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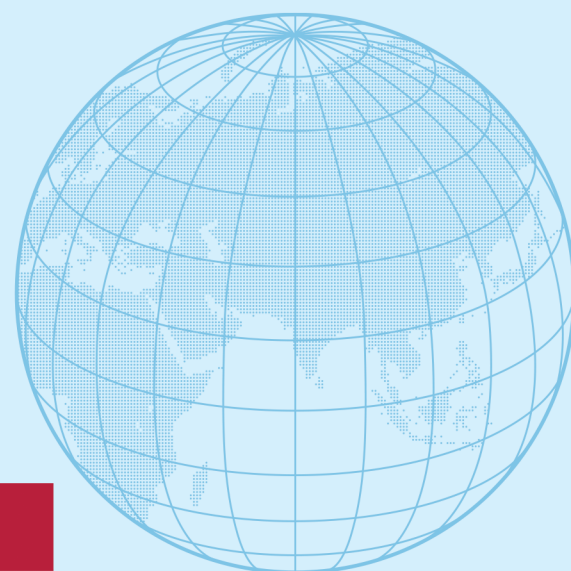
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# Crossroads of Power

## Strategic Aspects of India's Economic Relations with Neighbours to The North & East

Jaimini Bhagwati  
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# **Crossroads of Power**

**Strategic Aspects of India's Economic Relations  
with Neighbours to the North & East**

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## List of Abbreviations

<b>ADB</b>	Asian Development Bank	<b>IMF</b>	International Monetary Fund
<b>AIIDC</b>	Assam Industrial Infrastructure Development Corporation	<b>ITES</b>	Information Technology Enabled Services
<b>API</b>	Active Pharmaceutical Ingredients	<b>IWAI</b>	Inland Waterway Authority of India
<b>ASEAN</b>	Association of Southeast Asian Nations	<b>IWT</b>	Inland Water Transport
<b>BBIN</b>	Bangladesh, Bhutan, India, Nepal	<b>LCS</b>	Land Custom Station
<b>BCIC</b>	BIMSTEC Cultural Industries Commission	<b>LDC</b>	Least Developed Country
<b>BCIO</b>	BIMSTEC Cultural Industries Observatory	<b>LOAC</b>	Line of Actual Control
<b>BIMSTEC</b>	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation	<b>LOC</b>	Lines of Credit
<b>BIWA</b>	Bangladesh Inland Waterways Authority	<b>LoE</b>	Letter of Exchange
<b>BNP</b>	Bangladesh Nationalist Party	<b>MEA</b>	Ministry of External Affairs
<b>BRI</b>	Belt and Road Initiative	<b>MFN</b>	Most Favoured Nation
<b>BRO</b>	Border Roads Organisation	<b>MOU</b>	Memorandum of Understanding
<b>BTC</b>	Border Trade Centre	<b>NER</b>	North-eastern Region
<b>CMEC</b>	China Myanmar Economic Corridor	<b>NRB</b>	Nepal Rashtra Bank
<b>CIWTC</b>	Indian Central Inland Water Transport Corporation	<b>NW</b>	National Waterway
<b>CPC</b>	Central Pay Commission	<b>OROP</b>	One Rank One Pension
<b>DFQF</b>	Duty Free/Quota Free	<b>OTP</b>	Other than Pension
<b>DGCI&amp;S</b>	Directorate General of Commercial Intelligence and Statistics	<b>PIB</b>	Press Information Bureau
<b>EU</b>	European Union	<b>PPP</b>	Purchasing Power Parity
<b>EXIM</b>	Export Import Bank of India	<b>RCEP</b>	Regional Comprehensive Economic Partnership
<b>FDI</b>	Foreign Direct Investment	<b>RGoB</b>	Royal Government of Bhutan
<b>GDP</b>	Gross Domestic Product	<b>RSA</b>	Rail Services Agreement
<b>GOI</b>	Government of India	<b>SAARC</b>	South Asian Association for Regional Cooperation
<b>GVC</b>	Global Value Chain	<b>SAFTA</b>	South Asia Free Trade Agreement
<b>HS</b>	Harmonised System	<b>SPS</b>	Sanitary and Phytosanitary
<b>ICP</b>	Integrated Check Post	<b>SASEC</b>	South Asia Subregional Economic Cooperation
		<b>QUAD</b>	Quadrilateral Security Dialogue
		<b>ULFA</b>	United Front for the Liberation of Assam
		<b>UN COM-TRADE</b>	United Nations Commodity Trade Statistics Database
		<b>WITS</b>	World Integrated Trade Solutions

## Abstract

India's two-way trade and investment volumes with China overwhelm the corresponding numbers with each of its other neighbouring countries to the North and the East, namely Bangladesh, Myanmar, Nepal, and Bhutan. As with any other grouping of neighbouring nations, the security and territorial claims of individual countries have consequences for economic exchanges. The physically and economically larger, militarily more powerful nations within any group of such countries with shared borders tend to dominate, overtly or at times not so openly. This is to be expected, given the smaller geographical size, population, and lower technological-economic development of the other four countries compared to China and India. At the same time, surface transportation routes between India and these four smaller countries are much shorter. These relatively inefficient overland transportation routes between India and its smaller neighbours mean that additional transportation routes over land and water could result in a multiplier effect on trade and investment volumes.

This study reviews the strategic aspects and related ramifications of existing and potential surface trading routes between India and the three South Asian Association for Regional Cooperation (SAARC) countries: Nepal, Bangladesh, and Bhutan, and the Association of South East Asian Nations

(ASEAN) member country Myanmar. If the current military or some future leadership in Myanmar were to become less apprehensive about political liberalisation within the country, it could become a key land transportation route for India to higher per capita ASEAN countries such as Thailand, Malaysia, and Vietnam. Given that this is unlikely to happen soon, the alternative for India is to augment existing sea routes to ASEAN nations. The currently strained relations between India and China due to the military confrontation in the Galwan area in Eastern Ladakh, in April-May 2020, have complicated the raising of trade and investment ties between the two most populous countries in the world and within India's immediate neighbourhood (Kaura, 2020). In overall terms, the differences in strategic interests between India and its friends in the West and China<sup>1</sup> are likely to stand in the way of significant growth in economic-technological exchanges. China has the ability and intention to forge closer economic and overall links with India's neighbours to the north and east, including Bangladesh. If India does not pay sufficient attention, it could find itself incrementally crowded out of its immediate neighbourhood, with which it has had centuries of close economic, social, linguistic, and religious ties. India needs to include coordination with Japan and South-Korea in working to enhance economic and transportation linkages with its smaller neighbours to the north and east.

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<sup>1</sup> "A New Cold War," Edited by Sanjaya Baru and Rahul Sharma. Harper Collins, 2021.

## 1. Introduction

The current, relatively low point in India's bilateral relations with China has cast a long shadow over the prospects for trade and two-way foreign direct investment (FDI) between India and its largest neighbour. Yet, considering the geographical contiguity of Bangladesh, India's next largest neighbouring country in this study, and given the historically close economic and social relations, this bilateral trade and investment relationship could grow manifold. It is useful to remember that at the end of 2023, Bangladesh's population of about 173 million was greater than that of the three largest European Union (EU) economies—Germany, France and Netherlands—combined, which stood at around 167 million (World Development Indicators, World Bank, 2023). In 2023, the median age in Bangladesh was 27 years, considerably lower than that of France, Germany, and the Netherlands, which were 42, 48 and 43 years, respectively. This demographic difference could mean sustained higher economic growth rates in Bangladesh compared to the more mature economies of West Europe.

Bilateral goods trade numbers between India and five neighbours to the north and east, at four separate points of time over the past 30 years, are tabulated in Table 1.

India's two-way trade with China, which was less than with Bangladesh, Myanmar, and even Nepal in 1990, overwhelmed the corresponding numbers with these other four countries combined in 2020, even though the surface transportation routes between India and the four smaller nations are much shorter. This sharp increase in trade volumes between India and the other four South Asian countries with China is of particular significance for India in the context of its strategic outreach to Bangladesh, Myanmar, and Nepal. Bhutan is a case apart, given India's long-standing ties with that country and because Bhutan's population is only about 0.8 million; this relationship is not driven by economic considerations (Ranade, 2022).

Why are Sri Lanka and Pakistan not included in this study? Sri Lanka has been excluded since India does not share a land border with that country, even though it is located very close to India's southernmost tip. As for Pakistan, while India does have a long land border with that nation, the history of armed conflicts between the two countries and continuing hostility, exemplified by the attacks on Mumbai in November 2008, Pathankot in January 2016, Pulwama in February 2019, and several other instances, has made

**Table 1: India's Exports To (in nominal USD Million)**

	1990	2000	2010	2020
Bangladesh	301	776	3017	7913
Bhutan	2	1	159	623
Myanmar	2	43	273	838
Nepal	48	140	1905	5855
China	18	735	17,440	19,008

Source: UN COMTRADE.

**Table 2: India's Imports From (in nominal USD Million)**

	1990	2000	2010	2020
Bangladesh	17	89	358	1024
Bhutan	0.8	18	186	184
Myanmar	92	178	1122	576
Nepal	15	258	506	630
China	33	1478	41,249	58,799

Source: UN COMTRADE.

usual trade and investment relations between neighbouring countries impossible. Further, Pakistan often presents incoherent choices for bilateral partners, including even the US (Coll, 2004). Stephen Cohen's<sup>2</sup> quip that "Pakistan is an US ally but will never be a friend, while India will never be an ally but will always remain a friend" is likely to remain valid.

The Abstract and Introduction are the first two Sections of this paper. Thereafter, there are three sections. The first of these three sections provides an overview of India's trade and investment ties with Bangladesh, Nepal, Myanmar, Bhutan, and China. This section also touches upon the political and strategic context in which economic relations have developed between India and the four smaller countries to the north and east. The following section recalls India's troubled relationship with China and suggests why this state of affairs is likely to continue bilaterally and why China's influence in Myanmar is likely to grow. The last section provides conclusions on the current state of India's relations with the five neighbours covered in this study and why India needs

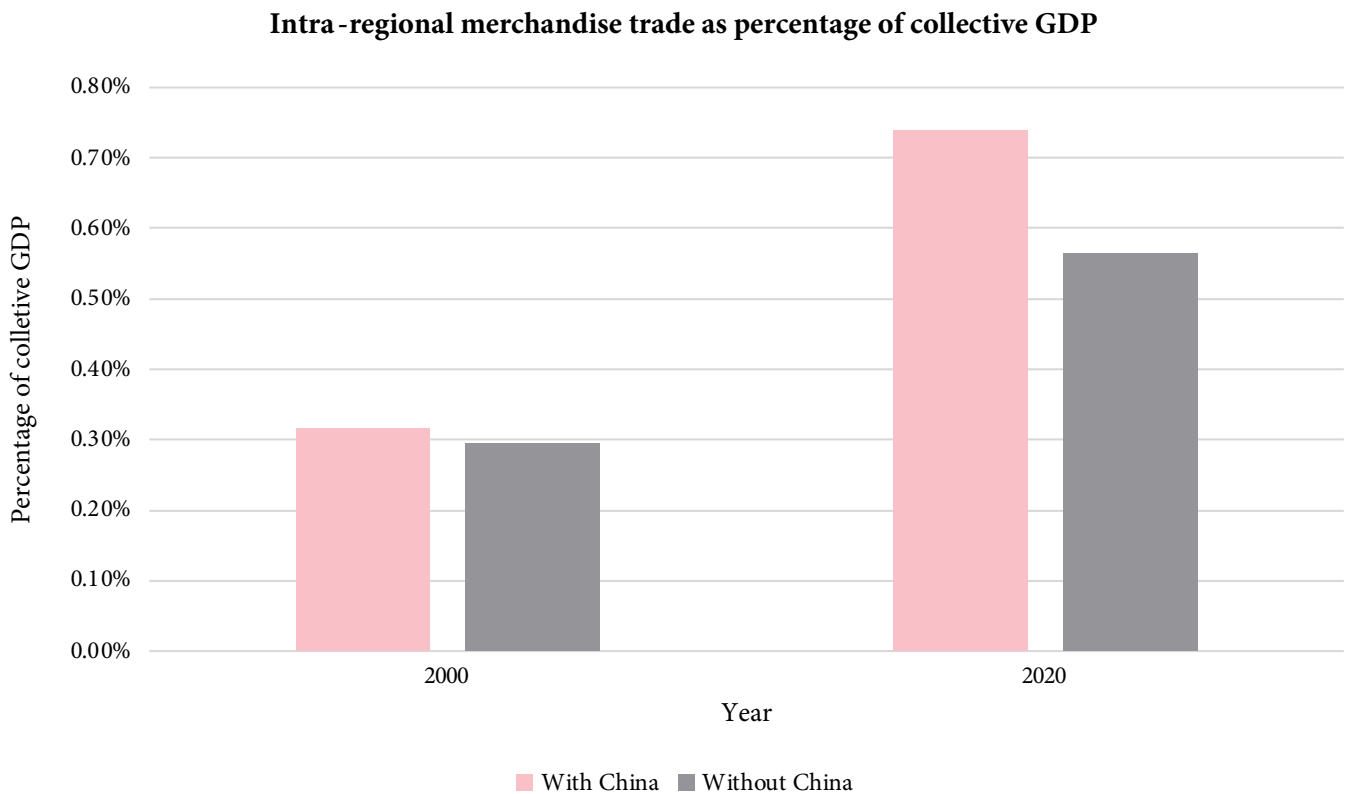
to also focus on developing additional sea routes for trade with countries to its East.

Air transportation, which is feasible for shipments of lighter, low-bulk cargo but which could have high monetary value, such as esoteric pharmaceutical products and chemicals, is not considered in this paper.

## 2. Trade & Investment Comparisons

Despite the relative geographical proximity and large populations, the bilateral trade between India and China remains well below potential. In 2000, the intra-region trade in goods among the five nations, including China, was about 0.30 per cent of their collective GDPs. By 2020, this figure had more than doubled to 0.74 per cent. It is China's trade with the South Asian region that has been the principle driver in raising intra-regional trade in India's immediate eastern neighbourhood. Figure 1 illustrates this impact of the growth in trade in goods with China.

**Figure 1: Intra-regional goods trade as a percentage of collective GDP (in current USD) among six countries**



Source: UN COMTRADE.

<sup>2</sup> Expert on Pakistan's army and strategic affairs about South Asia.



According to the Indian Ministry of Commerce, in FY 2020-21, India's basket of export items to Bangladesh, Nepal, Bhutan, and Myanmar has been diverse, ranging from mineral fuels (14 per cent) to cotton (11 per cent), cereals (9 per cent), and iron and steel (7 per cent). Historically, these four countries have competed to capture greater shares in similar products in each other's markets (Jain & Singh, 2009). Trade in raw cotton, cotton yarns, fabrics, synthetic fibres, and fresh fruits are dominant items of trade in the region. It is counterintuitive that India, with a long history of industrialisation, is not yet a competitive exporter of engineering and higher value-added products even to Bangladesh.

The lack of trade in value-added products is glaringly evident from the fact that mostly stone boulders, limestone flux, and cement clinkers are traded between India, Bhutan, and Bangladesh (BIWTC, 2021). Significant quantities of boulders are traded between Bhutan and Bangladesh via the Phuentsholing-Jaigaon-Changrabandha-Burimari route (BIWTC, 2021). While the quantum of trade between Bhutan and Nepal is limited, significant items of trade include cement, apparel, and food. Again, these items of trade are at the bottom end of the value addition ladder. Moving marginally up the value chain, India and Bangladesh export pharmaceutical products to Nepal, and Nepal exports medicinal plants to the BBIN grouping (Bangladesh, Bhutan, India, and Nepal) (Chatterjee et.al, 2022).

India has a land border of 8,190 kilometres (km) with Bangladesh, Bhutan, Myanmar, and Nepal, which amounts to about 54 per cent of India's total international land borders with neighbouring countries. It is important to note that though India shares borders with these countries, no other country in this grouping has land borders with the others (except Bangladesh-Myanmar). The access points and speed of travel on cross-border trade routes between India and these three other countries are integral to increasing inter-regional South Asian trade. Obviously, four-lane all-weather roads would play a major role in facilitating trade within the region. The lengths of land borders that India shares with these countries are stated in Table 3.

**Table 3: India's land borders with neighbours to the East and North**

Neighbours	Length of land border (in kms)
Bangladesh	4,097
Bhutan	699
China	3,488
Myanmar	1,643
Nepal	1,751

Source: Ministry of Home Affairs.

Major inland water routes between India and Bangladesh are shown in Appendices 1 and 2. A sensitive issue in India-Bangladesh relations has been the sharing of river waters. Since both countries have substantial proportions of farmers in their workforce, the availability of water for irrigation becomes a politically charged issue. Despite domestic political constraints, the signing of a treaty between the two countries in December 1996, which is valid for 30 years until 2026, provides for the sharing of Ganga waters. This treaty was signed by then Prime Minister (PM) H.D. Deve Gowda on the Indian side and by Prime Minister Sheikh Hasina for Bangladesh. Deve Gowda served as PM for less than a year. It is a tribute to his negotiating skills within India and his ability to compromise with Bangladesh that this treaty was agreed upon by both sides during his tenure as PM.<sup>3</sup>

By contrast, even after considerable discussions between India and Bangladesh in 2011-2012, the two countries could not agree on the sharing of Teesta waters. The Manmohan Singh coalition government could not convince the Mamata Banerjee Bengal government that the longer-term interests of both countries would be better served by a fair sharing of Teesta's waters. Unfortunately, Manmohan Singh, as a Rajya Sabha member PM, did not have the stature to cobble together an understanding with Mamata Banerjee and the Bangladeshi government, which was headed at that time by Sheikh Hasina.

Myanmar does not share any river waters with India, and there are no major rivers that flow between Bhutan and India. Only relatively small streams and rivulets originate in Bhutan and merge into larger rivers in India. These streams are not suitable for transportation of goods between Bhutan and India.

<sup>3</sup> Details about the tactics employed by Deve Gowda are cited in the book "Furrows in a field: The unexplored life of H.D. Deve Gowda" by Sugata Srinivasaraju, Penguin 2021.

## 2.1. India-Bangladesh Bilateral Relations and Trade Routes

Among the neighbouring countries to India's east, the longest international border is with Bangladesh. Bangladesh is surrounded by the Indian state of Bengal to the west and north, Assam to the northeast, Meghalaya to the north and northeast, and Tripura and Mizoram to the east. To the southeast, India shares a border with Myanmar.

