



**BANGLADESH-CHINA RELATIONS**

# Connecting two economies

On October 10, 2016, The Daily Star organised a roundtable titled “Bangladesh-China Relations: Connecting Two Economies” in the run-up to the Chinese President Xi Jinping’s visit. Diplomats, researchers and business leaders attended the roundtable. Here we publish a summary of the discussions.

Mahfuz Anam, Editor and Publisher, The Daily Star

It is a matter of great satisfaction that China is seriously investing in and partnering with Bangladesh. And in fact, there is even a greater sense of elation at the prospect of this relationship going further with the visit of the President of China, Xi Jinping.

China has in a way mesmerised the whole world by its development and its growth since the end of the '80s. It has truly set an example of what nations can achieve and how the whole world can benefit when a country actually develops the way China did.

China has shown great interest in Bangladesh and has been involved in many of our infrastructure projects and it has also recently been showing interest in investing in other areas. The mega projects, in which China has shown interest, could be a game changing initiative for Bangladesh.

Thus, we look forward to a quantum leap in cooperation between China and Bangladesh. We also want healthy relationships with our biggest neighbour, India. The only source of caution is that we do not want to be drawn into rivalries that exist. That's where our expertise must come in. We are friends with everybody. We truly want to fly on the wings of India and China, the two economic engines of growth in the world today.

Bangladesh has the unique opportunity to engage itself with these two economic powers and move on.

Mahfuz Kabir, Acting Research Director, Bangladesh Institute of International and Strategic Issues (BIISS)

China has been the biggest trade partner of Bangladesh for many years and our bilateral trade has been increasing significantly over the last few years. The trade between China and Bangladesh is more than 26 percent of global trade of Bangladesh. One of the biggest problems, however, is the negative trade balance which is heavily tilted in favour of China. According to the Exports Promotions Bureau of Bangladesh data, a jump can be witnessed from 2012-13 to 2013-14; it is almost double, from USD 458 million to USD 746 million. And then there has been a rather slow growth, and now it is about USD 800. If we see the growth of exports, there is a huge fluctuation; in 2013-14, it was about 63 percent but in 2014-2015, there has been a growth of only 6 percent and in the last fiscal year, the growth has been of 2.17 percent.

According to the Bangladesh Bank data, imports from China amount to around USD 9.8 billion. Over the five years, there has been about 13 percent growth in imports. Bangladesh mainly imports raw materials for its textiles and clothing from China, such as cotton, yarn, fabrics, staple fibers and accessories for its readymade garments (RMG) industry, which is nearly 35 percent of total imports.

Trade deficit is detracting Bangladesh from optimising mutual trade gains. Even though we are benefitting from importing capital machinery and inputs for textile and clothing from China, we are lagging behind in utilizing the potential. If Bangladesh can utilize exports of the last five years, exports can be worth over USD 3 billion. Zero tariff access to China is the main way forward. We also need to reduce the time of clearance at sea port and improve the capacity of the port. There is also a need for extension of Chinese production base of non-cotton RMG imports by constructing relevant factories in Bangladesh. We also need to consider the construction of special economic zones. A memorandum of understanding has been signed in June this year but there have been problems in offering utilities. Not only trade but investment induced trade can help us address the trade gap between China and Bangladesh.

Mustafizur Rahman, Executive Director, CPD

In Bangladesh, lack of infrastructure has

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FAROQ SOBHAN  
PRESIDENT, BANGLADESH ENTERPRISE INSTITUTE

been cited as the main reason behind lack of investment. Thus, we ask ourselves, if lack of infrastructure is a major issue, why are we not being able to attract investment in infrastructure? That's where China comes in. Till now, Chinese FDI to Bangladesh has not been very significant. If we look at FY 2015-2016, only about USD 180 million of Chinese investments has come to Bangladesh, which is only around 9 percent of our FDI. At the end of 2015, the total stock of FDI from China and Hong Kong is USD 900 million. I think there are lots of opportunities for Chinese investments here both in terms of infrastructure and FDI.

