

# BANGLADESH

## STUMBLING THROUGH CRISES

PRIYADARSHINI BARUAH

### INTRODUCTION

After a wave of student protests over a controversial quota system that spiralled into a larger political storm, Bangladesh's former Prime Minister, Sheikh Hasina, resigned in August 2024 and sought refuge in India. As a result, Bangladesh's economy, once hailed as a poster boy of successful economic transformation in South Asia, stands at a critical juncture, especially as the country is being led not by an elected government but a military-backed caretaker government. Despite Hasina's heavy-handedness in dealing with political opposition, one of the significant achievements of her governance was a rising economy. However, Hasina's track record of maintaining a healthy Gross Domestic Product (GDP) growth rate of about 7 per cent reached its climax in 2022.<sup>1</sup> The three Rs—Rice (agriculture), Ready-Made Garments (RMG) and Remittances—that once propelled

---

Ms **Priyadarshini Baruah** is a Research Associate at the Centre for Air Power Studies, New Delhi.

1. World Bank Group, "Financial Sector and Fiscal Policy Reforms will Help Bangladesh Sustain Strong Growth", April 2, 2024, <https://www.worldbank.org/en/news/press-release/2024/04/02/financial-sector-and-fiscal-policy-reforms-will-help-bangladesh-sustain-strong-growth-despite-strong-growth-south-asia-r>. Accessed on July 15, 2024.

Bangladesh's growth,<sup>2</sup> started reeling under the accumulated weight of several structural problems.

### PILING LOANS AND SHRINKING FOREX

Although Bangladesh fared comparatively well in the South Asian region during the COVID-19 pandemic, its RMG sector, which is a mainstay of its economy and vulnerable to external shocks, was affected as a result of disturbed supply chains across the globe.<sup>3</sup> In 2022, Bangladesh reached out to the International Monetary Fund (IMF) and other international lenders to prevent a meltdown.<sup>4</sup> The government did secure new loans, but these were added to existing external loans. In late 2023, external debt surpassed US\$100 billion for the first time, which resulted in very high debt service costs.<sup>5</sup>

During the initial eight months of the current fiscal year, Bangladesh disbursed US\$2.03 billion in debt repayments.<sup>6</sup> According to the economist Mustafizur Rahman, "The debt servicing, not only of foreign but domestic sources as well, forced the Hasina government to borrow to repay a large part of its PPG (Public and Publicly Guaranteed) debt obligations".<sup>7</sup> This has put a serious dent in Bangladesh's foreign exchange reserves, which experienced a huge slip. As of early April 2024, they were below the IMF's recommended US\$19.26 billion.<sup>8</sup>

2. Khondaker Golam Moazzem, "The Awaited Promise of an Economic Boom", in Sohini Bose, ed., *Priorities for Prime Minister Hasina's New Term in Bangladesh*, Observer Research Foundation, Special Report No. 225, May 2024, p. 7, <https://www.orfonline.org/public/uploads/posts/pdf/20240508154002.pdf>. Accessed on June 26, 2024.
3. Soumya Bhowmick and Nilanjan Ghosh, "A Game of Shadows: Growth, Distribution, and Systemic Shocks in the Bangladesh Economy", Observer Research Foundation, July 18, 2023, <https://www.orfonline.org/research/a-game-of-shadows-growth-distribution-and-systemic-shocks-in-the-bangladesh-economy>. Accessed on October 9, 2024.
4. "Bangladesh Receives 1.15 Billion Dollars from IMF", AIR Akashvani, June 28, 2024, <https://www.newsonair.gov.in/bangladesh-receives-1-15-billion-dollars-from-imf/>. Accessed on September 20, 2024.
5. Md Mehedi Hasan, "External Debt Crosses \$100 Billion for First Time", *The Daily Star*, March 22, 2024, <https://www.thedailystar.net/business/economy/news/external-debt-crosses-100b-first-time-3572206>. Accessed on September 20, 2024.
6. "External Debt Servicing Crosses \$2bn in 8 Months of FY24", *Dhaka Tribune*, March 27, 2024, <https://www.dhakatribune.com/business/economy/342821/external-debt-servicing-crosses-2bn-in-8-months>. Accessed on September 20, 2024.
7. "Govt Raises Borrowing to Repay its Previous Loans: CPD", *Daily Observer*, April 4, 2024, <https://www.observerbd.com/news.php?id=467362>. Accessed on September 20, 2024.
8. Ali Riaz, "Is the Bangladesh Success Story Unraveling?", Atlantic Council, May 2, 2024, <https://www.atlanticcouncil.org/blogs/new-atlanticist/is-the-bangladesh-success-story-unraveling/>. Accessed on September 20, 2024.

