BANGLADESH-INDIA BILATERAL TRADE: CAUSES OF IMBALANCE AND MEASURES FOR IMPROVEMENT

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ABSTRACT

Currently India is the 2nd largest trading partner of Bangladesh, and India’s position is at the top for Bangladesh’s imports trade. So the study underscores the trend, structure and current picture of Bangladesh-India trade. Bangladesh’s trade with India increased tremendously especially in the 1990s. The average annual growth rates of Bangladesh’s trade with India, during 1980 to 1995, were much higher than those with the SAARC and the world. However, Bangladesh has always been trade deficit with India, and recently it has increased exponentially. Limited export base, backward industries, inadequate infrastructure, lower productivity in Bangladesh, appreciation of Bangladesh’s Taka against Indian Rupee, earlier and faster trade liberalization program in Bangladesh compared to India, tariff and non-tariff barriers (NTBs) imposed by the Indian government, huge illegal trade, diversified exports and technologically advanced industrial base of India are identified as the main reasons for this huge trade imbalance. Structural and policy measures such as sound physical, social and economic infrastructure, superior product quality, export diversification, sufficient institutional facilities for banking, credit and insurance, improved law and order situation, labor unrest free environment, an honest and efficient administration, continuous political stability, huge domestic and foreign investments, joint ventures in Bangladesh with buy back arrangements, competitive devaluation of the Bangladesh currency against the Indian currency, removal of illegal trade, tariff and NTBs-free entry of Bangladesh’s exports to Indian market are suggested to improve this trade deficit. Also cordial and productive cooperation between these two nations is crucial to materialize these measures.

Keywords: Bangladesh-India, Bilateral Trade, Trade Imbalance.

1. INTRODUCTION

Both Bangladesh and India are two major countries of the SAARC (South Asian Association for Regional Cooperation) and have a long common historical past and similar cultural and social evolution. As far as trade relation is concerned, India is the 2nd largest trading partner of Bangladesh just after USA in 2003. India’s position is at the top for Bangladesh’s imports from the world (IMF: Direction of Trade Statistics, June 2004). Therefore, an analysis of current trade status between the two nations, obstacles and opportunities for mutual trade expansion is very critical for economic development of both countries, especially of Bangladesh, as Bangladesh has been suffering from historical trade deficit with India since its independence. The trade deficit has been increasing exponentially since the recent past. Official data show that compared to 1983, trade deficit in 2003 is more than 46 times higher (IMF: Direction of Trade Statistics, various years). This growing deficit is a cause of serious concern for Bangladesh and has important economic and political implications. Hence the importance of the study is realized, and it is expected that the study will help policy makers to understand the roots of the problems on the way of trade expansion, and to formulate and execute the appropriate policy measures to mitigate or remove these problems.

With this objective in mind, this paper makes an attempt to deal with the issues of bilateral trade relationship between Bangladesh and India. Therefore, the rest of the paper is organized as follows: Section 2 highlights the historical development of Bangladesh-India trade relations; Section 3 looks at the trend, structure and current picture of Bangladesh-India trade; Section 4 discusses some of the main problems that cause the trade imbalance between the two countries; Section 5 suggests some remedial measures and attempts to explore for new opportunities, and Section 6 concludes.

2. HISTORICAL DEVELOPMENT OF BANGLADESH-INDIA TRADE RELATIONS

Bangladesh and India signed the “Treaty of Friendship, Cooperation and Peace” on March 19, 1972 in Dhaka for 25 years. Owing to this treaty, both countries signed the first one-year trade agreement on March 28, 1972. The trade between the nations was limited to government level (Madaan, 1996). This
agreement also provided border trade between Bangladesh and Neighbouring Indian states; and within 16 kilometers of both countries’ border, free trade was allowed for certain commodities (Hassan, 2002).

The expected level of trade was not achieved under the first trade agreement. Also free border trade between Bangladesh and India led to some illegal trade and hence was abolished in October 1972 by mutual consent of the both governments. However, to attain the desired level of trade, the first trade agreement was further extended up to September 27, 1973 (Madaan, 1996).

The first trade agreement of 1972 was replaced by another trade agreement for three years. This agreement was signed on 5 July 1973 and became effective from 28 September 1973. This agreement provided for a system of Balanced Trade and Payment Arrangement (BTPA) and ‘most favored nations treatment’ to each other (Madaan, 1996 and Hassan, 2002).