The birth of Bangladesh was made possible by Indian armed intervention in 1971.<sup>4</sup> It was a tragedy for Bangladesh and for India-Bangladesh relations that Sheikh Mujibur Rehman was assassinated in his home in Dacca on 15 August 1975. Several members of his immediate family, including his 10-year-old son Russell, were also killed. This incident was not only a huge failure of Indian intelligence but also indicated the continuing depth of support for anti-India elements within the Bangladesh army. For example, Major Shariful Haque Dalim publicly boasted about being a member of the hit squad, and some other army officers involved in Sheikh Mujib's assassination were later posted to Bangladeshi embassies around the world.

The former Bangladesh army chief, Ziaur Rehman of the Bangladesh Nationalist Party (BNP), was in power from April 1977 until May 1981 when he was assassinated. The BNP is now headed by his widow, Begum Khaleda Zia, who took over from General Ershad as the head of government in 1991 and served as prime minister for 10 years. Sheikh Hasina, Mujibur Rehman's daughter, has been in power since January 2009. Sheikh Hasina has been helpful in returning terrorists associated with the United Front for the Liberation of Assam (ULFA) to India. For example, Anup Chetia was sent back to India in November 2015.

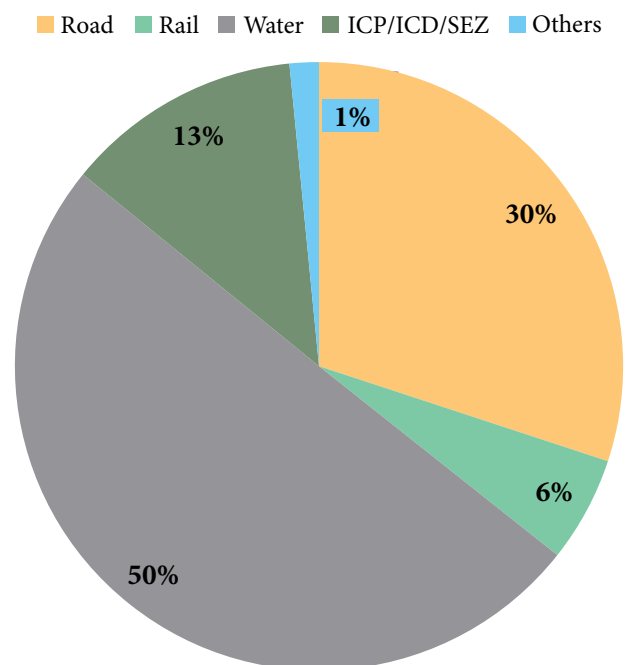
Sheikh Hasina has already been in power for more than 14 years and is currently the longest-serving head of government in Bangladesh. In the general elections held on January 7, 2024, Sheikh Hasina's Awami League party won 75 per cent of the seats. The BNP boycotted these elections, and according to a Reuters report dated January 8, 2024, the United States State Department indicated that the elections were "not free and fair." Sheikh Hasina is now poised to remain Prime Minister for another 5 years until

2029. By that time, she will be 81 years old and will have been in power for 19 years. In the future, the opposition lead by BNP or some other coalition of political forces may come to power in Bangladesh. Consequently, India needs to elevate its economic and security-related interactions with Bangladesh with greater urgency. This may prevent the backsliding of the overall relationship between India and Bangladesh when a somewhat less India-friendly government inevitably takes over (Islam, 2022).

Taking a step back in time, the need to forge close economic ties with Bangladesh has been well recognised in India ever since the country gained independence. For example, India and Bangladesh entered into a bilateral trade agreement as early as November 1972. As of 2023, India's highest level of trade in commodities in this region is with Bangladesh, and India is well connected with Bangladesh via land and sea routes. The share of each route in bilateral merchandise trade is shown in the following pie chart.

**Figure 2: Share of various modes of transportation for India-Bangladesh trade in value terms as of 2020**

Share of Trade Routes- India-Bangladesh Trade in Goods



Source: Directorate General of Commercial Intelligence and Statistics (DGCI&S).

Note: Water includes transportation via sea and inland waterways; share of inland waterways is minuscule compared to by sea.

<sup>4</sup> Bangladesh an Unfinished Revolution" by Lawrence Lifschultz and Kai Bird, Zed Press 1979, London. "India and the Bangladesh Liberation War" by Chandrasekhar Dasgupta, Juggernaut Books, 2021.

As of now, the share of waterways in the transportation of goods between India and Bangladesh is about 50 per cent, considerably higher than by road or rail, which are at 30 and 6 per cent, respectively. Since several rivers flow from India into Bangladesh, this mode of transportation could be further developed. In the past, roads were used for a significant fraction of bilateral trade in goods, but this share has dropped over time. For example, the share of Petrapole-Benapole, which is the busiest overland trading border between India and Bangladesh, accounted for as much as 50 per cent of total bilateral goods trade in FY 2004 (De & Bhattacharya, 2007). Despite the efforts of the two countries to increase the share of rail transportation, this has yet to significantly pick up.

The BIMSTEC region (Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka, and Thailand) is home to one of the longest rail networks in the world, totalling around 80,000 kilometres of route length and more than 130,000 kilometres of track length. However, rail transportation is inadequately utilised within the region, as each of the national rail networks operates independently (ADB, 2018).

For example, in Bangladesh's west, rail tracks are mostly broad-gauge (bordering West Bengal), and meter-gauge in the east (bordering India's north-eastern states). The 2018 BIMSTEC Transport Infrastructure and Logistics Study (BTILS) report noted differences in railway track gauges in India, Bangladesh, and Nepal. The Asian Development Bank (ADB) has commented that the types of rolling stock used on Indian and Bangladesh's railway tracks differ. This results in additional costs since special wagons need to be used. In recognition of this fact, as of 2022, Bangladesh was expected to procure 420 broad-gauge wagons from India under the Rolling Stock Operation Improvement Project, jointly funded by the Government of Bangladesh and ADB (All India Radio, 2022). Major impediments to railway connectivity include relatively higher transportation costs, agent fees, and unloading costs at border posts (Asian Institute of Transport Development, 2007). India and Bangladesh have five functional cross-border railway lines and three passenger train routes (High Commission of India, Dhaka). These are shown in Appendix 3.

Prior to 1947, a variety of jute products were produced in Bengal, and a considerable fraction of the jute processed was grown in Bangladesh. This was a profitable business, including jute sacks and ropes used at that time for packaging of goods. However, this demand shrank considerably over time with the advent of nylon and other synthetic packing products. The reduction in the movement of people and economic exchanges between East Pakistan and India was evident after 1947, as detailed in Goswami, 2011. Post the 1965 war between India and Pakistan, economic exchanges between these two regions of the subcontinent, with similar weather, language and food habits, decreased further. After cross-border movements of people and goods between India and East Pakistan were severely restricted post 1965, the economies developed accordingly. Currently, jute is not a tradable commodity of significant value in the international market. Thus, even though West and East Bengal were connected in various ways, including via the jute industry in the colonial British era, this raw material could not be the basis for a profitable investment partnership post the birth of Bangladesh in 1971.

Prior to the 1965 war between India and Pakistan, India and East-Pakistan (Bangladesh) had seven functional cross-border railway lines. The two governments are currently working to restore all these lines. The Haldibari-Chilahati railway line became operational in 2020, and work is in progress for the Agartala (India)–Akhaura (Bangladesh) railway line and Karimganj/Mahisasan (India) – Shahbazpur (Bangladesh) rail link (The Economic Times, 2021). The Agartala–Akhaura railway line is expected to cut travel time between Kolkata and Agartala to 15 hours. Once completed, the already operational Maitree Express train on the Kolkata-Dhaka route could be extended to Agartala (PIB, 2019). As of now, goods transported via these railway lines are primary products such as food grains, onions, chemical fertilisers, and wood.

India and Bangladesh also share around 38 land custom stations (LCS),<sup>5</sup> of which four are Integrated Check Posts (ICP),<sup>6</sup> located at Petrapole, Agartala, Sutarkandi, and Srimantapur. A considerable fraction of land trade takes place via these so-called LCS in Bengal. The major commodities exported from India include plastics, automobile parts, raw cotton,

<sup>5</sup> High Commission of India, Dhaka, Bangladesh

<sup>6</sup> An ICP acts as an integrated facility for trade facilitation and passenger movement.

minerals, and coal. Agricultural products such as rice, wheat, and onion are other major items of exports from Bengal. The north-eastern states import primary products, and Assam exports limestone, stone boulder, and clays. The products exchanged reflect the relative lack of industrialisation in Bengal and Assam.

Imports into India include ready-made garments, cotton waste, and some primary products. Again, these products are at the lower end of the value chain, indicating that Bangladesh too has yet to produce higher value-added goods at competitive, even when the transportation distances to India are relatively short. Among the LCS, Petrapole (Bengal) by road and Gede (Bengal) by rail are significant, together accounting for about 70 per cent of the India–Bangladesh border trade (DGCIS, 2020). In a related context, an agreement titled “Operational Modalities for an Additional Transit Route between Nepal and Bangladesh” (signed in 1997) has been agreed to by Bangladesh and Nepal to facilitate and increase bilateral transit trade. These modalities provide the terms for the use of Banglabandh (Bangladesh)–Phulbari (India)–Khakarbitta (Nepal) as a transit corridor for goods trade.<sup>7</sup>

Faster and more reliable surface connectivity between Bangladesh and India would enhance connectivity between South and Southeast Asian regions and thereby attract investment from countries external to the region, such as Japan. For instance, the Japan International Cooperation Agency (JICA) is funding the Matabari port (to be operational by 2027), which is expected to be a major game-changer in the overall economic interaction between countries in the Bay of Bengal region. Specifically, the port would enhance surface connectivity between India–Bangladesh–Myanmar via Kolkata and Sittwe ports. The periodic meetings of the BIMSTEC grouping at the levels of officials and ministers have been more about mutual back-slapping and rhetoric than significant investments in the building of road, rail, or water connectivity.

By 2023, Bangladesh had become a major exporter of garments due to the low to zero customs duty treatment it receives from the West for these exports. Although India and Bangladesh compete in the textiles sector in the world market, Bangladesh has surpassed

India in its share of the international market. India's share is 4 per cent, whereas Bangladesh holds around 7 per cent (Ministry of Commerce India, 2022). Currently, Bangladesh is the world's second-highest exporter of textiles after China (World Integrated Trade Solutions, 2022). India is more an exporter of intermediate products (cotton yarn, fabric, and synthetic yarns), while Bangladesh is a hub for ready-made garments, with textile machinery imports coming from China. As of 2022, China remained the largest global exporter of textiles-garments, exporting about three times more than India and Bangladesh combined (World Integrated Trade Solutions, 2022).

Due to the lower labour costs in Bangladesh, government policies, and duty-free access to large markets such as the European Union, several Indian textile companies have shifted their production bases to Bangladesh (Financial Express, 2023). Thus, textile machinery and appliances could potentially be a sector wherein India may be able to increase its trade partnership with Bangladesh. The physical proximity, large India-connected diaspora, and bilateral initiatives in increasing surface connectivity provide an enabling environment to better integrate the markets of the two nations. Over the past several decades, India has become the seventh-largest importer of Bangladeshi goods, yet with a share of only 3.9 per cent by value in Bangladesh's total export basket, and this small fraction amounts to USD 1.5 billion (Bangladesh Bank, 2022).

As of 2022, China was the largest exporter of goods to Bangladesh, with exports worth USD 19 Billion. India was in second place, with exports to Bangladesh standing at USD 13.6 Billion. The shares of China and India in Bangladesh's import basket are 25 and 18 per cent, respectively. The major items exported by China are manufactured goods such as boilers, machinery, electrical items, and synthetic filaments (comprising about 36 per cent of total exports from China to Bangladesh) (Bangladesh Bank, 2022). Knitted or crocheted fabrics and cotton are also among the top five import commodities from China. India's exports to Bangladesh consist of lower value-added primary products such as cotton, cereals, sugar, and mineral fuels, which add up to about 55 per cent of the total exports to Bangladesh (Bangladesh Bank, 2022).

<sup>7</sup> More information on Nepal Bangladesh cross-border trade via India can be found at: <http://www.tepc.gov.np/pages/bangladesh-routes>



### **India versus China: Foreign Direct Investment (FDI) Lines of Credit (LoCs) to Bangladesh & Regional Comprehensive Economic Partnership (RCEP)**

The annual flow of FDI from India to Bangladesh was USD 1 million in 1996 (0.4 per cent of Bangladesh's overall FDI inflows), which increased to USD 8.5 million in 2000 (1.5 per cent of Bangladesh's overall FDI inflows). In 2013, FDI inflow to Bangladesh from India peaked at USD 45 million (EXIM Bank, 2015). The higher FDI stock after 2000 was mainly due to the increasing flows of FDI into industries such as oil and gas exploration, telecommunications, textiles, and chemicals. Textiles have been the leading sector for inward FDI into Bangladesh, accounting for nearly 9 per cent of total FDI (Bangladesh Bank, 2023). Contrary to what one might expect, in 2022, India and China ranked as only the 10<sup>th</sup> and 8<sup>th</sup> largest FDI investors, respectively, in Bangladesh. The top 10 countries for net FDI inflows into Bangladesh are listed in Table 4.

**Table 4: Net FDI inflows into Bangladesh in 2022**

Country	Net FDI inflow (in million USD)
United Kingdom	560
United States of America	354
Republic of Korea	312
Netherlands	303
Singapore	269
Hong Kong	219
Norway	191
China	186
Malta	169
India	126

Source: Bangladesh Bank Economic Data.

The FDI composition differs substantially between India and China. The textiles and apparel segments amount for about 40 per cent of Indian FDI, whereas 69 per cent of Chinese investments are in the power sector. Although textiles and apparel have received most of the FDI into Bangladesh (about 20 per cent) from all investor countries, the power & energy, telecommunications, and banking sectors are increasingly attracting more attention from investor countries (Bangladesh Bank, 2020).

India has not been able to keep up with China in a head-to-head competition to carve out a larger FDI space in Bangladesh. However, Bangladesh is the primary beneficiary of India's Line of Credit program, receiving four LOCs of about USD 8 billion (News on Air, 2021). These funds are allocated for various infrastructure development projects across diverse sectors. Additionally, India is providing outright grant assistance for projects such as the Agartala–Akhaura railway link (the estimated cost in 2019 was USD 117 million) and the construction of an India-Bangladesh Friendship Pipeline (Press Information Bureau, 2023). The pipeline is expected to transport 1 million metric tonnes of high-speed diesel from India to Bangladesh per annum (Press Information Bureau, 2023). The pipeline will be 132 kilometres long, connecting Siliguri in India to Parbatipur in Bangladesh. The estimated cost is INR 377 crore, of which INR 285 crore is a Government of India grant. ONGC Videsh Limited is present in Bangladesh to explore for offshore oil and gas. If oil or gas were to be found in sizeable quantities, it could be a game-changer for overall India-Bangladesh relations.

Given the high foreign policy weight, as distinct from economic returns that China gives to its Belt and Road Initiative (BRI) project, Bangladesh has chosen to participate. As of 2022, Bangladesh's foreign exchange debt liabilities to China amounted to USD 4.7 Billion (Economic Relations Division, Government of Bangladesh, 2022). A few projects undertaken by China in Bangladesh include the Information and Communication Technology (ICT) project at Chittagong, the Padma bridge, and the modernisation of the Mongla and Payra ports. Obviously, Bangladesh needs to be careful to avoid excessive indebtedness to China, as has been the case for Sri Lanka and several African countries.

Bangladesh currently benefits from its Least Developed Country (LDC) status by getting duty-free access to Western markets for its textile products (UN LDC Portal). However, it will graduate from this category in 2026. According to Raihan and others (2023), this could lead to a decline in Bangladesh's exports of ready-made garments and its gross domestic product (GDP), as it would then compete with other emerging economies such as India and member countries of the Regional Comprehensive Economic Partnership (RCEP) grouping. This is likely why Bangladesh is seeking to become a member of the RCEP. Membership in the RCEP grouping would help Bangladesh obtain duty-free access to the markets of Australia, China, Japan, and South Korea. However, its overall trade deficit may increase as it would have to provide

access to its markets to countries such as Vietnam and Indonesia. For a comparison of tariffs on textiles and related products in 2020, the weighted mean applied import tariff in Bangladesh was 11 per cent, while in Vietnam it was 1.3 per cent, and in China, 2.5 per cent.<sup>8</sup> Bangladesh's trade with India could be impacted negatively if Bangladesh were to become an RCEP member. This is because low-duty access for Chinese goods into Bangladesh as part of RCEP could make it difficult to ascertain the "country of origin" of Bangladeshi exports to India, leading to import restrictions on such exports to India.

## 2.2. India-Bhutan Close Strategic and Economic Ties

Bhutan is physically sandwiched between India and Tibet, which is under the physical occupation of China. It is bordered by Sikkim on its west, Assam to the south, and Arunachal Pradesh to the northeast, with Tibet to the north. Bhutan and Tibet are predominantly Buddhist. To that extent, there may be an underlying, unstated concern in Bhutan about getting assimilated into a geographically larger and more populous Buddhist Tibet. Bhutan's population is at about 8 lakhs, while the Tibet Autonomous Region in China has close to 36 lakhs inhabitants (Burman, 2020).

The Indian Border Roads Organisation (BRO) has completed significant infrastructure projects in Bhutan. Through Project Dantak initiated in 1961, a range of infrastructure has been developed, spanning over 1,600 km of roads, 1,800 meters of major bridges, two airports, a high school, a hospital, broadcasting station, telephone exchanges, and microwave links (The Hindu, 2023). Noteworthy from a strategic standpoint, the BRO has commenced three projects in southeastern Bhutan following the India-China standoff in Doklam (June- August 2017), as well as the clash between Indian and Chinese troops in Galwan (April-May 2020). These initiatives involve the rehabilitation of the Khothakpa-Tshobaley road, the construction of a 68-km greenfield Nanglam-Dewathang road, and the development of the Motanga industrial park (The Hindu, 2023). Given Bhutan's relatively small population and its landlocked location, the relationship with India is likely to continue being driven more by strategic rather than economic considerations. In this context, most

Indian Prime Ministers and Foreign Secretaries in the Ministry of External Affairs make it a point to visit Bhutan shortly after taking office in Delhi.

Trade relations between India and Bhutan were established with the signing of the India-Bhutan Friendship Treaty in 1949 between the Government of India (GoI) and the Royal Government of Bhutan (RGoB). The first formal Agreement on Trade and Commerce between GoI and RGoB was subsequently signed in 1972. Since then, this agreement has undergone five revisions in 1983, 1990, 1995, 2006, and 2016. The current Agreement on Trade, Commerce, and Transit between the Royal Government of Bhutan and the Government of the Republic of India is in effect until 2026 (Royal Bhutanese Embassy, New Delhi).

