

China's growing economic power in South Asia: A closer look

SAMAN KELEGAMA

CHINA shares borders with five South Asian countries ranging from the major powers in South Asia, viz., India and Pakistan to others, viz., Afghanistan, Nepal, and Bhutan. Given this geographical reality, China's ability to exert its influence in the region was readily seen, and since the late 1990s Chinese economic ties in terms of trade, investment, and financial assistance in the South Asian region has been growing.

Over the one-and-a-half decades from 2000 to 2014, China has become the largest trading partner of India, Pakistan, and Bangladesh and the second largest trading partner of Sri Lanka and Nepal. Its trade with India exceeded \$ 65 billion, \$ 12 billion with Pakistan, and \$ 8 billion with Bangladesh by 2012. When comparing India's trading with its South Asian neighbours (the Saarc region) and China's trading with the same countries it can be clearly seen that the overall trade of India with its South Asian neighbours, which amounted to \$ 18 billion in 2012, was far exceeded by China's trade that amounted to \$ 25 billion in the same year.

Such a trading pattern has appeared despite India having duty free or preferential access, and vice versa, for other South Asian countries via the South Asia Free Trade Agreement (Safta) that came into operation in 2006, and deeper bilateral Free Trade Agreements (FTA) with South Asian countries such as Sri Lanka, Nepal and Bhutan. China, on the other hand, has only one FTA with a South Asian country, Pakistan, since 2006, and has a preferential regional trade arrangement with India, Sri Lanka and Bangladesh under the Asia Pacific Trade Agreement (APTA) for some goods since 2001. However, India too has preferential market access to Sri Lanka and Bangladesh via APTA which, in any case, remains a weak agreement in pushing trade. Clearly, China's trading power in the region shows that it has more trading complementarities with the South Asian region compared to India.

Chinese foreign direct investment (FDI) in the South Asian region, however, has not kept pace with growing trade. It still lags behind that of India's for most of India's neighbours. However, during the last 3 years, Chinese investment has grown rapidly in some South Asian countries like Pakistan, Sri Lanka and Bangladesh. It is observed that when FDI from Hong Kong in the South Asian region is added to Chinese FDI, then the total FDI comes close to Indian FDI in the region. With China increasingly focusing on the domestic economy, inter alia, there may be pressure for the Yuan to appreciate and trigger an outflow of Chinese investment, as was the case in Japan after the Yen appreciation in the 1980s.

Chinese foreign direct investment (FDI) in the South Asian region, however, has not kept pace with growing trade. It still lags behind that of India's for most of India's neighbours. However, during the last 3 years, Chinese investment has grown rapidly in some South Asian countries like Pakistan, Sri Lanka and Bangladesh. It is observed that when FDI from Hong Kong in the South Asian region is added to Chinese FDI, then the total FDI comes close to Indian FDI in the region. With China increasingly focusing on the domestic economy, inter alia, there may be pressure for the Yuan to appreciate and trigger an outflow of Chinese investment, as was the case in Japan after the Yen appreciation in the 1980s.

In the case of the latter, the key beneficiaries of Japanese investment outflows were the Asean countries. With the already strong trading and investment foothold in the South Asia region and given the relatively cheap labour in the region compared to East Asia, the Saarc region is in a position to attract more Chinese FDI in the coming years and perhaps overtaking Indian FDI in the region.

Chinese trade and investment links have led to growing Chinese financial flows in terms of loans and aid to the region since mid-2000s. Most of these financial loans are associated with large infrastructure projects such as ports, highways, bridges, power plants, etc. China has overtaken traditional donors to some South Asian countries such as Pakistan, Sri Lanka and Bangladesh. In Sri Lanka, for instance, since 2009 China has become the largest donor of funds and out of the \$ 5.1 billion financial assistance during 1971-2012, 94% of it had come during 2005-2012. Chinese financial assistance to Pakistan is also large and consists of some military training. In Bangladesh, the friendship bridges project is a key component in Chinese financial assistance where 6 bridges have already been completed. China has surpassed India as a major financier of projects in most small South Asian countries.

The recent growing Chinese presence in the region has raised some concerns in India where it considers the neighbourhood as its geo-political space. India can do very little to prevent the growing economic influence of China with the rest of South Asia as all these countries require financial assistance and benefit from the growing trading and investment links with China. According to Professor S.D. Muni, India's policy towards China revolves around 4 'C's -- containment, conflict, competition and cooperation. Various groups in the Indian system support different 'C's, like the Indian business community supporting competition, a segment of the military calling for containment, a segment of the bureaucracy calling for cooperation, etc. Thus, the overall Indian policy is a confused one and diluted by the interests of various lobbies.

For the smaller South Asian countries -- which have been growing under the shadow of India for centuries -- in the event there is a dispute between China and India, there could be spillover adverse impact on them. Moreover, the recent disputes of China over the Senkaku Island with Japan and over oil drilling in South China Sea with Vietnam should be an eye-opener as it has shaken some Asean countries and brought the US into the scene. Thus, managing economic ties with China has to be careful exercise and will become a challenge to smaller South Asian countries in the near future.

