losses in terms of earnings, production or employment unsustainable in the short term;

10. Tariffs mean customs duties included in the national tariff schedules of the Contracting States;

11. Threat of serious injury means a situation in which a substantial increase of preferential imports is of a nature to cause "serious injury" to domestic producers, and that such injury, although not yet existing, is clearly imminent. A determination of threat of serious injury shall be based on facts and not on mere allegation, conjecture, or remote or hypothetical possibility.

Article 2

Establishment

The Contracting States hereby establish the South Asian Free Trade Area (SAFTA) to promote and enhance mutual trade and economic cooperation among the Contracting States, through exchanging concessions in accordance with this Agreement.

Article 3

Objectives and Principles

1. The Objectives of this Agreement are to promote and enhance mutual trade and economic cooperation among Contracting States by, inter-alia:

    a) eliminating barriers to trade in, and facilitating the cross-border movement of goods between the territories of the Contracting States;
    b) Promoting conditions of fair competition in the free trade area, and ensuring equitable benefits to all Contracting States, taking into account their respective levels and pattern of economic development;
    c) Creating effective mechanism for the implementation and application of this Agreement, for its joint administration and for the resolution of disputes; and

d) Establishing a framework for further regional cooperation to expand and enhance the mutual benefits of this Agreement.

2. SAFTA shall be governed in accordance with the following principles:

a) SAFTA will be governed by the provisions of this Agreement and also by the rules, regulations, decisions, understandings and protocols to be agreed upon within its framework by the Contracting States;

b) The Contracting States affirm their existing rights and obligations with respect to each other under Marrakesh Agreement Establishing the World Trade Organisation and other Treaties/Agreements to which such Contracting States are signatories;

c) SAFTA shall be based and applied on the principles of overall reciprocity and mutuality of advantages in such a way as to benefit equitably all Contracting States, taking into account their respective levels of economic and industrial development, the pattern of their external trade and tariff policies and systems;

d) SAFTA shall involve the free movement of goods, between countries through, inter alia, the elimination of tariffs, para tariffs and non-tariff restrictions on the movement of goods, and any other equivalent measures;

e) SAFTA shall entail adoption of trade facilitation and other measures, and the progressive harmonisation of legislations by the Contracting States in the relevant areas; and

f) The special needs of the Least Developed Contracting States shall be clearly recognised by adopting concrete preferential measures in their favour on a non-reciprocal basis.

Article 4

Instruments The SAFTA Agreement will be implemented through the following instruments:

1. Trade Liberalisation Programme
2. Rules of Origin
3. Institutional Arrangements
4. Consultations and Dispute Settlement Procedures
5. Safeguard Measures
6. Any other instrument that may be agreed upon.

Article 5

National Treatment

Each Contracting State shall accord national treatment to the products of other Contracting States in accordance with the provisions of Article III of GATT 1994.

Article 6

Components

SAFTA may, inter-alia, consist of arrangements relating to:

a) tariffs;
b) para-tariffs;
c) non-tariff measures;
d) direct trade measures.

Article 7

Trade Liberalisation Programme

1. Contracting States agree to the following schedule of tariff reductions:

a) The tariff reduction by the Non-Least Developed Contracting States from existing tariff rates to 20% shall be done within a time frame of 2 years, from the date of coming into force of the Agreement. Contracting States are encouraged to adopt reductions in equal annual installments. If actual tariff rates after the coming into force of the Agreement are below 20%, there shall be an annual reduction on a

Margin of Preference basis of 10% on actual tariff rates for each of the two years.

b) The tariff reduction by the Least Developed Contracting States from existing tariff rates will be to 30% within the time frame of 2 years from the date of coming into force of the Agreement If actual tariff rates on the date of coming into force of the Agreement are below 30%, there will be an annual reduction on a Margin of Preference basis of 5 % on actual tariff rates for each of the two years.

c) The subsequent tariff reduction by Non-Least Developed Contracting States from 20% or below to 0-5% shall be done within a second time frame of 5 years, beginning from the third year from the date of coming into force of the Agreement. However, the period of subsequent tariff reduction by Sri Lanka shall be six years. Contracting States are encouraged to adopt reductions in equal annual installments, but not less than 15% annually.

d) The subsequent tariff reduction by the Least Developed Contracting States from 30% or below to 0-5% shall be done within a second time frame of 8 years beginning from the third year from the date of coming into force of the Agreement. The Least Developed Contracting States are encouraged to adopt reductions in equal annual installments, not less than 10% annually.

