

# PRIME MINISTER NARENDRA MODI'S VISIT TO BANGLADESH: DEEPENING ECONOMIC COOPERATION AND DEVELOPMENT ASSISTANCE

Published on June 13, 2015

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## ABSTRACT

*Bangladesh as a neighboring country holds crucial geostrategic and economic significance for India. It also serves well with India's model of 'South-South' development cooperation and provides ample support to India's 'Act East Policy'. Importantly, stronger ties with Bangladesh helps India to promote greater stability in its immediate neighborhood and reap economic benefits especially for its landlocked northeastern region, from enhanced connectivity with East Asia. With Indian Prime Minister Narendra Modi's June 2015 visit to Dhaka, India looks to further deepen its bilateral ties with its north eastern neighbor through boosting of credit lines based development cooperation, private sector investment, connectivity as well as bilateral trade ties. However, the main highlight of the visit is the ratification of the long-pending India-Bangladesh Land Boundary Agreement (LBA) which is a crucial impetus towards further strengthening of India-Bangladesh bilateral relationship. Taking these factors into consideration, through this piece we have tried to take a much closer look on India's ties with Bangladesh with a particular focus on the economic potential of the discussions held and agreements signed during PM Modi's visit to Dhaka.*



Bangladeshi Prime Minister Sheikh Hasina and Indian Prime Minister Narendra Modi meet on the sidelines of the UN General Assembly, October 2014.

With the Indian Prime Minister Narendra Modi's June 2015 visit to Dhaka, India has considerably deepened economic and development assistance based ties with Bangladesh, a geo-strategically and economically vital neighbour for India.

Importantly, Modi's visit has resulted in the ratification of the long-pending India - Bangladesh Land Boundary Agreement (LBA). [1] The boundary between India and Bangladesh (erstwhile East Pakistan) has been in dispute since India's partition in 1947. In 1974, shortly after Bangladesh emerged as an independent state, both New Delhi and Dhaka made efforts to resolve the boundary. However, it was not until PM Manmohan Singh's visit to Bangladesh in 2011 that both countries made significant progress towards resolving the LBA. Building on this progress, India and Bangladesh finally settled the un-demarcated boundary of approximately 6.1 km during Modi's visit. As part of the LBA, India ceded 111 Indian enclaves (distributed over 17,160 acres) to Bangladesh and Bangladesh ceded 51 enclaves (distributed over 7,110 acres) to India. [2] The LBA will also allow people living in these enclaves to gain full legal rights as citizens of either country.

With the border between the two nations now settled, India-Bangladesh ties look set to grow stronger. A historical \$2 billion Line of Credit (LOC) offered by PM Modi to Bangladesh at highly concessional rates was also aimed at deepening three critical areas of cooperation between the two countries, in the areas of connectivity, energy and trade.

## CONNECTIVITY

As India 'Acts East', with a particular focus on developing its landlocked north-eastern region, New Delhi increasingly recognizes the advantages access to Bangladesh's ports can offer. It therefore comes as little surprise that the India-Bangladesh bilateral relationship has seen a strong focus on connectivity and access to ports. During Modi's visit, India sought greater access to ports in Bangladesh, which would provide India's north-eastern states another route through which to export goods. India and Bangladesh signed several inter-governmental agreements and Memorandums of Understanding (MoUs) to ensure connectivity and port access. An agreement on coastal shipping sought to decrease bilateral shipping through third-country ports and increase two-way trade between India and Bangladesh through coastal shipping. A MoU on the Blue Economy and Maritime Cooperation seeks to ensure cooperation on the blue economy and maritime sphere. Another MoU provides India the use of Chittagong and Mongla Ports for the trade of goods.

As part of the Coastal Shipping Agreement that will promote more frequent direct shipping links between ports on India's eastern seaboard and Bangladeshi ports, India committed to construct a road between Chittagong Port and Agartala in the Indian state of Tripura. Bangladesh has also agreed to allow Indian cargo vessels access to the port at Chittagong. [3] Both nations also signed an MoU to facilitate further cooperation between the Indian and Bangladeshi coast guards to improve maritime security in the Bay of Bengal.

