



State Capitals
State/Division Capitals
International Borders

Sabroom

Matarbari DSP



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Introduction

The Northeastern Region (NER) of India and Bangladesh is a natural economic area bound together by rich natural resources, mountains, rivers and sea, covering 4,10,639 square kilometers and a combined population of around 220 million. India and Bangladesh share deep civilizational links; and diplomatic, economic and security ties; which have helped both the countries in developing strong bonds of friendship and trust in recent times.

Bangladesh is India's one of the most important trade and development partners in South Asia. The strategic location of NER, consisting of states of Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, and Bangladesh complement each other and present an opportunity for economic integration and

growth in the Indo-Pacific region. However, inadequate connectivity between the NER and Bangladesh has been posing as a major deterrent to the economic development of this shared region. Both countries have been undertaking various measures to restore the pre-1965 connectivity linkages (rail, road, ports, and inland waterway) that used to exist between India and Bangladesh in past to accelerate trade and economic growth of the region as a whole.

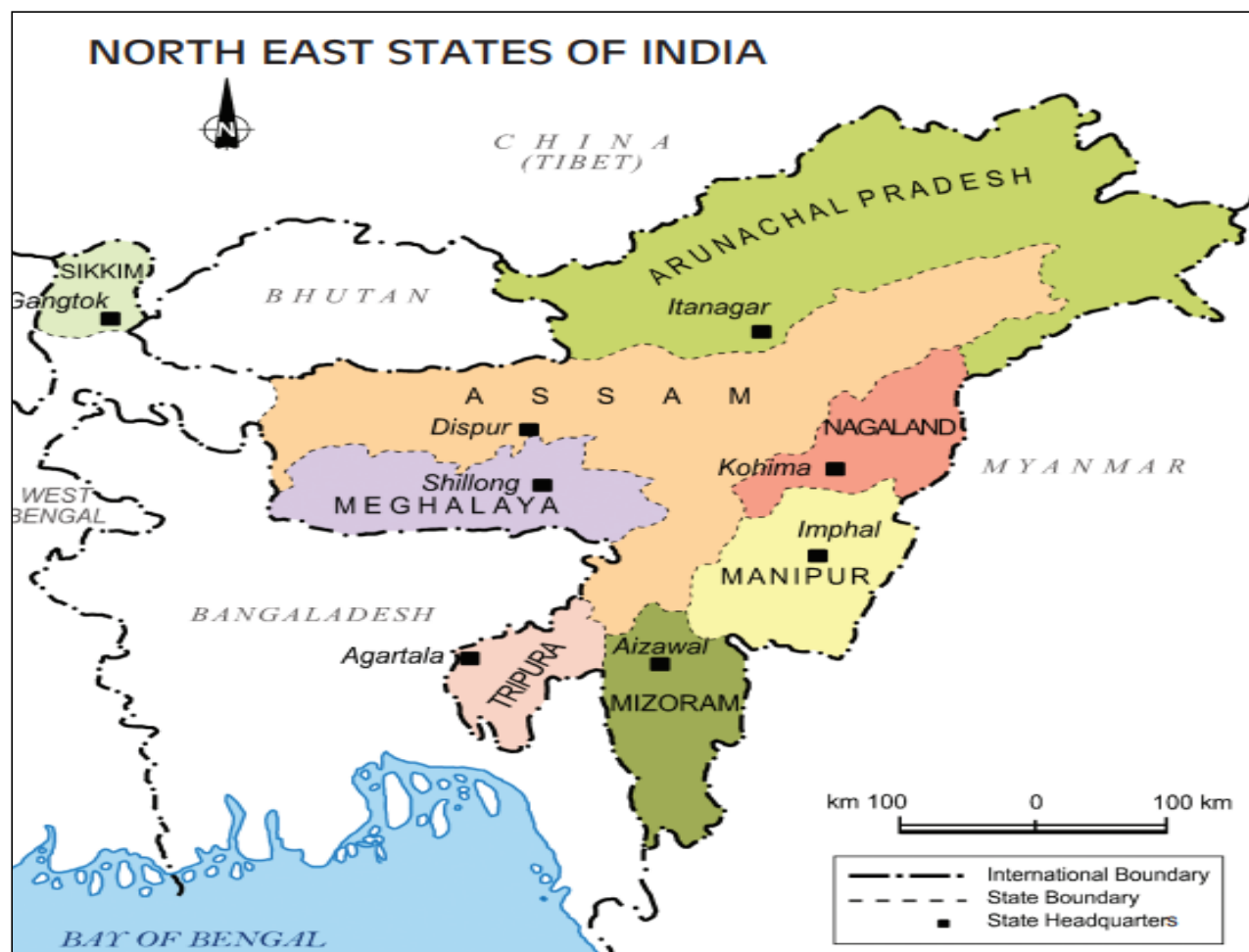
In such a changing situation, enhancing cooperation between NER and Bangladesh is expected to enable exponential benefits to this shared region. For India, transit and transshipment across Bangladesh is important as it is expected to boost the economy of India's eastern and north-eastern states. For Bangladesh, India's NER is a gateway for its

