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India-Bangladesh Relations: An Overview of Successes and Challenges



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India-Bangladesh relations found their genesis with the birth of Bangladesh. India played a crucial role in helping Bangladesh achieve independence when the Indian Army fought shoulder to shoulder with the freedom fighters of erstwhile East Pakistan during the Bangladesh Liberation War of 1971. India was also the first country to recognise Bangladesh as an independent nation immediately after its independence.

The relationship between the countries has witnessed their share of positive and difficult phases; however, it has remained cordial for many decades. While during the initial years, 1971-1975, India-Bangladesh relations flourished, they remained somewhat strained during subsequent years of military rule as well as civilian rule under Bangladesh Nationalist Party (BNP) governments between 1975-1995 and then again from 2001-2008.

Since January 2009, however, the relations have improved significantly under Prime Minister Sheikh Hasina and the Awami League government. The strengthening of relations has involved improved cooperation in key areas like counter-terrorism, economic and development cooperation including trade and connectivity initiatives. In the last decade, Bangladesh has risen to be a key partner in regional politics and development and the two countries are now often referred to as 'model neighbours'.

Both the countries achieved new milestones by resolving their boundary issue with the delimitation of their maritime boundary following an international tribunal ruling in 2014¹ and subsequently by signing of the Land Boundary Agreement in 2015.² Due to their close proximity, both countries have considerable stake in the overall security and economic development of the other. The shared

Key Points

- The India-Bangladesh relations have grown tremendously in the past decade across the security, trade and development spheres.
- Bangladesh is a major economic and security partner for India in South Asia with great scope for further economic interdependence and security cooperation.
- India has been funding key connectivity projects with and within Bangladesh which would help better connect India with Bangladesh as well, Northeast India and Southeast Asia.
- India's trade and development relations with Bangladesh are hampered by Non-Tariff Measures and slow funding disbursement for and implementation of various projects in Bangladesh.
- While the overall relations have improved, increasing Chinese presence in Bangladesh is a concern however, that can be best managed by expediting economic interdependence with Bangladesh by removing trade barriers and ensuring faster project implementation.

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security challenges as well as scope of economic opportunities present, it is important to analyse the progress made so far as well as the issues that need resolution. This paper aims to highlight the successes of the bilateral relation in the last decade in spheres of security, trade and development cooperation and the challenges faced.

Security Cooperation

Counter-Terrorism

Both India and Bangladesh have long suffered from militancy and terrorism. India has had tremendous security challenges in its north-eastern states and several militant groups functioned for decades with impunity. Successive governments under the military rulers as well as the BNP did not cooperate with India on the matter.³

The security cooperation between India and Bangladesh improved significantly under PM Sheikh Hasina who declared a zero tolerance policy towards terrorism after coming to power in 2009. This was followed by an effective crackdown by the Bangladeshi security forces as well as better intelligence sharing among the Indian and Bangladeshi security agencies. The bilateral cooperation has resulted in improved security situation in India's northeast with capture and surrender of several northeast terrorists belonging to various organizations operating in the region. Bangladesh has handed over several top militants of northeast India to the Indian authorities over the last few years including banned United Liberation Front of Ason leaders like Arobinda Rajkhowa (2009) and Anup Chetia (2015)⁴.

India, for its part, has also been actively working to target anti-Bangladesh terrorists/suspects. A few instances in recent years include the arrest of two terrorists in Uttar Pradesh in 2018 belonging to Jamaat-ul-Mujahideen Bangladesh (JuMB)⁵ as well as in 2019 when Bihar police arrested two terror suspects with affiliation to JuMB and Islamic State of Bangladesh.

The increasing security cooperation among the two nations is laudable and will help improve the security for the masses of both the countries. Both countries, however, need to cooperate on counter-radicalisation as well as effective de-radicalisation measures. The de-radicalisation would generally involve managing convicted terrorists and insurgents or those who have surrendered. This could involve cultural and theological reorientation programs conducted in jails to effect behavioural change at a psychological level. Counter-radicalisation would mostly involve preventing extremists from transitioning to terrorism by tackling the ideological radicalisation taking place. This can be done by taking support of grass-root level civil society organisations that could help government agencies in identifying patterns of socio-economic-religious reasons contributing to radicalisation as well as better devise strategies to better reintegrate into society those who feel marginalised and are more vulnerable to being radicalised.

