

# **Politics of Coal Powered Energy:**

**The Reason Behind Chinese and Indian Investment in Bangladesh**

By

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*“If you want to find the secrets of the universe, think in terms of energy... If your hate could be turned into electricity, it would light up the whole world.” – Nikola Tesla.*

## **Abstract**

In present, sustainable development theory has become top priority for all policy makers, they argue that how a country can develop sustainably with political behavior. Economics and politics are two different issues, but they can be merged into one to understand how a country can have a sustainable development. Economist have argued and applied standard and neo-classical theory to environmental economic problems. This paper will highlight the political reason behind why Bangladesh is encouraging foreign investment in coal powered energy, in addition with Chinese and Indian investment; questioning why they are keen for the investment when the rest of the world is investing in renewable energy sources? Along with the relation between the Belt and Road Initiative by China, and the geopolitics of Indian alliance. This paper will show why Bangladesh is going backwards in relation to Climate Agreement? This paper will show the geopolitical relationship with Bangladesh and India, the economic benefits for Bangladesh, and question the Paris Agreement. Although the paper will be suggesting the economic development more, along with politics of coal powered energy but will also defend the climate issues and the future of Sundarbans. The paper will argue the pros and cons of energy development, and the future of Sundarbans area. More importantly, why Sundarbans is important for Bangladesh? It is true that for any government, economic development is important but at what cost? This paper will answer the importance of economic development along with the problems it causes.

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# Chapter 1: Politics Behind Coal Powered Energy in Bangladesh

## 1.1 Introduction

Perhaps, the idea of coal power energy came from Thomas Edison. The first was built in London (1882), the Edison Electric Light Station, the project of Edison which was organized by Edward Johnson. This was probably one of those inventions which changed the course of history. The main concept for building or using coal, as a power source, was, because coal was reliable source, affordable, known technology, safe, and abundance. Few countries still use this source of energy supply. Although, this system of energy supply may be easier and cheaper but there are few major issues to deal with it, such issues are, greenhouse gas emission, mining destruction, generation of waste, and emission of harmful substances. In present day, countries or states or governments all over the world are trying to move towards renewable sources of power. Examples include, the Paris Agreement<sup>1</sup>. This agreement is an action within the United Nations Framework Convention on Climate Change. This agreement fights to deal with greenhouse gas emissions mitigation, adaptation, and finance.

*“Our planet cannot be saved unless we leave fossil fuels in the ground where they belong. Massive change is required, now. One that leads to a new collective consciousness. A new collective evolution of the human race [,] inspired and enabled by a sense of urgency from all of you. We all know that reversing the course of climate*

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<sup>1</sup> This agreement is within the United Nations Framework Convention on Climate Change; dealing with greenhouse-gas-emissions mitigation, adaptation, and finance, signed in 2016.

*change will not be easy, but the tools are in our hands – if we apply them before it is too late.”*<sup>2</sup> – Leonardo DiCaprio

The basic idea of this paper on coal powered energy was inspired by the Niagara Falls<sup>3</sup>, as Bangladesh is a river-based country, why instead of taking advantage of the water body, the government of Bangladesh is influenced to develop coal powered plants? The statue of Nikola Tesla<sup>4</sup> at the heart of Niagara Falls, the one who lit up the lives of millions by designing and creating the first hydroelectric power plant which produced electricity since 1895 at Niagara Falls, New York. His AC inductor was the breaking point in history of energy source which made possible for electricity to travel longer distance. Tesla came up with the revolutionary idea of saving the Falls and using it as a source to provide electricity. This revolutionary idea in the late 18<sup>th</sup> century not only saved the Falls but also gave electricity to the houses of New York City. While reading about his history on his statue, I was thinking how a single person came up with an idea of electricity without affecting the nature; this made me think about the present day, more importantly about Bangladesh, and the politics behind coal powered energy.

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<sup>2</sup> “A Landmark Day for the Earth,” The Leonardo DiCaprio Foundation, accessed May 29, 2019, <https://www.leonardodicaprio.org/a-landmark-day-for-the-earth/>.

<sup>3</sup> This is a shared name for three waterfalls which links the international border between Canada and the United States. The three waterfalls are as follows according to their size, Horseshoe Falls, the American Falls, and the Bridal Veil Falls.

<sup>4</sup> Nikola Tesla, Serbian-American, born in mid-1856, known to an innovator, mechanical engineer, electrical engineer, and more importantly a thinker. Although born and raised in the Austrian Empire and studied advanced engineering and physics, he migrated to the United States as his innovations were not valued in the Europe. Tesla started his career in Budapest, Hungary at the Budapest Telephone Exchange. He worked there at the time when it was under construction, hence he joined the Central Telegraph Office, where he worked as a draftsman. He was posted as the chief electrician later at Budapest Telephone Exchange, when it was functional. Tesla brought and made new innovation which almost perfected the telephone repeater or amplifier; even though it was never patented nor publicly portrayed. After getting rejections for his innovations, Tesla migrated to the United States, where he joined Continental Edison, and later dedicated his life in innovating electric power industry. His major contribution was the design of modern system of electricity supply known as alternating current (AC). While Thomas Edison was busy with his direct current (DC), Tesla dedicated to AC.



*“You can't cross the sea merely by standing and staring at the water”<sup>5</sup> – Rabindranath Tagore.*

Bangladesh, a small country located in the South Asian region, surrounded by India on the north and west, Myanmar on the southeast, and by the Bay of Bengal<sup>6</sup> in the south. As per United Nations report, in terms of gross domestic product (GDP) in 2019, Bangladesh is the third fastest growing economy in the world. The country is considered as a market-based economy<sup>7</sup>, there is no government intervention on the prices of goods and services. In addition, Bangladesh is important in terms of its port located in the south side of the country, Chittagong; this is also important for geopolitics for northeast Indian region, Nepal, and Bhutan as they are landlocked. The port in the south of Bangladesh makes the country both vulnerable and strong; due to the accessibility of the port, and as Bangladesh's economy is based on export of RMG, it is easier for the industries to cut cost on the transportation. The port also makes Bangladesh an important candidate for Chinese investment, which means that the port is attracting foreign direct investment. Foreign investments are important for a smaller economy like Bangladesh because it boost up the economy in the short run. Traditionally, ports were used for fishery sector, and later became important of trade hub, and till now water bound transport is still cheaper, ports are important factor in terms of trade. In other words, ports are prioritized because it connects land and water transportation.

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<sup>5</sup> “Rabindranath Tagore Quotes,” Brainy Quote, accessed May 29, 2019, [https://www.brainyquote.com/quotes/rabindranath\\_tagore\\_383735](https://www.brainyquote.com/quotes/rabindranath_tagore_383735).

<sup>6</sup> The northeastern part of the Indian Ocean is the Bay of Bengal. Geographically, it is located on the south of Bangladesh, west and southwest of India, and east of Myanmar.

<sup>7</sup> Meaning, Bangladesh follows the free market system; where prices of goods and services are determined by the open market and by its consumers. This also states that the laws and forces of demand and supply are not determined by the government nor any other authority.

Bangladesh was always in the power crisis, from the beginning of its birth. There was always a shortage of supply; I remember when I was a youngster back in the mid-90s or late 90s, there were times when the country could not supply the required electricity. These were the times when neighbors used to scream in joy when the power came back, it was entertaining for children, and teenagers as these were the times, they could go out instead of studying, but as I grew up, it seemed more of a burden rather than entertainment. Even though the country developed dramatically but the shortage of power always remained; Dhaka<sup>8</sup> city developed more than any other region in Bangladesh. Although, Dhaka city may have the priority over any other region for power supply because all judicial, stock, financial and business transactions are based in the city, but the rural areas suffer more for electric supply. There are regions in Bangladesh where the population do not have access to electricity. In addition, demand for electricity has increased due to economic development, and increase in per capita income.

*“Demand for electricity in Bangladesh is projected to reach 34,000 megawatts by 2030 and the Government of Bangladesh has plans to increase power generation beyond expected demand to help propel growth in the export-oriented economy and to meet the demands of a growing middle class.”<sup>9</sup>*

Increase in the middle-income class states that the country is developing, and the population is demanding more luxury. In addition, Bangladesh is an export-oriented country, especially in the readymade garments (RMG) industry meaning that the country demands more electricity to run the machines to avoid production losses. The government is trying her best to

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<sup>8</sup> The capital city of Bangladesh.

<sup>9</sup> “Bangladesh - Power & Energy | Export.Gov,” accessed May 29, 2019, <https://www.export.gov/article?id=Bangladesh-Power-and-energy>.

meet the supply and demand, but to meet the gap there are consequences. Top government officials<sup>10</sup> mentioned that “Bangladesh Power Development Board (BPDB) is likely to ensure 100 per cent electricity coverage as early as December this year.”<sup>11</sup>

*“Neoclassical theorists could not, of course, turn a blind eye to the fact that the kind of convergence predicted by theory was not occurring, and thus they had to look to some outside intervention. Government failures provided an easy out.”<sup>1213</sup>*

According to the neoclassical theories, Bangladesh needs to consider the price determination factor as well. Bangladesh should consider both affect and effect of the Chinese and Indian investment and should focus on how this debt can be handled with the country being in crisis or fall into the ‘debt-trap diplomacy’<sup>14</sup>. The policy makers and/or the economists must work with the government to avoid this type of diplomacy; although these foreign direct investments are important to a country like Bangladesh but being in debt to a powerful country is not an ideal idea. Example includes, countries in the east of Africa who are in debt to China, and Sri Lanka. A government failure is not an easy way out in this case; Bangladesh, since its birth, was always in need of energy, and China is clearly taking the benefit of the situation. On the other hand, Bangladesh can utilize this situation and put it to good work. Not only China but also India is interested in foreign direct investment. This where the Copenhagen School states that “making use of speech act a (state) actor tries to move a topic away from politics into an area of security concerns thereby legitimating extraordinary means against the socially

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<sup>10</sup> They are not named due to confidentiality.

<sup>11</sup> “Bangladesh - Power & Energy | Export.Gov.”

<sup>12</sup> Karla Hoff, “Joseph E. Stiglitz,” SSRN Scholarly Paper (Rochester, NY: Social Science Research Network, January 1, 2008), <https://papers.ssrn.com/abstract=1084711>.

<sup>13</sup> Kenneth E. Hoff and Joseph E. Stiglitz, “Modern Economic Theory and Development,” 1999.

<sup>14</sup> Explained in the later chapter.

constructed threat.”<sup>1516</sup> Investing in Bangladesh is not a military nor governmental treat for China nor India; rather it is more geopolitical, as the cases of Pakistan and Sri Lanka, explained in the later chapters. In addition, the Uppsala model also explains how China is expanding its investment. “The Uppsala model is a theory that explains how firms gradually intensify their activities in foreign markets”<sup>1718</sup> Elgar (2003). In terms of trade and investment, Bangladesh and India had more or less average import and export of goods and services, rather India was export more to Bangladesh than they were importing. As explained in the later chapter, the Chinese investment also link to another theory by Uppsala model, which states “[...] companies normally start their expansion in a psychic nearby market. There, they have enhanced knowledge of the market and more control of resources [...]”<sup>192021</sup> The Chinese investment till 2010 was low than Indian investment, but from 2011 onwards, the investment boomed, Islam (2013).

