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13 < 1% match (publicații)
Chandrima Sikdar. "Bilateral trade between India and Bangladesh: A general equilibrium approach", Economic Systems Research, 9/1/2006

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13**Bilateral Trade between India and Bangladesh** Abstract: **The**

2**importance of improving trade flows between India and Bangladesh is not only beneficial to them, but for the whole SAARC region, given that Bhutan and Nepal utilise Bangladesh ports as gateways to trade outside the region. Bangladesh's overall exports are dominated by labour-intensive manufacturing and its imports to India by primary commodities. The shares of manufactured goods in country's overall export were about 92 and 91 percent in 2001 and 2011 respectively. However, the composition of**

2**bilateral trade between these two countries has been changing over time. Addition and removal in the list of products of trade basket is a usual process. Consistent products in the trade basket of Bangladesh are ready made garments and sea food, whereas those of India are raw cotton, cereals and products and machinery of iron and steel. Expansion of trade of these countries with outside world, but not with each other confirms the prevalence of certain barriers, physical or non-physical in nature, rendering many potential products remain untraded. India and Bangladesh being geographically proximate to each other possess huge scope to trade. Specifically as both the countries are rich in natural resources and are competent in the production of small-scale manufacturing and agrarian supplies, mostly from the eastern parts of India and Bangladesh, both possess huge potential for bilateral trade. Many items having high trade potential are still not able to get market exposure in the neighbouring country because of**

various non- tariff barriers prevailing in current trade scenario, which have hiked up the cost of doing business to unacceptable proportions and as most of the highly tradable products are still kept under the sensitive lists of Bangladesh. There are numerous bottlenecks in the current trade infrastructure which turns out to be physical barrier to trade.

The present paper highlights the import export and Exchange Rate change and prospects of bilateral trade between the two countries. Key words: Land Boundary Agreement (LBA), Bilateral Trade, Line of credit and investment, GATT/WTO JEL Classification: F1, F2, F4 1. INTRODUCTION: Bangladesh and India

3**are South Asian neighbors. Generally relations have been friendly, although sometimes there are border disputes. The historic land boundary agreement was signed on 6 June 2015 which opened a new era in the relations and further stopped all irritants in ties. They are common members of SAARC, BIMSTEC, IORA and the Commonwealth. In particular, Bangladesh and the East Indian states of West Bengal and Tripura are Bengali-speaking. Bangladesh has a high commission in New Delhi with consulates in Mumbai and Kolkata. India has a high commission in Dhaka with a consulate in Chittagong. In a survey, 70% percent of Bangladeshis expressed a favorable opinion and perception of India. Historically and culturally the two nations have been considerably close to each other.**

3**Indian External Affairs Minister Sushma Swaraj visited Bangladesh in her first official overseas trip**

3**in June, 2014. During her first official overseas visit, Foreign Minister of India, Sushma Swaraj concluded various agreements to boost ties. They include: ? Easing of Visa regime to provide 5 year multiple entry visas to minors below 13 and elderly above 65. ? Proposal of a special economic zone in Bangladesh. ? Agreement to send back a fugitive murder accused from India. ? Provide an additional 100 MW power from Tripura. ? Increase the frequency of Maitree Express and start buses between Dhaka and Guwahati and Shillong. ? Bangladesh allowed India to ferry food and grains to the landlocked Northeast India's using its territory and infrastructure.**

Thus, there is lot of potentiality to have

12**bilateral Trade between India and Bangladesh.** 2. **INDIA'** S POSITIVE EFFORT **TO**

MAKE GOOD RELATIONSHIP WITH BANGLADESH The following points indicate that India is willing to have good relationship with Bangladesh: 2.1. Land Boundary Agreement (LBA).

3**On 7 May 2015 the Indian Parliament, in the presence of Bangladeshi diplomats, unanimously passed the Land Boundary Agreement (LBA) as its 100th Constitutional amendment, thereby resolving all 68-year old border disputes since the end of the British Raj. The bill was pending ratification since the 1974 Mujib-Indira accords. During**

3**Indian Prime Minister Narendra Modi's state visit to Bangladesh during June 2015 as many as 22 agreements were signed by two sides.**

2.2. Line of credit and investment.

3**During the visit India extended a US$2 billion line of credit to Bangladesh & pledged US$5 billion worth of investments. As per the agreements, India's Reliance Power agreed to invest US$3 billion to set up a 3,000 MW LNG-based power plant (which is the single largest foreign investment ever made in Bangladesh) & Adani Power will be setting up a 1600 MW coal-fired power plant at a cost of US$1.5 billion. The two countries signed a total of 22 agreements including the ones on maritime safety co-operation and curbing human trafficking and fake Indian currency. Modi also announced a line of credit of $2 billion to Bangladesh. At midnight on 31 July 2015, around 50,000 people became citizens of India or Bangladesh after living in limbo for decades. Ending a prolonged dispute, the two nations swapped 162 enclaves on the border region, allowing the people living there to stay or opt out to the other country. While 14,214 citizens of Bangladesh residing in 51 enclaves on the Indian side became Indians, a large number of people in the 111 Indian enclaves in Bangladesh preferred to stay with Bangladesh and just 979 opted to move to India. The total number of new Indian citizens will be 15,193.** 2.3. **Energy** co-operation. **India has recently introduced the concept of the Regional Power Trading System which will help various regions of the country in reducing the power deficit by transferring surplus power from another region.**

