



ORF ISSUE BRIEF

NOVEMBER 2013

ISSUE BRIEF # 64

India, Bangladesh and Nepal: Learning Lessons, Facing Challenges*

Jayshree Sengupta¹

Introduction

In many ways, India is kindred with its two neighbours, Bangladesh and Nepal. Whether it is in geography or demographics, infrastructure or economic issues, or poverty and human development, these three countries find themselves in highly similar situations. At the same time, the three are facing challenges that are varied. How do these similarities and differences play out in the economic relations between the three nations? What lies ahead for these neighbours?

Geography and Demographics

India, Bangladesh, and Nepal, are all considered 'economies in transition' and have common economic, political, and social problems that prove to be difficult stumbling blocks in their path towards achieving high GDP growth. All three are contiguous neighbours and form a sub-region, comprising of northern and eastern India, Nepal, and Bangladesh. In language, culture, and religion, they have many things in common. Bangladesh and India share borders that measure 4,093 km.-long; with Nepal, the border is 1,580 km. long. Bangladesh and Nepal are located in a fertile terrain full of rivers, and the northern and eastern parts of India that are adjacent to these countries form the Gangetic basin which has a population of 400 million people.

All three countries have high population growth rates and experience the problems attendant to the huge pressure exerted on land and other resources. India's population is 1.29 billion, Bangladesh's is 140 million, and Nepal's is 30 million. The majority of the population in all three is primarily dependent on agriculture: around 65 percent of the population in India; 62 percent in Bangladesh; and 85 percent in Nepal.

* This paper is based on a talk given by the author at ORF's Kolkata Chapter on 5th October, 2013.

1. The author is grateful to Joyeeta Bhattacharjee (Associate Fellow, ORF) and Pooja Suri (ORF Intern) for their inputs.

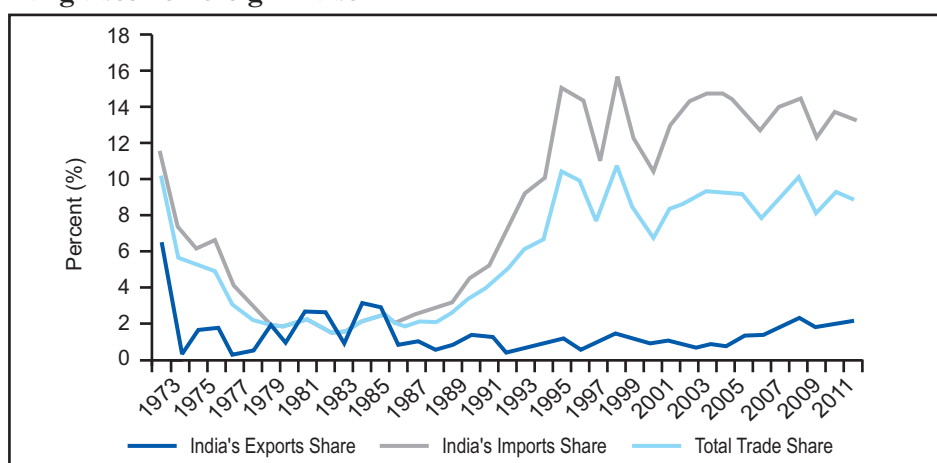
Observer Research Foundation is a public policy think-tank that aims to influence formulation of policies for building a strong and prosperous India. ORF pursues these goals by providing informed and productive inputs, in-depth research and stimulating discussions. The Foundation is supported in its mission by a cross-section of India's leading public figures, academics and business leaders.

The three countries, moreover, are all facing problems of insufficient power, water, and infrastructure; all are wooing foreign capital and technology. All three are highly dependent on western markets for their exports and have a growing, vibrant service sector. India's service sector has posted the highest double-digit growth rate in the past few years, while Nepal and Bangladesh's has grown at 6 percent. All three countries are set to get a new government in 2014, with elections due in the coming few months. In Nepal and Bangladesh, political upheavals are serious problems that disincentivise potential investors. All three countries have had high levels of poverty but all are experiencing a decline in poverty in recent years. India's poverty rate declined to 22 percent in 2012 from 26 percent in 2010, Nepal's to 25 percent in 2012 from 30.9 percent in 2003 and Bangladesh's from 31.5 percent in 2009 to 26 percent in 2012-13. Thus there is a comparable level of poverty although Nepal is a much smaller country and very different in many ways from India and Bangladesh, especially in topography. The bulk of the population in all three countries is young and job creation for the productive age groups has proven to be one of the biggest problems of all.

Due to such lack of adequate job opportunities, all three countries send a large number of migrant workers abroad. The migrants' remittances supplement household incomes in the home countries and help raise the standard of living of their low-income families. Around US\$61 billion is sent by migrant Indians as remittances from abroad every year; the amount is US\$13 billion for Bangladesh and US\$39 million for Nepal. All three countries have problems of inadequate food security. Food inflation has been high in India for the last three years. Although all three are primarily agricultural countries, the prevalence of hunger is high. Not one of these three countries is expected to be able to eradicate hunger by 2015, which is one of the United Nations Millennium Development Goals (UN MDGs).

