

Bangladesh-India Bilateral Trade: Causes of Imbalance and Measures for Improvement

Mohammad Mafizur Rahman
Ph.D. Student and Associate Lecturer
Discipline of Economics
University of Sydney, NSW 2006, Australia.
Phone: 61-2- 9036 9188
Fax: 61-2- 9351 4341
Email: M.Rahman@econ.usyd.edu.au

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 of 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 and Trade Imbalance.

JEL Codes: F10, F14, F15.

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I. Introduction

Both Bangladesh and India are two major countries of the SAARC and have a long common historical past and similar cultural and social evolutions. 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 higher¹ (IMF: Direction of Trade Statistics). 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 organised 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 summarizes and 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. In the agreement, fish, raw jute,

¹ In 1983, trade deficit of Bangladesh was US\$31 million. In 2003, it increased to US\$ 1435.83million.

newsprint and naphtha were identified as the principle exports of Bangladesh to India. India's major export items to Bangladesh, on the other hand, were cement, coal, machinery and unmanufactured tobacco. The trade between the nations was limited to government level (Madaan 1996). This agreement also provided border trade between Bangladesh and Neighboring 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. Raw jute, fish, newsprint, etc were identified as major exportable items of Bangladesh to India. On the other hand, major exports of India to Bangladesh were unmanufactured tobacco, cement, coal, raw cotton, cotton yarn, cotton textiles and books. 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 to be mentioned 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

As mentioned earlier, both Bangladesh and India are two major trading partners in the SAARC region. Their combined share in the SAARC trade demonstrates their importance and high influence in the regional trade. Table 1 shows that 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 (Table 2).

Table 1: Share of Bangladesh and India in Intra-SAARC Trade, 1990-2002
(Million of US\$)

Year	Intra-SAARC Tr.	IND-	BD-	(B+I)-	<i>Percent Share</i>		
		SAARC Trade	SAARC Trade	SAARC Trade	IND	BD	(BD+IND)
1990	1590	584	310	894	36.73	19.5	56.23
1991	1914	718	331	1049	37.51	17.29	54.8
1992	2488	913	423	1336	36.7	17.0	53.7
1993	2458	920	532	1452	37.43	21.64	59.07
1994	2937	1151	635	1786	39.19	21.62	60.81
1995	4263	1742	1230	2972	40.86	28.85	69.71
1996	4928	1848	1368	3216	37.5	27.76	65.26
1997	4447	1648	967	2615	37.06	21.74	58.8
1998	6001	2549	1376	3925	42.48	22.93	65.41
1999	5511	2370	1206	3576	43	21.88	64.88
2000	5884	2400	1138	3538	40.79	19.34	60.13
2001	6537	2783	1383	4166	42.57	21.16	63.73
2002	6246	2739	1290	4029	43.85	20.65	64.5

Sources: IMF (Various Years), Direction of Trade Statistics Yearbook,

United Nations (Various Years), Statistical Yearbook for Asia and the Pacific, and author's calculation.

Table 2: Export and Import Share of Bangladesh and India in Intra-SAARC Trade, 1990-2002(Percent)

Year	India's Export Share	India's Import Share	BD's Export Share	BD's Import Share
1990	30.63	6.1	3.77	15.72
1991	32.55	4.96	4.18	13.11
1992	28.9	7.8	1.81	15.19
1993	33.4	4.03	2.24	19.4
1994	34.8	4.39	1.7	19.92
1995	36.21	4.64	1.95	26.91
1996	33.48	4.02	1.18	26.58
1997	32.92	4.14	1.84	19.9
1998	34.23	8.25	1.72	21.21
1999	36.04	6.97	1.47	20.41
2000	34.31	6.48	1.5	17.84
2001	35.9	6.67	1.39	19.76
2002	34.34	9.51	1.19	19.47

Sources: IMF (Various Years), Direction of Trade Statistics Yearbook; United Nations (Various Years), Statistical Yearbook for Asia and the Pacific; 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)):

$$m_{ij} = \frac{M_{ij}}{M_i} \div \frac{X_j}{X_w - X_i}$$

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:

$$x_{ij} = \frac{X_{ij}}{X_i} \div \frac{M_j}{M_w - M_i}$$

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 *j*'th 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 3.

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.

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.

