Strengthening India-Bangladesh Partnership: Paving the Way for Regional Development

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STRENGTHENING INDIA-BANGLADESH PARTNERSHIP: PAVING THE WAY FOR REGIONAL DEVELOPMENT

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Executive Summary

Bangladesh has emerged as one of the fastest growing economies in the world, driven by robust economic growth that averaged 7.4 percent between 2015 and 2019. Owing to this fast-paced growth, Bangladesh has been termed as the "New Asian Tiger". Located strategically in Southern Asia, between India and Myanmar, and a coastline with the Bay of Bengal, Bangladesh is the largest least developed country (LDC) in terms of its population and economic size. Bangladesh attained lower middle-income status in 2015 and met the criteria to graduate from the LDC status for the first time in March 2018 by the UN Committee for Development Policy (CDP). In the triennial review of 2021, Bangladesh met the criteria for the second time leading to its recommendation of graduating from the LDC status in 2026 (originally slated to be in 2024 but extended on account of the COVID-19 pandemic). The per capita income (in current prices, US$) has increased from US$ 1,530.1 in 2017 to an estimated US$ 1,880 in 2020 surpassing India (US$ 1876.5). Bangladesh surpassed Pakistan to become the second-largest economy in South Asia after India in terms of nominal GDP in 2019. The size of its economy has increased from US$ 249.7 billion in 2017 to US$ 302.5 billion in 2019 and is estimated to reach US$ 317.8 billion in 2020. In recent years, Bangladesh has witnessed accelerated growth, majorly driven by higher exports to the US following trade redirection from China along with improvements in infrastructure development, especially access to electricity.

The share of agriculture and allied activities in gross value added (GVA) of the country has declined from 17.8 percent in 2010 to 13.3 percent in 2019. However, it continues to employ nearly half of the population. The share of value added by industry (including manufacturing, mining, utilities and construction), on the other hand, has increased from 26.1 percent in 2010 to 31.2 percent in 2019. The manufacturing sub-sector has been the major contributor to the expansion of industry, with an increasing share of value added from 16.9 percent in 2010 to 19.9 percent in 2019. Bangladesh's manufacturing sector has been supported by its abundant low-cost labour. According to the International Labour Organization (ILO), Bangladesh has the lowest minimum wage rate among the South Asian countries and Asia-Pacific region. It has emerged as one of the major exporters among the LDCs fueled by its steady export growth mainly driven by its manufacturing exports accounting for 96.4 percent of its total merchandise exports in 2019.

Bangladesh's Foreign Trade

Bangladesh's foreign trade doubled over the past decade from US$ 47.4 billion in 2010 to US$ 105.2 billion in 2019. Growth in exports outpaced that in imports, with exports growing at an average annual growth rate (AAGR) of 11.1 percent from 2010 to 2019, as compared to 8.3 percent for imports during the same period. Bangladesh's exports have been heavily dependent on readymade garments (HS 61 & HS 62), which accounted for 86.2 percent of Bangladesh's global exports in 2019 making Bangladesh the second-largest exporter of RMG, globally. The share of Bangladesh in global exports of articles of apparel and clothing knitted and crocheted was 8.9 percent in 2019 whereas not knitted and crocheted was 8.5 percent. Including footwear, leather articles is the second-largest exporting sector of Bangladesh accounting for 3.3 percent of Bangladesh's total exports and 1.2 percent share in world exports in 2019. Share of other made-up textile articles and other vegetable textile fibers (second-largest exporter in the world) has declined from 2010 to 2019. Other vegetable textile fibers include mainly raw jute and jute goods, production of which has observed a downward trend since 2016 due to lack of technological upgradation and is exported mainly in raw and semi-processed form.

In terms of export destinations, the European Union remains the major market accounting for 49.8 percent of Bangladesh's exports in 2019. Combining with its exports to the United Kingdom, Bangladesh's exports to Europe exceeds half of its global exports. Bangladesh remains a beneficiary under the Generalized Scheme of Preferences (GSP), the Duty-Free Quota-Free (DFQF) schemes, of Australia, Canada, the European Union, Iceland, Japan, Montenegro, New Zealand, Norway, the Russian Federation, Switzerland, and the USA (until June 2013). It is also entitled to DFQF schemes provided by certain members of the WTO, including China, Taiwan, Chile, India, Kazakhstan, Republic of Korea, the Kyrgyz Republic, Tajikistan, Thailand, and Turkey.

Bangladesh is the largest import source of the EU in terms of preferential imports. According to a report by the European Commission covering the period 2018-19, Bangladesh is the largest beneficiary under the GSP imports by the EU accounting for 24.4 percent of total GSP imports by the EU in 2018. Once Bangladesh graduates from being an LDC, it would lose the "Everything but Arms" benefits after a transition period of three years. Despite the current non-eligibility for the US GSP, the US remains the second-largest individual country destination accounting for 15 percent of Bangladesh's exports. Other than the EU and the US, other major export destinations were Canada, Japan and India, each accounting for 3 percent of Bangladesh's global exports during 2019.

Bangladesh's imports grew at a CAGR of 7.3 percent to be at US$ 57.7 billion in 2019 from US$ 30.5 billion in 2010. Although Bangladesh is one of the leading exporters of RMG, it is almost entirely dependent on the import of raw cotton. Cotton accounted for 11.1 percent of Bangladesh's global imports and 13.5 percent of the world's imports. Mineral fuels (mainly refined petroleum and gaseous hydrocarbons, and electrical energy) accounted for 10.7 percent of Bangladesh's imports in 2019. Bangladesh is also a major importer of man-made staple fibers, man-made filaments, and knitted and crocheted fabrics, whose cumulative share in Bangladesh's imports has increased from 5.4 percent in 2010 to 8.1 percent in 2019 due to diversifying demands from cotton-based garments to other fabrics. China is the largest trade partner for Bangladesh, with the trade balance heavily in favour of China, which is also its largest import source accounting for 30 percent of its global imports. India was the second largest import source accounting for 14 percent of Bangladesh's total imports in 2019.

Bangladesh's services exports increased from US$ 2.4 billion in 2010 to US$ 6.1 billion in 2019. Total imports more than doubled from US$ 4.4 billion in 2010 to US$ 9.7 billion in 2019. Although Bangladesh is a net importer of services, its services deficit has declined from US$ 4.6 billion in 2017 to US$ 3.6 billion in 2019 mainly driven by increased digitization and export of Information and Communication Technology (ICT) services. According to the Export Promotion Bureau (EPB) Bangladesh, computer services exports (including software, data processing and consultancy) have increased from US$ 45.3 million in 2010 to US$ 276.5 million in 2019.

Foreign Direct Investment in Bangladesh

According to UNCTAD, FDI inflows in Bangladesh increased by an AAGR of 14.2 percent during 2010-2019. FDI inflows to Bangladesh peaked in 2018, driven by significant investments in power generation and labor-intensive industries such as RMGs. In 2019, FDI inflows to Bangladesh declined by 56 percent to US$ 1.6 billion. The decline majorly reflects a high base effect of 2018 which witnessed a spike in FDI inflows by 68 percent from US$ 2.2 billion registered in 2017.

As regards the major sources, China has emerged to be the major investor in Bangladesh in recent years. It accounted for US$ 695.7 million (17.4 percent of total inflows) in 2019, followed by the UK (12.7 percent), Singapore (10.3 percent), Republic of Korea (8.5 percent) and the Netherlands (6.6 percent). India accounted for 3.7 percent of FDI inflows into Bangladesh during 2019. India's investments were majorly into power (13.6 percent), textile (13.5 percent), banking (8.1 percent), trading (5.9 percent), chemicals and pharmaceuticals (4.3 percent), food (3.6 percent), telecommunication (3.4 percent), and computer software and IT (1 percent).

According to the World Development Indicators, Bangladesh's FDI inflows as a percentage of GDP has been comparatively low at 0.6 percent of GDP in 2019 as compared to its peer countries like Sri Lanka, Myanmar, Vietnam, and Cambodia, due to the inadequate infrastructure. The importance of FDI will further increase for Bangladesh in the upcoming years as it graduates from its LDC status, as the share of concessional borrowing is expected to reduce.

According to the Bangladesh Bank, the stock position of FDI in Bangladesh stood at US$ 17.8 billion as of 2019. Gas and petroleum have been the major sector receiving investment accounting for the largest share of FDI followed by textile and apparel, banking, power and food as of December 2019. As regards the major investors, the USA accounted for the largest investment in Bangladesh as on December 2019 at 20 percent followed by the UK, the Netherlands, Singapore, and Republic of Korea. India was the tenth-largest investor with investments worth US$ 725 million mainly into telecommunication (20.8 percent) followed by banking (18.1 percent), textile and apparel (13.7 percent), power (8.5 percent) and chemicals and pharmaceuticals (4 percent) trading (3.7 percent), agriculture and food processing (3.4 percent) and computer software and IT (1 percent), respectively.

Gross FDI inflows into Bangladesh stood at US$ 4 billion during 2019. The power sector has been the major recipient accounting for the largest FDI inflows during 2019 followed by textile and apparel, banking, food and telecommunication. The major investors during 2019 were China, the UK, Singapore, Republic of Korea, and the Netherlands. India was the tenth-largest investor accounting for an investment of US$ 149.4 million during 2019 investing in sectors such as power (accounting for 13.6 percent of total FDI inflows from India in 2019), followed by textile and apparel (13.5 percent), banking (8.1 percent), trading (5.9 percent) and chemical and pharmaceuticals (4.3 percent).

India's Trade and Investment in Bangladesh

India and Bangladesh share an economic, historical, and cultural relationship that goes beyond a strategic partnership. Geographically India surrounds Bangladesh from three sides leading to a sharing of a long border of more than 4000 Km. India and Bangladesh are both members of the South Asian Free Trade Area (SAFTA), the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), the Asia-Pacific Trade Agreement (APTA), and the Indian Ocean Rim Association (IORA). Bangladesh has received preferential market access treatment from India for a large number of items of export under the SAARC Preferential Trade Agreement (SAPTA) negotiations and also as part of the Trade Liberalisation Plan (TLP) of the SAFTA. India provides preferential trade access under these agreements as well as the Duty-Free Tariff Preferential (DFTP) Scheme. Presently, discussions of signing a Comprehensive Economic Partnership Agreement (CEPA) are also underway.

Bangladesh is India's largest trading partner in South Asia, accounting for 36.5 percent of India's total exports to the region, and 33 percent of India's total imports from the region in 2019. Bilateral trade increased by almost three times over the past decade to reach US$ 9.5 billion in 2019 from US$ 3.4 billion in 2010. India's exports to Bangladesh, at US$ 8.2 billion, accounted for 2.6 percent of India's global exports in 2019. Bangladesh emerged as the ninth-largest export destination for India in 2019, from being the twentieth-largest export destination and accounting for 1.4 percent of India's global exports in 2010. Exports from Bangladesh to India get duty free access under the SAFTA and India unilaterally reduced the sensitive list for all SAARC LDCs, including Bangladesh, to only 25 tariff lines by November 2011. Bangladesh had also joined India's Duty-Free Tariff Preferential (DFTP) Scheme on May 14, 2010, which gives it duty-free access to 98 percent of India's total tariff lines. Imports from Bangladesh have been relatively low at US$ 1.3 billion in 2019. However, India's imports from Bangladesh have increased at an AAGR of 18.3 percent as compared to an AAGR of 13.1 percent undergone by the exports during the same period.

Cotton dominates India's exports to Bangladesh, accounting for over one-fourth of India's exports to the country. India has been the second-largest source of cotton for Bangladesh, accounting for 24.1 percent of Bangladesh's global imports of cotton. India's basket of exports to Bangladesh remains well-diversified comprising value added products like petroleum oils (mainly refined), vehicles, machinery, iron and steel, and electrical equipment, respectively. India remains a major import source for Bangladesh for vehicles (50.6 percent of the country's global imports happen from India), organic chemicals (33.2 percent) and tanning and dyeing extracts (29.1 percent).

Articles of apparel and clothing accessories both knitted and crocheted and non-knitted and crocheted remain the largest items imported by India from Bangladesh accounting for nearly 65 percent of India's global imports of these products in 2019. Other major products imported by India from Bangladesh include other vegetable textile fibres which accounted for 12.4 percent of India's import from Bangladesh in 2019, followed by animal and vegetable fats and other made-up textile articles.

During the period April 1996 to March 2020, India's cumulative approved FDI in joint ventures and wholly owned subsidiaries (FDI outflows), including equity, loan and guarantee issued in Bangladesh stood at US$ 720.7 million. The major sectors receiving investments were manufacturing; wholesale, retail trade and restaurants and hotels; electricity, gas and water; and financial, insurance, real estate and business services. On the other hand, cumulative inflows of FDI into India from Bangladesh during April 2000- March 2020 amounted to US$ 0.1 million.

Potential Areas for Enhancing India-Bangladesh Cooperation

Bangladesh is the largest development partner of India, with a longstanding bilateral relation resonating with India's "Neighbourhood First" policy. The historical and cultural partnership has been further strengthened over the years by various areas of cooperation like infrastructure development in enhancing connectivity, power, defence, among others. However, as Bangladesh approaches its graduation status from the LDC, it becomes increasingly important to boost its infrastructure, connectivity, and private investment through robust strategic cooperation with partner countries. Easing infrastructural constraints is critical to improving domestic competitiveness and the overall efficiency of an economy as it helps the economy to reach its full potential. According to the World Economic Forum's Global Competitiveness Index 4.0 Ranking 2019, Bangladesh ranks 114 in infrastructure, which was much lower compared to Sri Lanka (61), Vietnam (67), Cambodia (106) and Lao PDR (93). Among key indicators under infrastructure, Bangladesh ranked 117 in road connectivity, 108 in electricity access, and 136 in exposure to unsafe drinking water (percentage of population).

According to the 8th Five Year plan (July 2020-June 2025), Bangladesh aims to mobilise 1-1.5 percent of GDP towards infrastructure financing by FY 2025, funded through Public-Private Partnership (PPP), in addition to 2 percent of public spending in sectors such as power, energy and transport. The 8th Five Year Plan focuses on undertaking a strategic shift to adapt a stronger reliance on PPP for infrastructure financing to address the existing gaps. The cumulative amount of PPP investment by Bangladesh between 1990 to the first half of 2020 stood at US$ 8 billion with highest investment in electricity (US$ 5.5 billion), roads (US$ 1.1 billion), ports (US$ 0.8 billion), water and sewerage (US$ 0.4 billion), ICT (US$ 0.1 billion) and natural gas (US$ 0.03 billion).

Trade Costs

The efficiency of trade depends on the level of effectiveness of transport and logistics connectivity. The bilateral measure of trade costs generated from the ESCAP-WB database includes "all costs involved in trading goods internationally with another partner (i.e., bilaterally) relative to those involved in trading goods domestically”. Trade costs among developing countries are likely to be higher owing to substantial tariff and non-tariff barriers along with additional costs like inadequate infrastructure and poor logistics and transport services. Bilateral comprehensive trade cost is therefore a measure of costs associated with both importing and exporting goods between two countries. Values of the trade cost indicator are provided in ad valorem equivalent form. In 2015, the trade cost between India and Bangladesh stood at 120 percent decreasing from 129.4 percent in 2010. This implies that on an average, for all tradable goods, trading between India and Bangladesh involves an additional cost of 120 percent of the value of the goods traded as compared to the cost of trading these goods within the borders of the respective countries (as per the latest data available). High tariffs and non-tariff barriers have contributed to the existing high cost of trading goods between India and Bangladesh. Simple average tariffs in Bangladesh (14 percent) and India (17.1 percent) in 2018 are more than twice the world average.

Lack of transport integration is another important contributor to the high trade costs between the two countries. Since the major portion of trade between India and Bangladesh happens through land, trade costs are mainly determined by the time taken for goods to cross the border. According to the World Bank, the time taken on average for goods to cross the India–Bangladesh border at Petrapole–Benapole is more than 5 days as compared to less than 6 hours for trucks transporting goods in the East African Community members countries.

Non-tariff costs are found to be much higher than tariff costs emphasizing the need for trade facilitation and improving logistics and connectivity. Further analysis of India and Bangladesh’s bilateral trade costs shows that Bangladesh’s bilateral trade cost is found to be lower with Hong Kong, UAE, Belgium, Germany, and Canada than India. India stood at the sixth position in terms of least cost incurred while conducting bilateral trade, despite being the neighbour. Analysis shows that India and Bangladesh find it cheaper to trade with UAE, Hong Kong, Belgium, and Germany than to trade with each other. In the case of India, Bangladesh ranks 26th in terms of trade costs among the bilateral trade partners of India.

Bangladesh, Bhutan, India, and Nepal (known as the BBIN countries), signed the Motor Vehicle Agreement (MVA) in 2015 for the Regulation of Passenger, Personal and Cargo Vehicular Traffic, to facilitate regional connectivity through unrestricted cross-border movement of cargo and passengers between BBIN countries. Once implemented, trucks carrying trade or transit cargo can move inside the territories of other BBIN countries without transshipping to local trucks at border land ports. This will help in reducing transport costs. Implementation of the MVA has been delayed as it is yet to be ratified by Bhutan due to its internal procedures. Bangladesh, Nepal and India have decided to prepare a draft MoU during the meeting held in February 2020 for speeding up the implementation of the motor vehicle agreement. Bhutan currently holds observer status as it is yet to ratify the Agreement.

The Perspective Plan of Bangladesh, 2021-2041 estimates Bangladesh’s annual infrastructure requirement at US$ 10 billion for the next two decades to improve the country’s transport infrastructure including land and seaports. Following are the potential areas for Indian investment in infrastructure and connectivity in line with the Perspective Plan of Bangladesh 2021-2041.

Transport Infrastructure and Connectivity

Roads

- In the case of infrastructure development of roads, opportunities exist in upgrading all National Highway networks for creating multiple lanes of existing highways, by establishing access-control long-distance expressways, and by creating service lanes to ease connectivity to local roads.
- Bangladesh is also focusing on developing quality infrastructures with high-speed mobility facilities. The target would be 80-110 kmph for important highway corridors, which are now operating at 25-35 kmph.
- Increasing inter-district connectivity and district connectivity to national highway systems and converting all district roads to 4-way lanes. This will also facilitate connectivity between manufacturing and consumption centres.
- Investment opportunities exist in establishing connectivity with inter-regional highways, economic zone areas, ports, airports, power stations, inland water transport facilities, rail stations and rail freight centres and major tourist resorts to maximize the benefits of the highways system.
- Expansion of effective capacity of roads to land ports and along regional corridors.
- Construction of a new bridge over the Jamuna River in Rangpur division and approach roads and the rehabilitation of existing bridges.

Land ports

Bilateral trade via land route happens mainly through the two Integrated Check Post (ICPs) which are Petrapole (West Bengal) and Agartala (Tripura) and 34 functional Land Custom Stations (LCS). These ICPs and LCSs at the India-Bangladesh Border provide transit, customs, immigration and cargo handling services for goods and passengers. In addition to the above two ICPs, the Land Ports Authority of India (LPAI) has proposed to develop ICPs at eight other locations that are currently LCS, across the India-Bangladesh border at Hili, Changrabandha, Mahadipur, Fulbari and Ghojadanga in West Bengal, Sutarkandi in Assam, Dawki in Meghalaya, and Kawrpuichhuah in Mizoram, which will provide a further boost to the bilateral trade. ICP Petrapole is the largest border trade gateway for India and Bangladesh, contributing 27.5 percent of total exports and 50 percent of imports in 2019-20. Port-wise analysis shows that other than ICP Petrapole and Ghojadanga LCS, major seaports like Nhava Sheva (sea), Mundra, Chennai (sea) dominated India's exports to Bangladesh in 2019-20. As regards imports, the majority of border trade happens through ICPs of Petrapole and Agartala and LCSs of Ghojadanga (West Bengal), and Changrabandha (West Bengal). The upgradation of infrastructure in Agartala and Petrapole ICPs has led to a substantial development in promoting trade through the land route. Several initiatives have already been taken by India and Bangladesh in enhancing road connectivity.

Efficient ICPs are important for enhancing India's trade and connectivity with Bangladesh.

- Improvement of land port facilities in terms of infrastructure.
- Deployment of modern information technology infrastructure at land ports.
- Improved custom clearance facilities in Bangladesh and India for inter-regional services.

In order for the land ports to operate at their optimal levels, both the sides of India and Bangladesh need to operate seamlessly. The 8th Five Year Plan (July 2020-June 2025) of Bangladesh also acknowledges the importance of land ports with regards to increasing bilateral trade with India. Efforts have been taken for enhancing the capabilities of the various land ports through better facilities and staffing and improving efficiency and turn-around time through digitization. Indian investment could help in further upgradation of remaining land ports and digitalization of land ports on both sides.

Railways

Bangladesh intends to embark on a strategic upgradation and modernization of the railways. Opportunities could be explored by Indian companies in the following areas –

- Supply of trains to meet the demand for passenger and freight.
- Expand and strengthen railway infrastructure including creating new lines to service demand, track doubling of important corridors, upgradation of all rail lines to a broad gauge/ dual gauge system.
- Connectivity to regional train services involving neighbouring countries.
- Increased capacity on key corridors.
- Development of new Inland Container Depots.
- Development of dedicated freight corridors.
- Development of new Workshops.
- Procurement of modern equipment for rolling stocks maintenance.
- Development of railway links with all ports and deep seaports.

Inland Waterways

The development of waterways and the operationalization of the Indo Bangladesh protocol routes is expected to significantly boost the movement of goods in and out of NER by reducing the cost of transportation as compared to through the Siliguri Corridor. With improved infrastructure and dredging of waterways along the route, the modal shift toward waterways can be improved. Enhanced cooperation between the two countries can be boosted through inland waterway connectivity. India and Bangladesh could collaborate in terms of infrastructure development, supply vessels and the necessary machinery and equipment and dredging works to accelerate the functioning of the waterways.

There exists a further potential for goods and passenger movement between states across India and Bangladesh. The investments for infrastructure development under the Jal Marg Vikas Project with the support of the World Bank are intended to attract traders and logistics firms. It is also anticipated that the developmental projects coming up in North East India will make use of waterways for the transportation of heavy machinery and equipment. Development of terminals, warehouses, transhipment facilities at major ports, navigation aids, ship-repairing facilities, multimodal connectivity etc. are expected to boost inland navigation and make this sector more competitive.

The Perspective Plan of Bangladesh 2021-2041 aims at improving the navigability of river routes through strategic dredging, river training and prioritise inter-regional river connectivity to facilitate trade, commerce and tourism. Both India and Bangladesh have signed an MoU in 2017 to jointly undertake necessary dredging for fairway development of Ashuganj-Zakiganj stretch of Kushiyara river and Sirajganj-Daikhawa stretch of Jamuna river in the protocol route. It will reduce the logistics cost of cargo movement to North Eastern India and also the congestion through the Siliguri Chicken's Neck corridor. The flow of forestry & mineral products could lead to a rise in shipping through the PIWTT in the coming years. Container movement through the transhipment port Ashuganj would provide major boost to the east-west trade stretching beyond Myanmar through the India-Myanmar-Thailand corridor. Containerized transportation of goods could allow the movement of temperature-controlled cargo. This may provide a further boost to the horticultural sector in the region.

Seaports

Opportunities for collaboration exist for project management consultancy for the development of port infrastructure, construction, and rehabilitation of existing ports. Investment opportunities for collaboration include -

- Modernisation of equipment required for handling cargo.
- Full mechanization of cargo handling operation and movement in major ports.
- Expansion of storage area in the ports.
- Required dredging to allow handling of bigger shipping.
- Expansion of Terminal capacity for handling higher cargo off-loading.

There is a need to generate awareness among exporters and importers in India and Bangladesh about the prospect and benefit of utilising coastal routes for bilateral trade. Connecting the ports with other transport modes, improving transhipment facilities, increasing the loading, and unloading efficiency of ports can also incentivise exporters and importers to use these coastal routes. The concept of third-party logistic providers needs to be promoted to help consolidate small consignments to fill a full cargo containers or ships. There is also a need to identify potential products that could be exported from Bangladesh to India through the coastal route to address the issues of empty vessels. Presently, Bangladesh mainly exports RMG products through the coastal routes. Further, there is a need to explore the feasibility of utilising Bangladesh's seaports for India's third country import.

Enhancing Connectivity through Regional Cooperation

The Bangladesh–Bhutan-India–Nepal (BBIN) subregion should be a priority for India both in the economic and strategic sense. Bangladesh and India need to leverage the potential offered by regional cooperation initiatives like the BBIN to integrate the flow of goods and services. The potential for overseas trade through sea-route can be immense, with these economies being connected to the Bay of Bengal and can act as a gateway for Bhutan and Nepal under BBIN. Also, India needs to develop its own national waterways to unlock the full potential of inland waterways as a transportation mode, connecting the neighbouring landlocked states to the Indian mainland as well as to the regional value chains by leveraging the connectivity of river bodies with Bangladesh.

As India has withdrawn from the RCEP, building stronger connections in its neighbourhood becomes important. Enhanced connectivity within South Asia and Southeast Asian regions could give India and Bangladesh access to a combined market of US$ 6.1 trillion or 7.3 percent of the global GDP in 2020. Through BIMSTEC, India and Bangladesh could integrate themselves into the value chains of the Southeast Asian nations and tap their market. Thus, creating alternative corridors for trade and fostering greater cooperation for multimodal connectivity is imperative to overcome the pandemic-induced vulnerabilities and ensure sustainable growth. Other than the bilateral level, opportunities for collaboration also exist at the regional level. India needs to strengthen partnerships with the maritime nations. Within the identified areas of cooperation with the BIMSTEC, India is currently the lead country for transport and communication, tourism, counterterrorism, environment, and disaster management whereas Bangladesh is the lead country for trade, investment and development.

The Bay of Bengal, bounded by several Asian countries, including India, Bangladesh, Myanmar, Thailand and Sri Lanka hosts a large population base and some of the world's most important trading routes. India and Bangladesh could jointly enhance their cooperation with other BIMSTEC nations to gain strategic importance and trade benefits. Following are select potential areas for collaboration as highlighted in the Maritime India Vision 2030.

- Establishing common standards for data exchange and customs.
- Training seafarers of BIMSTEC nations on subsidized basis.
- Enhancing investment in infrastructure development to improve regional connectivity which would be critical to provide multimodal projects to link ports to hinterland, including landlocked areas like Bhutan, North East India, and Nepal.
- Developing dry ports/ ICDs in landlocked nations Nepal and Bhutan.
- Improving Inland waterways to facilitate trade to Bangladesh, Bhutan, and Nepal.
- Devising a BIMSTEC Coastal Shipping Agreement and a master plan to enhance transport connectivity.
- Promotion of indigenous shipping industry and associated infrastructure.
- Collaboration of Indian and Bangladeshi shipping lines with import and export firms of BIMSTEC nations for transport of cargo.

- Setting up of a commercial venture, joint stock BIMSTEC shipping company, to focus on shipping opportunities in BIMSTEC region.

Power

Over the years, Bangladesh has made considerable progress in terms of power generation with electricity coverage improving from 73.1 percent in 2015 to 92.2 percent by 2019. The time required to get electricity, which is measured by the number of days to obtain a permanent electricity connection, has reduced to one-third– from 411.6 days in 2015 to 124.5 days in 2019.

According to the Bangladesh Economic Review 2020, Bangladesh's electricity demand is expected to rise to 34,000 MW by 2030. In the power generation sector, Bangladesh would require an investment of US$ 35 billion by 2041. Total investment requirement in the energy sector is estimated at 2.5 percent of Bangladesh's GDP per year by 2041 of which on an average 1.7 percent is financed by public sector investment. With gradually declining Official Development Assistance (ODA) in recent years, Bangladesh needs to boost the PPP mode of investment along with private sector investments. Bangladesh has imported power of 1,160 MW from India in 2019 and is trying to diversify its energy import sources from Nepal and Bhutan to ensure 100 percent energy security by 2041 and increase imports up to 5000 MW by 2031 and 9000 MW by 2041.

Bangladesh, Bhutan, India and Nepal (BBIN) have made significant progress in power generation and energy cooperation in recent years. India, being centrally placed in the South Asian region, is playing a major role in facilitating planning of power interconnections with these countries for effective utilization of regional resources. India already has regional power system integration with Bangladesh, Bhutan, and Nepal through high voltage synchronous (Alternating Current) and asynchronous (High Voltage Direct Current) connections. Nepal will also be exporting electricity to Bangladesh using Indian transmission lines.

According to the data from ITC Trademap, electrical energy (HS 271600) was the second largest item exported by India to the BBIN sub-region during 2019. India's export of electrical energy to BBIN has increased to US$ 610.7 million in 2019 from US$ 24.5 million in 2015. Bangladesh and Nepal were the major importers, with Bangladesh accounting for 82.7 percent of the total electrical energy exports by India, followed by Nepal, accounting for 17.3 percent in 2019. Investments have increased in recent years, there is further scope for enabling regional cross-border energy trade as this will lead to optimisation of energy resources across the countries and ensure energy security thus facilitating cross border trade. Thus, opportunities exist for strengthening the sub-regional power corridor through the BBIN countries.

Oil and Gas

Bangladesh's domestic natural gas reserves meet 47 percent of its energy demand, but the declining production and absence of major discoveries indicate import as a likely option. A large LNG facility on the Bay of Bengal coast with participation by India, Bangladesh and possibly Nepal is being explored. A proposal for supplying refined-LNG through cross-border pipeline and the establishment of an

LNG terminal is also being explored. A trilateral partnership between Bangladesh, India and Nepal to develop shared pipelines, terminals, and gas storage facilities can enhance the economic viability of these investments and move the region towards a net-zero pathway. Regional cooperation in energy sector can attract higher investments and bring in complementary infrastructure and lead to creation for transmission and transit and avoid duplication of generation and distribution infrastructure.

Renewable Energy

According to the 8th Five Year Plan (July 2020 – June 2025), the share of renewable energy to the total electricity generation declined from 3.6 percent in FY2015 (July 2014-June 2015) to 3.25 percent in FY2019. Under the SDG 7, Bangladesh has a national target of increasing the share of renewable energy by 20 percent of total energy consumption and 10 percent of total power generation by 2030. At present, the installed capacity of renewable energy is estimated at 722.1 MW out of which 488.2 MW is solar, followed by hydro at 230 MW and wind at 2.9 MW. Biogas and biomass account for 0.6 MW and 0.4 MW, respectively. The 8th Five-Year Plan of Bangladesh (July 2020-June 2025) particularly focuses on enhancing solar and wind-based energy generation and reaching areas where grid-based supply is limited. To increase the share of renewable energy, commercial partnerships could be forged in solar parks (grid connected), solar housing schemes and solar irrigation (non-grid), solar mini/micro grid, and solar rooftops.

Agri-business and Food Processing

Agriculture and frozen food (fish, shrimps, and others) accounted for 1.4 percent each, of Bangladesh's global exports in 2019-20. According to the data from ITC Trademap, Bangladesh is a net importer of cereals (HS 10), with a trade deficit of US$ 1.6 billion in 2019, edible vegetables and certain roots (HS 07), with a trade deficit of US$ 706 million, and edible fruits and nuts (HS 08), with a trade deficit of US$ 509.7 million. India could collaborate with Bangladesh across the agricultural value chain in various areas such as seed production including hybrid seeds, cold chain storage technology, agro and food processing, and R&D activities, among others. Technology transfer through mutual cooperation at various stages of the agricultural value chain could help in strengthening further cooperation.