India is likely to remain Bhutan's largest trading partner for the foreseeable future. This trade amounts to 77 per cent of Bhutan's goods trade, down from 88.5 per cent of total trade in 2013 (EXIM Bank, 2013). All bilateral trade is transacted in Indian rupees and Bhutanese Ngultrums. As for China, it is the third-largest exporter to Bhutan, amounting to a miniscule 0.03 per cent of Bhutan's total imports (Government of Bhutan, 2020). India's top exports to Bhutan include petrol and diesel, passenger cars, cell phones, coke and semi-coke products, electric generators, and surface transport vehicles (Government of Bhutan, 2021).

Hydroelectricity projects are a major part of India-Bhutan economic and technological cooperation. About 70 per cent of the total electricity generated in Bhutan is exported to India (SASEC, 2020). Specifically, four hydroelectric projects of 2,136 MW are operational in Bhutan, supplying electricity to India. The latest 720 MW Mangdecchu project was commissioned in 2019, and four other projects are at various stages of consideration (MEA India, n.d.). Currently, India's financial support is in the form of 70 per cent loan and 30 per cent grant. Earlier, this ratio used to be 60:40 (Royal Government of Bhutan, 2021). Due to the COVID-19 epidemic and consequent economic downturn, Bhutan government's debt to GDP ratio rose to 117 per cent of its GDP by 2021, with about 78 per cent attributable to hydropower-related debt (Royal Government of Bhutan, 2021). Consequently, India needs to further soften its loan terms to reduce Bhutan's external debt.

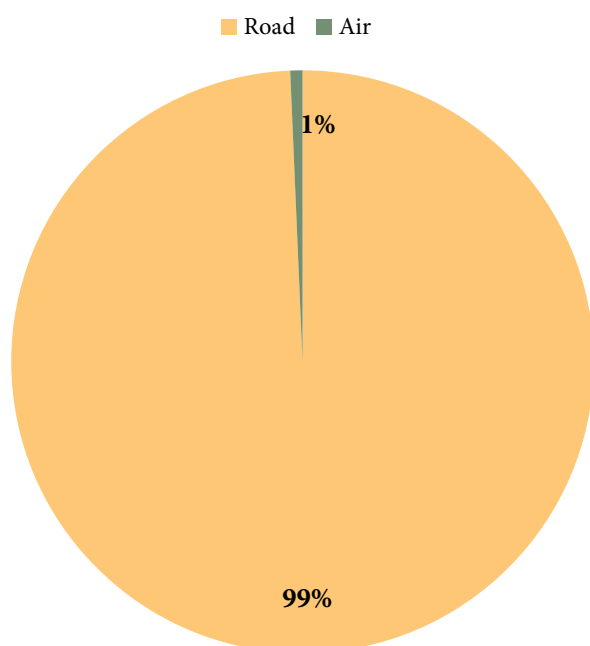
<sup>8</sup> The World Bank calculates weighted mean applied tariff. It is the average of effectively applied rates weighted by the product import shares corresponding to each partner country. Data is sourced from the open databank initiative of the World Bank.

As a landlocked country, Bhutan is dependent on surface transportation routes via India for its trade requirements. By 2007, the Indian government had plans for five railway links to Bhutan: Kokhrajhar, Assam to Gelephu, Bhutan (57 km); Pathsala, Assam to Nanglam, Bhutan (51.15 km); Rangiya, Assam to Samdrupjongkhar, Bhutan (48 km); Banarhat, Bengal to Samtse, Bhutan (23 km); and the revival of an old line between Hasimara (Bengal) to Phuentsholing, which is a border town in southern Bhutan (18 km) (The Bhutanese, 2020).

During the then-Prime Minister Dr Manmohan Singh's visit to Bhutan in 2008, an announcement was made for reconstruction of the rail link between India and Bhutan, connecting Hasimara to Phuentsholing, called the "Golden Jubilee Rail Line" (Ministry of External Affairs, 2013). Reflecting India's misplaced priorities, as of 2023, there are no functional railway links between India and Bhutan. Thus, almost all trade takes place via 10 land ports. Exports to and imports from Bhutan for countries other than India are not subject to customs duties or any trade restrictions by the Indian government. The Phuentsholing region (consisting of Phuentsholing ICP and the Pasakha routes) contributes about 60 per cent of India's exports to Bhutan and 77 per cent of imports from that country (Director General of Commercial Intelligence and Statistics, 2020).

**Figure 3: Share of each mode of transportation for India-Bhutan trade in value terms as of 2020**

Share of Trade Routes- India-Bhutan Trade in Goods



Source: Directorate General of Commercial Intelligence and Statistics (DGCI&S).

### 2.3. India-Nepal Long-standing Engagement & Disenchantment

In recent years India's traditionally close relations with Nepal have been diluted by various factors, including China's ability to provide grants, loans, and possibly, although this could take decades, alternative trade routes. Nepal's ruling classes have traditionally looked to India to sort out domestic power struggles, including between royalty and the Ranas 75 years back. In 1950, the then-Nepalese King sought refuge in the residence of the Indian ambassador in Kathmandu. This was the same year that the Rana Prime Minister of Nepal signed the historic India-Nepal Treaty of Peace and Friendship. This treaty has been denounced at periodic intervals in ruling circles in Kathmandu as a vestige of India's unfair hegemony over Nepal (Mishra, 2019).

Although India and Nepal have had a love-dislike relationship, under existing agreements between India and Nepal, the citizens of both countries can visit each other's territories without travel documents. This facilitates the movement of large numbers of Nepalese people to Indian states such as Sikkim, Bengal, Bihar, and Assam. Over centuries, many Nepalese people have moved into India, now sizeable enough to play a role in assembly and Lok Sabha elections. This political weight of people of Nepalese origin is resented in Bengal and Assam. Yet, the Nepalese in these two states, as well as other parts of India, have contributed to local economies and have served with distinction in the Indian armed forces.

At times, India does not live up to Nepal's expectations, as was the case post the 2015 earthquake in Nepal. In 2015-2016, Nepalese media accused India of restricting the supply of petroleum and pharmaceutical products. The "Bahuns"—(Brahmins) among Nepalese in the higher altitude regions in and around Kathmandu—Rajputs-Ranas, Chetris, and the Madhesis (term used for people of Indian origin living in the lower Terai regions of Nepal) have their long standing economic, social, and caste-based differences among themselves. The political controversies within Nepal are often about adequate representation for caste-economic groupings in the parliament. Inevitably, India finds itself drawn into differences across Nepal's communities.

The Indian Army has Gorkha troops recruited from Nepal since the colonial era. The pensions for retired Gorkha soldiers, who return to Nepal, are remitted

to them and form a significant component of foreign capital inflows for Nepal. For FY2012 to FY2016, pension amounts disbursed to Nepalese Defence and Civil pensioners who retired and went back to Nepal are detailed in Table 5.

**Table 5: Pension disbursed to Gorkha Defence and Civil pensioners\* (USD Millions)**

FY	Pension disbursed
2012-13	169
2013-14	191
2014-15	211
2015-16	241
2016-17	341

Source: Embassy of India, Kathmandu, Nepal.

\*Including Other than Pension (OTP), One Rank One Pension (OROP), and 7<sup>th</sup> Central Pay Commission (CPC) payments.

Given the relatively small size of Nepal's economy, it cannot be commercially significant for China. Trade with Nepal would need to be subsidised by China for it to be sustainable. As for foreign direct investment (FDI), it is a one-way affair from China to Nepal. The trade and FDI numbers between Nepal and India/China are listed in Tables 6 and 7 for comparison.

**Table 6: Total Two-way Trade with Nepal (USD Million)**

	2000	2020
India	398	6485
China	204	1184

Source: UN COMTRADE.

**Table 7: FDI stock in Nepal (USD Million)**

	2001	2020
India	96	579
China	29	252

Source: UNCTAD. [https://unctad.org/system/files/official-document/iteipcmisc20031\\_en.pdf](https://unctad.org/system/files/official-document/iteipcmisc20031_en.pdf); NRB: <https://www.nrb.org.np/contents/uploads/2022/09/A-Survey-Report-on-Foreign-Direct-Investment-in-Nepal-2020-21.pdf>

China provided financial and technical assistance in the building of an international airport in Pokhara and the airport was opened in January 2023. This achievement and potential negative consequences in terms of debt repayments for Nepal are detailed in a New York Times article dated October 16, 2023, which is summarised in Appendix 8.

India cannot compete with China in terms of its volumes of bilateral credits to Nepal. However, India has the advantage of geographical contiguity and centuries of close social, cultural, military ties, including those stemming from Hindu commonalities and places of worship. Nepal has India's Uttarakhand state to its West, Uttar Pradesh and Bihar to the South, Sikkim to the East, and China-occupied Tibet to the North. In the southern regions of Nepal, and the northern regions of Uttar Pradesh and Bihar, the nationals of the two countries refer to the relations between the two countries as "roti (bread)-beti (daughter) ka rishta (relationship)." The downside to these aspects of India's relations with Nepal is that Nepalese expectations from India are usually unrealistically high. A specific example going back to the Nehru era is cited in Y.D. Gundevia's book titled *Outside the Archives*. This was a barrage project inaugurated by then-Prime Minister Nehru and the Nepalese king on May 5, 1964, on the Gandak river at "Bhainsalotan" in Gorakhpur district in Uttar Pradesh. The purpose was to provide irrigation waters to farmers on both sides of the border. Nehru was unwell after a stroke and had been advised by his doctors not to travel, but he felt the need to demonstrate India's commitment to Indo-Nepalese cooperation. Incidentally, Nehru passed away just three weeks later on May 27, 1964.

In 2019, the Indian government released an updated map of India, showing the new union territories of Jammu, Kashmir, and Ladakh (The Diplomat, 2019). The government of Nepal expressed its concerns regarding the inclusion of Kalapani in India. The Indian Ministry of External Affairs responded that: "Our map accurately depicts the sovereign territory of India. The new map has in no manner revised our boundary with Nepal".<sup>10</sup> In 2020, the Parliament of Nepal passed an amendment to include a new country map in the Nepalese Constitution, which

<sup>9</sup> Subsequently renamed Valmikinagar much to the chagrin of Y.D. Gundevia.

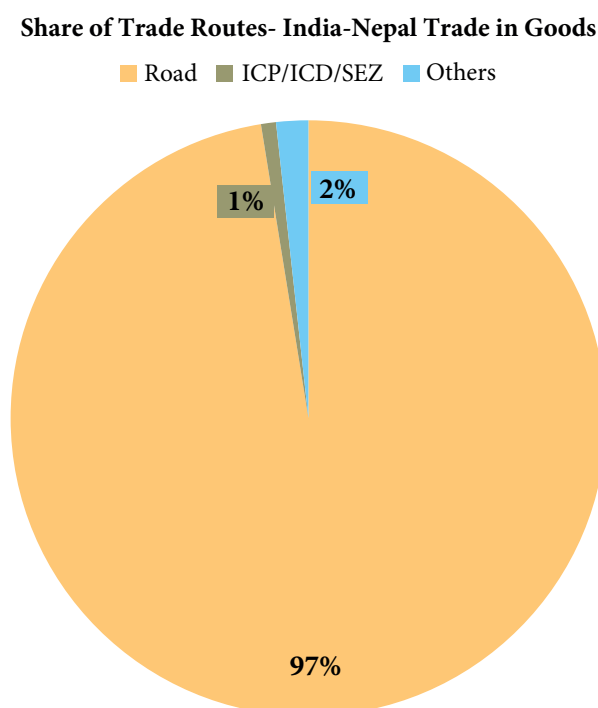
<sup>10</sup> Statement taken from: <https://timesofindia.indiatimes.com/india/our-map-accurately-depicts-indias-sovereign-territory-boundary-with-nepal-not-revised-mea/articleshow/73073273.cms>



shows Lipulekh, Kalapani and Limpiyadhura in Nepal. The MEA raised India's concerns as follows: "This artificial enlargement of claims is not based on historical fact or evidence and is not tenable. It is also violative of our current understanding to hold talks on outstanding boundary issues."<sup>11</sup> Given the growing presence of China in Nepal, the latter tends to express its displeasure with India more openly.

The India-Nepal Treaty of Transit (1992), renewed every seven years, allows Nepal access to port facilities at Kolkata/Haldia and Visakhapatnam. It also specifies separate transit routes between Kolkata and Visakhapatnam and the India-Nepal border. For bilateral trade, there are 27 entry/exit points between the two countries. Additionally, a cross-border railway line from Raxaul (Bihar) to Birgunj (Nepal) along the Indo-Nepal border has been mutually agreed upon. Nepal is dependent on India's Kolkata and Haldia ports for most of its international trade. Petroleum and iron/steel products are major imports, whereas jute, beverages and lead are significant exports via Nepal's land ports.

**Figure 4: Share of transportation modes for India-Nepal trade in terms of value (as of 2020)**



Source: Directorate General of Commercial Intelligence and Statistics (DGCI&S).

The Kakarbhitta-Panitanki-Fulbari-Banglabandha corridor serves as an important trade route between Nepal and Bangladesh, and the region from Panitanki to Fulbari is located within the boundaries of India. However, there is no material cost advantage for Nepalese goods passing through Kakarbhitta to transit through Bangladesh for exports or imports. In this context of movement of goods, a Letter of Exchange (LoE) for a Rail Services Agreement (RSA) between Nepal and India was signed on 9 July 2021. At present, all cargo train operators can utilize the Indian railway networks for transporting containers destined for or originating from Nepal. This applies to both bilateral freight movements between India and Nepal, as well as the transportation of third-country freight from Indian ports to Nepal (Embassy of Nepal, New Delhi, India, n. d.).

### *Trade: Nepal-India versus Nepal-China*

Nepal's top exports to India are soybean oil, cardamom, woollen carpets, and polyester yarn. The major import items from India include petroleum products, transport equipment, machinery, rice, medicine, telecommunication equipment, ready-made garments, and coal. Items that are heavily subsidised in India such as fertilisers often find their way to Nepal. In 2020, 72 per cent of Nepal's exports of goods were to India. In the same year, India's share in Nepal's total imports of goods was about 60 per cent (Director General of Commercial Intelligence and Statistics, 2020). About 16 years earlier in 2007, Nepal's trade with India amounted to 62.2 per cent of its total trade in goods (Nepal Rashtra Bank, 2020). These numbers confirm that India remains Nepal's largest trading partner and this trend is likely to continue as almost all trade routes into and out of Nepal are via India. The dominant export destination for Nepalese goods is India. In 2022-2023 (April-February), these exports amounted to USD 783 Million.

China is the second largest importer of Nepalese goods with a 13 per cent share. It provides zero-tariff treatment to most items originating from Nepal, which make up 95 per cent of Nepal's exports to China (Nepal Trade Information Portal, n.d.). Chinese imports from Nepal include telephones and related equipment, laptops, synthetic fabric, and apples. Major Nepalese imports from China are yarns, textiles, juices, herbs, and tea. There are six land border points between China and Nepal, of which

<sup>11</sup> Statement taken from: <https://indianexpress.com/article/india/india-nepal-stare-at-diplomatic-crisis-border-6457734/>

Kodari–Nyalam and Rasuwa–Kerong are points of international trade via land routes. It is likely that inhabitants on Nepal's northern border with Tibet engage in barter trade, which does not get reflected in official numbers (Embassy of Nepal, n.d.).

### ***Foreign Direct Investment (FDI) and Lines of Credit India versus China***

India is the largest source of FDI into Nepal, accounting for more than 33 per cent of the total FDI stock in Nepal and this amounted to about USD 520 million by 2020 as per Nepal Rastra Bank (NRB) data. The majority of India's Foreign Direct Investment (FDI) stock, amounting to 97 per cent, is focused on three key sectors: electricity, gas, steam, and air conditioning (41.6 per cent), manufacturing (35.9 per cent), and the financial sector, which includes insurance services (19.6 per cent) (Nepal Rastra Bank, 2022).

Over the last two decades, the Indian government has allocated four Lines of Credit (LOCs) to the Nepalese government, with amounts totalling USD 100 million, 250 million, 550 million, and 750 million. These LOC agreements were formalised in June 2006, September 2007, and September 2016, specifically earmarked for infrastructure development and post-earthquake reconstruction projects, in alignment with the priorities set by the Government of Nepal (Embassy of India, 2022). As of 2022, India's LOCs have facilitated funding for 44 road projects, seven in hydropower and transmission lines, along with various others in housing and reconstruction. Many of these projects have either been completed or are nearing completion, including notable ones such as the Solu Corridor Transmission Line, Koshi Corridor Transmission Line, and Muzzaffarpur–Dhalkebar Transmission line. (Embassy of India, 2022).

India-assisted hydropower projects in Nepal include Pokhra (1 MW), Trisuli (21 MW), Western Gandak (15 MW), and Devighat (14.1 MW). A few upcoming projects which would be considerably larger are the Pancheshwar Multipurpose Project over river Mahakali and the Sapta Kosi High Dam Multipurpose Project (3300 MW) over river Sapta Kosi (Central Electricity Authority of India, 2021). In November 2021, India permitted the purchase of electricity from Nepal and this earned Nepal USD 91 million (Pant & Shivamurthy, 2023). In 2022, Nepal started exporting 400 MW of power to India, which

is expected to rise to 600 MW by the end of 2023 (The Economic Times, 2024). In turn, India exports about 600 MW of power to Nepal via more than 20 transmission lines. In Nepal's hydropower sector, the ratio of paid-up capital to loans is higher for India than China. For India, it is about 6:1, and for China, it is about 1:2 (NRB, 2022). In the manufacturing sector, China's investments are currently two times more than India, and the ratio of paid-up capital to loans is lower for India than China. A higher proportion of loans versus paid-up capital could have debt-burden and feasibility implications for the servicing of loans, depending on the maturities of the same.

