

Sino-Bangla relations and Bangladesh's Look East policy

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BDHANGLADESH and China are celebrating the 30th anniversary of the establishment of China-Bangladesh diplomatic relations. China has always been an important factor in Bangladesh's foreign relations. In present times, Bangladesh is adopting a Look East policy as an important characteristic of its foreign policy. A core segment of that policy is Sino-Bangla relations, considering China's present economic strength and political influence. China may also be well aware of Bangladesh's geo-political importance and market potentialities. Exchange of high profile visits between Bangladesh and China shows both countries' seriousness to strengthen Sino-Bangla bilateral relations.

Early stage

China was against Bangladesh's liberation war. In fact, up to August 1975, there were no official relations between the two countries. However, the hidden cause lay in Bangladesh's relations with India and the former USSR, India-USSR relations, Pakistan-China relations, and the China-Pakistan-US axis.

At the time of Bangabandhu Sheikh Mujibur Rahman's regime in Bangladesh, China exercised its veto power while Bangladesh was trying to get UN membership. Though China did not agree to give formal recognition to Bangladesh during Mujib's regime, it stopped opposing Bangladesh's membership to the United Nations after a treaty signed between Bangladesh, Pakistan, and India on April 28, 1974.

After the overthrow of the Mujib government, China officially recognised Bangladesh on August 31, 1975. It officially established diplomatic relations with Bangladesh on October 4, 1975. Since then, the bilateral relations between the two countries have been growing very rapidly. At the time, a tense relationship with India has caused Bangladesh to tilt towards China. Starting from Ziaur Rahman's regime, all governments of Bangladesh have contributed positively to strengthen Sino-Bangla relations.

PM's China visit of 2002

The present BNP-led four party coalition government of Bangladesh has adopted a Look East policy to explore and use the potentialities of eastern countries for Bangladesh. By virtue of that, Bangladesh has emphasised stronger Sino-Bangla relations. To open new dimensions of cooperation between Bangladesh and China, the present prime minister of Bangladesh, Begum Khaleda Zia, visited China from December 23-27, 2002. It was very significant for various reasons. The Bangladesh premier met with almost all the main government officials and party leaders of China during her visit. At the time, three treaties and an MoU were signed on military cooperation, economy, and

However, Bangladesh should always be watchful of Sino-Indo relations. Recently China and India have been inching towards cooperation and have signed an accord setting out "guiding principles" to resolve their border disputes. They have also agreed on economic cooperation. Reviewing the trend and transformation of regional politics, Bangladesh should follow a balanced foreign policy. It cannot afford to displace one to make the other happy. While implementing the Look East policy, it should maintain good relations with India as well.



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Foreign Minister M Morshed Khan sees off Chinese Premier Wen Jiabao at Zia International Airport at the end of his two-day visit to Bangladesh

technology between the two countries. China promised to give additional 110 million yuan (Chinese currency) with previously sanctioned 50 million yuan interest free loan for building the 6th Bangladesh-China friendship bridge on the Dholesori river. Of this, 60 million is grant and the rest is interest-free loan. It is very encouraging that five bridges exist in Bangladesh as a symbol of Bangladesh-China friendship. In addition, China declared \$24 million as grants for Bangladesh which it previously gave as interest-free loan to build an international conference centre at Dhaka. Now the centre is treated as a gift of the Chinese government. A treaty has been signed to establish Bangladesh-China joint venture ceramic and tannery industries. China will also provide support for Bangladesh's agriculture and tourism sectors. During Khaleda's visit to China, some initiatives were taken to reduce the trade deficit which is in favour of China. In 2002, Bangladesh's import trade with China was worth \$64.2 million, while the export trade was worth \$19 million. Now the deficit is over \$500 million. During Khaleda's visit, Bangladesh requested China to allow duty-free entry of 34 Bangladeshi items to China as a part of the Bangkok accord.

