

Enhancing Nepal-Bangladesh Relations

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Summary

The year 2022 marked 50 years of diplomatic relations between Nepal and Bangladesh. Diplomatic ties were established in 1972, making Nepal the seventh country to officially recognise Bangladesh. Since then, bilateral relations have been growing steadily with the primary focus on improving people-to-people connections and furthering trade and economic ties. Nonetheless, despite enormous scope for trade and commerce between the two nations, the volume of bilateral trade has not yet reached its optimum. Geographically, Nepal and Bangladesh are a short distance apart. Borders between both the nations are separated by the Siliguri Corridor, also known as the Chicken Neck,¹ 22 kilometres of Indian territory that separates southern Nepal and northern Bangladesh.

Introduction

Since the early days, high-level visits by kings and presidents, prime ministers and foreign ministers have accentuated the need for closer cooperation between Nepal and Bangladesh. Nepal was one of the first countries to recognise the birth of Bangladesh despite then having good relations with Pakistan. Since then, the Nepal-Bangladesh bilateral relationship has been marked by mutual friendship and respect, goodwill, shared values and aspirations of their people.

Nepal and Bangladesh collaborate closely in a number of regional and global forums. Both nations are the founding members of the South Asian Association for Regional Cooperation (SAARC) and have contributed immensely in creating this regional platform for cooperation in South Asia. Similarly, Nepal and Bangladesh are also active members of sub-regional grouping like the Bay of Bengal Initiative for Multi-Sectoral Technical Cooperation (BIMSTEC) and the Bangladesh, Bhutan, India, Nepal Initiative (BBIN). At the same time, they are also active in the United Nations (UN), the Non-Aligned Movement and the World Trade Organization. Likewise, both countries are among the largest contributors to the UN Peacekeeping Force.

Nepal-Bangladesh Joint Economic Commission

In April 1976, the two nations signed four agreements covering trade, transportation, civil aviation and technical cooperation. The Nepal-Bangladesh Joint Economic Commission was set up at the finance ministers level in 1978. The areas of cooperation are joint ventures

¹ Chicken Neck is the name given to a narrow strip of territory lying between northernmost Bangladesh and South-eastern Nepal. This geopolitical and geo-economical corridor connects the seven states of northeast India to the rest of India. The 22-kilometre-long territory is geo-strategically important as the borders of five countries – Nepal, Bangladesh, Bhutan, India and China – are close from this area.

such as banking, finance and insurance.² Since the inauguration of the Kakarbhitta-Fulbari-Banglabandha transit route in September 1997, Bangladesh has allowed Nepal to utilise the port facilities at Mongla Port.³ However, due to cumbersome procedures for the back-and-forth movement of vehicles at the Indo-Nepal and Indo-Bangla borders, the port has been underutilised.

Economic Cooperation

Despite enormous prospects owing to close proximity and excellent state of bilateral ties, economic relations between the two nations have remained insignificant over the years. There is tremendous opportunity to promote bilateral trade and investment. Nepal's key exports to Bangladesh are lentils, oil, cardamom, wheat, vegetable seeds, handicrafts, *pashmina* and other agricultural products whereas industrial raw materials, medicine, chemicals, textiles and clothing, jute products and electrical and electronic goods make up the majority of Nepal's imports from Bangladesh.

In 2019, Nepal's exports to Bangladesh amounted to US\$12.1 million (S\$16.3 million). Over the last 24 years, Nepal's exports to Bangladesh have increased at an annual rate of 13.2 per cent, from US\$613,000 (S\$830,516) in 1995 to US\$12.1 million (S\$16.3 million) in 2019. In 2019, Bangladesh's exports to Nepal amounted to US\$48.6 million (S\$65.8 million). Over the last 24 years, Bangladesh's exports to Nepal have increased at an annualised rate of 17 per cent, from US\$1.12 million (S\$1.58 million) in 1995 to US\$48.6 million (S\$68.56 million) in 2019.⁴ According to the UN Comtrade database on international trade, Nepal's exports to Bangladesh in 2021 totalled to US\$5.94 million⁵ (S\$8.74 million) whereas imports were US\$128.8 million (S\$174.5 million).⁶

The private sectors and business communities from both countries have been steadily engaging with each other and have been organising different business exhibitions and fairs to promote bilateral trade and business. The two countries' principal chambers – the Federation of Nepalese Chambers of Commerce & Industry⁷ and the Federation of Bangladesh Chambers of Commerce and Industry⁸ – have institutional mechanisms and structures for collaboration.

² Ministry of Foreign Affairs, Nepal, <https://mofa.gov.np/nepal-bangladesh-relations/>.