Bangladesh, by its constitution, is a democratic country, and the government would always respond to the demands of the voters; in addition, Bangladesh is also an industry-based economy, which means that the country’s economy depends on the performance of the industries, given any sector. Although the investment is in the southern region, where the

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<sup>15</sup> “Buzan, Barry - Security\_ a New Framework for Analysis | International Relations (20K Views),” Scribd, accessed May 29, 2019, <https://www.scribd.com/doc/243026486/Buzan-Barry-Security-a-New-Framework-for-Analysis>.

<sup>16</sup> Matt McDonald, “Securitization and the Construction of Security,” *European Journal of International Relations* 14, no. 4 (December 2008): 563–87, <https://doi.org/10.1177/1354066108097553>.

<sup>17</sup> “Stockholm University School of Business,” n.d., 6.

<sup>18</sup> Edward Elgar, *Learning in the Internationalisation Process of Firms*, 2003, [https://books.google.com/books?id=e\\_gkLdF1ocwC&printsec=frontcover#PPA260,M1](https://books.google.com/books?id=e_gkLdF1ocwC&printsec=frontcover#PPA260,M1).

<sup>19</sup> Tony Zohari, “The Uppsala Internationalization Model and Its Limitation in the New Era |,” *Digit Pro* (blog), June 21, 2012, <http://www.digitpro.co.uk/2012/06/21/the-uppsala-internationalization-model-and-its-limitation-in-the-new-era/>.

<sup>20</sup> Jan Johanson and J E Vahlne, “The Internationalization Process of the Firm: A Model of Knowledge Development and Increasing Foreign Market Commitments,” *Journal of International Business Studies* 8 (January 1, 2002).

<sup>21</sup> “The Uppsala Internationalization Model and Its Limitation in the New Era \_Pdf - HOME BLOG COURSES EVENTS WORKSHOPS CONTACTS The Uppsala Model and Its,” accessed May 30, 2019, <https://www.coursehero.com/file/38374885/The-Uppsala-Internationalization-Model-and-its-limitation-in-the-new-era-pdf/>.

country has its largest forest, but that is where the industries are also based. “Concerning democracy, energy democracy ultimately involves not only a political claim but also a mode of governance that deserve greater attention among advocates and practitioners. These limits generally relate to democratic procedures and democratic outcomes.”<sup>22</sup> Burke and Stephens (2018). Even though the country needs larger amount of investment in the energy sector and a much faster growth in this sector, but is it wise to go for coal powered energy? For more than decades, especially between 2001-2008, there were no serious consideration nor significant policy actions to build new power plants; henceforth the old power plants which were powered by natural gas, either broke down or due to negligence for improvements, were shut down. According to Bangladesh Power Development Board, more than 800 megawatt of power supply was unavailable due to backdated machineries along with shortage of supply, and hazardous working conditions. On the other hand, Bangladesh economy was growing at a faster pace, thus the demand for electricity grew, power shortage became more acute and load shedding became wide spread. Indicators such as Doing Business or Global Productivity Index by World Bank suggested that “power shortage came out as the number one constraint limiting investment and business operations in Bangladesh”<sup>23</sup> The world Bank also predicted that power loss brings in around 0.5 per cent economic loss and around US\$ 1 billion loss in terms of industrial output per year. Although Bangladesh has an impressive economic progress, but the energy sector faces challenges, such as improvement of power sector operations to make sure sufficient power supply at a reasonable and competitive price along with, financial sustainability of other major power plants. On the other hand, as domestic gas reserves are falling rapidly, the government needs to come up with a diverse source of energy. The Economic Relations Division, Ministry of Finance, Bangladesh predicts an increase in power

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<sup>22</sup> Matthew Burke and Jennie Stephens, “Political Power and Renewable Energy Futures: A Critical Review,” *Energy Research & Social Science*, November 1, 2017, <https://doi.org/10.1016/j.erss.2017.10.018>.

<sup>23</sup> Uddin Helal, “Privatization and Restructuring of the Bangladesh Power Sector” 9 (June 1, 1999): 77–91.

demand in comparison with the acceleration of real GDP; in addition the government's missions is that the country would step into upper middle income by fiscal year 2031 and enter high income country by fiscal year 2041, which means the demand for electricity will be much more higher than what is now. Henceforth, the new challenges such as the increase investment of coal powered energy, the government needs to come up with environment policy as think about the Paris Agreement; mobilizing of such huge finance will not be easy as the government has to think which sector is more important and also investing in power sector is fixed term, therefore, wherever the finance goes it is one time and non-refundable.

### 1.2 Sundarbans and Coal Powered Plant

Located in the South West corner of Bangladesh, sharing the border with India. Sundarbans is considered to be one of the largest deltas in the world, it is also the back water and tidal phenomenon of Bangladesh region; which provides verities of aquatic, native, and amphibian kinds. The whole area is sufficient enough to include satisfactory life for both plants and animals; in addition, the whole area of Sundarbans is covered with mangrove habitats but also sufficient for other forms of life which includes both sea and fresh water fish, and land-dwelling animals. Although, the Sundarbans area may be all dependent on mother nature, but natural disasters were always a threat. Natural disasters such as cyclones and/or increase in salinity in water has always been a problem. According to UNESCO World Heritage Center, cyclones and tidal waves were threat to the mangrove forest, in addition this also cause a decrease in numbers of few land-dwelling animals such as the spotted deer, and the Bengal tigers. There are unnatural issues too, such as illegal hunting of animals, along with trapping animals for personal entertainments; other threats also include increase agricultural production as since the population is increasing and the land is more fertile than any part of Bangladesh.

*“Our civilization is being sacrificed for the opportunity of a very small number of people to continue making enormous amounts of money. Our biosphere is being sacrificed so that rich people in countries like mine can live in luxury. It is the sufferings of the many which pay for the luxuries of the few”*<sup>24</sup> – Greta Thunberg<sup>25</sup>.

Nonetheless, rather than protecting the nature and natural habitat, the government of Bangladesh is influencing foreign direct investment (FDI) of coal powered plants near Sundarbans area. The department of environment (DoE) approved the construction of coal powered energy in the late 2013 in Rampal, which is 14 kilometers away from Sundarbans. According to the Ramsar Convention<sup>26</sup>, any kind of power plant or industrial plant has to be at least outside of 25 kilometers radius. This approval violates the Ramsar Convention treaty. According to UNESCO reports, it has been mentioned over and over again that this power plant might destroy the mangrove forest along with its habitat. But the government of Bangladesh ignored all claims about the destruction that might be caused due to the power plant. Mr. Tawfiq-e-Elahi Chowdhury<sup>27</sup> mentioned in a press conference that all these are conspiracy theory by the opposition to degrade the government and the opposition does not want to the country to develop. He also mentioned that these acquisitions are baseless and are not backed by facts. On the other hand, the prime minister of Bangladesh said the power plant will not have any negative impact on the mangrove forest because the “emission of [greenhouse] gas will be kept at the minimum level.” Rather the government focused more on the economic development and import of high-quality coal from India. The prime minister also

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<sup>24</sup> “GTA 048: Greta Thunberg & School Strike for the Climate,” *Green Team Academy* (blog), March 13, 2019, <https://www.greenteamacademy.com/podcast/048-greta-thunberg-school-strike-for-climate/>.

<sup>25</sup> Greta Tintin Eleonora Ernman Thunberg is a Swedish political activist working to stop global warming and climate change.

<sup>26</sup> The Ramsar Convention on Wetlands of International Importance especially as Waterfowl Habitat is an international treaty for the conservation and sustainable use of wetlands. It is also known as the Convention on Wetlands.

<sup>27</sup> Energy adviser of the Bangladeshi prime minister.

added in the press conference that they will take actions for environmental issues which will save the mangrove forest rather than ecological problems.

*“Within energy policy literatures claims have emerged that profound shifts in energy governance have, for some time, been on going. Others have questioned how so much policy change can in some instances lead to so little change of a sustainable nature in energy systems [...]”*<sup>28293031</sup>

The paper will introduce how and why it is important for China to invest more in Bangladesh; particularly in the energy sector. Alfred Marshall’s theory on neoclassical economics explains (discussed more in Chapter 2), the market segments of how organizations can capture different markets in order to expand and dominate foreign markets. The paper will try to explain how China’s market strategy that leads to port connections, and the debt-trap diplomacy. The cases of China’s empowerment over Pakistan and Sri Lankan port explains also explains why India initiated the step of investing in Bangladesh. Although, India’s policy of investment is not about saving Bangladesh from debt-trap diplomacy, rather saving themselves from China taking control over the Bay of Bengal. The later chapters will discuss the ideas of Uppsala and Copenhagen school’s thought about security studies of non-military actions; the regional hegemony. The later chapters will also discuss the how regional

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<sup>28</sup> Dieter Helm, “The Assessment: The New Energy Paradigm,” *Oxford Review of Economic Policy* 21, no. 1 (March 1, 2005): 1–18, <https://doi.org/10.1093/oxrep/gri001>.

<sup>29</sup> Caroline Kuzemko, “Energy Depoliticization in the UK: Destroying Political Capacity,” *The British Journal of Politics and International Relations*, April 16, 2015, <https://journals.sagepub.com/doi/abs/10.1111/1467-856X.12068>.

<sup>30</sup> Neil Carter and Michael Jacobs, “Explaining Radical Policy Change: The Case of Climate Change and Energy Policy Under the British Labour Government 2006–10,” *Public Administration* 92, no. 1 (2014): 125–41, <https://doi.org/10.1111/padm.12046>.

<sup>31</sup> Florian Kern, Caroline Kuzemko, and Catherine Mitchell, “Measuring and Explaining Policy Paradigm Change: The Case of UK Energy Policy,” *Policy & Politics* 42, no. 4 (October 1, 2014): 513–30, <https://doi.org/10.1332/030557312X655765>.



integration helps countries to help each other in terms of development; the case of Canada, Mexico, and the US.

### 1.3 Research Puzzle

The paper will bring in why Bangladesh is important to China for investing, and the linkage between the Belt and Road Initiative. It will further elaborate the importance of another ally for China in the South Asian region; in chapter 3, the paper will discuss about the debt-trap diplomacy, which is being used by China on Sri Lanka, and now on Pakistan. In contrast, chapter 3 will also explain why India is interested in investing in Bangladesh? The studies discussed in chapter 3 will bring in how regional alliance is important for India, and how Bangladesh and India can grow regionally, this will be argued with the example of Canada, Mexico, and the US. Furthermore, the paper will discuss the possible change in hegemony in South Asia; as the paper will go in-depth with China's Belt and Road Initiative.

