

The Bay of Bengal

Political-Economic Transition
and Strategic Implications

Kent E. Calder

Japan-U.S. Program

 THE SASAKAWA PEACE FOUNDATION

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Introduction

Introduction

For most of the past century, if not longer, the worlds of both politics and diplomacy have been conceptualized in terms of land borders and self-contained regions of the world. Academics have spoken of North Africa and Southern Europe, Eastern Europe and Scandinavia, or East Asia and the Middle East as though they were distinct and unrelated parts of the world. Governments have echoed this convention. The US State Department, for example, divides work on Eurasia among the East Asia and Pacific Bureau, the South and Central Asia Bureau, and the Europe and Eurasia Bureau, while the Pentagon operates Pacific, Central, and European Commands within the same geographic space.¹ Many other nations adopt similar arbitrary stovepiping, oriented toward land boundaries.

It was not always so. As the great ruins of Angkor Wat and Borobudur bear witness, Southeast Asia and the Hindu heritage of India were once intermingled. Only a century ago, the Bay of Bengal witnessed one of the greatest out-migrations in history, as large segments of the population traveled from India to man the rubber plantations of Malaya and the tea estates of Ceylon. Until 1947, the Bay of Bengal was almost fully unified politically under the Union Jack. Even the British military itself did not establish a discrete Southeast Asia Command apart from the British Raj in New Delhi until 1943.

Classically, in both the East and West, the seas were considered a means of integration rather than division. The Romans spoke of the Mediterranean as *Mare Nostrum*, or “our sea.” The Teutonic Knights thought similarly of the Baltic. And China has recently begun to consider the South and East China Seas as its Caribbean—a realm of lively economic exchange, but with a deepening geopolitical significance as well.²

As great global empires began arising in the sixteenth and seventeenth centuries, the Spanish Main, stretching from Peru across the Caribbean and Atlantic toward the Hispanic homeland, was an invaluable maritime artery. Through it, wealth flowed back to the royal court in Madrid. For the British, three centuries later, the “All Red Route” from Hong Kong through the Suez Canal and the Strait of Gibraltar back to Southampton were also lifelines of empire, with the seas and the interdependence they spawned an indispensable catalyst.³

As late as World War I, the seas were an integrating mechanism for regional economies of both the East and the West. This pattern, however, dramatically shifted during the 1930s and beyond. An escalation of global geopolitical tensions, driven first by World War II and then by the Cold War, was intensified in Asia by the collapse of empires. Like political-military conflicts, the

¹ The Pentagon Unified Combatant Commands are often known by their acronyms: USCENTCOM, USPACOM, and USEUCOM.

² See Robert D. Kaplan, *Asia's Cauldron: The South China Sea and the End of a Stable Pacific* (New York: Random House, 2014), 32–50.

³ The “All-Red Route” was a steamship route used by Royal Mail ships during the heyday of the British Empire, while the “All-Red Line” was an appellation for the system of electronic telegraphs that linked much of the British Empire.

demise of the British, French, Japanese, Dutch, and Portuguese empires eroded global trade interdependence and escalated political tensions, even as it freed subject peoples. Complex global and regional tensions in turn crippled the broad transregional relationships, by both land and by sea, that had prevailed in previous decades. The world relapsed into the same pattern of arbitrary, land-based boundaries and failure to appreciate the integrative potential of the sea that had prevailed until the recent past.

This monograph is a plea for a new analytical approach to interregional relationships, one that rejects the artificial land-based territorial distinctions that have prevailed over the past seventy years and that explores instead the integrative potential of the oceans and other transnational relationships. This approach suggests that we turn our gaze to bodies of water and to the transnational socioeconomic interaction that episodically transcends them as the central units of analysis. It further suggests that we should examine how and why those socioeconomic forces integrate the land around them or fail to do so. To understand the changing profile of integration across the seas, such analysis considers the functional role of particular bodies of water in their global geo-economic context and how that role changes over time.

Over the past decade, historians have directed increased attention to how patterns of economic and cultural interaction around bodies of water change across the years. Recent studies have been undertaken, for example, on how social and cultural ties around the Baltic Sea and the Bay of Bengal have evolved.⁴ Pathbreaking political-economic research has also shown how epistemic communities from diverse political systems have worked together on environmental protection in the Mediterranean.⁵ Yet broader maritime-centric studies with more explicitly geo-political and geo-economic themes remain to be undertaken. It is the conceptual gap between geographical and political-economic analysis that this study aspires to help fill.

The political economy of the Bay of Bengal presents an unusual combination: an arresting and theoretically important case study in regional geo-economics that also has fateful policy implications. The Bay⁶ lies across the energy sea lanes between Japan, China, and Korea on the one hand, and the Persian Gulf, as well as Africa, through which the bulk of their oil imports and other raw materials must pass. Its future thus has important security implications for all of them, as well as for global powers like the United States. The Bay's protean cycles of integration and disharmony over the years provide rich food for thought. Even today, the political-economic character of the Bay of Bengal is changing in counterintuitive ways as foreign investment increases and new infrastructure projects proceed, enhancing the importance of understanding that body of water's evolution still further.

⁴ See, for example, Michael North, *The Baltic: A History*, trans. by Kenneth Kronenberg (Cambridge MA: Harvard University Press, 2015); and Sunil S. Amrith, *Crossing the Bay of Bengal: The Furies of Nature and the Fortunes of Migrants* (Cambridge MA: Harvard University Press, 2013).

⁵ See Peter M. Haas, *Saving the Mediterranean: The Politics of International Environmental Cooperation* (New York: Columbia University Press, 1990). Even Israel and Arab confrontation states, as well as erstwhile antagonists from colonial wars like France and Algeria were able to collaborate in a common cause.

⁶ Hereafter in this monograph, "the Bay" refers to the Bay of Bengal.

The Bay of Bengal's evolution also presents puzzles for social science theory, puzzles that imbue that evolution with a theoretical importance enhancing its policy significance. Why, for example, did the intense transoceanic interchange that led to Angkor Wat and Borobudur later dissipate? Why did a bustling, integrated thoroughfare of international commerce and cultural exchange across the Bay in the 1930s suddenly become a stagnant backwater of international affairs? Why are some of the Bay's regional conflicts, such as the Rohingya problem, so bitter and intractable, even as others, like offshore oil, are much easier to resolve? And why does the Bay of Bengal show promise of accelerated economic development today?

What meaning do traditional regional concepts such as South and Southeast Asia have, and how might we reconceptualize them? What is the appropriate role of geography, including the functional roles of land and sea, in the analysis of international relations? And what policy significance does the turbulence described in these pages have for US-Japan cooperation? These are all questions raised by the Bay of Bengal case, which we shall begin to address in the following pages.

Chapter I

The Strategic Geography of the Bay of Bengal

Chapter I: The Strategic Geography of the Bay of Bengal

Although remarkably unknown to the general public of the industrialized world, the Bay of Bengal is both distinctive in geographic terms and significant in the global strategic calculus as well. It is one of two large triangular basins within the Indian Ocean and is the largest bay in the world. With an area of around 839,000 square miles (over 217 million hectares), it is almost the size of the Mediterranean, more than one-third larger than the Gulf of Mexico, and more than twice as big as the Sea of Japan.⁷ Several of the world's largest rivers, including the Ganges and the Brahmaputra, empty into it—the rivers discharge more than two and a half billion tons of sediment annually into the Bay, creating a fan of sediments that at the river's mouth is five to seven miles wide and nearly fifteen miles thick.⁸

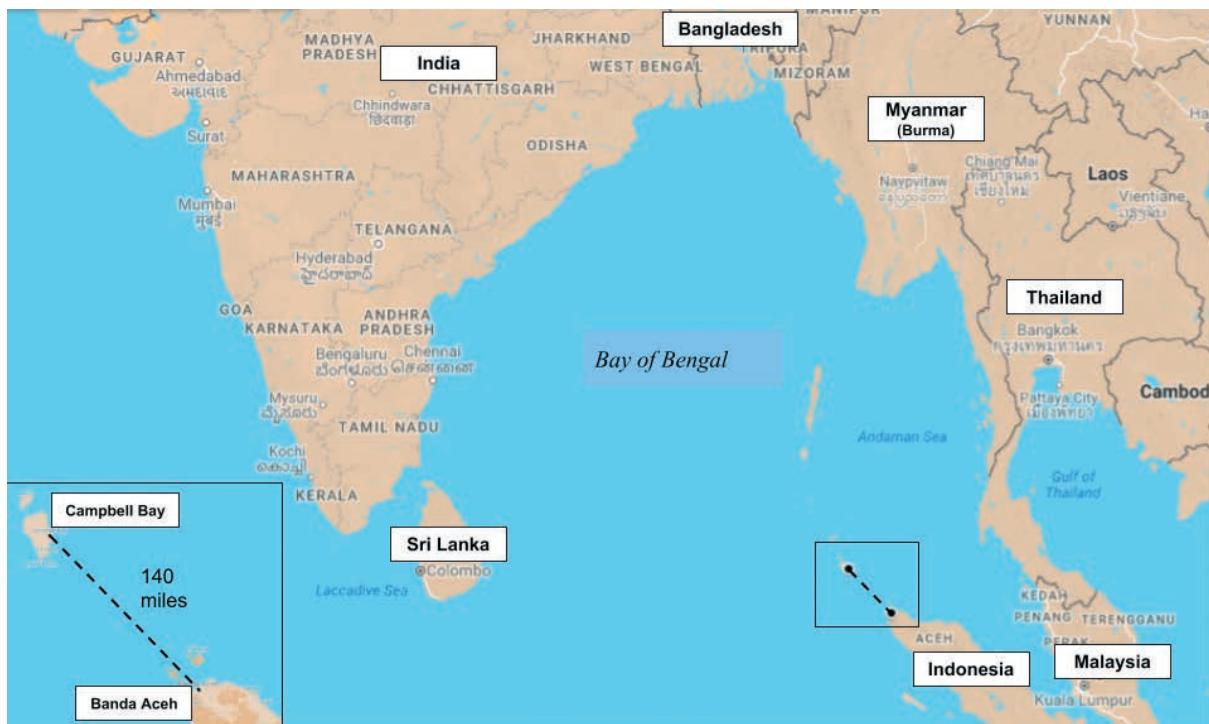
The Bay of Bengal, surrounded in clockwise direction from the southwest by Sri Lanka, India's east coast, Bangladesh, Myanmar, Thailand, Malaysia, and the tip of Sumatra in Indonesia, as indicated in figure 1, connects two Asian subregions that are conventionally considered distinct—South and Southeast Asia. At the margins, they are, as figure 1 also shows, very close geographically. The southernmost of India's Andaman and Nicobar Islands, which is home to India's Campbell Bay naval air station, is only 140 miles (225 kilometers) northwest of Indonesia's Aceh province. And over history, the two supposedly distinct regions have often been linked culturally and even politically, as we discussed below. Yet in recent years, most analysts of international relations, including diplomats, have arbitrarily considered them separately.

Between South and Southeast Asia, to be sure, trade and investment connections are not as robust as geography and markets might seem to dictate. Yet, the seven countries along the shores of the Bay of Bengal, including both South and Southeast Asian states, harbor great potential synergies, both human and material. Together they are home to fully one-quarter of the population, and include three of the ten most populous nations on earth.⁹

⁷ The Mediterranean Sea covers about 965,000 square miles, the Gulf of Mexico covers 615,000 square miles, and the Sea of Japan covers 378,000 square miles.

⁸ Amrit, *Crossing the Bay*, 9.

⁹ India, with over 1.32 billion people, has the second largest population on earth, while Indonesia (261 million) has the fourth largest, and Bangladesh (163 million) the eighth largest. See World Bank, *World Development Indicators* (Washington DC: World Bank, 2016).

Figure 1. The Bay of Bengal links South and Southeast Asia

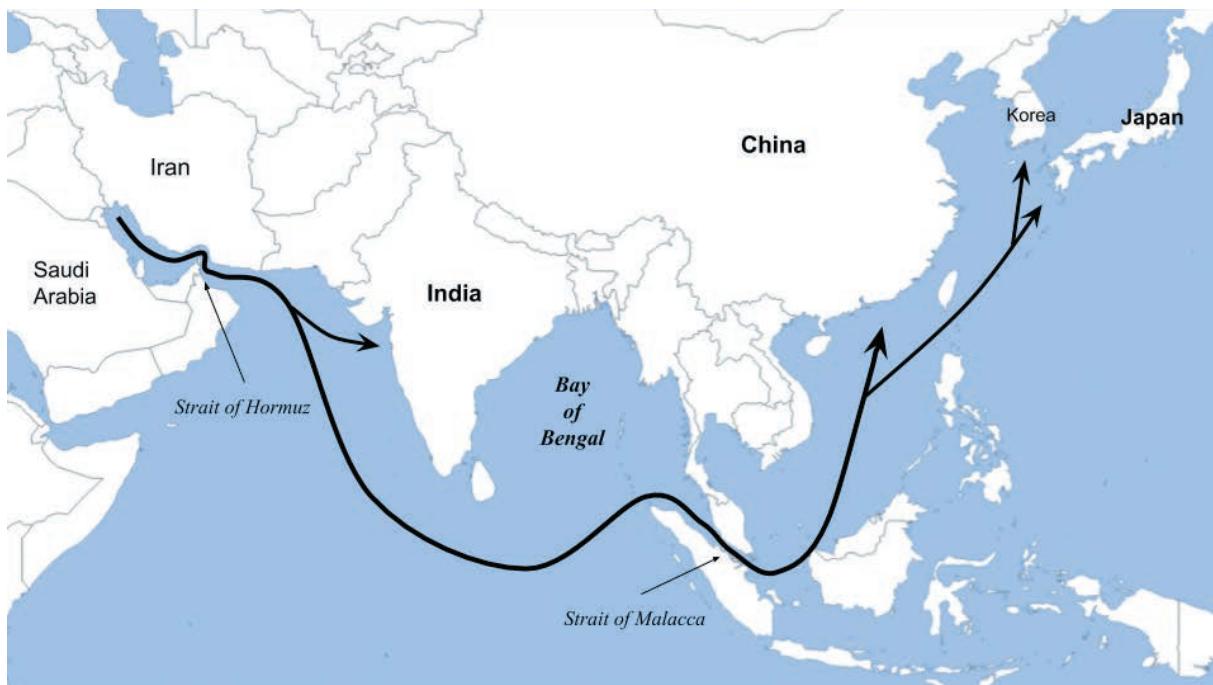
Source: Author's illustration with Google Map.

The Bay of Bengal, in both its South and Southeast Asian dimensions, also holds strategic importance in the broader Eurasian calculus. Around a third of all international trade by volume—concentrated especially in energy—crosses the southern end of the Bay, from the Persian Gulf, past Sri Lanka, the Andaman Islands, and onward to the Strait of Malacca.¹⁰ Japan, Korea, and Taiwan import virtually all of their hydrocarbons, and mainland China well over half.¹¹ The bulk of those oil and gas supplies come from the Persian Gulf, transported through the Bay of Bengal along the way, as noted in figure 2. Important raw material supplies, including iron ore, coal, natural gas, and oil, also flow from Africa, with China as an especially prominent destination.

¹⁰ See China Power Project, Center for Strategic & International Studies, “How much trade transits the South China Sea?” China Power, August 2, 2017, <https://chinapower.csis.org/much-trade-transits-south-china-sea/>.

¹¹ See International Energy Agency, *Energy Supply Security 2014* (Paris: OECD/IEA, 2014), 272, 287, and 527; and Sih Ting Jhou and Huei-Chu Liao, “Taiwan’s Severe Energy Security Challenges,” Brookings, September 12, 2013, <https://www.brookings.edu/opinions/taiwans-severe-energy-security-challenges/>.

Figure 2. The Bay of Bengal and Northeast Asia's energy sea lanes



Source: Author's illustration.

As indicated in table 1, Asian nations do vary to some extent in their reliance on the Persian Gulf. China, in particular, has exerted major efforts to diversify its sources of energy and raw materials away from the Gulf, and toward Russia in particular. This is reducing its overall dependence on the Gulf and Africa, as is also shown in table 1. The rising volume of imports from Brazil, however, does not necessarily have this effect, as such cargoes can come via the Indian Ocean. And Yunnan's new outlet to the sea through Myanmar will certainly also increase dependence on the Bay of Bengal from China's southwestern provinces.

The geoeconomic importance of the Indian Ocean sea lanes traversing the Bay of Bengal has risen sharply since the end of the Cold War, especially for China. Until mid-1993, China was a net oil exporter. Today, it imports over 8 million barrels a day, mainly along the sea lanes described above.¹² Japan also imports around 3.2 million barrels a day along these sea lanes,¹³ and Korea 3 million.¹⁴

¹² In 2017, China surpassed the United States as the largest crude-oil importer in the world, importing 8.4 million barrels daily. See US Energy Information Administration, "China surpassed the United States as the world's largest crude oil importer in 2017," Today in Energy, February 5, 2018, <https://www.eia.gov/todayinenergy/detail.php?id=34812>.

¹³ Japan's crude oil imports in 2017 fell to their lowest level since 1988—3.22 million barrels per day. See Reuters Staff, "Japan 2017 thermal coal imports hit record, LNG up for first year in three," *Reuters*, January 23, 2018, <https://www.reuters.com/article/energy-japan-imports-idAFL4N1PJ1DT>.

¹⁴ See Jane Chung, "S.Korea's Dec Iranian crude oil imports drop over 30 pct y/y," *Reuters*, January 14, 2018, <https://www.reuters.com/article/southkorea-oil-iran/update-1-s-koreas-dec-iranian-crude-oil-imports-drop-over-30-pct-y-y-idUSL4N1P71FA>.

Table 1. Top 10 crude oil suppliers to Northeast Asia

Top 10 crude oil suppliers (% of total crude oil imports)	Japan		China		Korea	
	2006	2016	2006	2016	2006	2016
1	Saudi Arabia (31)	Saudi Arabia (35)	Saudi Arabia (19)	Russia (14)	Saudi Arabia (34)	Saudi Arabia (30)
2	UAE (25)	UAE (25)	Angola (16)	Saudi Arabia (13)	UAE (18)	Kuwait (14)
3	Iran (12)	Qatar (9.3)	Iran (12)	Angola (12)	Kuwait (11)	Iraq (11)
4	Qatar (11)	Russia (6.5)	Oman (9.5)	Oman (9.6)	Iran (7.7)	Iran (10)
5	Kuwait (6.6)	Iran (6.4)	Russia (8.9)	Iraq (9.1)	Qatar (5.2)	Qatar (8.8)
6	Indonesia (3)	Kuwait (6.1)	Republic of Congo (3.7)	Iran (8)	Oman (4.3)	UAE (8.7)
7	Sudan (2.9)	Mexico (2.6)	Equatorial Guinea (3.7)	Brazil (5.2)	Australia (3.5)	Russia (4.4)
8	Oman (1.5)	Iraq (2.1)	Yemen (3.1)	Kuwait (4.1)	Indonesia (2.5)	Mexico (2.3)
9	Iraq (0.89)	Indonesia (1.7)	Sudan (2.8)	Venezuela (3.9)	Brunei (1.6)	Oman (1.4)
10	Vietnam (0.79)	Oman (1.3)	Libya (2.5)	UAE (3.3)	Iraq (1.5)	Equatorial Guinea (1.3)
Total imported via Bay of Bengal	90.89	85.2	72.3	59.1	81.7	85.2

Source: “Where does Japan import Crude Petroleum from? (2006, 2016)” “Where does China import Crude Petroleum from? (2006, 2016)” and “Where does South Korea import Crude Petroleum from? (2006, 2016)” in A. J. G. Simoes and C. A. Hidalgo, “The Economic Complexity Observatory: An Analytical Tool for Understanding the Dynamics of Economic Development” (Workshop presentation, 25th AAAI Conference on Artificial Intelligence, 2011).

Note: The bottom row of the table calculates the amount of crude oil imported from the top 10 sources in the Persian Gulf and Africa, which would therefore be transported via the Bay of Bengal.

Over the past decade, Korea’s dependence on the Gulf has actually risen. For all three of these major Northeast Asian powers, it remains well over 50 percent, as table 1 indicates, making the transit role of the Bay of Bengal crucial to the region, especially in terms of the energy supply. China’s concerns are particularly pronounced, both because its imports are rising the fastest of the three nations and also because it has the most delicate relations with the maritime powers dominating the sea lanes—especially the United States and India.

China’s energy dependencies on the Gulf and Africa appear fated to deepen in future years, further amplifying the importance for Northeast Asia of the energy sea lanes transiting the southern reaches of the Bay of Bengal, even as the United States becomes a significant energy

exporter.¹⁵ China is actively developing overland energy ties with Russia and Central Asia, as well as alternative energy options like solar power, while at the same time engaging in active energy saving and moving to electric vehicles. Given its huge population, still-low per capita energy consumption, and rapid economic growth, however, China's dependence on the Indian Ocean energy sea lanes will almost certainly deepen in coming years.

India inevitably looms large over the same sea lanes through which China's oil supply—and that of its neighbors—must inevitably pass. The Andaman and Nicobar Islands, where India has major military bases, pose a particularly formidable presence right at the northwestern entrance to the Malacca Strait. The Indian military also has multiple bases on other Indian territory in the Bay of Bengal, making Sri Lanka—just off India's southeastern tip—especially strategic from the Chinese standpoint.

The explosive pace of China's internal development over the past two decades is creating new strategic imperatives for the country as a whole. One of the most important developments for the Bay of Bengal is the rapid growth of China's southwestern provinces, especially Yunnan, which lies only 700 miles (1,125 kilometers) northeast of the Bay itself. Southwestern China is decidedly lacking in energy resources despite extensive hydroelectric production, and transport routes between the region and China's east coast are long and complex. Access routes from Kunming to the sea through Myanmar or its neighbors are infinitely superior, as figure 3 suggests.

The Bay of Bengal is thus naturally distinctive for the political and economic role that it is fated to play in the emerging relationship between India and China. Before the days of steamers, the Bay was important in economic terms for its powerful monsoon winds, alternately flowing to and from the Indian subcontinent, which powered dhows, junks, and other sailing ships on their passage to and from the Strait of Malacca and the South China Sea.¹⁶ Over the past twenty years, the Bay has served as a transit point for energy and raw materials to both of these rapidly growing Asian giants. And in the future, as the hinterlands of India and China grow, the Bay of Bengal could become increasingly important, as suggested above, for the direct trading access that it increasingly provides to those hinterlands themselves. Such access creates important common incentives among the nations of the region for mutual cooperation, even as it breeds geopolitical tensions also.

