Rise of India and China: Perspective of Bangladesh

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Introduction

The impact of the rise of India and China on the global balance of power, the international system and the developed economies of the West has been highlighted by various studies on these issues. Less forthcoming has been academic work on the perceived repercussions for the non-industrialized nations, particularly the smaller countries of South Asia. Bangladesh is a neighbor to both these Asian giants and the implications of their rise is felt in the economic, political and foreign policy realms.

The divergence in the economic and political dynamics of China and India are often distorted due to their common association to the BRICS group of countries and comparisons based solely in terms of their meteoric increases in GDP. When undertaking an analysis of the implications for Bangladesh of the rise of India and China, it needs to be emphasized that the vast ideological, economic and political differences between these two countries result in distinctive modes and patterns of growth that result in varied repercussions for the smaller countries in South Asia. This chapter would aim to synthesize two broad categories of impact of the rise of India and China on Bangladesh:

a) The impact on the bilateral relationships with the two countries due to their sudden economic expansion and subsequent economic, political and foreign policy implications

b) The impact on the international system and the global balance of power of the rise of India and China with focus on the geopolitical implications for Bangladesh
The Chapter is divided into four main sections. Firstly it would provide a brief background on the relationship between Bangladesh and her two giant neighbours. This would be followed by an evaluation of the salient features of the economic and political implications of the rise of India and China on Bangladesh, with emphasis on the underlying causes of the similarities and differences between the two. Bangladesh’s opportunities and challenges in terms of aligning with one country or the other is undertaken followed by an exploration of how the country’s traditional foreign policy has been altered due to the rise of India and China.

**Bangladesh’s Relations with India and China**

India’s role in supporting Bangladesh during the Liberation War of 1971 has been greatly appreciated and acknowledged and formed the bedrock of a strong bilateral relationship between the two countries. Despite this great start, Bangladesh-India relations since August 1975 suffered greatly due to divergent perspectives and the failure to solve several outstanding bilateral issues. Historically, the key problems between India and Bangladesh have been the demarcation of the land and maritime boundaries, the sharing of waters of the 54 common rivers, the ever expanding bilateral trade deficits, a variety of security related issues, border management and transit, among others. Being the smaller country, Bangladesh has to depend on its larger and more powerful neighbour for its rightful share of some key resources. However, many years of a relationship characterized by mutual mistrust and suspicion between the two countries especially over the sharing of common resources, has given rise to a bilateral relationship where until recently no serious effort was made to resolve these long-standing problems.

Following decades of mistrust and mutual suspicion, Bangladesh and India witnessed a significant improvement in bi-lateral relations since the Awami League-led government assumed office in January 2009. Following the visits by Prime Minster Sheikh Hasina to India in January 2010 and the Indian Prime Minister Dr. Manmohan Singh to Bangladesh in September
of 2011, a new chapter was opened in Indo-Bangladesh relations. However, although there has been a visible improvement in the over all relations between the two countries and some important agreements have been signed, some crucial problems still remain to be resolved. To mention a few, while agreements on the demarcation of the land boundary and the exchange of enclaves was signed during the visit of the Indian Prime Minister, the agreement has still not been implemented; the water sharing agreement on the Teesta river is another such example. What has perhaps alienated public opinion in Bangladesh more than any thing else is that although there have been repeated assurances from the Indian side to stop the killing of Bangladeshis by the BSF on the border. On the plus side the cooperation on security related issues has improved significantly, as have trade and economic cooperation. There has also been an increase in Indian investments and cooperation in the energy sector is moving forward. The increase in Bangladesh’s exports to India is primarily due to the duty free access extended to garment exports from Bangladesh and the removal of some of the NTBs, although much more needs to be done in order to facilitate and provide greater access to the Indian market to Bangladesh exports.¹

China did not formally establish bilateral ties with Bangladesh until 1975, four years after the birth of Bangladesh. The bilateral relationship in the immediate post-independence period was plagued by the legacy of China’s role in the Liberation War, where it sided with Pakistan against Bangladesh. The strained relationship was further highlighted by the use of the veto by China in the Security Council to block Bangladesh’s entry into the United Nations in 1972. The establishment of diplomatic ties between Bangladesh and China in 1975 coincided with a shift in the foreign policy alignment of Dhaka from being a part of the Indo-Soviet Bloc, or perceived as such, in the early 1970s, to siding with China, Pakistan and the U.S. against India and the U.S.S.R. post August 1975.