2. The above schedules of tariff reductions will not prevent Contracting States from immediately reducing their tariffs to 0-5% or from following an accelerated schedule of tariff reduction.

3. a) Contracting States may not apply the Trade Liberalisation Programme as in paragraph 1 above, to the tariff lines included in the Sensitive Lists which shall be negotiated by the Contracting States (for LDCs and Non-LDCs) and incorporated in this Agreement as an integral part. The number of products in the Sensitive Lists shall be subject to maximum ceiling to be mutually agreed among the Contracting States with flexibility to Least Developed Contracting States to seek derogation in respect of the products of their export interest; and

b) The Sensitive List shall be reviewed after every four years or earlier as may be decided by SAFTA Ministerial Council (SMC), established under Article 10, with a view to reducing the number of items in the Sensitive List.

4. The Contracting States shall notify the SAARC Secretariat all non-tariff and para-tariff measures to their trade on an annual basis. The notified measures shall be reviewed by the Committee of Experts, established under Article 10, in its regular meetings to examine their compatibility with relevant WTO provisions. The Committee of Experts shall recommend the elimination or implementation of the measure in the least trade restrictive manner in order to facilitate intra SAARC trade.

5. Contracting Parties shall eliminate all quantitative restrictions, except otherwise permitted under GATT 1994, in respect of products included in the Trade Liberalisation Programme.

6. Notwithstanding the provisions contained in paragraph 1 of this Article, the Non-Least Developed Contracting States shall reduce their tariff to 0-5% for the products of Least Developed Contracting States within a timeframe of three years beginning from the date of coming into force of the Agreement.

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Additional Measures

Contracting States agree to consider, in addition to the measures set out in Article 7, the adoption of trade facilitation and other measures to support and complement SAFTA for mutual benefit. These may include, among others:

a) harmonisation of standards, reciprocal recognition of tests and accreditation of testing laboratories of Contracting States and certification of products;

b) simplification and harmonisation of customs clearance procedure;

c) harmonisation of national customs classification based on HS coding system;

d) Customs cooperation to resolve dispute at customs entry points;

e) simplification and harmonisation of import licensing and registration procedures;

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g) transit facilities for efficient intra-SAARC trade, especially for the land-locked Contracting States;

h) removal of barriers to intra-SAARC investments;

i) macroeconomic consultations;

j) rules for fair competition and the promotion of venture capital;

k) development of communication systems and transport infrastructure;

l) making exceptions to their foreign exchange restrictions, if any, relating to payments for products under the SAFTA scheme, as well as repatriation of such payments without prejudice to their rights under Article XVIII of the General Agreement on Tariffs and Trade (GATT) and the relevant provisions of Articles of Treaty of the International Monetary Fund (IMF); and

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1. The Contracting States hereby establish the SAFTA Ministerial Council (hereinafter referred to as SMC).

2. The SMC shall be the highest decision-making body of SAFTA and shall be responsible for the administration and implementation of this Agreement and all decisions and arrangements made within its legal framework.

3. The SMC shall consist of the Ministers of Commerce / Trade of the Contracting States.

4. The SMC shall meet at least once every year or more often as and when considered necessary by the Contracting States. Each Contracting State shall chair the SMC for a period of one year on rotational basis in alphabetical order.

5. The SMC shall be supported by a Committee of Experts (hereinafter referred to as COE), with one nominee from each Contracting State at the level of a Senior Economic Official, with expertise in trade matters.

6. The COE shall monitor, review and facilitate implementation of the provisions of this Agreement and undertake any task assigned to it by the SMC. The COE shall submit its report to SMC every six months.

7. The COE will also act as Dispute Settlement Body under this Agreement.

8. The COE shall meet at least once every six months or more often as and when considered necessary by the Contracting States. Each Contracting State shall chair the COE for a period of one year on rotational basis in alphabetical order.