Investment opportunities exist in agricultural inputs and equipment like seeds, fertilizer, pesticide, irrigation and farm machinery, post-harvest infrastructure and food processing like edible oil, rice, sugarcane, fruits and vegetables & spices. Establishing Joint Ventures can facilitate a reduction in the trade deficit by promoting export in the sector and foster industry and market diversification for Bangladesh. Establishing manufacturing units and assembly of agricultural machinery is another area of engagement that India and Bangladesh may explore. Bangladesh is one of the largest markets for India's agricultural products. Opportunities also exist in frozen food which is the one of the country's largest exporting sectors. Support services at various stages of the agricultural value chain could be provided through access to finance, storage, power, and packaging, among others. India has been increasingly using solar pumps for irrigation facilities especially where there is a lack of reliable power generation and infrastructure. With new technologies like the Internet of Things (IoT) enabled solar pumps and solar powered cold storage rooms coming in the renewable energy sector, technology transfer could be fostered by the Indian private sector.

The North Eastern states of India could also capitalize on the rising demand for fresh fruits and vegetables, and for fresh, high-quality spices. Bangladesh, which shares a border with four of the eight North Eastern states, is very well placed to benefit from, and play a critical role in, their development. Bangladeshi firms may source inputs and raw materials from Assam, Mizoram, Meghalaya, and Tripura by getting access to a possibly cheaper and greater variety of fruits, vegetables and spices. The proximity to Bangladesh would also help in maintaining the freshness of the products. Bangladesh could also invest in spice farms and other businesses along the value chain in NER to cater to its demand for the spices and food industry. It can also play a strategic role in connecting NER to the global market through the Ports of Chattogram and Mongla and the rest of India through more cost- and time-efficient land or multimodal transportation corridors. Bangladesh also has a thriving furniture industry, particularly wood. Bangladesh could therefore invest and source semi-processed and finished bamboo products from the region. Therefore, cooperation in the agriculture and agro-processing sector could lead to the creation of regional value chains ensuring sustainable growth.

Shipbuilding

According to UNCTAD, Bangladesh and India account for a major share of global ship recycling in 2019 at 54.7 percent and 26.6 percent respectively. However, in terms of shipbuilding the two countries account for a much lesser global share at 0.1 percent and 0.03 percent, respectively. Shipbuilding has been one of the thrust sectors for Bangladesh due to the country's export potential for small ocean-going vessels. The majority of the shipping operations are owned by the state-owned Bangladesh Shipping Corporation (BSC) and some private shipping operators are present as well. As mentioned in its 8th Five Year Plan document, Bangladesh aims to increase its shipping exports, but the shipping sector is constrained by inadequate shipping capacity, shortage of resources, inadequate technical capabilities in an environment of changing global technology in shipping, among others. The country aims to boost its role in international shipping and make the sector commercially viable. Bangladesh aims to modernize BSC with an expanded fleet and trained staff also aims to encourage the participation of international private sector.

India and Bangladesh could facilitate increased cooperation in the areas of maritime cooperation as both the countries are maritime nations. Both countries have shipyards at proximity which could be leveraged for building a strategic partnership in production, development and maintenance of ships. Indian shipyards could explore partnership with Bangladeshi shipyards for the construction of platforms as per Bangladesh requirements through JVs, co-development and collaboration for both commercial and defence requirements. Opportunities for investment or establishing JV exists in the development of new shipyards or expansion and renovation of existing facilities; upgradation of shipyards with modern facilities and technical assistance for sophisticated shipbuilding which follows international standards.

Pharmaceuticals

Pharmaceutical exports of Bangladesh have grown by a CAGR of 13 percent from US$ 39.8 million in 2010 to US$ 120 million in 2019. The industry caters to almost the entire domestic market and exports to partner countries. However, once Bangladesh graduates from the LDC category in 2026, it will no longer have access to a special World Trade Organisation (WTO) waiver, which exempts the pharmaceutical industry of Bangladesh from the Agreement on Trade-Related Aspects of International Property Rights (TRIPS). Bangladesh's key export markets in 2019 include Vietnam (18.7 percent), Myanmar (16 percent), USA (13.1 percent), the Philippines (9.9 percent), and Kenya (5.4 percent). Bangladesh's pharmaceutical market is estimated to grow by 7.6 percent from US$ 3.1 billion in 2019 to reach US$ 3.5 billion in 2020. Key market growth drivers include growing public healthcare spending, rising healthcare spending in the private sector, improved access to health facilities, and the increasing burden of non-communicable diseases.

The Perspective Plan of Bangladesh 2021-2041 aims to strengthen support for private investment and quality control for drug manufacturing and distribution through improved testing and certification processes. To achieve long term sustainability, the sector needs to be more open to foreign direct investment and trade. The Government of Bangladesh encourages foreign companies to partner with local companies in producing drugs and high-tech and specialized products. Therefore, opportunities exist for Indian companies to collaborate with Bangladeshi companies to invest in the growing domestic market.

Information and Communication Technology (ICT)

Bangladesh aims to increase its ICT exports and transform itself into a digital and knowledge economy by 2041. With over 3,000 local enterprises operating in hardware, software, and business process outsourcing (BPO) sectors, the size of Bangladesh's ICT industry at present stands at around US$ 700 million and exports of US$ 516.7 million. Bangladesh Hi-Tech Park Authority has set up 28 high-tech parks/ software technology parks across the country. Bangladesh has higher fixed broadband subscriptions per 100 people than India and South Asia's average and higher mobile cellular subscriptions (per 100 people) than the global average. Bangladesh has undertaken initiatives to build ICT infrastructure, including a four-tier national data centre, and establishing connectivity in rural areas by laying fibre optics cable. India has been assisting Bangladesh in setting up high-tech parks across 12 districts. Given the vast experience and capabilities of Indian IT companies, opportunities exist for the Indian public as well as the private sector to invest, or collaborate with Bangladeshi companies, to develop ICT infrastructure in Bangladesh.

Way Forward

Prior to the outbreak of COVID-19, a three-years transition period was supposed to be provided to Bangladesh for graduation from the LDC category i.e., by 2024. However, the preparatory period has been extended by five years i.e., by 2026. Graduating from an LDC status would improve the investor confidence and debt servicing ability, leading to a higher rating for investment by international rating agencies, which may, in turn, attract larger foreign direct investment in Bangladesh. However, there are several risk factors for Bangladesh associated with its graduation from the LDC status. According to the Perspective Plan of Bangladesh 2021-2041, the loss of preferences in the markets of the European Union, Canada, Australia, Japan, India and China might lead to an annual reduction in total exports of Bangladesh by 11 percent which would be equivalent to around US$ 7 billion based on the current export levels.

Also, many of the exemptions of the WTO provisions, including the reduction in tariff and subsidies and adherence to intellectual property rights (especially for the pharmaceuticals sector), which are currently enjoyed by Bangladesh as an LDC, will no longer be available after 2026, except for EU which allows a transition period until 2029. Bangladesh, on graduation, will have lesser access to concessional financing from the multilateral institutions.

In order to improve its ease of doing business, Bangladesh needs to enhance its logistics and reduce trade costs, to remain competitive in terms of exports, and support the MSMEs through increased access to credit promoting start-ups. Along these lines, development financial institutions of both countries could collaborate for extending commercial lines of credit or developing innovative financial solutions for SME development.

Non-tariff barriers have been significantly affecting India-Bangladesh trade. But reducing the bilateral trade deficit with India remains a concern in Bangladesh. In this case, Indian investments in Bangladesh could help in increasing value addition to Bangladesh exports, thereby helping Bangladesh diversify its markets. Establishing regional value chains for agriculture and food processing, pharmaceuticals, and increasing connectivity through multimodal transport as well as boosting ICT infrastructure could support Bangladesh's growth in the coming years.

Therefore, India's Strategy to enhance investments in Bangladesh could be through three ways – (1) Government to Government credit could be utilised to develop the infrastructure of the economic zones and other strategic projects, (2) PPP projects could be developed through Buyer's Credit using the services of the Indian project export companies, and (3) Private investments could be encouraged in the economic zones as well as non-economic zones.

Chapter 1 Macroeconomic Overview of Bangladesh

Bangladesh has emerged as one of the fastest growing economies in the world, driven by robust economic growth, that averaged 7.4 percent between 2015 and 2019[1] (**Table 1.1**). Given this fast-paced growth, Bangladesh has even been termed as the "New Asian Tiger"[2]. Located strategically in Southern Asia, between India and Myanmar, and a coastline with the Bay of Bengal, Bangladesh is the largest least developed country (LDC) in terms of its population and economic size. It is also the eighth-most populous country in the world, with a population of 166.6 million in 2019.

According to the Asian Development Bank[3], the incidence of poverty has more than halved in Bangladesh over the past 25 years. Bangladesh attained lower middle-income status in 2015 and met the criteria to graduate from the LDC status for the first time in March 2018 by the UN Committee for Development Policy (CDP)[4]. In the triennial review of 2021, Bangladesh met the criteria for the second time leading to its recommendation of graduating from the LDC status in 2026 (originally slated to be in 2024 but delayed on request by Bangladesh)[5]. The per capita income (in current prices, US$) has increased from US$ 1,530.1 in 2017 to an estimated US$ 1,880 in 2020 surpassing India (US$ 1876.5).

Bangladesh surpassed Pakistan, which was facing macroeconomic challenges, to become the second-largest economy in South Asia[6] after India in terms of nominal GDP in 2019. The size of its economy has increased from US$ 249.7 billion in 2017 to US$ 302.5 billion in 2019 and is estimated to reach US$ 317.8 billion in 2020. During 2017-2019, Bangladesh has witnessed accelerated growth at an average of

[1] IMF, World Economic Outlook Database, October 2020.

[2] World Economic Forum," There could be a new 'Asian Tiger'. Here's why", Jonathan Garber, April 2017.

[3] Asian Development Bank, Member Factsheet, Bangladesh, October 2020.

[4] International Institute for Sustainable Development, "Bangladesh, UN Consider Expected LDC Graduation in 2024", December 18, 2018.

[5] United Nations, "Briefing on CDP Work on LDCs - Committee for Development Policy 2021 Plenary and Triennial Review", February 26, 2021.

[6] According to the World Bank, South Asia includes Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka, respectively.

7.8 percent majorly driven by higher exports to the US following trade redirection from China along with improvements in infrastructure development; especially access to electricity[7].

Table 1.1: Select Macroeconomic Indicators of Bangladesh

Indicators	2010	2017	2018	2019	2020[f]	2021[f]
Gross domestic product, constant prices (%)	5.6	7.3	7.9	8.2	3.8	4.4
Gross domestic product, current prices (US$ bn)	115.3	249.7	274.0	302.5	317.8	338.4
Gross domestic product per capita, current prices (US$)	762.8	1,530.1	1,661.9	1,816.0	1,888.0	1,989.8
Inflation, average consumer prices (%)	6.8	5.4	5.8	5.5	5.6	5.9
Population (persons, millions)	151.1	163.2	164.9	166.6	168.3	170.1
Current account balance (% of GDP)	2.8	-0.5	-3.5	-1.7	-1.5	-2.8
Exchange Rate (Tk: US$)	70.7	80.4	83.5	84.5	84.9	86.1
International reserves (US$ bn)	11.2	33.4	32.0	32.7	41.9	40.6
External Debt (% of GDP)	21.3	18.0	20.0	18.5	18.7	18.3

Note: Bangladesh's data are reported on a fiscal year basis, that starts from July 1 and ends on June 30, therefore data pertaining to 2019 represents July 2018-June 2019.

Source: IMF World Economic Outlook October 2020; IMF Bangladesh Country Report June 2020 and Economist Intelligence Unit (EIU)

The consumer price inflation has remained within the Bangladesh Bank's target of 5.5 percent in 2019. In 2020, however, it increased slightly to 5.6 percent on the back of food price pressures (which comprises 60 percent of the consumption basket) due to supply chain disruptions.

The Bangladesh Bank maintains a managed float exchange rate regime that prevents any extreme volatility of the currency against the US Dollar. The deprecation has been mostly gradual and orderly in the last few years. The Taka (currency of Bangladesh) is expected to continue to weaken against Bangladesh's major trade partners due to the widening of current account deficit.

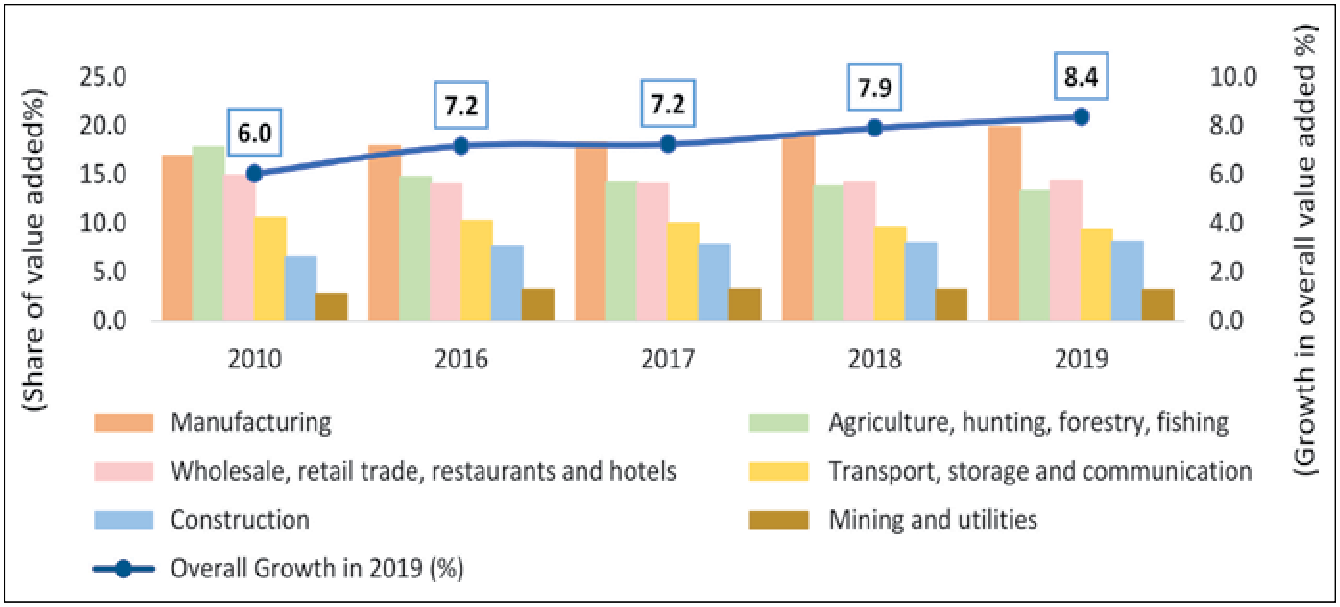
Evolving Structure of Bangladesh's Economy

Originally an agrarian economy, the share of agriculture and allied activities halved in two and half decades, from 1990 to 2015; and has been further declining. The share of agriculture and allied activities in gross value added (GVA) of the country has declined from 17.8 percent in 2010 to 13.3 percent in 2019. However, it continues to employ nearly half of the population. The share of value added by industry (including manufacturing, mining, utilities and construction), on the other hand, has increased from 26.1 percent in 2010 to 31.2 percent in 2019. The manufacturing sub-sector has been

[7] Asian Development Bank, "Asian Development Outlook 2019 Update", September 2019.

the major contributor to the expansion of industry, with an increasing share of value added from 16.9 percent in 2010 to 19.9 percent in 2019. Bangladesh's manufacturing sector has been supported by its abundant low-cost labour. The minimum wage in Bangladesh stood at US$ 18 per month at current prices and US$ 48 per month in terms of purchasing power parity (PPP) during 2019, whereas in the case of readymade garments (RMG) workers it was slightly higher at US$ 50 per month[8]. According to the International Labour Organization (ILO), Bangladesh has the lowest minimum wage rate among the South Asian countries and Asia-Pacific region. In comparison, the minimum wages in other Asian countries are around - India – US$ 65 per month, Sri Lanka – US$ 70, Myanmar – US$ 82, Pakistan – US$ 117, Nepal – US$ 119, Lao PDR and Vietnam – US$ 127 each, Cambodia – US$ 182[9], and China – US$ 217[10]. The services sector (including wholesale, retail trade, restaurants and hotels, transport, storage and communication, and other activities) continues to account for the majority share of the value added by economic activity at 55.5 percent in 2019. However, it has declined from a share of 56 percent in 2010. The overall growth in economic value added increased from 6 percent in 2010 to 8.4 percent in 2019 (**Chart 1.1**).

Chart 1.1: Value Added by the Major Economic Activities of Bangladesh



Source: National Accounts Main Aggregates Database, Statistical Division United Nations (unstats.un.org) and India Exim Bank Analysis (data accessed on December 30, 2020)

Bangladesh was severely affected by COVID-19 not only through health crisis, but also through economic channels, reflected in reduced external demand for its exports and investment. Consumption has also declined but was supported partially by the steady inflow of remittances. The country was under lockdown from March 23, 2020, to May 30, 2020, to restrict domestic transmission of the COVID-19

[8] "Bangladesh Lagging Behind in Wages", The Financial Express, December 18, 2020

[9] Data available only for Garment Industry

[10] International Labour Office (ILO), "Global Wage Report 2020–21: Wages and minimum wages in the time of COVID-19", December 2020.

virus. However, the restrictions were eased in June 2020 following which the factories re-opened leading to a rebound in exports and construction activity driving Bangladesh's recovery faster than expected. In response to the economic shock by the pandemic, Bangladesh announced a stimulus package of US$ 14.6 billion equivalent to 4.5 percent of its GDP in 2019-20, that includes support for health care, cash and food transfers for the vulnerable, comprehensive support for agriculture, wage support for export industries, subsidies on interest payments for working capital loans, strengthened export facilitation, and liquidity support for refinance schemes[11].

According to the IMF, Bangladesh is expected to continue to remain one of fastest-growing economies in the world with real GDP growth in positive territory, unlike most other countries across the world. The real GDP is estimated to moderate to 3.8 percent in 2020 due to contraction in exports and subdued private consumption due to reduced wages in manufacturing and construction. Investments and exports are expected to suffer amid major uncertainty about the resumption of demand for readymade garments. The current account deficit narrowed to 1.7 percent of GDP and 1.5 percent of GDP in 2019 and 2020, respectively, mainly due to lower global oil prices, reduced import demand for capital goods and increased inflow of remittances.

Outlook

According to the IMF, Bangladesh is expected to grow by 4.2 percent in 2021, driven by a robust recovery in private consumption supported by strong remittance inflows and a rebound of domestic credit. Recovery in exports, pick-up in domestic activity, and higher investment spending linked to the ongoing infrastructure development projects will also support growth. Consumer price inflation is expected to increase to 5.9 percent in 2021 driven by higher private consumption, oil prices and ample liquidity. The current account deficit is expected to widen in 2021 with rising fuel prices and increased import of capital goods for industry and infrastructure development as the economy recovers from the pandemic[12].

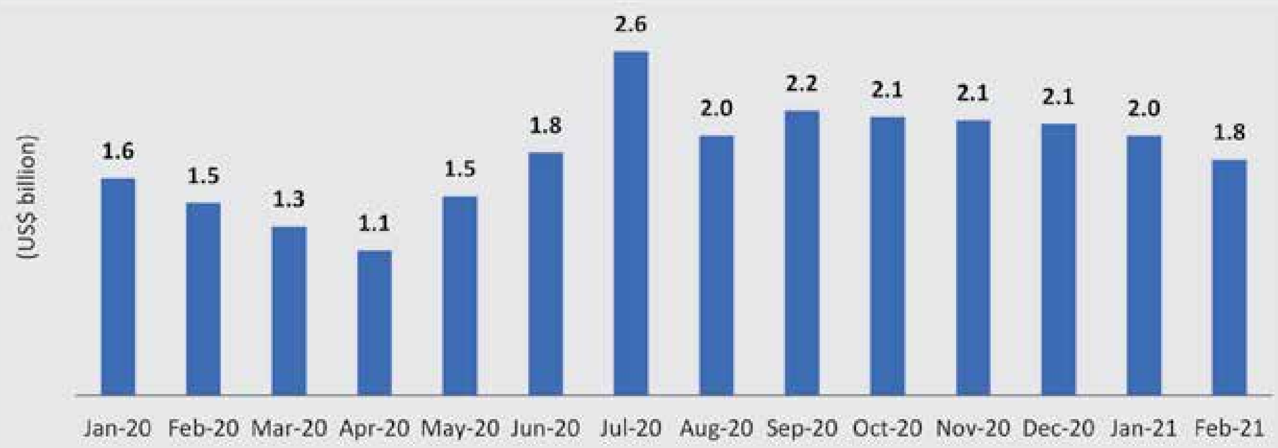
Box 1.1: Monthly Inflow of Migrant Remittances

According to the World Bank estimates, global remittances declined by 7 percent in 2020. However, Bangladesh along with countries like Mexico and Pakistan registered a rise in inflows in 2020 as compared to 2019. According to the Bangladesh Bank database, Bangladesh registered a rise in the inflow of personal remittances by 18.4 percent to US$ 21.7 billion (6.8 percent of GDP) in 2020 as compared to US$ 18.4 billion (6.1 percent of GDP) in 2019. According to a report by the Economist Intelligence Unit, this spike may be attributed to the unique developments in 2020. Monthly remittances experienced an increase from May 2020 to September 2020 and declined thereafter (**Chart 1.2**).

[11] World Bank (2021), Bangladesh Development Update, World Bank, March 2021

[12] Economist Intelligence Unit (EIU), Country Report of Bangladesh, December 2020.

Chart 1.2: Monthly Remittance Inflows to Bangladesh



Source: Bangladesh Bank and India Exim Bank Analysis

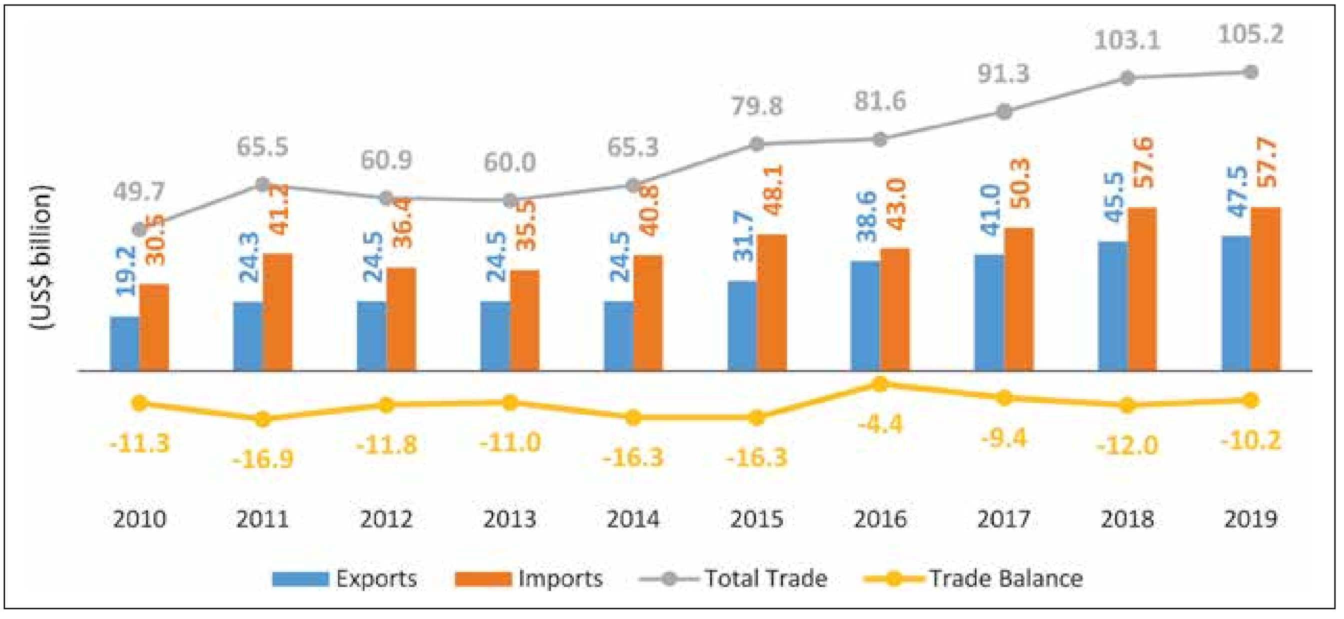
The surge of inflows started in May 2020, reflecting increased flow through formal channels due to disruptions of international travel or additional transfer of accumulated savings to family or by returning overseas workers. The introduction of new remittance tax incentives by the Bangladesh Bank in 2019 had already boosted the flow increasing from US$ 15.6 billion in 2018 to US$ 18.4 billion in 2019. However, remittances may decline in the coming years due to weaker demand from the major migrant-receiving countries for Bangladesh like Saudi Arabia, UAE, Kuwait, Oman, and Qatar, along with others like the USA, the United Kingdom, and Malaysia with the Gulf countries accounting for 57 percent of the remittance inflows.

Chapter 2 International Trade and Investment of Bangladesh

Bangladesh's growth in the last decade has been notable. It has emerged as one of the major exporters among the LDCs fueled by its steady export growth mainly driven by its manufacturing exports accounting for 96.4 percent of its total merchandise exports in 2019[13].

Bangladesh's foreign trade doubled over the past decade from 47.4 billion in 2010 to US$ 105.2 billion in 2019 (**Chart 2.1**). Growth in exports outpaced that in imports, with exports at an average annual growth rate (AAGR) of 11.1 percent from 2010 to 2019, as compared to 8.3 percent for imports during

Chart 2.1: Foreign Trade of Bangladesh



Note: Data for 2014 is mirror data (as reported by partner countries imports from Bangladesh)

Source: ITC Trademap; derived from UN Comtrade and India Exim Bank Analysis

[13] WTO Data portal

the same period. Bangladesh's trade deficit has averaged around US$ 12 bn during the decade, with an exception in 2016, where it declined to US$ 4.4 billion due to existing weakness in global oil prices reducing the import of fuels in terms of value leading to a smaller trade deficit. Bangladesh's overall trade imbalance is mainly due to the trade deficit in sectors such as mineral fuels (HS 27), machinery and mechanical appliances (HS 84), electrical machinery (HS 85) and iron and steel (HS 72). Bangladesh continues to maintain a huge trade deficit due to its growing energy needs and heavy dependence on imported inputs for its readymade garments (RMG) sector and capital goods sector for its infrastructure development.

Bangladesh's exports have been heavily dependent on readymade garments (HS 61 & HS 62), which accounted for 86.2 percent of Bangladesh's global exports in 2019 making Bangladesh the second-largest exporter globally. The share of Bangladesh in global exports of articles of apparel and clothing knitted and crocheted was 8.9 percent in 2019 whereas not knitted and crocheted was 8.5 percent (**Table 2.1**). The other important products were footwear and gaiter which although accounted for 2.5 percent of Bangladesh's exports in 2019 as compared to a share of 1.3 percent in 2010. Supported by a large supply of low-cost labour, the second most important sector for Bangladesh is the leather industry. Exports of leather articles have gained momentum with increasing share from 0.2 percent in 2010 to 0.8 percent in 2019 and majorly includes bags, wallets, belts, trunks, briefcases etc. Including footwear, leather articles is the second-largest exporting sector of Bangladesh accounting for 3.3 percent of Bangladesh's total exports and 1.2 percent share in world exports in 2019. Bangladesh accounts for 3 percent of the global leather and products market, and its tanning industry produces 1.1 percent of the world's leather[14]. A structural shift is noticeable from decrease in exports of raw materials like raw hides and skin from 1.3 percent in 2010 to 0.4 percent in 2019 and these are being used to add value and produce leather goods. Share of other made-up textile articles and other vegetable textile fibers (second-largest exporter in the world) has declined from 2010 to 2019. Other vegetable textile fibers include mainly raw jute and jute goods, production of which has observed a downward trend since 2016 due to lack of technological upgradation and is exported mainly in raw and semi-processed form[15].

Table 2.1: Major Products Exported by Bangladesh

HS Code	Product	2010 (US$ mn)	Share in Bangladesh's Exports in 2010 (%)	2019 (US$ mn)	Share in Bangladesh's Exports in 2019 (%)	Share in World Exports in 2019 (%)
TOTAL	**All products**	**19,231.0**	**100.0**	**47,507.4**	**100.0**	**0.3**
61	Articles of apparel and clothing accessories, knitted or crocheted	7,785.5	40.5	21,083.3	44.4	8.9

[14] Leather goods and Footwear Manufacturers and Exporters Association of Bangladesh (LFMEAB)

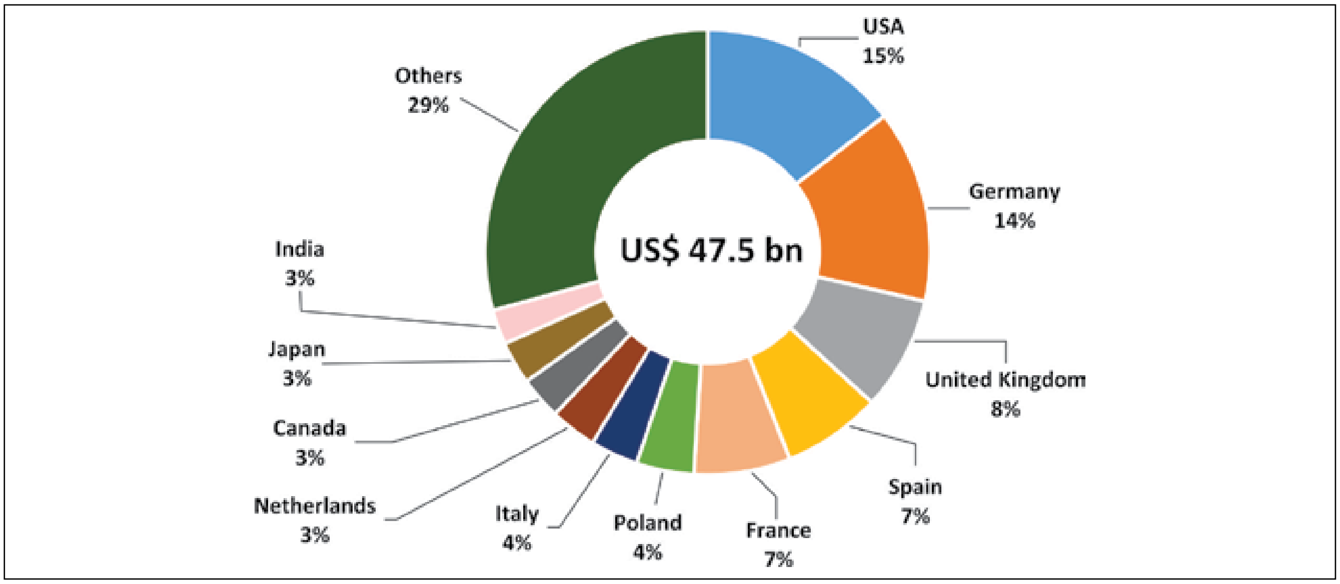
[15] "Choppy Waters Ahead for the Golden Fibre", Dhaka Tribune, May 4, 2020

HS Code	Product	2010 (US$ mn)	Share in Bangladesh's Exports in 2010 (%)	2019 (US$ mn)	Share in Bangladesh's Exports in 2019 (%)	Share in World Exports in 2019 (%)
62	Articles of apparel and clothing accessories, not knitted or crocheted	7,059.0	36.7	19,855.1	41.8	8.5
64	Footwear and gaiters	252.3	1.3	1,185.0	2.5	0.8
63	Other made-up textile articles	686.3	3.6	1,048.0	2.2	1.6
53	Other vegetable textile fibres	822.7	4.3	718.3	1.5	13.9
03	Fish and crustaceans	537.1	2.8	543.7	1.1	0.4
42	Leather articles	45.0	0.2	380.4	0.8	0.4
65	Headgear and parts	46.0	0.2	338.2	0.7	3.3
41	Raw hides and skins (other than fur skins) and leather	257.2	1.3	148.8	0.4	0.8
30	Pharmaceutical products	39.8	0.2	120.0	0.3	0.0

Source: ITC Trademap; derived from UN Comtrade and India Exim Bank Analysis

In terms of export destinations, the European Union remains the major market accounting for 49.8 percent of Bangladesh's exports in 2019. Combining with its exports to the UK, Bangladesh's exports to Europe exceeds half of its global exports (**Chart 2.2**).

