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CHINA'S BELT AND ROAD INITIATIVE AND ECONOMIC IMPLICATIONS FOR BANGLADESH

Abstract

The article provides a unique analytical framework to identify the compulsions and contradictions arising out of China's Belt and Road Initiative (BRI) and offers feasible sets of solutions amidst burgeoning growth of literature on BRI which is either marred in assertive dogmatization, or excessive apprehensions, or non-feasible utopian (lack of) solutions. The proposed analytical framework, combining necessary and sufficient conditions for deriving gains from new form of cooperation under BRI, suggests integration of production network, transfer of technology and risk-sharing of capital for achieving mutual stability and growth outcomes. The article also deals with alignment of domestic political settlement and normative legitimacy by proposing an equiangular balanced pathway for development for the participating countries with particular emphasis on Bangladesh.

Keywords: BRI, Strategic Alignment, Normative Legitimacy, Equiangular Development Diplomacy, Globalization

1. Introduction

Chinese President Xi Jinping's Belt and Road Initiative (BRI) with a vow to create a 'new regional economic order' has garnered much of coverage but less of an analytical scrutiny. BRI involves an over-land "Silk Road Economic Belt" reminiscent of the historical Silk Road across Eurasia and a "Maritime Silk Road" connecting China to the world. The initiative assumes global significance more so due to its economic and geo-strategic implications in a complex milieu of rising Chinese prominence and apprehensive responses from other global and regional powers.[1]

The BRI provides China both an 'institutional and normative' framework to guide its foreign policy agenda and cater for its needs of an expanding and

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[1] Yong Wang, "Offensive for Defensive: The Belt and Road Initiative and China's New Grand Strategy", *The Pacific Review*, Vol. 29, No. 3, 2016, pp. 455-463; Ashlyn Anderson and Alyssa Ayres, "Economics of Influence: China and India in South Asia", Expert Brief, *Council on Foreign Relations*, New York, 2015.

transforming economy.[2] The prevailing approaches, however, emphasize more on geopolitical aspects and provide less emphasis on explaining the internal compulsions arising from a transitioning Chinese economy.[3] The slowing down of Chinese economy from its three-decade-long 10 per cent GDP growth rate to a 'New Normal' of 6 to 7 per cent is driving Chinese leaders to pursue policies appropriate for a third wave of industrialization in China creating new networks of trade, connectivity and markets for Chinese goods and technology.[4] This necessitates more regional integration and cooperation rather than rivalry and confrontation.

Nonetheless, BRI offers an alternative to the hitherto dominant form of global market order created by the so-called Washington Consensus – which is popularly known as neoliberalism and instrumentally involves liberalization, deregulation and privatization. The predominant system of liberalization based globalization has delivered restricted benefits to most of the developing countries and created widespread disquiet.[5] In this context, China has devised this new policy initiative to strengthen its close relations with neighbouring countries with an enhanced focus on connectivity, infrastructure, investment and trade.[6] Since China is the world's second largest economy and expected to take the top position by 2030, economic implications of the Chinese-led initiative has potential for rejuvenation from the recent sluggish global economic trends.[7] Thus, the BRI could act as a 'key growth engine' for the global economy and create considerable opportunities for not only participating countries, but also offer direct and indirect benefits to a range of actors from developing and developed countries.[8]

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[2] David Arase, "China's Two Silk Roads Initiative: What it Means for Southeast Asia", *Southeast Asian Affairs*, Vol. 1, 2015, pp. 25-45.

[3] Peter Cai, "Understanding China's Belt and Road Initiative", *Lowy Institute for International Policy,* 2017.

[4] Yi Wen, "The Making of an Economic Superpower-Unlocking China's Secret of Rapid Industrialization", Working Paper 2015-006B, 2015, available at http://research.stlouisfed.org/wp/2015/2015-006.pdf, accessed on 28 January 2018; Zou Lixing, "The Third Industrial Revolution and Development Strategies of China", *International Affairs Forum,* Vol. 4, No. 1, 2013, pp. 79-82.

[5] Joseph E. Stiglitz, *Globalization and Its Discontents*, New York: W. W. Norton & Company, 2002.

[6] Michael Clarke, "The Belt and Road Initiative: China's New Grand Strategy?", *Asia Policy*, Vol. 24, No. 1, 2017, pp. 71-79; Tai-Wei Lim, Henry Hing Lee Chan, Katherine Hui-Yi Tseng and Wen Xin Lim, *China's One Belt One Road Initiative*, London: Imperial College Press, 2016; D. P. Nicolas, *Chinese Infrastructure in South Asia: A Realist and Liberal Perspective*, Doctoral Dissertation, Monterey, California: Naval Postgraduate School, 2015.

[7] Size of US economy was 1.7 times of that of China and jointly they constituted 40 per cent of global economy in 2016. China is already the largest trading nation in the world and its economy is projected to overtake US economy by 2028. See for details, Malcolm Scott and Cedric Sam, "Here's How Fast China's Economy is Catching Up to the U.S", *Bloomberg*, 12 May 2016, available at https://www.bloomberg.com/graphics/2016-us-vs-china-economy/, accessed on 15 March 2017; PricewaterhouseCoopers (PwC), "The Long View: How will the Global Economic Order Change by 2050?", February 2017, available at https://www.pwc.com/gx/en/world-2050/assets/pwc-the-world-in-2050-full-report-feb-2017.pdf, accessed on 20 December 2017.

[8] L. M. Leong, "China's belt and road strategy offers a winning growth formula, and the world must get on board", *South China Morning Post*, 31 May 2017, available at http://www.scmp.com/comment/insight-opinion/article/2096323/chinas-belt-and-road-strategy-offers-winning-growth-formula, accessed on 20 December 2017.

In the South Asian context, India being a regional power with global ambition, the discussion of BRI is largely dominated by realist perspective. Growing involvement of China in the Indian Ocean Rim surrounding South Asian countries has been presented as an "encirclement strategy" inciting a deep sense of fear among many Indians.[9] Moreover, the USA considers China's strong presence in the Indian Ocean as a challenge to its continued influence as well.[10] Hence, BRI would face a huge challenge undeniably.[11] The case of smaller countries in the region is different where BRI would offer much-needed capital and infrastructure with multiplier effects on their local economies.[12] China appears to be a viable development partner for small countries in South Asia including Bangladesh since their bilateral relations with China have strengthened in recent years.[13]

Within the parlance of Sino-Bangladesh relations, BRI would certainly offer immense potentials for Bangladesh which has not yet received enough critical academic scrutiny.[14] Bangladesh regards China as a trusted friend and bilateral relation between the countries has reached a new height when President Xi Jinping visited Bangladesh in October 2016.[15] Taking into account the historic connections with China through Southern Silk Road, vibrant cultural ties and active trade links, Bangladesh appears to be in a much better position in South Asia for promoting a sustainable partnership with China.[16] Bangladesh has strategic partnership with China while at the same time its relations with the US, India and Myanmar have also seen heightened developments creating divergent geopolitical contradictions and economic compulsions. The article argues, however, that benefits the participating countries can derive from BRI would depend on an alignment capable of overcoming geopolitical apprehensions and leveraging new forms of cooperation to achieve growth and stability.

In this backdrop, a new approach is needed to better explain the conditions for transforming given potentials from BRI into the reality of increased growth and

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[9] Jabin T. Jacob, "China's Belt and Road Initiative: Perspectives from India", *China & World Economy*, Vol. 25, No. 5, 2017, pp. 78-100; J. W. Garver, "The Diplomacy of a Rising China in South Asia", *Orbis*, Vol. 56, No. 3, 2012, p. 392.
[10] W. R. Mead, "National Security Strategy of the United States of America", *Foreign Affairs*, Vol. 97, No. 2, 2018, pp. 174-175.
[11] David Arase, op. cit.; Simeon Djankov and Sean Miner (eds.), *China's Belt and Road Initiative: Motives, Scope, and Challenges*, Washington DC.: Peterson Institute for International Economics, 2016.
[12] D. P. Nicolas, op. cit.
[13] Ashlyn Anderson and Alyssa Ayres, op. cit.
[14] R. A. M. Titumir, "Sino-Bangladesh Relations: In Search of an Equiangular Partnership", *The New Age*, Dhaka, 14 October 2016; M. S. Islam, "Xi Jinping's Visit: Implications for Bangladesh-China Relations", *The Daily Star*, 14 October 2014; Ruksana Kibria, "Strategic Implications of Bangladesh-China Relations", Bangladesh and the World, 15th Anniversary Special, *The Daily Star*, 2006.
[15] M. M. Rahman, "South Asia's View on China's One Road One Belt Initiative", *Fudan IIS Working Paper Series*, University of Fudan, 2015.
[16] M. Shahidul Islam, "China-Bangladesh Relations: Contemporary Convergence", *The Daily Star*, 2012.

prosperity. The article, therefore, aims to develop a comprehensive framework relating to economic implications of BRI for Bangladesh in the context of regional developments in South Asia. The article attempts to cover potential gains from participating in the BRI as it relates to infrastructure building, regional connectivity, trade, investment and economic development in Bangladesh. The article offers feasible sets of solutions amidst burgeoning growth of literature by pointing out necessary and sufficient conditions to achieve mutual stability and growth outcomes and it generates useful policy directions for Bangladesh's probable approach and available ways to maximize benefits and potential gains from BRI in particular and from active Sino-Bangladesh cooperation in general.

2. Theorizing Sino-Bangladesh Relations within BRI: A Framework

Understanding and explaining China's BRI requires formulating explicit conceptual framework. In explaining China's BRI, mostly realist and liberal perspectives are employed both of which offer contrasting analysis about its implications. Taking into view the inadequacy of existing approaches, as elaborated below, the article attempts to add new theoretical insights that will broaden the understanding of China's current undertaking.

2.1 *Realist Approach*

Realist perspective holds that the world is anarchical where the state is only concerned with power and international relations are based on the assumption of the zero-sum game.[17] Rooted in the ideas of Machiavelli (1469-1527) and Hobbes (1588-1679), among others, realists mainly focus on state interest, war and conflict in world politics where interests of and interaction among states are profoundly shaped by a constant fear of one another.[18] According to Walt, realism "depicts international affairs as a struggle for power among self-interested states and is generally pessimistic about the prospects for eliminating conflict and war".[19]

Consequently, prospects for cooperation and effectiveness of international arrangements are too bleak to pursue. Essentially, this reflects a hawkish tendency that is not interested in peace rather it lets the states to externalize their internal compulsions as they have problems in their home constituencies. This might be visible in case of India as well as the USA – how they frame the external threat perceptions

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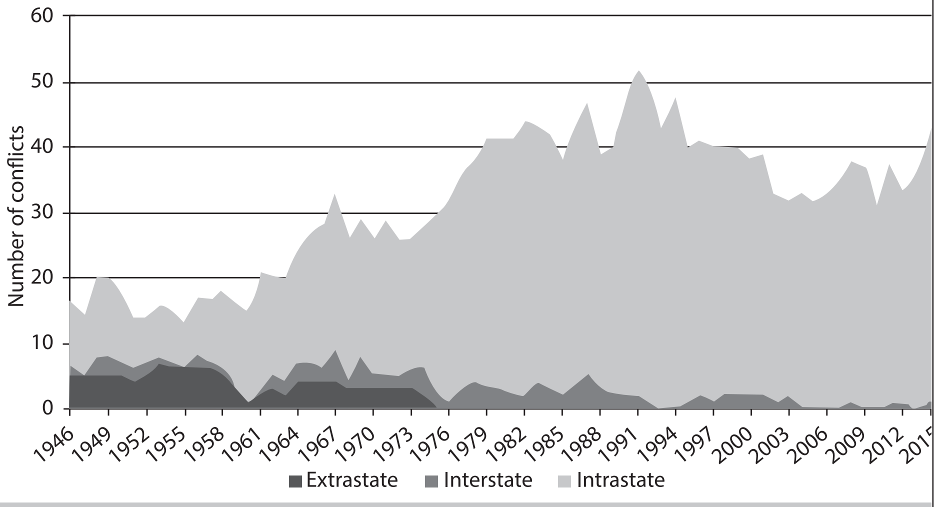
[17] T. G. Moore, "Racing to Integrate or Cooperating to Compete? Liberal and Realist Interpretations of China's New Multilateralism", in Guoguang Wu and Helen Lansdowne (eds.), *China Turns to Multilateralism: Foreign Policy and Regional Security*, London and New York: Routledge, 2008.

[18] J. A. Frieden, D. A. Lake and K. A. Schultz, *World Politics: Interests, Interactions, Institutions*, (3rd Edition), New York: W. W Norton & Company, 2015.

[19] Stephen M. Walt, "International Relations: One World, Many Theories", *Foreign Policy*, No. 110, 1998, p. 31.

to manipulate their internal politics.[20] Instead of confronting reality, their analysis is based on speculation. The problem is that realists are always interested in violent process of instability meaning permanent continuous instability as conceptualized by Hobbesian notion of the 'state of nature'. Primarily, realism leads to more tensions and militarization ultimately creating what is known as 'security dilemma' and as a consequence it makes countries buy more arms than what they actually need or can afford.[21] For example, the growing expenditure for arms and ammunition worldwide vindicates this strategy.[22] This is also evident in case of India and even in Bangladesh along with the neighbouring regions.[23] Moreover, realism is not working because conflict over time is increasing. For instance, the incidence of conflict and number of casualties has escalated in the world during the post-Cold War period at an unprecedented rate.

