India-Bangladesh: A New Age Partnership

Working Paper No: 126

India Exim Bank

EXPORT-IMPORT BANK OF INDIA

WORKING PAPER NO. 126

India-Bangladesh: A New Age Partnership

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Executive Summary

Bangladesh has emerged as one of the fastest growing economies in the world, driven by robust economic growth, which averaged 6.5% between 2015 and 2022, supported by a demographic dividend, strong ready-made garment (RMG) exports, remittances and stable macroeconomic conditions. Given this fast-paced growth, Bangladesh has even been termed as the “New Asian Tiger”. Bangladesh aims to attain an upper middle-income status by 2031 and the perspective Plan 2041 has enumerated that Bangladesh will be a developed country by 2041, with more than US$ 12,500 per capita income.

The size of its economy has increased from US$ 321.4 billion in 2018 to US$ 446.3 billion in 2023 and is projected to reach US$ 511.8 billion in 2025. Bangladesh has witnessed accelerated economic growth in the recent years, majorly driven by higher exports to USA following trade redirection from China along with improvements in infrastructure development, especially access to electricity. Bangladesh’s main advantage lies in abundant labour supply and low-cost wages. The country has highly competitive wage rates. In fact, wages are much lower in Bangladesh than in countries such as Cambodia, China, India, Sri Lanka and Vietnam.

International Trade 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, driven by its manufacturing exports which accounted for 96.4% of its total merchandise exports. Bangladesh, due to its strategic location, has the potential to become a trade and investment hub in South Asia. In recent years, Bangladesh has adopted an outward-oriented growth strategy which aims at reducing the anti-export bias prevalent in the economy and improving competitiveness while keeping in view medium-term imperatives and long-term development agenda.

Bangladesh’s foreign trade more than doubled over the past decade from US$ 60.9 billion in 2012 to US$ 155.8 billion in 2022. Growth in exports outpaced that in imports, with imports growing at an average annual growth rate (AAGR) of 10.7% from 2012 to 2022, as compared to 11.7% growth in exports during the same period. Bangladesh’s reliance on imports of most essential goods, such as petroleum oil, inputs for its garment industry and more recently capital goods for its industry, resulted in persistent deficit in its trade balance. Bangladesh’s trade deficit has increased in 2022 to US$ 20.8 billion compared to US$ 11.8 billion in 2012.

Merchandise Exports from Bangladesh

The share of Bangladesh in global exports of articles of apparel and clothing, knitted and crocheted was 10.8% in 2022 whereas not knitted and crocheted was 10.0%. The other major exported product under garment sector was other made-up textile articles and sets; however, its share has decreased from 2012 to 2022. The RMG industry, being the major foreign exchange earner, plays a central role in the growth of Bangladesh's economy. Supported by a large supply of low-cost labour, the second most important sector for Bangladesh after RMG is the leather industry, including footwear. Accordingly, leather articles are the second-largest exporting sector of Bangladesh, accounting for 3.5% of Bangladesh's total exports and 1.6% share in world exports in 2022. Footwear and gaiter accounted for 2.7% of Bangladesh's exports in 2022 as compared to a share of 1.4% in 2012. Exports of headgear and parts (HS-65) have gained momentum, with its share increasing from 0.2% in 2012 to 1.1% in 2022, which majorly includes hats and other headgear, knitted or crocheted, or made-up from lace or other textile.

Bangladesh is a beneficiary under the Generalized Scheme of Preferences (GSP) of Australia, Canada, the European Union (EU), Iceland, Japan, Montenegro, New Zealand, Norway, Russia and Switzerland. In terms of export destinations, the EU remains the major market, accounting for 50.6% of Bangladesh's exports in 2022. Combining with its exports to the UK, Bangladesh's exports to Europe exceed 57% of its global exports. Outside Europe, USA (17.5% share) was the largest export destination for Bangladesh, followed by Canada (3%) and India (3%), among others.

Merchandise Imports of Bangladesh

Mineral fuels (mainly refined petroleum, gaseous hydrocarbons, coal and electrical energy) accounted for 18.8% of Bangladesh's imports in 2022. Bangladesh is also a major importer of machinery - both mechanical and electrical, iron and steel and plastic. The cumulative share of man-made fabrics, knitted and crocheted fabrics and man-made filaments in Bangladesh's imports have increased from 5.6% in 2012 to 7.5% in 2022 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.

China is the largest trade partner for Bangladesh, with the trade balance heavily in favour of China, which is also its largest import source (30.4% share). India (15.7%) is the second largest import source for Bangladesh, followed by Singapore (5.5%), Malaysia (4.8%), Indonesia (4.4%) and USA (3.2%), among others.

Services Trade

Bangladesh's services trade increased almost three-folds from US$ 6.8 billion in 2010 to US$ 20.5 billion in 2022. Bangladesh's services exports increased from US$ 2.4 billion in 2010 to US$ 8.3 billion in 2022. It was the second-largest exporter of services among the SAARC countries, accounting for a share of 2.4%, after India (92.4%) in 2022. Total imports almost near tripled from US$ 4.4 billion in 2010 to US$ 12.2 billion in 2022. Bangladesh is the second-largest importer of services among the SAARC nations, accounting for 4.3% of services imports by the region, after India (89%). Bangladesh remains a net importer of services, with services deficit increasing from US$ 1.9 billion in 2010 to US$ 3.9 billion in 2022.

Transport services accounted for the largest share (17.5%) in 2022, followed by construction services (11.4%), technical, trade-related and other business services (11.2%) and telecommunications, computer and information services (8.7%). In terms of services imported by Bangladesh, transport accounted for 68.2% of Bangladesh's services imports in 2022, followed by travel (10.9%), financial services (5.9%), technical, trade-related and other business services (3.5%) and construction (3.2%).

Foreign Direct Investment in Bangladesh

FDI Inflows to Bangladesh

According to the Bangladesh Bank, foreign direct investment (FDI inflows) into Bangladesh increased by an AAGR of 9.2% during 2012-2022. In 2022, inflows rose by 20.7% year-on-year to US$ 3.5 billion. With the enactment of the Bangladesh Patents Bill 2022, Bangladesh has given a boost to investment by extending the duration of patent protection from 16 to 20 years. According to the FDI survey of the Bangladesh Bank (the central bank of Bangladesh), in 2022, net FDI inflows were maximum in textile and apparel (US$ 705.7 million), followed by power (US$ 511.7 million), telecommunications (US$ 449.5 million), gas and petroleum (US$ 342.5 million) and banking (US$ 320 million), respectively. The major country-wise net FDI inflows were from UK, accounting for a share of 16.1%, followed by USA (10.2%), South Korea (9%), Netherlands (8.7%), Singapore (7.8%) and Hong Kong (6.3%), respectively. India, the 10th largest investor, accounted for 3.6% of net FDI inflows into Bangladesh in 2022.

Outward FDI from Bangladesh

According to the Bangladesh Bank, net outward FDI from Bangladesh in 2022 stood at US$ 52.6 million, increasing from US$ 40.4 million in 2016. Major sectors of outward FDI during 2022 were financial intermediaries (82.6%), mining and quarrying (13.5%) and chemical and pharmaceuticals (2.1%). The major recipients of net outward FDI from Bangladesh in 2022 were India accounting for 30% of the total investment, followed by Hong Kong (22.3%), UAE (13.3%), Nepal (8.6%) and UK (8.5%), respectively.

India-Bangladesh Merchandise Trade

India and Bangladesh share an economic, historical and cultural relationship that goes beyond a strategic partnership. Bangladesh is India's largest trading partner in SAARC, accounting for 44% of India's total exports to the region and 37.7% of India's total imports from the region in 2022. Bangladesh is also India's fifth largest export destination, after USA, UAE, Netherlands and China. Indo-Bangladesh trade increased by more than two-folds over the past decade to reach US$ 15.8 billion in 2022 from US$ 5.5 billion in 2012. India has a persistent trade surplus with Bangladesh, which has widened from US$ 4.4 billion to US$ 11.8 billion over 2012-2022.

India's exports to Bangladesh, at US$ 13.8 billion, accounted for 3.1% of India's global exports in 2022. Cotton dominates India's exports to Bangladesh, accounting for over one-fifth of India's exports to the country. India's basket of exports to Bangladesh remains well-diversified, comprising value added products like petroleum oils (mainly refined), vehicles, machinery, sugar, organic chemicals and iron and steel, respectively. India plays a major role in Bangladesh's readymade garments sector as a supplier of both raw materials and capital goods required for the production process.

Imports from Bangladesh have been relatively low at US$ 2 billion in 2022. 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 82% in India's global imports of these products in 2022. Other major products imported by India from Bangladesh include other vegetable textile fibres which accounted for 9.6% of India's import from Bangladesh in 2022, followed by animal and vegetable fats and other made-up textile articles.

India-Bangladesh Services Trade

Trade in services between Bangladesh and India has increased significantly from 2016-17 to 2022-23, during which Bangladeshi services exports to India grew by a compounded annual growth rate (CAGR) of 10.5%, while India's services exports to Bangladesh grew by 7.4%. Among the commercial services exports to India, technical, trade-related and other business services accounted for the largest share (24.3%) in 2021-22, followed by construction services (22.1%), travel (17.8%) and transportation (16.1%).

Transport services accounted for 80.8% of Bangladesh's commercial services imports from India. Sea transportation was the major mode of transport services, which accounted for 37.2% of Bangladesh's commercial services imports from India and 46.1% of total transportation imports from India. Transport services was followed by travel (8.4%), telecommunications, computer and information services (3.2%) and technical, trade-related and other business services (3.1%).

Indian Investments in Bangladesh

According to the Financial Times' fDi Markets, envisaged cumulative capital investment in Bangladesh by India during the period January 2012 to December 2022 stood at US$ 6.6 billion, creating 8,222 jobs in the country. In line with the global trend, India's envisaged investments in Bangladesh between 2012 to 2022 have been mainly into coal, oil and gas. Automotive OEMs are also a major sector receiving Indian investments, followed by communications (2%), consumer products (1.6%) and chemicals (1.6%), among others.

India was also the largest destination for Bangladesh's envisaged outward FDI between 2012 to 2022, accounting for a share of 63% followed by Kenya, China and Malaysia, among others. A recent major Bangladeshi investment in India is Bangladeshi private power company Summit acquiring 23.5% stake in the ONGC Tripura Power Company (OTPC) and committing to invest about US$ 50 million in its 750 MW gas fired power plant in Tripura. OTPC is a JV of ONGC, GAIL (India) Limited, the Government of Tripura and India Infrastructure Fund – II (IIF-2). Summit is acquiring the stake of IIF-2.

Present Barriers in India-Bangladesh Trade

In the current analysis, the tariff at 6-digit HS code is taken into consideration, using TRAINS based WITS data for the year 2021. India has provided duty free quota free access to Bangladesh on all tariff lines, except tobacco and alcohol under South Asian Free Trade Area (SAFTA) since 2011.

Tariff on India's Imports from Bangladesh

It is the effectively applied tariff that the Bangladesh exporters face while exporting to India. There are 2,358 tariff lines that has effectively applied tariff rate of 0%, which amounted to the total imports of US$ 1,763.8 million in 2021, and this corresponds to almost 100% of the total imports of India from Bangladesh in 2021. There is one tariff line under the 5% (monopods, bipods, tripods and similar articles of plastics or of aluminium) and eight tariff lines under 30% (products of tobacco and substitute) effectively applied tariff rates, respectively. However, the share in total imports is negligible for these products.

Tariff on Bangladesh's Imports from India

There are 1,071 tariff lines on which Bangladesh imposes the effectively applied tariff of 0; imports for which amounted to US$ 2.7 billion in 2020. These products constitute 33.5% of Bangladesh's imports from India in

2020. There are 241 tariff lines, with imports amounting to US$ 257.4 million under the 1%-3% effectively applied tariff, which correspond to 3.3% of Bangladesh's imports from India in 2020. Further, there are 963 tariff lines with Bangladesh's imports from India amounting to US$ 1.1 billion, facing effectively applied tariff between 3% to 5%.

There are 1,460 tariff lines that has effectively applied tariff rate of 5%-25%, which amounted to the total imports of US$ 1.9 billion in 2020 and this correspond to 24.3% of the total imports of Bangladesh from India in 2020. There are 826 tariff lines facing 25% effectively applied tariff rate, which correspond to 18.2% of the total imports in 2020, amounting to US$ 1.4 billion.

India's Revealed Comparative Advantage Analysis and Trade Potential

Analysing the key products where India has comparative advantage and match it with Bangladesh's import demand for these products are necessary for an India-Bangladesh Comprehensive Economic Partnership Agreement (CEPA) to be successful. Revealed Comparative Advantage (RCA) is a measure which have been used extensively to help assess a country's export potential/competitiveness. To identify Indian products based on their export competitiveness to Bangladesh, the four-quadrant analysis has been undertaken based on the HS Code classifications at 6-digit level, whilst calculating their NRCA and mapping them against the AAGR of global imports of Bangladesh of all products. At 6-digit HS Code, with minimum exports of US$ 1 million from India to Bangladesh, 751 products have been identified, with the total exports from India to Bangladesh amounting to US$ 13.7 billion while the total world imports by Bangladesh in the same products stood at US$ 50 billion in 2021.

Out of the 751 items at the HS 6-digit level, 291 items fell into the category of the product champions. The combined exports of these items from India to Bangladesh were US$ 9.2 billion in 2021, representing approximately 65.2% of India's exports to Bangladesh in 2021.

The total number of products in winners in declining sectors category is 183, with India's exports amounting to US$ 2.2 billion and constitute a share of 15.6% of India's exports to Bangladesh in 2021. These are the product items in which India has attained a significant share in Bangladesh's import basket, but Bangladesh's import demand for these products has been falling in the last decade.

This was followed by underachievers with 151 items, with exports worth US$ 1.8 billion from India to Bangladesh. These products constitute a marginal share of 12.1% in India's total exports to Bangladesh. These are the product items in which import demand in Bangladesh market is rising, but India does not have the required competitiveness in the export of these items.

Revealed Comparative Advantage Analysis of Bangladesh's Exports to India

Similarly, to identify Bangladesh products based on their export competitiveness to India, the four-quadrant analysis has been undertaken. At 6-digit HS Code, with minimum exports of US$ 1 million from Bangladesh to India, 125 products have been identified, with the total exports from Bangladesh to India amounting to US$ 1.7 billion while the total world imports by India in the same products stood at US$ 20.2 billion in 2021.

Out of the 125 items at the HS 6-digit level, 85 items fell into the category of the product champions. The combined exports of these items from Bangladesh to India were US$ 1.3 billion in 2021, representing approximately 73% of Bangladesh's exports to India in 2021.

The total number of products in winners in declining sectors category is 37, with India's imports amounting to US$ 360.6 million and constitute a share of 20.4% of Bangladesh's exports to India in 2021. These are the product items in which Bangladesh has attained a significant share in India's import basket, but India's import demand for these products has been falling in the last decade.

This was followed by underachievers with 2 items with India's exports worth US$ 4.3 million from Bangladesh to India. These products constitute a marginal share of 0.2% in Bangladesh's total exports to India. These are the product items in which import demand in Indian market is rising, but Bangladesh does not have the required competitiveness in the export of these items.

Areas for Further Cooperation

India and Bangladesh, strong development partners, must address trade imbalances and enhance cooperation. Fast-tracking the Motor Vehicles Agreement (2015) can boost connectivity, reducing trading costs and increasing national income by 17% in Bangladesh and 8% in India. A revised Coastal Shipping Agreement, with fixed schedules and larger vessel sizes, can improve cost-effectiveness. A Mutual Recognition Agreement for food safety standards is crucial to resolving divergent regulations. Tariff concessions, reduction of protective tariffs and textile value chain integration can further enhance trade. Strengthening regional value chains in agriculture and agro-processing presents opportunities for collaboration, addressing challenges in trade policy and standards. India can address competition from Bangladesh in the garment industry by implementing Fabric Forward Rules. Additionally, medical tourism from Bangladesh to India is significant, with the Heal in India initiative aiming to enhance India's global standing in healthcare. A CEPA could include agreements on medical tourism, cross-border telemedicine and establishing primary care clinics in Bangladesh. Opportunities in the services sector, connectivity between Northeast India and Bangladesh, formalizing informal trade and promoting balanced trade through infrastructure investments are crucial aspects to explore for mutual benefit.

Chapter 1

Macroeconomic Overview of Bangladesh

Bangladesh has emerged as one of the fastest growing economies in the world, driven by robust economic growth, which averaged 6.5% between 2018 and 2022, supported by a demographic dividend, strong ready-made garment (RMG) exports, remittances and stable macroeconomic conditions **(Table 1.1)**. Given this fast-paced growth, Bangladesh has even 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. It is also the eighth most populous country in the world, with a population of 170.3 million in 2023. Bangladesh aims to attain an upper middle-income status by 2031 and the perspective Plan 2041 has enumerated that Bangladesh will be a developed country by 2041 with more than US$ 12,500 per capita income.

Table 1.1: Select Macroeconomic Indicators of Bangladesh

Indicators	2011	2018	2019	2020	2021	2022	2023[e]	2024[f]	2025[f]
Gross domestic product, current prices (US$ billion)	154.1	321.4	351.2	373.9	416.3	460.2	446.3	455.2	511.8
Real GDP growth (%)	6.5	7.3	7.9	3.4	6.9	7.1	6.0	6.0	6.6
Gross domestic product per capita, current prices (US$)	1032.3	1991.7	2154.2	2270.4	2497.7	2730.9	2621.3	2646.0	2945.8
Inflation, average consumer prices (% change)	8.8	5.8	5.5	5.6	5.6	6.2	9.0	7.9	6.8
Population (million)	149.3	161.4	163.0	164.7	166.7	168.5	170.3	172.0	173.7
Total investment (% of GDP)	28.0	31.8	32.2	31.3	31.0	32.0	31.3	31.6	32.9
Gross national savings (% of GDP)	30.0	30.6	31.1	31.4	30.8	29.4	30.2	30.8	30.3
General government revenue (% of GDP)	8.6	8.9	8.1	8.5	9.4	8.9	8.3	8.8	9.3
General government total expenditure (% of GDP)	11.5	13.0	13.6	13.3	13.0	13.0	12.7	13.3	13.8
General government gross debt (% of GDP)	30.6	29.6	32.0	34.5	35.6	37.9	39.4	39.7	39.9
External debt (% of GDP)	24.9	17.8	17.8	19.7	22.0	21.1	24.3	25.7	25.0
Current account balance (US$ billion)	-2.2	-9.6	-4.5	-5.4	-4.6	-18.6	-3.3	-3.7	-13.6
Current account balance (% of GDP)	-1.4	-3.0	-1.3	-1.5	-1.1	-4.1	-0.7	-0.8	-2.7
International reserves (US$ bn)	11.2	32.0	32.7	43.2	46.2	33.7	21.9	31.0	44.1
Exchange rate (Tk: US$)	69.7	83.5	84.5	84.9	85.1	91.7	106.3	111.1	113.0

Note: Bangladesh's data are reported on a fiscal year basis, which starts from July 1 and ends on June 30, therefore data pertaining to 2022 represents July 2021-June 2022; [e] - estimates; [f] - forecasts

Source: World Economic Outlook, International Monetary Fund, October 2023 and Economist Intelligence Unit (EIU)

According to the Asian Development Bank (ADB), 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 determined by the UN Committee for Development Policy (CDP) to graduate from the LDC status for the first time in March 2018. 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 November 2026 (originally slated to be in 2024 but delayed on request by Bangladesh). On November 24, 2021, the UN General Assembly has adopted resolution for graduation of Bangladesh from the LDC category after a preparatory period of five years. Bangladesh was included in the group of LDCs in December 1975. The fact that Bangladesh has gained eligibility in terms of all the three graduation criteria, clearly indicates the impressive success of Bangladesh's economy over the years in terms of key socio-economic indicators. The per capita income of the country has increased from US$ 1,991.7 in 2018 to US$ 2,621.3 in 2023 surpassing India (US$ 2,612.5).

Since 2019, Bangladesh became the second largest economy in South Asia after India in terms of nominal gross domestic product (GDP), surpassing Pakistan. The size of its economy has increased from US$ 321.4 billion in 2018 to US$ 446.3 billion in 2023 and is projected to reach US$ 511.8 billion in 2025. Bangladesh has witnessed accelerated economic growth in the recent years, majorly driven by higher exports to USA following trade redirection from China along with improvements in infrastructure development, especially access to electricity. According to the International Monetary Fund (IMF), Bangladesh's real GDP growth slowed down to 6% in 2023, as energy rationing amid power shortages depressed economic activity. The government's decision to scale back few infrastructure projects are expected to hamper public sector investment, resulting in lower demand for raw materials and capital machinery, and fewer employment opportunities. Economic growth is expected to continue to be driven by services and industry, supported by the ongoing shift of low-value manufacturing away from China (mainly in the textiles sector). According to the 8th Five Year plan (July 2020-June 2025), Bangladesh aims to mobilise 1%-1.5% of GDP towards infrastructure financing by FY 2025, funded through public-private partnership (PPP), in addition to 2% of public spending in sectors such as power, energy and transport.

Consumer prices remained elevated in 2023, fuelled partly by the second-round effects of high global oil prices. The maintenance of electricity and fertiliser subsidies is likely to help stabilise production costs, but revisions to electricity tariffs in line with the IMF conditionalities could keep non-food inflation on an upward trajectory. Headline Inflation averaged at 9% in 2023 as lower crop yields (stemming from global fertiliser shortages), coupled with warmer than normal temperatures drive up local prices of food (which makes up more than 60% of the consumer price index). Supply-side factors, along with import price inflation, is expected to further keep food price inflation elevated.

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, amid high policy rates in USA, elevated local inflation and a shortfall on the current account. As a result, the Bangladeshi Taka depreciated to an average of TK 106.3: US$ 1 at 2023. The Taka's depreciatory trend is expected to persist in 2024-28. The current account is expected to remain in deficit during 2024-28, owing to Bangladesh's heavy reliance on imported oil, chemical fertilisers, inputs for its export-oriented ready-made garment subsector and capital machinery for construction activity. Dependence on food and energy imports is likely to raise the import bill during 2024-25. Meanwhile, exports are projected to rebound gradually in late 2024 as external demand picks up in Bangladesh's major export markets, such as the EU and USA.

According to the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI), Bangladesh will have to face the challenging task of exporting on the most favoured nation (MFN) tariff rates after graduating from LDC status, as unilateral GSP schemes currently provided by 85% of the country's export destinations will be terminated. With MFN tariffs being high on textiles and garments in developed countries, loss of preferential market access will have a significant impact on the export competitiveness of Bangladesh's RMG products. According to the World Trade Organization (WTO) estimates on the likely reduction in exports originating from the loss of preferential market access for all graduating LDCs, the share of Bangladesh's potential export loss is expected to be the highest with exports estimated to decline by 14.3%.[1]

The Government of Bangladesh has taken a number of steps in anticipation of the graduation. The country has given highest priority to export diversification in Bangladesh's graduation strategy in view of both product and market concentration. Hence, Bangladesh is actively trying to enter into comprehensive trade agreements with major global economies, neighbouring countries and regional groupings.

Competitive Factors in Bangladesh

Bangladesh's main advantage lies in abundant labour supply and low-cost wages. The country has highly competitive wage rates. In fact, wages are much lower in Bangladesh than that in countries such as Cambodia, China, India, Sri Lanka and Vietnam. A comparative analysis of indicative minimum wages in few Asian Peers and other countries which are major exporters of garments is provided in **Table 1.2**. Indian workers also have one of the lowest average wages.

Table 1.2: Statutory Gross Monthly Minimum Wages, 2022

Country	PPP $	US $
Bangladesh	45.3	16.4
Cambodia	-	194.0
China	501.7	286.5
India	220.1	58.9
Indonesia	548.1	180.5
Sri Lanka	149.5	39.8
Vietnam	516.2	167.4

Source: Wages and Working Time Statistics Database, ILOSTAT

[1] Trade Impacts of LDC Graduation, WTO, 2020

Chapter 2

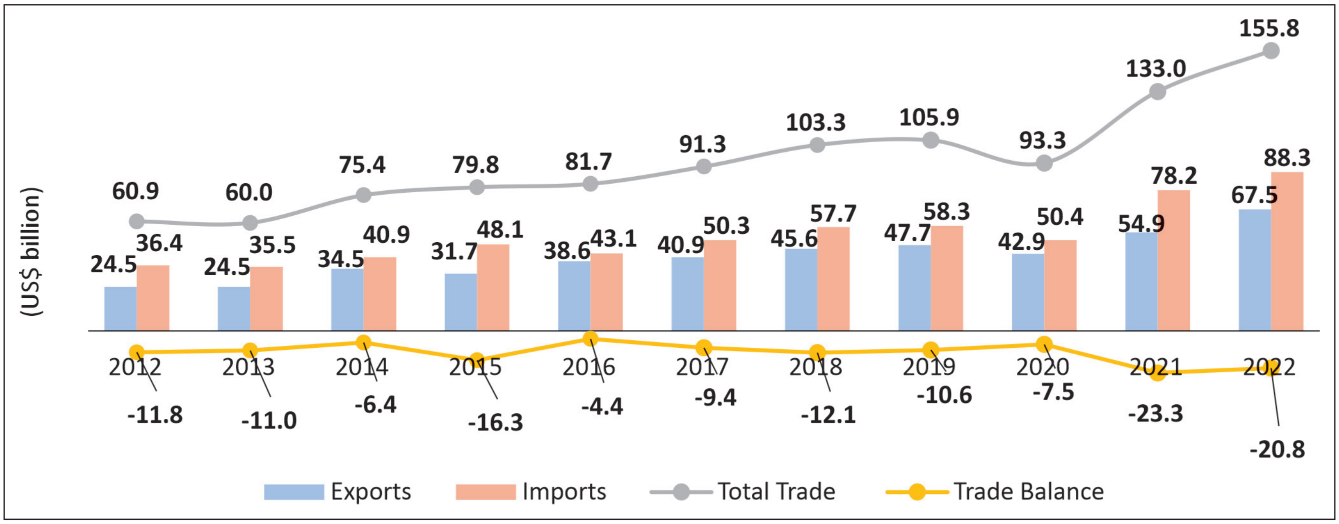
International Trade and Investment of Bangladesh

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, driven by its manufacturing exports which accounted for 96.4% of its total merchandise exports. Bangladesh, due to its strategic location, has the potential to become a trading and investment hub in South Asia. It could be an entry port to the region covering Nepal, Bhutan, eight North East Indian states (Assam, Meghalaya, Manipur, Arunachal Pradesh, Nagaland, Mizoram, Tripura and Sikkim) and resource-rich northern Myanmar, which could also serve as gateway to other ASEAN countries.

Trade is considered as a component of overall development policy of Bangladesh. Bangladesh has pursued prudent structural reforms in priority areas and trade liberalisation with positive results on growth and foreign direct investment inflows. In recent years, Bangladesh has adopted an outward-oriented growth strategy which aims at reducing the anti-export bias prevalent in the economy and improving competitiveness while keeping in view medium-term imperatives and long-term development agenda.

Bangladesh's foreign trade more than doubled over the past decade from US$ 60.9 billion in 2012 to US$ 155.8 billion in 2022 **(Chart 2.1)**. Growth in exports outpaced that in imports, with imports growing at an average annual growth rate (AAGR) of 10.7% from 2012 to 2022, as compared to 11.7% growth in exports during the same period. Bangladesh's reliance on imports of most essential goods, such as petroleum oil, inputs for its garment industry and more recently capital goods for its industry, resulted in persistent deficit in its trade balance. A substantial proportion of Bangladesh's exports have high import intensity. This is true especially in case of readymade garments (RMG) exports which are reliant on imported inputs including cotton and yarn. Bangladesh's trade deficit has increased in 2022 to US$ 20.8 billion compared to US$ 11.8 billion in 2012.

Chart 2.1: Merchandise Trade of Bangladesh



Note: Mirror data is used (as reported by partner countries)

Source: ITC Trade Map and India Exim Bank Research

Merchandise Exports of Bangladesh

Bangladesh currently follows Export Policy 2021-2024, which aims to achieve US$ 80 billion in export earnings by 2024. The policy also aims to achieve market expansion and product diversification in line with the Vision 2041 of the Government of Bangladesh. Bangladesh's exports have been heavily dependent on readymade garments (HS-61 & HS-62), which accounted for 85.3% of Bangladesh's global exports in 2022, making Bangladesh the second-largest exporter globally, after China. Bangladesh's apparel exports have been the largest beneficiary of tariff-free market access in most developed and several developing countries under their respective generalised system of preference (GSP) regimes favouring the LDCs. Utilizing duty free access and relaxed rules of origin (RoO) requirements in the importing countries in conjunction with generous policy support at home, apparel exports from Bangladesh increased rapidly over the past three decades. The top 5 exported products accounted for 91.9% of total exports of Bangladesh in 2022.

The share of Bangladesh in global exports of articles of apparel and clothing, knitted and crocheted was 10.8% in 2022 whereas not knitted and crocheted was 10.0% **(Table 2.1)**. The other major exported product under garment sector was other made-up textile articles and sets; however, its share has decreased from 2012 to 2022. The RMG industry, being the major foreign exchange earner, plays a central role in the growth of Bangladesh's economy. Supported by a large supply of low-cost labour, the second most important sector for Bangladesh after RMG is the leather industry, including footwear. Accordingly, leather articles are the second-largest exporting sector of Bangladesh, accounting for 3.5% of Bangladesh's total exports and 1.6% share in world exports in 2022. Footwear and gaiter accounted for 2.7% of Bangladesh's exports in 2022 as compared to a share of 1.4% in 2012. Exports of headgear and parts (HS-65) have gained momentum, with its share increasing from 0.2% in 2012 to 1.1% in 2022, which majorly includes hats and other headgear, knitted or crocheted, or made-up from lace or other textile. A structural shift is noticeable from decrease in exports of raw materials like raw hides and skin from 1.3% in 2012 to 0.2% in 2022 and these are being used to add value and produce leather goods. The share of other vegetable textile fibers in Bangladesh's exports (second-largest exporter in the world) has declined from 2012 to 2022. 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.

Bangladesh is a beneficiary under the Generalized Scheme of Preferences (GSP) of Australia, Canada, the EU, Iceland, Japan, Montenegro, New Zealand, Norway, Russia and Switzerland. Bangladesh was excluded from the US GSP beneficiary list in June 2013 based on Bangladesh's failure to meet statutory eligibility requirements related to worker rights. It is also entitled to Duty-Free Quota-Free (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. About 70% of Bangladesh's exports enjoy preferential, mostly (DFQF) market access[2]. Being an LDC, Bangladesh has also been able to take significant advantage of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) waiver for pharmaceutical products.

