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## **SINO-BANGLADESH ECONOMIC RELATIONS: PROSPECTS AND CHALLENGES**

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### **Abstract**

Since the establishment of diplomatic relations between Bangladesh and China, multifaceted exchange and cooperation in the field of politics, economy, trade, culture, science and technology have yielded outstanding results. In recent years, the economic and trade relations between the two countries have considerably developed. However, one of the observations in their relationships is the existing trade imbalance. At the same time, Bangladesh's trade performance with China is very insignificant compared to its share with other trade partners in the world. In this context, the paper examines the two countries' existing economic relations. It also attempts to identify the prospects and challenges confronting the economic relations between Bangladesh and China. It is argued that a huge potential exists in the field of trade and economic cooperation between the two countries, notwithstanding the present deplorable picture characterising their relations.

### **1. INTRODUCTION**

China has emerged as one of the most powerful states in the world economically, politically and militarily. Its growing presence in South Asia rides on its accelerated economic and strategic influence in the

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region.<sup>1</sup> In recent years, the economic and trade relations between China and Bangladesh have considerably developed with gradual expansion in cooperation fields. The ties between the two nations can be traced back to ancient times, long before the political foundation of their bilateral relationship took roots firmly. Soon after its independence in 1971, Bangladesh faced with the problem of reconstructing its war-ravaged economy. Without external assistance, particularly from the great powers, economic reconstructions were difficult. This reality was well understood by the first government of the country that also appreciated the importance of recognition and assistance from China, a leading power of the Third World.<sup>2</sup>

China did not recognise Bangladesh in the first four years of its independence despite the latter's best efforts. Following the conclusion of the Tripartite Agreement among India, Pakistan, and Bangladesh in April 1974, China's attitude towards Dhaka began to change with economic relations flourishing steadily. China sent relief goods to the flood victims in Bangladesh in 1973 and, a year later in August 1974, invited Bangladesh to participate in the Canton Trade Fair where four contracts were signed between the agencies of the two governments. China also offered to purchase Bangladesh's jute and jute products. The Chinese government since then has been increasing its participation in the economic development programmes of Bangladesh with significant contribution in infrastructure building projects. Five friendship bridges and an International Convention Centre, named the Bangladesh-China Friendship Convention Centre built in Dhaka with Chinese grants, are the most visible outcomes of such friendly collaboration.<sup>3</sup>

With all the significant progress in Sino-Bangladesh relations, one of the observations in their relationship is the existing trade imbalance between the two countries. At the same time, Bangladesh's trade performance with China is very insignificant compared to its share with other trade partners in the world. Needless to say, a lasting economic

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<sup>1</sup> Tarique Niazi, "China's Foot in India's Door", *Online Asia Times*, August 24, 2005 available at [www.atime.com](http://www.atime.com), accessed on October 10, 2006.

<sup>2</sup> Sharmina Nasrin, "China-Bangladesh Relations: Need for Economic Partnership", *Journal of International Affairs*, Vol. 5, No. 3, 1999-2001, pp. 40-54.

<sup>3</sup> Ambassador A. K. M. Farooq, "Bangladesh-China Friendship", *Peoples Friendship*, Bangladesh China Friendship Association, October 2005, pp. 29-32.

engagement and increasing interactions in trade and commerce with an economic powerhouse like China are essential to face the challenges of the 21<sup>st</sup> century. It is in this context that the current paper has attempted to find out the prospects and challenges associated with the economic relations between Bangladesh and China. The paper, of course, examines the two countries existing economic relations. It argues that a huge potential exists in the field of trade and economic cooperation between the two, despite the present deplorable picture of such relations. The paper is organized as follows: following the introduction, section 2 discusses the existing economic relations, covering aid, investment, and trade between the two countries. The challenges of Sino-Bangladesh economic relations are highlighted in section 3. Section 4 explores the prospects of economic partnership with China, while the concluding remarks are presented in section 5.

## **2. EXISTING ECONOMIC RELATIONS BETWEEN BANGLADESH AND CHINA**

During the second half of the 1970s, cooperation in economic front began when a number of agreements were signed between Bangladesh and China. Trade and payment agreement (TPA), signed in Beijing in January 1975, was one of them, which was replaced by a Long-Term Trade Agreement (LTTA) in March 1980. Also, in 1978, a shipping agreement and an economic and technical cooperation agreement were signed between the two countries. In that period, bilateral trade included commodities like raw jute, jute goods, leather, light industry machinery, and equipment.

In order to coordinate cooperation between China and Bangladesh in economic field, trade, scientific and technical matter, the two countries established a Joint Economic Commission (JEC) on June 02, 1983.<sup>4</sup> Formation of the JEC has been regarded as a landmark in the relations between the two countries<sup>5</sup>. Meeting in each other's capitals in alternate years, the Commission identifies possibilities for bilateral cooperation in

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<sup>4</sup> Z. R. M. Ashraf Uddin, "Bangladesh-China Friendship", *Peoples Friendship*, Bangladesh China Friendship Association, October 2005, pp. 4-19.