Figure 1: Number of Armed Conflicts by Type of Conflicts, 1946-2015



Source: K. Dupuy et al., *Trends in Armed Conflict, 1946–2015*, Oslo, Norway: Peace Research Institute, 2016.

The total number of armed conflicts (including interstate, intrastate and extrastate) in the world increased from 41 in 2014 to 50 in 2015 which is the highest number since 1991. The number of people killed as a direct consequence of armed conflicts was over 97,000 in 2015 and 104,000 in 2014 and this has been higher than

[20] Raju G. C. Thomas, *Indian Security Policy*, Foreword by Joseph S. Nye, Princeton: Princeton University Press, 2014.

[21] J. A. Frieden, D. A. Lake and K. A. Schultz, op. cit.

[22] See for example data on growing trends in arms purchase and military expenditure in SIPRI, 2017.

[23] D. P. Nicolas, op. cit.

any other time in the post-Cold War era.[24] It shows that the realist perspective is not just inadequate but also inapt to approach the BRI because theoretically it stressed on the Chinese interest in advancing its geopolitical assertiveness under the guise of economic diplomacy and apparently this leads to a situation which will not create favourable ambience for the so called new regional economic order or strategic alignment under the framework of BRI. Such excessive emphasis on geopolitical rivalry blurs notable economic implications of China's BRI on participating countries.

2.2 *Liberal Approach*

Liberal approach, by contrast, offers an analysis stressing more on cooperation and mutual growth where international institutions play a key role. In their view, liberals focus on interdependencies among states through global norms and institutions, economic cooperation and exchange and they present interaction among states a positive-sum game where interdependence affects the interest and behaviours of the states.[25] Common interests among the states are created by potentials of 'profitable exchanges' that would lead to international institutions and arrangements being set up to facilitate cooperation where conflict, though possible, is not inevitable and can be avoided.[26]

Liberals, though, focus on peace and cooperation but their problem is that they do not address the huge discontents due to neoliberal globalization which has been accompanied by restricted trade, jobless growth and rising inequality across nations. Because free trade does not increase the production capacity of the developing countries, rather liberalist policies disguise the market penetration in developing countries that render them even more vulnerable in an unequal exchange relationship with developed countries.[27] In case of liberalism, it has been observed that though there is an increase in trade flow but it is extractive in nature because it has not been accompanied by associated increase in production or real economy in most of the developing countries.[28]

The outcomes of globalization or gains from global economic integration and market penetration are not equally shared among participants because the poor developing countries are on a race where they can hardly compete with forerunners

[24] K. Dupuy, S. Gates, H. M. Nygård I. Rudolfsen, H. Strand and H. Urdal, *Trends in Armed Conflict, 1946–2015*, Oslo, Norway: Peace Research Institute, 2016.
[25] Robert Keohane and Joseph Nye, *Power and Interdependence*, (4th edition), Boston: Longman, 2012.
[26] Jeffry A. Frieden and David A. Lake, op. cit.
[27] A. K. Jorgenson and B. Clark, "The Economy, Military, and Ecologically Unequal Exchange Relationships in Comparative Perspective: A Panel Study of the Ecological Footprints of Nations, 1975-2000", *Social Problems*, Vol. 56, No. 4, 2009, pp. 621-646.
[28] See for details, UNCTAD, Trade and Development Report 2017- *Beyond Austerity: Towards a Global New Deal* and *Trade and Development Report 2010- Employment, Globalization and Development*, United Nations Conference on Trade and Development, 2017 and 2010.

due to lack of enablers such as financial capital, infrastructure, technology and trained human capital.[29] Far from being perfect, the global market rewards only the nations with greater market power reflected in the form of trade, migration and intellectual property rights regimes acting in their own favour at the expense of all others.[30] The consequent outcome (shown in Figure 3) points to the alarming rate of increase in global inequality since the 1980s onwards. Overall, these two trends as explained here – jobless growth and rising inequality worldwide present a strong case against the fairy-tale of liberalization for development.

In an 'era of global change', the world has increasingly been characterized by a process of intensified global interactions and interdependence which is, indeed, "inescapably plugged into the neo-liberal world order".[31] Nevertheless, the process of globalization, as stressed by Schech and Haggis[32], is tantamount to "the spread of capitalism as a production and market system" where it can facilitate economic development through realizing potentials from free trade. However, gains are not evenly shared among countries participating in the global production network causing an alarming rate of inequality not just among groups of countries but also within a country.[33] For example, by looking at the 'global shift' in the manufacturing sector, homogeneity in the patterns of consumption and heterogeneity in the pattern of production are found with adverse outcome for developing countries.[34]

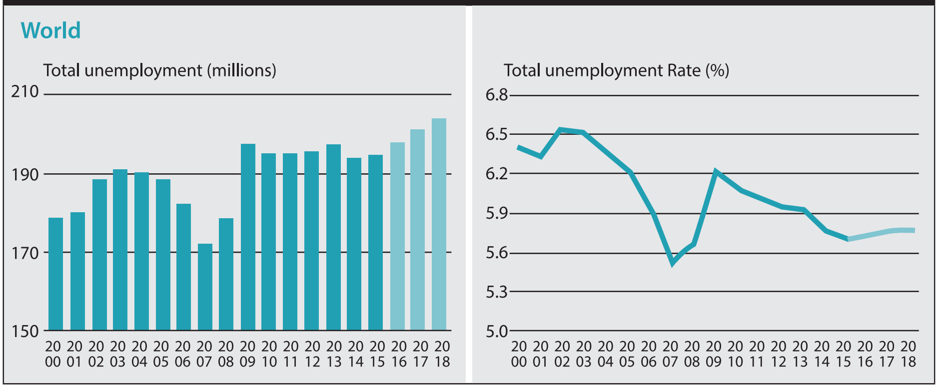
Globally, only few countries are getting benefited while trade has concentrated in a small group of products. As a result, this process is not creating devolved and egalitarian outcomes, rather intensifying the existing divide among the developed and developing countries. UNCTAD reports[35] critically analyzed and presented the summarized experience of globalization and trade. Major trends due to globalization which include primary commodity dependence, dependence on a narrow range of products, no export diversification and limited technological up-gradation are clogging the process of economic transformation, industrialization and trade creation in the developing countries. Moreover, the prospect of global trade is showing weaker growth rising less than the global GDP growth rate in recent years.

[29] Ibid.
[30] Nancy Birdsall, "Rising Inequality in the New Global Economy", *International Journal of Development Issues*, Vol. 5, No. 1, 2006, pp. 1-9.
[31] Robert Potter et al., *Geographies of Development: An Introduction to Development Studies*, UK: Routledge, 2017, p. 128.
[32] Susanne Schech and Jane Haggis, "Culture and Development: A Critical Introduction", UK: Wiley-Blackwell Publisher, 2000, p. 58.
[33] UNCTAD, op. cit.
[34] Peter Dicken, *Global Shift: Mapping the Changing Contours of the World Economy*, London: SAGE Publications, 2015.
[35] UNCTAD, Trade and Development Report 1997- *Globalization, Distribution and Growth* and Trade and Development Report 2000- *Global Economic Growth and Imbalances*, United Nations Conference on Trade and Development, 1997, 2000.

According to IMF report, the growth of trade volumes in the world decreased from 3.5 per cent from 2014 to 2.8 per cent in 2015.[36]

Another aspect is the jobless growth of economies around the world. For example, the absolute number of jobless people would rise by 3.4 million in 2017 making total 201 million unemployed persons in the world due to the underperformance of the global economy as well as its inability to generate enough jobs. The world unemployment is also going to increase from 5.7 per cent in 2016 to 5.8 per cent in 2017 reversing the slightly declining trend from its high position on the onslaught of the global financial crisis.[37] The unemployment situation is more severe in developing and emerging countries compared to the developed countries. It turns out that growth enhancing and employment generating benefits of globalization to developing countries largely defy the typical expectations by neoliberal quarters.[38]

Figure 2: Trends in Total Unemployment Rate in the World, 2000-2018



Source: "World Employment and Social Outlook – Trends 2017", International Labour Organization, 2017.

Further, the exacerbating rate at which global inequality is increasing cogently questions the viability of the current global economic system driven by liberalization-based globalization.[39] With the expanding reach of the market globally and for the inherently 'dis-equalizing nature' of globalization, the severity of inequality among developed and developing countries and within developing countries themselves is becoming 'more rather than less likely'.[40]

[36] *"Global Economic Outlook: Gaining* Momentum?", International Monetary Fund, 2017.

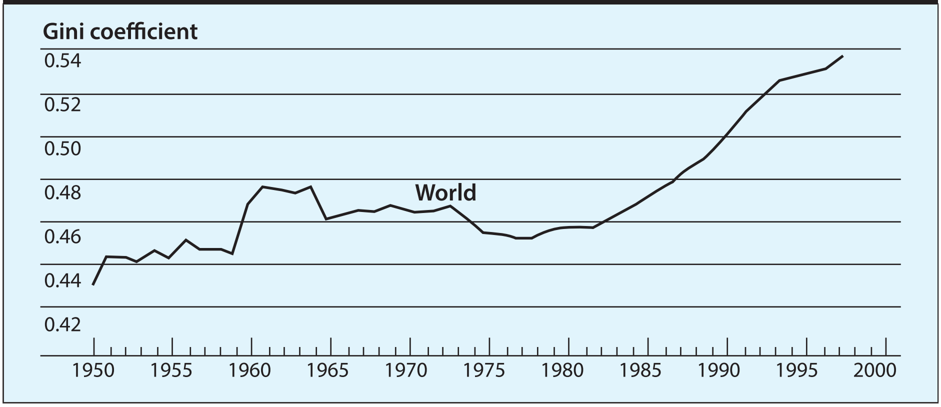
[37] "World Employment and Social Outlook – Trends 2017", International Labour Organization, 2017.

[38] Sanjaya Lall, "The Employment Impact of Globalization in Developing Countries", in E. Lee, and M. Vivarelli (eds.), *Understanding Globalization, Employment and Poverty Reduction*, New York: Palgrave Macmillan, 2004, pp. 73-101.

[39] Narcís Serra and Joseph E. Stiglitz (eds.), *The Washington Consensus Reconsidered: Towards a New Global Governance*, Oxford: Oxford University Press, 2008; Thomas Piketty, "About Capital in the Twenty-First Century", *American Economic Review*, Vol. 105, No. 5, 2015, pp. 48-53.

[40] Nancy Birdsall, op. cit.

Figure 3: Gini Coefficient and Trend in Global Inequality



Source: B. Milanovic, "The Two Faces of Globalization: Against Globalization as We Know it", *World Development*, Vol. 31, No. 1, 2003, pp. 667-683, (Note: Gini coefficient: unweighted intercountry inequality, 1950-1998. Each country is one observation).

Taken together, liberalism and realism, however, do not explain analytically the new form of globalization promoted by the Belt and Road initiative both at the normative and structural levels. This is because there are limitations at the theoretical and empirical levels. Empirically it is observed that due to liberalization the growth pattern is job-less, extractive in nature and this benefits only a handful of large corporations and a few countries at the expense of million others.[41] During the post-liberalization era, the world has experienced growth without job creation along with rising global income inequality.[42] The consequence is more severe in many developing countries where the promised outcome of faster economic growth has not been realized despite their integration into the global market has deepened.[43]

Apart from the observed flaws of liberalist approach where trade and cooperation among states left many countries no better-off, realist approach tends to spread fear and apprehension among competing states when it comes to taking part in a mutual development initiative. Departing from the traditional understanding, the paper advances a new approach for explaining Belt and Road Initiative and it defines the sufficient condition for a successful regional alignment under BRI by bringing in two concepts – the notion of normative legitimacy and political settlement.

[41] UNCTAD, 1997, 2000, op. cit.
[42] F. Alvaredo, L. Chancel, T. Piketty, E. Saez and G. Zucman, "World inequality report 2018", The World Inequality Lab, available at https://wir2018.wid.world/, accessed on 15 March 2018.
[43] UNCTAD, "Trade and Development Report 2010: Employment, Globalization and Development", United Nations Conference on Trade and Development, 2010.

2.3 *An Alternative Conceptual Framework*

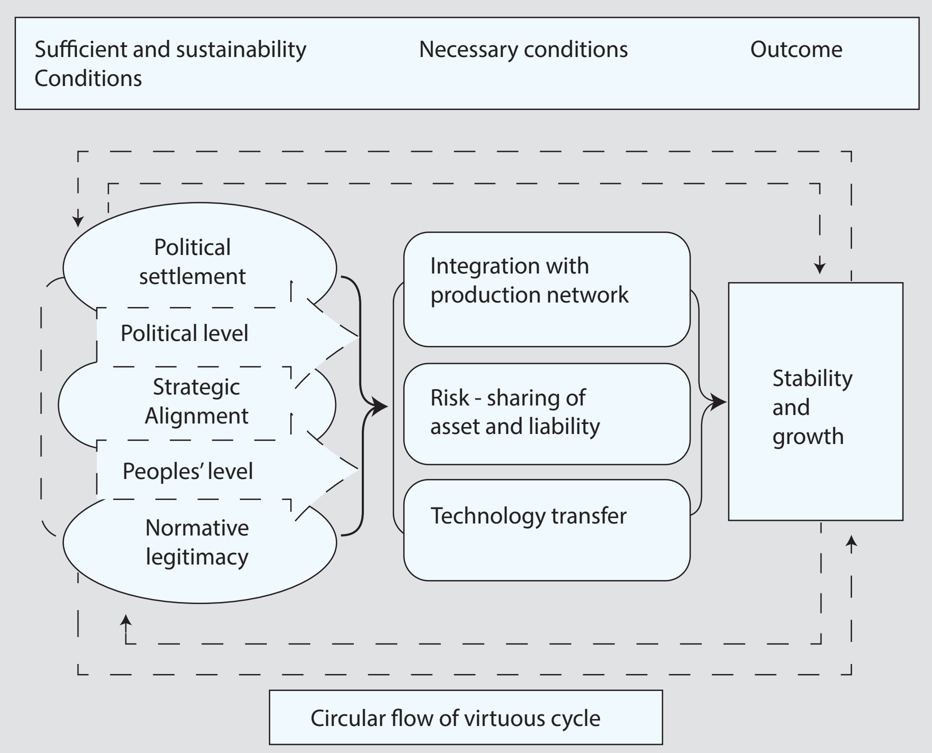
This formulation has been informed by the understanding that the internal conditions of a given country define the external conditions of that particular country. This is because historically all transformations have taken place due to the changes in the social-property relations or driven by internal contradictions within the system. The transition to capitalism is due to internal compulsion and contradiction within the society, not because of some external forces.[44] Therefore, strategic directions of that country are defined predominantly by political settlement and shaped by normative legitimacy. In this regard, the notion of strategic alignment means that for effective cooperation there needs to be an alignment of interests at multiple levels across political and productive classes among the countries. Drawing on the preceding discussion, it is formulated that the relations among neighbouring states and China within the framework of BRI can create two conditions with deferring outcomes. First is the stability and growth condition and second is the dis-stability and dis-growth condition.