Chapter 2 is the methodological part where this paper will rationalize Alfred Marshall's neo-classical thought, along with Uppsala Internationalization Model and Copenhagen Model on Security; along with how the demand and supply of energy requirement in Bangladesh, and how China and India are manipulating in that sector; although these foreign direct investments are good for Bangladesh but at what cost? Later parts of chapter 3 will explain the non-military security issue (explained by Uppsala and Copenhagen School) that may be a threat for India in the future, depending on the success of Belt and Road Initiative. Both the school of thoughts are different from traditional security studies, rather they are more on regional security models which is an important part of this thesis. Finally, the paper will discuss what Bangladesh should do to avoid debt-trap diplomacy, and keeping in line with the debt repayments, and use these investments in to develop and have a better regional alliance with both China and India.

## Chapter 2: Theory and Methodology

### 2.1.a Alfred Marshall Theory on Neoclassical Economics

Perhaps the one of the most essential economists in the early 19<sup>th</sup> century, for neoclassical economics, was Alfred Marshall. His book on Principles of Economics (1890), which eventually dominated the England market. Marshall is known for bringing in changes to classical economics, as he always thought that classical economics struggled with explaining price model by the cost of production; but he went a step further and emphasized on the classical model by modifying this imbalance of price by cost of production by stressing utility and demand. He did not totally neglect marginalist revolution by upsetting the classical economics of Adam Smith, David Ricardo, and John Stuart Mill; rather he believed in a more contained position,

*“We might as reasonably dispute whether it is the upper or the lower blade of a pair of scissors that cuts a piece of paper, as whether value is governed by utility or cost of production. It is true that when one blade is held still, and the cutting is effected by moving the other, we may say with careless brevity that the cutting is done by the second; but the statement is not strictly accurate, and is to be excused only so long as it claims to be merely a popular and not a strictly scientific account of what happens”<sup>32</sup>*  
(Marshall [1890] 1997, 290).

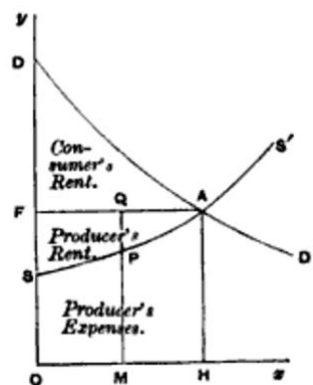
Marshall’s neoclassical economics was more of an extension of the classical theory of Smith, Ricardo, and Mill; he extended the classical thought, which is market economy, he

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<sup>32</sup> “Notes (2114) - Price Is Determined(Pe and Equilibrium Quantity Is Determined(Qe The Graph of a Market in Equilibrium Can Also Be Expressed Using a,” accessed May 30, 2019, <https://www.coursehero.com/file/17742349/notes-2114/>.

rather added the human behavior. He introduced different market stages, along with explaining price by intersecting demand and supply. He introduced four stages, (1) market period<sup>33</sup> (2) short period<sup>34</sup> (3) long period<sup>35</sup> (4) very long period<sup>36</sup>. Marshall suggested that demand and supply are stable for the short run, but price varies in the all the four periods. He then argued that supply would vary in the long run hence it becomes more important to regulate price in the very long period.

**Figure 1: Alfred Marshall's supply and demand graph<sup>37</sup>**



<sup>33</sup> The goods produced for sale on the market are taken as given data

<sup>34</sup> Capacity of any industry is a given factor. The level of output, the level of employment, the inputs of raw materials, and prices fluctuate to equate marginal cost and marginal revenue, where profits can be maximized. Economic rents exist in short period equilibrium for fixed factors, and the rate of profit is not equated across sectors. (Neoclassical economics - Wikipedia. [https://en.wikipedia.org/wiki/Neoclassical\\_economics](https://en.wikipedia.org/wiki/Neoclassical_economics))

<sup>35</sup> He mentioned that stock of capital goods is not given data, as they change with timeline. He also added the industrial capacity and the level of operation is determined by profit maximization.

<sup>36</sup> Technological innovation, trend in population, behavior and taxes are not given data, rather they all vary in the long run.

<sup>37</sup> Alfred Marshall, *English: This Graph Was First Developed and Popularized by Alfred Marshall. It Became the Standard Model to Demonstrate Not Only Supply and Demand but Also Many Other Principles of Economics.*, 1895, 1895, Original publication: London: Macmillan and Co. and New York Immediate source: <https://books.google.com/books?id=7yxBAAAAIAAJ&printsec=frontcover&dq=inauthor:%22Alfred+Marshall%22&hl=en&sa=X&ei=hvuZT-fzHuHW2AWer-T6Dg&ved=0CDYQ6AEwAA#v=onepage&q=inauthor%3A%22Alfred%20Marshall%22&f=false>, [https://commons.wikimedia.org/wiki/File:Marshall%27s\\_Supply\\_and\\_Demand\\_Graph.png](https://commons.wikimedia.org/wiki/File:Marshall%27s_Supply_and_Demand_Graph.png).

### 2.1.b Neoclassical Economics

The era of David Ricardo was the era of criticism of classical economic theory and capitalist system, the timeline was between very late 1800 to early 1900. This was an important era for the rise of neoclassical economists as in this time period, the classical assumption of laissez-faire<sup>38</sup> was questioned; since it was stated as an ideal government policy. Thus, causing the passing of classical economic theory and the beginning evolution of neoclassical economics. Although the timeline was not spur-of-the-moment, but it was a time when economic theory experienced a revolution. Neoclassical economics is accredited with a mixture of cost of production theory from classical economic thought with considering utility to justify commodity and factor prices, along with the provision of resources by means of marginal analysis. On the contrary, Ricardo specified the methodological principles of neoclassical economics by his thought towards abstract deductive analysis; which is rather away from contextual analysis. This era gave birth to Alfred Marshall, also known to be the father of neoclassicism, and more importantly credited with presenting the advanced concepts of demand and supply, price elasticity of demand marginal utility, and cost of production.

The theory of neoclassical economics highlights the practice of value and demand and supply to determine the exchange value. Other neoclassicist such as William Jevons from England, Léon Walras from Switzerland, and Karl Menger from Austria self-reliantly developed and underlined the role of marginal utility as the source to the problem of exchange valuation, as opposed to the cost of production theory. Neoclassical thoughts are assumed that for decision making everyone has free access to information. This assumption, in reality, helped to reduce time in decision making when it comes to mechanical application of

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<sup>38</sup> A policy that suggest the market to take its own course without any kind of interference.

mathematical rules for optimization. But the neoclassicists reject the belief of Marxist theory on the market system.

## 2.2.a The Uppsala Internationalization Model

The internationalization model by Uppsala was theorized by Swedish researchers, Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977. They highly criticized the international involvement; because they believed that the existing theories on international involvement involved just the cultural differences and did not take internal foundation into consideration. They believed that the internal foundation was an important factor which the organizations require for controlling international activities. Henceforth, Johanson and Vahlne (1977; 1990), developed their own model which was more “independent model to explain the sequential steps in the direction of increased foreign dedication.”<sup>39</sup><sup>40</sup><sup>41</sup> Their model was observed and influenced by the work of four main Swedish manufacturers<sup>42</sup>, Penrose (1959), Cyert & March (1963), Aharoni (1966) Vernon (1966). More importantly, the Uppsala Internalization Model is categorized into four steps to enter the international market; “which cannot be viewed independently of a company’s situation, market and the market knowledge.”<sup>43</sup>

- No regular export activities (sporadic export).
- Export via independent representative (export mode).

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<sup>39</sup> Elgar, *Learning in the Internationalisation Process of Firms*.

<sup>40</sup> Johanson and E Vahlne, “The Internationalization Process of the Firm.”

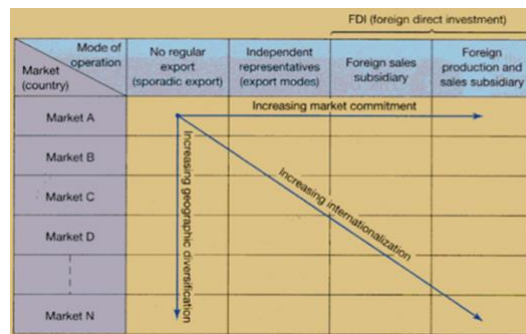
<sup>41</sup> Jan Johanson and Jan-Erik Vahlne, “The Internationalization Process of the Firm—A Model of Knowledge Development and Increasing Foreign Market Commitments,” *Journal of International Business Studies* 8, no. 1 (March 1, 1977): 23–32, <https://doi.org/10.1057/palgrave.jibs.8490676>.

<sup>42</sup> Volvo – automobile and truck manufacturer; Sandvik – industrial tool manufacturer; Atlas Copco – compressor and industrial tool manufacturer; Facit – electro-mechanical office equipment manufacturer.

<sup>43</sup> Johanson and Vahlne, “The Internationalization Process of the Firm—A Model of Knowledge Development and Increasing Foreign Market Commitments.”

- Establishment of a foreign sales subsidiary.
- Foreign production/manufacturing.<sup>44</sup>

**Figure 2: Internationalization of the firm**

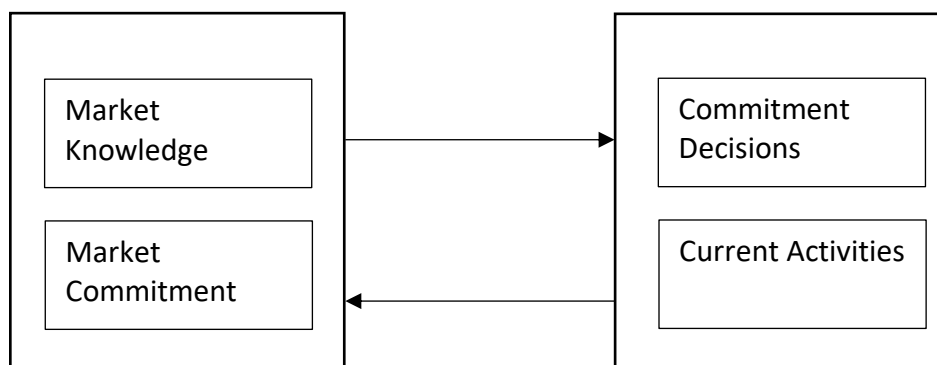


Source: Adapted from Forsgren and Johanson, 1975

From the manufacturer's observations, they realized how the organizations work; from their theory, the manufacturers expand their investments in the nearby markets. Then they experience knowledge about the market and try to get control of as much as resources; and in time they expand through the market. They also stated that there is another way before entering the market; that is to export and understand the demand for their goods or services.

<sup>44</sup> Svend Hollensen, *Global Marketing*, 6. ed, Always Learning (Harlow: Pearson, 2014).