Table 3: Bangladesh's Export and Import Intensity Indices with India

Year	m_{ij}	x_{ij}
1980	4.885524	1.414912
1985	4.627149	3.473031
1990	8.746103	1.906983
1995	25.35823	1.67226
2000	17.00115	1.364797
2001	20.1086	1.608167
2002	18.81877	1.000879
2003	20.61386	0.79651

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.

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 Table 4 compares the growth rates of Bangladesh's trade with India, SAARC countries and world for selected years from 1980. It is observed from the table that 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. Though the growth rates with SAARC countries and India were slightly negative during 1995-2000; those figures turns into convincingly positive in 2001. The overall growth performance was negative in 2002 following the September 11 incident in 2001 in the USA. However, Bangladesh's trade got momentum in 2003 with all noted destinations in the table.

Table 4: Growth of Bangladesh's Trade with India in SAARC and Global Perspectives (Millions of US \$)

Year	BTWI	Annual growth rate	BTWS	Annual growth rate	BTWW	Annual growth rate
1980	63.6	---	164.8	---	3358	---
1985	94.5	9.72	163.9	-0.11	3771	2.46
1990	192	20.63	317	18.68	5269	7.94
1995	1030	87.29	1234	57.85	9670	16.70
2000	995.6	-0.67	1146	-1.43	13147	7.19
2001	1256.3	26.19	1391	21.38	13176	0.22
2002	1185.2	-5.66	1294	-6.97	12480	-5.28
2003	1541.6	30.07	1681	29.91	16744	34.17

Note:

BTWI = Bangladesh's trade with India

BTWS = Bangladesh's trade with SAARC

BTWW = Bangladesh's trade with the world

Sources: IMF (Various Years), Direction of Trade Statistics Yearbook and author's calculation.

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. From the Table 5, it is observed that 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.

Table 5: India's Share in Bangladesh's Global and SAARC Trade for Selected Years (Millions of US\$)

Item	1990	1995	2000	2001	2002	2003
Global Exports of Bangladesh	1671	3173	4786	4826	4566	7167
Global Imports of Bangladesh	3598	6497	8360	8350	7914	9577
Exports to SAARC	60	83	89	92	73	99
Imports from SAARC	257	1151	1057	1299	1221	1582
Exports to India	22	36	50	61	39	53
Imports from India	170	994	945	1195	1146	1489
(I/W)T	3.6	10.7	7.6	9.5	9.5	9.2
(I/W)X	1.3	1.1	1	1.2	0.8	0.7

(I/W)M	4.7	15.3	11.3	14.3	14.5	15.5
(I/S)T	60.6	83.5	86.8	90.2	91.6	91.7
(I/S)X	36.6	43.3	56.1	66.3	53.4	53.5
(I/S)M	66.1	86.3	89.4	91.9	93.8	94.1

Notes:

(I/W)T = India's share in Bangladesh's global trade (per cent)

(I/W)X = India's share in Bangladesh's global exports (per cent)

(I/W)M = India's share in Bangladesh's global imports (per cent)

(I/S)T = India's share in Bangladesh's trade with SAARC countries (per cent)

(I/S)X = India's share in Bangladesh's exports to SAARC Countries (per cent)

(I/S)M = India's share in Bangladesh's imports from SAARC Countries (per cent)

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

The importance of India as the source of Bangladesh's imports can be well understood by the Table 6. 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. The table also reveals that India topped the list for Bangladesh's imports in 1995, and since then India continued to maintain the largest importing source for Bangladesh.

Table 6: India's Position among Top 5 Import Partners (Official Trade) of Bangladesh for Selected Years (Millions of US\$).

Country	Imp'90	Country	Imp'95	Country	Imp'00	Country	Imp'03
Japan	482	India	994	India	945	India	1489
Singapore	407	China	601	Japan	850	China	1326
USA	186	Japan	598	Singapore	761	Singapore	910
India	170	Hong Kong	420	China	668	Japan	640
Hong Kong	168	Korea	417	Hong Kong	470	Hong Kong	471

Source: IMF (Various Years), Direction of Trade Statistics Yearbook.

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 (Table 7). 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 (Table 7).

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. However, Bangladesh's share of India's imports from SAARC countries was not convincing; it was only 8.42 percent in 2003.