¹⁵ US crude oil exports hit an all-time high at 2.13 million barrels per day in late October 2017. According to the EIA's latest forecasts, the US is on pace to be a net energy exporter by 2022. See Tom DiChristopher, "US crude oil exports hit all-time high as production also closes in on record," *CNBC*, November 1, 2017, <https://www.cnbc.com/2017/11/01/us-crude-oil-exports-hit-all-time-high-as-output-closes-in-on-record.html> and "US will be a net energy exporter by 2022, four years sooner than expected, Energy Department says," *CNBC*, February 7, 2018, <https://www.cnbc.com/2018/02/07/united-states-will-be-a-net-energy-exporter.html>.

¹⁶ The monsoons have been especially powerful and predictable due to the way they are generated by the Asian land mass, and the way that the massive Himalayan mountain range shapes air flows across it. See Robert D. Kaplan, *Monsoon: The Indian Ocean and the Future of American Power* (New York: Random House, 2010), 135–37.

Figure 3. The geographical attractions for China's Southwest of southern access routes

Source: Author's illustration with Google Map.

As figure 4 makes clear, the most efficient maritime access for India's northeastern states—all inland, yet close to the Bay of Bengal—is southward through Bangladesh. Bhutan and to some extent Nepal have the same imperative. Similarly, the most efficient maritime access for China's rapidly growing southwestern provinces, especially Yunnan, is also southward to the sea, through Myanmar. Southern access to the sea is especially important for China with respect to energy, since energy demand is growing rapidly in the country's interior, and hydrocarbons there are scarce. Both natural gas and oil pipelines between Yunnan and Myanmar's Kyaukphyu on the Bay of Bengal have been completed. The gas pipeline began operation in July 2013,¹⁷ and the oil pipeline almost four years later, in April 2017.¹⁸ In November 2017, Chinese Foreign Minister Wang Yi proposed an even more ambitious China-Myanmar Economic Corridor project that would strengthen infrastructural ties from Yunnan to the Bay of Bengal, both at

¹⁷ China National Petroleum Corporation (CNPC), "Myanmar-China gas pipeline starts delivering gas to China," July 31, 2013, <http://www.cnpc.com.cn/en/nr2013/201307/1c7e55cca901496483f14b96c6471a6d.shtml>.

¹⁸ CNPC, "Myanmar-China Crude Pipeline officially put into operation," April 11, 2017, <http://www.cnpc.com.cn/en/nr2017/201704/fb3ec32752134be884529e5523c0e80d.shtml>.

Kyaukphyu and at Myanmar's capital of Yangon.¹⁹

As Asia's two rising giants continue to grow, their energy demand will steadily increase, making the "backdoor" to the sea that the Bay of Bengal provides increasingly important, particularly for Yunnan and India's Northeast. The heavy population concentration around the Bay—upwards of 400 million people living around its shores—should also make intraregional trade flows important in their own right. Yunnan's capital city of Kunming, after all, is less than 1,000 miles (about 1,600 kilometers) from the huge population concentrations of Kolkata in India's West Bengal and Dhaka in Bangladesh. As infrastructure begins to develop around the Bay and in surrounding regions, underlying regional complementarities, combined with the potentially huge local markets could provoke a major surge of economic growth.

Figure 4. China's Southwest and India's Northeast in close proximity



Source: Author's illustration with Google Map.

In Conclusion

The Bay of Bengal, as we have seen, occupies a central role in the emerging global strategic calculus for several reasons, having to do both with basic geography and its transformation by economic trends and defense technology. First, this is the largest bay in the world—more than twice the size of the Sea of Japan, located close to southern China, and capable of serving as an

¹⁹ Ministry of Foreign Affairs of the People's Republic of China, "Wang Yi: China Proposes to Build China-Myanmar Economic Corridor," November 20, 2017, http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1512583.shtml.

important strategic bastion for both conventional maritime and submarine activities. Secondly, it connects two regions—South and Southeast Asia—that have long been considered distinct, but which are increasingly integrated in geoeconomic terms.

Thirdly, the Bay of Bengal is strategically important because it lies astride the sea lanes from the Persian Gulf to Northeast Asia, through which one-third of world trade by volume, including over half of Northeast Asia's hydrocarbons, must flow. In this respect, the Bay is similar to the South China Sea, except that it lies to the west of the Strait of Malacca rather than to the east. The Bay of Bengal is also potentially China's "backdoor" to the Indian Ocean, with transit across the Bay allowing Chinese traffic to avoid the Strait of Malacca chokepoint. Although relatively unknown to observers outside the South and Southeast Asian region, the Bay thus has an implicit importance that will likely make it a topic of enhanced strategic interest, particularly to China and India, as those emerging Asian powers continue to rise in coming years.

Chapter II

Historical Perspectives:
Between Integration and Autarky

Chapter II: Historical Perspectives: Between Integration and Autarky

For the past five or six decades, the Bay of Bengal has been a quiet and, in many ways, parochial corner of the world, isolated from major global currents that have convulsed international economic, financial, and security affairs in Europe, the United States, and Northeast Asia. None of the Bay's main littoral nations were deeply involved in the Vietnam War, nor were they protagonists in the Cold War. Scrupulous neutrality and nonalignment was a prevailing pattern before the geoeconomic tensions of the past decade began to rise.

With the world's second largest population and two decades of rapid growth behind it, India is clearly a rising power in world economic affairs. Otherwise, the Bay of Bengal nations have cut a lower economic profile. None are among the major trade and financial surplus countries of the world. Conversely, none are egregious debtors. None are major current participants in international trade, major magnets for foreign investment, or participants in major global production chains. Intraregional trade is also subdued.

The likelihood that the Bay of Bengal's recent detachment from the turbulence of global political-economic affairs can continue in the future is very low, as will be explained in the succeeding pages. And the region's past certainly shows a more involved and volatile pattern than the present. Indeed, by reviewing the Bay of Bengal's turbulent past, so often intertwined with broad global economic trends and human migrations, we can clearly see why the placid and parochial patterns recently prevailing within the region seem unlikely to persist.

This monograph is principally concerned with the present and future of the Bay of Bengal, and consequently will limit its consideration of elements from the past to those with special bearing on the future. Six aspects of the Bay's complex heritage are particularly material to deepening our understanding of future prospects. The first is a historically recurring pattern with roots in geography and geophysics: the biannually recurrent monsoon, which is especially pronounced in the Bay of Bengal and has animated the Bay's distinctive geopolitical role over the centuries, as multiple experienced observers have maintained.²⁰

Other major aspects of the Bay's history with major future implications include (1) the Bay of Bengal's longstanding role as a corridor between India and China, thanks in part to the strength and predictability of the monsoon winds; (2) the cyclical pattern of political-economic engagement and isolation that has characterized nations and peoples of the Bay; (3) the great surges of economically driven outward migration from India, which have profoundly colored relations with other parts of the region; (4) the impact of critical junctures in politics, such as British India's 1947 partition and the 1971 Indo-Pakistani War, both of which reconfigured boundaries as well as human relationships; and (5) acts of nature, including periodic cyclones and the 2004

²⁰ See, for example, Amrit, *Crossing the Bay of Bengal*; and Kaplan, *Monsoon*.

tsunami, which have instilled in the people of the region a profound sense of vulnerability, fatalism, and receptivity to outside assistance. Taken in the aggregate, this historical heritage has left an enduring imprint on both world view and institutions in the Bay of Bengal that profoundly configures options for the future.

The Omni-present Monsoon

In the era of sailing ships, weather naturally influenced economic life everywhere in the world. In few places, however, has it been as predictable as in the Bay of Bengal, or so powerfully supportive of transportation. As Kaplan points out, “The monsoon—from the Arabic *mausim*, meaning ‘season’—is one of the earth’s ‘greatest weather systems,’ generated by the planet’s very rotation, and also by climate.”²¹ It has an especially strong impact in the Bay of Bengal due to the geographical configuration surrounding it—the Indian Ocean’s northern shores near the Tropic of Cancer heat up readily in the summer, leading to spectacularly high temperatures that cause local air to rise, and to allow cooler, moist air from the sea to enter. This cool, moist air meets dry, hot air from the interior of Asia, producing clouds and rain in a remarkably precise chronological pattern, enforced by the huge mass of the Himalaya mountains behind. The summer monsoons drench the Bay with precipitation, as suggested in figure 5, as moist maritime air flows in toward the steadily heating mass of the Asian continent. In October come cyclones and accelerated turbulence, as the winds shift before the drier northeast monsoons begin. The monsoons have historically been remarkably predictable, most likely because the geographical elements that determine the emergence and path of the monsoon (i.e., the formidable mountain range, the position of the sun, etc.) are largely fixed.²²

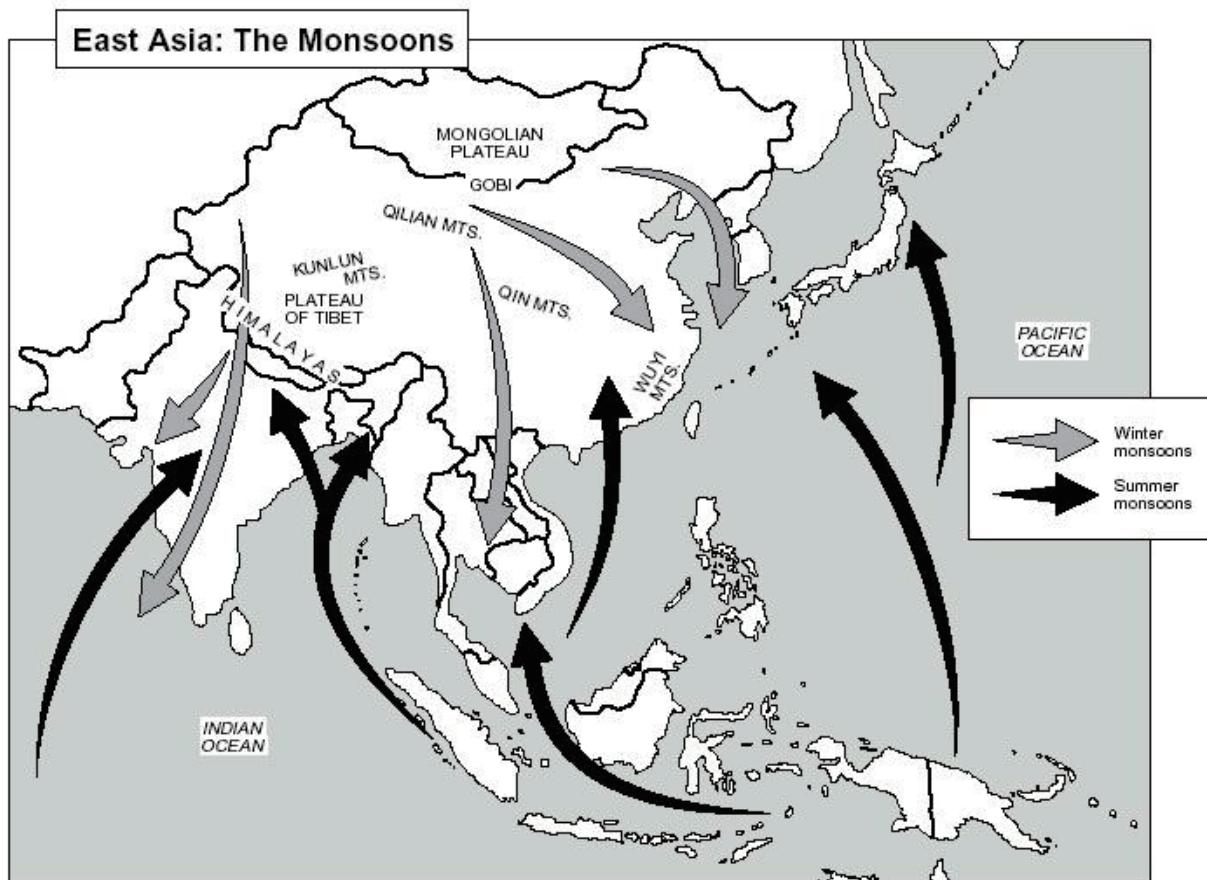
Because the Bay of Bengal’s monsoons historically have been so predictable, seafarers realized from early times that they could use these powerful air currents to assure efficient long-distance travel. Close to two thousand years ago, coasting vessels, and catamarans, plied the coasts of the Bay, gliding on the predictable monsoon winds. Indeed, Ptolemy described voyages from the Ganges across the Bay of Bengal to the Strait of Malacca as early as the second century AD.²³ These more primitive Indo-Arab vessels were joined around the fourteenth century by Chinese ships, known to the Europeans as “junks,” that could carry up to a thousand passengers and a thousand tons of cargo. During the period from 1405 to 1433, the Chinese Muslim admiral Zheng He led expeditions to procure tribute and expand Chinese political influence in the Indian Ocean, visiting Ceylonese ports en route, at the southwestern entrance to the Bay.

²¹ Kaplan, *Monsoon*, 137.

²² The Himalayas act on the monsoon in two ways: (1) the Tibetan plateau heats up during summer and thereby establishes an atmospheric circulation that is conducive to the monsoon; and (2) The vast Himalayan mountain range acts as a towering barrier, preventing cold, dry air prevailing in the northern latitudes over Tibet and Mongolia from entering the Indian subcontinent and suppressing the warm, moisture-laden winds from the oceans that drive the monsoon. The Himalayan barrier also deflects the monsoon southeastwards after reaching the Ganges valley toward Myanmar and thence toward the Malay peninsula. See T.N. Krishnamurti, “Indian monsoon,” *Encyclopaedia Britannica*, October 12, 2015, <https://www.britannica.com/science/Indian-monsoon>.

²³ Joseph R. Morgan, Philomene A. Verlaan, and Suri Balakrishna, “Bay of Bengal,” *Encyclopaedia Britannica*, September 24, 2009, <https://www.britannica.com/place/Bay-of-Bengal>.

Figure 5. A boon to long-distance travel—prevailing monsoons on the Bay of Bengal



Source: Ashish Xanathis Nangia, “Monsoon Masala: Water Architecture in India,” *WordPress.com*, September 8, 2013, <https://indiaarchitecture.wordpress.com/2013/09/08/monsoon-india-architecture/>.

Asian Giants Intertwined

Thanks to the highly predictable monsoon winds, these later seafarers with their durable ships were able to open up commerce between China and India, beginning around the Southern Song dynasty (1127–1279). The seafarers were by no means all Chinese. The Chola Empire of South India also figured importantly in the early history of the Bay. Indeed, following their expansion into Sri Lanka and the Maldives in the early decades of the eleventh century, the Cholas created the first real Bay of Bengal empire.²⁴ Challenging the Cholas for supremacy over the Bay was the empire of Srivijaya, based at Palembang on the island of Sumatra, which sought to control the Strait of Malacca. Chola, in response, launched a successful military expedition across the Bay of Bengal in 1025 to assert naval supremacy over the Bay—the first of several efforts in succeeding centuries by the Portuguese, the Dutch, the British, and the Japanese, among others.²⁵

²⁴ Amrit, *Crossing the Bay of Bengal*, 14.

²⁵ Ibid., 16.

Not surprisingly, for many centuries the Bay of Bengal was known as the “Chola Sea,” or the “Chola Lake,” reflecting the ascendancy of the Chola Empire.²⁶ Chola influence waned after the thirteenth century, however, with the rise of the Pandyans. Following Vasco da Gama’s arrival at Calicut in 1498, it was the Portuguese who were ascendant. It was also the Portuguese who gave the maritime region its enduring modern name: the *Golfo de Bengala*, or Bay of Bengal.

Cycles of Engagement and Isolation

Although the predictability of the monsoons has been a historical constant, giving rise to long-distance trade and efforts at conquest across the Bay of Bengal, the region nevertheless has experienced sharp fluctuations over the centuries in the extent of its integration with the broader world. The eleventh through the fifteenth centuries, as suggested above, were an era of vigorous cross-regional interaction, during which Islam took root throughout much of the region. Through their imperial aspirations, the Portuguese, the Dutch, and finally the English served as integrators, with the degree of trade and human interdependence rising notably under British imperial rule, from roughly 1840 until 1940.

An Age of Interdependence Across the Bay

The most momentous socioeconomic development to occur during the nineteenth century era of interdependence across the Bay of Bengal was the massive surge of migrants outward from overpopulated India. Of the almost 30 million people who left India between 1840 and 1940, more than 90 percent traveled back and forth between India and just three locations: Burma, Malaya, and Ceylon, which were also British colonies.²⁷ All, of course, are located on the rim of the Bay of Bengal, where export-oriented cultivation of rice, rubber, and tea, enabled by these massive labor flows, took on global economic significance. Malaya, for example, by the 1920s supplied the majority of the rubber consumed in the American automobile industry, with most of it tapped by Indian migrant workers coming from across the Bay.²⁸

This migration around the Bay of Bengal was massive, even from a global comparative perspective. Around 26 million immigrants arrived in the United States between 1870 and 1930, or slightly less than migrated across the Bay of Bengal, albeit over a somewhat longer period. Around 19 million Chinese immigrated to Southeast Asia during 1840–1940, thus providing a comparable benchmark to India’s outward flows. The big difference between the Atlantic and Asian migrants was that the Atlantic migrants tended to remain in their country of destination, while the Asians were more prone to return home. By the end of the 1930s, there were between 6 and 7 million Indians, and roughly the same number of Chinese, settled overseas. There were

²⁶ Ibid., 18.

²⁷ Amrit, *Crossing the Bay of Bengal*, 28 and 104. Around 8 million people traveled from India to Ceylon, 4 million to Malaya, and between 12 and 15 million—the bulk of the total—to Burma. A large portion (reportedly well over half) returned to India within three to seven years. Most of this migration occurred after 1870.

²⁸ Ibid., 29.

around 85 million people of British origin—almost six times as many as the combined totals for Indians and Chinese—living outside the British Isles at that time.²⁹

The interdependence that emerged across the Bay of Bengal during the nineteenth century was not limited to the realm of migration. Transportation and communication links also developed with remarkable speed. In 1861, the first steamer service commenced between Calcutta and Rangoon. A decade later, in 1871, telegraph cables were first laid across the Bay. In 1904, a contract was concluded for the first railway between Chittagong in India and Yunnan in China. And in the 1920s, the Bay of Bengal was crossed by air for the first time.³⁰ Over half a century, the Bay, under British imperial dominance, thus became more and more tightly integrated—both internally and with the broader world.

The Capricious Impact of Nature

Uncertainty is a transcendent fact of life in the Bay of Bengal. That uncertainty begins with the natural environment. More than virtually any other part of the world aside from the two poles, the Bay of Bengal has been plagued by extremes of nature.

The Bay of Bengal experiences heavy rainfall during the late spring to summer monsoon seasons, which on occasion inflicts dislocation. Far more damaging, however, are the major cyclones—at least two or three a season—which produce torrential rain, high winds, and storm surges. In 1970, Cyclone Bhola laid waste to eastern Bangladesh, destroying Chittagong and killing around 300,000–500,000 people.³¹ In 2008, Cyclone Nargis devastated the Irawaddy Plain of Myanmar, killing huge numbers of people.³² Both disasters had major political ramifications, with the immense human suffering and dissatisfaction with government responses leading to major changes of government in both cases. The 2004 Indian Ocean earthquake and tsunami affected more than 500,000 people, killed nearly 230,000, and caused more than \$10 billion in physical damage.³³ The immense magnitude of the disaster also generated political fallout, giving increased credibility to the human security concept throughout the region.

Critical Junctures and the Decline of Interdependence

More than a century of British colonial dominance prior to World War II thus imparted considerable regional coherence to the Bay of Bengal. Advances in transport and communications

²⁹ Ibid., 104.

³⁰ Ibid., 22 and 107.

³¹ “1970—The Great Bhola Cyclone,” Hurricanes: Science and Society, University of Rhode Island, <http://www.hurricanescience.org/history/storms/1970s/greatbhola/>.

³² “2008—Cyclone Nargis,” Hurricanes: Science and Society, University of Rhode Island, <http://www.hurricanescience.org/history/storms/2000s/cyclonenargis/>.

³³ Casualties included over 167,000 fatalities in Indonesia, 35,000 in Sri Lanka, 16,000 in India, and 8,200 in Thailand. See “December 26, 2004 Sumatra, Indonesia Earthquake and Tsunami – Tenth Anniversary Update,” National Centers for Environmental Information, US National Oceanic and Atmospheric Administration, December 11, 2014, https://www.ngdc.noaa.gov/hazard/data/publications/2004_1226.pdf.

technology knit the region ever more tightly and migration was substantial. That migration would profoundly affect the demographic composition and sociopolitical character of several countries in the region, including Burma, Malaya, and Ceylon, as will be shown in chapter III, but the colonial interlude initially appeared to be a stabilizing factor.

Three sudden political earthquakes, however—in 1941, 1947, and 1971 respectively—rocked the Bay of Bengal and shattered the stability and interdependence of the preceding years. The first occurred in December 1941, when the Japanese invaded Burma, thereby cutting off 15 percent of India's rice supply and sundering the rice trade that had been a fundamental element of economic interdependence across the Bay of Bengal.³⁴ This abrupt curtailing of Burma's vital rice exports to India led to acute food shortages in Bengal, and a raging famine that killed 3 million people in 1942–1943.³⁵

In March 1942, the Japanese overran the strategically important Andaman Islands and approached Ceylon. In early April, Admiral Chuichi Nagumo's aircraft carriers attacked the capital city of Colombo, inflicting major damage on British forces, and soon thereafter staged an air raid on the British naval base at Trincomalee.³⁶ Following the battle of Midway in June, however, the Imperial Navy retrenched to the Pacific.

The Japanese did grant the collaborationist Provisional Government of Free India, led by Subhas Chandra Bose, a small yet symbolic piece of their conquered territory—the Andaman and Nicobar Islands, in the very heart of the Bay of Bengal.³⁷ And the Japanese Imperial forces did attempt to invade Assam during 1944–1945, supported by the Indian National Army affiliated with Bose. Although the Japanese occupied virtually all of Southeast Asia, however, they made little headway in India, intensifying the regional separation between the western and eastern coasts of the Bay of Bengal that was historically anomalous and yet was beginning to crystalize in Western minds.