<sup>5</sup> Quazi Abdul Mannan, "Defense and Economic Co-operation between Bangladesh and China: An Evaluation", *Social Science Review*, The Dhaka University Studies, Part-D, Vol. 21, No. 2, 2004, pp. 124.

the areas assigned to it, reviews the progress of implementation of projects and oversees the functioning of relevant protocols. Ten sessions of this Commission have so far been held.

The JEC has been playing a very constructive role in promoting the bilateral cooperation. It is the forum through which economic assistance to Bangladesh is channelled. Also, the JEC has been an effective forum that reviews the protocols signed by the two governments<sup>6</sup>. This body, in addition, oversees the implementation of joint venture and technical assistance projects and helps to remove any bottlenecks or hurdles in project implementation. However, currently there are a number of completed, ongoing, and proposed projects in various sectors, such as power, communication, agriculture, air communication, health and family welfare, gas, and socio-economic sector. Also, China participated in various development activities in Bangladesh by extending assistance since 1976 in the form of grant, interest free loan, interest subsidized preferential (ISP) loan and supplier's credit. The Government of China has so far provided Bangladesh with US\$ 181 million as interest free loan, US\$ 75 million as ISP loan, US\$ 764 million as supplier's credit and US\$ 32.94 million as Grant<sup>7</sup>.

### ***2.1. Aid and Investment***

Following the establishment of diplomatic relations in 1975 between Dhaka and Beijing, the need for Chinese grant and aid was felt by the then government of Bangladesh. China began to provide food, commodity, and project aid to Bangladesh for assisting its development programmes. Such aid included grant and loan. The repayment terms of the Chinese aid were favourable and its aid to the projects was relevant to the needs of a developing nation<sup>8</sup>. Also, the projects aided by China were implemented faster than the Soviet projects<sup>9</sup>. All this has made Bangladesh interested in getting Chinese economic assistance. However, the volume of aid inflow from China was meagre in comparison with the

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<sup>6</sup> *Ibid.*

<sup>7</sup> A.N.M. Nurul Haque, "Year of China-Bangladesh Friendship", *The Bangladesh Observer*, April 13, 2005.

<sup>8</sup> Abu Taher Salahuddin Ahmed, "Bangladesh-China Relations: An Assessment" *BISS Journal*, Vol. 13, No. 2, 1992, pp. 272-273.

<sup>9</sup> *Ibid.*, p.273.

same from the USA. Nevertheless, aid from China was useful in the formative stage of Bangladesh economy. From 1974-75 to 1981-82 the total Chinese aid commitment stood at US\$ 80.125 million, of which project aid accounted for nearly 77 percent<sup>10</sup>. The actual disbursement during that period was US\$ 27.014 million only. The aid commitment from China was US\$ 96.091 million during 1982-83 to 1989-90, of which US\$ 79.687 million was provided<sup>11</sup>. It may be mentioned that the project and commodity aid was disbursed in the form of loan and food aid; the smallest of the three components was provided as grant. To augment the economic relations four agreements were signed between the two countries on September 12, 1996, which included a Chinese grant of 30 million Yuan and soft loan of 100 million Yuan for Bangladesh<sup>12</sup>.

From the mid-seventies to the late-eighties the Chinese government funded a large number of projects in Bangladesh, such as the rifle ammunition plant of Bangladesh Ordnance Factory, the Polash Urea Fertilizer Plant, the Rupganj North Water Conservatory Project, the Sundarban Cotton Textile Mills, construction of the Bangladesh-China Friendship Bridges and the Thermal Power Plant in Chittagong. In the private sector, some of the China-Bangladesh joint venture projects included the Bangladesh Iron and Steel Products Ltd, the China Fulgidh Shah Wood Pencil Factory, the Bangladesh China Sheet Glass Industry Ltd, the Cock Brand Mosquito Coil Co. Ltd, the Magura Paper Mills, and the Eastern Pulp and Paper Mills. Moreover, to encourage foreign investment, the government of Bangladesh has reorganized three institutional agencies, namely, the Board of Investment (BOI), the Bangladesh Export Processing Zones Authority (BEPZA), and the Bangladesh Small and Cottage Industries Corporation (BSCIC). Till now, 88 projects with 100 percent Chinese investment or joint venture between Bangladesh and Chinese investors have been registered with the BOI. The total amount of the proposed projects is US\$ 151.09 million.<sup>13</sup> Out of the 88 projects, 17 are 100 percent Chinese investment projects, while the remaining 71 are joint venture projects. In addition to this, Bangladesh has already provided a number of financial and general

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<sup>10</sup> *ibid.*, p. 275.