2.3.1 *Stability and Growth Framework*

The question is in which conditions there will be stability and growth or in other words, what are the necessary conditions for stability and growth as a result of new forms of cooperation. The first scenario of growth and stability is contingent upon three necessary conditions. Three necessary conditions are: (a) if it creates production network and activities in real economy as opposed to extraction from the cooperating country to China, (b) if capital is invested on a risk-sharing basis rather than the current practice of liability with the country that receives the credit and (c) if there is transfer of technology instead of the existing practice of import of technology. For these necessary conditions to materialize, there is a need for a sufficient condition of a political settlement that ensures capitalist class is interested in productive expansion of the economy. The growth and stability will persist and will not follow a path of growth reversal, if there is normative legitimacy. This will also create a virtuous circular flow through better outcome leading to higher ideational and structural support coming from politics and people which would create conditions for each of the nodes in necessary conditions leading to higher outcome in a dynamic setting through their endogeneity (Figure 4).

[44] Paul Sweezy and M. Dobb, "The Transition from Feudalism to Capitalism", *Science & Society*, Vol. 14, No. 2, 1950, pp. 134-167; See also, C. Harman and R. Brenner, "The Origins of Capitalism", *International Socialism*, Vol. 111, 2006, pp. 127-165; J. B. Foster, "The Commitment of an Intellectual: Paul M. Sweezy (1910-2004)", *Monthly Review*, Vol. 56, No. 5, 2004, pp. 4-40, available at https://monthlyreview.org/2004/10/01/the-commitment-of-an-intellectual-paul-m-sweezy-1910-2004/, accessed on 13 June 2017.

Figure 4: Stability and Growth Framework

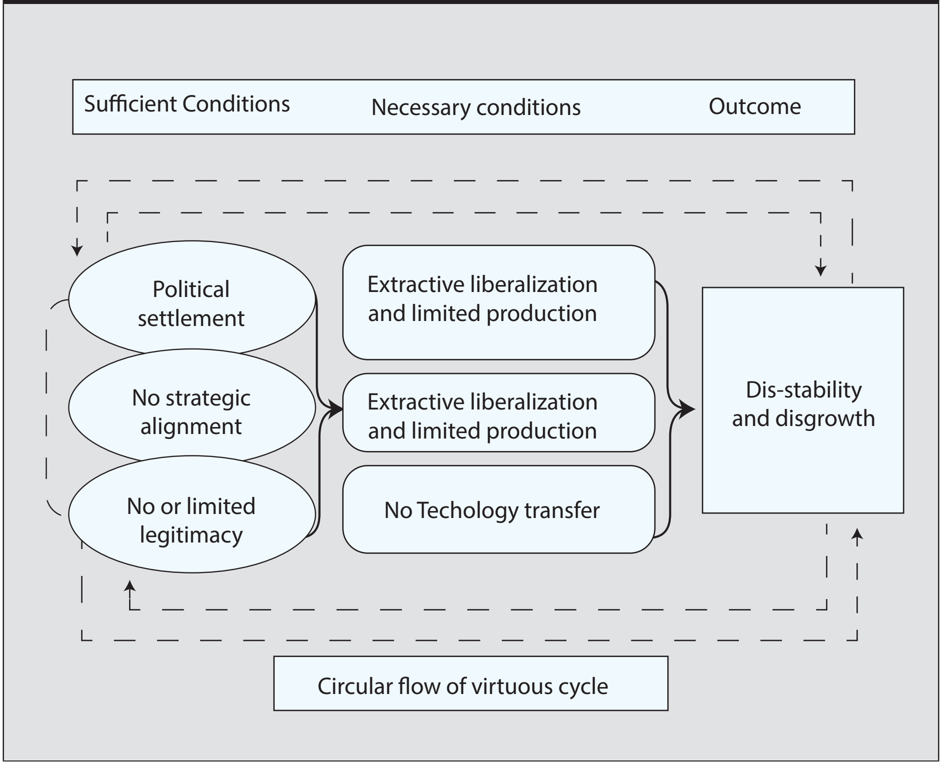


Source: Prepared by authors based on relevant literature.

2.3.2 *Dis-stability and Dis-growth Framework*

As opposed to the Scenario - 1, the conditions which will create dis-stability and dis-growth in the participating country include (a) when there will be extractive trade with excessive net import and limited participation in production network, (b) if the per capita debt grows more than per capita GDP due to the injection of credit and (c) if the catching up of technology is not enhanced through transfer of technology. Finally, if there is political contestation within the country, if there is no convergence at different levels of distribution of power, if there is lack of legitimacy and if there is no regional alignment among participant countries, it will create conditions for dis-stability and dis-growth. It will also create a vicious cycle, if the credit is taken without the required sufficient and sustainability conditions (Figure 5).

Figure 5: Dis-stability and Dis-growth Framework



Source: Prepared by authors based on relevant literature.

2.3.3 *Equiangular Development Diplomacy*

Based on the above explication, the approach taken here is the 'equiangular development diplomacy'. This refers to a balanced pathway to progress where relations among countries would focus on mutual development needs and priorities rather than on divergent geopolitical interests or disputes. While this approach does not deny or ignore existing conflicts or contradictions, because that would be hugely impractical, it basically calls for a balanced approach that would align the interests and requirements of countries in question in ways to maximize gains and minimize loss. It will show in which condition there will be stability and growth and in which condition there would be dis-stability and dis-growth, while explaining the potential gains for countries from participating in Belt and Road Initiative. Both frameworks are given below (Table 1). This framework combines economic and geostrategic conditions for enhancing regional growth and development.

Table 1: Growth Enhancing Matrix within the Framework of BRI

	Situation 1	Situation 2
Necessary conditions	1. Integration into production network leading to employment creation and labour skill up-gradation 2. Risk-sharing of asset and liability 3. Technology transfer	1. Extractive liberalization and limited production 2. Debt augmentation 3. No technology transfer or only technology import
Sufficient conditions	1. Normative legitimacy coming from general favourable perception 2. Political settlement based on consensus from below where the capitalist class interested in productive expansion 3. Strong strategic alignment	1. No or weak normative legitimacy 2. Political contestation and no productive class 3. No or weak strategic alignment
Outcomes	Stability and growth	Dis-stability and dis-growth

Source: Prepared by authors based on previous frameworks.

2.3.4 *Sufficient Condition – 1: Normative Legitimacy*

The first sufficient condition for the BRI to succeed is the presence of normative legitimacy in the participating country. Normative legitimacy emanates from broad social approval and general favourable consensus among public about the perceived effects and outcomes of BRI within the ambience of existing bilateral relations among the countries involved.

Legitimacy is a contested and elusive term involving numerous attempts to define its meaning and usage in political and social science disciplines.[45] In recent years, the primary debate concerning legitimacy has drawn much attention from International Relations scholars broadening the focus on the relationship between citizens and international institutions besides the legitimacy nexus between the state and its subjects.[46] It is often defined to be "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions".[47]

[45] See for details, A. Levitov, "Normative Legitimacy and the State", *Oxford Handbooks Online*, Oxford: Oxford University Press, 2015; M. Zelditch, Jr., "Theories of Legitimacy", in J. T. Jost and B. Major (eds.), *The Psychology of Legitimacy: Emerging Perspectives on Ideology, Justice, and Intergroup Relations*, New York: Cambridge University Press, 2001, pp. 33-53.
[46] J. Steffek, "Legitimacy in International Relations: From State Compliance to Citizen Consensus", in A. Hurrelmann, S. Schneider and J. Steffek (eds.), *Legitimacy in an Age of Global Politics: Transformations of the State*, London: Palgrave Macmillan, 2007.
[47] M. C. Suchman, "Managing Legitimacy: Strategic and Institutional Approaches", *Academy of Management Review*, Vol. 20, No. 3, 1995, p. 574.

Among a number of conceptualizations, the notion of 'normative legitimacy' is adopted drawing on Gramscian and Habermasian formulations. According to Gramsci[48], consent or consensus is not automatic; it is engineered in a hegemonic process by the ideological superstructures such as civil society and is not outside the coercive influence by the state.[49] In Habermas[50], though he considers necessity of legitimacy for the stability of the social order, "the contradiction between base and superstructure is the contradiction between monopoly capitalism and liberal ideology – an unfree market justified by a free market ideology" which creates legitimacy crisis for the liberal states in the long run.[51]

It is stressed that legitimacy is essentially a normative process and it is also an inherently social phenomenon "grounded in intersubjective meanings and values, and constructed through social communication".[52] Legitimacy requires justification in terms of social recognition of any initiative or action, procedures or practices as well as institutional arrangements where at best active cooperation and at least a general favourable perception of citizens are needed to carry out the intended objective. This makes more sense when applying the concept of normative legitimacy to understand cooperation between two or more states engaged in a multilateral arrangement or in any international setting.[53]

In a national context, legitimacy also refers to popular consensus or political support for political community, political regimes and for their actions or decisions where it is argued that the stability of a political system depends on normative legitimacy arising from the convergence between political culture and political structures.[54] This connection between legitimacy and political order is emphasized when there is 'crisis of legitimacy' or even 'international crises of legitimacy'.[55] Moreover, legitimacy is also considered to be a key component of a country's development and its entrepreneurial success.[56]

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[48] A. Gramsci, *Selection from the Prison Notebooks, 1947*.
[49] M. Zelditch, Jr., 2001, op. cit.
[50] J. Habermas, *Legitimation Crisis*, translated by T. McCarthy, Cambridge, UK: Polity Press, 1976.
[51] M. Zelditch, Jr. op. cit., p. 47.
[52] Christian Reus-Smit, "International Crises of Legitimacy", *International Politics*, Vol. 44, No. 2-3, 2007, p. 161.
[53] J. Steffek, 2007, op. cit.
[54] The earliest systematic approach to the conceptualization of political support stems from Gabriel Almond's and Sidney Verba's study of political culture in the late 1950s. Their main hypothesis was that congruence between political structure and political culture is necessary to guarantee the stability of a political system. The term political structure designates the type of political system with regard to its network of institutions. Political culture is defined as 'the particular distribution of patterns of orientation toward political objects among the members of a nation' (1963, 14-15). See for details, B. Westle, "Political Beliefs and Attitudes: Legitimacy in Public Opinion Research", in A. Hurrelmann, S. Schneider and J. Steffek, 2007, op. cit., p. 93.
[55] "International crises of legitimacy can be resolved only through recalibration, which necessarily involves the communicative reconciliation of the actor's or institution's social identity, interests, practices, norms, or procedures, with the normative expectations of other actors within its realm of political action", Reus-Smit, 2007, op. cit..
[56] E. Díez, C. Prado-Román, F. Díez-Martín, A. Blanco-González, "The Role of Normative Legitimacy in the

In effect, 'normative legitimacy' derives from the cognition level as well as based on perception or social recognition within the country. This emanates on the one side from base structure or production level and on the other side from the superstructure or ideational level. In order to forge a relation between countries that would eventually foster effective cooperation, trade and mutual development, the deals of cooperation need to be based on normative legitimacy. It is only possible when there will be a convergence between structure and agency, between state's policies, actions and institutional arrangements and popular consensus as well as people to people exchange. In other words, beneficial outcomes from cooperation can be attained through a grand strategy that would create congruence between ideational and structural levels merging the interest of political and productive forces with popular consensus and social acceptance. If there is weak legitimacy or crisis of legitimacy, the strategy would not work. Ultimately, as it is argued here, relations between two countries can be explained if there is normative legitimacy.

2.3.5 *Sufficient Condition – 2: Political Settlement*

A particular type of political settlement in the participating country is required as sufficient condition for the BRI to succeed. When an existing form of political settlement creates and patronizes a capitalist class interested in productive activities in the economy, a country can seize opportunities made available from BRI. This also needs to involve the alignment of interests of both productive and political classes across participating countries to facilitate gainful interactions and exchange.

