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From Isolation to Integration: A Roadmap for NER-Bangladesh Trade

Sadia Sultana, Rodoshee Tahsin, Yuji Ando

- Poor infrastructure, high logistics costs, regulatory hurdles, etc. limit the North-East Region (NER)'s trade potential with Bangladesh.
- Bangladesh, as a trade hub, offers multiple opportunities to integrate NER through investments in connectivity, regulatory reforms and Public-Private Partnerships (PPPs).
- Analysis of trade data and survey highlights barriers and proposes strategies to boost cross-border trade and economic growth.

This policy brief draws insights from a survey of **71** companies (**56** Bangladeshi and **15** Japanese firms), secondary analysis, and inland port visits to offer a comprehensive and strategic framework to help strengthen economic cooperation between Bangladesh and the NER of India by highlighting the opportunities, challenges, and potential for greater collaboration.

Introduction

Encompassing eight states, the NER contributes little to India's GDP, making up just **3.58 %** of the India-Bangladesh trade of **1,239,089** million in Bangladeshi Taka in 2023-24. Despite having immense trade potential and abundant natural resources, poor infrastructure, customs delays, regulatory barriers and other constraints suppress the trade potential of this region. Bangladesh, with **6%** average annual GDP growth and a strong business environment, can help unlock NER's potential through trade, investment, and connectivity. In turn, NER's location links Bangladesh to China, Nepal, Bhutan, and East Asia, offering a gateway to broader export markets. However, realizing this potential requires streamlining trade policies, strengthening technology for seamless trade, promoting sectoral opportunities for collaborative growth, among other initiatives.

Challenges in Connectivity and Economic Integration Between NER and Bangladesh

India-Bangladesh bilateral relations face several challenges that hinder trade and economic cooperation. Key challenges in cross-border trade and connectivity can be categorized into four main areas: infrastructure gaps, regulatory and policy barriers, market access, and the impact of inefficient bilateral relations and engagement.

Infrastructure gaps, such as poor land port roadways, insufficient multimodal transport, and inadequate port facilities, complicate smooth movement of goods. Regulatory and policy barriers, including high duties on stone imports, coal transport restrictions, and weak integration under SAFTA, further increase operational costs. Market access issues, such as trade imbalances, underutilized port infrastructure, and unregulated informal payments limit trade potential. Additionally, inefficient bilateral engagement, including unresolved transit agreements, exacerbates these challenges, impacting overall trade dynamics.

Constraints in Business Operations from Survey Results

The constraints concerning cross-border trade negatively impact both Bangladeshi and Japanese firms. For Bangladeshi businesses, the lack of digital payment systems (**89.3%**) and high interest rates on cross-border loans (**42.9%**) are the top challenges. On the other hand, issues with digital platforms (**40%**) and complex documentation (**40%**) are the major challenges for the Japanese firms.

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Major Roadblocks in Connectivity and Infrastructure from Survey Results

Both Bangladeshi and Japanese firms face significant infrastructure and connectivity challenges that hinder cross-border trade. In Bangladesh, the quality of existing infrastructure (**91.1%**) and restrictions on vehicle movement (**85.7%**) between the two regions are major concerns. For the Japanese firms, limited road access (**66.7%**) and insufficient railway links (**33.3%**) are critical gaps.

Warehousing and logistics are other areas where both Bangladeshi and Japanese businesses face challenges. In Bangladesh, businesses struggle with high warehousing costs (**83.9%**), while Japanese firms report poor storage conditions (**40%**).

Opportunities in Cross-Border Trade and Infrastructure Development

Survey results show a mixed outlook on expanding operations in India's NER, with Bangladeshi firms (**65%**) more inclined than Japanese ones (**40%**). Investment is driven by improved infrastructure and connectivity, with key opportunities in agriculture, eco-tourism, IT, and agro-processing.

Sylhet, which produces **73.1%** of Bangladesh's tea and various fresh produce, can meet NER's growing demand, while Bangladesh can benefit from importing petroleum, coal, processed minerals, and fresh fruits from NER. PPPs can help address infrastructure gaps, with Bangladeshi firms emphasizing skills transfer and Japanese firms focusing on policy advocacy and logistics management.

The Matarbari Deep Sea Port is set to enhance trade by reducing export durations, lowering costs, and improving cross-border movement. Strengthening cooperation through Bangladesh-Bhutan-India-Nepal Initiative (BBIN) and Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), along with the strategic use of Matarbari Port, can unlock new trade opportunities, deepen economic ties, and drive growth across sectors.

Possible Solutions, and Their Desirability

These solutions, derived from the survey results of Bangladeshi and Japanese firms, reflect the businesses' key challenges and priorities, indicating a high level of desirability.

- **Matarbari Port and Connectivity Improvements.** Bangladeshi firms view Matarbari Port and infrastructure upgrades as vital for trade with NER, expecting lower transportation costs (**87.5%**), faster goods movement (**76.8%**), and more investment (**67.9%**).
- **Role of Public-Private Partnerships.** Both Bangladeshi and Japanese firms see PPPs as essential for infrastructure, with Bangladeshi firms focusing on skills and technology transfer (**83.9%**) and Japanese firms prioritizing policy advocacy and joint management of logistics (**40%**).
- **Streamlining Trade Policies.** Simplified customs procedures are vital for **87.5%** of Bangladeshi and **80%** of Japanese firms. Both groups emphasize harmonizing trade regulations (Bangladeshi: **76.8%**, Japanese: **60%**) and reducing tariffs (Bangladeshi: **66.1%**, Japanese: **66.7%**)
- **Enhancing Infrastructure for Trade Efficiency.** Both groups prioritize improving infrastructure, such as road networks. Bangladeshi firms focusing on better ports (**85.7%**), while Japanese firms emphasize expanded road networks (**86.7%**).
- **Leveraging Technology for Seamless Trade.** Digital platforms are key for both groups, with **85.7%** of Bangladeshi firms highlighting faster transactions and lower costs, while **73.3%** of Japanese firms recognize the role of digital platforms in accelerating transactions and market access.
- **Boosting Bilateral Trade for Economic Growth.** Both Bangladeshi (**67.9%**) and Japanese (**73.3%**) firms view increased bilateral trade as a key growth driver.
- **Sectoral Opportunities for Collaborative Growth.** Agro-processing (Bangladeshi firms: **75%**, Japanese firms: **53.3%**) and textiles (Bangladeshi firms: **48.2%**, Japanese firms: **40%**) drive growth, with renewable energy and IT as future investment areas.

Conclusion

Strengthening economic ties between Bangladesh and the NER of India offers significant trade potential. By investing in connectivity, simplifying trade policies, and fostering PPPs, both regions can boost cross-border trade and economic growth. Key opportunities in agriculture, IT, and agro-processing, along with infrastructure improvements like the Matarbari Port, will help unlock this potential. Regional cooperation through frameworks like BBIN and BIMSTEC, along with digital trade solutions, will further enhance integration and drive sustainable growth.

(Sadia Sultana, Rodoshee Tahsin / Policy Exchange
Yuji Ando/ JETRO, Dhaka)