

# How the Bangladesh unrest may impact India's trade

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- Perspectives



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*Bangladesh has been a major export market for India, with India traditionally enjoying a strong trade surplus with its neighbour. In this post, Pandey and Sharma provide an overview of recent trends in India-Bangladesh trade, and consider how Bangladesh's ongoing political turmoil may impact its import demand, prospects of an India-Bangladesh free trade agreement, and India's role in global textile trade.*

India has historically enjoyed strong trade relations with Bangladesh, but the recent political turmoil could affect this trend. Bangladesh is India's largest trading partner in South Asia. It is a major market for India's textile and agricultural exports. Bangladesh has been grappling with high inflation and youth unemployment, which has led to slackness in import demand – particularly of non-textile items. The persistent dollar crisis has exacerbated external vulnerability. The ongoing disruption could further complicate the situation.

The exports of agricultural products could take an immediate hit as the *Kharif* (monsoon crops) harvest is around the corner. The unrest could also cast uncertainty over the potential free trade agreement talks, affecting investment.

## India-Bangladesh trade

India's trade with Bangladesh has traditionally been characterised by strong export performance leading to a trade surplus. Exports to Bangladesh rose from US\$3.2 billion in 2010-11 to a peak of US\$16.2 billion in 2021-22. The last two years saw a moderation in exports. In the last financial year (FY), exports to Bangladesh were valued at US\$11 billion.

The decline is partially attributable to a decline in exports of agricultural products owing to export restrictions on rice, wheat and sugar to rein in domestic prices. Dollar shortage and rising inflation in Bangladesh also led to lower demand for exports. In 2021-22, Bangladesh was India's fourth largest export market. It slipped to the eighth position in FY2023-24 due to decline in outbound shipments.

Imports from Bangladesh remained in the range of US\$0.4 to US\$0.7 billion from 2010-11 till 2017-18. Imports crossed US\$1 billion in 2018-19 and peaked at US\$2 billion in 2022-23. Last financial year saw a moderation in imports to US\$1.8 billion.

Figure 1. Exports to and imports from Bangladesh

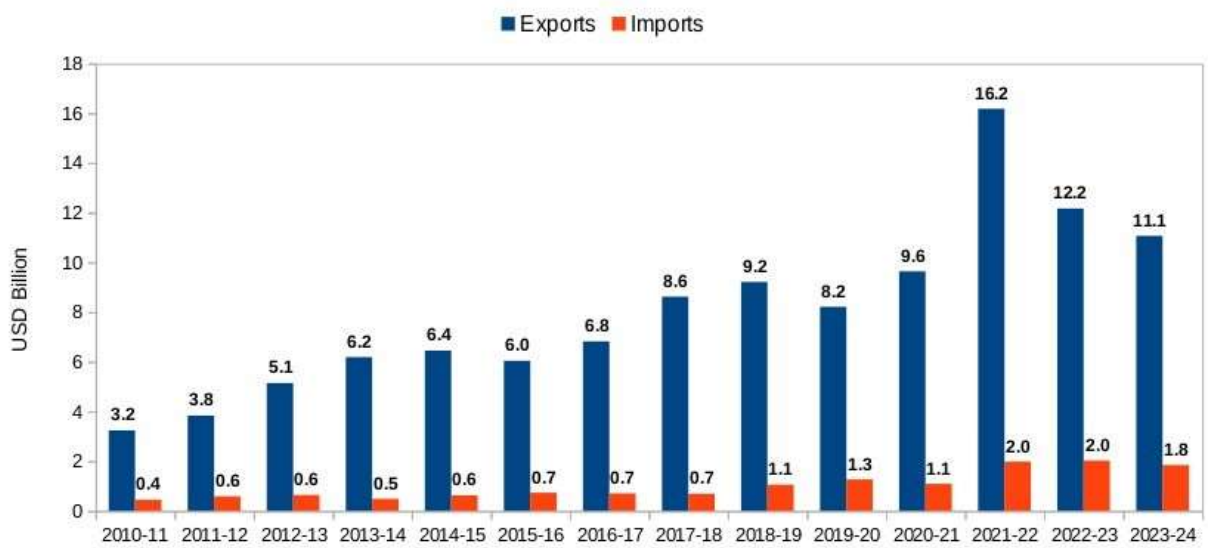
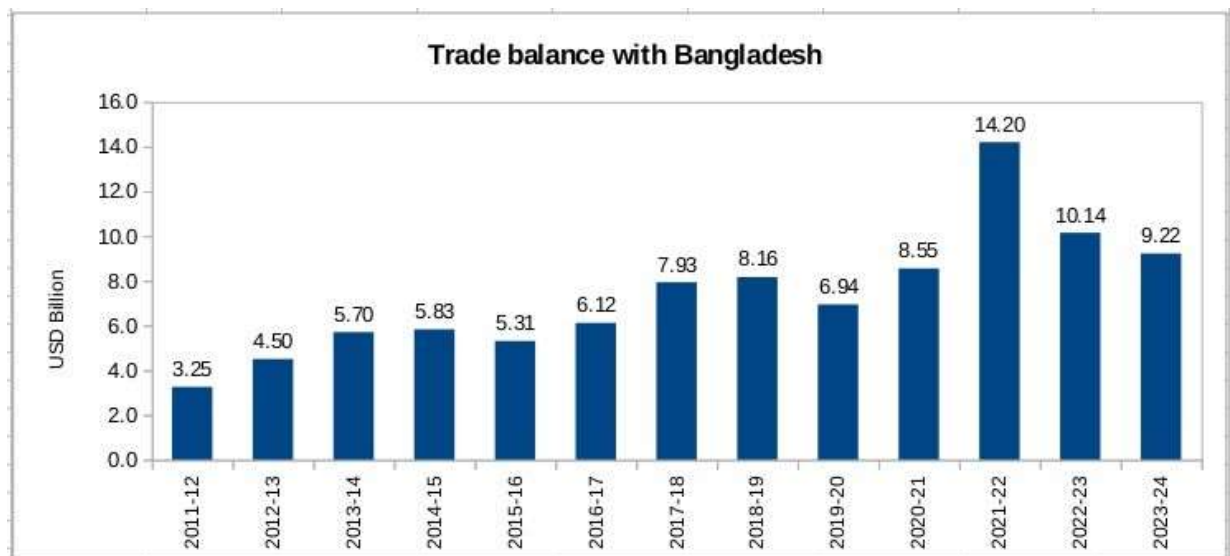