**Figure 3: The Basic of Internationalization-State and Change Aspects**



Source: Obtained from the paper “The Uppsala Internationalization Model and its limitation in the new era”

### 2.2.b Copenhagen Model on Security

The Copenhagen Model on Security in International Relations was based on Barry Buzan's book *People, States and Fear: The National Security Problem in International Relations*. This school of thought is not about the traditional theory of military in terms of security studies, rather the theories focuses on security issues that interact with domestic politics. The school of thought highlights on the idea of securitization; which refers to issues about domestic politics and later alter them into national security. The Copenhagen school gives more attention towards social identity. The Copenhagen school is divided into three major studies of security; but in this case, the concept of regional security is more important for understanding. “The concept of regional security complexes covers how security is clustered in geographically shaped regions.”<sup>45</sup> The case of Bangladesh shows how important it is to understand the regional security; not only for China and India, but also includes countries of South Asia. Bangladesh is the only country, apart from India, who has direct access to ports

<sup>45</sup> Jan Persson and Douglas Brommesson, “Regions as Security Providers,” n.d., 54.

for land locked countries such as Bhutan, east India, and Nepal along with south of China. This school of thought is related for such reasons; in other words, having access to ports means controlling the water body which is important to for all trade. For regional balance of power, the concept of buffer state<sup>46</sup>, as mentioned by the Copenhagen school, which in this case refers to South Asian countries which are land locked and share borders with China and India. “Regions should be regarded as mini systems where all other IR theories can be applied, such as Balance of Power, polarity, interdependence, alliance systems, etc.”<sup>474849</sup> Access to the ports would allow China to control trade transportation of South Asia, in addition, China already controls Sri Lankan ports therefore have access to this port will give them control of the whole Indian Ocean. Thus, balance of power will be questioned; this will be a new era of understanding what went wrong in Regional Security Complex Theory.

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<sup>46</sup> According to theories, buffer states relates to countries which are in between two powerful countries, for example Nepal – in between China and India, or Belgium – in between Germany and France.

<sup>47</sup> “Copenhagen School (International Relations),” in *Wikipedia*, March 17, 2019, [https://en.wikipedia.org/w/index.php?title=Copenhagen\\_School\\_\(international\\_relations\)&oldid=888256783](https://en.wikipedia.org/w/index.php?title=Copenhagen_School_(international_relations)&oldid=888256783).

<sup>48</sup> Buzan, Barry; Wæver, Ole (2003). *Regions and Powers: The Structure of International Security*. Cambridge University Press. ISBN 978-0-521-89111-0.

<sup>49</sup> “Thinking NATO through Theoretically,” n.d., 24.



### Chapter 3: Geopolitical Story, Transportation, Energy, and Environment

Finance in transportation sector has been a priority, possibly, since the beginning of trade. For centuries, water was been the best mode of transportation, it is easy, cheap, and time consuming; given that, countries with access to ports are more demanding for land-locked countries. Trades that uses roads as a mode of transportation are regional and has access to and/or share borders. Bangladesh, in South Asia, has access to both land and water as a mode of transporting goods to different regions of the world. This chapter will discuss why access to port is important and the motive behind Indian and Chinese investment, and how is it related to investment in the energy sector. As mentioned before, demand for electricity is rising at a faster rate than the supply in Bangladesh; henceforth to grab the energy market, a high investment will lead to market power.

*“Transportation systems are linked with a wide range of environmental considerations at all geographical scales, from the global to the local. The nature of these environmental impacts is related to the transport modes themselves, their energy supply systems, their emissions and the infrastructures over which they operate. While consuming large quantities of energy, especially oil, vehicles also emits numerous pollutants such as carbon dioxide, nitrogen oxide and noise and transport infrastructures have damaged many ecological systems. Several of the environmental impacts of transport systems have been externalized, implying that the benefits of mobility are realized by a few while the costs are assumed by the whole society. The spatial structure of economics activities, notably their land use, is also increasingly*

*linked with environmental impacts. The sustainability of transport systems has become one core issue in the provision of mobility.”<sup>50</sup>*

### 3.1 Infrastructure – Transportation, Energy, and Environment

Perhaps the awareness of investing in the transportation section came in to action in the last one or two decades. For economic development, without a proper infrastructure is not feasible, although, it requires both human capital and physical importance, because both are equally important for a country’s economy. For country like Bangladesh, which is based on RMG exports and services, infrastructure development is a priority, without it the country will chock. Infrastructure development not only includes mode of transportation, but also the energy sector.

*“Development can be defined as improving the welfare of a society through appropriate social, political and economic conditions. The expected outcomes are quantitative and qualitative improvements in human capital (e.g. income and education levels) as well as physical capital such infrastructures (utilities, transport, telecommunications).”<sup>51,52</sup>*

A strong infrastructure is required as it is a valuable section for the economy and a common instrument used for development purposes. Bangladesh has been investing in the transportation sector to improve the quality of life; at present, the policy makers to the government suggested that an investment in infrastructure development would boost up the

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<sup>50</sup> “Chapter 4 – Transport, Energy and Environment,” *The Geography of Transport Systems* (blog), October 28, 2017, [https://transportgeography.org/?page\\_id=144](https://transportgeography.org/?page_id=144).

<sup>51</sup> “Transportation and Economic Development,” *The Geography of Transport Systems* (blog), December 3, 2017, [https://transportgeography.org/?page\\_id=5260](https://transportgeography.org/?page_id=5260).

<sup>52</sup> Russell Jones and Camille Viros, “TRAFIGURA: ADVANCING TRADE,” n.d., 13.

economy. But Bangladesh invested more on transportation than in the energy sector in the previous decade. “Because of its intensive use of infrastructures, the transport sector is an important component of the economy and a common tool used for development.”<sup>53</sup> An improvement in the transportation sector means that trade will be more efficient, and this leads to more economic and social opportunities; this also means that more mobility of labor, access to newer market, and draws more investments.

This leads to why China and India are investing more in Bangladesh; investing in the infrastructure development in Bangladesh would be beneficial for both China and India, why? The question is more like, how to enter Bangladesh market? Bangladesh government has already been investing in the transport sector to ease trade and opening doors to Bhutan, India, and Nepal, but for China to enter, the Chinese came up with the energy sector development. Power shortages became the number one constraint to economic growth during 2005-2009, with no new generation capacity added over almost one decade. For a long period during 2001-2008, due to lack of serious attention and decisive policy actions, no new power plant was installed, and older and inefficient gas-based power plants also started to suffer from frequent breakdowns and shortage of gas supply. With a power sector which is almost entirely dependent on natural-gas fired generation, Bangladesh was confronting a simultaneous shortage of natural gas and shortage of electricity generation capacity. Through the energy sector, mentioned later in the chapter, Chinese investors are moving towards the port. Bangladesh has the most crucial port for China, which gives them access through Bhutan, east side of India, and Nepal who are landlocked. This is relatively important for China because an

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<sup>53</sup> “Transportation and Economic Development.”

efficient transportation leads to “reduce[d] costs in many economic sectors”<sup>54</sup>. China had overall power supply since in mid 1900; but the country experienced an energy crisis in the 60s and in the late 90s the power shortage exceeded 20 per cent<sup>56</sup> more. However, the crisis in 97 helped China to cover up the shortage; due to slow economic growth. By the end beginning of 2000s, China experienced a 10 per cent<sup>57</sup> surplus in energy sector. Infrastructure development also brings in social and environmental burden. (1) mobilization (2) urbanization.

### 3.2.a Marshall’s theory, Uppsala Model and Chinese Investment

According to Marshall’s theory (in the earlier chapter), demand and supply determines the price of products; in figure 1, it explains the producer benefits, surplus, and expenditure, in this case, Chinese investors would look at the benefits of investing in the energy sector (1) coal energy is the fastest way (2) labor cost is lower (3) Bangladesh government is encouraging investment in energy sector, and (4) other fiscal and monetary benefits. Therefore, theoretically, a third country would be influenced if they receive more benefits from the first country. On the other hand, the Uppsala Internationalization Model explains (in later part of the chapter) that how an organization slowly takes over market control. Islam (2013)<sup>58</sup> explains how China got involved in investing in Bangladesh over a long period of time. From 1976 to 2010, China’s investment in Bangladesh was around US\$ 250 million; in 2011 alone, the invest was US\$ 211 million, it took them about three decades to understand the market value and which sector to invest, as Uppsala model suggests gaining market knowledge is important for the first step, then committing to the decision, then research on current market status; meaning

<sup>54</sup> “Port Terminals,” *The Geography of Transport Systems* (blog), November 19, 2017, [https://transportgeography.org/?page\\_id=3235](https://transportgeography.org/?page_id=3235).

<sup>55</sup> Jean-Paul Rodrigue and Theo Notteboom, “The Geography of Transport Systems”, *New York: Routledge* 4 (2017): 440, [https://transportgeography.org/?page\\_id=3235](https://transportgeography.org/?page_id=3235).

<sup>56</sup> Peng Ou, Ruting Huang, and Xin Yao, “Economic Impacts of Power Shortage,” *Sustainability* 8, no. 7 (July 2016): 687, <https://doi.org/10.3390/su8070687>.

<sup>57</sup> Ou, Huang, and Yao.

<sup>58</sup> Explained in the later chapter.

which sector to invest in, in this case the energy sector. Finally committing to the market; in later part of the chapter, the paper will discuss how much China has already invested in the energy sector of Bangladesh.

### 3.2.b Investment and Copenhagen Regional Model

The Copenhagen school suggests a non-military regional security, which a non-traditional concept in terms of security studies. In this case, investment in Bangladesh by China is a regional non-military threat to India. Why? China's investment policy may lead to Bangladesh giving up the port in the future; although this is not yet the scenario, but after looking into the case of Pakistan's and Sri Lanka's debt problems, there is a higher possibility that Bangladesh may fall into the same trap as them. In contrast, India would be left alone in the South Asian region if they do not have any allies, given the history between India and Pakistan, the next best ally for India is Bangladesh. The foreign direct investment, of course, is better for Bangladesh, economically, as the foreign currency reserve is increasing and the investment in energy sector is helping the country to meet demand for electricity, which eventually leads to better living standard and more productivity, and boost up the countries profile in Doing Business, World Bank. But, this what does Bangladesh has to lose in this economic benefit? These are short run success, losing a port is a long-term disadvantage as this port is the only linkage between the landlocked countries to access to port, like Bhutan, east side of India, and Nepal. This may cause a long-term problem in the regional trade between South Asian countries; access to the port, if Bangladesh falls into the debt-trap diplomacy, for these countries will be much more difficult, this might lead to a regional distrust between Bangladesh and India. The south port of Bangladesh leads directly to the Indian ocean and gives access to other international water. Although India, having the hegemonic in South Asia, but are they too late to invest in Bangladesh? India should have entered Bangladesh market for

regional security from the beginning; India is using the same policy in investing in the energy sector. This is where the dilemma happens, India is achieving its goals in renewable energy, but they are investing in Bangladesh on coal power, the only reason behind this investment is to have regional alliance. As per the concept Copenhagen Regional Model, if India cannot have any alliance in the region, then they might lose their hegemonic power.