Table 2.1: Major Products Exported by Bangladesh

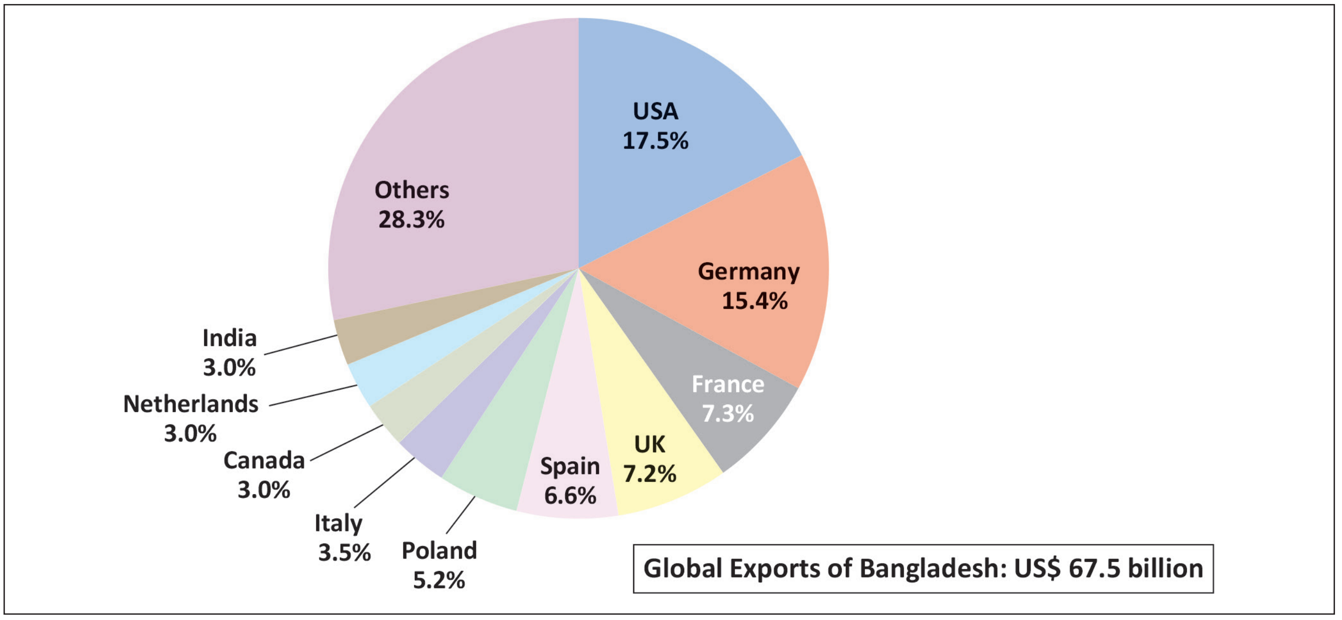
HS Code	Product	2012 (US$ million)	% Share in Bangladesh's Exports in 2012	2022 (US$ million)	% Share in Bangladesh's Exports in 2022	% Share in Global Exports in 2022
	Total Exports of Bangladesh	**24,513.5**	**100.0**	**67,498.3**	**100.0**	**0.3**
61	Articles of apparel and clothing accessories, knitted or crocheted	9,421.0	38.4	32,101.5	47.6	10.8
62	Articles of apparel and clothing accessories, not knitted or crocheted	9,850.2	40.2	25,474.4	37.7	10.0
64	Footwear, gaiters and the like	349.0	1.4	1,820.3	2.7	1.0
63	Other made-up textile articles	1,066.8	4.4	1,717.0	2.5	2.0
53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn	759.3	3.1	924.5	1.4	14.7
65	Headgear and parts	50.9	0.2	748.9	1.1	4.8
42	Articles of leather, travel goods, handbags and similar containers	138.7	0.6	568.9	0.8	0.6
03	Fish and crustaceans, molluscs and other aquatic invertebrates	495.6	2.0	506.3	0.8	0.3
67	Prepared feathers, down and articles	7.7	0.03	257.6	0.4	1.7
24	Tobacco and manufactured tobacco substitutes	54.8	0.2	225.4	0.3	0.4
39	Plastics and articles	88.6	0.4	201.2	0.3	0.02
87	Vehicles other than railway or tramway rolling stock, and parts	117.1	0.5	198.5	0.3	0.01
15	Animal, vegetable or microbial fats and oils	9.7	0.04	190.6	0.3	0.1
30	Pharmaceutical products	49.6	0.2	164.9	0.2	0.02
41	Raw hides and skins (other than furskins) and leather	325.0	1.3	154.0	0.2	0.9

Source: ITC Trade Map and India Exim Bank Research

[2] Graduating from the LDC Group: Challenges Facing Bangladesh, Mustafizur Rahman, January 2023

Traditionally, Bangladesh's exports have been primarily focused on North American and the EU markets. In terms of export destinations, the EU remains the major market, accounting for 50.6% of Bangladesh's exports in 2022. Combining with its exports to the UK, Bangladesh's exports to Europe exceed 57% of its global exports **(Chart 2.2)**. The garment industry in the country is developed mainly because of preferential access to the EU, benefitting from its 'Everything but Arms' (EBA) scheme, which grants duty free, quota free access for all exports, except arms and ammunition.

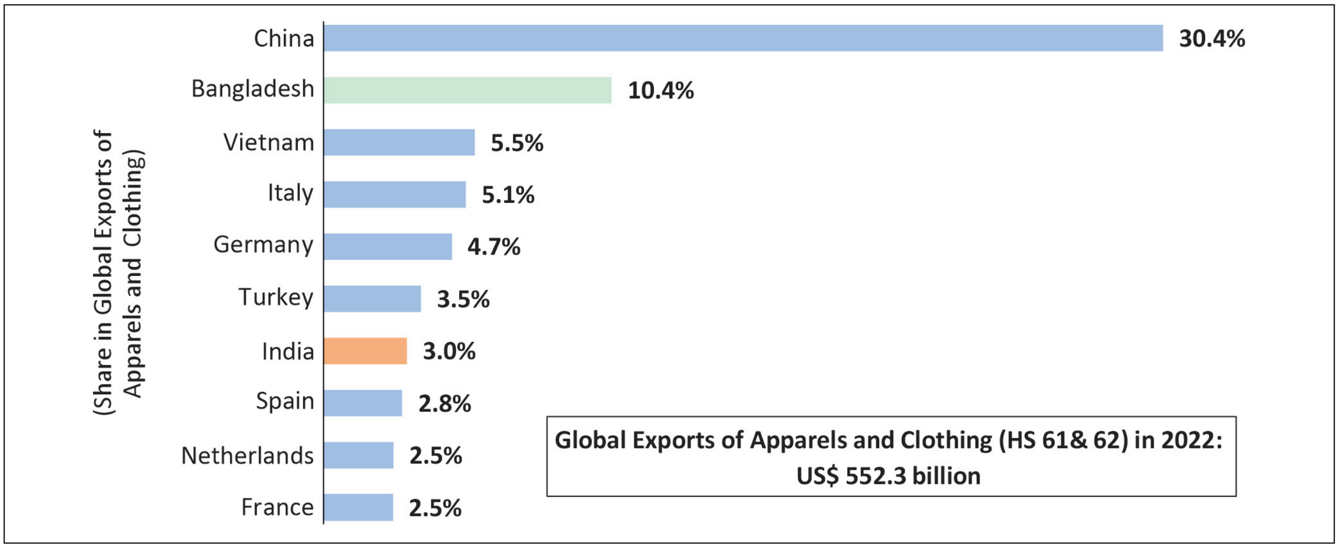
Chart 2.2: Major Export Destinations of Bangladesh, 2022



Source: ITC Trade Map and India Exim Bank Research

Manufacturing sector growth in Bangladesh has been driven mainly by the growth in the textile and apparel industry. Bangladesh is the second-largest apparel exporting economy after China, accounting for 10.4% of the global share in 2022 **(Chart 2.3)**.

Chart 2.3: Major Global Exporters of Articles of Apparel and Clothing, 2022



Source: ITC Trade Map and India Exim Bank Research

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" (EBA) arrangement from 2001 when the EU-Bangladesh Co-operation Agreement was signed. Bangladesh was the second-largest exporter to the EU in 2022 for both HS-61 and HS-62, after China. Bangladesh is the largest import source of the EU in terms of preferential imports.

Bangladesh remains the most important beneficiary of the EBA arrangement in terms of exports to the EU. Virtually all Bangladeshi exports to the EU take place under the EBA preferences, and utilisation rates have consistently been 95% or higher. According to a report prepared by the European Commission covering the period 2020-22, Bangladesh was the largest beneficiary under the GSP preferential imports by the EU, accounting for 28% of total GSP imports by the EU in 2022 as compared to 25% in 2019.[3] 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. USA remains the largest individual country destination for its exports and in 2022, Bangladesh was its 3rd largest supplier of articles of apparel and clothing, knitted and crocheted (HS-61) and of articles of apparel and clothing, not knitted or crocheted (HS-62), after China and Vietnam.

Bangladesh has also been the third-largest apparel (HS-61+ HS-62) exporter to Canada, after China and Vietnam, with exports largely facilitated by comparatively flexible rules of origin in the Canadian market[4]. In 2015, Bangladesh was partially provided with the duty-free quota free benefit by China, with 60% of Bangladesh's exports eligible for zero-duty tariff scheme. China has later declared zero duty for 97% of imports from Bangladesh under the duty-free quota-free program for LDCs, operational from July 1, 2020. In August 2022, China announced that the duty-free treatment of 98% tariff lines on goods originating from Bangladesh exported to China will take into effect on September 1, 2022, with the major new addition being basic leather products[5]. In 2015, China had granted duty-free access to 3,095 Bangladeshi products to its markets. The 2020 declaration granted 5,161 products in an addition to the prevailing facilities. In the recent declaration, China has added 383 new products. 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 back-to-back 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. 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. **Table 2.2** highlights the product-wise major export destinations of Bangladesh.

[3] Joint Report to the European Parliament and the Council on the Generalised Scheme of Preferences covering the period 2020-2022, European Commission, November 2023

[4] Bangladesh Trade Policy Review 2019, WTO

[5] http://bd.china-embassy.gov.cn/eng/sghd/202208/t20220811_10741180.htm

Table 2.2: Major Destinations for Products Exported by Bangladesh, 2022

HS Code	Product (Export Value)	Major Export Destinations of Bangladesh	Exports (US$ million)	% Share in Bangladesh's Exports of Product
	All Products (US$ 67,498.3 million)	USA	11,834.8	17.5
		Germany	10,402.5	15.4
		France	4,896.6	7.3
		UK	4,889.5	7.2
		Spain	4,426.8	6.6
		India (10th largest)	2,001.6	3.0
61	Articles of apparel and clothing accessories, knitted or crocheted (US$ 32,101.5 million)	Germany	5,976.8	18.6
		USA	3,352.4	10.4
		UK	2,818.7	8.8
		France	2,761.6	8.6
		Spain	2,460.9	7.7
		India (20th largest)	296.8	0.9
62	Articles of apparel and clothing accessories, not knitted or crocheted (US$ 25,474.4 million)	USA	6,474.0	25.4
		Germany	3,691.6	14.5
		Spain	1,760.8	6.9
		UK	1,712.2	6.7
		France	1,699.1	6.7
		India (14th largest)	414.2	1.6
64	Footwear, gaiters and the like; parts of such articles (US$ 1,820.3 million)	USA	453.0	24.9
		Germany	218.2	12.0
		France	208.6	11.5
		Poland	124.9	6.9
		Netherlands	95.7	5.3
		India (9th largest)	48.4	2.7
63	Other made-up textile articles; sets; worn clothing and worn textile articles; rags (US$ 1,717.0 million)	USA	342.1	19.9
		Germany	184.7	10.8
		India (3rd largest)	163.6	9.5
		France	124.8	7.3
		Canada	121.6	7.1
		UK	93.2	5.4

HS Code	Product (Export Value)	Major Export Destinations of Bangladesh	Exports (US$ million)	% Share in Bangladesh's Exports of Product
53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn (US$ 924.5 million)	Turkey	220.5	23.9
		India (2nd largest)	191.6	20.7
		China	162.9	17.6
		Pakistan	60.9	6.6
		Iran	38.3	4.1
		Côte d'Ivoire	22.1	2.4
65	Headgear and parts (US$ 748.9 million)	USA	501.0	66.9
		Germany	46.8	6.2
		Canada	37.7	5.0
		Netherlands	16.6	2.2
		France	14.5	1.9
		India (19th largest)	4.0	0.5
42	Articles of leather; saddlery and harness; travel goods, handbags and similar containers (US$ 568.9 million)	USA	120.1	21.1
		India (2nd largest)	93.2	16.4
		Japan	78.7	13.8
		China	42.4	7.5
		Germany	30.9	5.4
		France	28.0	4.9
03	Fish and crustaceans, molluscs and other aquatic invertebrates (US$ 506.3 million)	Germany	78.3	15.5
		Belgium	65.5	12.9
		Netherlands	65.4	12.9
		UK	55.5	11.0
		India (5th largest)	47.4	9.4
		USA	36.4	7.2
67	Prepared feathers and down and articles (US$ 257.6 million)	USA	150.0	58.2
		China	77.6	30.1
		Germany	8.5	3.3
		Japan	7.4	2.9
		UK	2.7	1.0
		India (17th largest)	0.2	0.1
24	Tobacco and manufactured tobacco substitutes (US$ 225.4 million)	Belgium	61.8	27.4
		UAE	34.8	15.4
		Germany	14.6	6.5
		Poland	13.7	6.1
		Netherlands	13.2	5.9
		India (42nd largest)	0.1	0.04

HS Code	Product (Export Value)	Major Export Destinations of Bangladesh	Exports (US$ million)	% Share in Bangladesh's Exports of Product
39	Plastics and articles (US$ 201.2 million)	India (Largest)	55.0	27.3
		USA	40.6	20.2
		China	16.0	8.0
		UAE	9.0	4.5
		Germany	8.7	4.3
		Vietnam	8.6	4.3
87	Vehicles other than railway or tramway rolling stock and parts (US$ 198.5 million)	Germany	89.0	44.8
		UK	48.4	24.4
		Austria	13.0	6.5
		Denmark	6.7	3.4
		India (5^{th} largest)	6.4	3.2
		Netherlands	5.6	2.8
15	Animal or vegetable fats and oils (US$ 190.6 million)	India (Largest)	167.4	87.8
		UAE	7.1	3.7
		Saudi Arabia	6.2	3.3
		Taiwan	4.8	2.5
		UK	0.8	0.4
		Oman	0.8	0.4
30	Pharmaceutical products (US$ 164.9 million)	Myanmar	25.6	15.5
		Sri Lanka	22.0	13.3
		Vietnam	21.0	12.7
		USA	16.7	10.1
		Philippines	16.0	9.7
		India (41^{st} largest)	0.3	0.2
41	Raw hides, skins and leather (US$ 154.0 million)	China	79.0	51.3
		India (2^{nd} largest)	14.3	9.3
		Italy	13.7	8.9
		Spain	13.7	8.9
		Vietnam	7.3	4.7
		Hong Kong	6.2	4.0

Source: ITC Trade Map and India Exim Bank Research

Box 1: Bangladesh's LDC Graduation and Provisions for Various EU GSP Schemes

- Bangladesh is poised to graduate from the LDC group of countries in November 2026. Once graduated, Bangladesh would miss out on the LDC category specific preferences and privileges extended by its international development partners. The most specific and significant loss would be the forfeiture of entitlement under the "Everything but Arms" (EBA) scheme of the EU. The EU will continue to provide Bangladesh the LDC trade benefits for another three years, up to 2029.
- Under EBA rules of origin (RoO), a single transformation for textile and clothing items is sufficient, while for all other products a minimum local value-added of 30% is needed to qualify for preferential market access.
- After LDC graduation, the EU GSP schemes that are available for Bangladesh are GSP+ and Standard GSP.
- GSP+ grants duty-free access to 66% EU tariff lines including apparel items. But RoO provisions change to double transformation for clothing (i.e., domestically produced fabrics will be needed in garment making) and the minimum local value-added of 50% for all other products.
- Graduating LDCs can apply for GSP+ preferences subject to the fulfilment of two broad eligibility conditions, specified as the vulnerability and sustainable development criteria.
- The vulnerability criterion defines lack of export diversification, and comprises,
    - ❑ Diversification criterion, which stipulates that the seven largest sections of the GSP-covered imports represent 75% of total GSP imports by that country over a three-year period, and
    - ❑ Import share criterion, which stipulates that the beneficiary country's GSP-covered imports into the EU represent less than 6.5% in value of the EU's total GSP-covered imports from all GSP beneficiaries.
- The sustainable development criterion requires the exporting country to have ratified and effectively implemented 27 international conventions on labour rights, human rights, environmental protection and good governance.
- Given the current GSP provisions, Bangladesh does not qualify for GSP+ as it does not satisfy the import share criterion (Bangladesh's current share in all GSP-covered imports is more than 17%). On complying with various international conventions, Bangladesh has not ratified the Convention concerning Minimum Age for Admission to Employment (No. 138, 1973). Also, there are concerns related to the implementation of several conventions including freedom of association (Convention 87) and collective bargaining (Convention 98).
- If GSP+ is not available, Bangladesh can apply for the much less attractive Standard GSP scheme. Standard GSP provides duty concessions of about 30% and up to 3.5 percentage points of MFN tariff rates for 66% of the EU tariff lines. The RoO provisions are the same as GSP+.
- Even if Bangladesh has to opt for Standard GSP, textile and clothing items (the EU product section S-11b which includes HS 61, 62 and 63) might exceed the EU product graduation threshold level share and thus, could be subject to exclusion. Bangladesh's current share in the EU GSP covered import S-11b is 43%, which is close to the product graduation threshold of 47.2%.
- Vietnam, which is a beneficiary of Standard GSP, signed a free trade agreement with the EU. It will not be regarded as a GSP beneficiary country when the agreement comes into force. As Vietnam goes out of the GSP beneficiary list, Bangladesh's share in the EU imports from GSP beneficiary countries will increase. This will have implications for product graduation threshold (for S-11b).

Source: https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/Garment-Study-Bangladesh.pdf

Merchandise Imports of Bangladesh

Bangladesh's import policies are outlined in the Import Policy Order 2021-24 issued by the Ministry of Commerce, Government of Bangladesh. The Import Policy Order has two lists, the "List of Controlled Goods" and the "List of Prohibited Goods." Bangladesh's imports grew at an AAGR of 10.7% to be at US$ 88.3 billion in 2022 from US$ 36.4 billion in 2012. Bangladesh remains highly dependent on imports of food, fuel, raw materials for industry and equipment and materials for infrastructure development. Bangladesh's import composition has mostly been concentrated towards textile-related inputs and capital goods. Although Bangladesh is one of the leading exporters of RMG, it is almost entirely dependent on the import of raw cotton.

Cotton accounted for 10.4% of Bangladesh's total imports and 15.1% of global cotton imports **(Table 2.3)**. Bangladesh is able to meet only 3% of its garment industry's demand for cotton, and the rest is imported, making it the second largest cotton importer in the world after China. Two most prominent schemes, viz. bonded warehouse facilities and back-to-back letter of credit (L/C) arrangements, greatly facilitated procuring raw materials without paying import duties and without the need for paying in cash up front in the country.

Table 2.3: Major Products Imported by Bangladesh

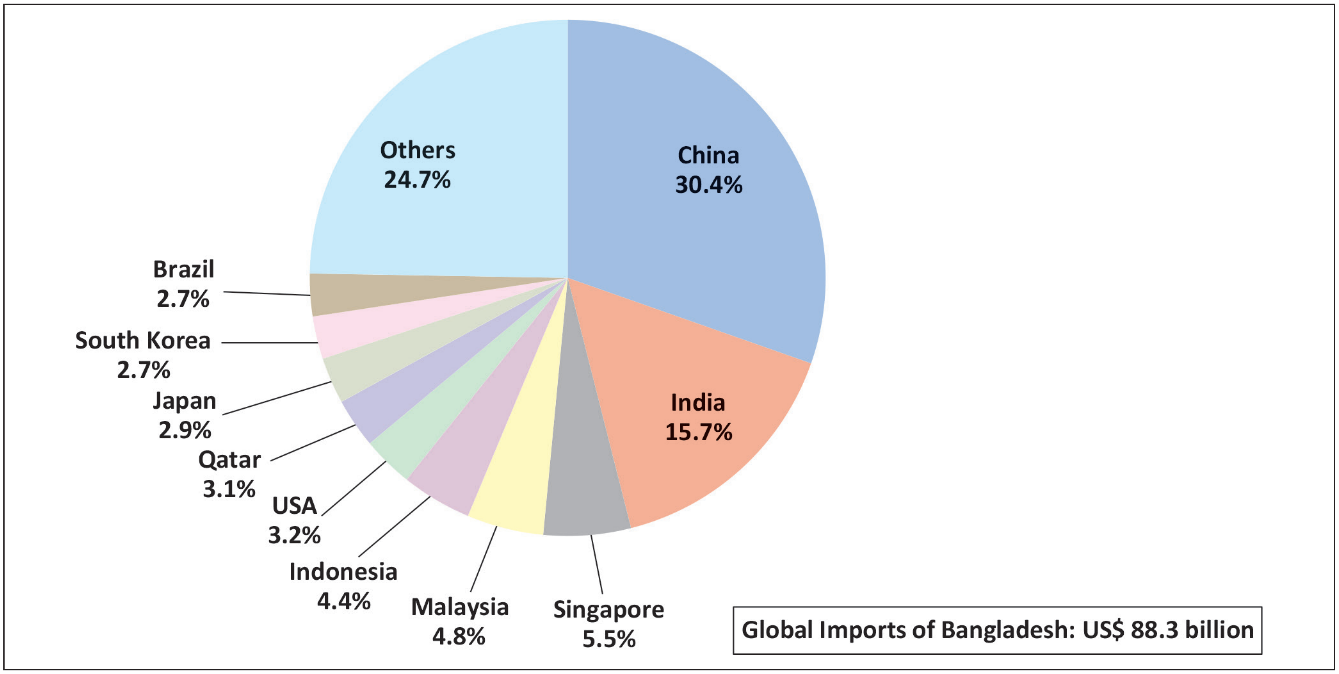
HS Code	Product	2012 (US$ million)	% Share in Bangladesh's Imports in 2012	2022 (US$ million)	% Share in Bangladesh's Imports in 2022	% Share in Global Imports in 2022
	Total Imports of Bangladesh	**36,356.2**	**100.0**	**88,258.3**	**100.0**	**0.3**
27	Mineral fuels, oil and products of distillation	3,215.6	8.8	16,550.7	18.8	0.4
52	Cotton	5,921.0	16.3	9,153.8	10.4	15.1
84	Machinery and mechanical appliances	3,405.0	9.4	6,969.0	7.9	0.3
85	Electrical machinery, equipment and parts	1,940.8	5.3	4,757.8	5.4	0.1
72	Iron and steel	1,885.5	5.2	4,338.4	4.9	0.7
39	Plastics and articles	1,293.3	3.6	3,493.4	4.0	0.4
31	Fertilisers	1,107.3	3.0	3,454.9	3.9	2.3
15	Animal, vegetable or microbial fats and oils	2,971.4	8.2	2,755.3	3.1	1.5
10	Cereals	617.8	1.7	2,522.1	2.9	1.2
55	Man-made staple fibres	1,090.3	3.0	2,318.6	2.6	5.6
60	Knitted or crocheted fabrics	296.6	0.8	2,277.7	2.6	6.4
54	Man-made filaments, strip and the like	659.5	1.8	2,036.5	2.3	3.9
87	Vehicles other than railway or tramway rolling stock	885.4	2.4	1,927.2	2.2	0.1
73	Articles of iron or steel	326.9	0.9	1,485.2	1.7	0.4
12	Oil seeds and oleaginous fruits	338.7	0.9	1,444.4	1.6	0.9

Source: ITC Trade Map and India Exim Bank Research

Mineral fuels (mainly refined petroleum, gaseous hydrocarbons, coal and electrical energy) accounted for 18.8% of Bangladesh's imports in 2022. Bangladesh is also a major importer of machinery - both mechanical and electrical, iron and steel and plastic. The cumulative share of man-made fabrics, knitted and crocheted fabrics and man-made filaments in Bangladesh's imports have increased from 5.6% in 2012 to 7.5% in 2022 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.

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), originally known as the Bangkok Agreement signed in 1975, which came to be known as APTA in 2005.

Chart 2.4: Major Import Sources of Bangladesh, 2022



Source: ITC Trade Map and India Exim Bank Research

China and India have been the major sources across almost all commodities imported by Bangladesh **(Table 2.4)**. India was the largest import source for cotton, cereals and vehicles; the second-largest import source for machinery, plastics, knitted or crocheted fabrics, man-made filaments and articles of iron or steel, and the third largest source of electrical machinery and man-made staple fibres.

Table 2.4: Major Sources for Products Imported by Bangladesh, 2022

HS Code	Product (Import Value)	Major Import Sources of Bangladesh	Imports (US$ million)	% Share in Bangladesh's Imports of Product
	All Products (US$ 88,258.3 million)	China	26,808.3	30.4
		India (2nd largest)	13,833.8	15.7
		Singapore	4,825.7	5.5
		Malaysia	4,240.5	4.8
		Indonesia	3,894.6	4.4
		USA	2,813.9	3.2
27	Mineral fuels, mineral oils and products distillation (US$ 16,550.7 million)	Malaysia	2,929.4	17.7
		Singapore	2,485.7	15.0
		Qatar	2,265.6	13.7
		China	2,256.0	13.6
		India (5th largest)	1,960.2	11.8
		Indonesia	1,317.7	8.0
52	Cotton (US$ 9,153.8 million)	India (largest)	2,938.7	32.1
		China	2,744.1	30.0
		Pakistan	722.9	7.9
		Brazil	502.7	5.5
		USA	478.4	5.2
		Benin	370.3	4.0
84	Machinery, mechanical appliances and parts (US$ 6,969.0 million)	China	3,011.3	43.2
		India (2nd largest)	756.4	10.9
		Singapore	462.8	6.6
		Italy	442.4	6.3
		Japan	391.7	5.6
		Germany	326.4	4.7
85	Electrical machinery and equipment and parts (US$ 4,757.8 million)	China	2,774.9	58.3
		Hong Kong	523.3	11.0
		India (3rd largest)	310.1	6.5
		Singapore	268.9	5.7
		Vietnam	141.0	3.0
		Germany	90.0	1.9
72	Iron and steel (US$ 4,338.4 million)	China	1,011.3	23.3
		Japan	721.4	16.6
		USA	690.4	15.9
		India (4th largest)	368.7	8.5
		UK	348.5	8.0
		Australia	208.6	4.8

HS Code	Product (Import Value)	Major Import Sources of Bangladesh	Imports (US$ million)	% Share in Bangladesh's Imports of Product
39	Plastics and articles (US$ 3,493.4 million)	China	1,196.0	34.2
		India (2nd largest)	343.6	9.8
		Taiwan	338.1	9.7
		Saudi Arabia	308.0	8.8
		UAE	199.8	5.7
		South Korea	181.0	5.2
31	Fertilisers (US$ 3,454.9 million)	Morocco	846.2	24.5
		Saudi Arabia	642.5	18.6
		China	570.7	16.5
		Canada	503.1	14.6
		Qatar	416.4	12.1
		India (11th largest)	1.9	0.1
15	Animal or vegetable fats and oils (US$ 2,755.3 million)	Indonesia	1,493.0	54.2
		Argentina	439.8	16.0
		Brazil	393.3	14.3
		Malaysia	336.7	12.2
		Paraguay	40.7	1.5
		India (12th largest)	2.2	0.1
10	Cereals (US$ 2,522.1 million)	India (largest)	1,570.5	62.3
		Canada	397.2	15.7
		Australia	168.1	6.7
		Brazil	108.4	4.3
		Myanmar	85.5	3.4
		Ukraine	65.4	2.6
55	Man-made staple fibres (US$ 2,318.6 million)	China	1,578.1	68.1
		Indonesia	217.5	9.4
		India (3rd largest)	176.0	7.6
		Thailand	88.8	3.8
		Malaysia	39.6	1.7
		Singapore	36.9	1.6
60	Knitted or crocheted fabrics (US$ 2,277.7 million)	China	1,864.1	81.8
		India (2nd largest)	95.7	4.2
		Taiwan	82.4	3.6
		Hong Kong	71.9	3.2
		South Korea	38.9	1.7
		Vietnam	37.6	1.7

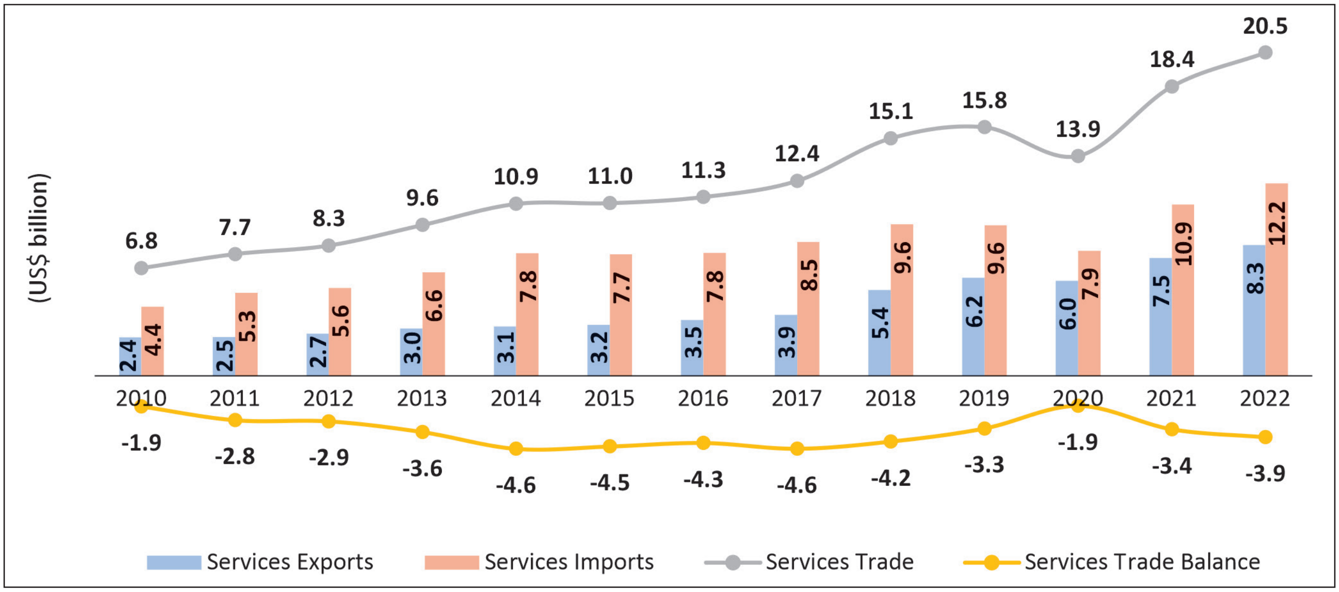
HS Code	Product (Import Value)	Major Import Sources of Bangladesh	Imports (US$ million)	% Share in Bangladesh's Imports of Product
54	Man-made filaments; strip and the like of man-made textile materials (US$ 2,036.5 million)	China	1,383.9	68.0
		India (2nd largest)	185.7	9.1
		Taiwan	145.5	7.1
		Vietnam	112.5	5.5
		South Korea	66.0	3.2
		Thailand	55.2	2.7
87	Vehicles other than railway or tramway rolling stock, and parts (US$ 1,927.2 million)	India (largest)	841.2	43.6
		Japan	454.4	23.6
		China	356.8	18.5
		Indonesia	41.9	2.2
		Thailand	37.0	1.9
		Turkey	31.9	1.7
73	Articles of iron or steel (US$ 1,485.2 million)	China	865.7	58.3
		India (2nd largest)	240.9	16.2
		Vietnam	147.9	10.0
		South Korea	46.2	3.1
		UAE	31.4	2.1
		Myanmar	20.9	1.4
12	Oil seeds and oleaginous fruits (US$ 1,444.4 million)	Brazil	641.7	44.4
		USA	355.4	24.6
		Australia	182.7	12.6
		Canada	88.3	6.1
		Uruguay	54.5	3.8
		India (6th largest)	52.5	3.6

Source: ITC Trade Map and India Exim Bank Research

Services Trade of Bangladesh

Bangladesh's services trade increased almost three-folds from US$ 6.8 billion in 2010 to US$ 20.5 billion in 2022. Bangladesh's services exports increased from US$ 2.4 billion in 2010 to US$ 8.3 billion in 2022. Bangladesh was the second-largest exporter of services among the South Asian Association for Regional Cooperation (SAARC) countries, accounting for a share of 2.4% after India (92.4%) in 2022. Total imports almost near tripled from US$ 4.4 billion in 2010 to US$ 12.2 billion in 2022 **(Chart 2.5)**. Bangladesh is the second-largest importer of services among the SAARC nations, accounting for 4.3% of services imports by the region, after India (89%). Bangladesh remains a net importer of services, with services deficit increasing from US$ 1.9 billion in 2010 to US$ 3.9 billion in 2022. However, services deficits have moderated from the peak deficit of US$ 4.6 billion recorded in 2017, mainly driven by increased digitization and export of information and communication technology (ICT) services. The computer services exports (including software, data processing and consultancy) have increased from US$ 37 million in 2010 to US$ 590 million in 2022.

