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# **Topic : India-Bangladesh Economic & Trade Relations in the 21st century**

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## **Abstract:**

This paper examines the complex and multifaceted relationship between India and Bangladesh in the 21st century. As two of South Asia's most interconnected nations, their relationship holds profound significance for regional stability and prosperity. Through a comprehensive analysis of political, economic, security, and cultural dimensions, this study highlights key milestones while identifying persistent challenges in bilateral relations. Using qualitative research methods and contemporary data, this paper demonstrates how recent political transitions in Bangladesh, China's growing influence, and unresolved water-sharing disputes impact this critical partnership. It concludes with actionable policy recommendations aimed at recalibrating bilateral ties to foster mutual trust and equitable cooperation.

## **Key Words :**

- India – Bangladesh Economic & Trade Relations
- Establishment of Diplomatic Relations
- SAARC (South Asian Association for Regional Cooperation)
- BIMSTEC
- China Factor & Influence

## **Introduction :**

India and Bangladesh share one of South Asia's most consequential bilateral relationships, characterized by deep historical ties, geographical proximity, and mutual strategic interests. Their relationship forms a cornerstone of regional stability and integration in South Asia, with its trajectory significantly influencing broader geopolitical dynamics.

The evolution of this partnership has been shaped by pivotal historical events, most notably India's decisive role in Bangladesh's Liberation War of 1971, which established the foundation for enduring bilateral ties. In the 21st century, India's engagement with Bangladesh has been fundamentally shaped by two complementary foreign policy frameworks: the "Neighborhood First" policy and the "Act East" policy.

The "Neighborhood First" policy, which officially emerged in 2008 but has been a guiding principle of India's foreign policy since independence, prioritizes improving relations with immediate neighbors as essential for

regional peace and development. This approach emphasizes dialogue, resolution of bilateral issues through mutual agreement, and enhancing regional connectivity<sup>1</sup>. Under Prime Minister Narendra Modi's administration, this policy has gained renewed emphasis through active regional diplomacy and concrete development initiatives across South Asia. While significant progress has been achieved in many areas, challenges persist in the form of water-sharing disputes, border management issues, and regional power dynamics, particularly with China's growing influence in South Asia. As both nations navigate these complex dynamics, their ability to address mutual concerns while leveraging shared opportunities will determine the future trajectory of this crucial relationship in the ever-evolving geopolitical landscape of South Asia.

## **Research Methodology**

Here, the Research paper includes, The qualitative component involves historical and content analysis of official documents, high-level statements, and expert commentaries. The quantitative component examines trade statistics, infrastructure investment data, and economic indicators to capture the evolution of bilateral ties and regional connectivity.

- **Primary Data:**

**Interviews and Expert Consultations:** Views of policymakers, diplomats, and regional experts (e.g., representatives from the Ministry of External Affairs and think tanks such as ORF) will provide insights into the dynamics of India–Bangladesh relations.

**Official Statements and Press Releases:** Data will be collected from official websites (MEA, government portals) and international organizations to capture recent developments, agreements, and summit outcomes.

- **Secondary Data:**

**Academic Journals and Books:** Literature on regional integration, bilateral relations, and historical analyses will be reviewed to form a theoretical base.

**Media Reports and Expert Briefs:** Reputable media outlets and expert research briefs from Observer Research Foundation (ORF) provide contextual and updated perspectives on evolving issues.

## **Research Questions & Objective**

- 1) To Assess Political and Diplomatic Engagements & Evaluation of Contemporary Economic and Trade Relations & Evaluate Role of Regional Organizations,

Economic and Trade Relations: What are the key drivers and impediments to economic and trade cooperation between India and Bangladesh?

- 2) Role of Regional Organizations: How effective have regional organizations like SAARC and BIMSTEC been in promoting cooperation between India and Bangladesh

## **I) Historical Background :**

### Pre-1971 Relations

The shared history of India and Bangladesh dates back centuries, with cultural and economic linkages flourishing during the pre-colonial era. During British colonial rule, both regions were administratively connected, with Calcutta (now Kolkata) serving as the capital of British India until 1911. The Partition of 1947 created East Pakistan (present-day Bangladesh), leading to significant demographic changes and political challenges in the region.

### 1971 Liberation War and India's Role

India played a pivotal role in Bangladesh's liberation war against Pakistan in 1971. Following widespread atrocities by Pakistani forces, India provided military, diplomatic, and humanitarian support to the Bangladeshi freedom fighters, culminating in decisive military intervention. This support led to the emergence of an independent Bangladesh and established the foundation for strong bilateral ties.

### Establishment of Diplomatic Relations

Following Bangladesh's independence, India became one of the first countries to establish diplomatic relations with the new nation. The India-Bangladesh Treaty of Friendship, Cooperation and Peace, signed in 1972, formalized this relationship and outlined frameworks for cooperation across multiple domains.