The desired level of trade between the two nations was not achieved by the agreement of 1973, and trade imbalance increased in the very first year. Rupee trade was found to be a barrier in the bilateral trade, and thus abolished rupee trade from 1 January 1975 by a Protocol signed on 17 December 1974. It was decided that trade would be conducted in free convertible currency.

India and Bangladesh signed another trade Protocol on 12 January 1976 for higher volume of trade and long-term arrangements for trade of coal and newsprint. BTPA between Bangladesh and India was extended for another three years till 27 September 1979 on 5 October 1976.

On 4 October 1980, the third trade agreement was signed between these two nations initially for three years. By mutual consent, this agreement was extendable for another 3 years.

On 8 November 1983, Bangladesh and India renewed a Protocol on trade of 1980 for further three years. In May 1986, the trade agreement of 1983 was extended for another three years till 3 October 1989. Subsequently this agreement was renewed a number of times. Based on available information, this agreement was valid up to 3 October 2001.

3. TREND, STRUCTURE AND CURRENT PICTURE OF BANGLADESH-INDIA TRADE

One of the important features of Bangladesh- India bilateral trade is that a large volume of informal or unrecorded trade, both in commodities and services, occurs every year, and it is growing despite unilateral or regional or multilateral trade liberalization in these two countries (Pohit and Taneja, 2003, Eusufzai, 2000). The official data on trade in services between these nations are, in fact, not available at all. Under this situation of data paucity with regard to illegal trade and trade in services, our current analysis will depend on mostly on the official trade data in commodities.

In this section, data on trend, structure and current state of Bangladesh-India trade are presented. Attention is paid on overall trade relationship; special reference is to be made to examine the importance of Bangladesh - India trade in the context of SAARC as well as individual country. Bangladesh’s historical trade deficit with India and the commodity composition of Bangladesh-India trade over time are also examined.

3.1 Bangladesh-India Trade in SAARC Perspective

The combined share of Bangladesh and India in the SAARC trade demonstrates their importance and high influence in the regional trade. The trade share of both countries was 56.23 percent of the intra-SAARC trade in 1990. This share increased to 64.5 percent in 2002. India’s share is, more or less, double of Bangladesh’s share in intra-SAARC trade with limited exceptions for some years. However, India’s export share is much higher than import share in the regional trade. On the other hand, Bangladesh’s position is opposite; its imports share is much higher than export share in the SAARC region (IMF, Various Years, Direction of Trade Statistics Yearbook and author’s calculation).
3.2 Trade Intensity Indices

The trade intensity indices on both imports and exports demonstrate the bilateral trade orientation of a country with its trading partner. The import intensity index can be defined as (Venkatasubbulu, 1996 quoted from Kojima, 1964):

\[
m_{ij} = \left( \frac{M_{ij}}{M_i} \right) \div \left( \frac{X_j}{(X_w - X_i)} \right)
\]

where, \( m_{ij} \) = import intensity index of trade of country i with country j, \( M_{ij} \) = Imports of a country i from trading partner j, \( M_i \) = Total imports of country i, \( X_j \) = Total exports of country j, \( X_w \) = Total world exports, \( X_i \) = Total exports of country i.

Export intensity index can also be defined in the same way; that is:

\[
x_{ij} = \left( \frac{X_{ij}}{X_i} \right) \div \left( \frac{M_j}{(M_w - M_i)} \right)
\]

where, \( x_{ij} \) = Export intensity index of trade of country i with country j, \( X_{ij} \) = Exports of country i to trading partner j, \( X_i \) = Total exports of country i, \( M_j \) = Total imports of country j, \( M_w \) = Total world imports, \( M_i \) = Total imports of country i.

The value of index ranges from 0 to 100. If the value is zero, it implies no trade relationship between partner countries. On the other hand, if the value of import intensity index is more (or less) than 100, it indicates that country i is importing more (or less) from jth country than might be expected from that country’s share in total world trade. In the case of exports, the same argument also holds true.

Export and import intensity indices have been calculated for Bangladesh’s trade with India for some selected years from 1980 to 2003. The results are noted in Table 1.

It is observed that Bangladesh’s export intensities with India were far below than 100 for all those years under study. This indicates that Bangladesh was exporting extremely less to India all the time than what it ought to export. The highest index, 3.473031, was observed in the year 1985. After that the index was continuously declining and reached to 1.364797 in the year 2000. Though it increased slightly in 2001, it started to decline again and reached to the awful minimum of 0.79651 in the year 2003.