<sup>11</sup> *ibid.*, pp. 287-288.

<sup>12</sup> Quazi Abdul Mannan, *op. cit.*, p.126.

<sup>13</sup> Z. R. M. Ashraf Uddin, *op.cit.*

incentives, such as exemption of tax on interest on foreign loan, royalty, technical know-how, and technical assistance fee. China has so far invested over US\$ 83 million in forty one industries of Bangladesh<sup>14</sup>.

Begum Khaleda Zia, Prime Minister of Bangladesh, paid a four-day visit to China in 2002, which lasted from December 23 to December 27. It proved to be a significant visit in strengthening the economic ties between the two countries. In China, the Bangladesh Prime Minister had met important government figures and party leaders. The two governments signed three agreements and one Memorandum of Understanding (MoU) on military cooperation, technology, and economy. Besides, to build the sixth China-Bangladesh friendship bridge<sup>15</sup> on Dholeswari river, China gave assurance for a loan of 110 million Yuan, of which 60 million Yuan would be grant and the remaining 50 million would be interest free. Also, during that visit, the Chinese government converted the \$24 million interest free loan, which it had disbursed to Bangladesh for building China-Bangladesh Friendship Hall, as grant<sup>16</sup>. Therefore, the Prime Minister's official visit to China had opened new dimensions of cooperation between the two countries.

The relations between Bangladesh and China have moved into a new phase after the official visit of Chinese Prime Minister Wen Jiabao to Bangladesh, at the invitation of Prime Minister Khaleda Zia, on April 7-8, 2005. The Chinese Prime Minister led a delegation of 102 members, which included four cabinet ministers, four state ministers, and high government officials. The outcomes of that visit were the signing of five agreements, two MoUs, a contract, and an exchange of letter. Under these accords, the Chinese government offered to assist Bangladesh in areas such as water management, nuclear energy, trade and investment, training of security and defence personnel, infrastructure development, and technical assistance like cooperation in digital telephone projects for

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<sup>14</sup> Source: [http://english.people.com.cn/english/200107/01/eng20010701\\_73908.htm](http://english.people.com.cn/english/200107/01/eng20010701_73908.htm), Accessed on November 22, 2006.

<sup>15</sup> For constructing the bridge China previously sanctioned interest free loan of 50 million Yuan.

<sup>16</sup> Dr. Kazi Ihtesham and Mohammad Mahabubur Rahman, "Sino-Bangla Relations and Bangladesh's Look East policy" *The Daily Star*, May 23, 2005.

the capital, districts and upazilas, tourism, agriculture, construction and communication.<sup>17</sup>

China has committed to provide suppliers credit of US\$ 211 million in 2006 for the project of installation of digital telephone exchanges in metropolitan cities, district headquarters and important upazilas. This project, which has the objective of meeting the potential demand for telecommunication, is expected to be completed by June 2010. As far as investment is concerned, the two countries agreed to improve their investment environment and fulfil the commitments defined in the existing investment agreement. This would encourage the businessmen and enterprises to conduct two-way investment. Further to this, to scale down the trade imbalance, the Chinese government had decided to extend active support to its enterprises to expand investment in Bangladesh. Besides, as a gesture of goodwill, China would take steps to promote Chinese enterprises' investment in the textile sector of Bangladesh. This appears to be quite significant in that it tends to suggest serious commitment of the Chinese side to promote development of multi-level trade and economic cooperation<sup>18</sup>.

Under one of the nine accords signed, the Chinese government would provide Bangladesh \$6 million for capacity-building of its civil servants. Furthermore, the Chinese Premier agreed to provide concessional loan instead of supplier's credit, for the construction of Di-Aluminium Phosphate (DAP). In addition to this, according to a signed agreement, China would help Bangladesh in developing nuclear energy for peaceful purposes, as Foreign Minister M. Morshed Khan stressed on the importance of using such energy in power generation, medicine, and other development activities. Besides, for developing the tourism industry, China would cooperate by approving Bangladesh as a tourist destination for its citizens. In the contract, which was signed by the two parties, it was decided that China would assist in the management and production service of Baropukuria coal mine. At the same time, both governments exchanged letter on cooperation in water management. The

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<sup>17</sup> A. N. M. Nurul Haque, "Year of China-Bangladesh Friendship", *The Daily Star*, April 13, 2005.

<sup>18</sup> *Xinhua News Agency China*, "Bangladesh Specify Trade, Other Cooperation: Joint Communiqué", April 09, 2005, available at <http://esperanto.china.org.cn/english/2005/SouthasiaTour/125285.htm>, Accessed on November 22, 2006.

