

Reframing the Bangladesh Equation: Lessons for India from a Missed Strategic Opportunity

Major General Sanjeev Chowdhry (Retd)

Introduction

The recent decision by Bangladesh to cancel the Indian Special Economic Zone (SEZ) at Mirsharai in Chattogram and reallocate the site to China for an Unmanned Aerial Vehicle (UAV) manufacturing and defence industrial project has triggered predictable reactions across India's strategic community.¹ At first glance, the move appears to be another example of China's steady expansion into South Asia and India's shrinking strategic space in its immediate neighbourhood.² Yet, such a reading risks oversimplification. China did not 'Win' Bangladesh through superior strategy alone, rather India gradually vacated the field through delayed execution, constrained economic frameworks, and insufficiently adaptive neighbourhood diplomacy.³

This episode is less about a dramatic strategic realignment by Dhaka and more about the consequences of asymmetry between intent and implementation. It offers sobering lessons for India's economic statecraft, defence diplomacy, and broader national security strategy in an increasingly multipolar regional order.

The Mirsharai Special Economic Zone: Promise Without Delivery

The Mirsharai SEZ was conceived in 2015 as a flagship symbol of deepening Indo–Bangladesh economic integration. It aligned well with India's 'Neighbourhood First' policy and Bangladesh's ambition to attract foreign investment into export-oriented manufacturing.⁴ The project promised not only employment and industrial capacity for Bangladesh, but also a durable economic stake for India in the Bay of Bengal littoral.⁵

However, nearly a decade later, the SEZ remained largely on paper. Procedural delays, complex financing structures, slow land development, and rigid contractual mechanisms blunted momentum. From Bangladesh's perspective, the project failed to translate strategic intent into tangible outcomes. In contrast, China's offer—focused on defence industrial collaboration, technology transfer, and rapid project execution—appeared more decisive and immediately beneficial.⁶ The contrast was not ideological. Bangladesh did not 'Choose China over India' in an abstract geopolitical sense; it chose delivery over delay.

Bangladesh's Strategic Calculus: Autonomy, Not Alignment

Bangladesh has cancelled the land allotment for a SEZ in Chittagong that was earlier given to India. The Mohammad Yunus-led government has now handed over the land to China to set up a drone manufacturing facility.

The factory will be built on about 850 acres, and production is expected to start by the end of this year. China will also transfer drone technology to Bangladesh. The plant will produce medium-range and vertical take-off drones. The Chittagong facility is located around 100 kms from the Indian border. With this project, Bangladesh will become the third country in South Asia to manufacture drones, after India and Pakistan. Separately, China signed an agreement last year

to supply Bangladesh with 20 J-10CE fighter jets. Deliveries are scheduled to begin later this year. China has also given Bangladesh an extended payment schedule for the deal.⁷

The agreement was signed between the Bangladesh Air Force (BAF) and the state-owned China Electronics Technology Group Corporation International (CETC), the defence ministry said in a statement. As part of the deal, CETC will transfer technology to the BAF and support capacity-building to independently produce UAVs in the long term. The UAVs will be used for humanitarian assistance and disaster management as well as military operations. According to the statement, the BAF will initially acquire the capability to manufacture and assemble various types of medium-altitude low-endurance UAVs and vertical take-off and landing UAVs. The agreement to set up the facility in Bangladesh was signed at the BAF headquarters in Dhaka Cantonment in the presence of Air Chief Marshal Hasan Mahmood Khan. Chinese Ambassador to Bangladesh, Yao Wen; Principal Staff Officer of Bangladesh's Armed Forces Division, Lieutenant General SM Kamrul Hassan; and representatives from the Chief Adviser's office were also present at the signing ceremony.⁸

The development comes at a time when Bangladesh is grappling with communal tensions, marked by frequent incidents of mob violence and attacks on minorities, particularly Hindus. The cancellation of the Indian SEZ could strain bilateral economic ties, especially as India funds several development projects in Bangladesh. Ending such cooperation could pose longer-term economic and diplomatic challenges for Dhaka.⁹

Bangladesh's decision must be understood within its broader strategic worldview. Dhaka has consistently pursued a policy of strategic autonomy, balancing relationships with India, China, the United States, Japan, and others. Its growing economy, rising defence requirements, and geographic centrality in the Bay of Bengal compel it to diversify partnerships rather than rely excessively on any single actor.

The UAV manufacturing project and associated defence cooperation with China are part of this diversification. They coincide with Bangladesh's ongoing interest in modernising its armed forces, including fighter aircraft acquisition and defence technology partnerships. For Dhaka, these are sovereign decisions driven by capability development, cost-effectiveness, and technology access—not a repudiation of India.

Importantly, Bangladesh continues to cooperate closely with India on connectivity, energy, counterterrorism, and trade. The Mirsharai episode should, therefore, be seen as a warning signal, not a rupture.

Implementation as Strategy: The Missing Indian Edge

One of the clearest lessons from this episode is that implementation itself has become a strategic variable. Diplomatic goodwill, shared history, and political alignment cannot compensate indefinitely for weak execution. In competitive regional environments, delays are not neutral—they create strategic vacuums. India's development partnerships often suffer from:

- Lengthy approval processes.
- Tied financing that limits flexibility.