The British were the principal authors of this separation, which was to have long-term political-economic consequences. Economic forces—the downturn that began with the Great Depression and the collapse of commodity prices in the early 1930s—were, to be sure, the initial catalyst, as they led to a huge repatriation of Indian guest laborers who had been employed at the rubber plantations of Malaya and the tea plantations of Ceylon. Those economic pressures were compounded, however, by political separations that came at turbulent and critical junctures. First, Burma was separated from India by the British Raj in 1937. In 1943, at the height of World War II, the allied Southeast Asia Command was formed, headquartered in Ceylon, with responsibilities throughout the Bay of Bengal and onward to the east—but from which India was excepted. Another political act undermining the previous unity of the Bay was the wartime suspension of civilian shipping, which continued until 1947, when other political forces arose

³⁴ See John Rickard, “Japanese conquest of Burma, December 1941–May 1942,” History of War, September 2, 2009, http://www.historyofwar.org/articles/campaign_burma_japanese.html.

³⁵ Amrit, *Crossing the Bay of Bengal*, 208.

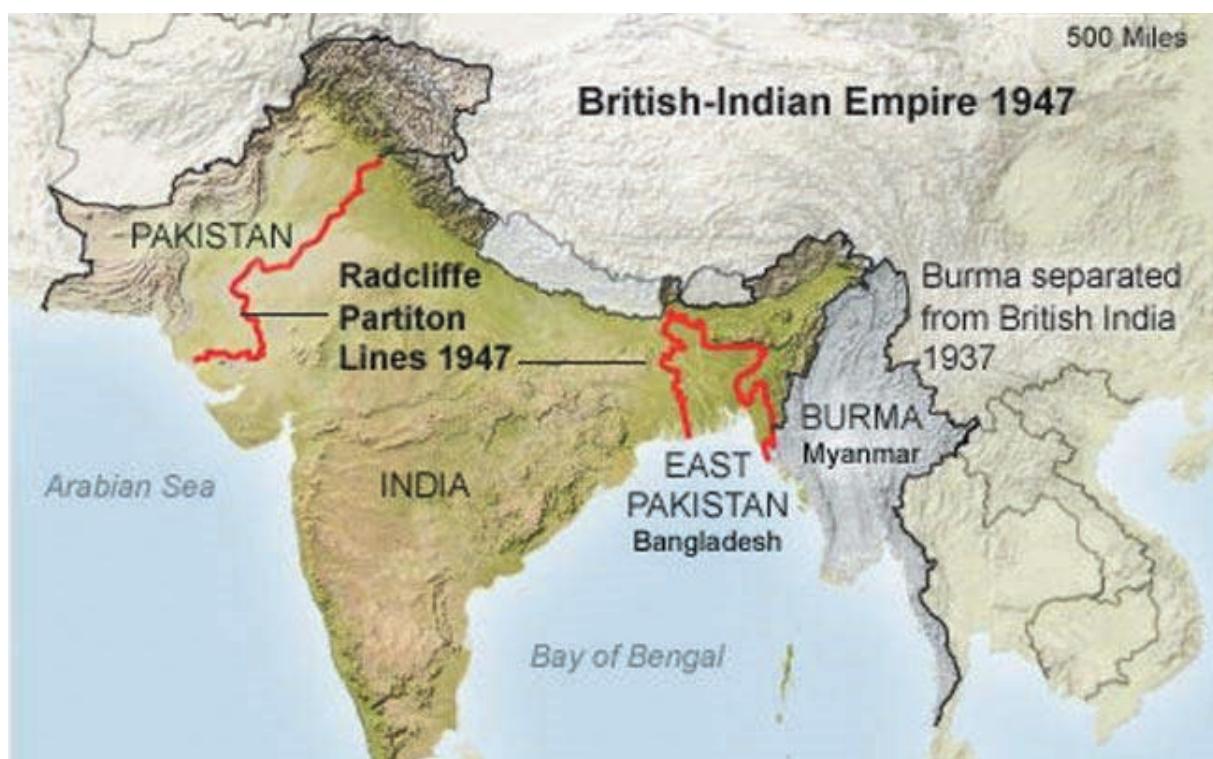
³⁶ Ibid., 197.

³⁷ Ibid., 199.

to more seriously undermine interdependence.³⁸

The most decisive critical juncture responsible for unravelling interdependence across the Bay of Bengal was without doubt the partition of India.³⁹ Before partition, colonial India under the British Raj was an expansive semicontinental power, as noted in figure 6, extending from the environs of the Persian Gulf to the eastern shores of the Bay of Bengal. Burma, as noted above, was hived off in 1937, and then a decade later, at midnight on August 14–15, 1947, came the simultaneous independence of a self-governing, predominantly Hindu India and an Islamic Pakistan.

Figure 6. Greater integration under the British Raj



Source: "Radcliffe Line to divide India-Pakistan was formed this day: Read about it here," *India Today*, August 17, 2016, <https://www.indiatoday.in/education-today/gk-current-affairs/story/radcliffe-line-335614-2016-08-17>.

Partition of the Indian sub-continent triggered a savage religious conflict, leading to the displacement of over 15 million people from their homes, and up to 2 million fatalities.⁴⁰ In the Bay of Bengal, partition led to the abrupt and bitter division of Bengal, one of colonial India's most populous and culturally coherent provinces, which was situated at the northern fulcrum of the

³⁸ Ibid., 214.

³⁹ On this fateful development and its longer-term political-economic implications, see Yasmin Khan, *The Great Partition: The Making of India and Pakistan* (New Haven: Yale University Press, 2007).

⁴⁰ See William Dalrymple, "The Great Divide: The violent legacy of Indian Partition," *The New Yorker*, June 29, 2015 issue, <https://www.newyorker.com/magazine/2015/06/29/the-great-divide-books-dalrymple>.

bay and was thus a key transition point between South and Southeast Asia. Almost as serious as the hostilities and the disruption of transportation were the resettlement issues in overpopulated nations of loose borders and identity checks. These problems were compounded by local failures to enact timely citizenship laws that might clearly define where migrants belonged. In India, for example, the citizenship clause of the national constitution did not take final form until 1955—eight years after partition.⁴¹ In the meantime, bitterness steadily festered.

Even after partition, nationalist leaders across the Bay of Bengal, exultant at having achieved self-determination following the expulsion of the British, continued to harbor some aspirations of *comity*. Jawaharlal Nehru, India's first prime minister, spoke optimistically in the late 1940s of prospects for an “Asian federation.” This sentiment was echoed by General Aung San, the Burmese nationalist leader. Sarat Chandra Bose—respected Bengali nationalist leader and the elder brother of Subhas, who had led the pan-Asian Indian nationalists during World War II—spoke in 1948 of a “United Nations of South Asia,” to include India, Pakistan, Ceylon, and Burma. Bose envisioned that South Asian United Nations to be a supranational body that, while respecting the sovereignty of its constituent states, would move toward economic unity and “enunciate a doctrine somewhat similar to the Monroe Doctrine for the Indian Ocean.”⁴²

Leadership aspirations for federation in the post-colonial era, however, proved futile. Burmese independence in 1948, following closely in the wake of partition, complicated interdependence around the Bay of Bengal still further. Burma, with its fertile lands and abundant rainfall, had been a traditional food exporter. In the confusion of the Depression and World War II, when the Malthusian pressures of overpopulation and periodic famine had reigned on the Indian subcontinent, and trade across the Bay had been constricted, substantial migration from Islamic East Bengal flowed into northwestern coastal Burma.

As nationalistic pressures rose within Burma, under circumstances where citizenship and national identity were ambiguous, protectionism and suspicion of migrants ran rampant. That incendiary sociopolitical cauldron gave rise to the tragic Rohingya problem along the Rakhine coast of the Bay of Bengal. That problem has continued to smolder to this day, threatening both human rights and political stability across the Bay.⁴³

A final critical juncture complicating what remained of interdependence across the Bay of Bengal was the 1971 Indo-Pakistani War. Precipitated by the failure of West Pakistanis to yield to the East Pakistani Awami League's triumph in the 1970 Pakistani general elections, a bitter, year-long insurgency in East Bengal, followed by a two-week war between India and Pakistan, led to as many as 3 million civilian dead.⁴⁴ The protracted conflict also generated 10 million

⁴¹ Amrit, *Crossing the Bay of Bengal*, 222.

⁴² Ibid., 243.

⁴³ See “Myanmar: Who are the Rohingya?” *Al Jazeera*, February 5, 2018, <https://www.aljazeera.com/indepth/features/2017/08/rohingya-muslims-170831065142812.html>.

⁴⁴ The 3 million, according to the source cited, is the official number given by Bangladesh, which seems to be considered as too high by many, while the Pakistan figure of 26,000 is thought to be much too low.

refugees, adding to the turbulence and nationalist isolation prevailing throughout the third quarter of the twentieth century around the Bay.⁴⁵

In Conclusion

For the past six decades, the Bay of Bengal has been relatively isolated from the broad currents of global affairs. Nationalism in the political sphere, socialism in the economic realm, and hostility to entrepreneurial minorities have combined to produce local environments distinctly inhospitable to multinational corporations and to the creation of transnational production networks. Hostility to those minorities, due to their relative success through international trade, has compounded isolationist tendencies.

The Bay's deeper history shows a contrasting pattern. In classical days Hindu civilizations flourished as far as Angkor Wat in Cambodia and Borobudur in Java, transcending the Bay of Bengal. Buddhism and Islam both also flowed eastward across the Bay. So did as many as 30 million emigrants from India, many of them plantation workers, during the century from 1840 to 1940. They moved in the millions to Ceylon, Malaya, and Burma.⁴⁶

Over the past three decades, and especially since the 2008 global financial crisis, interaction across the Bay, and between the Bay and the broader world, has been rising again. Explosive economic growth in India and China has been a major catalyst, as has the support offered for that growth by foreign governments and multinational firms through official development assistance (ODA) and the provision of infrastructure.

⁴⁵ See Pankaj Mishra, "Unholy Alliances: Nixon, Kissinger, and the Bangladesh genocide," *New Yorker*, September 23, 2013, <https://www.newyorker.com/magazine/2013/09/23/unholy-alliances-3>.

⁴⁶ Historical names applicable at the time are used here. Today these are Sri Lanka, Malaysia, and Myanmar.

Chapter III

Country Perspectives:
The Shifting Profile of Political Risk

Chapter III: Country Perspectives: The Shifting Profile of Political Risk

Since the 1930s, as noted in chapter II, the Bay of Bengal has been beset by recurrent political tensions, intensified periodically by economic difficulties. Those tensions for many years disrupted the rising socioeconomic interdependence that had given the Bay an increasingly communal cast during the late 19th and early 20th centuries. Even though interdependence and a sense of regional community have begun to slowly revive since the 1970s, the region has persistently been plagued by domestic political instability and ethnic tensions in several of the key countries, which threaten to divide the region once again.

This chapter reviews the domestic political-economic constraints on Bay of Bengal cooperation, focusing on national political stability, internal ethnic tensions, urban transition, and regulatory policy. It details the changing circumstances within Myanmar, Sri Lanka, Bangladesh, Thailand, Malaysia, and northwestern Indonesia along these dimensions that threaten regional comity in the Bay. The responses of China and India, together with the efforts of the two Asian giants to integrate the region, are considered in chapters V and VI respectively.

Domestic political risk in the Bay of Bengal, as elsewhere in the world, is a relative question—assessing it involves cross-national comparison along multiple dimensions. Some relevant indicators are presented below. Figures for the three core nations of the Bay of Bengal, situated exclusively in the region, plus India, which also borders extensively on the Bay, are presented in table 2. Those with a less concentrated regional presence are presented in table 3.

The nations presented in table 3 do not border extensively on the Bay of Bengal, but they are strategically, historically, and to some extent economically, related. For example, Thailand's Isthmus of Kra borders directly on the Bay for a short distance, and Thailand's decision regarding the proposed construction of a Kra Canal linking the Bay of Bengal to the Gulf of Thailand could profoundly affect the Bay's future. Malaysia's western ports, including Penang and Malacca are located directly on the Bay and have deep historical ties with India, across the Bay. Indonesia's northwestern province of Aceh, at the tip of Sumatra, fronts on the Strait of Malacca as well as the Bay, and has deep historic ties across the Bay and the Indian Ocean to the Islamic world.

Table 2. Core Bay of Bengal nations: comparative socioeconomic dimensions

Indicators		Year	Sri Lanka	Bangladesh	Myanmar	India
Economic	Real GDP (US\$, millions)	2016	79,706.9	167,771.4	74,469.8	2,464,933.1
	Annual GDP growth (%)	2016	4.4	7.1	5.9	7.1
	Per capita GDP (US\$)	2016	3,832.3	1,029.6	1,408.1	1,861.5
	Exports share of GDP (%)	2016	21.4	16.6	17.4	19.2
	Foreign direct investment share of GDP (%)	2016	1.1	0.9	5.2	2.0
	Military spending share of GDP (%)	2016	2.4	1.4	N/A	2.5
	Industry share of GDP (%)	2016	29.6	28.8	35.0	28.8
	Total unemployment (%)	2016	4.4	4.1	0.8	3.5
	Youth unemployment (%)	2016	18.5	10.1	1.9	10.2
Social	Total population (millions)	2016	21.2	163.0	52.9	1,324.2
	Annual population growth (%)	2016	1.1	1.1	0.9	1.1
	Urban population (%)	2016	18.4	35.0	34.7	33.1
	Population ages 65 and above share of total (%)	2016	9.7	5.1	5.5	5.8
	Muslim share of total population (%)	least available	9.7	89.1	4.3	14.2
	Major ethnic groups (>3% of total population)	least available	Sinhalese 74.8%; Sri Lankan Tamil 11.2%; Sri Lankan Moors 9.2%; Indian Tamil 4.2%.	Bengali 98%.	Bamar 68%; Shan 9%, Karen 7%, Rakhine 4%; Chinese 3%.	Indo-Aryan 72%; Dravidian 25%; Mongoloid and other 3%.
Political	Freedom status	2017	Partly free	Partly free	Partly free	Free
	Political rights	2017	3	4	5	2
	Civil liberties	2017	7	4	5	3

Source: World Bank, World Development Indicators, 2016; Central Intelligence Agency, *World Factbook*, <https://www.cia.gov/library/publications/the-world-factbook/>; Freedom House, *Freedom in the World 2018*, <https://freedomhouse.org/report/freedom-world/freedom-world-2018>.

Note: For freedom ratings, 1 means most free and 7 means least free.

Table 3. Peripheral Bay of Bengal nations: comparative socioeconomic dimensions

Indicators		Year	Thailand	Malaysia	Indonesia
Economic	Real GDP (US\$, millions)	2016	406,424.5	344,052.3	1,037,688.1
	Annual GDP growth (%)	2016	3.2	4.2	5.0
	Per capita GDP (US\$)	2016	5,901.9	11,031.8	3,974.1
	Exports share of GDP (%)	2016	68.9	67.7	19.1
	Foreign direct investment share of GDP (%)	2016	0.8	4.6	0.4
	Military spending share of GDP (%)	2016	1.4	1.4	0.9
	Industry share of GDP (%)	2016	35.8	38.3	40.8
	Total unemployment (%)	2016	0.9	3.5	5.6
	Youth unemployment (%)	2016	4.9	12.3	18.5
Social	Total population (millions)	2016	68.9	31.2	261.1
	Annual population Growth (%)	2016	0.3	1.5	1.1
	Urban population (%)	2016	51.5	75.4	54.5
	Population ages 65 and above share of total (%)	2016	11.0	6.1	5.2
	Muslim share of total population (%)	least available	4.3	61.3	87.2
	Major ethnic groups (>3% of total population)	least available	Thai 97.5%; Burmese 1.3%; other 1.1%.	Malays and indigenous peoples 61.7%; Chinese 20.8%; Indian 6.2%.	Javanese 40.1%; Sudanese 15.5%; Malay 3.7%; Batak 3.6%; Madurese 3%.
Political	Freedom status	2017	Not free	Partly free	Partly free
	Political rights	2017	6	4	2
	Civil liberties	2017	5	4	4

Source: World Bank, World Development Indicators, 2016; Central Intelligence Agency, *World Factbook*, <https://www.cia.gov/library/publications/the-world-factbook/>; Freedom House, *Freedom in the World 2018*, <https://freedomhouse.org/report/freedom-world/freedom-world-2018>.

Notes: Further details on ethnic minorities in Bay of Bengal countries—Myanmar: Indian 2%; Mon 2%; other 5%. Thailand: Burmese 1.3%; other 1.1%. Indonesia: Betawi 2.9%; Minangkabau 2.7%; Buginese 2.7%; Bantenese 2%; Banjarese 1.7%; Acehnese 1.4%; Dayak 1.4%; Sasak 1.3%; Chinese 1.2%; other 15%.

For freedom ratings, 1 means most free and 7 means least free.

Despite significant variation, all of the Bay of Bengal nations have historically been poor. Bangladesh is the poorest, with a per capita GDP of just over \$1,000/year in 2010 constant dollars, but Myanmar and India are close to that level. Sri Lanka, with a luxuriant plantation agriculture linked to wealthy Western markets, is somewhat more affluent at over \$3,800 annual per capita GDP.

All of the Bay of Bengal nations face strong pressures of social transformation—some of the strongest such pressures in the developing world. Growth has been rapid over the past decade—indeed, extremely high by global standards. The urban population share is still relatively low in the core nations (35 percent each in Bangladesh and Myanmar, 33 percent in India, and only 18 percent in Sri Lanka). All this means that prospects are strong for substantial, potentially disruptive urban migration and social change, including rising economic inequality in future years.

One of the most striking social traits of the Bay of Bengal nations is their pronounced ethnic pluralism. As indicated in tables 2 and 3, only Thailand and Bangladesh have demographically dominant ethnic groups. Sri Lanka, for example, is less than 75 percent Sinhalese, while Myanmar is only 68 percent Bamar. All the major countries except Bangladesh are also home to complex and assertive minority populations, whose sociopolitical concerns are easily aggravated by urbanization. Five of the seven nations have significant Muslim populations that could be especially vulnerable to radicalization. Even in Myanmar and Thailand—the two countries with less than five percent Islamic populations—the Muslims who do live there are highly concentrated geographically and therefore loom important for the local politics, particularly in Rakhine State (Myanmar) and in the south of the Isthmus of Kra (Thailand).

Established democracies in the West and Japan have, of course, endured wrenching social transformations as they developed economically. One critical difference with the Bay of Bengal, however, is that political institutions are not as well established there. Only one of the seven (India) has a well-established democracy according to Freedom House.

The nations of the Bay of Bengal have been relatively isolated from the dynamic, destabilizing pressures of globalization, just as they have so far avoided urbanization. Export shares in the core nations are low, and foreign direct investment is similarly limited. Defense spending is also low, except in India and Sri Lanka, which have experienced recent military conflict. Thus the Bay of Bengal has slumbered in the backwaters of world history for much of the past seven decades. What sorts of political risks might emerge, however, should it become more riven by the turbulent currents of broader global affairs? To gain further insights into this question, let us turn more precisely to the social, political, and economic equations of individual nations.

Bangladesh: Developmental Needs Meet Geopolitical Rivalries

Situated at the northern apex of the Bay of Bengal, Bangladesh is the poorest nation of the region, but superficially appears to be one of the most stable. It has few domestic ethnic divisions—98 percent of the population is Bengali and 89 percent is Muslim. Since independence in 1972, the country’s politics have been relatively stable and largely democratic. Since 2009, Sheikh Hasina, daughter of the nation’s founder and a close friend of India, which liberated the country from Pakistani rule, has served continuously as prime minister, validated in periodic democratic elections.

Closely related to the stability issue is the problem of urban disaffection—especially among the young—is the potential danger of Islamic radicalization. Although Bangladesh is 89 percent Muslim, its Islam has traditionally been a moderate variety. Still, there are signs that broader tendencies toward fundamentalism in the Middle East—at least among disaffected minorities—may be spreading eastward. On July 1, 2016, Muslim terrorists killed seven Japanese volunteers from the Japan International Cooperation Agency (JICA) in a brazen Dhaka attack that also claimed nine Italians, two Bangladeshis, and one American. The Islamic State claimed responsibility for the attack, but the Bangladesh government asserted that the attackers were members of a banned domestic militant group.⁴⁷

Forced migrations could also feed radical tendencies. Bangladesh is now home to roughly one million Rohingya refugees, whom Bangladesh classifies as “forcibly displaced nationals of Myanmar,” and to whom it refuses to accord citizenship.⁴⁸ About 655,500 of them arrived in late 2017 as a result of ineffective border controls and the reluctance of Bangladesh to reject fellow Muslims.⁴⁹

The history of the Rohingya within Myanmar (formerly Burma) is as tortured as the international controversies surrounding them. That history began under British rule (1824–1948), when there was significant migration of laborers from India and what is now Bangladesh to Burma. The local population in Burma regarded these migrants negatively, considering them to be Bengali outsiders.

Soon after Burma became independent from Britain in 1948, the Union Citizenship Act was passed. Although the Rohingya as a group were not included as one of the ethnic groups eligible for citizenship, those whose families had lived in Burma for more than two generations were allowed to apply for identity cards. In 1982, however, when a new citizenship law was passed,

⁴⁷ Joseph Allchin, “In Bangladesh, an attack aimed at foreigners and the country’s elite,” *Washington Post*, July 2, 2016, https://www.washingtonpost.com/world/asia_pacific/in-bangladesh-an-attack-aimed-at-foreigners-and-the-countrys-elite/2016/07/02/a5a87a34-4062-11e6-80bc-d06711fd2125_story.html?utm_term=.e1d86c6e2397.

⁴⁸ Ians, “Bangladesh to identify Rohingya refugees as ‘forcefully displaced Myanmar citizens’,” *First Post*, October 5, 2017, <http://www.firstpost.com/world/bangladesh-to-identify-rohingya-refugees-as-forcefully-displaced-myanmar-citizens-4113885.html>.