Chart 2.5: Services Trade of Bangladesh



Source: ITC Trade Map and India Exim Bank Research

Transport services accounted for the largest share in 2022 (17.5%), followed by construction services (11.4%), technical, trade-related and other business services (11.2%) and telecommunications, computer and information services (8.7%) **(Table 2.5)**. According to a study by the Bangladesh Foreign Trade Institute in 2018[6], 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). Though Bangladesh is a relatively smaller player in the global services trade, the country has immense opportunity to expand and diversify its services exports through operationalising the LDC Services Waiver of the WTO.

Table 2.5: Services Exports of Bangladesh (US$ million)

Product/Sector	2010	2015	2020	2021	2022
Total Services Exports of Bangladesh	**2,445**	**3,233**	**6,020**	**7,475**	**8,270**
Government goods and services	1,209	1,557	2,940	2,558	2,604
Commercial services	1,236	1,677	3,079	4,917	5,666
Goods-related services	37	71	310	565	647
Maintenance and repair services	-	3	5	8	15
Transport	176	401	685	1,336	1,444
Sea transport	134	177	283	605	802
Freight (Sea)	29	33	76	228	267
Other (Sea)	105	144	207	377	534
Air transport	34	220	401	729	641
Passenger (Air)	22	-	1	1	1

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

Product/Sector	2010	2015	2020	2021	2022
Freight (Air)	-	-	82	66	12
Other (Air)	12	219	318	661	628
Other modes of transport	5	-	-	-	-
Travel	81	150	217	273	419
Business	1	2	1	1	2
Personal	80	148	216	272	417
Education-related	15	26	28	51	59
Other (Personal)	65	122	189	221	358
Other commercial services	942	1,054	1,867	2,744	3,155
Construction	7	76	436	981	942
Insurance and pension services	7	1	3	8	6
Direct insurance	1	-	2	1	2
Reinsurance	4	-	1	3	4
Auxiliary insurance services	-	-	-	-	-
Pension and standardized guaranteed services	2	1	1	3	1
Financial services	41	71	98	126	195
Charges for the use of intellectual property	1	1	4	2	4
Telecommunications, computer and information services	313	482	405	618	721
Telecommunications services	275	343	130	156	130
Computer services	37	138	274	462	590
Information services	-	1	1	-	-
Personal, cultural and recreational services	2	6	23	26	65
Other business services	572	418	896	983	1,223
Research and development services	12	16	13	16	17
Professional and management consulting services	28	81	256	241	283
Technical, trade-related and other business services	532	320	628	726	923

Note: "-" implies nil, negligible or not available

Source: WTO and India Exim Bank Research

The LDC Services Waiver was adopted in the 8th 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[7]. Though the Waiver was adopted in 2011, various countries started declaring their preferential schemes in 2015 and 51 countries have declared their schemes as of December 2023. 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 in Services Trade" was adopted in Nairobi Ministerial Conference in 2015. The decision extends the duration of the waiver until the end of 2030.

[7] Trade in services and LDCs, WTO, December 2023

Table 2.6: Services Imports of Bangladesh (US$ million)

Product/Sector	2010	2015	2020	2021	2022
Total Services Imports of Bangladesh	**4,389**	**7,719**	**7,927**	**10,866**	**12,155**
Government goods and services	267	328	352	387	441
Commercial services	4,122	7,392	7,574	10,479	11,715
Goods-related services	-	21	28	26	30
Maintenance and repair services	-	21	28	26	30
Transport	3,442	5,774	5,066	7,299	8,292
Sea transport	2,849	4,940	4,007	6,143	6,761
Freight (Sea)	2,848	4,940	3,955	6,026	6,604
Other (Sea)	-	-	51	117	157
Air transport	588	575	536	845	1,216
Passenger (Air)	574	400	224	263	563
Freight (Air)	13	170	257	457	521
Other (Air)	1	5	55	126	132
Other modes of transport	4	242	488	291	281
Travel	261	427	394	629	1,326
Business	29	40	16	21	40
Personal	232	387	378	608	1,286
Health-related	1	-	1	3	2
Education-related	82	129	205	334	479
Other (Personal)	149	258	171	272	805
Other commercial services	419	1,170	2,086	2,526	2,066
Construction	6	200	698	779	389
Insurance and pension services	26	6	45	160	26
Direct insurance	1	4	43	158	24
Reinsurance	26	1	2	1	2
Pension and standardized guaranteed services	-	1	-	-	-
Financial services	45	487	558	596	721
Charges for the use of intellectual property	18	24	65	63	50
Telecommunications, computer and information services	24	55	100	99	165
Telecommunications services	19	29	35	39	84
Computer services	5	25	63	59	78
Information services	1	1	2	1	2
Personal, cultural and recreational services	-	8	19	26	35
Other business services	299	389	601	803	680
Research and development services	3	3	6	8	7
Professional and management consulting services	29	112	176	204	248
Technical, trade-related and other business services	268	273	419	591	425

Note: “-” implies nil, negligible or not available

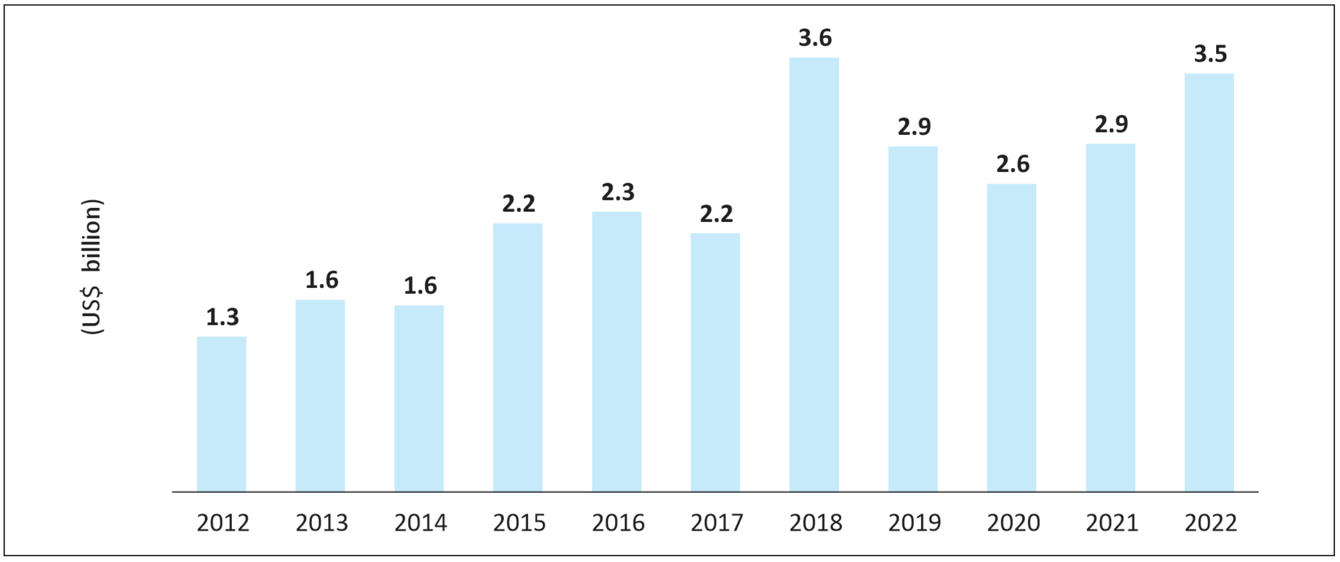
Source: WTO and India Exim Bank Research

Table 2.6 represents the services imported by Bangladesh. Transport accounted for 68.2% of Bangladesh's services imports in 2022, followed by travel (10.9%), financial services (5.9%), technical, trade-related and other business services (3.5%) and construction (3.2%).

Foreign Direct Investment in Bangladesh

According to the Bangladesh Bank (the central bank of Bangladesh), FDI inflows into Bangladesh increased by an AAGR of 9.2% during 2012-2022 **(Chart 2.6)**. FDI inflows into Bangladesh peaked in 2018, driven by significant investments in power generation and labour-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[8]. The export-oriented apparel industry remains an important FDI recipient, with major investors from the Republic of Korea, Hong Kong and China[9]. Foreign investment inflows are shifting away from large non-renewable energy and finance projects towards fintech, pharmaceutical industry, liquefied natural gas plants and agribusiness, which are being actively promoted by the Government of Bangladesh[10]. In 2022, FDI inflows into the country rose by 20.7% year-on-year to US$ 3.5 billion, which is around the 2018 levels. With the enactment of the Bangladesh Patents Bill 2022, Bangladesh has given a boost to investment by extending the duration of patent protection from 16 to 20 years.

Chart 2.6: Foreign Direct Investment Inflows into Bangladesh



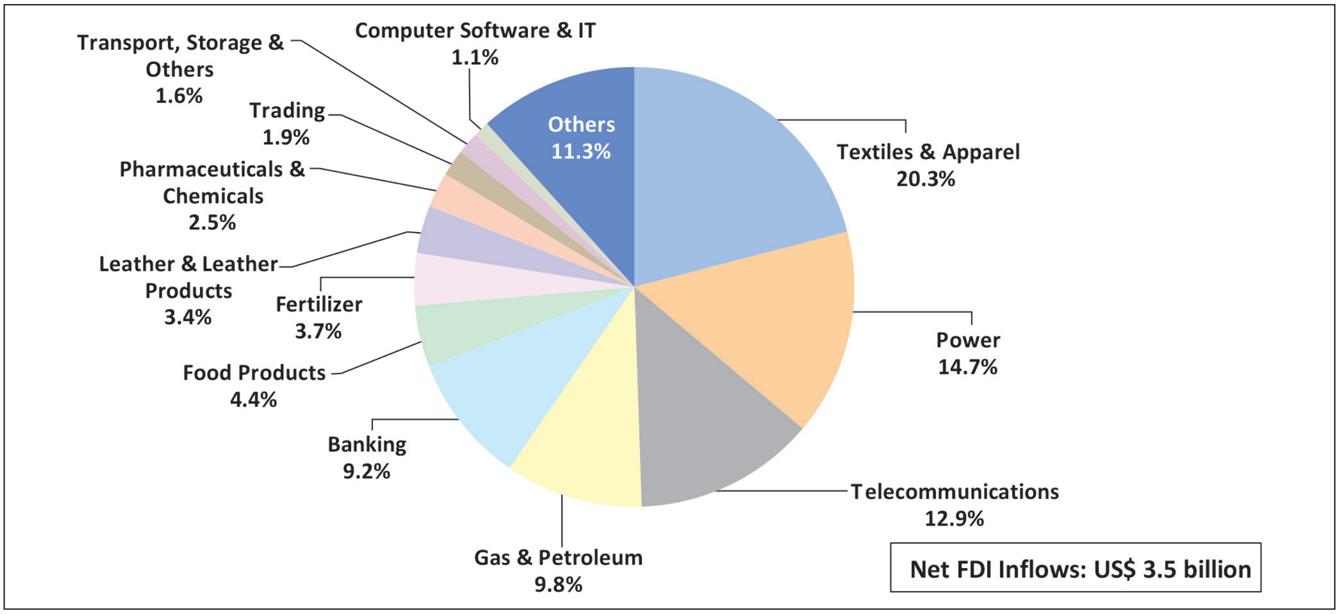
Source: Bangladesh Bank and India Exim Bank Research

Sector-wise Investment Inflows

According to the FDI survey of the Bangladesh Bank, maximum net FDI inflows during 2022 were recorded in textile and apparel sector (US$ 705.7 million), followed by power (US$ 511.7 million), telecommunications (US$ 449.5 million), gas and petroleum (US$ 342.5 million) and banking (US$ 320 million), respectively. Chart 2.7 shows sectors receiving maximum FDI inflows in Bangladesh during 2022.

[8] World Investment Report 2019, UNCTAD
[9] World Investment Report 2020, UNCTAD
[10] World Investment Report 2021, UNCTAD

Chart 2.7: Sector-wise Net FDI Inflows into Bangladesh, 2022

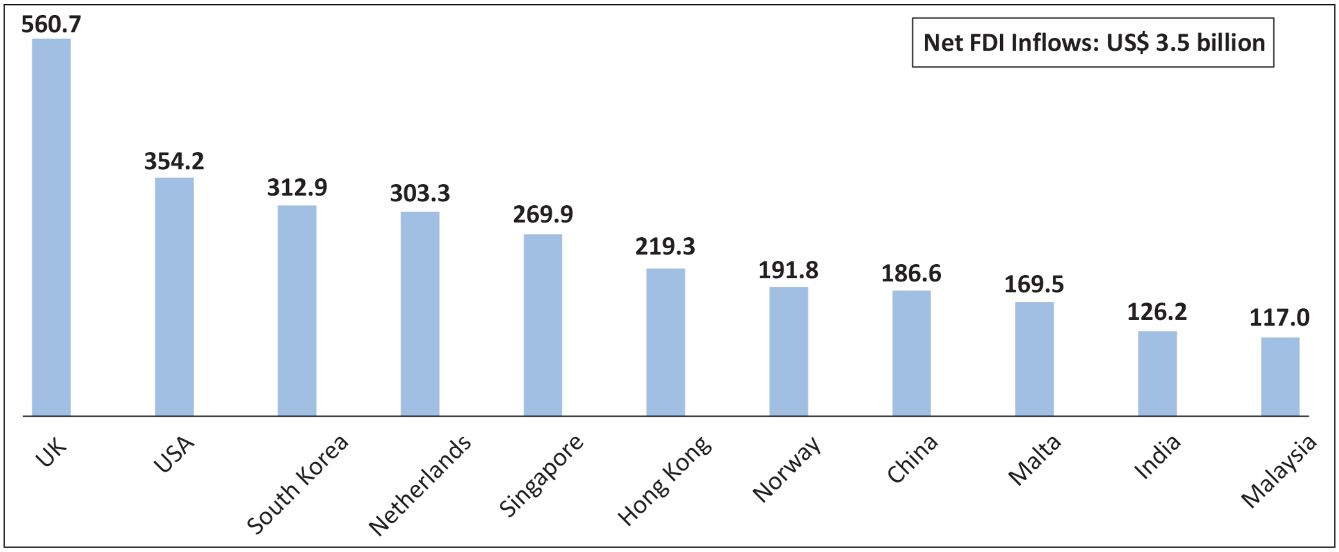


Source: Bangladesh Bank and India Exim Bank Research

Major sectors with highest FDI stock in Bangladesh at end December 2022 include gas & petroleum (US$ 3.9 billion or 18.3%), followed by textile & apparel (US$ 3.8 billion or 18.1%), banking sector (US$ 2.8 billion or 13.3%), power (US$ 2.5 billion or 11.6%), telecommunications (US$ 1.4 billion or 6.8%), food (US$ 893.4 million or 4.2%), trading (US$ 610 million or 2.9%), chemical and pharmaceuticals (US$ 446.7 million or 2.1%), non-banking financial institutions (US$ 408.5 million or 1.9%) and leather and leather products (US$ 369 million or 1.7%).

The major country-wise net FDI inflows during 2022 were from UK, accounting for a share of 16.1%, followed by USA (10.2%), South Korea (9%), Netherlands (8.7%), Singapore (7.8%) and Hong Kong (6.3%), respectively. India, the 10th largest investor, accounted for 3.6% of net FDI inflows into Bangladesh in 2022 **(Chart 2.8)**.

Chart 2.8: Country-wise Major Investors in Bangladesh, 2022 (US$ million)



Source: Bangladesh Bank and India Exim Bank Research

In terms of the stock position of FDI inflows into Bangladesh, as of December 2022, major countries investing in Bangladesh at FDI stock level were USA (US$ 4.1 billion), UK (US$ 2.7 billion), Singapore (US$ 1.8 billion), South Korea (US$ 1.5 billion), China (US$ 1.3 billion), Hong Kong (US$ 1.3 billion), Netherlands (US$ 1.3 billion), Malaysia (US$ 913.3 million), Australia (US$ 729.1 million) and India (US$ 687 million), contributing 19.4%, 12.8%, 8.7%, 6.9%, 6.4%, 6.0%, 5.9% , 4.3% , 3.4% and 3.2%, respectively to total FDI stock of US$ 21.2 billion.

In terms of stock position, USA was the largest investor in Bangladesh as of December 2022, with major investments in gas and petroleum (US$ 2,910.5 million) and insurance (US$ 272.2 million). China's major investments were in power (US$ 666.9 million) and textile and apparel (US$ 309.5 million), whereas in case of India, major investments were in banking (US$ 214.5 million), textile and apparel (US$ 148.6 million) and power (US$ 117.7 million), respectively.

Outward FDI from Bangladesh

In September 2015, the government amended the 1947 Act by adding a "conditional provision" that permits outbound investment for export-related enterprises. As a result of amendment, outward foreign direct investments (OFDIs) by Bangladeshi firms have increased in recent years. According to the Bangladesh Bank[11], net outward FDI from Bangladesh in 2022 stood at US$ 52.6 million, increasing from US$ 40.4 million in 2016. Major sectors of outward FDI during 2022 were financial intermediaries (82.6%), mining and quarrying (13.5%) and chemical and pharmaceuticals (2.1%). The major recipients of net outward FDI from Bangladesh in 2022 were India accounting for 30% of the total outward investment, followed by Hong Kong (22.3%), UAE (13.3%), Nepal (8.6%) and UK (8.5%), respectively.

[11] Foreign Direct Investment Survey July-December 2022, Bangladesh Bank

Chapter 3

India's Trade and Investment with 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 more than 4,096 km contiguous border, the fifth-longest land border in the world. Geographically, Bangladesh's location makes it a strategic gateway to India, Nepal, Bhutan and other East Asian countries. The geographical proximity between India and Bangladesh provides easy access to each other's markets for their products.

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 is subject to automatic renewal and extension for successive terms of 5 years. 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.

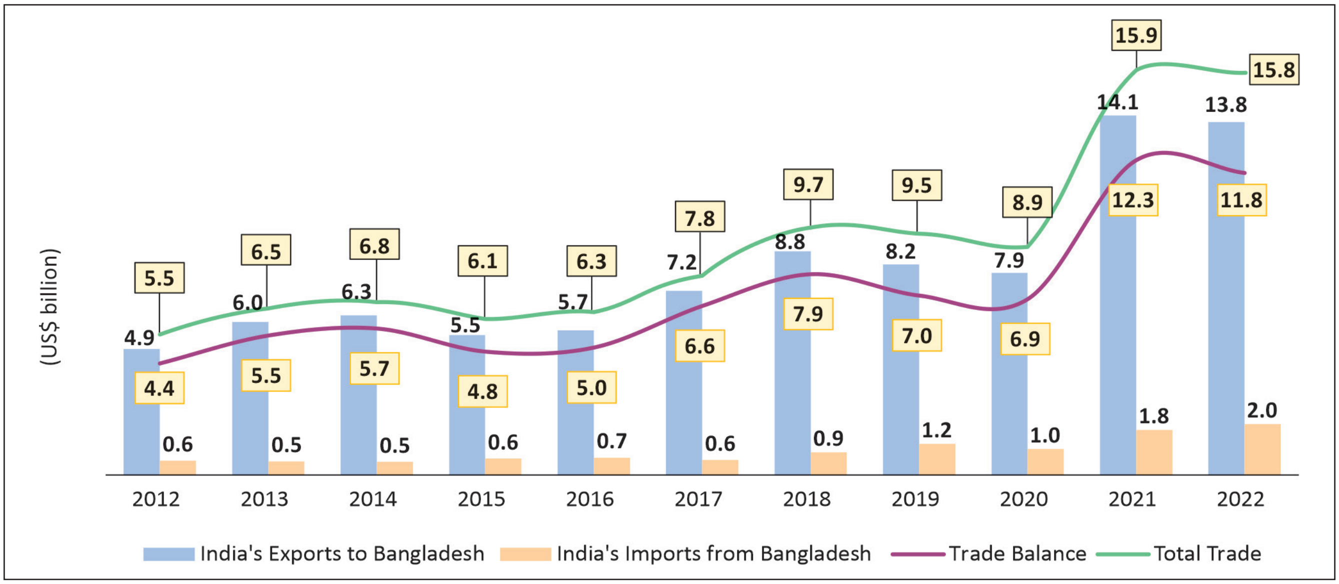
India and Bangladesh are members of the South Asian Free Trade Area (SAFTA), the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), the Asia-Pacific Trade Agreement (APTA) and the Indian Ocean Rim Association (IORA), formerly known as Indian Ocean Rim Association for Regional Co-operation (IOR-ARC). 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 Preference (DFTP) Scheme. Presently, discussions on signing a Comprehensive Economic Partnership Agreement (CEPA) between both countries are also underway.

Bangladesh is India's largest trading partner in SAARC, accounting for 44% of India's total exports to the region and 37.7% of India's total imports from the region in 2022. Bangladesh is also India's fifth largest export destination, after USA, UAE, Netherlands and China. Indo-Bangladesh trade increased by more than two-folds over the past decade to reach US$ 15.8 billion in 2022 from US$ 5.5 billion in 2012. India's exports to Bangladesh, at US$ 13.8 billion, accounted for 3.1% of India's global exports in 2022. The emergence of Bangladesh as India's fifth largest export destination in 2022, from being the 16th largest export destination for India in 2012, with a 1.7% share in India's global exports clearly indicates the strong trade potential between both countries **(Chart 3.1)**.

India is the first developing country to extend DFTP Scheme facility to LDCs. The scheme came into force on August 13, 2008, and was further notified on September 5, 2011 by the WTO. This Scheme is a unilateral tariff preference scheme on the lines of a preferential trade arrangement, where the import duties on a majority of products imported from the LDCs would be allowed at zero tariff rates. 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 joined India's DFTP Scheme on May 14, 2010, which gives it duty-free access to 98% of India's total tariff lines. Bangladesh is on track to graduating from LDC status in 2026 after which it will no longer be eligible to continue to impose high tariffs on other non-LDC members and will have to provide duty-free quota-free market access to India under the existing SAFTA commitments.

Imports from Bangladesh have been relatively low at US$ 2 billion in 2022. However, India's imports from Bangladesh have increased at an AAGR of 16% as compared to an AAGR of 13% undergone by the exports during the same period. India has a persistent trade surplus with Bangladesh, which has widened from US$ 4.4 billion to US$ 11.8 billion over 2012-2022.

Chart 3.1: India's Merchandise Trade with Bangladesh



Source: ITC Trade Map and India Exim Bank Research

India's Exports to Bangladesh

Table 3.1 shows India's major exports to Bangladesh. India's trade with Bangladesh has undergone a compositional change across the years. Though the main components of India's exports to Bangladesh continue to remain food items and other primary goods, reflecting Bangladesh's changing industrial policy, exports have gradually expanded to capital goods as well.

Cotton dominates India's exports to Bangladesh, accounting for over one-fifth of India's exports to the country. In fact, India was the largest source of cotton for Bangladesh, overtaking China, and accounting for 32.1% of Bangladesh's global imports of cotton in 2022. Similarly, India was the largest source of cereals to Bangladesh in 2022, accounting for 62.3% of Bangladesh's total imports of the product. India's basket of exports to Bangladesh remains well-diversified, comprising value added products like petroleum oils (mainly refined), vehicles, machinery, sugar, organic chemicals and iron and steel, respectively. India remains the largest import source for Bangladesh for vehicles (43.6% of the country's global imports), tanning or dyeing extracts (28.9%), residues and waste from the food industries (47.9%), sugars and sugar confectionery (51.2%) and aluminium and articles (42.6%); and second largest source for organic chemicals after China (28.2%), edible vegetables and certain roots and tubers, after Australia (23.4%) and plastics and articles, after China (9.8%). India plays a major role in Bangladesh's readymade garments sector as a supplier of both raw materials and capital goods required for the production process.

Table 3.1: India's Major Exports to Bangladesh

HS Code	Product	2012 (US$ million)	2022 (US$ million)	% Share in India's Exports to Bangladesh, 2022	% Share in India's Global Exports, 2022	% Share in Bangladesh's Global Imports, 2022
	All Products	**4,936.7**	**13,833.8**	**100.0**	**3.1**	**15.7**
52	Cotton	1,389.2	2,938.7	21.2	42.3	32.1
27	Mineral fuels, mineral oils and products of their distillation	97.1	1,960.2	14.2	2.0	11.8
10	Cereals	452.0	1,570.5	11.4	11.1	62.3
87	Vehicles other than railway or tramway rolling stock, and parts	412.7	841.2	6.1	4.0	43.6
84	Machinery, mechanical appliances and parts	272.5	756.4	5.5	2.8	10.9
17	Sugars and sugar confectionery	263.8	520.3	3.8	8.2	51.2
29	Organic chemicals	120.7	369.5	2.7	1.7	28.2
72	Iron and steel	119.6	368.7	2.7	2.4	8.5
23	Residues and waste from the food industries	200.1	362.6	2.6	18.0	47.9
39	Plastics and articles	109.2	343.6	2.5	4.2	9.8
85	Electrical machinery and equipment and parts	118.3	310.1	2.2	1.2	6.5
76	Aluminium and articles	69.5	283.4	2.0	3.0	42.6
32	Tanning or dyeing extracts	94.8	270.4	2.0	7.5	28.9
73	Articles of iron or steel	98.5	240.9	1.7	2.4	16.2
07	Edible vegetables and certain roots and tubers	63.6	207.1	1.5	12.0	23.4

Source: ITC Trade Map and India Exim Bank Research

An analysis of Bangladesh's cotton imports reveals that at the 4-digit level, Bangladesh mainly imported cotton not carded or combed (HS-5201), followed by cotton yarn (HS-5205), woven fabrics with weight over 200 g/m^2 (HS-5209), woven fabrics of cotton, containing predominantly, but < 85% cotton by weight (HS-5211) and woven fabrics with weight under 200 g/m2 (HS-5208). Bangladesh's cotton import from India were mainly skewed towards cotton and cotton yarn, while imports from China mainly included woven cotton. In the case of cereals, where India is the major supplier to Bangladesh, Bangladesh's cereals import from India were mainly wheat and meslin (HS-1001), maize or corn (HS-1005) and rice (HS-1006) in 2022.

India’s Imports from Bangladesh

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 82% of India’s global imports of these products in 2022. Other major products imported by India from Bangladesh include other vegetable textile fibres, which accounted for 9.6% of India’s imports from Bangladesh in 2022, followed by animal and vegetable fats and other made-up textile articles **(Table 3.2)**. India’s cotton imports from Bangladesh mainly include cotton and cotton yarn waste.