enhanced trade and connectivity with rest of India and South and Southeast Asia. Moreover, enhanced connectivity between India's NER and Bangladesh is important to Bhutan and Nepal since it may help them strengthen their global trade linkages. Therefore, strengthening physical and non-physical connectivity may enhance trade and economic development of the Bay of Bengal region.

Connectivity of India's NER in the Bay of Bengal region is a key building block of realizing the vision of a prosperous and vibrant Indo-Pacific. It is also a gateway to East and Southeast Asia. The NER is endowed

with vast natural resources such as forest resources, petroleum products and hydel power. Additionally, the strategic location of the region, which shares borders with Nepal, Bhutan, China, Myanmar, and Bangladesh, outperforms others in terms of potential gains from the international borders (Map 1). India shares the longest international border with Bangladesh among all the neighbouring countries. With ethno-geographic and bio-geographic, rich culture, heritage and natural flora and fauna, the NER is rightly called India's permanent place for happiness. However, despite wide range of opportunities,

Map 1: North-eastern Region of India



Source: North East India-People, History and Culture (2017)



Reinforcing connectivity between India's NER and Bangladesh will not only foster greater integration but also bolster regional connectivity in the Bay of Bengal.



this exquisite region barely contributes 3 per cent to the country's gross domestic product (GDP).

Historically, the NER was a thriving region of India for over two centuries. However, the region did not receive as much attention as required from both the central and state governments with the partition of the Indian subcontinent in 1947. The NER became economically isolated from the rest of India, which hampered its development. In addition, the 1965 war further deteriorated the infrastructural connectivity between NER and Bangladesh. The region has not been able to keep pace with the economic and industrial development effort of the country because of inadequate infrastructure facilities. Further, local insurgencies, disorder and even external interference considerably have slowed down the region's progress. Nevertheless, given the strategic location of this part of the country, it can be utilized for creating synergies and escalating economic development in the region.

The NER has come back to the forefront of India's development with the adoption of the "Act East Policy" (AEP) for promoting economic cooperation, cultural ties and developing strategic relationship with the countries in the eastern neighbourhood. Given its close geographical proximity, cultural and historic ties with Southeast Asia, the NER is the pivot of the AEP. Moreover, India's prominent focus on the

NER in 'Neighbourhood First' and 'Act East' have renewed hopes for predicating robust connectivity linkages. Therefore, reinforcing connectivity between India's NER and Bangladesh will not only foster greater integration but also bolster regional connectivity in the Bay of Bengal.