³ Ahmed, B and Islam, "M T Bangladesh-Nepal Trade Relations: Understanding the Influence of Economic Diplomacy", *Jadavpur Journal of International Relations*, 23(1) (2019):105-119, <https://doi.org/10.1177/0973598419828024>.

⁴ Bilateral Country – Nepal and Bangladesh, Observatory of Economic Complexity, <https://oec.world/en/profile/bilateral-country/npl/partner/bgd>.

⁵ Nepal Exports to Bangladesh, Trading Economics, <https://tradingeconomics.com/nepal/exports/bangladesh>.

⁶ Nepal Imports from Bangladesh, Trading Economics, <https://tradingeconomics.com/nepal/imports/bangladesh>.

⁷ The Federation of Nepalese Chambers of Commerce and Industry is the umbrella organisation of business in Nepal. Organised as a representative body of business organisations in the country, it represents the interests of the private sector and is involved in promotion of socio-economic development of Nepal through private sector led economic growth.

⁸ The Federation of Bangladesh Chambers of Commerce and Industry is the apex trade organisation of Bangladesh, playing a pivotal role in consultative and advisory capacity, and safeguarding the interest of the private sector.

Education is also another important sector which occupies a central position in the Nepal-Bangladesh bilateral relations. Altogether, 4,000 Nepalese students study medicine, engineering, law and other subjects in Bangladesh while Bangladeshi students are in Nepal to pursue higher education in fine arts and development studies, among others. The mutual concordance and accreditation of each other's university degrees and affiliation of more colleges and universities in the future will open up newer vistas of opportunity. In 2017, a total of 29,060 tourists from Bangladesh visited Nepal but the inflow has reduced in the subsequent years due to the COVID-19 pandemic and consequent border closures. Currently, Biman and Himalaya Airlines operate regular flights in the Dhaka-Kathmandu sectors.

Transit Cooperation

The Bangladesh government has given Nepal transit facilities at the Chittagong and Mongla ports. Since September 1997, the overland trade route to Bangladesh from Kakarbhitta to Phulbari and Banglabandha has been functioning. On 10 August 2020, the Bangladesh government agreed to incorporate Rohanpur as a port of call in the Nepal-Bangladesh Transit Agreement. On 22 and 23 March 2021, Nepal and Bangladesh signed an Exchange of Letters, designating the Rohanpur-Singhabad railway route as an additional transit route for traffic-in-transit movement between Nepal and Bangladesh, as well as third-country transit trade.⁹ Again, the private sector of both countries have not been enthusiastic about this facility, largely due to the cumbersome process at the Indo-Nepal and Indo-Bangladesh border points, rendering the transit agreement ineffectual.

Energy Cooperation

One of the most promising areas of collaboration between Nepal and Bangladesh is in the energy sector. The 15th Five-Year Development Plan of Nepal (2019-2024) lays out plans to turn electricity into a commodity that can be exported. Within five years, Nepal intends to increase its 1,250 megawatts (MW) of electricity production to more than 5,000 MW, making it an energy surplus nation. Although there are experts who opine that power consumption within Nepal itself needs to grow rather than be diverted to export and to earn revenue, Bangladesh, on the other hand, aspires to make investments, generate and import surplus energy from Nepal.¹⁰ It must be underscored here that Bangladesh and India require additional power during summer which is their peak season but Nepal needs to import power from India during its winter.

Nepal and Bangladesh have already decided to collaborate on the growth of the energy industry and its commerce. Hydropower in Nepal and gas in Bangladesh present a promising future for development and if properly utilised, these natural resources in both countries will undergo significant development. In August 2018, the two countries signed an energy cooperation agreement and agreed to collaborate on the development of hydropower plants, transmission lines and capacity for both country's energy sectors. Under this

⁹ Embassy of Nepal in Dhaka, Bangladesh, <https://bd.nepalembassy.gov.np/bilateral-relationships/>.