Moreover, official talks were held

between the two sides on sub-regional cooperation. The proposed cooperation includes regions like Yunnan province of China, Bangladesh, Myanmar, Laos, Vietnam, and the North-Eastern states of India. Asian Highway may be a regulator for this economic and commercial exchange. The initiative is termed as the "Kunming Initiative" because Kunming of Yunnan province is the centre point of the Chinese proposal. Kunming-Dhaka direct air flight is a part of the proposed initiative. A meeting was held on this initiative on February 6-7, 2002, and China, India, Myanmar, and Bangladesh were the participants. China wants to make a common economic grid circling Myanmar, Thailand, and the Eastern states of India using its Yunnan province.

Bangladesh expressed its support to "One China Policy" of China during Khaleda's visit. At that time an agreement on defense cooperation was signed between the two countries which was termed as "Umbrella Agreement" by foreign minister of Bangladesh M. Morshed Khan. China is the supplier of most of the military equipment of Bangladesh. From the very beginning of its diplomatic relations with Bangladesh, China provides significant support for Bangladesh's military. Higher training for Bangladesh army and arms supply are among the

support. But there were no agreements on defense cooperation. The signed treaty is a strengthening effort compared to the previous MoUs signed for defense cooperation. This is not a defense and security agreement. But undoubtedly it is significant for a small state like Bangladesh.

Wen Jiabao's Bangladesh visit of 2005

Chinese premier Wen Jiabao was in Bangladesh on an official visit on April 7-8, 2005. After a summit with the Bangladesh side, led by the PM, and attended by other important ministers and officials, nine accords – five agreements, two MoUs, a contract and an exchange of letter – were signed. The Chinese premier readily agreed to constructing the Di-Aluminium Phosphate (DAP) fertilizer factory in Chittagong entirely on concessional lending instead of on supplier's credit. Both sides agreed to make preferential duty arrangements to boost the import and export of commodities between the two countries. China recognised the imbalance in trade with Bangladesh, and pledged to take active steps to increase imports from Bangladesh. The Chinese premier even said that his government would give subsidy to Chinese business

people to increase the import of Bangladeshi goods under a package of measures. Under a signed accord, China will give \$6 million to Bangladesh for capacity building of civil servants. Moreover, the Chinese side also agreed to increase scholarships for Bangladeshi students. China will also help Bangladesh make peaceful use of nuclear energy. Foreign Minister M. Morshed Khan said Bangladesh will go for peaceful use of nuclear energy in power generation, medicine, and other development purposes under an agreement just signed with China. Both countries signed the Bangladesh-China Cooperation Agreement on Peaceful Usage of Nuclear Energy. To make Bangladesh's position clear to all, Hemayetuddin, the foreign secretary of Bangladesh, said: "There is nothing military or related to weapons in this agreement." China will also cooperate in the development of the tourism sector of Bangladesh and will make Bangladesh an approved tourist destination for Chinese citizens. Both the countries agreed to the opening of direct air link between Beijing and Dhaka via Kunming. During Wen Jiabao's visit, Bangladesh again expressed its support for the One-China policy.

Chinese potentialities and cooperation possibilities

China's rise as an economic power and its potentialities make it a leader in the developing world. From 1979 to 1997, China's average annual growth rate was 9.8 percent, 6.5 percentage points higher than that of the rest of the world. After the September 11 terrorist attacks in the US, the world was suffering from an economic depression. Even at that time China was able to maintain a considerable economic growth. Up to 2001, China's position was the sixth in the world, according to the average production. Among the developing countries, this position was second. If it grows in this way it will be the greatest economic power in terms of purchasing capacity by 2020. Strong economic and commercial relations with such a potential superpower will eventually help Bangladesh strengthen its own economy. Moreover, the positive thing is that the Chinese side is also interested to develop close ties with Bangladesh. China has a great market interest in Bangladesh. However, China's strategic interest in Bangladesh is magnified with market potentials. Other than commodity trade, China is also involved in infrastructural development of Bangladesh. It is providing support for manufacturing, mining, fertilizer factories, building roads and bridges, etc.