Table 3.2: India’s Major Imports from Bangladesh

HS Code	Product	2012 (US$ million)	2022 (US$ million)	% Share in India’s Imports from Bangladesh, 2022	% Share in India’s Global Imports, 2022	% Share in Bangladesh’s Global Exports, 2022
	All Products	**567.3**	**2001.6**	**100.0**	**0.3**	**3.0**
62	Articles of apparel and clothing accessories, not knitted or crocheted	42.8	414.2	20.7	45.3	1.6
61	Articles of apparel and clothing accessories, knitted or crocheted	10.8	296.8	14.8	36.6	0.9
53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn	123.3	191.6	9.6	37.7	20.7
15	Animal or vegetable fats and oils	11.6	167.4	8.4	0.8	87.8
63	Other made-up textile articles; sets	79.1	163.6	8.2	26.2	9.5
42	Articles of leather, travel goods, handbags and articles	0.1	93.2	4.7	19.8	16.4
39	Plastics and articles	7.3	55.0	2.7	0.2	27.3
72	Iron and steel	16.4	53.5	2.7	0.3	66.4
64	Footwear, gaiters and parts	1.6	48.4	2.4	5.3	2.7
03	Fish and crustaceans, molluscs and other aquatic invertebrates	36.4	47.4	2.4	25.6	9.4
88	Aircraft, spacecraft and parts	0.0	39.5	2.0	1.1	97.3
52	Cotton	13.0	39.3	2.0	2.2	39.0
28	Inorganic chemicals	18.9	38.8	1.9	0.3	46.2
84	Machinery and mechanical appliances	2.7	35.5	1.8	0.1	38.0
60	Knitted or crocheted fabrics	2.1	29.4	1.5	3.8	81.9

Source: ITC Trade Map and India Exim Bank Research

According to the Export Potential Map of International Trade Centre, India has an untapped export potential of US$ 6.0 billion to Bangladesh, while Bangladesh has an untapped export potential of US$ 937 million to India as its competitiveness is concentrated in a limited number of industries in the current scenario, which can be realized by addressing the trade barriers between both the countries.

As per various reports, apart from formal trade, there exists substantial unofficial trade between the two countries,[12] denoting the possibility of enhancing bilateral trade by facilitating routing of these traded items through official channels. Unofficial trade with Bangladesh occurs through the porous borders of Assam, Meghalaya, Mizoram, Tripura and West Bengal. Major reasons for unofficial trade would include evasion of tariff and non-tariff barriers, complex procedures, better market distribution network and nature and size of the businessmen/traders.

South Asian Free Trade Area

SAARC countries include Afghanistan, Bangladesh, Bhutan, India, Nepal, Maldives, Pakistan and Sri Lanka. SAARC countries signed the SAARC Preferential Trading Arrangement (SAPTA) in April 1993 which came into force in December 1995, with the aim of promoting intra-regional trade and economic cooperation within the SAARC region through the exchange of concessions. To promote and facilitate intra-regional trade among the SAARC members, and to remove the several constraints in trading, the SAPTA was replaced by the South Asian Free Trade Area (SAFTA) Agreement. The SAFTA was signed on January 6, 2004, during the twelfth SAARC Summit held in Islamabad, Pakistan, and the agreement entered into force on January 1, 2006. The SAFTA aims to reduce all tariff barriers to zero among the countries. In this agreement, three lists were negotiated, the Negative List, the Positive List and the Residual List. According to the SAFTA, while duty on items outside the sensitive list would be immediately reduced to 0% - 5%, items in the sensitive list of a country would not be considered for tariff reduction and would need to enter that country by paying Most Favoured Nation (MFN) duties at the Customs.

The agreement specifies that member countries will review the sensitive list every three years. The agreement provides LDCs extended time frame than developing countries to reduce its tariffs to 5% or below. However, unlike SAPTA, the SAFTA allows products on sensitive list to be excluded from tariff reduction. Under Phase-II of the Trade Liberalization Program under the SAFTA, all the import tariffs have been brought down between 0%-5%.

Based on a Memorandum of Understanding (MOU) signed between the two countries in 2008, India agreed to provide zero duty market access for up to 8 million pieces of garments from Bangladesh (Tariff Rate Quota [TRQ]). This was further increased to 10 million pieces every year in April 2011. In September 2011, during the then Prime Minister Dr. Manmohan Singh's visit to Dhaka, India granted duty-free, quota free access to 46 textile tariff lines of greatest sensitivity to Bangladesh. Further, with effect from November 9, 2011, India unilaterally reduced its sensitive list for SAARC LDCs, including Bangladesh, to 25 tariff lines. Thus, as an LDC, Bangladesh is enjoying 0% tariff access on all items exported to India except on 25 items (i.e., alcohol, drugs, narcotics, etc.) under the SAFTA. The number of products under the sensitive list of Bangladesh is 1,031 for non-LDCs and 1,022 for LDCs. For India, the key items in the sensitive list for Non-Least Developed Contracting States (NLDCS) range from vegetables and man-made staple fibres to footwear and iron & steel. After these announcements in 2011, the TRQ between India and Bangladesh became redundant.

India has granted Bangladesh duty-free, quota-free access on all items except tobacco and alcohol under the SAFTA. As per the SAFTA, the rules of origin is less stringent for LDCs (requirement of change of tariff heading

[12] Contested Spaces of Exchange: Informal Cross-Border Trade on the India–Bangladesh Border, Forum for Development Studies, November 2023

and value addition of 10% less than the general requirement for non-LDCs; the general rule is Change of Tariff Heading (CTH) plus 60% of non-originating material for non-LDC contracting parties) and there are some product-specific rules. Regional cumulation is allowed under the SAFTA, where the regional value addition requirement is 50%, of which 20% is to be in the final exporting country.

While India has zero or low preferential tariffs with high preference margins for imports from SAARC, other SAARC countries, including Bangladesh, have applied relatively high preferential tariffs on imports from India with a low preference margin. In essence, India's tariff related benefits due to the SAFTA are relatively less compared to its SAARC trading partners and this is also a case of unequal exchange in terms of tariffs.

SAARC Agreement on Trade in Services (SATIS)

The SAARC Agreement on Trade in Services (SATIS) was signed at the 16th SAARC Summit held in Thimphu in April 2010, with a view to expand cooperation in trade in services and further deepen the integration of the regional economies. The agreement entered into force on November 29, 2012. All the member countries have ratified the agreement and exchanged Initial Offer Lists and Request Lists, with a view to finalizing the Schedules of Commitments. Bangladesh has offered 02 services sectors (telecom and tourism) and submitted its Schedule of Commitments. Bangladesh has also requested all members to liberalize ten services sectors: accounting & auditing, management consulting services, computer related services, telecom services, financial services, construction & engineering, education services, audio-visual services, courier services and maritime services. Discussion and negotiations among the members are going on for finalizing the Schedules of Commitments. Bangladesh would be benefitted in the areas of investment and trade after implementation of the agreement.

Duty Free Tariff Preference Scheme for Least Developed Countries

The decision to provide Duty Free Quota Free (DFQF) access for LDCs was an outcome of the WTO Hong Kong Ministerial Meeting, held in December 2005. Under this WTO Decision, India became the first developing country to extend this facility to LDCs. India announced the DFTP Scheme for LDCs in 2008, with tariff reductions spread over five years. Under the Scheme, by 2012, 85% of India's total tariff lines were made duty free, 9% tariff lines enjoy a margin of preference (MOP) ranging from 10% to 100% and only 6% of total tariff lines retained in the exclusion list with no duty preferences, for the exports from LDCs. The market access under the 2008 scheme covered 92.5% of lines where LDCs globally exported.

With effect from April 1, 2014, the DFTP scheme has been expanded both in terms of coverage and facilitation of trade to provide duty free / preferential market access on about 98.2% of India's tariff lines (at HS 6-digit level of classification). Only 1.8% of the tariff lines have been retained in the exclusion list, with no duty concessions. Only 97 lines are under exclusion list and 114 lines are under MOP list. MOP means the percentage by which tariffs (basic customs duties as included in the national customs schedule of India) are reduced on products imported from the beneficiary countries as a result of preferential treatment. On all other lines, zero duty access has been provided for exports from beneficiary LDCs. In order to further facilitate trade, certain procedural modifications were made to the rules of origin of the DFTP Scheme in 2015. Rules of origin criteria changed to Change in Tariff Sub-Heading (CTSH) + 30% (instead of the earlier criteria of Change in Tariff Heading (CTH) + 30%). The originating criteria is domestic value addition of minimum 30%

plus substantial transformation through CTSH (6-digit level) instead of CTH (4-digit level). The new scheme provides market access on 95.5% of the lines on which LDCs have exported to India over the last two financial years. Bangladesh is a beneficiary of DFTP Scheme.

India-Bangladesh Bilateral Services Trade

Bilateral Services trade between India and Bangladesh is sourced from the Bangladesh Bank. The data corresponds to Bangladesh's fiscal year (July – June). Trade in service between Bangladesh and India has increased significantly from 2016-17 to 2022-23, during which Bangladeshi services exports to India grew by a compounded annual growth rate (CAGR) of 10.5%, while India's services exports to Bangladesh grew by 7.4%. According to **Table 3.3**, Bangladesh had highest export of services and imports with India in FY 2022-23. India was the fifth largest services export destination of Bangladesh, after USA, China, Hong Kong and Singapore. India accounted for 7.7% of Bangladesh's services exports during 2022-23, increasing from 6.2% in 2021-22. India was the third largest services supplier to Bangladesh, after Singapore and China. accounting for 10.1% of services imports of Bangladesh during 2022-23, increasing from 8.9% share in 2021-22.

Table 3.3: Bangladesh's Services Trade with India (US$ million)

Fiscal Year	Bangladesh's Services Exports to India	Bangladesh's Services Imports from India	Total Services Trade	Services Trade Balance
2016-17	296.6	632.6	929.1	-336.0
2017-18	360.2	723.3	1,083.5	-363.2
2018-19	517.5	762.2	1,279.7	-244.7
2019-20	437.9	773.6	1,211.4	-335.7
2020-21	466.1	967.0	1,433.1	-500.8
2021-22	533.8	922.6	1,456.3	-388.8
2022-23	540.0	972.5	1,512.5	-432.5

Note: Bangladesh's financial year 2022-23 implies July 2022 to June 2023

Source: Bangladesh Bank

Among the commercial services exports to India, technical, trade-related and other business services accounted for the largest share (24.3%) in 2021-22, followed by construction services (22.1%), travel (17.8%) and transportation (16.1%) **(Table 3.4)**.

Table 3.4: Services Exports of Bangladesh to India (US$ '000)

Product/Sector	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Bangladesh's Services Exports to India	**2,96,570**	**3,60,176**	**5,17,460**	**4,37,871**	**4,66,113**	**5,33,786**
Government goods and services	92,153	1,33,842	2,27,422	1,88,985	1,92,196	1,52,303
Commercial Services	2,04,417	2,26,334	2,90,038	2,48,886	2,73,917	3,81,483
Manufacturing services on physical inputs owned by others	-	-	-	-	3,297	3,367
Maintenance and repair services	84	107	43	120	124	148
Transportation	17,981	27,462	29,193	26,260	36,559	61,565
Sea transport	16,052	24,889	23,742	21,029	28,267	52,478
Air transport	1,300	2,185	4,695	4,509	6,716	5,833
Rail transport	-	-	280	152	144	1,387
Road transport	534	345	171	499	1,403	1,843
Others	95	43	305	71	29	24
Travel	35,820	57,910	63,325	51,283	38,339	67,935
Business	43	210	166	161	108	104
Personal	31,540	56,693	54,635	37,811	34,418	53,130
Others	4,237	1,007	8,524	13,311	3,813	14,701
Construction services	5,510	3,514	34,908	34,501	57,191	84,122
Insurance services	-	-	1	2	300	1,047
Financial services (other than insurance)	16,251	18,924	14,865	12,256	17,276	25,705
Charges for the use of intellectual property	1	93	230	250	12	7
Telecommunications, computer and information services	50,647	38,758	37,973	6,389	4,067	6,525
Telecommunication services	44,201	34,909	19,592	4,128	1,250	1,696
Computer services	6,361	3,806	18,351	2,249	2,782	4,821
Information services	85	43	30	12	35	8
Personal, cultural & recreational services	261	420	630	673	524	1,087
Other Business Services	77,862	79,146	1,08,870	1,17,152	1,16,228	1,29,975
Research and development services	475	488	713	509	476	772
Professional and management services	28,080	24,730	42,891	35,219	37,106	36,670
Technical, trade-related and other business services	49,307	53,928	65,266	81,424	78,646	92,533

Note: Bangladesh's financial year 2022-23 implies July 2022 to June 2023; - nil or negligible; category-wise data is available only till 2021-22

Source: Bangladesh Bank

Table 3.5 represents the services imported by Bangladesh from India. Transport services accounted for 80.8% of Bangladesh's commercial services imports from India. Sea transportation was the major mode of transport services, which accounted for 37.2% of Bangladesh's commercial services imports from India and 46.1% of total transportation imports from India. Transportation services were followed by travel (8.4%), telecommunications, computer and information services (3.2%) and technical, trade-related and other business services (3.1%).

Table 3.5: Services Imports of Bangladesh from India (US$ '000)

Product/Sector	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Bangladesh's Services Imports from India	**6,32,555**	**7,23,344**	**7,62,203**	**7,73,576**	**9,66,962**	**9,22,554**
Government goods and services	5,100	6,467	6,288	7,272	5,506	6,682
Commercial Services	6,27,455	7,16,877	7,55,915	7,66,304	9,61,456	9,15,872
Maintenance and repair services	-	85	37	45	-	40
Transportation	4,84,438	5,31,842	5,42,871	5,66,048	8,40,486	7,39,703
Sea transport	84,636	1,35,031	1,28,376	1,10,742	1,65,687	3,40,941
Air transport	14,930	17,546	25,627	22,950	25,637	37,240
Rail transport	12,607	11,887	8,645	7,751	29,648	28,973
Road transport	67,441	77,255	77,290	63,884	76,793	1,01,806
Others (electricity transmission and post and courier services)	3,04,824	2,90,123	3,02,933	3,60,721	5,42,721	2,30,743
Travel	84,151	1,22,501	1,38,011	1,15,167	24,939	77,184
Business	3,176	5,816	7,959	3,549	653	2,592
Personal	47,776	67,894	75,058	61,055	12,501	33,922
Others	33,199	48,791	54,994	50,563	11,785	40,670
Construction services	1,157	2,858	706	1,396	250	4,457
Insurance services	438	131	1,229	1,565	919	116
Financial services (other than insurance)	2,593	3,230	5,214	4,810	2,672	5,399
Charges for the use of intellectual property	2,811	4,280	6,940	6,691	9,593	6,635
Telecommunications, computer and information services	17,304	21,754	19,422	27,405	20,503	29,614
Telecommunication services	11,796	14,011	5,742	7,033	8,590	12,389
Computer services	5,387	7,619	13,514	20,338	11,782	17,077
Information services	121	124	166	34	131	148
Personal, cultural & recreational services	2,411	754	969	3,642	5,332	7,088
Other Business Services	32,152	29,442	40,516	39,535	56,762	45,636
Research and development services	1,495	2,348	2,365	3,746	5,003	4,360
Professional and management services	12,934	10,939	11,257	9,814	12,500	13,204
Technical, trade-related and other business services	17,723	16,155	26,894	25,975	39,259	28,072

Note: Bangladesh's financial year 2022-23 implies July 2022 to June 2023; - nil or negligible; category-wise data is available only till 2021-22

Source: Bangladesh Bank

India's Investments in Bangladesh

Increased investments are necessary for India to tap newer markets, as also to limit the growing influence of other countries in the neighbourhood. Data from Financial Times database, fDi Markets, have been used to understand India's investments in Bangladesh. However, this data differs from that of Bangladesh Bank.

According to the Financial Times' fDi Markets[13], envisaged cumulative capital investment in Bangladesh out of total FDI projects during the period January 2012 to December 2022 stood at US$ 29.1 billion, creating 45,568 jobs in the country.

The countries majorly investing in Bangladesh between 2012 to 2022 were India (US$ 6.6 billion), USA (US$ 6.6 billion), China (US$ 3.2 billion), Saudi Arabia (US$ 3.1 billion) and Singapore (US$ 2.2 billion), among others. According to fDi Markets, India remains the largest investor in Bangladesh.

According to the Financial Times' fDi Markets, envisaged cumulative capital investment in Bangladesh by India during the period January 2012 to December 2022 stood at US$ 6.6 billion, creating 8,222 jobs in the country from 34 projects **(Table 3.6)**.

Table 3.6: India's Envisaged FDI in Bangladesh (2012-2022)

Year	No. of Projects	Capex (US$ million)	No. of Jobs Created	No. of Companies
2012	7	1,636.8	1,450	6
2013	3	440.9	1,838	3
2014	2	106.2	168	2
2015	2	1,530.8	324	2
2016	5	2,189.2	2,244	5
2017	1	5.8	9	1
2018	3	292.2	201	3
2019	1	12.3	136	1
2020	3	204.1	140	3
2021	3	31.1	502	3
2022	4	115.7	1,210	3
Total	**34**	**6,565**	**8,222**	**32**

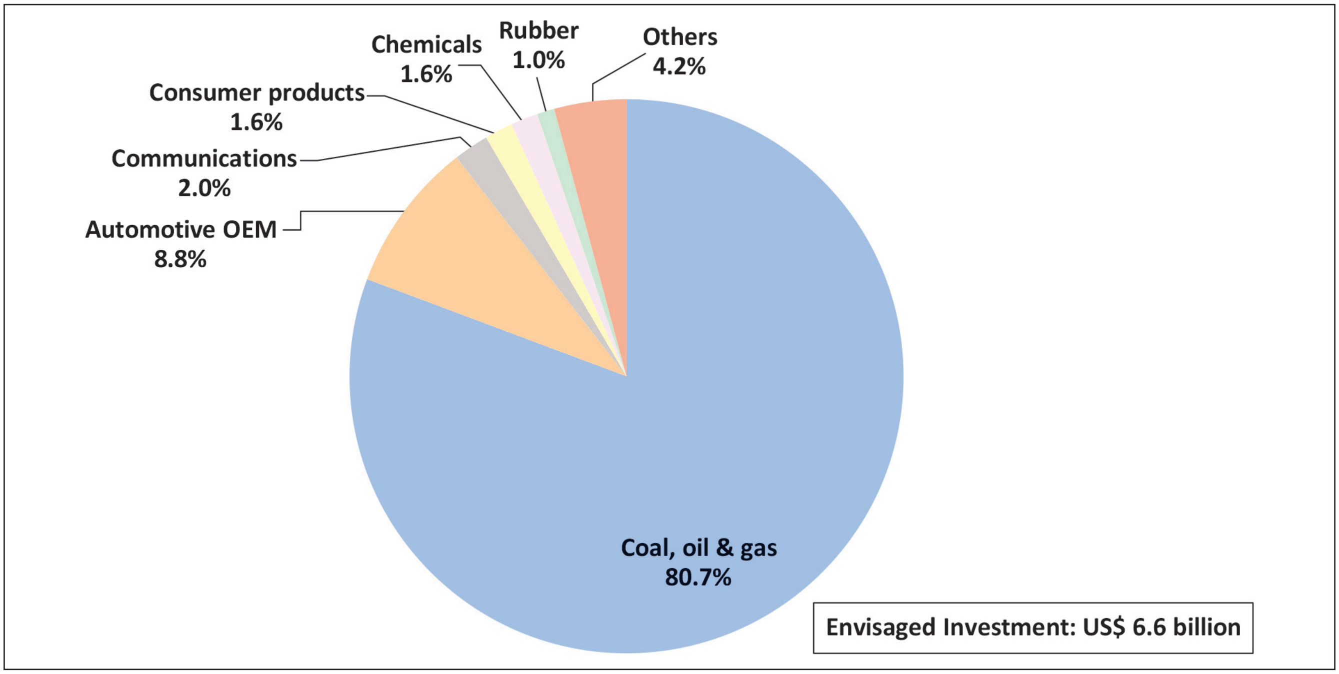
Source: fDi Markets online database and India Exim Bank Research

India's envisaged investments in Bangladesh between 2012 to 2022 have been mainly into coal, oil and gas **(Chart 3.2)**. Automotive OEMs are also a major sector receiving Indian investments.

Some of the Indian Companies present in Bangladesh include Pearl Fashion Pvt. Ltd., Pacific Apparels Ltd., and Arvind Fashion Ltd. in the textile industry; National Thermal Power Corporation Ltd; ONGC Videsh Ltd. in electricity and gas sector; Polaris in banking and financial services; Uttara Foods and Feeds Ltd. in food products; Marico in FMCG and TCI in logistics and transportation sector.

[13] fDi Markets tracks cross border investment in a new physical project or expansion of an existing investment which creates new jobs and capital investment. This data differs from official data on FDI flows as company can raise capital locally, phase their investment over a period of time, and can channel their investment through different countries for tax efficiency.

Chart 3.2: Sector-wise Indian FDI in Bangladesh (2012-2022)



Source: fDi Markets online database and India Exim Bank Research

Potential sectors for Indian investment in Bangladesh would include cotton yarn and fabric, man-made yarn and fabrics, machinery particularly textile machinery, mechanical appliances and parts, organic and inorganic chemicals, automobiles, iron and steel items, electrical and electronic items, footwear, horticultural products, information technology, health equipment and products and pharmaceuticals.

According to the Financial Times' fDi Markets, India was also the largest destination for Bangladesh's envisaged outward FDI between 2012 to 2022, accounting for a share of 63% of total outward investment by the country. A recent major Bangladeshi investment in India is a Bangladeshi private power company, Summit, acquiring 23.5% stake in the ONGC Tripura Power Company (OTPC) and committing to invest about US$ 50 million in its 750 MW gas fired power plant in Tripura. OTPC is a joint venture (JV) of ONGC, GAIL (India) Limited, the Government of Tripura and India Infrastructure Fund – II (IIF-2). Summit is acquiring the stake of IIF-2.

Chapter 4

India-Bangladesh Border Trade and Connectivity

India shares the longest land border (4,096.7 sq.km; 27.12%) with Bangladesh, bordering 5 Indian states **(Table 4.1)**. Trading arrangements between two countries are governed by their bilateral trade agreement, which has been amended from time to time and is still in force. The trade between India and Bangladesh happens through road, rail, air, maritime and inland waterways. Around 75% of the overall trade between India and Bangladesh is happening via land route. Furthermore, border haats are playing a huge role in promoting border trade between the two countries. Increased use of land ports to conduct trade between the two countries can significantly reduce the trade costs and streamline the trade process between two countries, resulting in a win-win situation for both India and Bangladesh.

Table 4.1: Indian States Sharing Border with Bangladesh

Indian States	Length of Border (kms)
West Bengal	2,216.7
Assam	263.0
Meghalaya	443.0
Tripura	856.0
Mizoram	318.0

Source: Management of Indo-Bangladesh Border, SATP

India's North-Eastern region is well connected through land to Bangladesh. Land-border crossings between India and its neighbouring countries are under two categories—Land Customs Stations (LCSs) and Integrated Check Posts (ICPs). There are 62 Land Customs Stations (which include land border crossing points, railway stations and riverbanks/ports) along the India-Bangladesh Border in the States of West Bengal, Assam, Meghalaya, Tripura and Mizoram. There are 5 operational ICPs at Agartala, Dawki, Petrapole, Sutarkandi and Srimantapur, through which majority of cross-border trade operates. ICP Dawki was inaugurated in May 2023. The ICPs are sanitised zones at border crossings, with adequate passenger and freight-processing facilities. These are set up with the aim of facilitating the systematic, seamless and secure cross-border movement of goods and people by ensuring efficient passenger flow, providing adequate passenger facilities, smoothening processes, optimising the use of facilities, systemising support facilities and improving traffic flow. The Petrapole-Benapole gateway supports both road and rail links.

The majority of bilateral trade between India and Bangladesh takes place through ICP Petrapole (mostly Indian exports to Bangladesh). According to Land Ports Authority of India, nearly 30% of land-based trade between India and Bangladesh takes place through Petrapole. ICP Agartala is dominated by imports from Bangladesh, which accounts for around 90% of the trade through the port. Total trade from the 4 ICPs which stood at INR 16,671.4 crores in 2020-21, increased to INR 31,022.4 crores in 2022-23 **(Table 4.2)**. It is interesting to note that the trade pattern between India and Bangladesh across land borders differs across states in terms of quantity and variety of products.

Table 4.2: Operational ICPs at India-Bangladesh Border

Land Ports	Bangladesh Land Border	Total Trade (₹. Crores)			Total Cargo Movement (Nos)			Total Passenger Movement (Nos)		
		2020-21	2021-22	2022-23	2020-21	2021-22	2022-23	2020-21	2021-22	2022-23
Agartala	Akhaura	581	844	472	11,146	13323	7,349	8,499	66,117	3,16,448
Petrapole	Benapole	15,771	29,406	30,378	106334	148,049	142,721	1,94,530	2,89,225	19,37,414
Sutarkandi	Sheola	238	498	411	8,534	38,334	45,398	614	1,365	15,099
Srimantapur	Comilla	82	172	172	5,714	6,771	4,337	10	-	51,089
Total		**16,672**	**30,920**	**31,022**	**1,31,728**	**2,06,477**	**1,99,805**	**2,03,653**	**3,56,707**	**23,20,050**

Source: Land Ports Authority of India

Challenges at ICPs

Time: Import dwell time of trucks (the average time taken from arrival of international trucks at ICP to loaded Indian trucks ICP gate out time) at ICP Petrapole is 33.4 hours, while that of ICP Agartala is 18.1 hours.[14] Delays on the traders' front also cause significant deferrals in movement of cargo out of ICPs. At ICP Agartala, more than 11% trucks remain stranded at the ICP for more than 48 hours due to considerable godown occupation, which is the most pressing operational issue at the ICP. The release time for around 26% trucks is more than 48 hours at ICP Petrapole owing to considerable congestion, lack of sufficient import warehouses, dearth of full body truck scanners and absence of Participating Government Agencies (PGA) facilities within the ICP. Further, at ICP Srimantapur, Indian trucks arriving to carry imports get stuck overnight at the parking yard due to overall delays in cargo movement. Delays are also faced due to low handling capacity in Bangladesh as well as non-alignment of working days and hours in Bangladesh and India.

The major reason for warehousing and resultant delays is the time required for testing for all the ICPs facilitating trade with Bangladesh. From ICP Petrapole, the Food Safety and Standards Authority of India (FSSAI) samples are sent to Kolkata which take considerable time to get clearance. At ICP Agartala, the time taken for PGA[15] clearance is considerable for products such as food items, edible oil, beverages, cotton, dry fish, etc. and therefore, such items require warehousing for significant amounts of time. Trader delays also contribute to the metric. Therefore, trucks have to wait post loading and weighment. From ICP Srimantapur, most of the samples are sent to Agartala and products such as carbonated drinks go to Kolkata for testing, which are time consuming processes. Similarly, in case of ICP Sutarkandi, mostly food items require testing. NOC process takes around 14 days and 2 days if the samples are sent to Kolkata and Agartala (for items such as edible oil), respectively.

[14] Time Release Study at Seven Integrated Check Posts, Land Ports Authority of India

[15] Food Safety and Standards Authority of India, Central Drugs Standard Control Organisation (CDSCO), Animal quarantine and certification, Plant quarantine and certification, Bureau of Indian standards (BIS), etc

In terms of exports from ICP Agartala to Bangladesh, lack of warehousing facilities, issues with equipment (such as weighbridges) and insufficient trucks in Bangladesh leads to Indian trucks getting stranded for up to 10-12 days at Akhaura. Around 65% of the overall truck turnaround time is taken up by Indian trucks to return to border gate from Bangladesh. This is because traders in Bangladesh only take goods through transshipment (i.e., truck to truck) wherein issues in loading as well as instances of the same truck carrying imports multiple times from the Indian truck(s) are prevalent. Often there is intimation from Bangladesh not to send fresh trucks, till the return of the previous lot, leading to detention of trucks at ICP Agartala.

Similar issues were also reported by ICP Srimantapur which have adverse effects on export trucks, thereby inflating overall dwell time considerably. As per stakeholders at ICP Srimantapur, movement of export trucks face issues due to non-availability of trucks in Bangladesh as well as non-usage of godowns. The Clearing and Forwarding (C&F) agents on the Bangladesh side refrain from using storage facilities to avoid paying double labour charges (unloading and subsequent loading) as well as storage charges.

Exports through ICP Petrapole also face significant delays owing to lack of sufficient infrastructure in Benapole and local administration/labour union strikes due to which trade is suspended frequently, leading to Indian trucks getting stranded at Benapole. There are serious inadequacies on the Benapole side, which include lack of traffic management, warehousing and unloading management, monitoring of traffic, etc. Additionally, there is lack of drivers on the Petrapole side. There are no floodlights as well which limits operations. India has the potential of sending more than 1,000-1,500 trucks every day, but because of mismatch in infrastructure and facilities on both sides of the border, only around 250 trucks carrying exports can be sent on a normal day. Further, instances of exports from ICP Sutarkandi getting delayed also gets reported, majorly due to lack of trucks, inadequate space, waterlogging issues, etc. in Bangladesh. Overall time taken by customs at ICP Petrapole is 92:20 hrs, followed by Agartala (70:05 hrs).

Infrastructure: Development of infrastructure both within the ICPs and in the surrounding areas is a necessity for ICPs to perform to its fullest potential. Inadequate representation of PGAs is a major challenge in ICP Agartala. Since food products are a major item of import through ICP Agartala, PGAs such as plant and animal quarantine are present at the port. However, there is no representation from FSSAI[16]. As a result, some food products are held for more than 48 hours at the port, adding to the time and cost of trade. There is a need to develop a network of private laboratories in and around Tripura to address this challenge. ICP Petrapole faces challenges such as heavily congested approach road from Kolkata; paucity of parking and storage space at Benapole, leading to high turn-around-time of trucks and high parking fees; and physical/manual documentation to a large extent due to limited digitisation. Petrapole and Benapole are working at over full capacity, and further increase in volume leads to congestion on the approach roads and within the ICPs, impacting trade severely. Hence, adequate facilities need to be provided for different types of cargo while maintaining the export clearance time as one day based on the National Trade Facilitation Action Plan 2020-23.

The supporting infrastructure of 24-hour electricity supply is not available at Sutarkandi Indo-Bangladesh Border, Karimganj, Assam. Most of the LCSs suffer from a lack of "behind-the-border" infrastructure facilities. There is often irregular parking on the access roads to logistics facilities and along highways, leading to congestion. Some of the existing transport infrastructure projects are simply insufficient. For example, a bridge

[16] Sinha, R. (2021). Linking Land Borders: India's Integrated Check Posts (CSEP Working Paper 9). New Delhi: Centre for Social and Economic Progress

connecting Dawki with Tamabil in Bangladesh is extremely weak and unable to withstand a full truckload. Infrastructure challenges related to SPS and TBT include lack of testing and laboratory facilities and regulatory offices in the vicinity of almost all LCSs in Northeast India.