Further, to improve telecommunication links between the two countries, and to facilitate faster internet access in India's Northeast, India and Bangladesh agreed to build an optical fibre cable from the Bangladesh border to Agartala, in the Indian state of Tripura. This fibre optic cable will significantly improve internet speeds in India's northeast.

India's efforts to open new outlets for trade through Bangladesh will help India's northeastern states achieve faster economic growth. Although the Chief Minister of West Bengal, Mamata Banerjee, took part in some of the negotiations, inadequate representation of India's northeastern states while negotiating port and road access (as was the case during this visit) will likely mean that subnational economic and strategic concerns that Indian states bordering Bangladesh like Assam, Meghalaya and Mizoram might have, will remain shortchanged.

## ENERGY

As of 2014, Bangladesh faces a daily energy deficit of nearly 1500 MW.[4] With India eager to help Dhaka bridge this shortfall, energy has emerged as an important focus area in the India-Bangladesh relationship, particularly over the last few years. For example, in 2013, under a joint venture between the Indian public sector company National Thermal Power Corporation (NTPC) and the Bangladesh Power Corporation Board (BPCB), India committed to construct a 1,320 MW power project at Rampal in southern Bangladesh.[5] Further, in December 2014, the Indian government agreed to supply 100 MW of power from the Paltana power plant in Tripura in exchange for allowing Indian goods to transit through the Ashuganj port in eastern Bangladesh. During Modi's visit, India agreed to supply Bangladesh an additional 1,100 MW of power over the next two years.

Inclusion of private sector representatives during Modi's visit to Bangladesh and his meeting with some of Bangladesh's prominent business leaders at Dhaka was indicative of New Delhi's eagerness to deepen bilateral ties through economic diplomacy.[6] And the economic diplomacy has borne fruit: In addition to the commitments of the Indian government, Indian private sector firms such as the Adani Group and Reliance Power have entered into agreements with the Bangladesh Power Development Board to invest US\$ 5 billion towards constructing power plants in Bangladesh. The power plants are expected to generate nearly 4,600 MW of power.[7]

## INFRASTRUCTURE DEVELOPMENT THROUGH LINES OF CREDIT

During Modi's visit, with India extending a landmark US\$ 2 billion LOC to Bangladesh, the largest LOC New Delhi has ever extended, it is clear that India places significant emphasis on strengthening development assistance based ties with Dhaka. The US\$ 2 billion credit line takes Indian LOC commitments to Bangladesh to US\$ 2.8 billion, making Bangladesh the largest recipient of Indian LOCs globally. While the earlier US\$ 800 million LOC extended in 2010 (a US\$ 1 billion LOC that was converted to a grant of US\$ 200 million and a LOC of US\$ 800 million) was used to develop road and rail linkages, the US\$ 2 billion LOC will be used towards developing the power, education and health sectors. [8] Bangladesh also signed a Memorandum of Understanding (MoUs) offering the development of two Special Economic Zones (SEZs) in Bheramara and near the southern port of Mongla, both of which will be constructed through the LOC,

to Indian companies. [9] With both countries committing to encourage Indian industries to set up operations in these SEZs, Indian companies can look forward to greater access to markets in Bangladesh.