Table 7: Bangladesh's Share in India's Trade in Global and SAARC Perspectives for Selected Years (Million of US\$)

Item	1990	1995	2000	2001	2002	2003
Global Exports of India	17813	30537	44313	44613	49312	57080
Global Imports of India	23990	34484	52773	51562	56517	71238
Exports to SAARC	487	1544	2018	2347	1982	2786
Imports from SAARC	97	198	381	436	492	748
Exports to Bangladesh	297	960	860	1087	1042	1383
Imports from Bangladesh	15	79	55	67	43	63
(B/W)T	0.74	1.59	0.94	1.2	1.02	1.13
(B/W)X	1.67	3.14	1.94	2.44	2.11	2.42
(B/W)M	0.06	0.23	0.1	0.13	0.07	0.08
(B/S)T	53.42	59.64	38.14	41.47	43.86	40.91
(B/S)X	60.98	62.17	42.61	46.31	52.57	49.64
(B/S)M	15.46	39.9	14.43	15.36	8.73	8.42

Notes:

(B/W)T = Bangladesh's share in India's global trade (per cent)

(B/W)X = Bangladesh's share in India's global exports (per cent)

(B/W)M = Bangladesh's share in India's global imports (per cent)

(B/S)T = Bangladesh's share in India's trade in SAARC countries (per cent)

(B/S)X = Bangladesh's share in India's exports to SAARC Countries (per cent)

(B/S)M = Bangladesh's share in India's imports from SAARC Countries (per cent)

Sources: United Nations (Various Years): Statistical Yearbook for Asia and the Pacific,

IMF (Various Years): Direction of Trade Statistics

Yearbook, and author's calculation

The importance of Bangladesh for India's export market can further be realized from the Table 8. It is observed that India's largest export market in the SAARC region is Bangladesh at all the time.

**Table 8: Direction of India's Exports to SAARC Countries for Selected Years
(Percent of Total Share)**

Country	1990	1995	2000	2001	2002*	2003*
Bangladesh	1.67	3.14	1.94	2.44	2.11	2.42
Bhutan	---	0.04	0.03	0.04	0.01	0.01
Maldives	0.03	0.04	0.09	0.1	0.05	0.08
Nepal	0.22	0.35	0.89	0.97	0.35	0.38
Pakistan	0.24	0.23	0.37	0.49	0.3	0.32
Sri Lanka	0.57	1.25	1.23	1.23	1.2	1.68
SAARC	2.73	5.05	4.55	5.27	4.02	4.89
World	100	100	100	100	100	100

Sources: United Nations (Various Years), Statistical Yearbook for Asia and the Pacific

* IMF (Various Years), Direction of Trade Statistics Yearbook

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. Table 9 and figure 1 provide the bilateral trade situation between Bangladesh and India for 31 years, 1973-2003. These figures clearly indicate 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. 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.

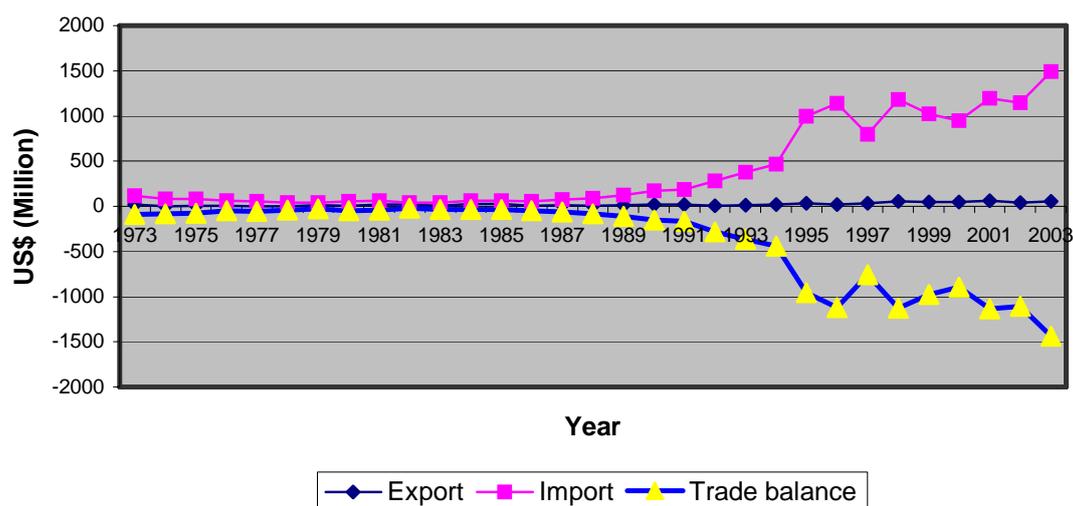
Table 9: Bangladesh's Trade Balance with India, 1973-2003 (millions of US \$)

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

1998	55	1178.8	1123.8	4.7
1999	49.5	1023.8	974.3	4.8
2000	50.1	945.5	895.32	5.3
2001	60.8	1195.5	1134.7	5.1
2002	39.3	1145.8	1106.5	3.4
2003	52.9	1488.7	1435.9	3.6

Sources: IMF (Various Years), Direction of Trade Statistics Yearbook and author's calculation.

