

## India's development cooperation with Bangladesh: Lines of credit (LOCs)

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Indian PM Narendra Modi meeting with Bangladesh PM Sheikh Hasina to discuss India-Bangladesh bilateral relation

### Introduction

As a neighboring country, Bangladesh holds both economic as well as geostrategic importance for India. Strong ties with Bangladesh helps India to promote stability in its immediate neighborhood, derive economic benefits especially for its landlocked Northeastern region and enhance connectivity with East Asia, thus, supporting India's 'Act East Policy'. Furthermore, Bangladesh also fares well for India's 'South-South' model of development cooperation.<sup>1</sup>

Considering Bangladesh as an important country within India's sphere of influence, successive Indian governments have stepped up partnership with Bangladesh. An important avenue highlighting such an increased engagement is that of development cooperation. This can be well

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<sup>1</sup> See "Prime Minister Narendra Modi's Visit to Bangladesh: Deepening Economic Cooperation and Development Assistance", 13<sup>th</sup> June, 2015, Indian Development Cooperation Research (IDCR) Program, Centre for Policy Research (CPR) India, available at <http://www.cprindia.org/research/reports/prime-minister-narendra-modi-s-visit-bangladesh-deepening-economic-cooperation-and>, last accessed on 12<sup>th</sup> January, 2017.

noticed by India's extension of multiple lines of credit (LOCs) towards Bangladesh in a short span of time.<sup>2</sup>

### **Lines of credit (LOCs) extended by India towards Bangladesh**

India first extended a LOC worth US\$ 1 billion towards Bangladesh in the year 2010. This was subsequently transformed into a grant of US\$ 200 million alongside a LOC of US\$ 800 million which in 2015 was enhanced to US\$ 862 million by means of amendment to the agreement. All of the fifteen projects under this LOC have been cleared by the EXIM Bank of India.<sup>3</sup> These include modernization of signalling system of three stations between Ashuganj and Akhaura section of Bangladesh railway, construction of 2nd Bhairab and 2nd Titas Bridge, Khulna-Mongla port rail line, 3rd and 4th Dual Gauge track between Dhaka-Tongi section and doubling of dual gauge track between Tongi-Joydebpur, rehabilitation of the Kulaura-Shahbajpur section of Bangladesh railway and procurement of buses, locomotives, passenger coaches and rolling stock.<sup>4</sup> Importantly, the total concessional credit extended by India towards Bangladesh was later augmented by a credit line of US\$ 2 billion announced during PM Modi's visit to Dhaka in June, 2015. It stands as the largest LOC ever extended by Indian government till date. This commitment also took the cumulative sum of LOCs extended by India towards Bangladesh to US\$ 2.862 billion, thus, making Bangladesh the largest individual recipient nation with respect to amount of LOCs extended by India globally.<sup>5</sup>

The agreement for the second credit line worth US\$ 2 billion was signed on March 9, 2016 to utilise this LOC for implementing socio-economic development projects in Bangladesh and to further strengthen India-Bangladesh economic ties and mutual cooperation in diverse sectors. The interest rate for this concessional loan was fixed at one percent annually with a twenty year repayment term

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<sup>2</sup> See "Prime Minister Narendra Modi's Visit to Bangladesh: Deepening Economic Cooperation and Development Assistance", 13<sup>th</sup> June, 2015, Indian Development Cooperation Research (IDCR) Program, Centre for Policy Research (CPR) India, available at <http://www.cprindia.org/research/reports/prime-minister-narendra-modi-s-visit-bangladesh-deepening-economic-cooperation-and>, last accessed on 12<sup>th</sup> January, 2017.

<sup>3</sup> See "Bangladesh, India sign \$2 billion new line of credit", 9<sup>th</sup> March, 2016, India Today, available at <http://indiatoday.intoday.in/story/bangladesh-india-sign-2-billion-new-line-of-credit/1/616214.html>, last accessed on 12<sup>th</sup> January, 2017.

<sup>4</sup> See "Indian LoC projects limping", 30<sup>th</sup> July, 2016, The Financial Express, Bangladesh, available at <http://print.thefinancialexpress-bd.com/2016/07/30/147705>; "Bangladesh and India sign \$ 2 billion agreement for Socio economic projects", 10<sup>th</sup> March, 2016, Jagran Josh, available at <http://www.jagranjosh.com/current-affairs/india-bangladesh-signed-2-billion-us-dollar-line-of-credit-1457601830-1>, both last accessed on 12<sup>th</sup> January, 2017.

