

# CHAPTER 1

## INTRODUCTION

### 1.1 Background

Bangladesh–Indonesia economic ties encompass a range of bilateral trade and economic activities between the two nations. These ties have historical roots that date back centuries, even before the nations achieved independence. In the latter half of the 20th century, following their emancipation from colonial rule, both countries made significant strides in shaping a new world view. Their participation in the Non-Aligned Movement was a landmark development for the economies of the third world during that era. The economic aspirations of these newly independent nations have led to concerted efforts to deepen their economic ties and explore areas of mutual interest, thereby strengthening their bilateral relationship over the past half-century.

In this research, the author aims to delve into less-explored avenues of mutual economic cooperation between Bangladesh and Indonesia, focusing on potential improvements in these sectors. The economic relationship between the two countries has gained significant importance in recent decades, despite a pronounced trade imbalance. Indonesia is the largest Muslim-majority country, while Bangladesh ranks third in the world in term of Muslim population. Both countries are members of key multilateral organizations, including the UN, UN International Peacekeeping Committee, the D-8 group of developing countries, the Non-Aligned Movement, the WTO, and the Organization of Islamic Cooperation (OIC , 2023). Diplomatic and economic ties between Bangladesh and Indonesia were formally established in 1972, following Indonesia's recognition of Bangladesh as an independent Muslim-majority nation (Ali, 2006). This recognition came soon after Bangladesh's secession from Pakistan in 1971, and embassies in both countries became operational in May 1972 (Subolo, 2022). During the last decade (2013-2023), the economic ties between the two countries have seen an enormous

expansion, with trade and investment emerging as significant focus areas. As of 2022, Bangladesh is Indonesia's 15th largest export market, valued at 2.9 billion US dollars, while Indonesia is Bangladesh's 62nd export market, amounting to a mere 10 million US dollars (Financials, 2022). This gigantic trade imbalance underscores the need for Bangladesh to tap into Indonesia's import market to narrow the gap. Recently, both nations have been actively engaging to increase trade and investment. Although Bangladesh and Indonesia have shared economic ties since before their colonial period under the Dutch East Indies, the relationship has yet to reach its full potential. Several challenges, such as geographical distance, market awareness, and infrastructure, impede the enhancement of balanced economic ties between the two countries.

The similarities of culture and lifestyle of Bangladesh and Indonesian people also a significant aspect in the discussion of economic ties between the two countries. As I mentioned earlier that both the countries have consecutively first and third largest Muslim population which brings much more similarities in culture and lifestyle than dissimilarities. Both the countries' population consumes halal products available in their market and both the countries' market consists of mainly halal products, and this creates a mutual need and interest of trade between the two countries. Even though both countries are Muslim populated still the fullest potential of cultural and economic bridging between both populations has not reached yet. The reason for that could be the geographic location of both countries which are located in South and Southeast Asia. Since ancient times, people to people connection between the two countries as well as transnational trading was prominent. However, the colonial period in the history of both regions restricted the cultural and economic connection between the regions. Bangladesh which was colonized by Britain and Indonesia which was colonized by Dutch hindered the economic and cultural growth of the two countries and driven the population of these two regions in a different way that of their past, which resulted a long period of restrictive cultural and economic communication between the two regions. After the independence from colonial past still both countries could not overcome the

damage of restrictive cultural and economic communication between the populations of two countries. For that same reason people to people connection and cultural exchange between Bangladeshis and Indonesian is relatively less prominent than expected.

Despite being members of quite a few common International Organizations such as the D8, the two countries' trade volume is relatively low. (Indonesia Window , 2022); (Al, Arisman, Harahp, & Darwis, 2020). However, despite these challenges, there are significant possibilities for economic cooperation between Bangladesh and Indonesia. Both countries have a large and growing consumer market, which provides ample opportunities for businesses to invest in and expand their operations (Star Business Report , 2022); (Tjandra, 2023). Additionally, both countries have a young and dynamic workforce, which can help in the development of new and innovative industries (Kamruzzaman, 2022); (Sartika, 2019).

## **1.2 Research Question**

Based on the above discussion on the background of Bangladesh Indonesia Economic ties, I believe that finding the answer to the following question will contribute to understanding the dynamic economic cooperation Between Bangladesh and Indonesia. The answer to the following question will also contribute to finding pathways to a wider economic cooperation between the two countries. The question as follows: *What are the current dynamics of economic ties between Bangladesh and Indonesia, and how can they be further strengthened?*

## **1.3 Theoretical Framework**

The dynamics of Bangladesh-Indonesia Economic Ties and their possibilities and challenges can be well-explored and further understood from the Theoretical framework of Economic Liberalism. Within the framework of liberal economic theory, economic relations between the two countries can be seen as an opportunity to advance trade liberalization, investment and economic cooperation. I believe, Economic liberalism, which emphasizes market freedom and minimal government

intervention, is a relevant theoretical basis for analyzing the dynamics of economic relations between Bangladesh and Indonesia.