Under the Electricity Act 2003, the Indian companies could pool power in an exchange. A consumer would be free to buy it from anyone. This concept of power pool within India can also be enlarged to cover the neighboring countries like Bangladesh, Bhutan and Nepal after the establishment of a sub-regional power pool and necessary inter-connections among these countries are put in place. This can ultimately form a regional power pool thereby generating a huge opportunity for power trading in the region. India is also looking to export electricity from its north-eastern region with potential to generate some 58,971 MW to its eastern States through Bangladesh. Bangladesh hopes to have access to Nepal and Bhutan's power through India. Bangladesh has formally requested a 'power corridor' to access the Bhutanese and Nepalese markets. It has agreed to allow India to transfer hydroelectricity from Assam to Bihar through its territory. The proposed meeting would attempt to remove irritants in project-related areas. 2.4. High level visits President Ershad visited India in 1982. Sheikh Hasina visited India in 2010 to sign number of deals. Manmohan Singh visited Dhaka in 2011 to sign number of deals. Narendra Modi visited Bangladesh which was historic as land boundary agreement was solved in 2015. 2.5. Development cooperation India is very active in development activity in Bangladesh. India has recently given lots of loans to Bangladesh. It gave a $750 million for developing Bangladesh infrastructure in 2011 In 2014 India extended a $1 billion soft loan for infrastructure development. Lines of credit: $1 billion was given for the Padma Bridge which World Bank refused. $862 million was given to buy equipment and services from Indian entities such as BHEL, RITES, small and medium enterprises. Small development projects: India announced grant of nearly $10 million to Bangladesh for implementation of various small development projects and also assured it to address trade imbalance issue 2.5. Health. India and Bangladesh signed a memorandum of understanding for cooperation in the fields of health and medical sciences that will include joint research in health and exchange of doctors and health professionals. The MoU is aimed at promoting cooperation between the two countries in the fields of health and medical sciences through exchange of scientific materials and information and joint collaboration in research in medical science. 2.6. Scholarships. Every year 200 Bangladeshi students receive ICCR scholarships. India has offered scholarships for meritorious Bangladeshi under and post graduate students and PhD researchers to undertake studies in traditional systems of medicines like Ayurveda, Unani and Homeopathy, according to Indian High Commission in Dhaka. 2.7. Trade and investment. The two way trade is $7 billion. The trade

is set to go at $10 billion by 2018 through ports. India is second in import destination for Bangladesh. Bilateral trade between India and Bangladesh stood at USD 6.6 billion in 2013-14 with India's exports at USD 6.1 billion and imports from Bangladesh at USD 462 million, representing more than double the value of USD 2.7 billion five years ago.

Table 1:

2**Trade between India and Bangladesh Table 2: Trade** Complimentarily **Index of India with Bangladesh**

3**Bangladesh Cabinet has approved a revised trade deal with India under which the two nations would be able to use each other's land and water routes for sending goods to a third country, removing a long- standing barrier in regional trade. Under the deal India would also be able to send goods to Myanmar through Bangladesh. It incorporated a provision that the deal would be renewed automatically after five years if either of the countries did not have any objection.**

Table 3:

2**India's Export Intensity with Bangladesh in Top 15 Exports**

3. LITERATURE OF REVIEW,

1**Review of Literature Review of literature in the present study is divided into four categories, namely, (a) Studies on Foreign trade, (b) Studies on Production and Marketing of Cotton, (c) Studies on Impact of various measures on Cotton Industry/Trade in the World Trade Organisation (WTO) Environment, and (d) Studies on Impact of Foreign Direct Investment (FDI) on Cotton Industry.**

The

1**coverage includes a large number of articles, Ph.D. theses, and publications.**
3.1 **Studies on Foreign Trade This part covers various reviews relating to**

India's Foreign Trade.

1Kumar and Dhawan (1991), Arize et al. (2000), and Doroodian (1999) find a negative relationship between exchange rate volatility and trade. Ch. Suravinda (1993), examined "India's Trade Relations with Major Countries of Arab League". The present research project concerns itself with the expost facto examination of Indo-Arab trade relations. It emphasises the need for co-operation between India and the Arab countries. Such co-operation should remain as an ideal example for collective efforts for south-south co-operation in establishing a new International Economic Order (NIEO), and worthy of emulation by other developing countries. Uma Rani (1993) investigates the impact of exchange rate volatility on trade flows in India during the period January 1975 to December 1988. The study concludes that India's bilateral imports and exports have, in most of the cases, been adversely affected by the volatile nature of exchange rate. Samanta (1998), examining the long-run equilibrium relationship between exchange rate risk and the volume of foreign trade in the context of the Indian economy during the period 1953-1989, failed to find a statistically significant relationship between the exchange rate volatility and India's trade during 1960-86.