9. The SAARC Secretariat shall provide secretarial support to the SMC and COE in the discharge of their functions.

10. The SMC and COE will adopt their own rules of procedure.

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b) Greater flexibility in continuation of quantitative or other restrictions provisionally and without discrimination in critical circumstances by the Least Developed Contracting States on imports from other Contracting States.

c) Contracting States shall also consider, where practical, taking direct trade measures with a view to enhancing sustainable exports from Least Developed Contracting States, such as long and medium-term contracts containing import and supply commitments in respect of specific products, buy-back arrangements, state trading operations, and government and public procurement.

d) Special consideration shall be given by Contracting States to requests from Least Developed Contracting States for technical assistance and cooperation arrangements designed to assist them in expanding their trade with other Contracting States and in taking advantage of the potential benefits of SAFTA. A list of possible areas for such technical assistance shall be negotiated by the Contracting States and incorporated in this Agreement as an integral part.

e) The Contracting States recognise that the Least Developed Contracting States may face loss of customs revenue due to the implementation of the Trade Liberalisation Programme under this Agreement. Until alternative domestic arrangements are formulated to address this situation, the Contracting States agree to establish an appropriate mechanism to compensate the Least Developed Contracting States for their loss of customs revenue. This mechanism and its rules and regulations shall be established prior to the commencement of the Trade Liberlisation Programme (TLP).

Article 12

Special Provision for Maldives

Notwithstanding the potential or actual graduation of Maldives from the status of a Least Developed Country, it shall be accorded in this Agreement and in any subsequent contractual undertakings thereof treatment no less favoumble than that provided for the Least Developed Contracting States.

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Non-application

Notwithstanding the measures as set out in this Agreement its provisions shall not apply in relation to preferences already granted or to be granted by any Contracting State to other Contracting States outside the framework of this Agreement, and to third countries through bilateral, plurilateral and multilateral trade agreements and similar arrangements.

Article 14

General Exceptions

a) Nothing in this Agreement shall be Construed to prevent any Contmcting State from taking action and adopting measures which it considers necessary for the protection of its national security.

b) Subject to the requirement that such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the similar conditions prevail, or a disguised restriction on intra-regional trade, nothing in this Agreement shall be construed to prevent any Contracting State from taking action and adopting measures which it considers necessary for the protection of:

(i) public morals;
(ii) human, animal or plant life and health; and
(iii) articles of artistic, historic and archaeological value.

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Balance of Payments Measures

1. Notwithstanding the provisions of this Agreement, any Contracting State facing serious balance of payments difficulties may suspend provisionally the concessions extended under this Agreement.

2. Any such measure taken pursuant to paragraph 1 of this Article shall be immediately notified to the Committee of Experts.

3. The Committee of Experts shall periodically review the measures taken pursuant to paragraph 1 of this Article.

4. Any Contracting State which takes action pursuant to paragraph 1 of this Article shall afford, upon request from any other Contracting State, adequate opportunities for consultations with a view to preserving the stability of concessions under SAFTA.

5. If no satisfactory adjustment is effected between the Contracting States concerned within 30 days of the beginning of such consultations, to be extended by another 30 days through mutual consent, the matter may be referred to the Committee of Experts.

6. Any such measures taken pursuant to paragraph 1 of this Article shall be phased out soon after the Committee of Experts comes to the conclusion that the balance of payments situation of the Contracting State concerned has improved.

Article 16

Safeguard Measures

1. If any product, which is the subject of a concession under this Agreement, is imported into the territory of a Contracting State in such a manner or in such quantities as to cause, or threaten to cause, serious injury to producers of like or directly competitive products in the importing Contracting State, the importing Contracting State may, pursuant to an investigation by the competent authorities of that Contracting State conducted in accordance with the provisions set out in this Article, suspend temporarily the concessions granted under the provisions of this Agreement. The examination of the impact on the domestic industry concerned shall include an evaluation of all other relevant economic factors and indices having a bearing on the state of the domestic industry of the product and a causal relationship must be clearly established between "serious injury" and imports from within the SAARC region, to the exclusion of all such other factors.

2. Such suspension shall only be for such time and to the extent as may be necessary to prevent or remedy such injury and in no case, will such suspension be for duration of more than 3 years.

