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SUB-REGIONAL RELATIONS IN THE EASTERN SOUTH ASIA :
With Special Focus on Bangladesh and Bhutan

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INTRODUCTION

The Institute of Developing Economies (IDE-JETRO) has been running a research project titled "Regional Relations among Eastern South Asian Countries." Under this project, we organized two Overseas Joint Research Projects; one on Bangladesh with the Centre for Policy Dialogue (CPD), Dhaka, and the other on Bhutan with the Centre for Bhutan Studies (CBS), Thimphu. As part of the joint projects, a work-shop "Economic and Political Relations in Eastern South Asia: with special reference to Bangladesh and Bhutan" was held on January 26, 2004, at the IDE. Dr. M. Rahmatullah of the CPD and Ms. Tashi Choden of the CBS attended the work-shop and gave presentations. The discussion that followed was lively and stimulating with the participation of members of the mother project and the IDE researchers. This book is the outcome of these two joint research projects.

In South Asia, whereas the smooth development of the regional framework, namely, the South Asian Association for Regional Cooperation (SAARC, established in 1985), and the consolidation of amicable bilateral relations have been disappointingly slow, new moves for strengthening the sub-regional ties have come into shape by the initiatives of the various institutions, including the governments, private sectors, NGOs and multinational agencies. These include South Asian Growth Quadrangle (SAGQ: Bangladesh, Bhutan, India and Nepal), Bangladesh, India, Myanmar, Sri Lanka, Thailand Economic Cooperation (BIMST-EC, established in 1997), and the recently started Sub-regional Economic Cooperation (SASEC).

So far, studies on the regional cooperation have mainly concentrated on bilateral relations among South Asian countries, and even when South Asia as a whole has been taken up, studies have often been circumscribed by the boundaries of nation-states and have not gone beyond the persistent conflicts between India and Pakistan, which have obstructed regional cooperation. In such circumstances, we believe that the shift in the focus to the sub-region within South Asia and beyond could open a scope for the study on the potential as well as the difficulties of regional cooperation in light of the existing realities of the area.

For the purpose of the study, we set the field of our research to the sub-region of eastern South Asia consisting of Bangladesh, Bhutan, Nepal, India, specifically the states of West Bengal as well as the seven states of north-eastern India, and Myanmar, with inclusion of adjoining areas of southern China.

In this area, a new development of bilateral relationships has been observed recently, such as the transit negotiations between Bangladesh and India and between Nepal and Bangladesh via India, the move to build land communications connecting India and Myanmar, and the opening of a land route between India and China through Sikkim. Another important development in this region is the growing presence of China as an influential economic power, which is considered likely to render far-reaching effects over the regional relationships in the short and long run.

While there seems to be a sign of new development in the area, there are a lot of difficulties that hinder smooth regional cooperation. The uncontrolled trans-border movement and settlement of people create regional tensions as well as international conflicts. In this region, it is difficult to verify and identify the nationality of the residents because of the nature of the porous borders, the constant immigration-migration movement across borders, and the lack of a proper registration system. We have observed the case of Indo-Nepal relations in this regard. As there are articles in the Indo-Nepal Treaty of Peace and Friendship 1950 which allow the nationals of both countries to reside in the other country, being given an equal treatment of the nationals of the country concerning economic activities, conflicts of interest are unavoidable. When constraints grow, they tend to develop to the ethnic conflicts, in which those who have resided in the place for generations become easy victims of the regional "sons-of-the soil" voices. The victims are, without distinction, branded as "foreigners" and "illegal residents." The "anti-foreigners" movements in Assam in the 1980s, the issue of the "massive infiltration of Bangladeshis" to India and the "southern Bhutanese problem" are examples of such cases. Frequent eruptions of ethnic conflict and the activities of armed insurgency groups in this region are issues keenly discussed but hardly tackled. Moreover, armed conflicts, military oppression and retaliation can hardly create an environment conducive for regional cooperation.

Being a regional super power, India occupies an important geopolitical position, in this region, sharing borders with many countries. Bangladesh is bordered not only by India but also by Myanmar in the south. Nepal and Bhutan, both land-locked, are located between India and China, but due to geographic and historical reasons, they have India as a dominant neighbour and the main gateway to the other countries. As their dependency on powerful and influential India is inevitable, they always have to tread carefully not to jangle India's nerves, especially when it comes to India's security concerns. The nature of relationships between India and these countries cannot be on an equal footing.

On the other hand, there are strategic advantages in building regional cooperation. These include geographical proximity, regional economic complementarity, and scope towards further east. Related to this, China, which has already built a strong tie with Myanmar, could play an important role in this regional cooperation. Although there has been no consensus reached among the regional countries on how China should be counted, there is no denying that, without taking China in, the regional cooperation would remain as an abstract argument. There might also be another subtle factor. By taking in China, India, being ambitious to be the leading power in the region and preoccupied by China's presence for security reasons, could be more cooperative in the working for regional cooperation, partly in the worry that India should not be left out in the new regional cooperation and partly in the search for economic advantage.

This region has tremendous difficulties to overcome. Political relations among the countries have not been smooth. Even strong animosity is occasionally observed and easily instigated. For India's neighbouring countries, domestic politics often bind their governments in negotiations with India. They detest to be seen they are conceding too much to India. Hence, they have to make even greater efforts to convince their people otherwise. In such a situation, still, exploring the implication of, and possibility for, regional cooperation should have a meaning. Moreover, in the era of globalization, conscious efforts are needed not to be further marginalized; otherwise the region will remain the least developed within less developed South Asia.

This book consists of two independent but, methodologically identical sections. The first section deals with Bangladesh. The country specific study focusing on Bangladesh has been carried out with the objectives of providing the fundamental information with respect to the current state of the sub-regional economic, political and social inter-relatedness, and of presenting a perspective for future development of the sub-regional co-operation. It should be noted that the geographical location of Bangladesh is of central importance in our interests. Sharing long boundaries with Indian states and Myanmar has caused a trans-border flow of people, goods and services since ancient times. Notwithstanding, the post-colonial framework of nation-states and the subsequent courses of bilateral relationships have deterred the expansion of regional integration. Rather, the natural inter-relatedness of the region has become a cause of political and economic tension among the countries. In this section, Bangladesh's bilateral and multilateral economic and political relations with neighbouring countries are discussed. It explores the potentials of regional cooperation and identifies the problems. Special focus is given to the transport sector, as a key to the expansion of intra-regional trade and investment. The importance of political commitment to enhance regional cooperation is stressed. This section is written by Dr. M. Rahmatullah, Programme Director, CPD and Ms. Mayumi Murayama, Director, South Asian Studies Group, IDE-JETRO.

The second section is on Bhutan. Bhutan is a Himalayan kingdom with limited economic dimensions. The process of economic development in Bhutan started in 1961 when the kingdom was opened to the world by ending the self-imposed isolation and also when the Bhutan's first five-year development plan was inaugurated. Since then, Bhutan has undergone remarkable changes. The Bhutanese economy has been predominantly agricultural with an economic system characterized as subsistence rather than market-oriented. Agriculture is still the main source of livelihood for the majority of the population. However, in recent years, in the course of economic development and the process of globalization, the interdependence of the Bhutanese economy with neighbouring countries and beyond has increased substantially. The main purpose of this section is to analyze the nature, scope and problem of Bhutan's economic relations with its neighbouring countries and areas. For this purpose, the following subjects are studied: (1) to have an overview of the Bhutanese economy; (2) to trace the economic development policy of Bhutan and identify its characteristics; and (3) to analyze Bhutan's economic and political relations with its neighbouring countries and areas. The prominence of Indian involvement in Bhutan's economic and political affairs is given due examination. It is pointed out that India remains the most important development partner for Bhutan. This section is written by the researchers of the CBS (Mr. Karma Ura, Director). It should be noted that this section is the first comprehensive analysis written by Bhutanese scholars on the Bhutanese Economy and related issues. As Bhutan is one of the countries where the supply of information and data on its economy is limited, this section fills the gap with primary data collected by the CBS. We are convinced that this section will be a significant contribution to the further study of Bhutan and the Bhutanese economy.