Fig. 1: Bangladesh's Trade Picture with India, 1973-2003



3.6 Trade Structure of Bangladesh with India

Bangladesh's exports to India are highly concentrated to a few items. Table 10 demonstrates that 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. It is observed from Table 11 that 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.

Table 10: Structure of Bangladesh's Exports to India (in percent)

Commodities	FY 1994	FY 1995	FY 1996
Chemical Fertilizer	20.6	57	60.7
Raw Jute	48.8	33.1	16.1
Frozen Fish	0.1	3.8	11.8
Other Mfg..Goods	0.1	0.1	5.9
Leather	12.7	4.1	3.3
Tea	3.2	---	0.9
Others	14.5	1.9	1.3
Total	100	100	100

Source: Quoted from Rahman, M (1998)

Table 11: Number of Commodities Imported by Bangladesh at 8 Digit H.S.**Code Level**

Commodities	FY 1992	FY 1993	FY 1994	FY 1995	FY1996
Number of commodities covered under global imports	3708	4056	4404	4533	4601
Number of commodities covered under imports from India	1308	1708	2104	2078	2129
Commodities imported from India as % of global imports	35.3	42.1	47.8	45.8	46.3

Note: Total number of H.S. Code at 8-digit level classified in the First Schedule of Imports is 5985

Source: Quoted from Rahman, M. (1998)

Table 12 provides data on the imports composition of Bangladesh from India for selected years during FY 1980 to FY 1996. It is evident from the table that Bangladesh's major imports items from India are vegetable products, textile and textile articles, machinery and transport equipments, chemical and allied products, mineral products, and base metals. Examining the data of FY 1996 we see that vegetable products constituted 36.64 percent of total imports of which cereals alone accounted for 33.24 percent. The second largest import category was the textile and textile articles, which constituted 27.43 percent of total imports. This category's rank was the first in FY 1991, FY 1994 and FY 1995. More than 50 percent of total imports from India were under this category in FY 1991.

Observing data for last three years it is revealed that textile and textile related articles plus the machinery and transport related equipment constituted for roughly 49 percent of total imports from India. Thus Bangladesh's total official imports consist of significant portion 'intermediate' inputs.

Table 12: Composition of Bangladesh's Imports from India (in percent)

Item	FY 1980	FY 1985	FY 1991	FY 1994	FY 1995	FY 1996
Total Imports	100	100	100	100	100	100
Veg. Products	11.15	8.91	6.52	7.24	13.91	36.64
Of which: Cereals	4.4	0.07	---	0.02	11.9	33.24
Textile & Textile articles	3.5	15.94	53.42	46.58	35.04	27.43
Of which: Cotton	---	---	27.17	33.39	25.96	21.36
Mach., Transport equipment & accessories	32.02	25.79	13.09	10.62	14.82	12.62
Of which: transport	14.36	7.29	3.89	4.84	8.35	6.46
Chemical & Allied Industries	11.98	10.85	4.32	7.08	8.99	6.21
Of which: Fertilizers	0.01	0.01	0.0003	0.92	3.67	1.91
Base Metals	4.18	2.47	3.11	6.35	7.84	3.62
Of which: Iron or Steel	0.68	0.51	0.36	2.58	5.61	1.91
Mineral Products	5.37	1.7	11.01	13.75	10.8	6.56
Of which: Cement	---	---	---	9.45	5.68	4
Others	31.8	34.34	8.53	8.38	8.6	6.92

Source: Quoted from Eusufzai, Z. (2000) and author's calculation

4. Problems Causing Indo-Bangladesh Trade Imbalance

Although the trade deficit with a particular country is not bad if the over all 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 only 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

Bilateral exchange rates between Bangladesh and India during 1986 to 1999 have been presented in Table 13 in order to explore the dynamics underlying this expansion of trade imbalance between these two countries. Available data exhibit that 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.

It is evident from the table that 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 from the Table 13. 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.

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.