Since the mid 1970s, China’s contribution to Bangladesh’s development in the form of economic aid, military assistance and infrastructure development has been a prominent feature of the bilateral relationship. In June 2010, Vice President Xi Jinping paid an official visit to

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Bangladesh during which nine agreements were signed including an agreement on capacity building of law enforcement agencies, telecommunications and the peaceful use of nuclear energy. In March 2010, Prime Minister Sheikh Hasina paid an official visit to China during which, the two sides issued a joint statement and decided to extend the cooperation between China and Bangladesh to cover agriculture, flood prevention, disaster reduction and culture, among other areas.²

Economic cooperation between the two countries has grown significantly during the past 35 years. Notwithstanding the very war and cordial relations between the two countries, free of any major irritants, Bangladesh’s increasing trade deficit with China has been raised by Bangladesh from time to time. Without question the single most important aspect of China-Bangladesh relations has been the extensive defence cooperation between the two countries. By the end of 1990, nearly 90% of the equipment used by the Bangladesh Armed Forces was provided by China on very special terms. The defence cooperation covered training and technical assistance and regular exchange of high level visits. China also earned goodwill by constructing on a grant basis, six China-Bangladesh friendship bridges since the 1980s with a seventh currently under construction. It also built a large conference centre in Dhaka.

**Economic, Political and Foreign Policy Implications**

This section aims to analyze the impact of the rise of India and China on three areas of economic and strategic importance to Bangladesh. While economic, political and foreign policy issues are interrelated, for the purpose of this paper, they will be examined separately.

**India-Bangladesh**

India is currently the second largest trading partner of Bangladesh and in 2009 the bilateral trade was 3.5 billion.³ Bangladesh’s trade with India is a significant factor in bilateral relations

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² ‘China and Bangladesh’, The Ministry of Foreign Affairs of the People’s Republic of China

but it may be argued that unlike the bilateral relationship with China, political and security issues have more often than not, dominated bilateral relations between the two countries.

One of the most important features of Bangladesh-India trade relations is the large trade imbalance, largely in India’s favour. Since the beginning of India’s economic liberalization in the 1990s, India’s exports to Bangladesh increased substantially. At the same time, Bangladesh’s exports to India, which were quite negligible in the 1990s have in relative terms, increased during the last two years to half a billion U.S. dollars. Nonetheless, Bangladesh’s trade deficit with India has been growing at almost 9.5 % annually. 4 The trade deficit between India and Bangladesh more than doubled in just five years, reflecting a galloping economic imbalance between the two close neighbours. The gap, which was $1,998.58 million in fiscal 2006-07, reached $4,057 million in 2010-11, according to data from the Bangladesh Bank and Export Promotion Bureau. Analysts blame the increasing trade imbalance on Bangladesh’s narrow export basket and India’s non-tariff barriers (NTBs).

Prior to the historic visit by Prime Minister Manmohan Singh to Dhaka in September 2011, India’s long ‘Sensitive List’ , a set of items which were prohibited from being imported from Bangladesh, had greatly restricted bilateral trade. Historically, India maintained a sensitive list of 431 items for Least Developed Countries (LDCs) and 848 items for non-LDCs under the South Asian Free Trade Agreement (SAFTA) for which no duty-free concession was given. One of the significant outcomes of the Indian Prime Minster’s visit was the announcement by the Indian government to remove all 46 textile lines, which are of interest to Bangladesh from India’s negative list. 5 This reduced the applicable duty rate to zero with immediate effect. In addition, in November 2011, India reduced the Sensitive List for the LDCs including Bangladesh to 25 tariff lines over the earlier 480. Thus, in recent times India has demonstrated her willingness to bolster trade with Bangladesh as well as other countries in South Asia. These steps however are very small in comparison to the efforts required to provide a significant boost to trade