### 3.3 Why China is Interested in Investing?

Perhaps one of the most important economic initiative in terms of development strategy in the 21<sup>st</sup> century is China's Belt and Road Initiative (BRI). The BRI initiative was introduced by Chinese leader Xi Jinping in late 2013 on his visit to Kazakhstan and Indonesia; later encouraged by Li Keqiang during his visit in Asian and European countries. In early 2019, China-Italy signed an infrastructure plan, and with that Italy became the first European country to back this initiative. In addition, the Western Europe sees this initiative as an advantage for more business and better geopolitical inspiration. "The agreement is not fully binding and does not [challenge] Italy's Western political and security alliances."<sup>5960</sup>

Chinese investment in Bangladesh is not particularly significant (Islam 2013), not until 2010. China only invested around US\$ 250 million from the late 70s to 2010, nevertheless it changed after 2010; according to Imam (2012), the Chinese investment in 2011 was around US\$ 200 million. The policy makers may question, why the Chinese multinationals would be interested in Bangladesh given the historical data on investment? As Islam (2013) discusses and argues that the Chinese investors invest in lower volume to check if the companies can

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<sup>59</sup> Giovanni Legorano, "Italy Signs Up to China's Global Infrastructure Plan Despite U.S. Ire," *Wall Street Journal*, March 23, 2019, sec. World, <https://www.wsj.com/articles/italy-signs-up-to-chinas-global-infrastructure-plan-despite-u-s-ire-11553341408>.

<sup>60</sup> "Belt and Road Initiative," in *Wikipedia*, May 28, 2019, [https://en.wikipedia.org/w/index.php?title=Belt\\_and\\_Road\\_Initiative&oldid=899220308](https://en.wikipedia.org/w/index.php?title=Belt_and_Road_Initiative&oldid=899220308).

compete with cultural and geographical diversity. Islam also argues that the Chinese investors are following the Upsala model, which theoretically argues that “[...] how firms gradually intensify their activities in foreign markets.”<sup>61</sup> The Uppsala model is one of the top discussed theory in Nordic School and International Business Studies; the model argues with the empirical observation of Penrose (1959), Cyert and March (1963), Aharoni (1966), and Vernon (1966). According to Islam (2013),

*“[...]first gain experience from the domestic market before they move to foreign markets; firms start their foreign operations from culturally and/or geographically close countries and move gradually to culturally and geographically more distant countries; firms start their foreign operations by using traditional exports and gradually move to using more intensive and demanding operation modes [...] both at the company and target country level.”*<sup>6263</sup>

Henceforth, initially the Chinese investors uses the geographical location as a guinea pig to understand the situation of the location if it is worth risking investment or not; they also research on the profitability of import and export from the location, along with the opportunity cost of labor cost. Given the political circumstances in Bangladesh and the reports on Doing Business by World Bank, statistically Bangladesh is not at top of any countries list for foreign direct investment, but the Chinese investment grew overtime.

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<sup>61</sup> Zohari, “The Uppsala Internationalization Model and Its Limitation in the New Era |.”

<sup>62</sup> Prof Dr Heiko Seif et al., “Case Study – A German High-Tech Company’s Strategy for Entering the Japanese Market,” *MBS Insights* (blog), January 31, 2018, <https://www.munich-business-school.de/insights/en/2018/market-entry-japan/>.

<sup>63</sup> Elgar, *Learning in the Internationalisation Process of Firms*.

*“Geopolitical instability connects with social instability and produces deeper inequality fissures; negative feelings deepen around job fears, immigration, inequality, and getting a fair share of a nonincreasing pie.”*<sup>64</sup>

Although, a politically instable country may not be a target of for foreign direct investment, but Bangladesh and China (after 1971) had a good relationship in terms of geopolitics. “Defense ties between the two countries is considered a major strength of the relationship. China is the only country with which Bangladesh signed a defense agreement.”<sup>65</sup> Although Bangladesh encourages foreign direct investment regardless of its political risks, the government assures safety protocols for investors. On the other hand, according to UNCTAD<sup>66</sup> (2012b: 47), “[...] countries in the South Asian region rank high in the country risk guides of political risk assessment services [...]” In addition, Islam (2013) also argues that between “2001 to 2006” (Rashid 2012) there were around 173 days of nationwide strikes. Given the challenges, China saw the other opportunities such as the increase in demand for electricity against supply, cheap labor, and more importantly the tax holidays for foreign investment in Bangladesh.

But why would China invest in a small economy? There are other countries in South Asia, but why is Bangladesh important for Chinese investment? Is China looking for alliance

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<sup>64</sup> David Harper says, “Investing in a Geopolitical Age,” CFA Institute Enterprising Investor, August 24, 2018, <https://blogs.cfainstitute.org/investor/2018/08/24/investing-in-a-geopolitical-age/>.

<sup>65</sup> “Forget Pakistan. China-Bangladesh Is the One to Watch,” accessed May 29, 2019, <https://www.dailyo.in/politics/decoding-china-bangladesh-relationship-pakistan-defence-partnership/story/1/25183.html>.

<sup>66</sup> United Nations Conference on Trade and Development



for the Belt and Road Initiative<sup>67</sup>? The strong allying country for BRI is Pakistan for now. But the main argument for China might be for security reasons to. The case of Gwadar<sup>69</sup> Special Economic Zone might give a clearer idea about why China is interested in investing more. There was a talk about the development of the Gwadar port by both China and Pakistan, which would link northern Pakistan with western China to the deep seaport; although the cost of development was around US\$ 1.62 billion under the China-Pakistan Economic Corridor. This port not only gives China a free access to the deep sea port but also a link to the floating liquefied natural gas facility; which is another part of a larger investment of US\$ 2.5 billion, Gwadar-Nawabshah segment of the Iran-Pakistan gas pipeline project. In addition to Gwadar, although the construction began in mid 2016, but the port was leased to China in the end of 2015 for 43 years, that is till the year 2059. But what is the main reason for China to help countries in South Asia?

*“Security dilemma is based on an idea that security is a goal for which states struggle and compete between themselves [...] states have to look to their own protection especially in an ‘anarchical’ world system in which does not exist any supranational authority. [...] Global security as a concept has to be essentially founded on the idea*

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<sup>67</sup> The Belt and Road Initiative is an economical step taken by the Chinese government to advance regional cooperation and connectivity on a trans-continental balance. This initiative targets infrastructure development, along with trade and investment linking China with around 65 more countries; these countries, together, accounts for over 30 per cent of global GDP, 62 per cent of world population, and has around 73 per cent of energy reserves. The BRI consists primarily of the Silk Road Economic Belt, linking China to Central and South Asia and onward to Europe, and the New Maritime Silk Road, linking China to the nations of South East Asia, the Gulf Countries, North Africa, and on to Europe. At present, the initiative has been interpreted to be open to all countries as well as international and regional organizations.

<sup>68</sup> “Three Opportunities and Three Risks of the Belt and Road Initiative,” World Bank Blogs, accessed May 30, 2019, <http://blogs.worldbank.org/trade/three-opportunities-and-three-risks-belt-and-road-initiative>.

<sup>69</sup> Gwadar port is the deep sea port located in on the Arabian Sea at Gwadar in Balochistan, a province of Pakistan. This port is particularly important because of China-Pakistan Economic Corridor (CPEC) plan, in addition the port also links to the aspiring One Belt, One Road and Maritime Silk Road projects. More importantly, the location also connects with the Middle East; it is about 120 kilometers of southwest of Turbat, and 170 kilometers to the east of Chabahar port in Iran’s Sistan and Baluchistan province.

*of human [...] security. However, IR in practice are based on the right to self-preservation of the states [...]*<sup>70</sup>

Is China using the ‘debt-trap diplomacy’<sup>71</sup>? “Sri Lanka rejects fears of China’s ‘debt-trap diplomacy’ in belt and road projects [...] (1) Controversial Hambantota port an economic cooperation, not security issue (2) Ambassador to Beijing says his country will never default on its loans”<sup>72</sup> Sri Lanka may have denied the debt-trap diplomacy, but the country itself is in serious debt crisis due to Chinese lending. According to the Sri Lankan ambassador to China, “Sri Lanka wants to be a shipping hub in the Indian Ocean, not only to serve South Asia, neighboring Southeast Asia, the Pacific nations, East Africa and even the Middle East [...]”<sup>73</sup>

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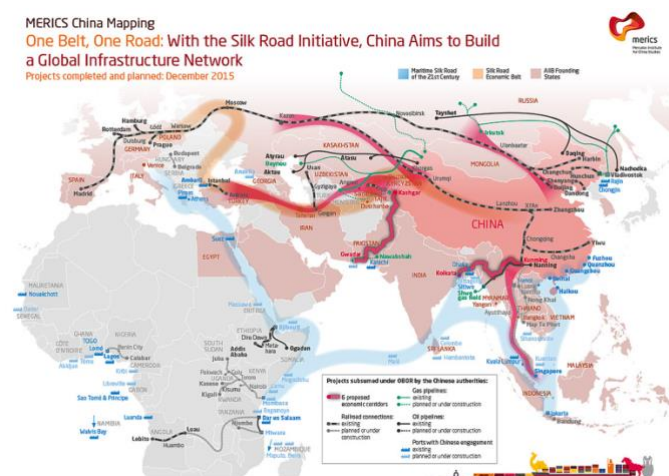
<sup>70</sup> “International Systems of States and Global Security Models,” Global Research, September 22, 2017, <https://www.globalresearch.ca/international-systems-of-states-and-global-security-models/5610068>.

<sup>71</sup> Debt-trap diplomacy is a kind of diplomacy which is basically based on debt carried out in bilateral relations between two and/or more countries; but in general, it requires on creditor country intentionally lending loans to another debtor country with the purpose of obtaining economic and/or political concessions from the debtor country when the debtor country fails to honor its debt requirements. In other words, the creditor country deliberately invest in a country which cannot repay on time. But, in these cases, usually the conditions are not made public and loaned money is typically used to pay contractors from creditor country.

<sup>72</sup> “Sri Lanka Rejects Fears of China’s ‘Debt-Trap Diplomacy’ in Belt and Road Projects | South China Morning Post,” accessed May 29, 2019, <https://www.scmp.com/news/china/diplomacy/article/3007175/sri-lanka-rejects-fears-chinas-debt-trap-diplomacy-belt-and>.

<sup>73</sup> “Sri Lanka Rejects Fears of China’s ‘Debt-Trap Diplomacy’ in Belt and Road Projects | South China Morning Post.”

**Figure 4: Map of the New Silk Road Initiative proposed by China<sup>74</sup>**



This visionary idea was declared by the Chinese President Xi Jinping in 2013, known to be China's Belt and Road Initiative, in other words the new Silk Road. This project aims to invest strongly in infrastructure projects which includes railways, and power networks in central, west, and south Asia, including Africa and Europe. On the other hand, in reality China is investing in countries which are unable to repay the debt on time, for example Sri Lanka. China invested almost billions in Hambantota<sup>75</sup> port for its infrastructure development and more importantly getting access to the port hub. China took the advantage as Sri Lankan government wanted to be an initiate this port to link with the Indian Ocean, in addition there are reports on the takeover of Hambantota port by China. "Thus, the recent reports, including one in a leading UK newspaper, that Sri Lanka's government was forced to sign the port away on a 99-year lease after failing to repay Chinese loans that were racking up 6.3 per cent, are

<sup>74</sup> "The Belt and Road Initiative and China-Tanzania Relations," The Citizen, accessed May 29, 2019, <https://www.thecitizen.co.tz/magazine/politicalreforms/The-Belt-and-Road-initiative-and-China-Tanzania-relations/1843776-3912312-5va54dz/index.html>.