China has expertise in sectors like telecommunication, information technology, textile and RMG, food-stuff, manufacturing, pharmaceuticals which may be useful for Bangladesh in terms of

cost effectiveness through joint cooperation and investment. But Bangladesh should be careful for its own RMG sector. Because in a quota-free world, China is one of the competitors of Bangladesh. But there is also a chance for cooperation. Now Bangladesh imports a good quantity of fabrics for its RMG sectors from India. As China has sufficient expertise in producing fabrics, Bangladesh should encourage Chinese investment in Bangladesh in this sector. Joint investment in this sector may also meet Bangladesh's needs. It will be profitable for both countries. For Bangladesh, this kind of cooperation may help to secure its market competency in the age of globalisation.

Bangladesh is a potential country for tourism. Bangladesh's Cox's Bazar which is an attractive tourist spot and famous for the world's longest sea beach is very near to Yunnan province of China. One can easily reach Dhaka from Kunming of Yunnan province of China within one and a half hours by air. Both the countries have agreed to start direct air link between Dhaka and Kunming in the shortest possible time. During the Chinese premiere Wen Jiabao's Bangladesh visit, a good move was made for Bangladesh's tourism sector, making Bangladesh a tourist destination for Chinese citizens. So after starting the Dhaka-Kunming direct air link a new dimension of tourism will open for both the countries. Not only will

the Chinese get an opportunity to visit tourist spots of Bangladesh like Cox's Bazar sea beach, Chittagong Hill Tracts, Potenga sea beach, etc., but also the Bangladeshis will get the privilege to visit the land of "eternal spring" and also see mountains and glaciers and ancient forests in Yunnan and Sichuan provinces of China. Moreover, if the two countries can build Kunming-Chittagong road link, it will definitely help to boost trade and tourism for both.

However, it may be fruitful for Bangladesh if it can make a Bangladesh-Myanmar-China tri-nation economic grid. Like Bangladesh, Myanmar also has a strong relation with China. And from past few years Bangladesh-Myanmar economic relation is increasing significantly. So a tri-nation economic cooperation is possible.

Conclusion

In the age of globalisation, economic diplomacy may be the key tool for almost every country's foreign policy. All countries are tilting towards bilateral and multilateral economic cooperation and economic pacts. Regional organisations are working as a useful tool for organising cooperation among the regional countries. Unfortunately, in South Asia, Saarc is not working properly due to some internal problems of its member states. Saarc's failure may be a reason behind adopting Bangla-

des's Look East policy.

Another reason is to reduce dependency on India. As a neighbour, Bangladesh has had some bad experiences with India's hegemonic attitude on various bilateral issues like border problems, water sharing problems, etc. Moreover, India does not seem serious about reducing its trade imbalance with Bangladesh. The bilateral trade deficit has now exceeded over \$1 billion. China may be a good option for Bangladesh to reduce dependency on India, and it seems more serious than India about reducing our bilateral trade deficit.

However, Bangladesh should always be watchful of Sino-Indo relations. Recently China and India have been inching towards cooperation and have signed an accord setting out "guiding principles" to resolve their border disputes. They have also agreed on economic cooperation. Reviewing the trend and transformation of regional politics, Bangladesh should follow a balanced foreign policy. It cannot afford to displace one to make the other happy. While implementing the Look East policy, it should maintain good relations with India as well.

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Dollars and sense

MAMUN RASHID

In recent times we have seen some economic concerns with regard to foreign trade. We have seen the Bangladeshi taka depreciate against the US dollar by more than 8 percent in the last eight or nine months. There have been complaints that many banks are having difficulty in making payments of their L/C commitments. Many banks were late in making payments because of unavailability of US dollars in the inter-bank market. We have also seen the call money rate rising to a high level. The International Monetary Fund (IMF) as well as Bangladesh Bank has indicated that interest rates have to go up. All these are reportedly impacting an import-dominated country like us. As a result, the economy is facing serious challenges to manage the foreign trade sector. To meet these challenges we need to understand the problem very clearly, and based on the understanding, formulate effective strategies.