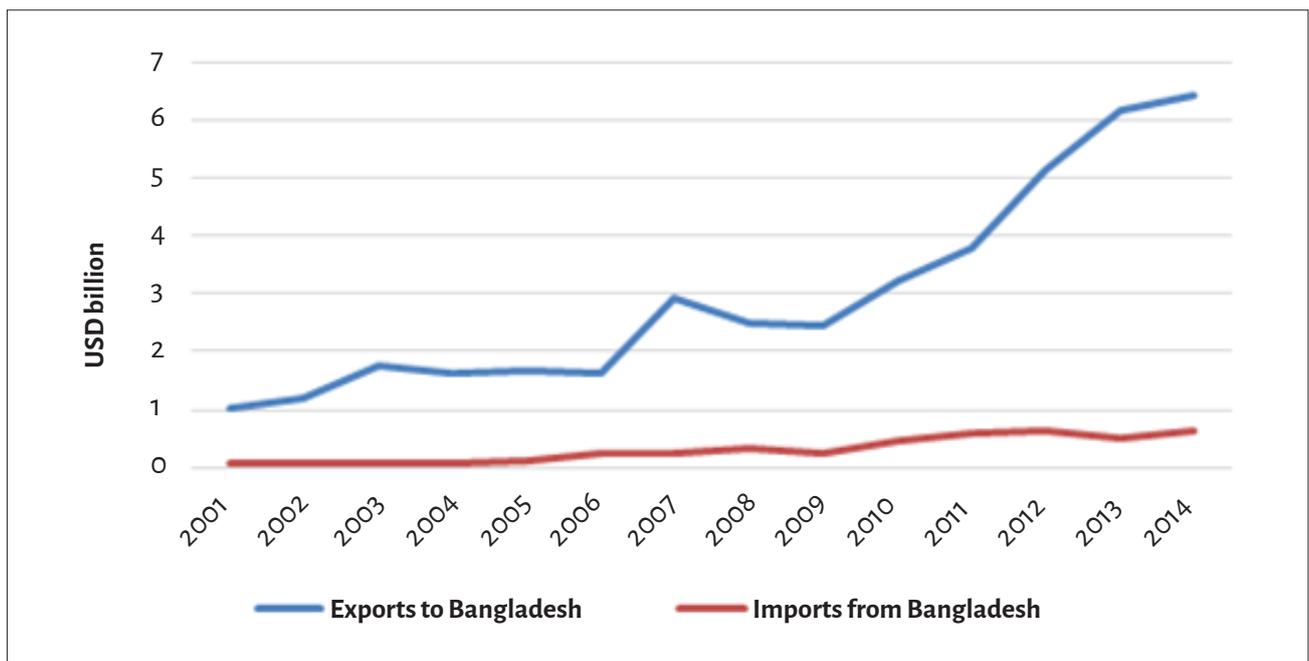
However, there are issues that need to be addressed in order to ensure effective use of India's LOCs to Bangladesh. Total disbursement from India's earlier US\$ 800 million LOC stood at merely US\$ 169 million in September 2014. [10] Projects under this LOC were delayed by over two years owing to cumbersome tendering processes, the escalation of material costs, and Bangladesh officials estimating the projects to cost lesser than market prices. [11] The lack of adequate competitive bidders in the Indian market have also resulted in project delays. To ensure projects undertaken through the US\$ 2 billion LOC do not face similar delays, India should

take steps to make the tendering process more transparent, and better coordinate with the recipient nation to get more accurate project cost estimates.

## TRADE

As of 2014, Bangladesh faces a trade deficit with India of more than US\$ 5 billion. With both India and Bangladesh agreeing to open more Border Haats (trading posts) near the Tripura-Bangladesh border and with the agreement on coastal connectivity, [12] Bangladesh will have more opportunities to ensure a more equitable trade balance. Besides, greater access to markets in Nepal and Bhutan through India's eastern ports will boost Bangladesh exports and foster greater trade within South Asia.

Figure 1: India's trade with Bangladesh between 2001/02 to 2014/15 in USD billion



Source: Indian Development Cooperation Research (IDCR) Program at the Centre for Policy Research