Defence Cooperation

Apart from counter-terrorism cooperation among the two countries, the military ties have also been growing in recent times. India and Bangladesh have been holding joint military training exercises,



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SAMPRITI, for the past 9 years since 2011. The latest one was held in February 2020 in Meghalaya⁶. These exercises are generally a great confidence building measure and help in improving overall relations. During PM Hasina's two state visits to India in 2017⁷ and 2019⁸, several key Memorandums of Understanding (MoUs) to further defence cooperation were signed. Some of the MoUs signed were concerning the Defence Cooperation Framework, between Defence Services Staff College of India and Defence Services Command and Staff College of Bangladesh, for extending a defence Line of Credit (LOC) to Bangladesh of USD 500 million, on coastal surveillance system. These agreements hold great significance for bilateral defence ties, especially one on Defence Cooperation Framework since Bangladesh has signed a Defence Cooperation Agreement with only China in 2002⁹ as of yet. If a defence agreement is signed between India and Bangladesh, it would be a watershed moment in the broader bilateral relations.

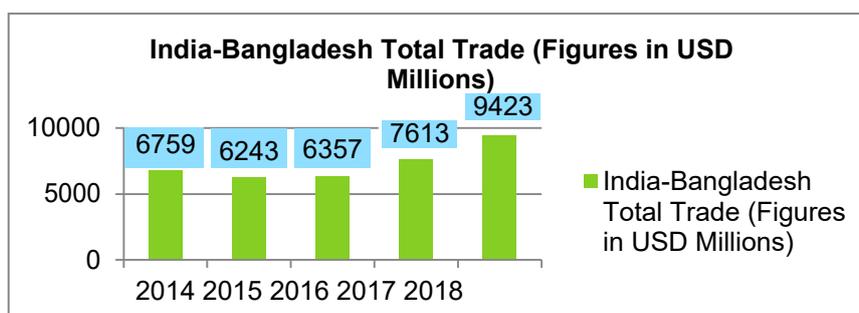
Trade Relations and Development Cooperation

India-Bangladesh Trade

India-Bangladesh bilateral trade has been growing steadily over the last few years. Figure 1 shows that there has been a considerable increase in total trade between the two countries from USD 6,759 millions in 2014 to USD 9,423 millions in 2018 which is an increase of around 39 per cent. Similarly, in FY2019, the trade stood at more than USD 10 billion.¹⁰ And the main items traded between the two countries include refined petroleum, cotton yarn, raw cotton, readymade garments and jute products.

The renewed push for connectivity under the present Indian government is ultimately towards increasing trade by reducing the transport time and costs. In this regard, a series of connectivity projects have been launched in the last decade. India has also operationalised two Integrated Check Posts (ICPs) along its borders with Bangladesh at Agartala (Tripura) and Petrapole (West Bengal) to streamline movement of goods and people by bringing together facilities like warehousing, customs, immigration and security. The ICPs are expected to improve trade connectivity by providing integrated facilities of storage, regulatory agencies like customs and immigration, parking for trucks etc.

Figure 1: Indo-Bangladesh Total Trade, 2014-2018



Source: Observatory of Economic Complexity



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With regard to the future of the bilateral trade, it is important to note that the duty-free and quota-free access for Bangladeshi goods to Indian market is set to expire by 2024 when Bangladesh is expected to graduate from the Least Developed Countries (LDC) category.¹¹ In this regard, India proposed a free trade contract, Comprehensive Economic Partnership Agreement (CEPA) to Bangladesh in 2019 which would allow a hundred percent duty-free and quota free access to goods of both countries to each other's markets.¹²