Section One

ECONOMIC AND POLITICAL RELATIONS BETWEEN BANGLADESH AND NEIGHBOURING COUNTRIES

Introduction

An important aspect of the ongoing globalisation process has been the increasing integration of national economies. Such a trend stems from the consensus that economies of proximate countries can generate strong development synergies through effective cooperation in the area of trade, transport, investment and finance and that such cooperation reinforce the effort of the regional countries towards strengthened global integration of their respective economics. This consensus of harvesting mutual gains by fostering and promoting economic interdependence has also gained grounds in recent years in South Asia – a region with a rich tradition of business and commerce.

In view of the fact that South Asia has been largely by-passed by the recent rapid growth of world trade, there is a growing concern that South Asia may be further marginalized in the process of globalization unless conscious efforts are undertaken to deepen and broaden the existing intraregional economic relations.

Within South Asia, the vision towards a meaningful economic cooperation is being pursued mainly within the ambit and under the stewardship of the South Asian Association for Regional Cooperation (SAARC). Despite, three rounds of negotiations under the South Asian Preferential Trading Arrangement (SAPTA) growth of intra-regional trade has been negligible. To stimulate intraregional investment some initiatives have also been taken which include establishment of a SAARC Development Fund, as well as setting up of a SAARC Chamber of Commerce and Industries (SCCI).

Nonetheless, as of now, Intra-SAARC investment is negligible, except Indian investment in some of the LDCs, particularly in Nepal. Till now the South Asian countries have concentrated their efforts in attracting FDI to their respective countries and a comprehensive strategy to enhance and stimulate intra-region investment has been absent. To a large measure, low intraregional trade is also a reflection of the insignificant flow of intraregional investment. On average, only about 4 per cent of total global trade of SAARC countries is accounted for by intraregional trade, which is well below the level attained by regional blocs such as NAFTA, EU or ASEAN where such trade ranges from 30 percent to 60 percent (Bhattacharya and Rahman, 2003). This has been the trend despite the fact that the Eastern South Asian sub-region consisting of Bangladesh, Bhutan, Nepal, the states of West Bengal as well as the seven states of North-Eastern India including Myanmar has the potential to generate large scale trade and investment for their mutual benefit. However this aggregate figure is heavily influenced by the low share of India in intra-regional trade. However, Bangladesh, Bhutan, Nepal and Sri Lanka have a high volume of trade within the region, particularly with India. Exports from India within South Asia have also grown sharply in the last decade.

In view of the above potential, efforts are being made, under an initiative taken by the Asian Development Bank, to search for ways and means to stimulate economic cooperation within the ambit of the South Asian Sub-regional Economic Cooperation (SASEC) countries. The SASEC countries include Bangladesh, Bhutan, India and Nepal. Such sub-regional cooperation, popularly known as "Growth Quadrangles" or simply "Growth Zones" has worked very effectively in various regions (SIJORI, Mekong Basin Initiative, etc.). It is hoped that sub-regional cooperation within SASEC could in effect play a catalytic role for promoting more effective cooperation under the SAARC.

The SASEC countries have identified five sectors, viz. tourism, transport, energy, environment, and trade and investment as potential areas of cooperation and collaboration. Whilst not excluding the scope for involvement of the government, it is envisaged that the private sector will be the driving force in these efforts. However, putting in place appropriate institutions and incentives will be central to the success of any such effort and much of it will depend on the efficacy of government policies.

The present paper seeks to explore the scope of trade and transport cooperation at a sub-regional level comprising the six countries, Bangladesh, Bhutan, India, Nepal, Myanmar and Yunnan Province of China, by examining the pattern of trade and potential for transport connectivity amongst these countries.

The paper is organized as follows. After the introduction, Chapter 1 discusses the existing trend of cooperation in trade, investment and transport between Bangladesh and each of the neighbouring countries covered by the study. This chapter also identifies problems which are obstructing the growth of intraregional trade and investment. Chapter 2 highlights the present state of transport connectivity between Bangladesh and the neighbouring countries and also indicates the types of facilitation measures which are required to be in place to improve border crossing. Chapter 3, on the other hand, indicates the various initiatives, both public and private, which have been taken so far to promote sub-regional cooperation. Chapter 4 highlights the prospects of enhanced regional cooperation and presents some recommendations from the perspective of Bangladesh, which could further strengthen regional cooperation. The conclusion highlights the importance of political commitment to enhance regional cooperation.

Chapter 1

Exiting Economic and Political Relationships Patterns between Bangladesh and the Neighbouring Countries

Trade in goods and commodities continue to remain the predominant form of economic cooperation between Bangladesh and its neighbouring countries. With a population of about 1101.35 million comprising Bangladesh, Bhutan, India, Myanmar, Nepal and Yunnan province of China, this part of Eastern South Asia constitutes a huge potential market that will increase substantially in the coming years, partly because of the economic liberalization, which is taking place in these countries.

Prior to 1947, South Asian nations constituted, by and large a single economic unit. After the partition of India, pursuit of import substitution strategies by these countries caused complementarities to decline and competition to emerge. This autarkic policy contributed to the relatively insignificant role of external trade in these economies. Also, political imperatives often prevailed over economic expediency resulting in limited economic interactions amongst these nations.

Given the unsatisfactory and under the policy influence of the World Bank and IMF, outcome of the import substitution strategy, the South Asian nations began to tilt towards a more open economy policy. At the same time, there was an increased appreciation of the scope and urgency of regional economic cooperation in the face of the emerging trend in the global trade and economic environment. The establishment of SAARC and the initiation of negotiations for encouraging preferential trade under SAPTA were an outcome of this changed outlook.

Although the degree of export orientation has increased over the nineties (see Table 1), the South Asian economies are still by and large characterized by their persistent inward-orientation (Bakht and Sen, 2002).

Table 1 Exports and Imports of the Sub-region Countries 1990～1999 (%)

	Export Growth (1990～1999)	Import Growth (1990～1999)	Export as % of Import	
			1990	1999
Bangladesh	11.7	9.6	45.7	54.1
Bhutan	7.0	10.5	86.2	63.8
India	9.2	7.2	74.3	87.4
Nepal	11.4	14.2	47.8	38.0

Source: Bakht and Sen, May 2002

In 1990, the share of intra-SAARC export in total SAARC export stood at 3.2 percent and by 1999 it rose marginally to 4.6 percent. In terms of destination of exports, the share of the South Asia region in total exports has actually declined for Bangladesh and Nepal, and registered a modest increase in case of India (see Table 2).

In this light of the background stated above, indicated below are the trade patterns of Bangladesh with the neighbouring countries.

Table 2 Percentage Distribution of Export by Destination, 1981-1999

Country	Year	Exports by Destination			
		Industrial Countries	ASEAN	South asia	Others
Bangladesh	1981	34	12	4	54
	1999	85	5	2	8
India	1981	51	6	3	40
	1999	57	13	5	25
Nepal	1981	53	5	43	19
	1999	60	1	30	9

Source: Bakht and Sen, May 2002

1 Bangladesh's Trade Relation with India

Trends in Bilateral Trade and Deficit

India has emerged as the largest bilateral trading partner of Bangladesh during the nineties (Sobhan, 1999). In recent years, India's importance as a source of imports has gone up significantly, whereas Bangladesh's role as an exporter to the Indian market has undergone further marginalisation leading to an increasing balance of trade deficit with India. The widening trade gap has become a cause of major concern for Bangladesh and it has become essential to determine whether Bangladesh's continuing inability to penetrate the huge market of its neighbour is underpinned by policy and institutional barriers or is it a structural problem.

Bangladesh's export to India stood at about US$ 43.58 million in FY2002, on the other hand, over the corresponding period her imports from India stood at US$ 1018.55 million. This meant that import payments were 24 times higher than the export accruals leading to a deficit of US$ 974.97 million in FY 2002. In this context, a major issue of concern for the bilateral trading arrangement is the assessment of commodities/services on which India and Bangladesh can form a virtuous interdependence. The trend of the bilateral trade between India and Bangladesh is shown in Table 3.