The writer is Executive Director, Institute of Policy Studies of Sri Lanka.

Financing Padma Bridge from domestic sources: What is the cost of money?

M. SHAMSUL HAQUE

THE Padma Multipurpose Bridge (PMB) project was designed to be funded by donors such as the WB, JICA, ADB etc. After a scandal of alleged corruption by some people associated with project preparation the WB withdrew its commitment and other donors followed. The project is now being funded from own resources of the government by diverting scarce resources from other priority projects in health, education, and renovation in roads, ports and railways etc. It seems the scandal not only delayed the start of the project it also increased the fiscal burden of the government. Is this a done deal or is there still scope to obtain low cost funds from China as the contract has been awarded to a Chinese firm? This was mentioned by Dr. Farashuddin in an interview by The Daily Star recently.

Why are such mega projects funded from donors? The main reason is that donors can raise low cost funds globally and also have commitment to economic

of the project the lower will be the present value of future cash flows. That is why mega projects such as PMB will give much lower present value of cash flows even if the discount rate is low. Needless to mention, higher discount rate and longer life drastically reduce present value and make projects non-viable.

The following table shows the discount factors of an annuity of one dollar at different discount rates and maturity:

The figures in the table are amortisation factors for loans given by financial institutions. The present value of the cash outflows on an investment project is divided by the factors under different rates and maturity. For example for a cash outlay of Tk.1000 @1% for 10 years the annual net cash inflow required is 1000/9.4713= Tk.105.582, for 40 years it is 1000/32.8347=Tk.30.455. The corresponding figures for 10% discount rate are 1000/6.1446=162.77 and 1000/9.7791=102.25. It can be seen that annual cash flow requirement is 102.25/30.445=3.36 times higher just due to higher

Discount rate	Life of project	10yrs	20yrs	40 yrs
.01		9.4713	18.0456	32.8347
.03		8.5302	16.3514	27.3965
.06		7.3601	11.4699	15.0463
.10		6.1446	8.5163	9.7791

growth in a developing country such as Bangladesh. Frankly speaking, such mega projects have low IRR because of mismatch of input costs and output revenues. Inputs such steel, cement, construction equipments, etc. are bought mostly from international markets which are more costly as the embedded cost of labour is much higher in those markets. On the other hand, the users of the bridge will be local people -- farmers, fishermen, labourers, small traders in agriculture sector and retailers of essentials items, bus riders, etc.

Cash flows from the project and the impact of discount rate

Any standard text book on corporate finance gives the relationship between discount rate and the present value of a project. That is, the higher the discount rate the lower is the present value. On the other hand, the longer the life

rate of discount. That is the crux of the problem as it would be impossible for PMB to generate 3.36 times higher cash flow earnings, with other things remaining unchanged. If PMB is funded from high cost funds from domestic sources its interest burden will need to be covered from budgetary allocation in the future. Already, the total interest burden in FY 15 was estimated at 16% of the total revenue forecast.

In conclusion, it should be restated that the government should not take a rigid stand on financing PMB from own resources as it is against national interest. It should try to find alternative low cost sources from donors and other fund surplus countries in the Middle East countries, and China in particular.

The writer is a financial analyst.

Say 'No' to persecution of Rohingya Muslims

NAUMAN ASGHAR

FAITH-based violence, in most of the instances, is actuated by the irrational fear of insecurity. The followers of a particular religion have been seen to resort to violence, in case they perceive their religion to be under attack. Religious fundamentalism can be restrained by cultivating a societal tolerance of diversity through education and by the state playing its role of independent arbiter among its residents. But where state identifies itself with one or the other religious group, its obligation to treat all citizens equally is seriously compromised.

The role of religion in society as a unifying or a disruptive force further hinges on the cultural homogeneity of the society and historical relationship between the communities inhabiting the land. Where feelings of mistrust and suspicion existed, use of religion has been exploitative to further deepen the divisions. Nowhere is this more evident nowadays than in the perpetration of barbaric acts against Rohingya Muslims in Myanmar. Hundreds of Muslims have been killed and about 100,000 forced to flee their homes in Myanmar.

Eighty percent of the population of the country consists of Buddhists. Ashin Wirathu, the monk leader of the violent '969' movement, has attempted to justify lynching of Muslims in the name of defending Buddhism against the encroaching influence of Islam. His claim appears absurd if we consider that Muslims constitute only 5% of Myanmar's population. Further, the monks actively participating in violence are bringing bad name to Buddhism, in which peace and compassion are considered as the 'core' principles.

Rohingyas were full citizens of Myanmar till 1982 when the military rulers deprived them of their citizenship by enacting legislation and hence compounded their miseries. As a stateless community, the Rohingyas don't have access to state services and are also denied political representation. They are meted out discriminatory treatment at all levels of interaction with the state. The current spate of violence erupted in 2012 when the Muslim community was accused of raping a Buddhist woman. Very recently, the 'Doctors without Borders' organisation was ordered by the

state to stop giving free medical services to Rohingyas.