Indian transmission lines could be opened up over time for Nepal and Bangladesh to trade electricity between each other. It is conceivable that concerns in the region about Indian hegemony may be diluted by the prospects of shared prosperity. This may push Nepal and Bangladesh into cooperating more closely with each other and India in the energy sector. For example, Nepal could benefit by exporting hydropower to Bangladesh as the latter would gain by becoming less dependent on expensive liquefied petroleum gas (LPG). India has already indicated its willingness to allow the use of its transmission lines for such trade between Nepal and Bangladesh. According to a comment in the Economist 2023, "India is keen to create interdependence in the region to counter China, and energy is a less threatening way of doing so than, say, trade in other things."<sup>12</sup>

In recent years, China has emerged as a major creditor to Nepal. It is the second largest FDI investor, with a 14 per cent share in total FDI stock. China's FDI is concentrated in hydropower projects and the manufacturing sector, particularly in cement industries (Nepal Rastra Bank, 2022). China-assisted major projects include Upper Trishuli Hydropower Project - Power station and Transmission Line Projects, food/material assistance in 15 bordering districts, and the Kathmandu Ring Road Improvement Project (Embassy of Nepal, n.d.). Currently, there is no trading of electricity between China and Nepal. However, China has expressed interest in a cross-border Nepal–China power line (The Kathmandu Post, 2023). Nepal appears to be hesitant since India may refuse to buy electricity from China-backed projects.

China has called for better cross-border land routes and proposed a railway line between Kathmandu

<sup>12</sup> Statement taken from: <https://www.economist.com/asia/2023/08/04/climate-and-china-fears-are-bringing-south-asias-countries-closer>

and Kerung. The project cost is estimated at USD 8 billion. Such cross-border connectivity plans are likely to be financially expensive and difficult to maintain, and they may cause ecological damage. Additionally, Nepal might face costs in the form of a possible backlash from India (The Diplomat, 2022).

## 2.4. India-Myanmar

Myanmar is bordered on its northwest by Bangladesh and by the Indian states of Mizoram, Manipur, Nagaland, and Arunachal Pradesh. Its north and north-east land borders were historically with Tibet for a Tibet-Myanmar border length of 2,185 km. Of course, Tibet was annexed by China in May 1951. Myanmar is bounded by Laos and Thailand to the southeast, and it boasts a 1,930 km long coastline along the Bay of Bengal and the Andaman Sea to the southwest and south, forming a quarter of its total perimeter. Myanmar's current government is currently besieged with several insurgent groups fighting the ruling Myanmar army (Seshadri, 2023). It is even rumoured that China is hedging its bets on the potential fall of Myanmar's government and is maintaining lines of communication with insurgent groups.

India has long emphasised the centrality of Myanmar for its Act East Policy, as a land bridge between South and Southeast Asia. However, internal connectivity within Myanmar, for example rail corridors and highways are underdeveloped according to ADB's assessment. Hence, connectivity via Myanmar to other ASEAN countries is limited. For example, India and Thailand do not have any international railway connectivity via Myanmar.<sup>13</sup> A causal reason is the Myanmar military dictatorship's nervousness about external influences, which could destabilise the current military regime. In this context, almost all India-Myanmar trade is currently via sea routes, except for low value border trade.

Going back three decades, it was during the years that Narasimha Rao was PM that a suggestion was made to "Look East." In this context, India and Myanmar signed a Border Trade Agreement in 1994,<sup>14</sup> which became effective from April 12, 1995. As per this agreement, the recognised border points

in India are at Moreh (Myanmar-Tamu) and Zokhawthar (Myanmar-Rhi). Setting up of a third border trade point at Avakhung- Pansat (India)/ Somra (Myanmar) has also been agreed upon by the two countries. Currently, Moreh, located in the Manipur state of India, handles most of India's recognised border trade with Myanmar. Myanmar shares five such land ports with India. As of August 2023, there was no cross-border railway connectivity between India and Myanmar.

Border trade is estimated to account for about 24 per cent of the total India-Myanmar trade; this bilateral border trade amounts to only 0.08 per cent of the Myanmar's total border trade (Myanmar Ministry of commerce, n.d.). However, several studies suggest that there is a significant amount of informal trade between the India's north-eastern region (NER) and neighbouring countries, including Myanmar, via land routes. A study by the Indian Ministry of Commerce and Industry suggests that the border trade, including unofficial trade, is much larger than officially recognised bilateral trade. However, this cannot be verified from published sources.

The Foreign Trade Law of Myanmar makes it possible to transport third country goods via the Indo-Myanmar border. Consequently, significant amounts of Indian imports from Myanmar could be Chinese or Thai goods. Under this law, traders need to fill a transshipment declaration with the Customs Authority of Myanmar and pay a 2.5 per cent fee of the value of the cargo (Taneja et.al., 2019). Attempts by India to abolish barter trade and changes in border trading rules has probably led to some decline in cross-border trade between India and Myanmar. This should have been anticipated, since traders in both countries are finding it difficult to adjust to the revised rules or are unaware of them (Das, 2016; Taneja et.al, 2019).

As of early 2024, armed insurgencies, ethnic conflicts, and environmental considerations make the India's NER unsuitable as a production centre for exports of goods to Southeast Asia. This would probably remain the case for some time even though NER's human development indicators are higher than all-India averages. The NER is seismically active, and prior

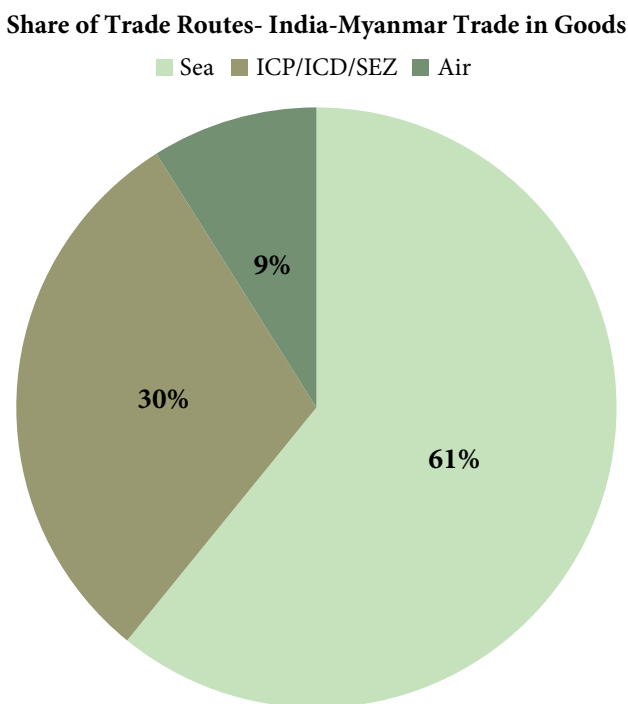
<sup>13</sup> During the Second World War, Japanese had built a railway line between Siam and Burma in 1942 which was known as the Burma railways. <https://www.britannica.com/topic/Burma-Railway/Life-on-the-Death-Railway> AND <https://scroll.in/magazine/1038801/why-a-plan-to-link-india-and-burma-with-one-of-the-worlds-most-scenic-railroads-didnt-work-out>

<sup>14</sup> Details of agreement here: <https://archive.pib.gov.in/archive/releases98/lyr2003/rmar2003/12032003/r1203200312.html#:~:text=A%20Border%20Trade%20Agreement%20between,red%2Dkidney%20beans%20from%20Myanmar.>

to Indian independence, the British had treated the entire region as a buffer zone vis-à-vis China and Burma (Sharma, 2018). Consequently, the region fell behind in infrastructure development. The Indian government has since changed this stance about the NER and has been pushing for infrastructure and economic development.<sup>15</sup> The NER could be a successful exporter of services to Myanmar and beyond perhaps nursing and other personal care, which may be received willingly in the higher per capita income ASEAN countries, Japan and South Korea.

Depending on the speed with which goods can be transported from the plains of Assam to Myanmar such trade may gather steam over time. It is worth noting that Myanmar-Thailand border trade is the largest component of Myanmar's total border trade, with a share of about 54 per cent. As mentioned earlier in this paper, almost all India-Myanmar trade takes place via sea (Fig 5). The major sea ports used for bilateral trade are listed in Appendix 15.

**Figure 5: Share of each mode of transportation for India-Myanmar trade (in value terms as of 2020)**



Source: Directorate General of Commercial Intelligence and Statistics (DGCI&S).

### **Trade with Myanmar: India vs China**

India's exports to Myanmar consist primarily of pharmaceutical products, items of animal origin, cotton, and iron & steel, which together account for 64 per cent of India's exports to Myanmar (EXIM Bank, 2019). Pharmaceuticals amount to 36 per cent of India's exports and currently stand at about 38 per cent of Myanmar's market for these products (EXIM Bank, 2019). India's imports from Myanmar are mainly vegetables, wood, and related items, which together account for 88 per cent of imports from Myanmar. The Government of India had announced duty-free imports of urad and moong-dal from Myanmar until March 31, 2023, which increased India's trade deficit with Myanmar for fiscal year 2022-23. The potential for growth in Indian exports to Myanmar is constrained by the fact that Myanmar has imposed mandatory import licences for 9099 product lines of HS Code 10 digit to limit outflow of foreign currency. This requirement for import licenses covers about 81 per cent of Myanmar's imports from India (Myanmar Chamber of Commerce, 2022).

As compared to India, China has much higher levels of trade and investment ties with Myanmar. According to Myanmar Ministry of Commerce, China is Myanmar's largest trading partner, surpassing trade with ASEAN member countries. For example, Myanmar imports machinery, metal products, vehicles, and telecommunication equipment from China. Refined tin is a critical item in Myanmar's exports to China. Other major exports from Myanmar to China are timber, agricultural items, and marine products. The border trade between the two countries accounts for about 31 per cent of Myanmar's total border trade. The Muse border post on the Myanmar-China border, noted as the busiest land port in Myanmar by the Government of Myanmar (2022), is situated on Myanmar's most developed trading corridor, as identified by Kudo (2013). As the world's largest importer of fossil fuels, China probably wishes to import more oil and gas from neighbouring Myanmar.

### **FDI and Surface Connectivity Projects**

India's share in total FDI investments in Myanmar is small at 0.3 per cent of total inward FDI as of 2020 (Ministry of Commerce, 2020). The entire set of projects receiving Indian assistance is estimated to be

<sup>15</sup> In 2022, Indian Railways approved the final location survey (FLS) for the construction of a crucial 111 km broad-gauge railway line connecting Imphal, the capital of Manipur, to Moreh, situated on the India-Myanmar border. Additionally, the Union Budgets of 2022 and 2023 featured announcements of other projects aimed at fostering economic connectivity between India's northeastern region and the rest of the country.



around USD 2 billion, with approximately USD 1.25 billion consisting of grant-in-aid projects. A major chunk of this aid goes into infrastructure works such as the Kaladan project. The framework agreement on the Kaladan project was signed in 2008.<sup>16</sup> The Indian government has provided Lines of Credits (LoCs) for various projects in Myanmar, spanning sectors like telecommunication, railways, energy, automobile, power, and agriculture. Among the 24 projects covered by these LoCs, 21 have been successfully completed, and three are currently in various stages of implementation. India has committed a total amount of approximately USD 746 million to Myanmar under this (Embassy of India, n.d.).

The Kaladan Multimodal Transport Project is a significant surface connectivity initiative under Government of India's grant in aid assistance. The Sittwe port in the Rakhine state of Myanmar was inaugurated in May 2023 under this project. It is expected that once the port is fully operational this would reduce the cost and time taken to transport goods from Kolkata to Agartala/Aizawl by about 50 per cent (Press Information Bureau, 2023). Moreover, the construction of a 110 km road connecting Paletwa in Myanmar to Zorinpui on the India-Myanmar border is reported to be in "full swing" (The Economic Times, 2023). The road connects India with the Kaladan river in Myanmar. A map showing the Kaladan connectivity project is at Appendix 10. The fall of Junta-controlled key township into hands of Arakan Army holds significance for India's Act East policy, particularly to the India-funded Kaladan Road Project (The Wire, 2024).

Insurgencies and law and order issues in India's NER hinder the development of India's surface connectivity infrastructure with Myanmar. According to the Ministry of Home Affairs, 187 cases of insurgencies were reported in the region in 2020. These include inter-ethnic conflicts, for instance, the clashes between Kuki and Meitei groups in Manipur in May-July 2023, or clashes directed against the state or central government. Such violence displaces people and diverts the Indian state's attention from building roads, bridges, and other infrastructure. This is one of several reasons why the NER remains less than optimally developed. Notwithstanding these hindrances, the Government of India has taken up connectivity and development projects in the Northeast, which are consistent with its "Act East" policy. For example, it has spent more than INR 58,000 crores in the last 5

years on the development of roadways in the region (Press Information Bureau, 2022). All things considered, even though insurgencies are being addressed and infrastructure has improved, it will take a considerable amount of time to establish seamless and efficient cross-border overland connectivity between NER and Myanmar.

China is the largest FDI investor in Myanmar, with a share of around one-third of total FDI in that country. China has also constructed a natural gas and oil pipeline (in parallel) running from Kyaukphyu City in Myanmar's Rakhine State to China's Yunnan region, which was built at a cost of USD 4.5 billion (Topcu, 2020). Significantly, this natural gas pipeline accounts for 16 per cent of China's gas imports as of 2018 (Topcu, 2020). In recent years, China has diversified its investments in other sectors such as railways. For example, China Railways inked an MoU to conduct a feasibility study for a rail link between Muse and Mandalay (Asian News International, 2022). In 2018, China and Myanmar signed an MoU on the Belt and Road Initiative (BRI) project. By 2022, they were working on several projects, such as Leptadaung copper mine project (US\$1.065 billion), a railway line linking Kunming to Kyaukphyu (US\$ 8.9 billion), and the New Yangon City project (US\$1.5 billion) (Banerjee, 2022). Ten China-Myanmar Economic Corridor (CMEC) projects, which are in their planning or on-going stages, are listed in Appendix 12. It is apparent that China expects to invest substantial sums in further consolidating its transportation and economic linkages with Myanmar.

Myanmar's trade, transportation and investment linkages with China far overwhelm similar exchanges with India. India's efforts to raise its economic engagement with Myanmar to levels that are anywhere close to those of China and build transportation links to other ASEAN nations via Myanmar will need much higher investment. India needs to involve the more affluent ASEAN countries in cosponsoring surface infrastructure projects that link India to Thailand and beyond. It is likely that Myanmar's military leadership has its reservations about India's capabilities and may prefer to depend more on the deeper pockets of China than any India-ASEAN combination to build transportation linkages including pipelines. At the same time, the larger economies in the ASEAN grouping, namely Indonesia, Malaysia, and Singapore, and by remote control, the developed West, would not want Myanmar to become overdependent on China.

<sup>16</sup> Treaty link: <https://www.mea.gov.in/Portal/LegalTreatiesDoc/MM08B0360.pdf>

It is also likely that Myanmar's unrepresentative military regime would be circumspect about being ousted by a left-oriented government supported by China. A few Chinese projects in Myanmar under the CMEC are facing a backlash due to the displacement of locals, ethnic conflicts, and domestic political-economic reasons. In 2018, Myanmar officials engaged in negotiations that led to an 80 per cent reduction in the proposed cost of the Kyaukphyu deep-sea port (The Third Pole, 2019). This port is under construction with Chinese assistance, and the project's cost was reduced significantly, dropping from over USD 7 billion to USD 1.3 billion. Furthermore, Myanmar is asserting its right to open tenders and the ability to pursue international financing for the remaining projects under CMEC (The Third Pole, 2019).

Myanmar has chosen to join the Regional Comprehensive Economic Partnership (RCEP) grouping. This could lead to complications in the future about the origin of goods exported from Myanmar to India. With RCEP membership, Myanmar would gain duty-free access to developed Asia-Pacific markets for its exports such as garments and agricultural products. However, RCEP members are net exporters of the same products, rather than net importers. Myanmar could extract some net benefits from RCEP if the trade advantages offered through Duty Free/Quota Free (DFQF) remain unchanged. This would provide Myanmar with market access to RCEP members, albeit with requirements of meeting enhanced sanitary and phytosanitary (SPS) RCEP standards (UNCTAD, 2020).

The various surface transportation routes between India and ASEAN countries which are envisaged or being constructed via Myanmar are listed in Appendix 11.

### 3. China's Large and Looming Shadow<sup>17</sup>

In 1991, China's GDP per capita in purchasing power parity (PPP) terms was USD 1535, and that of India was higher at USD 1800 (World Development indicators, World Bank). As of October 2023, China's GDP per capita, again in PPP terms, was USD 19,041, and that of India was less than half at USD 7502. To that extent, China's ability to project its economic and military presence, and hence influence in South-

East Asia and South Asia, has grown manifold in the last three decades. Clearly, India cannot compete with China in most regions around the world in economic or military terms (Gokhale, 2022). However, geography and shared history favours India in its relationships with immediate South Asian neighbours. As for ASEAN nations, except Myanmar and Laos, they are likely to look to the US for support if they feel suffocated by too tight a Chinese embrace. At the same time, ASEAN countries such as Cambodia, Vietnam, Thailand, Indonesia, Malaysia, and Myanmar have historical and civilisational ties with India. Singapore too has linkages with India that go back to the era of British colonial control in Asia.

It can be argued that for a variety of economic and strategic reasons, India and China should be able peaceably compete in South-East and South Asia (Vohra, 2023). Clearly, it would be in the interest of both countries not to hark back to past misunderstandings, including memories of India's disastrous defeat in the 1962 war. India's helplessness, particularly in the face of China's rapid advance via Arunachal Pradesh towards Assam, was evident in the two letters Nehru wrote to the then US President John F. Kennedy (JFK) (Riedel, 2015). Nehru requested for 350 US combat aircraft with American pilots and support personnel in his first letter to JFK which the latter received on November 19, 1962. A second letter seeking US assistance was received by JFK on November 20, 1962. According to Bruce Riedel "Ambassador B.K. Nehru was so stunned by the contents of the messages from Prime Minister Nehru that he did not show them to any of his staff and kept the only copies in his own desk."

After fifty-eight years since 1962, there is no credible explanation for China's actions, including massing troops in Ladakh and the military confrontation with India in the Galwan valley in April-May 2020. India and China had agreed after prolonged discussions to arrive at an "Agreement on the Maintenance of Peace and Tranquillity" in September 1993. Another bilateral understanding about the border was the "Agreement on the Political Parameters and Guiding Principles for the Settlement of the India-China Boundary Question,"<sup>18</sup> which was signed in April 2005. The wording, after another round of border related discussions between the two countries, of a Press Information Bureau (PIB) statement was

<sup>17</sup> "How China see India – The authoritative account of the India-China relationship" by Shyam Saran. Juggernaut Books, 2022.

<sup>18</sup> Link to Agreement: <https://www.mea.gov.in/Portal/LegalTreatiesDoc/CH05B0585.pdf>

that the two countries signed a “Border Defence Cooperation Agreement on 23 October 2013, seeking to facilitate ways and means to implement border defence cooperation...” (Menon, 2016).