Chinese Premier's visit ended with the issuance of a 13-point joint communiqué by both governments. It was mentioned in the communiqué that China would take measures to promote Chinese investment in the textile sector of Bangladesh. The Chinese side also agreed to consider providing loan facilities to the sector of telecommunication, the Pagla Water Treatment Plant, the North Dhaka (East) Sewerage Treatment Plant and the Associated Sewerage System<sup>19</sup>. When the Bangladesh Prime Minister had her return visit to China from August 17 to 18, 2005 MoUs and accords were signed for cooperation in the use of gas and energy resources, water resource management, and tourism. Bangladesh, in addition, sought Chinese support to develop flood forecasting system.

## **2.2. Trade**

Since the outset of the political and diplomatic relations in 1975, considerable amount of trade took place between China and Bangladesh. China bought from Bangladesh items like raw jute, jute goods, jute yarn, jute manufactures, leather, shrimp, frozen fish, textile fabrics, woven garments, knitwear, tobacco, chemical fertilizer, tea, golf shafts, camera parts, footwear, indicator lamp, cotton waste, dry food, hides and skin, paper and paper products, newsprint, electric and telephone cable, spices, rayon, cellophane, molasses, etc. and thus helped Bangladesh diversify its export. China also demonstrated keen interest in taking Bangladesh's electrical machinery, scientific and medical equipment, coal, textile, local and livestock products, light industrial products, hardware, medicines, high-speed diesel, chemical products, road-building equipment, etc. On the other hand, the main import items of Bangladesh from China are textiles, textiles articles, machinery, spare products for textile and jute mills, pig-iron, dyes, mechanical appliances, electrical equipment, parts, base metals, vehicles, aircraft vessels and related transport equipment, plastic, rubber, vegetable products, optical photographic, medical and surgical equipment, mineral products, stone, plaster, ceramic products, arms and ammunitions, etc. In 2005, China became the largest source of imports for Bangladesh, surpassing India for the first time. During fiscal year 2005-06, the country's imports from

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<sup>19</sup> *Xinhua News Agency China, op. cit.*



China were US\$ 495.5 million against imports of US \$ 416.6 million from India.<sup>20</sup>

However, right from the beginning of the Sino-Bangladesh trade relations, it has been plagued with an overwhelming trade imbalance against Bangladesh. From 1979-80 to 1981-82, total imports by Bangladesh from China were US\$ 284.52 million. On the other hand, its exports to China during that period amounted to US \$ 65.98 million, which left a trade deficit of US\$ 218.54 million disavouring Bangladesh<sup>21</sup>. Table-1 shows that the trade imbalance is increasing over the last couple of decades.

**Table-1: Bangladesh's Trade with China during 1980-2001 (in million US\$)**

Fiscal Year	Export	Import	Trade Balance
1980	31.06	99.65	-68.59
1981	18.89	113.4	-94.51
1982	25.66	108.18	-82.52
1983	18.58	58.43	-39.85
1984	9.88	108.93	-99.05
1985	12.6	82.75	-70.15
1986	24.92	74.03	-49.11
1987	25.66	82.12	-56.46
1988	21.61	97.06	-75.45
1989	34.51	134.43	-99.92
1990	25.15	124.12	-98.97
1991	21.2	146.91	-125.71
1992	16.33	215.05	-198.72
1993	6.45	204.07	-197.62
1994	11.94	299.32	-287.38
1995	18.31	600.6	-582.29
1996	19.38	641.4	-622.02
1997	57.88	622.14	-564.26
1998	27.76	546.58	-518.82
1999	8.15	533.89	-525.74
2000	9.56	667.5	-657.94
2001	5.54	772.4	-766.86

Source: Direction of Trade Statistics CD Rom, International Monetary Fund (IMF), 2005.

<sup>20</sup> Urvashi Aneja, "China-Bangladesh Relations: An Emerging Strategic Partnership?" *IPCS* Special Report, November, 2006 available at [www.ipcs.org](http://www.ipcs.org), accessed on November 29, 2006.

<sup>21</sup> Abu Taher Salahuddin Ahmed, *op. cit.*, p. 277.

It is evident from the above table that the exports of Bangladesh to China have been drifting at a steady rate. On the contrary, its imports from this country have been growing at a brisk pace. In fact, the table demonstrates that the amount of exports to China in 2001 shrank by 82% in comparison with the year 1980, while comparing with the same year the total imports from China in 2001 rose by 700%. As a consequence, the trade gap between the two countries increased by more than eleven-fold in 2001 *vis-à-vis* the same in 1980. This gap in trade was also evident in 2003-2004 when Bangladesh exported goods and commodities worth US \$18.43 million to China against its import worth US\$ 574.33 million<sup>22</sup>. According to a source of the Federation of Bangladesh Chambers of Commerce and Industries (FBCCI), the trade deficit in fiscal year 2004-05 was US \$1555.67 million,<sup>23</sup> which is much higher than the normal trend.