3. No safeguard masure shall be applied again by a Contracting State to the import of a product which has been subject to such a measure during the period of implementation of Trade Liberalisation Programme by the Contracting States, for a period of time equal to that during which such measure had been previously applied, provided that the period of non-application is at least two years.

4. All investigation procedures for resorting to safeguard measures under this Article shall be consistent with Article XIX of GATT 1994 and WTO Agreement on Safeguards.

5. Safeguard action under this Article shall be non-discriminatory and applicable to the product imported from all other Contracting States subject to the provisions of paragraph 8 of this Article.

6. When safeguard provisions are used in accordance with this Article, the Contracting State invoking such measures shall immediately notify the exporting Contracting State(s) and the Committee of Experts.

7. In critical circumstances where delay would cause damage which it would be difficult to repair, a Contracting State may take a provisional safeguard measure pursuant to a preliminary determination that there is clear evidence that increased imports have caused or are threatening to cause serious injury. The duration of the provisional measure shall not exceed 200 days, during this period the pertinent requirements of this Article shall be met.

8. Notwithstanding any of the provisions of this Article, safeguard measures under this article shall not be applied against a product originating in a Least Developed Contracting State as long as its share of imports of the product concerned in the importing Contracting State does not exceed 5 percent, provided Least Developed Contracting States with less than 5% import share collectively account for not more than 15% of total imports of the product concerned.

Article 17

Maintenance of the Value of Concessions Any of the concessions agreed upon under this Agreement shall not be diminished or nullified, by the application of any measures restricting trade by the Contracting States, except under the provisions of other articles of this Agreement.

Article 18

Rules of Origin Rules of Origin shall be negotiated by the Contracting States and incorporated in this Agreement as an integral part.

Article 19

Consultations

1. Each Contracting State shall accord sympathetic consideration to and will afford adequate opportunity for consultations regarding representations made by another Contracting State with respect to any matter affecting the operation of this Agreement.

2. The Committee of Experts may, at the request of a Contracting State, consult with any Contracting State in respect of any matter for which it has not been possible to find a satisfactory solution through consultations under paragraph 1.

Article 20

Dispute Settlement Mechanism

1. Any dispute that may arise among the Contracting States regarding the interpretation and application of the provisions of this Agreement or any instrument adopted within its framework concerning the rights and obligations of the Contracting States will be amicably settled among the parties concerned through a process initiated by a request for bilateral consultations.

2. Any Contracting State may request consultations in accordance with paragraph 1 of this Article with other Contracting State in writing stating the reasons for the request including identification of the measures at issue. All such requests should be notified to the Committee of Experts, through the SAARC Secretariat with an indication of the legal basis for the complaint.

3. If a request for consultations is made pursuant to this Article, the Contracting State to which the request is made shall, unless otherwise mutually agreed, reply to the request within 15 days after the date of its receipt and shall enter into consultations in good faith within a period of no more than 30 days after the date of receipt of the request, with a view to reaching a mutually satisfactory solution.

4. If the Contracting State does not respond within 15 days after the date of receipt of the request, or does not enter into consultations within a period of no more than 30 days, or a period otherwise mutually agreed, after the date of receipt of the request, then the Contracting State that requested the holding of consultations may proceed to request the Committee of Experts to settle the dispute in accordance with working procedures to be drawn up by the Committee.

5. Consultations shall be confidential, and without prejudice to the rights of any Contracting State in any further proceedings.

6. If the consultations fail to settle a dispute within 30 days after the date of receipt of the request for consultations, to be extended by a further period of 30 days through mutual consent, the complaining Contracting State may request the Committee of Experts to settle the dispute. The complaining Contracting State may request the Committee of Experts to settle the dispute during the 60-day period if the consulting Contracting States jointly consider that consultations have failed to settle the dispute.

7. The Committee of Experts shall promptly investigate the matter referred to it and make recommendations on the matter within a period of 60 days from the date of referral.

8. The Committee of Experts may request a specialist from a Contracting State not party to the dispute selected from a panel of specialists to be established by the

Committee within one year from the date of entry into force of the Agreement for peer review of the matter referred to it. Such review shall be submitted to the Committee within a period of 30 days from the date of referral of the matter to the specialist.