Several studies have identified that the NER has the potential to grow faster than its current pace, provided the region builds cross-border production linkages, particularly with Bangladesh, Myanmar, and other Southeast and East Asian countries such as Thailand, Malaysia, China, and Indonesia¹. The existing industries of the NER include coke and refined petroleum products, food products, and a range of manufactured products including wood, furniture, beverages, pharmaceuticals, metal products, rubber, and plastics products. Industries requiring large scale production such as petrochemicals, cement, steel, and sugar are not present even though the region is a rich source of the basic raw materials required as inputs for such industries. Given its geographical location, and enhanced engagement with vibrant neighbours such as Bangladesh, NER's value chain potential can be unlocked if hard and soft border infrastructure and multi-modal (rail, road and IWT) transportation networks are improved and connected with Bangladesh and beyond.²

Both India and Bangladesh have been making efforts to improve the multi-modal



The strategic location of the NER and Bangladesh complement each other and present an opportunity to realize the vision of a prosperous and vibrant Indo-Pacific region by deepening the emerging India-Japan-Bangladesh trilateral partnership.



connectivity through the NER for expediting the movement of goods and services. The recent development of the Maitri Setu (Bridge) built over the Feni River, which would reduce the distance between Tripura's Agartala and Chattogram port to just 111 km. In addition, road connectivity in Meghalaya's Dawki, southern Assam's Sutarkandi and Tripura's Agartala linking eastern and south-eastern Bangladesh is also being improved. The Government of India has been working on a multi-modal transport hub at Sabroom that can help goods destined to the ports in Bangladesh in a few hours. Bangladesh has allowed transshipment for NER states through Chattogram port. Transshipment of goods to India's NER states like Tripura and Assam via the Chattogram Port has increased, thereby strengthening the bilateral as well as economic ties between the two countries. Mongla port has also started handling goods between India and Bangladesh. Access to Matarbari DSP will be a phenomenal step in relieving the NER's land-locked status as well as adding an alternative connectivity route. At the same time, this foreseeable linkage may generate substantial economic benefits and strategic heft for Bangladesh. It is anticipated to boost growth and enhance maritime connectivity and trade because the facility is predicted to significantly reduce travel time and distance, thereby making the trade more viable.

In recent years, India's trade with Bangladesh witnessed steep rise in growth, which indirectly suggests the existence of a large trade potential. With US\$ 12.34 billion, Bangladesh was India's largest trade

partner in South Asia in 2021. India, on the other, was the second largest trade partner of Bangladesh with US\$ 15.58 billion bilateral trade in 2021. However, the existing level of trade and economic linkages between NER and Bangladesh still fall below potentials due to inadequate infrastructure facilities and lack of institutional and regulatory support. India has export potential in the sectors like automobiles, man-made fibre, pharmaceuticals, agro industry, food processing items, mineral products and iron and steel. This unmet potential offers new business opportunities, provided the barriers to trade are removed.

Given Bangladesh's sustained economic growth in the last one decade, its open and free market, growing middle-class consumers and domestic demand and cheap labour, provide an opportunity for India to further strengthen its bilateral relations for realizing the vision of a prosperous and vibrant Indo-Pacific. Enhancing cooperation with Bangladesh will provide the NER access to three active seaports (Chattogram, Mongla and Payra) and the new Matarbari Deep Sea Port (DSP), which is expected to become functional by 2027. Moreover, Bangladesh also has 29 river ports to facilitate inland water transportation and shipments and 23 operational LCSs, which can be utilized for facilitating NER's international trade. Enhancing NER's existing level of trade and economic linkages with Bangladesh would need infrastructure and institutional support, which would then augment growth and remove the region's economic isolation.