- Overly legalistic contracting frameworks.
- Risk aversion in overseas project execution.

While these constraints reflect domestic accountability and institutional caution, they can be strategically costly. China's advantage lies less in generosity and more in speed, scale, and adaptability. When projects stall, partners look elsewhere—not necessarily out of preference, but out of necessity.

Defence Industrial Cooperation: A New Arena of Competition

The reallocation of Mirsharai for a defence industrial project is especially significant. It reflects a shift in how influence is exercised in South Asia—not merely through roads, ports, and power plants, but through defence manufacturing, logistics, and sustainment ecosystems.

Defence industrial cooperation creates long-term dependencies—training pipelines, spare parts supply, software upgrades, and doctrinal familiarity. Over time, these relationships shape military cultures and operational preferences. China's growing defence footprint in Bangladesh, therefore, carries implications that extend well beyond the immediate project.

For India, this underscores the need to treat defence diplomacy and industrial collaboration as integral components of neighbourhood policy, rather than adjuncts to military-to-military engagement.

Multipolar South Asia and Indirect Competition

The Mirsharai case also illustrates a broader trend in global geopolitics—indirect strategic competition. Major powers increasingly avoid overt confrontation, instead expanding influence through third states, sectoral partnerships, and functional cooperation.

South Asia is no longer a binary space. Regional states operate within a multipolar environment where choices are transactional, layered, and reversible. Influence is exercised through credibility, consistency, and capacity to deliver—not through pressure or presumption.

For India, this means that neighbourhood policy must evolve from a primarily normative framework ('Shared History', 'Civilisational Ties', 'Natural Partner') to a performance-based one, where value is continuously demonstrated.

Reframing Neighbourhood Policy: From Goodwill to Capability Alignment

Neighbourhood policy is not just about goodwill, it is about alignment of capabilities, economic interdependence, and strategic trust. As India deepens its understanding of emerging regional dynamics, India's 'National Security Strategy' must evolve to incorporate not just military preparedness but also strategic economic diplomacy and competitive implementation frameworks.¹⁰ India's national security strategy must, therefore, integrate economic diplomacy, industrial policy, and foreign policy more tightly. Competitive implementation frameworks—fast-track approvals, flexible financing, empowered executing agencies, and public-private partnerships—are no longer optional; they are strategic necessities.¹¹

Conclusion

The Mirsharai SEZ episode should be read neither as a Chinese triumph nor as an Indian failure of intent. It is a reminder that in today's strategic environment, opportunity costs accumulate quietly. When projects stall, influence erodes—not through confrontation, but through substitution.

India retains deep structural advantages in its neighbourhood—geography, people-to-people ties, economic complementarities, and shared security interests. But these advantages must be continuously converted into outcomes. Strategy today is as much about execution speed and institutional agility as it is about vision and values.

China did not win Bangladesh. India simply did not stay long enough to finish what it started.

Endnotes

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³ Zee News India, “After Sheikh Hasina’s Delhi Address, Bangladesh Cancelled Indian Economic Zone — Here’s Why”, *Zee News*, accessed 01 Feb 2026, <https://zeenews.india.com/world/after-sheikh-hasina-s-delhi-address-bangladesh-cancelled-indian-economic-zone-here-s-why-3011800.html>

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⁵ Prabir De, “India–Bangladesh Economic Cooperation: Progress and Prospects”, *Observer Research Foundation Issue Brief*, accessed 01 Feb 2026, <https://www.orfonline.org/research/india-bangladesh-economic-cooperation>

⁶ PTI, “Bangladesh Inks Defence Deal with China to Set Up UAV Manufacturing Plant”, *MSN*, accessed 01 Feb 2026, <https://www.msn.com/en-in/news/world/bangladesh-inks-defence-deal-with-china-to-set-up-uav-manufacturing-plant/ar-AA1V6BiB>

⁷ “Bangladesh Cancels India SEZ, Hands Land to China for Drone Factory”, *Bhaskar English*, accessed 01 Feb 2026, <https://www.bhaskarenglish.in/international/news/bangladesh-china-drone-facility-sez-land-india-137076332.htm>

⁸ PTI, *Ibid.*

⁹ Surarika Das, *Ibid.*

¹⁰ Raj Arora, LinkedIn post, “China Didn’t Win Bangladesh: India Walked Away”, *LinkedIn*, 30 Jan 2026, accessed 31 Jan 2026, https://www.linkedin.com/posts/raj-arora-64a25b75_india-strategicpolicy-nationalsecurity-activity-7423023740227207169-zT8Y

¹¹ *Ibid.*

Maj Gen Sanjeev Chowdhry (Retd) is a veteran with over 37 years of commissioned service. A graduate of the DSSC Wellington, and College of Defence Management during his career, the General officer has served in all types of terrain and environment while on command, staff, and instructional duties. He specialises in the subject of Net Assessment and is presently the Director Editorial at the USI.

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