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Bangladesh-China-Northeast India: Opportunities and Anxieties

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A recent workshop in Kolkata on *Southern Silk Route: Historical Links and Contemporary Convergences* explored the historical connections between Bangladesh, China,¹ India,² and Myanmar (also known as BIMC). These countries were believed to be connected via the Southern Silk Route for centuries.³ The workshop that drew nearly 30 academics and diplomats from different parts of the world also examined how century-old economic and cultural linkages can be re-exploited for economic and other benefits for the region's roughly 300 million people.

The gathering also drew substantive attention to India-Bangladesh relations and China's growing interest in Bangladesh, inter alia. There has been some exasperation among Indian scholars and diplomats regarding Bangladesh's position on transit facilities to India, gas exports to India, and its possible involvements with the insurgency in northeast India among other matters. China's increasing influence over Bangladesh in recent years also caused some anxiety among some Indian participants at the workshop.

Against this backdrop, this paper attempts to explore some key Indo-Bangla bilateral issues, particularly those critical to northeast India's potential engagement with Bangladesh and other countries through the Kunming Initiative.⁴ It also examines whether China's engagement with Bangladesh goes beyond economic interests.

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¹ Particularly, Yunnan province of China.

² Mostly, northeast part of India.

³ Historical evidence shows that a South-West *Silk route* was in use between India and China long before Marco Polo established a silk route over the Karakoram in the 13th century (Sobhan, 2000). According to Verghese, the Southern-most route passed through Mytkynia, the Hukwan valley and into the Paktai and Nagai hills to Assam (Verghese, 1998). In more contemporary times the *Southern Silk route* or *Burma road* which was possibly used by Chinese emperor Kubli Khan's armies to conquer Burma, was resurrected as an important logistical artery by General Joe Stilwell, the U.S. officer commanding allied forces on the Indo-Burmese front and designated to liaise with the Chinese forces resisting the Japanese occupation of China during World War II (Tuchman, 1977).

⁴ The Kunming Initiative is a byproduct of the conference on "Regional Cooperation and Development among China, India, Myanmar and Bangladesh" held in 1999 in Kunming, the capital of Yunnan Province located in the Southwestern region of China. Over 100 officials and scholars from BCIM countries have called for forging a long-term relation of friendship and joint efforts to accelerate economic development in the region.

Integration Prospects of Bangladesh and Northeast India: Major Hurdles

Both Bangladesh and northeast India share a long history, culture and a long border.⁵ The historic ties between Bangladesh and the northeastern part of India dates back to centuries. Northeast India was integrally linked to the mainland India through the areas of what is now Bangladesh. Its outlays to the sea were through Chittagong port in Bangladesh and via Bangladesh's rivers to Calcutta port. The region shipped tea and other exportable by inland water transports through the rivers of Bangladesh for overseas shipment from Calcutta.⁶ However, with the partition of India the region was cut off from its hinterland, formerly East Bengal.

Northeast India, which consists of eight states⁷ of India, is geographically more aligned with Bangladesh (see Map 1), Myanmar and China than its own mainland. It is an economic imperative for the landlocked region to seek benefits for itself through greater regional integration. Bangladesh too has an abiding interest in northeast India as it sees that the region can be its natural trading partner due to geographical proximity and historic linkages, among others.

However, less than friendly relations between Dhaka and New Delhi have been an impediment to increase trade, business and transportation networks between northeast India and Bangladesh. Owing to several factors, notably non-tariff barriers and high transaction costs (due to poor infrastructure and communication networks), northeast India-Bangladesh trade and other economic relations have not been developed despite their close geographical proximity. Moreover, a myriad of bilateral issues that has been a major bone of contention between New Delhi and Dhaka equally hinders the prospects of Bangladesh-northeast India economic integration.

Further, to integrate northeast India with its mainland, New Delhi is consistently seeking transit facilities from Dhaka that the latter is reluctant to allow unless the former provides a similar opportunity to Bangladesh to access the landlocked Himalayan countries.