Table 1: Bangladesh's Export and Import Intensity Indices with India

<table>
<thead>
<tr>
<th>Year</th>
<th>( m_{ij} )</th>
<th>( x_{ij} )</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>4.885524</td>
<td>1.414912</td>
</tr>
<tr>
<td>1985</td>
<td>4.627149</td>
<td>3.473031</td>
</tr>
<tr>
<td>1990</td>
<td>8.746103</td>
<td>1.906983</td>
</tr>
<tr>
<td>1995</td>
<td>25.35823</td>
<td>1.67226</td>
</tr>
<tr>
<td>2000</td>
<td>17.00115</td>
<td>1.364797</td>
</tr>
<tr>
<td>2001</td>
<td>20.1086</td>
<td>1.608167</td>
</tr>
<tr>
<td>2002</td>
<td>18.81877</td>
<td>1.000879</td>
</tr>
<tr>
<td>2003</td>
<td>20.61386</td>
<td>0.79651</td>
</tr>
</tbody>
</table>

Note:
\( m_{ij} \) = Bangladesh's import intensity index with India
\( X_{ij} \) = Bangladesh's export intensity index with India
Sources: IMF (Various Years), Direction of Trade Statistics Yearbook and author’s calculation.
Compared to export intensity indices, Bangladesh’s import intensity indices with India are quite high. However, it is still far below than the desired level of 100. The index value almost doubled in 1990 compared to 1980 or 1985. The index value increased tremendously in 1995 reaching to 25.35823. During 2000 – 2003, the value is, more or less, around 20.

Therefore, it is revealed from the discussion that India imported much less from Bangladesh than its exported to Bangladesh. Secondly, very lower indices for exports and imports, which were far from desired level of 100, imply that Bangladesh - India trade were not as high as it should be. So there is a scope for mutual trade expansion.

3.3 The Importance of India in Bangladesh’s Trade
India plays an important role in Bangladesh’s trade since the independence, and recently, especially in 1990s, Bangladesh’s trade with India increased tremendously. The average annual growth rates of Bangladesh’s trade with India, during 1980 to 1995, were much higher than those with the SAARC and the world. For example, during 1980- 85, while average annual growth rates of Bangladesh’s trade with the World and SAARC countries, were 2.46 per cent and –0.11 per cent respectively, this figure was 9.72 per cent with India. During 1985-90 the growth rates with the world, SAARC countries and India were 7.94, 18.68 and 20.63 per cent respectively. The growth rate of trade with India increased very significantly during 1990-95. While the growth rates with the world and SAARC countries were 16.70 and 57.85 percent respectively, the growth rate with India was 87.29 per cent.

In the context of Bangladesh’s global trade though India’s share is not convincingly high, it may be mentioned that the influence of India on Bangladesh’s trade has been increasing over the years. India’s share in Bangladesh’s global trade has increased to 10.7 percent in 1995 from 3.6 percent in 1990. Though this share has slightly decreased in recent years, it is still almost 10 percent.

The important feature is that though India’s share in Bangladesh’s global import has been increasing over the years, India’s contribution in Bangladesh’s global exports has been shrinking. For example, India’s share in Bangladesh’s global import increased to 15.5 percent in 2003 from 4.7 percent in 1990. On the other hand, with regard to exports, this share decreased to 0.7 percent from 1.3 percent during the same period.

As per as Bangladesh’s trade with the SAARC countries is concerned, India certainly holds an important position, and over the years its dominance has been increasing. India provided with the 94.1 percent of Bangladesh’s imports from the SAARC countries in 2003. India’s contribution to Bangladesh’s exports to SAARC countries increased to 53.5 percent in 2003 from 36.6 percent in 1990. India’s share in Bangladesh’s total trade with the SAARC countries increased from 60.6 percent to 91.7 percent during the same period of time.

India is important as the source for Bangladesh’s imports as well. Based on official trade data only, India was the fourth largest importing source for Bangladesh in 1990 just after Japan, Singapore and the USA. If unofficial trade were taken into account, India’s position would be higher. India topped the list for Bangladesh’s imports in 1995, and since then India continued to maintain the largest importing source for Bangladesh (IMF, Various Years, Direction of Trade Statistics Yearbook and author’s calculation).

3.4 The Importance of Bangladesh in India’s Trade
The importance of Bangladesh to India’s trade can also be examined. Bangladesh’s contribution to India’s global trade was 0.74% in 1990. In 1995, this share rose to 1.59 percent. After that, though this figure decreased marginally, it was still 1.13 percent in 2003. This is the official record of trade; if unofficial trade is also considered, this ratio would be double or even more.