Chart 2.2: Major Export Destinations of Bangladesh in 2019

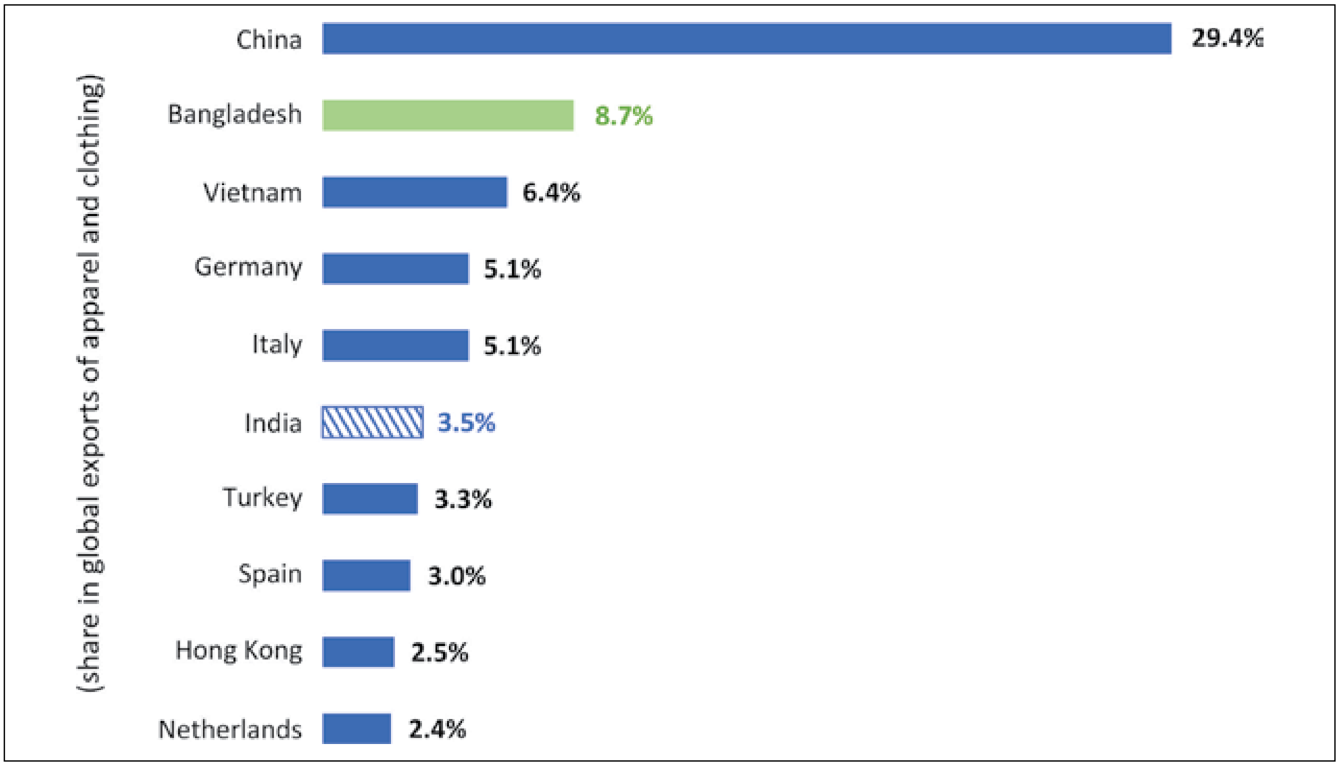


Source: ITC Trademap; derived from UN Comtrade and India Exim Bank Analysis

Bangladesh remains a beneficiary under the Generalized Scheme of Preferences (GSP), the Duty-Free Quota-Free (DFQF) schemes, of Australia, Canada, the European Union, Iceland, Japan, Montenegro, New Zealand, Norway, the Russian Federation, Switzerland, and the US (until June 2013). It is also entitled to DFQF schemes provided by certain members of the WTO, including China, Taiwan, Chile, India, Kazakhstan, Republic of Korea, the Kyrgyz Republic, Tajikistan, Thailand, and Turkey.

Manufacturing sector growth in Bangladesh has been driven mainly by the growth in the textile and apparel industry. Bangladesh has become the second-largest apparel exporting economy after China accounting for 8.7 percent of the global share **(Chart 2.3)**. The RMG industry, being the major foreign exchange earner, plays a central role in the growth of Bangladesh's economy[16].

Chart 2.3: Major Exporters of Articles of Apparel and Clothing in 2019



Source: ITC Trademap; derived from UN Comtrade and India Exim Bank Analysis

Two major international agreements have helped to enable the RMG sector's success in Bangladesh. Firstly, quotas under the Multi- Fibre Arrangement (MFA) from 1994 to 2005 in the North American market, and secondly, the duty-free access to European markets under the "Everything but Arms" or EBA arrangement from 2001 when the EU-Bangladesh Co-operation Agreement was signed. Bangladesh was the second-largest exporter to the European Union (including the UK) in 2019 for both HS 61 and HS 62 after China. Bangladesh is the largest import source of the EU in terms of preferential imports. According to a report prepared by the European Commission covering the period 2018-19[17], Bangladesh

[16] Bangladesh Garment Manufacturers and Exporters Association (BGMEA)

[17] European Commission, "Report on the Generalised Scheme of Preferences covering the period 2018-2019", February 10, 2020.

is the largest beneficiary under the GSP imports by the EU accounting for 24.4 percent of total GSP imports by the EU in 2018 (latest data available). In terms of total imports by the EU from Bangladesh, 96.4 percent is covered under the GSP vis-à-vis India which is the second highest at 23.8 percent. Once Bangladesh graduates from being an LDC, it would lose the EBA benefits after a transition period of three years.

Despite the current non-eligibility for the US GSP, Bangladesh's exports to the US market were sustained. The US remains the second-largest individual country destination for its exports and, in 2019, Bangladesh was its seventh-largest supplier of articles of apparel and clothing knitted and crocheted (HS 61) and its third-largest supplier of articles of apparel and clothing not knitted or crocheted (HS62). Bangladesh has also been the second-largest apparel exporter to Canada, with exports largely facilitated by comparatively flexible Rules of Origin in the Canadian market[18]. In 2015, Bangladesh was partially provided with the duty-free quota free benefit by China with 60 percent of Bangladesh's exports eligible for zero-duty tariff scheme. Recently, in addition to this, China has declared zero duty for 97 percent of imports from Bangladesh under the duty-free quota-free program for LDCs, operational from July 1,2020[19]. In 2015, China had granted duty-free access to 3,095 Bangladeshi products to its markets. The present declaration that granted 5,161 products is an addition to the prevailing facilities. Similarly, India has also given duty-free access to Bangladeshi products in 2011, except for 25 narcotic substances.

The Bangladesh Garment Manufacturers and Exporters Association (BGMEA) administers a bonded warehouse system using letters of credit which allows cloth materials to be imported duty-free for cutting and sewing before being exported directly to the distributor. Bangladeshi entrepreneurs found it relatively easy to enter the garment sector as it involved lower skills, and cheaper technology and labour[20]. Agreements and incentives such as these, together with LDC status enabling duty-free or reduced tariff to multiple global markets, coupled with extremely competitive manufacturing costs, have enabled Bangladesh to achieve a significant share in the global apparel market[21]. Moreover, income from RMG enterprises is exempt from taxes[22]. **Table 2.2** highlights the product-wise major export destinations of Bangladesh.

[18] WTO, Bangladesh Trade Policy Review 2019.

[19] Observer Research Foundation, Bangladesh: Zero-tariff imports, a diplomatic victory for China, Joyeeta Bhattacharjee, July 2020.

[20] ILO (2003). Rags or Riches? Phasing-Out the Multi-Fibre Arrangement. Auret van Heerden, Maria Prieto Berhouet, Cathrine Caspari, International Labour Organisation. March 2003.

[21] "Rising Star: Bangladesh's Journey to RMG Powerhouse Status", Serai, December 15, 2020.

[22] ADB (2017), Using Input-Output Analysis Framework to Explain Economic Diversification and Structural Transformation in Bangladesh, Valerie Mercer-Blackman, Amador Foronda, and Joseph Mariasingham, Asian Development Bank. May 2017.

Table 2.2: Major Export Destinations for Commodities Exported by Bangladesh

HS Code	Product	Major Export Destinations	Share
61	Articles of apparel and clothing accessories, knitted or crocheted	Germany	16.9%
		UK	9.4%
		France	8.3%
		Spain	8.2%
		USA	8.0%
62	Articles of apparel and clothing accessories, not knitted or crocheted	USA	21.4%
		Germany	13.3%
		UK	8.3%
		Spain	7.5%
		France	6.7%
64	Footwear and gaiters	USA	13.5%
		Germany	11.7%
		Poland	9.9%
		Netherlands	8.1%
		Spain	7.7%
63	Other made-up textile articles	USA	20.2%
		Germany	9.4%
		India	8.1%
		UK	7.5%
		Canada	7.2%
53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn	Turkey	31.0%
		India	21.1%
		China	14.8%
		Pakistan	3.5%
		USA	2.4%
03	Fish and crustaceans, molluscs, and other aquatic invertebrates	China	19.1%
		UK	14.2%
		Netherlands	12.3%
		Germany	11.8%
		Belgium	8.9%

HS Code	Product	Major Export Destinations	Share
42	Articles of leather; saddlery and harness; travel goods, handbags, and similar containers	USA	20.1%
		Japan	14.3%
		China	10.2%
		India	7.3%
		Belgium	6.2%
65	Headgear and parts	USA	64.2%
		Canada	7.0%
		Germany	5.0%
		Netherlands	2.3%
		Poland	1.9%
41	Raw hides and skins (other than fur skins) and leather	China	35.4%
		Hong Kong	17.4%
		Italy	10.3%
		India	7.6%
		Spain	6.7%
30	Pharmaceutical products	Vietnam	18.7%
		Myanmar	16.0%
		USA	13.1%
		Philippines	9.9%
		Kenya	5.4%

Source: ITC Trademap; derived from UN Comtrade and India Exim Bank Analysis

Bangladesh's imports grew at a CAGR of 7.3 percent to be at US$ 57.7 billion in 2019 from US$ 30.5 billion in 2010. Although Bangladesh is one of the leading exporters of RMG, it is almost entirely dependent on the import of raw cotton. Cotton, accounted for 11.1 percent of Bangladesh's global imports and 13.5 percent of the world's imports (**Table 2.3**). Bangladesh is the second-largest global importer of cotton after China. Mineral fuels (mainly refined petroleum and gaseous hydrocarbons, and electrical energy) accounted for 10.7 percent of Bangladesh's imports in 2019.

Bangladesh is also a major importer of man-made staple fibers, man-made filaments and knitted and crocheted fabrics, whose cumulative share in Bangladesh's imports have increased from 5.4 percent in 2010 to 8.1 percent in 2019 due to diversifying demands from cotton-based garments to other fabrics. As the global demand for polyester and viscose made garments has increased, Bangladesh has been increasingly importing man-made fibers (MMF) to make yarns to produce high-end garments like sportswear[23].

Table 2.3: Major Products Imported by Bangladesh

HS Code	Product	2010 (US$ mn)	Share in Bangladesh's Imports in 2010 (%)	2019 (US$ mn)	Share in Bangladesh's Imports in 2019 (%)	Share in World Imports (%)
TOTAL	**All products**	**30,503.8**	**100.0**	**57,745.7**	**100.0**	**0.3**
52	Cotton	4,820.7	15.8	6,530.2	11.1	13.5
27	Mineral fuels, mineral oils, and products of their distillation	2,530.6	8.3	6,087.4	10.7	0.3
84	Machinery and mechanical appliances	2,855.5	9.4	5,873.8	10.2	0.3
85	Electrical machinery and equipment	2,017.5	6.8	3,388.4	5.9	0.1
72	Iron and steel	1,313.6	4.4	2,935.1	5.1	0.8
39	Plastics and articles	1,016.1	3.3	2,423.0	4.2	0.4
87	Vehicles other than railway or tramway	1,033.2	3.4	1,790.7	3.1	0.1
55	Man-made staple fibres	919.6	3.0	1,771.0	3.1	4.8
10	Cereals	1,149.1	3.8	1,665.2	2.9	1.4
54	Man-made filaments	508.0	1.7	1,485.9	2.6	3.4

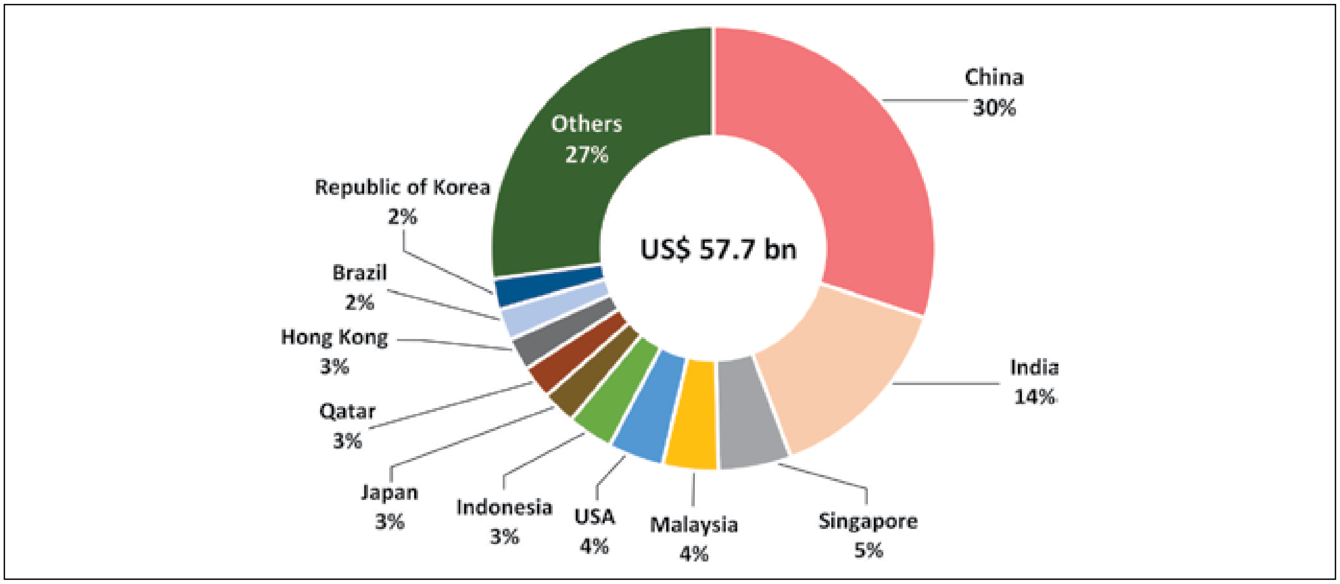
Source: ITC Trademap; derived from UN Comtrade and India Exim Bank Analysis

China is the largest trade partner for Bangladesh, with the trade balance heavily in favour of China, which is also its largest import source (**Chart 2.4**). Bangladesh has also been enjoying preferential tariff facilities as a member of the Asia Pacific Trade Agreement (APTA)[24], originally known as the Bangkok Agreement signed in 1975, which came to be known as APTA in 2005.

[23] "Garment Makers Turning to Artificial Fibres", The Daily Star, January 29, 2021.

[24] The current Member countries of APTA include Bangladesh, China, India, Republic of Korea, Lao PDR, Mongolia, and Sri Lanka.

Chart 2.4: Major Import Sources of Bangladesh in 2019



Source: ITC Trademap; derived from UN Comtrade and India Exim Bank Analysis

China and India have been the major sources across almost all commodities imported by Bangladesh (**Table 2.4**). In the case of cereals, Bangladesh mainly imports wheat and meslin (HS 100199) and maize (HS 100590) from Russia, Ukraine, Canada, etc. India is the largest import source for vehicles and the second-largest import source for cotton, machinery, man-made staple fibres and man-made filaments.

Table 2.4: Major Import Sources for Commodities Imported by Bangladesh

HS Code	Product	Major Import Sources	Share
52	Cotton	China	36.4%
		India	24.1%
		Pakistan	9.0%
		USA	6.1%
		Brazil	4.8%
27	Mineral fuels, mineral oils, and products of their distillation	Malaysia	21.3%
		Qatar	19.4%
		Singapore	16.2%
		India	14.7%
		China	14.1%
84	Machinery and mechanical appliances	China	37.4%
		India	14.1%
		Singapore	7.8%
		Germany	6.7%
		Italy	6.2%

HS Code	Product	Major Import Sources	Share
85	Electrical machinery and equipment	China	43.4%
		Hong Kong	12.9%
		India	9.0%
		Singapore	9.0%
		Germany	3.6%
72	Iron and steel	China	17.1%
		Japan	15.9%
		India	12.3%
		USA	10.9%
		UK	8.4%
39	Plastics and articles	China	22.3%
		Taiwan	14.7%
		Saudi Arabia	13.1%
		India	10.1%
		Republic of Korea	6.4%
87	Vehicles other than railway or tramway rolling stock	India	50.6%
		China	19.9%
		Japan	18.1%
		Thailand	2.4%
		Italy	1.5%
55	Man-made staple fibres	China	68.7%
		India	8.8%
		Indonesia	7.6%
		Thailand	3.8%
		Austria	1.5%
10	Cereals	Russia	31.5%
		Ukraine	25.2%
		Canada	18.4%
		Brazil	11.8%
		Argentina	5.4%
54	Man-made filaments	China	63.3%
		India	12.7%
		Taiwan	8.4%
		Vietnam	4.1%
		Republic of Korea	3.6%

Source: ITC Trademap; derived from UN Comtrade and India Exim Bank Analysis

The increasing demand for fabric and yarn has made Bangladesh invest heavily in the spinning and weaving sector. As per Bangladesh Textile Mills Association (BTMA), local entrepreneurs have invested, US$ 165 million per year on an average in the primary textile sector in the last five years. The government is also supporting FDI to further boost the textile sector. Many of the Chinese and Korean companies are putting up spinning and weaving factories in collaboration with Bangladeshi entrepreneurs[25].

Bangladesh has been following the Most Favored Nation (MFN) tariff rate from the fiscal year 2000-01, to facilitate the smooth implementation of the import policy of the government. At present, three types of tariff concessions on these MFN rates are being provided: (i) import under different bilateral/regional trade agreements, (ii) imports of capital machinery and spares/parts by registered industrial consumers including export-oriented industries, and (iii) import of raw material for a specific use or user (i.e., end-use provisions) such as dairy and poultry, pharmaceuticals, leather, and textile industries[26].

Bangladesh does not have any existing bilateral Free Trade Area Agreement (FTA) with any country. It is part of regional FTA or Preferential Trade Agreements like the South Asia Free Trade Agreement (SAFTA), the Asia-Pacific Trade Agreement (APTA) and the Preferential Tariff Arrangement Group of Eight Developing Countries (D-8). Bangladesh has signed its maiden preferential trade agreement with Bhutan in December 2020. According to the Economic Review 2020 of Bangladesh, preliminary negotiation has started between Bangladesh and China to formulate a bilateral FTA. Discussions are also ongoing for forming FTAs/PTAs with other countries like Indonesia, Nepal, Malaysia, Sri Lanka, Myanmar, Nigeria, Mali, Macedonia, Mauritius, Jordan, GCC countries, Thailand, and the USA.

Following are the trade agreements or preferential trade arrangements which have been signed by Bangladesh and are in effect.

South Asia Free Trade Area (SAFTA)

The SAFTA is a free trade arrangement between the South Asian Association for Regional Cooperation (SAARC) countries that came into effect from January 1, 2006. The members were Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka. Bangladesh, as an LDC, enjoys duty-free access to India for all products except 25 items. The number of products under the sensitive list of Bangladesh is 1,031 for non-LDCs and 1,022 for LDCs. Under the SAFTA, Bangladesh is the second-largest exporter in the region after India (79.1 percent of SAFTA exports) accounting for 11.6 percent of the region's exports in 2019. The SAFTA, however, continues to remain the least integrated region. This could be addressed through increased cooperation by removal of existing para-tariff and non-tariff barriers by the countries and enhancing cross border infrastructure[27].

[25] "Bangladesh textile and apparel industry: $100 billion export potential", The Textile Magazine, May 29, 2019.

[26] Government of the People's Republic of Bangladesh, Ministry of Finance, Bangladesh Economic Review 2020, October 2020.

[27] Brookings India, "India's Limited Trade Connectivity with South Asia", May 26, 2020.

Asia-Pacific Trade Agreement (APTA)

The Asia Pacific Trade Agreement or APTA is a preferential trade agreement among the developing countries of the Asia-Pacific region. Formerly known as the Bangkok Agreement, it was signed in 1975 to enhance intra-regional trade through the exchange of tariff concessions in trade in goods among Bangladesh, India, Lao PDR, Republic of Korea, and Sri Lanka, respectively[28]. After China joined the Agreement in 2001, the third round of negotiation has started, and the Agreement was renamed as the Asia-Pacific Trade Agreement (APTA) in November 2005. Bangladesh accounted for 1.4 percent of total exports by the APTA members in 2019. Bangladesh's trade deficit with APTA in 2019 was US$ 24.2 billion majorly owing to high trade deficits with China and India. On September 30, 2020, Mongolia has joined as the seventh member. The APTA offers flexible rules of origin for its LDC members with a value addition requirement of 35 percent for exports as compared to 45 percent for non-LDCs[29].

Preferential Tariff Arrangement-Group of Eight Developing Countries

Eight developing Organisation of Islamic Cooperation (OIC) countries reached a consensus to form a regional bloc on June 15, 1997, in Istanbul, Turkey aimed at trade and economic cooperation. The regional bloc consists of Bangladesh, Egypt, Indonesia, Iran, Malaysia, Nigeria, Pakistan, and Turkey, which is also known as D-8. It focuses on enhancing cooperation in six priority areas agriculture and food security, trade, industry, tourism, transportation, and energy. A Preferential Trade Agreement (PTA) among D-8 Member States was signed on May 13, 2006, and entered into force on August 25, 2011, after ratified by four countries namely Turkey, Malaysia, Iran, and Nigeria. Bangladesh, being the only LDC, enjoyed a higher tariff implementation period and ratified the preferential trade agreement in 2017 agreeing upon 40 percent value addition criteria for its exports. Bangladesh accounts for 6.2 percent of the total exports by the D-8 members. Bangladesh runs a trade deficit with the D-8 countries of US$ 4.6 billion majorly owing to trade deficits with Indonesia and Malaysia.

Bangladesh-Bhutan Preferential Trade Agreement

On December 6, 2020, Bangladesh signed its maiden Preferential Trade Agreement with Bhutan. With the signing of the PTA, 16 more products from Bhutan will enjoy duty-free access to Bangladesh, in addition to the existing 18 products[30]. Around 34 Bhutanese products that will get duty-free access to the Bangladeshi market include – orange, apple, ginger, fruit juice, milk, natural honey, wheat or meslin flour, homogenized preparations of jams, fruit jellies, marmalades, food preparations of soybeans, mineral water, wheat bran, quartzite, cement clinker, limestone, wooden particle boards, and wooden furniture. Similarly, 10 more products from Bangladesh will enjoy duty-free access to Bhutan in addition to the existing 90 products. Products from Bangladesh eligible under duty-free access include – baby

[28] Asia Pacific Trade Agreement, United Nations, Economic and Social Commission for Asia and Pacific, November 2020.

[29] United Nations, Asia Pacific Trade Agreement (APTA), LDC Portal.

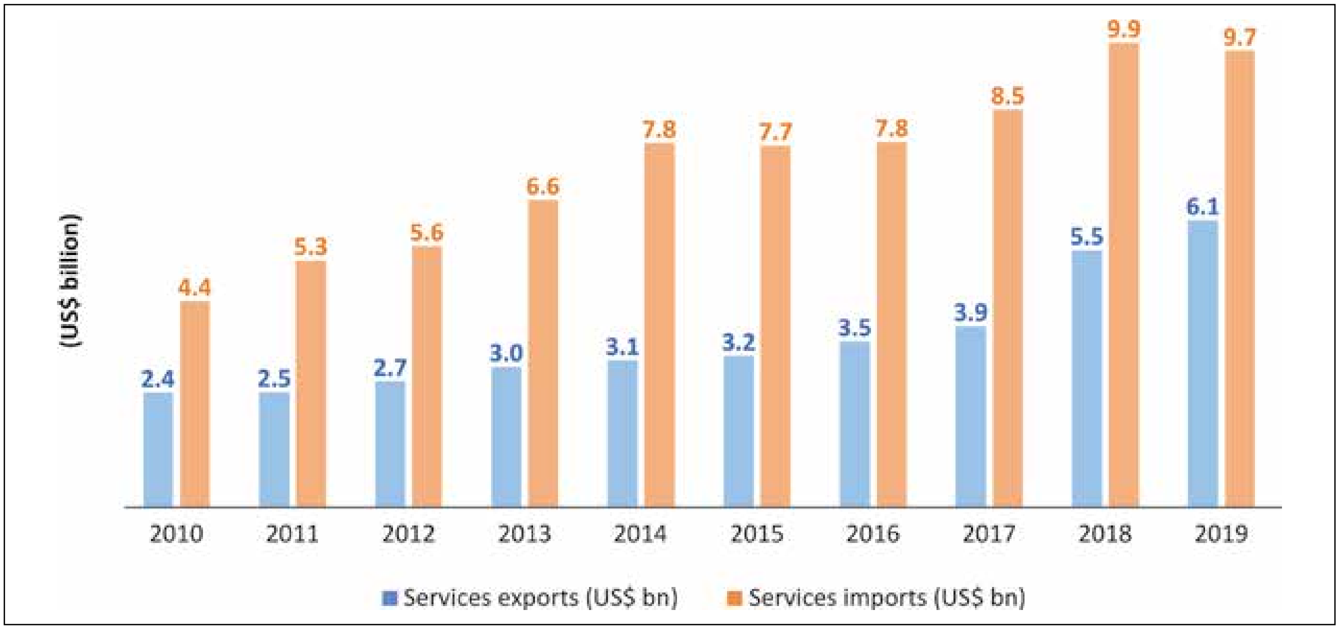
[30] Government of Bhutan, Ministry of Economic Affairs, "Signing of Preferential Trade Agreement with Bangladesh", December 7, 2020.

clothes and clothing accessories, men's trousers and shorts, jackets and blazers, jute and jute goods, leather and leather goods, dry cell battery, fan, watch, potato, condensed milk, cement, toothbrush, plywood, particle board, mineral and carbonated water, green tea, orange juice, pineapple juice, and guava juice[31]. Both countries plan to increase the number of items gradually through consultation.

Trade in Services

Bangladesh's services exports increased from US$ 2.4 billion in 2010 to US$ 6.1 billion in 2019. It was the third-largest exporter of services among the SAARC countries accounting for a share of 2.6 percent after India (89.6 percent) and Sri Lanka (3.1 percent) in 2019[32]. Total imports more than doubled from US$ 4.4 billion in 2010 to US$ 9.7 billion in 2019 (**Chart 2.5**). Bangladesh is the second-largest importer of services among the SAARC nations, accounting for 4.7 percent of services imports by the region after India (85.6 percent).

Chart 2.5: Total Services Exported by Bangladesh in 2019



Note: Data includes Government services

Source: ITC Trademap; derived from UN Comtrade and India Exim Bank Analysis

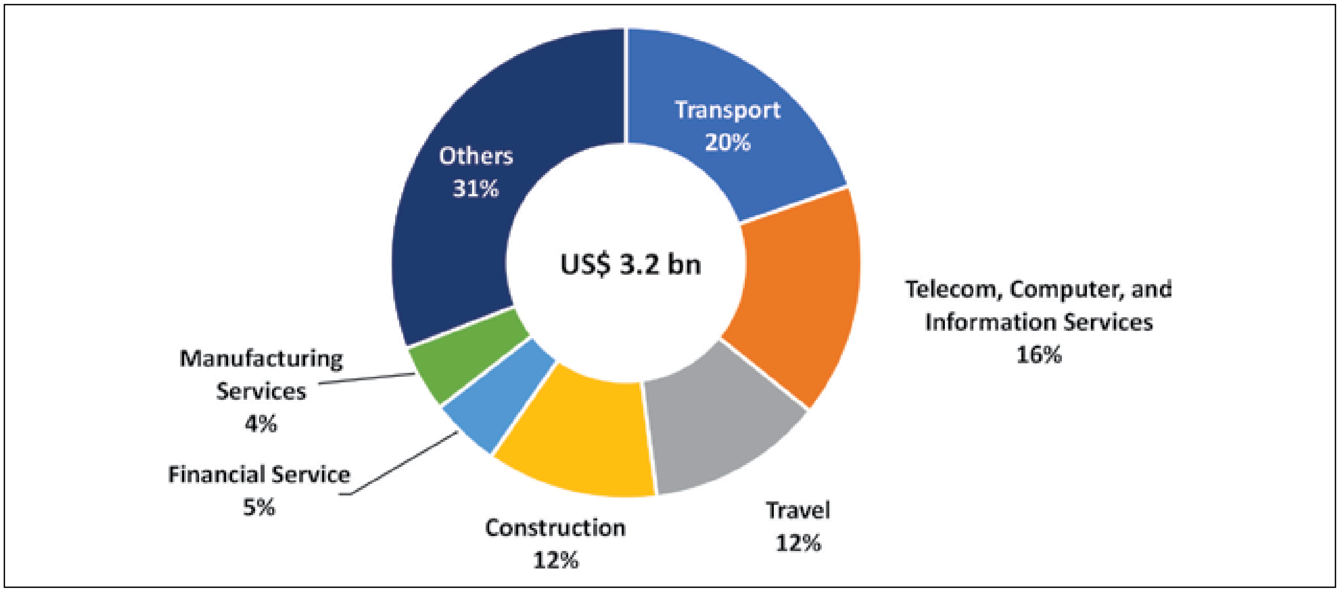
Although Bangladesh is a net importer of services, its services deficit has declined from US$ 4.6 billion in 2017 to US$ 3.6 billion in 2019 mainly driven by increased digitization and export of Information and Communication Technology (ICT) services. According to the Export Promotion Bureau (EPB) Bangladesh, computer services exports (including software, data processing and consultancy) have increased from US$ 45.3 million in 2010 to US$ 276.5 million in 2019.