9. Any Contracting State, which is a party to the dispute, may appeal the recommendations of the Committee of Experts to the SMC. The SMC shall review the matter within the period of 60 days from date of submission of request for appeal. The SMC may uphold, modify or reverse the recommendations of the Committee of Experts.

10. Where the Committee of Experts or SMC concludes that the measure subject to dispute is inconsistent with any of the provisions of this Agreement, it shall recommend that the Contracting State concerned bring the measure into conformity with this Agreement. In addition to its recommendations, the Committee of Experts or SMC may suggest ways in which the Contracting State concerned could implement the recommendations.

11. The Contracting State to which the Committee's or SMC's recommendations are addressed shall within 30 days from the date of adoption of the recommendations by the Committee or SMC, inform the Committee of Experts of its intentions regarding implementation of the recommendations. Should the said Contracting State fail to implement the recommendations within 90 days from the date of adoption of the recommendations by the Committee, the Committee of Experts may authorise other interested Contracting States to withdraw concessions having trade effects equivalent to those of the measure in dispute.

Article 21

Withdrawal

1. Any Contracting State may withdraw from this Agreement at any time after its entry into force. Such withdrawal shall be effective on expiry of six months from the date on which a written notice thereof is received by the Secretary-General of SAARC, the depositary of this Agreement. That Contracting State shall simultaneously inform the Committee of Experts of the action it has taken.

2. The rights and obligations of a Contracting State which has withdrawn from this Agreement shall cease to apply as of that effective date.

3. Following the withdrawal by any Contracting State, the Committee shall meet within 30 days to consider action subsequent to withdrawal.

Article 22

Entry into Force

1. This Agreement shall enter into force on 1st January 2006 upon completion of formalities, including ratification by all Contracting States and issuance of a notification thereof by the SAARC Secretariat. This Agreement shall supercede the Agreement on SAARC Preferential Trading Arrangement (SAPTA).

2. Notwithstanding the supercession of SAPTA by this Agreement, the concessions granted under the SAPTA Framework shall remain available to the Contracting States until the completion of the Trade Liberalisation Programme.

Article 23

Reservations

This Agreement shall not be signed with reservations, nor will reservations be admitted at the time of notification to the SAARC Secretariat of the completion of formalities.

Article 24

Amendments

This Agreement may be amended by consensus in the SAFTA Ministerial Council. Any such amendment will become effective upon the deposit of instruments of acceptance with the Secretary General of SAARC by all Contracting States.

Article 25

Depository

This Agreement will be deposited with the Secretary General of SAARC, who will promptly furnish a certified copy thereof to each Contracting State. In witness whereof the undersigned being duly authorised thereto by their respective Governments have signed this Agreement.

Done In Islamabad, Pakistan, On This The Sixth Day Of the Year Two Thousand Four, In Nine Originals In The English Language All Texts Being Equally Authentic.

M MORSHED KHAN
Minister for Foreign Affairs
People's Republic of Bangladesh

NADO RINCHHEN
Officiating Minister for Foreign Affairs
Kingdom of Bhutan

YASHWANT SINHA
Minister of External Affairs
Republic of India

FATHULLA JAMEEL
Minister of Foreign Affairs
Republic of Maldives

DR BHEKH B THAPA
Ambassador-at-Iarge
for Foreign Affairs Majesty's
Government of Nepal

KHURSHID M KASURI
Minister of Foreign Affairs
Islamic Republic of Pakistan

TYRONNE FERNANDO
Minister of Foreign Affairs
Democratic Socialist Republic of Sri Lanka

Joint Press Statement on the occasion of Foreign Office Consultations between India and Bangladesh, 21-22 June 2005

22/06/2005

1. The Foreign Secretary of Bangladesh Mr. Hemayetuddin visited New Delhi from June 20-23, 2005 at the invitation of Indian Foreign Secretary Mr. Shyam Saran for Foreign Office Consultations. During his stay in New Delhi, the Foreign Secretary of Bangladesh called on H. E. Mr. Shivraj Patil, Union Home Minister, H.E. Mr. Kamal Nath, Minister of Commerce & Industry, H.E. Mr. Mani Shankar Aiyar, Minister of Petroleum & Natural Gas, and H. E. Mr. E. Ahamed, Minister of State (External Affairs). During the meetings, both sides highlighted the importance they attach to their bilateral relations and their sincere desire to further expand, deepen and strengthen their cooperation.