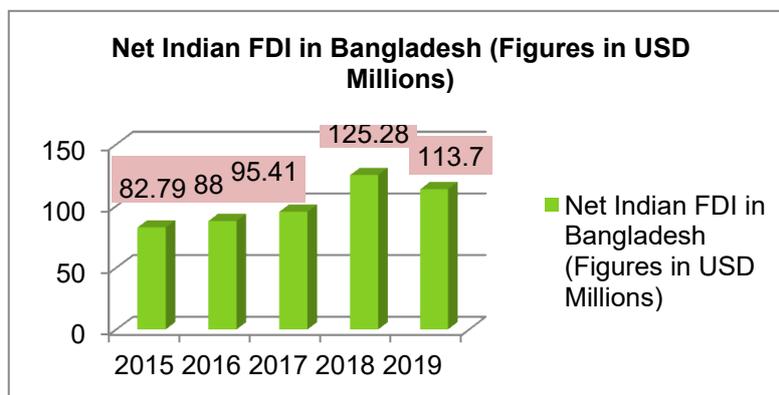
Development Cooperation

While analysing the development cooperation between India and Bangladesh, overall Indian Foreign Direct Investment (FDI) in Bangladesh and particularly projects in areas of energy and connectivity are crucial to study in context of the larger geo-economic and geo-strategic India-China competition in South Asia, as well as broader India-Bangladesh relations.

Indian FDI in Bangladesh

The Indian investments in Bangladesh have remained stagnantly low. According to the Bangladesh Bank's FDI survey reports, Net Indian FDI in the country has barely increased from USD 82.79 million in 2015 to USD 113.70 million in 2019 (Figure 2).¹³ These are low figures for neighbouring countries with huge markets, both of which are growing at considerably higher rates than most of the world. There is immense growth potential to be unlocked by investing in a rapidly growing economy like Bangladesh, and is something that requires attention of the Indian private sector, particularly in the energy, power, Information Technology and connectivity sectors.

Figure 2: Net Indian FDI in Bangladesh



Source: Bangladesh Bank FDI Survey Report



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Infrastructure Projects

In the last decade, India and Bangladesh have signed a number of MoUs covering a wide range of infrastructure projects. Some of these projects are private sector led and the rest are funded, in part of whole, by the Government of India's Line of Credits (LOCs). India has extended three such LOCs to Bangladesh since 2010 totalling USD 8 billion. The first LOC for USD 1 billion was extended in 2010; second one worth USD 2 billion in 2016; and a third worth USD 5 billion in 2017.¹⁴ Some of the important infrastructure related MoUs/agreements/treaties signed in the recent years are:

- Agreement between Bangladesh And India for the Regulation of Motor Vehicle Passenger Traffic (Khulna-Kolkata route) and standard operating procedure (SOP) of the Agreement
- SOP on the use of Chattogram and Mongla ports.
- Second Addendum on Protocol on Inland Water Transit and Trade between India and Bangladesh, 2020.
- An Agreement between Bangladesh India Friendship Power Company and Exim Bank of India for providing loan for construction of a 1320 MW power plant in Rampal, Bangladesh.
- An agreement between Reliance Power and Bangladesh's Power, Energy and Mineral Ministry for the first phase (750MW) of a 3000 MW power project at Meghnaghat in Bangladesh.
- MoU for constructing the 130 km long India-Bangladesh Friendship Pipeline

In the past few years, the range of connectivity projects chose in particular point to a well-thought out strategic and economic outlook from the Indian side. Most of these projects not only connect India with Bangladesh and will help improve trade, but will also provide better connectivity to India with its own northeast region which will boost their overall development. Economic development is expected to contribute towards improving the overall security situation in these seven states.

There are both rail and rail-port combination projects that will connect India with Bangladesh via rail and sea as well as to its northeast region. The recent successful trial run of a transshipment of goods from India (Haldia port) to Tripura and Assam via the Chittagong port is a shining example of India's intent to improve regional connectivity. This was possible due to the MoU signed between the two countries allowing India to use Chattogram and Mongla ports for making shipments to its northeast states. This way India is also able to bypass the narrow Siliguri corridor. This arrangement will also reduce transit charges per tonne from INR 6300 to 5800. Due to this new transit route, Tripura is expected to export goods worth INR 1200 crore to Bangladesh and import goods worth INR 4200 crore.¹⁵ The completion of Feni Bridge coupled with the Agartala-Sabroom rail link has the potential to reduce transit charges per ton by another INR 300.¹⁶