Table 3 Trends in Bangladesh-India Bilateral Trade (in million US$)

	FY1985	FY1990	FY1995	FY2001	FY2002
Bangladesh Global Exports	998.8	1524	3473	6,467.00	5,986.09
Bangladesh Global Imports	2,526.2	3759	5834	9,335.00	8,540.00
Global Trade Deficit of Bangladesh	-1,527.4	-2,235.0	-2,361.0	-2,867.70	-2,553.91
Bangladesh Exports to India	29.6	19.5	45	63.40	43.58
Bangladesh Imports from India	64.9	145.3	688.5	1,183.77	1,018.55
Trade Deficit with India (TD)	-35.3	-125.8	-643.5	-1,120.38	-974.97
Memo Items: Imports from India as per cent of Bangladesh's global imports	2.6	3.9	11.8	12.68	11.93
Exports to India as per cent of Bangladesh's global exports	3.0	1.3	1.3	0.98	0.73
Trade with India as per cent of Bangladesh's global trade	2.7	3.1	7.9	7.89	7.31
Trade deficit with India as per cent of global trade deficit of Bangladesh	2.3	5.6	27.3	39.07	38.18
Export to India as per cent of Imports from India	45.6	13.4	6.5	5.36	4.28

Source: Bhattacharya and Rahman, 2003.

Table 4 Structure of Bangladesh's Imports from India (%)

Commodity Group	FY1996	FY1999	FY2001
Cereals	33.2	49.5	15.8
Textile and Textile articles	27.4	19.1	25.5
of which Cotton	*21.4*	*15.8*	*19.7*
Boilers, Machinery and Mechanical Appliances, Parts thereof	3.4	4.5	7.6
Mineral Fuels, Oils and Products thereof	2.6	2.6	5.4
Plastering Materials, Lime and Cement	4.0	2.5	3.8
Vehicles except railway or tramway and parts, accessories thereof	6.3	2.4	4.7
Organic Chemicals	1.4	1.9	2.8
Iron and Steel	1.9	1.7	3.2
Others	19.8	15.8	31.2
Total Imports (percent)	100.0	100.0	100.0
Total Imports (million US$)	1,100.1	1,228.2	1,163.5

Source: Bhattacharya and Rahman, 2003.

Bangladesh is India's eighth important export destinations. As Table 4 indicates India is currently the major source of imports of cereals, textiles, machineries and equipment, chemical and allied industries, and base metals.

On the contrary, the export base of Bangladesh has continued to remain extremely narrow. As Table 5 shows, only six items including *Jamdanee saree*, chemical fertiliser, raw jute and frozen fish accounted for about 95 percent of Bangladesh's total exports to India over the 1990s in FY2000. In this period India was able to diversify its exports to Bangladesh in a significant manner. The commodities imported from India covered about 46 percent of all types of commodities imported by Bangladesh in late-1990s.

Table 5 Structure of Bangladesh's Exports to India (%)

Commodities	FY 1996	FY1999	FY2000
Chemical Fertilizer	60.7	11.8	21.6
Jamdani Saree	0.2	7.5	0.03
Raw Jute	16.1	47.6	32.4
Frozen Fish	11.8	22.3	9.3
Other Mfg. Goods	5.9	2.8	9.1
Leather	3.3	2.7	2.1
Tea	0.9	1.0	1.1
Others	1.1	4.4	24.4
Total (percent)	100.0	100.0	100.0
(million US$)	(72.5)	(59.7)	(64.9)

Source: Bhattacharya and Rahman, 2003.

As is evidenced by Table 3 mentioned earlier, the bilateral trade deficit with India has registered a significant increase in recent years. As can be seen from the table, the trade deficit with India has increased 9.5 times over the last decade. The Indo-Bangladesh bilateral trade deficit accounted for 5.6 percent of Bangladesh's global trade deficit in FY1990; in FY2002 the share had risen to 38.2 percent.

It needs, however, to be kept in mind here that the actual level of dependence in the bilateral trade relationship will be further accentuated if we factor in the unofficial (illegal cross border) trade with India into the equation.[1] Estimates of the level of unofficial trade vary significantly.[2] If we look at the structure of illegal imports (Bakht, Z. 1996 and Chaudhuri, S. 1995) we would find that most of the commodities smuggled into Bangladesh constitute consumption-oriented goods.[3] If we include both official and unofficial trade with India, in recent years imports from India constituted roughly 28.3 percent of total imports of Bangladesh, whilst imports by India from Bangladesh constituted on average 1.3 percent of

1 Another study (Chaudhuri, S., 1995) estimates cross border trade with India to be about $ 0.36 billion in FY 1994 which is roughly equivalent to official imports to Bangladesh in the corresponding period, but somewhat less than estimates arrived at by Bakht, Z. (1996). Unofficial exports from Bangladesh was found to be confined to a small band of commodities, particularly synthetic fabrics and spices. Most of the payments against imports to Bangladesh was in the form of gold and Bangladeshi taka.

2 For example, Bakht (1996) has estimated that in FY 1994 the illegal imports to Bangladesh was 1.5 times higher than the legal imports (about Tk. 25,300 crore or $ 622 million as against official imports of Tk. 1657 crore or $ 392 million).

3Bakht, Z. (1994) estimates that 70 per cent of illegal imports are on account of livestock, fish and poultry related products, agro-products and processed food and tobacco.

her global imports. The bilateral deficit on current accounts will register a further rise if imports of services by Bangladeshis from India are taken into account. A recent study finds that such imports exceed $100.0 million annually.

Tariff Barriers

In Bangladesh, the tariff rates are currently sequenced as follows: low rates on import of capital goods and primary raw materials, moderate rates on intermediate products and high rates on consumer goods. As a part of the ongoing tariff reforms, custom duty rates above 100 percent have been reduced to 75 percent or below in most cases. Only a few products have a duty rate of 100 percent or more. The introduction of VAT, replacing sales and excise duties, has gone a long way in rationalising the import tariff and domestic tax structure. Excise duties have been abolished on all items except on manually prepared cigarettes, bank accounts and textiles.

India's tariff rates are also reported to have been substantially reduced, although rates on many of the exportables from Bangladesh tend to remain at high levels. For example, tariff rates on items related to apparels (articles of approach, gloves, clothing accessories, cartons and boxes of jute yarn etc.), items of high interest to Bangladesh, face an average tariff of 30 percent. Tariffs on woven fabrics is 25 percent. On some items such as tea the tariff rate is as high as 100 percent. On some other items such as carpets, men's and boys' shirts etc. the tariff rates (usually 25～30 percent) are accompanied by fixed specific rates (whichever is higher). Table 6 drawn from the list of items on Bangladesh's *request list* to India bears this out. Bangladesh has requested tariff concessions in the fourth SAPTA round. On many of the items of interest to Bangladesh, there are surcharges equivalent to 10 percent of customs duties and also special additional duty.

Thus, it is found that the existing tariff and para-tariff duties on many items of interest to Bangladesh in the Indian market continue to pose formidable market access barriers. If the special additional duties and the specific duties are taken into account, then the barriers do act as constraining factors in accessing Indian markets. Since many of these items are not covered under the existing preferential regime, the case for zero-tariff access or in their absence deeper cuts under a newly introduced preferential regime is deemed to be a strong one from Bangladesh's perspectives (Bhattacharya and Rahman, 2003).

Table 6 Tariff and Para-tariffs in India on Items of Interest to Bangladesh

Item	Existing Tariff	Para-tariff and Special Additional Duty (SPA)
Articles of Apparels	30 percent	10 per cent surcharge + SPA
Woven Fabrics	25 percent or 115/kg*	10 per cent surcharge + SPA
Carpets	30 percent or Rs 35/ML*	10 per cent surcharge + SPA
Men's or boys' shirts	30 percent or Rs 135 per piece*	10 per cent surcharge + SPA
Jackets/Blazers	30 percent or Rs 755 per piece*	10 per cent surcharge + SPA
Ceramic products	30 percent	10 per cent surcharge + SPA
Cut flowers	30 percent	10 per cent surcharge + SPA

Note: *Whichever is higher.
Source: Bhattacharya and Rahman, 2003.

Trade under Preferential Arrangement

A large number of commodities were offered preferential treatment during the most recent (third) phase of trade liberalisation negotiations under the SAPTA. Under the three SAPTA rounds, Bangladesh has so far received concessional treatment on 2,896 commodities from India with tariff preferences ranging from 10 percent to 20 percent. Bangladesh has provided concessional treatment to India on 558 commodities.