In this paper, we will focus on two issues – trade and transportation – that are critical for both countries' economic engagements.

In recent years, trade barriers have declined, both in Bangladesh and India, in line with their commitments to World Trade Organization and South Asian Preferential Trade Arrangement (SAPTA). Moreover, India has given preferences to Bangladesh on approximately 2,925 tariff lines under SAPTA. Nevertheless, Bangladesh's export to India accounts for less than seven percent of its total import from the latter. As a result, it has a massive trade deficit with India.⁸ Moreover, large volumes of informal imports from India cross the land border avoiding Bangladesh import duties. There are allegations from Bangladesh that its products often face India's non-tariff barriers and other bureaucratic hurdles.

⁵ Bangladesh is geographically surrounded mostly by northeast India except for small border with Myanmar to the far Southeast and the Bay of Bengal to the South.

⁶ Sobhan (2000).

⁷ Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura. Also often cited as seven sisters (except Sikkim).

⁸ For instance, in 2006, India's exports to Bangladesh were US\$ 2230.77 million, whereas the latter's exports to the former were only \$146.93 million (International monetary Fund: *Direction of Trade Statistics Yearbook*, 2007).

It is a very common experience that two neighbouring countries can have trade imbalances. One needs to see whether Bangladesh has not been able to improve its trade imbalances with India only due to the latter's non-tariff barriers. One way of examining the case is how much complementarity they have in terms of trade. Trade Complementarity Index⁹ shows that trade complementarity between Bangladesh and India is very low (5.42).¹⁰ This low level of trade complementarity between these two neighbours is hardly surprising as a) Bangladesh's export basket is not very diversified; and b) it is highly concentrated on readymade garment product which is not a significant import item for India.

One of the reasons why India remains Bangladesh's second most important import destination is due to India's broad export basket and close geographical proximity which, in turn, have helped Bangladesh to source for many commodities and final products with comparatively cheaper price, at least until recently. New Delhi's close attention to its non-tariff barriers and its bureaucratic bottlenecks can augment Bangladesh's trade to India to some extent but policy makers in Bangladesh should understand that this is not the panacea to redress the imbalances. Bangladesh does have similar trade imbalances with China, but one observes fewer hue and cries in the Chinese case as we do in Indo-Bangla trade deficits.

Another issue that has been affecting Indo-Bangla relations is India's demand for transit facilities through Bangladesh. In the absence of a land transit link between India and Bangladesh¹¹, the traffic between Kolkata and Assam is mainly carried by rail and road links through the *Siliguri Corridor*¹² and the requirements of additional transport costs for carrying goods is staggering. To transport goods to and from the northeast through the corridor the Indian government provides 25 percent transport subsidy.¹³ It is estimated that seven billion Rupees are being spent as additional costs to transport goods and services to and from northeast India.¹⁴ The figure is estimated in 1990s and it is expected that the cost has increased in tandem with economic growth both in northeast India and the rest of India. As such, as a transit route through Bangladesh can integrate the northeast India with its mainland and is set to reduce transportation cost significantly.

However, an inland waterway transit exists between these two neighbours. After gaining independence, Bangladesh restored the "Protocol on Inland Water Transit and Trade" in 1972, which was suspended by the then-Pakistan following the Indo-Pak war of 1965.

Now the question is why Bangladesh is reluctant to permit such facilities to India. It wants similar transit facilities from India to access Nepal and Bhutan. These landlocked Himalayan countries are geographically quite close to Bangladesh but they are surrounded by India. Nepal and Bangladesh are separated by a narrow piece of Indian territory of about 15 kilometres in the southeast (See Map 1). Had there been transit facilities (Nepal-India-

⁹ The trade complementarity (TC) index can provide useful information on prospects for intraregional trade in that it shows how well the structures of a country's imports and exports match. The TC between countries k and j is defined as: $TC_{kj} = 100 - \frac{\sum(|m_{jk} - x_{kj}|)}{2}$. The index is zero when no goods are exported by one country or imported by the other and 100 when the export and import shares exactly match.