1Fanelli and Medhora (2002), reveal that the competitiveness of a country depends both on the price and non-price factors. For improving the price competitiveness, devaluation can prove helpful in the short run. However, the price competitiveness can be induced in industries by enhancing the level of productivity. They explain that in an environment of efficient financial markets, the financial intermediaries are in the position of imparting the level of innovation by identifying and channelling funds to the most efficient users. The imperfections in the financial market, on the other hand, reduce the ability of the financial sector to efficiently channel funds from lenders to the borrowers; and that negatively impacts the productivity growth. Hence, higher level of financial development impacts comparative advantage of a country by enhancing the level of productivity by identifying entrepreneurs with the best chances of successfully implementing innovative production processes. Prusa and Skeath (2002) also pointed out that anti-dumping actions may be retaliatory. Bown and Crowley (2003) suggested that anti-dumping measures may be a defensive response. They reveal that trade deflection may be one of the

pathways through which anti-dumping duties are multiplying. Konings and Vandenbussche (2004) provided empirical evidence that temporary anti-dumping protection on an average raises the productivity growth of domestic import-competing firms, and that trade policy under certain conditions can induce technological catching-up. Vijaya Katti (2005) points out that for India to become a major player in world trade, an all encompassing and comprehensive view needs to be taken for the

1overall development of the country's foreign trade. The EXIM policy was renamed as the new Foreign Trade Policy. The Foreign Trade Policy was built around two major objectives. These are to double our percentage share of global merchandise trade within the next five years, and to act as an effective instrument of economic growth by giving a thrust to employment generation. She was of the opinion that the new trade policy was of immense use to India's foreign trade. Syamala Gopinath (2006) tries to analyse how the regulatory environment has evolved in the Indian foreign exchange market. According to her, the main objective of markets including Foreign Exchange markets should be to support economic activity and raise the potential for economic growth. The focus of the exchange control regulations has facilitated transactions in international trade in goods and services. The number of incentives has been taken towards procedural simplification with the objective of reducing the transaction cost. Thus, the focus of the external sector reforms measures has been to dismantle controls and provide an enabling environment to all entities engaged in external transactions. Yazid and Muda (2006) studied the usage pattern of foreign exchange management strategies in multinational corporations. They found that multinationals are involved in foreign exchange risk management primarily because they sought to minimise operational overall cash flows, which are affected by currency volatility. Also, majority of multinationals centralise their risk management activities, and at the same time impose greater control by frequent reporting on derivative activities. It is likely that huge financial losses related to derivative trading in the past led to top management being extra cautious. Though many studies have revealed that active currency management by using derivatives is very much necessary for the firm to be on par with the competitors in a global business environment, there are some studies which argue otherwise.

1Vijaya Katti et al. (2007) in their paper make an attempt to study some of the major sectors of the Indian economy. They have identified four major sectors, and analysed how export promotion councils have helped to shape the Indian economy, its export growth, and the challenges they face in an increasingly globalised world. They also focus on the employment and export intensity of the Indian economy, and highlight the industries that are in particular having low and high export and employment intensity. Neena Malhotra (2008), says that the ratio of exports to imports, has improved over time, and the fear that liberalisation will adversely affect agriculture, doesn't seem to be valid. Rather immense export opportunities are opened by export market, and our farmers are also taking advantage of these

1opportunities. The structure of imports shows that major categories of import are of edible oils, fertilizers, and fertiliser manufacture. There is need for change in the cropping pattern, and domestic oil seeds production should be promoted in a big way to reduce import dependence. Government should provide appropriate facilities in the form of transportation and storage, infrastructure, better varieties of seeds, packaging and branding, and also quality testing centres for matching our products with international quality standards. Thus, domestic marketing reforms must be there with liberalisation of external trade of agriculture commodities. Jeevan Kumar Khundrakpam (2009) in his paper investigated the exchange rate pass-through to domestic prices in India during the post-economic reform period, and found fairly robust evidence of a rise in pass-through until recent years. This is in contrast to a decline in pass-through observed in several countries since the 1990s. When a large domestic economy liberalises, and gets increasingly integrated with the global economy, the influence of the external sector, including the exchange rate movement, could become substantial during the transition. Dismantling various types of controls within the economy itself could also affect the way the external sector influences the inflationary process in the economy. In consonance with the literature, the plausible factors are reduction in tariff and removal of quantitative restrictions on trade; rise in the proportion of imports and exports in the income and consumption basket; changing composition of imports; increased inflation persistence due to dismantling of price controls; and lack of control on government deficit under limited monetary independence. 3 .2 Studies on Production and Marketing of Cotton

1**Mandalia and Kukadia (1975) studied the economics of cotton cultivation in Baroda district, Gujarat. They made a cost-benefit analysis for a desi variety, Digvijay, and a new high-yielding variety, MCU- 5, and compared the two. The study pointed out that MCU-5 cotton fetched a net return higher by Rs 53/ per quintal over Digvijay. Gangwar and Singh (1975) examined the economic feasibility of financing cotton growers in Hissar district of Haryana. The study relates to two types of cotton varieties. As the American cotton requires more pesticides,** fertilizers, and **irrigation, farmers were facing severe constraints of these inputs. They should prefer desi variety. the**