For its part, India passed the Food Security Bill in the second half of 2012. This law is designed to guarantee a minimum amount of food grains per month to every poor family. Nepal, meanwhile, is facing a problem with providing food to the poor and imports food grains from India. Similarly, Bangladesh also imports food grains from India. Low productivity in agriculture is a problem that is common to all three. In agriculture, the earnings of small farmers remain low. In India 80 percent are marginal and subsistence farmers. There is a need to protect agriculture in all three countries because cheap imports of food would jeopardize farm incomes and lead to problems for the small farmers as they may lose their means of livelihood.

Bangladesh's Foreign Trade



Source: Bank of Bangladesh

There is intensive trade taking place between all the three countries that is both formal and informal in nature. India, being the biggest of the three, imports less from both Nepal and Bangladesh and exports more. The other important trade partners for all three are the EU and the US. India has a trade deficit with both Nepal and Bangladesh which is a major problem in its economic relations with these countries. The trade deficit with Bangladesh is \$4.2 billion and with Nepal, it is around \$3 billion.

India has an established manufacturing sector and both Bangladesh and Nepal import machinery, transport equipment and raw materials. Industry contributes 26 percent of the GDP in India, 31.2 percent in Bangladesh and much less in Nepal at 14.3 percent.² All three countries have a big informal sector where workers are not protected against illnesses, unemployment or old age. The informal sector absorbs most of the new job-seekers in these countries: approximately 90 percent of the labour force in India; 89 percent in Bangladesh and 96 percent in Nepal. Garment manufacturing which is in the informal sector has become a speciality of Bangladesh and export of garments is the single most important item for Bangladesh, contributing 77 percent of the total merchandise exports. Both Nepal and Bangladesh import more goods from India than from China.

Trade and Tariff Barriers

Even though trade has increased between India and its two neighbours in the past, there have been problems with trade expansion between the three nations. Both Nepal and Bangladesh are today engaging in freer trade relations with India than before with across the board tariff reduction by India and a shortening of the negative list. Yet Nepal and Bangladesh have not been able to increase their imports to a desirable level. They blame the presence of Non-tariff Barriers as the main reason for not being able to make a headway in pushing through more exports to India.

Both Bangladesh and Nepal have complained of lack of easy access to Indian markets. The non-tariff barriers—such as phytosanitary checks at the border and, quite often, the refusal of Indian officials to accept certification of products by Bangladeshi and Nepalese authorities—have created some issues. There are also packaging requirements, as well as quality-testing of products, especially food items and fish. These act as obstacles to trade expansion.

Other reasons include inadequate border infrastructure, which hinders the efficiency of customs clearance. There is long waiting and congestion at the borders of both countries with India and this leads to higher transaction costs. There is an obvious need for Integrated Customs posts—a process which has already been started.

Another problem is that trucks cannot enter the territories of the importing country and there has to be a transfer of goods from the in-coming truck to a local truck that then carries the goods to the interiors. This takes time and affects the quality of perishable products. The procedures involved for exporters in Nepal and Bangladesh to send goods to India are long and cumbersome. There is need to have uniform standards and adoption of HS codes for smoother trade flows.

2. Bangladesh Economic Survey 2012 and Chandan Sapkota Blog (Nepal) 2013

Nepal's Trade Deficit and India's Share



Nepal's Trade with India

Even though quotas have been imposed on Nepal's exports in the past, many trade facilitation measures have been undertaken in recent times.³ India is the most important destination for Nepal's exports and 60 percent of its exports are to India. Nepal also imports 53 percent of its total requirements from India. The Maoist insurgency, which started in 1996, was followed by a dip in foreign and domestic investments and caused a disruption in exports because the only highway to India was closed down due to the upheaval.

In recent years, the basic structures of trade agreements between India and Nepal have been based on the 1996 India Nepal trade treaty. The revised Treaty of 2009 was aimed at greater trade promotion and to last for seven years. It has provisioned for greater access to Indian markets for Nepal's exports. The Indian government has also assisted Nepal to increase its capacity to trade through improvement in technical standards, quarantine and testing capabilities and related resource capacities. According to sources in the Indian government there has been an effort to simplify, standardize, and harmonize all customs, transport, and other trade-related procedures and has tried to help in the development of border infrastructure. The Treaty includes a reduction or elimination of non-tariff, para-tariff and other barriers to trade.

It also allows duty-free temporary importation of used machinery and equipment into Nepal to repair and maintain such equipment 10 years from the date of exportation. The time limit has been raised from three to 10 years. There is a provision for the occasional exchange of trade-related data between the two countries in order to facilitate trade flows. Regarding phytosanitary measures, the Treaty allows certification in Nepal by a competent authority. According to the Treaty, India would also help Nepalese capacity building in enabling such competent authorities to fulfil the mandatory requirements. It would help Nepal in exporting processed and semi-processed food products to India.

3. There are 24 steps required by a Nepal exporter and it takes 6 months. About 8 principal documents, 7 auxiliary documents and 7 regulatory documents are required plus 100 signatures and 16 to 18 hours for completing this process.

