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Bangladesh Crisis: Implications for India-Bangladesh Economic Ties

Amitendu Palit

Summary

Bangladesh's Prime Minister Hasina's resignation has plunged the country into a governance crisis. There are concerns in India over its implications for economic ties with Bangladesh. The concerns range across prospects for bilateral trade, Indian investments in Bangladesh and people-to-people connectivity.

Bangladesh's Prime Minister Sheikh Hasina resigned from office and fled her country on 5 August 2024. The unexpected development followed widespread student protests over job reservations and huge popular discontent with Hasina's policies and administration. An interim government, headed by eminent economist and Nobel Laureate Muhammad Yunus, has taken charge till fresh elections take place and a new government is sworn in.
The momentous developments are disruptive for the economy of a country struggling to cope with high inflation, decelerating export growth, fast depreciating currency and depleting foreign exchange reserves. They are also disruptive to economic relations with external partners, especially its largest neighbour, India.

Bangladesh is India's 25th largest trading partner. Within the South Asian region, it is India's largest export market. In the Fiscal Year (FY) 2023-24, India's exports to Bangladesh were US$11.1 billion (S$15.1 billion), much larger than US$7.1 billion(S$9.7 billion) to Nepal and US$4.1 billion (S$5.6 billion) to Sri Lanka. India exports a variety of items to Bangladesh – the most important ones being petroleum products and cotton yarn, followed by iron and steel, vehicle parts, machinery, food products, beverages and cereals.

Uncertainties over the ability of the interim government to ensure peace and stability and maintain normalcy in bilateral relations complicate the prospects of India's exports to Bangladesh. For some time now, Indian exporters to Bangladesh have been facing delays in payments due to a shortage of foreign exchange in the country. The situation might worsen in the aftermath of the crisis, reducing Bangladesh's ability to purchase imports. Furthermore, for India, tighter controls at borders and difficulties in the transportation of goods across land ports will imply additional costs for exporters. Costs will also increase for Indian importers of fish, jute and apparel from Bangladesh.

India should also be worried about the impact of the current developments on its businesses and investments in Bangladesh. The outbreak of the crisis has led to a decline in the stock value of several Indian companies that have strong business links with the country. These include prominent Indian firms like Asian Paints, Emami, Marico, Pearl Global Industries, Dabur, Bayer Group, Bajaj Auto and Tata Motors, among others. These businesses are worried about the prospects of their sales and revenues from Bangladesh. Similarly, Indian textile firms exporting cotton yarn to Bangladesh – a key upstream material for readymade garment and apparel supply chains – are worried about dysfunctionalities in supply chains.

India's Adani Group is a major exporter of electricity to Bangladesh. It has been supplying nearly 1,500 megawatts of power to Bangladesh for a little more than a year now. The sale is through a power purchase agreement between Adani Power and the Bangladesh Power Development Board. This landmark business initiative between India and Bangladesh took off under Hasina's watch. There are anxieties over whether the project will face critical scrutiny from a new government, especially since there were earlier concerns raised over the pricing of power.

Worries of Indian businesses over their Bangladesh operations, and the overall outlook for India-Bangladesh economic ties, are not limited to the general disruptive effects of the crisis. It is compounded by the anti-India sentiments conspicuous during the protests that led to the ouster of the prime minister. Popular discontent against Hasina has brushed off on India, given the close ties that she and her regime had with India.

The persistence of negative perceptions can be a stumbling block for people-to-people movements between India and Bangladesh, which generate a lot of economic activity. Bangladeshi tourists comprised more than 20 per cent of tourists to India for the first four months of 2024. Healthcare has been the biggest driver of such tourism in eastern India, especially West Bengal, which has a land border with Bangladesh, receiving large numbers of medical tourists from Bangladesh. New mobility constraints, including visa restrictions that might be brought on by the current situation, can be a big dampener for the movement of people.

Going forward, much will depend on how the interim government stabilises domestic conditions and ensures functionality in business and economic operations. The challenge of holding free and fair elections and bringing in a new government will follow thereafter.

It is imperative that the interim government ensures economic ties with major partners like India are as unaffected as possible. Deterioration in economic engagement with key external partners like India can widen existing macroeconomic fault lines. For India, on the other hand, an economically faltering Bangladesh is unwelcome news. It should make every effort to ensure that business between the two countries continues as usual.

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Dr Amitendu Palit is a Senior Research Fellow and Research Lead (Trade and Economics) at the Institute of South Asian Studies (ISAS), an autonomous research institute at the National University of Singapore (NUS). He can be contacted at isasap@nus.edu.sg. The author bears full responsibility for the facts cited and opinions expressed in this paper.

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