Table 13: Trend of Exchange Rate between the Currencies of Bangladesh and India

Year	Nominal Exc.Rate Taka/Rupee	Real Exc.Rate* BaseYear 1995=100
1986	2.411	147.750
1987	2.388	144.873
1988	2.280	140.865
1989	1.989	123.012
1990	1.975	125.432
1991	1.609	109.427
1992	1.503	110.224
1993	1.298	98.276
1994	1.282	101.583
1995	1.242	100.000
1996	1.179	99.430
1997	1.209	103.792
1998	1.137	102.090
1999	1.140	100.877

* Real Exchange Rate is defined as $RER = EP^*/P$, where E is the Nominal Exch. Rate between *Taka* and *Rupee*, P^* s India's Price level (CPI) and P is Bangladesh's Price level (CPI).

Source: World Bank (2001), *World Development Indicator* and author's calculation.

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

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

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 and Eusufzai 2000, Dasgupta 2000). This is evident from the Table 14, which shows a comparison of nominal rates of protection (simple average and import weighted average) for both countries in three different sectors.

The table shows that Bangladesh sharply reduced its tariff rates in all categories of imports in FY1996 compared to FY1991². For intermediate and capital goods, both for the unweighted average and the import-weighted average, Bangladesh exhibited a slightly higher speed of liberalization than India. Tariff reduction in consumer goods sector though seems higher in India than in Bangladesh during this period, there were significant quantitative restrictions on consumer goods imports in India.

Table 14: Average Tariff Rates in Bangladesh and India for FY 1991 and FY 1996

Sector	Country	FY 1991	FY 1991	FY 1996	FY1996
		Unweighted	Import-Weighted	Unweighted	Import-Weighted
Consumer Goods	B'Desh	124.4	50.0	8.3	25.5
	India	145.5	105.9	33.1	39.3
Intermediate Goods	B'Desh	79.0	55.0	22.2	24.9
	India	129.8	73.8	36.9	33.8
Capital Goods	B'Desh	72.0	47.2	15.0	14.2
	India	105.2	92.5	35.3	33.2

Source: Eusufzai (2000)

Recently Indian commodities, compared to the world's commodities, faces lower average tariff restrictions in Bangladesh. Table 15 compares the dynamics of decline in the

² In FY2000, average tariff rate was 22 per cent. Average tariffs on capital goods, intermediate goods and consumer goods are 8.9, 15.5 and 29.2 per cent respectively. Only 2 percent of the items are subject to QRs (Kemal et al 2002).

average import weighted tariff imposed by Bangladesh on its imports from the world and India. It is observed that Indian imports faced a higher rate of tariff (31.16%) compared to the world average (24.14%) in FY 1992. However, import weighted tariffs on imports from India were lower (12.05%) than that from the world (17.33%) by FY 1996. This reverse scenario came because of almost 60 per cent decline of import weighted tariff rate between FY1994 and FY1995 on imports from India compared to 14.70 per cent decline on imports from the world (Eusufzai 2000).

Table 15: Dynamics of Decline in Average Import Tariffs of Bangladesh, FY 92- FY 96

Item	FY 1992	FY1993	FY1994	FY1995	FY1996
Weighted Average of Tariff for					
Global Imports (per cent)	24.14	23.56	24.09	20.79	17.33
Change (per cent)		-2.40	2.22	-14.70	-18.20
Weighted Average of Tariff for					
Imports from India (per cent)	31.16	23.48	25.09	13.77	12.05
Change (per cent)		-2.83	6.63	-59.99	-3.34

Source: 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. In Table 16, five types of such NTBs are mentioned that are imposed on imports of India. 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.

Table 16: Structure of Non-Tariff Barriers (NTBs) in India

Types of NTB	Goods Involved
Imports of commodities which are permitted only under license / public notice	Almost all consumer goods
Canalised imports permitted only through state trading corporations	Some categories of agro-commodities
Imports not allowed except in accordance with a public notice notifying permission	Some non-consumer commodities e.g. fish meal
Imports of inputs to export oriented units against a license / public notice	For example crude granite
Prohibited	Some particular commodities / drugs

Source: Rahman (1998)

Among other NTBs, the rules of origin (ROO) issue and infrastructural bottlenecks deserve to be mentioned here for huge trade deficit of Bangladesh with India. According to SAPTA agreement, local content in the exported goods has to be at least 50% of f.o.b. value of the product in order to receive preferential treatment / tariff concession. If goods are processed in more than one member country, the aggregate content originating in the member country must be a minimum of 60% of its f.o.b. value (Rahman 1998). As the manufacturing base of Bangladesh is not strong enough as India, this ROO criterion limits the export expansion of Bangladesh to India. This is particularly true for exports of

some cosmetic goods and toiletries, where Bangladesh has achieved notable expertise, and India has a huge market for this kind of products.