¹⁰ This figure is taken from Rahman et al (2007).

¹¹ It is worth noting here and as discussed earlier there has been a developed transportation infrastructure between, particularly rail and riverain links, between India and East Bengal until 1965. Following the Indo-Pak war these links were disrupted.

¹² The total amount of inward and outward traffic is estimated at 10 million tons a year, of which only about 50000 tons passes through Bangladesh, mostly by river transit.

¹³ Verghese (1998)

¹⁴ Sobhan (2000)

Bangladesh), landlocked Nepal (so is Bhutan) could use Chittagong and Mongla port of Bangladesh that could cut down its transportation cost dramatically and one could see better trade and tourism relations between these two countries. But New Delhi is unenthusiastic to respond such calls. India keeps close eyes on these Himalayan countries, largely due to the China factor, and it is apparently less enthusiastic in wanting to integrate them with their close neighbours.

Another roadblock in solving Indo-Bangla transit problem is that Dhaka wants to solve all bilateral issues with New Delhi in a single package. Indeed, this is one of the reasons why the tripartite gas pipeline project (Myanmar-Bangladesh-India) had not implemented finally. So, it is not entirely true that Bangladesh is reluctant to allow India to use its territory to access northeast India but what it wants is a continental transit facility, especially in the southern part of the SAARC region (Bangladesh-India-Nepal-Bhutan) which does make more economic sense.

The deadlock on transit issues has been costing India and Bangladesh's transport and other communication links. There is an overwhelming consensus that, to integrate South Asia with southeast- and other parts of Asia, there is a need for greater transport network across Asia. But India and Bangladesh have significant differences on the selection of the Asian Highway Network (AHN). Bangladesh opposes the proposed route (India-Bangladesh portion) that enters into Bangladesh from India and goes back into India (see map 2). Bangladesh wants to initiate a route that connects it with Southeast Asia as well going through Chittagong and Myanmar (see Map 3), as the proposed route, as it argues, will virtually become a transit route for Indian goods between rest of India and northeast India.

Bangladesh wants to link the AHN with transit issues (to northeast India through Bangladesh and to Nepal and Bhutan through India) that has handicapped Dhaka-Delhi relations greatly in recent years. If Bangladesh does not join the AHN, the length of the final route (See Map 4) will be much longer than either the proposed route or the route Bangladesh has suggested. As a result, an AHN that excludes Bangladesh will make both northeast India and Bangladesh worse off.

The others issues, especially Bangladesh's reluctance to gas exports to India and its involvements with the insurgency problems in the northeast India, have largely been muted in recent times. With regards to gas exports, it has become very evident that Bangladesh itself could become an energy scarce country in the near future if it continues to maintain its current gross domestic product growth rate.¹⁵ New Delhi believes that some Bangladesh-based Islamic terrorist groups collaborate with the northeast separatist movements with the help of Pakistan Inter-Services Intelligence. There is no clear evidence that the Bangladesh state itself fuels the insurgency problems in northeast India, but it is true that some northeast insurgency groups find safe haven in Bangladesh. This is not because the state itself patronises them but Dhaka does not have much control over northeast India-Bangladesh border. The current caretaker government has taken some genuine steps to control Islamic fundamentalism in Bangladesh, including hanging some terrorist leaders.

¹⁵ For details see Wood Mackenzie & Petrobangla, "Revised Interim Report on Development of Gas Sector Master Plan", 2005. Available at <<http://www.energybangla.com/pdf/WM%20GSMP%20Rev%20Interim%20Report.pdf>>

China-Bangladesh Relations: India's Concerns

As mentioned earlier, another important issue that has caused some anxiety to some Indian policy makers is China's growing interest in Bangladesh. China and Bangladesh are old friends. However, in recent years, Dhaka-Beijing relations have reached new heights as China has become Bangladesh's number one trading partner, replacing India, and there has been a remarkable increase in Chinese investment in Bangladesh. Total trade between China and Bangladesh was around US\$3.5 billion for 2007. Further, Beijing has become a key source of funds for Bangladesh's infrastructure development, having already funded the construction of six friendship bridges. Further, Bangladesh-China Cooperation Agreement on the Peaceful Usage of Nuclear Energy, that was signed in 2005, among eight other treaties when the Chinese Premier paid a state visit to Bangladesh, is aimed at assisting Dhaka in the peaceful development of nuclear energy for power generation and other development purposes.