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5 Joint Statement by Bangladesh and India 7 Sept 2011 Ministry of Foreign Affairs, Dhaka
between Bangladesh and India and regional trade in South Asia. A 2006 study by the World Bank has revealed that Bangladesh accounts for only 3% of India’s total exports and 0.01% of total imports.\(^6\)

The common perception as a result of such initiatives by India is that Bangladesh will benefit immensely from the removal of the 46 items from the negative list, particularly since readymade garments accounts for two-thirds of the country’s exports. However, wider analysis suggests that the trade imbalance between the two nations was largely due to the existence of non-tariff barriers that India imposed on Bangladeshi imports. Bangladeshi products still encounter about a dozen non-tariff barriers to the Indian market, which has hampered the expected pace of export growth, according to a study conducted by the Bangladesh High Commission in Delhi. According to this study, harsh testing requirements, complex harmonized code classifications, inadequate infrastructure, and special labeling requirements are among major non-tariff barriers imposed by Indian authorities which hamper Bangladeshi imports. The High Commission spoke to several businessmen and Indian officials, and came to the conclusion that the imposition of such non-tariff barriers has seriously hampered the potential of Bangladeshi exports to India. Analysts have stated that Bangladesh’s current exports to India would increase two to three-fold if these barriers were lifted.\(^7\)

The internal political dynamics of Bangladesh has been significantly affected by the emergence of India as a global power. The birth of Bangladesh as a free nation resulted in the balance of power in South Asia being significantly tilted in India’s favour and economic expansion further emphasized the importance of the ‘India Factor’ in domestic politics. Traditionally, the two major political parties in Bangladesh, the Awami League (AL) and the Bangladesh Nationalist Party (BNP) have held different policies on engagement with India. The current ruling collation, led by the Awami League, enjoys a more robust relationship with India, particularly with the Congress Party led coalition. Some very significant bilateral agreements including the Ganges Treaty was signed in December 1996, when the Awami League was in

\(^6\) The World Bank, “India and Bangladesh: Bilateral Trade”, Bangladesh Development Series paper no 13, Dhaka, December 2006
\(^7\) ‘Exports to India hard hit for non-tariff barriers’ The Independent, Dhaka, 3 November 2011
power. Historically the BNP’s relations with India, when it has been in power have been quite strained. In the past the BNP gave the impression that it was more friendly with Pakistan and felt it could count on China in the event of a show down with India. The BNP’s position today seems to have changed and it has made it known in recent months its intentions to maintain and develop friendly relations with India.

Traditionally, one of the most significant aspects of Bangladesh’s foreign policy has been her relations with India. Bangladesh’s close association with the Indo-Soviet bloc during the period 1971-1975 underwent a major transformation from August 15, 1975 following the assassination of Bangabandhu Sheikh Mujibur Rahman. This shift in foreign policy focused on how to counter and confront India rather than on co-existence; it relied heavily on building special relations with China, Pakistan, the U.S. and Saudi Arabia. Currently, the signing of the water sharing agreement on the Teesta, implementing the Land Boundary Agreement, including the exchange of enclaves and moving forward on all aspects of connectivity, covering Nepal, Bhutan and the North East remain at the top of the bilateral agenda. The outlook for co-operation on economic, trade and investment can be described as positive and encouraging. Co-operation on security issues and counter-terrorism is working well. However, both sides need to ensure that the border remains peaceful and that no more lives are lost in border shooting incidents. As India’s role as a regional and global super power gains traction, Bangladesh’s foreign policy efforts are expected to continue to develop stronger ties with India as part of a wider effort to engage the countries of South Asia and the world.

**China-Bangladesh**

Currently China is Bangladesh’s largest trading partner and in 2009, bilateral trade exceeded US$ 4.58 billion. Throughout the 1980s and 1990s, Bangladesh’s trade with China has increased significantly.

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8. *Bi-Later Economic Commercial Relations*, Bangladesh Embassy in China
China replaced India as Bangladesh’s largest trading partner in 2006. Bangladeshi companies are interested in importing goods from China due to a wider range of products as well as more attractive prices, easy trade procedures, lesser time taken in the shipment of goods; China usually sends its products to Bangladesh within 25 days on average by completing all the formalities while import from India takes 35 days. Chinese products are also believed to be cheaper compared to those of India and in many cases of better quality.  