⁴⁹ World Health Organization, “Forcibly Displaced Myanmar Nationals (FDMNs) in Cox’s Bazar, Bangladesh: Health Sector Bulletin, 16 November–31 December 2017,” *reliefweb*, December 31, 2017, <https://reliefweb.int/report/bangladesh/forcibly-displaced-myanmar-nationals-fdmns-cox-s-bazar-bangladesh-health-sector>.

additional conditions were added, including proof of family residence before 1948 and fluency in one of Burma's national languages. Many Rohingya could not provide such paperwork and hence became stateless. This led to systematic repression of the Rohingya, with an especially severe crackdown in August 2017.⁵⁰

The Rohingya issue is a major economic and political problem for a still poor nation with fragile democratic institutions. It is also a humanitarian as well as political priority for the international community in the Bay of Bengal, due both to the human suffering involved and the tensions it provokes between Myanmar and its neighbors. These tensions threaten to isolate Myanmar from the broader world at a critical stage in its political-economic development, and suggest the importance of support for pre-conflict peacebuilding, as well as assistance to refugees, by nations such as Japan.

A third dimension of political risk in Bangladesh, apart from national stability and urban disaffection is the leadership succession issue in domestic politics. Two party leaders, both female and known locally as the “Battling Begums,” have dominated local politics since 1991. Sheikh Hasina, currently serving her third term as prime minister of Bangladesh, is the leader of the Awami League, which pioneered the struggle for national independence in the early 1970s and was led by her father, Mujibur Rahman. Khaleda Zia, on the other hand, served as prime minister in 1991–1996 and again in 2001–2006, but has recently suffered major political setbacks. She was sentenced in February 2018 to five years in jail for embezzling money meant for an orphanage, and hence will not be eligible to run in the national election, which will be held between October 31 and December 31, 2018.⁵¹ Beyond these two veteran political figures, succession prospects are unclear.

The fourth dimension of political risk, and potentially the most destabilizing, is geopolitical. India is the traditionally dominant regional power, and its role was enhanced by its prominence in supporting—and militarily assuring the success of—Bangladesh’s 1970–1971 struggle for independence. The influence of China, however, is rising rapidly, driven by the massive financial support it offers and its proactive initiatives under the Belt and Road Initiative (BRI), known prior to 2015 as the One Belt One Road (OBOR) initiative. In 2016, for example, when Chinese President Xi Jinping visited Bangladesh, he promised \$24 billion in financial assistance from his country, dwarfing a \$2 billion Indian commitment made the previous year.⁵² China’s influence could well rise further following the late 2018 national elections, provoking deepened tension with India. Sheikh Hasina is personally deeply indebted to India across the generations, as New Delhi supported her father’s leadership role during the national independence

⁵⁰ For further details on the Rohingya issue, see “Myanmar: Who are the Rohingya?” *Al Jazeera*, February 5, 2018, <https://www.aljazeera.com/indepth/features/2017/08/rohingya-muslims-170831065142812.html>.

⁵¹ See FP Staff, “Khaleda Zia vs Sheikh Hasina: ‘Battling Begums of Bangladesh’ still shape country with their bitter politics,” *First Post*, February 9, 2018, <https://www.firstpost.com/world/khaleda-zia-vs-sheikh-hasina-battling-begums-of-bangladesh-still-shape-country-with-their-bitter-politics-4343177.html>.

⁵² See Ruma Paul and Ben Blanchard, “China to sign some \$24 billion in loans to Bangladesh as Xi visits,” *Reuters*, October 13, 2016, <https://uk.reuters.com/article/uk-bangladesh-china/china-to-sign-some-24-billion-in-loans-to-bangladesh-as-xi-visits-idUKKCN12D33Z>.

struggle. It is quite unclear, however, whether Bangladesh will maintain its traditional pro-India inclinations when she leaves office.

Country risk and geopolitical risk issues in Bangladesh, concerned with political stability and international conflict, are both deeply entwined with the economically crucial issue of infrastructure. Due to low labor costs, rising efficiency, and the disaffection of global buyers with previous suppliers, Bangladesh in recent years has become the second largest clothing exporter in the world, supplying 6.4 percent of global demand in 2016.⁵³ Other light industries are also growing, fueling a rapid expansion since 2010 of Bangladesh's international trade. Yet Bangladesh has not built a single deep-water port in its 46 years of independence. With China, Japan and India all vying to provide support, its development needs in the infrastructure area—centering on ports and electric power—are thus fueling the geopolitical rivalries now deepening, both within Bangladesh, and across the broader Bay of Bengal.

Myanmar: The Tensions of Democratic Transition

Myanmar occupies a strategic position between India and China on the Bay of Bengal, but it was estranged from much of the international system for nearly half a century, starting in 1962, by a succession of military governments.⁵⁴ Its isolation from its neighbors was a key reason for the longtime detachment of the Bay of Bengal region as a whole from global conflicts and economic engagement, since the country lies at the very heart of the region. With the ongoing transition to civilian rule in Myanmar and the liberalization of its economy, that isolation is disappearing. This has major implications for political risk, both domestically within Myanmar and across the Bay of Bengal more generally.

To understand the emerging profile of political risk in Myanmar, it is important to first have some grasp of the country's complex ethnic configuration, together with the continuing disjunction between that profile and the country's political institutions. As was noted in table 2, Myanmar is the most pluralistic of the three core nations bordering the Bay of Bengal, with only 68 percent of the population stemming from the dominant Bamar ethnic group. The balance of the population is divided among 134 other minority ethnic groups recognized by the government, which occupy roughly 40 percent of the nation's area, and dominate seven of the nation's fourteen states.

The relationship between the Bamar and the hill tribes, historically delicate, was aggravated by the events of World War II. The hill tribes largely supported the Allies, while the Bamar largely backed Japan. Yet the British favored the Bamar in the postwar transition, embittering their wartime allies.

Burma (now Myanmar) enjoyed a federal structure in its early days, reflecting the conscious efforts of its architect, General Aung San, to avoid the savage ethnic conflict that plagued

⁵³ See World Trade Organization, *World Trade Statistical Review 2017*, table A23.

⁵⁴ Myanmar's isolation was, it must be noted, moderated by its accession to ASEAN membership in 1997, as well as the evolution toward democracy, beginning with the referendum on a new constitution in May 2008.

neighboring India after its 1947 partition. That initial stabilizing federal design did not long outlive Aung San's July 1947 assassination, however, disintegrating in the turbulent years following Burma's independence in January 1948. The military regime that assumed power in 1962 was strongly centralist and allowed the hill tribes little of the autonomy that they had originally been promised. Not surprisingly, protracted warfare followed. A non-military government came to power in 2016, following a series of democratic reforms. Ethnic conflict has nevertheless continued, with multiple insurgencies continuing and twenty insurgent groups confronting the government.⁵⁵ Aung San Suu Kyi has tried to address this problem, but a resolution is elusive.

The political risk that these ethnic insurgencies present to the current, limited national stability, is connected to broader underlying social problems. There are over 240,000 displaced persons in the country, including the more than 600,000 Rohingya and others who have fled to Bangladesh.⁵⁶ Myanmar has been hit by several recent major disasters, including the tsunami of 2004 and Cyclone Nargis in 2008, intensifying its social problems. And urban migration has been proceeding rapidly in this country where social safety nets remain underdeveloped.

As Samuel Huntington once stressed, the inability of institutions to accommodate economic growth and urbanization can create serious long-term dangers of political instability.⁵⁷ Myanmar could well become an example of this dynamic at work. With democratization, participation is clearly expanding. Yet the institutions to accommodate that participation are not proceeding apace. The ruling National League for Democracy is not yet a well-developed, coherent party, despite its current dominant parliamentary standing, and civil-military relations are ambiguous, to say the least.

Compounding country risk in Myanmar, as in Bangladesh, is the challenge of leadership transition. Aung San Suu Kyi, daughter of the nation's architect (as in Bangladesh), is a dominant leader in this highly centralized political system, but she is now seventy-three years old, and no clear succession plan has been established. In fact, two-thirds of the ruling party's elite Central Executive Committee is over the age of sixty-five.⁵⁸ The institutional roles of the president and prime minister remain largely undefined. So too does the role of the military, which ruled the country for half a century and retains control of key government ministries and a quarter of the parliamentary seats. The future of democracy and of center-periphery relations are thus precarious in Myanmar and could easily be manipulated by outside powers.

That the largest nearby outside powers—China and India—have incentive to dictate Myanmar's future is beyond doubt. China, in particular, has been striving to do so and has been relatively

⁵⁵ See "The Lady Fails to Speak Out," *Economist*, December 24, 2016, 49.

⁵⁶ UN Office for the Coordination of Humanitarian Affairs, "Myanmar: 2018 Humanitarian Needs Overview," *reliefweb*, December 8, 2017, <https://reliefweb.int/report/myanmar/myanmar-2018-humanitarian-needs-overview>.

⁵⁷ Samuel P. Huntington, *Political Order in Changing Societies* (New Haven: Yale University Press, 1968).

⁵⁸ Jon Emont, "My Generation: Suu Kyi Faces Succession Problem in Myanmar," *Wall Street Journal*, March 28, 2018, <https://www.wsj.com/articles/myanmar-struggles-to-find-new-generation-of-leaders-to-resist-military-1522258551>.

successful of late, following substantial setbacks during the early stages of Myanmar's democratization. China has reinforced its previously strong ties with Myanmar's military, and with the rebellious hill tribes. As noted previously, it also finally put the Kyaukphyu oil pipeline into operation in April 2017, three years after its physical completion.⁵⁹ Aung San Suu Kyi spoke at Xi Jinping's Belt and Road Forum in May 2017, and Chinese Foreign Minister Wang Yi then proposed an important new China-Myanmar Economic Corridor project in November 2017, which would provide expanded and streamlined access for China to the Bay of Bengal at Kyaukphyu, as well as to the Irrawaddy valley.⁶⁰

India has been less active and has failed to implement important promised projects like the Sittwe pipeline in a timely manner. Its development assistance is not nearly as large as China's. India does, however, naturally have enduring economic and strategic interests in Myanmar.⁶¹ Sustained involvement by friends of India, like Japan and the United States, could be important to stabilizing Myanmar's neutral orientation in the coming years.

Given the host of endemic political and economic uncertainties, who will invest in Myanmar? And how might such stakes shape the country's future? Recent figures are instructive. As of September 30, 2017, the largest foreign investor in Myanmar was China (\$19.4 billion), followed by Singapore (\$18.6 billion), Thailand (\$11 billion), and Hong Kong (\$7.8 billion). India was tenth at \$740 million, Japan was eleventh at \$720 million, and the United States was thirteenth at \$380 million.⁶²

Sri Lanka: Ethnic Divisions and Regional Rivalries

Lying at the southwestern corner of the Bay of Bengal, where the Bay meets the Indian Ocean, Sri Lanka occupies a highly strategic geographical position. Reflecting its long involvement with British imperial plantation agriculture, Sri Lanka's exports as a share of GDP are higher than those of any of the other core Bay of Bengal nations. Its per capita income is also substantially higher, as indicated in table 2. Foreign investment, however, is relatively low, while military expenditures—reflecting the nation's violent recent history—remain high.

Political risk in Sri Lanka, as in Myanmar, is closely related to the problem of ethnic division. The island nation of 20 million people is three-quarters Sinhalese, with 90 percent of the Sinhalese also being Buddhists. Sri Lanka also has roughly 3 million predominantly Hindu

⁵⁹ See "China Opens Delayed Myanmar Oil Pipeline to Get Mideast Crude Faster," *Bloomberg*, April 11, 2017, <https://www.bloomberg.com/news/articles/2017-04-11/china-opens-delayed-myanmar-oil-link-to-get-mideast-crude-faster>.

⁶⁰ See Ministry of Foreign Affairs of the People's Republic of China, "Wang Yi: China Proposes to Build China-Myanmar Economic Corridor," November 20, 2017, http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1512583.shtml.

⁶¹ Jayanta Roy Chowdhury, "Tri-nation pipeline envisaged," *Telegraph India*, March 6, 2017, https://www.telegraphindia.com/1170306/jsp/business/story_139183.jsp.

⁶² Niharika Mandhana and Myo Myo, "U.S. Pressure on Aung San Suu Kyi Only Helps China, Aides Warn," *Wall Street Journal*, November 13, 2017, <https://www.wsj.com/articles/u-s-pressure-on-aung-san-suu-kyi-only-helps-china-aides-warn-1510596234>.

Tamils, and nearly 2 million Muslims.⁶³ Although a distinct minority within Sri Lanka itself, the Tamils can potentially rely on more than 60 million religious and ethnic compatriots just across the Palk Strait in southeastern India. As Robert Kaplan points out, “Like the Serbs in the former Yugoslavia and the Shiites in Iran, the Sinhalese are [thus] a demographic majority with a dangerous minority complex of persecution.”⁶⁴ They feel surrounded by Hindus, and defensive about the influence of neighboring India. As a vulnerable majority in an island nation, with a distinctive language and culture, the Sinhalese feel distinctly isolated, and thus are in quest of distant allies.

Events of the past three decades have intensified Sinhalese anxiety, and broader ethnic tensions across Sri Lanka. Demonstrations and mob attacks of the 1950s relating to Tamil minority rights led to the promotion of Sinhalese as the sole official language and of discriminatory electoral districts that benefitted rural Sinhalese. In 1971, a nationalist-Marxist rebellion left 15,000 dead. A year later, a militant group was created called the Tamil New Tigers, which was renamed the Liberation Army of Tamil Eelam in 1976. The group was ostensibly formed to defend Tamil rights, but it rapidly descended into terrorism. In July 1983, a civil war began between Tamils and Sinhalese that would continue for 26 years (1983–2009), claiming the lives of 70,000 people—including many thousands of civilians—before it finally concluded with the decisive defeat of the Tamils.⁶⁵ Although the conflict is now over, great ethnic bitterness remains, in no small part because the civil war took such a heavy civilian toll.

Although ethnic tensions embedded in the country’s demographic structure are the central underlying dimension of political risk in Sri Lanka, the uncertainties of social transition also heighten the challenges. Sri Lanka is by far the least urban of the core Bay of Bengal nations, so it is likely to face a socially disruptive urbanization process in the future. It also has the highest unemployment rate, with a particular concentration among the young, as indicated in table 2.⁶⁶ Youth unemployment of close to 20 percent is double that of any other Bay of Bengal nation, and is especially destabilizing in view of the turbulent recent ethnic history of Sri Lanka.

Leadership transition is also complicating the political risk equation in Sri Lanka. Unlike Myanmar, Sri Lanka over the past few decades has been holding regular democratic elections, but they have been bitterly contested, often corrupt, and replete with chauvinistic, populist ethnic appeals. Between 2005 and 2015, the four Rajapaksa brothers, led by President Mahinda Rajapaksa, dominated national politics.⁶⁷ They brought the bitter twenty-six-year civil war to a victorious conclusion, albeit with considerable international assistance, especially from China.

⁶³ Sri Lanka Population, “Religion in Sri Lanka”, *Country meters*, http://countryometers.info/en/Sri_Lanka/#religion.

⁶⁴ Kaplan, *Monsoon*, 198.

⁶⁵ On details of the conflict, see *ibid.*, 201–12.

⁶⁶ Twenty-two percent of Sri Lanka’s population is also between 15 and 29—an unusually high ratio, comparatively speaking. See Anishka De Zylva, “Sri Lanka’s Opportunities to Counter Youth Radicalization,” *Diplomat*, October 10, 2017, <https://thediplomat.com/2017/10/the-growing-urgency-of-youth-radicalization-in-sri-lanka/>.

⁶⁷ Mahinda Rajapaksa served as president. His brother, Gotabhaya Rajapaksa, served as Defense Minister, and another brother, Basil Rajapaksa, as the president’s most trusted advisor. See Kaplan, *Monsoon*, 204.

In January 2015, however, Mahinda Rajapaksa lost a watershed general election to Maithripala Sirisena, who was strongly supported by India. In the August 2015 parliamentary election, he lost to Ranil Wickremesinghe, also India-oriented. Both Sirisena and Wickremesinghe are seeking to rebalance Sri Lanka's complex foreign relations between China, on the one hand, and India and the Western democracies, on the other. Domestic politics have thus become entwined with the deepening geopolitical struggle in the Bay of Bengal between China and India, the two emerging Asian superpowers.⁶⁸

That struggle itself is a final important political risk factor in Sri Lanka. Geopolitical conflict is intense there because the stakes for India, China, and Sri Lanka itself are all so high. India is Sri Lanka's largest trading partner and has provided over \$2.5 billion in development assistance. Over 70 percent of the freight passing through Colombo is transshipment cargo to and from India.⁶⁹ Since March 2000, the two countries have also had a bilateral free trade agreement.⁷⁰

China likewise looms large for Sri Lanka for both economic and political reasons. China has recently become Sri Lanka's largest source of foreign investment, providing three times as much FDI as the United States over the past decade. China also holds 13 percent of Sri Lanka's total debt, which has skyrocketed to over \$25 billion, placing the country in serious financial difficulties.⁷¹ To reduce the scale of this debt, China and Sri Lanka have engaged in a series of strategically important debt-equity swaps, which have enhanced China's importance to Sri Lanka still further. China's state-owned port company China Merchants Port Holdings has, for example, recently taken a 70 percent controlling interest in the port of Hambantota, the second largest in the country, and the most important from a long-distance trading standpoint.

China is also important for Sri Lanka in the political dimension—especially for its deeply anxious Sinhalese majority and many of their populist leaders, such as the Rajapaksa family. China's weaponry, especially in terms of air and naval power, was critical to the government's victory in the country's bitter and bloody civil war. Beijing is also the most plausible balancer for the local Sinhalese to the otherwise overwhelming regional presence of India.

For both India and China, Sri Lanka has considerable strategic value. For India, the importance is defensive—Sri Lanka lies right off its southeastern tip, and its large Hindu minority has strong ethnic ties with the neighboring Indian state of Tamil Nadu. For China, Sri Lanka's importance is more regional and offensive—a chance to gain influence on the sea lanes to the Persian Gulf, and to put pressure on India in its own backyard. Given the high stakes in this India–China–Sri Lanka strategic triangle, the likelihood of geopolitical tension that intensifies local political risk is strong, with India and China both standing behind conflicting local proxies.

⁶⁸ Yigal Chazan, "India and China's Tug of War Over Sri Lanka," *Diplomat*, May 23, 2017, <https://thediplomat.com/2017/05/india-and-chinas-tug-of-war-over-sri-lanka/>.

⁶⁹ Ibid.

⁷⁰ The Indo–Sri Lanka Free Trade Agreement was signed on December 28, 1998, and went into effect on March 1, 2000. See Department of Commerce of Sri Lanka, "Indo–Sri Lanka Free Trade Agreement (ISFTA)," http://www.doc.gov.lk/index.php?option=com_content&view=article&id=43&Itemid=154&lang=en.

⁷¹ Umesh Moramudali, "Sri Lanka's Debt and China's Money," *Diplomat*, August 16, 2017, <https://thediplomat.com/2017/08/sri-lankas-debt-and-chinas-money/>.

Other Regional Players: Geographically Peripheral, but Influential

The three countries discussed above, Sri Lanka, Bangladesh, and Myanmar, are the core constituent nations of the Bay of Bengal geographically speaking. The two major powers, China and India, will be dealt with in greater detail in subsequent chapters. A few words must also be said, however, about three nations that also partially front on the Bay of Bengal, and that could critically affect its future, even though their primary geoeconomic orientation lies outside the region. Those peripheral but important countries are Thailand, Malaysia, and Indonesia.

Of the three, Indonesia is by far the largest, both in population and in economic terms, although it remains poorer, in per capita terms, than the other two. Indonesia's exposure to the Bay of Bengal is through its northwestern most province of Aceh, at the very northern tip of Sumatra, and fronting on the Strait of Malacca, opposite India's Andaman and Nicobar Islands. Traditionally rebellious Aceh, which was badly damaged by the 2004 tsunami and earthquake, harbors fundamentalist Islamic tendencies, as well as secessionist impulses, that have potentially broader implications for the region. It also has significant youth unemployment that could enflame those destabilizing biases.⁷²

Malaysia, like Sri Lanka, has sharp ethnic divisions that could be a future domestic political risk factor, as they have been in the past. There is a Malay majority, but a Chinese minority population of around 21 percent holds predominant economic influence. The country also has complex leadership transition problems that could invite foreign intervention.

Thailand, like Indonesia and Myanmar, is engaged in a complex recent transition to democracy. Although predominantly Buddhist, it has a significant Muslim population in the southern Isthmus of Kra, which is the exact area that fronts on the Bay of Bengal. China has sought to build a canal across the isthmus, linking the Bay to the Gulf of Thailand. Such a canal would connect the Bay much more dynamically to Southeast Asia, but Bangkok has resisted so far, presumably due to fears that such a major construction project could stimulate local separatism. As in Sri Lanka, Bangladesh, Myanmar, and elsewhere, local political uncertainties within nations bordering the Bay are thus crucial to understanding the emerging political, economic, and strategic configuration of the Bay of Bengal.

In Conclusion

The Bay of Bengal was once a coherent political-economic unit, and a variety of broad global pressures have begun to support increased regional interdependence once again. Yet domestic political uncertainties, ethnic tensions, and incipient geopolitical conflict between India and China threaten to impede that integrative process.

⁷² See Francis Chan, “‘Hidden fire’ of intolerance among Indonesia’s young,” *Strait Times*, November 16, 2017, <http://www.straitstimes.com/opinion/hidden-fire-of-intolerance-among-indonesias-young>.

The configuration of domestic political risk within the various Bay of Bengal nations varies to some extent by country. In Sri Lanka and Myanmar, ethnic tensions are particularly prominent. Bangladesh is a more homogeneous nation, but leadership transition is a more salient concern. In all three nations, however, deepening regional rivalries between India and China threaten to interact with other elements of domestic political risk, generating combustible local circumstances where stabilizing initiatives by outside actors, potentially including both political mediation and economic assistance, are urgently needed.

Chapter IV

Economic Forces for Change

Chapter IV: Economic Forces for Change

As the checkered story of the Bay of Bengal’s relations with the broader world makes clear, the Bay has oscillated between interdependence with the broader world and isolation. Its constituent parts have also alternated between systematic interaction with one another and near-total detachment from one another as well.

The heyday of the British Empire—from roughly 1850 to 1940—was a broad period of integration, both within the Bay and with other regions. The ensuing decades of war, independence, and reconstruction (1940–1980) were an era of autarky and isolation. Since the early 1980s, however, the Bay of Bengal has grown more intertwined with Asia as a whole, while interdependence among the Bay’s constituent nations has also grown. This two-dimensional integration has accelerated markedly over the past decade and seems likely to intensify rapidly in future years.