Apart from the trade imbalance, it has been observed that China's position as Bangladesh's trade partner remains at a significantly very low level. The current trade of China with Bangladesh is US\$ 1.14 billion, third in South Asia<sup>24</sup>. During the period of 1975-76 to 1980-81 and of 1981-82 to 1989-90, Bangladesh's exports to China in relation to its global exports constituted 3.48 percent and 1.92 percent respectively, while imports from China for the same period were 1.92 percent and 4.24 percent respectively of the total imports. Even in recent years, the amounts of exports to China have been looking more sluggish. In 2003, Bangladesh's exports to China stood at 0.21 percent. Although the bilateral trade volume in 2004 was enhanced by 43.5 percent than that of the year 2003<sup>25</sup>, the ratios between the two countries is still remaining much below Bangladesh's global trade.

It is important to note that the "Kunming Initiative", which was taken during the China visit of Prime Minister of Bangladesh, Begum Khaleda Zia, in 2002, has provided a possible momentum in bilateral trade between the two countries. Under this initiative, China has planned to create a common economic grid circling Myanmar, Thailand, Bangladesh, and the North-eastern states of India. Therefore, this might

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<sup>22</sup> *The Dhaka Courier*, August 06, 2004.

<sup>23</sup> *The Financial Express*, December 05, 2005.

<sup>24</sup> Tarique Niazi, *op.cit.*

<sup>25</sup> Roushana Zaman and Shamim Ahmed, "Strengthening Sino-Bangla Ties", *The Dhaka Courier*, April 08, 2005.

go a long way in increasing sub-regional economic and trade cooperation. When the Chinese Prime Minister came to Bangladesh, both sides agreed to make preferential duty arrangements to increase the export-import trade. The Chinese leader recognised the existing trade imbalance between the two countries and showed his concern about this. To reduce the trade gap, he promised to take some active measures that would boost up China's imports from Bangladesh.

Bangladesh's huge trade imbalance with China is the most important area where Dhaka expects to reach better understanding with Beijing. The volume of Bangladesh's imports from China has been increasing rapidly every year, as China has got a large economy with enormous production and supply of goods. Bangladesh imports nearly a billion dollars worth of goods from China annually and most likely it will increase further with the establishment of direct road and air links between Bangladesh and Kunming in southern China.<sup>26</sup> However, the ever-increasing trade imbalance is a cause of great concern as well as of frustration for Bangladesh.

### **3. CHALLENGES TO SINO-BANGLADESH ECONOMIC COOPERATION**

Although Bangladesh maintains politically stable relations with China and China enjoys a priority status in Bangladesh's foreign policy, quite surprisingly the economic and trade relations between the two are lagging behind. At present, the major export markets of Bangladesh are the EU and the USA. On the other hand, China's share of the total global export of Bangladesh accounted for only 0.21 percent and 0.22 percent in 2003 and 2002 respectively (see Table-2)<sup>27</sup>. The balance between the two countries, as indicated in the preceding section, has remained negative for Bangladesh and is a source of concern for the country. A further reduction or abolition of duty on imports from Bangladesh and simplification of visa procedure by the Chinese side to facilitate more exchange of trade delegations would not only reduce the trade gap but also strengthen trade cooperation.

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<sup>26</sup> *The Bangladesh Observer*, April 13, 2005.

<sup>27</sup> China's total trade with South Asia in 2004 was US\$ 19.7 billion even lesser than its trade volume with Singapore.

**Table-2: Bangladesh's Export Performance (in million US\$)**

Country	2003	% of Total	2002	% of Total
China	13.17	0.21	12.19	0.22
EU	2939.94	47.19	2346.53	43.10
USA	1488.64	23.89	1504.41	27.63
World	6229.39	100	5443.26	100

Source: Direction of Trade Statistics CD Rom, International Monetary Fund (IMF), 2005.

Perhaps the stiff challenge that Bangladesh might face from China is in the ready made garments (RMG) sector, where the latter could turn into the former's competitor. China, due to its huge supply of low-cost and highly skilled workers and the economies of scale, is now likely to grab the American and European Union (EU) markets of readymade garments in the quota free post-MFA (Multi Fibre Agreement) regime<sup>28</sup>. Although Bangladesh enjoys the benefit of cheap RMG workers, it does not necessarily ensure further growth of the garment sector because of longer lead time days involving in garment production and relatively higher dependency on imported raw materials *vis-à-vis* other South Asian countries<sup>29</sup>. So far, the RMG sector has been playing a vital role in Bangladesh economy. Approximately two million workers are employed in this sector, 80 percent of whom are women. If one considers the indirect employment, the RMG sector provides employments for over four million people. The sector has grown from the export of US \$31.57 million in 1983-84 to the current figure of US \$6.41 billion in 2004-05, having a value addition of over 51 percent of total exports. At present 4000 garment factories are involved in exporting both woven and knit items.<sup>30</sup>

<sup>28</sup> In fact, by March 2003 (when all categories were not removed from quota), the Chinese garment exports to the USA rose by 291% and in 2002 China's garment market share in EU increased by 164%. (See, A.S.M. Shahidul Haque, "Impact of China's Accession to WTO on Textile Trade of South Asia", *BISS Journal*, Vol. 26, No. 1, November, 2005, pp. 4-5.)