## **II) Literature Review :**

### ***1. Historical Perspectives and Evolution***

Early studies highlight that the India–Bangladesh relationship is deeply rooted in a shared colonial past and pivotal events such as the 1971 Liberation War. Scholars note that India's military intervention and the subsequent formal recognition of Bangladesh laid the foundation for long-term bilateral ties, while also embedding complex historical memories in both societies (Ministry of External Affairs, Government of India, 2020 ). Historical analyses emphasize the significance of milestones like the 1972 Treaty of Friendship and the 2015 Land Boundary Agreement, which resolved decades-long border disputes and helped set a cooperative agenda (Reuters, 2015 )

## ***2. Economic and Trade Dimensions***

A substantial body of literature examines the economic interdependence between the two nations. Quantitative analyses reveal that bilateral trade has shown significant growth—from approximately US\$7–9 billion in fiscal years 2017–18 to over US\$10 billion in 2018–19 (The Business Standard, 2021). Researchers argue that India’s financial support, including nearly \$7.86 billion extended through Lines of Credit, has been instrumental in funding major infrastructure projects and energy initiatives that promote connectivity (MEA Dashboard, 2021). Furthermore, studies highlight the positive impact of initiatives such as the BBIN framework on fostering regional economic integration and reducing trade barriers (ORF Issue Briefs, 2023 ).

## ***3. Diplomatic Engagements and Political Dynamics***

Diplomatic literature emphasizes the evolution of high-level interactions and strategic orientations underlying bilateral engagements. India’s “Neighbourhood First” and “Act East” policies have been repeatedly cited as driving forces behind recent state visits and comprehensive agreements (Hindustan Times, 2015 ).

Nonetheless, scholars also highlight ongoing challenges, such as water-sharing disputes (e.g., over the Teesta River) and domestic political controversies, which continue to shape perceptions and impact bilateral cooperation (Reuters, 2015)

Recent literature increasingly focuses on the role of regional organizations in mediating and enhancing bilateral ties. Although SAARC was originally conceived to foster regional cooperation among South Asian nations, its effectiveness has been hampered by persistent bilateral tensions—especially those involving India and Pakistan (Bhattacharjee, 2018 ).

In contrast, BIMSTEC is portrayed as a dynamic platform that not only complements SAARC but also bridges South Asia with Southeast Asia. Studies note that BIMSTEC’s flexible framework has allowed member states to pursue targeted initiatives in sectors such as energy, transport, and digital connectivity, thereby creating a more conducive environment for regional cooperation (ORF Issue Briefs, 2022)

### **Political and Diplomatic Relations**

Both India & Bangladesh have marked Historic visits of Prime Minister Narendra Modi’s state visit to Bangladesh in 2015 was a landmark moment in bilateral relations. The visit culminated in the signing of the Land Boundary Agreement (LBA), resolving a decades-long border dispute involving 162 enclaves. This agreement was hailed as a model for peaceful dispute resolution globally.

In March 2021, Prime Minister Modi visited Dhaka to celebrate the Golden Jubilee of Bangladesh's Independence, the Birth Centenary of Bangabandhu Sheikh Mujibur Rahman, and the 50th anniversary of India-Bangladesh diplomatic relations. This visit underscored the historical significance of their partnership.

#### Recent Engagements:

In September 2023, during Sheikh Hasina's visit to India for the G20 Summit, both leaders signed seven agreements spanning areas such as water resources, defense, culture, and education. A significant highlight was the finalization of an MoU for a coastal surveillance radar system in Bangladesh to enhance maritime security. In November 2023, Modi and Hasina virtually inaugurated key infrastructure projects, including the Akhaura-Agartala rail link and Unit II of the Maitree Super Thermal Power Plant.

### **Economic and Trade Relations**

India and Bangladesh share a robust economic partnership that has grown significantly over the past two decades. As South Asia's largest trading partners, their economic ties are marked by strong bilateral trade, infrastructure development, energy cooperation, and connectivity initiatives. This relationship is not only vital for their respective national economies but also for regional integration and stability.

#### **Bilateral Trade Volume Growth:**

Bilateral trade between India and Bangladesh has seen remarkable growth, increasing from \$7–9 billion in FY 2017–18 to over \$10 billion in FY 2018–19. By FY 2022–23, this figure had surged to \$14.22 billion, with India exporting goods worth \$12.2 billion and importing \$2.02 billion from Bangladesh. Key Indian exports to Bangladesh include cotton (\$1.02 billion), petroleum products (\$816 million), cereals (\$556 million), and textiles (\$541 million). On the other hand, India imports ready-made garments (RMG) made from cotton (\$510 million), spices (\$125 million), and jute (\$103 million) from Bangladesh.