<sup>75</sup> Hambantota port, also known as Magampura Mahinda Rajapaksa Port, is a maritime port in Hambantota, located in Sri Lanka. The initial phase of was activated in late 2010, the port is built inland and was operated by the Sri Lankan port authority. The initial construction cost was around US\$ 361 million, of which 85 per cent was funded by China Exim Bank.

erroneous.”<sup>7677</sup> The opinion by Barry and Hairong (2019), suggests that China already has control over the port, which means they have expanded their control over the Indian Ocean<sup>78</sup> according to Figure 4, controlling over the Indian Ocean may bring threats to India in future as technically China will gain access for their war fleets. How does it link to Bangladesh? Right above the Indian Ocean is the Bay of Bengal, which is one of the important also the home for Chittagong sea port. According to the previous researches, if China can get access to the Bay of Bengal, then China will have control over the 20 per cent of ocean. This is where Bangladesh becomes important for China. As since, Bangladesh demands for energy, China is reluctantly investing in the energy sector, while knowing the balance of payment deficits of Bangladesh. A higher transparent investment in the energy sector will be beneficial for Bangladesh, but after evaluating the case of Sri Lanka; should Bangladesh engage in such investment? If now three countries fall in the debt-trap diplomacy (Pakistan included), the South Asian economy will be in a recession and losing ports would mean that the landlocked countries would have problems with mode of transportation.

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<sup>76</sup> “China Should Reassure India on Its Belt and Road Fears,” South China Morning Post, May 19, 2019, <https://www.scmp.com/comment/insight-opinion/article/3010618/china-has-willing-partner-india-belt-and-road-only-fair-and>.

<sup>77</sup> “The Truth about China’s Role in Sri Lanka’s Hambantota Port,” South China Morning Post, May 6, 2019, <https://www.scmp.com/comment/insight-opinion/article/3008799/truth-about-sri-lankas-hambantota-port-chinese-debt-traps>.

<sup>78</sup> The Indian Ocean is considered to be the third largest deep-sea divisions, which covers around 70 million square kilometers, in other words, around 20 per cent of water surface. It is shared by Asia on the north, Africa on the west, and Australia on the east.

**Figure 5: Chinese investment in Energy Sector in Bangladesh<sup>79</sup>**



China, according to figure 5, already invested around US\$ 12.6 billion in Bangladesh. A closer analysis of the figure 5 would suggest that China is investing more in the south region of Bangladesh; where they have access to the ocean. For the region of Tibet, Sichuan, and Yunnan, as they are landlocked; China also looks at Bangladesh as a possible access for the landlocked southwest. Buzan and Wæver theory is more focusing on political likeness of global power; in other words, the regional non-military power game. In this case, the power game of investment; how China is dominating in the South Asian region by over investment. The Copenhagen school disuses “particular emphasis on the non-military aspects of security, representing a shift away from traditional security studies.”<sup>80</sup> China is not using any sort of military power over regional hegemony, rather as the neo-classical economics states “The neoclassical model of growth postulates that a regional economy starting from a low level of capital and low per effective worker income, accumulates capital and runs through a growth process, where growth rates are initially higher, then decline, and finally approach zero when

<sup>79</sup> “Meet the Coal Power Plants,” The Daily Star, January 12, 2018, <https://www.thedailystar.net/star-weekend/meet-the-coal-power-plants-1518427>.

<sup>80</sup> Alan Collins, *Contemporary Security Studies*, 2016.

<sup>81</sup> Keith Krause and Michael C. Williams, “Broadening the Agenda of Security Studies: Politics and Methods,” *Mershon International Studies Review* 40, no. 2 (1996): 229–54, <https://doi.org/10.2307/222776>.

the steady state per effective labor [...]”<sup>82</sup> China, not only took advantage of the energy politics, but also captured the labor market.

### 3.2.a Debt-trap Diplomacy

At present, the case of Sri Lanka is considered to be one of the top examples of debt-trap diplomacy<sup>83</sup>. “Beijing has once again rejected assertions that its Belt and Road Initiative (BRI) is a form of debt-trap diplomacy or a geopolitical tool to expand China's influence, pointing out that participant countries develop at a faster pace and have received real benefits.”<sup>84</sup> The initiative would boost up trade in the Asia, Africa, and Europe, but the cost of this trade boost is alarming. Figure 4 shows how simple it will be once the road is built, but digging in-depth, China has been investing in countries who are not economically strong enough to handle the loan, for example, countries in the East Africa. But in this case, the investment in Sri Lanka was shocking. The country is in debt with billions of dollars to China. “Every time Sri Lanka’s president, Mahinda Rajapaksa, turned to his Chinese allies for loans and assistance with an ambitious port project, the answer was yes.”<sup>85</sup><sup>86</sup> Although the Sri Lankan President was voted out in 2015 because of driving the country in debt, but it was already too late for the new government to handle the crisis. According to Maria (2018) in New York times, “[the Sri Lankan] the government handed over the port and 15,000 acres of land around it for 99 years [...]”<sup>87</sup> This diplomacy is indirectly linked with Copenhagen Model on Regional

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<sup>82</sup> Bernard Fingleton and Manfred Fischer, “Neoclassical Theory Versus New Economic Geography: Competing Explanations of Cross-Regional Variation in Economic Development,” *SSRN Electronic Journal*, January 1, 2008, <https://doi.org/10.2139/ssrn.1111590>.

<sup>83</sup> This is a type of diplomacy that is based on debt carried out in the bilateral relations between countries.

<sup>84</sup> “Belt and Road Initiative Not Debt-Trap Diplomacy, Says China, East Asia News & Top Stories - The Straits Times,” accessed May 29, 2019, <https://www.straitstimes.com/asia/east-asia/belt-and-road-initiative-not-debt-trap-diplomacy-says-china>.

<sup>85</sup> Maria Abi-Habib, “How China Got Sri Lanka to Cough Up a Port,” *The New York Times*, October 8, 2018, sec. World, <https://www.nytimes.com/2018/06/25/world/asia/china-sri-lanka-port.html>.

<sup>86</sup> “China Focus | Did China Get Sri Lanka to Cough Up a Port?,” *China Focus* (blog), July 30, 2018, <http://www.cnfocus.com/did-china-get-sri-lanka-to-cough-up-a-port/>.

<sup>87</sup> Abi-Habib, “How China Got Sri Lanka to Cough Up a Port.”

Security. In this scenario, if Bangladesh falls into this trap, China may (or may not) come up with policies to grab the port of Bangladesh, which in this case will bring in a trade threat to India. This is where India should also take careful measures for Bangladesh, so that Bangladesh does not fall in the debt-trap diplomacy like Sri Lanka.

### 3.4 Bangladesh and India Relationship

*“The Indian Ocean region is arguably one of the world’s least understood, yet its importance in geopolitics and international relations is greater than ever before. This book explores the concepts of regime theory, regional orders and ocean governance to critically assess the effectiveness of maritime regimes, something that not been attempted before for the Indian Ocean Region. This study employs the theoretical framework of international regimes in the context of ocean [...]”*<sup>888990</sup>

Bangladesh and India are neighboring countries, they share borders; for Bangladesh on the west and for India on the east. There are some ups and downs in the geopolitical situation, but both the countries are in a friendlier position, unlike India’s other neighboring country, Pakistan. In today’s era, geopolitics is an important aspect for economic development, the European Union (EU) is the best example for a successful geopolitical scenario. Trade of energy between the EU nations are a successful story. Although, the EU have their own policy of free trade between the 28 countries, therefore it is easier for any country in the Euro zone to transfer power to another. In context for Bangladesh and India, the energy politics of Canada, Mexico, and the United States are better example. Despite the weakening of North American

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<sup>88</sup> Manoj Gupta, *Indian Ocean Region: Maritime Regimes for Regional Cooperation*, The Political Economy of the Asia Pacific (New York: Springer-Verlag, 2010), <https://www.springer.com/gp/book/9781441959881>.

<sup>89</sup> Australia India Institute Perceptions Taskforce, John McCarthy, and Australia India Institute, *Beyond the Lost Decade* (Canberra: Australia India Institute, 2012).

<sup>90</sup> M Gupta and Ebooks Corporation, *Indian Ocean Region*. (Dordrecht: Springer, 2010).

Free Trade Agreement (NAFTA), the three countries are still in better relationship in terms of energy trade.

*“Geopolitical issues are becoming more important, because how can you understand [the] economy if you don’t understand geopolitics? People think economists just deal with spreadsheets and charts. That’s a narrow-minded caricature.”*<sup>91,92</sup> — Nouriel Roubini<sup>93</sup>

One of the largest markets for energy trade in the world comprises of just three countries, Canada, Mexico, and the US. According to the report by Congressional Research Service (2017), Canada and Mexico are the most important importers of refined petroleum from the US, on the other hand, the largest importer of Canada’s crude oil is the US. Although, the trade between other energy components are relatively low, but the increase in trade of natural gas from the US is an important factor for all three countries in terms of energy relationship. “[...] the value of the energy trade between the United States and its North American neighbors exceeded \$140 billion in 2015, with \$100 billion in U.S. energy imports and over \$40 billion in exports.”<sup>94</sup> With the new regulations on energy sector, improvement in the technological sector, and the Paris Agreement, there were few bumps but they managed to tackle that all the way. Paul W. Parfomak et al. (2017) highlighted few points in Cross-Border Energy Trade in North America: Present and Potential, that, (1) Canada and Mexico imports refined petroleum from the US, but in return, the US imports crude oil from both of them. (2)

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<sup>91</sup> Kirk Cornwell says, “Geopolitics Revisited: A Reshaped Investment Landscape,” CFA Institute Enterprising Investor, March 27, 2019, <https://blogs.cfainstitute.org/investor/2019/03/27/geopolitics-revisited-a-reshaped-investment-landscape/>.

<sup>92</sup> “Nouriel Roubini Quotes,” Brainy Quote, accessed May 29, 2019, [https://www.brainyquote.com/quotes/nouriel\\_roubini\\_550091](https://www.brainyquote.com/quotes/nouriel_roubini_550091).

<sup>93</sup> An American economist. He teaches at New York University's Stern School of Business and is chairman of Roubini Macro Associates LLC, an economic consultancy firm.

<sup>94</sup> Paul W Parfomak et al., “Cross-Border Energy Trade in North America: Present and Potential,” n.d., 50.



Increase in shale gas in the US has been substituting for Canada's natural gas; on the other hand, Mexico is importing natural gas from the US to meet their energy demand. (3) For the US to meet the criteria for renewable energy, as per Paris Agreement, Mexico has the potential to provide the US with sufficient supplies.