Bangladesh has had a marginal surplus in the current account balance since 2001-2002, which meant that the dollar supply and demand in the local market was almost equal. During the June-July 2004 period, the country saw a rapid increase in import payment for scrap vessels and essential commodities. Though the import volume of scrap vessels and commodities increased marginally, the major increase in the dollar value came from the rise in scrap vessel and commodity prices in the international market. This meant that the demand for the dollar increased while the supply remained roughly the same. The situation further worsened at a later stage (November-December 2004) due to the surge in the oil price in the global market. Since oil is a major import item, oil price increase meant the country had to pay more dollars for purchasing oil. The country was also hit by floods in 2004, which caused an increase of import of food grain. Our import during the last nine months of the fiscal increased by more than 20 percent, while export growth was around 14 percent, with similar growth in remittances. All these combined, caused a current account deficit in the first quarter of FY 2004-2005 of \$351 million. During the first quarter of FY 2003-2004, the current account balance was \$10 million surplus.

The above scenarios lead to a situation in the inter-bank market where the demand for the US dollar suddenly picked up. Naturally, everyone had to pay more takas to purchase US dollars following the supply-demand principle of economics. To calm the situation, Bangladesh Bank intervened in the market in various ways. Bangladesh Bank at one stage sold dollars to Sonali and Agrani Bank from its foreign currency reserves for onward sale to the market. \$150 million was sold, but the market needed more to satisfy the pending demand. While the market had a view that Bangladesh Bank would increase the amount, all of a sudden this selling stopped. It is rumoured that Bangladesh Bank is not in a position to sell more dollars as it is committed to a minimum level of foreign currency reserves through its Poverty Reduction and Growth Facility (PRGF) agreement. It is also rumoured that

All of us must realise that the Bangladesh economy is now at a critical juncture. To increase the economic growth rate and eradicate poverty, we must not think within our narrow interest, but bring all the stakeholders of the economy together. We must learn to share our responsibilities and contribute effectively in managing our foreign trade or external sector.

through this agreement it is restricted in its ability to borrow beyond a certain amount of foreign currency at non-concessional rates.

Through various monetary measures, Bangladesh Bank also increased the interest rate of the taka to reduce the price of the dollar. If the banks were holding dollars, it would entice/force the banks to sell their dollars and generate takas to invest at higher interest rate. Bangladesh Bank increased the rate (Repo Rate) at which banks can borrow funds from the central bank by keeping their treasury bills as collateral. Secondly, Bangladesh Bank increased the cash reserve ratio (CRR) of the Banks, which is kept as idle cash in the central bank's current account (as statutory reserve requirement), which resulted in higher short-term fund requirement for the commercial banks. These two actions by Bangladesh Bank caused the overnight borrowing rates (known as the call rate) among the banks to rise close to 80 percent at one stage, where the average call rate for the last few months was around 20-25 percent. But this also did not bring down the USD/BDT rate, as the key issue is not the price, but rather the availability or "liquidity."

When all of the above measures did not work, Bangladesh Bank intervened by persuading/advising the private and foreign banks to contain their USD/BDT selling rates within 63.70 in the inter-bank market. Though this took care of the price, the dollar was still scarce in the market as the export and import gap did not thin out. Dollars were not available for the banks to make import payments. Failure in sourcing dollars led to significant delay in international settlements by many banks for imports that even led to suppliers' worries and queries about the state of Bangladesh's foreign exchange position.

In a recent bankers' meeting, Bangladesh Bank advised the banks to raise their lending rates and deposit rates to curb credit growth and import volumes. Bangladesh Bank is also gradually increasing the government treasury bills rate, which also provides a direction to the interest rate in the market. All these events indicates a shift of expansionary economic policy to a contractionary strategy. While the availability of dollars remains a big question, the economy now moves towards soaring interest rate paradigm which usually restricts growth and employment possibility.