With regard to exports, Bangladesh’s contribution to India’s global exports is significant. In 1990, India’s exports to Bangladesh was 297 million i.e. 1.67 percent of India’s global exports. Within 5 years of time, i.e. in 1995, this ratio increased to 3.14 percent. In 2002 and 2003, Bangladesh’s share in India’s global exports was 2.11 and 2.42 percent respectively.
As per as import of India is concerned, India imported from Bangladesh only 0.06 percent of its global imports in 1990. This ratio was more or less the same over the years except in 1995 and 2001 when it rose to 0.23 percent and 0.13 percent respectively.

In the context of India’s trade with the SAARC countries, Bangladesh’s contribution is significant. Bangladesh constituted 40.91 percent of India’s total trade with the SAARC countries in 2003. In 1990 and 1995, this ratio was 53.42 and 59.64 percent respectively.

Bangladesh’s share of India’s exports to SAARC countries was 49.64 per cent in 2003. In 2002, it was 52.57 percent. In 1990 and 1995, this ratio was even higher, 60.98 and 62.17 percent respectively. In fact, Bangladesh is the India’s largest export market in the SAARC region at all the time. However, Bangladesh’s share of India’s imports from SAARC countries was not convincing; it was only 8.42 percent in 2003 (IMF, Various Years, Direction of Trade Statistics Yearbook and author’s calculation).

3.5 The Balance of Trade of Bangladesh with India
As mentioned earlier, Bangladesh had always trade deficit with India since its independence, and recently it has increased significantly. Figure 1 provides the bilateral trade situation between Bangladesh and India for 31 years, 1973-2003. It clearly indicates the unfavorable trade balance of Bangladesh with India. In 1990s, especially in the 2nd half of the decade, trade deficit of Bangladesh increased very sharply. In 2003, the trade deficit reached to US$ 1, 435.9 million, which is about 4 times higher, compared to 1993, and more than 46 times higher compared to 1983. The value of exports compared to that of imports is always quite low, and in 2002 and 2003, it was 3.4 and 3.6 percent respectively (IMF, Various Years, Direction of Trade Statistics Yearbook and author’s calculation). This is really a disappointing picture for Bangladesh’s bilateral trade financing as, according to economic theory, country’s exports are to be used to pay for its imports. Though the export-import relationship should be looked at the world trade level rather than bilateral level, yet this trade imbalance still has some economic and political implications for Bangladesh.

![Fig. 1: Bangladesh's Trade Picture with India, 1973-2003](image)

3.6 Trade Structure of Bangladesh with India
Bangladesh’s exports to India are highly concentrated to a few items. The country’s major countable export items were only six in FY 1994-FY1996. In fact, in FY 1996 only 3 items- chemical fertilizer, raw jute and frozen fish- constituted about 90 percent of Bangladesh’s exports to India. However, fertilizer and newsprint are sometimes export items and sometimes import items depending on domestic production (Eusufzai, 2000).
On the other hand, India’s exports to Bangladesh are more diversified and export-base is significantly wide. Bangladesh classified a total number of 5985 items for imports in the First Import Schedule at 8-digit H.S. Code level. Out of 5985 items, in FY 1996, Bangladesh’s imports from the world were 4601 items of which 2129 items were from India alone. In terms of number of commodities imported from India, India’s contribution to Bangladesh’s global imports was 47.8, 45.8 and 46.3 percent respectively in FY 94, FY 95 and FY 96.

4. PROBLEMS CAUSING INDO-BANGLADESH TRADE IMBALANCE

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

4.1 Bilateral Exchange Rate

The nominal and real values of the Bangladesh’s Taka vis-à-vis the Indian Rupee have been appreciating, with negligible exceptions, over the years. This appreciation of Taka has a significant positive effect on the increased trade deficit of Bangladesh with India.

The nominal exchange rate, Taka per Rupee, had been continuously declining right from 1986 to 1996. In 1997, though it increased slightly, it started to decline again from 1998. This declining trend of the exchange rate implies that Taka had been appreciating. In nominal term, the exchange rate decreased to 1.140 in 1999 from 2.411 in 1986 indicating a 52.71 percent appreciation of Bangladesh’s Taka against Indian Rupee during 13 years of time.

The downward trend of real exchange rate was also observed. In real term, Taka appreciated 31.72 percent against Indian Rupee in 1999 compared to 1986. Thus the appreciation of Taka, both in nominal and real terms, might have contributed to the growing trade deficit of Bangladesh (World Bank, 2001 and author's calculation).