According to a Pentagon statement (Indian Express dated 22 October 2023), the Chinese side has continued to build infrastructure along the Line of Actual Control (LOAC). China has repeatedly claimed all of Arunachal Pradesh, and even if such a claim were to be hypothetically offset by India accepting China's suzerainty over Aksai Chin, economic relations between India and China would be constrained by Indian suspicions regarding China's long-term intentions (Faligot, 2022).

A simplistic yet credible explanation of China's hard-line posture towards India could be its continuing desire to demonstrate that its one-party communist rule over India's boisterous and economically incompetent democracy. Although this rationalisation of China's inimical posture towards India may seem far-fetched, the extent to which Mao, and particularly Zhou Enlai, spoke incorrectly and poked fun at late Indian Prime Minister Jawaharlal Nehru in their conversations with US President Richard Nixon and Henry Kissinger on February 23, 1972, is surprising. A transcript of one of those conversations was declassified by the US on 21 January 1999 and an excerpt from that conversation is provided below. This declassified excerpt is stamped “SANITIZED COPY.”

### **Memorandum of Conversation**

*Participants: The President (Mr Richard Nixon)  
Dr. Henry A. Kissinger, Assistant to the President for National Security Affairs  
John H Holdridge, NSC Staff  
Winston Lord, NSC Staff*

*Prime Minister Chou En-lai*

*Ch'iao Kuan-hua, Vice minister of Foreign Affairs  
Chang Wen-chin, Director of Western Europe, North American and Australasian Affairs, Ministry of Foreign Affairs  
Wang Hai-jung, Deputy Director of Protocol  
Chao Chi-hua, Ministry of Foreign Affairs  
Chi Chao-chu, Interpreter  
T'ang Wen-sheng, Interpreter  
Two Notetakers*

*Date & Time: Wednesday, February 23, 1972 – 2:00 p.m. – 6:00 p.m.*

*Place: The President's Guest House, Peking*

*(There were some opening pleasantries in which Prime Minister Chou asked about Mrs. Nixon and the President said she was fine. He added that she had been impressed with the acupuncture demonstrations she had seen. The President noted that there were forecasts of snow and asked if they would get to the Great Wall the next day. Chou responded yes.*

*Chou then referred to a mural hanging in the room painted in 1935 which depicted a battle in which the Chinese Communists won a big victory over Chiang Kai-shek, a very great turning point. The battle was near Tsunyi, in Kweichow province, after which the Communists forces marched west into Yunnan.....)*

*Prime Minister Chou: And India is actually a bottomless hole. (President Nixon laughs)*

*President Nixon: When the Prime Minister referred to the problem India has with Bangladesh, as I look at India's brief history, it has had enough trouble trying to digest West Bengal. If now it tries to digest East Bengal it may cause indigestion which would be massive.*

*Prime Minister Chou: That's bound to be so. It is also a great pity that the daughter (Madame Gandhi) has also taken as her legacy the philosophy of her father embodied in the book **Discovery of India** (in English). Have you read it?*

*Dr. Kissinger: He was thinking of a great Indian empire?*

*Prime Minister Chou: Yes, he was thinking of a great Indian empire—Malaysia, Ceylon, etc. It would probably also include our Tibet. When he was writing that book he was in a British prison, but one reserved for gentlemen in Darjeeling. Nehru told me himself that the prison was in Sikkim, facing the Himalayan mountains. At the time I hadn't read the book, but my colleague Chen Yi had, and called it to my attention. He said it was precisely the spirit of India which was embodied in the book. Later on when I read it I had the same thought.*

*President Nixon: When did Chen Yi die?*

*Prime Minister Chou: Just recently. Chairman Mao attended the funeral. He had cancer of the stomach. Do you have a way of curing cancer?*

*President Nixon: It is a serious problem. One of the programs we want to undertake this year is a massive research program on cancer. We hope to have such a program. Who knows when we will find the answer? Scientific genius is not natural anywhere in the world,*

*and we don't know where to find it—here or there. But whatever money is required will now be provided for massive cancer research.*

*Prime Minister Chou: We can cooperate in that field.*

*President Nixon: We would approve of that. I was going to suggest it in the counterpart meetings if the question of medical research comes up. We will make all our facilities available on cancer, because research should not be for one country but for all the countries in the world.*

By contrast to Zhou's disparaging remarks about Nehru and the latter's "thinking of a great (Indian) empire—Malasia, Ceylon, etc" the following quote from the "Discovery of India" is what Nehru had written about India-China relations<sup>19</sup> in the first half of the 1940s:

"After being cut off from each other for many centuries, India and China were brought by some strange fate under the influence of the British East India Company. India had to endure this for long; in China the contact was brief, but even so it brought opium and war.

And now the wheel has turned full circle and again India and China look towards each other and past memories crowd in their mind; again, pilgrims of a new kind cross or fly over the mountains that separate them, bringing their messages of cheer and goodwill and creating fresh bonds of friendship that will endure."

One can only wonder how much more factually inaccurate the Chinese leaders' criticism of Nehru, and by extension India, might have been in the "UNSANITIZED" record of the above mentioned meeting between Nixon, Kissinger and Zhou Enlai.

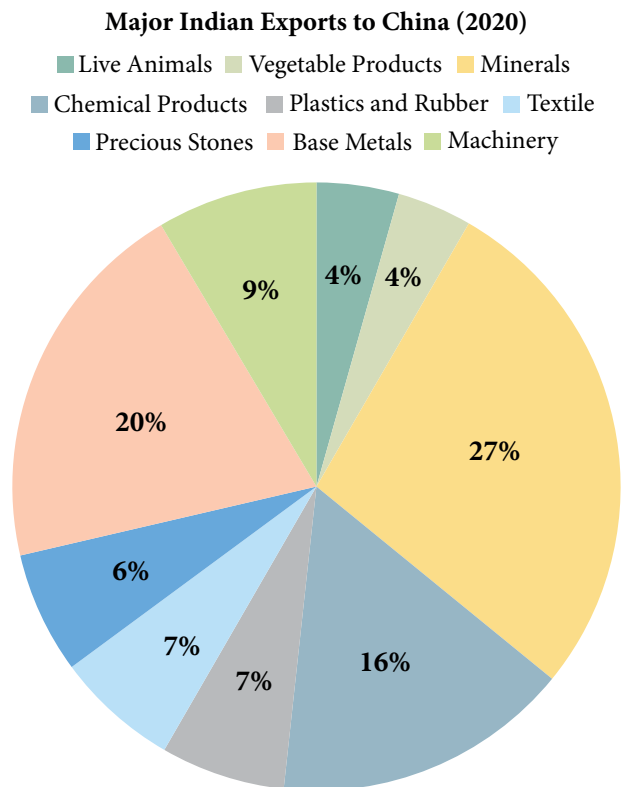
China's special relationship with Pakistan was glaringly evident when Kissinger visited Pakistan to meet General Yahya Khan in October 1970. Kissinger's secret trip to China in July 1971, which laid the

groundwork for President Richard Nixon's visit to China in February 1972, was facilitated by Pakistan. It has been evident since the early 1950s that China has consistently supported Pakistan, including turning a blind eye to government-sponsored terrorism, as a strategy to contain India (Small, 2015).

### 3.1. India's Trade Dependence on China and other Vulnerabilities

Moving on to the 21<sup>st</sup> century, India and China entered into a trade agreement in 2002 and accorded each other "Most Favoured Nation" (MFN) status.<sup>20</sup> The following pie-charts provide the percentage composition of India's exports to and imports from China.

**Figure 6: Major Indian Exports to China (2020)**



Source: Custom Statistics, General Administration of Customs of the People's Republic of China <http://stats.customs.gov.cn/indexEn>

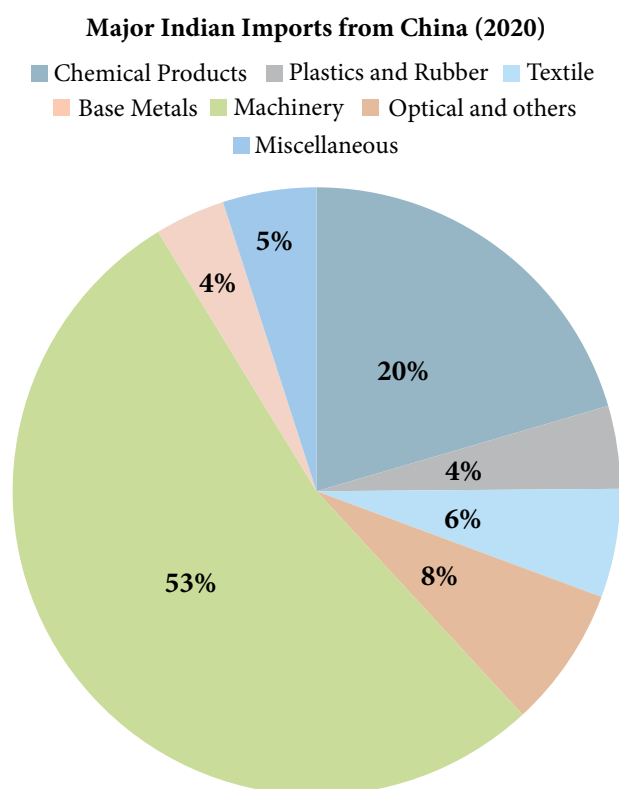
<sup>19</sup> "The Discovery of India," Jawaharlal Nehru first published The Signet Press, Calcutta 1946, Penguin Random House, 2010.

<sup>20</sup> Trade agreement can be found here:

[https://www.fmprc.gov.cn/mfa\\_eng/gjhdq\\_665435/2675\\_665437/2711\\_663426/2712\\_663428/200201/t20020116\\_511908.html](https://www.fmprc.gov.cn/mfa_eng/gjhdq_665435/2675_665437/2711_663426/2712_663428/200201/t20020116_511908.html)



**Figure 7: Major Indian Imports from China (2020)**



Source: Custom Statistics, General Administration of Customs of the People's Republic of China <http://stats.customs.gov.cn/indexEn>

India's economic exchanges with China has to be viewed in the context of the overall national security interests of the two states. Even in this context, between 2015 and 2022, bilateral trade between India and China increased by 90.14 per cent, with an average annual growth rate of 12.87 per cent (Embassy of India, n.d.). Yet, this trade falls far short of its potential due to both tariff and non-tariff barriers. Minerals, base metals, and chemical products made up 58 per cent of total Indian exports to China in 2020. For example, China imports iron ore, steel, and organic chemicals from India. And, in 2020, China imported USD 4 billion worth of iron ore from India. However, China does not import processed products from India, such as refined petroleum, which is a significant item in India's export basket. India is mostly a supplier of raw materials and intermediate products, which serve as inputs for Chinese manufacturing.

Although India's exports to China amount to about 1 per cent of that country's imports, India's exports did not drop much even in the Covid-19 epidemic year of FY2021 due to sustained Chinese demand for raw materials and foodstuff (Palit, 2021). China's share in India's export basket rose from 5.3 per cent in FY2020

to 7.3 per cent in FY2021 (Ministry of Commerce, 202). India is a major supplier of generics to African nations (about 50 per cent of their imports), United States (about 40 per cent) and United Kingdom (about 25 per cent). By contrast, even though China is one of the largest consumers of pharma products, it is not a significant importer of Indian medicine. In this context, China does produce most generics domestically and it has banned Indian generics (Economic Times, 2023). After the COVID-19 pandemic a black market is reported to have emerged in China for Indian generics and most of the demand is for ibuprofen and paracetamol. Contra-intuitively, India does not export software services to China which is a significant fraction of India's exports of services.

Appendix 13 lists the top 10 Indian imports from China and China has a 15 per cent share in India's gross imports. Personal laptops and smartphones are among several finished products imported from China. India is also a major importer of intermediate products, for example, semiconductors, photovoltaic cells, active pharmaceutical ingredients (API) and fertilisers. Most of these imports are for domestic consumption, except for APIs, which are used to produce generics in India. The growth of India's pharma exports is linked to imports from China as about 70 per cent, by value of APIs, used in this industry are sourced from China (Nikkei Asia, 2022).

Alternative countries from where India could import electrical and higher value-added products are Taiwan, Singapore, Japan, and Germany. Taiwan is the largest exporter of semi-conductors to China valued at around USD 183 billion annually. Even if India were to diversify the sources of its imports of electrical equipment and manufactured products, the dependency on China for APIs and lower-end electrical equipment and semi-conductors is not likely to decrease in the near term. This is because major producers of semiconductors and solar cells such as Taiwan and Singapore have close linkages with China via global value chains (GVCs).

In 2019, FDI flows from China to India amounted to about USD 174 million. And, the stock of outstanding FDI received between April 2000 and December 2019 stood at USD 2.3 billion. This number is low compared to FDI investments which come in via Mauritius (USD 9.5 billion), Singapore and other low tax jurisdictions which maintain anonymity about origins-destinations of funds. Consequently,

it is possible that some Chinese investments in India have been channelled via Singapore or Mauritius. For example, Alibaba's investment in Paytm was undertaken by a Singapore subsidiary of that company called Alibaba Singapore Holdings Private Ltd (Bhandari et.al, 2020).

By March 2020, Chinese companies had invested USD 4.4 billion in greenfield investments and expansions of existing facilities in India (Krishnan, 2020). By this time, projects worth USD 26 billion were in pipelines in various sectors, including infrastructure, energy, and automobiles. Total Chinese investments in Indian start-ups in 2019 was USD 5 billion.<sup>21</sup> China possibly considers India an important market, given the long-term potential of the Indian economy and particularly its start-ups sector. A 2020 study by the Centre for Social and Economic Progress (CSEP) projected the stock of Chinese investments in India to reach USD 26 billion by 2021. However, the actual Chinese FDI stock has registered a relatively small increase, from USD 2.3 billion in 2019 to USD 2.4 billion in 2022 (Ministry of Commerce, 2022).

All things considered, China's economic engagement in India is likely to be constrained by issues such as border demarcation and cyber-maritime security. Specifically, the 2017 Doklam confrontation and the 2020 Ladakh clash on the border have deepened Indian suspicions and resolve to meet the challenge posed by China's rise (Bambawale et.al., 2021). In a meeting of the defence ministers of the two countries, shortly after the Galwan Valley clash, the Indian defence minister stated that the "violation of existing agreements has eroded the entire basis of bilateral relations" (Press Information Bureau, 2023). At that time, the Chinese defence minister had downplayed Indian concerns, saying that the conditions along the tense, high-altitude border with India are "stable overall" (AP News, 2023).

All things considered, trade between India and China is also likely to be inhibited due to China's "string of pearls" policy, which is a component of the Belt and Road initiative. China has established an operational naval base in Djibouti and intends to construct similar facilities in Gwadar (Pakistan) and Mauritius. Currently, the closest Chinese naval base to Indian shores is near the town of Sanya in

the Hainan province. The proposed ports in Gwadar and Mauritius, including a reported naval facility at Coco Islands in the Bay of Bengal, raise concerns from India's security and trade perspectives. If the Gwadar Port is used by the Chinese navy, it would enable China to monitor, and perhaps even control movements via the adjoining waters and sea routes, including the Straits of Hormuz. These routes are used for the transportation of two-thirds of India's oil and half of its liquefied natural gas imports.

China has steadily increased its political and capital investments in India's South Asian neighbourhood over the past 25 years. Over time, Chinese trade, and investment ties with Bangladesh and even Nepal could overtake those of India. However, these two nations form a minuscule part of China's overall external trade and it does not stand to financially gain much from these relatively small economies. Instead, roping in South Asian nations into infrastructure initiatives such as the BRI may be of longer-term interest for China. Projects like the Nepal-China railway link and the Yunnan-Kyaukphyu railway project, which passes through Muse in Myanmar as part of the BRI, could provide additional routes for transportation of Chinese goods.

To an extent, China's transport and pipeline connectivity with Myanmar are already in place. The oil and gas pipelines between the Yunnan region in China and the Rakhine state of Myanmar provide an alternative to the Malacca Straits, which could become a chokepoint at times of international strife. Oil from the Middle East could conceivably be shipped to the Sittwe port in Myanmar, cutting down the current transportation distance for China by 3000 kilometres and reducing the travel time by five to six days (Steinberg & Fan, 2012).

For China to reduce its present dependence on the Malacca Straits, it would need to bear the expenditure on modernising Myanmar's ports. In this context, China is backing the development of Myanmar's first deep seawater port at the Kyaukphyu Special Economic Zone with an investment of USD 7 Billion (ANI News, 2023). For now, China National Petroleum Corporation imports about 500 million cubic feet of natural gas daily, via a pipeline from the Sittwe Gas Project, which is the largest offshore gas project in

<sup>21</sup> Data taken from: <https://indianexpress.com/article/express-exclusive/china-spying-india-ladakh-economy-start-ups-payment-apps-hybrid-warfare-6596316/>

Myanmar (BNI, 2021).<sup>22</sup> Since collaboration between China and Myanmar is widening and deepening, India's connectivity initiatives with Southeast Asia via Myanmar need to be implemented much faster.

It is to be expected that Bangladesh, Nepal, and Myanmar would seek China's overall economic support to build transportation linkages including roads, bridges, and ports. As of now, India does not have the financial resources to match China. To that extent, India needs to work more closely with Japan and South Korea in South Asia. Japan and South Korea are democracies with wide-ranging economic ties with India. The US has stationed troops and surveillance-defence systems in Japan and South Korea since the second World War. Consequently, these two countries are less likely to be nervous about China's reaction to their engagement with India in building infrastructure in and around South Asia. India could try to also involve ASEAN countries. However, the ASEAN nations do not have the economic-technological heft or commensurate strategic assurances from the US to annoy China.

China asserts its claim over approximately 90,000 square kilometres (35,000 square miles) of territory in India's northeast, encompassing the entirety of Arunachal Pradesh. On the other hand, in the western sector, India maintains a longstanding stance that China has occupied around 38,000 square kilometres (15,000 square miles) of Indian territory in the Aksai Chin plateau. Given the prevailing state of India-China relations the bilateral climate is not conducive for faster development of cross-border trade and additional transportation routes.