1**same. It was brought to light that even under adverse weather conditions; the financial institutions may consider advancing credit since these varieties assure minimum recovery of the amount invested.** 3.3. **Studies on Impact of various Measures on the Cotton Industry/Trade in the WTO Environment Garten (1994) concluded that anti-dumping duties are justified because dumping prices are presumptive evidence of abnormal and temporary cheapness as the cheap prices brought about by dumping do not last long, and are followed by monopolisation and hiked pricing. Blonigen and Bown (2003) found significant empirical evidence in relation to the fact that the U.S. industry was influenced by the threat of reciprocal foreign** antidumping **duties with respect to determining which foreign countries to name in the initial anti-dumping petition, and that the U.S. anti- dumping authority's decisions were influenced by the threat of foreign retaliation under the GATT/WTO dispute settlement mechanism.**

1**V. Padmanand and D.P. Jadeja's publication (2007), "Strengthening Industry Value Chains in Textile Clusters in India" deals with interventions in industrial and artisan clusters, largely in the micro, small and medium enterprise sector, consisting of conglomeration of the same or similar type of industry in a geographical area. The institutions pioneering interventions include the Textiles Committee of the Union Ministry of Textiles, and others such as various bodies**

1**under the Ministry of Textiles, and Ministry of Micro, Small and medium Enterprises (MSME) as well as the Ministry of Commerce and Industry. Several**

international organisations are also involved in taking related initiatives. These include DFID of UK, GTZ of Germany, and the United Nations Industrial Development Organisation (UNIDO).

1Balaji (2008) in his article "Textiles: A Roadmap for Competitiveness in the Post-Quota Regime" presents the prominence of the textile and clothing sector to the Indian economy in view of its labour intensiveness, apart from its contribution to industrial output, and exports, highlights the challenges, and presents strategies for the post-quota regime. The phasing out of the textile quotas by developed countries have created free access to Indian textiles to enter the US $150 billion US market, and the US $120 billion EU market. In actuality, however, India has not been able to utilise the golden opportunity to the extent the potential favoured. China's share in global textile trade which was only 4% in 1980 has more than trebled to over 13% now; but India which had a share of 2% in 1980 is still tottering in the range of 2.5% to 3.0%. Consolidation to reap scale economies, investment in modern technology, revolutionary and non-incremental improvement in productivity levels, continuous innovations, focus on branding, building up marketing muscle, collaborative approach including vertical integration in the entire value chain, are a sine-qua-non for the success of the textile trade. Government has to play a key role in providing quality infrastructure, easing the flow of institutional finance, and creating an enabling environment for flow of foreign direct investment. Industry associations, along with the government need to constantly monitor the environment, and efficiently combat the protectionist tendencies of the developed world. These will go a along way in building the competitiveness of the sector. WTO's (2010) publication, World Trade Report 2010 – Trade in Natural Resources, consists of two parts. The first part deals with a brief summary of the Global Trade situation in 2009-10. The Second part focuses on the special theme of Trade in Natural Resources. The executive summary given in the beginning of the report presents the special theme coverage in a concise manner. The annual publication aims to deepen understanding about the trends in global trade, trade

1policy issues, and the multilateral trading system. The theme selected for the publication is of growing importance in international trade relations. Natural resources are at the root of a major part of economic activity; they are the key

component of many economies; and their share in world trade is growing. A number of features exclusive to natural resources explain why they occupy a special place in economic, political economy, and policy analysis. Natural resources discussed are fish, forestry, fuels, and mining products. Agricultural products are not included in the analysis as they are cultivated rather than extracted from the natural environment. Other non-traded resources are only briefly discussed. For instance, the report considers water, not as a traded product in itself, but rather in terms of water content of other commodities. Natural resources such as air or biodiversity are only examined to the extent they are affected by trade. Natural resources are stocks of materials that exist in the natural environment that are both scarce and economically useful in production or consumption, either in their raw state or after a minimal amount of processing. A number of important characteristics of most natural resources include uneven distribution across countries, exhaustibility, externalities (market- failures in the form of unpriced effects resulting from consumption and/or production), dominance in output and trade, and price volatility. The treatment on trade in natural resources is divided into six sections: (a) introduction, (b) natural resources: definitions, trade patterns, and globalisation, (c) trade theory and natural resources, (d) trade policy and natural resources, (e) natural resources, international co-operation, and trade regulation, and (f) conclusions. Among the range of policies affecting natural resources trade, subsidies and export policies appear to be the most challenging. Subsidies can be useful instruments for addressing market failures and changing incentive structures in ways that favour superior outcomes. But they can also make matters worse. Everything depends on the nature of the subsidies, and the purpose for which they are designed, and whether they serve public welfare concerns or pressures from narrow interest groups. Governments may use export taxes and restrictions for a variety of reasons, including economic diversification and domestic price stabilisation, to counter escalating tariffs in importing countries, and to mange environmental externalities. But at the same time, export taxes and restrictions may also raise world prices, and shift economic ‘rents’ arising from scarcity. The analysis in the report argues strongly for international cooperation. The characteristics of these products make it vital that governments work together to find common ground and appropriate trade-offs. Such cooperation should aim to ensure sound resource management, equity and mutual gain. The trade aspects of cooperation have been a particular focus of the report, and the case has been made for seeking accommodation through effective multilateral trade