According to Adam Smith, one of the main figures of the concept of economic liberalism, free trade between countries can increase efficiency and prosperity (Smith, 1776). In the context of the dynamics of Bangladesh-Indonesia, the two countries can take advantage of their respective comparative advantages to increase bilateral trade. For example, Bangladesh has advantages in the textile industry, while Indonesia excels in palm oil and rubber production and other natural resources. By applying Smith's principle, the two countries can exchange products more efficiently.

David Ricardo, whose views also complemented and expanded those of Adam Smiths. With his theory of comparative advantage, also supported the idea of free trade or economic liberalism (Ricardo, 2004). This theory states that countries will benefit if they focus on producing goods for which they have relatively higher efficiency. Bangladesh and Indonesia can apply this principle to increase economic cooperation, focusing on sectors where each country has comparative advantages.

Meanwhile economic liberalism is a broader concept than a fiscal liberalism which is well known as conservatism or economic libertarianism (Fujii, 2013) can be more specifically used to analyze the aspects of economic relations between Bangladesh and Indonesia. Fiscal conservatism that is a more recent concept of economic liberalism, Lawrence Goldman argues that in the study of political economy it highlights the financial aspect of economic liberalism the fiscal liberalism which is in support of free trade (Gosh & Goldmen, 2006). In this regard my arguments on the topic in this paper are from the perspective of International political economy. Hence, the theoretical framework of economic liberalism and more specifically the concept of fiscal liberalism will be used to analyze and prove my arguments and the aspects of Bangladesh Indonesia economic ties and the proposed research of that regard.

Challenges in Bangladesh-Indonesia economic relations can arise from various factors, such as trade barriers, regulatory differences, and political stability. Overcoming these obstacles requires a shared commitment to promoting free trade and investment. In addition, differences in the economic and social conditions of the two countries also demand tailored approaches to achieve maximum benefits from their economic cooperation. Possibilities in Bangladesh-Indonesia economic relations lie in the ability of the two countries to complement each other. Bangladesh, with its large workforce and low production costs, can be a strategic partner for Indonesia in the manufacturing industry. On the other hand, Indonesia with its wealth of natural resources can support Bangladesh's needs in sectors such as energy and industrial raw materials.

By examining the comparative advantages and complementarities between the two countries as well as the significance of regional economic integration initiatives, the theoretical framework of economic liberalism provides insight into the potential for a mutually beneficial economic partnership between Bangladesh and Indonesia (Irhamna & Raffiudin, 2018). Analyzing the comparative advantages and complementarities between Bangladesh and Indonesia from the conceptual perspective of fiscal liberalism is crucial to understand the potential gains from bilateral economic relations. Both countries have unique resources and strengths that can be mutually beneficial. Bangladesh specializes in labor-intensive industries, such as garments and textiles, while Indonesia has a comparative advantage in natural resources, including palm oil, rubber and coal. By leveraging these complementary sectors, trade and investment opportunities can be explored to enhance economic growth in both countries.

The role of free trade (FTA) and regional integration initiatives can act as catalysts for deepening economic ties. Both Bangladesh and Indonesia are members of their respective regional organizations such as the Association of Southeast Asian Nations (ASEAN) for Indonesia and the South Asian Association for Regional Cooperation (SAARC) for Bangladesh (Bharti, 2007). Expanding the scope and depth of existing agreements between the two countries or forming new FTAs can

significantly enhance economic cooperation by reducing trade barriers, promoting investment flows and harmonizing regulatory frameworks in these regions.

Furthermore, a sustainable investment and business environment is essential for economic partnership and sustainability. Economic liberalism emphasizes the importance of market-driven, transparent regulation and rights while its derivative concept fiscal liberalism emphasis free trade aspects. Through the investment climate environment, Bangladesh and Indonesia can attract bilateral foreign investment (FDI) and try social enterprises and explore the areas of free trade. It will facilitate technology transfer, knowledge sharing and skill development, leading to improved productivity and competitiveness.