In recent years Bangladesh, has prepared a list of 25 commodities (192 items at 6-digit level) for which it would like to have zero-tariff access to the Indian market. These items which include fertiliser, jute goods, textiles, ceramics, dry cells, and leather products are considered to have current and potential export prospects in the Indian market. Many of these items, whilst currently not being exported by Bangladesh, are deemed as export competitive in the context of a zero-tariff regime.[4] However, Bangladesh continues to point out that India (for that matter Pakistan and Sri Lanka as well) may grant zero-tariff market access to all LDCs in the region in line with their agreed position in the WTO. For India, for all practical purpose, it will mean addressing the need of only one country i.e. Bangladesh as other regional LDCs (such as Nepal and Bhutan) already enjoy zero-tariff market access in India.

Thus, we find that although under the three rounds both India and Bangladesh have offered concessional treatment to each other's exports, both the range and the depth of the cuts, particularly from Bangladesh's perspective, have been a cause for dissatisfaction. In the context of the growing deficit in bilateral trade with India, the feeling in Bangladesh, both at

4 During trade talks in Dhaka in May, 2002 India offered to grant zero-tariff access to 40 items, which was significantly lower than what Bangladesh was hoping for. (Source: official records of the deliberations at the Trade talks between India and Bangladesh, Ministry of Commerce, GOB, 2002)

the level of policy makers and at the level of popular sentiment, is that India should offer zero-tariff facility to Bangladesh on a non-reciprocal basis.

The value addition requirement under the SAPTA Rules of Origin (RoO) in the single country context has been subsequently revised downward for the developing countries to 40 percent, whilst regional content requirement was brought down to 50 percent. In case of the LDCs, the rates were further reduced to 30 percent (single country context) and 40 percent (regional context requirement). This is expected to be helpful to Bangladesh in accessing concessional treatment for products for which local value addition is relatively low. This new initiative is expected to enable Bangladesh to enhance market access for such products as readymade garments, dry-cell batteries and fruit-juice.[5] In view of the above, the new initiative is indeed a welcome development.[6]

It is a generally accepted principle that it is the country of origin which provides the Rules of Origin certificate. However, in case of exports to India the Assistant Collectorate of Customs has to be satisfied as to whether a particular export item complies with the RoO criteria. The delay in assessment sometimes takes more than 10 to 12 days. Both Bangladeshi exporters and the Indian importers suffer from lack of transparency in the rules. For example, export consignment of battery from Bangladesh was refused preferential entry to India when the rules were interpreted as having restrictions on imports of non-rechargeable batteries.

Non-tariff Barriers (NTB) in Bilateral Trade

It is often argued, both at the level of trade experts and business leaders, that NTBs constitute one of the major reasons responsible for the "unbalanced" state of bilateral cooperation between Bangladesh and India in the area of trade and, for that matter, investment. Bangladesh's business community perceives the NTBs in India to be a real cause for concern. Although it has been agreed that India will withdraw non-tariff barriers from commodities which have been offered concessional treatment during the three rounds of the SAPTA negotiations, but from an operational point of view many such NTBs continue to remain in practice. Table 7 identifies six types of non-tariff barriers which are applicable in the case of impofts to India. These NTBs cover

5 As a matter of fact, it was expected that the issue of granting duty-free access to the four LDCs by the three developing countries of the SAARC would be discussed during the fourth round of SAPTA negotiations. With the postponement of the negotiations, this proposal was put in the cold storage.

6 Although a number of commodities in this list has high prospect for exports to India, energetic steps will need to be undertaken to translate such export potential into real exports to India. It is here that the issue of investment comes as a means of realising Bangladesh's dormant comparative advantages into revealed competitive advantage from a dynamic perspective.

a substantial number of export items from Bangladesh. Bangladeshi exporters often complain that there is a lack of transparency as to the applicability of these NTBs. Under existing Indian regulations, the decision making is left to the discretion of the customs authorities of the various customs check points. Since most of Bangladesh's trade with India is done through land ports, and as they are ill-equipped to handle such issues, the problem in this regard continues to persist.

Table 7 Nature of Non-tariff Barriers in India

Types of NTB	Sectors Involved
Imports of commodities which are permitted only under license or in accordance with a public notice.	Almost all consumer goods.
Canalised imports permitted only thru' state trading corporations.	Some categories of agro-commodities.
Imports permitted only against a license on the recommendation of various concerned departments.	For example, frozen semen allowed only under permission of Dept. of Agriculture.
Imports which are not allowed except in accordance with a public notice notifying permission.	Applicable in case of some non-consumer commodities e.g. fish meal.
Imports of inputs to export oriented units against a license or in accordance with a public notice which is issued favouring such imports.	For example, crude granite which is only applicable for export purposes.
Prohibited	Some particular commodities/drugs.

Source: Bhattacharya and Rahman, 2003.

Though various types of NTBs may be identified in the policies and practices of both countries, trade policies pursued by India are generally perceived to be relatively more complex and restrictive. For example, India continues to retain state monopoly in import of such item as fertilizer which is of high export interest to Bangladesh.

Thus the still existing high tariffs (and para-tariffs) on many items of interest to Bangladesh in the Indian market and the nagging NTBs have tended to discourage Bangladesh's exports to India. However, the fact remains that Bangladesh's export-base is narrow and shallow and this also has severely constrained greater penetration in the Indian market. Accordingly, the discourse on modalities to foster greater economic cooperation must not only go beyond simply the trade issues, but also bring into the forefront closer cooperation in the area of investment and the finance of trade and investment (Bhattacharya and Rahman, 2003).

Trade with the North-East India

In recent years issues related to economic cooperation between Bangladesh and the north-eastern states of India have received prominence in the discourse on Indo-Bangladesh economic cooperation. The North-East India has a 1880 km. border with Bangladesh and its geographic situation and economic potential make the region a natural economic partner of Bangladesh. Immediately following Independence, the Bangladesh Planning Commission envisaged that bilateral relationship could evolve covering a number of areas, such as (a) setting up joint-venture projects including cement, fertilizer, etc. (b) joint development of infrastructure, (c) cooperation in transport development and operations, etc.. But unfortunately, this vision was subsequently faded when *realpolitik* began to hand. Only now, after about three decades and a lot of lost opportunities, some of the original ideas are getting to the surface for consideration. At least at private sector level, there is a growing recognition that both the countries would benefit enormously from such cooperation.

But it is also becoming evident that private sector initiative will have limited success in the absence of adequate government support. One of the major problems to be addressed will be the intermediation of financial transactions for which correspondent Bank in North-East India will need to be established to settle L/Cs.

Infrastructural bottlenecks impose severe constraints on promotion of bilateral trade with India. Excepting Benapol there is huge dearth of infrastructural facilities at all other land-routes. There are no storage facilities at Petrapole so the exporters need to pay extra *detention charges* till the time they can handover the consignment to the importer. The exporter also has to pay additional amount as interest charged by banks because receipt of foreign remittance against the bills takes more than 21 days.

In order for trade to thrive between Bangladesh and the North-East states major investments will be required to build-up the necessary transport infrastructures in the region. Within the ambit of SAGQ, joint initiatives will need to be designed to construct and maintain the infrastructure from which Nepal, Bhutan and even the Southern region of China could benefit. Both bilateral and multilateral cooperation will be required in mobilising the resources and for coordinating the software aspects of the transport network such as simplification of procedures and options of other facilitation measures. The bilateral transit agreements that the countries are currently using are, however, not particularly conducive to the expansion of sub-regional trade because of the restrictions usually imposed by the transit country (Rahmatullah, 2003).

It is estimated that about 24-25 million tonnes of freight move to and from North-Eastern States and the rest of India. This is expected to rise to 52 million tonnes by the year 2007. A recent study shows that about 25 percent of this in-transit traffic could be diverted through Bangladesh Railway (BR) with minimum investment.

About 70 to 80 percent of India's total export to Bangladesh is made via three land border routes: Petrapole, Hilli and Changrabanda. Mukherjee (1998) estimates that Benapole / Petrapole alone accounted for about Tk. 14 billion of business in the mid-1990s which is about

80 percent of land based trade. There is at present no bilateral motor vehicle agreement between the two countries. There is an Inland Water Transit Protocol but this provides transit between Calcutta and two points in Assam without touching Meghalaya and Tripura. Rail transit through Bangladesh, which was earlier in place, also remains suspended.