rules. Many aspects of natural resources are regulated by international rules and conventions outside the WTO, and a number of challenges can only be effectively confronted through better global governance. Well designed rules on trade are not only about securing standard gains from trade; they are also a key component of cooperation in domains, such as environmental protection, and domestie policies to manage scarce resources. 3.4 Studies on Impact of FDI on Cotton Industry Romer and Rivera (1990) state that Foreign Direct Investment (FDI) flows have greater impact on growth than mere trade flows because trade flows only increase the level of growth. Investment flows, on the other hand, increase the growth rate. This is because investment flows are accompanied by exchange of ideas. Increasing flow of ideas, they say, has the effect of increasing productivity of research, which eventually increases growth rate in the world. Romer and Rivera suggest that information flows would create a positive incentive for researchers to copy designs from the other, and there are very few offsetting incentives to enforce property rights. Grossman and Helpman (1991) examined economic growth from the viewpoint of 'creative destruction'. They point out that introduction of new technology (through foreign transfers, for example) renders an old technology

1obsolete, and firms can climb up in the 'quality ladders' of technology by investment on research. Such investment would yield innovation in technology, which in turn would lead to faster growth. Implicit in this theory is the assumption that new technology is necessarily more efficient than the one it replaces. Rajan and Zingales (1998) concluded that in countries with well developed financial systems, industries that are naturally heavy users of external finance grow faster. They argue that this result has implications for trade patterns because well-developed financial sector is a source of comparative advantage for a country in industries that rely more on external finance. Howitt (2000) builds a model, in which countries depend on each other only through technology transfers. He uses this model to show that in the presence of technology transfer, there is a permanent rise in the country's per capita income vis-a-vis other countries. In addition, there is a rise in the growth rate of world income. Theoretically, there is ample reason to explain the 'spillover' effects of FDI in a developing country. Empirical studies examining the 'spillover' effect of FDI on the host country do so by examining the effect of FDI on productivity and competitiveness in the domestic industry, as they are most amenable to measurement. The findings of empirical studies

have been mixed, in the case of Canada, Caves (1974) observed that in this case, no strong or significant relationship has been found between FDI flows and productivity. Beck (2002) explores a link between level of financial development and the level and structure of international trade. He analyses theoretically a channel through which economy-wide level of external finance determines the commodity structure of trade balance. The Beck model focuses on the role of finance in

1mobilising savings and facilitating large-scale and high return projects. He also finds empirical evidence supporting his model that a well-developed financial sector translates into a comparative advantage in the production of manufactured goods. Sandhya Ananthanaryanan, Chandrasekhar Krishnamurthi and Nilajan Sen (2003) found in their study strong evidence consistent with the base broadening hypothesis. The study did not find compelling confirmation regarding momentum or contrary strategies being employed by Foreign Institutional Investors (FIIs). It supported price pressure hypothesis. It did not find any substantiation to the claim that foreigners destabilise the market. Bhanumurthy and Rai (2003) examined the determinants of FIIs in the Indian context by analysing the effect of return, risk and inflation in domestic and foreign economy by using monthly data from January 1994- November 2002. Tanushree Mazumdar and Vijay (2006) - The authors believe that the benefits (in terms of cost efficiencies, productivity and profitability) that a developing country reaps from FDI flows depend on the motives behind the FDI flows. They hypothesise that a country is likely to gain more from efficiency seeking FDI flows than from market-seeking or resource-seeking FDI flows. The authors test this hypothesis with respect to India, using annual data and a distributed log model. Five sectors have been selected for the purpose of testing the hypothesis. Findings reveal that in India, FDI flows have not contributed significantly to the three parameters - cost reduction, improvement in productivity and profitability - in most of the sectors. It is a significant finding that the computer industry has gained from FDI flows in terms of cost reduction.

1Debashis Chakraborty and Arup Guha (2007) felt that the usefulness of easing controls on capital flows in a country is a long-debated question. It is felt that the liberal capital control regime boosts the confidence of the

international community on the domestic economy and becomes instrumental for ensuring higher capital inflows. On the contrary, it is widely held that controls on capital flows ensure a developing country against experiencing a sudden potential currency crisis. In the light of the current debate in India on the appropriateness of adoption of Capital Account Convertibility (CAC), the author examined the interrelation between current and capital account balance in the country. He also examined the macroeconomic scenario in order to explore whether the country has reached a stage to opt for full-fledged CAC. The empirical findings suggest that India should move cautiously in this regard. Guangling Liu (2007) , in his paper investigates the impact of the real effective exchange rate volatility on South Africa's exports for the period from 1978 to 2005. A General Autoregressive Conditional Heteroskedasticity (GARCH) model is used to measure exchange rate volatility, and the Johansen co-integration **tests and Error Correction Model (ECM) are employed to analyse the long run equilibrium and the dynamic short run relationship between exports and the real effective exchange rate volatility. The empirical evidence indicates that exports is positively related to foreign income, and negatively related to the real effective exchange rate in the long run. However, in the short run, the real effective exchange rate volatility is insignificantly related to exports volume. In other words, the volatility does not have impact on South Africa's exports during the study period. This study addresses these issues in the context of foreign institutional investors' (FII) trading activities in a big emerging market - India. India** liberalized **its financial markets, and allowed FIIs to participate in their domestic markets from 1992. Ostensibly, this opening up resulted in a number of positive effects.**