Efficient infrastructure development and connectivity are also vital factors in promoting trade and investment between these two countries. Bangladesh and Indonesia should prioritize infrastructure projects such as transport networks focusing on sea-routes, creating logistics hubs and digital connectivity to reduce trade costs, improve market access and facilitate the movement of goods and services. Integration to a multi-lateral Connectivity Initiative development, such as the China-led Belt and Road Initiative (BRI) which also can further enhance economic cooperation between the two countries (Sacks, 2021).

#### **1.4 Hypothesis**

I come up with three arguments that I would like to discuss in this Paper. First, Bangladesh-Indonesia economic ties have huge possibilities of growth if both countries continue the progress of economic relations based on Trade Agreements. Second, the current economic dynamics between Bangladesh and Indonesia are characterized by significant challenges with trade imbalances, and limited cooperation. Third, trade imbalance between the two countries can be significantly reduced through cooperation and trading of advantage-based resources of both countries.

## **1.5 Research Limitation**

This research is an attempt to understand and analyze the economic dynamics between Bangladesh and Indonesia from 2013-2023 that have great potential for economic cooperation. Although this research may provide valuable insight, it has some limitations that need to be acknowledged.

One of the main limitations of this research is its use of secondary data. Although secondary data provides valuable and extensive information, the research may not include the latest perspectives or unpublished data that could provide deeper insights. Even though the secondary data used in this research comes from various credible sources, the quality and completeness of the data may vary. It is possible that some important aspects of Bangladesh-Indonesia economic relations may not be well documented or available for analysis.

This research focuses on the time period between 2013 and 2023. While this allows for analysis of current trends, this time limit may not paint a complete picture of the long-term evolution of economic relations between the two countries that have evolved significantly over the course of last 50 years since the establishment of diplomatic relation between the two countries.

Data limitations are one of the main limitations of this study. Although economic and trade data between Bangladesh and Indonesia are available at some extent, however the quality, completeness and accuracy of the data may be an issue. Some data may not always change, and there may be data discrepancies between the two countries. These limitations may affect the analysis and conclusions drawn in the research.

Economic relations between Bangladesh and Indonesia are influenced by many external factors, including global economic conditions, international policies, and unexpected events such as economic crises or pandemics. This research may not fully account for all of these external variables. Although this study attempts to provide a comprehensive analysis, there are limitations in the extent to which the

analysis can explore and interpret every aspect of economic relationships. Some aspects and dynamics may not be fully reflected in the analysis. The results and conclusions of this research are specific to the context of Bangladesh-Indonesia economic relations and may not be generalizable to other bilateral contexts or to international economic relations more broadly.

## **1.6 Research Method**

In this article qualitative method of research is used and data collection is done from government reports, official documents, trade statistics, publications of international organizations such as the WTO, as well as academic articles and current news. Archive resources of the Embassy of People's Republic of Bangladesh in Jakarta also utilized to obtain many of the secondary data needed for this research. Focus will be given to data relating to bilateral trade, investment, economic cooperation, economic policies, and international agreements affecting the economic relations of Bangladesh and Indonesia from 2013 to 2023.

Data analysis will be carried out through a qualitative approach to interpret the information collected. This will include content analysis of the documents obtained to identify patterns, themes and trends in the economic relations between the two countries. Thematic analysis techniques will be used to dissect key components such as areas of cooperation, challenges and existing opportunities. The research will focus on the period from 2013 to 2023 to observe the dynamics of current economic relations and their changes over time. The geographic focus will remain on Bangladesh and Indonesia, taking into account domestic and international economic policies affecting their relations. The analyzed data will be synthesized to draw conclusions about the current dynamics and potential for strengthening Bangladesh-Indonesia economic relations. This analysis will attempt to identify inhibiting factors as well as untapped opportunities in their economic relations.

Based on the analysis, the study will provide detailed conclusions on the current status of Bangladesh-Indonesia economic relations and present recommendations for strengthening economic relations in the future. These recommendations will be



oriented towards policies and strategies to overcome the challenges and utilizing the opportunities that have been identified.

## **1.7 Research Purpose**

This research has the main objective of investigating the economic relations and trend of economic growth from 2013 to 2023 between Bangladesh and Indonesia, and to identify the challenges and opportunities associated with their economic cooperation. This research is very relevant because both countries have significant potential in the global economic context and their bilateral relations can provide greater economic benefits for the regions if managed in a well-balanced way.

One of the research objectives is to analyze trade cooperation between Bangladesh and Indonesia. This includes trade in goods and services between the two countries, as well as cross-border investment. In the context of trade, this research will identify what products are traded most between the two countries and whether there is potential for product diversification. In addition, the research will try to understand the structure of cross-border investment, including the main sectors that attract foreign investment from Bangladesh to Indonesia and vice versa.