2. During the Foreign Office Consultations, the Bangladesh Foreign Secretary was accompanied by Mr. Liaquat Ali Chowdhury, High Commissioner (Designate), Mr. Masud Bin Momen, Acting High Commissioner of Bangladesh, Mr. Fazlul Karim, Director-General (South Asia), Mr. Mohammad Mohsin, Joint Secretary, Ministry of Home Affairs, Mr. Elias Ahmed, Joint Secretary, Ministry of Commerce as well as other officials of the Government of Bangladesh. The Indian Foreign Secretary was assisted by Smt. Veena Sikri, the High Commissioner of India to Bangladesh, Smt. Neelam Deo, Joint Secretary (BSM) and senior officials of various Ministries and Departments of the Government of India. Representatives from the State Governments of Assam, Meghalaya, Mizoram, Tripura and West Bengal, also participated.

3. The two Foreign Secretaries discussed issues relating to security, peaceful management of the borders, cross border illegal movement of people, cooperation in water resources, economic and trade cooperation, investment promotion, cooperation in science and technology and agriculture, defence exchanges and cultural relations. The open and frank discussions on matters of common interest, were held in an atmosphere of warm friendship and cordiality which characterizes the bilateral relationship.

4. During the talks the two sides reaffirmed their commitment not to allow their territory to be used for any activities inimical to each other's interests. The Indian side expressed its appreciation for recent actions taken by Bangladesh in the border areas. The Indian side stressed the importance of continued action, consular access and the need for regular exchange of information in this regard. In this context, the Bangladesh side also stressed the need for action against Bangladeshi miscreants and providing consular access.

5. The two sides expressed satisfaction over the commencement of coordinated patrolling by the border forces of the two countries. The Bangladesh side agreed to examine the Indian proposal for coordinated patrolling of the riverine boundary where feasible.

6. Regarding illegal cross border movement and activities, the Indian side reiterated its proposal for a high level meeting on this issue.

7. The Indian side emphasized its requirement for border fencing within and upto 150 yards of the international border. Bangladesh side stressed on the need to conform to the 1975 border guidelines and avoid any action that may impact adversely on the peace and stability in the border areas. Both sides agreed to facilitate repair and development works along the India-Bangladesh border.

8. The two sides look forward to the early conclusion of the Treaty on Mutual Cooperation for Preventing Illicit Trafficking in Narcotics and Psychotropic Substances.

9. Both sides agreed to strengthen measures to combat trafficking in women and children. India's proposal to appoint nodal officers to deal with this issue was noted by Bangladesh.

10. Both sides emphasized the need for early convening of the Home secretary level talks to discuss the entire range of issues under their purview and carry forward the process of co-operation between the two countries in a constructive and positive manner.

11. The two sides agreed to continue discussions to expedite completion of the demarcation of the land boundary .It was decided to resume meetings of the Joint Boundary Working Groups (JBWG) to consider boundary-related issues in August 2005. Both sides agreed to address the issues related to exchange of

enclaves and territories in adverse possessions as early as possible with the view to mitigating the sufferings of the people. The Indian side stressed the need for the early conduct of the joint census in the enclaves and adverse possessions.

12. The two sides discussed sharing of the common rivers and agreed to carry on dialogue in this regard. In response to concerns raised by Bangladesh Foreign Secretary over the Indian River Linking Project, the Indian Foreign Secretary stated that India would not take any unilateral action, which would harm the interest of Bangladesh. Both sides stressed the need for convening the Joint Rivers Commission in Dhaka at a mutually convenient time at the earliest. It could be preceded by a meeting of the Secretaries of Water Resources Ministries.

13. The two sides expressed satisfaction at expanding economic and commercial cooperation. The Indian side conveyed its sincerity to address Bangladesh's concerns on the trade deficit, including through measures such as the removal of non-tariff and para-tariff barriers. In this context, the Indian side reiterated the importance of measures such as free trade agreements as well as border trade and establishment of border haats.

14. Bangladesh welcomed the proposed visit by the Indian Minister for Commerce and Industry to Dhaka. They agreed that the revised Trade Agreement could be signed at an early date. It was also agreed that the bilateral Joint Working Group on Trade, para-tariff and non-tariff barriers and on customs matters should meet by August 2005.