#### 4. Conclusions

China's annexation of Tibet in the 1950s resulted in a long land border between that country and India. An insider's account of Tibetan resistance and the Dalai Lama's flight to India was written by his elder brother, Gyalo Thondup.<sup>23</sup> A separate detailed account of efforts for Tibet-China dialogue and China's policies towards Tibet has been provided by Lodi Gyaltsen Gyari, who was the Dalai Lama's envoy for talks with the People's Republic of China.<sup>24</sup> As is even

more evident in the case of Pakistan, security, and longer-term strategic interests, as currently perceived by India and China, stand in the way of these two Asian giants widening and deepening mutually beneficial economic and technological ties. Further, the Himalayas makes it impractical in terms of cost-efficiency for India and China to engage in sizeable volumes of bilateral overland goods trade. Yet, despite the current pall of uncertainty over India-China relations, it is in the longer-term interest of these two most populous nations in the world to widen and raise their trade and investment ties.

Currently, China is by far the largest goods trade partner for India, surpassing the four other countries covered in this study, and, in fact, all other countries around the world as well. This pattern of trade, which positions China as a significant economic partner for the five countries mentioned in this paper, is likely to continue even if India improves its surface connectivity with the other four countries, namely Bangladesh, Nepal, Bhutan, and Myanmar. Consequently, India needs to invest additional political and technological capital to counter growing Chinese influence in and around South Asia.

Myanmar's armed forces currently maintain control over that country, with the final say on all trade and investment issues. The current military regime, which does not represent the broader population, is wary of any foreign power acquiring leverage over its economy. Consequently, accelerating the completion of road and rail projects from India's north-eastern states to Myanmar and beyond would have a favourable bearing on the latter's attitude to these and other transportation linkages between India and ASEAN countries. A potential advantage for India in Myanmar's cautious approach to opening transportation routes via its land mass is that it probably has reservations about Chinese inroads into its economy. Irrespective of Myanmar's ability to provide surface transportation linkages via its territory, India needs cost-competitive maritime routes from ports on its eastern coast, possibly the Andamans too, and via Chittagong to ports in the East. India also needs to be watchful of the domestic

<sup>22</sup> The Sittwe Gas Project is led by South Korea's private sector, (POCSO International, a South Korea based company, has 51 per cent stake in the project), Myanmar Oil and Gas Enterprise, and minority stakes are held by India's public sector enterprises. (Oil and Natural Gas Corporation and Gas Authority of India Ltd).

<sup>23</sup> "The Noodle maker of Kalimpong" by Gyalo Thondup (elder brother of the Dalai Lama) and Anne F. Thurston. Random House, June 2016.

<sup>24</sup> "The Dalai Lama's Special Envoy" by Lodi Gyaltsen Gyari. Columbia University Press, New York, 2022.

implications of the hostilities between Myanmar's army and anti-government groups in that country. Such elements in Myanmar have relationships with insurgents in Manipur, Nagaland and Mizoram.

Bangladesh has the largest population of any country in India's immediate eastern neighbourhood. People have moved freely in the past between and across Bangladesh, Bengal, and Assam. Bangladesh has linguistic and social affinities with Bengal, as well as parts of Assam and Tripura, including trade and investment ties stretching back centuries. Transportation routes for bulk cargo between India's north-east and today's Bangladesh were over river waters and by rail during the British colonial era. For example, the Sadiya (Upper Assam)–Chittagong rail track, which enabled the bulk movement of tea, jute and coal, was ready for use as far back as 1905 (Gait, 1905). Although Bangladesh would be careful not to be overdependent on India, it probably recognises the long-term potential for the two countries to benefit from higher levels of bilateral economic ties. Consequently, Bangladesh is likely to cooperate with India in the construction of additional road, rail, and river-water linkages to the north-eastern states.

In the decades to come, Bangladesh may look further towards the East than the developed West or Delhi. This is likely given the economic weights of China, Japan, and South Korea, which are RCEP members, and it is possible that Bangladesh may look to join this grouping. This is yet another reason why India should work with RCEP member countries such as Japan, South Korea, and Australia to keep its options open to join RCEP. In any case, it is in India's interest to reassure Bangladesh that India is acting in good faith regarding the sharing of river waters, an issue that easily becomes an emotive and politically sensitive issue on both sides of the border.

Nepal has strong ties of religion and history with India. These are sources of strength and weaknesses in the overall relations between the two countries. Nepal had recently opened a minor border dispute with India and it is understandably highly sensitive that it is land locked. To that extent any shortage of fuel, medicine or other items of daily use which come from India can be readily ascribed by Nepal's politically important classes as due to Indian hostility. Irrespective of the veracity of such allegations India

needs to be sensitive to Nepal's feelings of hurt ego. As a Hindu-majority nation Nepal's royalty has relations by marriage with India's erstwhile princely families. To that extent and because several places of Hindu pilgrimage are in India, Nepal is bound to be sensitive about getting sucked into a much larger Hindu nation's orbit.

Nepal's rivers flow into Uttar Pradesh, Bihar and Bengal and there is considerable potential for transportation of goods over water and generation of hydroelectricity. To an extent this is happening and this needs to be pushed much faster by India without raising hackles in Nepal about Indian domination. Nepal now has closer relations than in the past with China. This was inevitable since the Chinese economy has outstripped that of India by far and the former and can use its economic muscle to carve out greater strategic space for itself in Nepal.

Bhutan is small geographically and its population is only about 0.8 million. It is almost overwhelmingly Buddhist and has long standing close and unique ties with India and is located strategically between India and China. As the Doklam incident in June 2017 demonstrated, China will probe the possibility of driving a wedge between India and Bhutan territorially, economically, and strategically. Since Tibet is almost entirely Buddhist it is likely that Bhutan would be wary of being absorbed into a wider Buddhism dominated region, which is Tibet-China centric. As in the case of Nepal, Bhutan is more readily accessible from India geographically. And, there is mutually beneficial cooperation in the production of hydroelectricity and India needs to widen and strengthen its strategic investments in Bhutan. Given Bhutan's low population the potential for raising goods trade to sizeable levels is very limited. On a per capita basis the consumption of electrical energy in India is well below even middle-income countries. Hence, there is potential for more hydro-electric projects on rivers which flow from Bhutan into India.

The South Asian Association for Regional Cooperation (SAARC)<sup>25</sup> could have played an important role in boosting economic linkages between India and the neighbours to the East and North, which are members of SAARC. However, this grouping of nations remains dysfunctional mostly due to India-Pakistan differences. The SAARC region was declared a free

<sup>25</sup> SAARC is a regional organisation, established in 1985. Its members are: Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka.



trade area in 2006, with the signing of the South Asia Free Trade Agreement (SAFTA). A SAARC Transport Facilitation Agreement on motor vehicles and railways was to be negotiated. However, these moves were stalled due to the political tensions between India and Pakistan post the Balakot episode of 2019.

Despite a so-called free SAFTA trade area, the maintaining of a “sensitive list” and exclusion of trade in services has kept South Asia economically much less than optimally integrated (Kathuria, 2018, Sawhney & Kumar, 2007). Currently, SAARC member countries are competitors in exports of similar products and deny access by maintaining lists of “sensitive” products. Additionally, Nepal and Bangladesh have concerns about greater Indian influence in their internal affairs, if given greater access to their markets. At times, this distrust takes the shape of non-tariff barriers and prolonged negotiations on connectivity. The bottom line is that India needs to engender greater trust to accelerate its economic ties with the neighbouring countries included in this study. Unfortunately, the longer-term strategic differences between democratic India

and communist China, of which the border issue in the Himalayas is a symptom, indicate that trade and investment between these two Asian giants would remain well below potential for a long time.

In the mid-1980s, a slogan in the Indian Department of Atomic Energy was to achieve a nuclear power generation target of 10 gigawatts by 2000. As of end 2023, only about 3 per cent of India's power generation capacity comes from nuclear energy, amounting to about 7 gigawatts. In 2009-2010, South Korea won in an international competition, which included French and US companies, to build nuclear power plants in the United Arab Emirates. Consequently, India could benefit from closer cooperation with South Korea in the peaceful uses of atomic energy. As a spin-off benefit of cooperation with South Korea in generating nuclear power, that country's companies may be more prepared to collaborate with India in creating additional sea routes to the East. Further, India needs to bolster the security of its maritime routes towards the East and in the Indian Ocean by coordinating related policies with the US, Japan, South Korea, Taiwan, and Australia.

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## Appendix

### Appendix 1

#### Major rivers between India and Bangladesh

River	Route	Length (in kilometres)
Ganga (Padma)	Gaumukh, Uttarakhand (India) – Chandpur (Bangladesh)	2525 (356 kms in Bangladesh)
Brahmaputra (Jamuna)	Mansarovar (Tibet) – Gelling, Arunachal Pradesh (India) – Chilmari (Bangladesh)	2900 (916 kms in India; 284 kms in Bangladesh)
Teesta	Mangan, Sikkim (India) – Phulchhari Upazila, Bangladesh	414 (109 kms in Bangladesh)
Barak	Liyai Kullen, Manipur (India) – Bhairab Bazaar (Bangladesh)	900 (345 kms in Bangladesh)

Source: Wikipedia.

#### Major rivers between India and Nepal

River	Route	Length (in kilometres)
Sharda (Mahakali)	Kalapani, Uttarakhand (India) – Sudurpashchim Province (Nepal) – Bahraich, Uttar Pradesh (India)	350 kilometres
Ghaghra (Karnali)	Mapchachungo (Tibet) – Bardiya (Nepal) – Chhapra, Bihar (India)	1080 kilometres (507 kms in Nepal)
Gandak (Sapt Gandaki)	Mustang (Nepal) – Hajipur, Bihar (India)	814 kilometres (about 330 kms in Nepal)
Kosi (Sapt Kosi)	Tibet - , Nepal – Khagaria, Bihar (India)	729 kilometres (200 kms in Nepal)

Source: <https://www.nepjol.info/index.php/nc/article/download/35187/27548/102536#:~:text=The%20Koshi%20River%20flows%20from,it%20is%20an%20international%20river.>



## Appendix 2

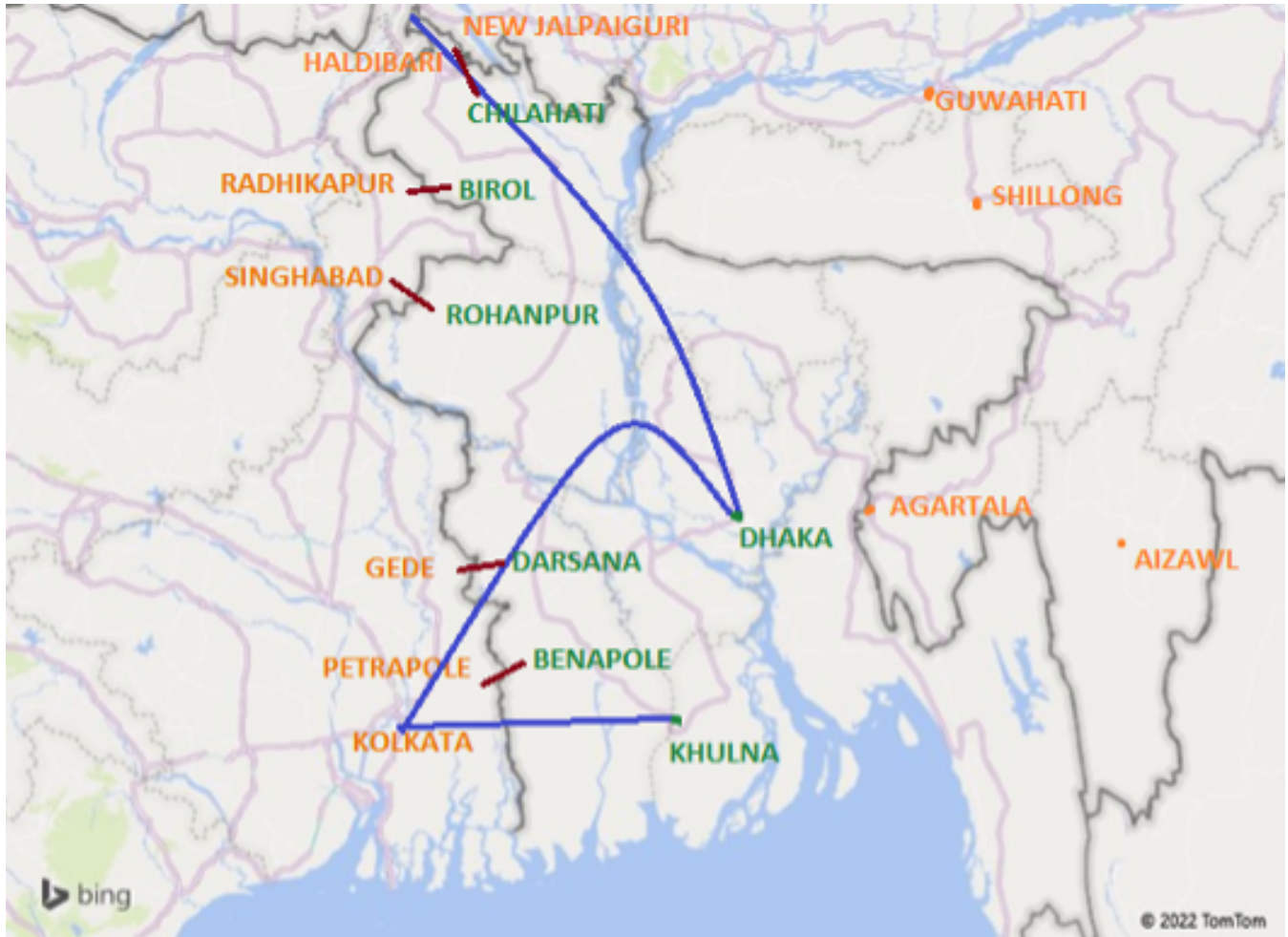
### India's waterway connectivity with Bangladesh, Nepal, and Bhutan



Source: Inland Waterway Authority of India (IWAI).

### Appendix 3

#### Cross-border railway routes between India and Bangladesh



■ Passenger Train Route ■ Freight Train Route

Source: High Commission of India, Bangladesh; Google Maps.

Note 1: Birol (Bangladesh) is a meter-gauge line. The route is currently used by Nepal for cross-border trade with Bangladesh.

India has signed a Protocol with Bangladesh on the use of inland water routes, to facilitate trade via National Waterway 2 (NW2, effectively the Brahmaputra River) (MEA, 2015). Accordingly, the movement of goods between India and Bangladesh using waterways is regulated by the Indian Central Inland Water Transport Corporation (CIWTC) and Bangladesh Inland Waterways Authority (BIWA). In 2001-02, about one lakh metric tons of goods were traded between Bangladesh and India via Inland Water Transport (IWT). The ratio of goods carried by Bangladeshi and Indian vessels was 45:55, which represents a fair division of the accrued revenues.<sup>26</sup>

In 2020-21, the total trade via IWT increased to about 40 lakh metric tons, with the ratio was heavily tilted in favour of Bangladesh (92:7) (Bangladesh Inland Water Transport Authority Statistics, 2022). Indian exports to Bangladesh through IWT included coal, rice, white cement, tyres, steel coil, and project goods (machinery and instruments). India's National Waterway 2 (Dhubri-Sadiya-stretch of the Brahmaputra-river) cuts across Bangladesh, linking India's NER with Bengal. According to the Inland Waterways Authority of India, the use of inland waterways has decreased in the past 15 years, primarily due to the insufficient depth of water

<sup>26</sup> Data taken from: <http://www.biwta.gov.bd/site/page/e9b3ec96-b908-402f-bec8-e7171d927a9d/Statistics>

available on certain stretches of the route, especially during non-monsoon seasons. Hence, with 80 per cent funding from the Government of India and the rest from the Government of Bangladesh, dredging works have been undertaken on these stretches

(Inland Waterways Authority of India, 2022). As the share of inland waterways in trade is currently low, there is considerable potential for future use of inland water transit as a low-cost mode of transporting goods.

#### Appendix 4

##### Top five land posts for bilateral trade between India and Bangladesh (in terms of value as of 2020)



Source: Directorate General of Commercial Intelligence and Statistics (DGCI&S).

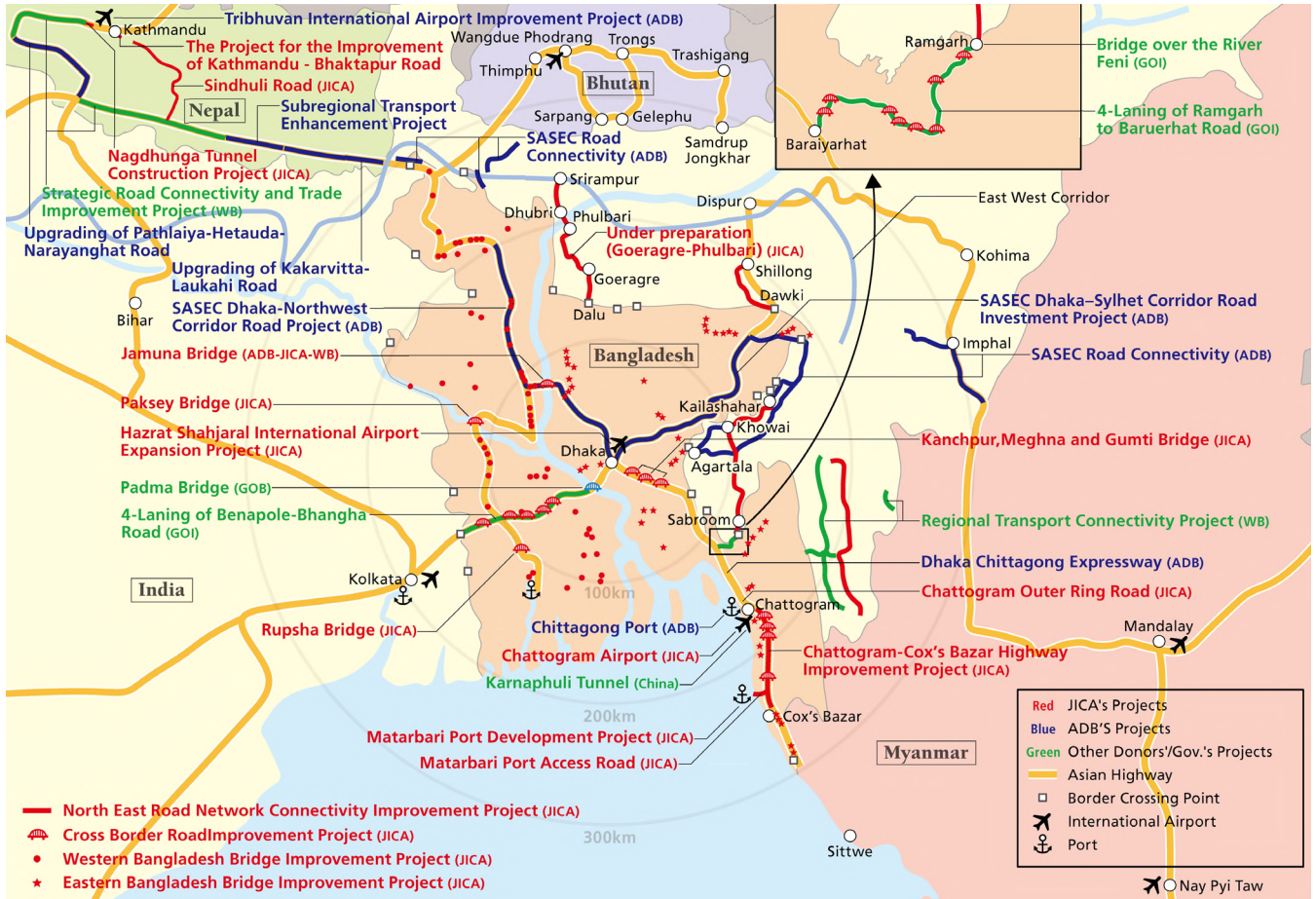
Note 1: The map shows the top five busiest land ports for cross-border trade between India and Bangladesh in value terms.