Between FY 2002-2009, Chinese commitment in infrastructure was only about USD 300 million. Between 2010-2015, it was about USD 900 million, and for the next five years, we are talking about USD 23 billion. This will be invested in power structure, infrastructure building and connectivity, all of which are important in attracting FDI to Bangladesh. However, having said that, we should also negotiate smartly. It is important to identify which project needs to be prioritized and understand the conditions. In short, while we go for these big investments, we should also focus on the terms and conditions, local sourcing, and the tendering and procurement process.

We have already signed the BBIN Motor Vehicle Agreement. Six of the thirty possible priority routes have been identified. It will benefit Bangladesh if we are able to divert some of these investments to the BBIN Motor Vehicle Agreement route. Bangladesh will thus have to negotiate with China, keeping in mind not only the challenges and problems of today but also those of tomorrow.

Since we are talking about such a huge investment, we need to consider the repayment schedule. Bangladesh's repayment has been very good, as it is only around 2 percent of our foreign exchange earnings, but considering the magnitude of the investment, the repayment schedule and payments will have to be strategically designed.

When going for such investments, good governance and strong institutional capacity is very important because we want to get the benefits out of these investments, and if the benefits are not adequate we will end up with very large debt commitments and repayments.

Specifically duty-free commitment of China was not made to Bangladesh but at the WTO, which endorsed duty free status to 97 percent products to all LDCs. This is also an opportunity to negotiate with China to get a bilateral duty-free agreement like that of India which offers 100 percent duty free items to all four LDCs in South Asia.

opportunity for Bangladesh to attract those sun-set industries to relocate here. They can have investment potential in Bangladesh since our wages are still more competitively priced than China.

China has added considerable value addition in the jute industry of Bangladesh through their technology, as they re-export these products or sell them in the domestic market. Thus, this blending of technology with Chinese help is also important for some Bangladeshi industries. China is also trying to move away from producing the lower end of readymade garments. Here is an advantage for Bangladesh as it can now focus on exporting lower end RMG products. Thus, the zero tariff in the RMG industry also becomes very important.

Noor Mohammad, Research Associate, BILIA

Improved connectivity with Bangladesh has been a major focus of China's Look South policy. The One Belt One Road policy has changed the concept of connectivity in the Asian region and it has an important impact not only on China's connectivity with other countries but also Bangladesh's connectivity with other countries.

The revival of the Southern Silk Road, from Kunming to Kolkata, is a major aspect of the One Belt One Road Project. The key focus has been on the wide ranging cross border flow of goods and services between the BCIM members (Bangladesh, China, India, and Myanmar). The positive attitude of Bangladesh towards the BCIM economic corridor has been persistent since its inception in 1999. One Belt One Road also encompasses the sea route. In this regard, after the maritime boundary demarcation with India and Myanmar, Bangladesh legally obtained the sea access. Thus, it is more important to attract other countries to trade via the sea ports. China is keen to invest in these sea ports so that it can get access to the southern Silk Road through this way.

There is also a third dimension of connectivity via air. Dhaka to Kunming flights were launched in May 2005, and since then, many other Chinese provinces have also been connected to Dhaka.

Farooq Sobhan, President, Bangladesh Enterprise Institute

Chinese President's visit signals a keen interest in making a serious commitment to Bangladesh and its infrastructure development. This signals two very important developments. The first is to reduce the trade gap which in fact has been increasing. Some figures suggest that the trade gap between China and Bangladesh could be as much as USD 13 billion to USD 14 billion. The Chinese are now planning to relocate a number of their industries, particularly in the RMG and textiles sector, to Bangladesh. China itself could and would like to play a major role in making Bangladesh the number one RMG exporter in the world, and I see that happening in the next ten years, if not sooner, if we play our cards correctly.