### GRANT-BASED DEVELOPMENT ASSISTANCE

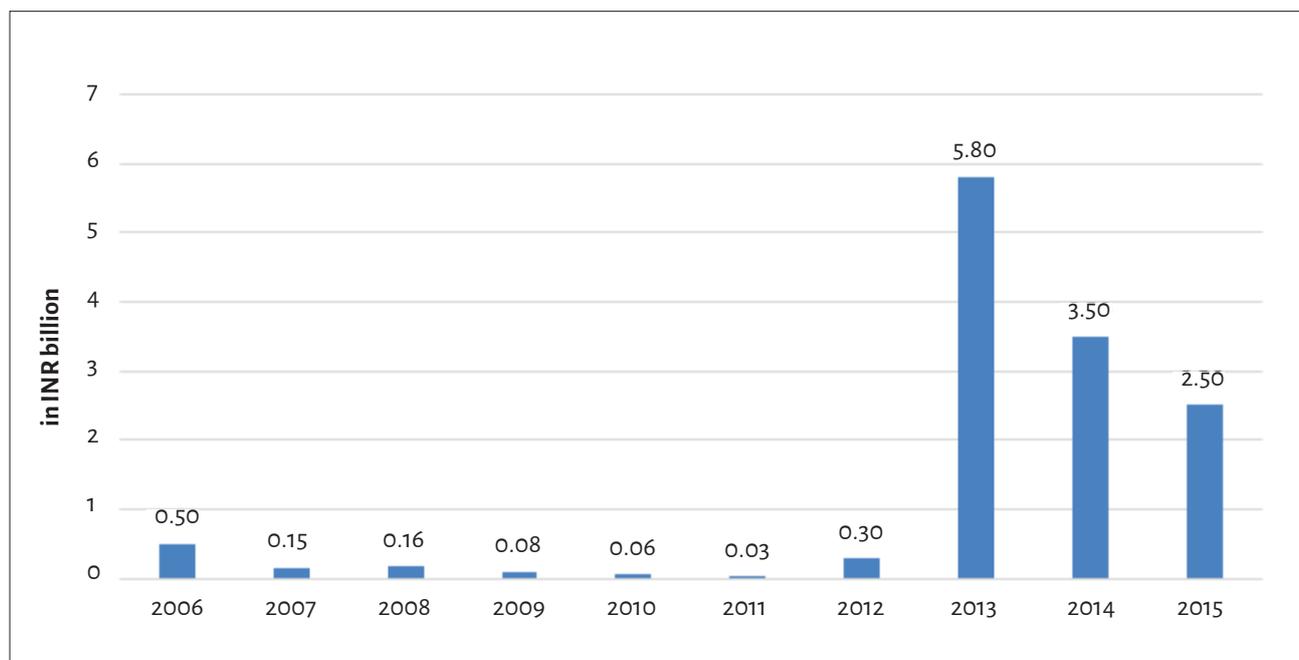
Despite long standing bilateral relations, the volume of Indian grant-based assistance to Bangladesh remains low. India's main grant-based development assistance projects include offering scholarships and training assistance through the program on Indian Technical and Economic Cooperation (ITEC) to government officials in Bangladesh.

However, in 2013/14, the conversion of India's US\$ 1 billion LOC to Bangladesh in 2010 into a US\$ 800 million LOC and a US\$ 200 million grant allowed more grant-based projects identified by the Bangladesh government to be undertaken. Projects undertaken from the US\$ 200 million grant

include Small Development Projects (SDPs), community development projects and connectivity projects such as the construction of the Akhaura-Agartala Rail link, setting up an inland port at Ashuganj and setting up a manufacturing unit for railway coaches.[13]