It is true that both Bangladesh and India depreciated their currencies over the years, but depreciation had been stronger in Indian than in Bangladesh. Hence Bangladesh’s exchange rate policy is inappropriate compared to that of India resulting large trade deficit. India’s products became more competitive than that of Bangladesh, both in terms of bilateral trade and with each country’s trade with the rest of the world. Thus India has become successful to divert demand from imported goods to domestic goods and to take away jobs and income from its trading partners.

4.2 Productivity Issues and Structural Factors

The productivity differences can also best explain trade patterns between countries. India has productive advantages both in agriculture and industry compared to Bangladesh because of scale economies (Eusufzai, 2000). Structurally Indian economy is much larger, more diversified and technologically advanced. Indian products now have become globally competitive both in terms of price and quality. Also geographically India is very closed to Bangladesh, and Bangladesh’s importers are very familiar with Indian products and production capacities. All these factors have made Indian products very competitive in Bangladesh’s market (Hassan, 2002). As a result, India’s exports to Bangladesh are more diversified and consists of high value added manufactured goods. On the other hand, India’s imports from Bangladesh are limited to a few items, as Bangladesh does not have a large supply base to offer a wide variety of products to India. The obvious result is an increase of trade imbalance between the two nations.

4.3 Tariff and Non-Tariff Barriers
It is generally agreed that Bangladesh has initiated the program of tariff liberalization earlier than India—in the mid 1980s, and the speed of liberalization in Bangladesh is faster than that in India. Bangladesh has continued this higher speed of liberalization till recent years (Rahman, 1998, Eusufzai, 2000 and Dasgupta, 2000). Also recently Indian commodities, compared to the world’s commodities, faces lower average tariff restrictions in Bangladesh. For example, import weighted tariffs were 12.05% on imports from India against 17.33% from the world by FY 1996 (Eusufzai, 2000).

There are many non-tariff barriers (NTBs) in India that Bangladeshi exporters are to face to enter into Indian markets. These NTBs are real cause of concern for Bangladesh’s business community. Rahman (1998) notes that there are thousands of items under these NTBs, and Bangladeshi exporters are generally unhappy with these NTBs as there is lack of transparency and clarity with regard to application of these NTBs because customs authorities in India mainly apply these according to their own discretion. Though significant fiscal reforms took place in the 1990s in India, trade policy pursued by Indian government is considered as highly complex and restrictive.

5. REMEDIAL MEASURES AND OPPORTUNITIES

Given the current trade scenario with India, the obvious question is now what can be done to reduce, if not remove, the huge trade deficit of Bangladesh. There is no simple and shortcut answer to this question. The search for effective solution must be looked at with due consideration of macroeconomic reality, different policy options and honest will of cooperation of both countries.

It is important to note that one cannot expect dramatic reduction of trade deficit of Bangladesh with India within a short span of time even though required policy options are designed and implemented. This is realized based on the current pattern and trend of bilateral trade and prevailing state of fundamentals of the Bangladesh economy. However, in the short run, detrimental impacts of bilateral trade deficit can be minimized if appropriate steps are taken. For effective and durable solution, medium and long-term measures must be undertaken too. Below are some remedial measures that could be considered to improve the trade imbalance between these two neighboring countries.

5.1 Productive Capacity and Economic Efficiency

As mentioned earlier, the internal dimension of the trade deficit problem is related to the poor economic strength of Bangladesh compared to that of India. So the production capacity and economic efficiency of Bangladesh must increase in order to meet the country’s growing demand for importable goods and maximize the export earnings. In the major economic sectors, efficient import-substituting activities must increase along with continuous improvement of economic efficiency and competitiveness within an open economic environment. Huge exportable surplus are to be generated and exports must be diversified taking Indian demand requirements into account. Bangladesh must earn relative efficiency in the production of exportable goods and services to reduce her trade deficit.

To gain from bilateral trade, there is no alternative but to increase the productivity in all sectors as a long run measure. For this purpose, Bangladesh’s agriculture sector urgently needs a technological spurt. More research and development, transfer of technologies, market based effective price system and appropriate incentive mechanisms are very important to enhance the country’s agricultural productivity. To increase the productivity in the industrial sector, development of the country’s technical base and technological capacity building are crucial. To develop the technological capacity building, huge investment, creative intervention of the government, appropriate incentive mechanism to foster technical education must take place in the country. As regard the productivity increase in the service sector, quality of education must be increased; quality medical service within reasonable cost must be ensured. Huge private investment in health and education with creative government interventions would be very helpful for this purpose.