The ties between China and Bangladesh are even more comprehensive when one looks at security cooperation. Being the largest supplier of military hardware and training to Bangladesh's armed forces, Beijing plays a key role in moulding Dhaka's security apparatus. Indeed, in 2002, Bangladesh signed a Defence Co-operation Agreement with China which is the first such agreement ever signed by Bangladesh in its history.

All these developments indicate that China has both economic and strategic interests in Bangladesh. Does it mean that China's strategies and interests are designed to contain India, especially when one also views its engagement with Myanmar and Pakistan, in addition to Bangladesh? Why is Bangladesh aligning more with China in recent years? Can Bangladesh afford to engage China and strategically ignore India's concerns? To understand the dynamics of Sino-Bangla relations, especially from Bangladesh's perspectives, one needs to understand three crucial areas – Bangladesh's economic aspirations, its relations with India and the dynamics of its domestic politics.

First, on the economic front, Bangladesh is an untapped market and China understands its significant economic potential. Bangladesh too has abiding interest in China's rising economic prowess. Increasing Chinese export and investment in Bangladesh, especially in telecommunications, manufacturing, RMG, mining, power and agriculture, and the Chinese government's incentives to import Bangladeshi products has made China Bangladesh's number one trading and an important economic partner.

Second, as discussed, Bangladesh's and India's economic engagement has not been developed in tandem with their engagement with the outer world. Like many neighbouring countries, they have some outstanding issues to resolve. This has prompted Bangladesh to seek closer ties with China. Moreover, as Bangladesh's bilateral ties with India are less than friendly, and being a small state in the Indian neighbourhood, it faces a psychological threat. So apart from economic reasons, its security concerns are another motivating factor behind this alignment, and we can see such trends elsewhere in the world – perhaps more vividly in the Caucasus.

Third, one needs to look at Bangladesh's two major political parties' relations with New Delhi in order to understand the dynamics of Sino-Bangla and Indo-Bangla relations. The Bangladesh Awami League (AL), left-winged and relatively secular, is branded as a pro-

Indian, whereas the Bangladesh Nationalist Party (BNP), right-winged and closely associated with Islamic parties, utilises anti-Indian sentiment to achieve its political objectives.

The AL does not publicise its close ties with New Delhi. However, during Sheikh Hasina's tenure (1996-2000), Dhaka-New Delhi relations witnessed a marked improvement and Bangladesh and India signed two important treaties – the Chittagong Hill Tract Peace Treaty and the Ganges Water Sharing Treaty – which seemed a distant reality during her predecessor Khaled Zia's premiership in the period of 1991-1995. After a brief pause, a less than friendly relation between these two neighbours re-emerged when the BNP-led four party alliances returned to power in 2001 Dhaka-New Delhi bilateral relations again reached the pre-Hasina era.

On the other hand, the BNP's association with Beijing is just the reverse of its relations with New Delhi. China-Bangladesh relations gained momentum from 2002 when the BNP-led four-party alliance adopted a "Look East" policy. Further, the then-Bangladeshi Prime Minister's visit to Beijing was a significant landmark in shaping the Sino-Bangla relations.¹⁶ A Dhaka-New Delhi standoff on some key bilateral issues, little progress in South Asian regionalism and the psychological threat it perceives from its largest neighbour had convinced the then-government of Bangladesh that it should take advantage of the rise of China. The latter's reciprocal interest, especially Bangladesh's market potential and its geo-political importance, has given the Sino-Bangla relation a big thumbs up.

