

India and Bangladesh finally reach accord promoting economic development

by Paul Zykofsky, New Delhi Bureau Chief

A few months ago a Bangladeshi diplomat confided to this reporter that there was a great deal of concern in Dhaka that relations with neighboring India might be headed for difficult times. The cause of concern was the November expiration of a five-year agreement for the sharing of the Ganges River waters at Farakka, 20 miles upstream of the point where the river enters Bangladesh.

However, the outcome of the visit to India of Bangladesh's Chief Martial Law Administrator General H. M. Ershad in early October, and subsequent economic discussions in mid-November have helped to set to rest these pessimistic expectations. An interim agreement on the Ganges water issue was reached, and both countries showed their determination to improve the strained relations of the past few years by strengthening economic ties between the two countries.

Economic analysts in New Delhi emphasize that there is wide scope for cooperation between the two countries, especially now that the depression in the Western economies has drastically reduced development credits, while simultaneously cutting off markets for developing sector nations' exports. This is especially true in the case of Bangladesh, which relies on concessional aid for up to 45 percent of its development budget. During the last few months Bangladesh, with one of the lowest per-capita income levels in the world, has been under pressure from the International Monetary Fund to reduce government expenditures and impose tighter austerity measures. Meanwhile, the constriction of international trade and the fall in raw-materials prices has made it virtually impossible for Bangladesh to raise resources necessary to keep its economy going, let alone import capital goods for development.

A first step

The agreements between India and Bangladesh, though still limited in scope, are an important first step toward utilizing India's relatively developed industrial economy in mutually beneficial trade and development projects. They also provide an example of the type of agreements which are being more and more frequently worked out between developing countries—so-called South-South cooperation.

Despite their common historical and cultural background and geographic proximity, economic cooperation between India and Bangladesh has until now been very limited. Dur-

ing the 1960s, before Bangladesh attained its independence from West Pakistan in 1971, a total ban on trade was in effect. Despite efforts to overcome this after 1971, at present Bangladesh accounts for less than 1.5 percent of India's total trade, while India represents less than 5 percent of Bangladesh's trade.

The agreements—worked out during simultaneous trade talks and the first meeting of the recently reconstituted Joint Economic Commission—will begin to reverse this. They include the following:

- **Expansion and diversification of trade.** In order to improve the balance of trade, which has been strongly weighted in India's favor, India agreed to increase its imports of newsprint, urea, and bitumen from Bangladesh, establish purchase contracts spanning several years, and to identify other possible trade items. While India will continue to export coal and capital goods, in the longer term there is a possibility that Bangladesh will export some of the large amounts of gas discovered in the eastern part of the country.

- **Joint industrial ventures.** In the short and medium term the two sides recognize that the "best way for realizing their productive potentials, expanding trade and promoting industrialization on the basis of comparative advantage and complementarity was provided by mutually beneficial joint ventures in the industrial field." Industrial projects which could be established in Bangladesh include sponge iron and steel, cement and concrete sleepers, railway wagons, textile machinery, and modernization of sugar mills. Some of these joint investment projects would also involve buy-back arrangements.

- **Improvement of transportation and communication infrastructure.** In order to expand cooperation in trade and industry, improvements in telecommunications, railways, roads, shipping, and waterway links between the two countries will have to be made. Bangladesh's Foreign Minister A. R. S. Shamsud Doha noted that it was absurd that Dhaka should be able to reach Calcutta, less than 130 miles away, only via New York and London. To correct this, the two sides agreed to a one hundred percent increase in existing telecommunications facilities between the two countries.

- **Financing arrangements.** With the view toward promoting the establishment of industrial and infrastructure projects in Bangladesh, it was agreed that India would provide a

government-to-government credit of Rs. 200 million (approximately \$20 million) for the import of capital goods and equipment from India; a Rs. 400 million credit from India's Export-Import Bank to finance imports for the public and private sector; and a Rs. 200 million loan to the private textile industry. The two countries also agreed on the need to work out suitable financing arrangements to ensure the viability of future joint-venture projects. At a press conference following the discussions, Bangladesh Foreign Minister Doha noted appreciatively that India had made these loans at a time when there was a worldwide recession accompanied by a tight credit squeeze.

● **Scientific and technological cooperation.** A five-year agreement to promote cooperation in science and technology was also signed. The wide-ranging agreement includes exchanges of scientists, delegations and information as well as setting up of joint research projects.

Observers of Indo-Bangladesh relations were taken aback somewhat by the swiftness with which both sides have moved in just a few short months. Foreign Minister Doha summed up the reasons for this quick progress when he noted that both countries had made clear their political will to move ahead with the improvement of bilateral relations.

This new mood of optimism stands in sharp contrast to the tension which had characterized relations as late as a year ago, following disputes over a small island in the Bay of Bengal during the governments of Bangladeshi President Ziaur Rahman and his successor Abdus Sattar. When General Ershad, Chief of the Army, took over the reins of government from the unstable and discredited President Sattar, there was some apprehension in New Delhi. But General Ershad has shown himself willing to take a mature view of things and to put aside the type of public recriminations which has severely strained relations in the past. The Gandhi government has reciprocated.

This new attitude was evident, for example, from the flexible position taken by India on the Ganges water accord. Meanwhile, during the past few months, Bangladesh has played an important role in lobbying for India to be the next host and chairman of the Non-Aligned movement, especially in the face of opposition by Pakistan and some of the Arab nations.

Long-term prospects

However, any long-term improvement of political and economic relations will depend on solving the more intractable problems, especially the working out of a scheme to augment the dry-season flows of the Ganges River. While several plans have been proposed, the issue has been complicated by the short-term needs of both countries. After India built the barrage at Farakka, to divert water to keep the Calcutta port open during the dry season in the mid-1970s, the two countries worked out an agreement in 1977 governing the sharing of water.

During the Gandhi-Ershad discussions both sides agreed

to extend the current agreement for 18 months, with some minor modifications regarding the monthly schedule for releasing water into Bangladesh. But both leaders expressed dissatisfaction with the present situation, and agreed to carry out pre-feasibility studies on the proposal for working out a long-term plan for augmenting the waters of the Ganges during the dry months when the flows are insufficient to meet the needs of both India and Bangladesh. Negotiations on finding a long-term solution have been at an impasse for the last few years, after India rejected Bangladesh's proposal to build dams and storage sites on the tributaries of the Ganges River in Nepal because it did not want to involve a third party in negotiations, and Bangladesh rejected India's proposal to build a canal through northwestern Bangladesh to transfer surplus water from the Brahmaputra River to the Ganges, as technically unfeasible. But with the two leaders having set an 18-month deadline for resolving the deadlock, observers here indicate that a possible compromise may be worked out which would incorporate aspects of both proposals.

Analysts in New Delhi emphasize that there is wide scope for cooperation between India and Bangladesh, especially now that the depression in the West has drastically reduced development credits. The agreements between the two countries are an important first step toward utilizing India's relatively developed industrial economy in mutually beneficial trade and development projects. They also provide an example of 'South-South' cooperation.

Both countries are well aware that more is at stake than solving the current water shortage. A large-scale water development project would be able to fully harness the enormous water resources of the Indian subcontinent for high-technology agriculture and hydroelectric power generation. This would be of immense economic benefit for both countries, and a model for "South-South" cooperation.