[31] "Bangladesh signs preferential trade agreement with Bhutan", Dhaka Tribune, December 6, 2020.

[32] Calculated using WTO data accessed on December 30, 2020.

Among the commercial services exports, transport accounted for the largest share (20 percent) in 2019 (**Chart 2.6**). According to a study by the Bangladesh Foreign Trade Institute in 2018[33] the sectors with high services export potential include (i)Tourism and Travel-Related Services, (ii) Transport Services (Freight Transportation services of Rail, Road, Air and Maritime sectors), (iii) Business Services (Computer and Related Services), and (iv) Human Health Services (Nursing, Midwifery and Physiotherapeutic Services).

Chart 2.6: Commercial Services Exported by Bangladesh in 2019



Note: Others include personal, cultural, and recreational services, maintenance and repair services, charges for the use of intellectual property, insurance and pension services and other business services.

Source: ITC Trademap; derived from UN Comtrade and India Exim Bank Analysis

The LDC Services Waiver was adopted in the Eighth WTO Ministerial Conference held in 2011 to provide preferential market access to LDCs in services trade. LDC Services are majorly restricted to Mode 1 (services supplied from one country to another) and Mode 2 (consumers or firms making use of a service in another country - e.g., tourism). The LDC Services Waiver has waived the preference-giving countries from MFN obligations in providing preferential market access to LDCs[34]. Though the Waiver was adopted in 2011, various countries started declaring their preferential schemes in 2015 and so far (as on March 5, 2021), 51 countries have declared their schemes[35]. There has been limited progress in utilisation of the waiver due to the absence of meaningful preferences in the schemes and partly due to the lack of adequate capacity of the LDCs. The decision on "Implementation of Preferential Treatment in Favour of Services and Service Suppliers of Least-Developed Countries and Increasing LDC Participation

[33] Bangladesh Foreign Trade Institute (2018). "Study on Export Potentials of Trade in Services in Bangladesh: Identifying the Opportunities and Challenges", July 2018.

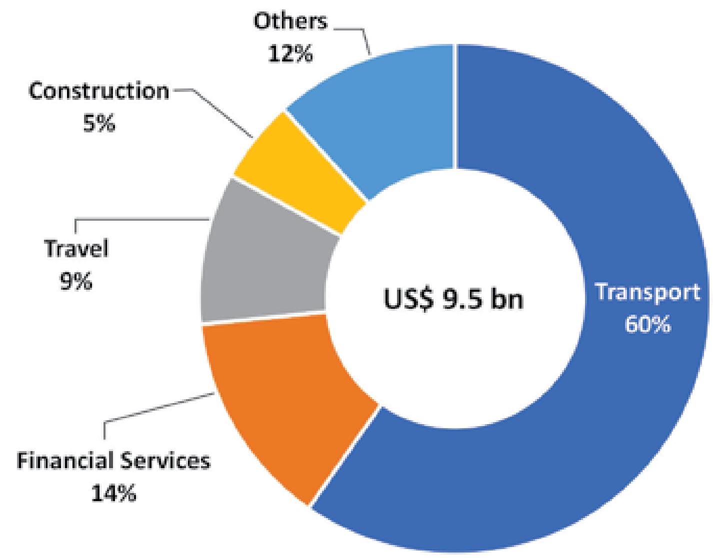
[34] WTO, "Trade in services and LDCs".

[35] WTO, "WTO members to hold a workshop on preferences for services exporters in LDCs", March 5, 2021.

in Services Trade" was adopted in Nairobi Ministerial Conference in 2015. The decision extends the duration of the waiver until the end of 2030[36].

Chart 2.7 represents the major commercial services imported by Bangladesh. Transport accounted for 60 percent of Bangladesh's services imports followed by financial services (14 percent), travel (9 percent) and construction (5 percent).

Chart 2.7: Commercial Services Imported by Bangladesh in 2019



Note: Other include telecommunications, computer and information services, charges for use of intellectual property, insurance and pension services, maintenance and repair services, personal, cultural, and recreational services, and other business services

Source: ITC Trademap; derived from UN Comtrade and India Exim Bank Analysis

Foreign Direct Investment in Bangladesh

According to the UNCTAD, FDI inflows in Bangladesh increased by an AAGR of 14.2 percent during 2010-2019 (**Chart 2.8)**. FDI inflows to Bangladesh peaked in 2018, driven by significant investments in power generation and labor-intensive industries such as RMGs. The same year also witnessed one of Bangladesh's largest acquisitions with Japan Tobacco acquiring United Dhaka Tobacco for US$ 1.5 billion[37].

In 2019, FDI inflows to Bangladesh declined by 56 percent to US$ 1.6 billion. The decline majorly reflects a high base effect of 2018 which witnessed a spike in FDI inflows by 68 percent from US$ 2.2 billion registered in 2017. The export-oriented apparel industry remains an important FDI recipient, with major investors from the Republic of Korea, Hong Kong, and China[38].

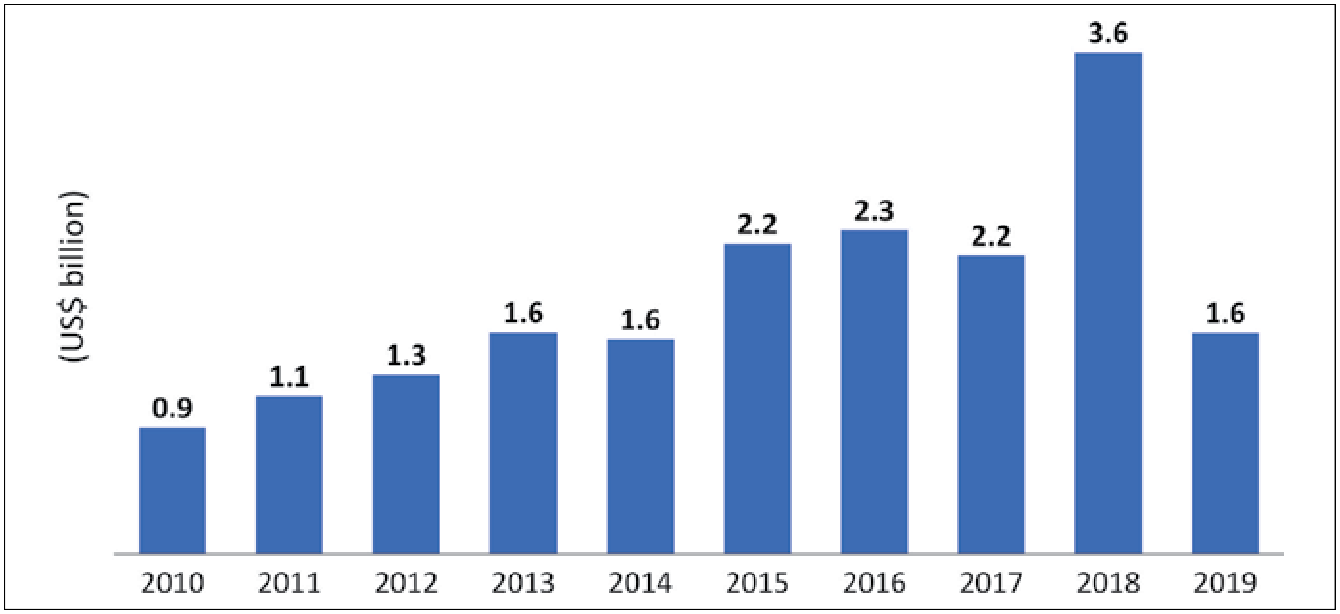
[36] WTO, Trade in Services and LDCs.

[37] UNCTAD (2019), "World Investment Report 2019", United Nations Conference on Trade and Development., 2019.

[38] UNCTAD (2019)," World Investment Report 2020", United Nations Conference on Trade and Development., 2020.

As regards the major sources, China has emerged to be the major investor in Bangladesh in recent years. It accounted for US$ 695.7 million (17.4 percent of total inflows) in 2019, followed by the UK (12.7 percent), Singapore (10.3 percent), Republic of Korea (8.5 percent) and the Netherlands (6.6 percent). India accounted for 3.7 percent of FDI inflows into Bangladesh during 2019. India's investments were majorly into power (13.6 percent), textile (13.5 percent), banking (8.1 percent), trading (5.9 percent), chemicals and pharmaceuticals (4.3 percent), food (3.6 percent), telecommunication (3.4 percent) and computer software and IT (1 percent), respectively.

Chart 2.8: Foreign Direct Investment Inflows of Bangladesh



Source: UNCTADStat and India Exim Bank Analysis

In September 2015, Bangladesh amended the Foreign Exchange Regulation Act of 1947 which restricted outward foreign direct investment by adding a "conditional provision" that permits outbound investment for export-related enterprises[39]. According to the UNCTAD, FDI outflows from Bangladesh was (-) US$ 1 million in 2019 declining from US$ 23 million in 2018 implying disinvestment or repatriated investment from the recipient economy.

The COVID-19 pandemic is expected to adversely affect Bangladesh's FDI inflows in 2020. The apparel sector, which is one of the largest recipients of FDI, has been impacted severely due to factory lockdowns and falling global demand for apparel due to suspension or cancellation of apparel exports orders during the year.

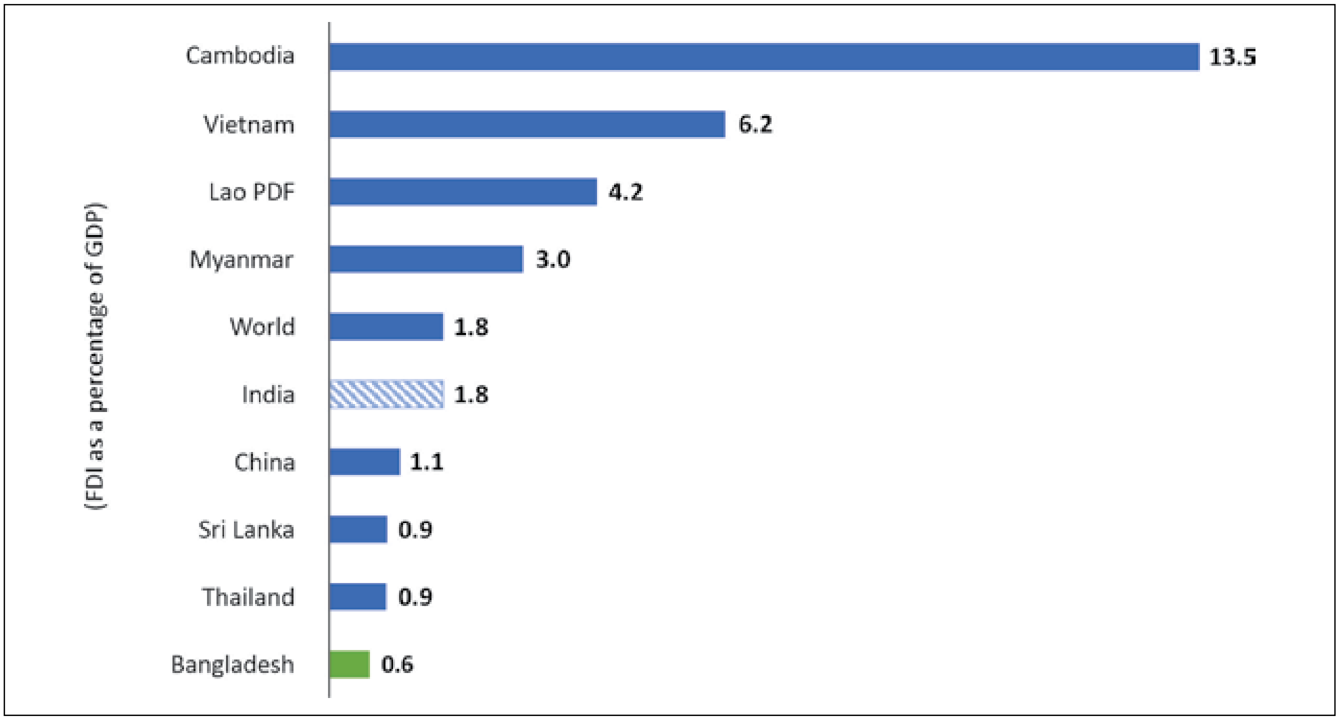
As per World Development Indicators, Bangladesh's FDI inflows as a percentage of GDP has been comparatively low at 0.6 percent of GDP in 2019 as compared to its peer countries like Sri Lanka, Myanmar, Vietnam, and Cambodia, due to the inadequate and reliable infrastructure services including power and transport (**Chart 2.9**).

[39] U.S. Department of State, "2020 Investment Climate Statements: Bangladesh"

According to the World Bank Doing Business Ranking 2020, the ranking of Bangladesh has improved in the ease of doing business ranking from 176th position in 2018 to 168th position in 2019 because of improved scores in areas of starting a business, dealing with construction permits, getting electricity, registering property, and getting credit. Despite this improvement, Bangladesh remains one of the most difficult places to do business in South Asia, just ahead of Afghanistan. Bangladesh ranks next to last globally on the enforcing contracts indicator and 184 out of 190 on the registering property indicator. To connect a new building to an electrical grid, a business needs to complete nine procedures, amongst the most globally[40]. India topped the list with a ranking of 63rd followed by Bhutan (89), Nepal (94), Sri Lanka (99), Pakistan (108), the Maldives (147), and Afghanistan (173).

In the Global Competitiveness Index 4.0 Ranking 2019, Bangladesh ranked 105th during 2019 out of 141 countries ranked by the World Economic Forum. The index measures competitiveness of an economy based on a framework covering aspects like enabling environment, human capital, markets and innovation ecosystem, infrastructure is one of the pillars under enabling environment. In infrastructure, Bangladesh ranks 114, lagging behind Sri Lanka (61), Vietnam (67), Cambodia (106) and Lao PDR (93). For the other sub-pillars under enabling environment, Bangladesh ranked 95th in "Marco-economic Stability"109th in "Institutions" and 108th in "ICT adoption".

Chart 2.9: Foreign Direct Investment Inflows (as a percentage of GDP) in 2019



Source: World Development Indicators, World Bank, and India Exim Bank Analysis

[40] World Bank, "Doing Business 2020: Bangladesh Improves Business Climate, but More Remains to Be Done", October 24, 2019

Investment Promotion Measures by Bangladesh

The Bangladesh Investment Development Authority (BIDA) was established in 2016 to promote institutional and policy reforms for facilitating private investment and improve the ease of doing business. In addition to BIDA, three other Investment Promotion Agencies (IPAs) – the Bangladesh Export Processing Zone Authority (BEPZA), Bangladesh Economic Zones Authority (BEZA), and Bangladesh Hi-Tech Park Authority (BHTPA) — promote domestic and foreign investment. BEPZA promotes investments in Export Processing Zones (EPZs). Bangladesh's eight public EPZs (Dhaka, Chattogram, Mongla, Cumilla, Ishwardi, Uttara (Nilphamari), Adamjee and Karnaphuli[41]) and one private EPZ are all specialized SEZs focusing on apparel and textiles.

BEZA plans to establish approximately 100 Economic Zones (EZs) throughout the country between 2015-2030 on about 30,000 hectares of land, to facilitate investors to set up industries. These EZs are expected to generate an additional US$ 40 billion of merchandise and services exports. These are Mongla Economic Zone at Mongla in Bagerhat district, Meghna Economic Zone and Meghna Economic Industrial Economic Zone at Sonargaon in Narayanganj, Abdul Monem Economic Zone at Gazaria in Munshiganj, Bay Economic Zone at Gazipur Sadar in Gazipur, Aman Economic Zone at Sonargaon in Narayanganj, City Economic Zone at Rupganj in Narayanganj, Kishoreganj Economic Zone at Pakundia in Kishoreganj, East West Special Economic Zone at Keraniganj in Dhaka, Karnaphuli Dry Dock Special Economic Zone at Anwara in Chattogram, and Sreehatta Economic Zone at Moulvibazar Sadar in Moulvibazar[42].

In the Government-to-Government (G2G) Economic Zones, the Government of Bangladesh has 30 percent of the equity and public and private partners from China, India, and Japan would be allowed to develop and operate the zones[43].

Box 2.1: Economic Zones for India in Bangladesh

[41] Government of the People's Republic of Bangladesh, Ministry of Finance, Bangladesh Economic Review 2020, October 2020.

[42] ibid

[43] Investment Climate Statement, US Department of State, Bureau of Economic and Business Affairs, 2020

India has been allocated lands in Mongla (Bagerhat district), Bheramara (Kustia district) and Mirsarai (Chattogram district) Economic Zones for investing in industrial activities. According to the BEZA, India has signed MoUs to invest in two Economic Zones (Bheramara and Mongla) under the G2G Economic Zones initiative of Bangladesh. The proposed area of the Indian Economic Zone at Bheramara is situated within 1 Km of Hardinge Rail Bridge and Lalonshah Road Bridge and well connected through river, road, railway, and air. The existing India-Bangladesh 500 MW electricity line is within 2 Km. Industries including food processing, light engineering, chemical, automobile assembly, garments, pharmaceutical, among others, are expected to be developed. The proposed site at Mongla Economic Zone is in the proximity of the Mongla port (within 200 metres) that mainly exports jute, jute products, frozen food/shrimps, clay tiles, betel nuts, majorly handled by containers. In recent years, the import of clinkers used by the local cement plants has increased due to regional infrastructural development projects. Mongla also enjoys the strategic location of being on the banks of the Mongla river, since inland water transport is a major mode of transportation in the country. Following the opening of the Padma bridge (expected in 2022), the road distance between Dhaka and Mongla will be reduced to 189 Km facilitating the greater movement of freight. Another India Special Economic Zone (ISEZ) located in Mirsarai (Chattogram) proposed to be developed under the project authority of BEZA, the MoU for which is yet to be signed. India has approved US$ 115 million in June 2020 for projects related to infrastructure development in the mentioned ISEZ as a part of the US$ 4.5 billion Line of Credit offered to Bangladesh. BEZA is expected to be handing over the land to Indian developer Adani Ports and Special Economic Zone Ltd. (APSEZ) to start the development work at the Bangabandhu Sheikh Mujib Shilpa Nagar (BSMSN) in Mirsarai, Chattogram. The ISEZ, to be set up on 1,000 acres of land, will be exclusively for Indian investors.

Source: Doing Business with Bangladesh, High Commission of India, Dhaka, March 2019

While EPZs accommodate exporting companies only, EZs are open for both export- and domestic-oriented companies. Bangladesh Hi-Tech Park Authority has been established under 'Bangladesh Hi-Tech Park Authority Act-2010' to develop high-tech industries and information technology-based industries in the country[44].

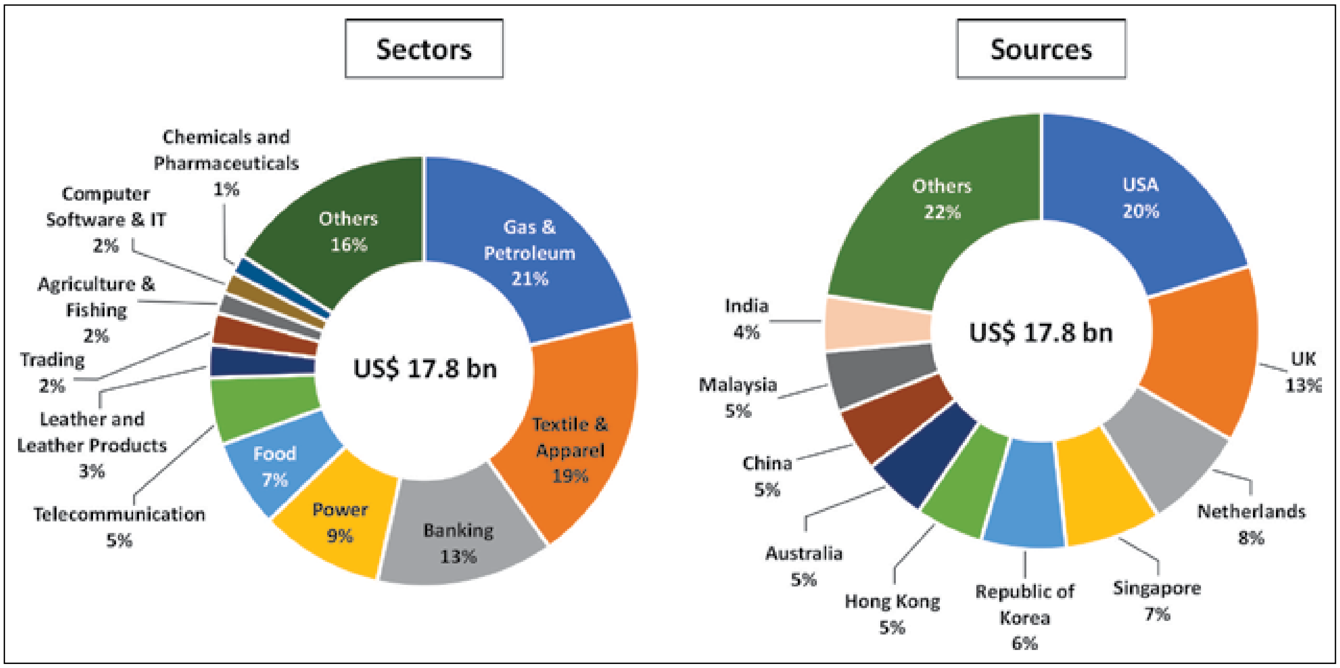
According to the World Investment Report 2019, the private economic zone projects are being developed faster than public projects, reflecting the fact that most private economic zones are single-entity zones covering smaller areas of not more than 40 ha. The public projects, in contrast, cover areas that are often larger than 100 ha and sometimes exceed 10,000 ha, including underdeveloped areas with inadequate basic infrastructure. Besides the need to build basic infrastructure, key challenges in the rapid development of the economic zones include delays in the acquisition of land, the limited availability of long-term finance for private developers and the lack of expertise in marketing of the zones

44 Government of the People's Republic of Bangladesh, Ministry of Finance, Bangladesh Economic Review, October 2020.

for attracting investment. The importance of FDI will further increase for Bangladesh in the upcoming years as it graduates from its LDC status, as the share of concessional borrowing is expected to reduce.

The stock position of FDI in Bangladesh stood at US$ 17.8 billion as of 2019. As shown in **Chart 2.10**, gas and petroleum have been the major sector receiving investment accounting for the largest share of FDI followed by textile and apparel, banking, power and food as of December 2019.

Chart 2.10: Stock Position of FDI in Bangladesh as of 2019



Source: Bangladesh Bank, Foreign Direct Investment of Bangladesh Survey Report July-December 2019, and India Exim Bank Analysis

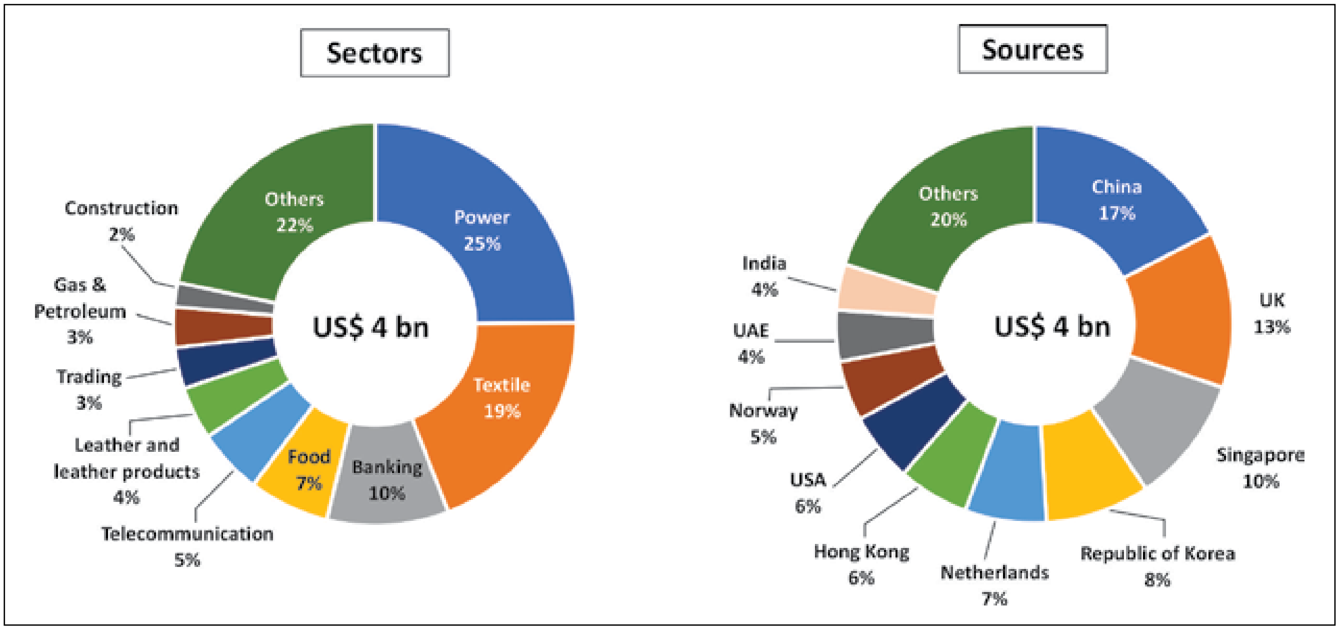
As regards the major investors, the USA accounted for the largest investment in Bangladesh as on December 2019 at 20 percent followed by the UK, the Netherlands, Singapore, and Republic of Korea. India was the tenth-largest investor with investments worth US$ 725 million mainly into telecommunication (20.8 percent) followed by banking (18.1 percent), textile and apparel (13.7 percent), power (8.5 percent) and chemicals and pharmaceuticals (4 percent) trading (3.7 percent), agriculture and food processing (3.4 percent) and computer software and IT (1 percent).

According to the BIDA, Bangladesh's focus sectors for attracting FDI have been agribusiness and food processing, garment and textiles, leather and leather goods, electronics, light engineering, energy and power including renewables, information, and communications technology (ICT), plastic, healthcare, medical equipment, pharmaceutical, ship building, tourism and infrastructure sectors.

Foreign and domestic private entities can establish and own, operate, and dispose of interests in most types of business enterprises. However, four sectors – arms and ammunition and other defense equipment and machinery; forest plantation and mechanized extraction within the bounds of reserved forests; production of nuclear energy; and security printing – are reserved for government investment[45].

According to the Bangladesh Bank, gross FDI inflows into Bangladesh stood at US$ 4 billion during 2019. The power sector has been the major recipient accounting for the largest FDI inflows during 2019 followed by textile and apparel, banking, food and telecommunication (**Chart 2.11**). The major investors during 2019 were China, the UK, Singapore, Republic of Korea, and the Netherlands. India was the tenth-largest investor accounting for an investment of US$ 149.4 million during 2019 investing in sectors such as power (accounting for 13.6 percent of total FDI inflows from India in 2019), followed by textile and apparel (13.5 percent), banking (8.1 percent), trading (5.9 percent) and chemical and pharmaceuticals (4.3 percent), respectively.

Chart 2.11: FDI Inflows in Bangladesh during 2019



Source: Bangladesh Bank, Foreign Direct Investment of Bangladesh Survey Report July-December 2019, and India Exim Bank Analysis

[45] U.S. Department of State, "2020 Investment Climate Statements: Bangladesh", 2020.

Chapter 3

India's Trade and Investment in Bangladesh

India and Bangladesh share an economic, historical, and cultural relationship that goes beyond a strategic partnership. Geographically India surrounds Bangladesh from three sides leading to a sharing of a long border of more than 4000 Km. India and Bangladesh first entered into a bilateral trade agreement, known as the "Trade Agreement between the Government of India and the Government of the People's Republic of Bangladesh" on October 4, 1980. This Agreement was last amended in June 2015 and subject to automatic renewal and extension for successive terms of 5 years[46]. The Agreement made provisions for expansion of trade and economic co-operation, mutually beneficial arrangements for the use of waterways, railways and roadways, passage of goods between two places in one country through the territory of the other, and exchange of business and trade delegations and consultation to review the working of the Agreement at least once a year.

India and Bangladesh are both the members of the South Asian Free Trade Area (SAFTA), the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), the Asia-Pacific Trade Agreement (APTA), and the Indian Ocean Rim Association (IORA), formerly known as Indian Ocean Rim Association for Regional Co-operation (IOR-ARC)[47]. Bangladesh has received preferential market access treatment from India for a large number of items of export under the SAARC Preferential Trade Agreement (SAPTA) negotiations and also as part of the Trade Liberalisation Plan (TLP) of the SAFTA. India provides preferential trade access under these agreements as well as the Duty-Free Tariff Preferential (DFTP) Scheme. Presently, discussions of signing a Comprehensive Economic Partnership Agreement (CEPA) is also underway[48].

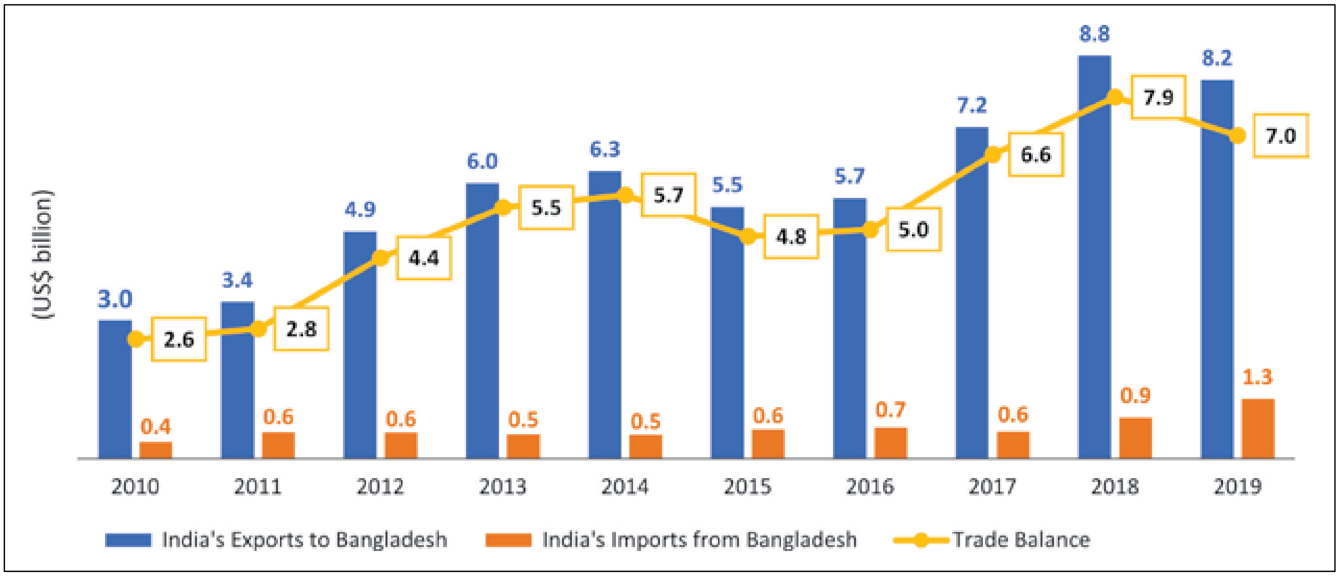
[46] Government of India, Ministry of External Affairs, Indian Treaties Database.