Note 2: Petrapole ICP covers about 60 per cent of total land trade between India and Bangladesh, and about 20 per cent of total trade. The other four land posts mentioned in the map cover less than 1 per cent each of the total land trade.



## Appendix 5

### Connectivity Projects between India and Bangladesh and potentially beyond



Source: Japan International Cooperation Agency (JICA).



## Appendix 6

### Top five land posts for bilateral trade between India and Bhutan (in USD value terms 2020)



Source: Directorate General of Commercial Intelligence and Statistics (DGCI&S).

Note 1: The map shows the top four busiest land ports for cross-border trade between India and Bhutan, in terms of value.

Note 2: 86 per cent of total trade by road takes place via Jaigaon-Phuentsholing ICP. The three other places mentioned account for less than 1 per cent of total road-based bilateral trade.

Note 3: Darang Border Trade Centre (BTC) was established by the Assam Industrial Infrastructure Development Corporation (AIIDC) in 2018. A market complex near Chamurchi-Samste route was also established around the same time.<sup>27</sup>

India is the leading source of investments in Bhutan, comprising 50 per cent of the country's total foreign direct investment (FDI). There are about 30 Indian companies operating in Bhutan in sectors such as banking, manufacturing, electricity generation, agriculture/food processing, Information Technology Enabled Services (ITES), pharmaceuticals, hospitality, and education. Indian institutions which have a presence in Bhutan include Punjab National Bank, State Bank of India, Tata Power Company Ltd., General Insurance Corporation, Apollo Educational Infrastructure Services, Azista Industries, Meghalaya

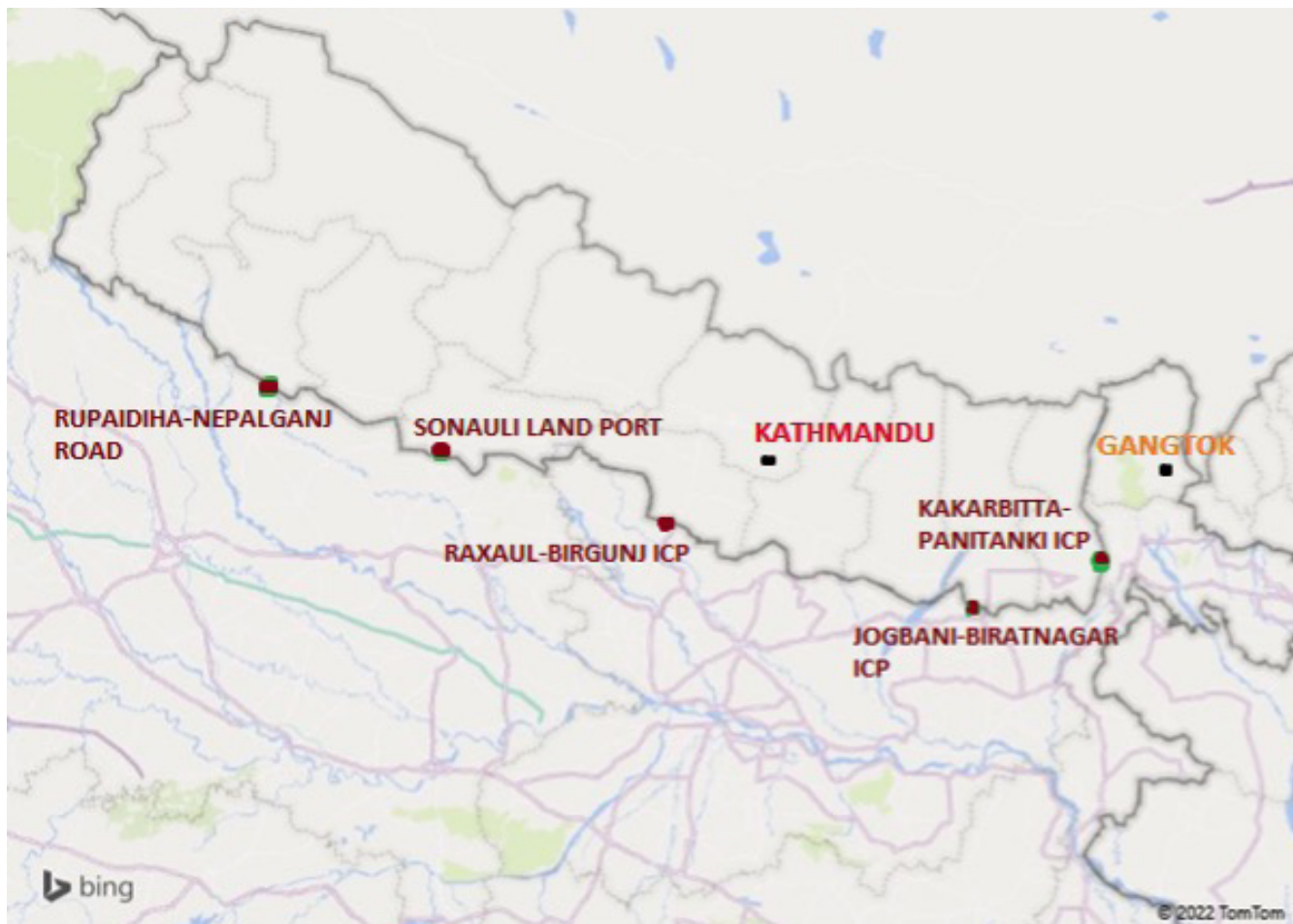
Oxygen (Embassy of India, Thimpu). In an overall context, India has been instrumental in Bhutan's economic development for over half a century. More recently, India has contributed about 73 per cent of the expenditure envisaged in Bhutan's 12<sup>th</sup> Five-Year Plan 2018-2023.

In 2020, electrical power contributed about 63 per cent of Bhutan's exports to India. Ferro-silicon, ferro-silico-manganese, cement, dolomite chips, and silicon carbide are other exports to India.

<sup>27</sup> <https://www.telegraphindia.com/west-bengal/centre-to-build-bus-terminal-and-market-near-bhutan-border/cid/1676351>

## Appendix 7

### Top five land points for bilateral trade between India and Nepal (in terms of value, USD) (2020)



Source: Directorate General of Commercial Intelligence and Statistics (DGCI&S).

Note 1: The map shows the top five busiest land ports for cross-border trade between India and Nepal, in terms of value.

Note 2: Raxaul ICP accounts for about 45 per cent of total land trade and 43 per cent of total trade between India and Nepal. Sonauli Land Port is the second busiest land port and accounts of 25 per cent of total land trade.

## Appendix 8

### China Got a Big Contract. Nepal Got Debt and a Pricey Airport.

New York Times article dated October 16, 2023. The article is at: <https://www.nytimes.com/2023/10/16/business/nepal-pokhara-airport-china.html>

The following information is based entirely on the New York Times article:

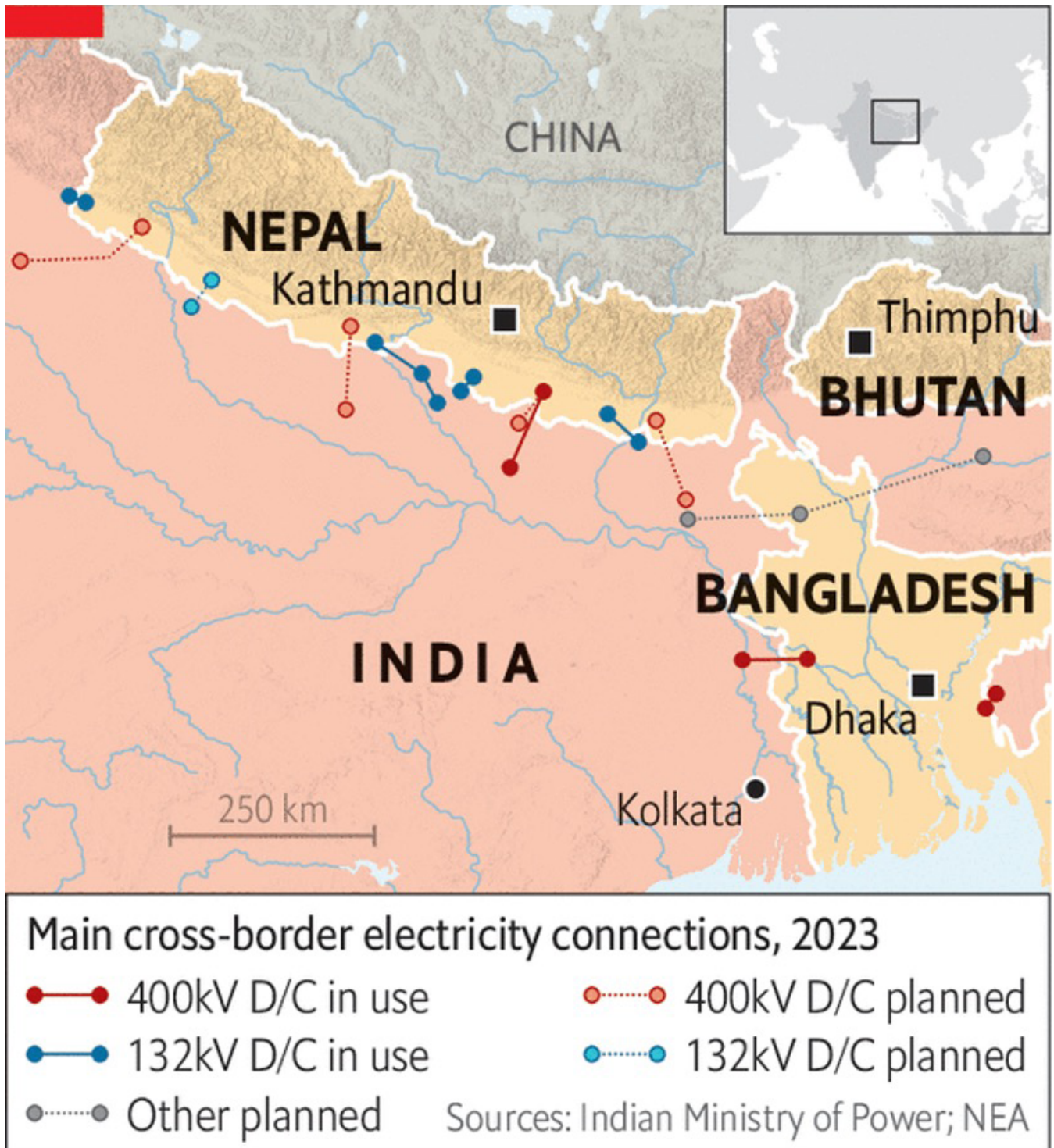
On January 1, 2023, Nepal's Prime Minister, Pushpa Kamal Dahal, officially inaugurated the Pokhara

airport. The construction of the Pokhara Airport was primarily financed and built by Chinese entities. Some of this financing is in the form of debt, which could become a burden for Nepal in terms of future repayments.

The Chinese Embassy in Nepal has suggested that the Pokhara airport is a "flagship project" of China and Nepal's Belt and Road Initiative cooperation. As of October 2023, it did not appear that any Indian airlines has plans to fly to Pokhara.

## Appendix 9

### Current and planned cross-border electricity connections in 2023

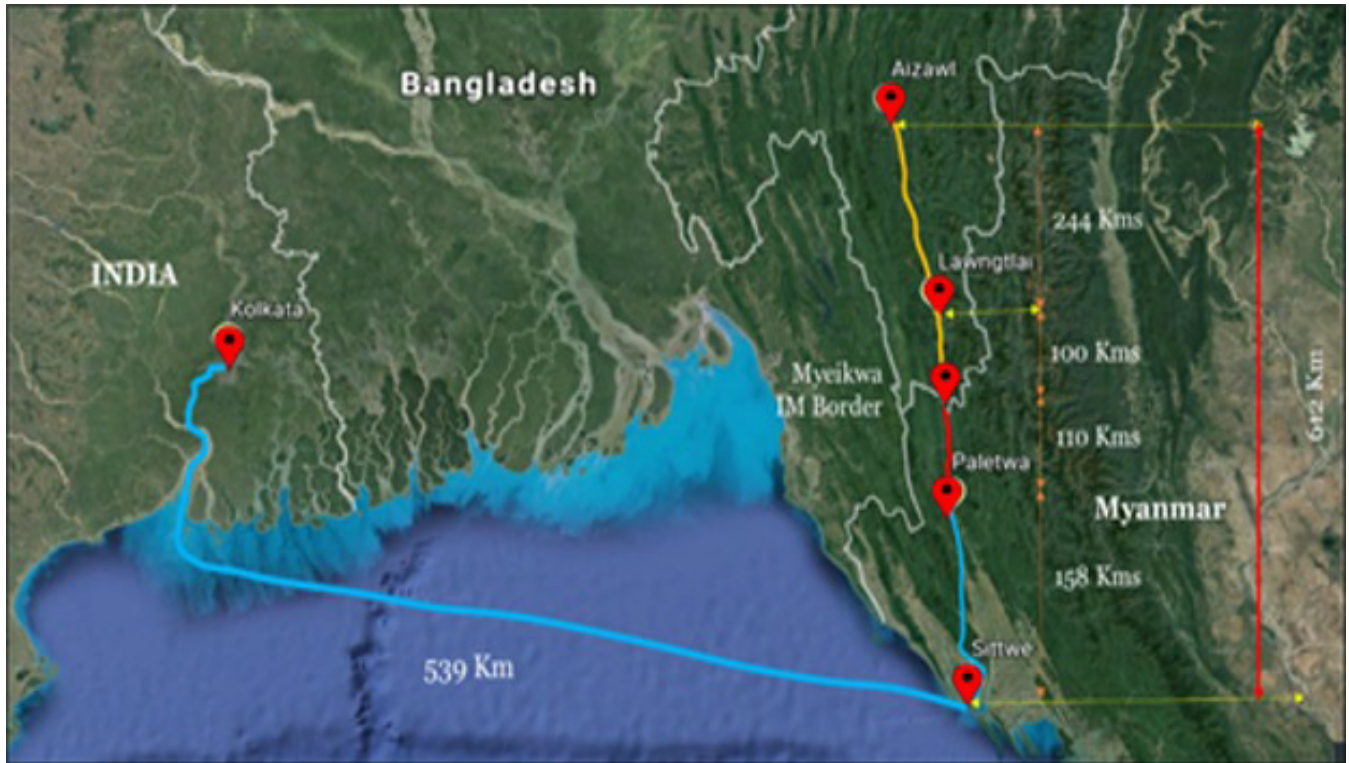


Source: *The Economist*.



## Appendix 10

### Kaladan Multimodal Transport Project



Source: Press Information Bureau.

## Appendix 11

### Surface transportation routes between India and Neighbouring nations

To provide a boost to India's "Act East" policy and gain access to Southeast Asian markets, the Indian Government has initiated several connectivity projects via land, water, and air. A few of these connectivity projects are:

- **India-Myanmar-Thailand Trilateral Highway:** The governments of India, Myanmar, and Thailand had envisaged this project in April 2002 for transportation connectivity and agreed upon jointly funding the 1,360 km long cross-border highway. This is intended to link Moreh (India) to Bagan (Myanmar) and Mae Sot (Thailand). Currently, work is underway on two segments: the Tamu-Kyigone-Kalewa sector (150 kilometers), where as many as 69 bridges of World War II vintage are being reconstructed, and the 121-kilometer Kalewa-Yagyi road section. Both these efforts are fully grant-in-aid projects. As of January 2019, the Indian Ministry of Road Transport and Highways had released INR 188 crore out of an approved total of INR 1462 crore for the Kalewa-Yagyi road section and INR 5 crore out of the approved cost of INR 371 crore for the Tamu -Kyigone-Kalewa sector (Press Information Bureau, 2019). During the ASEAN-India Commemorative Summit 2012, the Prime Minister of India suggested extending the Trilateral Highway to Lao PDR, Cambodia, and further to Vietnam. As of 2023, these three countries had not formally joined the project.
- **Kaladan Multi-Modal Transit Transport Project:** This project includes a waterway component of 158 km on Kaladan River from Sittwe to Paletwa and a road component of 109 km from Paletwa to Zorinpui on the India-Myanmar border in Mizoram State. The road works, from Zorinpui towards Paletwa a stretch of 109 Km, are still in progress.
- **An Industrial Corridor in the North-East Region (NER) from Golaghat (Assam) via Dimapur (Nagaland) and touching Imphal (Manipur) to Moreh (in Manipur close to border with Myanmar) and Dawki (Meghalaya) (on Indo-**



Bangladesh Border)–Shillong (Meghalaya) via Guwahati (Assam) to Nagoan (Assam) and the Mekong–India Economic Corridor (MIEC) is under construction.