Challenges for India in Bangladesh and the Way Ahead

- **Trade:** While India-Bangladesh trade has been growing in recent years, the pace of growth is not that encouraging. The bilateral trade, according to data from OEC¹⁷, grew by just 39.70 per cent from 2014 (USD 6.75B) to 2018 (USD 9.42B) which is quite modest given the low base figures of 2014. There are a few key reasons for this. **First one** is the Non-Tariff



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Barriers (NTB). There are 2 main types, technical requirements which include labelling requirements, marking requirements etc; the second category is conformity assessment requirements which include testing, inspection and certification requirements. While India does provide duty-free and quota-free access to Bangladesh products but Bangladesh officials allege that a list a number of NTB still hamper trade, especially Bangladesh exports to India. According to a survey conducted by Centre for International Trade for a 2018 World Bank report on regional trade in South Asia, 20per cent of the respondents exporting readymade garments felt that the labelling requirements were too detailed. Another 31per cent (of the readymade garment exporters surveyed) stated that they had to make informal payments to inspection officials to get their consignments cleared because officials insisted on enforcing voluntary standards set by Bureau of Indian Standards' Textile Department.¹⁸ To avoid such impediments, Government of India should work with Bangladesh to expedite CEPA agreement with Bangladesh to move towards free trade. Meanwhile, both countries should further cooperate to harmonise trade processes at borders, removing NTBs, giving clear directives to inspection and customs officials regarding their duties as well as better coordination among various departments in their respective countries to remove overlapping or conflicting regulations.

The **second** reason for low trade figures is the lack of proper infrastructure in terms of connectivity as well as trade facilitation infrastructure like a sufficient number of ICPs of international standards on both sides. Most of the connectivity projects mentioned in this paper are under various stages of implementation and are often delayed as is the case with the 15 km Agartala-Akhaura rail link initiated in 2018. Another reason is the lack of corresponding facilities to process movement of transport vehicles which can lead to chokepoints on either side of ICP. For instance, at Petrapole ICP the Indian side can accommodate 2,000 trucks per day while Bangladesh can manage only 450 trucks a day.¹⁹

Timely completion of connectivity projects and improving processing facilities at border crossings can significantly reduce transit time and charges, making trade between India-Bangladesh more cost competitive.

- **Investments:** Net Indian FDI into Bangladesh has remained quite stagnant according to Bangladesh Bank's data. Net FDI increased from USD 82.79 million in FY 2015 to just USD 113.70 million in FY 2019. This is a clear sign of inactive Indian private sector engagement in Bangladesh. As a result, for most projects the already fund starved Gol has to issue LOCs worth billions to boost bilateral economic relations. While, nearly USD 9 billion worth of investment in Bangladesh from private Indian companies are expected²⁰, most of these still have not materialised till FY 2019. In this regard, government could help stimulate such private investments in Bangladesh by giving tax incentives, cheaper credit and faster clearances to interested companies.
- **Slow Implementation:** According to a report in *The Business Standard* in March 2020, 3 Indian LOC-1 projects are still not completed after a decade. According to the report, only



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USD 565.76 million was released out of the USD 862 million. The figure for the LOC-2 (2016) is even worse as just USD 47.67 million out of the USD 2 billion have been released. LOC-3 which was extended in 2017 has seen only a USD 1.4 million out of USD 4.5 billion release till March 2020.²¹ Most of the construction projects have been running behind schedule including key projects like Agartala-Akhaura rail. Most delays are due to contractor issues, delay in fund release and clearances from the Indian side.

While India and Bangladesh already have a platform for monitoring the progress on bilateral projects, Project Review Monitoring Committee, it needs to be further empowered and conduct meetings more often to iron out persisting issues. For disbursing funds under various LOCs, GoI could explore the option of establishing an apex body responsible for LOC funds release and management instead of multiple departments and ministries being responsible for funding. This can potentially reduce bureaucratic delays.