¹⁰ "Bangladesh-Nepal energy cooperation; the horizon of new possibilities", *The Himalayan Times*, 7 September 2020, <https://thehimalayantimes.com/business/bangladesh-nepal-energy-cooperation-the-horizon-of-new-possibilities>.

arrangement, Bangladesh will import up to 9,000 MW of hydropower from Nepal by 2040. The agreement was signed by Nepal's then Energy Minister, Barsha Man Pun and Bangladesh's State Minister for Power, Energy and Mineral Resources, Nasrul Hamid. "This agreement has opened up a new door for the growth of the hydropower sector in Nepal", Pun had stated following the signing of the agreement.¹¹

Similarly, a secretary-level Joint Steering Committee for Energy Cooperation between Nepal and Bangladesh was held on 26 August 2022, and Nepal decided to export 40 to 50 MW of energy to Bangladesh.¹² The exploration of potential government and private sector investments for the growth of the energy sector in both countries, the construction of a dedicated transmission line between Nepal and Bangladesh and the export of 500 MW of electricity generated in the Upper Karnali¹³ to Bangladesh were other notable outcomes of the recent energy talks. However, the export of power from Nepal to Bangladesh will not be possible without Indian consent. This crucial strategic factor of the tri-lateral agreement for power trade has been recognised by the Nepali side, without which exporting electricity to Bangladesh will remain only on paper. Former Nepalese Power Secretary Devendra Karki even says, "India has not listened to our repeated requests on this matter; therefore, we have asked Bangladesh to impress upon India as it seems to have better relations with the current government of India than we do."¹⁴ Under this pretext, the Nepal Electricity Authority and Bangladesh Power Development Board agreed to request India's NTPC Vidyut Vyapar Nigam for a trilateral energy sales and purchase agreement using the Baharampur-Bheramara cross-border power transmission link. The 683 MW Sunkoshi Hydropower Project¹⁵ has also drawn attention from Bangladesh. Similar to this, the Alternative Energy Promotion Centre¹⁶ of Nepal will receive an understanding agreement from the Sustainable

¹¹ Deepak Adhikari, "Nepal, Bangladesh sign energy cooperation deal", *Energy*, 20 August 2018, <https://www.aa.com.tr/en/energy/electricity/nepal-bangladesh-sign-energy-cooperation-deal/21209>.

¹² "Bangladesh to purchase 40-50 MW energy from Nepal", *The Himalayan Times*, 26 August 2022, <https://thehimalayantimes.com/business/bangladesh-to-purchase-40-50-mw-energy-from-nepal>

¹³ The Upper Karnali Hydropower Project is a proposed run-of-the-river hydroelectric plant on the Karnali River in Nepal. It will have an installed capacity of 900 MW, making it the largest hydropower plant in Nepal when achieved. However, most of the generated power is set to be exported to both Bangladesh (about 500 MW) and India (another 292 MW), via a 400 KV double circuit transmission line, with the only remaining 108 MW of total power dedicated to local consumption.

¹⁴ Jagadishwor Pandey, "Nepal's Power export to Bangladesh: Where is it Stuck?", *Kantipur*, 7 November 2022, <https://ekantipur.com/business/2022/11/07/166778503387348623.html>

¹⁵ Sunkoshi 683 MW Hydropower Project, also called Sunkoshi-III Hydroelectric Project, is a proposed power plant to be constructed in an area of 5,520 square kilometres in Kavrepalanchok, Ramechhap, Sindhuli and Sindhupalchowk districts of Nepal. It is proposed to be sponsored jointly by two Bangladeshi conglomerates, Summit Group and United Group along with developers from India and Nepal in cooperation with the governments of Nepal and Bangladesh.

¹⁶ The Alternative Energy Promotion Centre is a government institution established on 3 November 1996 under the Ministry of Science and Technology with the objective of developing and promoting renewable/alternative energy technologies in Nepal. Currently, it is under the Ministry of Energy, Water Resources and Irrigation.

and Renewable Energy Development Authority of Bangladesh¹⁷ for collaboration in solar household systems and alternative energy production.¹⁸

Conclusion

Despite being geographically close and members of the SAARC, BBIN and BIMSTEC, Nepal and Bangladesh have not been able to translate their bilateral ties to mutually beneficial economic relations. There is enormous scope in areas such as trade, investment, connectivity, energy cooperation, education and tourism. There needs to be more frequent visits at the prime minister and foreign minister levels between the two countries. Since Nepal and Bangladesh do not share a border with each other, the two governments need to impress upon India the importance of sub-regional cooperation in South Asia wherein India acts as a facilitator, as it is not only the largest economy in the region but also the only country geographically in between Dhaka and Kathmandu.

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¹⁷ The Sustainable and Renewable Energy Development Authority is a Bangladesh government agency under the Ministry of Power, Energy and Mineral Resources. It is responsible for increasing renewable energy production in Bangladesh.

¹⁸ "Nepal, Bangladesh agree on energy cooperation, beginning with 50MW power trade", *The Kathmandu Post*, 26 August 2022, <https://kathmandupost.com/national/2022/08/26/nepal-bangladesh-agree-on-energy-cooperation-beginning-with-50mw-power-trade>.