Currently, there is a demand to introduce container services for easier handling of the rail cargo at the border. Multi-modal arrangements with road-rail routes would substantially reduce the cost of transportation for traders in both the countries. Benefits from the transit facility provided to Nepal by India could also be maximised through improvement of transit facilities through Bangladesh. It has been estimated that Bangladesh could, at the present rate, earn about 8 billion taka by way of freight and other charges leviable on Indian goods if transit facilities are provided. Funds diverted from maintenance of roads through the *chicken neck* requiring huge amount of investment could be used to improve infrastructures in Bangladesh which has the potential of carrying the transit traffic.

Trend in Investment between India and Bangladesh

FDI inflow to the SAARC region has gradually increased from US$ 3.6 billion in 1996 to US$ 4.1 billion in 2001. FDI inflow to India increased from US$ 2.53 billion in 1996 to US$ 3.40 billion in 2001. Bangladesh also experienced gradual increase in FDI flow which increased from US$ 14 million in 1996 to US$ 280 million in 2000 but has since decreased to US$ 78 million in 2001.

During 1996-2001, share of India in the total SA FDI inflow gradually increased from 69.8 percent in 1996 to 83.6 percent in 2001 except in 1999 which was 70.1 percent. Bangladesh's share in total FDI inflow to South Asia gradually increased from 0.4 percent in 1996 to 9.1 percent in 2001, but declined to 1.9 percent in 2001.

Among the top investors in India the United Kingdom has the highest individual share in total FDI as of 2000-01 (23.85 percent with FDI figure of US$ 1109.8 millions), followed by the USA (23.50 percent with FDI figure of US$ 1093.7 millions). Among the foreign investors of Bangladesh, USA had the highest share of aggregate FDI during 1999 (20.6 percent), followed by West-European countries with a share of 18.45 percent and Japan's share of 8.83 percent.

Telecommunication happens to be the sector that has attracted most FDI in India over the years with an aggregate FDI inflow in this sector amounting to US$ 2059 million as of 2000/01. This is followed by investment in power and oil refinery sector where FDI amounted to US$1685.3 millions as of 2000/01. Metallurgical industries also are an emerging sector attracting FDI inflows in India, with aggregate FDI inflow amounting to US$214 millions as of 2000/01 (CPD-SASEC Working Paper, 2002). The major sectors that are attracting FDI in Bangladesh as of 2000/01 are gas, power generation, telecom and export oriented industries in the EPZ.

Table 8 Investment in Bangladesh by India (as of December 1999)

Categories	by India [a]			(in million)
	No.	Local	Foreign	Total [b]
Food, beverages, and tobacco	8	28.68	37.36	141.82
Textile, wearing apparel and leather products	8	166.91	122.71	289.62
Wood and wood products	2	9.00	4.40	33.30
Paper and paper products	7	127.84	123.59	255.43
Chemical. petroleum, rubber and plastic products	16	575.54	302.16	1995.53
Non-metallic mineral products	6	196.33	80.05	305.87
Fabricated metal products, machinery and transport equipment	2	60.00	1005.00	3830.00
Manufactured product ness	12	162.28	185.29	607.21
Services	13	848.74	1172.01	3706.36
Other	2	87.48	84.52	238.00
Total	76	2262.79	3117.09	11403.13

Note: [a] Includes projects in operation, production, implemented, under implementation, not yet implemented; [b] Total investment includes loans

Source: Bhattacharya and Rahman, 2003.

The major outward FDI flows were from Indian firms, which have started to expand FDI both within the SAARC region (Bangladesh, Maldives, Nepal and Sri Lanka) and outside, particularly after the Government of India liberalized its policy governing Indian overseas investments in the early 1990s. The two neighbouring countries, India and Bangladesh, differ significantly in degrees of openness, geographical size, level of macroeconomic instability and maturity of institutional framework. However, in recent years industrial and investment linkages between the two countries have shown some growing trends. Table 8 indicates the details of Indian investment in Bangladesh as of December, 1999.

Indian FDI flows to Bangladesh as percentage of total approved FDI outflows of India had registered a sharp increase from 3.9 per cent in 1990 to 8.1 per cent in 1999. It is generally recognised that the experience, till now, of bilateral cooperation in investment between Bangladesh and India leaves much to be desired.

Reasons for why some countries attract more investment than others vary widely. In some instances incentives did indeed played an important role in attracting FDI whilst in others apparently 'other factors' were decisive. These 'other factors' are becoming more crucial as countries compete with each other in providing incentives to foreign investors.

Weak capacity to implement the incentives, unwieldy bureaucracy in host countries, law and order situation, infrastructural bottlenecks, procedural delays, practices and capital market regulations are important factors that inhibit investment in both India and Bangladesh.

Table 9 Commonly Perceived Obstacles to Investment in India and Bangladesh

	India	Bangladesh
Investment Obstacles	Power shortage in certain pockets, Law and order problem of the region as a whole, Bureaucratic harassment, Limited market size within some regions, Lack of access in some regions due to intra-communal disputes, Complex land tenure system, Conservative sentiment and anti-open attitude of people of some particular regions	Image as an impoverished and underdeveloped country subject to frequent and devastating natural disasters, Poor implementation of the new liberal investment policies, Slow government decision-making, Corruption, Labour militancy, Inadequate commercial laws and courts, Political instability and risk, Shortage of power, Poor infrastructure

Source: Bhattacharya and Rahman, 2003.

Table 9 presents a list of commonly perceived obstacles to foreign investment in India and Bangladesh.

Even after a decade of administrative streamlining, foreign investors in India have reportedly complained about bureaucratic hassle. Investors in Bangladesh also suffer from slow government decision-making process, delayed implementation and malpractices. Both countries are plagued with power shortages, with the situation being relatively worse in Bangladesh. Capital market in India is perceived to be restricted, as compared to a more liberal capital market in Bangladesh. Foreign investment in Bangladesh suffers from lack of well designed legal framework. Public sentiment is conservative in some regions of India which acts as an hindrance to entry, though some states have been more successful in attracting FDI than others. Prospect of political instability and social/religious harmony also tend to constrain bilateral investment flow.

Issues Related to Bangladesh Gas Export to India

Expert opinion is divided regarding the availability of gas reserves in Bangladesh. While some university academics have put the recoverable gas reserves at 6-7 TCF, the Reserves Committee estimates are 11 to 12 TCF and the Gas Utilization Committee has pegged it at 16 TCF. Assuming a 7 percent growth rate for the economy, the cumulative gas demand would be 6 TCF by 2010 and 9 TCF by 2010~2020. According to the Reserves

Committee, the gas requirement in 2050 would range from 39 to 151 TCF. Petrobangla has divided the country into 23 gas blocks with 17 onshore and 6 offshore. Out of them, 16 have already been awarded to the international oil companies (IOCs) and Petrobangla has kept the rest. The blocks that are not awarded to the IOCs are: 1.2.3.4.6.21 and 23.

The IOCs started drilling in the late 1990s and as a result of their investment, the international oil companies now have 13 percent of the total national supply. However, adding this simple transition has reduced Petrobangla from a surplus organization to a losing concern. On the pricing system, the government fixed the rate after studying a similar contract of Singapore. Now it costs the government 2.5 dollars to buy one mbtu gas from the IOC. Besides, 92 percent of the payment is made in dollar terms. Within a couple of years, the 13 percent share of IOC would be 30 percent as the government has no other choice but to buy gas from IOCs since Petrobangla does not have any well ready for drilling.

Only 20 percent of Bangladesh's total population has access to electricity and 5 percent have access to gas. Per capita energy consumption in India is 500 units compared to 112 units of Bangladesh. The Bangladesh manufacturing sector is still underdeveloped. Owing to globalisation, Bangladesh wants to modernize its industry and make its products internationally competitive. It requires setting up gas-based industries, which will be globally competitive. Owing to lack of adequate investment available for exploration, in exploring gas, exploitation of gas resources is sub-optimal. Bangladesh's industry can be competitive if they can get cheaper flow of gas resources for their own production purpose, which will make their products internationally competitive. On the one hand, for domestic consumption, Bangladesh has to provide huge subsidies while on the other, precious foreign exchange earnings through exports are foregone. Bangladesh has a comparative advantage in the gas-based fertilizer industry. Bangladesh was one of the principal suppliers of fertilizer to India during the mid-nineties. This was because of cheap availability of raw materials (gas). But it was lost to the Central Asian countries namely Kazakhstan and Kyrgyzstan because they charge very competitive prices in the Indian market. If gas prices in Bangladesh increase by 1 dollar per unit, fertilizer price will be increased by 3.3 percent.