There have been two key Chinese initiatives recently. One was of course the One Belt One Road (OBOR) initiative and the other was the Asian Infrastructure Investment Bank (AIIB). A part of the rationale behind the AIIB is to support infrastructure project. I'd like to flag another issue: within OBOR, it is very clear that their top priority is South Asia. That in itself poses a challenge as we are all aware of the earlier commitment made by Xi Jinping of USD 46 billion for Pakistan's infrastructure development.

Security is now emerging as a common area of concern for both China and India. And now, with the advent of ISIS, this is going to be clearly very high on the agenda. So the visit of Mr. Xi Jinping to Goa, immediately after his Dhaka visit, is important, as there will be an effort to address the issue of regional economic integration through

building a block approach where not only Bimstec but Asean and the sub-regional initiatives of BCIM, the Trans-development Himalayan Forum, will come into focus.

And an equally important question is what do we do about SAARC? Because in this debate that has emerged about the future of SAARC, we should remember that Afghanistan is now a member. Both China and India have a key interest in the future of Afghanistan. And centre to that interest in Afghanistan is connectivity. You cannot have that connectivity without SAARC and without making SAARC a reality.

Lailufar Yasmin, Professor, Department International Relations, University of Dhaka

China has perceived that westernization is not the only model of development. Thus, they invented their unique method of development, which is gradually being accepted in other countries. For that reason, besides showing its power in other sectors, China is projecting itself as the next infrastructure superpower. We need to look at what China wants and how it is proceeding in international politics. Here we can actually look at why China is coming to Bangladesh and what are the areas that China is interested to invest in. Thus, I think we need to look at the ideational factors as well as the economic ones because their economic factors are driven by their ideational priorities.

Munshi Faiz Ahmad, Chairman, Bangladesh Institute of International and Strategic Studies

I think we should not worry too much about the trade deficit because whatever we purchase from China, whether it is capital or consumer goods, we buy them because we need them, and China is the cheapest and most competitive source. However, China has been very sensitive about the gap. Thus, they are trying to reduce it as much as they can and have been putting in a lot of effort to do so. Previously, they were offering these concessions under APTA and now they are also aligned with the decisions of WTO and offering us duty-free access.

One thing that should get more attention is the blue economy. As the possibilities have opened up due to the settlement of maritime border issues with India and Myanmar, we now have a pretty big and definite space to work with. However, Bangladesh does not have a lot of experience and knowledge in this regard. That's where we need to be with our friends, and China is one of the top countries in regards to marine technology and activities. It also has permission from the UN to explore certain portions of the sea. We must recognise and tap this potential. Agriculture has been the main source of our development since the last couple of decades. There has been strong cooperation between Bangladesh and China in regards to agriculture, especially in terms of hybrid seed technology. We used to import seeds from China but now China is providing us with the technology to produce our own hybrid seeds. When knowledge and experience of two countries are put together, the future of the sector can become even more promising.

Humayun Rashid, Acting President, Dhaka Chamber of Commerce and Industry and Managing Director, Energypac Power Generation Ltd.

I like the word 'smart negotiation'. Smart negotiations will help us get the right thing in the right place at the right time. In Bangladesh, there are challenges in the private sector, since investments are not coming in. We have to go for a certain percentage of investment in both private and public sector. Governance and bureaucracy entanglements are still very high, and this also discourages private investments, especially in manufacturing sector. We have the manpower and now we need to turn that into skilful manpower. We can take help from China to develop our skills,

especially in textile, ship building, agro products, engineering, automobiles and the IT sector.

Naser Ezaz, MD, Standard Chartered Bangladesh

China's total import is USD 1.17 trillion. Even if you account 1 percent of their import, it would have to be 50 percent of our country's base of exports. Instead of looking at the incremental, we should be looking at the opportunities they provide. China imports optical equipment worth of USD 40 billion; they also import cable for landline worth about USD 40 billion. We do not have any presence in these industries. It obviously is not like we will get significant market share overnight but we have to start identifying what their import requirements are. And then we pitch for it.

Ainun Nishat, Professor Emeritus, Centre for Climate Change and Environmental Research, BRAC University

One of our major challenges is the lack of implementation and action on our side. One of the major complaints that the Chinese side have is that while they take the initiatives, things get stuck at

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MUNSHI FAIZ AHMAD  
CHAIRMAN, BIISS

our end.