Bangladesh's engagement with China is, therefore, partly driven by its economic interest. The long-standing mistrust between Dhaka and New Delhi has also prompted Bangladesh to align itself with China. Moreover, the dynamics of Bangladesh's domestic politics, particularly its two major political party's relations with New Delhi, and India's hegemonic attitude have helped China to increase its engagement with Bangladesh.

Despite these facts, good relations with India are equally important for Bangladesh, owing to its economic dependency, people-to-people connections and cultural linkages. It is believed that several millions Bangladeshis have found their shelter, mostly illegally, in different parts of India. Moreover, Bangladesh's dependency on India became very visible in the recent past when India imposed export ban on several agricultural commodities in the wake of burgeoning food crisis. But India too failed to utilise the opportunity to alleviate the mistrust between two countries. One noticed a huge frustration among Bangladeshis when India made an extraordinary delay in delivering rice to Bangladesh (Dhaka was even ready to pay the international market price) when the country badly needed it.

There are growing concerns that India is losing Bangladesh to China, as we observed in the case of Myanmar, or Bangladesh's relations with China will slowly emulate the Sino-Pak relations which are believed to be designed to contain India. But Bangladesh is no Myanmar, as it is culturally more aligned to India, and the geo-political dynamics of Pakistan are far more diverse than that of Bangladesh.

Even though the common people in Bangladesh have some suspicions about India, they are not hostile towards it. Moreover, it is true that a section of people, particularly the ultra-rightists within the establishment of BNP take an anti-Indian stance but the liberal section of

¹⁶ Three important treaties and a Memorandum of Understanding were signed between two countries on military cooperation, economy and technology and China promised interest-free loans to built infrastructure in Bangladesh.

the party believes in peaceful coexistence with India. The civil society in Bangladesh too sees the Sino-Bangla relations as largely driven by economics. Though security is another building block in this regard, they think it is designed to protect the country from any external aggressions. However, if the BNP's central command falls into the ultra-rightists hand, then they might resort to India bashing to gain their political objectives.

Further, Bangladesh's relations with the United States is another critical factor as both the AL and the BNP keep close relations with Washington which has significant influence over Dhaka. So no matter which party assumes power, the degree of Chinese influence over Bangladesh is not absolute.

India Needs to Make a New Case

As discussed earlier, two issues, trade and transit, which have handicapped Indo-Bangla bilateral ties, can be solved if both countries look at these issues afresh. New Delhi's close attention to its non-tariff barriers can give some comfort to Dhaka. It is clearly noticeable that the mere correction of non-tariff barriers will not significantly improve Bangladesh's trade imbalances with India but a serious attempt can prevent India from being the perfect scapegoat for Bangladesh's own problems in this regard. On transit issues, unless India offers similar opportunities to Bangladesh, any breakthrough on it is a distant reality. The real downside risk pertaining to transit is if Bangladesh finally remains isolated from the AHN, it could make both countries worse-off.

Bangladesh's alignment with China is not necessarily a barrier to forge plausible Indo-Bangla ties. Indeed, a growth quadrangle comprising Bangladesh, the Yunnan province of China, Myanmar and northeast India can change the economic geography in this part of the world. The region is blessed with diverse natural resources, rich bio-diversity and enormous hydro-electricity potential, among others.

However, with regards to northeast India's integration with Bangladesh and Southeast Asia, New Delhi should first make up its mind to what extent it wants to integrate its northeastern part with the rest of South Asia, as it has both economic and security concerns pertaining to the region. It has some fear that opening up of northeast India can soon turn it a readymade market for Chinese goods, and the northeastern states that are fighting for autonomy from the centre or even for sovereign states might go beyond New Delhi's control. Indeed, one of the speakers at the conference identified India as a rather reluctant participant in the BCIM due to these concerns, inter alia.

The differences over bilateral issues between two close neighbours are very common elsewhere in the world but most countries have prioritised their economic benefits even while keeping their political differences alive. In the case of India and Bangladesh, both parties need to revisit the bilateral differences. Being a big economic power and the largest country in the South Asia, India, in this case, has the upper hand. New Delhi needs to make a new case for its neighbourhood policies and it needs to act fast to change the course of Indo-Bangla relations.