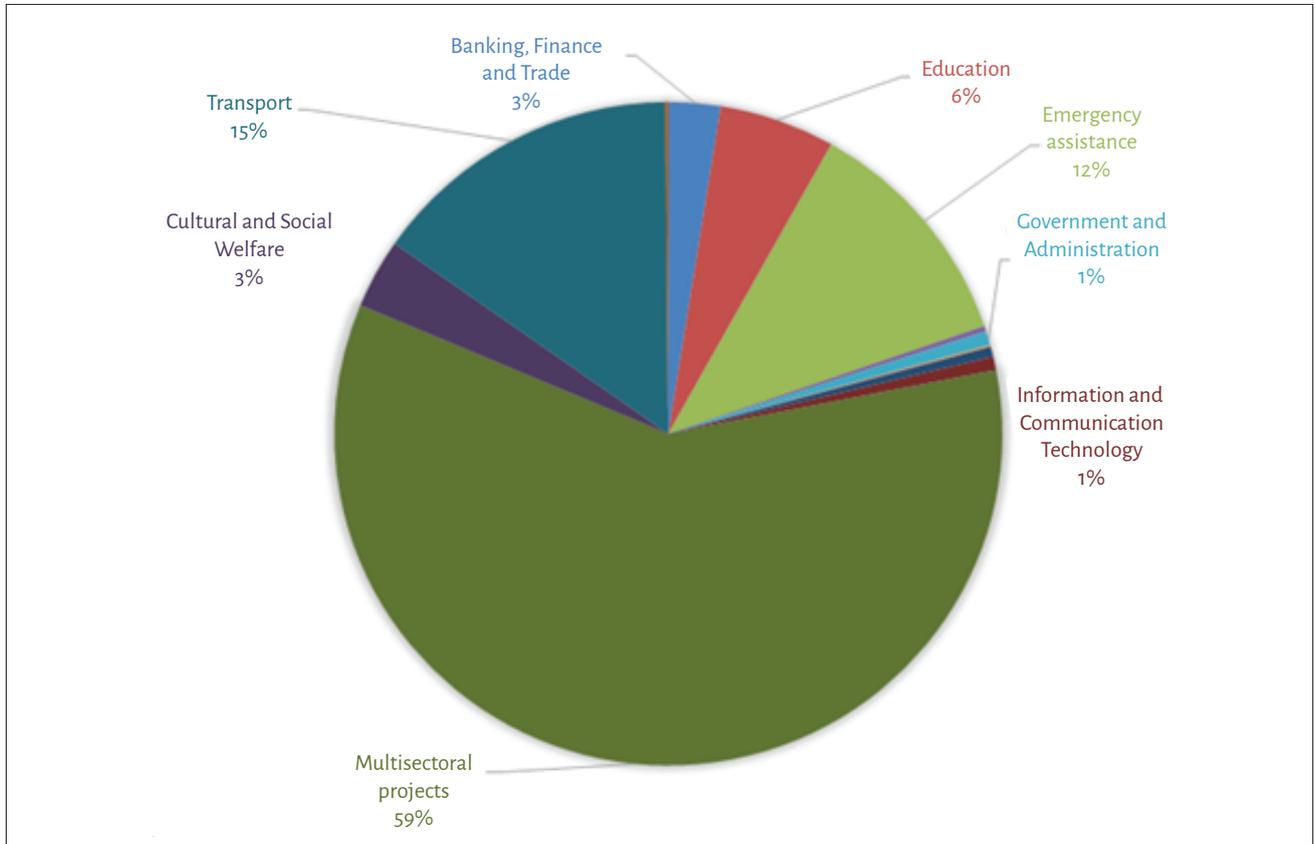
During the visit, Modi inaugurated several Indian grant projects in Bangladesh: the India - Bangladesh Maitri Girls Hostel at Victoria College in Narail, the Hindi department at Institute of Modern languages and a recording studio for the Department of Music at the University of Dhaka and the upgradation of the Blind Education and Rehabilitation Development organization at Mirpur in Dhaka.

Figure 2: Commitments through Grants to Bangladesh between 2006/07 and 2015/16 out of a total of INR 13 billion



Source: Indian Development Cooperation Research (IDCR) Program at the Centre for Policy Research

Figure 3: Sector-wise distribution of Indian grants to Bangladesh between 2006/07 and 2015/16 out of a total of INR 13 billion



Source: Indian Development Cooperation Research (IDCR) Program at the Centre for Policy Research

## CONCLUSION

Big strides have been made during Modi's visit especially towards resolving the Land Boundary Agreement (LBA) between India and Bangladesh along with signing of the Coastal Shipping Agreement which allows for frequent direct shipping links between ports on India's eastern seaboard and Bangladeshi ports. Importantly, as part of the agreement, Bangladesh has allowed Indian cargo vessels access to the Chittagong port. Both nations have also signed a MOU pledging further cooperation between the Indian and Bangladeshi coast guards to improve maritime security. India has also committed to construct a road between Chittagong Port and Agartala in the Indian state of Tripura which will be beneficial for boosting trade in the India's northeast region. India also agreed to build a fibre optic cable to boost internet speeds in India's northeast.