#### Ready-Made Garments (RMG) Sector:

The RMG sector constitutes 56% of Bangladesh's total exports to India, making it a vital component of bilateral trade. India supplies raw materials like cotton and yarn to support Bangladesh's textile industry, while importing finished garments.

#### Energy Cooperation:

Energy trade is a cornerstone of economic ties. India exports over 1,160 MW of electricity to Bangladesh through cross-border grids. Major projects like the Maitree Super Thermal Power Plant (1320 MW) in Rampal and the Rooppur Nuclear Power Plant, where Indian companies provide technical support, highlight the deepening energy collaboration

#### Infrastructure Projects:

Key projects funded under these LOCs include the construction of the Akhaura-Agartala rail link, modernization of Mongla Port, and development of water treatment plants in Khulna. The recently inaugurated Akhaura-Agartala rail link (November 2023) enhances connectivity between India's Northeast and Bangladesh

### **Role of Regional Organizations**

India and Bangladesh engage with regional organizations as strategic platforms for multi-faceted cooperation, addressing shared challenges and advancing mutual interests. The South Asian Association for Regional Cooperation (SAARC) and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) are particularly significant, albeit with varying degrees of effectiveness

#### **SAARC:**

- **Formation and Objectives:** Established in 1985 to promote economic growth, social progress, and cultural development in South Asia.

Key objectives include cooperation in agriculture, rural development, education, health, trade, and technology.

- **Limitations:**

Effectiveness is undermined by persistent India-Pakistan tensions.

Charter restrictions preclude discussions on contentious bilateral issues, limiting its capacity for dispute resolution.

- **India-Bangladesh Engagement:**

Limited use for addressing shared concerns like climate change and disaster preparedness. Both nations increasingly view BIMSTEC as a more effective framework.

## **BIMSTEC: Enhanced Connectivity and Economic Synergies**

- **Formation and Objectives:**

Established in 1997 to foster cooperation between South and Southeast Asia. Focuses on 14 priority sectors, including trade, investment, energy, connectivity, technology, and counterterrorism.

BIMSTC has become a more effective and action-oriented platform for India and Bangladesh compared to SAARC. It connects South Asia and Southeast Asia and focuses on sector-based cooperation such as trade, transport, energy, and technology. The presence of the BIMSTC Secretariat in Dhaka has further anchored Bangladesh's central role in the organization and created a structured channel for enhancing bilateral cooperation with India.

- **Economic Potential:**

BIMSTEC region has a combined GDP of approximately US\$3.71 trillion (as of 2025). Bangladesh's intra-BIMSTEC trade share is ~11.55%, exceeding its intra-SAARC trade share of ~5%.

Under BIMSTC, trade between India and Bangladesh has witnessed steady growth. India's exports to Bangladesh have expanded significantly over the years, while Bangladesh's exports to India have also crossed the billion-dollar mark. BIMSTC's focus on trade facilitation, customs cooperation, and logistics has enabled smoother trade flows, making Bangladesh one of India's top trading partners within the grouping. The broader region's merchandise trade has also grown, highlighting BIMSTC's potential as a regional trade engine.

- **Achievements:**

Provides a viable alternative to SAARC, avoiding India-Pakistan tensions. Initiatives include the BIMSTEC Master Plan for Transport Connectivity (2022).

One of the major achievements of BIMSTEC in India–Bangladesh relations lies in the deepening of economic, trade, and infrastructure ties. Bilateral trade has grown substantially under BIMSTEC's trade facilitation initiatives, with India's exports to Bangladesh increasing steadily and Bangladesh crossing the billion-dollar mark in exports to India.

The framework has supported customs cooperation, harmonization of standards, and reduction of trade barriers, making cross-border commerce more efficient. In terms of infrastructure, BIMSTEC has enabled the revival and expansion of crucial transport links such as railways, road corridors, and inland waterways, enhancing both connectivity and economic integration. Projects like the reopening of old rail routes, modernization of border trade infrastructure, and development of multi-modal logistics hubs

have strengthened supply chains and facilitated regional movement of goods and people. These initiatives have collectively contributed to making India and Bangladesh more economically interdependent and regionally connected.

- **Strengthening BIMSTEC:**

Establish a permanent secretariat with greater financial resources. It Promotes cross-border infrastructure projects (railways, highways).

BIMSTEC has witnessed progressive institutional consolidation and functional strengthening, transitioning from a consultative forum to a more action-oriented regional organization. The establishment of a permanent Secretariat in Dhaka has enhanced bureaucratic coordination and policy continuity, while the allocation of sectoral leadership roles to member states has allowed for focused and decentralized implementation of cooperative agendas.