Four additional land customs stations have been incorporated in the revised Treaty. Bilateral trade enhancement would be carried out through air links between Kathmandu, Kolkata, Delhi, Chennai, and Mumbai, to allow Nepali exporters a wider threshold for eligibility for preferential entry to the Indian market. The government of India, however, has not provided an exemption to all Additional Duties (countervailing duties) but has agreed to consider waivers of duties over and above additional duty upon request from the government of Nepal. Finally, the value of Nepalese exports would be considered on FOB basis rather than ex-factory prices.

Bangladesh's Trade with India

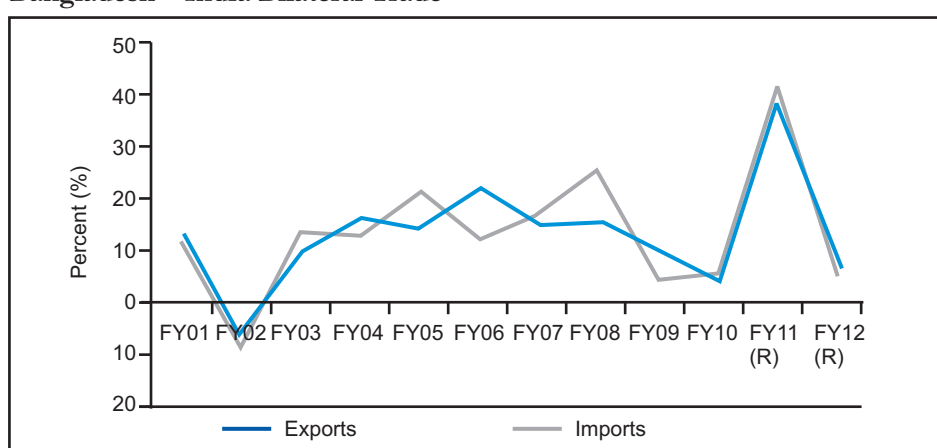
In the case of Bangladesh, there have been problems regarding formal and informal trade. There is an illegal cattle trade that exists between India and Bangladesh, which has led to the killing of some of the traders by the border security forces on both sides. These killings, in turn, have caused concern in both countries. There have also been incidents of people trying to cross over to India being shot and killed.

Bilateral trade between India and Bangladesh (Figures in US\$ million)

	05-06	06-07	07-08	08-09	09-10	10-11	11-12
India's Exports	1864.7	2268.0	3364.0	2841.06	3202	4586.8	4743.3
India's Imports	241.96	289.42	358.08	276.58	305	512.5	498.4
Total trade	2106.70	2557.40	3722.08	3117.64	3507	5099.3	5241.7

Bangladesh's trade deficit with India is a contentious issue because India exports around \$5 billion worth of goods and Bangladesh exports only around \$500 million. India's export growth to Bangladesh has been at nine percent per annum since the 1990s but Bangladesh exports to India have grown only by three percent annually.

Bangladesh – India Bilateral Trade



Source: Bank of Bangladesh

The rupee's depreciation in the last year has made Indian goods more competitive vis-a-vis Chinese goods; as a result, it fuelled smuggling. Bangladesh imports raw materials and food from India such as raw cotton, fibres, and rice. It exports mainly garments, fertilizers, saris, jute, and fish. Among the new trade facilitation measures between India and Bangladesh, it has been suggested that there should be

border *baats* along the border. India has given 10 million pieces of readymade garments duty free access and removed 46 textile items from the negative list. However, some non-tariff barriers remain. Around 600 items are still under scrutiny and require sanitary and phyto-sanitary certificates and import permits from the Indian Ministry of Agriculture. India's Food Adulteration Prevention Act (1955) contains provisions that are complicated and no certification from the country of origin is easily accepted. The results of laboratory tests are often challenged and separate regulations exist for various food types.

All textile products from Bangladesh require inspection certificates from a textile testing laboratory accredited to the National Accreditation of the country of origin. The non-availability of certificates may require testing from notified agencies in India for each and every consignment, which is time consuming and tedious.

However, recently, India has granted recognition of certificates issued by Bangladeshi testing labs. India and Bangladesh will finalize an agreement on bilateral cooperation to enable mutual recognition of each other's standards for specified products. Standardization of weights is an important requirement. India, however, has insisted on random sampling. In addition, the Indian Textile (consumer protection) Regulation Act of 1988 imposes strict marking requirements for yarns, fibres and fabrics imported into India. Import of jute products to India must have certificates from the exporting country regarding batching oil content. Jute bags require special labelling and each bag or sack must carry machine-stitched markings of the country of origin.

Bangladesh also imposes several NTBs and supplementary duties on Indian exports. It does not allow all imports from India to enter Bangladesh from all its ports. For example, there are restrictions imposed by Bangladesh on Indian exports of vulcanized rubber thread especially through Akaura. Exports of yarn, milk powder, fish, sugar, and potatoes from India also face port restrictions. Not all Indian ports accept cargoes from Bangladesh, either. Bangladesh still maintains 225 items in its sensitive list with respect to its trade with India. These include pharmaceuticals, some types of machinery, and textiles. It imposes a six-percent supplementary duty on imports of plastics from India.

