

Crossroads of Power

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

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This study about India's relations with select bordering countries analyses economic and associated strategic aspects with the three South Asian Association for Regional Cooperation (SAARC) countries: Nepal, Bangladesh, and Bhutan, the Association of South East Asian Nations (ASEAN) member country Myanmar and China. If the military leadership in Myanmar were to be open to political liberalisation within the country, in due course it could become an efficient surface transportation route for Indian goods to higher per capita ASEAN countries such as Thailand, Malaysia, and Vietnam. As this is unlikely to happen any time soon, India needs to focus on developing those ports in India which would be able to handle higher freight tonnage via supplementary sea routes to ASEAN nations and further thereon to Japan and South Korea.

Sri Lanka has been excluded from this paper since India does not share a land border with that country. While India does have a long land border with Pakistan, the promotion of state sponsored Pakistani terrorism in India has meant that the usual norms for two-way trade including Most Favoured Nation (MFN) treatment and two-way investments are just not possible with that country.

By contrast, towards the East given India's geographical contiguity with Bangladesh and historically close relations, India-Bangladesh trade and investment relationship could grow considerably. In this context, 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. In 2023, the median age in Bangladesh was 27 years, considerably lower than that in France, Germany, and the Netherlands, which were 42, 48 and 43 years, respectively.

Large scale migrations have taken place in the past across Bengal, Bangladesh 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. In the distant past transportation routes for bulk cargo between India's north-east and today's Bangladesh were over rivers and more recently by rail during the British colonial era. For example, the Sadiya (Upper Assam) to Chittagong rail track, which enabled the movement of tea, jute and coal, was ready for use as far back as 1905. Although



Bangladesh is naturally careful not to be overdependent on India, some in that nation recognise the long-term potential for the two countries to benefit from higher levels of bilateral trade and investment. Consequently, Bangladesh may in time work with India to construct additional road, rail, and river-water linkages to the north-eastern states.

Sheikh Hasina was the Bangladesh Prime Minister for more than 14 years and was the longest-serving head of government in that country. 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 the United States State Department indicated that the elections were "not free and fair." Sheikh Hasina was to remain Prime Minister until 2029. By that time, she would be 81 years old and would have been in power for 19 years. The opposition to Sheikh Hasina was first led by students and the Jamaat and BNP. When this Working Paper was published by CSEP in February 2024, well before Sheikh Hasina sought refuge in India in August 2024, it was suggested that India needs to elevate its economic and security-related interactions with Bangladesh with urgency so that when a less India-friendly government inevitably takes over sound neighbourly relations would continue. Given the recent developments, India could find itself disadvantaged in its relations with Bangladesh even though it has had economic, social, linguistic, and religious ties with that country through the ages.

Given the strategic weight, as distinct from economic benefit that China gives to its Belt and Road Initiative (BRI) project, Bangladesh has chosen to participate in BRI perhaps to signal its foreign policy independence from India. As of 2022, Bangladesh's foreign exchange debt liabilities to China amounted to USD 4.7 Billion. 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.

The BIMSTEC region (Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka, and Thailand) is home to a long rail network totalling around 80,000 kilometres of route length and more than 130,000 kilometres of track length. It is sub-optimal in economic terms that rail transportation has been inadequately utilised within the region, as each national rail network operates independently.

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 Mangdechhu project was commissioned in 2019, and four other projects are at various stages of consideration. 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.

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/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. In this context, India needs to be sensitive about Nepal's sense of vulnerability as a land-locked nation.

Nepal's rivers flow down into Uttar Pradesh, Bihar and Bengal and there is considerable additional potential for transportation of goods over these rivers and generation of hydroelectricity. Nepal has chosen to reduce its dependence on India by developing economic relations with China. This was inevitable since the Chinese economy has outstripped that of India by far and China can now use its economic muscle to carve out greater strategic space for itself in Nepal.

Nepal, and for that matter, Bangladesh too, have concerns about greater Indian influence in their internal affairs. 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 strengthen its economic ties with the neighbouring countries covered in this study.

As compared to India, China has much higher levels of trade and investment ties with Myanmar. 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. The border trade between the two countries accounts for about 31 per cent of Myanmar's total border trade. As the world's largest importer of fossil fuels, China will probably import more oil and gas from neighbouring Myanmar.

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. 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 corresponding influence in 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. However, geography and shared socio-cultural history could help India in its relationships with immediate South Asian neighbours.

The continuing low level in India's bilateral relations with China has cast a strategically near insurmountable shadow over the promising prospects for trade and two-way foreign direct investment (FDI) between India and China.

Yet, currently China is the largest goods trade partner for India, surpassing India's total trade with other four countries covered in this study. This pattern of Chinese dominance in trade and possibly over time in foreign direct investment too for Bangladesh, Nepal, Bhutan and Myanmar is likely to continue unless India improves its surface connectivity with these four countries. India does not have the financial resources and the technical personnel to do this completely on its own. Consequently, India needs to coordinate its efforts with countries within the ASEAN grouping as also Japan and South-Korea to enhance economic and transportation linkages with its economically smaller neighbours to the north and east.

The longer-term strategic differences between democratic India and communist China, of which the border issue in the Himalayas is a symptom, suggest that trade and investment between these two Asian giants would remain well below potential for a long time. Currently, India cannot compete directly with China even in its immediate neighbourhood in terms of financial grants or investments. It follows that India needs to invest additional political and financial capital, with the support of Japan and South Korea, to widen and strengthen its overall economic and surface transportation linkages with Bangladesh, Nepal, Bhutan and Myanmar.

Key Takeaways

India's bilateral relations with Bangladesh, Bhutan, Nepal, and Myanmar are somewhat reduced by rising economic ties of these countries with China. Despite geographical proximity, inadequate road, rail, and river waterway connections have constrained India's trading volumes with these neighbouring nations. Bangladesh's large and young population presents significant potential for higher levels of economic interaction with India. Hydropower cooperation forms the basis of India's relations with Bhutan and Nepal is seeking to rebalance its ties with India while enhancing those with China. Myanmar's chaotic political situation stands in the way of deeper overall ties with India. At the same time, China's financial-economic muscle including the Belt and Road Initiative are likely to enhance its foot-print in South Asia. And, India has financial constraints compared to China. Hence, collaboration with Japan, South Korea, and the ASEAN are necessary for India to increase economic linkages with its neighbours. Strengthening partnerships with its smaller neighbours is crucial in the context of India's strategic interests within South Asia.

About the authors



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