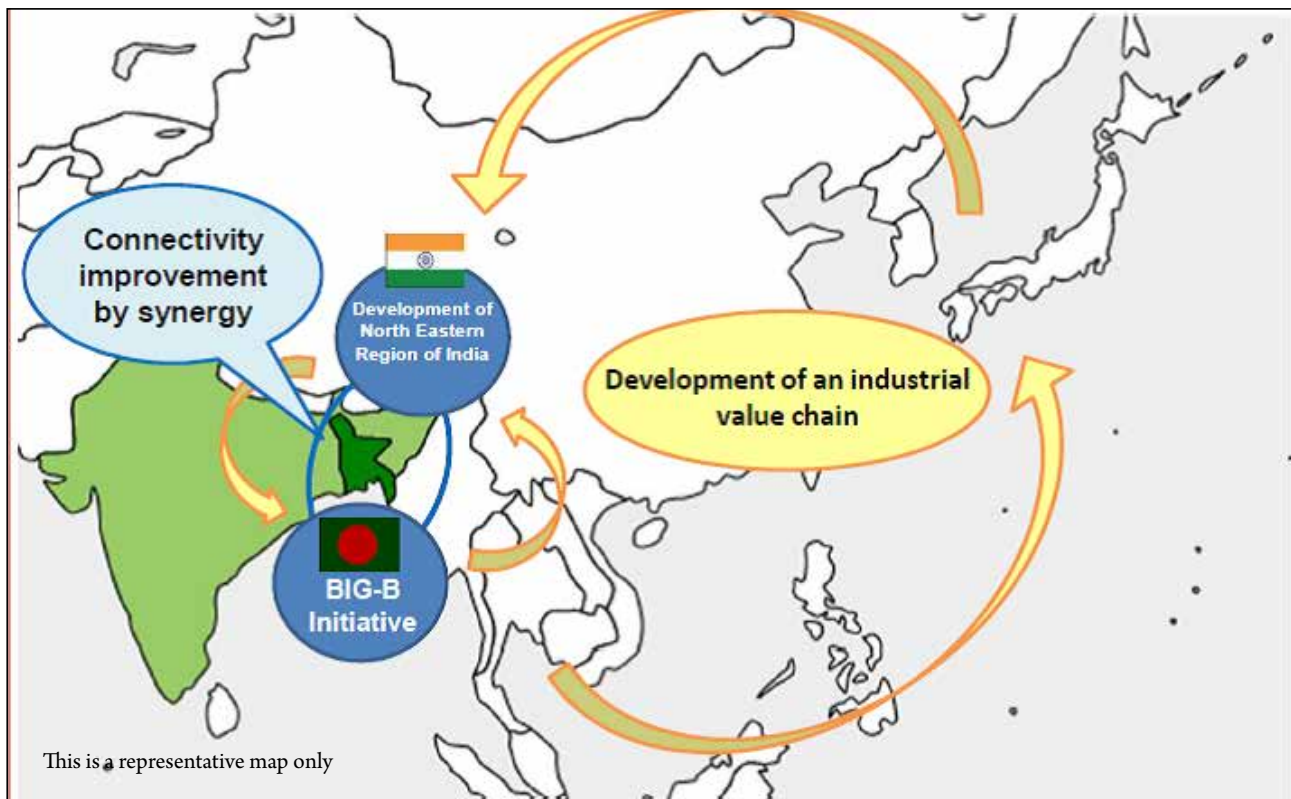
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In recent years, many connectivity projects were completed in India's NER and Bangladesh, and several are ongoing. Countries like Japan have been developing infrastructure projects in the region through financial aid and investment. Japan has been an active development partner of India and Bangladesh in bringing greater integration within the Indo-Pacific region by undertaking connectivity projects. Northeast India has emerged as an important area of cooperation between Japan and India due to region's strategic location which shares borders with Nepal, Bhutan, China, Myanmar, and Bangladesh. Since Japan's interests in the NER are deeply rooted in history, there is a broad bilateral consensus to cooperate for the development of the NER and its neighbourhood.

Similarly, Japan has been the most trusted development partner of Bangladesh in its journey towards progress and prosperity. It has helped Bangladesh in overcoming obstacles in several important fields, including power and energy, transportation, agriculture, and rural development as well as education, health, water, and sanitation. Bangladesh is a crucial factor in Japan's FOIP, not simply because of its unique location but also because of its direct access to the Indian Ocean.