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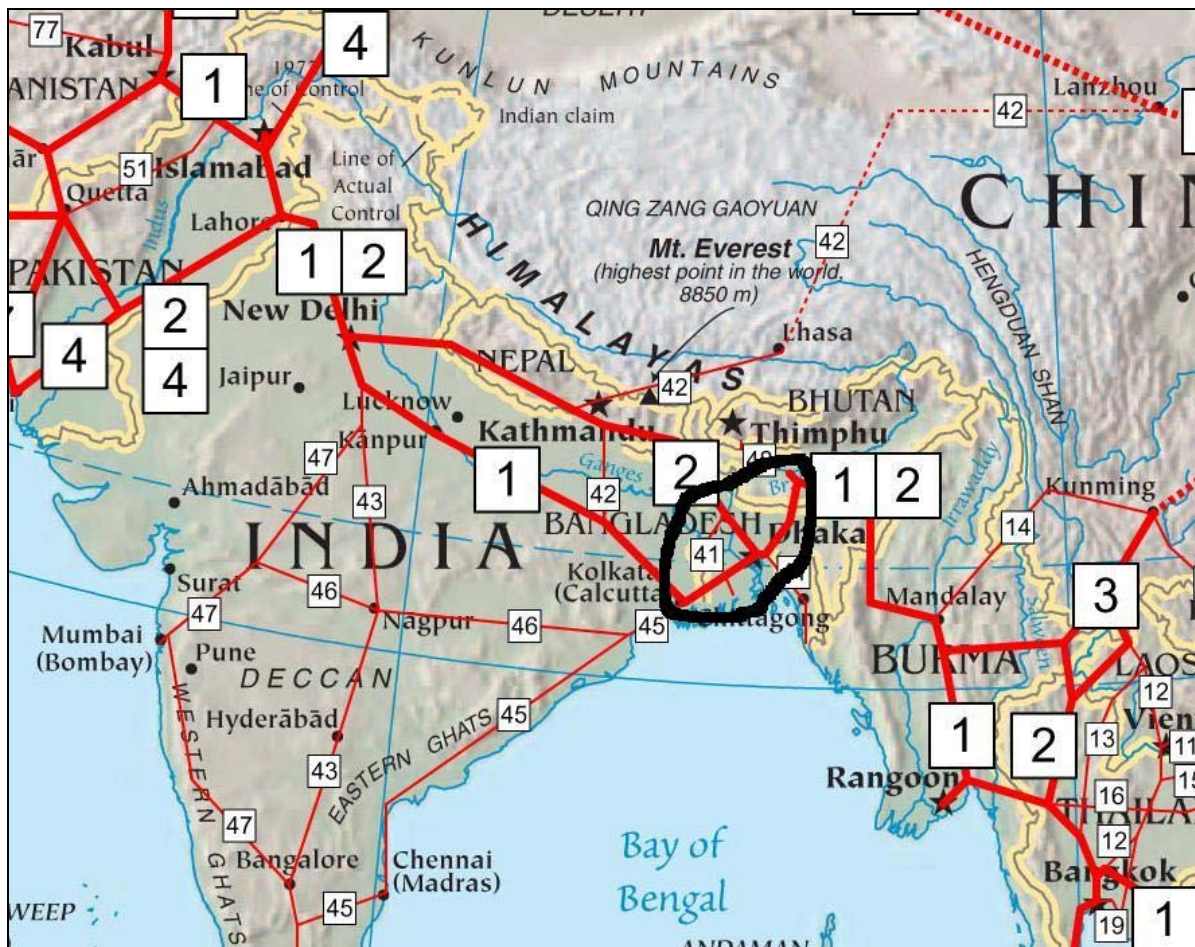
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Map 1: Map of South Asia