The Energy Dimension

One of the earliest and most powerful forces for integration over the past three decades has been energy. China became a net oil importer in the fall of 1993, and today it imports over 8 million barrels per day—primarily across sea lanes passing through the Bay of Bengal. India has joined China as a major oil importer since the 1990s, with some part of its supply coming from the East—including Malaysia. Refinery product imports into the core Bay of Bengal states—Bangladesh, Myanmar, and Sri Lanka—have also risen sharply as economic growth in these nations has accelerated over the past decade.⁷³ All three countries import such products primarily from Singapore, across the Bay of Bengal.⁷⁴

The rising attractiveness of natural gas—for both the Bay of Bengal and for Asia more generally—has been an even more important catalyst for regional connectivity of late than has oil. Two of the Bay of Bengal states, it should be noted, are themselves significant natural-gas producers and are primarily dependent for their energy supplies on that natural gas.⁷⁵ Bangladesh obtained 56 percent of its total primary energy supply from natural gas in 2015, relying on its 7.3 trillion cubic feet of reserves.⁷⁶ Myanmar has the fourth largest proved natural gas reserves in the Asia

⁷³ Sri Lanka, Bangladesh, and Myanmar all have rising demand for refined crude oil (especially gasoline and diesel). Together those products accounted for 10.5 percent of Myanmar’s total imports in 2016, as well as 7.6 percent of Sri Lanka’s imports, and 3.3 percent of imports into Bangladesh. See respective country profiles in Alexander J. G. Simoes and César A. Hidalgo, “The Economic Complexity Observatory: An Analytical Tool for Understanding the Dynamics of Economic Development” (Paper presented at the 25th AAAI Conference on Artificial Intelligence, 2011).

⁷⁴ Myanmar imports 77 percent of its refined oil products from Singapore. The comparable figures for Sri Lanka and Bangladesh are 41 percent and 53 percent. See *Ibid.*

⁷⁵ Only Sri Lanka is primarily dependent on oil, which represented 41 percent of its total primary energy supply in 2015. See International Energy Agency, “Share of total primary energy supply (2015),” *IEA Energy Statistics*, <https://www.iea.org/statistics/statisticssearch/>.

⁷⁶ BP, “Natural Gas: Total proved reserves,” *BP Statistical Review of World Energy*, June 2017.

Pacific, and the highest reserves to production ratio in the region, at 63 years.⁷⁷ It actually is an exporter of petroleum gas to both Thailand and China.⁷⁸

These local supplies help Bangladesh and Myanmar avoid the pressing energy security issues that plague many Asian nations, at least for the present, although they have had some recent territorial disputes between themselves regarding access to off-shore gas reserves. The major energy security issues regarding the Bay of Bengal, however, concern the transit of oil and gas from the Persian Gulf to the massive economies of Northeast Asia. Japan and South Korea, after all, are the two largest liquefied natural gas (LNG) consumers in the world, accounting for 44 percent of global LNG consumption between them, and a substantial share of their LNG imports transit the southern reaches of the Bay of Bengal.⁷⁹ China has also emerged rapidly in recent years as a major LNG importer, sourced mainly from the Middle East.⁸⁰ Overall, Asia's LNG imports doubled during the 2006–2016 decade,⁸¹ providing a strong stimulus to the Bay of Bengal's global connectivity and to the erosion of South Asia/Southeast Asian economic separation.

Infrastructure: Recent Improvements and Future Imperatives

Although energy transit trade was the first dimension of deepening Bay of Bengal reintegration into the global political economy, it has been by no means the only one. Simultaneous Indian and Southeast Asian growth since the Asian financial crisis of the late 1990s, together with technological changes like the advent of container shipping,⁸² has engendered a pressing need for new infrastructure. This has been especially pronounced along the Bay of Bengal, precisely because the Bay was isolated from the global political economy for so long.

Bangladesh, and Myanmar clearly illustrate the pressing infrastructural needs that economic growth is generating within the Bay, the rising prospects that they will be met, and the potential dangers that procuring needed capital investment can entail.

As Chinese labor costs have risen, Bangladesh has become the second-largest clothing and apparel exporter in the world, yet has failed to complete a single deep-water port in its 46 years of independence. That situation, however, is beginning to change. Bangladesh currently

⁷⁷ Ibid.

⁷⁸ Petroleum gas accounted for 27 percent of Myanmar's total exports in 2016, of which 57 percent went to Thailand and 43 percent went to China. See "Where does Burma export Petroleum Gas to (2016)?" in *Economic Complexity Observatory*.

⁷⁹ Over a quarter of Japan's LNG imports flow from the Persian Gulf, for example, definitely traversing the Bay of Bengal. See BP, "Gas: Trade movements LNG," *Statistical Review of World Energy*, June 2017, <https://www.bp.com/en/global/corporate/energy-economics/statistical-review-of-world-energy/natural-gas/natural-gas-trade-movements.html>.

⁸⁰ Chinese LNG imports rose from 740,000 tons in 2006 to 25.2 million tons in 2016. See "Ajia no LNG Yunyuu-koku 10-nen de Baizou (アジアの輸入国10年で倍増)" [Number of LNG Importers Doubled in 10 Year in Asia], *Nihon Keizai Shimbun*, March 21, 2018, <https://www.nikkei.com/article/DGXMZO28377120Q8A320C1FFE000/>.

⁸¹ Ibid.

⁸² See Marc Levinson, *The Box: How the Shipping Container Made the World Smaller and the World Economy Bigger*, 2nd ed. (Princeton NJ: Princeton University Press, 2006).

relies on two major seaports, Chittagong and Mongla. Chittagong is Bangladesh's busiest port, handling more than 90 percent of the country's cargo. The maximum permissible vessel draft (the distance from waterline to keel), however, is just 9.5 meters.⁸³

China pledged to fund the construction of a deep-sea port in Sonadia, an island near Cox's Bazar in the Southeast region of the country. The Bangladesh government cancelled the project in February 2016, however, due to international pressure and questions regarding financial feasibility. JICA has also offered a \$3.7 billion loan (about 80 percent of the estimated cost) for a deep-sea port plus an LNG terminal and four coal-fired power plants nearby. Meanwhile, another deep-sea port is to be constructed at Payra in the south, through a multinational effort. China Harbor Engineering received a contract to handle the core infrastructure in late 2015, but Belgian and British firms are also to be involved in the project.⁸⁴

Bangladesh is also developing special economic zones (SEZs) to complement potential port development. Currently, there are six SEZs owned by the government and three being developed privately. Provisions are also being made for actively involving foreign investment.⁸⁵

Myanmar, stagnant and isolated throughout over half a century of military rule (1962–2015), has begun to develop new industrial parks, incentivized as SEZs, that have the potential to support transnational supply chains. The most developed to date is Thilawa, located just south of Yangon, where Japanese investment is serving as an important catalyst. Toys, apparel, auto parts, and audio equipment are among the major products being produced there.⁸⁶ The Myanmar government is exploring a revival of the troubled Dawei project in southern Myanmar, which could potentially play an important role in supply chains accessing the Indian market if it is revived, as seems possible.⁸⁷ And ambitious plans were recently announced for a \$10 billion port and SEZ on the Rakhine coast of the Bay of Bengal.⁸⁸ The locations of current SEZ projects along the Bay of Bengal are indicated in figure 7.

⁸³ See Wade Shepard, "Bangladesh's Deep Sea Port Problem," *Diplomat*, June 7, 2016, <https://thediplomat.com/2016/06/bangladesh-deep-sea-port-problem/>; and Chittagong Port Authority, <http://cpa.portal.gov.bd/site/page/24876543-2d3e-4302-bebb-d3c9b51e094d/Different-Navigational-Info>.

⁸⁴ See *ibid.*

⁸⁵ See "Japan to invest in SEZ: Tofail," *Independent*, August 2, 2017, <http://www.theindependentbd.com/post/107316>; Talha Bin Habib, "Govt starts acquiring land for Japanese economic zone," *Financial Express*, November 23, 2017, <http://today.thefinancialexpress.com.bd/trade-market/govt-starts-acquiring-land-for-japanese-economic-zone-1511375445>; and Serajul Quadir, "China to develop Bangladesh industrial zone as part of South Asia push," *Reuters*, April 4, 2018, <https://www.reuters.com/article/us-bangladesh-china-china-to-develop-bangladesh-industrial-zone-as-part-of-south-asia-push-idUSKCN1HB1M2>.

⁸⁶ See Thilawa Special Economic Zone, "List of Approved Investors," <http://www.myanmarthilawa.gov.mm/list-investors>.

⁸⁷ See Su Phyo Win, "Construction of Dawei SEZ back on the cards," *Myanmar Times*, December 6, 2017, <https://www.mmtimes.com/news/construction-dawei-sez-back-cards.html>. The initial Dawei MOU was signed between Myanmar and Thailand in 2008. A concession was granted to Italian-Thai Development Public Company (ITD) to develop a deep-water port, industrial estate, and road and rail links to Thailand's Kanchanaburi. However, that firm withdrew in 2013, citing financial constraints.

⁸⁸ In 2016, subsidiaries of China's CITIC Group won contracts to dredge for a deep-sea port and to create an accompanying SEZ in Kyaukphyu. CITIC would build and run the project for fifty years, with a potential extension of twenty-five years. See Gregory B. Poling, "Kyaukphyu: Connecting China to the Indian Ocean," in *China's Maritime Silk Road: Strategic and Economic Implications for the Indo-Pacific Region*, ed. Nicholas Szechenyi (Washington DC: Center for Strategic & International Studies, March 2018), 4–6.

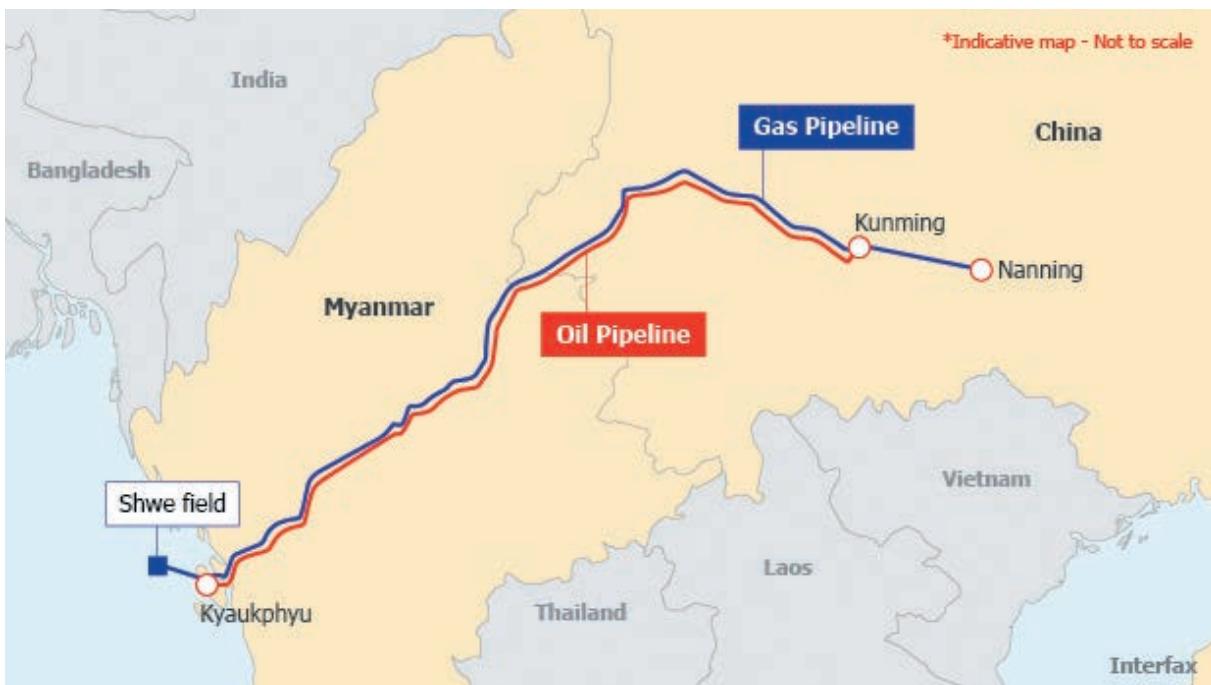
Figure 7. Major port and SEZ projects on the Bay of Bengal



Source: Author's illustration.

Myanmar still lacks basic rail and port infrastructure to support these SEZs, however, and to connect them systematically to the broader regional economy. Explosive growth in China's Yunnan Province to the northeast is generating demand in Myanmar for transit infrastructure in the pipeline, road, and rail sectors, with the Kyaukphyu-Kunming gas and oil pipelines, indicated in figure 8, already completed. Meeting those transit needs would substantially deepen interdependence with China's southwest, especially Yunnan. The large China-Myanmar Economic Corridor agreement of November 2017, if implemented, could achieve this result, even if infrastructural requirements to operationalize the Thilawa and Dawei SEZs remain unfulfilled.

Figure 8. China-Myanmar gas and oil pipelines



Source: Hang Dong, "CNPC breaks ground on Yunnan spur of China-Myanmar line," *Interfax Global Energy*, December 11, 2012, <http://interfaxenergy.com/gasdaily/article/14753/cnpc-breaks-ground-on-yunnan-spur-of-china-myanmar-line>.

Further to Myanmar's southeast, and across the Bay of Bengal to its southwest, economic growth is provoking new demands for infrastructure. Exports westward across the Bay of Bengal to the booming Indian economy are clearly the magnet. Traditional colonial-era ports at Penang and Chennai are being refurbished. Serious plans are also being laid for a canal across the Isthmus of Kra in Thailand, which would link the Bay of Bengal to the Gulf of Thailand, as well as to Southeast Asian ports further east.

The most dynamic areas of infrastructural development in the Bay of Bengal over the past five years have had a strongly geopolitical flavor, inspired by China's Belt and Road Initiative unveiled in the fall of 2013.⁸⁹ The BRI's specific applications in the Bay of Bengal, especially two important projects in Sri Lanka, will be considered in more detail in chapter V. Suffice it to say here, however, that all nations bordering the Bay except India have joined the BRI, and that it holds great potential to significantly transform the political economy of the region—not least by deepening economic interdependence with China.

The importance with which most nations regard the BRI is evident from their representation at the May 2017 Belt and Road Forum. Myanmar's Aung San Suu Kyi, Sri Lanka's Prime Minister Ranil Wickremesinghe, Indonesia's Prime Minister Joko Widodo, and Malaysia's

⁸⁹ Originally known as the One Belt, One Road. The Initiative was officially renamed the Belt and Road Initiative in March 2015. See Xinhua, "Chronology of China's Belt and Road Initiative," *The State Council of the People's Republic of China*, March 28, 2015, http://english.gov.cn/news/top_news/2015/04/20/content_281475092566326.htm.

Prime Minister Najib Razak, as well as five Thai ministers, all attended.⁹⁰ Only India—China’s principal rival in the region—and Singapore were absent.⁹¹

Multilateral Support for Connectivity

Indigenous regional efforts to integrate the Bay of Bengal economically predate the BRI by at least half a decade. In 1997, key nations of South and Southeast Asia joined in establishing BIMSTEC (Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation), inspired by India’s “Look East” and Thailand’s “Look West” policies. Bangladesh, India, Myanmar, Sri Lanka, and Thailand were the founding members of BIMSTEC. Nepal and Bhutan joined in February 2004. The organization established a permanent secretariat at Dhaka, Bangladesh’s capital, in September 2014.⁹²

The new organization promoted cooperation in fourteen sectors, including tourism, transportation, and fisheries.⁹³ BIMSTEC also considered the implementation of a regional FTA, although that proposal was not realized. Free trade discussions do continue in the context of the Regional Comprehensive Economic Partnership (RCEP), although geo-economic tensions between India and China have prevented a pathbreaking regionwide agreement so far.

Foreign Investment as Catalyst for Growth

From World War II until this past decade, with socialist regimes prevailing, the environment for foreign investment across the Bay of Bengal was distinctly inhospitable. Sustaining growth across South and Southeast Asia, however, coupled with economic liberalization, has begun to draw in foreign investment, both from the West and also from Northeast Asia. India has become one of the ten largest recipients of foreign direct investment in the world.⁹⁴ Investment into Myanmar, Bangladesh, and Sri Lanka in 2017 reached new height, totaling \$5.3 billion, \$2.5 billion, and \$1.6 billion respectively in 2017.⁹⁵

⁹⁰ See Shannon Tiezzi, “Who Is Actually Attending China’s Belt and Road Forum?” *Diplomat*, May 12, 2017, <https://thediplomat.com/2017/05/who-is-actually-attending-chinas-belt-and-road-forum/>.

⁹¹ The Chinese government did not invite Singapore’s Prime Minister Lee Hsien Loong to attend the Belt and Road Forum held in May 2017. Lee did pay a three-day official visit to China in September 2017, right before the 19th Party Congress, and participated in the 2018 Boao Forum for Asia in April 2018, also chaired by Xi Jinping. See Lim Yan Liang, “Chinese President Xi Jinping and Singapore PM Lee Hsien Loong discuss new areas of cooperation,” *Strait Times*, September 20, 2017, <https://www.straitstimes.com/asia/east-asia/pm-lee-meets-chinese-president-xi-jinping-other-top-leaders-on-china-trip>; and Danson Cheong, “PM Lee Hsien Loong in China for five-day working visit,” *Strait Times*, April 8, 2018, <https://www.straitstimes.com/asia/east-asia/pm-lee-hsien-loong-in-china-for-five-day-working-visit>.

⁹² See “Country Profile,” BIMSTEC, http://bimstec.org/?page_id=306.

⁹³ See “Area of Cooperation,” BIMSTEC, http://bimstec.org/?page_id=309.

⁹⁴ See “India: Foreign Investment,” Santander Trade Portal, updated March 2018, <https://en.portal.santander-trade.com/establish-overseas/india/foreign-investment>.

⁹⁵ See Directorate of Investment and Company Administration of the Republic of the Union of Myanmar, “2018/February Foreign Direct Investment Yearly Approved Amount By Country.” Author’s calculation; Bangladesh Bank Statistics Department, “Foreign Direct Investment(FDI) in Bangladesh,” survey report January–June 2017, <https://www.bb.org.bd/pub/halfyearly/fdisurvey/fdisurveyjanjun2017.pdf>; and “Sri Lanka receives highest ever FDI in 2017,” *Xinhua*, January 29, 2018, http://www.xinhuanet.com/english/2018-01/29/c_136934031.

Growth and deregulation in India has been a particular magnet, with Japanese and Korean firms, in particular, contemplating a presence in Myanmar, southern Thailand, and elsewhere in proximity to the Bay, as a supplementary vehicle for accessing the Indian market. Suzuki, for example, has opened a car assembly facility in southern Myanmar, with Suzuki starting to produce its Ertiga multipurpose vehicle at a plant in the Thilawa SEZ in 2015.⁹⁶ Such a project could potentially be configured to generate exports across the Bay of Bengal to the Indian market.

Particularly striking has been the catalytic role of nearby Singapore in facilitating new, cross-regional investment in the Bay of Bengal.⁹⁷ During 2016–2017, tiny Singapore accounted for the largest shares of inbound foreign direct investment into both Myanmar (37 percent) and Bangladesh (29 percent). It also ranked second in India (16 percent) and third in Sri Lanka (9 percent). With deep ties in all of the Bay of Bengal nations, coupled with well-developed local infrastructural and financial institutions, Singaporean firms—as well as multinationals based in Singapore—are ideally placed to serve as influential integrators for the Bay of Bengal in future years.⁹⁸

Increased foreign investment naturally raises a crucial issue in the political economy of interdependence: how to integrate the Bay of Bengal more systematically into global supply chains. The automobile and consumer-electronics industries—two of Northeast Asia’s most globally competitive—are both based on complex transnational production networks, as are their counterparts in Europe and North America. Should such transnational networks develop in the region, they could rapidly erode the recent, fundamentally artificial separation of South and Southeast Asia, as well as the Bay of Bengal’s relative isolation from the global political economy as a whole.

The Emergence of Transnational Production Networks

The absence of multinational production networks linking South and Southeast Asia has heretofore been one of the most important economic reasons for considering these two historically integrated subunits of Asia separately. Incentives for such “transregional” networks are, however, beginning to emerge, as noted above. Rapid growth in the Indian market, cross-national production-cost differentials, deregulation, and improved infrastructure seem to be the main drivers. Even though South Asia’s intraregional trade as a share of total trade remained static at 4 percent between 1990 and 2012, trade between South Asia and other destinations in

htm.

⁹⁶ See Arno Maierbrugger, “Myanmar’s Car Industry On The Rise,” *investvine*, February 19, 2016, <http://investvine.com/myanmars-car-industry-on-the-rise/>.

⁹⁷ Such a pattern is very much in keeping with Singapore’s catalytic role as a project organizer across developing Asia as a whole, in cooperation with major multinationals. Many of the world’s major multinationals, of course, have Asian regional and even global marketing headquarters there. See Kent E. Calder, *Singapore: Smart City, Smart State* (Washington DC: Brookings Institution Press, 2016).

⁹⁸ On Singapore institutions, logistical capabilities, and relationships with multinational corporations that support such a catalytic regional role, see Calder, *Singapore: Smart City, Smart State*.

Asia—mainly across the Bay of Bengal—tripled from 5.3 percent in 1990 to 16.6 percent in 2012.⁹⁹ The essence of these inter-regional and also intra-industry trade patterns is presented in table 4.

Table 4. India–East Asia production networks

Network Trade Commodity	China	Japan	South Korea	Malaysia	Singapore	Thailand	Vietnam
Office Machines	P	F	F	P/F	P/F	F	F
Telecom Equipment	F	F	P/F	P	P/F	P/F	P/F
Electrical Goods	P/F	P	P	P	P/F	P	P
Road Vehicles	P	P	P	F	F	P	F
Professional and Scientific Equipment	F	F	F	P	P	F	P
Photographic Apparatus	F	P/F	P/F	P	P	F	F

Source: Kunal Sen, “Global Production Networks and Economic Corridors: Can They be Drivers for South Asia’s Growth and Regional Integration?” ADB South Asia Working Paper Series no. 33 (December 2014), table 15.

Notes: (1) (P) mostly parts and components; (F) mostly final assembly; (P/F) both parts and components and final assembly. For example, India’s exports to China have been dominated by final assembly, except in office machines and road vehicles, where parts and components dominate in total network exports. In contrast, parts and components and final assembly are equally important in office machines, telecommunication equipment, and electrical goods in India’s exports to Singapore. (2) Time frame for the table is 1990–2012.