The concept of 'political settlement' is defined as the forms of distribution of power within a given society.[57] The 'political settlement' approach helps to analyze a number of interrelated questions about the policy evolutions and their development outcomes from institutional and political economy perspectives.[58] A political settlement refers to "a reproducible 'equilibrium' of institutions and organizations, where the institutions and organizations can be both formal and informal" and which

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Development of Efficiency-Driven Countries", in M. Peris-Ortiz and J. Merigó-Lindahl (eds.), *Entrepreneurship, Regional Development and Culture*, Switzerland: Springer, 2015.

[57] "The term "political settlement" is commonly used to describe the informal power arrangements or "social order" in a country. The key elements of a political settlement are actors, interests, and institutions. In most cases, it is a coalition of powerful elite factions that make up the key actors in a political settlement. The critical element that holds a political settlement together is the alignment of interests within the dominant elite coalition, and the dynamic relationship between elite interests and the broader array of interests in the society. Institutions are viewed as malleable – as the product of ongoing conflict, negotiation, and compromise among powerful groups, with the ruling coalition shaping and controlling this process. In most cases, power relations are fluid and dynamic, and political settlements are constantly and subject to renegotiation and contestation. As a result, political settlements should not be interpreted as one-time events, but rather as rolling agreements between powerful actors." Asia Foundation, 2010.

[58] Mushtaq H. Khan, "Political settlements and the governance of growth-enhancing institutions", 2010, available at http://eprints.soas.ac.uk/9968/1/Political_Settlements_internet.pdf, accessed on 28 December 2017.

are often modified to be compatible with distribution of power and rents/income across all relevant actors.[59]

Political settlement approach elucidates the conditions in developing countries where the interests of powerful groups may not be supportive of broad-based economic growth. In the prevailing form of political settlement, "[p]olitical parties may want to capture resources for their clients in ways that are socially damaging.[60] Productive firms may be few in number and have low competitiveness, and they may prefer to ally with clientelist politicians to augment their incomes."[61] In particular, the way different groups comprising coalitions from government, military and/or private sectors share and distribute political power and economic rents, create legitimacy using state resources, maintain security and stability and lead to capitalist accumulation provides useful insights about the nature and outcomes of economic change.[62]

Whether the prevailing political settlement or distribution of power within it promotes and fosters particular institutions and policies that would lead to the creation of a group interested in transforming the productive capacities of the economy will determine how much gain the country can realize from opportunities made available by mega initiatives like China's BRI. Connecting with the concept of normative legitimacy, this means when agency and structure come to a synergic position meaning when there is political consensus and social recognition over the distribution of power and resources and a productive class interested in entrepreneurial activities along with enabling set of institutions and policies, this would create conditions of stability and growth.

Overall, the theoretical framework posits that deriving economic and geostrategic gains from the potentials unleashed within the framework of BRI necessarily needs to be based on production orientation by integrating a participating country in the production network. This process needs to be facilitated by financial flow based on sharing of risk and appropriate transfer of technology. In the overall mechanism, the sufficient conditions include political settlement which is interested in production centric expansion of the economy as well as an 'equiangular development diplomacy' driven by strong strategic alignment among the countries in question. The sustainability is contingent upon the normative legitimacy coming from general favourable perception among masses. Either of two outcomes is contingent upon the necessary, sufficient and sustainability conditions. An involvement without

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[59] Mushtaq H. Khan, "The Political Settlement, Growth and Technical Progress in Bangladesh", *DIIS Working Paper*, 2013:01, Danish Institute for International Studies, DIIS, 2013, p. 12.

[60] See for details, Mushtaq H. Khan, "Introduction: Political Settlements and the Analysis of Institutions", *African Affairs*, Vol. 117, Issue 469, p. 17.

[61] Ibid., pp. 1-20.

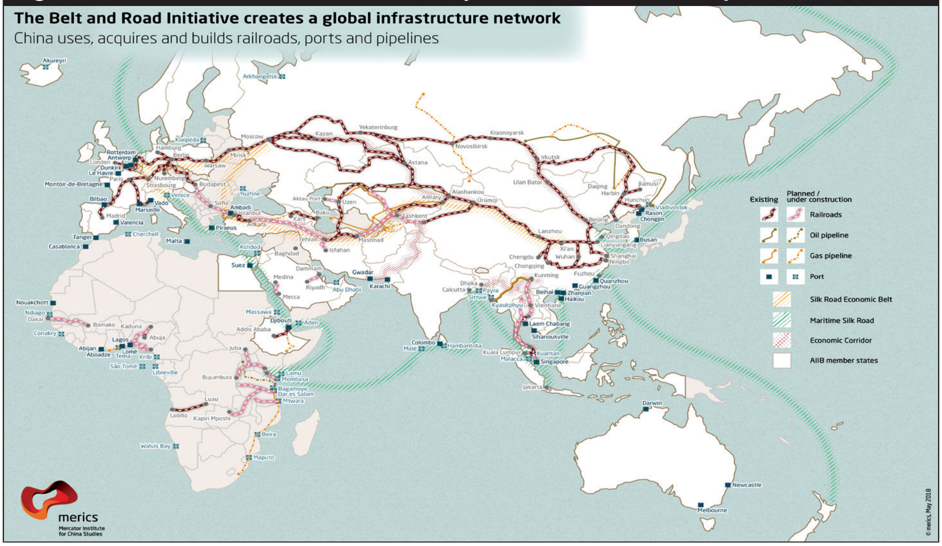
[62] P. Behuria, L. Buur and H. Gray, "Research Note: Studying Political Settlements in Africa", *African Affairs*, Vol. 116, Issue 464, 2017, pp. 508-525.

considering the conditions may lead to a vicious cycle while the opposite (virtuous cycle) will hold if the contracting parties fulfil the conditions.

3. China's Belt and Road Initiative

The Chinese undertaking of the BRI is a grand framework enveloping the country's imperatives for economic development and its vision of geo-economic diplomacy. It is unsurpassed in its vision and potential, yet deeply rooted in millennium long history of ancient Silk Road with an unprecedented appeal for grandeur, enormity and transformation potential in today's world. BRI will see the development of six major economic corridors connecting three continents across a large group of countries. Building transport and communication infrastructure will beget the development of energy and industrial clusters along these economic corridors. BRI projects will boost the construction outlooks for many developing countries along the route through the development of substantial transportation and associated physical infrastructure. China wants to build a global network of infrastructure with wide reach and scope of BRI that has only around four years of existence while also taking up all other related projects under its umbrella (Figure 6).

Figure 6: Belt and Road Infrastructure Projects, Planned and Completed (June 2018)



Source: MERICS Research, 2018.[63]

Under BRI, a number of mega projects in infrastructure building, economic connectivity including economic corridors and deep-sea ports is being implemented

[63] See for details, MERICS Research, 2018, available at https://www.merics.org/en/bri-tracker/mapping-the-belt-and-road-initiative, accessed on 20 July 2018.

in countries across Asia, Europe and Africa. A special US$ 40-billion Silk Road Fund for financing BRI related projects has been arranged and importantly Chinese led Asian Infrastructure Investment Bank (AIIB) and the New Development Bank by BRICS countries are also there to leverage the progress of BRI.[64]

Crucially, BRI facilitates financing of such growth, providing alternative sources of funding to traditional public finance. The initiative is driven largely through Public Private Partnerships (PPPs), with the standard BRI financing model of Chinese loans paying for Chinese contractors.[65] For example, China's massive inflow of investment in five years since 2017 as part of BRI could amount to as much as US$ 502 billion, or equivalent to 4 per cent of the total gross domestic product of the 62 countries along the routes in 2015.[66] Other sources estimate the amount to be as high as US$ 1 trillion.[67] Latest economic simulation analysis suggests that BRI economic corridors will generate sizeable gains across participating countries with a combined welfare gain well exceeding US$ 1 trillion and particularly, participating countries like Vietnam and Bangladesh could experience 7 to 17 per cent increase in their output levels over next few years due to participation in BRI initiative.[68]

Since the introduction of BRI in 2013, attention and efforts have been put forward from Beijing to transform as well as to repackage the model of its economic diplomacy.[69] While most observers of China's peaceful rise see this as an expression of skillful manoeuvre of Chinese foreign policy and of President Xi Jinping's game changing plan, debates exist regarding the actual motivations and interests of China.[70] The Action Plan on One Belt One Road (OBOR) provides the national interest of China in undertaking this initiative which promotes a common path towards shared prosperity, peace and win-win cooperation based on five Principles of Peaceful Coexistence highlighting the solemn message of equal growth, respect for sovereignty and win-win cooperation.[71] This is the continuation of China's effort since the Bandung

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[64] J. Villafuerte, E. Corong and J. Zhuang, "The One Belt, One Road Initiative: Impact on Trade and Growth", 19th Annual Conference on Global Economic Analysis, 2016.

[65] N. Hayes, "The Impact of China's One Belt One Road Initiative on Developing Countries", *LSC Blog*, 2017, available at http://blogs.lse.ac.uk/internationaldevelopment/2017/01/30/the-impact-of-chinas-one-belt-one-road-initiative-on-developing-countries, accessed on 13 July 2017.

[66] Credit Suisse, 2017.

[67] A. Bruce-Lockhart, "China's US$ 900 billion New Silk Road. What you need to know", *World Economic Forum*, 26 June 2017.

[68] H. Hahm and S. Raihan, "The Belt and Road Initiative: Maximizing Benefits and Managing Risks - A Computable General Equilibrium Approach", *Journal of Infrastructure*, *Policy and Development*, Vol. 2, No. 1, 2018, p. 140.

[69] Michael Clarke, "The Belt and Road Initiative: Exploring Beijing's Motivations and Challenges for its New Silk Road", *Strategic Analysis*, Vol. 42, No. 2, 2018. pp. 84-102.

[70] Yiping Huang, "Understanding China's Belt & Road Initiative: Motivation, Framework and Assessment", *China Economic Review*, Vol. 40, 2016, pp. 314-321.

[71] An action plan on the Belt and Road Initiative was issued by the National Development and Reform Commission, Ministry of Foreign Affairs and Ministry of Commerce of the People's Republic of China, with authorization of the State Council on 28 March 2015.

Conference in 1955 to pacify the fears of its Asian neighbours maintaining policy of peace and cooperation to assist in the development of the global community.[72]

The underlying motivations and interests are manifold and often intertwined with political, economic and geo-strategic calculations related to domestic, regional and global issues. Although many stressed on geopolitical considerations while other emphasized economic necessities, in fact, China's underlying motives are not only economic or geopolitical, but also include a number of concrete compulsions faced by a transitioning economy and a rising power. In spite of the Chinese assurance, one group of foreign policy analysts explained the Chinese initiative from a geopolitical lens, arguing the intention of China is to advance a 'new geo-economic strategy' to assert its diplomatic and economic leadership.[73]

Basically, what motivates China to take up BRI is predominantly economic in nature rather than geopolitical despite the fact that geo-strategic implications would not leave the discussion table. It seems more convincing that the main driving force for undertaking BRI is internal economic compulsions and this policy has a more domestic focus to transform and take over to the next phase of development rather than to extend its international influence as the first priority. The realist tendency to highlight power game and China's ambition for regional hegemony appears to overlook the internal economic challenges that China is facing. It seems more plausible that BRI created an arrangement with the potential of promoting win-win cooperation, encouraging involvement in bilateral and multilateral institutions seeking to address the drawbacks of the current form of globalization and neo-liberal order of the world.

4. Economic Implications of BRI: Conditions for Realizing Gains

This section investigates the economic implications of Belt and Road strategy along with the forms and mechanisms that would benefit the participating countries in terms of infrastructure development, increased connectivity, investment financing, employment generation, trade creation and improvement in people's standard of living. Measuring economic implications of a massive initiative like BRI is well beyond the limited scope of this article. Rather, the focus is to specify the necessary conditions of leveraging gains from the new form of cooperation under the Belt and Road initiative and then discuss the sufficient conditions for promoting enabling environment for equiangular development. The framework specifies three necessary conditions for growth and stability that includes – (a) if BRI integrates participating countries into the production network and creates activities in real economy as opposed to extraction, (b) if capital is invested in risk-sharing basis rather than risk

[72] D. P. Nicolas, op. cit.
[73] Xiaoyu Pu, "One Belt, One Road: Visions and Challenges of China's Geoeconomic Strategy", *Mainland China Studies*, Vol. 59, No. 3, 2016, pp. 111-132.

transfer mechanism leading to debt augmentation and (c) if there is technology transfer instead of just technology import.

4.1 *Production, Employment and BRI*

With the business as usual scenario, Bangladesh will not be benefitted from China's Belt and Road initiative by just becoming a part of it. As the dis-stability and dis-growth framework entails, if more connectivity and integration through BRI primarily raise the level of imports and consumption but not production and exports, this will only deteriorate the balance of trade and put further pressure of the participating economies. So, assessing a participating country's potential gains would depend on a number of related questions of how BRI will impact the position of the country in the regional and global production network, whether it can increase its level of production and export, how and in what conditions local capital and business enterprise will be benefitted from this initiative, will it become only importing country or exporting country, what will be their location in the Chinese production network, what types of goods – primary, intermediate or finished can a country supply to Chinese markets as well as the wider export market in the region within the new aura of enhanced connectivity and cooperation.

Notably, key variables like (a) changes on labour intensity, (b) level of technology used and (c) access to Chinese domestic market for import would help to map out how Bangladesh and similarly other countries participating in the initiative, can realize benefits from BRI. Due to rising real wage, labour intensive industries become less competitive which create compulsions on firms to relocate their production facility to less expensive regions as well as shift their enterprise towards more capital-intensive industries.[74] This clearly applies to Chinese case and indicates to real possibilities that Bangladesh can significantly take on to expand its labour-intensive manufacturing sectors.