Moreover, India and Bangladesh share the maritime space in the Bay of Bengal. The strategic location of the NER and Bangladesh complement each other and present an opportunity to realize the vision of a prosperous and vibrant Indo-Pacific region by deepening the emerging India-Japan-Bangladesh trilateral partnership.

Map 2: NER and Bangladesh in BIG-B



Both India and Bangladesh are among Japan's leading recipients of Overseas Development Assistance (ODA). In 2017, Japan and India predicated the Act East Forum (AEF) to identify specific projects for "economic modernisation" of India's NER. Areas of immediate interest to the Forum are connectivity, developmental infrastructure, industrial linkages, and people-to-people contacts through tourism, culture, and sports-related activities. Dhubri-Phulbari bridge project, which said to be the longest river bridge in India, sustained forest management projects in Tripura and Meghalaya, highways and roads in Meghalaya and Mizoram, biodiversity conservation and forest management project in Sikkim, and a forest conservation livelihood project in Nagaland are some of the noteworthy projects under the AEF.

Japan, a common development partner of Bangladesh and India, is working to promote cross-border infrastructure, trade integration, financial links, and other regional public goods. Japan is the leading country serving as the pillar of "connectivity" in the "Indo-Pacific Oceans Initiative (IPOI)," which is advocated by India. Japan has also supported development of the NER through the "Japan-India Act East Forum". For Bangladesh, Japan supports development of Matarbari deep-sea port and connection among this port, Chattogram and Dhaka under the initiative of the Bay of Bengal Industrial Growth Belt (BIG-B). Japan has further agreed to promote cooperation in these frameworks, and further improve connectivity in the Bay of Bengal region through synergy created by organically coordinating deliverables of both frameworks. Japan's economic engagements with India and Bangladesh have immensely contributed to the industrial development of the region, which is likely to witness a stronger industrial

value chains. Japan aims to create industrial value chains that can also benefit the industrial world in Japan (Map 2).

Similarly, Japan provides Bangladesh development assistance in vital areas, including social and economic development, energy and power generation, connectivity, hard and soft infrastructure development, and people-to-people contact. Japan has been implementing vital projects under the Bay of Bengal Industrial Growth Belt (BIG-B) initiative for fostering connectivity, developing infrastructure, and accelerating industrial growth and investment along the Dhaka-Chattogram-Cox's Bazar belt area and beyond. The Matarbari DSP in Chattogram is central to Japan's BIG-B initiative in which Japan is expected to invest more than US\$ 25 billion over years (JICA, 2016). Along with the DSP, Japan is establishing an economic zone in the Matarbari comprising power plant (coal and gas-based), coal jetties and Liquefied Natural Gas (LNG) terminal, heavy industries, township, tourism, to mention a few. The development of the Matarbari DSP has been identified as the "The Bay of Bengal Industrial Growth Hubs (BIG-Hubs)" by Japan which will transform Bangladesh's infrastructure landscape, boost industrial agglomeration, ensure energy security, and enhance regional connectivity. Japan is also developing Mass Rapid Transit (MRT) line 5 and MRT line 6 in Dhaka, terminal three of the Dhaka airport, Jamuna Railway Bridge, and the economic zone at Araihaazar, among others (JICA, 2022).

With noticeable spike in strategic and economic interests in Bay of Bengal, both India and Bangladesh have important roles to play in the maritime space. Recognizing the increasing convergence of interest, India and Japan have upgraded their bilateral relations from 'Global Partnership' to 'Special Strategic

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and Global Partnership' in 2017. Bangladesh and Japan are working towards elevating the 'Comprehensive Partnership' into a closer and deeper 'Strategic Partnership' on the basis of shared interest, targets and priorities. Therefore, given the opportunities present in the region, there is enormous scope for strengthening the India-Japan-Bangladesh trilateral relationship.