- *India-Bangladesh Projects:* As per an India-Bangladesh Joint Communiqué of 2010, during the visit of the then-Bangladeshi Prime Minister to India, the two countries agreed to allow the use of Mongla (Bangladesh) and Chittagong seaports by Nepal, Bhutan, and India. The two countries also agreed that the Rohanpur/Singabad Kathihar-Rauxal-Brigunj broad-gauge rail link would be available for transit traffic between Nepal and Mongla Port. The distance between Raxaul and Mongla port is about 873 kilometres. The two countries had agreed that the Akhaura (Bangladesh)–Agartala rail link (12 kilometres) would be reconstructed at a cost of USD 117 million. This link was formally declared open for use by the Prime Ministers of India and Bangladesh on November 1, 2023.
- The two countries also agreed to allow goods to be carried in containers via rail and water transport (WT) routes (EXIM Bank, 2015. In 2022, the first India–Bangladesh cross-border logistics of containerised cargo using the inland waterways of the Indo–Bangladesh Protocol Route for Coca-Cola Bangladesh Beverages was completed.
- *India-Nepal Projects:* A project for cross-border rail links at five locations along the Indo–Nepal border (Jalpaiguri-Kakarbhitta, Jogbani-Biratnagar, Jaynagar-Bardibas, Nautanwa-Bhairahwa, Nepalgunj Road-Nepalgunj) is currently under progress (Embassy of Nepal). India and Nepal have declared that Kosi and Gandak rivers would be developed as Indo-Nepal waterways for the movement of cargo. These have been declared as National Waterway 37 (Bhaisaslotlan barrage-Hajipur in India, 300 kilometres) and National Waterway 58 (Kosi barrage Kursela in India, 236 kilometres), respectively. India is also building a multi-modal terminal at Kalughat near Patna (about 24 kilometres from Patna) to specifically cater to the needs of Nepal-bound cargo from Kolkata.
- *India-Bhutan Projects:* India is developing Jogig-hopia in Assam (about 149 kilometres from Guwahati and 590 kilometres from Dibrugarh) as a multi-modal trans-shipment hub for movement of cargo to Assam, Arunachal Pradesh, Nagaland, and Bhutan. Bhutan and Bangladesh have signed a Memorandum of Understanding (MoU) on the use of inland waterways for bilateral and transit trade (via India). The inland waterways route stretches from Chittagong and Mongla seaports in Bangladesh up to Dhubri in Assam. Dhubri is located at the trisection of Assam, Meghalaya, and Bangladesh, 259 kilometres from Guwahati. A port of call via Chilmari, which is located 358 kilometres from Dhaka, is now accessible to Bhutan.
- The South Asian Sub-Regional Economic Cooperation (SASEC) Road Connectivity Investment Program is operational. This project was initiated by Asian Development Bank (ADB) to support trade, transportation, and energy sharing. According to the SASEC Operation Plan 2016-2025, 40 projects worth USD 7.7 billion were completed by 2016. Under surface transportation, various existing roads which need upgrading, particularly near the coastal areas and ports, have been listed. As for railways, SASEC is helping the respective governments to increase rail connectivity between India/Northeast India and Bangladesh, Nepal. An example is the 945-kilometer-long East–West railway. Additionally, studies had been conducted for Hasimara to Tolibari; Kokrajar to Gelephu; Pathshala to Nanglam; Rangia to Samdrup; and Jongkhar and Banarhat to Samtse (ADB, 2016). The construction is yet to start on these proposed routes.
- As for transportation by road, Bangladesh–Bhutan–India–Nepal (BBIN) countries have signed a Motor Vehicles Agreement<sup>28</sup> in June 2015 under BIMSTEC's Master Plan for Transport Connectivity.
- The Japan International Cooperation Agency (JICA) is associated with enhancing connectivity within the region.

<sup>28</sup> The BBIN Motor Vehicles Agreement was signed to regulate the Passenger, Personal and Cargo Vehicular Traffic amongst BBIN.

## Appendix 12

### China-Myanmar Economic Corridor (CMEC) and other Projects underway

Name of the project	Total Investment	Location	Status
Mee Lin Gyaing LNG	USD 2.5 billion	Ayeyarwady region	On-going
Kyaukphyu Special Economic Zone (KPSEZ)	USD 1.5 billion	Kyaukphyu Township, Rakhine State	On-going
New Yangon City Project	USD 1.5 billion	Yangon	Planning stage
Chinshwehaw CBECZ	–	Northern Shan State	Planning stage
Kanpiketi CBECZ	USD 22.4 billion	Northern Kachin State's Special Region 1	On-going
Kyaukphyu Power Plant	USD 180 million	Kyaukphyu Township, Rakhine State	On-going
Kyaukphyu deep sea port	USD 1.3 billion	Kyaukphyu Township	On-going
Muse-Mandalay Railway	USD 8.9 billion	Mandalay	On-going
Mandalay-Tigyaing-Muse Expressway	–	–	Planning stage
Kyaukphyu-Naypyidaw Highway projects	–	–	Planning stage

Source: Banerjee, 2022.

## Appendix 13

### Top 10 Indian imports from China (FY 2020)

HS Code	Description	Value (billions USD)
854140	Photosensitive semiconductor devices, including photovoltaic cells; light emitting diodes	5.8
847130	Portable digital automatic data processing machines, consisting a central processing unit, keyboard, and display.	5.7
854231	Processors and controllers, whether combined with memories or not, converters, logic circuits, amplifiers, clock	4
851762	Machines for the reception, conversion and transmission or regeneration of voice, images, or other data	1.4
310210	Urea, whether in aqueous solution or not	1.4
310530	Di-ammonium phosphate (fertiliser)	1.3
850760	Lithium-ion	1.1
850440	Static converters	0.9
851712	Telephones for cellular networks or for other wireless networks:	0.9
847330	Parts and accessories of machines	0.8

Source: Custom Statistics, General Administration of Customs of the People's Republic of China.

## Appendix 14

### 1. Principal regional groupings

#### ● BIMSTEC

BIMSTEC (Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation) consists of Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka, and Thailand. It was first set up in 1997, and the first meeting of this grouping was held in 2004. It was attended by Prime Ministers of the member states and President of Sri Lanka.

Bangladesh is the Lead Country for the Trade, Investment and Development Sector, as recommended by the Seventeenth BIMSTEC Ministerial Meeting. In 2004, all countries signed the framework agreement for BIMSTEC Free Trade Area.<sup>29</sup>

Thailand is the lead country for the connectivity sector. The BIMSTEC Master Plan for Transport Connectivity is a 10-year strategy and action plan (2018-2028) supported by the Asian Development Bank (ADB) for improving the sub region's transport linkages covering (1) roads and road transport, (2) railways and rail transport, (3) ports and maritime transport, (4) inland water transport, (5) civil aviation and airport development, (6) multimodal and intermodal transport, (7) trade facilitation, and (8) human resource development in the connectivity sector. It was adopted at the 5<sup>th</sup> BIMSTEC Summit on 30 March 2022.<sup>30</sup>

*First Ministerial Meeting: 2004*

*Second: November 13, 2008*

*Third: 4 March, 2014:* The following documents were issued:

- Memorandum of Association on the Establishment of the BIMSTEC Permanent Secretariat.
- Memorandum of Understanding on the Establishment of the BIMSTEC Cultural Industries Commission (BCIC) and BIMSTEC Cultural Industries Observatory (BCIO).
- Memorandum of Association Among BIMSTEC Member Countries Concerning Establishment of a BIMSTEC Centre for Weather and Climate.

*Fourth 31 August 2018:* "Towards a Peaceful, Prosperous and Sustainable Bay of Bengal Region". Member states signed a Memorandum of Understanding on BIMSTEC Grid Interconnection. Orders for establishing a BIMSTEC Development Fund.

*Fifth Meeting 30 March 2022:* themed "Towards a Resilient Region, Prosperous Economies, Healthy People". The main outcome of the summit was the adoption and signing of the BIMSTEC Charter, which formalises the grouping into an organisation made up of member states that are littoral to, and dependent upon, the Bay of Bengal. Member states signed the following legal documents:

- BIMSTEC Convention on Mutual Legal Assistance in Criminal Matters.
- Memorandum of Understanding on Mutual Cooperation between Diplomatic Academies/ Training Institutions of BIMSTEC Member States.
- Memorandum of Association on the Establishment of BIMSTEC Technology Transfer Facility (TTF) in Colombo, Sri Lanka.

BBIN MVA: The BBIN MVA aims to facilitate smoother cargo and passenger movements, and promote greater connectivity and integration among the BBIN countries. While Bhutan is yet to become a party to the BBIN-MVA, the other three countries have decided to go ahead. The respective national governments are presently in the process of finalising the protocols regarding standard operating procedures.

India exported mineral fuels, oil, and their products (14.4 per cent), vehicles other than railway or tramway (10.3 per cent), cotton (9.3 per cent) and mechanical appliances (8.2 per cent) to BIMSTEC. From BIMSTEC, India imported machinery and mechanical appliances (13.2 per cent share in total imports), plastic and articles (9.7 per cent), electrical machinery and equipment (9 per cent), and inorganic chemicals (6.7 per cent) (EXIM Bank, 2019).

<sup>29</sup> <https://bimstec.org/trade-investment-and-development/>

<sup>30</sup> Secretary General's Report to the Fifth BIMSTEC Summit: [https://drive.google.com/file/d/1M75Bd1icockr6oquWY4\\_cud\\_MCG-iGlv/view](https://drive.google.com/file/d/1M75Bd1icockr6oquWY4_cud_MCG-iGlv/view)

## 2. Mekong Ganga Cooperation

An initiative by six countries—India and five ASEAN countries: Cambodia, Lao PDR, Myanmar, Thailand, and Vietnam. The 1<sup>st</sup> meeting was held in November 2000, more than two decades ago, and the Vientiane Declaration on MGC, which covers cooperation in tourism, culture, education, and transport, was issued.

Important decisions regarding connectivity in trade and investments:

- The 6<sup>th</sup> meeting (2012) took note of matters related to the extension of the India–Myanmar–Thailand Trilateral Highway to Cambodia and Lao PDR, and to the new proposal for the development of an India–Myanmar–Lao PDR–Viet Nam–Cambodia highway.
- The 8<sup>th</sup> Meeting (2017) agreed to establish MGC Joint Working Group to explore ways to enhance maritime cargo transportation and land connectivity amongst MGC countries, including the extension of the Trilateral Highway into Cambodia, Laos, and Vietnam, as well as connecting the East-West Economic Corridor and the Southern Coastal Economic Corridor with the Indian subcontinent. The ministers recalled the offer of a US \$1 billion concessional Line of Credit for enhancing connectivity, made by the Prime Minister of India in November 2015.
- The 10<sup>th</sup> meeting (2019) appreciated India's pledge of INR 5 billion (equivalent to USD 72.5 million) under a Project Development Fund to facilitate Indian investments in Cambodia, Lao PDR, Myanmar, and Vietnam.

## Appendix 15

### Major seaports used for India and Myanmar bilateral trade (as of 2020)



Source: Directorate General of Commercial Intelligence and Statistics (DGCI&S).

Note 1: The seaports which are used are marked in brown.



## Appendix 16

### A roadmap of JICA projects in India's eastern neighbourhood, 2018

c. The 19 regional road corridors identified by JICA around Bhutan, Bangladesh, East India, Myanmar, and Nepal



d. The 14 regional railway corridors identified by JICA around Bhutan, Bangladesh, East India, Myanmar, and Nepal



Source: The WEB of Transport Corridors in South Asia, The World Bank and ADB, 2018.

## Appendix 17

### GDP and Trade in Goods & Services (Larger Asian Economies)

	GDP PPP tn USD 2022	GDP PPP tn USD 2027	Goods IM bn USD 2022	Goods EX bn USD 2022	Services IM bn USD 2022	Services EX bn USD 2022
<b>China</b>	30	42.1	2678	3347	461	369
<b>India</b>	12	17.9	725	458	177	309
<b>Japan</b>	6	7.2	869	752	211	169
<b>Indonesia</b>	4	5.8	230	293	43	23
<b>South Korea</b>	3	3.5	675	690	136	130
<b>Thailand</b>	1.5	2.0	272	285	63	38
<b>Vietnam</b>	1.3	2.0	346	371	26	13
<b>Philippines</b>	1.2	1.7	127	58	25	41
<b>Malaysia</b>	1.1	1.5	239	281	45	31
<b>Singapore</b>	0.7	0.9	443	580	259	291
<b>Rest of ASEAN</b>	0.5	0.6	48	45	5	3
<b>Total</b>	61.3	85.2	6652	7160	1451	1417

Source: IMF World Economic Outlook and World Bank Open Data.

*Rest of ASEAN consist of Brunei, Cambodia, Laos, and Myanmar*

PPP: Purchasing Power Parity

IM: Imports; EX: Exports; tn: trillion; bn: billion

## About the authors



**Jaimini Bhagwati** is a former Indian Foreign Service officer and a financial sector and derivatives specialist. He was appointed as India's High Commissioner to the United Kingdom in 2011. Prior to this appointment, Bhagwati was India's Ambassador to the European Union, Belgium, and Luxembourg. He was also Joint Secretary (Capital Markets and Pension Reforms) in the Ministry of Finance from 1999–2002 and served in the Department of Atomic Energy in the mid-1980s. He worked for a total of eleven years in the World Bank Treasury in Washington DC in two phases between 1991 and 2005 and his responsibilities included issuance of IBRD bonds and pricing of associated derivatives transactions.

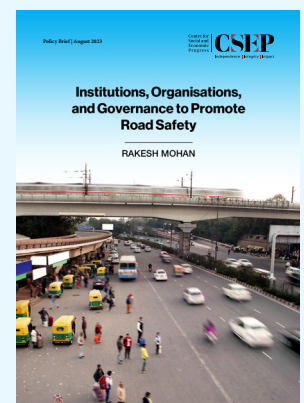
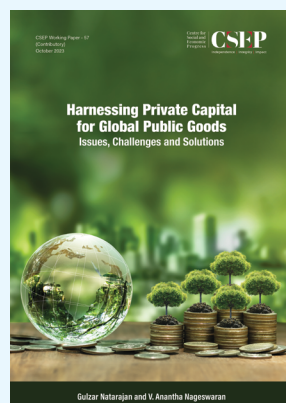
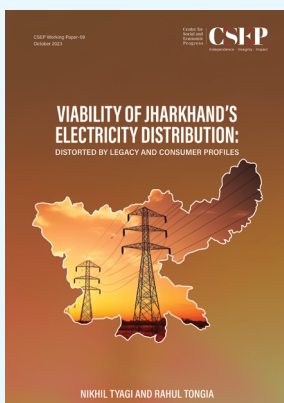
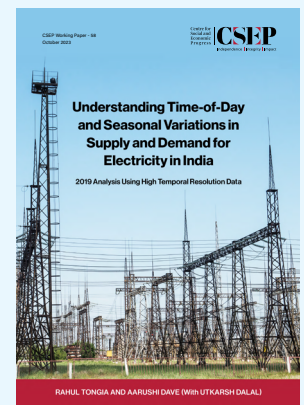
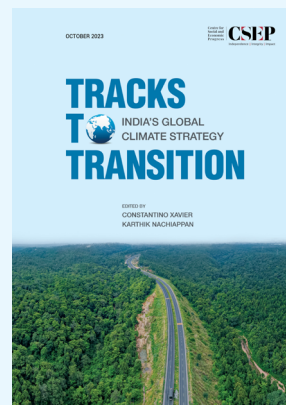
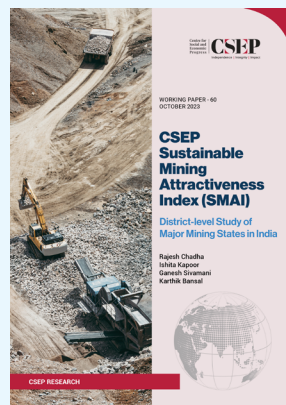
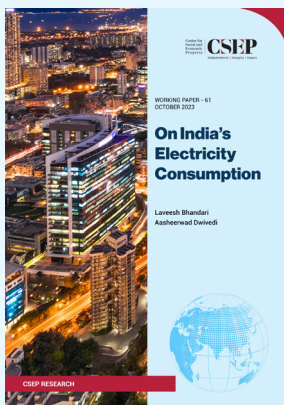
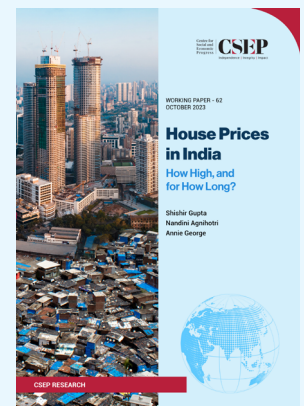
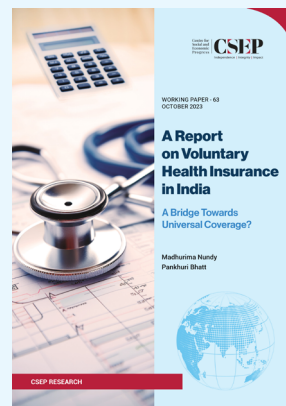
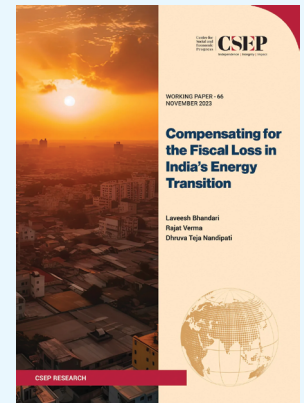
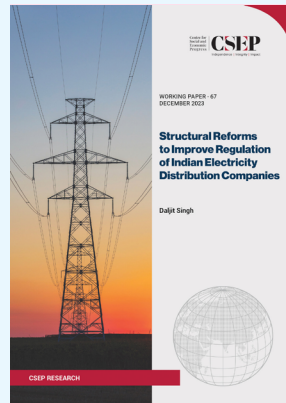
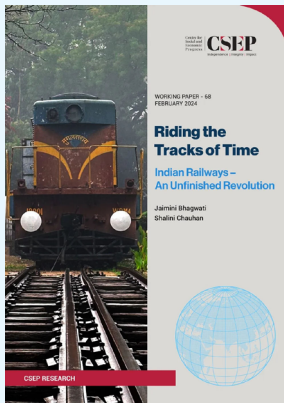
He was the Reserve Bank of India Chair Professor at the Indian Council for Research on International Economic Relations (ICRIER) from 2014 until 2018. He is currently a board member of the Infrastructure Development Finance Company (IDFC) Limited, IDFC First Bank and Apollo Tyres Ltd.

He has a Master's in Physics from St Stephen's college in Delhi and also holds a Master's in Finance from Massachusetts Institute of Technology (MIT) and a PhD from Tufts University. In 2019, he authored *The Promise of India: How Prime Ministers Nehru to Modi Shaped the Nation (1947–2019)*. He authored a monthly column in the Business Standard newspaper from 2005 till 2023.



**Bhavyanshi Sinha** has a master's degree in Economics from Jawaharlal Nehru University. She works as a research analyst at CSEP. Her passion lies in unraveling the intricate web of economic connectivity and institutional dynamics in South and East Asia. Her current project involves assessing the economic relations between India and her eastern facing neighbourhood, against the Chinese hegemony in the region.

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