Border Haats

Border haats are defined as trading posts on an international border, which is a traditional form of cross-border exchange. Border haats have played an important role in facilitating and formalizing trade between India and Bangladesh since 2011. They provide a unique, duty-free trading arrangement between two countries where local products are sold to people living within a radius of 5 kilometers of the haat. This initiative not only encourages people to trade locally produced goods across the border, but also enable people-to-people contact to maintain traditional cross-border cultural ties. The border haats are generally located in remote areas and therefore are not accessible by the main highways connecting the major cities in the region. A key feature of the haats is that they allow trade in the currencies of both countries following certain limits.

Initially four border haats were operational at the India–Bangladesh border:

- Balat (Meghalaya) – Sunamgunj (Sylhet)
- Kalaichar (Meghalaya) – Kurigram (Rangpur)
- Srinagar (Tripura) – Chagalnaiya (Chittagong)
- Kamalasagar (Tripura) – Kasba (Chittagong)

The first memorandum of understanding (MOU) on border haats was signed between India and Bangladesh in 2010. Based on the success of their operations and responses of people on both sides of the border, both countries in 2017 recognized the importance of this arrangement and decided to increase the purchasing limit from US$ 50 to US$ 200. It was also agreed that the MOU would be automatically extended for successive tenures of 5 years. Commodities traded in these haats include vegetables, betal nuts, fruits, spices, bamboo products, handicraft and handloom items, small household agricultural implements, melamine products, processed foods, cosmetics, garment, etc., generating livelihood opportunities for borderland communities and strengthen local economies. Lists of vendors are exchanged by the respective Haat Management Committees and any change in the list is required to be notified to the Haat Management Committee of the other side which protect the trade interest of actual borderland people. The number of vendors is also limited to prevent overcrowding. The designated border haats area is exempted from passport and visa regulations but only vendors and vendees holding identity cards are allowed. These haats used to operate once a week on a fixed day, with an average 25 vendors selling their products.

According to the World Bank, the total trade at each haat as estimated by the state governments is at US$ 600,000 (₹ 4 crore or ₹ 40 million) a year.[17] If the purchase limit at the haats were doubled, the number of days of operation raised to two days a week, and adding more haats, atleast 50, were established along the border, these markets could generate total trade of US$ 120 million (₹ 800 crore or ₹ 8 billion) a year, which would still only be slightly more than 1% of the total formal trade between Bangladesh and India.

Facilitating more vendors to take part in the trade, increasing the length of the radius from the border to expand the market area and improvement in market infrastructure would be beneficial for deepening bilateral

[17] https://blogs.worldbank.org/endpovertyinsouthasia/connecting-communities-through-india-and-bangladeshs-cross-border-markets

relations by facilitating direct trade of local produce between borderland people of the two countries. In 2019, India and Bangladesh planned to develop six more border haats in Meghalaya and Tripura along the Bangladesh border. However, the pandemic has disrupted trade along border haats, leading to their closure. Strengthening this traditional system of trade is not only necessary for income gains but is also vital to lower the amount of informal trade in the region. The border haats at Balat - Lauwaghar; Kalaichar - Baliamari, Srinagar - Chhagalnaiya and Kamalasagar - Tarapur have been re-opened. Bangladesh and India have ample trade potential along the border for agricultural and locally manufactured products. Connectivity through the border haats will eventually lead to more business opportunities for people of both countries.

Transport Projects

Several transport projects have been completed recently, proposed or are being implemented to enhance linkages between India and Bangladesh. However, timely completion of some these projects remains difficult due to issues such as challenges to land acquisition and opposition from local vendors and laborers who fear job losses due to the opening up of markets. These projects include:

- Inland container port at Ashuganj
- Construction of a container depot at Sirajganj
- Widening of Ashuganj–Akhaura road (connectivity to Tripura)
- Akhaura–Agartala rail link (launched in 2023)
- Upgrading of Akhaura–Luksam–Chattogram rail link
- Mahishashan (India)–Sahbazpur (Bangladesh)–Kulaura rail link
- Construction of Maitri Sethu Bridge on Feni River at Sabroom, Tripura (launched in 2021)
- Ramgarh–Barariarhat road project (critical for Tripura–Chattogram Port connectivity)
- Khulna – Mongla port line

Rail Connectivity

In recent years, besides the trade through land ports, there has been a positive shift in the movement of cross-border freight through railway interchange points. Five rail lines are operational with Bangladesh - Petrapole (India) - Benapole (Bangladesh), Gede (India)-Darshana (Bangladesh), Singhabad (India)-Rohanpur (Bangladesh), Radhikapur (India)-Birol (Bangladesh) and Haldibari (India) – Chilahati (Bangladesh). While Petrapole-Benapole and Haldibari-Chilahati are for freight as well as passenger movements, Gede-Darshana, Singhabad-Rohanpur and Radhikapur-Birol lines are only for freight transport. Previously, railways were only handling bulk cargo, such as food grains, project cargo, fly ash, maize, limestone and gypsum. With the closure or limited operation of the land ports during the COVID-19 pandemic, there was increasing demand for the transport of goods through railways, leading to diversification of the transported commodities. Freight trains started transporting essential commodities such as spices, cotton, sugar, fast-moving consumer goods, raw materials for industry, automobiles, passenger cars and tractors. While goods transported by trucks have to be transshipped onto other trucks at the border, freight trains can move much closer to their final destinations inside Bangladesh's territory.

The Akhaura-Agartala cross-border rail link has been launched in November 2023. A trial run (first freight train) was taken place between Gangasagar, Bangladesh to Nischintapur, Tripura, India. The 15 km-long

Agartala–Akhaura railway link opens a trade route to Chittagong port from Tripura. It would cut travel time between Tripura and Kolkata via Dhaka, thus avoiding Chicken's Neck, and facilitate freight movement and reduces the traveling distance from India's Northeastern states to Kolkata. According to Observer Research Foundation (ORF), the distance from Tripura to Kolkata by rail is reduced from 1,600 km to 500 km and the duration is reduced from 31 hours to 10 hours, approximately. The construction of Mahisasan (India)-Zero Point (Bangladesh) new line is ongoing.

A parcel train service was introduced between India and Bangladesh in June 2020. Parcel trains have a low carrying capacity, which has opened up opportunities for traders to export smaller quantities of goods, including high-value ones such as chemicals, textiles, cotton, cotton yarn, fabric, fast-moving consumer goods and other inputs for the garment industry. The parcel trains have resulted in a 34% reduction in costs during the Covid time.

Based on the MOU signed by Container Corporation of India and the Bangladesh Container Company Ltd., a container train service between India and Bangladesh was introduced in July 2020. Container train services are cost effective and safer to carry FMCG, chemicals and consumer durables requiring shorter transit time, while traditional freight trains carry bulk items like fertiliser, coal, iron ore and cement, among others. Indian customs authorities have set up an electronic cargo tracking system at inland container depots and container freight stations in July 2020 designated to handle export cargo before being trucked to Petrapole. The advantage of container is that exporter can even move a single container (20 tonnes) and hence it is possible to aggregate exports of various exporters and send in one train. Containerization has other advantages such minimal customs check at borders, besides safety and security of cargo.

However, the containers going from India to Bangladesh by rail were returning empty after delivering India's export goods. There had been requests from Bangladesh companies to use such empty containers to export their products to India. Accordingly, Central Board of Indirect Taxes & Customs (CBIC), India vide Circular No.08/2022-Customs dated May 17, 2022 has enabled the export of goods from Bangladesh to India by rail in closed containers moved by Container Corporation of India (CONCOR). The carrier will be trains of Indian Railways plying between India and Bangladesh carrying India's containerized export goods to Bangladesh (forward journey) and returning with Bangladesh export goods in the same containers to India (return journey). While the train will enter into India through the LCS of Petrapole or Gede, the train will be allowed to transit to any inland container depot (ICD) of India for customs clearance of goods. The movement shall be monitored through Electronic Cargo Tracking System (ECTS) from LCS of entry to ICD of destination.

There are currently three passenger trains between India and Bangladesh - Maitree Express (Dhaka-Kolkata), Bandhan Express (Khulna-Kolkata) and Mitalee Express (New Jalpaiguri -Dhaka) through Haldibari-Chilahati, which started operations from June 1, 2022.

To further enhance trade, especially through rail mode, the ADB has suggested following measures[18]:

- Establishing rail-based inland container depots in Bangladesh;
- Creating additional capacity to handle freight cargo in the Bangladesh Railway system;
- Creating a mechanism to enhance working hours to be 24/7;

[18] Rail routes offer boost to India–Bangladesh cross-border trade, ADB Institute, July 2022

- Encouraging private sector participation both in creating infrastructure and managing logistics operations;
- Adopting digital and sustainable trade facilitation;
- Leveraging technology for the simplification of procedures for seamless customs facilitation;
- Establishing a mechanism to enhance customs cooperation for cross-border trade at land ports;
- Exploring uniform applications by both parties on the alignment of working days and hours; mutual recognition of inspections, testing, and certification; harmonization of standards, development and the sharing of common facilities, joint controls and the establishment of one-stop border control; and
- On the Indian side, the network of inland container depots can be utilized for customs clearance even for non-containerized cargo, which will help in reducing congestion at the border stations.

Transshipment of Bangladesh's Export Cargo to Third Countries via India in Containers or Closed Bodied Trucks

On November 2, 2018, a Customs Circular was issued to facilitate exports of Bangladesh to third countries, via transshipment through India from the following LCS to Port/Air Cargo.

Table 4.3: Transshipment of Export Cargo from Bangladesh

<table>
<tr><th></th><th>From (LCS)</th><th>To (Port / Aircargo)</th></tr>
<tr><td rowspan="4">1</td><td rowspan="4">LCS Petrapole</td><td>By road to:</td></tr>
<tr><td>i) Kolkata Port</td></tr>
<tr><td>ii) Aircargo Complex, Kolkata</td></tr>
<tr><td>iii) Nhava Sheva Port</td></tr>
<tr><td rowspan="2">2</td><td>i) LCS Petrapole</td><td rowspan="2">By rail to Nhava Sheva Port</td></tr>
<tr><td>ii) LCS Gede / Ranaghat</td></tr>
</table>

Source: Central Board of Indirect Taxes (CBIC)

Through the aforesaid Circular, transshipment facility was introduced on pilot basis, with the Circular being extended from time to time. In June 2020, it was decided that transshipment of goods from LCS Petrapole to Aircargo complex, Kolkata, shall be continued as per the original directives, however, other transshipment movements would follow the procedures of Sea Cargo Manifest and Transshipment Regulations, 2018 (SCMTR 2018). Free transit is being provided by India to Bangladesh to send its goods to Nepal and Bhutan.

Bilateral/Multilateral Transport Arrangements

Similarly, several bilateral and multilateral arrangements have been concluded or are being pursued between the Government of India and the Government of Bangladesh. These arrangements are expected to bring in benefits such as lowering transport costs, avoiding delays and bringing informal trade into the ambit of formal trade to some extent. The absence of such arrangements necessitates the transshipment and rearrangement of cargo at the border, leading to additional handling, delays and potential damage to cargo. Progress and challenges of these arrangements as provided by the ADB[19] are given below.

[19] Identifying Challenges and Improving Trade Facilitation in the States of Northeast India, ADB South Asia Working Paper, Series No. 95, December 2022

Coastal Shipping Agreement (2015)

The agreement facilitates coastal movement of goods between India and Bangladesh. This arrangement is expected to benefit bilateral trade through a reduction in freight charges, improve the utilization of river and seaport capacities, open a new opportunity for Indian coastal vessels (river sea vessels) and reduce congestion at land ports.

However, the arrangement only covers origin–destination cargo between the two countries and lacks third-country export-import trade by allowing transshipment through ports on the east coast of India or at Bangladesh ports by vessels plying the coastal route. India and Bangladesh also need to speed up exploration of direct shipping links between the two countries.

Protocol on Inland Water Transit and Trade (PIWTT) (2015)

India and Bangladesh have a long-standing protocol in place for transit and trade through inland waterways of both the countries. Under this arrangement, the inland water vessels of India and Bangladesh can transit through each other's territories following designated river routes. The protocol is in operation and several pilot runs have been conducted between the two countries. The use of waterways in both countries is expected to significantly reduce logistics costs and congestion in the Siliguri corridor by opening alternate routes of evacuation from the northeast India. As per Protocol on Inland Water Transit and Trade, there are five LCS which are explored as Multimodal LCS. These are Dalu, Dhubri Steamer Ghat, Hemnagar, Sutarkandi and Srimantapur.

In 2020, a second addendum was signed to the protocol for extension of protocol routes, inclusion of new routes and declaration of new Ports of Call. There are now a total of ten India-Bangladesh Protocol (IBP) routes. To ensure year-round navigation, India and Bangladesh government have a protocol in place for periodical dredging at the stretches, Sirajganj to Daikhawa in the Jamuna river and Ashuganj to Zakiganj in the Kushiyara river in Bangladesh at a cost sharing ratio of 80:20, respectively.

While the standard operating procedure (SOP) for movement of passenger and cruise vehicles is in place, regular bilateral service has not been scaled up. There are still some issues with navigation and depth along the protocol routes, among others. The absence of a mechanism for third-country export-import trade through PIWTT routes was also an issue.

In September 2022, India has allowed transshipment of containerized export goods of Bangladesh destined for third countries through India using riverine and land routes. The containerized exported goods from Bangladesh shall enter India through the riverine Land Customs Station, Hemnagar, and from there the goods would be exported to the Kolkata or Haldia Port on a barge vessel using the riverine route agreed under PIWTT, and thereafter cross by Rail up to Nhava Sheva or Mundra port, from where goods shall be exported to third countries.

Bangladesh–Bhutan–India–Nepal Motor Vehicles Agreement (2015)

The Bangladesh–Bhutan–India–Nepal Motor Vehicle Agreement (BBIN-MVA) is a sub-regional initiative to boost connectivity and economic cooperation among Bangladesh, Bhutan, India and Nepal. The agreement was signed in June 2015 and aims to facilitate the seamless flow of road-based passenger, personal and cargo vehicular traffic among the four countries by allowing vehicles from BBIN countries to enter each other's territory. The agreement seeks to remove barriers and streamline processes, thereby fostering trade, tourism, and cultural exchange among the participating nations.

Bangladesh, Nepal and India have ratified the BBIN Agreement, while ratification by Bhutan is pending. Discussions on three-country implementation (BIN) are ongoing. India and Bangladesh have communicated their go-ahead for signing the 3-country BIN enabling MOU for implementing BBIN-MVA.

MOU for Use of Chattogram and Mongla Ports (2015) and SOP (2018)

India and Bangladesh have entered into an MOU for the transshipment of Indian cargo through Chattogram and Mongla Ports. This will reduce the time and logistic costs for goods originating in and destined for the Northeast India. Trial runs between the two countries have been completed successfully. In April 2023, Bangladesh has granted India permission to use Chattogram and Mongla ports to transit and trans-shipment cargo vessels. Bangladeshi ports, the National Board of Revenue (NBR), customs and other taxation parties involved will draw certain charges in line with the country's tax and VAT laws. This includes fees for documentation, transshipment, security, scanning, administrative charges, an electric lock and seal fee and toll fees for using Bangladeshi roads.

MOU between the Container Company of Bangladesh Limited and the Container Corporation of India Limited to promote and expand cooperation between India and Bangladesh in the field of Container Transport (2017)

The MOU between two public sector corporations was signed to promote and expand cooperation between India and Bangladesh in the field of container transportation. There are eight railway interchanges between India and Bangladesh. However, there exist infrastructural and regulatory challenges in its implementation. This MOU is an arrangement between commercial entities and not an intergovernmental agreement. There are existing intergovernmental agreements on railways (1977). Also, the nonavailability of containers and lack of return cargo are issues that add to costs.

Cooperation in Petroleum and Power Sectors

The MOU for facilitating temporary transit of petroleum, oil and lubricants (POL) and Liquefied Petroleum Gas (LPG) products through Bangladesh to India's Northeastern Region has been signed between Ministry of Road and Highways, Government of Bangladesh and the Indian Oil Corporation Ltd. on August 02, 2022.

To deepen energy cooperation between both countries, India was given transit rights by Bangladesh for carrying fuel to flood affected northeastern states by Dhaka up to November 30, 2022. The way through Bangladesh allows Indian fuel retailers to avoid the mountainous route through Silchar in Assam, which is prone to landslides. However, fuel transit options are being considered on a permanent basis.

While this helps energy deficit Bangladesh to source fuel from India, India would get transit rights for carrying fuel to NER by paying taxes to Bangladesh for using its territory for transit. This will supplement the India-Bangladesh Friendship Pipeline Project, which connects Siliguri in West Bengal and Parbatipur in Dinajpur district in Bangladesh. The India-Bangladesh Friendship Pipeline (IBFP) was inaugurated in March 2023. The IBFP is the second cross-border energy pipeline between India and Bangladesh, while Numaligarh Refinery Ltd. has been supplying petroleum products to Bangladesh since 2015. It is the first cross-border energy pipeline between India and Bangladesh, with a capacity to transport 1 million metric ton per annum (MMTPA) of High-Speed Diesel (HSD) to Bangladesh.

The 1,600 MW thermal power plant, MW Godda power project, is also critical for power exports to Bangladesh. The first phase unit of power project has been synchronized with Bangladesh power grid through a 106 km dedicated transmission line from Godda to Chapainawabganj's Rohanpur, connecting the plant to the national grid of Bangladesh. It is available for generation at full capacity and will generate power based on advice from Bangladesh authorities. Jharkhand government will get 25% electricity from this power plant. The plant has started exporting power to Bangladesh in April 2023. The reliability run test, including commercial operation tests of the second unit of Godda power plant, was completed in June 2023.

Chapter 5

Present Barriers in India-Bangladesh Trade

There is wide consensus that liberalization of trade and FDI can lead to improved resource allocation across firms and sectors, boosting productivity and output. The most common barrier to trade is a tariff. Customs duties on merchandise imports are called tariffs. Tariffs give a price advantage to locally produced goods over similar goods which are imported and they raise revenues for governments.

Tariff on India's Imports from Bangladesh

In the current analysis, the tariff at 6-digit HS code is taken into consideration, using TRAINS based WITS data for the year 2021. India has provided duty-free quota free access to Bangladesh on all tariff lines, except tobacco and alcohol, under South Asian Free Trade Area (SAFTA) since 2011.

Table 5.1 disintegrates the simple average of the effectively applied tariff (AHS) by India on imports from Bangladesh, that the Bangladesh exporters face while exporting to India. At 6-digit HS code, 2,358 tariff lines have effectively applied tariff rate of 0%, which amounted to the total imports of US$ 1,763.8 million in 2021, and this corresponds to almost 100% of the total imports of India from Bangladesh in 2021. There is one tariff line under the 5% (monopods, bipods, tripods and similar articles of plastics or of aluminium) and eight tariff lines under 30% (products of tobacco and substitute) effectively applied tariff rates, respectively. However, the share in total imports is negligible for these products.

Table 5.1: Effectively Applied Tariff on India's Imports from Bangladesh

Effectively Applied Tariff Rates (%)	No. of Tariff Lines	Total Imports, 2021 (US$ million)	% Share in Total Imports, 2021
0	2,358	1,763.8	99.98
5	1	-	-
30	8	0.1	0.01
Rate Not Specified	-	0.2	0.01
Total	**2,367**	**1,764.1**	**100.0**

Source: WITS database and India Exim Bank Research

Tariff on Bangladesh's Imports from India

Table 5.2 disintegrates the simple average of the effectively applied tariff by Bangladesh on Indian exports. At 6-digit HS code, there are 1,071 tariff lines, imports for which amounts to US$ 2.7 billion in 2020, on which Bangladesh imposes the effectively applied tariff of 0%. These products constitute 33.5% of Bangladesh's imports from India in 2020. There are 241 tariff lines, with imports amounting to US$ 257.4 million under the 1%-3% effectively applied tariff, which correspond to 3.3% of Bangladesh's imports from India in 2020. Further, there are 963 tariff lines with Bangladesh's imports from India amounting to US$ 1.1 billion, facing effectively applied tariff between 3% to 5%.

Table 5.2: Effectively Applied Tariff on Bangladesh's Imports from India

Effectively Applied Tariff Rates (%)	No. of Tariff Lines	Total Imports, 2020 (US$ million)	% Share in Total Imports, 2020
0	1,071	2,650.3	33.5
01-03	241	257.4	3.3
03-05	963	1,130.5	14.3
05-10	823	756.5	9.6
10-15	261	554.4	7.0
15-20	199	422.8	5.3
20-25	177	185.7	2.3
25	826	1,440.8	18.2
Rate Not Specified	8	514.1	6.5
Total	**4,569**	**7,912.7**	**100.0**

Note: 2021 Trade data for Bangladesh is not available in WITS

Source: WITS database and India Exim Bank Research

There are 1,460 tariff lines that has effectively applied tariff rate of 5%-25%, which amounted to total imports of US$ 1.9 billion in 2020, and this correspond to 24.3% of the total imports of Bangladesh from India in 2020. There are 826 tariff lines, facing 25% effectively applied tariff rate, which correspond to 18.2% of the total imports in 2020, amounting to US$ 1.4 billion.

Comparative Tariff Analysis

Table 5.3 presents a comparative analysis of Effectively Applied Tariff Rates (AHS) and Preferential Tariff Rates (PRF), faced by top three import partners of Bangladesh, namely, India, China and Singapore. While India and China are partners of Bangladesh under SAFTA, Singapore has no preferential trade arrangement with Bangladesh.

Table 5.3: Comparative Tariff Analysis of Bangladesh for 2021 (in %)

HS Code	Product	India		China		Singapore
		AHS	PRF	AHS	PRF	AHS
01	Live animals	0.0	0.0	5.0	-	-
02	Meat and edible meat offal	5.0	5.0	-	-	-
03	Fish and crustaceans and molluscs and other aquatic	18.3	5.0	25.0	-	23.6
04	Dairy produce, birds' eggs and natural honey	15.7	4.6	25.0	-	23.3
05	Products of animal origin, not elsewhere specified	2.0	1.0	6.7	-	-
06	Live trees and other plants and bulbs, roots	2.0	2.0	18.0	-	5.0
07	Edible vegetables and certain roots and tubers	7.3	4.3	19.8	-	21.5
08	Edible fruit and nuts and peel of citrus fruit	13.2	4.2	23.6	10.0	25.0

HS Code	Product	India		China		Singapore
		AHS	PRF	AHS	PRF	AHS
09	Coffee, tea, maté and spices	12.9	6.1	22.7	22.5	25.0
10	Cereals	6.4	2.4	8.8	9.0	16.7
11	Products of the milling industry, malt and starches	3.1	0.9	15.0	-	13.3
12	Oil seeds and oleaginous fruits	0.9	2.8	5.3	9.2	6.7
13	Lac; gums, resins and other vegetable saps	1.9	1.9	10.0	-	9.0
14	Vegetable plaiting materials and vegetable products	3.4	3.4	13.0	-	10.0
15	Animal or vegetable fats and oils	4.2	4.3	10.9	-	14.6
16	Preparations of meat, of fish or of crustaceans	5.0	5.0	25.0	-	25.0
17	Sugars and sugar confectionery	18.3	5.0	25.0	-	25.0
18	Cocoa and cocoa preparations	17.7	3.0	25.0	-	22.9
19	Preparations of cereals, flour and starch or milk	15.6	4.7	25.0	-	25.0
20	Preparations of vegetables, fruit and nuts	15.6	5.0	25.0	-	25.0
21	Miscellaneous edible preparations	11.1	4.0	18.3	-	23.0
22	Beverages, spirits and vinegar	17.0	5.0	25.0	-	25.0
23	Residues and waste from the food industries	0.3	0.8	2.2	-	11.9
24	Tobacco and manufactured tobacco substitutes	19.6	8.8	25.0	-	25.0
25	Salt; sulphur, earths and stone and plastering material	3.5	2.5	8.8	4.1	7.2
26	Ores, slag and ash	0.8	0.9	3.0	4.5	-
27	Mineral fuels, mineral oils and products of their distillation	3.0	2.7	8.0	6.3	7.1
28	Inorganic chemicals; organic or inorganic compound	3.1	2.4	7.9	5.3	8.3
29	Organic chemicals	1.5	1.5	6.9	5.8	6.9
30	Pharmaceutical products	1.6	0.3	3.4	-	3.3
31	Fertilisers	0.0	-	0.0	-	0.0
32	Tanning or dyeing extracts and tannins	6.0	1.7	11.8	14.1	12.2
33	Essential oils and resinoids, perfumery and cosmetic	14.4	3.9	21.7	9.0	22.0
34	Soap, organic surface-active agents and washing preparation	8.5	4.4	17.3	-	16.9
35	Albuminoidal substances, modified starches and glues	6.7	3.3	12.2	4.5	13.6
36	Explosives, pyrotechnic and certain combustible preparations	4.5	4.5	10.0	-	10.0
37	Photographic or cinematographic goods	3.5	2.1	11.1	-	11.8
38	Miscellaneous chemical products	5.4	3.1	10.6	10.0	10.4
39	Plastics and articles	9.4	3.6	13.8	4.6	12.9
40	Rubber and articles	4.5	2.8	12.3	11.4	13.4
41	Raw hides and skins (other than fur skins) and leather	0.0	0.0	4.9	3.5	-
42	Articles of leather and saddlery and harness	18.6	3.2	21.4	-	24.0
43	Fur skins and artificial fur	-	-	20.8	8.0	25.0
44	Wood and articles of wood and wood charcoal	6.4	5.0	16.7	21.3	15.0
45	Cork and articles of cork	3.0	3.0	10.0	-	-
46	Manufactures of straw or of esparto	3.0	3.0	9.7	8.0	10.0
47	Pulp of wood or of other fibrous cellulosic material	0.0	-	0.0	-	0.0

HS Code	Product	India		China		Singapore
		AHS	PRF	AHS	PRF	AHS
48	Paper and paperboard and articles of paper pulp	11.1	3.9	18.9	8.1	21.8
49	Printed books, newspapers, pictures and other products	5.5	2.0	15.1	-	20.2
50	Silk	17.7	3.0	25.0	-	25.0
51	Wool, fine or coarse animal hair and horsehair yarn	5.0	5.0	15.2	11.6	5.0
52	Cotton	11.6	3.8	17.9	-	22.4
53	Other vegetable textile fibres and paper yarn	5.8	3.9	21.0	-	25.0
54	Man-made filaments and strip	13.2	3.6	17.6	3.5	18.8
55	Man-made staple fibres	14.6	2.4	18.2	20.0	19.6
56	Wadding, felt and nonwovens, special yarns and twine	5.0	4.3	20.1	3.5	21.4
57	Carpets and other textile floor coverings	9.4	5.0	25.0	-	25.0
58	Special woven fabrics, tufted textile fabrics and lac	25.0	-	25.0	-	25.0
59	Impregnated, coated, covered or laminated textile	13.0	5.0	12.6	-	13.6
60	Knitted or crocheted fabrics	24.1	5.0	24.8	-	25.0
61	Articles of apparel and clothing accessories (knitted)	12.9	4.7	24.0	20.0	25.0
62	Articles of apparel and clothing accessories (not knitted)	16.2	4.8	24.9	15.0	25.0
63	Other made-up textile articles and sets worn clothing	15.3	5.0	25.0	-	25.0
64	Footwear and gaiters	15.4	5.0	25.0	-	25.0
65	Headgear and parts	5.0	5.0	25.0	-	25.0
66	Umbrellas, sun umbrellas and walking sticks	5.0	5.0	25.0	-	25.0
67	Prepared feathers and down	5.0	5.0	25.0	-	25.0
68	Articles of stone, plaster, cement, asbestos and mica	4.3	3.6	18.7	4.3	11.8
69	Ceramic products	11.0	2.0	17.4	21.3	21.2
70	Glass and glassware	8.2	4.2	18.4	14.0	17.1
71	Natural or cultured pearls, precious or semi-precious stones	5.1	3.5	25.0	-	15.0
72	Iron and steel	3.1	2.1	9.5	7.6	13.1
73	Articles of iron or steel	12.3	4.3	21.2	10.3	21.9
74	Copper and articles	3.2	2.1	10.7	8.0	10.9
75	Nickel and articles	2.7	2.7	14.0	-	12.7
76	Aluminium and articles	7.5	3.0	13.4	22.5	14.4
78	Lead and articles	1.1	1.1	10.1	-	5.0
79	Zinc and articles	2.5	2.5	7.9	5.5	5.3
80	Tin and articles	1.3	1.3	7.0	-	5.0
81	Other base metals, cermets and articles	2.7	2.7	8.9	8.0	10.0
82	Tools, implements, cutlery, spoons, and forks	7.7	1.7	12.6	1.6	10.5
83	Miscellaneous articles of base metal	14.2	4.5	22.8	-	21.4
84	Machinery and mechanical appliances	1.6	0.7	3.7	3.3	4.9
85	Electrical machinery and equipment and parts	8.8	3.4	13.5	9.5	14.3
86	Railway or tramway locomotives and rolling stock	3.6	2.8	8.7	8.0	8.8
87	Vehicles other than railway or tramway rolling stock	12.1	0.7	12.7	3.5	13.8
88	Aircraft, spacecraft and parts	1.0	1.5	1.3	4.0	1.0

HS Code	Product	India		China		Singapore
		AHS	PRF	AHS	PRF	AHS
89	Ships, boats and floating structures	2.8	2.8	12.7	6.5	10.0
90	Optical, photographic, cinematographic equipment	1.9	0.7	4.2	4.2	3.6
91	Clocks and watches and parts	8.0	3.0	11.7	8.0	12.0
92	Musical instruments and parts and accessories	5.0	5.0	25.0	-	25.0
93	Arms and ammunition and parts and accessories	5.0	5.0	17.5	-	-
94	Furniture, bedding, mattresses and mattresses supports	20.0	3.0	22.9	-	22.8
95	Toys, games and sports requisites and parts and accessories	4.8	3.7	17.8	-	18.6
96	Miscellaneous manufactured articles	16.7	3.6	20.2	-	21.9
97	Works of art, collectors' pieces and antiques	3.8	3.8	25.0	-	25.0

Source: TRAINS, WITS and India Exim Bank Research

It can be observed from **Table 5.3** that in majority of the product categories, Bangladesh is charging higher tariff to China and Singapore compared to India. Taking into consideration the proximity of India to Bangladesh and the availability of varied means of transport including roadways, theoretically it should be viable for Bangladeshi importers to import from India than China if both are facing similar tariffs. However, this is not the case even in product categories where India and China are facing uniform tariffs in Bangladesh. Despite uniform tariffs, Bangladesh is importing more from China even though India has considerable world exports in all these product categories which Bangladesh is importing from China. For parts of telephone sets, including telephones for cellular networks, for other wireless networks, other apparatus for the transmission (HS-851770), which is the second largest exported commodity from China to Bangladesh, tariff charged on India and China is uniformly 10%. However, Bangladesh's imports from India are a nominal US$ 3.3 million, while that from China is US$ 320.4 million. Similarly for denim, containing predominantly, but less than 85% cotton by weight, mixed principally or solely with manmade fibres (HS-521142), tariff charged by Bangladesh on India and China is 25%, but imports from India are only of US$ 50.9 million, while that from China are of US$ 307.7 million. On the other hand, there are few products wherein Bangladesh is importing from China even though Indian tariff rate is lower than that of Bangladesh. Like in the case of woven cotton, greater than 85%, greater than 200g, dyed (HS- 520939), Bangladesh is charging tariff of 25% on Chinese and 5% on Indian products, but Bangladesh's imports from India are at meagre US$ 4.8 million and that from China are at US$ 135.2 million.