Bangladesh does not have adequate resources to invest in gas exploration. External funds are required for this purpose. It cannot be met without getting higher FDI in this sector and one has to allow foreign contractors to work in gas exploration. Moreover, Bangladesh has foreign exchange constraints because of its adverse BOP situation. Bangladesh is the net importer of oil to the tune of 3.5 million tonnes per year.

In conclusion, it may be said that both the neighbours (Bangladesh and India) need close energy cooperation, with India needing more energy to meet its growing demand while Bangladesh needs an immediate market to sell its gas. But to work this out, government–

government cooperation is not enough, both the countries also need people-to-people contact and confidence building measures. Sizeable investment is also needed for further exploration and to establish that Bangladesh has adequate reserve for its own use before exporting gas to India.

Security Issues between Bangladesh and India

Security is an issue which impinges on the very physical existence of a state. This warranted that each state should show extreme sensitivity to the security concerns of the other state and deal with any complaint from the other side with due respect and utmost speed. If that does not happen, it will increase mistrust and misunderstanding and vitiate the entire relationship between the two countries.

The security issues affecting Indo-Bangladesh relations can be characterized as of lower intensity. There could be several doables which could address these issues. One was completing the demarcation of the land boundary which was now pending only for 6 km. Both the countries (India and Bangladesh) share a 4095 km. long border with very few natural markers to delineate the boundaries.

Secondly, the problem of chars thrown up in large rivers and the enclaves are also continuing to impact the security issues. Even today there are 111 Indian enclaves, comprising 10,000 acres, which still remain in Bangladesh, while 51 Bangladesh enclaves, comprising 7,000 acres, are embedded in India. Moreover, Bangladesh has no agreed sea boundary with her neighbours. This has contributed to conflicts with neighbours on several occasions. The conflicting claims over the ownership of a newly created island (New Moore Island/ South Talpatty) in the Bay of Bengal are also continuing to be serious problems. These problems should be sorted out in a phased manner at the earliest since conflicts and incidences regarding the use of land in these areas were rising.

Thirdly, conflicts about camps of insurgence from North–Eastern India, Tripura and Chittagong Hill Tracts (CHT) areas appear to be exaggerated beyond proportion. It is important to stress here that Bangladesh has nothing to gain by supporting camps. Complaints of this nature are required to be properly verified and if found true, these should be dealt with firmly by the Bangladesh authorities. These lower intensity issues need not all be clubbed together but could be taken up one by one and dealt with seriously.

Legal agreements do exist with regard to the enclaves. If these agreements had been implemented soon after they were entered into, we would not have come to the present impasse. Unfortunately extraneous political factors, like ascertaining the wishes of the people inhabiting the enclaves, have now entered into the picture, making the problem extremely difficult. Hard data were necessary regarding complaints about the existence of camps and shelter to insurgents. Some initiative at Track II level could be helpful in collecting or verifying such data.

According to certain analyst, transit issues are also being linked to security matters. It is generally agreed that transit facilities to the Indian North-East through Bangladesh would benefit economically both the countries. But this issue has become heavily politicized in Bangladesh. In Bangladesh some people are arguing that transit may be used by India for troop movements to the North-East, thereby creating problems for Bangladesh's security. Most people, however, feel that these fears are misplaced. In this context, one needs to visualize that Bangladesh is surrounded by India on almost three sides. It needs to get transit facility from India to have overland transport links with neighbouring countries of Nepal, Bhutan as well as Northern part of Myanmar. If India's access to North-East becomes a political issue in Bangladesh, its access to Nepal, Bhutan and Myanmar could also be treated the same way by India.

There are wide range of experiences available within and outside the regional with regard to the resolution of security problems. It would be worthwhile to share some of those experiences and take lessons from these in resolving specific problems. Governments should consult their own people, in a transparent manner, with full facts and figures surrounding the issues under discussion, and take into account their views in resolving the inter-country problems.

2 Bangladesh's Trade Relation with Nepal

Bangladesh's trade with Nepal is negligible. Exports in 2002 were valued at US$ 0.65 million, or 0.01 percent of Bangladesh's total exports. Exports to Nepal are dominated by a single commodity, chemical fertilizer, which accounted for 68 percent of the total. Bangladesh could have exported a much larger volume of fertilizer to Nepal had it not been for supply-side constraints. Pharmaceuticals contributed another 22 percent of exports to Nepal; these too could be expanded. As far as imports from Nepal are concerned the country accounted for only 0.039 percent (US$ 3.34 million) of Bangladesh's total imports in 2002. A single commodity dominated: edible vegetables accounted for 91 percent of Bangladesh's imports from Nepal. This was equivalent to 5.2 percent of total imports of edible vegetables by Bangladesh. Cereals, oil seeds, rubber and articles thereof, and animal fodder constitute the other types of imports of Bangladesh, but both in terms of volume and share in Bangladesh's imports, these constitute an insignificant share of Bangladesh's total imports. Table 10 shows the trends of bilateral trade between Bangladesh and Nepal.

In September, 1997, India granted a transit routes for both Nepal and Bangladesh, through its territory-Kakorvitta/Nepal-Phulbari/India. This 30-35 km. long "transit route": Kakorvitta-Phulbari-Banglabandh links Kakorvitta with Banglabandh (located at the extreme north-western border post of the district of Panchagar, Bangladesh). But this route is not being used extensively for the purpose of trade and commerce between the two countries Bangladesh and Nepal, although over the years, the route has been improved considerably. It is mostly due to lack of traffic (export and import) passing through Banglabandh that facilities for customs and immigration have not properly developed at the border point. In brief, one can say that the Phulbari corridor which is the shortest available route between Bangladesh and Nepal is not being optimally used mainly because of two reasons:

(a) Nepal's third country trade is not allowed on that corridor as a result Bangladesh ports cannot be used by Nepal. For this to happen, a transit treaty between Nepal and India would be needed.

(b) No agreement between India and Bangladesh exists which would have allowed Bangladeshi trucks in that corridor for transporting goods between Bangladesh and Nepal.

Table 10 Trends in Bangladesh–Nepal Bilateral Trade (in millions US$)

	FY1991	FY1996	FY2001	FY2002
Bangladesh Global Exports	1717.55	3882.42	6467.30	5986.09
Bangladesh Global Imports	3510.00	6931.00	9335.00	8540.00
Global Trade Deficit of Bangladesh	-1792.45	-3048.58	-2867.70	-2553.91
Bangladesh Exports to Nepal	9.00	8.34	0.97	0.65
Bangladesh Imports from Nepal	0.13	7.75	6.03	3.34
Trade Deficit with Nepal (TD)	8.87	0.60	-5.06	-0.41
(I / W)M	0.0038	0.1118	0.0645	0.0391
(I / W)X	0.5241	0.2149	0.0150	0.0489
(I / W)T	0.1748	0.1488	0.0443	0.0431
(I / W)TD	-0.4947	-0.0196	0.1764	0.0162
(I / W)N	6691.49	107.72	16.05	87.62

Source: Import Payments and Export Receipts (Bangladesh Bank)

Note: (I / W)M = Imports from Nepal as % of Bangladesh's global imports.

(I / W)X = Exports from Nepal as % of Bangladesh's global exports.

(I / W)T = Trade with Nepal as % of Bangladesh's global trade.

(I / W)TD = Trade deficit with Nepal as % of global trade deficit of Bangladesh.

(I / W)N = Export to Nepal as % of Imports from Nepal.

Once a sufficient volume of traffic starts moving on a regular basis, the facilities which are now lacking at Banglabandh will undoubtedly get upgraded. In fact, the Government of Bangladesh has already decided to involve the private sector to invest in the development and operation of all the major land ports including Banglabandh, on a BOT basis. Tenders have already been floated and responses have been favourable. In case private sector does not come forward quickly, Government of Bangladesh shall have to invest to improve the border crossing facilities at Banglabandh for which ADB's assistance could be sought.