Both countries have also signed MOUs to set-up two SEZs in Bangladesh. As India seeks to deepen ties with its strategically important neighbours, New Delhi's effort to strengthen cooperation on both economic and development-assistance fronts with Bangladesh comes as no surprise.

Importantly, by receiving an additional US\$ 2 billion credit line, Bangladesh has now become India's largest recipient of development assistance through LOCs globally, which indicates Bangladesh's increasingly important position in Indian foreign policy in South Asia.

As bilateral ties with Bangladesh continue to grow stronger, Modi's visit, with a strong focus on boosting trade and improving connectivity, will help both nations achieve stronger economic growth. With the settlement of the India-Bangladesh border, a stronger focus on LOCs and private-sector investment, economic diplomacy has emerged as the major driver of India-Bangladesh relations.

**Disclaimer:** The values quoted in this article are based on initial calculations by IDCR from publicly available data sources and/or from IDCR's interactions with officials from the Government of India. These values are believed to be accurate, but not guaranteed. They may change as IDCR identifies and addresses discrepancies in the publicly available data. When quoting from this article, please indicate the date it was last updated.

## ENDNOTES

1. See Indrani Bagchi, "India, Bangladesh sign historic land boundary agreement, end 41-year-long misery of 50,000 stateless people", 7 June 2015, *The Times of India*, available at <http://timesofindia.indiatimes.com/india/India-Bangladesh-sign-historic-land-boundary-agreement-end-41-year-long-misery-of-50000-stateless-people/articleshow/47570745.cms>, last accessed on 9th June 2015
2. See "India and Bangladesh: Land Boundary Agreement", Ministry of External Affairs, Government of India, [http://www.mea.gov.in/Uploads/PublicationDocs/24529\\_LBA\\_MEA\\_Booklet\\_final.pdf](http://www.mea.gov.in/Uploads/PublicationDocs/24529_LBA_MEA_Booklet_final.pdf)
3. See Indrani, Bagchi, "Now, India gets to tug at China's 'string of pearls'", 7th June 2015, *The Times of India*, available at <http://timesofindia.indiatimes.com/india/Now-India-gets-to-tug-at-Chinas-string-of-pearls/articleshow/47570510.cms>, last accessed on 9th June 2015
4. See "Adani, Reliance Power to build plants in Bangladesh", 6th June 2015, *Business Standard*, available at [http://www.business-standard.com/article/reuters/adani-reliance-to-build-bangladesh-power-plants-to-ease-crisis-115060600300\\_1.html](http://www.business-standard.com/article/reuters/adani-reliance-to-build-bangladesh-power-plants-to-ease-crisis-115060600300_1.html), last accessed on 9th June 2015
5. See "India-Bangladesh power grid line adds new dimension to ties: Manmohan Singh", 5th October 2013, *DNA*, available at <http://www.dnaindia.com/world/report-india-bangladesh-power-grid-line-adds-new-dimension-to-ties-manmohan-singh-1898917>, last accessed at 9th June 2015
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8. See "List of Agreements, MoUs and other Documents concluded during the visit of Prime Minister to Dhaka", 7th June 2015, Ministry of External Affairs, Government of India, available at <http://mea.gov.in/outgoing-visit-detail.htm?25344/List+of+Agreements+MoUs+and+other+Documents+concluded+during+the+visit+of+Prime+Minister+to+Dhaka+June+06+2015>, last accessed on 9th June 2015
9. Ibid.
10. India has said the cost estimation by Bangladeshi agencies at a far lower level for the projects under the its billion dollar line of credit (LoC) is the main reason of delay in project implementation. For more, see Hisham Bin Mustafa, "BD projects under Indian LOC slows down", *Priyo news*, 4 August 2013, available at <http://news.priyo.com/2013/08/04/bd-projects-under-indian-loc-slows-down-82614.html>
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13. Data collated by the Indian Development Cooperation Research Initiative (IDCR) based on publically available data.