According to some Bangladeshi trade stakeholders, infrastructure connectivity in terms of sea trade from China is much more efficient and takes lesser time as compared to importing from India. Given the similarity in the export baskets of China and India to Bangladesh, Chinese exports have been able to replace Indian exports at a large scale.

Protective Tariffs Charged by Bangladesh

Bangladesh levies tariffs at various levels of imported goods. The average MFN tariff rate is 14%, while the average of LDCs is 8.5%, with average rates for agricultural products higher than for industrial goods. The maximum MFN applied rate is 25%. Bangladesh provides concessions for the import of capital machinery and equipment, as well as for specified inputs and parts, which makes determinations of tariff rates a complex and non-transparent process.

Bangladesh, through the use of several para/protective tariffs in addition to the customs duties, has raised nominal protection levels for many import substituting industries to very high levels. Five charges other than customs duties (CD) applicable to imports are advance income tax (AIT); value-added tax (VAT); advance trade VAT (ATV); Regulatory Duties (RD) and Supplementary Duty (SD) (applies to luxury items such as cigarettes, alcohol and perfume), which exponentially increase the taxes on imports. RD and ATV are the main para-tariff instruments used by Bangladesh, as those are levied solely on imports. These protective tariffs are regarded as Other Duties and Charges (ODCs) by the WTO.

Average import tariffs (14% in 2021) double if para-tariffs are included in actual tariff incidence. For instance, while customs duty of 25% is applied to black tea, the total tax incidence is much higher at 89.32% as a result of protective tariffs. In August 2023, Bangladesh has formulated a new National Tariff Policy 2023 to align the tariffs in accordance with the WTO regulations. The National Board of Revenue has been tasked to develop an action plan within six months to harmonise the country's tariff regime in line with policy requirements.

Non-Tariff Measures Impacting Goods Trade

According to the UNCTAD, non-tariff measures are generally defined as "policy measures other than ordinary customs tariffs that can potentially have an economic effect on international trade in goods, changing quantities traded, or prices or both."[20] A large number of domestic regulations meant to protect the environment, consumers or workers are designed in such a way that they can potentially discriminate against foreign suppliers of goods or services. Indeed, there is some evidence that the reduction of tariffs has been accompanied by an increasingly discriminatory role of such regulations. The scope for these non-tariff trade measures (NTMs) is large, their nature is complex and constantly changing. This leads to challenges to ensure level playing fields between countries.[21] Based on WTO classification, the different types of non-tariff measures include sanitary and phytosanitary measures (SPS), technical barriers to trade (TBT), anti-dumping measures (ADP), countervailing measures (CV), safeguard (SG), quantitative restrictions (QR), tariff-rate quota (TRQ), state-trading enterprises (STE) and export subsidies (XS).

According to a CUTS International study conducted in 2019, the growth of bilateral trade between India and Bangladesh is highly affected by diverse NTBs that restrict trade between two countries. Most of these are at the border and affect agriculture trade more than trade in other commodities.[22]

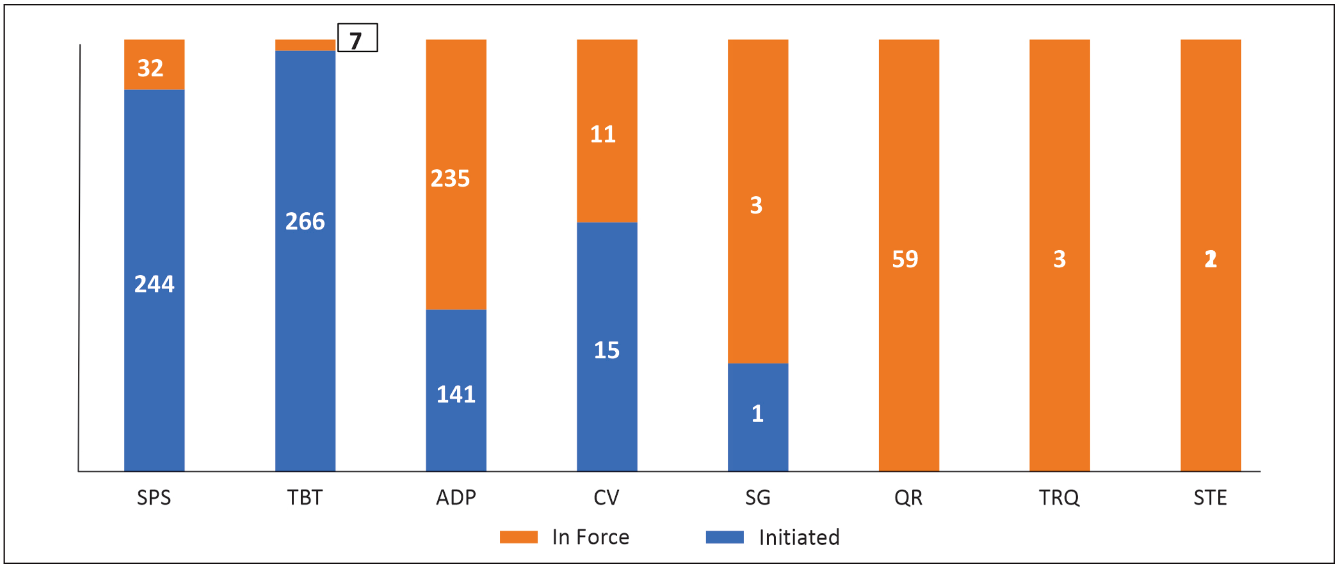
These NTBs not only increase trade costs but also have implications on food security and livelihood of producers. NTBs escalate the cost of trading which is compensated through low prices paid to the actual producer, i.e., the farmer. The existence of NTBs has a direct impact on the availability of a product in the importing country, which indirectly influences the price of that commodity either at the border or in the country of origin. In case of food products, the influence is more and directly impacts the food security in an importing country and livelihood of the producers in exporting country. Moreover, information asymmetries existing in both countries play a big role in creating misperceptions about the existence of non-tariff barriers in both countries.

[20] https://unctad.org/system/files/official-document/ditctab2019d5_en.pdf
[21] World Trade Organization, 2012
[22] https://cuts-citee.org/pdf/project_report-ntbagr.pdf

Non-Tariff Measures Imposed by India

Based on the data retrieved from Integrated Trade Intelligence Portal (I-TIP), WTO, **Chart 5.1** reveals that as of December 2022, India has imposed 1,029 NTMs towards the WTO members (including Bangladesh), as well as bilaterally imposed by India on Bangladesh. Out of the 1,029 NTMs, 362 are in force and 667 initiated[23]. Sanitary and Phytosanitary (SPS) and Technical Barriers to Trade (TBT) are among the most widely used NTMs, with 276 SPS (32 in force and 244 initiated) and 273 TBT (7 in force and 266 initiated) in place. Anti-dumping measures have also been adopted by India, followed by protection through quantitative restrictions, countervailing measures, State Trading Enterprises, safeguard and tariff-rate quota measures as of December 2022.

Chart 5.1: Non-Tariff Measures Imposed by India as on December 30, 2022



Note: Anti-dumping [ADP], Countervailing [CV], Quantitative Restrictions [QR], Safeguards [SG], Sanitary and Phytosanitary [SPS], Special Safeguards [SSG], State Trading Enterprises [STE], Technical Barriers to Trade [TBT], Tariff-rate quotas [TRQ] and Export Subsidies [XS]

Source: I-TIP, WTO and India Exim Bank Research

According to broad sector classification of I-TIP, WTO, products of chemical and allied industries have the highest number of NTMs (274) imposed by India as of December 2022. Majority of the NTMs are in form of ADP (195), followed by TBT (62), SPS (6), QR (5), STE (3) and CV (3). Resins, plastics and articles, and rubber and articles also have significant number of NTMs (128), including measures like ADP (79), TBT (38), SPS (7), CV (3) and QR (1). Live animals and products and vegetable products are substantially protected sectors combinedly consisting of 209 measures. These sectors are largely protected through SPS (130), TBT (45), QR (26), TRQ (2) and STE (6). There are a total of 181 measures for which the HS classification is not available, amongst these also, SPS (93) and TBT (82) are the majority NTMs.

[23] Initiation date is the date when the measure in preparation is made known to other WTO members; in SPS and TBT it is then the date when the measure is distributed to other members through DOL. In AD, CV, and SG, the date of initiation of investigation is also the date when the affected member is notified of initiation. In agricultural NTMs, initiation is not applicable. In force is when the measure is put in force, in case of Antidumping, Countervailing, and Safeguards measures; while it may or may not be notified for SPS and TBT.

According to the study conducted by CUTS International[24], certain product specific barriers affecting trade include:

- There is high demand of Bangladeshi fruit juice in India, mainly in West Bengal and Northeast states. Divergence of standards in juice preparation across countries act as potential barrier. The Food Safety and Standards Authority of India (FSSAI) has set standards for fruit juice with which Bangladeshi products shall have to comply while exporting to India. Bangladesh has a standard setting authority, Bangladesh Food Safety Authority (BFSA), which sets its own standards for preparing fruit. Bangladeshi manufacturers use xanthan gum as a preservative in fruit juices and drinks. This preservative is accepted in several countries, but it is not accepted in India, where the regulations prescribe only the use of pectin as a preservative. To comply with Indian standards, Bangladeshi producers have to produce different export quality product exclusively for the Indian market which could make it difficult for small fruit juice producers to compete with larger exporters. *Harmonisation of standards between both countries can be one possible solution to overcome barriers related to food quality standards.*
- In Bangladesh, there exists few production standards in case of fish and even fewer related to the presence of heavy metals. However, India has many standards across variety of antibiotics, biotoxins, contaminants and insecticides. These standards can make it difficult for Bangladesh to export to India.
- Labelling, marking and packaging requirements are laid down by the FSSI. However, the labelling requirement was too detailed for the surface area of the candy wrapper in the case of imports of candies and lollipops. The rules are implemented more rigorously on imported products than on domestically produced goods in this instance.
- India's Jute Import – The Office of the Jute Commissioner requires every jute bag to be labelled "Jute Bag Made in Bangladesh", and Indian importers are reluctant to purchase these bags as they are used to pack goods made in India.

Other measures impacting the bilateral trade include:

- Excessive number of documents required: There are issues in terms of product marketing and requirement of additional documents from Bangladeshi exporters, which are costly and time consuming.
- There have been complaints that the registration rules of India for importing raw jute and jute products are complex, as it is mandatory that all importers would have to obtain a no objection certificate (NOC) from the Jute Commissioner of India for each consignment. The entire procedure of obtaining NOC is complex, restricting the import of raw jute and jute products from Bangladesh. Additionally, as per rules, foodgrains and sugar in India are required to be packaged in jute packaging materials manufactured in India from jute produced in India.
- At Agartala integrated check post (ICP), testing facility is not adequate to issue the required certificate for food products. Importers from Tripura are, therefore, dependent on the state food testing laboratories run by the Department of Health, Government of Tripura and other testing laboratories based in Kolkata and Guwahati. Testing samples takes a lot of time from sample collection to the receipt of requisite certificates.
- There is an additional need for increased parking space in Hili, Mohedipur and Petrapole in West Bengal. The existing parking does not have a shade and there are problems during monsoon. Lack of warehouse and cold storage facilities at Mohedipur makes it difficult to export perishable products from this port. Banking facilities near the border are inadequate. More branches and ATMs are needed.

[24] Demystifying Non-Tariff Barriers to India-Bangladesh Trade in Agricultural Products and their Linkages with Food Security and Livelihoods, CUTS International, 2018

- The procedure and requirements for import of food articles are regulated by the FSSI (Import) Regulations, 2017. There has been historical dependence in India on only one public laboratory, namely, the Central Food Laboratory in Kolkata. This dependence continues because it is not widely known in Bangladesh that several laboratories in India now are accredited by the National Accreditation Board for Testing and Calibration Laboratories (NABL) and notified by the FSSAI. Hence, samples have to be sent to West Bengal for testing, leading to higher costs and delays. There are also limited information on the regulation that test reports for food products issued by NABL-accredited laboratories in Bangladesh and Nepal are not accepted by Indian authorities unless these laboratories are also notified by the FSSAI. Both Governments can develop marketing and communication strategies to familiarize traders with the various NABL-accredited and FSSAI-notified laboratories.
- Central Warehousing Corporation of India levies different charges on imported and exported products. According to the World Bank, firms reported discriminatory treatment between the export and import of intermediate inputs in India. Charges on storage of exported cargo are free for 14 days while charges on storage of imported cargo is Rs. 20 per metric ton per day for first 7 days and Rs. 45 per metric ton per day for the next 7 days. Charges on storage of imported cargo increases much faster than exported cargo.

Non-Tariff Measures Imposed by Bangladesh

As of December 2022, according to I-TIP (WTO), Bangladesh has three TBTs, largely impacting pharmaceutical and chemical industries, imposed towards the WTO members (including India). Certain product specific non-tariff barriers imposed by Bangladesh are mentioned below:

- Bangladesh imposed ban on exporting Hilsa fish to India in 2012. In 2019, Bangladesh allowed exports of Hilsa to India taking into consideration increased demand during Durga Puja. However, Hilsa fish is not exportable product under the Export Policy 2021-2024 of Bangladesh.
- Bangladesh has introduced port restrictions by prohibiting import from India through Tripura on specific items. These include rubber and tea, two of the most important cash crops of Tripura, which has the potential of significantly boosting the state's trade prospects. Tripura shares seven land ports with Bangladesh but the volume of exports from these ports is quite low in comparison to the volume of imports. Port related export restrictions are impacting the business eco-system in Tripura, as the state has the capability to export currently restricted commodities to Bangladesh.
- Bangladesh has made frequent changes in its regulations on product packaging. In 2017, Bangladesh made it mandatory to use jute bags for packaging some export items. Such items include chilli, onion, garlic, turmeric, ginger, pulses, coriander, potato, atta, maida, rice bran, paddy, rice, wheat, maize, fertiliser and sugar.
- Good quality seeds are critical to sustain growth in agriculture. India has made good progress in seed sector. India can be a good source of high quality and disease resistant seed varieties for Bangladesh. However, Indian seed exporters face hurdles while exporting to Bangladesh - possibly on account of divergent standards. Bangladeshi regulations specify permissible limits and tests for the presence of one type of radionuclides, six types of mycotoxins, nine types of fungicides, four types of herbicides and one type of plant growth controller for specific seeds: cotton, rape and sunflower seeds. On the presence of insecticides in seeds, standards regulatory body of both the countries have prescribed names of different types of insecticides. However, among specified insecticides, dissimilarity in test parameters across countries is evident. BFSA has mentioned 26 insecticides, and the presence of their residue shall be tested on the import of specific type of seeds.

- Micro and small tea growers face problems while exporting to Bangladesh. Hurdles in exports arises from the divergence in the acceptable quality standards of both the countries. BFSA's regulations test presence of six mycotoxins residues in final products, whereas according to FSSAI food regulations, it is not tested for sales in domestic market. Tea growers have to restrict the usage of these mycotoxins in a manner that the consumable tea can permit the maximum residue limit to get clearance from BFSA for export to Bangladesh.
- Product registration and requisite authorization processes, which are mandatory for pharmaceutical imports, are cumbersome and time-consuming in Bangladesh. This needs to be streamlined by the Directorate General of Drug Administration (DGDA) in Bangladesh to reduce the time taken to register products and obtain requisite approvals.
- Bangladesh has specific product requirements such as radioactivity requirements, fumigation requirements, etc for the exporters to comply with, along with providing testing and certifications (such as radiation testing, fumigation certifications and phytosanitary certificates). These certificates add time and cost to exporters and are not always available.
- Certain goods are not allowed to pass through certain ports or are only allowed through designated port(s), adding costs to exporters. The narrow list of acceptable imports significantly restrict trade. Expanding the list of permissible imports would scale up trade.
- Logistic issues and procedural obstacles, such as the need to transload (transfer goods from one truck to another) at the customs yard in Bangladesh, sub-optimal warehousing facilities and customs infrastructure and the need for informal payments, increase time and cost or both. Difficulties in obtaining visas and time and costs associated in getting one also are other NTMs.
- Services at Chittagong Sea Port and Benapole Land Port are characterized by congestion and delays in unloading and clearance. Chittagong Port's draft capacity, 9.5 meters depth and 190 meters long, is not deep to accommodate many modern container ships. Also, these vessels can carry only 2,500-2,600 twenty-foot equivalent Unit (TEU) containers. This increases the time and cost of transfer operations because smaller ships and vessels are required to transport cargo to and from mega-sized ships anchored distantly from the port.
- At many places, Bangladesh has visible gaps in trade infrastructure at its land ports. This include less intake capacity of land ports in Bangladesh. As per rules, an Indian truck after reaching Benapole (Bangladesh) is supposed to empty the cargo and return to India within 24 hours. However, due to inadequate parking facilities, truckers take up to 12-15 days to complete offloading and returning to India. They have to pay parking fees of Rs 100 for first day and Rs 80 per day onwards in Bangladesh which has cost implications. Indian trucks are not allowed to use Bangladeshi routes and must bypass Bangladesh through the Siliguri corridor to reach the northeast and Bangladeshi trucks are not allowed in India.
- In Bangladesh, majority of notices and regulations related to standards and labelling are in Bengali language which makes it difficult for Indian exporters to understand instructions or miss out specific requirements.
- Even though standards are not applied in a discriminatory manner, barriers persist due to information asymmetries about each other's regulatory regimes, lack of coordination between regulatory agencies, and lack of digitization in the application of risk assessment methods. These need to be addressed on a continuous basis.
- Quantitative Restrictions - Commercial importers and private industrial consumers (with the exception of those located in Export Processing Zones (EPZs)) must register with the Chief Controller of Imports and

Exports in the Ministry of Commerce, Government of Bangladesh. The Chief Controller issues import registration certificates (IRC). While commercial importers are free to import any quantity of non-restricted items; for industrial consumers, the IRC specifies the maximum value (the import entitlement) for each product that the industrial consumer may import each year, including items on the restricted list for imports. The import entitlement is intended as a means to monitor imports of raw materials and machinery, most of which enter Bangladesh at concessional duty rates.

- Textile exports to India must conform with azo-dye regulations and norms related to jute batching oils, depending on the type of consignment. In order to demonstrate conformity with Indian laws, consignments need to be tested and certified. Indian authorities will recognize certification provided by any BSTI-recognized laboratory and hence exporters can procure pre-shipment certificates in Bangladesh and send consignments to India without the need for testing upon arrival at Petrapole. Doing so can reduce the time to clear the imported products in India. However, many textile traders in Bangladesh are not aware of the option to pre-certify their consignments, which leads to increased time for trade—often requiring consignments to wait at the Petrapole ICP for few days, while material tests are conducted in laboratories in Kolkata. Government of Bangladesh may consider building knowledge among its textile exporters and encouraging them to undertake pre-shipment testing for all such consignments, to reduce turnaround time and streamline trade.

Barriers faced by Indian Service Suppliers in Bangladesh: Horizontal Restrictions

Horizontal measures are cross-cutting restrictions across sectors. The restrictiveness of these measures automatically gets reflected in the sectoral STRI. As a result, even if a sector is less restrictive as per sector - specific measures, the horizontal measures make the whole sector restrictive. I-TIP, WTO database provides mode-wise horizontal measures impacting services sector. Currently, the database covers 31 service sectors in 76 economies **(Table 5.4)**.

Table 5.4: Mode-wise Horizonal Restrictions on Services Sector Imposed by Bangladesh

Measure	Responses
Mode 1	
Category: Conditions on operations	
Subcategory: Conditions on service supplier	
Measure: International data transfer: Distinction between countries/regions	No
Subcategory: Conditions on Government Procurement	
Measure: Government procurement: International data transfer restricted	No
Category: Administrative procedures and regulatory transparency	
Subcategory: Administrative procedures	
Measure: Rules/requirements related to data flows applied and enforced uniformly	No
Subcategory: Nature of regulatory authority (measures related to nature of regulator)	
Measure: Regulatory authority for data transfers	No

Measure	Responses
Mode 3	
Category: Conditions on market entry	
Subcategory: Other conditions on market entry	
Measure: Acquisition and/or rental of land and real estate by foreigners restricted	Yes
Measure: Rental of land and real estate by foreigners prohibited	Yes
Category: Conditions on operations	
Subcategory: Conditions on service supplier	
Measure: International data transfer: distinction between countries/regions	No
Subcategory: Conditions on government procurement	
Measure: Government procurement: international data transfer restricted	No
Subcategory: Other conditions on operations	
Measure: Limits on subsequent transfer of capital and investment	No
Measure: Restrictions on repatriation of earnings/profits	Yes
Category: Administrative procedures and regulatory transparency	
Subcategory: Administrative procedures	
Measure: Rules/requirements related to data flows applied and enforced uniformly	No
Subcategory: Nature of regulatory authority (measures related to nature of regulator)	
Measure: Regulatory authority for data transfers	No
Mode 4	
Category: Conditions on market entry	
Subcategory: Quantitative measures (for firms and natural persons)	
Measure: Limit on share of foreigners employed in the domestic economy	No
Category: Conditions on operations	
Subcategory: Conditions on service supplier	
Measure: International data transfer: distinction between countries/regions	No
Subcategory: Conditions on government procurement	
Measure: Government procurement: international data transfer restricted as procurement would imply non-local data storage or data transfers abroad	No
Subcategory: Other conditions on operations	
Measure: Restrictions on repatriation of earnings/profits	Yes
Category: Administrative procedures and regulatory transparency	
Subcategory: Administrative procedures	
Measure: Rules/requirements related to data flows applied and enforced uniformly	No
Measure: Average visa processing time (days)	14
Measure: Cost to obtain a business visa (US$)	190

Measure	Responses
Measure: Number of documents needed to obtain a business visa	2
Subcategory: Nature of regulatory authority (measures related to nature of regulator)	
Measure: Regulatory authority for data transfers	No

Source: I-TIP database and India Exim Bank Research

Under Mode 1: Under horizontal restrictions, Bangladesh has not imposed conditions on operation through conditions on operations. Laws do not distinguish between countries or regions to which data may be transferred to or accessed from abroad. Bangladesh has no prohibition or constraint on government procurement of foreign goods or services because such procurement would imply non-local data storage or data transfers abroad.

In terms of administrative procedures and regulatory transparency, rules and requirements related to restrictions on cross-border data flows are not applied and enforced uniformly. There is no specific governmental agency or any other authority in the jurisdiction which is competent for the design, implementation and/or enforcement of requirements and rules governing cross-border data flow.

Under Mode 3: Under horizontal restrictions, Bangladesh has imposed condition on market entry through restriction on acquisition and/or rental of land and real estate by foreigners and prohibition rental of land and real estate by foreigners. There is no restriction under Bangladesh laws for rental of land or real estate/ acquisition of land by foreigners. However, as a matter of practice, the local sub registry offices (authorities responsible for recording sale, mortgage and lease of immovable properties) do not register deed of rental/ leases in the name of foreigners. However, foreign nationals or firms may purchase or rent real estate through a Bangladeshi go between.

Bangladesh laws do not distinguish between countries or regions to which data may be transferred to or accessed from abroad; nor it prohibits or constraint government procurement of foreign goods or services because such procurement would imply non-local data storage or data transfers abroad; nor does it restrict subsequent transfer of capital and investment.

Further, Bangladesh imposes restrictions on repatriation of earnings. Paragraph 24 of the Chapter 14 of the Foreign Exchange Control Guidelines provides that dividends/interest earnings on the shares/securities bought through the non-resident investors' accounts, net of taxes payable on such earnings of the non-resident holder, received from the issuing company/institution may be credited to the non-resident investors' accounts. In these cases (unless the payment is accompanied by a certificate from the issuing company's auditor that the tax payable on the earning of the non-resident holder has been withheld and the net post-tax amount has been paid for credit to the non resident investor taka accounts), the bank will ensure that an amount representing taxes payable on the earning of the non-resident holder is withheld from the gross amount received (for eventual payment to the tax authorities) and only the net post-tax amount is credited to the non-resident investors' accounts.

In terms of administrative procedures, rules and requirements related to restrictions on cross-border data flows are not applied and enforced uniformly. Additionally, there is no specific governmental agency or any other authority in the jurisdiction which is competent for the design, implementation and/or enforcement of requirements and rules governing cross-border data flow.

Under Mode 4: Under horizontal restrictions, Bangladesh has imposed conditions through conditions on operation, administrative procedures and regulatory transparency.

In terms of conditions on operation, Bangladesh imposes restrictions on repatriation of earnings. Paragraph 24 of the Chapter 14 of the Foreign Exchange Control Guidelines provides that dividends/interest earnings on the shares/securities bought through the non-resident investors' accounts, net of taxes payable on such earnings of the non-resident holder, received from the issuing company/institution may be credited to the non-resident investors' accounts. In these cases (unless the payment is accompanied by a certificate from the issuing company's auditor that the tax payable on the earning of the non-resident holder has been withheld and the net post-tax amount has been paid for credit to the non resident investor taka accounts), the bank will ensure that an amount representing taxes payable on the earning of the non-resident holder is withheld from the gross amount received (for eventual payment to the tax authorities) and only the net post-tax amount is credited to the non-resident investors' accounts.

In terms of administration procedures, average visa processing time lies in the range of 14 days. However, there is no fixed processing time. The average cost to obtain a business visitor visa is US$ 190. The percentage varies depending on the applicant's nationality and place where the application was made. The number of documents needed to obtain a business visitor visa is 2 document i.e., certificate from a recognized Chamber of Commerce of the applicant's country/letter of sponsorship from Bangladeshi business and documents relating to the applicant's business.

However, rules and requirements related to restrictions on cross-border data flows are not applied and enforced uniformly. There is no specific governmental agency or any other authority in the jurisdiction which is competent for the design, implementation and/or enforcement of requirements and rules governing cross-border data flow.

Quantitative Measures for Movement of People

Also in Mode 4, Bangladesh imposes quantitative measures (for firm and natural persons) as part of conditions on market entry. Access under Mode 4 is based on economic criteria, viz a viz permit to foreigner can be assigned if the open position cannot be filled by a person from the domestic labour market and the activity is in the economic and labour market interest of the economy; limit on the total number or share of foreigners employed per company (covering intra-corporate transferees and other foreign employees of companies established in the country, whether locally- or foreign-controlled) and employment of foreign nationals is normally considered for the job for which local experts/technicians are not available. Bangladeshi nationals will be given priority/preference for employment in local commercial enterprises, as well as commercial enterprises established with foreign capital. Summing up, Bangladesh imposes following quantitative measures:

- Economic Need Test (ENT) or Labour Market Test (LMT)
- Limit on number of foreigners employed per company
- Quota - Intra-Corporate Transferees
- Requirement to demonstrate domestic unavailability of natural persons

These are the tests that condition access in Mode 4, upon the fulfilment of these economic criteria, market entry of foreigner is permitted **(Table 5.5)**.

Table 5.5: ENT/LMT Requirement on Services Sector Imposed by Bangladesh

Sectors	ENT/LMT - Intra-Corporate Transferees	Limit on Number of Foreigners Employed per Company	Quota - Intra-Corporate Transferees	Requirement to Demonstrate Domestic Unavailability of Natural Persons
Accounting services	Yes	Yes	No	Yes
Air freight domestic	Yes	Yes	No	Yes
Air freight international	Yes	Yes	No	Yes
Air passenger domestic	Yes	Yes	No	Yes
Air passenger international	Yes	Yes	No	Yes
Auditing services	-	Yes	-	Yes
Commercial banking	-	Yes	-	Yes
Fixed-line telecommunication services	Yes	Yes	No	Yes
Internet services	Yes	Yes	No	Yes
Legal services: Home country law and/or third country law (advisory/representation)	Yes	No	No	Yes
Life insurance	No	Yes	No	Yes
Maritime cargo-handling, storage, warehousing and container station depot services	-	Yes	-	Yes
Maritime intermediation auxiliary services	Yes	Yes	No	Yes
Maritime: Freight transportation	Yes	Yes	No	Yes
Mobile telecommunication services	Yes	Yes	No	Yes
Non-life insurance	No	Yes	No	Yes
Rail: Freight transportation	-	Yes	-	Yes
Reinsurance and retrocession	Yes	Yes	No	Yes
Retailing services	Yes	Yes	No	Yes
Road: Freight transportation	Yes	Yes	No	Yes
Wholesale trade services	Yes	Yes	No	Yes

Source: I-TIP database and India Exim Bank Research

In terms of sector, Bangladesh imposes requirement to demonstrate domestic unavailability of natural persons across all sectors. It also imposes ENT and LMT requirement with regard to intra-coporate transferees (ICT) on all sectors except life and non-life insurance. Bangldesh also imposes limits on number of foreigners employed per company in all sectors except legal services: home country law and/or third country law (advisory/representation). However, the country does not impose any quota on intra-corporate tranferees.

Chapter 6

Revealed Comparative Advantage Analysis and Trade Potential

Analysing the key products where India has comparative advantage and match it with Bangladesh's import demand for these products are necessary for an India-Bangladesh FTA/CEPA to be successful. Quantification of comparative advantage will help in identification of products where exports from India have been performing well, as also those where success has been limited, although opportunities are significant.

Revealed Comparative Advantage (RCA) is a measure which have been used extensively to help assess a country's export potential/competitiveness. It helps in identifying categories of exports in which an economy has a comparative advantage by way of comparison of the country's trade scenario with the world scenario. It can also provide useful information about potential trade prospects with new partners. The basic assumption underlying the concept of revealed comparative advantage is that the trade profile reflects the inter-country differences in terms of relative costs as well as non-price aspects.