*“The overall sustainable development discourse reflects development policies prevailing over environment policies, with development arguments not necessarily addressing specific emissions and climate related concerns [...] The discourse on renewable energy policies in Mexico splits into a debate about how the natural resources of the country create a potential for the development of renewable energy that together with the participation of the private sector investing in the technological development will increase productivity and economic growth [...] the main focus of the debates about renewable energy is economic [...]”<sup>95</sup>*

This is success story of energy politics and be a solution to Bangladesh and India. Having said that, Indian investment can be resourceful for Bangladesh, as previously stated ‘debt-trap diplomacy’, the Indian investment will ease the debts. Although seeing the energy policies and trade between Canada, Mexico, and the US, Bangladesh can ask for other neighbor countries for starter, like Bhutan and Nepal; as they have surplus on hydro-electricity. Therefore, like the north Americans, Bangladesh and India can work on sharing power or even trade for energy. In contrast, according to Bangladesh Power Development Board, Bangladesh is already importing around 660 megawatts. There is another power plant being developed in

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<sup>95</sup> Britta Rennkamp et al., “Competing Coalitions: The Politics of Renewable Energy and Fossil Fuels in Mexico, South Africa and Thailand,” *Energy Research & Social Science* 34 (August 15, 2017): 214–223, <https://doi.org/10.1016/j.erss.2017.07.012>.

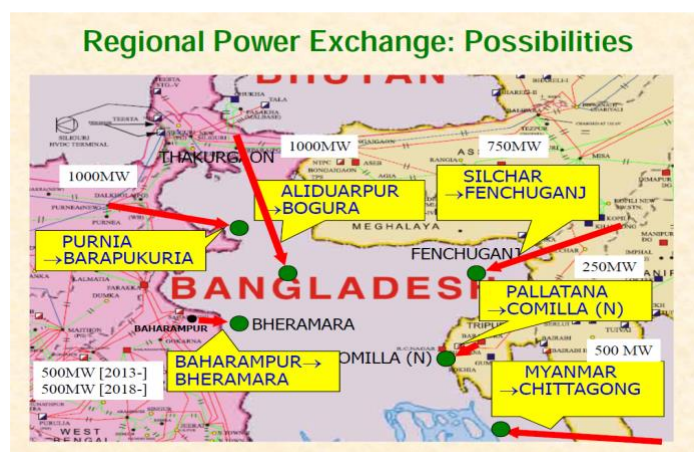
Rampal, which is controversial at the moment, of 1320 megawatts; which is being developed with a 50-50 partnership.

Bangladesh is exploring alternative means of solutions to energy generation, for example increasing electricity imports from the neighboring countries. Plans are ongoing to improve cross border trade of electricity; through bilateral and/or regional corporation initiatives with not only India, but also Bhutan, Myanmar, and Nepal. Trade in power between Canada and the USA is a very good example of trade in electricity between two neighbors. Trade in electricity is also widely practiced in Europe among the European Union economies and beyond. Investment and trade model are also being practiced between Bhutan and India, under which Indian Government and private sector invest in hydro power projects in Bhutan and import the power to India under long-term power purchase contracts. Electricity trade was already considered to be an element of the Power System Master Plan (PSMP) 2010<sup>96</sup> and Bangladesh is already receiving about 450 megawatts – 500 megawatts of power from India under a Government-to-Government deal. As part of the Plan, Bangladesh also expects to receive another 500 megawatts of power from India under private sector to private sector or private sector to Government deals. The interconnector between Baharampur of West Bengal (India) to Bheramara of Bangladesh has already been constructed with ADB financing.

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<sup>96</sup> “PSMP2010\_reduced.Pdf,” accessed May 29, 2019, [https://policy.asiapacificenergy.org/sites/default/files/PSMP2010\\_reduced.pdf](https://policy.asiapacificenergy.org/sites/default/files/PSMP2010_reduced.pdf).

**Figure 6: Regional Power Exchange Possibilities<sup>97</sup>**



There is a likelihood of an additional 250 megawatts power supply, outside the 1000 megawatts power trade agreement, from Tripura; if the interconnector between Pallatana in Tripura to Comilla in Bangladesh is created. In addition, this development is currently ongoing to construct the interconnector between Pallatana and Comilla. With the support of Indian government, there are other potential interconnectors which are being built to help increase energy imports from other neighboring countries like Bhutan.

*“[...] some of these other possibilities include Silchar to Fenchuganj for 750 megawatts, Aliduarpur to Bogura 1000 megawatts and Purania to Barapukuria 1000 megawatts. In addition, Bangladesh Government was also discussing with the Government of*

<sup>97</sup> “Regional Power Exchange Possibilities - Google Search,” accessed May 29, 2019, [https://www.google.com/search?q=Regional+Power+Exchange+Possibilities&client=safari&rls=en&source=lnms&tbm=isch&sa=X&ved=0ahUKEwj8bv30MHiAhVRDWMBHRKfDiMQ\\_AUIDigB&biw=1146&bih=685#imgrc=BqZqnpEh9ksKUM:](https://www.google.com/search?q=Regional+Power+Exchange+Possibilities&client=safari&rls=en&source=lnms&tbm=isch&sa=X&ved=0ahUKEwj8bv30MHiAhVRDWMBHRKfDiMQ_AUIDigB&biw=1146&bih=685#imgrc=BqZqnpEh9ksKUM:)

*Myanmar to import 500 megawatts of hydro power from a hydro power project in the Rakhyn state of Myanmar to Chittagong in Bangladesh [...]*<sup>9899100</sup>

All these possibilities mentioned above could only be the beginning of a much broader regional power trade initiative. Beyond the possible initiatives mentioned above, which alone could potentially add 3,000 megawatts of electricity to Bangladesh national grid, there could be other major regional initiatives encompassing Bhutan, Nepal and North-Eastern India which have very large hydro power potentials. “Both Nepal and Bhutan are interested to receive long-term investment in their hydropower projects and export their surplus hydropower to Bangladesh.”<sup>101102</sup> The Government has already actively engaged in economic diplomacy with India for joint venture investments in large hydropower projects in Nepal, Bhutan and North-Eastern India. Although new hydropower projects would take more than one decade to materialize, the lifelong low-cost supplies would ensure cheaper and environmentally friendly power for Bangladesh for decades to come. Electricity trade was not appropriately emphasized in PSMP 2010 but has received more attention in PSMP 2016<sup>103</sup>, where it is envisaged that by fiscal year 2041 at least 5 per cent of domestic power demand will be met through import of power from regional countries. However, challenges Bangladesh faces in trans-national grids appears more in the form technological aspects rather than environmental aspects. These

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<sup>98</sup> “Sarc Nations Can Generate 300,000MW of Hydropower,” The Daily Star, October 7, 2015, <https://www.thedailystar.net/business/sarc-nations-can-generate-300000mw-hydropower-152968>.

<sup>99</sup> “BD to Import 1,000MW Hydro-Power from Myanmar, China,” Dhaka Tribune, April 9, 2017, <https://www.dhakatribune.com/bangladesh/power-energy/2017/04/09/bd-import-1000mw-hydro-power-myanmar-china>.

<sup>100</sup> “Bangladesh Plans to Import 9,000MW from Neighbours,” Dhaka Tribune, April 9, 2018, <https://www.dhakatribune.com/bangladesh/power-energy/2018/04/09/bangladesh-plans-power-import-neighbours>.

<sup>101</sup> “Annual\_Report\_(Including\_Directors\_Report)\_2016-2017.Pdf,” accessed May 29, 2019, [https://www.pgcb.org.bd/PGCB/upload/Reports/Annual\\_Report\\_\(Including\\_Directors\\_Report\)\\_2016-2017.pdf](https://www.pgcb.org.bd/PGCB/upload/Reports/Annual_Report_(Including_Directors_Report)_2016-2017.pdf).

<sup>102</sup> Dipendra Bhattarai, April 9, and 2019, “Opinion: Who Will Buy Nepal’s Hydropower?,” The Third Pole, April 9, 2019, <https://www.thethirdpole.net/en/2019/04/09/opinion-who-will-buy-nepals-hydropower/>.

<sup>103</sup> “(E)\_FR\_PSMP2016\_Summary\_revised.Pdf,” accessed May 29, 2019, [https://powerdivision.portal.gov.bd/sites/default/files/files/powerdivision.portal.gov.bd/page/4f81bf4d\\_1180\\_4c53\\_b27c\\_8fa0eb11e2c1/\(E\)\\_FR\\_PSMP2016\\_Summary\\_revised.pdf](https://powerdivision.portal.gov.bd/sites/default/files/files/powerdivision.portal.gov.bd/page/4f81bf4d_1180_4c53_b27c_8fa0eb11e2c1/(E)_FR_PSMP2016_Summary_revised.pdf).

imported powers from India though are assisting to meet the immediate power demand, they also come at a higher cost. Bangladesh government has agreed to import electricity from Adani Group at a price Tk. 6.89 (8.61 US cents) per kilowatt hours from its 1600 megawatts<sup>104</sup> “mega plant that will be setup in Jharkhand, India. According to Power Division, as per the rate fixed for Adani, the country will have to pay an additional cost of nearly”<sup>105</sup> Tk. 300cr to the Indian company over the next 25 years as compared to other coal-based power plants. Total cost of this import is far higher than the price of electricity from the local private coal-based plants. The main challenge here lies in importing the power at a competitive rate.

### 3.3.a Importance of Regional Trade

An example of regional power trading can be Latin and Central America; “Cross-border electricity trade and integration is a cross-cutting issue and has been particularly important for some Latin American countries (LACs) and sub-regions.”<sup>106107</sup> According to Table 1, energy trade between south American countries were more than 50 gigawatt hours in 2012, out of which more than 40 gigawatt hours were allocated for Brazil. On the other hand, the Paraguay contributed more than 47 gigawatt hours in export. “Electricity trade occurs primarily in three separate zones: (1) Brazil, Paraguay, Argentina, and Uruguay; (2) Mexico and Central America; and (3) Colombia, Ecuador, Venezuela, and Panama. Paraguay plays the most important role in the region’s electricity trade, being the largest net exporter.”<sup>108</sup>

<sup>104</sup> “Rs 50 Lakh an Acre: Adanis,” accessed May 29, 2019, <https://www.telegraphindia.com/india/rs-50-lakh-an-acre-adanis/cid/1499782>.

<sup>105</sup> “Power Imports from Jharkhand to Cost Bangladesh Dear,” Dhaka Tribune, April 20, 2017, <https://www.dhakatribune.com/bangladesh/power-energy/2017/04/20/import-high-priced-power-jharkhand/>.

<sup>106</sup> Victor Bulmer-Thomas, “Regional Integration in Latin America and the Caribbean,” *Bulletin of Latin American Research* 20, no. 3 (2001): 360–69.

<sup>107</sup> Enrique V Iglesias, “Twelve Lessons from Five Decades of Regional Integration in Latin America and the Caribbean,” n.d., 13.

<sup>108</sup> Asian Development Bank., *Bangladesh: Consolidating Export-Led Growth* Mandaluyong City, Philippines: Asian Development Bank, 2016.