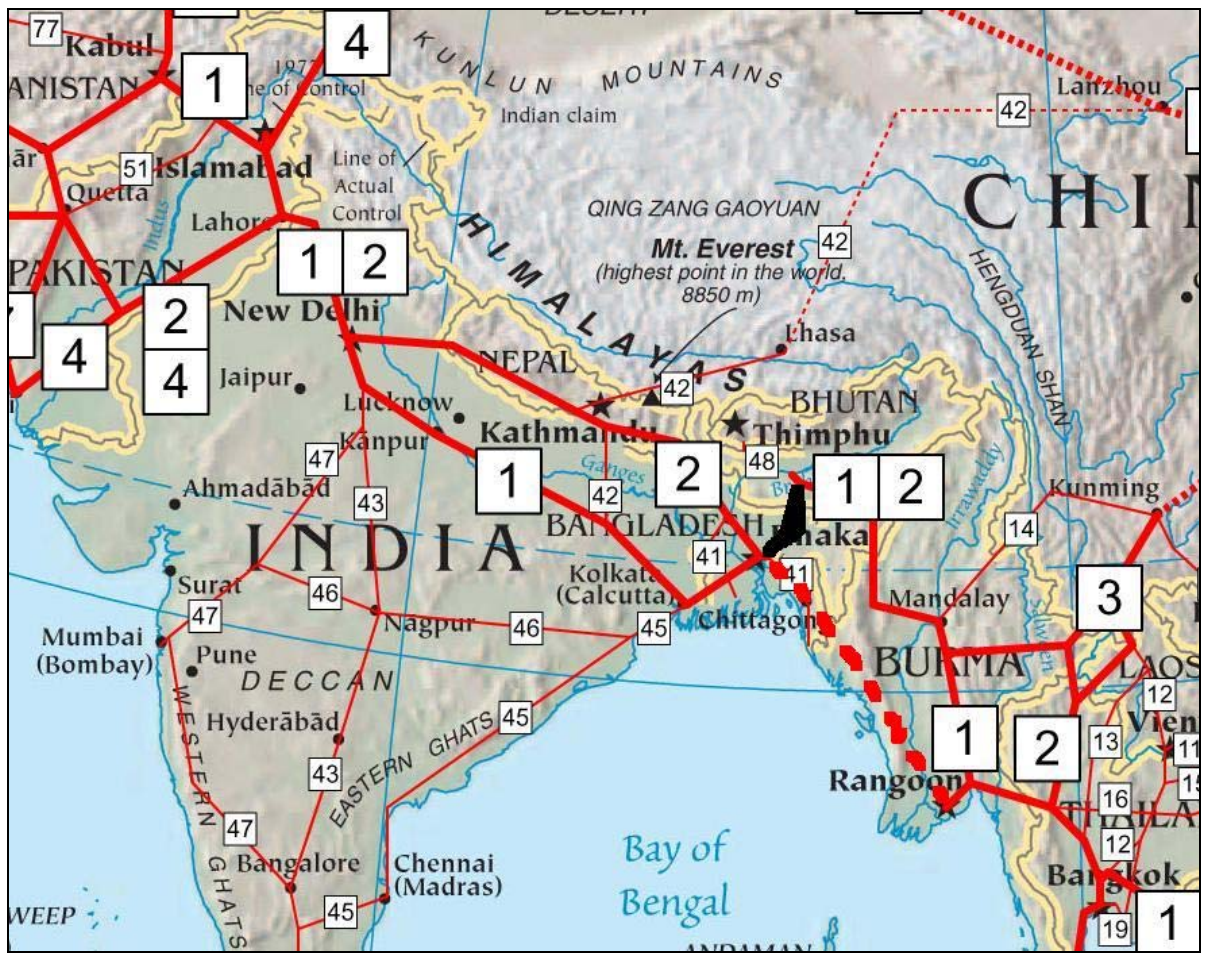
Source: <http://www.sgs.utoronto.ca/sas/images/large-map.gif>