## CHINESE DEBT

Another issue plaguing the Bangladeshi economy is the rising Chinese debt, which accounts for about 24 per cent of its bilateral debt. Bangladesh's debt stocks owed to China increased rapidly from US\$0.97 billion to US\$6 billion in 2022.<sup>9</sup> To address this issue, Bangladesh sought support from international financial institutions such as the International Monetary Fund (IMF), and Asian Development Bank (ADB), which provided financial assistance in the form of loans and grants to help stabilise the economy in 2023.<sup>10</sup> According to a January 2024 *Daily Star News* report, Abdul Hassan Mahmood Ali, the finance minister of Bangladesh, stated that both the World Bank and the ADB have agreed to provide financial assistance to the Bangladeshi government when needed.<sup>11</sup> ADB's Country Director Edimon Ginting, stated that the ADB has long been extending budget support to Bangladesh. Last year, the ADB provided US\$800 million in budgetary support, which directly contributed to the foreign exchange reserve.<sup>12</sup>

On the one hand, Beijing's foothold in the country is widening; on the other, the money that China provides comes with strings attached. Chinese loans are opaque and loaded with high interest rates that often go beyond the paying capacities of countries. Additionally, they are mostly cornered around strategic projects in recipient nations. For instance, the tints of China's 'Debt Trap Diplomacy' were clearly visible in acquiring the strategically located Hambantota port in Sri Lanka after the latter defaulted on its Chinese loans. So far, Bangladesh has avoided such an undesirable scenario, but given the history of Chinese credit, it faces increased pressure to repay loans, as well as issues of corruption.<sup>13</sup> Bangladesh must continue to carefully

---

9. Vignesh Radhakrishnan and Rachita Rabboni, "Debt owed by Pakistan, Sri Lanka and Bangladesh to China Rise to Records Levels: Data", *The Hindu*, May 10, 2024, <https://www.thehindu.com/data/debt-owed-by-pakistan-sri-lanka-and-bangladesh-to-china-rise-to-record-levels-data/article68160207.ece>. Accessed on July 23, 2024.

10. "World Bank, ADB Promise More Support But Call for Reforms", *The Daily Star*, January 19, 2024, <https://www.thedailystar.net/business/economy/news/world-bank-adb-promise-more-support-call-reforms-3522686>. Accessed on July 21, 2024.

11. *Ibid.*

12. *Ibid.*

13. Ayanangsha Maitra, "Strings Firmly Attached", *Dhaka Tribune*, April 27, 2023, <https://www.dhakatribune.com/opinion/oped/309857/strings-firmly-attached>. Accessed on October 9, 2024.

evaluate the loans granted by China and develop its economy to maintain the leverage to have a stronger say at the negotiating table and avoid potential economic dependency.<sup>14</sup>

It is expected that the current interim Yunus government will carefully navigate its ties with India and China instead of leaning on one side. In this context, it is expected that the projects discussed during Hasina's last visit to India are likely to continue, including the energy connectivity projects with Nepal and Bhutan through India that will reduce Bangladesh's reliance on fossil fuels.<sup>15</sup>

### STRAINS BY SOCIAL INDICATORS

As most of the government spending went into servicing debt, social welfare schemes saw a cut in funding. The first casualty of the government austerity was the decline in life expectancy. Bangladesh has seen a rise in life expectancy for several decades. In 2020, it reached 72.8 years, the highest recorded to date.<sup>16</sup> However, since then, the trajectory of population growth has been disrupted. There was a decline to 72.3 years as of 2021, and then in 2022, the Bangladesh Bureau of Statistics (BBS) reported a modest increase to 72.4.<sup>17</sup> However, in March 2024, the BBS released the Bangladesh Sample Vital Statistics-2023 (BSVS-2023), indicating a rise in the death rate of children under five years of age, new-borns and children under the age of one.<sup>18</sup> Given the rise in food insecurity over the past year, it is reasonable to assert that insufficient social spending has contributed to a health crisis.<sup>19</sup>

---

14. Ibid.

15. Aaqib Md Shatil, "PM Hasina's Delhi Visit Energizes Bangladesh-India Relations", *The Diplomat*, June 27, 2024, <https://thediplomat.com/2024/06/pm-hasinas-delhi-visit-energizes-bangladesh-india-relations/>. Accessed on July 23, 2024.

16. Ali, n. 8.

17. "Life Expectancy of Bangladeshi People Drops to 72.3 Years: BBS Survey", *News Age*, March 24, 2024, [https://www.newagebd.net/article/228688/life-expectancy-of-bangladeshi-people-drops-to-723-years-bbs-survey#google\\_vignette](https://www.newagebd.net/article/228688/life-expectancy-of-bangladeshi-people-drops-to-723-years-bbs-survey#google_vignette). Accessed on September 20, 2024.