<sup>5</sup> See "Prime Minister Narendra Modi's Visit to Bangladesh: Deepening Economic Cooperation and Development Assistance", 13<sup>th</sup> June, 2015, Indian Development Cooperation Research (IDCR) Program, Centre for Policy Research (CPR) India, available at <http://www.cprindia.org/research/reports/prime-minister-narendra-modi-s-visit-bangladesh-deepening-economic-cooperation-and>, last accessed on 12<sup>th</sup> January, 2017.

including a five year moratorium. As of March 2016, fourteen projects were planned to be implemented under this credit line. These included projects spanning across avenues such as infrastructural development (power, roads, railways and transport), shipping, information and communication technology. In addition to above, the agreement also emphasized on usage of this credit line for development in social sectors such as health and technical education through initiatives such as upgrading of forty-nine polytechnic institutes, modernisation of two teacher training institutes, and establishment of medical colleges and hospitals.<sup>6</sup> However, as of July 2016, the EXIM Bank of India approved only four out of the eight projects sent by the Bangladesh's Economic Relations Division (ERD). These included four-lane road project from Ashuganj river port to Akhaura land port and two projects to purchase trucks and buses from India, and another project to set up a new workshop at Sayedpur railway workshop to build passenger coaches. The four-lane road project from Ashuganj river port to Akhaura land port was crucial from an economic point of view as it facilitated transport of goods to Tripura and seven sisters through Bangladesh. Further, as per the tender document only Indian companies were allowed to take part in the four-land road project and as per conditions decided, sixty five percent of materials including, brick, sand and cement had to be collected from India.<sup>7</sup>

Though Indian government has shown keenness to strengthen its development cooperation with its neighboring country primarily through extension of credit lines, but there have been certain implementational errors which have hampered the effectiveness of these LOCs. This can also be seen in the dismal disbursement amount of Indian LOC committed in 2010 i.e. of the US\$ 1 million LOC that was later trimmed to US\$ 800 million, only US\$ 169 million was disbursed for projects as of September, 2014. More importantly, as reported by the Bangladesh Railway around July 2016, the performance of railway projects being implemented under this LOC had been poor with around half of the projects involving around US\$ 690 million not being completed and with performance of some other projects being insignificant. Further, the progress of 3rd and 4th dual gauge railway tracks between Dhaka and Tongi section and doubling of dual gauge track between Tongi and Joydebpur including signaling work was only 2.25 per cent completed up to May 2016. Some of Bangladesh

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<sup>6</sup> See "Bangladesh, India sign \$2 billion new line of credit", 9<sup>th</sup> March, 2016, India Today, available at <http://indiatoday.intoday.in/story/bangladesh-india-sign-2-billion-new-line-of-credit/1616214.html>, last accessed on 12<sup>th</sup> January, 2017; "India extends biggest ever line of credit worth \$2 billion to Bangladesh", 10<sup>th</sup> March, 2016, Economic Times, available at <http://economictimes.indiatimes.com/news/politics-and-nation/india-extends-biggest-ever-line-of-credit-worth-2-billion-to-bangladesh/articleshow/51330299.cms>; "Bangladesh, India sign \$2 billion new line of credit", 9<sup>th</sup> March 2016, available at <http://bdnews24.com/economy/2016/03/09/bangladesh-india-sign-2-billion-new-line-of-credit>, last accessed on 13<sup>th</sup> January 2017.

<sup>7</sup> See "Four Projects approved under \$2 b Indian LoC, 11<sup>th</sup> July 2016, Daily Sun, available at <http://www.daily-sun.com/arcprint/details/150357/Four-projects-approved-under-2b-Indian-LoC/2016-07-12>, last accessed on 13<sup>th</sup> January, 2017.

Railway officials reportedly sighted delay in getting clearances from the EXIM Bank of India as one of the reason for such a problem. An example in this respect is the delay in clearance from the EXIM Bank of India for the construction of Khulna-Mongla port rail line. Some of the projects decided to be implemented under the Indian LOC of US\$ 2 billion also didn't get initial nod from the EXIM Bank of India in July 2016. Further, the projects implemented under the initial LOC agreed upon in 2010 have said to be plagued by problems including cumbersome tendering process, escalation of material costs and lack of adequate competitive bidders in the Indian market.<sup>8</sup>