**Table 1: International Energy Exchanges in South America 2012 (GWH)**

		Exporter								Total Import
		Argentina	Brazil	Colombia	Ecuador	Paraguay	Peru	Uruguay	Venezuela	
Importer	Argentina		0.08			7.65		0.19		7.92
	Brazil					40.02			0.71	40.72
	Colombia				0.01					0.01
	Ecuador			0.24			0.00			0.24
	Peru				0.01					0.01
	Uruguay	0.28	0.46							0.74
	Venezuela			0.48						0.48
	Total Export	0.28	0.54	0.71	0.01	47.66	0.00	0.19	0.71	50.11

Source: Comision de Integracion Energetica Regional (CIER) 2012

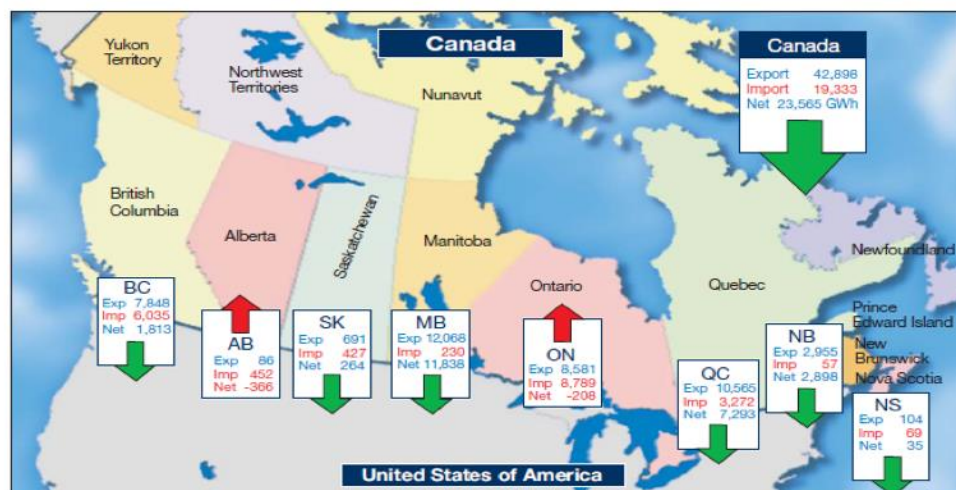
“The relationship between regionalism and globalism is one of the central topics of contemporary trade policy.”<sup>109110</sup> Although the NAFTA has been weakened when the new president was elected in the US, but the regional trade of energy did not stop in Canada, Mexico, and the US. Given the past history of the Indian Subcontinent, India being more dominant in the region should step forward and take decisions on how to improve regional trade; the example of North American policy shows how other regions should trade despite

<sup>109</sup> Matthew J. Burke and Jennie C. Stephens, “Political Power and Renewable Energy Futures: A Critical Review,” *Energy Research & Social Science*, Energy and the Future, 35 (January 1, 2018): 78–93, <https://doi.org/10.1016/j.erss.2017.10.018>.

<sup>110</sup> Adam Lupel, “Regionalism and Globalization: Post-Nation or Extended Nation?,” *Polity* 36, no. 2 (2004): 153–74.

government issues. As for this paper, and as since the easiest way for China was to enter Bangladesh market through coal energy, India was a bit late. But as a neighboring country and after signing of Paris Agreement, India should have made better policies to enter the market with renewable energy. Was it a mistake? Or was it just to enter Bangladesh market as fast as possible? The politics of energy is a massive area, whoever takes the lead gets all the benefit. But for Bangladesh, accepting more investment in coal powered energy shows a bad faith in terms of the Paris Agreement. There is a lot to learn from the North American regional trade policies for Bangladesh and India.

**Figure 7: Exports and Imports between Canada and the US 2005**



Source: NEB Electricity Exports and Imports

### 3.4 Importance of Transportation Sector for China and India

According to Rodrigue and Notteboom (2017), there are 3 major economic aspects (1) core, (2) operational and (3) geographical. The core of this sector is important because it gives access to physical capacity of a country to control export and import. For example, any goods which needs access to Bangladesh port, Bangladesh government can introduce any significant

amount of restrictions; such as tariff and/or quota. Better transportation system means that goods can be delivered without any delays and this means the rate in World Bank's Doing Business will improve. The most important point is the geographical location. This means getting access to wider market, which leads to economies of scale, improvement in productivity, and access to diverse products. Rodrigue and Notteboom (2017) further describes the transport sector and links to macroeconomic and microeconomic perspective. According to them, the transportation sector is comprised of 6 per cent and 12 per cent of GDP in most developed countries; in addition, an improved transport sector means that the accessibility between producers and consumers shortens down.

But is Bangladesh ready to give away and/or ready for such large investment? Although, the investment in the transport sector is mainly by the domestic investment, but the energy sector is mostly by foreign investment. As mentioned in the earlier chapter, Indian and Japanese investors lobbied for stop some investment by the Chinese; the only reason for such lobby was to stop China from getting access to the Bangladeshi port, not because they wanted to save Bangladesh from falling into debt-trap diplomacy.



## Chapter 4: Conclusion

Given past few decades, Bangladesh has stepped forward to electricity generation. The gain in supply of electricity is one of the success stories for the country in terms of Sustainable Development Goals (Goal 7). This gain in energy sector eased the power supply limitation and also contributed to the 6 per cent plus growth performance in recent years. Emphasizing on the Power System Master Plan (PSMP) 2010, the power division board had appropriate motivation for medium and long term, along with required structural changes to achieve the planned target. Under PSMP 2010, the performance for energy sector was satisfactory, notwithstanding the delays in implementing medium and large power plants. Bangladesh, according to the 6<sup>th</sup> five year plan, made significant gains in the energy sector:

*“(1) generation capacity has increased by 133 per cent to 13,540 megawatts by fiscal year 2015, compared with the target of 15,457 megawatts; system loss in transmission and distribution was reduced by 17 per cent to 13.3 per cent in fiscal year 2015 from 16 per cent in fiscal year 10 (2) private sector investment in electricity, gas, and other energy supplies increased to 42 per cent of generation capacity in fiscal year 15, compared with 26 per cent in fiscal year 2010 and (3) the volume of power imported from India increased by the targeted 500 megawatts, with the introduction of trade in electricity between India and Bangladesh.”<sup>111</sup>*

On the other hand, trade of electricity is still limited to government to government, it has showed potential for surplus supply at a reasonable price; as the neo-classical economic thought suggests that the price is determined through demand and supply. For long term

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<sup>111</sup> Ministry of Planning. Sixth Five Year Plan Bangladesh

supplies, it would be more successful through joint venture regional initiatives with Bhutan, India, and Nepal especially in hydro power instead of coal. The most effective and direct supply of available hydroelectricity can be supplied through north eastern Indian side, especially from Himachal Pradesh; even though it requires to use territory. This could be possible through a joint venture between Bangladesh and India. Bangladesh is probably on the right track in terms of power trade, the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation<sup>112</sup> (BIMSTEC) is welcoming a transparent bidding process of power projects and a secure financing on better terms. Although these are large projects for the energy sector, but to achieve these the country needs to forgo few other domestic power projects. For a small economy like Bangladesh, before processing any transaction, there needs to be a vivid financing source before selecting the best bidder. On the other hand, environmental issues should have been highlighted in the updated PSMP 2016 which is accessed by Japan International Cooperation Agency (JICA). The updated PSMP should focus more on the renewable power generation and sustainability; to achieve SDG 7. In addition it should also suggest a realistic target for whether the government of Bangladesh can succeed for the Paris Agreement, and recommend more policy support. According to Economic Relations Division and General Economics Division, Ministry of Planning, Bangladesh, to meet the projected increase in the demand for power supply, the energy sector should get more priority to meet the demand for the future.

The key challenges are in the following areas “(1) Making electricity available at affordable prices for the business, industry and households and at the same time eliminating subsidies from the budget will require substantial efficiency gains at every level of operations,

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<sup>112</sup> “Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation,” in *Wikipedia*, May 30, 2019, [https://en.wikipedia.org/w/index.php?title=Bay\\_of\\_Bengal\\_Initiative\\_for\\_Multi-Sectoral\\_Technical\\_and\\_Economic\\_Cooperation&oldid=899500798](https://en.wikipedia.org/w/index.php?title=Bay_of_Bengal_Initiative_for_Multi-Sectoral_Technical_and_Economic_Cooperation&oldid=899500798).

which will also ensure long-term sustainability of the power sector. The rapid increase in power tariff experienced in recent years cannot continue for long without making Bangladesh industry uncompetitive in the export and domestic markets (2) Achieving the 10-fold increase in generation capacity to more than 90,000 megawatts by fiscal year 2041, will face many major challenges in terms of sourcing of primary energy mix, overcoming the shortage of natural gas supply, investing in logistics for handling/import of coal and LNG, cross-country transmission networks and trade in electricity with proper regulatory regimes in place (3) Mobilization of the associated massive amounts of financing for investments in power generation, transmission and distribution, handling of coal and LNG will remain a major challenge, despite the recent success in financing many private and public sector power plants, and (4) Liberalization of generation, domestic trade/distribution and marketing of electricity to improve efficiency and enhance competition will require putting in place proper regulatory regimes.”<sup>113</sup>

Statistically, Bangladesh has comparative advantage in the readymade garments sector in South Asia; the relationship between Bangladesh and India should be more intense in terms of trade facilities. Like the countries of the EU, Bangladesh and India should come up with a solution for future trade policies such as free trade among themselves. But in this case both the countries should make fast policies. On the other hand, Bangladesh should take careful measures against China’s investment in coal powered energy. The country should see the motive behind the investments, although these investments are beneficial but at what cost? The policy makers should study the case of Sri Lanka, how they were manipulated into debt-trap diplomacy; even when Sri Lanka is denying the acquisitions against China, but they did give away their port for 99 years lease. Bangladesh, instead of taking more investment, should be

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<sup>113</sup> OECD/IEA, “Southeast Asia Energy Outlook 2017”, World Energy Outlook Special Report INTERNATIONAL ENERGY AGENCY, 2019, [https://www.iea.org/publications/freepublications/publication/WEO2017SpecialReport\\_SoutheastAsiaEnergyOutlook.pdf](https://www.iea.org/publications/freepublications/publication/WEO2017SpecialReport_SoutheastAsiaEnergyOutlook.pdf).

calculating the debt owed to China before it is too late for the country to repay. The port in the south of Bangladesh is the most important port for the landlocked countries in the north and northwest, Bangladesh can take the advantage and use it as a mean of transit.

The paper discussed the regional non-military security model of Copenhagen school, in this case, if Bangladesh leases its port to China, then China will be controlling around 22 per cent of the ocean, and technically they can bring in their naval fleets in the Indian Ocean as their own security. On the other hand, according to the Uppsala Internationalization Model, it showed how China came to invest in Bangladesh. Islam (2013), mentioned in chapter 3, Chinese investment in Bangladesh is not particularly significant, not until 2010. China only invested around US\$ 250 million from the late 70s to 2010, nevertheless it changed after 2010; according to Imam (2012), the Chinese investment in 2011 was around US\$ 200 million. China, according to Figure 3, gained market knowledge, committed to the market, finally decided to invest in bulk. They saw the opportunity that Bangladesh is in required of investment in the energy sector, and what the best and quickest possible way of development in the energy sector is the coal sector; on the other hand, for India to catch up with China's investment, they started to invest in coal powered energy in Bangladesh, which would eventually keep Bangladesh as an ally in the long run. Bangladesh should analyze carefully about the politics behind the foreign investment in coal powered energy, the research in this sector needs to be prioritized as soon as possible. Yet again, for a smaller economy like Bangladesh, foreign direct investments are core factor for development but at what cost?

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