5.2 Competitive Devaluation of Bangladesh Currency

As noted earlier, Bangladesh currency has been appreciated against Indian currency over the years both in nominal and real terms, and this may be one of the main reasons of huge trade deficit of Bangladesh. Therefore, a competitive devaluation of Bangladesh’s currency is imperative in order to make Bangladesh
products price competitive both in Indian and world markets and thus to reduce trade imbalance. Also trade imbalance has deteriorated because of huge informal trade; this must be stopped, and reinforcement of border patrol can help in this regard.

5.3 Tariff and Non-Tariff Concessions
Bangladesh’s trade strategy with India must revolve around the SAPTA (South Asian Preferential Trading Arrangement) tariff negotiations. In this regard “zero export duty” strategy is getting importance. India should take necessary steps of unilaterally taking the decision of providing zero-tariff access of Bangladesh’s exports to India. Tariff preference should be given on those items that have high import value, are actually traded and have high potential for entering into Indian market. India may exclude those irrelevant items from its concession list for Bangladesh, which Bangladesh does not produce, or hardly exports.

However, mere tariff concession will not reduce trade deficit of Bangladesh to any significant extent if NTBs, which are more serious impediments of export expansion of Bangladesh to India, are not phased out simultaneously. Appropriate measures must be taken by India in this regard. Such measures would certainly encourage local, Indian and regional investors to locate investment in Bangladesh targeted to the larger Indian market. These tariff and non-tariff concessions are, however, short term measures only.

5.4 Joint Ventures
The trade imbalance can greatly and effectively be reduced by cordial and productive mutual cooperation. There are still many opportunities that could be exploited for the greater benefit of both countries and thus reducing the trade deficit of Bangladesh with India. For example, Bangladesh can obtain financial benefits by the greater economic integration with Indian North-Eastern States (NES), which are geographically situated in a disadvantageous location from the main land. A system of joint ventures (JVs) with buy back arrangements is to be developed. Such JVs will stimulate FDI to Bangladesh and thus productively exploit the opportunities of existing complementarities. To meet the demand of NES of India, JVs investments in cement, granite and lime stone, paper, food and fruit processing plants had already been identified. Other identified sectors, where JVs projects could be set up, are textile, fertiliser, newsprint, pharmaceuticals, small steel plants, chemicals, machine tools, fish processing and leather goods (Rahman, 1998). The JVs investments in backward linkage textile sector are very important for Bangladesh to enhance the local value addition of the country’s major export item, ready-made garments. Both countries can also be benefited from the joint investment in information, communication and financial services. Also there is a tremendous scope for Indian private investment in Bangladesh’s education and health sectors. Bangladesh can reduce its trade deficit by such investment, as trade in services now is mostly one way (Bangladesh imports service from India). These JVs investments should target regional as well as world markets. For successful JVs, private sectors in both countries should come forward and the governments must support by providing adequate incentives, infrastructures and appropriate policies.

6. CONCLUSION
The trade relation between Bangladesh and India is not balanced. This unequal bilateral trade needs to be transformed into mutually beneficial, balanced and interdependent one. This has to be done for the great interests of both economies. If Bangladesh cannot improve the situation, the country would eventually become a market for Indian products, lose the existing industries, experience high level of unemployment and lose import capacity by losing income from its exports. On the other hand, for the sake of India’s own interest India should promote Bangladesh’s export to India. If Bangladesh’s exports were increased, this would induce higher imports of raw materials and intermediate goods from India. The demand for the Indian consumer goods exports would also increase in Bangladesh due to higher income from increased exports.

Remedial measures suggested above reveal that potentials and opportunities to improve bilateral trade imbalance between Bangladesh and India are available. The necessary matters are proper initiatives, policy measures, mutual cooperation and above all political will of both countries. Maximum efforts are to be made by the people and the governments of these two countries in order to attain the highest possible mutual gains from the bilateral trade exploiting all potentials to mitigate this problem. The governments,
private investors and businessmen of both countries must work together to bring these measures into reality.

It is important to remember that bilateral relationship with India needs to be looked at in conjunction with regional and multilateral cooperation. Hence a cordial and productive cooperation between these two development partners must be ensured within appropriate regional and multilateral cooperation framework to reduce the trade imbalance. So it is crucial to make SAPTA more effective and operational.

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