While we understand from the above the basic reasons for the unavailability of dollars, the question still remains how should we tackle this challenge. The basic dilemma is whether we should restrict credit expansion, thereby limiting import growth to reduce ever-increasing demand for the dollar, or whether we need to inject some amount of foreign currency in the inter-bank market to calm down the foreign exchange rate and

improve liquidity. As a short-term or interim strategy, this is possibly right. However, if we carefully examine our import data in detail, we would find that a substantial portion of these imports is for capital machinery and industrial raw materials. A lot of these are for investments in infrastructure sector, which would generate incremental economic activities. Though we need to reduce import of luxury goods, it is also vital that we continue to facilitate these investments in capital machineries to establish a strong platform for our desired economic growth.

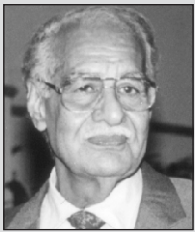
In view of the above, what we are witnessing is that incremental investments in capital machinery are creating additional demand for dollars, for which we at the moment do not have sufficient supply. However, once these investments start generating returns, the economy will come down to a structural equilibrium again. Therefore, the crisis is basically about how do we finance our investments. The strategy to restrict credit expansion would probably be a short-term solution, but may hamper our efforts to increase economic growth. Every time we would want to give our economy a push for higher growth, this financing question would haunt us.

For a long-term solution, we need to focus on the supply side. We need to apply our minds where we can facilitate higher investments in sectors like infrastructure through creative ways of financing. We need to look at the experiences of similar countries and take lessons. Pakistan borrowed \$600 million by issuing Islamic bonds. Sri Lanka is also issuing foreign currency bonds to finance its long-term projects. We can also think about raising fund by issuing offshore bonds. We can think about securitisation of nonresident Bangladeshi (NRB) remittances and other foreign currency receivables. We can think about arranging bilateral credit agreements for import support in the manufacturing sector. Here we see a role to be played by our important trade partners like China and India.

All of us must realise that the Bangladesh economy is now at a critical juncture. To increase the economic growth rate and eradicate poverty, we must not think within our narrow interest, but bring all the stakeholders of the economy together. We must learn to share our responsibilities and contribute effectively in managing our foreign trade or external sector. We must learn from the neighboring or similar countries. Success in short-term problem solving at times may create barriers to long-term solution building. For a long-term solution, we have to look outside the box and find out a possible solution for continuous financing of growth.

The writer is a banker.

Success at any cost



KULDIP NAYAR
writes from New Delhi

WHETHER Prime Minister Manmohan Singh gives his government six out of ten, or whether the Left is a reluctant supporter, the performance of the United Progressive Alliance (UPA) has not been people-oriented. The reason is not what the government has done or has not done. The fact is that four persons –George Fernandes, Lalu Prasad Yadav, Narendra Modi and Arun Shourie, the last to join the fray – hijacked the country's agenda in the past one year rule of UPA. They came to represent India's polity and their story tells about the acts of omission and commission of the government. They hogged the attention, dominated headlines, and indulged in rhetoric to sound as if they are the voice of the people. What they are, in fact, is the disease which is corroding the nation. The disease is lack of integrity in public life. Values, they believe, are what they uphold or mould. For them, the success justifies the means.

The point that at least three of them underline is not just corruption which, in their case, is under scrutiny before the law court or the commission of inquiry. They want to establish that those in power have the right to lay the law of the land without being questioned. One case here or another inquiry there does not stop them. They want to make the prevalent porous, parochial

BETWEEN THE LINES

The BJP should recall the period of its rule. It was the saffron crowd all the way. The Congress had picked up pseudo-progressives and those who have hovered around the dynasty to be a repeat. The nation has been left to grope its way through the lengthening shadows of opportunism, corruption, and communalism. It has survived so far. There is no reason why it will not in the future.

system still more promiscuous and the bureaucracy still more obedient so that they can exploit any situation for their own purpose or the party to which they belong.