Apart from trade and investment aspects, this research also aims to analyze the impact of economic relations between Bangladesh and Indonesia on the economic growth of the two countries. By analyzing macroeconomic data, this research will try to assess whether economic cooperation between the two countries has made a positive contribution to their respective economic growth. Next, this research will discuss the challenges faced in developing economic relations between Bangladesh and Indonesia. One of the main challenges is the large geographical distance between the two countries, which can affect trade and logistics costs. This research will try to identify strategies that can help overcome these challenges, such as trade agreements and infrastructure cooperation. In addition, this research will also explore the potential for further cooperation in key sectors such as technology, energy and agriculture. This will help identify opportunities to diversify economic cooperation and create greater synergies between Bangladesh and Indonesia.

At the end the research also aims to provide policy recommendations to the governments of Bangladesh and Indonesia, as well as to economic and business actors in both countries. These recommendations will be based on research findings and will be designed to enhance economic cooperation between the two countries, address existing challenges, and take advantage of existing opportunities. In order to achieve the objectives of this research, a comprehensive methodology will be used. This will involve secondary data analysis, and trends of the growth of economic ties between the two countries. Additionally, this research will involve various stakeholders, including the government, academic institutions, and the private sector, to gain a comprehensive understanding of the economic relations between Bangladesh and Indonesia. Thus, this research has an important and relevant objective in analyzing, understanding and promoting closer economic relations between Bangladesh and Indonesia, which can bring economic benefits to both countries and support sustainable economic growth in the region.

### **1.8 Research Benefit**

By understanding the challenges and opportunities in economic relations between Bangladesh and Indonesia, this research may help in creating a stronger foundation for economic cooperation between the two countries. The potential for increased trade, investment and collaboration in key sectors is becoming clearer. This means better economic growth and the creation of more jobs, which will directly benefit the economies of Bangladesh and Indonesia.

This research has also an impact on economic policy and diplomacy. The research results may provide guidance for the foreign-policy makers of both countries in developing policies that support closer economic relations with each other. In the context of economic diplomacy, this research helps create a stronger basis for negotiations and agreements that can advance bilateral relations to the further extent. Moreover, this research may provide benefits to the wider international community. By showing the positive potential in economic cooperation between two developing countries, this research can serve as an example for other countries

looking to strengthen their economic ties. This can encourage greater economic integration in the South and Southeast Asia regions, which in turn can create greater economic growth, peace and stability in the region.

## **1.9 Systematic Writing**

The systematic of writing of this research has four major sections namely:

### **CHAPTER 1: INTRODUCTION**

This Chapter Talks about the Background of the research on the dynamics of Bangladesh Indonesia Economic Ties, the research question, theoretical framework based on which the research is approached, hypothesis research limitations, research method, research purpose, research benefit and systematic of writing the research.

### **CHAPTER 2: DYNAMICS OF BANGLADESH-INDONESIA ECONOMIC TIES**

This chapter discusses about the Establishment of bilateral diplomatic and economic ties between Bangladesh-Indonesia, historical and present context of bilateral relations between the two countries, Important bilateral visits focusing on economic and multilateral cooperations, List of agreements sign between Bangladesh and Indonesia, Bilateral consultation mechanism: Joint commission, MOU's and Protocols signed between the two countries, MOU's/agreements signed during VVIP visit, Pending Agreements/MOU/Consulations, Foreign office Consultation (FOC).

### **CHAPTER 3: OVERVIEW TO THE OUTLOOK OF BANGLADESH INDONESIA ECONOMIC TIES AND IDENTIFYING CHALLENGES AND POSSIBILITIES**

This Chapter discusses the Outlook of Bilateral Trade from 2013-2023, Main export and import products between the two countries, Bangladesh's export to Indonesia and potential possibilities of export expansion, Potential exportable items from Bangladesh to Indonesia, Indonesia's export to Bangladesh and

potential possibilities, Commodity-wise export from Indonesia to Bangladesh, Indonesia's investment and its prospect in Bangladesh, economic cooperation such as cooperation in the area of energy, Cooperation in agricultural sector, cooperations in other security related areas, Cooperation in maritime and shipping sector, cooperation in the field of science and ICT, Cooperation in Railway sector and tourism sector.

#### CHAPTER 4: CONCLUSION

This Chapter will draw the conclusion and findings of the research.

**BIBLIOGRAPHY:** This section contains all the references and cited sources in this Research.