[47] The members of IORA include Australia, Bangladesh, Comoros, France, India, Iran, Kenya, Madagascar, Malaysia, Maldives, Mauritius, Mozambique, Oman, Seychelles, Singapore, Somalia, South Africa, Sri Lanka, Tanzania, Thailand, UAE, and Yemen.

[48] Government of India, Ministry of External Affairs, Joint Statement on India-Bangladesh Virtual Summit, MEA, December 17, 2020

Bangladesh is India's largest trading partner in South Asia, accounting for 36.5 percent of India's total exports to the region, and 33 percent of India's total imports from the region in 2019. Indo-Bangladesh trade increased by almost three times over the past decade to reach US$ 9.5 billion in 2019 from US$ 3.4 billion in 2010. India's exports to Bangladesh, at US$ 8.2 billion, accounted for 2.6 percent of India's global exports in 2019. Bangladesh emerged as the ninth-largest export destination for India in 2019, from being the twentieth-largest export destination and accounting for 1.4 percent of India's global exports in 2010 (**Chart 3.1**). Exports from Bangladesh to India get duty free access under the SAFTA and India unilaterally reduced the sensitive list for all SAARC LDCs, including Bangladesh, to only 25 tariff lines by November 2011. Bangladesh had also joined India's Duty-Free Tariff Preferential (DFTP) Scheme on May 14, 2010[49], which gives it duty-free access to 98 percent of India's total tariff lines. Imports from Bangladesh have been relatively low at US$ 1.3 billion in 2019. However, India's imports from Bangladesh have increased at an AAGR of 18.3 percent as compared to an AAGR of 13.1 percent undergone by the exports during the same period.

Chart 3.1: India's Trade with Bangladesh



Source: ITC Trademap; derived from UN Comtrade and India Exim Bank Analysis

Table 3.1 shows India's major exports to Bangladesh. Cotton dominates India's exports to Bangladesh, accounting for over one-fourth of India's exports to the country. In fact, India is the second-largest source of cotton for Bangladesh, accounting for 24.1 percent of Bangladesh's global imports of cotton. India's basket of exports to Bangladesh remains well-diversified comprising value added products like petroleum oils (mainly refined), vehicles, machinery, iron and steel, and electrical equipment, respectively. India remains a major import source for Bangladesh for vehicles (50.6 percent of the country's global imports happen from India), organic chemicals (33.2 percent) and tanning and dyeing extracts (29.1 percent).

[49] International Trade Centre, "India's Duty-Free Tariff Preference Scheme for LDCs", 2015.

Table 3.1: India's Major Exports to Bangladesh

HS Code	Product	2019 (US$ mn)	Share in India's Exports to Bangladesh (%)	Share in India's Global Exports (%)	Share in Bangladesh's Global Imports (%)
TOTAL	**All products**	**8,242.9**	**100.0**	**2.6**	**14.3**
52	Cotton	1,548.7	18.8	25.8	24.1
27	Mineral fuels, mineral oil and products of their distillation	910.9	11.1	2.0	14.7
87	Vehicles other than railway or tramway	896.8	10.9	5.2	50.6
84	Machinery and mechanical appliances	829.4	10.1	3.9	14.1
72	Iron and steel	359.5	4.4	3.7	12.3
85	Electrical machinery and equipment	306.4	3.7	2.1	9.0
29	Organic chemicals	284.0	3.4	1.6	33.2
39	Plastics and articles	245.5	3.0	3.3	10.1
32	Tanning or dyeing extracts	226.2	2.7	6.5	29.1
54	Man-made filaments	188.4	2.3	8.0	12.7

Source: ITC Trademap; derived from UN Comtrade and India Exim Bank Analysis

Articles of apparel and clothing accessories both knitted and crocheted and non-knitted and crocheted remain the largest items imported by India from Bangladesh accounting for nearly 65 percent in India's global imports of these products in 2019. Other major products imported by India from Bangladesh include other vegetable textile fibres which accounted for 12.4 percent of India's import from Bangladesh in 2019, followed by animal and vegetable fats and other made-up textile articles. **Table 3.2** shows India's major imports from Bangladesh during 2019.

Table 3.2: India's Major Imports from Bangladesh

HS Code	Product	2019 (US$ mn)	Share in India's imports from Bangladesh (%)	Share in India's Global Imports (%)	Share in Bangladesh's Global Exports (%)
TOTAL	**All products**	**1,213.8**	**100.0**	**0.3**	**2.6**
62	Articles of apparel and clothing accessories, not knitted or crocheted	296.0	24.4	44.5	1.5
53	Other vegetable textile fibres	150.6	12.4	39.4	21.1
61	Articles of apparel and clothing accessories, knitted or crocheted	103.3	8.5	20.3	0.5
15	Animal or vegetable fats	91.8	7.6	0.9	90.2
63	Other made-up textile articles	85.0	7.0	15.0	8.1
88	Aircraft, spacecraft, and parts	65.8	5.4	2.0	99.2
52	Cotton	36.8	3.0	2.4	43.9
28	Inorganic chemicals	29.0	2.4	0.4	77.4
39	Plastics and articles	28.7	2.4	0.2	24.1
42	Articles of leather	27.9	2.3	5.8	7.3

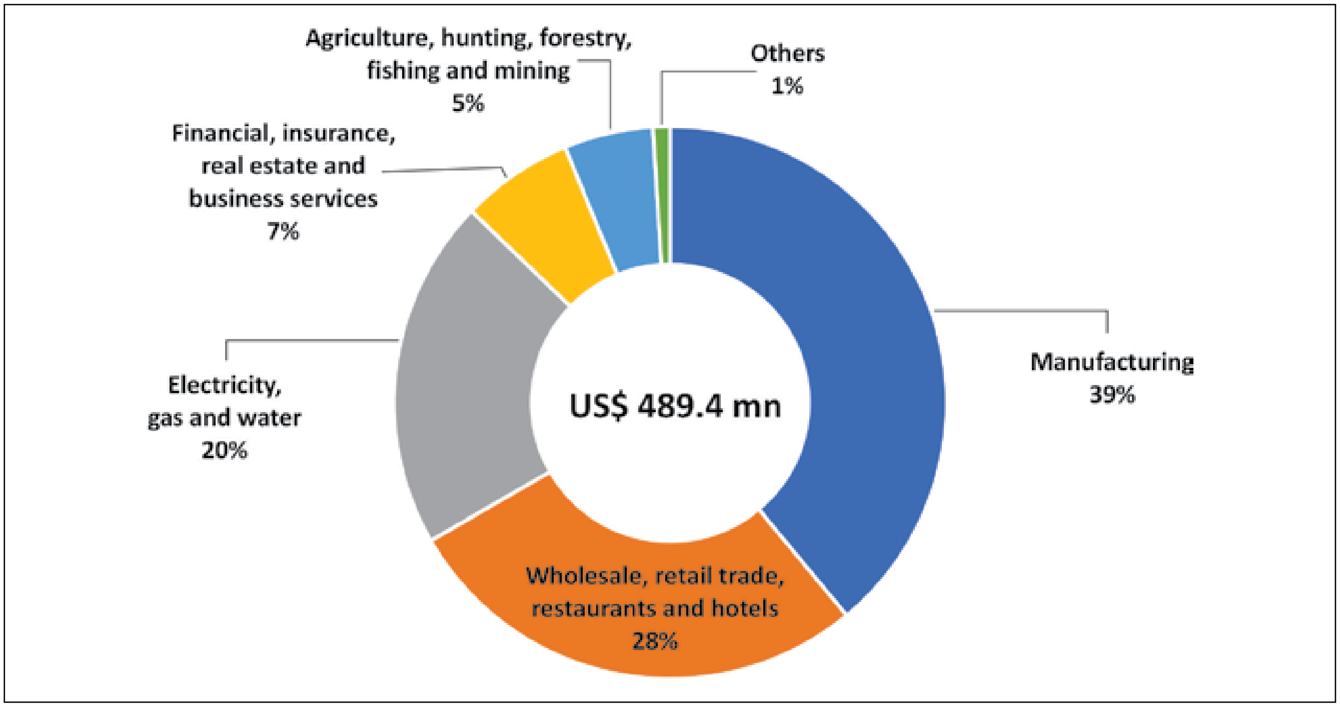
Source: ITC Trademap; derived from UN Comtrade and India Exim Bank Analysis

India's Investments in Bangladesh

During the period April 1996 to March 2020, India's cumulative approved FDI in joint ventures and wholly owned subsidiaries (FDI outflows), including equity, loan and guarantee issued in Bangladesh stood at US$ 720.7 million. The major sectors receiving investments were manufacturing; wholesale, retail trade and restaurants and hotels; electricity, gas and water; and financial, insurance, real estate and business services (**Chart 3.2**). Several Indian companies have invested in Bangladesh including Marico, Emami Ltd., Dabur India Ltd., Asian Paints Ltd., Pidilite Industries Ltd., Godrej Group, Sun Pharmaceutical Industries Ltd., Tata Motors Ltd., and Hero MotoCorp Ltd., among others.

On the other hand, cumulative inflows of FDI into India from Bangladesh during April 2000- March 2020 amounted to US$ 0.1 million.

Chart 3.2: Sector Wise Indian Overseas Direct Investments in Bangladesh



Note : Others include community, social and personal services; construction; electricity, gas and water; wholesale, retail trade, restaurants and hotels; and transport, storage and communication services; and cumulative approved investments during April 2010- March 2020 in Bangladesh stood at US$ 489.4 million.

Source: RBI and India Exim Bank Analysis

During the India-Bangladesh Virtual Summit on December 17, 2020, the two countries signed important MoUs or agreements on Framework of Understanding on Cooperation in the Hydrocarbon Sector; Supply of Equipment & Improvement of Garbage/Solid Waste Disposal Ground at Lamchori Area for Barishal City Corporation and Cooperation in the field of Agriculture, among others[50]. Further, in March 2021, both countries agreed to cooperate on a priority basis to facilitate effective implementation of BIMSTEC by speeding up operationalisation of the BBIN Motor Vehicle Agreement. Connectivity continues to underscore the focus area boosting trade and creates scope for up-gradation of infrastructure and facilities of the Land Customs Stations (LCSs) / Land Ports and explore new connectivity routes through additional land ports.

Also, Bangladesh Standards and Testing Institute (BSTI) and the Bureau of Indian Standards (BIS) would collaborate for the capacity building and development of testing and laboratory facilities to promote further trade between the two countries. An MoU on Establishment of a Framework of Cooperation in the Area of Trade Remedial Measures between Bangladesh and India was also signed in March 2021[51].

[50] Government of India, Ministry of External Affairs, "List of MoUs/Agreements signed during the India-Bangladesh Virtual Summit", December 17, 2020.

[51] Government of India, Ministry of External Affairs, "Joint Statement issued on the occasion of the visit of Prime Minister of India to Bangladesh", March 27, 2021.

Chapter 4 Potential Areas for Enhancing India-Bangladesh Cooperation

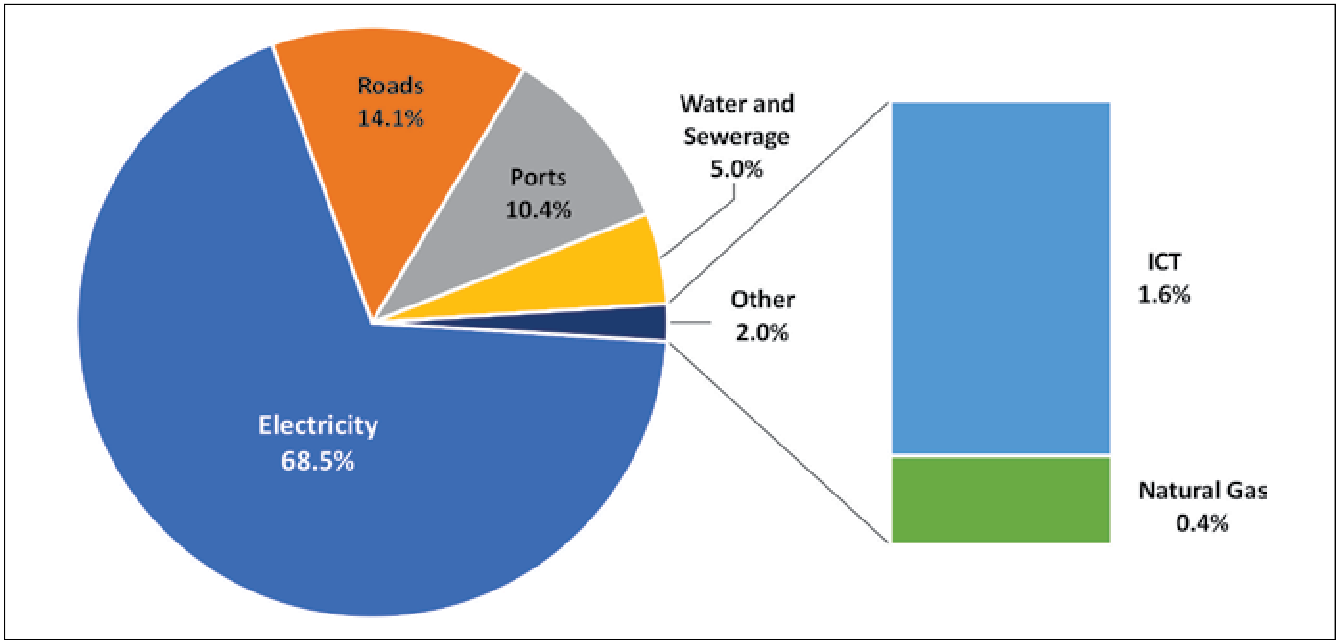
Bangladesh is the largest development partner of India, with a longstanding bilateral relation resonating with India's "Neighbourhood First" policy. The historical and cultural partnership has been further strengthened over the years by various areas of cooperation like infrastructure development in enhancing connectivity, power, defence, among others. However, as Bangladesh approaches its graduation status from the LDC, it becomes increasingly important to boost its infrastructure, connectivity, and private investment and accelerated through robust strategic cooperation with partner countries. This chapter highlights the areas where cooperation could be further enhanced between India and Bangladesh to emerge as beacons of South-South Cooperation.

Easing infrastructural constraints is critical to improving domestic competitiveness and the overall efficiency of an economy as it helps the economy to reach its full potential. According to the World Economic Forum's Global Competitiveness Index 4.0 Ranking 2019, Bangladesh ranks 114 in infrastructure, which was much lower compared to Sri Lanka (61), Vietnam (67), Cambodia (106) and Lao PDR (93). Among key indicators under infrastructure, Bangladesh ranked 117 in road connectivity, 108 in electricity access, and 136 in exposure to unsafe drinking water (percentage of population).

According to the 8th Five Year plan (July 2020-June 2025), Bangladesh aims to mobilise 1-1.5 percent of GDP towards infrastructure financing by FY 2025, funded through Public-Private Partnership (PPP), in addition to 2 percent of public spending in sectors such as power, energy and transport. The 8th Five Year Plan focuses on undertaking a strategic shift to adapt a stronger reliance on PPP for infrastructure financing to address the existing gaps.

Chart 4.1 shows the PPP investment received by Bangladesh between 1990 to the first half of 2020. The cumulative amount stood at US$ 8 billion with highest investment in electricity (US$ 5.5 billion), roads (US$ 1.1 billion), ports (US$ 0.8 billion), water and sewerage (US$ 0.4 billion), ICT (US$ 0.1 billion) and natural gas (US$ 0.03 billion).

Chart 4.1: Public-Private Partnership Investment in Bangladesh 1990-H1 2020



Source: World Bank Private Participation in Infrastructure Database and India Exim Bank Analysis

The "Procurement Guideline for PPP Projects, 2018" was developed by Bangladesh to streamline the procedures and encourage private sector participation and capacity building. The Bangladesh government has built a pipeline of 76 PPP projects amounting to US$ 27.8 billion in 12 sectors including transport, shipping, economic zones, tourism, health, social infrastructure, civil accommodation and urban infrastructure, energy, industry, IT, and education[52]. Among these 76 projects, agreements have been signed for 16 projects for implementation with an estimated project cost of US$ 5 billion.

Trade Costs

The efficiency of trade depends on how effective transport and logistics connectivity are. The bilateral measure of trade costs generated from the ESCAP-WB database includes "all costs involved in trading goods internationally with another partner (i.e., bilaterally) relative to those involved in trading goods domestically". It includes trade costs, covering not only international transport costs and tariffs but also other trade costs like differences in languages, currencies and cumbersome procedures as discussed by Anderson and van Wincoop (2004)[53]. Trade costs among developing countries are likely to be higher owing to substantial tariff and non-tariff barriers along with additional costs like inadequate infrastructure and poor logistics and transport services[54]. Trade costs are important for framing policies as they determine a country's ability to participate in regional and global productions networks.

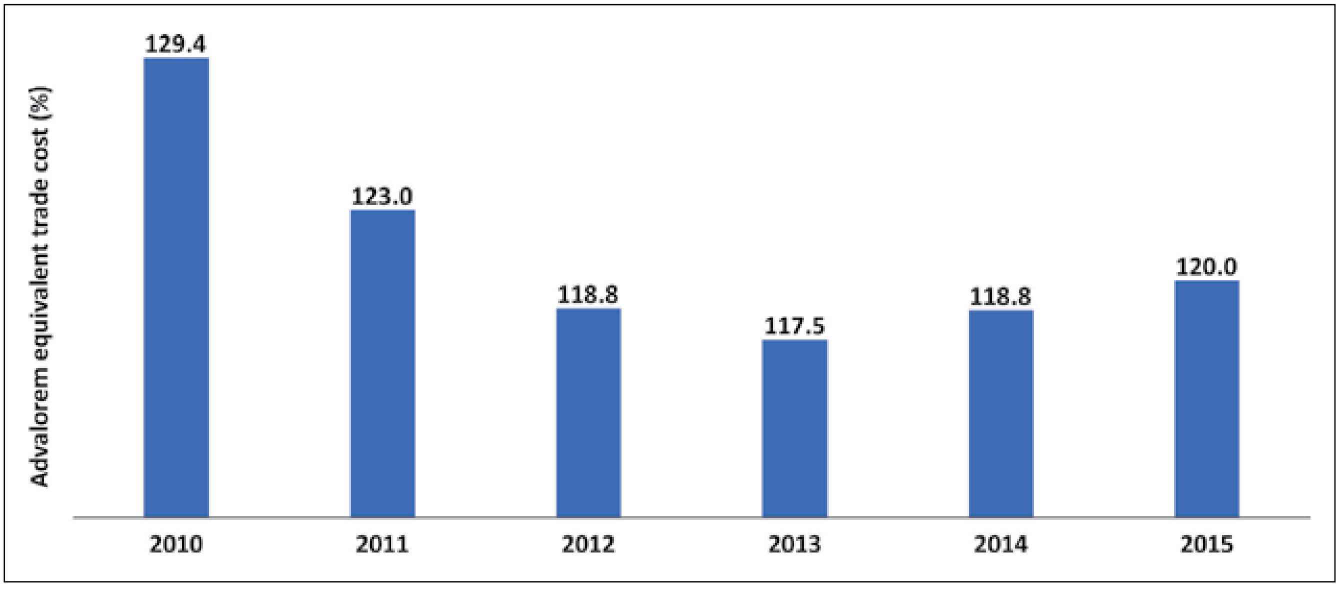
[52] Government of Bangladesh, Ministry of Finance, Bangladesh Economic Review 2020, October 2020.

[53] NBER, Trade Costs, James E. Anderson and Eric van Wincoop, NBER Working Paper No. 10480, May 2004.

[54] UN ESCAP (2012), Arvis, J.F., Duval, Yann, Shepherd, Ben, and Chorthip Utoktham, "Trade Costs in the Developing World: 1995 – 2010", ARTNeT Working Paper No. 121, December, Bangkok, ESCAP.

Bilateral comprehensive trade cost is therefore a measure of costs associated with both importing and exporting goods between two countries. Values of the trade cost indicator is provided in ad valorem equivalent form. **Chart 4.2** shows that in 2015, the trade cost between India and Bangladesh stood at 120 percent decreasing from 129.4 percent in 2010. This implies that on an average, for all tradable goods, trading between India and Bangladesh involves an additional cost of 120 percent of the value of the goods traded as compared to the cost of trading these goods within the borders of the respective countries (as per latest data available). The trade cost between the two countries has declined considerably between 2010 and 2011 due to reduction in non-tariff costs from 101.9 percent in 2010 to 96.2 percent in 2011 (**Chart 4.2**).

Chart 4.2: Trade Costs between India and Bangladesh



Source: ESCAP-World Bank Trade Cost Database and India Exim Bank Analysis (as per latest available data)

High tariffs and non-tariff barriers have contributed to the existing high cost of trading goods between India and Bangladesh. Simple average tariffs in Bangladesh (14 percent) and India (17.1 percent) in 2018 are more than twice the world average[55].

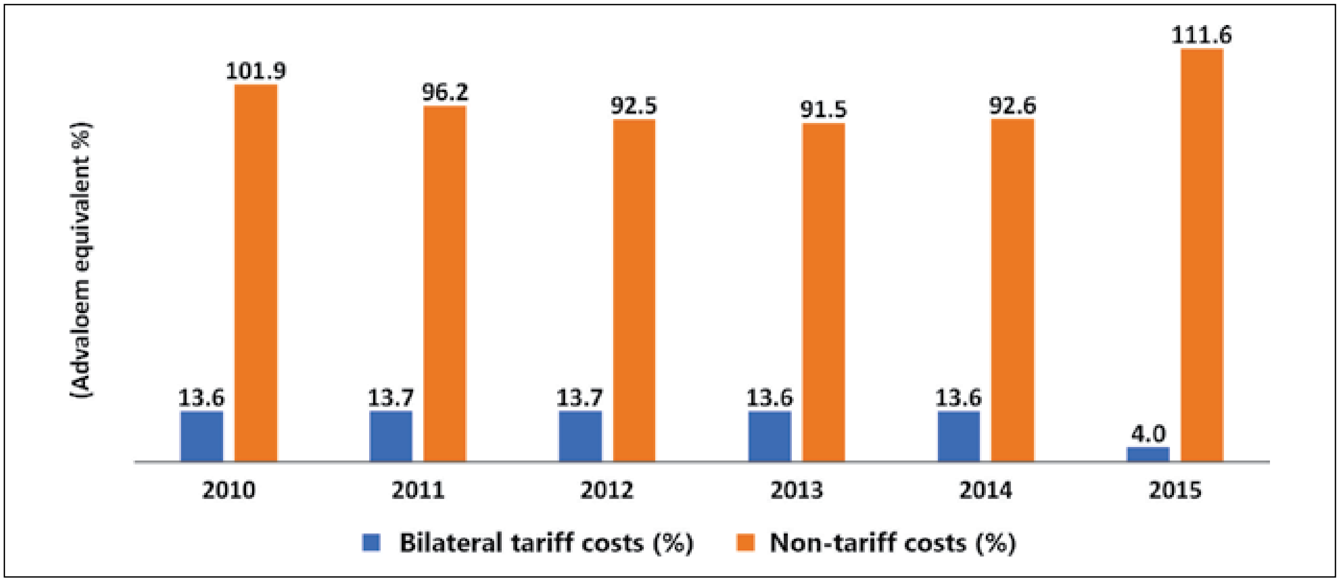
Lack of transport integration is another important contributor to the high trade costs between the two countries. Since the major portion of trade between India and Bangladesh happens through land, trade costs are mainly determined by the time taken for goods to cross the border. Goods exported or transported to Bangladesh from India have to be transloaded at the borders. According to the World Bank, the time taken on average for goods to cross the India–Bangladesh border at Petrapole–Benapole is more than 5 days as compared to less than 6 hours for trucks transporting goods in the East African Community members countries[56]. Also, cargo transported by the railway is required to be transloaded as freight wagons are not allowed on foreign tracks.

[55] World Tariff Profiles 2019, WTO.

[56] World Bank (2021), Herrera Dappe, Matías, and Charles Kunaka, “Connecting to Thrive: Challenges and Opportunities of Transport Integration in Eastern South Asia”, World Bank, 2021.

Data analysis based on the ESCAP-World Bank Trade Cost Database reveals that nontariff costs are much higher than tariff costs emphasizing the need for trade facilitation and improving logistics and connectivity (**Chart 4.3**).

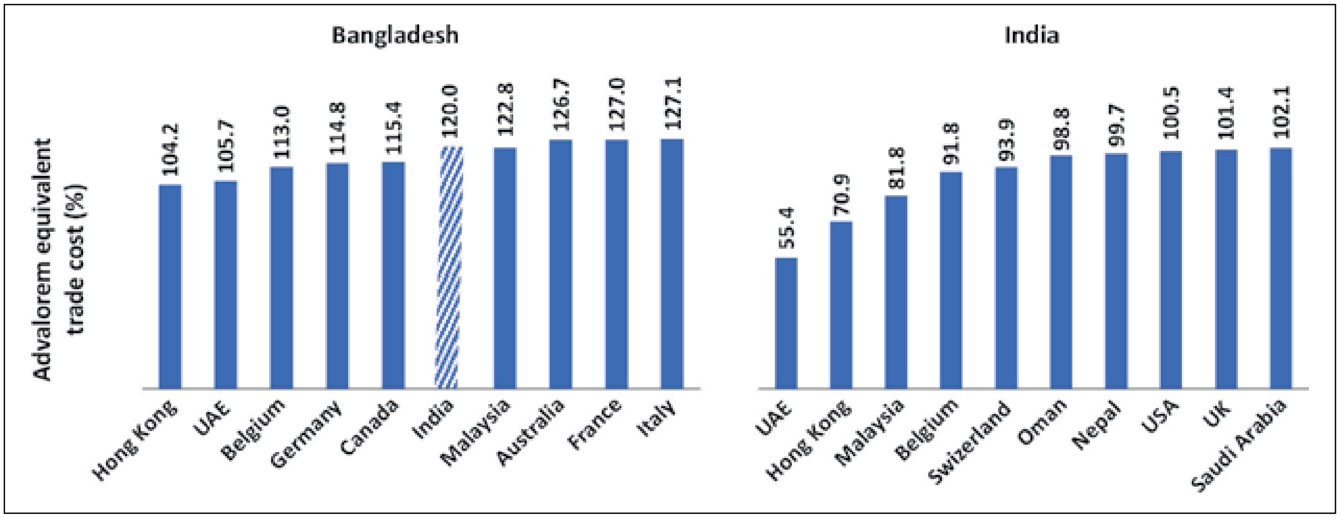
Chart 4.3: Bilateral Tariff and Non-tariff Costs between India and Bangladesh



Source: ESCAP-World Bank Trade Cost Database and India Exim Bank Analysis (as per latest available data)

Further analysis of India and Bangladesh's bilateral trade costs shows that Bangladesh's bilateral trade cost is found to be lower with Hong Kong, UAE, Belgium, Germany, and Canada than India (**Chart 4.4**). India stood at the sixth position in terms of least cost incurred while conducting bilateral trade, despite being the neighbour. Analysis reveals that India and Bangladesh find it cheaper to trade with UAE, Hong Kong, Belgium, and Germany. In the case of India, Bangladesh does not feature amongst the least costly trade partners. Bangladesh ranks 26th in terms of trade costs among the bilateral trade partners of India.

Chart 4.4: Least Costly Trade Partners of Bangladesh and India

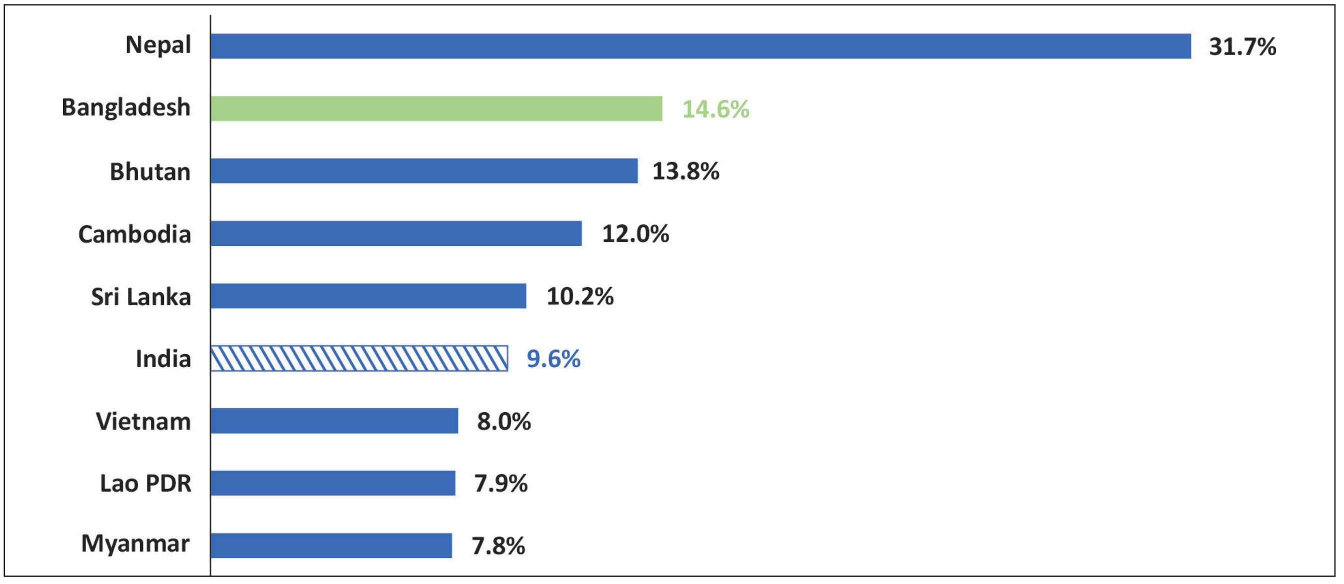


Source: ESCAP-World Bank Trade Cost Database and India Exim Bank Analysis

Transport Infrastructure

For Bangladesh to achieve its medium and long-term socio-economic development goals, it is imperative to improve infrastructure and power supply. Developing infrastructure is critical for increasing export competitiveness as well as ensuring higher FDI inflows in the long run. The World Bank's Enterprise Survey[57] shows that 14.6 percent of the firms in Bangladesh identify transportation as a major constraint (**Chart 4.5**).

Chart 4.5: Percentage of Firms Identifying Transportation as a Major Constraint



Note: Data for Bangladesh pertains to 2013, Bhutan (2015), Cambodia (2016), India (2014), Lao PDR (2018), Myanmar (2016), Nepal (2013), Sri Lanka (2011) and Vietnam (2015) as per latest data available

Source: World Bank Enterprise Survey and India Exim Bank Analysis

Bangladesh, Bhutan, India, and Nepal (known as the BBIN countries), signed the Motor Vehicle Agreement (MVA) in 2015 for the Regulation of Passenger, Personal and Cargo Vehicular Traffic, to facilitate regional connectivity through unrestricted cross-border movement of cargo and passenger between BBIN countries. Once implemented, trucks carrying export-import, or transit cargo can move inside the territories of other BBIN countries without transshipping to local trucks at border land ports. This will help in reducing transport costs. Implementation of the MVA has been delayed as it is yet to be ratified by Bhutan due to its internal procedures. Bangladesh, Nepal and India have decided to prepare a draft MOU during the meeting held in February 2020 for speeding up the implementation of the motor vehicle agreement. Bhutan currently holds observer status as it is yet to ratify the Agreement[58].