Figure 2. Trade balance with Bangladesh



## Diverse exports to Bangladesh

India exports a diverse set of commodities to the neighbouring country – ranging from raw cotton, spices and textiles, to machinery, transport equipment and metals. Looking at the broad categories, manufactured goods and agriculture and allied products together accounted for more than 75% of exports to Bangladesh in 2023-24. Of this, agriculture and allied products accounted for 22% of exports, a decline from 34.2% in 2021-22.

Raw cotton (including waste), oil meals and spices are the top three exports in the agriculture and allied products category. Bangladesh is the main destination for India's cotton exports. Over half of India's raw cotton exports of US\$1.2 billion is accounted for by Bangladesh. Bangladesh is also India's top importer of oil meals, accounting for almost 24% of India's exports of oil meals. After China and the US, Bangladesh is the third largest export destination for spices. The unrest in Bangladesh has brought these exports to a standstill.

Manufactured goods accounted for 55% of India's exports to Bangladesh in 2023-24. Textiles (excluding readymade garments), engineering goods and chemical and related products are the major exports within the manufacturing basket. Exports of textiles (excluding readymade garments) account for 20% of India's exports to Bangladesh. The importance of Bangladesh as a market for textile can be gauged from the fact that since 2016-17, Bangladesh has the second largest share in India's exports of textiles (excluding readymade garments), next only to the US.

Bangladesh has occupied a pivotal position as an exporter for readymade garments, in the aftermath of the China-plus-one strategy. Readymade garments now account for around 85% of Bangladesh's exports. The country relies on imports of raw materials such as yarn and fabrics from India and China. Surat is a major exporter of products such as sarees and fabrics to Bangladesh. Due to the current disruption, the textile and yarn business in Surat has been hit as there are no new orders and payments are also stuck. Sales ahead of the festive season may be impacted if the ongoing crisis persists.

Engineering goods account for 19% of India's exports to Bangladesh. The turmoil in Bangladesh could exacerbate the already weakening demand for India's engineering goods exports. India's exports of engineering goods have been in the slow lane due to the weak demand in advanced economies. In the last two years, Bangladesh has seen a reduction in the demand for machinery and industrial raw materials due to the challenging economic landscape. The current situation could constrain their import demand and impact exports of engineering goods. Exports of chemicals, which account for another 10% of India's exports have also seen a contraction in the last two years.

The inbound shipments from Bangladesh are concentrated towards readymade garments, which account for 32% of imports. Jute (both raw and manufactured), marine products, spices, transport equipment are some of the other items of imports from Bangladesh.

Figure 3. India's imports of readymade garments from Bangladesh



### Global supply disruption and opportunity for India

While Bangladesh has a miniscule share in global merchandise exports, it is the world's second largest exporter of textiles, with knitted and non-knitted apparels making up 85% of its export basket. Many argue that the advantage Bangladesh has in terms of duty free access to EU and other nations because of its Least Developed Country status gives it the edge, but the country's competitive labour cost, ability to specialise in bulk production, and access to cheap imports of raw materials from China have also contributed in cementing its position as a major supplier of readymade garments. Germany, US and UK are major importers of Bangladesh's knitted and non-knitted apparel.

Disruptions and unrest are likely to lead to delays in supply of textiles and supply chain uncertainties, compelling importers to seek alternative markets. If the uncertainty persists, a potential diversification away from Bangladesh to suppliers offering a more stable environment could benefit countries like Vietnam, Cambodia and India. While India can potentially benefit from the turmoil, it needs to put forth effective strategies to improve its footprint in textile trade. As the Economic Survey mentions, over 80% of the textile and apparel producers are MSMEs (micro, small and medium enterprises), where the benefits from economies of scale and efficiency are limited. In addition to technological constraints and the fragmented nature of the sector, the composition of exports of readymade garments also needs a relook. Diversification towards readymade garments of manmade fibres and speciality garments, which are in greater demand in global markets, will help improve India's prospects of becoming a preferred supplier of garments.

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