As per Balassa's (1965) measure, RCA index for country i for commodity j is:

$$\boxed{RCA_{ij} = (x_{ji}/X_i) \;/\; (x_{jw}/X_w)}$$

Where,

x_{ji} : Exports of Commodity 'j' from Country 'i'

X_i : Total Exports from Country 'i'

x_{jw} : Total Exports of Commodity 'j' from World

X_w : Total Exports from World

The RCA index ranges from 0 to infinity, with 1 as the break-even point. That is, an RCA value of less than 1 means that the product does not have a comparative advantage, while a value above 1 indicates that the product has a comparative advantage.

Since the RCA analysis is used in regard to one country's exports profile with reference to the world, the above formula of revealed comparative advantage has been modified to assess India's competitiveness in bilateral trade relations with Bangladesh.

$$\boxed{RCA_{iju} = (x_{iju}/X_{iu}) \,/\, (x_{wju}/X_{wu})}$$

Where,

x_{iju}: India's Exports of commodity 'j' to Bangladesh

X_{iu}: India's Total Exports to Bangladesh

x_{wju}: World's Exports of commodity 'j' to Bangladesh

X_{wu}: World's Total Exports to Bangladesh

The Normalized Revealed Comparative Advantage (NRCA) index demonstrates the capability of revealing the extent of comparative advantage that a country has in a commodity with more precision and consistency. NRCA can be defined in the following manner.

$$NRCA_{iju} = (RCA_{iju}-1/\ RCA_{iju}+1)$$

NRCA ranges from -1 to 1, with 0 as the breakeven point. That is, an NRCA value of less than 0 and greater than -1, means that the product has no export comparative advantage, while a value above 0 and less than 1, indicates that the product has a comparative advantage. The extent of comparative advantage/disadvantage can be gauged from the proximity of the NRCA values to the extreme data points, viz. +1 and -1.

The export competitiveness of India has been mapped with respect to Bangladesh's demand. This has been undertaken with a view to outline a market specific approach for exporters. An overarching analysis has been attempted in order to identify products from the industries for which India has existing capabilities in exporting to Bangladesh. These products are the potential export growth drivers from India to Bangladesh and could be suitably targeted. The section also attempts to identify the products where India could focus on, to realize potentially higher values of exports to Bangladesh, especially when considering that India already possesses manufacturing capabilities for these products. The objective of the exercise is to construct a product market matrix for products in demand in Bangladesh, so that necessary actions and policies can be formulated in the direction to enhance exports of these potential products from India to Bangladesh.

Following are the considerations in the analysis:

- **Time Period:** The time period considered for the analysis is 2016-2021.
- **Product Limit:** Only those products at 6-digit HS code level with a minimum export value of US$ 1 million from India to Bangladesh are considered in the analysis.
- **Parameters in Consideration:** The analysis in this section considers two major determinants of India's performance in Bangladesh, namely, the NRCA for products, and Average Annual Growth Rate (AAGR) of Bangladesh's global imports.

Based on these three considerations, a four-quadrant matrix is prepared for product identification. The four quadrants imply the following:

Product Champions (Product Import AAGR of Bangladesh > World Import AAGR of Bangladesh; Positive NRCA): These products have the maximum potential, as Bangladesh's import demand for these products has shown robust AAGR over the period 2016-2021, while India's exports of these products to Bangladesh are also competitive, reflected in positive NRCA values for such products. These are the products with maximum export potential to Bangladesh and India needs to further expand its exports of these products in order to take advantage of its competitive position and achieve a greater market share in Bangladesh.

Underachievers (Product Import AAGR of Bangladesh > World Import AAGR of Bangladesh; Negative NRCA): India does not have competitiveness in these products although their import demand has grown in Bangladesh significantly over the period under consideration. India can strive towards building capacities and capabilities in these identified products. These are the products in which India can diversify in the medium to long term to continue being a strategic trade partner to Bangladesh and further expand its bilateral ties with Bangladesh.

Winners in Declining Sectors (Product Import AAGR of Bangladesh < World Import AAGR of Bangladesh; Positive NRCA): India has competitiveness in these products, even though Bangladesh's import AAGR for these products has been declining. These products may not have much demand in the future, and hence, scarce resources from these sectors could be diverted to other sectors where demand expectations are positive.

Lagging in Declining Sectors (Product Import AAGR of Bangladesh < World Import AAGR of Bangladesh; Negative NRCA): India does not have required competitiveness in these products, and these sectors have also registered weak import demand in Bangladesh during the period under consideration.

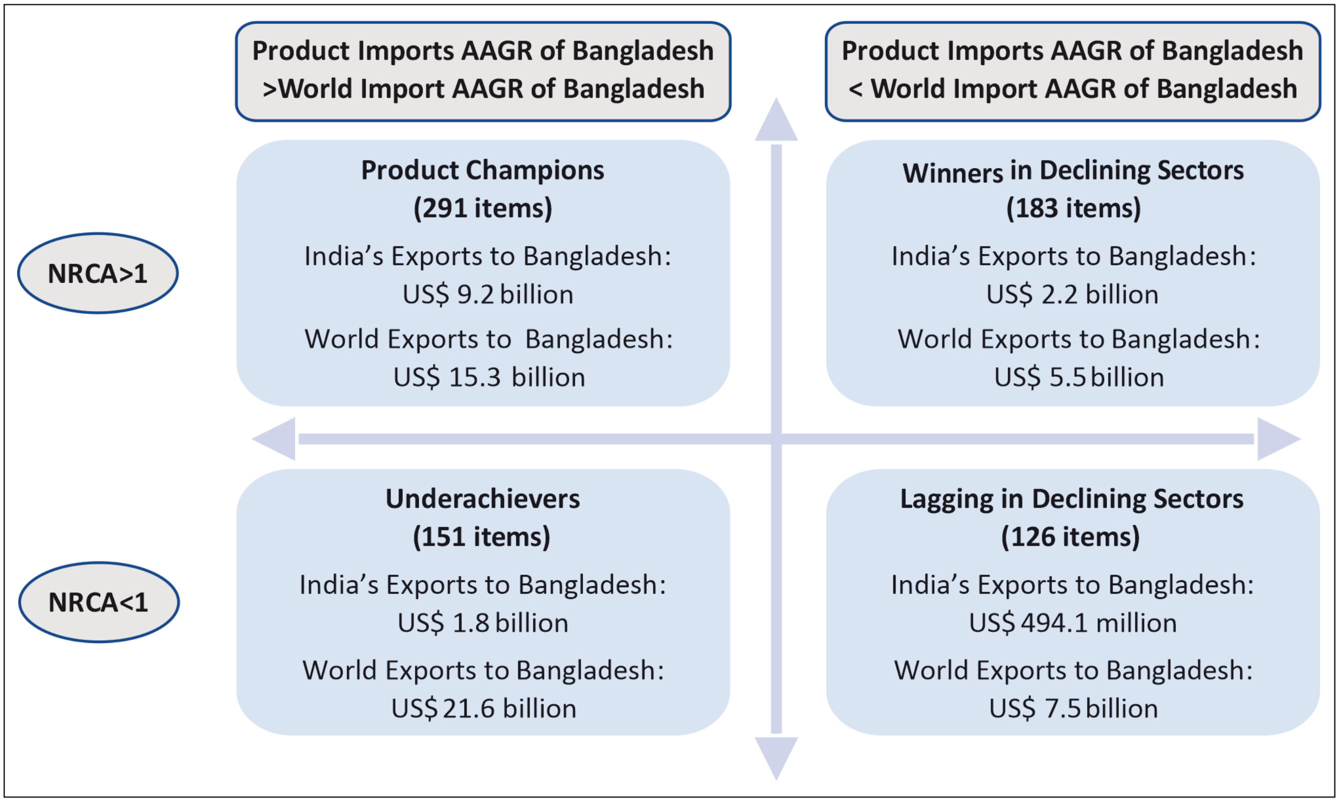
Product Identification Based on Competitiveness

To identify Indian products based on their export competitiveness to Bangladesh, the four-quadrant analysis has been undertaken based on the HS Code classifications at 6-digit level, whilst calculating their NRCA and mapping them against the AAGR of global imports of Bangladesh of all products. The quadrants are drawn by comparing the overall AAGR of global imports of Bangladesh for all products during 2016-2021 (which was 14.4%), to the NRCA of India's exports to Bangladesh of products during the same period **(Chart 6.1)**.

This exercise aims to identify products where imports in Bangladesh over the period 2016-2021 have performed better than the overall average of imports of Bangladesh for all products during this period, implying that the share of such products in Bangladesh's import basket has witnessed an increase, a reflection of their rising demand and dynamism. At 6-digit HS Code, with minimum exports of US$ 1 million from India to Bangladesh, 751 products have been identified, with the total exports from India to Bangladesh amounting to US$ 13.7 billion while the total world imports by Bangladesh in the same products stood at US$ 50 billion in 2021.

Out of the 751 items at the HS 6-digit level, 291 items fell into the category of the product champions. The combined exports of these items from India to Bangladesh were US$ 9.2 billion in 2021, representing approximately 65.2% of India's exports to Bangladesh in 2021. Major product champions are provided in **Table 6.1**.

Chart 6.1: Identification of Products with Export Potential from India to Bangladesh (2021)



Source: ITC Trade Map and India Exim Bank Research

Table 6.1: List of Top 15 Product Champions from India to Bangladesh (HS 6-digit level)

HS Code	Product Label	India's Exports to Bangladesh (US$ million)	% Share in India's Total Exports to Bangladesh	Global Imports of Bangladesh (US$ million)	% Share in Global Imports of Bangladesh
520100	Cotton, neither carded nor combed	1377.8	9.8	2759.8	3.6
100199	Wheat and meslin (excluding seed for sowing, and durum wheat)	1031.4	7.3	1957.9	2.5
100630	Semi-milled or wholly milled rice, whether or not polished or glazed	912.2	6.5	980.7	1.3
520523	Single cotton yarn, of combed fibres, containing >= 85% cotton by weight and with a linear density of 192,31 decitex to less than 232,56 decitex greater than MN 43 to MN 52	552.9	3.9	652.7	0.8
520524	Single cotton yarn, of combed fibres, containing >= 85% cotton by weight and with a linear density of 125 decitex to less than 192,31 decitex greater than MN 52 to MN 80	468.8	3.3	555.2	0.7

HS Code	Product Label	India's Exports to Bangladesh (US$ million)	% Share in India's Total Exports to Bangladesh	Global Imports of Bangladesh (US$ million)	% Share in Global Imports of Bangladesh
271600	Electrical energy	459.9	3.3	460.5	0.6
100590	Maize (excluding seed for sowing)	329.0	2.3	448.5	0.6
871410	Parts and accessories of motorcycles, incl. mopeds	292.3	2.1	317.6	0.4
520522	Single cotton yarn, of combed fibres, containing >= 85% cotton by weight and with a linear density of 232,56 decitex to less than 714,29 decitex greater than MN 14 to MN 43	178.2	1.3	213.5	0.3
520512	Single cotton yarn, of uncombed fibres, containing >= 85% cotton by weight and with a linear density of 232,56 decitex to less than 714,29 decitex greater than MN 14 to MN 43	154.5	1.1	281.2	0.4
720310	Ferrous products obtained by direct reduction of iron ore, in lumps, pellets or similar forms	148.6	1.1	176.6	0.2
70310	Fresh or chilled onions and shallots	141.8	1.0	153.9	0.2
520513	Single cotton yarn, of uncombed fibres, containing >= 85% cotton by weight and with a linear density of 192,31 decitex to less than 232,56 decitex greater than MN 43 to MN 52	128.1	0.9	153.9	0.2
170199	Cane or beet sugar and chemically pure sucrose, in solid form (excluding cane and beet sugar)	88.0	0.6	96.5	0.1
761490	Stranded wires, cables, ropes and similar articles, of aluminium (other than with steel core)	80.3	0.6	80.7	0.1

Source: ITC Trade Map and India Exim Bank Research

The total number of products in winners in declining sectors category is 183, with India's exports amounting to US$ 2.2 billion and constitute a share of 15.6% of India's exports to Bangladesh in 2021. These are the product items in which India has attained a significant share in Bangladesh's import basket, but Bangladesh's import demand for these products has been falling in the last decade **(Table 6.2)**.

Table 6.2: List of Top 15 Products in Winners in Declining Sectors from India to Bangladesh (HS 6-digit level)

HS Code	Product Label	India's Exports to Bangladesh (US$ million)	% Share in India's Total Exports to Bangladesh	Global Imports of Bangladesh (US$ million)	% Share in Global Imports of Bangladesh
170114	Raw cane sugar, in solid form, not containing added flavouring or colouring matter	200.6	1.4	775.9	1.0
520942	Denim, containing >= 85% cotton by weight and weighing > 200 g/m², made of yarn of different colours	148.9	1.1	689.0	0.9
320416	Synthetic organic reactive dyes; preparations based on synthetic organic reactive dyes	132.6	0.9	318.7	0.4
871120	Motorcycles, incl. mopeds, with reciprocating internal combustion piston engine of a cylinder capacity exceeding 50 cc but not exceeding 250 cc	109.5	0.8	140.0	0.2
870422	Motor vehicles for the transport of goods, with only compression-ignition internal combustion Piston Engine (diesel)	92.5	0.7	127.8	0.2
040210	Milk and cream in solid forms, of a fat content by weight of <= 1,5%	68.0	0.5	158.0	0.2
870600	Chassis fitted with engines, for tractors, motor vehicles for the transport of ten or more	61.9	0.4	65.4	0.1
481092	Multi-ply paper and paperboard, coated on one or both sides with kaolin or other inorganic	57.9	0.4	170.2	0.2
294190	Antibiotics (excluding penicillins and their derivatives with a penicillanic acid structure)	57.7	0.4	127.9	0.2
401120	New pneumatic tyres, of rubber, of a kind used for buses and lorries (excluding tyres with lug, corner or similar treads)	56.2	0.4	131.2	0.2
230990	Preparations of a kind used in animal feeding (excluding dog or cat food put up for retail	51.9	0.4	188.1	0.2

HS Code	Product Label	India's Exports to Bangladesh (US$ million)	% Share in India's Total Exports to Bangladesh	Global Imports of Bangladesh (US$ million)	% Share in Global Imports of Bangladesh
294200	Separate chemically defined organic compounds	49.9	0.4	52.0	0.1
760110	Aluminium, not alloyed, unwrought	49.5	0.4	119.6	0.2
870421	Motor vehicles for the transport of goods, with only compression-ignition internal combustion	49.3	0.3	87.8	0.1
870192	Tractors, of an engine power > 18 kW but <= 37 kW (excl. those of heading 8709, pedestrian-controlled	45.1	0.3	45.2	0.1

Source: ITC Trade Map and India Exim Bank Research

This was followed by underachievers with 151 items, with exports worth US$ 1.8 billion from India to Bangladesh. These products constitute a marginal share of 12.1% in India's total exports to Bangladesh. These are the product items in which import demand in Bangladesh market is rising, but India does not have the required competitiveness in the export of these items **(Table 6.3)**.

Table 6.3: List of Top 15 Underachievers from India to Bangladesh (HS 6-digit level)

HS Code	Product Label	India's Exports to Bangladesh (US$ million)	% Share in India's Total Exports to Bangladesh	Global Imports of Bangladesh (US$ million)	% Share in Global Imports of Bangladesh
271019	Medium oils and preparations, of petroleum or bituminous minerals, not containing biodiesel	729.7	5.2	5229.6	6.8
300220	Vaccines for human medicine	108.0	0.8	1369.0	1.8
521142	Denim, containing predominantly, but < 85% cotton by weight, mixed principally or solely with manmade fibres	80.7	0.6	692.5	0.9
720839	Flat-rolled products of iron or non-alloy steel, of a width of >= 600 mm, in coils	52.5	0.4	599.2	0.8
540233	Textured filament yarn of polyester (excluding that put up for retail sale)	43.3	0.3	267.2	0.3
840690	Parts of steam and other vapour turbines	40.0	0.3	270.0	0.4
390210	Polypropylene, in primary forms	39.0	0.3	552.8	0.7

HS Code	Product Label	India's Exports to Bangladesh (US$ million)	% Share in India's Total Exports to Bangladesh	Global Imports of Bangladesh (US$ million)	% Share in Global Imports of Bangladesh
600622	Dyed cotton fabrics, knitted or crocheted, of a width of > 30 cm (excluding warp knit fabrics)	38.8	0.3	285.8	0.4
270119	Coal, whether or not pulverised, non-agglomerated (excluding anthracite and bituminous coal)	29.3	0.2	461.0	0.6
550410	Staple fibres of viscose rayon, not carded, combed or otherwise processed for spinning	27.8	0.2	186.7	0.2
730890	Structures and parts of structures, of iron or steel (excluding bridges and bridge-sections)	25.1	0.2	429.1	0.6
600410	Knitted or crocheted fabrics, of a width of > 30 cm, containing >= 5% by weight elastomeric	23.8	0.2	576.9	0.7
550320	Staple fibres of polyesters, not carded, combed or otherwise processed for spinning	22.1	0.2	176.6	0.2
151190	Palm oil and its fractions, whether or not refined (excluding chemically modified and crude)	17.1	0.1	1449.6	1.9
230400	Oilcake and other solid residues, whether or not ground or in the form of pellets	16.7	0.1	167.2	0.2

Source: ITC Trade Map and India Exim Bank Research

The high range of exports under the category of declining sectors highlight the need for diversification to other sectors as well as industries which have greater scope for exports in the future. If the scarce resources are not diverted, then excess of supply to these sectors facing limited demand in Bangladesh market would result in further fall in the prices in the future. Thus, a significant shift needs to be made from the declining sectors to the product champions in the short run and underachievers in the medium to the long run, in order to make efficient utilization of resources and further enhance exports from India to Bangladesh. Further, the analysis suggests strengthening the existing products in the category of product champions in order to exploit the full potential of these products which are already showing a robust growth in Bangladesh market, whilst India's exports also hold a comparative advantage in them.

Revealed Comparative Advantage Analysis of Bangladesh's Exports to India

The RCA analysis to assess Bangladesh's competitiveness in bilateral trade relations with India can be calculated using the following formula:

$$\mathbf{RCA_{iju} = (x_{iju}/X_{iu}) / (x_{wju}/X_{wu})}$$

Where,

x_{iju}: Bangladesh's Exports of commodity 'j' to India

X_{iu}: Bangladesh's Total Exports to India

x_{wju}: World's Exports of commodity 'j' to India

X_{wu}: World Total Exports to India

NRCA of Bangladesh can be defined in the following manner.

$$\mathbf{NRCA_{iju} = (RCA_{iju}-1/ RCA_{iju}+1)}$$

The extent of comparative advantage/disadvantage can be gauged from the proximity of the NRCA values to the extreme data points, viz. +1 and -1. The export competitiveness of Bangladesh has been mapped with respect to India's demand. An overarching analysis has been attempted in order to identify products from the industries for which Bangladesh has existing capabilities in exporting to India. These products are the potential export growth drivers from Bangladesh to India and could be suitably targeted. The objective of the exercise is to construct a product market matrix for products in demand in India, so that necessary actions and policies can be formulated in the direction to enhance exports of these potential products from Bangladesh to India.

Following are the considerations in the analysis:

- **Time Period:** The time period considered for the analysis is 2016-2021.
- **Product Limit:** Only those products at 6-digit HS code level with a minimum export value of US$ 1 million from Bangladesh to India is considered in the analysis.
- **Parameters in Consideration:** The analysis in this section considers two major determinants of India's performance in Bangladesh, namely, the NRCA for products and AAGR of India's global imports.

Based on these three considerations, a four-quadrant matrix is prepared for product identification. The four quadrants imply the following:

Product Champions (Product Import AAGR of India > World Import AAGR of India; Positive NRCA): These products have the maximum potential, as India's import demand for these products has shown robust AAGR over the period 2016-2021, while Bangladesh's exports of these products to India are also competitive, reflected in positive NRCA values for such products. These are the products with maximum export potential to India and Bangladesh needs to further expand its exports of these products in order to take advantage of its competitive position and achieve a greater market share in India.

Underachievers (Product Import AAGR of India > World Import AAGR of India; Negative NRCA): Bangladesh does not have competitiveness in these products although their import demand has grown in India significantly over the period under consideration. Bangladesh can strive towards building capacities and capabilities in these identified products. These are the products in which Bangladesh can diversify in the medium to long term to continue being a strategic trade partner to India and further expand its bilateral ties with India.

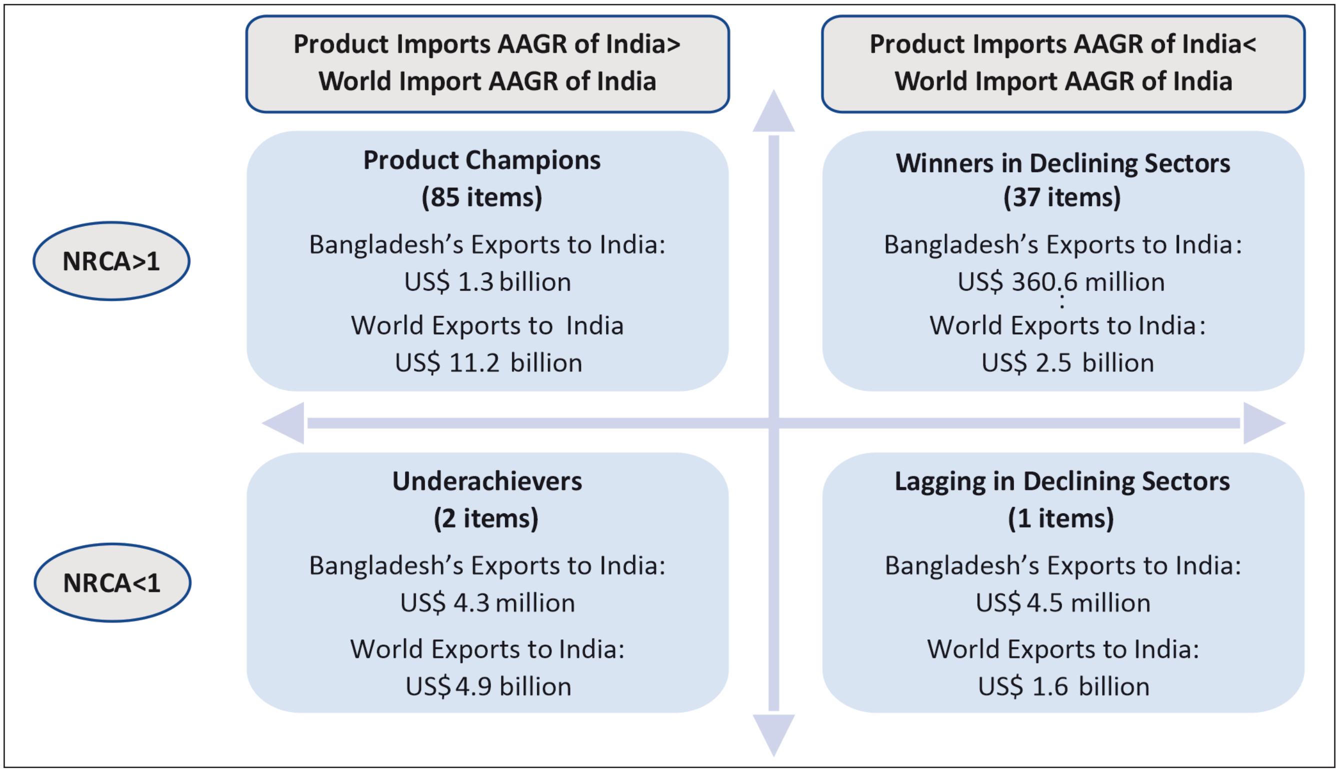
Winners in Declining Sectors (Product Import AAGR of India < World Import AAGR of India; Positive NRCA): Bangladesh has competitiveness in these products, even though India's import AAGR for these products has been declining. These products may not have much demand in the future, and hence, scarce resources from these sectors could be diverted to other sectors where demand expectations are positive.

Lagging in Declining Sectors (Product Import AAGR of India < World Import AAGR of India; Negative NRCA): Bangladesh does not have competitiveness in these products, and these sectors have also registered weak import demand in India during the period under consideration.

To identify Bangladesh products based on their export competitiveness to India, the four-quadrant analysis has been undertaken based on the HS Code classifications at 6-digit level, whilst calculating their NRCA and mapping them against the AAGR of global imports of India of all products. The quadrants are drawn by comparing the overall AAGR of global imports of India for all products during 2016-2021 (which was 13%), to the NRCA of Bangladesh's exports to India of products during the same period **(Chart 6.2)**.

At 6-digit HS Code, with minimum exports of US$ 1 million from Bangladesh to India, 125 products have been identified, with the total exports from Bangladesh to India amounting to US$ 1.7 billion while the total world imports by India in the same products stood at US$ 20.2 billion in 2021.

Chart 6.2: Identification of Products with Export Potential from Bangladesh to India (2021)



Source: ITC Trade Map and India Exim Bank Research

Out of the 125 items at the HS 6-digit level, 85 items fell into the category of the product champions. The combined exports of these items from Bangladesh to India were US$ 1.3 billion in 2021, representing approximately 73% of Bangladesh's exports to India in 2021. Major product champions are provided in **Table 6.4**.

Table 6.4: List of Top 15 Product Champions from Bangladesh to India (HS 6-digit level)

HS Code	Product Label	Bangladesh's Exports to India (US$ million)	% Share in Bangladesh's Total Exports to India	Global Imports of India (US$ million)	% Share in Global Imports of India
151590	Fixed vegetable fats and oils and their fractions	190.7	10.8	196.1	0.03
880240	Aeroplanes and other powered aircraft of an of an unladen weight > 15.000 kg	123.8	7.0	395.6	0.02
631010	Used or new rags, scrap twine, cordage, rope and cables and worn-out articles	101.8	5.8	112.2	0.02
230400	Oilcake and other solid residues	70.6	4.0	364.7	0.01
281410	Anhydrous ammonia	52.4	3.0	1316.1	0.01
610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	51.2	2.9	81.9	0.01
620520	Men's or boys' shirts of cotton	44.4	2.5	65.4	0.01
720421	Waste and scrap of stainless steel	40.4	2.3	2233.5	0.01
890510	Dredgers	30.5	1.7	180.3	0.01
531010	Woven fabrics of jute or of other textile bast fibres	28.8	1.6	77.7	0.01
620349	Men's or boys' trousers, bib and brace overalls	28.7	1.6	34.4	0.01
150790	Soya-bean oil and its fractions, whether or not refined	27.9	1.6	623.8	-
640419	Footwear with outer soles of rubber or plastics and uppers of textile materials	26.8	1.5	168.8	-
620333	Men's or boys' jackets and blazers of synthetic fibres	24.9	1.4	37.0	-
620462	Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton	21.7	1.2	45.0	-

Note: "-" implies negligible

Source: ITC Trade Map and India Exim Bank Research

The total number of products in winners in declining sectors category is 37, with India's imports amounting to US$ 360.6 million and constitute a share of 20.4% of Bangladesh's exports to India in 2021. These are the product items in which Bangladesh has attained a significant share in India's import basket, but India's import demand for these products has been falling in the last decade **(Table 6.5)**.

Table 6.5: List of Top 15 Products in Winners in Declining Sectors from Bangladesh to India (HS 6-digit level)

HS Code	Product Label	Bangladesh's Exports to India (US$ million)	% Share in Bangladesh's Total Exports to India	Global Imports of India (US$ million)	% Share in Global Imports of India
620342	Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton	83.1	4.7	105.8	0.01
530310	Jute and other textile bast fibres, raw or retted	50.8	2.9	50.8	0.01
420212	Trunks, suitcases, vanity cases, executive-cases, briefcases, school satchels and similar containers	47.0	2.7	109.5	0.01
530710	Single yarn of jute or of other textile bast fibres	26.4	1.5	26.4	-
530720	Multiple folded or cabled yarn of jute or of other textile bast fibres	21.8	1.2	25.8	-
630510	Sacks and bags, for the packing of goods, of jute or other textile bast fibres	17.3	1.0	37.6	-
560790	Twine, cordage, ropes and cables	12.7	0.7	23.7	-
610990	T-shirts, singlets and other vests of textile materials, knitted or crocheted	11.4	0.6	33.2	-
252329	Portland cement	10.5	0.6	39.3	-
284700	Hydrogen peroxide, whether or not solidified with urea	9.2	0.5	13.3	-
700510	Float glass and surface ground or polished glass	7.5	0.4	114.7	-
732690	Articles of iron or steel	7.0	0.4	699.5	-
400121	Smoked sheets of natural rubber	5.5	0.3	97.7	-
620590	Men's or boys' shirts of textile materials	4.8	0.3	6.3	-
530610	Single flax yarn	3.9	0.2	31.4	-

Note: "-" implies negligible

Source: ITC Trade Map and India Exim Bank Research

This was followed by underachievers with 2 items with India's exports worth US$ 4.3 million from Bangladesh to India. These products constitute a marginal share of 0.2% in Bangladesh's total exports to India. These are the product items in which import demand in Indian market is rising, but Bangladesh does not have the required competitiveness in the export of these items **(Table 6.6)**.

Table 6.6: List of Underachievers from Bangladesh to India (HS 6-digit level)

HS Code	Product Label	Bangladesh's Export to India (US$ million)	% Share in Bangladesh's Total Exports to India	Global Imports of India (US$ million)	% Share in Global Imports of India
760200	Waste and scrap, of aluminium	3.0	0.2	3141.3	0.6
852580	Television cameras, digital cameras and video camera recorders	1.3	0.1	1764.6	0.3

Source: ITC Trade Map and India Exim Bank Research

Other than the above three categories, only one product features in the "lagging in declining sectors" category, with Bangladesh's exports above US$ 1 million. It is waste and scrap of iron or steel (HS-720449), with exports of US$ 4.5 million in 2021 and accounting for 0.3% of Bangladesh's exports to India.

The analysis suggests strengthening the existing products in the category of product champions in order to exploit the full potential of these products which are already showing a robust growth in Indian market, whilst Bangladesh's exports also hold a comparative advantage in them.

Chapter 7

Areas for Further 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 and defence, among others. With Bangladesh approaching its graduation status from the LDC list, it becomes increasingly important to boost infrastructure, connectivity and private investment in the country, accelerated through robust strategic cooperation with partner countries.