15. The two sides expressed their satisfaction that the text of the Bilateral Investment Protection and Promotion Agreement (BIPPA), acceptable to both the countries, is ready for signature at a suitable occasion.

16. The two sides discussed issues relating to improved connectivity in the region. They agreed to explore the possibility of commencing Dhaka-Guwahati, Dhaka – Shillong, Dhaka – Siliguri bus services. Bangladesh side also requested India to facilitate a Dhaka-Kathmandu bus service. Issues relating to improvement of road and rail connectivity between the two countries were discussed.

17. The Indian side invited a Bangladeshi delegation to visit in July '05 to continue discussions on the extension of a US$ 150 million Line of Credit for infrastructure projects.

18. Both sides discussed matters relating to the tri-nation gas pipeline and agreed to carry forward further discussions in this regard.

19. The two sides agreed to increase cooperation in the fields of agriculture and science & technology. The Indian side offered increased training slots in India under its Indian Technical & Economic Cooperation (ITEC) Programme, including at its Institute for Training of Highway Engineers.

20. The two sides expressed satisfaction that a draft cultural exchange programme had been agreed upon and could be signed shortly.

21. The two sides stressed the importance of high level exchanges, including visits by Parliamentary delegations.

22. The two sides exchanged views on regional and international issues, including India's candidature for permanent membership of the Security Council in the context of the reform of the UN.

23. The Indian Foreign Secretary mentioned that the Indian Prime Minister was looking forward to attending the forthcoming 13th SAARC Summit to be held in Dhaka. Bangladesh Foreign Secretary stated that Bangladesh would welcome him warmly.

24. The Bangladesh Foreign Secretary deeply appreciated the warm welcome and gracious hospitality extended to him and his delegation during their stay in India.

25. The Bangladesh Foreign Secretary invited the Indian Foreign Secretary to visit Dhaka for the next round of the Foreign Office Consultations, which was accepted with thanks.

26. The meeting concluded with both sides committing to remain positively and constructively engaged with each other for further promotion of bilateral cooperation for the mutual benefit of the two peoples.

New Delhi

June 22, 2005

FREE TRADE AGREEMENT BETWEEN INDIA AND BANGLADESH.

NEW DELHI,

21St March,2006.

The Government of the Republic of India and the Government of the People's Republic of Bangladesh.

Being conscious of the urge of their two peoples to enlarge areas of mutual co-operation; Desirous of expanding trade and strengthening economic relations between the two countries on the basis of equality and mutual benefit; Have agreed as follows:

Article I India Bangladesh Free Trade Agreement

The two Governments recognizing the need and requirement of each other in the context of their developing economies undertake to explore all possibilities, including economic and technical cooperation, for promotion, facilitation, expansion and diversification of Free Trade between the two countries on the basis of equality and mutual benefit.

Article II India Bangladesh Free Trade Agreement

The two Governments agree to take appropriate measures in accordance with the evolving international trading system for mutual benefit of developing countries and least developed countries in so far as such measures are consistent with their individual, present and future development, financial and trade facilitation.

Article III India Bangladesh Free Trade Agreement

The two Governments agree that expansion of their mutual trade exchanges would make an important contribution towards their development. To this end, they agree to take appropriate and special measures during periodic reviews taking into account the asymmetries between the two countries with a view to augmenting and diversifying their mutual trade specially in respect of specific products as may be agreed upon.

Article IV

All payments and charges in connection with trade between the two countries shall continue to be effected in freely convertible currencies in accordance with the foreign exchange regulations in force in each country from time to time..

Article V

Imports and exports of commodities and goods produced or manufactured in India or Bangladesh, as the case may be, shall be permitted in accordance with the import, export and foreign exchange laws, regulations and procedures in force in either country from time to time taking into account asymmetries between the two countries.

Article VI

Each Government shall accord to the commerce of the country of the other Government, treatment no less than that accorded to the commerce of any third country.