[57] The Enterprise Survey conducted by the World Bank is a firm-level survey of a representative sample of an economy's private sector. The surveys cover a broad range of business environment topics including access to finance, corruption, infrastructure, crime, competition, and performance measures. Over 171,000 interviews in 148 countries have taken place since 2005-06 (as on March 31, 2021) (Enterprise Surveys, The World Bank).

[58] Government of India, Ministry of External Affairs, Joint Press Release on the Meeting of Bangladesh, Bhutan, India and Nepal on the Motor Vehicles Agreement (BBIN MVA), February 2020.

The World Bank study had drawn three possible scenarios that were considered to assess the trade and welfare impacts of Indian trucks being allowed to use Bangladeshi roads and Bangladeshi trucks to ply Indian roads relative to the present situation.

Herrera Dappe and Kunaka (2021) illustrates the various scenarios resulting in the realization of the trade benefits at different stages of the MVA (**Table 4.1**)[59]. The MVA, by facilitating seamless movement of cargo, passenger and personal vehicles will contribute to deeper integration through opening up of new routes and reduce transport time for Indian trucks traveling to and from the North Eastern Region (NER) of India through Bangladesh instead of the only 27 Km wide "chicken neck" corridor of Siliguri.

Table 4.1: Different Scenarios Leading to Trade Benefit Realization from the MVA Agreement

Scenarios	Border Crossing Time	Increase in Income in Bangladesh	Increase in Income in India
Opening of new corridors through which Indian and Bangladeshi trucks allowed to transport cargo through and from NER	55 hours	3.4%	1.4%
Indian trucks transiting through Bangladesh not required to stop at the border and trucks carrying bilateral trade spend only 10 hours at the border.	10 hours	11.3%	5.6%
Trucks do not stop at the border and can use any border posts and roads in both countries	Nil	16.6%	7.6%

Source: World Bank

Under the first scenario, new corridors are opened for Indian trucks transporting cargo to and from NER through Bangladesh and Indian exports to and imports from Bangladesh. Bangladeshi trucks are also allowed to enter India for delivering exports or transporting cargo using the same corridors. This scenario assumes that transloading is no longer required, although it remains an option for the shippers who might prefer to transload cargo and leads to reducing the border crossing time by more than half to 55 hours at any of the border posts. In this case, national real income is estimated to increase by 3.4 percent for Bangladesh and 1.4 percent in India.

Under the second scenario, it is assumed that additional restrictions at the border are removed so that Indian trucks transiting through Bangladesh are not required to stop at the border and trucks carrying bilateral trade goods have to spend only 10 hours at the border. This leads to estimated increase in national real income by 11.3 percent in Bangladesh and 5.6 percent in India.

The third scenario assumes free movement of foreign trucks between Bangladesh and India. Trucks are not required to stop at the border and allowed to use any border posts and roads in both countries.

[59] Herrera Dappe, Matías, and Charles Kunaka, eds. 2021. Connecting to Thrive: Challenges and Opportunities of Transport Integration in Eastern South Asia. International Development in Focus. Washington, DC: World Bank.

This is estimated to lead to an increase in national real income by 16.6 percent in Bangladesh and by 7.6 percent in India.

The reduction in transport time and costs would lead to reduced prices of intermediate and final goods. This results in increasing purchasing power of consumers as well as lesser input costs of raw materials for producers. The reductions in prices, the relocation of economic activity, and potential increases in wages would lead to increase in aggregate income in Bangladesh and India. Those Indian states, which are closer to Bangladesh, such as West Bengal, Odisha, Mizoram, Tripura, Meghalaya, and Assam, could experience relatively higher reductions in prices. Likewise, neighbouring Bangladeshi districts are likely to benefit from increased access to Indian markets. Accordingly, Indian states experience improved access to Bangladeshi markets and lower trade costs to reach other North East Indian markets.

The Perspective Plan of Bangladesh, 2021-2041 estimates Bangladesh's annual infrastructure requirement at US$ 10 billion for the next two decades to improve the country's transport infrastructure including land and seaports. Following are the potential areas for Indian investment in infrastructure and connectivity in line with Perspective Plan of Bangladesh 2021-2041.

Roads

India and Bangladesh share a 4096.7 Km of land border, with Indian states like West Bengal (2216.7 Km) accounting for the major share followed by Tripura (856 Km), Meghalaya (443 Km), Mizoram (318 Km) and Assam (263 Km)[60].

Road connectivity can play a major role in elevating the economies of the NER and Bangladesh. The "Maitri Setu" spans over 1.9 Km was inaugurated by the Prime Ministers of both countries in March 2021. It connects Sabroom (Tripura) in India and Ramgarh in Bangladesh and has been built over the Feni river flowing between Tripura, India, and Bangladesh. This bridge will provide Tripura with access to Chattogram port of Bangladesh, 80 Km from Sabroom. The bridge will improve road connectivity of south Assam, Mizoram, and Manipur, along with Tripura, with Bangladesh and Southeast Asia. The ICP in Sabroom, India, will be operated as a full-fledged logistic hub with warehouses and container transhipment facilities. The bridge will further boost Bangladesh's trade with Bhutan and Nepal thereby expanding economic activities in the region[61]. This bridge is being built by Highways and Infrastructure Development Corporation Ltd (Ministry of Road Transport & Highways, Government of India).

Opportunities

The Perspective Plan of Bangladesh 2021-2041 highlights strategies for the development of the road transport sub-sector.

- In the case of infrastructure development of roads, opportunities exist in upgrading all National Highway networks for creating multiple lanes of existing highways, by establishing access-control long-distance expressways, and by creating service lanes to ease connectivity to local roads.

[60] Government of India, Ministry of Home Affairs, Annual Report 2017–18.

[61] Government of India, Prime Minister's Office, "PM's address at inauguration of 'Maitri Setu' between India and Bangladesh", PIB, March 9, 2021.

- Bangladesh is also focusing to develop quality infrastructures with high-speed mobility facilities. The target would be 80-110 Kmph for important highway corridors, which is now operating merely at 25-35 Kmph.
- Increasing inter-district connectivity and district connectivity to national highway systems and converting all district roads to 4-way lanes. This will also facilitate connectivity between manufacturing and consumption centres.
- Investment opportunities exist in establishing connectivity with inter-regional highways, economic zone areas, ports, airports, power stations, inland water transport facilities, rail stations and rail freight centres and major tourist resorts to maximize the benefits of the highways system.
- Expansion of effective capacity of roads to land ports and along regional corridors.
- Construction of a new bridge over the Jamuna River in Rangpur division and approach roads and the rehabilitation of existing bridges.

Land ports

Bilateral trade via land route happens mainly through the two Integrated Check Post (ICPs) which are Petrapole (West Bengal) and Agartala (Tripura) and 34 functional Land Custom Stations (LCS)[62] (**Table 4.2**). These ICPs and LCSs at the India-Bangladesh Border provide transit, customs and immigration and cargo handling services for goods and passengers. In addition to the above two ICPs, the Land Ports Authority of India (LPAI) has proposed to develop ICPs at eight other locations that are currently LCS, across the India-Bangladesh border at Hili, Changrabandha, Mahadipur, Fulbari and Ghojadanga in West Bengal, Sutarkandi in Assam, Dawki in Meghalaya, and Kawrpuichhuah in Mizoram, which will provide a further boost to the bilateral trade. Work on upgrading the Dawki LCS to ICP Dawki in Meghalaya has commenced. The corresponding ICP in Bangladesh will be Tamabil. In principle approval has also been received for Sutarkundi (Assam). Foundation stone has been laid for Sabroom ICP in Tripura in 2021 and will be developed by the LPAI.

Table 4.2: List of Functional Land Customs Stations (LCSs) between India and Bangladesh

Serial No.	LCS in India	LCS in Bangladesh
1	Dhalaighat LCS. (Agartala Division) Tripura	Kumarghat LCS, Bangladesh
2	Khowaighat LCS (Agartala Division), Tripura	Balla LCS, Bangladesh
3	Muhurighat LCS (Agartala Division), Tripura	Belonia LCS, Bangladesh
4	Srimantapur LCS (Agartala Division), Tripura	Bibirbazar LCS, Bangladesh
5	Karimganj Steamer & Ferry Ghat, Assam	Zakiganj LCS, Bangladesh
6	Manu LCS (Karimganj Division), Tripura	Chatiapur LCS, Bangladesh
7	Old Raghnabazar LCS (Karimganj Division), Tripura	Betuli (Fultali) LCS, Bangladesh
8	Sutarkandi LCS (Karimganj Division), Assam	Sheola LCS, Bangladesh

[62] Ministry of External Affairs, High Commission of India Dhaka, Doing Business with Bangladesh, March 2019.

Serial No.	LCS in India	LCS in Bangladesh
9	Mahisasan Railway Station (Karimganj Division), Assam	Shabajpur LCS, Bangladesh
10	Bholaganj LCS, Meghalaya	Bholaganj LCS, Companyganj, Bangladesh
11	Borsora LCS (Shillong Division), Meghalaya	Borsora LCS, Bangladesh
12	Dawki LCS (Shillong Division), Meghalaya	Tamabil LCS, Bangladesh
13	Shellabazar LCS (Shillong Division), Meghalaya	Chhatak, Sunamganj LCS, Bangladesh
14	Baghmara LCS, Meghalaya	Bijoypur LCS, Bangladesh
15	Dalu LCS, (Dhubri Division), Meghalaya	Nakugaon LCS, Bangladesh
16	Dhubri Steamer and Ferry Ghat LCS, Assam	Rohumari LCS, Bangladesh
17	Ghasuapara LCS (Dhubri Division),	Gobrakura & Koroitali LCS, Bangladesh
18	Golakganj LCS (Dhubri Division), Assam	Sonahat LCS, Bangladesh
19	Mahendraganj LCS, (Dhubri Division), Meghalaya	Dhanua Kamalpur LCS, Bangladesh
20	Mankachar LCS, (Dhubri Division), Assam	Rowmari LCS, Bangladesh
21	Guwahati Steamerghat LCS, Assam	Rohumari LCS, Bangladesh
22	Silghat LCS, (Guwahati Division), Assam	Rohumari LCS, Bangladesh
23	Changrabandha LCS, West Bengal	Burimari, Bangladesh
24	Fulbari LCS, West Bengal	Banglabandha Land Port, Bangladesh
25	Radhikapur LCS, West Bengal	Birol LCS, Bangladesh
26	Gitaldah LCS, West Bengal	Mogul Hatt, Bangladesh
27	Ghojadanga LCS, West Bengal	Bhomra, Bangladesh
28	Mahadipur LCS, West Bengal	Sinamasjid, Bangladesh
29	Hilli LCS, West Bengal	Hili, Bangladesh
30	Hemnagar LCS, West Bengal	Shaikberia, Bangladesh
31	Gede LCS, West Bengal	Dorsona, Bangladesh
32	Ranaghat LCS, West Bengal	Dorsona, Bangladesh
33	Singabad LCS, West Bengal	Rohanpur, Bangladesh
34	T.T. Shed, Khidderpore LCS, West Bengal	Khulna, Bangladesh

Source: High Commission of India, Dhaka, Ministry of External Affairs

The ICP Petrapole is located at about 80 Km from Kolkata (West Bengal) on the India-Bangladesh Border. Benapole is the corresponding ICP in Bangladesh. The cargo complex of ICP Petrapole was operationalised in 2016. The ICP Petrapole is equipped with a customs clearance facility 24x7 and seven days a week, to facilitate the smooth clearance of transport of cargo across borders, with effect from August 1, 2017[63].

ICP Petrapole is the largest border trade gateway for India and Bangladesh, contributing 27.5 percent of total exports and 50 percent of imports in 2019-20 (**Table 4.3**). Port-wise analysis shows that other than ICP Petrapole and Ghojadanga LCS, major seaports like Nhava Sheva (sea), Mundra, Chennai (sea) dominated India's exports to Bangladesh in 2019-20. As regards imports, majority of border trade happens through ICPs of Petrapole and Agartala and LCSs of Ghojadanga (West Bengal), and Changrabandha (West Bengal).

The major items exported through ICP Petrapole in 2019-20 were cotton, articles of iron and steel, denim and denim yarns, synthetic fibres, parts and accessories of motor vehicles, two-wheelers (motorcycles and scooters) and three-wheelers, among others[64]. The major imports during the same period include trousers, men's cotton shirts, raw or retted jute, cotton rags, other travel goods of plastic or textile material, sacking cloth, yarn of jute and other products of jute.

Table 4.3: India's Port Wise Trade with Bangladesh

Exports			Imports		
Ports	2019-20 (US$ mn)	Share (%)	Ports	2019-20 (US$ mn)	Share (%)
Petrapole (Land)	2,256.7	27.5	Petrapole (Land)	631.7	49.9
Nhava Seva (Sea)	935.8	11.4	Ghojadanga	169.9	13.4
Mundra	686.7	8.4	Changrabandha	71.2	5.6
Chennai (Sea)	351.7	4.3	Nhava Seva (Sea)	64.3	5.1
Ghojadanga	249.9	3.0	Sutarkandi	44.0	3.5
Hazira Port, Surat	170.2	2.1	Agartala (Land)	42.8	3.4
Kolkata Sea	161.3	2.0	Chennai (Sea)	25.8	2.0
Tuticorin Sea	148.0	1.8	J Matadee Chennai	22.3	1.8
Kandla Sea	134.2	1.6	Tuticorin Sea	19.5	1.5
Kolkata Air	132.6	1.6	Mundra	16.8	1.3
Top 10 Ports Exports to Bangladesh	**5,227.2**	**63.7**	**Top 10 Ports Imports from Bangladesh**	**1,108.2**	**87.6**
Total Exports to Bangladesh	**8,200.9**	**100.0**	**Total Imports from Bangladesh**	**1,264.7**	**100.0**

Source: Directorate General of Commercial Intelligence and Statistics (DGCI&S), Ministry of Commerce and industry (MOCI), Government of India (GOI) and India Exim Bank Analysis

[63] Government of India, Ministry of Commerce and Industry, "24x7 operationalization of Petrapole-Benapole Integrated Check Post", July 31, 2017.

[64] Dashboard-commerce.gov.in, Ministry of Commerce and Industry, Government of India

ICP Agartala located at the Agartala-Akhaura border was made operational in 2013. The corresponding ICP in Bangladesh is Akhaura. ICP Agartala-Akhaura serves as an important trade route for India's imports from Bangladesh. The major items of import during 2019-20 were refined and bleached palm olein, fish (fresh or chilled) and fish fillets, Portland cement, soyabean oil of edible grade, other flat-rolled products of iron or non-alloy steel. Exports from ICP Agartala have been nominal during 2019-20 and majorly comprised dried fish[65].

The upgradation of infrastructure in Agartala and Petrapole ICPs have led to a substantial development in promoting trade through the land route. Several initiatives have already been taken by India and Bangladesh in enhancing road connectivity. India has requested Bangladesh for operating at least one major port without restrictions and discussions for the same are ongoing for the ICP Agartala-Akhaura[66]. Bangladesh has also proposed new connectivity routes connecting land ports like Bhadrapur-Bairagi Galgalia, Biratnagar-Jogmani and Birganj-Raxaul with Banglabandha-Fulbari and Birol-Radhikapur. The Sonahat (corresponding Golakganj LCS in Dhubri, Assam) and Tamabil (corresponding Dawki LCS in Meghalaya) land ports in Bangladesh, have been developed and they started their operational activities. Also, improvement and modernization of Benapole (corresponding ICP Petrapole) and Burimari (Changrabandha LCS) land ports in Bangladesh, have been completed under the SASEC Road Connectivity Project with assistance from the ADB. Construction of modern warehouses, transhipment shed and improvement of roads and yards, drainage system and other necessary infrastructure have been developed under this Project. To enhance connectivity and trade with neighbouring countries, Bangladesh Land Port Authority has taken steps for the development of Sheola (corresponding Sutarkundi LCS in Assam) and Ramgarh land ports along with the extension and modernization of Bhomra and Benapole Land Ports with the financial assistance of the World Bank. This is an ongoing project which is expected to be completed by June 2023.

Opportunities

Efficient ICPs are important for enhancing India's trade and connectivity with Bangladesh.

- Improvement of land port facilities in terms of infrastructure.
- Deployment of modern information technology infrastructure at land ports.
- Improved border customs clearance facilities in Bangladesh and India for inter-regional services.

In order for the land ports to operate at their optimal levels, both the sides of India and Bangladesh need to operate seamlessly. The 8th Five Year Plan (July 2020-June 2025) of Bangladesh also acknowledges the importance of land ports with regards to increasing bilateral trade with India. Efforts have been taken for enhancing the capabilities of the various land ports through better facilities and staffing and improving efficiency and turn-around time through digitization. Considerable progress has been made in this regard. Under its Lines of credit of US$ 2 billion extended in 2016, India has assisted Bangladesh in establishing Inland Container Port at Ashuganj[67].

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[65] ibid

[66] Government of India, Prime Minister's Office, "PM inaugurates 'Maitri Setu' between India and Bangladesh", PIB, March 9, 2021

[67] Doing Business with Bangladesh July 2019, High Commission of Dhaka

India and Bangladesh have also signed an agreement in January 2020, to upgrade the road (50.6 Km long) connecting Ashuganj river port and Akhaura land port in Bangladesh to a four-lane highway. The ICP Agartala is the corresponding Indian land port to ICP Akhaura. The PIWTT also allows for transshipment of goods to India's NER through the Ashuganj River Port (and from Ashuganj river port to Akhuara-Agartala by road) in Bangladesh. Therefore, upgrading the roads would not only improve connectivity between Ashuganj river port and Akhaura land port but also lead to a faster flow of cargo between Kolkata and Agartala which currently takes 30 days for Indian trucks would be covered via the sea route in 7 days from Ashuganj Port to Kolkata Port, once the cargo is transported from Akhaura land port to Ashuganj river port[68].

The Bangladesh Roads and Highways Department and Afcons Infrastructure Ltd. of India would be upgrading the road between the Ashuganj river port to Dharhar (India). The Bangladesh Roads and Highways Department will develop the remaining section from Dharhar to Akhaura in Chattogram, Bangladesh with an India-Bangladesh joint venture firm RITES-MEPC (RITES Ltd. and Modern Engineers Planners and Consultants Ltd of Bangladesh) for project management consultancy services[69]. This is also covered under the US$ 2 billion LOC. Therefore, Indian investment could help in further upgradation of remaining land ports and digitalization of land ports on the Bangladesh side.

Railways

Railways in both India and Bangladesh were established during the British era and share a common history of seven railway links between India and erstwhile East Pakistan, which was operational till 1965. At present, there are 4 operational inter-country railway links, which are Broad Gauge.

i. Petrapole (India) – Benapole (Bangladesh)

ii. Gede (India) – Darsana (Bangladesh)

iii. Singhabad (India) – Rohanpur (Bangladesh)

iv. Radhikapur (India)- Birol (Bangladesh)

Two more railway networks are underway to be re-established. One of them is between Haldibari (India) and Chilahati (Bangladesh), railway links between which were restored from December 17, 2020[70]. This is expected to further strengthen trade as it would connect Assam and West Bengal to Bangladesh and increase rail network accessibility to people of both countries. Trains on this route are expected to be operating once the pandemic situation improves[71]. The sixth one is the rail link between Akhaura (Bangladesh) and Agartala (India).

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[68] RHD to sign a deal with an Indian company to upgrade Ashuganj- Akhaura port link road, Dhaka Tribune, January 22, 2020.

[69] Indian builder to do 51Km four-lane road, The Financial Express, January 24, 2020.

[70] Government of India, Ministry of Railways, "Haldibari – Chilahati rail link jointly inaugurated by the Prime Ministers of India and Bangladesh during India-Bangladesh virtual bilateral summit", PIB, December 17, 2020.

[71] Bangladesh and India Inaugurate Restored Railway Link, Agree to Soon Operationalize the BBIN MVA, South Asia Subregional Economic Cooperation, December 17, 2020.

The Agartala–Akhaura (Bangladesh) railway link, which is expected to be completed in September 2021, will connect Gangasagar in Bangladesh to Nischintapur in India (10.6 Km) and then connect Nischintapur to Agartala railway station (5.46 Km) in India. India would also be developing an ICP and cargo handling facility at Nischintapur — the junction points of Agartala-Akhaura rail link at Tripura. IRCON International Ltd will be the executing agency for the construction of the railway link projects on both sides. The project on the Indian side will be financed by the Ministry of Development of North Eastern Region, Government of India and the railway link project on the Bangladesh side will be financed by the Ministry of External Affairs, Government of India. The new rail link is expected to reduce the travel time between Agartala and Kolkata to 10 hours from the current 31 hours and the distance to 550 Km instead of 1,600 Km[72]. It will also open a trade route from Tripura to the Chattogram port.

Cargo movement between India and Bangladesh by rail has been limited, due to a lack of homogeneity in the railway infrastructure with some places in Bangladesh having meter gauges. Bangladesh has constructed both gauges in some parts of the network to interface with the Indian system, but there are still compatibility issues with the broad-gauge network of India[73].

According to the IBEF, Indian Railways is among one of the largest rail networks and has been among the top 20 exporters globally. Indian Railways has exported 10 broad-gauge diesel locomotives with a capacity of both passenger and freight trains in July 2020. These have modern "maintenance friendly" features and are suited for maximum height restrictions suggested by the Bangladesh railways. In the past also, Indian Railways has exported meter gauge locomotives, more than 40 broad gauge locomotives, and 120 passenger coaches[74]. Indian Railways also has the capacity to partner for the supply and maintenance of rolling stocks.

Indian Railways has permitted export traffic to Bangladesh for automobiles from August 2020 and parcels and containers from July 2020 thereby giving a boost to the freight movement between the two countries[75]. The first export container train from India travelled from Container Corporation of India or CONCOR's Container Freight Station (CFS) at Majerhat in Kolkata to Benapole through integrated check post (ICP) at Petrapole in July 2020, with textile fabric and FMCG products. CONCOR and Container Company of Bangladesh (CCBL) had signed MoU in April 2017 for operating commercial container trains with an aim to boost cross border trade between the two countries. At present, the container trains would be travelling till Benapole station[76]. Following some infrastructure development, it is expected to connect nominated terminals of CONCOR to Benapole, Jessore, Singia, Noapara and Bangabandhu Setu

[72] Observer Research Foundation, Bangladesh-India connectivity: Passage through Tripura, Jayanta Bhattacharya, March 25, 2021

[73] World Bank (2021), Herrera Dappe, Matías, and Charles Kunaka, Connecting to Thrive: Challenges and Opportunities of Transport Integration in Eastern South Asia, World Bank, 2021.

[74] "India, Bangladesh strengthen rail tie-up! Indian Railways exports 10 modern BG diesel locomotives", Financial Express, July 27, 2020.

[75] Government of India, Ministry of Railways, "On mission mode, Railways pulls Freight traffic ahead of last year's level inspite of COVID 19 related challenges", PIB, August 20, 2020.

[76] "First-ever container train from India arrives in Bangladesh, Railways to hand over 10 locomotives", India Today, July 27, 2020.

West railway stations in Bangladesh. An ICD terminal will be developed near the Bangabandhu Bridge station to facilitate the container services[77]. The container train is expected to lead to reduction in cost by five times as compared to roadways.

This is in addition to the freight trains carrying usually essential commodities like onion, rice and other food grains. Exports of automobiles have also picked up following Indian Railway's permit to use NMG wagons. Tata Motor's 51 trucks from Bareilly and Mahindra and Mahindra's 87 pickup vans from Navi Mumbai were exported to Benapole Bangladesh[78]. A 25-wagon freight train carried exports of 100 agricultural tractors from the Inland Container Depot in Dadri India to Bangladesh[79]. Thus, railway has emerged as a cost-effective alternative for carrying both bulk goods like essential commodities, cement, fertiliser, automobiles using freight services whereas FMCG products, chemicals and consumer durables using the container services.

Opportunities

Bangladesh intends to embark on a strategic upgradation and modernization of the railways. Indian public sector companies could collaborate in the following areas –

- Supply of trains to meet demand for passenger and freight.
- Expand and strengthen railway infrastructure including creating new lines to service demand, track doubling of important corridors, upgradation of all rail lines to broad gauge/ dual gauge system.
- Connectivity to regional train services involving neighbouring countries.
- Increased capacity on key corridors.
- Development of new Inland Container Depots.
- Development of dedicated freight corridors.
- Development of new Workshops.
- Procurement of modern equipment for rolling stocks maintenance.
- Development of railway links with all ports.

Inland Waterways and Rivers

The 8th Five Year Plan (July 2020-June 2025) of Bangladesh highlights that although significant infrastructure development has happened in terms of roads and bridges, investment in inland water transport has lagged behind. Also, given the climatic conditions Bangladesh is subject to, roads and

[77] "Hope for faster trade arrives", The Daily Star, July 27, 2020.

[78] "Central Railway loads 145 rakes of automobiles from April – November this financial year against 118 rakes in the whole of last financial year", Indian Railways, November 24, 2020.

[79] "CNH Industrial India exports 100 tractors to Bangladesh in an inaugural freight train run from Dadri, Noida", Business Standard, September 29,2020.

railways continue to face high construction cost due to the flood prone nature of Bangladesh. Inter-modal transport balance is necessary to ensure cost and environmental efficiency. However, the share of water transport has rapidly declined in the last two decades. Given the large network of waterways in Bangladesh, river transport serves a major development role in terms mobility of rural people and commodity flow. With the growing congestion of road network and limited capacity of rail cargo services, water transport provides a huge, environmentally friendly alternative.

However, the limited navigability owing to the growing siltation has constrained the performance of this sector. Substantial investments are required for river dredging to make these navigable and suitable for the use of modern river vessels. Also, inadequacy of river ports and cargo handling capacities is another problem.

The Protocol for Inland Water Trade & Transit (PIWTT) was signed between India and Bangladesh in 1972 to provide inland waterways connectivity between the two countries, particularly with the North Eastern Region of India and also to enhance bilateral trade.

Under this Protocol, Inland vessels of both the countries can ply on the designated protocol route and dock at Ports of Call in each country, notified for loading/unloading of cargo. There has been significant improvement in the movement of cargo vessels in an organized manner on the Protocol route carrying both the transit cargo to North East region of India and vice-versa and export-cargo to Bangladesh. The Indian transit cargo is mainly coal, fly-ash, POL and Over Dimensional Cargo (ODC) for power projects in NER. The other potential cargo for movement is fertilizers, cement, food grains, agricultural products, containerized cargo etc.

Box 4.1: Indo Bangladesh Protocol Routes

The number of Indo Bangladesh Protocol (IBP) routes are being increased from 8 to 10 in May 2020.

The existing routes were-

1) Kolkata-Haldia-Raimongal-Chalna-Khulna-Mongla-Kaukhali-Barisal-Hizla-Chandpur-Narayanganj-Aricha-Sirajganj-Bahadurabad-Chilmari-Dhubri-Pandu
2) Pandu-Dhubri-Chilmari-Bahadurabad-Sirajganj-Aricha-Narayanganj-Chandpur-Hizla-Barisal-Kaukhali-Mongla-Khulna-Chalna-Raimongal-Haldia- Kolkata
3) Kolkata-Haldia-Raimongal-Mongla-Kaukhali-Barisal-Hizla-Chandpur-Narayanganj-BhairabBazar-Ajmiriganj-Markuli-Sherpur-Fenchuganj-Zakiganj- Karimganj
4) Karimganj-Zakiganj-Fenchuganj-Sherpur-Markuli-Ajmiriganj-BhairabBazar-Narayanganj-Chandpur-Hizla-Barisal/ Kaukhali- Mongla-Raimongal-Haldia-Kolkata
5) Rajshahi-Godagari-Dhulian
6) Dhulian-Godagari-Rajshahi

7) Karimganj-Zakiganj-Fenchuganj-Sherpur-Markuli-Ajmiriganj-BhairabBazar-Narayanganj-Chandpur-Aricha-Sirajganj-Bahadurabad-Chilmari-Dhubri-Pandu

8) Pandu- Dhubri- Chilmari- Bahadurabad- Sirajganj- Aricha- Chandpur- Narayanganj-Bhairab Bazar-Ajmiriganj- Markuli- Sherpur- Fenchuganj- Zakiganj- Karimganj

New Route (9&10)

The Sonamura- Daudkhandi stretch of Gumti river (93 Km) has been included as IBP route 9 and 10 in the Protocol and this route will be connecting all existing routes thereby facilitating movement of goods between Tripura and other adjacent states of India and Bangladesh.

In the existing routes (1) & (2) [Kolkata-Shilghat-Kolkata] as well as in Routes (3) & (4) [Kolkata-Karimganj-Kolkata], Kolaghat in India has been added.

Routes (3) & (4) [Kolkata-Karimganj-Kolkata] and Routes (7) & (8) [Karimganj-Shilghat-Karimganj] have been extended up to Badarpur in India. In these routes, Ghorasal in Bangladesh has also been added.

The Rajshahi-Dhulian-Rajshahi route has been made operational and further extended up to Aricha of Bangladesh (270 Km). This is expected to reduce the transportation cost of stone chips and other construction materials transported from Dhuliyan in Murshidabad and decongest the LCSs on both sides.

Source: Press Release, Ministry of Ports, Shipping and Waterways, Government of India, May 2020

Presently, there are six Ports of Call[80] each in India and Bangladesh under the PIWTT. Five more Ports/ of Call and two more extended Ports of Call have been added, increasing the number to eleven Ports of Call and two extended Ports of Call in each country as shown in **Table 4.4**. Inclusion of Jogigopha in India and Bahadurabad in Bangladesh as new Port of Call would be providing connectivity to Meghalaya, Assam and Bhutan. A Multimodal Logistics Park has also been proposed to be established in Jogigopha. The new Ports of Call would enable the loading and unloading of cargo transported on the Indo Bangladesh Protocol Route and provide a stimulus to the economic development of the new locations and their hinterland.

According to the 2nd Addendum to PIWTT signed on May 20, 2020, India and Bangladesh agreed to provide facilities of Ports of Call including the specified Extended Ports of Call to the vessels of each other's country engaged in inter-country trade. The following places are to be treated as Ports of Call and Extended Ports of Call in their respective countries (**Table 4.4**).

[80] An intermediate port where ships customarily stop for supplies, repairs, or transhipment of cargo.

Table 4.4: Ports of Call in India and Bangladesh

Bangladesh		India	
Ports of Call	**Extended Ports of Call**	**Ports of Call**	**Extended Ports of Call**
Narayanganj	**Ghorasal**	Kolkata	**Tribeni (Bandel)**
Khulna	-	Haldia	-
Mongla	-	Karimganj	**Badarpur**
Sirajganj	-	Pandu	-
Ashuganj	-	Shilghat	-
Pangaon	**Muktarpur**	Dhubri	-
Rajshahi	-	**Dhulian**	-
Sultanganj	-	**Maia**	-
Chilmari	-	**Kolaghat**	-
Daudkandi	-	**Sonamura**	-
Bahadurabad	-	**Jogigopha**	-

Note: New Ports of Call/Extended Ports of Call in bold

Source: Press Release, Ministry of Ports, Shipping and Waterways, Government of India, May 2020

Trade between Chilmari (Bangladesh) and Dhubri (India) using shallow draft mechanized vessels, which are registered under Inland Shipping Ordinance 1976 of Bangladesh or Inland Vessels Act, 1917 of India, has also been allowed by both Bangladesh and India under the Second Addendum of the PIWTT. This initiative would facilitate export of stone chips and other cargo from Bhutan and the NER to Bangladesh and easy access for the traders to the hinterland of Bangladesh, enhancing the local economy in Bangladesh and the lower Assam region of India.