At the corporate level, there are numerous examples of this emerging India-based trade, much of it involving Southeast Asia. Ford, Hyundai, and Suzuki all export light vehicles from India in significant numbers. LG, Motorola, and Nokia all either make handsets in India or have plans to start, with a sizeable share of production being made for export. ABB, Schneider, Honeywell, and Siemens have set up plants to manufacture electrical and electronic products in India for domestic and export markets. Sundram Fasteners, for example, makes generator caps for General Motors. And while most auto parts exported from India are simple, Toyota has begun shipping transmissions from its plant near Bangalore.¹⁰⁰

In Conclusion

Between World War II and the 2008 global financial crisis, the Bay of Bengal remained a back-water, stagnant economically and isolated from broader currents of world affairs. Consisting primarily of poor, isolated, and socialist-leaning political economies, it had little to offer the multinational enterprises that have played such an important integrative role elsewhere in the world. In the absence of such integrative forces, the artificial South Asia–Southeast Asia

⁹⁹ See Kunal Sen, “Global Production Networks and Economic Corridors: Can They be Drivers for South Asia’s Growth and Regional Integration?” ADB South Asia Working Paper Series no. 33, December 2014, <https://www.adb.org/sites/default/files/publication/152708/south-asia-wp-033.pdf>.

¹⁰⁰ See “India in the Global Supply Chain: Can Domestic Demand and Technology Skills Help It Catch Up?” *Knowledge@Wharton*, February 15, 2007, <http://knowledge.wharton.upenn.edu/article/india-in-the-global-supply-chain-can-domestic-demand-and-technology-skills-help-it-catch-up/>.

distinction across the Bay of Bengal, introduced definitively during World War II with Britain's initiation of the Allied South East Asia Command, has continued to prevail.

During the late 1990s, some formalistic efforts were made to integrate the Bay of Bengal economically. India's "Look East" and Thailand's "Look West" policies were the primary drivers, and the creation of new organizations such as BIMSTEC played a role as well. De facto economic integration, however, did not gain much momentum until the following decade.

Since the global financial crisis of 2008, economic forces for change have gained substantial momentum in the Bay of Bengal. Economic growth and economic reform in India, Myanmar, and Bangladesh have been the principal drivers of this transformation, as have infrastructural improvements and the creation of related SEZs. Rising market-driven prospects for integrative production networks across the Bay show potential for further eroding the economic separation of South and Southeast Asia.

Chapter V

China's Deepening Influence

Chapter V: China’s Deepening Influence

Compared to the South and East China Seas, which adjoin the heartland of China, the Bay of Bengal has traditionally been considered a distant maritime configuration for Beijing. To be sure, intermittent voyages of exploration and commerce have passed through its waters from the east for close to two thousand years. Zheng He actually used a base in southern Sri Lanka—remarkably close to where Chinese construction firms are building the massive Hambantota port today—as his departure point for two voyages to Africa’s east coast in the fifteenth century. Yet such forays were few and far between until recently.

China, of course, is a massive presence within Asia in both geographic and human terms. The simple scale of that presence, and its centrality on the Eurasian continent, generate the latent potential for geoeconomic influence in the Bay of Bengal, although the lofty Himalayas stand in between.¹⁰¹

Physical geography, of course, still places the key centers of Chinese political and economic power—such as Beijing and Shanghai—on the country’s east coast, thousands of miles from the Bay itself. Chennai, for example, is 2,900 miles (about 4,700 kilometers) by air, or 4,400 miles (just over 7,000 kilometers) by sea (through the Strait of Malacca), from Shanghai. Despite the considerable physical distance, however, the dual geoeconomic transformation of the Asian continent and of China itself is converting the latter’s latent potential for influence into something more tangible. These transformations are rapidly deepening China’s influence in the Bay of Bengal, with potentially fateful global implications.

Before considering the prospective dimensions of China’s emerging role in the Bay of Bengal, it is useful to first compare China as a whole with the core nations of the Bay. As table 5 makes dramatically clear, China is massive relative to all of the Bay of Bengal nations—including even India—in geographical scale, population, overall GDP, and GDP per capita. China’s GDP per capita, for example, is nearly double that of the most affluent Bay of Bengal nation (Sri Lanka) and more than six times that of the poorest (Bangladesh).

Two other important realities bearing on China’s relations with the Bay of Bengal are apparent from the data provided in table 5. First, China has a well-developed industrial base, with almost 40 percent of economic value added concentrated in the secondary sector, of which manufacturing is the dominant element. This is roughly one-third higher than in any of the core Bay of Bengal countries. A second key reality apparent from the comparative data is that China is significantly grayer than any of the Bay of Bengal countries. Indeed, over 10 percent of the Chinese population is 65 or older. Due to the longstanding one-child policy, modified only in 2015, China’s graying will also proceed much more rapidly over the coming generation than in the Bay nations.

¹⁰¹ On the geographical dimensions of China’s centrality and how it has been augmented since the late 1970s by political-economic change, see Kent E. Calder, *The New Continentalism: Energy and Twenty-First Century Eurasian Geopolitics* (New Haven: Yale University Press, 2012), 154–63.

Table 5. China's massive scale in comparative perspective

	China	Bangladesh	Myanmar	Sri Lanka	India
Land area (sq. km), thousands	9,388.21	130.17	653.08	62.71	2,973.19
Total population, millions	1,378.67	162.95	52.89	21.20	1,324.17
Population ages 65 and above (% of total)	10.12	5.08	5.51	9.70	5.81
GDP (constant 2010 US\$), billions	9,505.16	167.77	75.12	79.71	2,464.93
GDP per capita (constant 2010 US\$)	6,894.46	1,029.58	1,420.49	3,759.23	1,861.49
Agriculture, value added (% of GDP)	8.56	14.77	28.20	8.21	17.35
Industry, value added (% of GDP)	39.81	28.77	29.50	29.59	28.85
Services, etc., value added (% of GDP)	51.63	56.46	42.30	62.19	53.80

Source: World Bank, *World Development Indicators* (2016).

Note: Data from 2016.

China's Internal Transformation and the Bay of Bengal

China's massive scale alone cannot transform it into an active and influential player in the Bay of Bengal. The massive Himalayas, not to mention vast distances between the Bay and China's power centers along its east coast, naturally make direct Chinese involvement difficult. For centuries, as a consequence, China and the Bay had little contact. Despite ideological sympathies with Indian radical movements that were highly influential in West Bengal politics as early as the 1950s, Maoist China, for example, had remarkably distant relations with the Bay of Bengal.

Chinese engagement with the Bay began to deepen across the 1990s, driven first by economics, as China emerged as an increasingly significant oil importer. The sea lanes between China and the Persian Gulf pass through the southern reaches of the Bay, as was noted earlier. China's own regional economic transformation—particularly the explosive growth of inland provinces like Yunnan, directly adjacent to the border of Myanmar, greatly amplified the economic pressures and logic for engagement with the Bay. In 1992, Yunnan was designated by China's central government to represent the country in the new Greater Mekong Sub-Region Economic Cooperation Program.¹⁰²

Beginning in the late 1990s, the Chinese central government began stressing inland development with increasing intensity, as income differentials between the eastern coast and inland

¹⁰² Mingjiang Li, "Local Liberalism: China's provincial approaches to relations with Southeast Asia," *Journal of Contemporary China* 23, no. 86 (2014): 278.

areas grew larger. This policy priority in favor of inland areas, initiated by President Jiang Zemin in 1999, intensified greatly following the global financial crisis of 2008, as seen in the initiation of China's massive \$586 billion domestic stimulus package in December of that year.¹⁰³ Yunnan was, as a consequence, one of the most rapidly growing provinces in China, with its economy more than tripling in scale between 2000 and 2015. Indeed, during its most intense 2011–2013 growth surge, Yunnan's average annual real economic growth exceeded 17 percent, outpacing the national average by a full 4 percent.¹⁰⁴

Yunnan's own rapid growth, like that of large neighboring inland provinces like Sichuan, with its 82 million people, and Chongqing, with 30 million, thus spurred sharp increases in energy and raw material demand, which could not easily be satisfied overland from the distant east coast.¹⁰⁵ In the face of this intense new local demand for raw materials, both the national and Yunnan provincial governments began actively exploring new connections with the Bay of Bengal, as well as its continental Southeast Asian neighbors. The focus was infrastructure—five years before the advent of the OBOR (now BRI) initiative.

In June 2008, the first Greater Mekong Subregion Economic Corridors Forum, proposed by Yunnan, was held in Kunming.¹⁰⁶ In July 2009, Chinese President Hu Jintao made an inspection tour of Yunnan, stressing its role as the “bridgehead” between Yunnan and surrounding parts of Asia.¹⁰⁷ And in March 2010, Yunnan itself succeeded in relocating the South Asian Countries Commodities Fair from Beijing, and renaming it the China-South Asia Expo.¹⁰⁸ This gathering has been held in Kunming annually ever since, bringing a broad range of local leaders to Yunnan from India, Bangladesh, Myanmar, and the neighboring countries on the Bay of Bengal.¹⁰⁹

Infrastructure Projects

Joint efforts by China's central government and Yunnan province have led to revolutionary new infrastructural links over the past decade between Yunnan and the Bay of Bengal, as well as with surrounding areas farther south. In June 2010, for example, as a result of joint efforts by Yunnan, Laos, Myanmar, and Thailand, the Lancang River and the lower Mekong were connected and opened for commercial navigation.¹¹⁰ Telecommunications links and electric power grids connecting Yunnan with Myanmar and its Southeast Asian neighbors have also

¹⁰³ “A \$586 billion stimulus plan for China's economy,” *Economist*, November 10, 2008, <https://www.economist.com/node/12585407>.

¹⁰⁴ Yunnan's economy expanded 23.1 percent in 2011, 15.9 percent in 2012, and 14.8 percent in 2013. In the same years, China's national economy grew 18.5 percent, 10.4 percent, and 10.2 percent. Author's calculation. National Bureau of Statistics of China, “Gross Regional Product,” *National Data*, <http://data.stats.gov.cn/english/easyquery.htm?cn=E0102>.

¹⁰⁵ Yunnan itself has over 47 million people. National Bureau of Statistics of China, “Resident Population (year-end),” *National Data*, <http://data.stats.gov.cn/english/easyquery.htm?cn=E0103>.

¹⁰⁶ Li, “Local Liberalism,” 278.

¹⁰⁷ Ibid., 283.

¹⁰⁸ Ibid., 285.

¹⁰⁹ On this gathering's regional role in the Bay of Bengal, see Kent E. Calder, “A Tale of Two Cities: Kunming, Urumqi, and the New Continentalism,” *Boao Review*, Spring 2014.

¹¹⁰ Li, “Local Liberalism,” 279.

been forged.¹¹¹ In July 2013, as noted previously, a major natural gas pipeline between Kunming and Kyaukphyu on the Bay of Bengal coast of Myanmar's Rakhine state became operational, with a parallel oil pipeline following in 2017.¹¹²

Another initiative that has greatly accelerated in recent years is the Bangladesh-China-India-Myanmar (BCIM) Economic Corridor project, first conceptualized by the Yunnan Academy of Social Sciences in August 1999.¹¹³ The BCIM project was the first of three major Chinese initiatives to emerge linking Yunnan and the Bay of Bengal nations. After a decade and more of low-profile activities following its founding in 1999, the project gained momentum with Chinese Prime Minister Li Keqiang's state visit to New Delhi in May 2013.¹¹⁴ Li proposed the development of a BCIM Economic Corridor, with the dimensions indicated in figure 9. This 1,700-mile (2,800-kilometer) corridor would extend from Kunming in Yunnan across northern Myanmar, India's northeastern states, and Bangladesh, as far as Kolkata.¹¹⁵ The route was already largely motorable, as evidenced by car rallies that were held in 2011 and 2013 between Kolkata and Kunming.¹¹⁶ The BCIM initiative proposed both to improve the transport-worthiness of the highway and to promote local economic development and interdependence along the way.¹¹⁷

Within months of Li Keqiang's BCIM proposal, President Xi Jinping unveiled the even more comprehensive One Belt One Road project, now known as the Belt and Road Initiative. The BRI, which has since become a core element of China's international economic diplomacy, involves several projects of direct and indirect relevance to the Bay of Bengal, as suggested in figure 10. Apart from the BCIM, which has been subsumed within the BRI, there is also the Kunming-Singapore high-speed rail project, and the China-Pakistan Economic Corridor. All three initiatives expand China's access to the Indian Ocean and the Strait of Malacca, flanking the Bay of Bengal and the Indian sub-continent.

¹¹¹ Ibid.

¹¹² Operation of the oil pipeline was delayed until April 2017 due to disagreements over transit fees, while the gas pipeline became operational much more smoothly.

¹¹³ On the origins of this project, see "The Kunming Initiative for a Growth Quadrangle between China, India, Myanmar and Bangladesh, 14–17 August 1999," *China Report*, no. 36:3 (2000), <http://journals.sagepub.com/doi/pdf/10.1177/000944550003600309>.

¹¹⁴ Ministry of External Affairs of India, "Joint Statement on the State Visit of Chinese Premier Li Keqiang to India," May 20, 2013, <http://mea.gov.in/bilateral-documents.htm?dtl/21723/Joint+Statement+on+the+State+Visit+of+Chinese++Li+Keqiang+to+India>.

¹¹⁵ Ashok Sajjanhar, "Understanding the BCIM Economic Corridor and India's Response," *ORF Issue Brief* 147 (June 2016): 2, http://www.orfonline.org/wp-content/uploads/2016/06/ORF_IssueBrief_147.pdf.

¹¹⁶ Ibid.

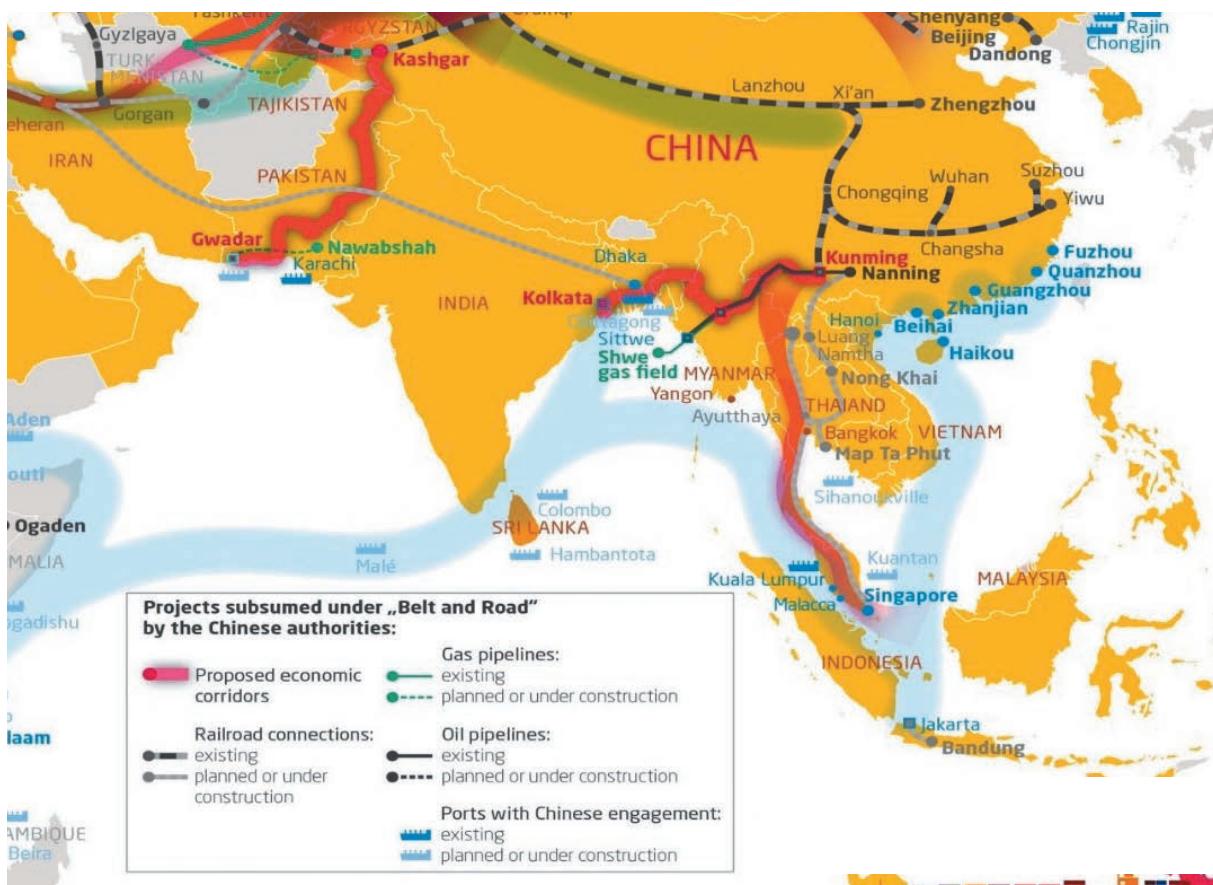
¹¹⁷ See Rupak Bhattacharjee, "Bangladesh, China, India and Myanmar-Economic Corridor: Ushering a New Era of Interconnectedness," *South Asia Monitor*, September 17, 2016, <http://southasiamonitor.org/detail.php?type=sl&nid=19346>.

Figure 9. China's proposed BCIM Economic Corridor



Sources: Ramtuna Maitra, "New Silk Road: Time Is Ripe To Implement The Kunming Initiative," *Executive Intelligence Review* 43:26 (June 24, 2016), 17-20, http://www.larouchepub.com/eiw/public/2016/eirv43n26-20160624/17-20_4326.pdf.

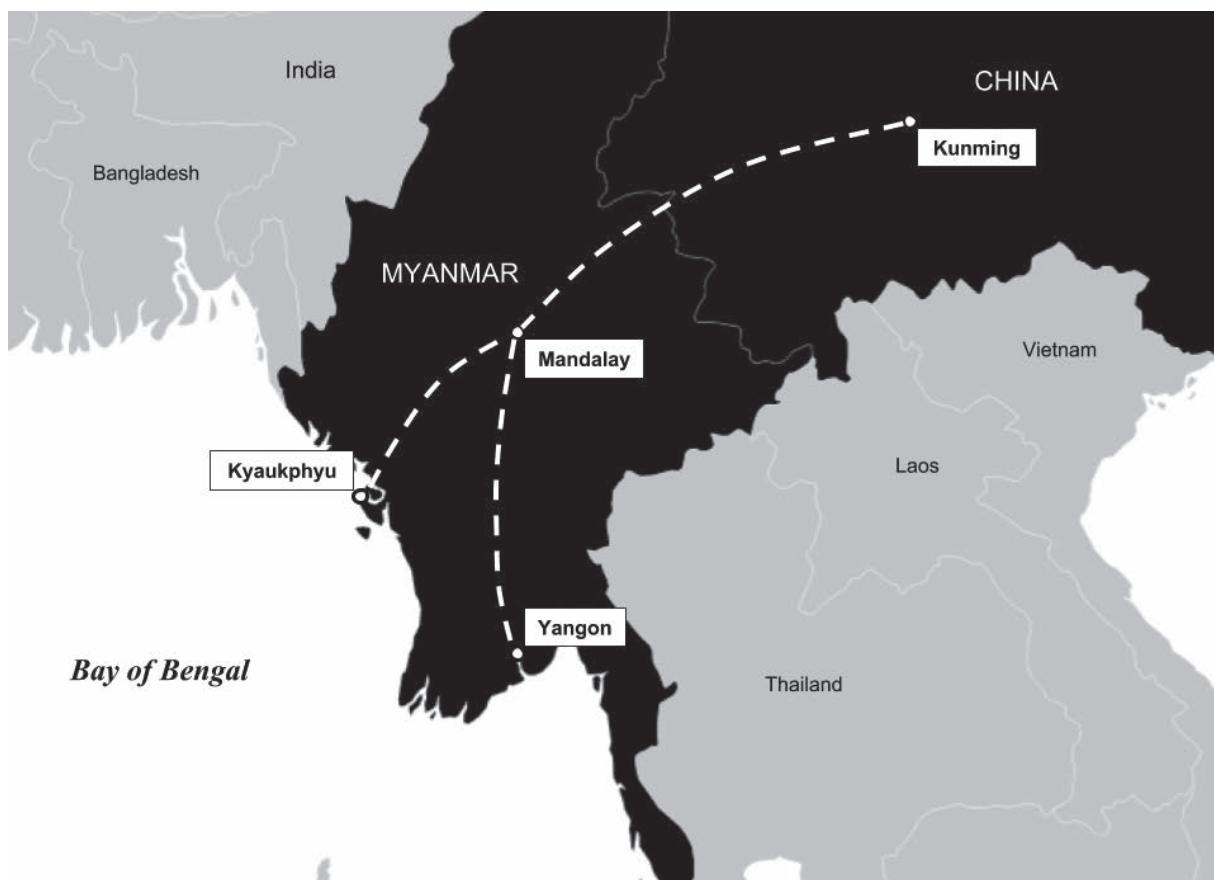
Figure 10. BRI projects enhancing Chinese access to the southern seas



Source: Mercator Institute for China Studies (MERICS).

In addition to the BCIM Economic Corridor and the Kunming-Singapore railway, a third Chinese economic project to link southwestern China and the Bay of Bengal was initiated in November 2017, namely the China-Myanmar Economic Corridor project focused narrowly on Myanmar, from which Yunnan receives 42 percent of its imports.¹¹⁸ The project proposes the construction of a Y-shaped economic corridor, originating from Yunnan in the north, as indicated in figure 11. This corridor would run from the China-Myanmar border to Mandalay in central Myanmar. It would then split, with branches running east and west—to Myanmar's capital of Yangon and to the Kyaukphyu Special Economic Zone on the Bay of Bengal respectively. Announced at a joint press conference in Naypyidaw, Myanmar's capital, between Aung San Suu Kyi and Chinese Foreign Minister Wang Yi on November 19, 2017, the corridor project represents an important new deepening of Sino-Myanmar economic relations.¹¹⁹

Figure 11. China-Myanmar Economic Corridor initiative (2017)



Source: Author's illustration.

¹¹⁸ Myanmar also takes 15 percent of Yunnan's exports—the most of any foreign trading partner. See *Yunnan Statistical Yearbook*, 2016 edition.