Bangladesh has urged India to expand facilities at smaller customs ports in India. Also Bangladesh has asked India to streamline its customs procedures and administration. Ports are excessively congested because 60 percent of Bangladesh exports to India pass through Benapole on the Bangladesh side and Petrapole on the Indian side. There is too much pressure on these two ports and hence alternatives have to be sought in order to reduce delays. There should be more Integrated Customs Check Posts considering the heavy flow of traffic. There are only eight custom stations and seven Integrated Check Posts along the India-Bangladesh border. It is obvious that many more are needed to handle the traffic and ensure its smooth flow and reduce the turnaround time for trucks.

In services there is a vibrant and growing trade between the two countries. But Indian professionals and companies face difficulties in sending remittances back to India. Indian exporters can only remit dollars converted from takas as royalty, consultancy and other types of charges and there is a ceiling on the repatriable amount. Only six percent of the sales proceeds can be repatriated from Bangladesh. Similarly, Bangladeshis face problems in bringing in money when they come for medical treatment in India.

Investments

The rate of investments amongst the three countries has not taken off to a significant level in the past many years. For Nepal, India is the biggest investor comprising 50 percent of the total inflows of foreign investment. There is an enormous potential for increasing India's investment in Nepal and Bangladesh but there are many hurdles in the way.

However, recent political problems in Nepal and lack of political stability have stood in the way of enhancing investment from India to Nepal. More FDIs from India can flow into manufacturing like processed food, textiles, pharmaceuticals, and service sectors like tourism, telecom and IT. Nepal needs to undertake institutional reforms that would strengthen governance, improve the regulatory regime and improve its law and order situation. India has to first invest in horizontal infrastructure like roads, rail and hydropower before it can invest more in the manufacturing sector of Nepal.

India and Nepal have signed an important Bilateral Agreement on Promotion and Protection of Investment in 2011 and also a revised Double Taxation Avoidance agreement in 2011. As of October, 2012, India has 462 ongoing projects in Nepal.

With Bangladesh, India has signed the Bilateral Investment Promotion and Protection Agreement (BIPPA) in 2009 that assures investors that their capital would be safe. A large number of Indian firms, both public and private, have been working on different turnkey projects in Bangladesh in sectors like power, transmission lines, telecommunications, textiles, chemicals and pharmaceuticals, glass, plastics, and engineering. Indian investments in Bangladesh for FY 2011 were at \$210 million. Cumulatively, Indian investments amounted to around \$850 million till FY 2011.

Some of the major Indian investments in Bangladesh are Bharti Airtel and Tata International Ltd. Bangladesh, however, needs to encourage the inflow of investments from India by taking specific positive steps, including: opening a single-window clearance for new business proposals; creating an industrial park for Indian investors in Bangladesh with all the needed infrastructure facilities; and upgrading its tax holiday system. Some of the problems regarding the smooth flow of trade and investment emanate from the India-Bangladesh visa requirements. It also creates problems in increasing the volume of tourism.

Water Sharing Issues

Bangladesh shares 54 rivers with India. Problems of sharing river waters have existed from the 1950s with the Farakka Barrage on river Hooghly. Similar problems about India-Nepal water sharing can be traced from the time of Independence. More recently the Pancheshwar Dam water sharing and power project and the Mahakali hydro power project have been put on hold due to political unrest in Nepal.

All three countries need water for agriculture which is the mainstay of the majority of the population. The summer months are most difficult for Bangladesh as many of the rivers dry up. The inability to come to an agreement on the Teesta water sharing treaty has soured the diplomatic relations between

India and Bangladesh in recent times. The construction of Tipaimukh Dam on river Barak is another controversial issue between the two countries. The dam has been built to control floods and to generate hydroelectric power. Bangladesh's objection is that the massive dam will adversely affect downstream agriculture and fisheries. Thus there is an environmental factor involved.

One of the fallouts of the stalled Teesta Treaty has been that Bangladesh has denied access through its territory for transshipment of goods by India to its North Eastern states. This acts as a big hurdle for India in easy transportation of goods to its North East, and raises costs. If the transshipment had been granted, investment on infrastructure would have been forthcoming from both India and Bangladesh and the region along the route would have developed, thus creating employment opportunities. The reason given by Bangladesh for not allowing transshipment is that the infrastructure in that region is very fragile: with the potentially huge volume of traffic, the condition of the roads would worsen. India has already granted a US\$1-billion loan for infrastructure development to Bangladesh which is hoped to help in improving the conditions of roads.

The hydroelectricity generation potential between India and Nepal is enormous and yet the water issue has been highly politicized and no hydro project has managed to take off. As a result, both India and Nepal suffer from power deficit. Nepal is in greater need of power as the deficit is leading to hours of load-shedding every single day, disrupting all activities including manufacturing and services. India has recently launched a project for export of 250 MW of power to Bangladesh. India also exports 20-30 MW to Nepal.