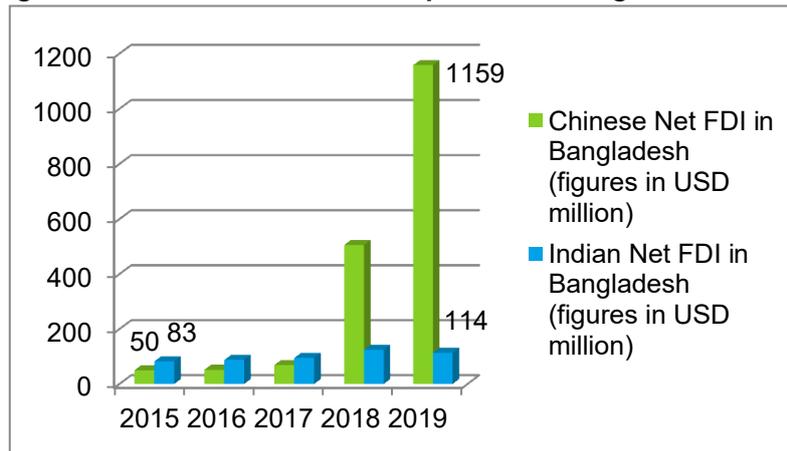
- **Chinese Presence:** The increasing Chinese presence in Bangladesh has been a matter of concern for India. China has been Bangladesh's main source of defence equipment. According to Stockholm International Peace Research Institute (SIPRI) arms transfer data, Bangladesh imported defence equipment worth USD 2,586 million from China during the period 2010-2019, with equipment sales reaching USD 644 million in 2019²². These sales have included major platforms like tanks, fighter jets, submarines and frigates. As such China has become an important consideration in Bangladesh's security calculations. China is also the only country with which Bangladesh has signed a Defence Cooperation Agreement in 2002. On the other hand, India has not yet made any considerable weapons sales to Bangladesh and has only managed to set Bangladesh to sign a MoU on framework for defence cooperation.

On the economic front, the bilateral cooperation between China and Bangladesh is even more intense. China has been increasing its investments in key infrastructure projects in Bangladesh, which officially joined the Belt and Road Initiative (BRI) in 2016. China also announced loans worth USD 20 billion in 2016 for executing 27 BRI projects in Bangladesh.²³ Chinese investments and Engineering, Procurement and Construction involvement in key infrastructure projects include the Padma Bridge which is being built by the China Major Bridge Engineering Company, The 215 km Khulna-Jessore rail link being constructed by China Railways First Group Ltd with a Chinese loan of USD 2.67 billion²⁴, a 1320 MW Payra Power Plant²⁵, a 750 acre SEZ with 70 per cent stake being held by China Harbour Engineering Company, 25 per cent stake in Dhaka Stock Exchange, Chinese investment in Payra and Chattogram ports. For Payra port, Chinese Harbour Engineering Company and China State Engineering and Construction Company have already been awarded contracts worth USD 600 million. Bangladesh has also already signed a deal with Beijing Urban Construction Group Ltd for Sylhet airport expansion²⁶. In 2019 alone, Indian and Chinese net FDI comparison in Bangladesh was huge. While the Indian net FDI stood at USD 114 million, Chinese figure were well over USD 1159 million; a clear difference of over USD 1045 millions (Figure 3).



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Figure 3: India China Net FDI Comparison in Bangladesh from 2015-2019



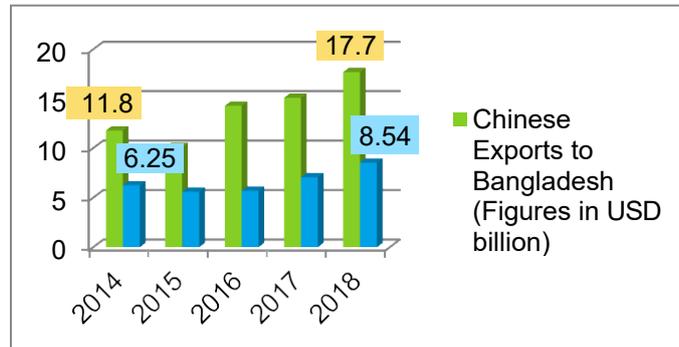
Source: Observatory for Economic Complexity