Since, Nepal's third country traffic (whether export or import) is not allowed by India to move through Mongla Port of Bangladesh, as such the facilities at this port are not being utilized by the Nepali traders. The Mongla Port of Bangladesh handles on average about 360-380 ocean-going-ships a year i.e. on average only 1 ship per day. Thus there is no congestion at all. In fact, Mongla Port could have provided a direct broad gauge rail link, without any trans-shipment, between Rauxal in Nepal/India Border to Khulna/Mongla through Kathihar (India) and Rohanpur in Bangladesh. This rail link could provide a very competitive facility to Nepalese export / import traffic viz-a-viz Calcutta Port. But so far India has not agreed to this, although both Nepal and Bangladesh are keen to promote this route.

In the absence of "Road Transport Agreement" between Nepal, India and Bangladesh, Nepalese trucks cannot enter Bangladesh and ply within Bangladesh. Goods are, therefore, required to be loaded and unloaded at the border. However, the Islamabad declaration adopted by the 12th SAARC Summit on January 6, 2004 called for strengthening transportation, transit and communication links across the region for accelerated and balanced economic growth. Once the Islamabad declaration is implemented all kinds of public and private vehicles, including bus/coaches and trucks could be travelling between Bangladesh and Nepal, without interruption.

3 Bangladesh's Trade Relation with Bhutan

Bangladesh's trade with Bhutan is also negligible. Exports in 2002 were worth US$ 1.67 million (0.027 percent of total exports from Bangladesh) whilst imports from Bhutan amounted to US$ 3.92 million (which was 0.0459 percent of Bangladesh's total imports in 2002). Bangladesh exports some manufactured goods to Bhutan and imports edible fruits, prepared foodstuffs and beverages from that country which are given unhindered access to the Bangladesh market with the offer of concessional duties to Bhutan under SAPTA. Thus Bhutanese fruits such as apples and canned fruit products bearing the *Druk* brand name tend to be quite widely available in Bangladesh. Table 11 shows the trends in bilateral trade between Bangladesh and Bhutan.

Table 11 Trends in Bangladesh – Bhutan Bilateral Trade (in million US$)

	FY1991	FY1996	FY2001	FY2002
Bangladesh Global Exports	1717.55	3882.42	6467.30	5986.09
Bangladesh Global Imports	3510.00	6931.00	9335.00	8540.00
Global Trade Deficit of Bangladesh	-1792.45	-3048.58	-2867.70	-2553.91
Bangladesh Exports to Bhutan	0.00	0.00	1.18	1.67
Bangladesh Imports from Bhutan	4.69	5.18	5.65	3.92
Trade Deficit with Bhutan (TD)	-4.69	-5.18	-4.47	-2.33
(I / W)M	0.1337	0.0748	0.0606	0.0459
(I / W)X	0	0.00008	0.01826	0.02657
(I / W)T	0.0898	0.0480	0.0432	0.0379
(I / W)TD	0.2619	0.1699	0.1560	0.0913
(I / W)B	0	0.058	20.891	40.553

Source: Import Payments and Export Receipts (Bangladesh Bank)

Note: (I / W)M = Imports from Bhutan as % of Bangladesh's global imports.

(I / W)X = Exports from Bhutan as % of Bangladesh's global exports.

(I / W)T = Trade with Bhutan as % of Bangladesh's global trade.

(I / W)TD = Trade deficit with Bhutan as % of global trade deficit of Bangladesh.

(I / W)B = Export to Bhutan as % of Imports from Bhutan.

4 Bangladesh's Trade Relation with Myanmar

The geographical proximity between Bangladesh and Myanmar has made the two countries logical and ideal partners for harnessing natural resources to their mutual advantage. A general trade agreement between Bangladesh and Myanmar was signed on August 3, 1973 which is renewable every year. On June 1, 1989 three MOUs were signed on border trade and economic cooperation providing for joint ventures (government to government, government-private and private- private) and cooperation between private sector (FBCCI and UMCCI). Building on these, the border trade protocol was signed on May 18, 1994.

However, border trade formally began only on September 5, 1995. Although the potential for cooperation between the two neighbouring countries are significant, for the moment the focus is on border trade. But the important elements of infrastructure and administrative machinery which are being put in place will greatly encourage enhanced trade across Teknaf and Maungdaw. Bangladesh Trade fair/exhibitions in Yangon in 1995 and 1996 helped a great deal in creating demand for Bangladeshi products. Based on the feedback from the Yangon exhibitions, it was clear that getting to know each other, including each others products, remained the key factor, which could lead to the idea of setting up permanent display cum sales centres of the two countries' products in Maungdaw and Teknaf.

Bangladesh exports pharmaceuticals and chemical fertilizer, textile fabrics, leather bags and purses, etc. Imports from Myanmar include rice, pulses, maize, betel nuts, pulp, logs, minerals, etc. Bangladesh's current trade with Myanmar is insignificant. Bangladesh exported US$2.37 million worth of goods in 2002 (0.04 percent of global exports of Bangladesh). Earlier, jute manufactures, jute yarn and twine used to dominate Bangladesh's exports to Myanmar. But in recent years, Bangladesh has started exporting different items as indicated earlier. Even then, the absolute volume and value is still insignificant. Table 12 shows the trends of bilateral trade between Bangladesh and Myanmar.

Table 12 Trends in Bangladesh – Myanmar Bilateral Trade (in million US$)

	FY1991	FY1996	FY2001	FY2002
Bangladesh Global Exports	1717.55	3882.42	6467.30	5986.09
Bangladesh Global Imports	3510.00	6931.00	9335.00	8540.00
Global Trade Deficit of Bangladesh	-1792.45	-3048.58	-2867.70	-2553.91
Bangladesh Exports to Myanmar	0.14	1.97	1.07	2.37
Bangladesh Imports from Myanmar	0.29	1.85	24.69	16.93
Trade Deficit with Myanmar (TD)	-0.16	0.11	-23.62	-14.56
(I / W)M	0.0084	0.0267	0.2645	0.1983
(I / W)X	0.0080	0.0506	0.0165	0.0396
(I / W)T	0.0083	0.0353	0.1630	0.1329
(I / W)TD	0.0088	-0.0037	0.8238	0.5703
(I / W)m	0.0047	0.0106	0.0004	0.0014

Source: Import Payments and Export Receipts (Bangladesh Bank)
Note: (I / W)M = Imports from Myanmar as % of Bangladesh's global imports.
(I / W)X = Exports from Myanmar as % of Bangladesh's global exports.
(I / W)T = Trade with Myanmar as % of Bangladesh's global trade.
(I / W)TD = Trade deficit with Myanmar as % of global trade deficit of Bangladesh.
(I / W)N = Export to Myanmar as % of Imports from Myanmar.

There is however, some indication that there is a thriving cross border trade between southern Bangladesh and northern Myanmar across the Naf river which runs along the border of the two countries. Since northern Myanmar is somewhat physically isolated from the rest of the country, this cross border trade with Bangladesh has contributed to the emergence of a flourishing local cross-border market to meet the needs of the inhabitants on both sides of the border. In addition, there are reports of unofficial exports of fertilizer to Myanmar across Bangladesh's southern land border. Meanwhile based on a joint decision of the Bangladesh and Myanmar governments, construction of a 91 km. cross border Bangladesh-Myanmar friendship road is going to start in early 2004. The proposed road will be built from Ramu of Chittagong to Buthidaung in Myanmar at an estimated cost of 400 crores (US$ 670 million). In this context, work will start immediately on development of the 34 km. Ramu-Balukhali road on Bangladesh side and 25 km. Taungbro-Balibazar road on the Myanmar side. In this connection, a survey team will be visiting the sites within February, 2004. In addition, work on the construction of two bridges and two km. of new road will also be taken in hand soon. A report on the construction of a bridge near Taungnbro is already with the Ministry of Communications, Government of Bangladesh. In order to optimise the benefits of bilateral trade, a special economic zone at Teknaf, could be considered as a possible option. Such a zone could offer unique opportunities for joint ventures in manufacturing based on raw materials from Myanmar for export to third country destinations. BIMSTEC, could also open up new opportunities for enhanced cooperation and investment between Bangladesh and Myanmar.