¹¹⁹ Ministry of Foreign Affairs of the People's Republic of China, "Wang Yi: China Proposes to Build China-Myanmar Economic Corridor," November 20, 2017, http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1512583.shtml.

Thus, while China does not directly border the Bay of Bengal, it is rapidly developing infrastructural links that provide access to the Bay—particularly overland links between Yunnan and neighboring Myanmar, Bangladesh, and northeastern India. In addition, China is extremely active in seeking to build and control Bay of Bengal port infrastructure. In Bangladesh, its persistent efforts have been largely rebuffed due to coordinated Indian and Japanese opposition, even though Bangladesh has a critical lack of deepwater ports.¹²⁰ In Myanmar, there will likely be important Chinese initiatives under the November 2017 China-Myanmar Economic Corridor project. Realization of the \$10 billion combined deepwater port and SEZ at Kyaukphyu on the Bay of Bengal, contracted in 2016 by subsidiaries of China's CITIC Group, will likely be one major aspect.¹²¹

It is in Sri Lanka, however, where China has achieved the most important breakthroughs in the port infrastructure area. Until the early 2000s, China had only a minimal geoeconomic presence in Sri Lanka, but that presence has expanded sharply over the past decade. Civil war in Sri Lanka had been dragging on inconclusively since it began in 1983, but during 2005–2008, the United States and other Western nations failed to provide military support to the government of President Mahinda Rajapaksa. China, on the other hand, stepped in with naval and air support that proved to be decisive, helping to bring the war to a conclusion in 2009. The Rajapaksa government rewarded China with strategic port development concessions, just as China's soaring energy imports from the Persian Gulf and Africa were giving it increased incentive to develop an Indian Ocean presence.

Construction on the Hambantota port, located in the home district of President Rajapaksa and very close to the site where Zheng He had once built a logistics base to support his voyages to Africa, began in January 2008. The port opened in 2010, but suffered from major losses, as throughput demand did not rise as rapidly as anticipated. Unable to repay its debts—much of which was held by the China Export-Import Bank and other Chinese interests—in 2016 the Sri Lanka government negotiated a deal to sell an 80 percent stake in the port to China Merchants Port Holdings. The sale triggered protests by trade unions and opposition groups, and so a new plan was signed in July 2017. Under this new agreement, China Merchants was to hold a reduced 70 percent stake in a joint venture with the Sri Lanka Ports Authority that would operate the port under a ninety-nine-year lease. The lease went into effect in December 2017.¹²²

The Rajapaksa government had also signed a second agreement with China Merchants Port Holdings in August 2011, based on a thirty-five-year build-operate-and transfer concept, to

¹²⁰ On the details, see Wade Shepard, "Bangladesh's Deep Sea Port Problem," *Diplomat*, June 7, 2016, <https://thediplomat.com/2016/06/bangladeshs-deep-sea-port-problem/>.

¹²¹ The Kyaukphyu project includes two major dimensions: construction of a \$7.3 billion deep-water port and a \$2.7 billion industrial area, in a special economic zone at Kyaukphyu on the Bay of Bengal, in Rakhine state. On the details, see Gregory B. Poling, "Kyaukpyu: Connecting China to the Indian Ocean," in *China's Maritime Silk Road*, ed. Nicholas Szechenyi (Washington DC: Center for Strategic & International Studies, March 2018), 4–6.

¹²² On this project, see Chien-peng Chung, "What are the strategic and economic implications for South Asia of China's Maritime Silk Road Initiative?" *Pacific Review* (September 2017), 7–8; and Kiran Stacey, "China signs 99-year lease on Sri Lanka's Hambantota port," *Financial Times*, December 11, 2017, <https://www.ft.com/content/e150ef0c-de37-11e7-a8a4-0a1e63a52f9c>.

construct a major container terminal at the Colombo Port.¹²³ This Sri Lankan port has historically been a strategic transshipment center for southern India, where long-distance freight is reloaded for shorter-distance transport, mainly to India. The actual construction cost of the Colombo container port exceeded \$500 million, with the Chinese firm's equity share rising to 85 percent.¹²⁴

A bitterly fought Sri Lankan national election in 2015 saw the ouster of the Rajapaksas, and the incoming administration called into question both of the new Chinese-dominated port projects. Sri Lanka's spiraling debt problems, however, limited the new government's negotiating leverage.¹²⁵ In the end, the new Sri Lankan government agreed to reaffirm the basic terms of the original agreement, giving Chinese firms dominance in both Colombo and Hambantota despite strong Indian objections.

The Colombo Port City is a \$1.4 billion commercial project adjoining the container port, funded and developed solely by China Harbor Engineering Company (CHEC). Under the original agreement signed by the Rajapaksa government, 20 hectares of the area reclaimed to build the port city was to be given to the Chinese investor and developer. The developer would also be given a ninety-nine-year lease on another 0.34 square miles (88 hectares).

In 2015, the newly elected, India-oriented President Sirisena, as well as the similarly inclined Prime Minister Wickremesinghe, initially called for a reassessment of the Chinese investment, expressing concerns about land ownership, sovereignty, and environmental impact. A new agreement was signed between the Sri Lankan government and the CHEC in August 2016, however, and construction was resumed. Under the new agreement, the total reclamation area was increased, and the real estate development plan was transformed into a project to build a regional financial hub.¹²⁶

Chinese Trade Ties with the Bay of Bengal

Trade relations reveal a parallel picture to infrastructure, with some important country-specific nuances. As indicated in table 6, all of the three core Bay of Bengal nations—Myanmar, Bangladesh, and Sri Lanka—have grown more dependent on China for trade over the past

¹²³ On the Colombo Port project, see Asian Development Bank, "Sri Lanka: Colombo Port Expansion Project," *ADB Completion Report*, July 2015.

¹²⁴ The project was initially a joint investment of China Merchant Holdings (55 percent), Aitken Spence (30 percent), and the Sri Lanka Ports Authority (15 percent). Aitken Spence exited the joint venture in 2012, and as a result China Merchant Holdings' share increased to 85 percent.

¹²⁵ By the end of 2016, Sri Lanka's national debt stood at around \$64 billion, or 76 percent of GDP, with over \$8 billion of that debt held by China. See Chung, "Strategic and Economic Implications," 7–8.

¹²⁶ See CHEC, "Stop-Start Port City, OBOR flagship project, on again," *In the Press*, July 2016, 2017, <http://www.portcitycolombo.lk/press/2017/07/16/stop-start-port-city-obor-flagship-project-on-again.html>; Shihar Aneez, "Sri Lanka softens its stance on China port city deal," *Reuters*, January 22, 2015, <https://www.reuters.com/article/us-sri-lanka-china-portcity/sri-lanka-softens-its-stance-on-china-port-city-deal-idUSKBN0KV2FV20150122>; Ministry of National Polices and Economic Affairs of Sri Lanka, "Colombo Port City to be transformed into an International Financial Centre," http://www.mnpea.gov.lk/web/index.php?option=com_content&view=article&id=150&catid=9&Itemid=112&lang=en.

decade. The rate of increase, however, has been most rapid in the case of Myanmar, and it now shows by far the highest level of dependence on China. Nearly 37 percent of Myanmar's total trade in 2016 was with China, nearly quadruple the percentage in 2006. Myanmar's trade with China in 2016 was also nearly five times that with India. While the value of India's trade with Myanmar more than doubled over the same decade, China's trade grew by a factor of fourteen.

Table 6. Rising trade dependence on China in the Bay of Bengal

		Bangladesh		Myanmar		Sri Lanka	
Year	Exports by destination	Value, million USD	Share of total	Value, million US\$	Share of total	Value, million US\$	Share of Total
2006	China	66.24	0.6%	209.25	4.1%	25.40	0.4%
	India	151.31	1.4%	730.48	14.2%	489.46	7.1%
	World	10,834.88			5,159.79	6,883.00	
2016	China	716.12	2.4%	4,766.68	40.7%	195.88	1.9%
	India	642.80	2.1%	1,038.11	8.9%	550.86	5.5%
	World	30,195.28			11,725.84	10,045.96	
Year	Imports by origin	Value, million US\$	Share of total	Value, million US\$	Share of total	Value, million US\$	Share of total
2006	China	2,332.22	14.5%	500.92	21.3%	779.74	7.6%
	India	2,061.71	12.8%	120.81	5.1%	2,172.85	21.2%
	World	16,095.63			2,349.96	10,253.00	
2016	China	10,028.79	24.3%	5,403.10	33.9%	4,270.21	22.2%
	India	5,530.18	13.4%	1,094.70	6.9%	3,826.39	19.9%
	World	41,248.20			15,920.69	19,238.59	
Year	Total trade	Value, million US\$	Share of total	Value, million US\$	Share of total	Value, million US\$	Share of total
2006	China	2,398.47	8.9%	710.16	9.5%	805.14	4.7%
	India	2,213.02	8.2%	851.29	11.3%	2,662.31	15.5%
	World	26,930.51			7,509.74	17,136.00	
2016	China	10,744.91	15.0%	10,169.78	36.8%	4,466.09	15.3%
	India	6,172.97	8.6%	2,132.82	7.7%	4,377.25	14.9%
	World	71,443.48			27,646.53	29,284.55	

Source: International Monetary Fund, Direction of Trade Statistics (2006 and 2016).

Sri Lanka and Bangladesh, as also noted in table 6, are somewhat less trade dependent on China than is Myanmar. This is especially true on the export side: Sri Lanka and Bangladesh are major exporters of tea and apparel respectively to world markets. Even in 2016, the two countries were only 1.9 percent and 2.4 percent reliant on China for export markets respectively.

The Security Dimension

Although overt geopolitical conflict has not spiraled upward to the levels prevailing in the South China Sea, China's rising economic presence in the Bay of Bengal and its environs has been accompanied by some increase in security tensions. These tensions are most evident in Sino-Indian relations. India has been the dominant power in the Bay since its partition in 1947, and especially since the third Indo-Pakistani War of 1971, which led to the independence of Bangladesh. Four of India's provinces border the Bay, which serves as a critical potential staging area for its submarine-launched ballistic missile (SLBM) nuclear-deterring fleet. India is thus sensitive to any direct Chinese naval encroachment in the Bay of Bengal, as well as Chinese arms exports to Sri Lanka, Myanmar, or Bangladesh, which might complicate its own security planning.

For converse reasons to motivating India, China has pursued security ties with all three of India's neighbors in the Bay of Bengal. It has sold submarines to both Myanmar and Bangladesh. Those to Bangladesh came initially with Chinese crews, nominally to provide training and familiarization, while also navigating near nascent Indian ballistic missile bastions in the northern reaches of the Bay of Bengal.¹²⁷ China has also supplied frigates and corvettes to Bangladesh, while assisting both Bangladesh and Myanmar in constructing naval shipyards.¹²⁸ Both Bangladesh and Myanmar have hedged their military involvement with China, however, by procuring equipment and undertaking exercises with India, as we shall see in chapter VI.

Sri Lanka's security relationship with China has followed a similar pattern to those of Bangladesh and Myanmar, albeit with episodically greater involvement from the Chinese, due to latter's important role in supplying critically important naval arms and aircraft to Sri Lanka during the decisive final stages of that nation's civil war.¹²⁹ The People's Liberation Army (PLA) Navy has also engaged in joint exercises with the Sri Lankan Navy, and its warships periodically pay visits to Sri Lankan ports.¹³⁰ The Chinese have been developing Hambantota port in ways that already permit periodic military use, but Sri Lanka has been lukewarm about Chinese requests to use the country's even more strategic Trincomalee harbor—the site for many years of Lord Mountbatten's cherished naval base on the Bay of Bengal—which lies much closer to India than does Hambantota.¹³¹

In Conclusion

China's massive scale and relative proximity create the potential for intense, asymmetrical interaction between it and the Bay of Bengal nations. Yet such a development is not foreordained.

¹²⁷ See Saurav Jha, "The Bay of Bengal Naval Arms Race," *Diplomat*, December 30, 2016, <https://thediplomat.com/2016/12/the-bay-of-bengal-naval-arms-race/>.

¹²⁸ Ibid.

¹²⁹ Ibid.

¹³⁰ Jeff M. Smith, "China and Sri Lanka: Between a Dream and a Nightmare," *Diplomat*, November 18, 2016, <https://thediplomat.com/2016/11/china-and-sri-lanka-between-a-dream-and-a-nightmare/>.

¹³¹ Jha, "The Bay of Bengal Naval Arms Race."

China's voracious demand for energy and raw materials over the past quarter century, the rapid development of its inland provinces, and Beijing's emerging geopolitical concerns as it rises have, however, radically transformed this equation. Particularly since the global financial crisis of 2008, China has become a major presence in the Bay of Bengal and a major catalyst for the region's rapid transformation from a geoeconomic backwater to an area of deepening concern to major world powers, including the United States and Japan.

Chinese trade with the Bay of Bengal has increased substantially over the past decade, especially with Myanmar. It has also provided some armaments to all three core Bay of Bengal nations, especially to Sri Lanka during the latter stages of its 1983–2009 civil war. The cutting edge of China's expanding role in the region, however, has been infrastructure. Chinese investment in pipelines, roads, electric power grids, and railway lines linking southwestern provinces such as Yunnan with the Bay has been substantial, dating back even before advent of the BRI program in 2013. And Chinese involvement with port construction has been significant as well, especially in Sri Lanka.

Chapter VI

India's Response

Chapter VI: India's Response

The Bay of Bengal is India's neighborhood. Four of its states—West Bengal, Odisha, Andhra Pradesh, and Tamil Nadu—have coastlines on the Bay. The port city of Kolkata, itself the capital of India until 1911, is the headquarters of India's eastern military command.¹³² Two of the country's busiest ports, Chennai and Visakhapatnam, also front on the Bay, while the Andaman and Nicobar Islands, which are the site of India's only unified military command and are largely reserved as a base for Indian naval and air forces, lie just 140 miles (225 kilometers) northwest of the entrance to the Strait of Malacca.

The Bay itself, the largest predominantly enclosed water expanse in South or Southeast Asia, and situated less than 400 miles (700 kilometers) southwest of China's frontiers, also serves as a strategic bastion for India's SLBM nuclear deterrent. In addition to the substantial military presence in the Andamans, several major naval bases also lie in the vicinity of Visakhapatnam.¹³³ India's Satish Dhawan Space Centre, located on the shores of the Bay in Andhra Pradesh, around fifty miles (eighty kilometers) north of Chennai.

For more than half a century following India's independence in 1947, New Delhi's preeminence in the Bay of Bengal and its periphery rested unchallenged, just as it had for a century before that under the British Raj, apart from the jarring interlude of World War II. The landlocked states of the region—Nepal, Sikkim, and Bhutan—all enjoyed such access as they had to the sea through India. Sri Lanka was also securely in India's orbit; as late as 1987, India intervened, seemingly successfully, to restore order in the protracted local Tamil uprising of the day, withdrawing its peacekeeping force in March 1990. The one threat to India's geopolitical preeminence in the Bay, East Pakistan, disappeared in early 1972 with the independence of Bangladesh, which itself was secured with the strong support of Indian forces.¹³⁴

The sudden rise of China in the Bay of Bengal, as chronicled in the last chapter, has thus been troubling for New Delhi, especially because it has been paralleled by deepening Chinese support for Pakistan on India's western flank. In confronting China, however, India does begin with some underlying geopolitical strengths. First of all, as a peninsula jutting 1,000 miles (1,600 kilometers) southward from a Kolkata base line into the sea, India dominates the Indian Ocean, a crucial thoroughfare through which over 80 percent of China's oil imports and many of its raw materials must flow. This geopolitical advantage is amplified by the strategic location

¹³² The decision to move the capital from Kolkata (then Calcutta) to Delhi was formally announced by King George V in December 1911, and the foundation stone for New Delhi was personally laid by the King at the Delhi Durbar. Construction of the new capital city, however, took almost two full decades; the final inauguration of New Delhi was in February 1931.

¹³³ The Indian Navy is also considering a new naval base in Chennai, as its buildup in the Bay of Bengal continues. See "Indian Navy to push for new naval base in Chennai," *New Indian Express*, December 2, 2017, <http://www.newindianexpress.com/cities/chennai/2017/dec/02/indian-navy-to-push-for-new-naval-base-in-chennai-1716381.html>.

¹³⁴ Bangladesh declared independence at the outset of the Bangladesh Liberation War, in March 1971. Pakistan surrendered in December 1971, with Indian troops completing their withdrawal in March 1972.

of the Andaman and Nicobar Islands, which dominate the northwestern approaches to the Strait of Malacca. India's inland borders are also secured by the formidable mass of the Himalayas, the world's highest mountain chain.

Although India's geopolitical position is formidable within the region from a defensive standpoint, and its demographic scale dwarfs its neighbors on the Bay, the country does have several underlying weak points around the Bay of Bengal, on which China and other adversaries could potentially prey. Chief among them is the vulnerability of the Indian Northeast, which is connected to the rest of the country by the 17-kilometer wide Siliguri Corridor, also known as the Chicken Neck, due to its vulnerability.

This geopolitical weakness is compounded on the ground by the ongoing insurgency in the state of Nagaland, a central piece of the broader sociopolitical unease in India's Northeast.¹³⁵ In June 2015, the Indian military was forced to conduct a raid into Myanmar to engage with a terrorist group that had attacked Indian security forces and killed twenty troops only a few weeks earlier in Manipur.¹³⁶ In October 2017, insurgents are suspected of having once again attacked an Indian Army operating base, this time in Arunachal Pradesh.¹³⁷

As in its dealings with Pakistan, India thus faces the challenge of terrorism in the east as well. Its 2,600-mile (4,100-kilometer) border with Bangladesh is its longest with any nation and confronts no natural obstacles. Born of the bitter 1947 partition, it cuts through lively communities in circuitous fashion that makes border control, including interdiction of potential terrorists, extremely difficult. India's Northeast also borders on the volatile Rakhine state of Myanmar, home to the Rohingya people, most of whom are stateless Muslims and a million of whom have recently fled to Bangladesh. As noted previously, that country has already experienced recent terrorist incidents, and the danger of rising Islamic terrorism is one that understandably concerns India and cannot be dismissed lightly.

There is no evidence that China is abetting the Islamic terrorism that India fears; Beijing presumably fears the same danger itself. Chinese inroads do challenge New Delhi, however, in at least four respects. First, there are arms deliveries—China is providing submarines, corvettes, and frigates to Bangladesh; missile-targeting radar and other such equipment to Myanmar; and various military supplies to Sri Lanka.¹³⁸ Second, China is assertively proposing port development to all three of the core Bay of Bengal states, fueled by the ample resources of its BRI.

¹³⁵ A peace accord was signed in 2015 with one major Naga insurgent group, the National Socialist Council of Nagaland-Isak Muivah, or NSCN (IM). Another major faction, the Khaplang group based in Myanmar, or NSCN (K), was not included. For a full timeline of events, see "Naga peace accord: Key moments of the insurgency," *Hindustan Times*, August 4, 2015, <https://www.hindustantimes.com/india/naga-peace-accord-key-moments-of-the-insurgency/story-Go6NTFrfrGoYIcdJs6N01KK.html>.

¹³⁶ See "20 soldiers killed in Manipur ambush in deadliest attack on Army in 33 yrs," *Times of India*, June 5, 2015, <https://timesofindia.indiatimes.com/india/20-soldiers-killed-in-Manipur-ambush-in-deadliest-attack-on-Army-in-33-yrs/articleshow/47547738.cms>.

¹³⁷ See "Army operating base attacked in Arunachal, NSCN (K) hand suspected," *Times of India*, October 10, 2017, <https://timesofindia.indiatimes.com/india/army-operating-base-attacked-in-arunachal-no-casualty/articleshow/61019092.cms>.

¹³⁸ See Saurav Jha, "The Bay of Bengal Naval Arms Race," *Diplomat*, December 30, 2016, <https://thediplomat.com/2016/12/the-bay-of-bengal-naval-arms-race/>.

Such proposals have been quite successful in Myanmar¹³⁹ and in Sri Lanka,¹⁴⁰ although less so in Bangladesh, even though that country has a critical need for new deepwater infrastructure.¹⁴¹ Third, China is competing actively—and successfully—with India for energy-supply contracts in the region.¹⁴² And finally, the Chinese military itself is becoming more active in the Bay, for example through military exercises between the PLA Navy and the Sri Lanka Navy.¹⁴³

In responding to the security and economic challenges it faces in a suddenly more competitive Bay of Bengal, India suffers from some important constraints. One is bureaucratic infighting within the Indian government. Interministerial conflict was a key factor in India's slow and ineffective attempt to compete for the Shwe gas contract in Myanmar, for example.¹⁴⁴ A second constraint has been India's own lively democratic domestic party politics. Opposition from the West Bengal governor, to note one instance, has seriously delayed an important water-sharing agreement with Bangladesh.¹⁴⁵ Similarly, opposition from Tamil Nadu inhibited New Delhi a decade ago from intervening effectively in the end game of the Sri Lankan civil war.¹⁴⁶ Both of these domestic political constraints have immobilized Indian foreign policy, giving a critical edge to China in geopolitically important Sino-Indian competitions.

Even where domestic party politics do not rear their head, India is also constrained in its response to the Bay of Bengal by its ongoing competition with Pakistan, dating from the bitter days of partition in 1947. India and Pakistan have fought three wars since then against one another, and continue to confront one another militarily in the disputed state of Kashmir. As Satu Limaye has argued, Indian security policy—and indeed Indian foreign policy more generally—has traditionally been “weighted west, against this Pakistani challenge.”¹⁴⁷ India’s reliance on Persian Gulf energy markets, the war in Afghanistan, and even the concentration of Prime Minister Narendra Modi’s own political base in the far-western state of Gujarat may be compounding this westward orientation, together with the relative paucity of production networks with Southeast Asia, which otherwise could pull India more forcefully across the Bay of Bengal to the east. The

¹³⁹ See Yimou Lee and Thu Thu Aung, “China to take 70 percent stake in strategic port in Myanmar—official,” *Reuters*, October 17, 2017, <https://www.reuters.com/article/china-silkroad-myanmar-port/china-to-take-70-percent-stake-in-strategic-port-in-myanmar-official-idUSL4N1MS3UB>.

¹⁴⁰ See Jamie Tarabay, “With Sri Lanka port acquisition, China adds another ‘pearl’ to its ‘string,’” *CNN*, February 4, 2018, <https://www.cnn.com/2018/02/03/asia/china-sri-lanka-string-of-pears-intl/index.html>.