India has extended several concessional lines of credits (LOCs) to Bangladesh, in addition to undertaking a number of high impact community development projects (HICDPs) in the country. These HICDPs include construction of student hostels, academic buildings, skill development and training institutes, cultural centers, orphanages and restoration of common cultural heritage.

The Export-Import Bank of India (India Exim Bank) is the implementing agency for extending LOCs under the Government of India's (GOI) India Development and Economic Assistance Scheme (IDEAS). As on December 31, 2023, India Exim Bank, on behalf of the Government of India, has extended 4 operational LOCs to Bangladesh amounting to US$ 7.9 billion **(Table 7.1)**. 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.

Table 7.1: India Exim Bank's Operative Lines of Credit in Bangladesh

Sr. No.	Key Sectors/Projects Covered	Amount of Credit (US$ million)
1	Financing export of goods and projects including development of railway infrastructure, dredging, construction of bridges, procurement of buses, locomotives, coaches, etc.	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 related Procurement	500.0

The Bank is financing the 1,320 MW (2*660 MW) ultra super-critical Maitree Super Thermal Power Plant Project at Rampal, Bangladesh with a project cost of US$ 1.6 billion under the GOI Concessional Financing Scheme. State-of-the-art technologies have been selected for this project to make it an environment friendly project. 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. Unit-I of Maitree Super Thermal Power Plant was handed over in September 2022, with commercial operations starting in December 2022. Unit II of Maitree Super Thermal Power Plant was inaugurated by the Hon'ble Prime Ministers of India and Bangladesh on November 1, 2023. The project is connected to the National Grid of Bangladesh, significantly contributing to the power requirement of the country. The project has a transformational impact on power generation capacity and power supply, with positive spillover effects on economic activities in the region.

The persistent and rising trade surplus of India with Bangladesh has become a sensitive issue for the enhanced bilateral relations, which by itself become a limiting barrier to further expansion of bilateral trade. This widening trade surplus to some extent originates from Bangladesh's imports of intermediate goods from India, which are used as raw materials for its major traded products, RMG. It can be thus said, that, Bangladesh's trade deficit with India is enabling the country to earn trade surplus in RMG sector through its trade with other major markets.

Fast-tracking Implementation of Motor Vehicles Agreement (2015)

The Bangladesh-India border is the fifth-longest border in the world, and it is a thick border. It is more costly for Bangladesh and India to trade with each other than for either of them to trade with Germany.[25] As a result of the thick border, bilateral trade represents about 12.1% of Bangladesh's trade and 1.6% of India's trade in 2021. These figures compare poorly with East Asian and Sub-Saharan African economies, where intra-regional trade accounts for 44% and 13.4% of total trade in 2021, respectively.

Majority of land trade between India and Bangladesh passes through the Benapole and Petrapole land ports, making this junction one of the largest land ports in Asia by trade volume. Lack of transport integration between Bangladesh and India implies that Indian trucks are not allowed to transit through Bangladesh. The transit restriction leads to long and costly routes between northeast India, the rest of India and the world. Goods from Agartala, for example, travel 1,600 kilometres through the Siliguri corridor to reach Kolkata Port instead of 500 kilometres through Bangladesh. If the border were open to Indian trucks, goods from Agartala would have to travel just 200 kilometres to the Chattogram Port in Bangladesh, and the transport costs to the port would be 80% lower. Customs clearance procedures are generally cumbersome and time consuming.

One of the key areas for the trade facilitation is to improve the efficiency of customs authorities to facilitate efficient management of cross border trade. Improvements in cross-border infrastructure such as Integrated Check Posts (ICPs), road, air and rail links are also key to facilitating trade in the region. Improved infrastructure will enable greater connectivity, thereby strengthening production networks and value chains in the region. This would reduce trading costs, lead to greater economic growth and reduce poverty. According to a World Bank report, "Connecting to Thrive: Challenges and Opportunities of Transport Integration in Eastern South Asia", seamless transport connectivity between India and Bangladesh has the potential to increase national

[25] Connecting to Thrive: Challenges and Opportunities of Transport Integration in Eastern South Asia, World Bank (2021)

income by as much as 17% in Bangladesh and 8% in India. Better connectivity will yield a 297% increase in Bangladesh's exports to India and a 172% increase in India's exports to Bangladesh.

Removing all border frictions to the movement of trucks between Bangladesh and India could deliver significant economic benefits to both countries. Full transport integration between the two countries would allow trucks from each country to transit through the other, delivering exports and picking up imports, using any border post. Under full integration, exports and imports would be cleared at the destination, obviating the need even to stop at the border.

The Motor Vehicles Agreement (MVA) between Bangladesh, Bhutan, India and Nepal (known as the BBIN countries), signed in 2015, seeks to facilitate the unrestricted cross-border movement of cargo, passenger, and personal vehicles between BBIN countries. Under the agreement, trucks carrying export-import or transit cargo can move inside the territories of other countries without transshipping to local trucks at border land ports. The MVA was signed in Bhutan on June 15, 2015. It has since been ratified by Bangladesh, India and Nepal. In 2017, the legislature of Bhutan declined to ratify the agreement, citing gaps and conflicts between the agreement and the national concerns over such areas as immigration, routes and infrastructure, ability to compete and environmental impacts, among other concerns.

Progress on the seven-year-old project has been slow, nonetheless, despite several trial runs being held along the Bangladesh-India-Nepal road route for passenger buses and cargo trucks. According to the officials, there are still some agreements required, holding up the final protocols, including issues like insurance and bank guarantees and the size and frequency of freight carriers into each country, which they hope to finalise soon before operationalising bus and truck movements between them.

The MVA represents a significant step toward the creation of a cross-border integrated road transport market among the South-Asian economies. If the agreement is to live up to its promise, member countries need to negotiate protocols to address some of the missing features. Priority should be placed on the technical aspects of transport services, requirements for goods carriage and driver qualifications and licensing.

Revision of Agreement on Coastal Shipping

In 2015, Bangladesh and India signed the Agreement on Coastal Shipping, which seeks to facilitate the coastal movement of cargo through River-Sea Vessels (RSV) directly from ports in India to ports in Bangladesh.

There are certain obstacles currently faced by Indian exporters, the pact currently permits vessels of up to 6,000 gross tonnages (GT) to ply due to size restrictions mandated by the RSV rules. But often it is observed that using these small low-capacity boats is not cost-effective for longer stretches such as from Chennai to Chittagong. The roughness of the sea in the Bay of Bengal during the monsoon season from April-October becomes a risk for plying coastal vessels due to their small sizes. Return cargo from Bangladesh is negligible; therefore, it is often not cost-effective for exporters/importers to use this coastal route for trade.

In order to make the coastal transportation attractive for exporters, there could be fixed barge schedules from Chittagong port to Pangaon/Narayanganj port as it will attract cargoes from Dhaka and containers and cargoes do not have to return empty from Pangaon to Chittagong/Indian ports. This will reduce the overall logistic cost for exporters as well as importers in both India and Bangladesh. Restriction on vessels (size) plying between India and Bangladesh under the coastal shipping agreement could be removed. Vessel size should be dictated by the route itself (based on the depth of the ports and route) and not separately by tonnage. For certain routes and consignments, it is more cost effective to deploy large ships.

The issue of return of empty cargo from Bangladesh can be resolved if Bangladesh allows third-party export-import cargo transportation from Bangladesh through these coastal routes. The Government of India has proposed amendments and additions, respectively, to the 7 Coastal Shipping Agreement to allow third party Export-Import through the proposed ports (Chattogram, Mongla and Pangaon ports of Bangladesh and Kolkata, Haldia, Visakhapatnam and Krishnapatnam ports of India) under the existing framework.[26] In order to leverage the benefits of inland waterways transport, both countries could emphasize harmonization of technical and regulatory standards and develop necessary trade infrastructure to facilitate cross-border trade. Recently, Bangladesh has given India access to Chattogram and Mongla ports for transit and transshipment of cargo vessels.

Mutual Recognition Agreement for Food Safety Standards

Divergent food standards in commodities like sugar, grapes, potatoes, etc., among others are one of the barriers to agriculture trade between India and Bangladesh. These could be resolved by both countries through Mutual Recognition Arrangements (MRA). In order to implement this, the Bureau of Indian Standards (BIS) and the Bangladesh Standards and Testing Institute (BSTI) could establish a technical working group to expedite the process of harmonisation of standards and technical regulations for selected agricultural products. BSTI and BIS could work closely with standards related institutions of developed countries for the harmonization of regulatory standards through MRAs. Product-wise regulations on standards in food preparation and packaging should be mapped by both countries to reduce the cost of non-compliance. Both countries should make concerted efforts to align their food standards with international standards, such as CODEX.

Tariff Concession

There is a huge scope for increasing exports through tariff concessions. Some top export items of India to Bangladesh to be specifically considered for tariff elimination negotiation are wheat and meslin (excluding seed for sowing, and durum wheat) (HS-100199), which are currently facing tariff of 2.5%; semi-milled or wholly milled rice, whether or not polished or glazed (HS-100630) currently facing tariff of 25%; single cotton yarn, of combed fibres, containing >= 85% cotton by weight (HS-520523) currently facing tariff of 3%; parts and accessories of motorcycles, including mopeds (HS-871410) currently facing tariff of 25%; and fruits of the genus capsicum or of the genus pimenta, dried, neither crushed nor ground (HS-090421) currently facing tariff of 17.5%, among others.

Integrating the Textile Value Chain Linkages[27]

Global Value Chains (GVCs) in the textiles and clothing (T&C) sector have emerged as vital elements of international trade and investment both for India and Bangladesh. T&C is one of the largest manufacturing sectors of both the countries that play a vital role in employment generation and exports, mainly shipped to Western nations. Due to the geographic proximity and historic reasons most of Bangladesh's raw materials

[26] https://cuts-citee.org/pdf/working-note-india-bangladesh-coastal-shipping-agreement.pdf

[27] World Bank Policy Research Working Paper 8731: Kabir, Singh and Ferrantino (2019) The Textile-Clothing Value Chain in India and Bangladesh: How Appropriate Policies Can Promote (or Inhibit) Trade and Investment, 2019

are shipped from India. There are significant value chain linkages between India and Bangladesh, particularly in the textile and apparel sector.

Global T&C value chains include a range of actors comprising global lead firms, intermediate players and suppliers that are positioned at different stages of T&C value chains. Global large firms (buyers) concentrate more on high value-added activities (research & development, design, distribution and branding) while intermediate players and suppliers focus more on manufacturing operations, such as production of yarn and made fabric. India specializes in the upstream segment, supplying such intermediate inputs as silk, cotton, yarn and fabrics to Bangladesh. Bangladesh specializes in the downstream final apparel segment, exporting worldwide as well as to India.

The extent of textile-clothing trade indicates that both countries possess comparative advantages in different product lines of the T&C sector, and it has contributed to the growth of bilateral trade, fostering value chain links in the T&C sector. The existing value chain links in the T&C sector could act as a catalyst to deepen trade and investment linkages between the two countries. However, tariffs and non-tariff barriers in both countries restrict the growth of value chain linkages. Further, lack of an effective multi-modal transport agreement and the absence of a harmonized transport system undermine the development of strong bilateral supply chains between India and Bangladesh. They also prevent the countries from integrating with Southeast and East Asian production networks. Delays at border points due to poor infrastructure, regulatory and procedural bottlenecks and inefficient customs clearance escalate the cost of intermediate products, which crosses multiple borders before it reaches their final markets. Given that India and Bangladesh are at different stages of T&C value chains, the prevailing inefficiencies in their supply chains may create the risk of being left out of global T&C value chains. These challenges need to be addressed in creating a stronger regional value chain in textiles. Additionally, both countries may collaborate and set-up institutes of design and fashion technologies at various levels (low-middle-high end) and emerge as a major fashion hub.

Strengthening Regional Value Chains in Agriculture and Agro-processing

Similar Regional Value Chains (RVCs) could be considered in sectors such as agro-processing, chemicals, pharmaceuticals, ready-made garments, textiles, leathers, electric machinery, gems and Jewellery, etc. For instance, 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 and 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. Indian private sector could collaborate with Bangladeshi companies on the technology front to increase the shelf life of freshly grown fruits and vegetables. 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. 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 be a win-win situation. 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 Northeastern 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 Northeastern states of India could also capitalize on the rising demand for fresh fruits and vegetables, and for fresh, high-quality spices. 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. Reforms in trade policy (including rules of origin), trade facilitation, trade-related standards and institutions could help both countries better take advantage of value chain linkages.

Yarn Forward or Fabric Forward Rules

India may enter into Fabric Forward Rules with Bangladesh while entering into a CEPA to prevent cheaper fabrics produced from countries like China routed through Bangladesh. Since import of garments from Bangladesh is exempted from customs duty, the Indian garment industry is facing competition from Bangladesh where the production cost is already less than in India. Bangladesh can import fabric from China duty free and convert them into garments and sell to India duty-free. Thus, the necessity of a rule of origin in the form of yarn forward or fabric forward, which will place restriction on using intermediate inputs from non-FTA partners and will incentivize firms to source from each other.

The basic origin rule for textile and apparel articles is yarn-forward, which means that the yarn used to form the fabric (which may later be used to produce wearing apparel or other textile articles) must originate in the FTA partner country to qualify for zero-tariff. The fabric-forward rule means the fabric used for manufacturing apparel or other textile products must originate in the partner country. Fabric-forward rule is a compromise between yarn-forward, which is too strict and single-transformation, which allows foreign origin fabric and/or yarns to be used for specific products as long as the cutting of the fabric or knitting to shape, and all subsequent processes, are performed in the partner country.

India would benefit from the adoption of fabric forward rule by leveraging India's capacities in the value chain and linking export of apparel by Bangladesh with the requirement to source fabrics and raw materials from India.

Trade in Medical Services

The Bangladesh has been the second largest amongst tourist generating markets for India in 2022, after USA. A large number of people from Bangladesh come to India for medical treatment. The tourist arrivals from Bangladesh grew from 4,31,312 during 2001 to 2,577,727 in 2019, and afterwards a decreasing trend was seen with 5,49,273 arrivals in 2020 (20% of total foreign tourist arrivals) and 2,40,554 arrivals in 2021 (15.8% of total foreign tourists). In 2022, total foreign tourist arrivals from the country stood at 12,77,557 (19.9% of total foreign tourists). The most preferred mode of travel for nationals from Bangladesh in 2022 was land (78%), followed by air route (22%). Over 46% of the Bangladesh nationals disembarked at Haridaspur. Out of total arrivals from Bangladesh, 64.8% came for leisure, holiday and recreation, followed by 25.6% for medical purposes.

Healthcare in Bangladesh is not as sophisticated as in more developed countries and the country is facing shortages of physicians, specialists and clinical equipment. 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. Export opportunities exist in high-end medical equipment, surgical instruments, diagnostic equipment and services. In 2022, India's healthcare chain Apollo Hospitals has entered Bangladesh by executing a brand licensing, operation and management agreement with World Bank-funded Imperial Hospital Ltd. Under the deal, Apollo will get a fixed management fee and a share of the overall revenue by operating the 375-bed hospital in Chittagong and is expected to provide secondary and some of the tertiary care treatments to local patients.

According to Ministry of Tourism, GOI, 7.4% of total foreign tourist arrivals to India was for medical tourism. Medical value travel is a major source of foreign exchange earnings. Most of the patients travelling to India are on a tourist visa; hence the amount paid by them for medical treatment is not reflected in the import of health services account in the official BOP but in the service account of tourism. Patients from Bangladesh go to India for complex heart surgery, cancer treatment, organ transplantation, infertility treatment, orthopaedic surgery, neurology, kidney disease, medical check-up, etc.

India is taking steps to position itself as a global hub for medical and wellness tourism, as the global tourism has resumed strongly in the aftermath of pandemic. Several factors make India a popular medical tourism destination, including presence of world-class hospitals and skilled medical professionals; superior quality healthcare; low treatment costs in comparison with other countries; credibility in alternative systems of medicine as well as increased global demand for wellness services like yoga and meditation. To create a robust framework and synergy amongst the Central Government Ministries, State Governments and Private Sector for promoting India as a Medical and Wellness Tourism destination, Ministry of Tourism has formulated a National Strategy and Roadmap for Medical and Wellness Tourism. The Heal in India initiative aims to boost the country's standing as a leading destination for medical tourists. India mostly facilitates medical tourism from predominantly low-income nations. To promote medical tourism in the country, Government of India is extending e-medical visa facility to the nationals of 156 countries. Medical Visa (MED Visa) and Medical Attendant Visa (MED X Visa) have been introduced, which can be given for specific purpose to foreign travellers coming to India for medical treatment. In the case of Bangladesh nationals, three attendants may be allowed (which is higher than one person for Pakistan nationals and two persons for all other countries). During 2022, maximum number of medical tourists to India came from Bangladesh **(Table 7.2)**.

Table 7.2: Medical Tourists to India from Bangladesh

Year	Foreign Tourist Arrivals on India	Foreign Tourist Arrivals on India from Bangladesh	% Share of Tourists from Bangladesh	Foreign Tourist Arrivals on India for Medical Purpose	Medical Tourists from Bangladesh	% Share of Medical Tourists from Bangladesh	% Share of Foreign Tourist Arrivals on India from Bangladesh for Medical Purpose
2015	80,27,133	11,33,879	14.1	2,33,918	1,20,388	51.5	10.6
2016	88,04,411	13,80,409	15.7	4,27,014	2,10,142	49.2	15.2
2017	1,00,35,803	21,56,557	21.5	4,95,056	2,21,751	44.8	10.3
2018	1,05,57,976	22,56,675	21.4	6,40,798	3,22,567	50.3	14.3
2019	1,09,30,355	25,77,727	23.6	6,97,453	4,01,228	57.5	15.6
2020	27,44,766	5,49,273	20.0	1,82,945	99,155	54.2	18.1
2021	15,27,114	2,40,554	15.8	3,03,526	1,86,633	61.5	77.6
2022	64,37,467	12,77,557	19.9	4,76,373	3,27,055	25.6	68.7

Source: Ministry of Tourism, Government of India

By arranging a seamless medical experience for medical tourists, India can become the largest medical destination globally. India may also establish primary care clinics in Bangladesh to refer patients to India. This could cover medical treatment, offerings on wellness and rejuvenation and alternative medicines. Indian insurers could sell Indian health insurance to medical tourists from Bangladesh, which could potentially generate a good amount of forex in premium and increased patient inflow to India. Another opportunity in the sector would be cross border telemedicine. India could become the Telehealth center for Bangladesh. An agreement on medical tourism could be a part of the CEPA.

Opportunities in Services Sector

The services sector has been contributing the major share to the GDP of Bangladesh. This sector has also been contributing valuable inputs to manufacturing and other production activities. Trade in services, especially export, however, still remains very low compared to the sector's potential. There is lot of scope of development of service sector of Bangladesh. Bangladesh is providing transit and transshipment to India, Nepal and Bhutan, and better transit and transport infrastructure providing end-point connectivity could increase return from the transportation and communication sector. Thus, by developing adequate capacity through measures such as awareness creation to production of quality services, export of various services from Bangladesh may be increased significantly. The LDC Services Waiver has created some preferential market access facilities for Bangladesh and other LDCs. India has long been an education hub for students from its neighbourhood. Bangladeshi students are the third-largest foreign student community in India. India can collaborate with Bangladesh to upgrade the education system in Bangladesh. Enhanced cooperation in services sector would be beneficial for both the countries.

Connecting Border-Northeast States with Bangladesh

India and Bangladesh have 38 active border trade points, 32 of which are in the Northeast (Assam, Meghalaya, and Tripura) while six are in West Bengal. Of the 11 operational Integrated Check Posts at international land borders of the country, five are at India-Bangladesh border (Agartala (Tripura), Petrapole (West Bengal), Sutarkandi (Assam), Srimantpur (Tripura) and Dawki (Meghalaya)).

Despite strong relations between India and Bangladesh, and Tripura being one of the strategic points for trans-border trade, Bangladesh has introduced port restrictions by prohibiting imports from India through Tripura on specific items. These include crucial homegrown rubber and tea, two of the most important cash crops of Tripura, which has the potential of significantly boosting the state's trade prospects. Tripura shares seven land ports with Bangladesh but the volume of exports from these ports is quite low in comparison to volume of imports. Port related export restrictions are impacting the business eco-system in Tripura, as the state can export many currently restricted commodities to Bangladesh.

Since Tripura is now connected via broad-gauges, Dhaka may find it easier to import essentials through this route. From Akhaura (5 kms from ICP Agartala and is the international border between India and Bangladesh), Dhaka is only 130 km by road. Other city towns like Comilla and Brahmanbaria are also close to Tripura, which gives NER a strategic advantage.

Bangladesh has now started growing rubber domestically on a commercial scale. Although Bangladesh is among the top ten tea-producing countries, its annual production is still in deficit, and thus it still has scope for imports from Tripura.

It is proposed that in the liberalisation agreement, Bangladesh could allow import of tea and rubber from ports of Tripura directly. Tripura's tea growers could be allowed to participate in the Bangladeshi tea auction and Bangladesh could reduce import duty. Agreements could be reached on the use of e-market places in Bangladesh for marketing of tea produced in Tripura. Domestically, incentives could be provided to the rubber producers of Tripura and to construct modern smoke houses to enhance their export competitiveness.

Formalising Informal Trade

The Indo-Bangladesh border is marked by a high degree of porosity, with reported cases of illegal cross border activities and illegal migration. Several reports suggest the existence of substantial informal trade between India and Bangladesh in large quantities. Unofficial trade basically takes place through two channels: cross-border trade outside official channels and illegal trade through official channels via false invoicing. Due to informality of trade, the real volume of trade is impossible to detect. A 2020 report by Prof. Muhammad Faridul Alam of University of Chittagong[28] suggests that informal and illegal trade between India and Bangladesh, by some estimates, could be as high as three quarters of recorded trade.

The main informal trading centres on the Indo-Bangladesh border are Assam (Fakiragram, Mankachar, and Karimgunj), Meghalaya (Lichubari and Dawki), Mizoram (Tlangbunj), Tripura (Kailashahar, Agartala, Sonamora, Bilonia and Sabroom) and West Bengal (Petrapole, Bagdha, Mejdia, Lalgola, Mohedpur, Radhikapur, Kaliagang and Hilli). The factors that encourage informal trade range from evasion of tariff and non-tariff barriers;

[28] https://www.iosrjournals.org/iosr-jhss/papers/Vol.25-Issue12/Series-6/G2512065967.pdf

differences in the rates and high demand; nature of the border terrain; porosity of the border; and habitation of the population. The border haats have led to a reduction in informal and illegal trading, however, it still persists. For instance, only 40 commodities are allowed to be exported from Agartala-Akhaura border in Tripura, which has led to increased informal trade to meet growing Bangladeshi demand.

In the case of sea-borne trade, certain products have to go to specific ports for customs clearance. This has given rise to smuggling/informal trade on both sides of the border. The composition of informal trade flows is considered generally complementary to, but markedly different from, formal trade flows. It is reported that due to stringent quarantine rules, especially in seed trade, Indian farmers have been receiving hybrid variety of rice seeds from Bangladesh through unofficial channels. Other unofficial imports from Bangladesh to India comprise onion, sugar, synthetic yarn, electronic goods and spices. Recently, Central Drugs Standard Control Organisation (CDSCO), Ministry of Health & Family Welfare has received complaints from Organization of Pharmaceutical Producers in India (OPPI) stating that respective innovative products of their member companies (cancer drugs) are being imported illegally into India from Bangladesh without a valid license.

Cattle smuggling is reported to be a major form of informal trade taking place from India to Bangladesh, to meet the high demand for beef in the neighbouring country. Cattle from India are a major source of hides and skins needed for manufacturing export quality finished leather in Bangladesh. In a 2017 report, “Border Security: Capacity Building and Institutions”, the Parliamentary Standing Committee on Home Affairs identified ‘deep and wide’ cattle smuggling nexus at the India-Bangladesh border. According to the report, “mass movement of cattle occurs from all the states towards West Bengal and Assam, and once it reaches the border areas, it becomes extremely difficult to stop their movement across the border”. **Table 7.3** shows the total number of cattle seized by BSF along Indo-Bangladesh borders.

Table 7.3: Cattle Smuggling at Indo-Bangladesh Border

Year	2015	2016	2017	2018	2019	2020	2021
Total Number of Cattle Seized	1,53,602	1,68,801	1,19,299	63,716	77,410	46,809	21,916

Source: Ministry of Home Affairs, Government of India

Similarly, there have been reports about drones from across the border were being used to deliver drugs, arms and ammunition. Other major informal trade from India to Bangladesh is in consumer durables, food items and building materials, especially limestone. One of the reasons for this informal trade is the transaction costs of trading in the informal channel being significantly lower than in the formal channel in both India and Bangladesh. The transacting environment of formal traders needs to be improved to limit the informal trade.

If informal trade is brought within the ambit of official trade, a significant increase in total trade could be witnessed. More trade enabling infrastructure, especially adequate transit and transport systems, need to be established between both the countries. It is also important to increase the number of border haats as they serve the key purpose of helping to bring into its fold informal trade. There are several positive reforms made by countries, which could reduce informal trade. Recently, Bangladesh has permitted import of more than 50 types of products from India through the recently inaugurated Akhaura-Agartala railway line. Additionally, the rail line will also facilitate export of various products to India from Bangladesh. Both countries have operationalized the Agreement for the usage of Chittagong and Mongla Ports in 2023. This will allow India to avail the services of these ports in Bangladesh for transit cargo between Northeast and mainland India.

Balanced Trade

Over the years, India and Bangladesh have taken a number of initiatives to remove trade barriers such as elimination of tariffs and non-tariff restrictions at the unilateral, bilateral and regional levels. Despite these initiatives, trade is not growing at the expected pace. The estimated indices indicate that India's exports to Bangladesh enjoyed comparatively higher complementarity than Bangladesh's exports to India. Supply constraints make it difficult for Bangladesh to take advantage of the Indian market. Bangladesh needs to strengthen its export supply capacity and India needs to offer higher market access for exports from Bangladesh to India to rise. In addition to tariff aspects, streamlining border transactions through trade facilitation is equally necessary. Therefore, physical trade barriers should be removed by strengthening and interlinking the trading instruments in both countries. The demand from Bangladeshi side to narrow the trade asymmetry with India could be possible by some extent with the signing of a CEPA by both countries. A part of India's trade surplus may be used to fund investments in Bangladesh, especially in trade enabling infrastructure which could enhance supply capacity of Bangladesh and leading to a more balanced trade in the coming years. An India-Bangladesh Friendship Fund may be set up to fund these investments to Bangladesh by Indian companies, which could be managed by India Exim Bank.

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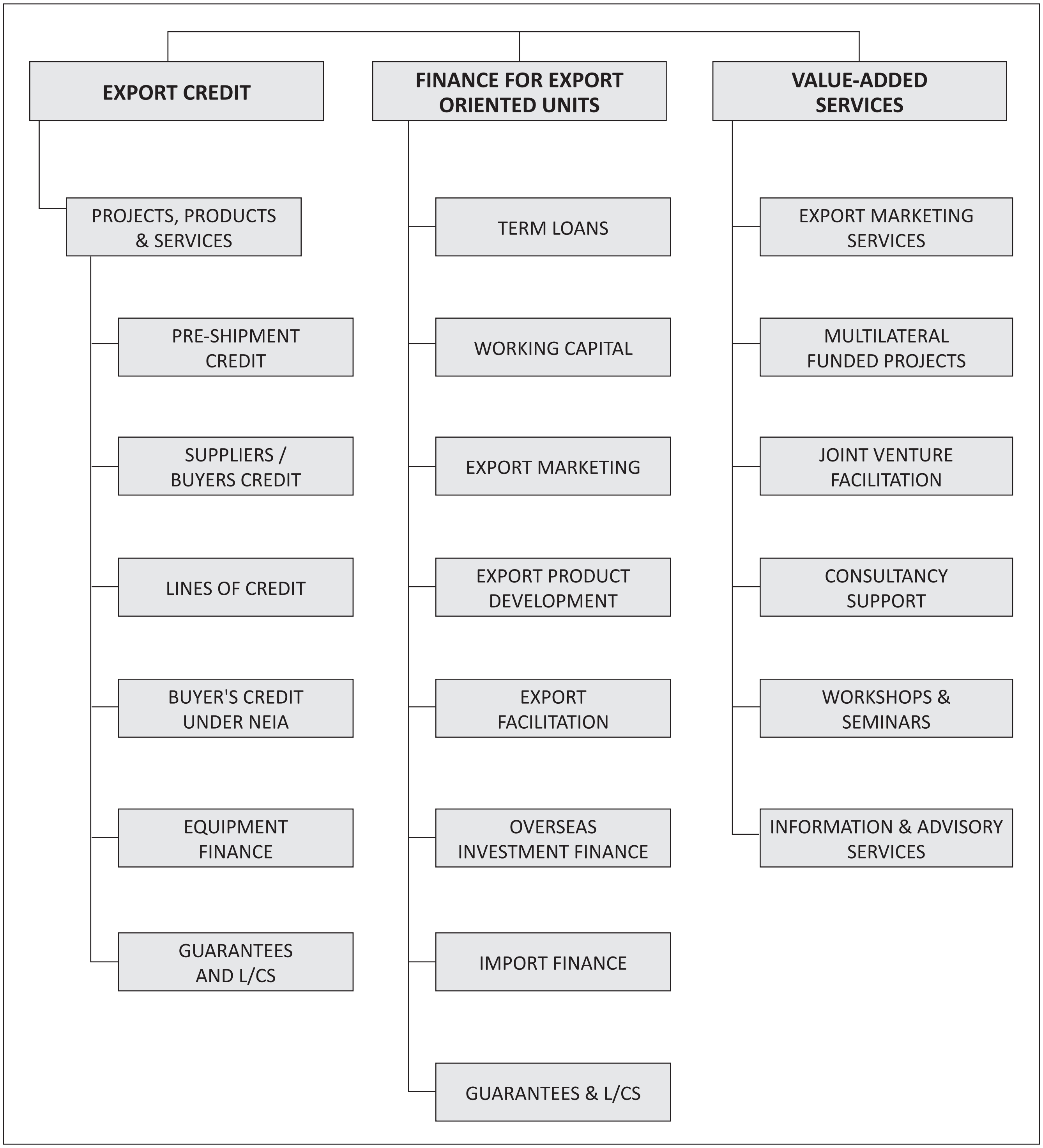

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