Opportunities

The development of waterways and the operationalization of the India-Bangladesh protocol routes will significantly boost the movement of goods in and out of NER by reducing the cost of transportation as compared to through the Siliguri Corridor. With improved infrastructure and dredging of waterways along the route the modal split toward waterways can be improved[81]. Enhanced cooperation in inland waterway connectivity in terms of infrastructure development, supply vessels and necessary machinery and equipment and dredging works to accelerate the functioning of these routes.

Although the IBP route is predominantly used for movement of goods from India to Bangladesh, the route is also used for movement of domestic transit traffic to/ from North East region. North Eastern states of India are surrounded by Bangladesh, Myanmar, Bhutan and China and the only land route access

[81] Asian Development Bank (2021), Assam as India's Gateway to ASEAN, March 2021.

to these states from within India is through the Siliguri corridor. Transportation to and from the region is mainly through railways and roads. Thus, with the pick-up in growth and developmental activities in the NER, pressure on the corridor has also grown. Every year, during the monsoon season, the corridor faces instances of closure and inordinate waiting of trucks resulting in delays. These challenges make the IBP route strategically important for regular access to the NER of India. To allow round the year navigation, two stretches on the IBP route viz. Sirajganj – Daikhawa and Ashuganj - Zakiganj in Bangladesh are being developed (2.5 m Least Available Depth) at a total cost of approximately ₹ 3.1 billion, on an 80:20 cost-sharing basis (80 percent being borne by India and 20 percent by Bangladesh). The development of these two stretches is expected to provide seamless navigation to and from North East India through waterways via the IBP route[82].

There exists a further potential for goods and passenger movement between states across India and Bangladesh. The massive investments for infrastructure development under the Jal Marg Vikas Project with the support of the World Bank are intended to attract traders and logistics firms. It is also anticipated that the developmental projects coming up in North East India will make use of waterways for the transportation of heavy machinery and equipment. Development of terminals, warehouses, transhipment facilities at major ports, navigation aids, ship-repairing facilities, multimodal connectivity etc. are expected to boost inland navigation and make this sector more competitive[83].

BIWTA has taken up intensive dredging projects to improve the navigability of inland waterways in Bangladesh, particularly the routes connecting North Eastern India under the World Bank fund. The World Bank has committed about US$ 200 million to Bangladesh government in this regard. The improvement in navigability will allow shorter transit time in the Kolkata-Silghat and Kolkata-Karimganj route, resulting in increased movement of cargo and vessels of Indian origin. Also, the Perspective Plan of Bangladesh 2021-2041 aims at improving the navigability of river routes through strategic dredging, river training and prioritise inter-regional river connectivity to facilitate trade, commerce, and tourism.

The Maritime India Vision 2030 states that India has proposed several infrastructure developments including terminal development at Dhubri, Pandu on NW2 and Badarpur, Karimganj on NW6, Sonamara in Gumti, Maia on Ganga River and fairway development from Sirajganj to Daikhowa stretch in Jamuna river, and from Ashuganj to Zakiganj stretch in Kushiiyara. Both India and Bangladesh have signed an MoU in 2017 to jointly undertake necessary dredging for fairway development of Ashuganj-Zakiganj stretch of Kushiyara river and Sirajganj-Daikhawa stretch of Jamuna river in the protocol route. It will reduce the logistics cost of cargo movement to North Eastern India and also the congestion through the Siliguri Chicken’s Neck corridor[84]. The flow of forestry & mineral products could see rise in shipping through the PIWTT in the coming years. Container movement through the transhipment port of Ashuganj will provide

[82] Government of India, Ministry of Shipping, Ports and Waterways, Annual Report on Traffic on National Waterways 2019-20, Inland Waterways Authority of India.

[83] CUTS International, “Expanding Tradable Benefits of Inland Waterways Case of India”, December 2017.

[84] Government of India, Ministry of Ports, Shipping, and Waterways, “Cabinet approves MoU between India and Bangladesh for fairway development of Ashuganj-Zakiganj stretch of Kushiyara river and Sirajganj-Daikhawa stretch of Jamuna river in the Indo-Bangladesh protocol route”, PIB, April 7, 2017.

major boost to the east-west trade stretching beyond Myanmar through the India-Myanmar-Thailand corridor. Containerized transportation of goods could allow movement of temperature-controlled cargo. This may provide further boost to the horticultural sector in the region.

Seaports

According to the Bangladesh Economic Review 2019-20, the Chattogram port is the principal seaport of the country, handling 92 percent of Bangladesh's foreign trade. The second seaport is Mongla. The construction of another seaport, i.e., named Payra deep seaport is ongoing [85]. The channels of these ports need to be dredged frequently. In 2017, the Dredging Corporation of India had signed an agreement with Mongla Port Authority, Bangladesh for capital dredging in Pussur Channel, from Mongla Port to Rampal Power Plant, Bangladesh. The project cost, amounting to ₹1.02 billion, involved dredging of around 3.88 million CuM. The capital dredging work was completed in June 2019[86].

Further operationalization of transhipment of Indian goods through Chattogram and Mongla Ports could boost trade between the two countries. According to the World Bank, untapped trade potential between the two countries is estimated at US$ 10 billion. However, the bilateral trade stood at US$ 9.5 billion in 2019, implying that bilateral trade is currently operating at 50 percent capacity[87].

The Coastal Shipping Agreement, signed between India and Bangladesh in 2015 to enhance cooperation in commercial maritime navigation, increase bilateral trade and provide an alternative route for the transportation of cargo, reducing the load on rail and road traffic. As per the Agreement, sea transport from India to Bangladesh is treated as coastal movement, making it eligible for 40 percent concession on vessel-related and cargo-related charges. Further, to enhance the trade, an agreement on the use of Chattogram and Mongla Ports in Bangladesh for the movement of goods to and from India was signed between the two countries in October 2018[88]. The first trial container ship from Kolkata to Agartala and Karimganj through Chattogram port shows that this route drastically cuts short the distance between Kolkata and Agartala from about 1600 Km (via Assam) to just about 450 Km. However, the agreement is not applicable for large ocean-going vessels. Lower size vessels known as River Sea Vessels (RSVs) have been agreed upon for coastal shipping in this agreement[89].

Earlier shipping cargo used to ply between India and Bangladesh through the ports of Colombo (Sri Lanka) or Singapore or Klang (Malaysia). But the coastal shipping agreement has enabled the direct regular movement of ships between India and Bangladesh and reduced delivery time from 25 to 7

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[85] Government of Bangladesh, Ministry of Finance, Bangladesh Economic Review 2020, October 2020.

[86] dredge-india.nic.in/files/pussar-bangla.pdf

[87] World Bank, "Seamless Transport Connectivity Can Create Significant Economic Gains for Bangladesh and India", March 9,2021.

[88] Government of India, Ministry of Ports, Shipping and Waterways, "Promotion of Shipping Route with Bangladesh", PIB, February 7, 2019.

[89] Government of India, Ministry of Shipping, "Agreement on Coastal Shipping between India and Bangladesh", PIB, May 2015.

days[90]. The coastal route is primarily used by Bangladesh to import a significant portion of its raw cotton requirement from India for its garment industry. The agreement allows vessels up to 6000 Gross Tonnage (GT). Four routes are considered as "Coastal routes" for the movement of vessels from India to Bangladesh according to the Standard Operating Procedure on the MoU on Passenger and Cruise Services on the Coastal and Protocol route between Bangladesh and India signed in November 2015.

a) Chennai-Krishnaptnam-Kakinada-Visakhapatnam-Paradip-Haldia-Kolkata-Mongla-Payra-Chattogram;

b) Chennai-Krishnaptnam-Kakinada-Visakhapatnam-Paradip-Haldia-Kolkata-Mongla-Khulna;

c) Chennai-Krishnaptnam-Kakinada-Visakhapatnam-Paradip-Haldia-Kolkata-Payra; and

d) Chennai-Krishnaptnam-Kakinada-Visakhapatnam-Paradip-Haldia-Kolkata-Pangaon-Narayanganj-Ashuganj.

Haldia port has been declared as a Transhipment Port for containerised cargo, originating from or destined to Bangladesh, to attract more cargo movement through sea route. This port is also linked with railway connectivity, and a separate multimodal terminal is also under construction to cater to Bangladesh bound cargo. Bangladesh is also undertaking various port development projects, such as modernisation of port facilities including container delivery yards; construction of six-lane road connectivity from Mongla port, establishing a railway connection from Mongla port, and automatic radiation detection facilities; and conducting dredging on the outer harbour of Mongla port to increase the draught capacity from 7.5 to 10 meters, among others. The Coastal Shipping Agreement opens up scope for large exporters, connecting Bangladesh to the eastern ports of India.

The present trade pattern is largely in favour of India and cargo ships and containers mostly return empty from Bangladesh to India. As a result, freight cost increases and often become non-viable for low-value cargos. High fuel costs also make coastal shipping less cost-effective.

Chattogram port deals with more than 90 percent of Bangladesh's seabound trade and handled around three million containers in 2019. According to the Perspective Plan of Bangladesh 2021-2041, the turnaround time for a ship is 5-9 days, significantly above the 1-day standard of more efficient ports. Port modernization, upgradation and establishment of deep seaports will have to be on Bangladesh's long-term agenda. The upcoming deep-sea port at Matabari is expected be ready by 2025. It is expected to reduce congestion at Chattogram port and thereby reduce transport time. Funded by the Japan International Cooperation Agency (JICA), Matarbari Port is 150 Km south of Chattogram, with a container volume of around 490 million TEUs (20-feet equivalent) exceeding the capacity of Chattogram at 175 million TEUs. The Matabari deep-sea port could act as a transshipment hub for the North Eastern states of India along with Bhutan and Nepal.

[90] CUTS International, India-Bangladesh Coastal Shipping Agreement, Working Note, October 2020.

Opportunities

Opportunities for collaboration exists for project management consultancy for the development of port infrastructure, construction and rehabilitation of existing ports. Investment opportunities for collaboration include -

- Modernisation of equipment required for handling cargo.
- Full mechanization of cargo handling operation and movement in major ports.
- Expansion of storage area in the ports.
- Required dredging to allow handling of bigger shipping.
- Expansion of Terminal capacity for handling higher cargo off-loading.

There is a need to generate awareness among exporters and importers in India and Bangladesh about the prospect and benefit of utilising coastal routes for bilateral trade. Connecting the ports with other transport modes, improving transhipment facilities, increasing the loading and unloading efficiency of ports can also incentivise exporters and importers to use these coastal routes. The concept of third-party logistic providers needs to be promoted to help consolidate small consignments to fill a full cargo containers or ships. There is also a need to identify potential products that could be exported from Bangladesh to India through the coastal route to address the issues of empty vessels. Presently, Bangladesh mainly exports RMG products through the coastal routes[91]. Further, there is a need to explore the feasibility of utilising Bangladesh's seaports for India's third country import.

Enhancing Connectivity through Regional Cooperation

The Bangladesh–Bhutan-India–Nepal (BBIN) subregion should be a priority for India both in the economic and strategic sense. Bangladesh and India need to leverage the potential offered by regional cooperation initiatives like the BBIN to integrate the flow of goods and services. The potential for overseas trade through sea-route can be immense, with these economies being connected to the Bay of Bengal and can act as a gateway for Bhutan and Nepal under BBIN. Also, India needs to develop its own national waterways to unlock the full potential of inland waterways as a transportation mode, connecting the neighbouring landlocked states to the Indian mainland as well as to the global value chains by leveraging the connectivity of river bodies with Bangladesh.

As India has withdrawn from the RCEP, building stronger connections in its neighbourhood becomes important. Enhanced connectivity within South Asia and Southeast Asian regions could give India and Bangladesh access to a combined market of US$ 6.1 trillion or 7.3 percent of the global GDP in 2020. **Exhibit 4.1** shows the various existing regional frameworks which connects South Asian countries to the Southeast Asian countries.

[91] Linking Inland Waterways with Industrial Corridors and Logistic Parks for Economical and Ecological Freight Movement in the BBIN Sub-region, CUTS International, January 2021.

Exhibit 4.1: Regional Cooperation Frameworks Connecting South Asia and Southeast Asia

BBIN GDP : US$ 2.9 trn	BIMSTEC GDP : US$ 5.6 trn	ASEAN GDP : US$ 3.1 trn
• Bangladesh	• Bangladesh	• Brunei Darussalam
• Bhutan	• Bhutan	• Cambodia
• India	• India	• Indonesia
• Nepal	• Maldives	• Lao PDR
	• Myanmar	• Malaysia
	• Nepal	• Myanmar
	• Sri Lanka	• Philippines
	• Thailand	• Singapore
		• Thailand
		• Vietnam

Source: Nominal GDP at current prices estimated for 2020, World Economic Outlook October 2020, IMF, and India Exim Bank Analysis

Through BIMSTEC, India and Bangladesh could integrate themselves into the value chains of the Southeast Asian nations and tap their market. Thus, creating alternative corridors for trade and fostering greater cooperation for multimodal connectivity is imperative to overcome the pandemic-induced vulnerabilities and ensure sustainable growth.

Other than the bilateral level, opportunities for collaboration also exist at the regional level. India needs to strengthen its partnerships with the maritime nations which could be facilitated through the various regional groupings like BIMSTEC owing to the geographical proximity.

Within the identified areas of cooperation with the BIMSTEC, India is currently the lead country for transport and communication, tourism, counterterrorism, environment and disaster management whereas Bangladesh is the lead country for trade, investment and development.

The Bay of Bengal, bordered by India on Western side, Thailand on East side, and with Bangladesh, Myanmar and Sri Lanka in between, hosts a large population and hosts some of the world's major trading routes. India and Bangladesh could jointly enhance their cooperation with other BIMSTEC nations to gain strategic importance and trade benefits. Following are select potential areas for collaboration as highlighted in the Maritime India Vision 2030.

- Establishing common standards for data exchange and customs.
- Training seafarers of BIMSTEC nations on subsidized basis.
- Enhancing investment in infrastructure development to improve regional connectivity which would be critical to provide multimodal projects to link ports to hinterland, including landlocked areas like Bhutan, North East India, and Nepal.

- Developing dry ports/ ICDs in landlocked nations Nepal and Bhutan.
- Improving Inland waterways to facilitate trade to Bangladesh, Bhutan, and Nepal.
- Devising a BIMSTEC Coastal Shipping Agreement and a master plan to enhance transport connectivity.
- Promoting indigenous shipping industry and associated infrastructure.
- Collaboration of Indian and Bangladeshi shipping lines with import and export firms of BIMSTEC nations for transport of cargo.
- Setting up of a commercial venture, joint stock BIMSTEC shipping company, to focus on shipping opportunities in BIMSTEC region.

Bhutan has been exporting a significant quantity of stone aggregates through the land route for different construction projects in Bangladesh. Stone exporters have identified inland waterways as an alternate mode of transportation considering the benefits associated with waterways mode such as lower transportation cost, larger shipment size compared to road, avoiding congestion on land routes, etc. In the first such movement of its kind, 1,005 tonne of crushed stone aggregates originating from Bhutan was transported from IWAI's jetty at Dhubri (Assam, India) on NW-2 to Narayanganj, Bangladesh, on July 11, 2019. Stone aggregates were transported using trucks from Bhutan-based stone quarries to IWAI's Dhubri jetty (in Assam, India) and subsequently loaded on IWAI's vessel MV AAI using mechanized loading system[92]. As a result of the success of the first movement, the movement of stone aggregates has become regular between Dhubri (India) and Chilmari (Bangladesh) and more than 10 shipments of approximately 100-300 tonne size have been completed in 2019-20.

Inland waterways mode has been agreed for inclusion in the trade treaty between India and Nepal. This will allow Nepal bound cargo (coming from a third country via Kolkata port, as well as India's exports) to take the waterway up to Sahibganj Multi Modal Terminal or MMT (Jharkhand, India), proposed Kalughat terminal near Patna (Bihar, India) and Varanasi MMT (Uttar Pradesh, India) and further movement to Nepal via road. This is expected to play an important role in transportation of coals from Rajmahal mine to various thermal power plants. The Inland Water Transport (IWT) route will provide an alternate option to the traffic, challenges such as congestion and delays on the rail and road mode currently. As Bhutan, Bangladesh and Nepal get connected with India through the Inland Waterways, this can facilitate an alternate route of trade.

The Maritime India Vision 2030 aims to focus on the development of eastern waterways connectivity transport grid for enhancing regional connectivity and reducing cost of transportation from Bangladesh, Nepal, Bhutan and Myanmar. For the development of transport grid, infrastructure enhanced connectivity is required with these countries.

92 ibid

As identified in the Maritime India Vision 2030[93], addressing key issues in IWT – ensuring water depth, real-time dissemination of information, Custom Standard Operating Procedures and border check-posts are needed. Smooth and easy cargo clearance, along with improved river connectivity on these IWT routes can facilitate trade. As Bangladesh, Nepal and India plan to operationalise the MVA with Bhutan's consent to join once the country ratifies the agreement, alternative modes of transport could strengthen regional connectivity within the sub-region as the waterways connect the industrial corridors and logistics hubs. Going forward, including Myanmar and Thailand as part of the initiative could strengthen the BIMSTEC narrative.

Besides improving the transport infrastructure and connectivity, other areas of cooperation like energy, agriculture, pharmaceuticals, and ICT are discussed in the following sections.

Power

Over the years, Bangladesh has made considerable progress in terms of power generation with electricity coverage improving from 73.1 percent in 2015 to 92.2 percent by 2019. The time required to get electricity, which is measured by the number of days to obtain a permanent electricity connection, has reduced to one-third, – from 411.6 days in 2015 to 124.5 days in 2019[94].

According to the Bangladesh Economic Review 2020, Bangladesh's electricity demand is expected to rise to 34,000 MW by 2030[95]. In the power generation sector, Bangladesh would require investment of US$ 35 billion by 2041[96]. Total investment requirement in the energy sector is estimated at 2.5 percent of Bangladesh's GDP per year by 2041 of which on an average 1.7 percent is financed by public sector investment. With gradually declining Official Development Assistance (ODA) in the recent years, Bangladesh needs to boost the PPP mode of investment along with private sector investments.

During 2019-20, out of total net power generation in Bangladesh, 49 percent power was generated by public sector power plants, 41 percent from private power plants and the remaining 10 percent was met through power import. An MoU between the Government of India and the Government of the People's Republic of Bangladesh on Cooperation in Power Sector was signed on January 11, 2010. A Joint Working Group (JWG) and a Joint Steering Committee (JSC) have also been established. A high-capacity interconnection between India and Bangladesh exists through Baharampur (India) – Bheramara (Bangladesh) 400 kV D/c line along with 2x500 MW HVDC back-to-back terminal at Bheramara, which facilitates transfer of power of the order of 1000 MW to Bangladesh. Additional radial interconnection from Surajmaninagar in Tripura (India) to Comilla in Bangladesh has been implemented for 160 MW power transfer to Bangladesh. Thus, the total power transfer capacity between the two countries is about 1160 MW. Further, Baharampur (India) – Bheramara (Bangladesh) 400 kV D/c 2nd line is under

93 Government of India, Ministry of Port, Shipping and Waterways, Maritime India Vision 2030, February 2021.

94 World Development Indicators Database, World Bank

95 Government of Bangladesh, Ministry of Finance, Bangladesh Economic Review, October 2020.

96 Government of Bangladesh, Ministry of Planning, Sustainable Development Goals Bangladesh Progress Report 2020, June 2020.

implementation for reliable supply of power through Bheramara 1000 MW High Voltage Direct Current or HVDC link. For synchronous interconnection and additional power transfer between the two countries, development of Katihar (India) – Parbotipur (Bangladesh) – Bornagar (India) 765 kV D/c line to be implemented by Power Grid Corporation of India Ltd or POWERGRID. POWERGRID has been providing consultancy services in 20 countries and currently executing 14 consultancy projects in Bangladesh, Bhutan, Nepal and Fiji, among others[97].

NTPC has formed a 50:50 joint venture company with Bangladesh Power Development Board (BPDB), called Bangladesh-India Friendship Power Company Limited (BIFPCL) to set up the Maitree Super Thermal Power Plant', a coal-based power plant of 1,320 (2*660 MW) MW capacity. NTPC's 100 percent owned subsidiary company, NTPC Vidyut Vyapar Nigam (NVVN), has been designated as the nodal agency by the Government of India for cross border power trading with Bangladesh, Bhutan, Myanmar and Nepal. According to the Power Purchase Agreement (PPA), for supply of 250 MW power for 25 years from NTPC stations signed between NVVN and BPDB, power is being supplied to Bangladesh since October 2013. Further, under the PPA signed between NVVN and BPDB, 160 MW power is being supplied to BPDB through a back-to-back Power Sale Agreement (PSA) with Tripura State Electricity Corporation Ltd (TSECL). NVVN participated and won the international contract for supply of 300 MW Round the Clock (RTC) power to BPDB for 15 years in February 2018. Accordingly, NVVN signed PPA with BPDB for supply of 300 MW power from DVC and supply commenced on September 10, 2018.

This trading arrangement has helped Bangladesh in meeting its power requirements and attaining energy security[98]. The power sector has been one of the most dynamic areas where significant cooperation exists between the two countries. In the past, deals have been inked with other private companies like Reliance Power and Adani Power Ltd. to supply power to Bangladesh.

South Asia has a requirement of US$ 1 trillion for the next ten years to develop energy infrastructure and energy security[99]. While investments have increased in recent years, there is further scope for enabling regional cross-border energy trade as this will lead to optimisation of energy resources across the countries and ensure energy security thus facilitating cross border trade. Bangladesh has imported power of 1,160 MW from India in 2019 and is trying to diversify its energy import sources from Nepal and Bhutan to ensure 100 percent energy security by 2041 and increase imports up to 5000 MW by 2031 and 9000 MW by 2041[100].

Bangladesh, Bhutan, India and Nepal (BBIN) have made significant progress in power generation and energy cooperation in recent years. India, being centrally placed in the South Asian region, is playing a major role in facilitating planning of power interconnections with these countries for effective utilization of regional resources. India has developed expertise in implementation of High Voltage Direct Current (HVDC) and Ultra High Voltage Alternating Current (UHVAC) transmission projects in its

[97] Government of India, Ministry of Power, Annual Report 2020-21.

[98] Trade in Electricity, Press Release of Ministry of Power, GOI, March 19, 2020

[99] Powering South Asia's energy trade links, Financial Express, September 22, 2020

[100] Perspective Plan of Bangladesh 2021-2041, Ministry of Planning, Government of Bangladesh, March 2020

neighbouring countries and boost energy security in the sub-region. India already has regional power system integration with Bangladesh, Bhutan, and Nepal through high voltage synchronous (Alternating Current) and asynchronous (High Voltage Direct Current) connections. The latest technologies like STATCOM, Voltage Source Converter based HVDC system, etc., have been deployed in the Indian grid, for facilitating power transfer with reliability amongst regional neighbouring countries[101]. Presently, India exports electricity to Nepal, Bangladesh, and Myanmar, while India imports power from Bhutan. During lean hydro season, however, India has also exported power to Bhutan. NVVN has signed an MoU with BPDB on April 10, 2017, for supply of 500 MW power from GMR Upper Karanali hydropower project, in Nepal, using Indian transmission lines.

According to the data from ITC Trademap, electrical energy (HS 271600) was the second largest item exported by India to the BBIN sub-region during 2019. India's export of electrical energy to BBIN has increased to US$ 610.7 million in 2019 from US$ 24.5 million in 2015. Bangladesh and Nepal were the major importers, with Bangladesh accounting for 82.7 percent of the total electrical energy exports by India, followed by Nepal, accounting for 17.3 percent in 2019. Thus, opportunities exist for strengthening the sub-regional power corridor through the BBIN countries.

Oil and Gas

During the Virtual Summit of India and Bangladesh in December 2020, a Framework of Understanding on Cooperation in the Hydrocarbon Sector was proposed to be signed which would further augment energy linkages by streamlining investments, technology transfer, joint studies, training and promoting hydrocarbon connectivity. Being the largest producer and consumer in the region, India is in a position to facilitate initiatives in the energy sector. India is constructing the India-Bangladesh Friendship Pipeline from Siliguri to Parbotipur in Bangladesh for supply of high-speed diesel and Indian energy majors such as ONGC Videsh Ltd. and Oil India Ltd. have invested around US$ 24.26 million in two shallow water blocks in Bangladesh[102].

Indian Oil Corporation Ltd. (IOCL) is currently undertaking a number of activities in Bangladesh in coordination with Bangladesh Petroleum Corporation (BPC) and Petrobangla (a government-owned national oil company in Bangladesh) and a joint venture has been formed between IOCL and BEXIMCO (a multinational conglomerate holding company in Bangladesh) in June 2020 to further expand its downstream business in Bangladesh and other countries.

Bangladesh's domestic natural gas reserves meet 47 percent of its energy demand, but the declining production and absence of major discoveries indicate import as a likely option. As a part of the long-term strategy to import LNG, two Floating Storage and Re-gasification Units (FSRUs) having storage capacity of 1,38,000 cubic meter LNG have already been installed by Bangladesh.

[101] Ministry of Power, Government of India, PIB Press Release, March 19, 2020

[102] India, Bangladesh exploring proposal for cross-border refined-LNG pipeline, The Daily Star, March 10, 2021.

A large LNG facility on the Bay of Bengal coast with participation by India, Bangladesh and possibly Nepal is being explored. New LNG terminals at Haldia (West Bengal) and Dhamra (Odisha) are being developed. A proposal for supplying refined-LNG through cross-border pipeline and the establishment of an LNG terminal are also being explored. A trilateral partnership between Bangladesh, India and Nepal to develop shared pipelines, terminals, and gas storage facilities can enhance the economic viability of these investments and move the region towards a net-zero pathway.

Therefore, sub-regional cooperation in energy sector can attract high investments if supported by complementary infrastructure for generation and transmission.

Renewable Energy

According to the 8th Five Year Plan of Bangladesh (July 2020 – June 2025), the share of renewable energy to the total electricity generation declined from 3.6 percent in FY2015 (July 2014-June 2015) to 3.25 percent in FY2019. Under the SDG 7, Bangladesh has a national target of increasing the share of renewable energy by 20 percent of total energy consumption and 10 percent of total power generation by 2030[103]. At present, the installed capacity of renewable energy is estimated at 722.1 MW out of which 488.2 MW is solar, followed by hydro at 230 MW and wind at 2.9 MW. Biogas and biomass account for 0.6 MW and 0.4 MW, respectively[104].

The 8th Five Year Plan of Bangladesh (July 2020-June 2025) particularly focuses on enhancing solar and wind-based energy generation and reaching areas where grid-based supply is limited. To increase the share of renewable energy, commercial partnerships are encouraged in solar parks (grid connected), solar housing schemes and solar irrigation (non-grid), solar mini/micro grid, and solar rooftops.

India has the fifth-largest installed capacity of solar energy and fourth-largest installed capacity in wind energy in the world. As on January 2021, India's total installed capacity of renewables is over 92 GW and is expected to increase by nearly five-fold to 450 GW by 2030.

NTPC Renewable Energy Ltd, a 100 percent subsidiary of NTPC, would be setting up 4750 MW renewable energy park at Rann of Kutch in Khavada, Gujarat. Recently, NTPC has also commissioned India's largest Floating Solar of 10 MW on the reservoir of Simhadri Thermal Power Plant, Andhra Pradesh. Further, a 100 MW Floating Solar Project on the reservoir of Ramagundam Thermal Power Plant, Telangana is in the advanced stage of implementation[105]. Indian companies with expertise in the field of solar energy could set up grid scale plants in Bangladesh. Joint ventures could be established with such solar parks in Bangladesh. Apart from these, Indian private sector could come up with solutions for rooftop solar and floating solar photovoltaic panels (FSPVs) for off-grid generation, as solar PV deployment is land

[103] Government of Bangladesh, Bangladesh Planning Commission, Sustainable Development Goals, Bangladesh Progress Report 2020, General Economic Division, June 2020.

[104] Government of Bangladesh, National Database of Renewable Energy, Sustainable and Renewable Energy Development Authority (SREDA), (accessed on March 2, 2021).

[105] www.ntpc.co.in

intensive in nature and Bangladesh is challenged by the absence of required land for installing solar PVs. However, large waterbodies would be utilised for developing FSPV projects.

Agri-business and Food Processing

In the agriculture sector, Bangladesh aims at further increasing agricultural diversification while maintaining food security, through improvements in productivity, supply of inputs, irrigation, farm credit and marketing support, among others. Bangladesh also aims at further increasing agricultural exports in fisheries, fruits and vegetables, and dairy products. The COVID-19 pandemic has further emphasised the importance of establishing sustainable value chains in the agriculture sector from both production and consumption perspectives. Agriculture and frozen food (fish, shrimps, and others) accounted for 1.4 percent each, of Bangladesh's global exports in 2019-20. According to the data from ITC Trademap, Bangladesh is a net importer of cereals (HS 10), with a trade deficit of US$ 1.6 billion in 2019, edible vegetables and certain roots (HS 07), with a trade deficit of US$ 706 million, and edible fruits and nuts (HS 08), with a trade deficit of US$ 509.7 million.

India has been one of the leading exporters of agricultural products in the world. India's agricultural exports, including marine products, stood at US$ 40 billion in 2020-21, while the sector contributes to 16.5 percent of India's GDP and employs over 43 percent of its workforce. It is also one of the largest producers and exporters of agricultural machinery to UK, North America, Eastern Europe, EU, Africa, ASEAN, and SAARC countries. India's agriculture technology market is expected to reach US$ 24.1 billion by 2025[106].

India has announced the "Agri Infrastructure Fund" of ₹ 1 trillion in May 2020 for upscaling agriculture infrastructure in the country through financing agricultural infrastructure projects at farm-gate and aggregation points along with post-harvest management infrastructure. Investments would be made in marine and inland fisheries by developing necessary infrastructure such as fishing harbours, cold chain, markets, etc. and major fishing harbours like Kochi, Chennai, Visakhapatnam, Paradip and Petuaghat[107].

India could collaborate with Bangladesh across the agricultural value chain ranging from seed production including hybrid seeds, agriculture and food processing, and R&D activities to cold chain storage technology, among others. Technology transfer through cooperation at various stages of the agricultural value chain could help in strengthening further cooperation.

Investment opportunities exist in agricultural inputs and equipment like seeds, fertilizer, pesticide, irrigation and farm machinery, post-harvest infrastructure and food processing like edible oil, rice, sugarcane, fruits and vegetables & spices. Establishing Joint Ventures can facilitate in reducing the trade deficit by promoting export in the sector and foster industry and market diversification for Bangladesh. Establishing manufacturing units and assembly of agricultural machinery is another area of engagement that India and Bangladesh may explore. Indian companies can explore opportunities of setting up food processing plants in the Economic Zones.