In case of Bangladesh, the one commodity dependence, lack of product diversification and low level of technology used presumably mark the nature of industrial manufacturing sector.[75] The share of RMG exports is more than 82 per cent in total export earnings whereas the growth of other industrial subsectors is showing little promising sign.[76] With the concentration of exports in few products and production in few regions, the industrial sector can not grow sustainably. Deceleration in manufacturing growth rate coupled with arrested structural transformation of the economy is one of the key challenges for Bangladesh economy.

[74] Robert C. Allen, *Global Economic History: A Short Introduction*, Oxford: Oxford University Press, 2011.
[75] Rashed Al Mahmud Titumir, "Industrialization", in Ali Riaz and Mohammad Sajjadur Rahman (eds.), *Routledge Handbook of Contemporary Bangladesh*, New York: Routledge, 2016.
[76] Ministry of Finance, "Bangladesh Economic Review 2017", Dhaka: Finance Division, Ministry of Finance, Government of the People's Republic of Bangladesh, 2017.

Bangladesh, however, is not well connected to the global production network except the case of RMG sector and value addition that takes place in its manufacturing is quite low due to heavy dependence on imported raw materials and capital machinery.[77] Nonetheless, Bangladesh has the potential to become the manufacturing hub of Asia within decades.[78] Moreover, Bangladesh is predicted to be the 28th largest economy in the world by 2030 doubling its domestic output from US$ 628 billion in 2016 to US$ 1.3 trillion in 2030.[79] Realizing gains from BRI would depend on how much Bangladesh can align its conditions with China's economic and market transformation.

Besides, the extent of trade creation within the BRI arrangement would be a major determinant of how much a participating country can benefit from the new form of globalization. Exporting to Chinese markets and using network connectivity to boost trade with other participating countries in this initiative including access to South East Asian markets through Myanmar and China and exporting to central Asian countries would also create considerable growth potentials for Bangladesh as well as other South Asian countries. In particular, trade creation may involve, on the one hand, ensuring export markets for existing Bangladeshi products, on the other hand, specializing on manufacturing of products with high demand in the Chinese market and also in other Asian countries. Arguably, BRI would offer large opportunities for cooperation between Chinese firms and local enterprises in all stages of production networks from innovation to implementation to financing and other intermediaries in trade, investment and infrastructure building.[80] Much of the success would depend on how Chinese enterprises involve local counterparts and share benefits i.e., jobs, trades, profits with them.

Considering the above situation, a key strategy that needs to be emphasized again is the expansion of labour-intensive manufacturing sector with large potential for employment creation. In Bangladesh, labour market is characterized by high unemployment, disguised underemployment, low labour skill formation and high percentage of inactive population.[81] In fact, Bangladesh has one of the highest

[77] S. Raihan and M. Ahmed, "Supply-Side Capacity and Export Response in Leather and Home Textile Sectors in Bangladesh", MPRA Paper No. 37895, 2009, posted online on 2012, available at https://mpra.ub.uni-muenchen.de/37895/1/MPRA_paper_37895.pdf, accessed on 15 September 2017.

[78] This view was expressed by garments exporters and foreign buyers in a roundtable organized in Dhaka on 26 October 2016 by Foreign Trade Association, a Brussels-based organization. See for details, "Bangladesh holds potential to be Asia's manufacturing hub", *The Daily Star*, 27 October 2016.

[79] PricewaterhouseCoopers (PwC), "The Long View: How will the Global Economic Order Change by 2050?", 2017, available at https://www.pwc.com/gx/en/world-2050/assets/pwc-world-in-2050-summary-report-feb-2017.pdf, accessed on 15 March 2017.

[80] C. Dong, M. Davis, S. Yu and Y. Wu, "The Belt and Road Initiative in 2018", DLA Piper, 2018, available at https://www.lexology.com/library/detail.aspx?g=a81cc888-49d7-4b35-82b3-9406f77a2f43, accessed on 20 December 2017.

[81] R. A. M. Titumir and M. Z. Rahman, "Changes in Population Age Structure and Economic Development: The Case of Bangladesh", *Florya Chronicles of Political Economy*, Istanbul Aydin University, Year 3, No. 1, 2017.

rates of unemployment in South Asia and despite continued economic growth job creation in the economy remains quite low. The economy needs to graduate from the current state of high unemployment to generating more productive employment of labour and their skill up-gradation in line with the changing dynamics of the labour market and growing trade potentials. Moreover, the country is passing through the demographic dividend phase with almost 65 per cent of the population concentrated at working age groups.[82] As a result, it can be argued that Bangladesh's competitive advantage in terms of available cheap labour would last quite longer and thus, the country can pocket in the labour-intensive Chinese industries which would need to be relocated somewhere.

4.2 *Financing Mechanisms and BRI Projects*

One of the key challenges for advancing BRI centres on the overall mode of financing mechanism and its viability that would certainly involve a wide spectrum of actors with varying interests and diverse institutional settings along the Belt and Road regions. Long term economic returns from any particular project will depend, besides the nature of the project and its implementation, on the types and sources of investment, nature of deals between the host country and investors and will also be conditioned by other local and regional geopolitical factors. Generally, three types of financing mechanisms including funding from multilateral agency, supplier's credit or line of credit (LOC) and private sector borrowings are used to carry out development projects and trades. Experience with each of these mechanisms and their effectiveness are found to have significant downsides that need critical examination when it applies BRI projects.

First, the multilateral agencies give loans or aid packages to the developing countries on given conditions the experiences of which are mixed and even mostly negative. For example, problems of the multilateral credit or loans can be found from chronic debt crisis during the 1980s in many developing countries, while the recent case of Greek economic crisis also shows the outcomes of this form of financing.[83] Because, one of the main problems is conditionality which comes with multilateral credits and this predominantly characterizes lending from World Bank, IMF, Asian Development Bank and similar other sources. Although this mechanism provides a large share of development financing, multilateral debt has been a perennial problem for the entire developing world and particularly for the poorest countries due to their high level of indebtedness.[84]

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[82] UN, *World Population Prospectus: 2017 Revision*, New York: United Nations Department of Economic and Social Affairs, 2017.
[83] "Greece and its creditors: Feud for thought", *The Economist*, 10 July 2015.
[84] N. Woods, *The Globalizers: The IMF, the World Bank, and Their Borrowers*, Ithaca: Cornell University Press, 2006.

Second, suppliers' credit or LOC are short-term loans where credit for imports offered by overseas suppliers.[85] This mechanism is basically practiced in the context of bilateral trade or development cooperation where there is also a long list of purchase conditionality involved. For example, in recent times, several billion-dollar credits offered by India to Bangladesh as well as financing mechanism of the Padma Bridge construction by China are types of LOCs. The implications of suppliers' credit are even worse if compared to the multilateral credit as because in case of LOC the terms of interest rate are quite high, grace period for loan repayment is relatively short and is accompanied by a long list of procurement conditionality which mostly benefits enterprises of the loan providers rather than the recipient countries. Although there are some differences between multilateral and suppliers' credit in terms of their financing procedures and priorities, both types of financing ultimately lead to debt augmentation and entrapping many developing countries in under mounting debt burden or so called 'debt trap'.[86] It is now evident that large burden of public debts creates negative pressures on growth performance of developing countries.[87]

Third, financing for development also includes private sector credit and its implication for the economy is no more favourable. The problem with private sector borrowing is that it decreases the rate of private sector investment.[88] In the developing country context, it has been found that one dollar worth of government borrowing may cause crowding out of private credit by up to 80 cents in the long run.[89] In effect, it creates debt augmentation which means the size of public debt is increasing but not the production capacity. A comparative assessment makes it clear that these forms of financing mechanism generally do not render developing countries in good standing.

With regards to financing of BRI projects, China has not published any comprehensive list of all BRI-related projects or deals and details about its financing mechanisms.[90] A dedicated Fund for Silk Road projects, China-led Asian Infrastructure Investment Bank (AIIB) along with China Development Bank and the Export-Import Bank of China would lend money to countries involved in the Belt and Road Initiative for the development of infrastructure and connectivity.[91] Besides, state-owned enterprises and many commercial banks are also financing BRI related projects. BRI involves massive

[85] UBS, "Supplier's credit", 2016, available at https://www.ubs.com/ch/en/.../trade...==/fs-lieferantenkredit-en.pdf, accessed on 20 March 2018.
[86] Cheryl Payer, *The Debt Trap: The International Monetary Fund and the Third World*, New York: NYU Press, 1975.
[87] A. F. Presbitero, "Total Public Debt and Growth in Developing Countries", *The European Journal of Development Research*, Vol. 24, No. 4, 2012, pp. 606-626.
[88] Md. Saidjada Khan and Syeda Ishrat Jahan, "Public and Private Investment Nexus in Bangladesh: Crowding-In or Out?", *The Journal of Developing Areas*, Vol. 52, No. 4, 2018, pp. 115-127.
[89] M. S. Emran and S. Farazi, "Lazy Banks? Government borrowing and private credit in developing countries", *Institute for International Economic Policy, Working Paper No. 9*, 2009.
[90] Huang, 2017, op. cit.
[91] L. Jagan, "Asia is central to China's strategic vision", *The South China Morning Post*, 17 May 2017, available at http://southasianmonitor.com/2017/05/17/asia-central-chinas-strategic-vision/, accessed on 20 July 2017.

investment in mainly infrastructure projects for which China has already committed US$ 1.4 trillion and when completed this would generate over US$ 21 trillion of Global GDP covering 4.4 billion world population.[92] Credit Suisse estimates that China's investment in BRI projects could surpass US$ 500 billion during the next 5 years. The major recipients of FDI along the BRI trade routes as estimated by Credit Suisse in 2017.[93]

Table 2: Estimates on China's Foreign Direct Investment along the Trade Routes (in billion US$)

Country	Estimated Invest-ment	Increase in GDP	2015 GDP	Country	Estimated Invest-ment	Increase in GDP	2015 GDP
India	84-126	30-46	2095	Philippines	12-18	6-9	292
Russia	53-80	27-40	1331	Pakistan	11-16	5-8	271
Indonesia	35-52	15-23	862	Thailand	4-12	1-4	395
Nigeria	19-29	20-30	481	Bangla-desh	8-12	3-4	195
Iran	17-26	10-15	425	Vietnam	8-12	2-4	194
Egypt	13-20	8-11	331	Kazakhstan	7-11	5-7	184

Source: Credit Suisse, 2017 in *South China Morning Post*, 2017.[94]

As the estimates show (Table 2), India, Russia, Indonesia and Nigeria would pocket in highest shares of Chinese investments in total US$ 191-287 billion during next five years. Bangladesh can also expect to get US$ 8-12 billion of investment which is equal to 6-4 per cent of country's GDP. According to Chinese Ministry of Commerce data, China invested US$ 14.4 billion in 59 BRI countries in 2017 which is almost same as previous year (14.5 billion) but increased to 12 per cent as percentage of China's total outbound investment (3.5 up from 2016 level).[95] China's outward investment flow along the Belt and Road countries (Figure 7) show that Southeast Asia received highest share (34 per cent) followed by South Asia (26 per cent) and Middle East and North Africa (24 per cent) between 2014 and 2016. Looking at the sectoral distribution of China's total official commitments (Figure 7), it is found that main emphasis is given on infrastructure projects including energy generation and supply (US$ 134 billion or 38 per cent), transport and storage (US$ 89 billion or 25 per cent) and industry, mining and construction (US$ 30 billion or 8 per cent).

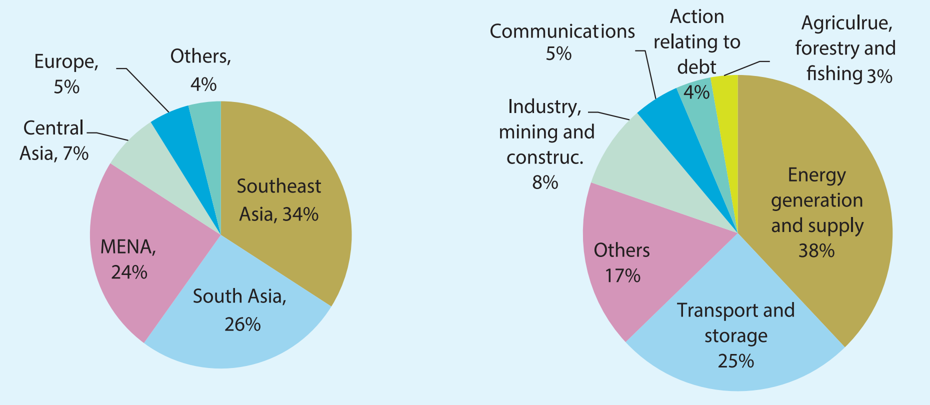
92 J. P. Meltzer, "A View from the United States", *The ASAN Forum*, 10 June 2017, available at http://www.theasanforum.org/a-view-from-the-united-states-2/, accessed on 20 December 2017.

93 P. Sito, "India and Russia tipped to be the big winners from China's massive 'Belt and Road' investment", *South China Morning Post*, 13 May 2017, available at http://www.scmp.com/business/article/2094224/india-and-russia-tipped-be-big-winners-chinas-massive-belt-and-road, accessed on 30 March 2018.

94 Ibid.

95 J. Suokas, "Chinese investment in Belt and Road countries remains stable in 2017", *GB Times*, 17 January 2017, available at https://gbtimes.com/chinese-investment-in-belt-and-road-countries-remains-stable-in-2017, accessed on 15 March 2017.