5**First, the stock exchanges were forced to improve the quality of their trading and settlement procedures in accordance with the best practices of the world. Second, the information environment in India improved with the advent of major international financial institutional investors in India. On the negative side, we need to consider potential destabilization as a result of the trading activity of foreign institutional investors. This is especially important in an emerging country that has embarked upon reforms to open up its market.** 4. **OBJECTIVES: The** following are the **objectives of this study:**

i. To find out the position of export of India and Bangladesh ii. To find out the position of import of India and Bangladesh iii. To find out Exchange rate of Import from Bangladesh, export from Bangladesh iv. To

find out Exchange rate of Import from India, export from India 5.

6**METHODOLOGIES OF DATA COLLECTION: To prepare this report**

first we have taken primary data from our respondents through preparing questionnaires and conducting survey. And secondary data has been

6**collected from the different websites, and also some data** will be **collected from the publications of**

Bangladesh Bank and also collected from different articles published including BBS, and Bangladesh Bank. Time period of the study was 1990 to 2014. The study determined regression equation and analysis to understand the trade relation between the two countries using SPSS software. In the study we have used following regression equations: Mbd= f (Xi, Ex, Dm) …… (1) Xbd = f (Mi, Ex, Dm)…… (2) Ex = f (Mbd, Xbd, Dm) …… (3) Ex=f (Mi, Xi, Dm)….. (4) Where, Mbd= Import to Bangladesh Xi=Export from India Ex=Exchange rate of Bangladesh Taka in terms of US Dollar Xbd=Export from Bangladesh Mi=Import to India Dm=Dummy Variable Here we will us Dummy variable to see structural change occurs. For the period 1990 to 2003 we shall consider Dm=1 and for Dm=0 for the period 2004 to 2014.If dummy variable is positive it will indicate there is a structural change and vice versa. A priori relationship in equation (1) is that import from Bangladesh is function of Import from India, Exchange rate and dummy variable. We shall consider a negative relationship among import from India and in case of other dependent variable and all independent variables. A priori relationship in equation (2) is that export from Bangladesh is function of Export from India, Exchange rate and dummy variable. We shall consider a negative relationship among export from India and in case of other dependent variable and all independent variables. A priori relationship in equation (3) is that exchange rate is a function of Import from Bangladesh, export from Bangladesh and dummy variable. We shall consider a positive relationship among dependent variable and all independent variables. A priori relationship in equation (4) is that exchange rate is a function of Import from India, export from India and dummy variable. We shall consider a positive relationship among dependent variable and all independent variables. The study has also done some diagrammatic representation. 6. ANALYSIS: Equations No. 1 Dependent Variable: Mbd method: Ordinary Least Squares Regression equation before estimation will be as follows: Mbd = α + β1Mi + β2Ex+ β3DM+e … (1) Estimation Results:

9**Table:1** (a) **Descriptive Statistics Mean Std. Deviation N**

Mbd Mi Ex DM 1.5366E2 1.9180E3 5.565142E 1 .4800 175.55062 1662.26040 14.7522915 .50990 25 25 25 25 a. Dependent Variable: Mbd From:Table:1(a) we observed that mean value of Import from Bangladesh is .015366 and standard deviation is 175.55while import from India is .0019180 and standard deviation is 1662.26.Mean value of Exchange rate is 0.5565142 and standard deviation is 14.75.Mean value of dummy variable is .48 and standard deviation is .51. Table 1(b) Report of the result of the Regression Equation COEFFICIE STD.ERRO T- PROB. VARI NT R STATISTIC ABLE C -140.630 148.558 -.947 .355 Mi .100 .016 6.179 .000 Ex 1.474 2.728 .540 .595 DM 44.601 49.165 .907 .375 Adjusted R- 0.914 F-statistic 85.985 squared Durbin-Watson 1.389 Prob(F-statistic) 0.0000 stat. From Table: 1(b), we

observed that only import from India is positive at 1% level of significance. But other variables including constant term are insignificant.

> 4**The equation provides a good fit at** 91.4% **of the observed variation in** Import from Bangladesh **.We** found **that if the** import from India **rises by 1%, then the** import from Bangladesh **will** raise **by** 0.10%. **Durbin-Watson statistics is 1.** 389, **which indicates that no autocorrelation prevails at** 5% **level of significance. F** statistics **is significant at 1% level**

of significance. Fig:1 (a): Histogram Fig:1(a) is histogram of the numerical data used in the regression equation:1. It is a probability distribution of the continuous distribution. Fig:1(b) Normal P-Plot of regression standardized residual From Fig. 1(b)-we observed that residuals are normally distributed. Equations No. 2 Dependent Variable: Xbd Method: Ordinary Least Squares Regression equation before estimation will be as follows: Xbd = α + β1Xi + β2Ex+ β3DM+ e … (2) Estimation Results:

> 8**Table 2(** a): **Descriptive Statistics Mean Std. Deviation N** Xbd **1.**

9180E3 1662.26040 25 Xi 1.5366E2 175.55062 25 Ex 5.565142E1 14.7522915 25 DM .4800 .50990 25 From:Table:2(a) we observe that mean value of export to Bangladesh is .001918 and standard deviation is 1662.26 while export to India is .015366 while standard deviation is 175.55 .Mean value of Exchange rate is 0.5565142 and standard deviation is 14.75.Mean value of dummy variable is .48 and standard deviation is .51. Table 2(b) : Report of the result of the Regression Equation COEFFICIE STD.ERRO T-PROB. VARIA NT R STATISTIC BLE C -1354.701 1188.196 -1.140 .267 Xi 6.483 1.049 6.179 .000 Ex 39.721 20.406 1.947 .065 DM 137.459 403.427 .341 .737

> 4**Adjusted R-squared 0.** 937 **F-statistic 120.** 963 **Durbin-Watson**

.945 Prob(F-statistic) 0.0000 stat. From Table: 2(b), we observed that Export to India is positive

> 4**at 1% level of significance.** Exchange rate **is significant at** 10% **level of significance.**

But other variables including constant term are insignificant. The

> 4**equation provides a good fit at** 93.7% **of the observed variation in** Export to Bangladesh **.We** found **that if the** Export to India **rises by 1%, then the** Export to Bangladesh **will rise by** 6.483%. **Durbin-Watson statistics is** 0.945, **which indicates that autocorrelation prevails.**

4**F statistics is significant at 1% level of significance.**

Fig:2(a): Histogram Fig:2(a) is histogram of the numerical data used in the regression equation:1. It is a probability distribution of the continuous distribution. Fig:2(b) Normal P-Plot of regression standardized residual From Fig.2(b)-we observed that residuals are normally distributed. Equations No. 3 Dependent Variable: EX Method: Ordinary Least Squares Regression equation before estimation will be as follows: EX= α + β1Mbd+ β2Xbd+ β3DM+ e … (3) Estimation Results:

11**Table:3** (a) **Descriptive Statistics Mean Std. Deviation N**

Ex 5.565142E1 14.7522915 25 Mbd 1.5366E2 175.55062 25 Xbd 1.9180E3 1662.26040 25 DM .4800 .50990 25 From:Table:3(a) we observed that mean value of exchange rate is .5565142 and standard deviation is 14.75229 while import from Bangladesh is .015366 while standard deviation is 175.55 .Mean value of export to Bangladesh is .001918 and standard deviation is 1662.26.Mean value of dummy variable is .48 while standard deviation is .51. Table 3(b) : Report of the result of the Regression Equation COEFFICIE STD.ERROR T-STATISTIC PROB. VARIA NT BLE C 53.792 2.730 19.707 .000 Mbd .009 .017 .540 .595 Xbd .004 .002 1.947 .065 DM -14.480 2.423 -5.977 .000

4**Adjusted R-squared 0.** 923 **F-statistic** 97.036 **Durbin-Watson stat.** .910 **Prob(F-statistic) 0.0000**

From Table:3(b), we observed that constant term is positive

4**at 1% level of significance.** Export to Bangladesh **is significant at** 10% **level of significance.**

But import from Bangladesh is insignificant. The

4**equation provides a good fit at** 92.3% **of the observed variation in exchange** rate **.We** observed **that if the** Export to Bangladesh **rises by 1%, then the exchange** rate **will rise by** 0.004%. **Durbin-Watson statistics is** 0.910, **which indicates that autocorrelation prevails.**

4**F statistics is significant at 1% level of significance.**

Fig:3(a): Histogram Fig:3(a) is histogram of the numerical data used in the regression equation:1. It is a probability distribution of the continuous distribution. Fig:3(b) Normal P-Plot of regression standardized residual From Fig. 3(b)-we observe that residuals are normally distributed. Equations No. 4 Dependent

Variable: EX Method: Ordinary Least Squares Regression equation before estimation will be as follows: EX= α+ β1Mi+ β2Xi+ β3DM+ e … (4) Estimation Results:

10**Table:4(** a **)Descriptive Statistics Mean Std. Deviation N**

Ex 5.565142E1 14.7522915 25 Mi 1.9180E3 1662.26040 25 Xi 1.5366E2 175.55062 25 DM .4800 .50990 25 From:Table:4(a) we observed that mean value of exchange rate is .5565142 and standard deviation is 14.75229 while import from India is .-0019180 and standard deviation is 1662.26040 .Mean value of export to India is .015366 and standard deviation is 175.55062.Mean value of dummy variable is .48 while standard deviation is .51. Table 4(b) : Report of the result of the Regression Equation V

4**COEFFICIENT STD.ERROR T-STATISTIC PROB.** ARIABL **E C**

53.792 2.730 19.707 .000 Mi .004 .002 1.947 .065 Xi .009 .017 .540 .595 DM -14.480 2.423 -5.977 . .000

4**Adjusted R-squared** .923 **F-statistic** 97.036 **Durbin-Watson stat.** .910 **Prob(F-statistic) 0.0000**

From Table: 4(b), we found that the constant term

7**is significant at 1% level of significance.** Import from India **is significant at**

10%

4**level of significance. Dummy variable is significant at** 1% **level of significance which** indicates **structural**

changes. But export to India is insignificant.