The need for sorting out such problems becomes much more significant when one takes into consideration China's growing economic influence in Bangladesh. This can be easily noticed by the recent credit line worth US\$ 24 billion reported to be signed by Chinese President Xi Jinping during his recent visit to Dhaka in October, 2016, which is also the first by a Chinese head of state in the past three decades.<sup>9</sup> In this respect, even though the moral of such a move might be considered noble by many, however, given China's disagreements with India, its closeness with Pakistan and historically big brother image in the South Asian region such a move is bound to make India uncomfortable. This also makes , Bangladesh Prime Minister Sheikh Hasina's expected visit to India in the near future much more crucial. In this respect, Indian LOC which is likely to be signed during the visit will also be of great significance. There are already reports that of the twenty six projects which are expected to form part of the LOC, around eight are expected to be implemented under the credit line while the status of thirteen such projects is pending and five of them are reported to be dropped by the Bangladeshi government. Importantly, these five projects constitute a cumulative sum of over US\$ 1 billion. These include designing and building of broad-gauge railway line from Bhanga to Barisal and feasibility study from Barisal to Payra seaport, the upgrade of Khulna airport, Payra port dry bulk coal terminal, the Bay container terminal in Chittagong, and the procurement of 30 broad-gauge locomotives. According to respective ministerial sources, the Payra port dry bulk coal terminal is now under the foreign direct investment (FDI) method while the Bay container terminal

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<sup>8</sup> See "Prime Minister Narendra Modi's Visit to Bangladesh: Deepening Economic Cooperation and Development Assistance", 13<sup>th</sup> June, 2015, Indian Development Cooperation Research (IDCR) Program, Centre for Policy Research (CPR) India, available at <http://www.cprindia.org/research/reports/prime-minister-narendra-modi-s-visit-bangladesh-deepening-economic-cooperation-and>; "Four Projects approved under \$2 b Indian LoC, 11<sup>th</sup> July 2016, Daily Sun, available at <http://www.daily-sun.com/arcprint/details/150357/Four-projects-approved-under-2b-Indian-LoC/2016-07-12>, both last accessed on 13<sup>th</sup> January, 2017.

<sup>9</sup> See "China signs deals worth billions with Bangladesh as Xi visits", updated on 15<sup>th</sup> October, 2016, Today, available at <http://www.todayonline.com/world/china-sign-some-24-billion-loans-bangladesh-xi-visits>; "China to sign some \$24 bln in loans to Bangladesh as Xi visits", 13<sup>th</sup> October 2016, available at <http://www.reuters.com/article/bangladesh-china-idUSL4N1CJ3BS>; "China to sign \$24 billion in loans to Bangladesh, overtakes PM Modi's \$2 billion credit line", 14<sup>th</sup> October, 2016, India Today, available at <http://indianexpress.com/article/india/india-news-india/china-to-sign-24-billion-in-loans-to-bangladesh-overtakes-pm-modis-2-billion-credit-line-3081974/>, all last accessed on 13<sup>th</sup> January, 2016.

(Chittagong) is to be financed by the Asian Development Bank (ADB). With respect to the designing and building of the broad-gauge railway line from Bhanga to Barisal and the feasibility study from Barisal to Payra seaport, Bangladesh's railway ministry has expressed desire to implement the projects under the public-private partnership (PPP) method. There has also been speculation about the China Civil Engineering and Construction Corporation showing keenness to build the railway line. Moreover, Bangladesh's civil aviation ministry also wants to upgrade Khulna airport has also expressed desire to upgrade Khulna airport under the PPP model instead of utilizing Indian LOC for funds.<sup>10</sup>

## **Conclusion**

It seems unlikely that Bangladesh is intent on playing host to any form of strategic competition between India and China. The country is still in need of enormous infrastructural development and is willing to support economic initiatives taken by India, which are supportive to its development. India, on the other hand, also seems intent on playing crucial role in the country from an economic point of view. This can be seen by its desire to support Bangladesh's development through concessional credit lines. This also fares well for Indian exports. However, one still cannot ignore China's 'One Belt, One Road' (OBOR) initiative and its willingness to support Bangladesh's development so as to make this project a success. Moreover, such an active Chinese interest necessitates India to push forward its own model of development cooperation, express its weight as Bangladesh's support structure at global level and importantly, to filter out some of the problems highlighted above with respect to disbursement of LOCs and implementation of Indian LOC financed projects in Bangladesh.<sup>11</sup>

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<sup>10</sup> See "Govt to drop 5 projects", 9<sup>th</sup> January 2017, The Independent, available at <http://www.theindependentbd.com/printversion/details/75778>, last accessed on 13<sup>th</sup> January, 2017.

<sup>11</sup> See "Should India Be Concerned About China's Belt And Road Initiative? – Analysis", 15<sup>th</sup> December, 2016, available at <http://www.eurasiareview.com/15122016-should-india-be-concerned-about-chinas-belt-and-road-initiative-analysis/>, last accessed on 13<sup>th</sup> January 2017.