<sup>29</sup> In RMG production Bangladesh imports 25% of garment raw material whereas RMG sectors in India, Pakistan and China use locally procured input. On the other hand, the lead time day for Bangladeshi garment production is one of the highest in South Asia. (See, *ibid.*, pp. 18-19)

<sup>30</sup> Anisul Huq, Success one stitch at a time", *The Daily Star*, 15<sup>th</sup> Anniversary Special, February 04, 2006.

However, in 2005, after the phasing out of the quota shield, Bangladeshi apparel exports in the first six months of that year had experienced a growth rate of 12.87 percent compared to the year's before. But, the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) believes that the country will be facing real challenge in 2008 when China would get relieve, finally, from its World Trade Organization (WTO) safeguard clauses. Since Bangladesh depends excessively on the RMG sector, as mentioned earlier, it is potentially very susceptible to any adverse outcome due to the possible changes in the current market structure. So, the major challenge for the country is strengthening the competitiveness of the RMG sector against the quota free environment. Hence, Bangladesh needs to combat corruption and improve the physical infrastructure, otherwise the garment exporters could have reason to be apprehensive. To ease the situation, Bangladesh may also seek help from China for transfer of its cheap technology for manufacturing in the field of readymade garments. Viewed in the context of good relationship, it can be said that China would also benefit immensely from such measures.

Beijing, nevertheless, is calming down the competitive tensions by outsourcing some of its textile and apparel sector's jobs to Dhaka, which has the comparative advantage of labour that is two-fold more expensive in China. Furthermore, according to a report, China is looking for a 400-acre site on which it plans to establish an industrial park that would include garment factories<sup>31</sup>.

#### **4. PROSPECT OF ECONOMIC PARTNERSHIP WITH CHINA**

China is a huge country with a population size of 1.3 billion people. It has been successfully experimenting with economic reforms that have increased the purchasing power as well as consumption level of its large population. Calculated on the basis of purchasing power parity (PPP), by the year 2010, China is expected to emerge as the largest economy of the world.<sup>32</sup> So, as one of the fastest growing economies of the world, it has all the potential to extend its support to the efforts of other developing nations. Recently, South Asia's ties with China have been further

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<sup>31</sup> Urvashi Aneja, *op. cit.*

<sup>32</sup> Swaran Singh, China-India: Expanding Economic Engagement, *Strategic Analysis*, Vol XXIV, No. 10, January 2000, pp. 1813-1814.

strengthened when it gained the status of an observer to the South Asian Association for Regional Cooperation (SAARC). Therefore, Bangladesh might utilize the economic transition of China if it can make headway to enter the large Chinese markets. In current external relations, Bangladesh has placed significant emphasis on pursuing economic diplomacy. China, being one of the key players in international economy as well as in Asian economy, should be targeted as one of the destinations of Bangladesh's economic diplomacy. A number of exchanges of high level visits in recent years have enhanced the cooperation at the economic level. Some of the brighter aspects of Bangladesh-China economic relations could be traced in China's support for reducing the trade gap and strengthening trade relations. Also, Bangladesh is expected to receive dividends from the proposed road link between the two countries. China has also cooperated in the development of Bangladesh's energy sector.

#### **4.1. Trade**

As it has been mentioned earlier that huge surplus exists in favour of China in bilateral trade despite having considerable trade links. It is necessary for Bangladesh to reduce the imbalance in trade for having a long-term growth of trade cooperation. It was mentioned above that the Chinese Premier had shown his country's concern about this ever persisting trade gap when he visited Bangladesh in 2005. To minimize the gap, the two parties agreed to adopt a preferential duty arrangement that could speed up exports and imports. During the visit, China also promised to make an attempt to increase exports of Bangladeshi products. As a consequence of the arrangement and commitment, in May 2005 China, under the Bangkok Agreement, offered zero tariffs on 84 export items originated from Bangladesh<sup>33</sup> and provided cash subsidy to Chinese importers of Bangladeshi machinery<sup>34</sup>. Besides, China has

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<sup>33</sup> In 2004, China committed itself under the Bangkok Agreement (which was renamed recently as Asia Pacific Trade Agreement or APTA) to grant preferential tariff treatment to most of the products originated from Bangladesh. APTA is an initiative of the Economic and Social Commission for Asia and the Pacific.