¹⁴¹ See Wade Shepard, “Bangladesh’s Deep Sea Port Problem,” *Diplomat*, June 7, 2016, <https://thediplomat.com/2016/06/bangladeshs-deep-sea-port-problem/>.

¹⁴² See “China beats India to 30-year natural gas deal with Myanmar,” *livemint*, December 30, 2008, <https://www.livemint.com/Companies/G4MMTDIgSs6bVVW06fPVTP/China-beats-India-to-30year-natural-gas-deal-with-Myanmar.html>.

¹⁴³ See Ankit Panda, “Sri Lanka and China Wrap Up Silk Route 2015 Military Exercise,” *Diplomat*, July 18, 2015, <https://thediplomat.com/2015/07/sri-lanka-and-china-wrap-up-silk-route-2015-military-exercise/>.

¹⁴⁴ “China beats India,” *livemint*, December 30, 2008.

¹⁴⁵ See “The Teesta river dispute explained in 10 points,” *Times of India*, April 9, 2017, <https://timesofindia.indiatimes.com/india/the-teesta-river-dispute-explained-in-10-points/articleshow/58091320.cms>.

¹⁴⁶ See Sandra Destradi, “India and the Civil War in Sri Lanka: On the Failures of Regional Conflict Management in South Asia,” German Institute of Global and Area Studies (GIGA) Working Paper no. 154 (December 2010), https://www.giga-hamburg.de/en/system/files/publications/wp154_destradi.pdf.

¹⁴⁷ See Satu Limaye, “Weighted West, Focused on the Indian Ocean and Cooperating across the Indo-Pacific: The Indian Navy’s New Maritime Strategy, Capabilities, and Diplomacy,” *CNA Analysis & Solutions*, April 2017, https://www.cna.org/cna_files/pdf/DRM-2016-U-013939-Final2.pdf.

Modi “Act East” policies, stressing relations with East and Southeast Asia, may be moderating this westward orientation to some degree. Still, India’s friends, including the United States and Japan, need to work harder to prevent a westward weighting from blinding New Delhi to the challenging developments in the Bay of Bengal outlined in this monograph.

India’s Policy Response

Despite an ongoing tendency toward “weighting West,” and an urgent need to do even more, India is slowly proceeding to strengthen its position within the Bay of Bengal itself and to deepen its international ties east of the Strait of Malacca. India began systematic antipiracy patrols in the Indian Ocean during 2008 and started cooperating with the Maldives and Sri Lanka on maritime security matters in October 2011.¹⁴⁸ It also offered a \$100 million concessional credit line to Vietnam to buy patrol boats, while also engaging in joint naval exercises east of the Strait of Malacca.¹⁴⁹ It has also strengthened its cultural diplomacy through Project Mausam, an effort to strengthen people-to-people links along the Maritime Silk Road, much as China has been doing by memorializing the voyages of Zheng He.¹⁵⁰

A number of other activities are also aimed at promoting greater integration within the region, including the work of the South Asian Association for Regional Cooperation in the Bay of Bengal; the extension of BIMSTEC’s activities eastward; the Mekong-Ganga Cooperation; the India-Myanmar-Thailand Trilateral Highway; the ASEAN-India Free Trade Area; and the East Asia Summit, which also includes India.

On the military front, since the early 1990s, India has engaged with the United States in the Malabar Naval Exercises in the Bay of Bengal. These exercises have been held annually since 2002, with Japan formally joining as a regular member in 2015. These activities complement the Cooperation Afloat Readiness and Training (CARAT) exercises that the United States conducts independently with Bangladesh and other nearby nations.

Synergistic with the strengthening of naval capabilities has been a marked new emphasis on maritime infrastructure. Under the \$120 billion Sagarmala investment initiative, fully conceptualized and approved in mid-2015, India has begun modernizing six mega-ports, four of which are in the Bay of Bengal, and it is constructing more than fourteen coastal economic zones adjacent to them. The objective is to leverage the economic and strategic potential of India’s 4,700-mile (7,500-kilometer) coastline.¹⁵¹

¹⁴⁸ See Sachin Parasharl, “Narendra Modi’s ‘Mausam’ manoeuvre to check China’s maritime might,” *Times of India*, September 16, 2014, <https://timesofindia.indiatimes.com/india/Narendra-Modis-Mausam-manoeuvre-to-check-Chinas-maritime-might/articleshow/42562085.cms>. “Mausam” means “weather” or “season” in many South Asian languages. It is used here to refer to commercial and cultural exchanges in the Indian Ocean, carried by monsoon winds in premodern times.

¹⁴⁹ Ibid.

¹⁵⁰ Ibid.

¹⁵¹ On the Sagar Mala project, see Government of India Ministry of Shipping, “SagarMala,” updated March 5, 2018, <http://sagarmala.gov.in/>. The idea was first raised in 2003, but not operationalized until mid-2015.

India has also been paying increased attention to the socioeconomic problems of its Northeast states, which abut Southeast Asia at the head of the Bay of Bengal.¹⁵² Part of the challenge has been the need for improved infrastructure, and both the India-Myanmar-Thailand highway and the Kaladan Multi-Modal Transit Transport project are efforts to address this imperative, as is the Bangladesh, Bhutan, India, and Nepal Initiative. Efficient yet secure border-crossing points (integrated check posts) will help support trade in alternatives to agricultural commodities, which have heretofore been the base of the local Northeast economy. Small business infrastructure is likewise important, and it deserves backing from overseas development assistance and multilateral development institutions like the Asian Development Bank.

Complementing economic development in the Northeast, India has also been strengthening its defense infrastructure in the Bay of Bengal. The Indian Navy has increased its deployment of naval assets at its eastern naval base of Visakhapatnam on the Bay of Bengal coast, and is reportedly consulting with Japan and the United States about installing underseas surveillance systems off the Nicobar Islands in the Bay.¹⁵³ It also reportedly plans to lay underwater fiber optic cable from Chennai on the eastern coast to Port Blair in the Andamans, which could potentially be integrated with existing defense sound surveillance system (SOSUS) networks.¹⁵⁴ India is also reported to be cooperating with Japan on broader economic development of the Andaman Islands—the one major part of Indian territory that was occupied by the Japanese during World War II.¹⁵⁵ As suggested in figure 12, they lie in a highly strategic location at the northern entrance to the Strait of Malacca.

The advent of the Modi administration in May 2014 has led to a major strengthening of diplomatic as well as military relations between India and the nations of ASEAN, which lie to the east across the Bay of Bengal.¹⁵⁶ In September 2014, India concluded a major agreement with a pivotal ASEAN member, Singapore, on counterterrorism, which helped intensify the ties between the two countries.¹⁵⁷ In 2015, India began coordinated naval exercises with both Indonesia and Australia. And in January 2018, most dramatically, Prime Minister Modi hosted all ten national leaders of ASEAN as guests of honor at India's Republic Day, declaring that he placed ASEAN at the center of India's Act East policy.¹⁵⁸

¹⁵² See Akshay Mathur, "A Winning Strategy for the North East," Gateway House Research Paper no. 1 (July 2011), <http://www.gatewayhouse.in/winning-strategy-north-east-353/>.

¹⁵³ Ministry of Defence (Navy) Integrated Headquarters, "Ensuring Secure Seas: Indian Maritime Security Strategy," Indian Navy Naval Strategic Publication (NSP) 1.2 (October 2015), https://www.indiannavy.nic.in/sites/default/files/Indian_Maritime_Security_Document_25Jan16.pdf.

¹⁵⁴ Abhijit Singh, "India's 'Undersea Wall' in the Eastern Indian Ocean," CSIS Asia Maritime Transparency Initiative, July 15, 2016, <https://amti.csis.org/indias-undersea-wall-eastern-indian-ocean/>.

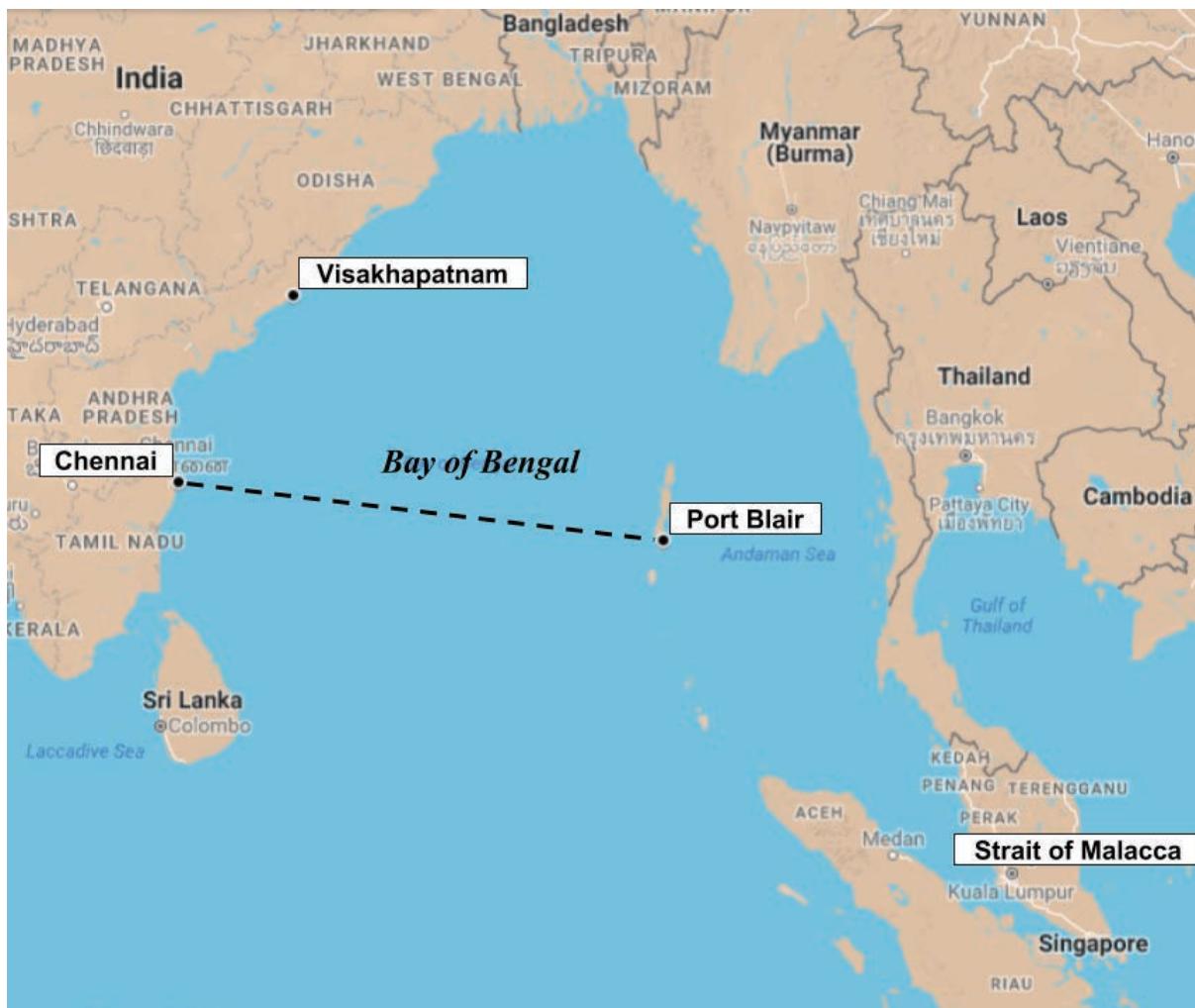
¹⁵⁵ Ellen Barry, "As India Collaborates With Japan on Islands, It Looks to Check China," *New York Times*, March 11, 2016, <https://www.nytimes.com/2016/03/12/world/asia/india-japan-china-andaman-nicobar-islands.html>.

¹⁵⁶ Rahul Mishra, "From Look East to Act East: Transitions in India's Eastward Engagement," in *International Relations and Asia's Southern Tier: ASEAN, Australia, and India*, ed. Gilbert Rozman and Joseph Chinyong Liow (Singapore: Asan-Palgrave Macmillan Series, 2018), 321–40.

¹⁵⁷ See Tridivesh Singh Maini, "Why India needs to 'act' East," *East Asia Forum*, April 11, 2015, <http://www.eastasiaforum.org/2015/04/11/why-india-needs-to-act-east/>.

¹⁵⁸ See Kiran Sharma, "Modi showcases links with ASEAN at New Delhi parade," *Nikkei Asian Review*, January 26, 2018, <https://asia.nikkei.com/Politics/International-Relations/In-a-first-all-10-ASEAN-leaders-grace-Indias-Republic-Day-parade-as-chief-guests>.

Figure 12. Strategic location of the Andaman and Nicobar Islands



Source: Author's illustration.

The Modi administration has also intensified political-military cooperation in a variety of dimensions with the two geopolitical bridges to Southeast Asia—Bangladesh and Myanmar. In 2014, for example, India and Bangladesh concluded a long-delayed border agreement, redrawing many of the complex enclaves and circuitous meanderings of the border that have traditionally made immigration controls so difficult.¹⁵⁹ It has also countervailed substantial arms-supply relations between China and Myanmar, as well as those between China and Bangladesh, by providing important military equipment, such as sonars and search radars, to the respective navies.¹⁶⁰

India and Sri Lanka also moved to deepen ties in late 2015. This shift followed two watershed elections in which a pro-Indian candidate triumphed in both the presidential election (Maithripala Sirisena) and its parliamentary sequel (Ranil Wickremesinghe). In May 2017, Modi paid an important visit to Sri Lanka, his second since assuming office in May 2014, to

¹⁵⁹ Serajul Quadir, "India, Bangladesh sign historic land boundary agreement," *Reuters*, June 6, 2015, <https://www.reuters.com/article/us-bangladesh-india-enclaves/india-bangladesh-sign-historic-land-boundary-agreement-idUSKBN0OM0IZ20150606>.

¹⁶⁰ Jha, "The Bay of Bengal Naval Arms Race."

participate in celebrations marking Vesak Day, the commemoration of Buddha's enlightenment.¹⁶¹ Days before Modi's visit, Sri Lanka turned down a Chinese request to dock one of its submarines at Hambantota, a dispensation that had been allowed previously.

Although governments relatively friendly to India are thus currently empowered in all three of the core Bay of Bengal nations, however, and despite Modi's recent proactive diplomacy, uncertainties remain as to how domestic politics—both in India and in those nations—will affect Indian policy engagement with the Bay of Bengal in the coming years.

In Conclusion

The Bay of Bengal is in India's backyard, and that massive nation has traditionally dominated the region. Sri Lanka, Bangladesh, and Myanmar were all subject to New Delhi, and before that Kolkata, for a century before partition. Following the third Indo-Pakistani War and the dismemberment of Pakistan in 1971, India ruled supreme on the Indian subcontinent, and in the Bay of Bengal, for nearly four decades.

Despite its rapid economic rise since the financial crisis of 1990–1991, India faces a much more challenging geopolitical environment in the Bay of Bengal than at any previous point in its history. One element is the rise of Islamic fundamentalism and the troubling prospect of terrorism, especially in Bangladesh. A second is the ongoing Nagaland insurgency, while a third is the stark human tragedy of the massive Rohingya migrations.

India's principal geopolitical challenge in the Bay of Bengal is clearly the rise of China. Ironically, the democratic politics on which India prides itself complicate its foreign policy response, as local governments at times oppose what New Delhi would like to pursue for reasons of state. Also dysfunctional, although difficult to avoid, is India's proclivity to be "weighted west," giving precedence to the tensions with Pakistan rather than to Bay of Bengal issues. Support from friendly nations such as Japan and the United States could be crucial to assuring increased understanding in New Delhi of the very real challenges India increasingly confronts in the Bay of Bengal. Of all the major world powers, their interests on the continent of Eurasia are the most directly aligned with India's own. How the Bay's multifaceted challenges can be met collaboratively will be a central concern of the following, and concluding, chapter.

¹⁶¹ See Harsh V. Pant, "New Delhi's Indian Ocean Outreach," *Diplomat*, June 1, 2017, <https://thediplomat.com/2017/06/new-delhis-indian-ocean-outreach/>.

Conclusion

Conclusion

The preceding pages have chronicled social, economic, political, and military transitions occurring in a little-understood corner of the world with major future implications for world affairs. The Bay of Bengal is not the South China Sea, but it lies not far to the west, beyond the Strait of Malacca, along the same sea lanes to and from the Persian Gulf through which fully one-third of the world's trade passes each day en route to China, Japan, and Korea. For seven decades, the Bay of Bengal was an isolated backwater, cut off from the main currents of global affairs. Within the past decade, however, the Bay has been transformed into a lively realm of both economic prosperity and escalating geopolitical competition. And the prospects are strong that the region's future will have relevance far beyond its heretofore isolated and parochial shores.

International affairs is traditionally the study of nations, divided into discrete regions of the world. We have purposely adopted a different approach, convinced that in the twenty-first century, global interdependence is rising, and that an analytical focus on connectors rather than dividers would thus be a more useful way to understand the world as it is now evolving. We thus have focused on a strategic body of water rather than a piece of land, and on how two regions of Asia conventionally thought to be separate—South and Southeast Asia—are in reality better understood as one.

Apart from adopting and testing a new conceptual paradigm for international affairs, we have also identified several pressing challenges for policy that are of major consequence to the United States, Japan, and the broader world. Perhaps the most basic is preserving prosperity and human security in a globalizing world that tends to promote growth in ways that often exacerbate social tensions and inequalities at the local level. The Bay of Bengal includes some of the poorest nations in the world—countries that have suffered major recent tragedies, such as the 2004 tsunami and the massive Rohingya migrations. These countries have also, however, experienced recent spurts of growth. How that growth can be sustained while ensuring minimal human standards for all is one central challenge. Meeting that challenge requires a human security response involving substantial assistance from the outside world.

A second emerging challenge is clearly the specter of terrorism and political upheaval. As we noted in chapter III, there are very real political risks around the Bay of Bengal within its varied domestic political systems. Some of these risks relate to the fluid movement of peoples, and the dangers of terrorism that can easily result, given the porous borders and fragile national identities in the region. Other tensions flow from ethnic and religious conflict. The nations of the Bay have highly diverse populations, in countries that are growing economically amidst profound social transformation.

A final emerging challenge is geopolitical. What was once an Indian preserve, not least in the days of the British Raj, has become an arena of intense geopolitical competition, particularly between India and China. In this competition India is handicapped, at least in the short run, by

its democratic traditions, which can often make decisive policy response difficult. Bureaucratic divisions and lack of resources also compound the difficulties of response. Further complicating matters, Indian policy has tended to have a westward bias that orients the country toward security concerns with Pakistan and systematically undervalues challenges that lie eastward, in the Bay of Bengal.

All this suggests the rising importance, for stability and prosperity in the Bay of Bengal, of US-Japan cooperation—both with India and other key nations of the region. These two countries are both Indo-Pacific nations, and the major global powers with the strongest stakes in the stability and prosperity of that important region. This cooperation should have nine concrete manifestations:

- (1) *A Focus on Connectivity.* Integrating the long-isolated Bay of Bengal into world affairs can and should be a stabilizing and moderating development, both for the Bay itself and for the broader world. Chinese connectivity with the Bay is developing rapidly through the China-Myanmar Economic Corridor project, and needs to be complemented by accelerated India-ASEAN connectivity. Cost-effective infrastructure—roads, rail, electric power, and communications—is needed to provide that connectivity.
- (2) *Critical Role of Official Development Assistance.* Given the region's poverty and deepening income inequality, ODA is still needed. JICA, in particular, plays a vital role through projects such as the Bay of Bengal Industrial Growth Belt (BIG-B) in Bangladesh, a geographically focused initiative to accelerate industrial initiative focused on developing economic infrastructure fostering connectivity and improving the investment environment in the Dhaka—Cox Bazar core area of Bangladesh.
- (3) *Central Role of the Asian Development Bank.* The ADB can help to multilateralize assistance and to defuse complex nationalist sentiments. The ADB is and should be a close partner for JICA on issues such as India-ASEAN connectivity, given Japan's active role at the ADB, as well as the ADB's special position as a development bank charged with promoting regional connectivity.
- (4) *Strengthened Regional Institutions.* Dhaka-based BIMSTEC has potential that should be encouraged, as should Indian ties with ASEAN. Indian membership in APEC should also be considered when the window for expansion is next opened.
- (5) *The Security Dimension.* Quadrilateral cooperation among the US, Japan, India, and Australia needs to be encouraged both through periodic exercises in the Bay of Bengal like Malabar and also through strengthening defense facilities and cooperation in developing and procuring weapons systems.
- (6) *Port Construction as a Strategic Sectoral Priority.* Japan and the United States should cooperate in assuring that the nations of the Bay, especially Bangladesh, have the deepwater ports they need, built under realistic lending terms that do not hamstring local partners with crippling debt.

(7) *Case-by-case Cooperation with Europe in the Bay of Bengal.* Britain, for example, is building a \$7.5 billion port rail system in Bangladesh, and as leader of the commonwealth shares the special interests of the US and Japan in local stability and prosperity.

(8) *Positive Case-by-Case Cooperation with China's Belt and Road Initiative.* Where the BRI meets US-Japan strategic priorities, cooperation could be achieved through cofinancing of selected projects with the Asian Infrastructure Investment Bank.

(9) *Extraregional Development Cooperation between Japan and India.* Cooperation between Japan and India in other regions can strengthen that partnership in a way that supports cooperation in the Bay of Bengal as well. Indo-Japanese cooperation on the Asia-Africa Growth Corridor concept, for example, is in the interest of both nations and the world.

Every system, as Charles Kindleberger pointed out in his classic study of the Great Depression, needs a stabilizer.¹⁶² The socioeconomic needs of the Bay of Bengal today, whose satisfaction is critical to regional stability, are complex and vast. They are also globally consequential, in both economic and geopolitical terms. China is making active efforts to supply needed connectivity, but those efforts are enmeshing many local actors in unsustainable debt, while altering the geopolitical landscape. Japan and the United States, together with local partners, need to strengthen their stabilizing roles also. The Bay of Bengal lies at the core of the Indo-Pacific region; the broader Indo-Pacific concept, however rhetorically prominent, cannot be meaningful operationally without a coherent US-Japan involvement there.

¹⁶² Charles P. Kindleberger, *The World in Depression 1929–1939* (Berkeley: University of California Press, 1973), 305.

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