On the trade front too, China-Bangladesh trade stood much higher than India-Bangladesh trade (USD 9.42 billion) at USD 18.67 billion (OEC).²⁷ It is interesting to note that in FY 2018, of the 3 major export items of India and China to Bangladesh, one was common – refined petroleum. While China exported refined petroleum worth USD 1.09 billion to Bangladesh, Indian exports for the same were at USD 694 million.²⁸ These figures, despite the geographical proximity of India to Bangladesh compared to China, may point to relatively low cost competitiveness of Indian products due to various factors like high taxes and lack of export incentives among others. Recently, Chinese State Council's Trade Commission issued a notice granting 97 per cent of tariff products from Bangladesh complete exemption. While the earlier number of Bangladeshi goods exempted under the Asia-Pacific Trade Agreement was 3,095 and this number has increased to 8,256 with effect from 01 July 2020. This will further deepen economic interdependence of the economies of both the countries.²⁹ Figure 4 shows that the Chinese exports to Bangladesh have been considerably higher than Indian exports since 2014, and in 2018 the Indian and Chinese exports to Bangladesh stood at USD 8.54 billion and USD 17.7 billion respectively.



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Figure 4: Indian & Chinese Exports to Bangladesh from 2014-2018



Source: Observatory for Economic Complexity

While the intensity of economic engagement is a concern for India, India should not try to match China at every turn in Bangladesh. There are several reasons for this. First, Bangladesh is a rapidly growing economic power. Unlike Sri Lanka's, key projects are less likely to fall into China's hands due to resilience of the Bangladeshi economy, their high growth rate of 8 per cent for 2019-20 and relatively lower external debt of 12.5 per cent of GDP³⁰ make Bangladesh's ability to service their debt relatively more comfortable than other smaller economies of the region. On top of this, China, after announcing USD 20 billion worth of loans, could only disburse USD 1 billion till 2020 while the entire amount was supposed to be released for various projects by 2020.³¹

Other factor is Bangladesh government's pragmatism. Bangladesh government has shown sensitivity to Indian strategic concerns like in the case of Sonadia port where Bangladesh government cancelled the project which was a key project in China's maritime objectives. Even in Payra port project, Bangladesh is following a diversified approach in terms of both financing as well as the actual implementation of projects with participation from India, China and even Belgium.³² India has been chosen for constructing a 1200 metre long multipurpose terminal at Payra port under LOC-3 at a cost of TK 4,945 crore. In place of Sonadia port, the Bangladeshi government has also approved a Japanese sponsored port at Matarbari and a contract in this regard has already been awarded to Nippon Koei of Japan.³³ These actions highlight a desire in Bangladesh to maximise their development prospects while also being considerate to India's concerns in the region.

Conclusion

India's ties with Bangladesh are historic with deep cultural links, a shared history, and people to people contact. Relations between the two countries have shown great progress in the last decade across a wide spectrum. While Chinese presence is a reality, India must come to terms with it and manage it to the best of abilities, especially to secure its strategic interests close to its own shores. India should not get into competing with China on every turn in Bangladesh and should follow a much



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more focused approach due to its limited resources. Our goal should be to foster mutually beneficial cooperation which holds better prospects for improving ties and keeping them that way in the long run. Thus, India should continue to improve its own implementation process of the various LOCs extended, stimulate private investments in Bangladesh by way of tax incentives and faster clearances, remove trade barriers and homogenise documentation and other requirements to better facilitate trade. At the same time, our engagement with Bangladesh should not always be seen in the context of a third country and consistent efforts will be required to keep the bilateral ties friendly and peaceful.

End Notes

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³² Sudha Ramachandran (2016), “China’s sinking port plans in Bangladesh”, *The Jamestown foundation*, 21 June, Available at: <https://jamestown.org/program/chinas-sinking-port-plans-in-bangladesh/>, Accessed on 20 August 2020.

³³ “Matarbari Port Design deal goes to Japan’s Nippon”, *New Age Bangladesh*, 23 July, Available at: <https://www.newagebd.net/article/111879/matarbari-port-design-deal-goes-to-japans-nippon>, Accessed on 20 August 2020.

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