Inadequate infrastructure in Bangladesh also imposes severe limitations on trade expansion with India. There is severe lack of facilities of infrastructure in all land-routes, except Benapole. Severe limitations also exist in storage facilities. As a result, enhancing exports from Bangladesh to India is being constrained.

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 minimised 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 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.

Because of Bangladesh's great dependence on imported inputs for its exports, especially for manufacturing exports, low backward linkages of industries, the domestic value addition is also low. Hence concession given on the range of goods is extremely limited. So the ROO requirement should be modified in order to bring change in the local content requirement. To be eligible for SAPTA concessions, this local content requirement for Bangladesh's commodities should be brought down to 25 per cent. 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, fertilizer, newsprint, pharmaceuticals, small steel plants, chemicals, machine tools, fish processing and leather goods (Rahman 1998). The JVs investments in backward linkage textile sector is very important for Bangladesh to enhance the local value addition of the country's major export item, ready made garments. Both countries can also be benefited from the joint investment in information, communication and financial services. 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.

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

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

6 Summary and Conclusions

In this chapter, attempts have been made to highlight the importance of study of bilateral trade relationship between Bangladesh and India. Historically India has been the important trading partner of Bangladesh since its independence. Currently India is the 2nd largest trading partner of Bangladesh, and India's position is at the top for Bangladesh's imports trade.

The study also underscores the trend, structure and current picture of Bangladesh-India trade. It is observed that India's export share is much higher than import share, and Bangladesh's imports share is much higher than export share in the SAARC regional 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.

India and Bangladesh are very important trading partners in the SAARC region. India alone provided 94.1 percent of Bangladesh's imports from the SAARC countries in 2003. India's share in Bangladesh's total trade with the SAARC countries was 91.7 per cent, and Bangladesh's share in India's total trade with the SAARC countries was 40.91 per cent in 2003. In fact, Bangladesh is the India's largest exports market in the SAARC region. .

However, the trade relation between these countries is not balanced. Bangladesh has always been trade deficit with India, and recently it has increased very sharply. Since this trade imbalance has some economic and political implications on the Bangladesh economy, Bangladesh considers it as a matter of great concern. 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 NTBs imposed by the Indian government, huge illegal trade, diversified exports and technologically advanced industrial base of India are the main reasons of this huge trade imbalance.

Therefore, current 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.

So some remedial measures have been suggested to mitigate this problem. The governments, private investors and businessmen of both countries must work together to bring these measures into reality.

The government of Bangladesh must try to remove all structural impediments of exports expansion. Availability of sound physical, social and economic infrastructure, superior product quality, sufficient institutional facilities for banking, credit and insurance, improved law and order situation, labor unrest free environment, an honest and efficient administration and continuous political stability must be ensured for the country's export promotion. To encourage capacity building and to improve productivity and competitiveness in terms of both quality and cost, domestic and foreign investments must be attracted through appropriate government policies. Maximum efforts are to be devoted to diversify the export base.

Bangladesh should further devalue its currency to make its products more competitive. Measures must be taken to stop illegal trade; tariff and NTBs- free entry of Bangladesh's exports to Indian market must be ensured; more Indian investments in Bangladesh in the form of JVs must be encouraged.

There is no reason to believe that Bangladesh's exports would flood or disrupt the whole Indian domestic market if India establishes a unilateral free trade regime for Bangladeshi products, as Bangladesh's industrial base is relatively weak. So the Indian government should also be cordial to remove this trade imbalance.

Trade intensity indices imply that bilateral trade between these two countries was not as high as it should be. So there is a scope for mutual trade expansion. Trade complementarities between Bangladesh and India can be developed by vertical

specialization through production sharing arrangements. It would allow both countries to strengthen their trade ties and to reap economies of scale by concentrating on a specific production process in the value-addition chain.

For the economies of two countries a coordinated development approach is also essential. The two countries can work together in the field of tourism by joint marketing and joint publicity, and in establishing the price of jute by coordinated holding of stocks, etc.

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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