Border Issues

Nepal has an open border with India while Bangladesh has the longest border of 4,093 km with India. Border issues with Bangladesh are serious and the exchange of Border enclaves has been pending for a long time. It is awaiting the approval of the Indian Parliament. There has to be better Border management, and the ratification of the Land Boundary agreement that involves the exchange of enclaves ought to be expedited. India has 111 enclaves inside Bangladesh while Bangladesh has 51 enclaves in India. These are located in the Cooch Bihar district of West Bengal and Rangpur in South Bangladesh. The problem is that despite being isolated, they are part of the mainland. Till 1991, there was free movement and thus the residents of these enclaves could easily move to the mainland. When India-Pakistan relations began to sour, however, movement became restricted and the problems of trade and transit arose.

With Nepal, meanwhile, the problem is one of an open border which has led to an increase in cross-border terrorism, and the smuggling of narcotics and other contraband items. There is a constant flow of informal trade across the borders of India, Bangladesh, and Nepal. This has to be checked because all the bordering states involved are losing revenue from trade. Formalizing the informal trade will create jobs and incomes.

Nepali nationals crossing over to India for jobs has been quite common, and currently, more than 6 million Nepalis are employed in India. Bangladeshis also cross over to India and often the migration is

temporary - they go back to Bangladesh after they have earned a sufficient amount of money. Many migrants stay back and even in the capital city of Delhi, there are many Bangladeshi migrant workers. They are also there in other metro cities and this has been a source of tension between the countries. India has signed an extradition treaty with Bangladesh. There is also the question of re-admission of migrants from Bangladesh which has to be addressed in the same manner as in the European Union (EU).

A majority of the migrants are economic migrants and settle down in neighbouring states of India. Nepalis have settled in North Bengal for decades now; in fact, they are demanding for a separate Gorkhaland. Similar enclaves of Bangladesh migrants are present in the northern and eastern parts of West Bengal. There would be less migration if the three countries had the same level of development and growth; they do not, however, and so migration has become a more serious issue especially with regard to Bangladesh.

Areas of Cooperation

India is the biggest development partner of Nepal. It has helped in its infrastructure, small-scale manufacturing, and education programmes since Independence and since the signing of the Friendship Treaty in 1950. India has sponsored small development projects in Nepal that have been quite successful. Similar small development projects can take place in Bangladesh that would be easy to monitor and coordinate.

There can be cooperation in the area of Human Development. Nepal needs resources for implementing a comprehensive primary education programme. Bangladesh has successfully carried out its primary education programme and can assist Nepal in this area. India has already been active in rendering technical assistance to Nepal's education sector.

There can be greater cooperation in cross-border patrol in order to control terrorist activities, arms trade, and the smuggling of contraband. Another area is that of increasing opportunities for women. Bangladesh, for example, has mobilized rural women in its garments sector. Similar programmes can be initiated in India and Nepal to encourage greater participation of women in the work force. Bangladesh's human development indicators are also improving rapidly especially in the area of women's health. There is a lot that India and Nepal can learn from Bangladesh's example.

Then there is food and nutrition: the three countries can possibly cooperate in ensuring that nutritional standards are raised and observed. It is an important arena, considering that India, for example, has the highest number of malnourished children under the age of five in the world. Cooperation with its neighbours will only do the country good.

On yet a bigger scale, the three countries can cooperate in implementing their best practices in poverty alleviation programmes. In healthcare, moreover, India would have a lot to teach Nepal and Bangladesh, given its highly superior infrastructure and skills. India can help, for example, in conducting trainings for doctors, nurses, and other health professionals in the two countries.

India can also assist in Nepal and Bangladesh's technical education, as well as in transferring appropriate technology. Training institutes in India can train labour from Nepal and Bangladesh in IT, software, engineering, and pharmaceuticals. There can be joint agricultural research and a joint effort in preserving the sub-region's biodiversity. The sub-region is also susceptible to climate change disasters. All three have to look into more ways of switching to renewable energy and Green technology. There is huge potential for cooperation in research and application of Renewable energy.

Another area is connectivity: All three countries can be better connected with more roads, and rail and air links. With better communication and transportation systems, the region can aspire to increase trade, investment and tourism that would help in its development. With a combined market of 1.5 billion people and access to massive human and material resources, there is scope for job creation and, consequently, higher standards of living and poverty reduction. Thus all the three countries need to increase the level of communications and invest more in social and physical infrastructure. This will enhance the incomes and wealth of the people.

Conclusion

India, being a giant compared to its two small neighbours, can afford to be generous and not insist on the principle of reciprocity. After all, if regional income disparity is not reduced, it will only create problems in the long term. India has granted a credit line to Bangladesh for US\$1 billion in 2009. For Nepal, India has extended INR 402 crores in grants for 370 development projects and capacity building.