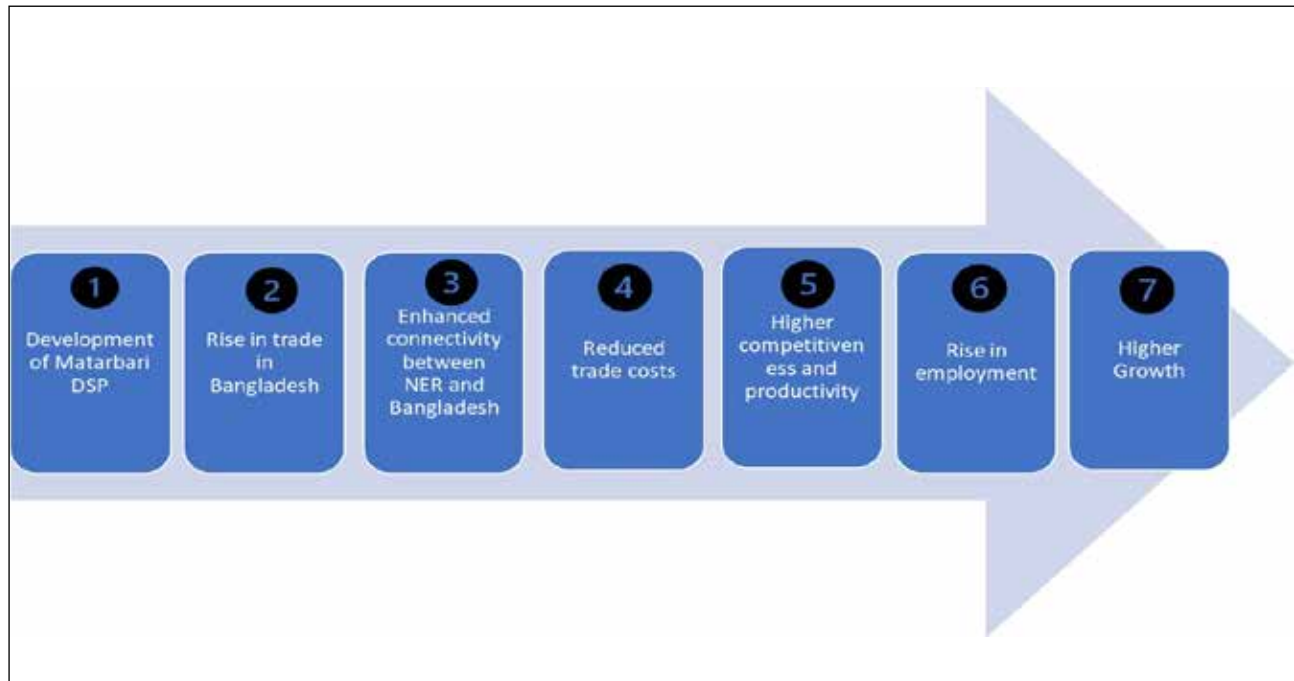
The Matarbari DSP is going to play a 'dual' catalytic role in strengthening the emerging trilateral relationship. A DSP at Matarbari may help strengthen Bangladesh's economic linkages in post 2026 by when Bangladesh elevates to the group of developing economies. At the same time, Matarbari DSP's connectivity with rest of Bangladesh and India's NER through Tripura is going to be an important building block in realizing

the vision of a prosperous and vibrant Indo-Pacific. Figure 1 illustrates an overview of the emerging growth linkages between the NER and Bangladesh.

Developing connectivity will open new arteries for industrial development in the BBIN (Bangladesh, Bhutan, India, Nepal) subregion, enable inclusive economic growth and stability in Eastern South Asia region. Such a connectivity would be a concrete convergence of the Indo-Pacific Oceans Initiative (IPOI) and Japan's Free and Open Indo-Pacific (FOIP) vision, progress in Bay of Bengal regional connectivity and India's "Act East" and "Neighbourhood First" policies.