18. "Child Mortality Rises, Life Expectancy Declines: BBS", *Prothomalo*, March 25, 2024, [https://en.prothomalo.com/bangladesh/cqjsjk3buz#:~:text=According%20to%20BBS%2C%20the%20mortality,of%20age%20has%20suddenly%20increased](https://en.prothomalo.com/bangladesh/cqjsjk3buz#:~:text=According%20to%20BBS%2C%20the%20mortality,of%20age%20has%20suddenly%20increased.). Accessed on September 20, 2024.

19. Ali, n. 8.

## CLIMATE CHANGE

One of the key structural challenges to Bangladesh is the impact of climate change. Bangladesh is among those countries that have been significantly impacted by climate change, being ranked 7th on the 2021 Global Climate Risk Index.<sup>20</sup> For instance, the devastating impact of ‘Cyclone Amphan’ in 2020 serves as a significant reminder of the country’s vulnerability to extreme weather events, wherein the Bangladesh economy faced a loss of approximately US\$130 million.<sup>21</sup> Integrating climate adaptation measures within the social protection system, as emphasised in the ADB loan agreement of December 11, 2023, is an essential action in developing resilience and protecting the county’s economic advancement.<sup>22</sup>

## THE INDIA FACTOR

India-Bangladesh relations are historically, culturally, and linguistically deeply rooted in one another. Both countries have engaged in several bilateral talks, high-level visits, and various defence and security collaborations. They have also worked extensively to enhance people-to-people ties and connectivity projects via rail and waterways and have signed Memorandums of Understanding (MoUs) on digital payments and agriculture, focussed on power, energy and development projects. Bangladesh remains India’s largest development partner, benefiting from extensive trade, infrastructure, and human resource initiatives.<sup>23</sup> These robust ties exemplify a strong regional partnership fostering economic, defence, and cultural cooperation.

Under the fourth consecutive government of Sheikh Hasina, Bangladesh aimed to elevate itself from the ‘Least Developed Country

---

20. David Eckstein, Vera Künzel and Laura Schäfer, “Global Climate Risk Index 2021”, *Germanwatch*, January 2021, p. 15, [https://www.germanwatch.org/sites/default/files/Global%20Climate%20Risk%20Index%202021\\_2.pdf](https://www.germanwatch.org/sites/default/files/Global%20Climate%20Risk%20Index%202021_2.pdf). Accessed on July 23, 2024.

21. Bhowmick, n. 3.

22. Asian Development Bank, “Loan Agreement (Ordinary Operations) for Loan 4423-BAN: Climate-Resilient Inclusive Development Program-( Subprogram-1)”, p. 7, December 11, 2023, <https://www.adb.org/sites/default/files/project-documents/56253/56253-001-lna-en.pdf>. Accessed on July 23, 2024.

23. Ministry of External Affairs, “India-Bangladesh Bilateral Relations”, June 9, 2024, <https://www.mea.gov.in/Portal/ForeignRelation/India-Bangladesh2024.pdf>. Accessed on October 12, 2024.

(LDC)' category by 2026.<sup>24</sup> By 2031, the same government wanted to achieve the goal of moving Bangladesh to an upper middle-income economy, i.e., per capita income between US\$4,466 and US\$13,845.<sup>25</sup> However, the overall turmoil in the country following Hasina's ouster is likely to hinder the economic progress of the country, particularly the attainment of the 2031 goal. The structural problems created during Hasina's reign are now staring at the forthcoming governments of Bangladesh. Only a democratic government can navigate the delicate balance between political continuity and responsive governance, address pressing macro-economic concerns, and build resilience to the impacts of climate change, all the while carefully managing its regional ties.

As for India, the stakes are very high, as changes in Bangladesh's political environment may threaten the security of India's northeastern states and impact cross-border security, trade, migration, and regional geopolitics. It is essential to note that India is Bangladesh's second-largest trading partner in South Asia, and Bangladesh remains India's largest trade partner in the region. Bangladesh exported goods worth US\$1.97 billion to India in Financial Year (FY) 2023-24. As per the Ministry of External Affairs' India-Bangladesh Bilateral Relations 2024 Report, the total bilateral trade has been reported as US\$14.01 billion for FY 2023-2024.<sup>26</sup>

However, the rise of Islamist factions or a potential realignment of Bangladesh's foreign policy towards China or Pakistan under the interim regime may pose a challenge to India's strategic interests in Bangladesh and, by extension, South Asia. Hence, it is the need of the hour is for India to reassess its approach toward its eastern neighbour.

---

24. United Nations, "Bangladesh Graduation Status", LDC Portal-International Support Measures for Least Developed Countries, November 11, 2021, <https://documents.un.org/doc/undoc/ltd/n21/332/88/pdf/n2133288.pdf?token=uAtom73g9mU3QQ0RTk&fe=true>. Accessed on June 27, 2024.

25. n. 2, p. 6.

26. n. 23.