Figure 7: (a) China's Outward Investment along the BRI by Region (2014-2016) and (b) Sectoral Distribution of China's Total Official Commitments in 2017



Source: A. G. Herrero, "How is Belt and Road Initiative changing China-Mena economic relations", *IIS Bahrain Bay Forum*, 17 September 2017; AIDDATA, "China's Global Development Footprint", 2018.

South Asia experienced a 6 per cent increase in FDI inflows to US$ 54 billion in 2016, despite 15 per cent decline of inflows to developing Asia. While FDI inflows to India remained stagnant to US$ 44 billion, Pakistan secured a 56 per cent increase largely due to massive Chinese investments in China Pakistan Economic Corridor projects. FDI inflows to Bangladesh also increased by 4.4 per cent attracting US$ 2.3 billion — the fourth largest among all least developed countries – mainly due to large scale infrastructure and electricity projects.[96] South Asia, including Bangladesh, expects to receive growing investment in coming years due to gradual shift in the division of labour where more developed economies are now adopting higher value-added industries leaving labour-intensive sectors for the developing countries. Notably, as discussed earlier, this would strengthen country's position in the regional and global production networks.

Significantly, China became the second largest investor in the world for the first time with US$ 183 billion outflows (44 per cent up from earlier year).[97] This has important implications for Bangladesh. During the visit of Chinese President Xi Jinping in October 2016, 27 deals were signed between Bangladesh and China with a total worth of US$ 24.4 billion in assistance. In addition, US$ 13.6 billion worth of 13 joint ventures were also inked between two countries to boost mutual trade and cooperation.[98] Realizing these funds as well as attracting more investments

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[96] UNCTAD, World Investment Report 2017, United Nations Conference on Trade and Development.
[97] UNCTAD, ibid.
[98] Refayet Ullah Mirdha, "Deals with China a turning point for Bangladesh", *The Daily Star*, 17 October 2016.

in Bangladesh would depend on a number of institutional and entrepreneurial environments as discussed later. Nonetheless, an assessment of Chinese financing in Bangladesh in comparison to funding from other bilateral and multilateral agencies provides some useful directions.

Table 3: Comparison of Terms and Conditions of Selected Loans to Bangladesh from Different Bilateral and Multilateral Sources

SL	Country/ Agency	Amount (US $)	Interest rate	Window/ grace period	Duration (year)	Conditions/ Comments	Deals/Projects
1	India[99]	4.5 billion	1%	5 years	20 years (2017)	Have to purchase 65 to 75 per cent of the services, goods or works from the Indian market	Infrastructure projects: electricity, railroads, roads, shipping and ports
2	China[100]	554 million	2.25%	5 years	30 years (2017)	US$ 82.5 million in soft loan and the remaining US$ 467.8 million in preferential buyers' credit from Exim Bank of China	For building a deep-sea single point mooring at Bay of Bengal
3	Japan[101]	1.5 billion	0.01%	10 years	40 years (2016)	Soft loan from Japan International Cooperation Agency (JICA)	Power, road communications and disaster management
		3.7 billion	0.1%	10 years	30 years (2017)	Soft loan from Japan International Cooperation Agency (JICA)	Coal based electricity plant and deep-sea port

[99] This is the third line of credit (LOC) agreement. Previously, India provided US$ 1 billion in 2010 and US$ 2 billion in 2016. See for details, "Bangladesh signs US$ 4.5bn loan deal with India", *BDNews24,* 04 October 2017, available at https://bdnews24.com/economy/2017/10/04/bangladesh-signs-4.5bn-loan-deal-with-india, accessed on 15 March 2018; Haroon Habib, "Bangladesh signs US$ 4.5 bn loan deal with India", *The Hindu,* 04 October 2017.

[100] This is a part of MoUs signed for 27 projects with a total estimated cost of US$ 24 billion during Chinese President Xi Jinping's Dhaka visit in 2016. See for details, BDNews24, "Bangladesh signing US$ 554 million credit deal with China for single point mooring", 27 October 2017, available at https://bdnews24.com/economy/2017/10/27/bangladesh-signing-554-million-credit-deal-with-china-for-single-point-mooring, accessed on 27 October 2017.

[101] Japan is Bangladesh's largest development partner. See for details, "Japan signs largest ever loan agreement with Bangladesh", *BDNews24,* 29 June 2016, available at https://bdnews24.com/economy/2016/06/29/japan-signs-largest-ever-loan-agreement-with-bangladesh; Aminur Rahman Rasel, "US$ 4.5bn deal sealed with Japanese consortium", *Dhaka Tribune*, 10 August 2017.

4	World Bank[102]	515 million	0.75%	6 years	38 years (2017)	The interest rate for IDA credit from a fixed allocation is 0.75 per cent for a lower middle-income country. (Soft loan)	Health, nutrition, and population services
		59 million	2.85%	9 years	30 years (2017)	As the amount of credit exceeds the fixed allocation, Bangladesh is taking it from the scale-up facility. (Hard loan)[103]	Power system development
5	ADB[104]	616 million	>1%	5 years	25 years (2017)	Market-based loan of US$ 600 million and a concessional loan of US$ 16 million	Power distribution systems improvement
6	AIIB[105]	165 million	2-2.2%*	5 years	25 years (2016)	Bank will provide at the Bank's standard interest rate for sovereign-backed loans with the corresponding weighted average maturity.[106]	Power distribution upgrade and expansion

Source: Compiled by authors from press releases of Economic Relations Division of Bangladesh Government, news reports and websites of respective organizations.

Comparative assessment of terms and conditions of selected loans/funds to Bangladesh (Table 3) reveals that China's official finance is less concessional than

[102] World Bank, 2017, available at http://www.worldbank.org/en/news/press-release/2017/08/28/bangladesh-receives-515-million-world-bank-financing-to-improve-health-and-nutrition-services, accessed on 28 August 2017.
[103] "Bangladesh signs US$ 59m hard loan deal with World Bank for power project", *BDNews24,* 25 August 2017, available at https://bdnews24.com/economy/2017/08/25/bangladesh-signs-59m-hard-loan-deal-with-world-bank-for-power-project, accessed on 28 August 2017.
[104] "Bangladesh gets US$ 616 million loans from ADB to improve power systems", *BDNews24,* 29 May 2017, available at https://bdnews24.com/economy/2017/05/29/bangladesh-signs-616-million-loan-deal-with-adb-to-improve-power-system-coverage. See also, "Bangladesh signs $150 mn loan deal with ADB", *BDNews24,* 27 August 2012, available at https://bdnews24.com/bangladesh/2012/08/27/bangladesh-signs-150-mn-loan-deal-with-adb, accessed on 29 May 2017.
[105] AIIB also approved US$ 60 million for Natural Gas Infrastructure and Efficiency Improvement Project in 2017 and another US$ 60 million on a project in Bhola to increase power generation capacity in Bangladesh. See for details, "Bangladesh Natural Gas Infrastructure Document", AIIB, 2017, available at https://www.aiib.org/en/projects/approved/2017/bangladesh-natural-gas-infrastructure.html; and https://www.aiib.org/en/projects/approved/2018/bangladesh-bhola-ipp.html, accessed on 15 March 2018.
[106] AIIB, "Bangladesh Natural Gas Infrastructure Document", ibid.

funding from other multilateral or bilateral sources. This is also visible in the above table as it shows that China charges high interest rate, 2.25 per cent for relatively shorter grace period but longer duration in comparison to India and other multilateral agencies. Loans from India are mostly tied with conditions to purchase from Indian enterprises. Japan provides most favourable terms of loans to Bangladesh, whereas funding from World Bank and ADB involves a number of macroeconomic conditionality. China-led AIIB provides loans with fewer conditions than World Bank.[107] Nonetheless, recent evidence from a new global development finance dataset shows that official development assistance by China positively contribute to economic growth in recipient countries and it does not affect the effectiveness of grants and loans from western multilateral aid and lending agencies.[108]

In general, these forms of financing add to existing debt burden and may not prove to be financially viable in the long run due to drawbacks in selecting projects, implementing timely and maintaining the expenditure as a result of political consideration, corruption and inefficiency on the part of the local counterparts. As per the dis-growth and dis-stability framework, when there will be huge line of credit leading to debt augmentation or rise in per capital debt ratio without any growth in per capita production rate, more credits from Chinese sources under BRI may not generate expected results. In other words, if per capital debt ratio grows more than per capita GDP rate in the participating/borrowing country, the result would largely be negative and burdensome in the long run.

Moreover, economic viability of large-scale infrastructure projects posit considerable uncertainly and risks of generating low returns in the long run.[109] In this connection, growing concerns are being expressed from different quarters, often motivated by realist apprehensions, that China is pushing many participating countries to inevitable debt crisis citing the example of Sri Lanka, Pakistan and several African states.[110] There remains valid grounds for raising questions that participating

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[107] Koh Gui Qing, "China's AIIB to offer loans with fewer strings than World Bank sources", *The Japan Times,* 15 September 2015, available at https://www.japantimes.co.jp/news/2015/09/02/business/chinas-aiib-to-offer-loans-with-fewer-strings-than-world-bank-sources/#.WpMNA7puK00, accessed on 20 December 2017.

[108] A study using new global dataset of official financing from China to 138 countries between 2000 and 2014 shows that for the average recipient country, one additional Chinese ODA project produces a 0.7 percentage point increase in economic growth two years after the project is committed. See for details, Axel Dreher, Andreas Fuchs, Bradley Parks, Austin M. Strange and Michael J. Tierney, "Aid, China, and Growth: Evidence from a New Global Development Finance Dataset", AidData Working Paper No. 46, 2017, available at http://aiddata.org/data/chinese-global-official-finance-dataset, accessed on 20 December 2017.

[109] Jane Perlez and Yufan Huang, "Behind China's US$ 1 Trillion Plan to Shake up the Economic Order", *The New York Times*, 13 May 2017, available at https://www.nytimes.com/2017/05/13/business/china-railway-one-belt-one-road-1-trillion-plan.html, accessed on 28 July 2017.

[110] B. Chellaney, "China's Creditor Imperialism", *Project Syndicate,* 20 December 2017, available at https://www.project-syndicate.org/commentary/china-sri-lanka-hambantota-port-debt-by-brahma-chellaney-2017-12, accessed on 28 July 2017; also see, A. Hodge, "China's debt-trap diplomacy snares our Asian neighbours", *The Australian,* 13 January 2018, available at https://www.theaustralian.com.au/news/world/chinas-debttrap-diplomacy-snares-our-asian-neighbours/news-story/7c6b04ac4e473f96d9ff3b7ec5abe102, accessed on 28 July 2017.

countries may find themselves "taking unrealistic financial obligations" and "struggling to repay and forced to swap key assets for debt" as it happened in case of Hambantota Port in Sri Lanka which was handed over to a Chinese state-owned company under a 99-year lease and also in case of a number of other BRI projects elsewhere.[111]

In this context, the alternative would be sharing of risk of capital which is a better option for the participating countries. Risk-sharing means sharing profit and loss by both parties involved. Otherwise, crisis like what happened in Greece cannot be averted, because in this system one is essentially feeding the creditors not the real economy. Examples may include risk-sharing financial instruments by European Investment Bank that provides financing to medium sized enterprises with a guarantee of covering 50 per cent of the loss of any loan or lease agreements.[112] This also applies to risk diversification in cross border investments and even in economics with low institutional quality.[113] Drawing on principles of risk-sharing from Islamic finance as discussed in Maghrebi and Mirakhor[114], it can be asserted that sharing gains from increased prosperity from BRI projects need to be ensured through risk-sharing rather than the dominant risk transfer mechanisms that are responsible for growing inequality and instability of global financial systems. So, mutual agreements on joint projects need to be transparent and debt repayments are to be made easier for recipient countries by sharing risks and returns on mostly large-scale infrastructure projects that mainly characterize Chinese investments.

4.3 *Transfer of Technology and BRI*

Transfer of technology from developed countries to the developing countries is essential for the transformation of the latter's economy. Role of technology transfer to the developing and least developed countries is widely emphasized and recognized in all major international conventions and agreements within the UN and WTO. In fact, in the initial stages of development, most countries resorted to borrowing technology from developed countries and diffusion of technology facilitated faster growth during this 'catching up' process in the last century.[115] International transfer of technology may occur through four major channels:

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[111] N. Chandran, "China's using cheap debt to 'bend other countries to its will,' academic says", 22 December 2017, available at https://www.cnbc.com/2017/12/22/one-belt-one-road-china-loans-are-debt-bondage-says-brahma-chellaney.html, accessed on 20 July 2017.
[112] European Investment Bank, "RSI Implementation Status", 2017, available at http://www.eif.org/what_we_do/guarantees/RSI/rsi-implementation-status.pdf; European Investment Fund, "Risk Sharing Instrument (RSI)", available at http://www.eif.org/what_we_do/guarantees/RSI/index.htm, accessed on 15 March 2019.
[113] M. Fratzscher and J. Imbs, "Risk Sharing, Finance, and Institutions in International Portfolios", *Journal of Financial Economics,* Vol. 94, No. 3, 2009, pp. 428-447.
[114] N. Maghrebi and A. Mirakhor, "Risk sharing and shared prosperity in Islamic finance", *Islamic Economic Studies,* Vol. 23, No. 2, 2015, pp. 85-115; Also see, O. I. Bacha, A. Mirakhor and H. Askari, "Risk Sharing in Corporate and Public Finance: The Contribution of Islamic Finance", *PSL Quarterly Review,* Vol. 68 No. 274, 2015.
[115] R. C. Allen, op. cit.