All three countries have problems with good governance and sustaining democracy though India is a well established democracy. Eradication of corruption stands high in the agenda for reforms in all the three countries. It is because of pervasive corruption that there are so many leakages in the implementation of development projects and poverty alleviation programmes and the countries are not able to progress and grow at a high rate. The fallout of corruption is greatest among the poor who have to pay a high price for getting even the minimum services in fulfilling their basic needs that would allow them to live with dignity.

Fighting corruption should be the endeavour of all three countries. Also, fighting extreme poverty. Social safety nets for the informal sector workers must be worked out, too. Providing jobs to people living in the bordering states between India and Nepal can be achieved by establishing EPZs in the neighbouring areas and training of personnel can be carried out in institutes along the border. There could be food processing industries set up on both India-Nepal and India-Bangladesh borders.

Instead of having only governments talk to each other, there should be more people-to-people and business-to-business contact which would enhance exchange of ideas and possibilities of joint business ventures. The gains from having better economic relations between the three countries are enormous and will raise the incomes of the people in the sub-region. It will lead to higher chances of peace and harmony being achieved in the area.

Discussion

One speaker began by stressing that Bangladesh is not a small country. As far as the size is concerned, Bangladesh may be a small country, but when human development indices like maternal mortality rate are concerned, it is the population that matters. The population of Bangladesh is 160 million which suggests that Bangladesh is not a small country; of the total, 50 percent or 80 million comprise of women.

Empowerment of women has certainly taken Bangladesh ahead not only in the economic front but also in the social front. For example: 5,600 ready-made garment industries exist in Bangladesh and these industries employ 4 million workers. Out of this total workforce of ready-made garment industries 85 percent of the workers are women. Bangladesh owes a lot to women for the elements that the country takes pride of today. Its growth rate has been 6.55 percent on an average in the last four years despite the global recession. Another example of the empowerment of women and the role played by women in Bangladesh which has contributed significantly to the socio-economic development of the country is the operation of micro-credit. Roughly, 20 million women directly and indirectly are involved in the operation of micro-credit sector for the last 30 to 35 years.

India's economic relations with Bangladesh are not limited only to trade. Trade is just one aspect of it, the situation of which is not very encouraging. Even in terms of intra-regional trade among South Asian Association for Regional Cooperation (SAARC) countries, in 1985 when the SAARC was formed the total trade was only three percent. With the number of countries going up from seven to eight since 1985, the inter-SAARC trade today still stagnates at five percent.

It is not just discouraging but it is pathetic to note particularly if trade within SAARC is compared with Association of South East Asian Nations (ASEAN). Bangladesh and India are the largest trading partners of each other amongst SAARC countries. Within the SAARC region, India is the largest destination for Bangladesh's exports and, conversely, Bangladesh is the largest destination for India's exports. However, many would be surprised to know that the largest export destination for Bangladesh is outside the region. Bangladesh's largest export partner is China, or China and Hong Kong taken together. In imports, Bangladesh imports 14 percent of its requirements from India and 20 percent from China.

Though there are signs of improvement in the quantum of trade within the SAARC region, the pace of improvement is not encouraging: a mere two-percent increase in intra-SAARC trade in the last 28 years could be considered pathetic. The question is: Why is not trade growing on Bangladesh's side, as far as Bangladesh exports to India are concerned? The situation will never change overnight, although now the Indian government gives duty-free access to imports to South Asian Free Trade Agreement (SAFTA) signatories. The Indian government has removed 455 items from the list of sensitive items from the least development countries of SAFTA from 480 items. Bangladesh's exports to India in the last fiscal year were US\$554 million and India's exports to Bangladesh were US\$514 billion. India registered a growth of about 35 percent in the last fiscal year, compared to the previous year, while Bangladesh's growth was about 14 percent. Bangladesh's exports constitute 2.09 percent of the global

exports that comes to India. Its total exports today stand at US\$27 million. Similarly, 1.79 percent of India's exports are bound for Bangladesh. Thus it would be better not to press for equal trade, but equitable trade. Non-tariff barriers imposed by India are the major obstacles for equitable trade between the two countries.

These obstacles need to be addressed by India, failing which exporters from Bangladesh would not be interested in the Indian market. Since the ready-made garments industry blossomed in Bangladesh in the late 1970s, the exporters have found comfort in dealing with European Union and North American buyers. Now they are diversifying their destination of exports, particularly the export of readymade garments. The destinations which Bangladeshi exporters are eyeing, which are beyond South Asia, include: Australia; Japan; Republic of Korea; and China.

India is still not a prospective destination of readymade garment industry for Bangladesh. The apparel export to India has increased recently after the duty free access was given by India but that increase has been nominal in comparison to the growth that Bangladesh has seen in recent times with export destinations in other regions. Bangladesh's total apparel export was worth US\$21.5 billion, out of which US\$75 million came to India, which comprise only 0.35 percent of Bangladesh's total global apparel exports.