Article VII

The provisions of Article VI shall not prevent the grant or continuance

A. Privileges which are or may be granted by either of the two Governments in order to facilitate frontier trade by separate agreement(s);
B. Advantages and privileges which are or may be granted by either of the respective neighbouring countries;
C. Advantages resulting from any customs union, a free trade area or similar arrangements which either of the two Governments has concluded or may conclude in the future.
D. Advantages or preferences accorded under any scheme for expansion of trade and economic cooperation among developing countries, which is open for

participation by all developing countries, and to which either of the two Governments is or may become a party.

Article VIII

The two Governments agree to make mutually beneficial arrangements for the use of their waterways, roadways and railways for commerce between the two countries for passage of goods between two places in one country through the territory of the other.

Article IX

Each Government will grant merchant vessels of the other country while entering, putting off and lying at its ports the most-favored-nation treatment accorded by their respective laws, rules and regulations to the vessels under the flag of any third country.

Both the Governments agree on the basis of shipper's preference, to utilize to the maximum extent possible, the vessels owned/chartered by shipping organizations of the two countries concerned for shipping cargoes imported or exported under this Agreement at competitive freight rates.

Article X

The two Governments agree to cooperate effectively with each other to prevent infringement and circumvention of the laws, rules and regulations of either country in regard to matters relating to foreign exchange and foreign trade.

Article XI

The two Governments agree to accord, subject to their respective laws and regulations, reasonable facilities for the holding of trade fairs and exhibitions and visits of business and trade delegations sponsored by the Government concerned.

Article XII

In order to facilitate the implementation of this Agreement, the two Governments shall consult each other at least once in a year or earlier as and when necessary, and shall review the working of the Agreement with special attention to the asymmetries between the two countries.

Article XIII

This amended Agreement shall come into force on the 1st April, 2006. It shall remain in force for a period of three years. It may be extended by a further period of three years by mutual consent subject to such modifications as may be agreed upon.

Done in New Delhi, on the 21st March, 2006, in two original copies, each in Hindi, Bengal and English, all the texts being equally authentic. In case of difference, the English text shall prevail.

(Kamal Nath)	**(M. Saifur Rahman)**
Minister of Commerce and Industry	**Minister for Finance & Planning**
Government of the Republic of India	**Government of People's Republic of Bangladesh**

Statement by External Affairs Minister on Departure from Dhaka

19/02/2007

I have had a very useful and productive visit to Bangladesh today. In the forenoon, I paid a courtesy call on the President of Bangladesh, Dr Iajuddin Ahmed and extended an invitation to Bangladesh to participate in the 14th SAARC Summit being held in New Delhi from April 3-4, 2007. I had detailed discussions with the Chief Advisor of Caretaker Government, Dr Fakhruddin Ahmed. He has graciously agreed to attend the SAARC Summit. I also called on former Prime Minister & Chairperson of Bangladesh Nationalist Party, Begum Khaleda Zia and former Prime Minister & President of Awami League Sheikh Hasina.

During my meetings with the Chief Advisor Dr Fakhruddin Ahmed and Foreign Advisor Dr. Iftekhar Ahmed Chowdhury, the discussions centered on bilateral relations and the forthcoming 14th SAARC Summit. In the context of bilateral relations, both sides agreed to take steps to place bilateral relations on an `irreversible higher trajectory'. With the view to providing impetus to bilateral economic linkages, I have announced that India will grant unconditional duty free access to import of 2 million pieces of readymade garments from Bangladesh. The issue of restrictions being placed on import of cosmetics from Bangladesh has also been resolved. The Bangladesh side has been kind enough to offer early operationalisation of Sealdah-Joydevpur passenger train service and to build a bridge over Raghnacherra river. Both sides have agreed to jointly combat terrorism, which today poses the most grave challenge to our society and threatens the rapid economic development of our nations.

The discussions on SAARC focused on ensuring the success of the forthcoming SAARC Summit and early and full implementation of SAFTA. Both sides have agreed to lay emphasis on better connectivity among SAARC countries, including between India and Bangladesh. Further, we have also agreed on the establishment of a South Asia University as a centre of excellence.

India attaches the highest importance to its relations with Bangladesh. I have reiterated India's desire to strengthen and further enhance the friendly cooperative relations between our two countries. It was agreed that further discussions would be held in Delhi and Dhaka to take forward the friendly relations.

19th February, 2007