"trade in products, trade in knowledge and technology, foreign direct investment, and intranational and international movement of people".[116] Particularly, technology transfer may take the form of FDI, joint ventures, franchising, technical service contracts, management contracts and international subcontracting.[117] Effectiveness of international transfer of technology and hence increase in productivity would depend on the availability of skilled human capital, strong incentives for technological up-gradation, alignment of interests among productive classes and enabling institutions and favourable policy inducements.[118]

Although the forms and mechanisms of technology transfer from developed countries to developing countries are specified, in reality, there has been little or no visible attempt to materialize the transfer. Overall experience is that little technology transfer has taken place; this has always remained in the book and has never been implemented except in some sporadic cases.[119]

World Trade Organization's (WTO) Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) outlines the standards of intellectual property rights and patents which makes it difficult than before to borrow technology from developed countries. Although there are provisions for technology transfer in several international treaties and agreements adopted by United Nations and WTO, there is no binding or mandatory clause for it. This has resulted in limited or less favourable transfer for developing countries "except dumping [of] obsolete forms of technology".[120]

Reality of technology transfer and different agreements under the initiative of BRI is still too early to be assessed. Based on some successful cases of technology transfer, some conditions can be provided which will be necessary for fruitful leveraging of BRI. For example, the case of technology transfer and structural transformation in the Asian economies provide a practical illustration of how technology transfer can augment gradual transition to higher-end industrialization (Figure 8). The Flying Geese pattern of development formalizes a mechanism of technology transfer and gradual industrialization led by Japan during 1950s and followed by Newly Industrialized Economies (NIEs) and some ASEAN countries like Malaysia and Thailand. Gradually, East and South East Asian countries developed into industrial economies throughout the 1980s to 1990s and this process still continues.[121]

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[116] Bernard M. Hoekman, Keith E. Maskus and Kamal Saggi, "Transfer of Technology to Developing Countries: Unilateral and Multilateral Policy Options", World Development, Vol. 33, Issue. 10, 2005, pp. 1587-1602.

[117] Saon Ray, "Technology Transfer and Technology Policy in a Developing Country", *The Journal of Developing Areas,* Vol. 46, No. 2, 2012, pp. 371-396.

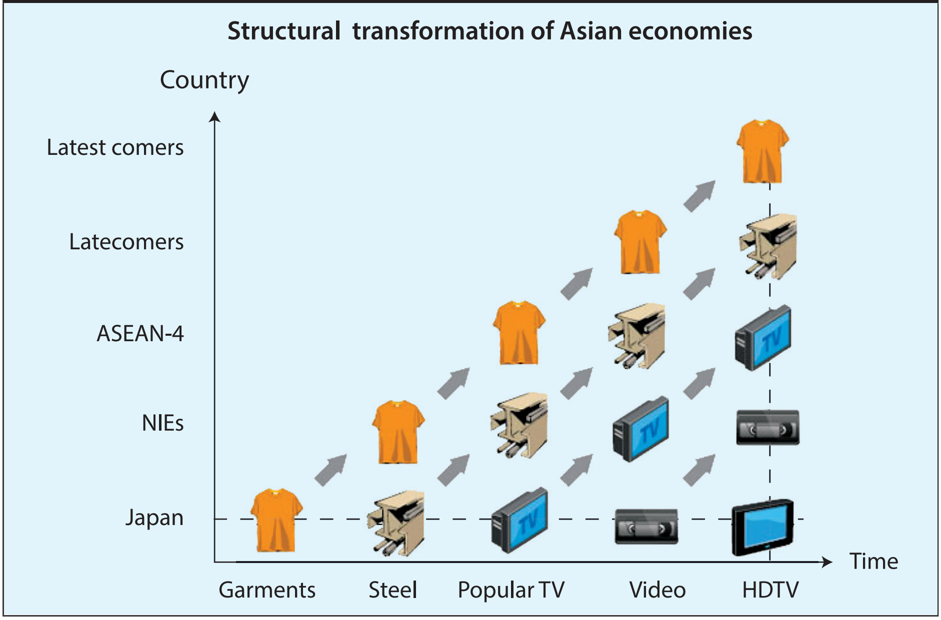
[118] Matleena Kniivilä, "Industrial Development and Economic Growth: Implications for Poverty Reduction and Income Inequality", *Industrial Development for the 21st Century: Sustainable Development Perspectives,* Vol. 1, No. 3, 2007, pp. 295-333.

[119] Manas Chatterji (ed.), *Technology Transfer in the Developing Countries,* London: Springer, 2016.

[120] Saon Ray, op. cit.

[121] Saburo Okita, "Flying geese pattern of development", The 4th Pacific Economic Cooperation Council Conference, Seoul, Korea, 29 April-1 May 1985. For details, see, "Flying Geese Model", available at http://www.grips.ac.jp/forum/module/prsp/FGeese.htm, accessed on 27 March 2017.

Figure 8: Technology Transfer and Structural Transformation of Asian Economies

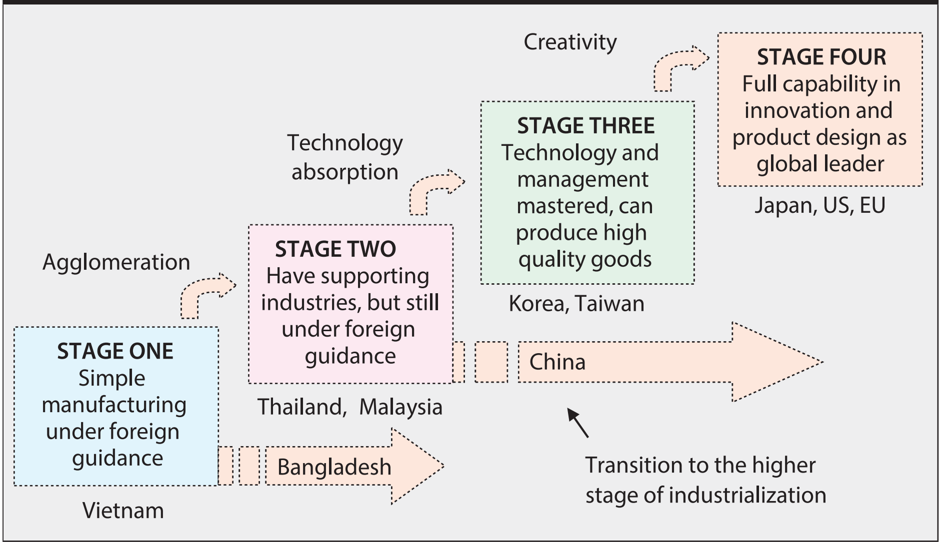


Source: Saburo Okita, "The Flying Geese Pattern of Development", 1985.

As the leading country advances through the progressive stages of industrialization from low-end to high-end manufacturing, neighbouring economies take up leftover opportunities by borrowing standards, technologies and financial and management supports. However, understanding why and how some countries managed to industrialize faster than others is important. As for South Asian countries, this process did not occur comprehensively.

For the development of Bangladesh, what can be done is like 'flying geese' model of technology transfer similar to earlier experiences of East Asian countries. In fact, the RMG sector, the number one export earning sector of the country, first shifted from Japan then to Korea and finally to Bangladesh when the former countries transitioned to higher end manufacturing industries. This has been a type of successful technology transfer. However, following the progressive stages of catch-up industrialization, Bangladesh now appears to position in the first stage with simple manufacturing still under foreign guidance (Figure 9).

Figure 9: Progressive Stages of Catch-up Industrialization



Source: Prepared by authors based on Ohno, 2009.[122]

The next step is the phase of technology absorption where Bangladesh can graduate with technology support and guidance from China under the auspices of the BRI framework when China itself would fully transition to creativity stage or higher. So, it seems practical and feasible to relocate the production possibilities, as China is facing mounting challenges of excess capacity and shifting towards higher trajectory of catch-up industrialization stages as shown in the above figure. At present, China is the largest exporters of creative goods and there is a continuous decline in its production of labour-intensive products like garments.[123] This could trigger process of technology transfer from countries participating in the initiative to effective levels. Taking into account the changing context and nature of transformation of China's economy, BRI may create complementary effects of relocation of industries, transfer of technologies to lower end developing countries. China can transfer technologies which no longer viable for their industry to the developing countries who are below the ladder of industrialization.

The economic implications of BRI are manifold but this consideration about technology transfer can generate sizable benefits not only for a particular country but also for the entire region to become more integrated in the production network.

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[122] Kenichi Ohno, "The middle income trap: implications for industrialization strategies in East Asia and Africa", Tokyo: GRIPS Development Forum, 2009, p. 37.

[123] UNCTAD, *Creative economy outlook and country profiles: Trends in international trade in creative industries,* United Nations, 2015.

Diversifying export basket, improving product quality and increasing productivity and competitiveness all require technological up-gradation and adoption of up-to-date technologies. The manufacturing sector in Bangladesh is largely dependent on imported technology with very limited research and innovation capacity.[124] Following the growth and stability framework, if there is no technology transfer or delay in technology frontier, mere import of obsolete technology would generate no stimulus to transform the local economies into industrial ones.

4.4 *Status of Bangladesh-China Trade and Transformation Potential under BRI*

Reality of Bangladesh China trade relations is tilted towards China with huge trade deficits against Bangladesh. Within this existing condition, Bangladesh seems to be in a not-so-good position to benefit from economic and trade facilitating infrastructure of BRI. Relevant questions are: how will Bangladesh be integrated or what will be its location in the Chinese production network? Whether Bangladesh can increase its level of production? Will Bangladesh be only importing country or exporting country? How and in what conditions local capital and enterprise will be benefitted from this initiative? What types of goods – primary, intermediate or finished Bangladesh can supply? And finally, how would the entire process lead to integration into the production networks, industrialization and major shifts from unemployment to productive employment of labour and their skill up-gradation to match the transitioning economy? Most of these questions will significantly affect the potential gain of other developing countries as well.

In Bangladesh, however, the one commodity dependence, lack of product diversification and transformation to industrial economy have stalled the growth of exports in recent times. The RMG sector takes around 82 per cent of total export earnings in FY 2016-17 and this overwhelming dependence on one sector makes the economy vulnerable in the international market. Further, Bangladesh is not well connected with the global production network that would foster a rapid transformation and diversification of its export sectors. In addition, the regional experience is not good in any of the instances such as SAARC, SAFTA, BIMSTEC and other regional arrangements. South Asia remains one of the least integrated regions in the world with share of regional trade being 5 per cent of combined total trade volume of all countries in South Asia. Hence, realizing gains from BRI would depend primarily on the extent of trade creation in the region.

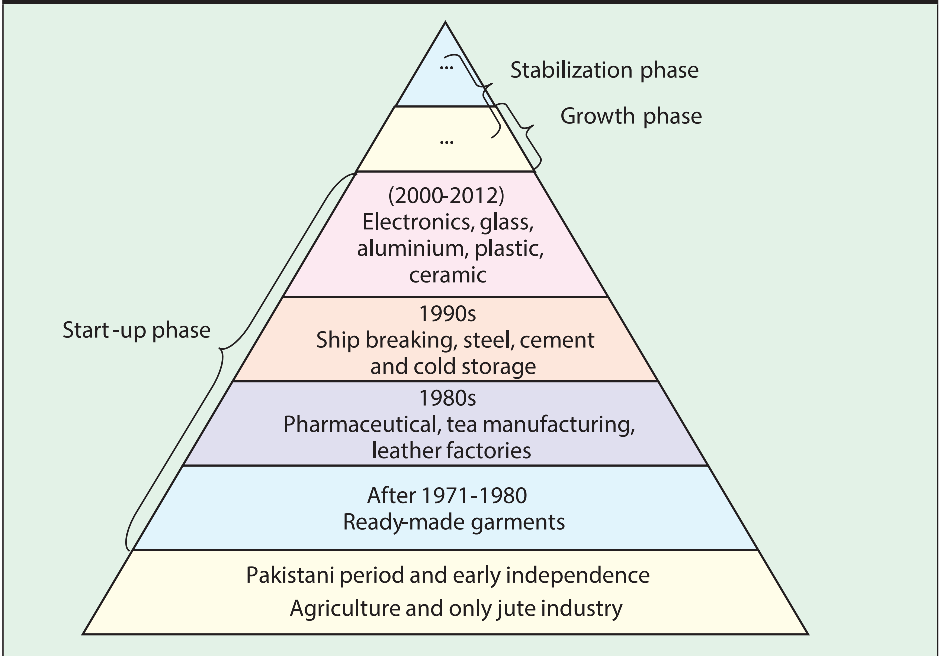
In recent years, bilateral trade relation between Bangladesh and China is burgeoning rapidly. China is the largest trading partner of Bangladesh making up 26.5

[124] Selim Raihan and Mansur Ahmed, "Supply-Side Capacity and Export Response in Leather and Home Textile Sectors in Bangladesh", MPRA Paper No. 37895, 2009.

per cent of its total trade whereas Bangladesh is its third largest trading partner in South Asia. Bilateral trade between the two countries crossed US$ 10 billion in 2016 but Bangladesh's exports to China still remains only about half a billion dollars with large trade gaps. With improved relations with China and growing opportunity for trade and investments, total bilateral trade figure is expected to reach US$ 18 billion by 2021.[125]

Aligning or complementing interests of productive classes across countries is important. At present, Bangladesh is in the 'start-up phase' of industrialization producing only light engineering products (Figure 10), whereas China is completing the transition through the growth phase and aspiring to high-end manufacturing and high-tech industrialization. Since the Chinese economy is facing problems of over production and excess capacity in sectors which fall mostly under the start-up phase of industrialization, there could be much complementarily between Bangladesh and China. As a result, creating complementarities between China's sunset industrial sectors with Bangladesh's start-up phase of industrialization can offer Bangladesh sizable dividends as well as opportunities for transfer of technologies which are no longer cost effective in China but can be suitable for Bangladesh.