This was visible even in the days of Jawaharlal Nehru and Lal Bahadur Shastri. But they took the corrective steps and punished top ministers for even misdemeanours. The first made Petroleum Minister K.D. Malaviya quit the cabinet for not rendering account of funds collected from an individual for the party.

Shastri forced Finance Minister T.T. Krishnamachari to resign on a matter of impropriety.

The gravity of charges has increased since and so has their frequency. But ministers go scot-free. A coalition government is too dependent on the support of its constituents to dare take any action against the erring ministers. Manmohan Singh could not ask Lalu to resign even after the charges were framed against him because his Rashtriya Janata Dal, with 23 members in the Lok Sabha, threatened to withdraw support from the government.

Consequently, the effort in a coalition is to cover up things or rationalise them. It happened during the rule of the BJP-led NDA government, and it is happening when the Congress-led UPA is in power. There is no escape from such a

scenario for many, many years to come because no political party is likely to win an absolute majority in the Lok Sabha on its own.

It does not mean that the party with a majority ceases to have skeletons in its cupboard. Rajiv Gandhi had a two-thirds majority in the Lok Sabha. Still the Bofors gun scandal chased him all his life. Now with the Congress in power, the case is as good as dead. There has been no information about Prime Minister Narasimha Rao's acceptance of a briefcase which someone had handed him over with lakhs of rupees in it. The best course would have been the appointment of Lokpal (ombudsman), a proposal that has been hanging fire for more than three decades. Such machinery with an independent apparatus may be able to fight against political corruption. But its independence is what the government fears and hence the delay in the appointment.

One thing common against Fernandes and Lalu Yadav is that they can get into any clothes. One has come to don the saffron. The other has raised the standard of caste. Yet, both were once socialists. Ram Manohar Lohia and Jayaprakash Narain were their gurus. They still mention their names, but they have torn their teachings into shreds. All that

Fernandes and Lalu want to remember is which side of their bread is buttered. This has come to be their ideology.

If it is of any satisfaction to Lalu, Fernandes is the strategist on the NDA side. He is said to have initiated the boycott of parliament and the NDA's meeting with the President of India to ask for Lalu's resignation. Lalu too can take credit for crafting the policy of concentrating on Fernandes when he was the Defence Minister. The problem with people in the Left is that they have no sense of wrong when they move to the right. Their ideology is all about convenience.

Common friends of Fernandes and Lalu are unhappy that the two are not leading the socialist movement in the country. But what they do not see is the change in them. Power politics and money have done the trick. Modi's is a foregone case. No amount of disclosures police official has made his diary publican make the Centre go beyond dotting i's and crossing the t's.

It does not want to provoke the BJP after the latter's boycott of parliament. Former Gujarat governor Sunder Singh Bhandari's statement to find out why the system failed has gone awry. However, one would like to know why he did not speak out when "the system failed" during his

governorship.

Arun Shourie's problem is his sense of self-righteousness and arrogance. But he should not get away with what is blatantly wrong. He may be right about rules and procedures, but there is something called propriety which he claims to wear on his sleeve. The Centaur Hotel that he sold as the Disinvestment Minister may seem all right to him but not to others. Many would like to own the hotel on the terms at which the purchaser got. He was the sole bidder and Shourie even arranged money through a government bank. The Comptroller and Auditor General has said all that. That the hotel owner fulfilled all the requirements which Shourie's ministry had laid down is not the point. What is at issue is that the government could have made much more money, but did not do so. I still can't comprehend the hurry with which the hotel was sold in the first instance.

In their own way, all the four have mutilated the system, some less and some more. Both political parties, the Congress and the BJP, have used the system for their convoluted purpose. The BJP is more to blame because it is desperate in the wilderness but the Congress is not giving it any space which the BJP characterises as "lack of self-respect."

The BJP should recall the period of its rule. It was the saffron crowd all the way. The Congress had picked up pseudo-progressives and those who have hovered around the dynasty to be a repeat. The nation has been left to grope its way through the lengthening shadows of opportunism, corruption, and communalism. It has survived so far. There is no reason why it will not in the future.

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