4**The equation provides a good fit at** 92.3% **of the observed variation in** Import from Bangladesh. **We** observed **that if the** import from India **rises by 1%, then the exchange** rate **will** raise **by** .004. **Durbin-Watson statistics is** .910, **which indicates that autocorrelation prevails.**

4**F statistics is significant at 1% level of significance.**

Fig:4(a): Histogram Fig:4(a) is histogram of the numerical data used in the regression equation:1. It is a

probability distribution of the continuous distribution. Fig:4(b) Normal P-Plot of regression standardized residual 7. FINDINGS AND CONCLUSION: 7.1. Findings/Suggestions •

2**Constitution of a high level joint study group involving government officials from various ministries and policy experts, in order to implement current deliberations and to plan future developments strategically. • Framing of joint action plan with the vision of successful trade facilitation, by way of responsibility sharing with time bound activities. • Infrastructural developments and upgradation of all the LCSs with better approach roads, better parking spaces, warehousing facilities, quarantine and testing facilities etc., for trade facilitation.**

•

2**Facilitate and sign a bilateral/regional motor vehicle agreement between the nations wherein vehicles can directly go to the final destination in both the countries/countries in the region and then carry back consignments when travelling back. This will help in dealing with transportation bottlenecks at the LCS, ultimately reducing trade costs and enhancing consumer benefits. • Harmonisation or mutual recognition of standards related to sanitary and phyto-sanitary regulations by both country, at least on those items that have high trade potential can help in lowering standard related NTBs, boosting trade. • Special attention and extra efforts towards the development of small LCSs like Srimantapur, Sutarkandi, Demagiri, Dalu, Borosa on Indian side and Birol, Ramgarh, Bilonia on Bangladeshi side. • Replication of border haats along the India-Bangladesh border for the development and progress of the interiors of the region. • Work and development of each LCS should be done simultaneously, at adjoining ports on both sides of the border, so as to provide easy better facilities to trade facilitators. • Committee of custom officials and other well informed stakeholders should be formed, with the agenda of generating awareness in the local (small and petty) traders, through consultation meetings, for updating their knowledge on documentation, inspection and other trade related procedures.**

7.2. Conclusion:

2**Since early 1990s India and Bangladesh have pursued trade liberalisation policies. Before that, in 1985, the South Asian Association for Regional**

Cooperation (SAARC) was established, comprising of seven South Asian countries (Bangladesh, Bhutan, India, Nepal, Maldives, Pakistan and Sri Lanka) with the vision of accomplishing political and economic cooperation among the member countries. Afghanistan joined later. The obvious and most relevant means of cooperation was to promote trade within the region. However and notwithstanding efforts from member countries, the SAARC initiative to promote regional trade did not take off in a substantial way, especially when compared to similar initiatives in other regions of the world. To ameliorate this situation, an agreement was signed by the SAARC member countries in 1993, namely the SAARC Preferential Trading Agreement (SAPTA). The SAPTA Agreement aimed at trade expansion among the member countries through mutual concessions relating to tariff, para-tariff, non-tariff measures and direct trade measures. In 2005, SAPTA paved the way for the Agreement on South Asian Free Trade Area (SAFTA), which is expected to usher in a new era of gradual trade liberalisation. The SAFTA Agreement resulted in significant progress on tariff liberalisation in the region. However, owing to the distinct speeds of initiating trade policy and related reforms by the respective countries, Bangladesh's bilateral trade deficit with India widened substantially over the years. This created a trade imbalance in favour of India and contributed to economic and political tensions between the two neighbours. It is important to mention that though trade imbalance has widened, over the last decade, there was not much change in the share of Bangladesh's import from India as a percentage of its global import. India and Bangladesh offer natural markets for many products. In their mutual trade, they enjoy the advantages of reduced transaction costs and quicker delivery due to geographical proximity, common language and a heritage of common physical infrastructure. Unfortunately, though they enjoy mutual comparative advantage in many products, bilateral trade stood at US$ 5.5bn in the year 2012, which is far below the potential. Lowering incidence of barriers such as poor trade infrastructure and services through progressive reforms could lead to substantial lowering of bilateral trade costs and estimates indicate that bilateral trade in about 60 identified high potential commodities could rise by about US$1.2bn per annum, which is more than 20 percent of the current volume of bilateral trade. Therefore, this study underscores the development, structure and current picture of India- Bangladesh trade which happens through land routes to come out with a set of policy recommendations for trade facilitation and enhancement of greater economic cooperation between the two neighbours. It assesses the capacity and efficiency of existing trade

resources and explores

the

2possibilities of leveraging them for the betterment of cross-border trade. It delves deeper into the prevalent bottlenecks in the administration and other impediments related to trade-related services in the current cross-border trade structure to look for solutions, with a focus on generating new market opportunities for small-scale manufacturing sector and the agrarian sector, especially at the border areas in East and North East India. We believe that if the set of policy recommendations provided in this study are recognised and implemented, the bilateral trade scenario of India and Bangladesh stands to gain substantially.

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