Figure 10: Bangladesh in the 'Start-up phase' of Industrialization



Source: Based on Titumir, 2016 [126]

[125] HSBC, Belt and Road Initiative: Opportunities for Bangladesh, 2017, available at http://www.about.hsbc.com.bd/news-and-media/belt-and-road-initiative-opportunities-for-bangladesh, accessed on 15 March 2018.
[126] Rashed Al Mahmud Titumir, 2016, op. cit., p. 170.

Some examples of relocation potentials between Bangladesh and China may include labour-intensive sectors like garment manufacturing, leather processing and low-end technology dependent sectors like electronics and light engineering. Once China will be producing high end products like telecoms, high speed train, there is likelihood that China has to depend on import of those low-end products such as RMG and other labour-intensive consumer goods for domestic use.[127]

Bangladesh may approach to grab that vacuum. In order to arrest the opportunity, Bangladesh needs to expand trade with China by diversifying its export volume in complementary products as well as by narrowing the trade gap. Bangladesh China Chambers of Commerce and Industry identified a list of 'High priority industrial sector' consisting of Agribusiness, Garments and textiles, ICT and Business Services, Pharmaceutical sector and Leather and Leather goods (LLGs) as well as a list of 'Priority potential industrial sector' consisting of plastic industry, light engineering, renewable energy, frozen food, tourism, ship building and automobile manufacturing which could be benefitted from trade cooperation under BRI framework. Industrial Policy 2005 and Export Import Policy 2015-2018 of Bangladesh outlined detail plan for priority attention to potential export sectors.

Given Bangladesh's present export portfolio, some of the most promising exports to China can be RMGs and LLGs.[128] Bangladesh has duty-free trade privilege in Chinese market for 4,721 products mostly including garments items which was granted in 2011. Supported by strong bilateral relations, trade between the countries is growing rapidly. In 2016-17 Bangladesh's total export to China was US$ 949.4 million increasing 17.5 per cent from previous year where amount of garments export was US$ 391.6 million which also increased 14.8 per cent from the previous year.[129]

There are a number of factors that signal a promising sign for Bangladeshi exporters. First, China is becoming a major export destination of garments products

[127] Eloot et al., op. cit.

[128] Leather and leather goods (LLGs) are the second largest export sector in Bangladesh. This sector has large potential for expansion and export diversification. The export policy of 2015-18 aims to raise export earnings to US$ 60 billion by 2021, of which US$ 5 billion is expected from LLGs. Mohammad A. Razzaque reported that "in 2017, the total value of leather and leather goods exports from Bangladesh stood at US$ 1.2bn, accounting for 3.54% of the country's total merchandise exports. The industry's contribution to total output or gross domestic product (GDP) is estimated to be 0.35%. Total employment in the industry in 2016 was 129,000 — up from 91,000 in 2013. During the same period, the industry's share in total employment rose from 0.16% to 0.22%. The leather export sector has a strong backward linkage in terms of its usage of mostly locally sourced raw materials. The estimated domestic value addition is as high as 80-95%. The global experience shows that successful garment manufacturing countries tend to find it easier to develop specialization in leather products and footwear (and vice versa). The leather sector should thus be a natural driver of export diversification in Bangladesh." See for details, Mohammad A. Razzaque, "Leather goods: Bangladesh's next cash cow", *Dhaka Tribune,* 24 February 2018.

[129] Refayet Ullah Mirdha, "Rising apparel exports to China a sign of new opportunities", *The Daily Star*, 26 July 2017.

with a huge population and a growing size of the middle-class consumer market which Bangladeshi entrepreneurs trying to seize.[130] Second, China is a better alternative market compared to Bangladesh's current top destination in the US and European markets due to better prices and shorter distance trade. Third, as China is moving towards high-tech and high-end manufacturing industries, Bangladesh can tap into the low-end manufacturing industries that China currently operates. Under the auspices of BRI, Chinese state-owned enterprises and business communities are interested to invest in Bangladesh. China has initiated works to develop a 750-acre industrial zone in Bangladesh's port city Chittagong for Chinese manufacturing firms along with sizable investments in transportation, infrastructure and energy sectors roughly amounting to US$ 10 billion.[131] Besides, investment in infrastructure development is one of the main priorities for Bangladesh which has been reflected in different government plans. There are plans to invest US$ 40 billion in infrastructure related projects in next five years. Chinese investment under BRI mainly goes to infrastructure, energy and transportation sector.[132] BRI generated infrastructure will facilitate investment and trade and contribute to the global output. In some poorer countries like Bangladesh, where infrastructural development is significantly low, this initiative can create new market demand and employment opportunities. BRI infrastructure could further boost growth in an already rapidly growing part of the world. GDP growth in BRI countries averaged 4.2 per cent in 2014-16, compared to the global average of 2.6 per cent. BRI region will account for 80 per cent of global GDP growth by 2050 making the participating countries benefit considerably.[133]

5. BRI: Sufficient Conditions for Transforming Potentials into Gains

In the growth and stability framework, the sufficient condition holds that a favourable political settlement creates a capitalist class interested in the productive expansion of the economy, together with a strong regional alignment that advances the cooperation and guarantees security, culminating into growth and stability. The sustainability of such is contingent upon normative legitimacy coming from general

[130] China would produce 750 billion-dollar worth of garments from the current 300 billion dollars by the end of 2020. At present, China produces about 80 per cent of its garment products for local consumption. The remaining export-focused 20 per cent make up about 40 per cent of global apparel trade, worth nearly US$ 200 billion. So, Bangladesh should focus on this Asian economic giant for its future export growth. See for details, Refayet Ullah Mirdha, 2017, ibid.

[131] "Dragon's big push into South Asia: China to now develop industrial zone in Bangladesh", *The Financial Express,* 04 April 2018.

[132] The Hong Kong and Shanghai Banking Corporation Limited, 06 December 2017, available at http://www.about.hsbc.com.bd/news-and-media/belt-and-road-initiative-opportunities-for-bangladesh, accessed on 15 March 2018.

[133] Kazi Ahmed Arif Fuad, "One Belt, One Road (OBOR) Initiative: How Bangladesh can benefit through the new horizon of regional co-operation", Light Castle Partners, 19 June 2017, available at http://www.lightcastlebd.com/insights/2017/06/19/one-belt-one-road-obor-initiative-bangladesh-can-benefit-new-horizon-regional-co-operation, accessed on 15 May 2018.

masses in the form of social approval. By contrast, if there is political contestation within the country, if there is no convergence in distribution of power at different levels, and if there is no regional alignment among participating countries, it will create conditions for dis-stability and dis-growth.

5.1 *Legitimacy and Production Centric Political Settlement*

A greater sense of legitimacy at the normative and perception levels of the country would also foster strong regional alignment among the participating countries under BRI. The key for transforming potentials into concrete gains is to ensure these conditions for successful regional alignment strategy. Strategic and economic gains will only be materialized when there will be a political settlement that would lead to productive expansion of the economy rather than rent-seeking and extraction. This new initiative would accrue benefits only when the political class would complement the productive class. Historically growth happens when fundamental changes occur within the internal political system through distribution of power or power sharing. The stability of the political order is what makes growth sustainable in a country.

There needs to be an alignment of perceived interests or consensus between China's and Bangladesh's domestic political process to realize gains from BRI. Otherwise, it would become essentially regime centric with limited potential gains. Lack of normative legitimacy is clearly observed between neighbouring countries in South Asia. Over recent years Bangladesh's relation with China is getting stronger. China is addressing normative legitimacy with its own characteristics. China is not getting involved in domestic politics or not siding with any particular political party or faction. Based on popular perception, it is observed in case of India that it is taking sides with political parties in power manifestly. That is why India has weak normative legitimacy which is evident by seeing decreasing level of trust from neighbouring countries to India. But China's strategy to address normative legitimacy is not to take any sides directly. For example, in case of the Maldives, China is not getting involved directly and said that they would uphold international norms, would not interfere in domestic affairs and will not allow anyone to do so.[134]

Hence, rather than being regime centric, the relationship has to be geared internally by political consensus among the countries and supported by social recognition and popular approval. Within this internal process, one dimension would be among the political class and another would be among the capitalist class so that they are interested in productive capacity expansion and work for maximizing their share in the process in a way that is not damaging to the country's development.

[134] "China says international community should play constructive role in Maldives", *Reuters,* 09 February 2018, available at https://www.reuters.com/article/us-maldives-politics-china/china-says-international-community-should-play-constructive-role-in-maldives-idUSKBN1FT07O, accessed on 15 March 2018.

In other words, the emphasis is on two elements, one is on the political level and the other on the production level which will ensure the condition of growth and stability. For example, in the context of BRI, if FBCCI wants to remain merely as a commission agent, it would not work for the benefits of the country. Does the distribution of power in two levels - one in the party process and another in the composition of political/productive class reach growth enhancing political settlement? This question assumes greater importance if the capitalist class acts like an intermediate body just to take in quick commissions from the process rather than to get productively employed. Achieving this alignment would be the biggest challenge for the domestic political process.

More importantly, if political settlement and regional alignment remain confined to regime to regime variation, it would also be a problem. It needs to be production centric and must entail people to people exchange including regular interaction between commercial, state level and socio-cultural lines. So, if the capitalist class cannot utilize these opportunities, the country will not benefit from the process only by becoming a mere participant in BRI.

5.2 *Regional Alignment Strategy and Approach of 'Equiangular Development Diplomacy'*

In essence, politically stable relationship based on production orientation is the key process which is not found in the contrasting narratives provided by both liberals and realists and this is what the paper tries to advance. Implications of the realist approach are that it undermines the positive outcomes of BRI. As this approach dominates the way India perceives the Chinese initiative and thereby remains unstitched from participating, this points to a key challenge to overcome fear and apprehensions overwhelmed by the realists' pattern of thinking. Also, the liberal focus on uncritical celebration of cooperation and interdependencies may result in little or no favourable gains for small developing countries.

As a consequence, relations for development will only be fruitful when there will be strong regional alignment based on the principle of 'equiangular development diplomacy' which would direct to a balanced pathway to progress. Particularly, a strong strategic alignment is vital to the success of BRI in the South Asian region full of tensions and apprehensions among neighbours. The idea of regional alignment entails that common grounds for cooperation in the field of trade, investment and infrastructure building will emanate from internal compulsions that the countries in the region are facing. That means countries are better off cooperating with each other because they need each other. For successful industrialization and integration into the global economy, strengthening regional cooperation in the areas of financial arrangements, infrastructure projects, technology and knowledge sharing and aligning trade and industrial policies among developing countries is essential going beyond mere trade liberalization or free trade rhetoric.[135]

Revisiting the growth enhancing matrix that specifies the outcomes at the end, growth and stability would follow when interests and compulsions of countries concerned will merge in mutually complementary ways ensuring everyone gains. Finally, Bangladesh's relation with China will only bear fruits when all the necessary and sufficient conditions will be fulfilled.

6. Conclusion

China's Belt and Road Initiative is a grand strategy which aims to create greater trade and investment among a large group of countries while providing Chinese economy much leverage to avert challenges of slowing down of growth and transitioning of the economy. The article examines the potential gains from participating in BRI as it relates to infrastructure building, regional connectivity, trade, investment and economic development in South Asia along with a particular focus on Bangladesh. It has made an attempt to theorize and explore mainly economic implications of China's BRI for neighbouring countries. More specifically, the research has tried to explore the economic implications as well as the processes and mechanisms associated with the BRI strategy that will ensure growth enhancing environment to benefit participating countries while taking relations between countries on a balanced footing that would put forward an 'equiangular development strategy' for the region.

The significance of the article lies in the fact that the economy of Bangladesh needs a fundamental transformation away from agriculture to industrialization which would require a huge flow of investment, infrastructure building, technological up-gradation, productive expansion and large-scale employment generation. In this connection, Bangladesh needs to divert increasing attention to effectively reap opportunities from strengthening regional economic ties and more so with China which has opened a wide-gate of potentials to be realized from BRI strategy. As per the findings of the article, the future success of Sino-Bangladesh relations will largely depend on how well Bangladesh can customize and align its strategies with regard to attracting more investment, transfer of technology and exploring markets through diversification of domestic capacities and export competitiveness.

The article attempts to theorize the relations among the participating countries and China within the framework of BRI while specifying the necessary and sufficient conditions for explaining the economic gains from participation in the initiative. It is argued that leveraging within the framework of BRI needs to be necessarily based

[135] UNCTAD, Trade and Development Report 2017, op. cit.

on production orientation by integrating Bangladesh in the production network and further, this process needs to be facilitated by financial flow based on risk-sharing principle and appropriate technology transfer.

In this overall mechanism, the sufficient condition is the favourable political settlement that has to be interested in production centric expansion of the economy as well as equiangular development diplomacy between Bangladesh and China and in other similar contexts. It is noted that how much benefits the participating countries can derive from BRI would depend, however, on a regional alignment capable of overcoming geopolitical apprehensions and other non-economic challenges. In this regard, forming a strong regional alignment supported by normative legitimacy can create conditions for stability and growth for all the countries. Further, ensuring production and employment, appropriate and complementary technology transfer and financing based on risk-sharing principle which are emphasized should be explored in further research in future.