For processing industries, the proposed special zone offers the right environment. The cement industry of Bangladesh depends on imported clinker. The vast lime stone deposit in the Rakhine state of Myanmar could provide the raw material for joint venture clinker factories in Myanmar with a ready market in Bangladesh where several existing factories could grind it into cement.

To boost economic cooperation, telecommunication links between Maungdaw and Teknaf, the two key points should be given top priority. A joint business promotion council with private sector representatives should be set up to monitor and help bilateral trade and investment. There are also immense opportunities for expansion of tourism between the two countries. This is another area where joint ventures are quite feasible.

Myanmar's liberal policy on leasing out lands on a mutually beneficial basis for agro-based industries, is really attractive for investors. On a commercial basis, cultivable, fallow or waste land is available up to 5,000 acres for plantation crops, 3,000 acres for orchard and 1,000 acres for seasonal crops. For aquaculture, the limit is 2,000 acres. For livestock, there are three categories: 5,000 acres for buffalo, cattle and horse, 1,000 acres for sheep and goats, 500 acres for poultry and pigs. Depending on the type of ventures, exemption from land tax is also offered for a period from two to eight years. There are also provisions for income tax waiver for a minimum period of three years from the date of commercial operation. Myanmar's liberal policy being quite attractive, many Bangladeshi investors may take advantage of this offer, which may in turn lead to increased trade with Bangladesh because many of the products of these agro-based industries may find a good market in Bangladesh.

Rohingya Refugees in Bangladesh

The ethnic Rohingyas of the Arakan state of Burma have been subject to a long and well-documented history of abuse including torture, rape, abduction, murder, forced labour, forced relocation and religious persecution. This has prompted massive internal displacements and large scale exoduses into Bangladesh at least five times since 1942. The government of Myanmar has launched no less than twelve major "operations" against minorities, especially the Rohingyas, ostensibly for reasons of national security (Siddique, 1999).

In 1978 the government sponsored operation Nagamin (King Dragon Offensive). This resulted in a mass exodus to Bangladesh with over 200,000 having crossed over by May 1978. Later based on an agreement between Myanmar and Bangladesh, repatriation commenced in August, 1978 which ended in Dhaka, 1979. a total of 187,250 refugees were repatriated without any involvement of the UNHCR or other international body. By that time at least 10,000 refugees had died, most of whom were children. In 1991 followed a dramatic political shift in Myanmar, Bangladesh experienced another mass influx of Rohingya refugees. SLORC (State Law & Order Restoration Council) refused to accept the results of May 1990 election, provoking a nation-wide protest and demonstration against the military regime. A scapegoat was required, and the Rohingyas, a common enemy of the ruler and majority Buddhists, fitted the bill, resulting in a mass exodus into Bangladesh for the second time in 13 years.

In 1991~92 more than 250,000 Rohingya Muslims sought refuge in Bangladesh to flee army persecution in the Arakan state of Burma. Over the last ten years while bulk of the refugees was repatriated, about 21,000 are still living in camps under difficult conditions (Abrar, 2002). The repatriation process has virtually come to a standstill; with the number of children being born in the camps exceeds the number of refugees repatriated.

The government of Bangladesh from the very beginning insisted that asylum for refugee was temporary and encouraged their immediate return. However, several factors have prompted the UNHCR to suggest temporary settlement of the Rohingya refugees in Bangladesh. These include, (a) the unwillingness of Burmese authorities to accept the total residual caseload, (b) the reluctance of a large section of the refugees to return to a situation where incidence of forced labour and violation of rights of the people is still rampant, and (c) the lack of enthusiasm of the donor agencies to continue to fund the Rohingya operation, what they see for an indefinite period, without any durable solution in sight. The UNHCR proposed policy of temporary integration would entail dismantling of the camps and allowing refugees engage in income generating activities. The Bangladesh government has so far refused to consider any proposal that calls for allowing refugees move out of camps on the ground that as one of the most densely populated countries of the world with major resource constraint Bangladesh can ill afford any such scheme. It further argues that such a measure may trigger fresh influx of Rohingya from across the border.

With little prospects for repatriation to the country of origin in dignity in the foreseeable future, unwillingness of the Bangladesh government to consider temporary integration, and reluctance of the donors to continue with funding the operation, the Rohingya refugees indeed face a bleak future on this tenth year of their stay in Bangladesh.

5 Bangladesh's Trade Relation with China

The People's Republic of China and the People's Republic of Bangladesh officially established diplomatic relations on October 4, 1975. Since then the friendly relations and cooperation between the two countries have been growing steadily and smoothly. Fruitful cooperation has been achieved in the fields of politics, economy, military, culture, etc. Both the countries share basically identical opinions on most international and regional issues and maintain close coordination with each other in the international arena. There have been frequent exchanges of high-level visits, since 1975 leading to expanding cooperation in various fields.

In 1991, the Chinese leadership stressed that it would be a consistent policy of China to develop friendly relations with Bangladesh, which would by no means be affected by the changes either in the international or domestic situation in Bangladesh. In 1996, the two countries signed the Agreement on Encouraging and Protecting Investment, the Agreement for the Avoidance of Double Taxation and the Agreement on the Prevention of Tax Evasion.

In January 2002, the two countries signed an Agreement on Economic and Technical Cooperation, Certificate of handover of the Bangladesh-China Friendship Conference Centre, Executive program of the Cultural Agreement for 2001-2003 and four other agreements. In December 2002, the two countries signed an Exchange of Letters regarding the loan used for the project of Bangladesh-China Friendship International Conference Centre to be converted into a grant an Agreement on Economic and Technical Cooperation and two other agreements.

In November 1983, a joint committee on economy, trade and science and technology between China and Bangladesh was set up. The joint committee held its meeting in the capitals of the two countries in turn. Up to now the joint committee has had 10 meetings. China's major imports from Bangladesh are raw materials like leather, raw jute, chemical fertilizer, etc. China's major exports to Bangladesh are: textiles, machinery and electronic products, cement, fertilizer, tyres, raw silk, maize, etc.

In recent years the economic and trade ties between China and Bangladesh have developed considerably with gradual expansion in the areas of cooperation fields. According to the Export Promotion Bureau (EPB) and Bangladesh Bank, the bilateral trade in 2002 amounted to US$ 897.15 million with an increase of 24.4 percent opposed to the previous year. This trade involved an export to China of US $18.97 million and an import from China of US$ 878.18 million. Thus there was a huge trade deficit between Bangladesh and China. Table 13 shows the trends of bilateral trade between Bangladesh and China.

Table 13 Trends in Bangladesh - China Bilateral Trade (in million US$)

	FY1991	FY1996	FY2001	FY2002
Bangladesh Global Exports	1717.55	3882.42	6467.30	5986.09
Bangladesh Global Imports	3510.00	6931.00	9335.00	8540.00
Global Trade Deficit of Bangladesh	-1792.45	-3048.58	-2867.70	-2553.91
Bangladesh Exports to China	33.28	26.38	12.32	18.97
Bangladesh Imports from China	132.49	706.77	708.83	878.18
Trade Deficit with China (TD)	-99.21	-680.39	-696.50	-859.21
(I / W)M	3.77	10.20	7.59	10.28
(I / W)X	1.94	0.68	0.19	0.32
(I / W)T	3.17	6.78	4.56	6.18
(I / W)TD	5.53	22.32	24.29	33.64
(I / W)C	25.12	3.73	1.74	2.16

Source: Import Payments and Export Receipts (Bangladesh Bank)

(I / W)X = Exports from China as % of Bangladesh's global exports.

(I / W)T = Trade with China as % of Bangladesh's global trade.

(I / W)TD = Trade deficit with China as % of global trade deficit of Bangladesh.

(I / W)C = Export to China as % of Imports from China.

Trends in Investment between China and Bangladesh

China has been a very attractive source of foreign assistance for Bangladesh. Chinese investment in the development of Bangladesh has been mostly through long-term soft loan, project and commodity aid. There has been a number of suppliers credit available from China for several projects in Bangladesh. But in the recent years government has been discouraging supplier's credit as these sources were ultimately found to be expensive.

FDI from China to Bangladesh so far has been very limited. Some private sector investments have started coming in the recent years, but the amount is still very limited. Reliable estimates of these investments are not readily available.