NER's enhanced connectivity with Bangladesh will play a catalytic role in boosting regional ties and deepening economic relationship in the Bay of Bengal

Figure 1: Emerging NER – Bangladesh Port-led Growth Linkages



Source: Authors' own

region from emerging economic opportunities. By addressing the shared challenges, both India and Bangladesh would mutually benefit from the development of the Matarbari DSP.

While India and Bangladesh have made impressive strides in recent decades, much remains to be done to strengthen the maritime infrastructure of the South Asia's two largest economies. Both Bangladesh and NER need to further strengthen connectivity between them, significantly upgrade production and trade, and improve the quality of road infrastructure and connectivity.

What emerges is that reinforcing Matarbari-NER connectivity will not only foster greater integration of the region but also bolster regional connectivity and growth.

Objectives of the Study

- i. To explore connectivity centering Matarbari DSP in the mid to long term horizon of ten years, and an assessment of the present situation, challenges and opportunities is needed.
- ii. To assess economic opportunities that the Matarbari DSP may generate for NER and Bangladesh.

This study also has following research objectives.

- i. To discuss the role of India and NER states, in unlocking the opportunities.
- ii. To discuss the current and envisaged political and diplomatic relations among India, Bangladesh and other Bay of Bengal countries to build and strengthen the connectivity between the NER and Matarbari DSP.
- iii. To identify the industrial opportunities for its hinterland (Chattogram, Cox's Bazar, Dhaka and NER (especially Tripura)).
- iv. To design the existing and envisaged connectivity networks (rail, road,

waterways, air) centering the Matarbari DSP.

- v. To identify the constraints, challenges and bottlenecks to connectivity and design policy recommendations to mitigate such challenges.
- vi. To identify the vision and action plan to enhance greater connectivity and industrial potential in Bangladesh, especially through creation of Matarbari DSP.
- vii. To identify the role of Japan to ensure NER to benefit from the development of Matarbari DSP.

Chapterization

The rest of the Report is organised as follows.

Chapter 2 discusses the economic profile of NER states and Bangladesh and infrastructure connectivity through road, rail and IWT;

Chapter 3 discusses industrial development in NER and Bangladesh, and the challenges and opportunities for establishing multimodal connectivity;

Chapter 4 discusses the trade relations between India and Bangladesh and explores the trends and patterns, value chain potentials and trade forecasting between India and Bangladesh;

Chapter 5 reviews the status of the ports and shipping infrastructure in India and Bangladesh as well as trade via the IWT routes;

Chapter 6 discusses the present and future scenario of port cargo and container traffic of Bangladesh and India;

Chapter 7 discusses the economic and trade impact of the Matarbari DSP project;

Chapter 8 identifies the challenges to India-Bangladesh connectivity and presents the existing and envisaged transport connectivity networks;

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Chapter 9 presents the stakeholders' perception on NER-Bangladesh connectivity; Chapter 10 covers recommendations to strengthen the NER-Bangladesh connectivity; and Chapter 11 presents the conclusions and way forward

The study is conducted by the Asian Confluence in consultation with the South Asia Network of Economic Modelling (SANEM) in Dhaka and major stakeholders of the region, both government and non-government entities and individuals. Based on both primary and secondary data,

this study has attempted to address the aforesaid objectives. Not only it discusses the challenges to India-Bangladesh connectivity but also presents the existing and envisaged connectivity networks. It also presents policy recommendations to strengthen the NER-Bangladesh connectivity.

Endnotes

- ¹ Refer, for example, Loitongbam (2018), Kathuria and Mathur (2020).
- ² Refer, for example, De and Majumdar (2014), Kathuria and Mathur (2020), Basu-Das and Chattopadhyay (2022)