The adoption of the BIMSTEC Master Plan for Transport Connectivity and ongoing negotiations for a BIMSTEC Free Trade Agreement signal a strategic shift towards deepening regional economic integration and physical connectivity. Furthermore, the regular convening of ministerial meetings, technical working groups, and summits has institutionalized dialogue and fostered a results-based approach. Importantly, BIMSTEC's ability to insulate itself from bilateral political tensions—unlike SAARC—has contributed to its increasing relevance as a stable and pragmatic platform for subregional cooperation in trade, infrastructure, energy, and disaster management

### **Challenges in India-Bangladesh Relations**

Despite the deep historical, cultural, and economic ties between India and Bangladesh, several challenges persist in their bilateral relationship. These challenges are rooted in unresolved disputes, domestic political dynamics, and external geopolitical factors.

1. **Border Management:**

Despite the resolution of enclave disputes through the 2015 Land Boundary Agreement, border management remains a challenge. Incidents involving killings by India's Border Security Force (BSF) have strained relations, with over 1,200 Bangladeshi nationals reportedly killed between 2001 and 2020

## 2. Political Distrust:

Anti-India sentiments in Bangladesh have risen due to perceptions of unequal treatment in water-sharing agreements and incidents at the border.

Controversies surrounding India's Citizenship Amendment Act (CAA) and National Register of Citizens (NRC) have fueled fears in Bangladesh about potential deportations of undocumented migrants

## 3. Domestic Political Dynamics:

In India, opposition from state governments like West Bengal has complicated bilateral agreements on water sharing, particularly regarding the Teesta River.

In Bangladesh, political transitions—such as the interim government following Sheikh Hasina's departure in 2024—have introduced uncertainty into bilateral engagements.

## 4. China's Influence:

China's growing economic footprint in Bangladesh poses a strategic challenge for India. China is Bangladesh's largest trading partner and has pledged significant investments under its Belt and Road Initiative (BRI), including \$30 billion for infrastructure projects<sup>6</sup>.

The recent political transition in Bangladesh following Sheikh Hasina's departure on August 5, 2024, has introduced uncertainty regarding the future trajectory of bilateral relations and ongoing projects<sup>8</sup>. Mohammad Yunus's interim government faces the challenge of balancing domestic imperatives with international partnerships.

## **Future Prospects and Way Forward**

### **Strengthening Political Engagement**

India should engage with various political factions in Bangladesh to foster a more inclusive relationship rather than relying on ties with specific political entities<sup>5</sup>. A broader engagement with Bangladeshi civil society can help counteract negative perceptions of India and move beyond the liberation narrative of 1971

### **Economic and Connectivity Initiatives**

The upcoming Bharat Tex 2025, scheduled for February 14-17, 2025, in New Delhi, represents an opportunity to strengthen economic ties in the textile sector. Bangladeshi industry representatives have expressed confidence that greater economic engagement with India will open new growth avenues for Bangladesh's garment industry

Current connectivity projects should be maintained and new collaborations explored despite the political transition in Bangladesh. Digital connectivity corridors can enhance trade, technological exchange, and e-commerce.

### **Infrastructure Investments:**

India has extended approximately \$8 billion in Lines of Credit (LOC) to Bangladesh since 2016, primarily for infrastructure development in ports, railways, and roads.

### **Technology Transfer:**

Promote joint ventures in renewable energy, digital infrastructure, and artificial intelligence to support Bangladesh's "Smart Bangladesh Vision 2041."

Establish centers of excellence in technology and innovation to facilitate knowledge-sharing between Indian and Bangladeshi institutions.

### **BBIN Motor Vehicle Agreement:**

Expedite the implementation of the BBIN (Bangladesh-Bhutan-India-Nepal) Motor Vehicle Agreement to enable seamless cross-border transportation of goods and passengers.

Develop multimodal transport corridors integrating roadways, railways, and inland waterways for efficient regional trade.

### **Countering External Influence:**

Offer competitive alternatives to Chinese investments by accelerating Indian-led infrastructure projects in Bangladesh<sup>7</sup>.

Deepen defense cooperation through joint maritime patrols in the Bay of Bengal under BIMSTEC's security framework.

### **Conclusion:**

India-Bangladesh relations stand at a critical juncture in 2025, shaped by historical ties, contemporary challenges, and future possibilities. While significant progress has been made in areas like connectivity and economic cooperation, persistent issues such as water-sharing disputes and geopolitical competition with China require strategic approaches.

India-Bangladesh relations have evolved into a comprehensive partnership rooted in shared history, language, culture, and mutual economic and strategic interests. The bilateral relationship has matured, addressing long-standing issues such as the 2015 Land Boundary Agreement and maritime disputes, while also expanding cooperation in areas like trade, energy, connectivity, and defense. With Bangladesh emerging as India's largest trading partner in South Asia (bilateral trade reaching \$14 billion in FY 2022-23), and India extending over \$8 billion in Lines of Credit (LOCs) for infrastructure projects, the relationship exemplifies mutual economic interdependence .

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