<sup>34</sup> *Bangladesh Sangsad Sangstha*, "Chinese trade delegation for direct road link Bangladesh" available at [www.bssnews.net/index.php?genID=BSS-02-2005-06-07&id=7](http://www.bssnews.net/index.php?genID=BSS-02-2005-06-07&id=7), accessed on December 22, 2006.

halved the duty on 222 products from Bangladesh<sup>35</sup>. Since January 01, 2006, China has further granted duty-free access to a variety of Bangladeshi export items, covering major traditional exports including textiles, frozen food, leather, jute, etc. Bangladesh has also decided to diversify its China-bound export products. Bangladesh might possibly gain in export competitiveness as the Chinese currency was revaluated by 2 percent in 2006. If Bangladesh seizes upon these opportunities, it might be able to bridge the yawning trade gap, thus bringing economic advantage and further strengthening the bilateral trade ties. Moreover, when the Bangladesh Foreign Secretary visited China on April 19, 2006, it committed to send a team to Dhaka which would find possible mechanism for increasing imports from Bangladesh in order to reduce trade gap.

Bilateral trade and investment between China and Bangladesh could be the most reliable positive link in their relations. Needless to say, the trade volume of Bangladesh with China has been found insignificant. However, trade with China was given importance during the Bangladesh visit of the Chinese Premier in 2005. At that time, the countries agreed to develop all-dimensional and multi-level trade, and economic cooperation. Besides, it was decided that the Joint Economic and Trade Commission would play a decisive role in expanding the scope of bilateral trade. The two sides further agreed to find new ways for increasing bilateral trade. Also, China's active engagements in the sub-regional economic cooperation in South Asia might pave a way for Bangladesh to strengthen trade ties with the Asian giant. For example, the 1999 Kunming Initiative, which called for maxim economic cooperation, would create a possible trade link between Yunan province of China, and Bangladesh, Myanmar, and north-eastern part of India.

As far as investment is concerned, many Chinese companies have their establishments in various sectors in Bangladesh. This trend might continue in the future. To further enhance the investment, the two countries in 2005, had decided to encourage the business personnel of both nations for fostering cooperation in various forms and promoting favourable conditions for development of the business activities. Besides, to create convenience for enterprises from the two countries, both parties pledged to take positive action. The investors from China have

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<sup>35</sup> *The New Age*, June 08, 2005.

announced to build a large wholesale market of 500 electronics, handicrafts, and cosmetics shops on the outskirts of Dhaka city<sup>36</sup>. China also had showed interest in investing in the small and medium scale industries under joint ventures in Bangladesh, when the latter's Foreign Secretary paid a visit to Beijing in 2006. One might expect that in the coming days the Chinese investors would explore new avenues for further investment in Bangladesh, which is endowed with abundant cheap labour. Furthermore, in the critical need for rapidly establishing backward linkage industries in Bangladesh for its ready made garment sector, Chinese investments, technical assistance and support are very much needed. In fact, a meeting between Chinese delegations, and FBCCI and DCCI (Dhaka Chamber of Commerce and Industries) leaders in June 2005, gave emphasis on the importance of China's cooperation and direct investment in Bangladesh's textile and clothing sector. The meeting also suggested that such cooperation could benefit both countries from their comparative advantages<sup>37</sup>.

#### **4.2. Energy**

It is often argued that energy is indeed instrumental in economic growth and development of a country. Recent information indicates that the average per capita energy use in Bangladesh is about 155 kg of oil equivalent.<sup>38</sup> The energy consumption is much lower in the rural areas. So, there is an urgent need for introducing alternative energy technology in the country. During Chinese Premier Wen Jiabao's visit to Bangladesh in 2005, China offered its assistance to develop alternative energy technology. Dhaka and Beijing also signed an agreement on peaceful use of nuclear energy in the course of that visit. In this context, Chinese technical assistance in energy sector could boost up Bangladesh's economic development. Also, China is helping Bangladesh in exploring its gas and coal. This is evident from the country's giving exploration right of natural gas fields to China<sup>39</sup>. Besides, China has made huge investment in Boropukuria coalmine which possesses the largest reserve

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<sup>36</sup> Urvashi Aneja, *op. cit.*

<sup>37</sup> *The New Age*, June 08, 2005.

<sup>38</sup> World Development Indicators, CD Rom, *The World Bank*, 2004.

<sup>39</sup> Tarique Niazi, *op.cit.*



in Bangladesh of best quality bituminous coal that is free of ash and has little sulphur content<sup>40</sup>.