Map 2: The Asian Highway Network: The South-Asian Segment of the Road Network



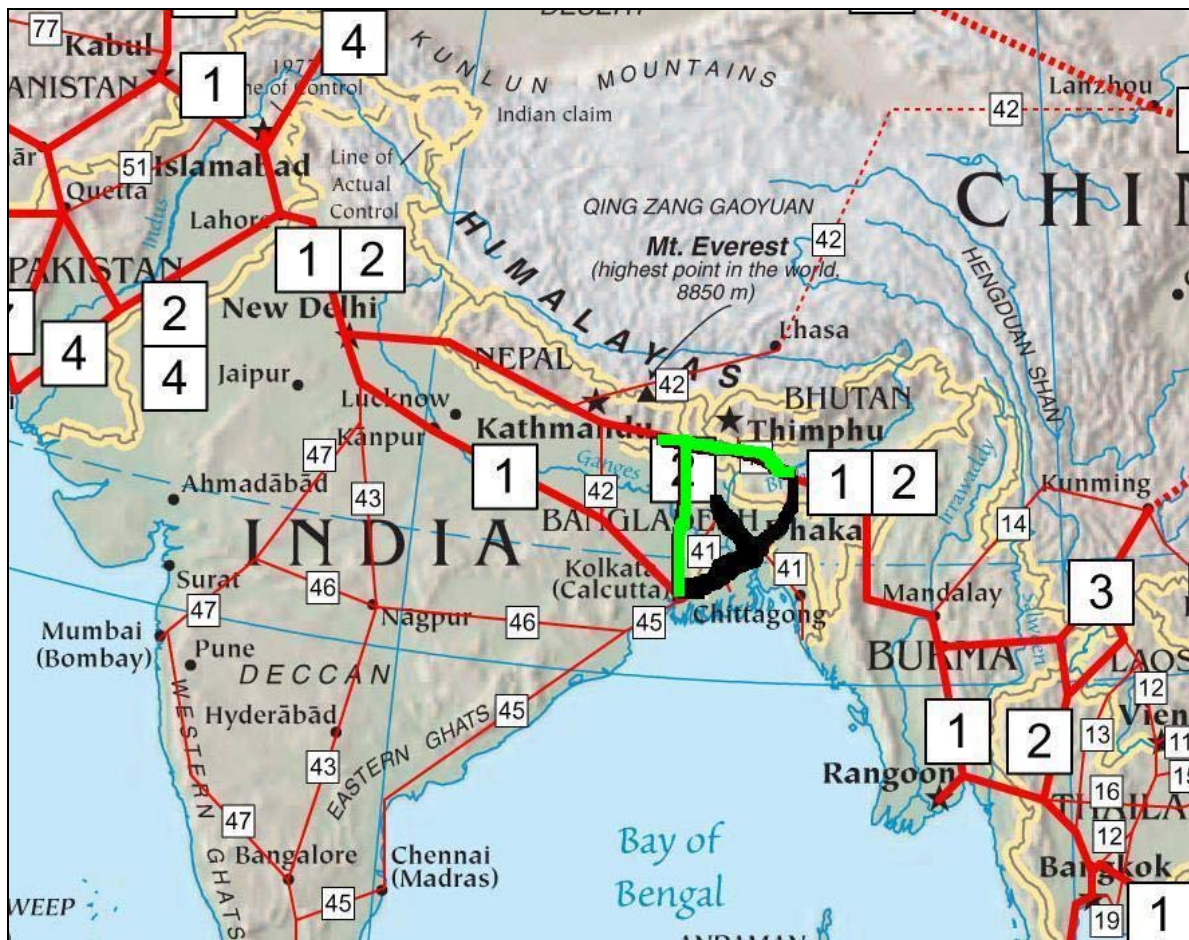
Source: <http://horizonspeaks.wordpress.com/2005/12/15/asian-highway-the-past-and-future-maps/>

Map 3: The Asian Highway Network: Bangladesh Government's Proposed Route



Source: <http://horizonspeaks.wordpress.com/2005/12/15/asian-highway-the-past-and-future-maps/>

Map 4: The Asian Highway Network, Excluding Bangladesh



Source: <http://horizonspeaks.wordpress.com/2005/12/15/asian-highway-the-past-and-future-maps/>