As with India, Bangladesh’s large trade deficit with China has gained increasing attention in Bangladesh. According to the Export Promotion Bureau (EPB), in 2010 Bangladesh exported goods worth $319 million to China while it imported goods worth $5.91 billion. A huge trade imbalance of around $5.6 billion exists between the two countries. So far, China offered zero-tariff facility to 95 per cent products of the least developed countries (LDC) since July 2010 which may further be increased to 97 per cent under the Hong Kong declaration of the Doha Round under the World Trade Organization (WTO).\textsuperscript{10} Bangladesh’s narrow export basket, along with the lack of knowledge about preferences of Chinese consumers has been cited as the reason for the low level of Bangladesh’s exports to China. In addition, some analysts have claimed that the language barrier creates some hindrances to smooth business transactions and robust growth in trade. Although Bangladesh’s labour cost is significantly lower than China’s, the lack of adequate communication infrastructure, political instability as well as the severe energy crisis, have hindered Chinese investment in the country. Currently there is no Export Processing Zone for China although Bangladesh has offered such facilities to other countries.

The highlight of Bangladesh’s bilateral relationship with China would be the latter country’s active investment in infrastructure development. China has so far contributed to the construction of seven Bangladesh-China friendship bridges all over the country. These gestures are further enhanced through regular political and cultural exchanges. China is also


Bangladesh’s largest military supplier and accounts for 80% by value of Bangladesh’s military purchases since 2005, including providing F-7 fighter aircraft. 11

It would be pertinent to say that unlike the divergence in their approach to India, the political parties of Bangladesh have a more or less stable relationship with China. The AL and BNP enjoy quite amicable relations with China, although the BNP believes it is closer to China than the AL. Although differences exist between perceptions of interacting with China among various domestic political actors, changes in administration have resulted in only some minor ups and downs in the bilateral relationship with each change of government. Due to the lack of contentious bilateral issues other than the trade deficit, Bangladesh and China relations do not have as large an impact on domestic politics, as is the case with India. However, as the Chinese economy becomes larger and more powerful, its significant contribution to infrastructure development and military capabilities of Bangladesh is likely to have an expanding impact on any assessment of Bangladesh’s national security priorities and perspectives.

Since establishing ties in 1975, Bangladesh’s foreign policy with China has been heavily dominated by the defence cooperation between the two countries; although in recent years economic, connectivity and trade issues have featured prominently. In regard to connectivity, China’s initiative is to be more actively involved in SAARC and in South Asia; the Kunming Initiative which seeks to promote a new sub-regional grouping linking the Yunnan Province, Myanmar, North East India and Bangladesh together, has figured prominently in Sino-Bangladesh relations. The landlocked Yunnan province of China seeks greater economic engagement with Bangladesh including access to the Bay of Bengal. Both Beijing and Dhaka have been negotiating a number of mega infrastructure projects, notably highway and railway networks, connecting Chittagong and Kunming through Myanmar. Despite the growing relationship between the two countries, the absence of a well defined programme of public diplomacy on either side, has meant that knowledge about China in Bangladesh is rather limited and vice versa. As China develops into a global power Bangladesh should develop a policy based on improving cultural, educational and tourism co-operation between the two countries. There needs to be more people to people contact.

The economic, political and foreign policy implications for Bangladesh of the rise of China and India are vastly different from each other. Historically in South Asia, political issues have taken precedence over economic imperatives. It can be stated that in the near future, political, cultural and historical factors would have less significance in determining economic relations between Bangladesh and the two Asian Giants and this would predominantly be influenced by comparative advantages the country can derive from trading with each of them. In addition to the economic aspect of price comparison, several non-economic factors such as non-tariff barriers, transport infrastructure and the ease with which customs clearances and visas can be issued would also play a role in determining the future of economic relations. On the political side, although some differences may remain between the AL and BNP on which country to engage with more closely, it can be assumed that this will be more in the realm of form rather than substance. Both these parties today recognize the importance of maintaining good relations with both India and China and that this does not have to be an either or situation. It can also be stated that whereas in the past relations with Pakistan had a major impact on bilateral relations with India, this is no longer the case. However, the U.S.’s long term relations with India and China, could certainly have an impact on Bangladesh’s relations with both these countries.