[106] Investindia.gov.in

[107] Government of India, Economic Survey 2020-21, Ministry of Finance.

Bangladesh is one of the largest markets for India's agricultural products. Indian private sector could collaborate with Bangladesh companies on the technology front to increase the shelf life of freshly grown fruits and vegetables. With several emerging technologies coming up, the use of artificial intelligence in agricultural machinery and farm equipment could also be another area of cooperation. Opportunities also exist in frozen food which is the country's one of the largest exporting sectors. Support services at various stages of the agricultural value chain could be provided through access to finance, storage, power, and packaging, among others (**Exhibit 4.2**).

Exhibit 4.2: Agricultural and Allied Sectors Value Chain

Source: India Exim Bank Analysis

India has been increasingly using solar pumps for irrigation facilities especially where there is a lack of reliable power generation and infrastructure. Modernisation of agriculture is the potential area for greater synergy and collaboration. As both India and Bangladesh face similar challenges in farm mechanisation, this could a win-win situation. Half of Bangladesh's population is engaged in agriculture, but the sector lags in productivity due to outdated modes of production and vulnerability to climate factors. Bangladesh is a major producer of inland fish, freshwater fish and rice, and ranks among the top five producers in the world in these categories.

With new technologies like Internet of Things (IoT) enabled solar pumps and solar powered cold storage rooms coming in the renewable energy sector, technology transfer could be fostered by the Indian private sector.

The North Eastern Region of India is positioned favourably for the cultivation of several fruit and vegetable products. For Bangladesh, such a cluster in its vicinity offers advantages for investing in food processing industry. A growing middle class in Bangladesh has fuelled demand for high quality agricultural products. Strong consumer demand exists for imported fresh fruits, tree nuts, dairy products, and processed food items. The North Eastern states of India could also capitalize on the rising demand for fresh fruits and vegetables, and for fresh, high-quality spices. Bangladesh, which shares a border with four of the eight North Eastern states, is very well placed to benefit from, and play a critical role in, their development. Bangladeshi firms may source inputs and raw materials from Assam, Mizoram, Meghalaya, and Tripura by getting access to a possibly cheaper and greater variety of fruits, vegetables and spices. Spices, along with horticultural products such as fruits and vegetables from NER, can cater to the food requirements of Bangladesh, which is a net importer of food, and specifically of spices, fruits, and vegetables. The proximity to Bangladesh would also help in maintaining the freshness of the products. Bangladesh could also invest in spice farms and other businesses along the value chain in NER to cater to its demand for spices and food industry. It can also play a strategic role in connecting NER to the global market through the Chattogram and Mongla ports and the rest of India through more cost- and time-efficient land or multimodal transportation corridors. Bangladesh has a thriving furniture industry, particularly wood. In 2018, Bangladesh allowed import of bamboo-based products through the Agartala-Akhaura[108]. Bangladesh could therefore invest and source semi-processed and finished bamboo products from the region. Therefore, cooperation at various levels in the agriculture and allied sectors could lead to the creation of regional value chains ensuring sustainable growth.

Shipbuilding

Bangladesh will be assuming the Chairmanship of the IORA in 2021 for the period 2021-2023. India was the IORA Chair during 2011-2013 and had revitalized the regional group by strengthening cooperation at institutional levels and capacities. During India's Chairmanship, focus areas were identified to promote sustained growth and balanced development in the Indian Ocean Region. These areas include maritime security, trade and investment facilitation, fisheries management, disaster risk management, tourism, and cultural exchange, academic, science and technology, blue economy and women's economic empowerment, respectively[109].

Over the past few years, shipbuilding activities have shifted from Europe to Asia due to higher cost of labour in Europe and the availability of steel and competitive strength in the manufacturing sector of East and Southeast Asia. Over 90 percent of shipbuilding happens in China, the Republic of Korea and Japan. Both India and Bangladesh account for less than one percent of global share of shipbuilding.

According to UNCTAD, Bangladesh and India account for a major share of global ship recycling in 2019 at 54.7 percent and 26.6 percent respectively. However, in terms of shipbuilding the two countries account for a much lesser global share at 0.1 percent and 0.03 percent, respectively.

Shipbuilding has been one of the thrust sectors for Bangladesh due to the country's export potential for small ocean-going vessels. The majority of the shipping operations are owned by the state-owned Bangladesh Shipping Corporation (BSC) and some private shipping operators are present as well. As mentioned in its 8th Five Year Plan document, Bangladesh aims to increase its shipping exports, but the shipping sector constrained by inadequate shipping capacity, shortage of resources, inadequate technical capabilities in an environment of changing global technology in shipping, among others. The country aims to boost its role in international shipping and make the sector commercially viable. Bangladesh aims to modernize the BSC with an expanded fleet and trained staff also aims to encourage participation of international private sector.

India and Bangladesh could facilitate increased cooperation in the areas of maritime cooperation and defence equipment manufacturing[110] as both the countries are maritime nations. Both countries have shipyards at close proximity which could be leveraged for building a strategic partnership in production,

[108] World Bank (2019), Kathuria, Sanjay, and Priya Mathur, eds. "Strengthening Cross-Border Value Chains: Opportunities for India and Bangladesh, 2019.

[109] www.iora.int

[110] "India could assist Bangladesh with defence related ship building", Economic Times, November 19, 2020.

development and maintenance of ships. India has a robust shipbuilding industry with an ecosystem of world class public and private shipbuilding companies. Indian shipyards could explore partnership with Bangladeshi shipyards for the construction of platforms as per Bangladesh requirements through JVs, co-development and collaboration for both commercial and defence requirements[111]. Potential lies in the co-development in the area of shipbuilding industry with Indian shipbuilding companies. Opportunities for investment or establishing JV exists in the development of new shipyards or expansion and renovation of existing facilities; upgradation of shipyards with modern facilities and technical assistance for sophisticated shipbuilding which follows international standards.

Pharmaceuticals

Pharmaceutical exports of Bangladesh have grown by a CAGR of 13 percent from US$ 39.8 million in 2010 to US$ 120 million in 2019[112]. The industry caters to almost the entire domestic market and exports to partner countries[113]. However, once Bangladesh graduates from the LDC category in 2026, it will no longer have access to a special World Trade Organisation (WTO) waiver, which exempts the pharmaceutical industry of Bangladesh from the Agreement on Trade-Related Aspects of International Property Rights (TRIPS). The exemption has allowed the government to pursue a dedicated industrial policy which has spurred growth until now.

Under the waiver, Bangladesh as an LDC can export generic versions of patented drugs to any country where those drugs aren't covered by patents or where compulsory licences are issued to treat diseases like cancer or HIV/AIDS. Bangladeshi firms have built their technological base by imitating or reverse-engineering foreign technologies, taking advantage of the weak intellectual property protection in the country. Bangladesh's key export markets in 2019 include Vietnam (18.7 percent), Myanmar (16 percent), USA (13.1 percent), the Philippines (9.9 percent), and Kenya (5.4 percent).

Bangladesh's pharmaceutical market is estimated to grow by 7.6 percent from US$ 3.1 billion in 2019 to reach US$ 3.5 billion in 2020. It is probably the only LDC to meet 98 percent of its domestic demand for pharmaceutical products. The domestic market is dominated primarily by generic drugs, which account for 71.4 percent of the total pharmaceutical sales, followed by over-the-counter drug sales, which account for 21.3 percent. Patented drugs make up a small segment of the total market at 7.3 percent. Communicable diseases were the major part (70 percent) of the epidemiology of this market till 2014. However, the profile is now shifting towards non-communicable diseases, predominantly cancer, musculoskeletal disorders, chronic respiratory conditions, and psychological disorders[114].

Bangladesh is also setting up an Active Pharmaceuticals Ingredient (API) Industrial Park in Munshiganj that will help in the production of patented and already opened APIs.

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[111] India And Bangladesh Join Hands For Defence Partnership And Co-Production In The Region, Business World, November 20, 2020

[112] ITC Trademap

[113] "What LDC graduation will mean for Bangladesh's drugs industry", United Nations LDC Portal, Daniel Gay, December 18, 2017.

[114] Pharmaceutical Export Promotion Council of India, Bangladesh Pharma Market and Regulatory Report, June 2020.

Key market growth drivers include increasing burden of non-communicable diseases, growing public healthcare spending, rising healthcare spending in the private sector (as per capita wealth increases), improved access to health facilities and the adoption of modern marketing techniques by local drug manufacturers.

The Perspective Plan of Bangladesh 2021-2041 aims to strengthen support for private investment and quality control for drug manufacturing and distribution through improved testing and certification processes. To achieve long term sustainability, the sector needs to be more open to foreign direct investment and trade[115]. The Government of Bangladesh encourages foreign companies to partner with local companies in producing drugs and high-tech and specialized products. Regulations have eased, allowing foreign companies to export medical products to Bangladesh. The challenges faced by pharmaceutical industries after LDC graduation can be resolved through mechanisms like joint investment by Bangladeshi companies with foreign firms owning proprietary rights of the patents.

Information and Communication Technology (ICT)

Bangladesh aims to increase its ICT exports and transform itself into a digital and knowledge economy by 2041. With over 3,000 local enterprises operating in hardware, software, and business process outsourcing (BPO) sectors, the size of Bangladesh's ICT industry at present stands at around US$ 700 million and exports of US$ 516.7 million. Bangladesh Hi-Tech Park Authority has set up 28 high-tech parks or software technology parks across the country[116].

Bangladesh has higher fixed broadband subscriptions per 100 people than India and South Asia's average and higher mobile cellular subscriptions (per 100 people) than the global average (**Table 4.5**).

Table 4.5: ICT Infrastructure in Bangladesh in 2019

Region	Fixed Telephone Subscriptions (per 100 people)	Fixed Broadband Subscriptions (per 100 people)	Mobile Cellular Subscriptions (per 100 people)
Bangladesh	0.9	5.0	101.5
India	1.5	1.4	84.3
South Asia	1.5	1.7	85.1
World	12.6	15.7	109.4

Source: World Development Indicators and India Exim Bank Analysis

India and Bangladesh have signed the Tripartite MoU on Supply of ICT Equipment, Courseware & Reference Books and Training for Bangladesh-Bharat Digital Service and Employment Training (BDSET) Centre on March 27, 2021[117].

[115] US Department of State, 2020 Investment Climate Statements: Bangladesh, Bureau of Economic and Business Affairs.

[116] Government of Bangladesh, Ministry of Finance, Bangladesh Economic Review, 2020.

[117] Government of India, Ministry of External Affairs, "Joint Statement issued on the occasion of the visit of Prime Minister of India to Bangladesh", March 27, 2021.

Bangladesh has undertaken initiatives to build ICT infrastructure, including a four-tier national data centre, and establishing connectivity in rural areas by laying fibre optics cable. The Government has connected Moheshkhali, one of the remotest islands of Bangladesh, to mainstream digital activities and services under the digital island initiative and aims to replicate on other remote islands[118].

According to the IBEF, the Indian IT industry accounted for 8 percent of India's GDP in 2020. Exports from the Indian IT industry are expected to increase by 1.9 percent to reach US$ 150 billion in FY21. India has been assisting Bangladesh in setting up high-tech parks across its 12 districts[119]. Given the vast experience and capabilities of Indian IT companies, opportunities exist for the Indian public as well as the private sector to invest, or collaborate with Bangladeshi companies, to develop ICT infrastructure in Bangladesh.

Increased Cooperation among MSMEs

According to the 8th Five Year Plan of Bangladesh, cottage, micro and small enterprises account for 99.8 percent of all non-farm enterprises and 83 percent of all non-farm employment (estimated at 34 million in 2019). However, they face regulatory barriers owing to the absence of registration and tax ID, inadequate access to institutional finance, high interest rates, low investments, inadequate technology and skills and market access. In this context, the 8th Five Year Plan proposes to transform the existing SME Foundation to Small Business Agency (SBA) which would serve as a one-stop-shop by working closely with the Bangladesh Bank for financing. Along these lines, Indian development financial institutions could collaborate with the Bangladesh Bank for extending commercial lines of credit or developing innovative financial solutions for SME development across various sectors. Also, capacity building programmes for MSMEs and start-ups could be organised in collaboration.

Way Forward

Bangladesh at the Cross-Roads of LDC Graduation

The triennial review by the Committee for Development Policy (CDP) of the United Nations in February 2021 have confirmed Bangladesh's eligibility to exit the LDC category based on its crossing the three thresholds of per capita GNI, Economic and Environmental Vulnerability Index (EVI) and Human Assets Index (HAI). Prior to the outbreak of COVID-19, three years of transition period would be provided to Bangladesh for graduation from the LDC category i.e., by 2024. However, the preparatory period has been extended by five years i.e., by 2026. Graduating from an LDC status would improve the investor confidence and debt servicing ability leading to a higher rating for investment by international rating agencies, which may, in turn, attract larger foreign direct investment in Bangladesh. However, there are several risk factors for Bangladesh associated with its graduation from the LDC status. According to the Perspective Plan of Bangladesh 2021-2041, the loss of preferences in the markets of the European Union, Canada, Australia, Japan, India and China might lead to an annual reduction in total exports

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[118] Government of Bangladesh, Ministry of Planning, Perspective Plan of Bangladesh 2021-2041, March 2020.

[119] "India to help Bangladesh developing hi-tech parks, IT sector", NEWAGE Bangladesh, November 24, 2020.

of Bangladesh by 11 percent which would be equivalent to around US$ 7 billion based on the current export levels.

According to the estimates of the Bangladesh Garment Manufacturers and Exporters Association (BGMEA), Bangladesh's garment exporters are expected to suffer a loss of up to US$ 4 billion if the duty-free trade benefit for the country comes to an end in the European Union following its graduation to a developing nation. This is because once the standard GSP or MFN tariff is applicable, it will increase the cost of sourcing from Bangladesh. If the Standard Generalised System of Preferences (GSP) can be availed following the graduation, like other low and lower-middle income countries, the loss is estimated to be around US$ 3.2 billion[120]. Also, many of the exemptions of WTO provisions, including the reduction in tariff and subsidies and adherence to intellectual property rights (especially for the pharmaceuticals sector), which are currently enjoyed by Bangladesh as an LDC, will no longer be available after 2026, except for EU which allows a transition period until 2029. Further, Bangladesh has already graduated from the World Bank's 'low-income' category to 'lower-middle-income' category, the scope for loans at lower interest rates would be limited. Bangladesh on graduation will have lesser access to concessional financing from the multilateral institutions like World Bank and Asian Development Bank.

Therefore, Bangladesh would need to enhance its technology and labour productivity, enabling environment for trade, the state of trade logistics, ease of doing business, access to finance, and availability of skills. According to the World Bank, Bangladesh's Logistics Performance Index in 2018 stood at 100 as compared to China (26), Thailand (32), Vietnam (39), India (44), and Sri Lanka (94), Lao PDR (82) and Cambodia (98). Improving transport infrastructure and lowering the cost of trade logistics remain pertinent for Bangladesh because the export competition will further increase once it graduates from LDC status.

Partners in the Region and the World

Infrastructure has been long cited as one of the key imperatives for Bangladesh to achieve its medium- and long-term socioeconomic development goals. Within infrastructure, investments in transport can act as a multiplier, promoting economic activity by reducing operating costs and saving time. Extending this a step further, by building regional corridors between India and Bangladesh, would reinvigorate the significance of the eastern subcontinent in the global arena. This will be a win-win for both, India and Bangladesh. Apart from serving as a connecting link to the BIMSTEC and ASEAN countries, for India in particular, enhancing connectivity infrastructure would advance India's Act East Vision along with further expanding its connectivity with North East India.

India has been allocated lands in Mongla (close to the Mongla port), Kushtia (a district bordering India) and Mirsarai (in the Chattogram District) Economic Zones for investing in industrial activities. India could further assume a larger role in developing road and railway infrastructure including which would connect the inland waterways to the economic zones and ports such that the entire multimodal transport system is functional. Given the high funding requirement for such infrastructure, Public Private Partnership initiatives could emerge as a viable model.

[120] "Garment sector to lose US$ 4bn in EU if duty-free benefit ends", The Daily Star, December 7, 2020.

Bangladesh and India need to work together and leverage the potential offered by the regional cooperation initiatives to integrate the flow of goods and services. The potential for overseas trade through sea and inland waterway routes can be immense with these two countries being the key economic drivers and a connecting link to the region encompassing India, Bangladesh, Nepal, Bhutan and the ASEAN region. Thus, creating an alternative corridor for trade and fostering greater cooperation for multimodal connectivity are imperative to overcome the pandemic-induced vulnerabilities, while ensuring sustainable growth.

Non-tariff barriers have been significantly affecting India-Bangladesh trade. Reducing the bilateral trade deficit with India remains a concern in Bangladesh. In this case, Indian investments in Bangladesh could help in increasing value addition to Bangladesh exports, thereby helping Bangladesh diversify its markets. Establishing regional value chains for agriculture and food processing, pharmaceuticals, and increasing connectivity through multimodal transport as well as boosting digital infrastructure could support Bangladesh's growth in the coming years.

Bangladesh has received Indian investment in sectors like energy, textiles, pharmaceuticals, automotive, consumer goods and telecommunication. Along with the existing traditional areas of cooperation, technology facilitation mechanisms can enable Bangladesh to develop sustainable solutions harnessing India's engineering and technological capabilities. Such cooperation could help in closing the gaps as well as build the necessary capacity.

Commercialisation and modernisation of agriculture, technology transfer to enhance efficiency and augment productivity of the manufacturing sector and increasing use of ICT and digital technology by collaborating with Indian private sector could support Bangladesh's transition through the 4th Industrial Revolution. The COVID-19 pandemic highlighted the importance of establishing local supply chains and self-reliance for ensuring sustainable growth. In the context of uncertain global economic and trade scenario, neighbouring countries like India and Bangladesh need to leverage their intrinsic advantages for further cooperation for mutual economic and welfare.

Therefore, India's Strategy to enhance investments in Bangladesh can be through three ways–

- Government to government credit could be utilised to develop the infrastructure of the economic zones and other strategic projects.
- PPP projects could be developed through Buyer's Credit using the services of the Indian project export companies.
- Through private investments (FDI/JV) in the economic zones as well as non-economic zones.

Chapter 5 India Exim Bank's Presence in Bangladesh

The Export-Import Bank of India (India Exim Bank) commenced operations in 1982. The Bank was set up under an Act of Parliament (Export-Import Bank of India Act 1981), for providing financial assistance to exporters and importers, and for functioning as the principal financial institution for coordinating the working of institutions engaged in financing export and import of goods and services with a view to promoting the country's international trade. In its endeavour to promote India's international trade, India Exim Bank's vision has evolved from financing, facilitating and promoting trade and investment, to a conscious and systematic effort at creating export capabilities; India Exim Bank today seeks to develop commercially viable business relationships with externally oriented companies.

India Exim Bank has supported various projects and activities in Bangladesh and other countries in the South Asia region. India Exim Bank's overseas representative office in Dhaka is closely associated with several of the Bank's initiatives and plays a key role in facilitating economic cooperation with Bangladesh. India Exim Bank's presence in the East and the North East regions at Kolkata (West Bengal) and Guwahati (Assam) also enable the Bank to support MSMEs in the region through its range of financing and capacity building programmes.

Financing Programmes

Lines of Credit

India Exim Bank is the implementing agency for extending Lines of Credit (LOCs) under the Government of India's (GOI) India Development and Economic Assistance Scheme (IDEAS). To promote bilateral and regional commercial relations, India Exim Bank extends LOCs to governments, parastatal organizations, financial institutions, commercial banks and regional development banks to support export of eligible goods on deferred payment terms. As on March 31, 2021, India Exim Bank, on behalf of the Government of India, has extended 4 LOCs to Bangladesh amounting to US$ 7.9 billion (**Table 5.1**).

Table 5.1: India Exim Bank's Operative Lines of Credit in Bangladesh

Sr. No.	Key Sectors/Projects Covered	Amount of Credit (US$ mn)
1	Financing export of goods and projects including development of railway infrastructure, dredging, construction of bridges, procurement of buses, locomotives, coaches, and rehabilitation of Saidpur Workshop.	862.0
2.	Financing various social and infrastructure development projects in Bangladesh (such as power, railways, road transportation, information, and communication technology, shipping, health, and technical education sectors)	2,000.0
3.	Developmental Projects	4,500.0
4.	Defence	500.0
	Total	**7,862.0**

Supporting Project Exports

India Exim Bank plays a pivotal role in promoting and financing Indian companies in the execution of projects. Towards this end, the institution extends funded and non-funded facilities for overseas industrial turnkey projects, civil construction contracts, supplies as well as technical and consultancy service contracts. These projects, in turn, facilitate and support infrastructure development in host countries, thereby contributing to the overall development process in the region. India Exim Bank has financed several Indian project exporters in the region in various sectors including, among others, water resources development and power projects; irrigation and power projects; gas pipeline and power projects; and hydropower projects.

Buyers Credit Under National Export Insurance Account (NEIA)

In order to provide further impetus to project exports from India on a medium- or long-term basis, especially in the infrastructure sector, the Buyer's Credit under National Export Insurance Account (BC-NEIA) programme was launched in 2011. This programme facilitates project exports from India by way of extending credit facilities to overseas sovereign governments and government-owned entities for the import of goods and services from India on deferred credit terms. Indian exporters can obtain payment of eligible value from India Exim Bank, without recourse to them, against negotiation of shipping documents. NEIA is a Trust, set up by the Ministry of Commerce and Industry and administered by ECGC. As on March 31, 2021, Bangladesh features among the 92 countries in the positive list identified by ECGC for which Indian exporters can avail BC-NEIA.

Finance for Joint Ventures

With a view to supporting Indian companies in their endeavour to globalise their operations, India Exim Bank operates a programme to support overseas investments by Indian companies through JVs and

WOS. Such supports include loans and guarantees, equity finance and in select cases direct participation in equity along with Indian promoters, to set up such ventures overseas. As on March 31, 2021, India Exim Bank has provided finance to three Indian companies for setting up ventures in Bangladesh in engineering goods and textile/garments sectors with sanctioned amount of ₹ 904.5 million.

Concessional Financing Scheme

India Exim Bank has extended a term loan of US$ 1.60 billion to the Bangladesh-India Friendship Power Company Pvt. Ltd. (a 50:50 joint venture between the Bangladesh Power Development Board, Bangladesh and NTPC Ltd., India) for financing the strategic 1320 MW (2x660 MW) ultra-super-critical Maitree Super Thermal Power Project on turnkey basis at Rampal, Bangladesh. The contract was awarded to Bharat Heavy Electricals Ltd., following an International Competitive Bidding process. State-of-the-art technologies have been selected for this project to make it an environment friendly project. Once commissioned, the Maitree Super Thermal Power Project is expected to be one of the largest power plants in Bangladesh. The power plant is part of the Government of Bangladesh's plan for infrastructure development in the country, augmenting the power generation capacity and reducing the current power deficit.

Research Studies

India Exim Bank carries out research on areas related to bilateral trade and investment, sector/ product/ country and regional studies, as also policy issues related to the external sector with a view to enhancing competitiveness of Indian exporters. The published research studies related to Bangladesh include –

- Bangladesh: A Study of India's Trade and Investment Potential;
- SAARC: An Emerging Trade Bloc;
- India's Trade and Investment Relations with LDCs (Least Developed Countries): Harnessing Synergies;
- Fresh Fruits, Vegetables and Dairy Products: India's Potential for Exports to Other Asian Countries;
- Indian Ocean Rim Association for Regional Cooperation (IOR-ARC): A Study of India's Trade and Investment Potential;
- Potential for Enhancing Intra - SAARC Trade: A Brief Analysis;
- BIMSTEC Initiative: A Study of India's Trade and Investment Potential with Select Asian Countries;
- Strategy paper for SAARC Development Fund to promote intra-regional projects in the South Asian Region

India Exim Bank as an International Consultant

India Exim Bank is well positioned to share its experience and expertise in the fields of capacity creation, institutional strengthening, export development and export capability creation. It is thus well placed to provide a range of technical assistance in these fields. India Exim Bank has rendered consultancy services to a number of instructions related to Bangladesh:

- Strategy paper for SAARC Development Fund to promote intra-regional projects in the South Asian Region;
- Pre-feasibility study for setting up Commonwealth Trade and Development Bank (CTIB).

Institutional Linkages

India Exim Bank has fostered a network of alliances and institutional linkages with multilateral agencies, export credit agencies, banks and financial institutions, trade promotion bodies, and investment promotion boards in various countries to help create an enabling environment for supporting trade and investment. With a view to building institutional linkages, India Exim Bank has, in the past, entered into a Memoranda of Understanding (MoU) with Industrial Promotion and Development Corporation of Bangladesh Ltd.

GPCL Consulting Services Ltd

India Exim Bank has taken the initiative of setting up Global Procurement Consultants Ltd. (GPCL), in partnership with leading consultancy firms in India, for providing procurement-related services to multilateral agencies such as the World Bank and Asian Development Bank. GPCL has undertaken a number of assignments including:

- Independent Procurement Review (IPR) of 4 World Bank financed-projects in Bangladesh;
- Assisted a US entrepreneur in the procurement of a joint venture partnership in Bangladesh for setting up an industrial unit to manufacture water conservation valves used in large sprinkler irrigation schemes; and
- South Asia Enterprise Development Facility (SEDF) commissioned GPCL to undertake a technoeconomic feasibility study for a foundry coke project being put up by a Bangladeshi entrepreneur in Dhaka.

Representative Offices

India Exim Bank has representative offices in Dhaka, which seeks to establish and maintain relationships with multilateral agencies, regional development institutions, trade and investment promotion bodies, international banks, chambers of commerce, government departments and institutions in Bangladesh and identify areas of co-operation. The representative office also plays a role in facilitating India's economic co-operation with Bangladesh, while keeping close coordination with Indian Missions in the region. The office projects India Exim Bank's capacities in financing India's international trade and investment, as also keeps the Bank abreast of the developments in the economic and banking/ financial sectors in Bangladesh.

India Exim Bank in East and North East Region of India

With a view to assisting entrepreneurs in harnessing the tremendous export potential of the East and the North Eastern region of India, India Exim Bank has its representative offices at Kolkata and Guwahati. While the Kolkata Office covers India Exim Bank's activities in the states of Bihar, Chhattisgarh, Jharkhand, Odisha and West Bengal; the Guwahati Office covers the Bank's activities in the eight states of the NER, namely, Assam, Arunachal Pradesh, Meghalaya, Mizoram, Manipur, Nagaland, Sikkim and Tripura. These two offices are strategically placed to play vital roles in promoting exports from the Eastern and the North Eastern region ranging from creating awareness of export potentials of the region and capacity building to financing of exports and export-oriented units. In order to enhance the export potential of MSMEs in industrial clusters in the North Eastern Region, India Exim Bank has collaborated with the United Nations Development Programme (UNDP). The India Exim Bank-UNDP programme for the North East Region seeks to develop, among others, bankable export clusters in the North East region, based on local resource availability and comparative advantage of the identified clusters.

About Exim Bank's Working Paper Series

As part of its endeavour in enriching the knowledge of Indian exporters and thereby to enhance their competitiveness,Exim Bank periodically conducts research studies. These research studies are broadly categorized into three segments, viz. sector studies, country studies and macro-economic related analysis.These studies are published in the form of Occasional Papers, Working Papers and Books. The research papers that are brought out in the form of Working Papers are done with swift analysis and data collation from various sources. The research papers under the series provide an analytical overview on various trade and investment related issues.

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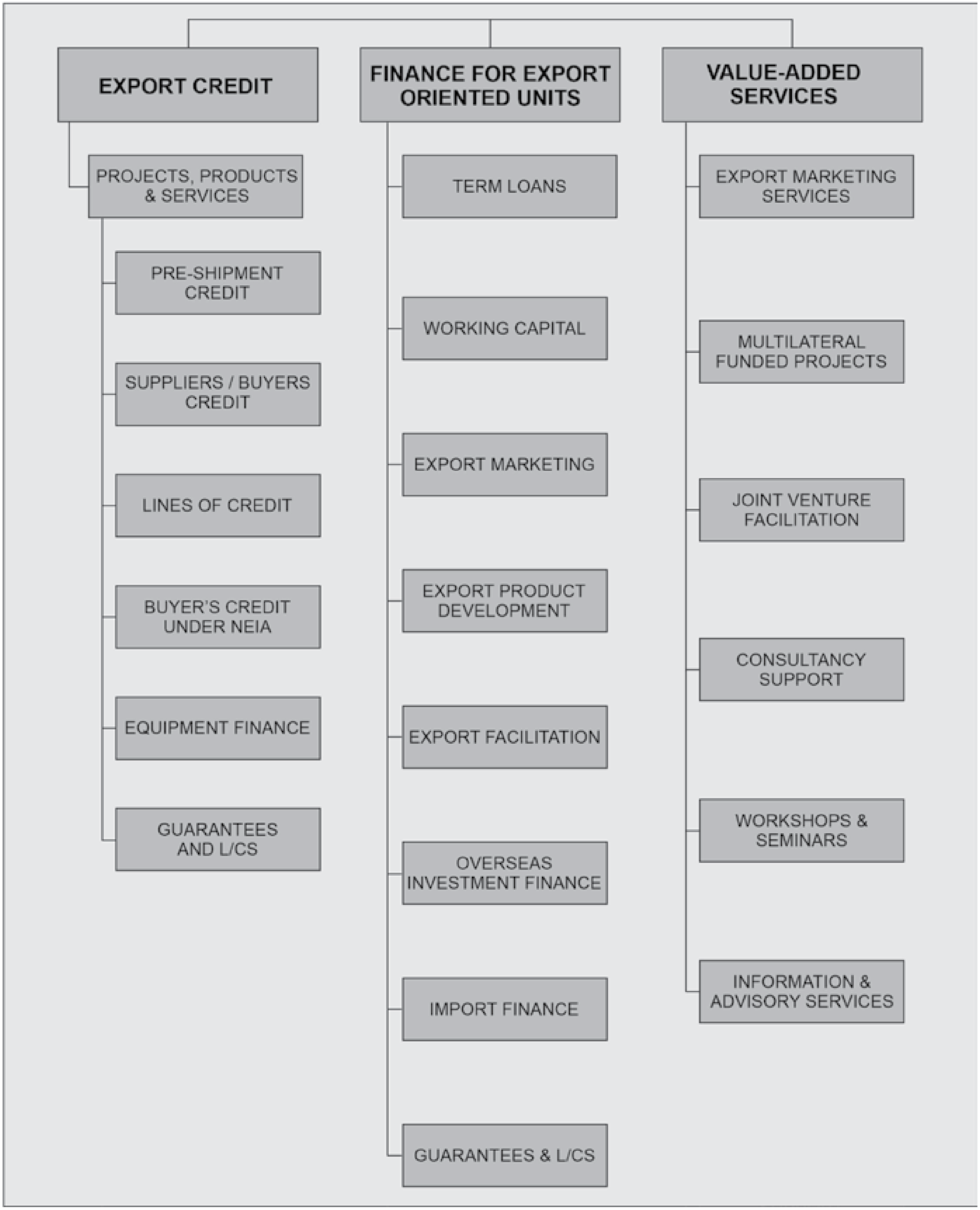
Bank's Major Programmes



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