Until and unless a quantum increase in the export of readymade garments to India takes place, the two countries would not see a jump in trade. Now, is India a destination for Bangladesh's exports? Are Bangladesh's exports competitive? The answer is yes, the domestic Indian ready-made market in 2015 would be worth US\$38 billion and even if Bangladesh imports the fabric from India with the duty-free access in place, Bangladesh can manage to make its product competitive in India, because of Bangladesh's extremely competitive labour force. That is the reason why, Bangladesh manages to remain the second largest knit-ware exporter in the world and third largest woven-garment exporter in the world. Among the other export items on Bangladesh's exports list jute, Hilsa (fish) would continue to contribute to exports but for the quantum leap in exports to take place, readymade garments need to enter in a big way. Hence, the need for non-tariff barriers to be reassessed.

Beyond the trade between the two countries, the Line of Credit given to Bangladesh by India worth US\$1 billion is so far the largest given by India to any country. Out of the total, US\$200 million have been converted as grants and US\$800 million allotted for 16 projects in Bangladesh. One of the projects is to upgrade Bangladesh's capacity of product testing standards and make them at par with that of India. This is a new area of cooperation between the two countries. Power sector cooperation is another area. The grid between Behramara and Murshidabad, which was formally inaugurated on October 5, 2013, has a total capacity of 1,000 Mega Watts.

Another area of cooperation is water cooperation. Bangladesh has 54 international rivers and only one agreement has been reached between the two countries in the last 42 years. Agreement on sharing waters of the Teesta river is still to take place. Nor has the land boundary agreement. The political importance of these agreements for both the countries would make the agreements materialize, sooner or later. However, these are some of the non-delivery issues between the two countries.

What is the future of India-Bangladesh economic relations? The sub-regional cooperation between Bangladesh, Bhutan, India and Nepal has immense potential. A meeting of Bangladesh, Bhutan and India representatives has already taken place for cooperation in the power sector among these countries. Investment is another area of cooperation between Bangladesh and India. Bangladesh has already attracted US\$7 billion worth foreign direct investment and Indian companies have also invested in Bangladesh. However, there are certain issues, but considering the incentive schemes offered by Dhaka and the favourable investment climate in Bangladesh, the country has been able in the recent past to attract investment from India.

In conclusion it was said, India must act as an elder brother and not as a big brother, as the element of care is a characteristic of an elder brother and not a big brother. On the India-Nepal question, another speaker emphasized that trade between India and Nepal covers two-thirds of Nepal's international trade. In the last 10 or 11 months, Nepal's exports grew by 1.9% while imports grew by 22.7%. The GDP of Nepal stands at US\$17.92 billion, whereas that of Bangladesh was around US\$1,044 billion and of India, US\$1.84 trillion. The reason for highlighting this fact is to give an idea of the three economies. India's economic position indicates that even a minor move on India's part can be either a huge shock or a great gesture towards Nepal's economy.

Since trade is taken as an engine for the growth of a nation, trade relations were an important indicator of a country's abilities. In the case of Nepal, exports constitute mainly low-value products like minerals, agricultural produce and some manufactured items like textile, chemicals and food products. Dr. Sengupta's attention was drawn to the fact that it was not only tariff barriers which stood against the free flow of trade but also non-tariff barriers.

In a recent survey conducted amongst traders of Nepal, 57 percent of the respondents said that they want Nepal to trade with India; 13 percent said no; and the remaining 30 percent were indifferent. Why were the 30 percent of the traders indifferent? The reason was perhaps the tariff and non-tariff barriers imposed by India on Nepal whenever Nepal had tried to grow economically. Such barriers have discouraged the trade fraternity which led to trade diversification with other countries. So the experience of Bangladesh and Nepal in this regard is similar as both countries are facing high transaction costs with India. It is important to note that tariff rates are also levied by state governments in India.

Article 5 of the Treaty of Trade between India and Nepal succinctly says that in order to promote the industrialization of Nepal, India will, on a non-reciprocal basis, be ready to provide access to Indian markets of manufacturing goods of Nepal without quantitative restrictions and zero tariff. In the case of non-tariff barriers, Nepal has regulations in place which were recently modified by India, requiring testing facilities for goods imported. In the absence of such facilities at border points, agro and herbal products perish at the border areas. Till about 2002-2004, Nepal grew considerably in certain areas like copper and other industrial products but all of a sudden quantitative restrictions were imposed and as a result these items faced constraints. The fact that Nepal is land-locked is another limitation as it has to depend on India for transit routes. Nepal being a small country has to import raw materials and semi-finished goods and often transit becomes costly and time consuming via India.

The presence of China as a factor in the regional geopolitics was also mentioned. It was proposed that Nepal could be a corridor between the two aspiring economies—India and China. Reference was made to the possibility of Nepal sharing power generation with Bangladesh and Bhutan and creating a power highway with transit lines. Other areas of regional cooperation include energy, simplification of visa norms and customs, connectivity and so on.

Finally, it was said that the academic community in Nepal believes that India works from a 'security approach', that functioning from an economic approach instead of a security approach would be more beneficial. It was further said that India was a great country in terms of its size, civilization, population and economy and hence Nepal could expect India to have a big heart and behave like a responsible neighbour.

One speaker began by stating that international relations is all about perception, as people have different ways of perceiving reality. In response to the view that India, being big, should be generous to its smaller neighbours, it was pointed out that generosity in inter-state relations is not a sustainable proposition. While a one-time act of generosity is possible, generosity can never be a sustained part in the lexicon of International relations or International trade.