When it comes to the sudden increase of cost of Chinese contractors, I would like to stress that they are businessmen, who want to get the most out of the contract. The contract is developed under the international competitive bidding. So when we sign any contract, it needs to be carefully thought out and the details specified. Bangladesh could benefit from the hydropower project on the Brahmaputra in China if there were a transmission line connecting Bangladesh with it. They could transfer some of the power to us. If the BCIM system works in Bangladesh, China, India and Myanmar, the region could greatly benefit from energy cooperation.

Tapan Chowdhury, Managing Director, Square Group

I think big infrastructure projects can be implemented through Chinese cooperation. It will certainly boost our economy. But there is not very much in the Chinese package for the private sector. Still we welcome these improvements. We need to provide quality facilities to the SEZs to attract investment from foreign countries, particularly China.

Khondaker Golam Moazzem, Additional Director, Research, CPD

China is now focusing more on high value added production and that's why they are trying to relocate their industries to different regions where production cost is relatively cheap. At the same time, China has a huge reserve that's why they are interested to invest in various mega infrastructure projects as it is currently doing in Bangladesh.

Bangladesh is also entering a new reality. Within seven to eight years, Bangladesh will likely graduate from the LDC status. Then we will no longer enjoy duty free market access. In that case, we have to go for bilateral negotiations. Bangladesh is not yet ready to negotiate bilaterally with any of the major countries. But we need to be prepared for that, and China can be a good starting point. We need to have a comprehensive economic partnership agreement which will include trade, investment, foreign assistance and connectivity. Politically, this message has been expressed by the heads of both countries. Now we have to go for formal action.

China is giving us duty free access but the growth of trade has slowed down in recent years. It is because rules of origin for getting duty free access there is rather high. But if we want to get better access to China, we need to have flexible rules of origin such as 25 percent local value addition which is currently 40 percent. It is only possible under the bilateral negotiation process. In the case of investment, we need to try to attract Chinese investment in low-tech industries which they are now planning to shift to other countries. There is also some resistance from local investors to foreign investment. But we can encourage foreign investments in those areas which are free of local competition. Our investors can also think of investing in China, particularly in the service sector.

Yasoja Gunasekera, High Commissioner of Sri Lanka to Bangladesh

Bangladesh is also an important development partner of Sri Lanka. We have large investments in Bangladesh. With the growth of India and China, all the countries in South Asia have huge potential to grow rapidly. Our future is connected with each other.

Darryl Lau, Consul of Singapore Consulate, Bangladesh

The biggest change in Asia, and the world, is the rise of China. China's GDP grew at an average of more than 10 percent a year for over 30 years. China is now the biggest trading partner of almost every ASEAN country, including Singapore. China's outbound Foreign Direct Investment exceeded its inbound FDI last year. China's rise has been, overall, a huge plus for the world. China is stable, prospering and increasingly integrated into the global economy. Consumers worldwide have benefited from affordable and high quality exports from China: clothes, smart phones, home appliances and much more.

However, we can also benefit from new opportunities for trade and economic cooperation with China, for example through projects of the Asian Infrastructure Investment Bank and the 'One Belt, One Road' initiatives.

Farooq Sobhan

We are entering a new kind of relationship with China, which is particularly focused on mega infrastructure projects. There are three key issues in this regard. First one is terms and conditions, then who will implement these projects and what will be the modus operandi, and finally, what is Bangladesh going to bring to the table in terms of fast track implementation of these projects. Our track record is not particularly good in this regard. We are inviting China to invest in special economic zones. But we need to consider that we should not repeat the same mistakes we did in the case of Korean EPZ. Another key issue is energy cooperation which is closely related with environmental concerns and taking adequate measures to ensure clean energy. We also need to consider what China's role will be in the Bay of Bengal, because it raises serious concerns on the part of not only India but the US and other countries.