**Opportunities and Challenges of Aligning with India or China**

China is India’s largest trading partner and bilateral trade between the two countries exceeded 60 Billion in 2010.\(^\text{12}\) Cooperation has also taken place through cultural and educational exchanges, science and technology collaboration as well as joint military exercises. Despite this, the competition for economic growth and political and military influence between the two countries has given rise to tensions that have often spilled over in the form of border disputes as well as belligerent foreign policy initiatives. Pyle (2011) has stated that historically, the rise of great powers has often resulted in conflicts and confrontation.\(^\text{13}\) Given the contrasting scenario

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of conflict and cooperation between India and China, it would be useful to analyze how best Bangladesh should respond to these opportunities and challenges.

**Economy**

During the last 30 years, China has demonstrated average real growth in excess of 9% annually with growth rates touching 13% and 14% in peak years. The Chinese economy is now the second largest in the world and is predicted to overtake the United States in the near future. The Indian economy, although far behind China’s, has grown at 7.5% during the first decade of this century, enabling a doubling of per capita income every decade and is the fourth largest economy in the world when measured by purchasing power parity. The continuing acceleration of economic power is likely to position China and India among the top three economies internationally by the year 2050.

From Bangladesh’s perspective the close geographical proximity to India presents Bangladesh with an obvious advantage of expanding its trade with that country. Communication is also much easier with Indian businessmen due to commonalities in language and culture. Despite this, Indian exports to Bangladesh have registered a continuous decline. In 1991 India’s exports as a percentage of China’s exports to Bangladesh were more than 150 per cent, but by the end of 2010 they had decreased to 30 per cent. Given the similarity in the export baskets of China and India to Bangladesh, Chinese exports are seen to be replacing Indian exports.¹⁴ Despite some progress made through the reduction of negative lists by the Indian Government in 2011, non-tariff barriers, poor infrastructure and stringent customs practices have hampered India-Bangladesh trade relations. As a result China is currently Bangladesh’s largest trading partner. It should be recognized that Bangladesh has large trade deficits with both countries and this has been an issue of concern. From Bangladesh’s perspective, it would like to continue its robust economic cooperation with China while taking all possible measures to further enhance India-Bangladesh trade. Improving the trade deficit with both countries would be a top priority and Bangladesh would seek the active cooperation

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of India and China in identifying the demands in their respective countries for Bangladeshi products as well as technical cooperation and infrastructure development.

**Foreign Policy**

China is a communist country governed by the Communist Party of China, the only political party of significance in the country. Since 1978, China has been implementing free trade and capitalist-based business models that have resulted in it being the second largest economy in the world. India, by comparison, is the world’s largest democracy, but with a federal system of governance. The dominance of central power that is a common feature of China is in direct contrast to the comparatively weaker federal government of India with state governments playing a major role not only in domestic affairs but even in foreign policy. India follows a system of commerce that was previously based on the Soviet model and since 1991 it has been reforming itself to follow more free trade and capitalist-based models.

Bangladesh’s foreign policy has traditionally given great importance to India. This has been partly due to historical reasons, the large number of contentious issues as well as geographic proximity. Despite this, China’s importance in the foreign policy realm of Bangladesh is slowly but steadily increasing. High level state visits by China and Bangladesh as well as cultural exchanges is slowly broadening the scope of a relationship that has primarily been based on defence and economic co-operation. From Bangladesh’s perspective, the bilateral relationship with India is based on history and culture and cannot and should not be undermined. Despite this, perennial disputes and what is perceived as a lack of interest from the Indian side to solve these issues quickly and amicably, notwithstanding the recent progress made in trade and in other area, the lack of a public diplomacy and an en effective communication strategy has resulted in public opinion in Bangladesh believing that India has not adequately compensated Bangladesh for the concessions it has made or is willing to make. In contrast Bangladesh does not have any outstanding bilateral problems with China and her support and encouragement for the improvement of Bangladesh-India ties has been appreciated in Dhaka. Overall India will continue to be Bangladesh’s primary interlocutor in
foreign relations but in the absence of active and robust cooperation and to diversify its foreign policy approach Bangladesh will continue to build on its current relations with China.