In talking about non-tariff barriers, it was said that it is a "disease" common to all South Asian states. It is only because India deals with a greater variety of commodities and services, that its cumulative barriers seem much larger than others in the region. However, the fact is that non-tariff barriers, import restrictions and standard duties are pretty much the realities for Bangladesh and Nepal just as also for India.

It was clarified that the movement of goods and services are more people-driven than government imposed. The market forces explain this. To put it simply, why shall India buy a certain commodity when it already produces the same product in substantive quantities? Conversely, why should a country buy a product for which there is no significant demand in its domestic market? Therefore, deficit is hardly a marker of trade relations for bilateral trade is not a reflection of the state of relations between two countries. The South Asian countries produce similar goods and India, by virtue of the economies of scale, has an edge over others.

India has moved into a bigger picture - from a restricted bilateral partner to a regional trader as evident in energy sector. India earlier used to position Bhutan, for instance, at her backyard. However, now India includes Bhutan along with Nepal and Bangladesh in its drive for power grid cooperation. On the Teesta river agreement, paucity of correct data was a major problem notwithstanding the impasse between West Bengal government and the Centre. At the same time, on Tipaimukh, Bangladesh has given a green signal and it has not materialised because of India's own problems. India may be blamed for having the clout of an upper riparian nation in dealing with Bangladesh and in failing to follow a basin approach. It was reiterated that economic relations also depend on political stability of a country.

The speaker clarified that it is not China but security which is determinant of relations among countries in the region. Cooperation is possible on terms of equality and not generosity.

It was observed by one speaker that political problems in Nepal have contributed in a major way to bilateral relations between India and Nepal. The fragile political system has contributed to over dependence on India and migration of youth in search for opportunities abroad. (Nepal has the highest migration rate in the world.) In addition, lack of land reforms and failed development programmes are major hindrances to the economy which is further aggravated by poor infrastructure development. There is also dominance of the informal sector because of the long political turbulence. It was also stressed that Nepal should not be known simply as a land-locked country, but rather as being land-linked to the neighbouring region, while sharing open borders with five states of India. The large percentage of labour population also needs attention.

Besides this, among the sectors where Nepal could seek to harness its potential are hydropower, tourism, and its rich natural resources and biodiversity. Cooperation in the region led by India will be more effective if it is from an approach of shared prosperity.

A speaker admitted that there are trade imbalances between India and Bangladesh. Till 1985 India was the most important trading partner of Bangladesh. Since then China has steadily taken over as the largest trading partner. The trade between India and Bangladesh in 2005-06 was US\$241 million and in 2011-12 it reached US\$498 million. This indicates that the trade between the two countries is steadily growing. However, it is true that the trade cannot have a quantum leap overnight. Recently, India has given territorial export access to all items in Indian markets. However for trade to grow, a trade agreement between the two countries is needed.

There are some constraints. For example, Dhaka needs to create a single-window clearance system for new business proposals, an industrial park for Indian investors and tax holiday system for Indian investors to attract investment in Bangladesh. India is behaving like an elder brother; 200 million has been given as grants to Bangladesh out of the 1 billion dollars line of credit. A free trade agreement is required where, Bangladesh is a bit reluctant. The free transit, rail and road transport is not happening, as agreed to earlier by Bangladesh.

The regional and inter-regional connectivity is important for not just connecting countries in the region but also connecting South East Asia. The proposed trans-Asian highway is also stuck up. For any relationship to grow, stability in a country is important. Both India and Bangladesh are going to face elections early next year.

The inter-state water dispute issues came up for more than once in the course of the session. This may be viewed as a magnified version of Tamil Nadu-Karnataka water dispute, expressed one among the audience. The Tsangpo river dam issue again may be paralleled to Teesta or Tipaimukh issues. Water, energy and environment issues are inextricably linked and one cannot be studied or assessed in isolation. Collectively, these three issues largely characterize and determine India, Nepal and Bangladesh relations in the region.

The idea of shared prosperity must be prioritized in the interest of better relations in the region. In this regard, how more and more transit routes may be worked out in the North-East to promote free trade

between India and Bangladesh was another idea that had come up. One important question was raised – In face of huge migration from Bangladesh, how can the incoming population be cared for, given India's own resource crunch? On the issue of possible environmental damage by Rampal power station of Bangladesh, it was clarified that according to Environmental Impact Assessment report, the Rampal power station is situated outside the periphery and it imposes no threat to aquatic bio-diversity of the Sunderbans.

One speaker acknowledged that migration remains a big challenge for India but cooperation, sharing of resources and generosity from a bigger to a smaller nation must be upheld in managing relations with our neighbours.

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Jayshree Sengupta is a Senior Fellow at Observer Research Foundation, New Delhi.



Observer Research Foundation,
20, Rouse Avenue, New Delhi-110 002
Phone: +91-11-43520020 Fax: +91-11-43520003
www.orfonline.org email: orf@orfonline.org