



### INDIA-BANGLADESH LOAN DEAL

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*(Views expressed in the brief are those of the author, and do not represent those of ISSI)*



**On October 4, 2017, Bangladesh and India signed a line of credit (LoC) agreement worth \$4.5 billion. The deal had already been announced several months before in April, when Prime Minister Sheikh Hasina Wajid was visiting India.**

This is the third such loan deal between the two countries in the recent past, and is expected to finance development projects in infrastructure and social sectors in Bangladesh, with a total of seventeen major projects in electricity, railroads, roads, shipping and ports announced as beneficiaries of the loan. As with the previous two deals signed in 2010 and 2016, this new agreement also commits Bangladesh to pay an interest rate of 1 percent every year, and gives it 20 years to repay the loan to India.<sup>1</sup> For both countries, these agreements and subsequent economic collaborations demonstrate increased interaction and partnership, and indicate India's growing clout in the region and interest in its immediate neighbor. The signing of the new deal was thus also an opportunity for the Finance Ministers from both countries to make statements expressing mutual support and friendship.<sup>2</sup>

Relations between Bangladesh and India have warmed significantly under the present political regimes in both countries, with the BJP government eager to play a greater leadership role in the region and developing better ties with Bangladesh as part of this strategy. A "major irritant" in bilateral ties was removed when in 2015, a "historic land border pact" was signed between New

<sup>1</sup> Haroon Habib, "Bangladesh signs \$4.5 bn loan deal with India," *The Hindu*, October 4, 2017. <http://www.thehindu.com/news/international/bangladesh-signs-usd-45-bn-loan-deal-with-india/article19795608.ece?homepage=true>

<sup>2</sup> Ibid.

Delhi and Dhaka, even though no breakthroughs have been made in long-standing water disputes between the two countries.<sup>3</sup>

While the third line of credit will enable Bangladesh to finance several projects, including in health and education, approximately \$1 billion is expected to be spent on infrastructure development for power evacuation facilities of the Rooppur Nuclear Power Plant.<sup>4</sup>

For all the expected development in Bangladesh, the conditions attached to the loan and several of the projects are likely to benefit India as well. Under the terms of the agreement, Bangladesh will have to purchase 65-75% of the goods, services and works to be utilized in its projects from India, which was also the precedent set by the previous two loan deals.<sup>5</sup> Moreover, the deal also sees India supporting the construction of several roads that will provide easier access to the ports of Chittagong and Mongla. Similarly, at least three of the planned projects involve the development of economic zones as Bangladesh is seeking to expand private investment, including investment by Indian companies. In fact, around \$100 million is expected to be spent for “building a dedicated economic zone spanning 1,005 acres in Mirsarai of Chittagong for the neighboring country’s investors – a move that has been hailed by Narendra Modi.”<sup>6</sup>

Despite the positive rhetoric surrounding the loan deals with India, it must also be recognized that there is opposition to growing Indian involvement in Bangladesh, specially from political opponents, since the current party in power, the Awami League, has traditionally been seen as being too close to India. Unsurprisingly, its primary opposition party, the BNP, has expressed dissatisfaction with the loan, saying that it will “not bring any good to Bangladesh.”<sup>7</sup> The conditions attached to the loan have been criticized severely, and the BNP leader Ruhul Kabir Rizvi has stressed that the strict conditions have not allowed any projects from the previous deals to move towards completion. Moreover, the period of 20 years for repayment of the loan is also seen as too short by the BNP, which is also severely critical of the lack of independence that Bangladesh is able to practice with these loans.<sup>8</sup>

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<sup>3</sup> “India woos Bangladesh with \$500m defence loan, credit”, *The Express Tribune*, April 9, 2017. <https://tribune.com.pk/story/1378899/india-woos-bangladesh-us500-mn-defence-loan-credit/>

<sup>4</sup> “\$4.5 bn credit deal signed with India,” *The Daily Star*, October 4, 2017. <http://www.thedailystar.net/business/45b-credit-deal-signed-india-bangladesh-1471396>

<sup>5</sup> Habib, “Bangladesh signs \$4.5 bn loan deal with India”

<sup>6</sup> “\$4.5 bn credit deal signed with India,” *The Daily Star*

<sup>7</sup> “BNP says third loan deal with India won’t do Bangladesh any good,” *BDNews24*, October 7, 2017. <https://bdnews24.com/politics/2017/10/07/bnp-says-third-loan-deal-with-india-won-t-do-bangladesh-any-good>

<sup>8</sup> Ibid.

Indeed, non-political analysts also fear that “local implementing agencies would have to take prior approvals from the Indian authorities to complete the procurement which they fear would delay execution of projects even further.”<sup>9</sup> Recent history only adds to this fear. The criticism over the signing of the new deal in the face of multiple delays in projects financed by previous deals appears to be quite significant. It is questioned whether there will be any quick action on the 22 pacts signed prior to this current deal, including cooperation on nuclear issues.<sup>10</sup> After all, only half a billion dollars (from the 2010 and 2016 totaling over three billion dollars) have been released in over seven years, and relevant ministries are being urged to address this situation. Questions are also being asked why a third loan was deemed necessary when even the Bangladesh Finance Minister has expressed his dissatisfaction over the “incredibly slow disbursement of loan with the first and second Indian Line of Credit”.<sup>11</sup>

Economic analysts have continued to criticize the dependence on India that Bangladesh is increasingly falling into, such as through conditions of using Indian supplies and services in the projects that are financed by the loan. As one analyst notes, “Our biggest next-door neighbor and also supposedly the closest ally has deliberately trapped us by forcing Bangladesh to surrender its financial interests in the most submissive manner.”<sup>12</sup>

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<sup>9</sup> “Loan deal with India mostly benefits India,” *The New Nation*, October 5, 2017.

<http://thedailynewnation.com/news/150044/loan-deal-with-india-mostly-benefits-india.html>

<sup>10</sup> Jayanth Jacob, “India announces \$5-billion line of credit to Bangladesh, 22 pacts signed,” *Hindustan Times*, April 8, 2017. <http://www.hindustantimes.com/india-news/india-announces-4-5bn-line-of-credit-to-bangladesh-22-pacts-signed/story-qExR2itHj3fAKsisPI3P7J.html>

<sup>11</sup> “Loan deal with India mostly benefits India,” *The New Nation*

<sup>12</sup> *Ibid.*