Security

India is without doubt one of, if not the most significant partner of Bangladesh on security issues. A range of non-traditional security issues, including terrorism, affects both these countries. Currently, India and Bangladesh have achieved great success in counter-terrorism cooperation. Despite this, cooperation on other non-traditional security issues remains negligible. Bangladesh’s biggest security priority is to engage with India in order to mitigate some of these security threats. China on the other hand is Bangladesh’s largest supplier of military hardware. The recent military exchanges and visits by senior officials of intelligence agencies have greatly improved the scope and depth of security cooperation between Bangladesh and China. Although Bangladesh would like to seek China’s help and assistance in building the capacity of the state’s security apparatus, India continues to be Bangladesh’s most significant partner on security issues.

The Rise of India and China and Impact on the Foreign Policy of Bangladesh

The preceding sections measured the changes to Bangladesh’s national interests arising from the rise of India and China from a bilateral perspective. This section aims to measure the changes to foreign policy arising out of changes to the international system brought about by the rise of these two countries.

The rise of China and India is set to change the existing World Order by altering the global balance of power. The rise of these two countries is driving strategic interests and policies in Asia and the world. As the dominance of these two countries begins to grow and the influence of the traditional Western superpowers begins to wane, the geopolitical implications of this change are increasingly being felt by the smaller Asian countries. Prior to 1975, Bangladesh’s foreign
policy was limited to close interaction with India and the Soviet Union. This was followed by an opening up of diplomatic initiatives that included interaction with some major forces of global powers including China, the U.S. as well as a host of countries in the Middle East. Following this drastic change, Bangladesh’s foreign policy initiatives have been more or less consistent by following a foreign policy aimed at ensuring its national sovereignty and obtaining support through investment and aid for its fast developing economy.

Bangladesh’s relationship with India has always been close but India’s emergence as a global power has made Bangladesh’s diplomats even more determined to have a robust relationship with New Delhi. This is evident in Bangladesh’s active role in addressing India’s security concerns that has been acknowledged by the Prime Minister of India.

However, the rise of India also poses some significant foreign policy challenges for Bangladesh. As India emerges as a global power and its economic ties deepen with Western, countries as well as developing countries, current trends suggest that the current focus of India on its Look East Policy would gain further traction. Therefore, in addition to the obvious repercussion of reaping economic benefits, one of the less apparent implications of the rise of India on Bangladesh has been and may continue to be a lack of interest in resolving longstanding disputes. Therefore greater initiatives are required by both countries to replace the acrimonies and contentious relationship of the past with a relationship based on mutual benefit.

Since establishing formal ties in 1975, Sino-Bangladesh relations have been marked by robust trade, expanding defence co-operation infrastructure development by the Chinese and cultural and political exchanges. Chinese interest in Bangladesh has often been interpreted by Indian and Western analysts as part of Beijing’s “String of Pearls” strategy in South Asia. Although this theory of Chinese encirclement of India has garnered much attention and hype, from Bangladesh’s perspective, although it is not oblivious of the geopolitical undertones of China’s cooperation, the bilateral relationship is based on mutual benefit and comparative advantages in trade and technology. As China is set to become the largest economy in the world, Bangladesh’s foreign policy has realized the importance of maintaining stable bilateral
relations. This is proven by the fact that the nature of the political party in power does not have much of an impact on Bangladesh-China ties that has enjoyed relative consistency for 37 years.

The main concern that Bangladesh has regarding the rise of India and China is the potential for a conflict between the two countries. As a developing nation that is quickly realizing its goal of being a middle-income country, Bangladesh would like to exploit the economic and political opportunities provided by the rise of both countries but do not wish to be used as a proxy by either. In other words, Bangladesh believes it would benefit greatly through the peaceful rise of India and China and does not want to take sides on political or other disputes between the two.

Overall, Bangladesh has a lot to gain from the rise of India and China. It believes it has an important role to play in engaging both countries in terms of trade through active foreign policy initiatives. Bangladesh believes that is should be given the opportunity to contribute to the remarkable rise of these two Asian Giants.