The fusion of religion and state has always led to disastrous results. The military junta in Myanmar has sought political legitimacy, using Buddhist nationalism card to encourage hatred against the minority Muslim community. In this way, the imagined apprehensions of Buddhists regarding threats to their religion were reinforced and their violence sanctified by the state.

The recent transition to democracy in Myanmar has not eased the situation for Rohingyas and no political leader in Myanmar has condemned the Buddhist violence in unequivocal terms. Aung Sun Auu Kyi, the Nobel Peace Prize winner, also keeps mum, as she does not want to spoil her chances to run for Myanmar's president next year by alienating the majority group. The most shocking aspect is the silence of the international community. At best, the criticism by the western leaders has been muted and no strong warnings have been issued to the ruling elite in Yangon to end systemic state persecution of Rohingyas. Last year, the International Crisis Group also conferred peace award on Myanmar's President Thein Sein for initiating the process of political reforms. But any reforms will fail to achieve a democratic and tolerant state, unless all groups of the society are included in the process of progress. There is need to abolish institutionalised discrimination against Rohingyas by granting them Myanmarese citizenship. The western leaders' expedient silence in the face of crimes against humanity in Myanmar only bolsters the widespread impression that they are pursuing duplicitous foreign policies.

The Rohingya story shows that, in non-inclusive societies, difference of religion becomes a cause of socio-economic marginalisation of minority groups and such vulnerable groups remain incapable through generations to protect themselves against the excesses at the hands of the group in numerical majority. The international community must say 'no' to religious persecution of Muslims in Myanmar because, if left unchecked, it will go down in history as a blot on the face of humanity.

The writer is in the Civil Service of Pakistan. Email: naumanlawyer@gmail.com

CROSSWORD by Thomas Joseph

- ACROSS**

1 Turning tool

6 Bottled buy

11 Pallid

12 Cultural, in combinations

13 Forgo frugality

14 Not nodding

15 Yonder fellow

16 Tyler of "Armageddon"

18 Young fox

19 Important age

20 Common bill

21 Bar need

22 Play city planner

24 School on the Thames

25 Add a monogram to, perhaps

27 -- avis

29 Pageant toppers

32 Outback bird

33 Dickens boy

34 Coffee dispenser

35 Writer Brown

36 "Norma --"

37 Sgt., e.g.

38 Belly button type

40 Kuwaiti coin
- 42 "Skyfall" singer

43 Turn aside

44 Frolics

45 beginners
- DOWN**

1 Anne Rice book

2 Have ambitions

3 James Dashner book

4 Brood watcher

5 Lengthwise

6 Make rugs

7 ocean between Eur. and Amer.

8 Khaled Hosseini book

9 Fermi of physics

10 Despicable

17 Resistance to change

23 -- roll

24 Juan Peron's wife

26 Tried to hit

27 Phone button

28 Mystery writer Cross

30 Jockey Eddie

31 Derivative sounds

33 Grove makeup

39 Sort

41 Wall climber

1 2 3 4 5 6 7 8 9 10

11 12

13 14

15 16 17 18

19 20 21

22 23 24

25 26

27 28 29 30 31

32 33 34

35 36 37

38 39 40 41

42 43

44 45

R A F T S A L B U M

E L I O T F I O N A

D I R T Y F L O O D

E S P R I T

G A B T E X F A T

A L I B I S A I D A

F I R E C O N T R O L

F A D E R O M E R O

E S S P T S B E N

P E S E T A

C A J U N B I L B O

A C O R N A L L E N

B E E R Y G E S T E

Yesterday's answer

The very talented and an earnest doctor by profession, Professor **Dr. S. M. A. Khaleque**, completed his graduation in MBBS from Chittagong Medical College in 1978. His graduation was followed by the completion D (Bact.) in 1995 from Bangabandhu Sheikh Mujib Medical University (BSMMU) and later on an M Phil in Microbiology in 1998 from Dhaka University. In his profound quest for learning and education he has further accomplished an FRSH from London in the year 1995.

Bearing such a diverse host of knowledge in medical sciences, Dr. Khaleque has served diligently in many renowned and esteemed medical institutions of this country, namely, Bangladesh Medical College from 1995 to year 2000, Mansur Ali Medical College from year 2000 to 2005, East West Medical College from 2005 to 2010 and finally in Shahabuddin Medical College, where he currently stands as a Professor of Microbiology, since the year 2011.

Professor Dr. S. M. A. Khaleque
Shahabuddin Medical Collage
Gulshan Dhaka

Owner of
GRANDEUR APARTMENTS
Flat: D-2, Banani Dhaka

Dhaka : 01755662424
Chittagong :0175530635, 01755637230 www.btibd.com



AA3
Credit Rating

REHAB MEMBERSHIP #001
ISO 9001:2008 CERTIFIED



building
technology
& ideas ltd.
since 1984
in pursuit of excellence...