### ***4.3. Road Linkage between China and Bangladesh***

China, Bangladesh, and Myanmar have agreed to construct a highway from Chinese city of Kunming to Bangladesh's south-eastern city of Chittagong through Myanmar, providing great scope for boosting trade, business, and tourism between the two countries. The air route connecting Kunming and Dhaka is already operational. The Chinese Premier Wen Jiabao during his April 2005 visit emphasized on Chinese interest in establishing a road-link between Chittagong and Kunming. In June 2005, an eleven member Chinese delegation headed by the Deputy Governor of Dehong region of China's Yunan province stressed on this at a meeting with the leaders of the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI).<sup>41</sup> The President of FBCCI said that since the air-link was very expensive for transportation of merchandise, there was no alternative to the direct road link which is about 900 km from Chittagong to Kunming. For Southwest China, Chittagong port is also the nearest sea port which it wants to use for expansion of trade in this region and westward. In July 2006 Bangladesh's Foreign Minister discussed the road connectivity issue with China's and Myanmar's Foreign Ministers on the sidelines of the 13<sup>th</sup> ASEAN Regional Forum (ARF) meeting in Kuala Lumpur.<sup>42</sup>

Establishing a road-link between China and Bangladesh would definitely help both the countries to reduce transportation cost, time, price of goods, increase reliability of deliveries and mobility, attract tourist, and restore people-to-people interaction. Currently, goods from China are imported into Bangladesh either through Singapore or Bangkok in feeder vessels. A direct road link with China would enable Bangladesh to reduce transport cost, because all of its bilateral trade

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<sup>40</sup> Urvashi Aneja, *op. cit.*

<sup>41</sup> *Bangladesh Sangbad Sangstha*, National News Agency of Bangladesh available at <http://www.bssnews.net/index.php?genID=BSS-02-2005-06-07&id=7>, accessed on November 01, 2006.

<sup>42</sup> *Xinhua News Agency* July 31, 2006, available at <http://www.china.org.cn/english/international/176327.htm>, accessed on November 22, 2006.

could be done through this road. For this, the country only needs to construct a 42 kilometre road from Teknaf of Chittagong to Myanmar. The proposed road link would benefit China as well. At present, exports from China to South Asian, African and Middle Eastern countries are channelled through either Singapore or Yangon. To export through Singapore, Chinese products have to travel 1445 nautical miles from Hong Kong to Singapore. If direct road link is established between China and Bangladesh, the former could use Chittagong Port for exporting to the countries of South Asia, Middle East, and Africa. This might greatly enhance China's export efficiencies in these regions. To reap the full benefit of the proposed road link between Bangladesh and China, Dhaka-Chittagong highway, and Chittagong port have to be improved. This initiative also enables Bangladesh to develop its tourism sector. Bangladesh has already proposed to China for enlisting Bangladesh in China's tourist destination list. China Tourism Board has 57 destinations for its tourists. In 2004 around 70 thousand tourists visited Bangladesh<sup>43</sup>. The number might increase several times after the completion of the road link.

## 6. CONCLUDING REMARKS

Since establishing diplomatic relations, Bangladesh-China friendship has come a long way. Despite radical changes that occurred in both the countries and in the world, cooperation between Bangladesh and China has endured and deepened. Bangladesh always values its relations with China, as it declared year 2005 as "Year of China-Bangladesh Friendship", marking the 30<sup>th</sup> anniversary of diplomatic ties between both countries. On the other hand, China has proved itself as a time-tested and reliable friend of Bangladesh by extending its economic assistance as well as diplomatic support. However, it is evident from this paper that the persisting trade imbalance, which heavily tilted in favour of China, and the low key level of bilateral trade remain as nagging issues for Bangladesh. The country could derive benefits from China by extracting more Chinese investment and by seeking further cooperation in the development activities of Bangladesh.

Indeed, a well-entrenched economic partnership might be the keystone of the confidence building measures (CBMs) in the future

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<sup>43</sup> *The Dhaka Courier*, August 06, 2004.

relationship between Bangladesh and China. For this, the politico-strategic considerations need to be replaced by economic engagement and the process should be in place right now. Further to this, over the last 30 years interactions between the two sides have not flourished at the expected pace. This reality perhaps provides the ground to evaluate present Sino-Bangladesh relations and the future prospect of economic co-operation. With a view to fostering relations between the two countries in economic field, this paper suggests the following, which the government of Bangladesh might take into consideration:

- For disseminating information related to trade, commerce, and industry of Bangladesh, its embassy in China might take initiative to publish literature, both in English and Mandarin, as there is none of this kind existing right now<sup>44</sup>;
- For diversifying its exports, the Bangladesh government with the help of experts might examine the Chinese market to find out the items which have greater demand in that country and supply those to China;
- For attracting further investment from China, Bangladesh might plan to establish a special zone with Chinese industrial characteristics and invite businessmen from China to invest there. It could be mentioned that the Pakistani government has planned to build such a zone<sup>45</sup>.

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<sup>44</sup> A. B. M. Shamsud Doulah, "Bangladesh-China economic ties not yet fully developed", *The Daily Financial Express*, March 11, 2006.

<sup>45</sup> Zhang Lijun, "Growing Cooperation between China and South Asia" available at [www.ciis.org.cn/item/2006-01-11/51216.html](http://www.ciis.org.cn/item/2006-01-11/51216.html), accessed on November 29, 2006.