

Bangladesh-China Economic Relations: Issues, Challenges and Opportunities

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Structure of the Presentation

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- Introduction
- Trade – Exports and Imports, by Commodities
- Trade Deficit
- Investment
- Areas of Economic Cooperation
- Challenges
- Opportunities

Major Indicators, 2010

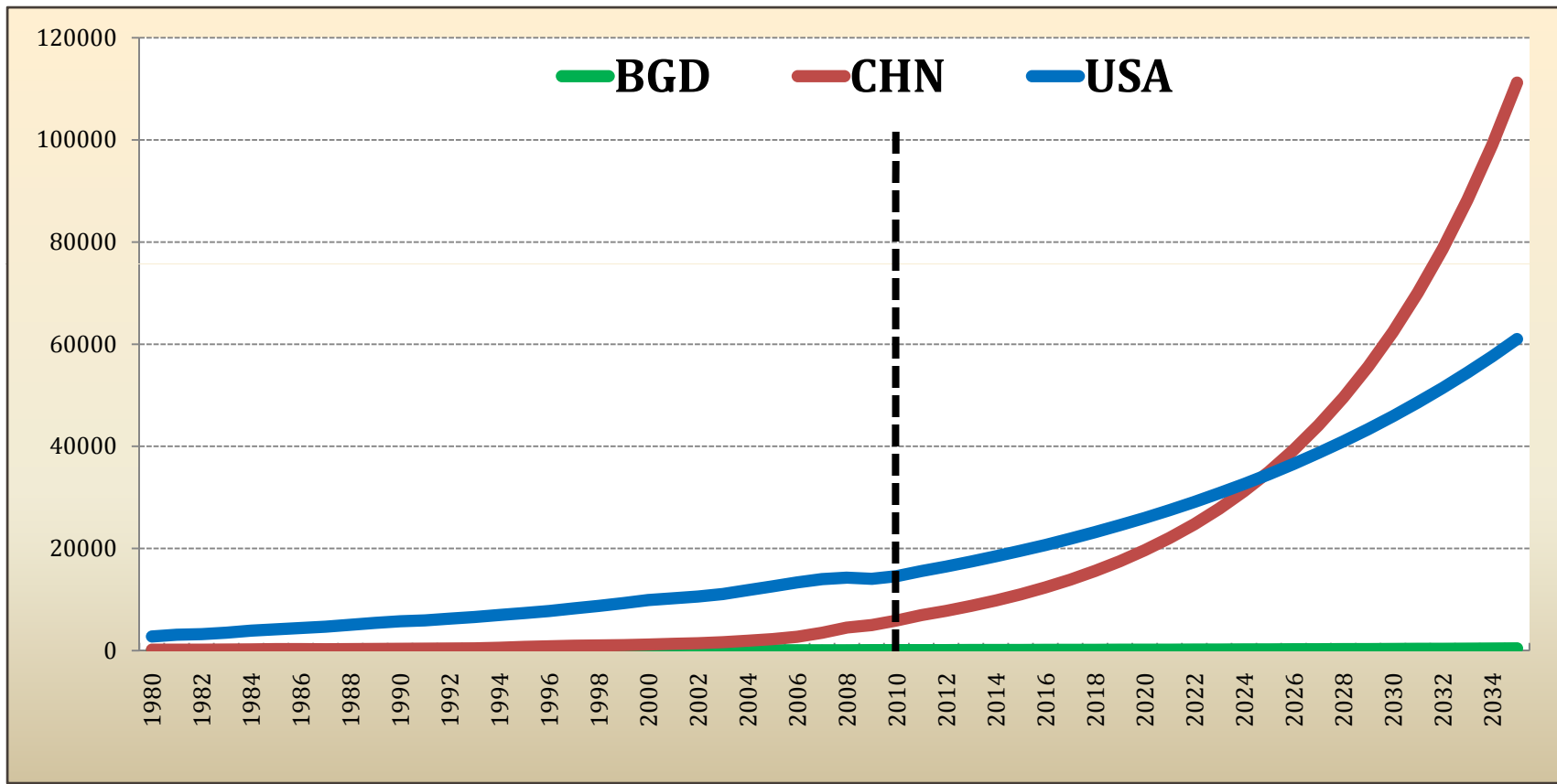
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Indicators	Bangladesh	China
GDP (constant 2000 billion US\$)	82.79	3,243.07
GDP per capita (constant 2000 US\$)	504	2,423
GDP (current billion US\$)	100.08	5,878.63
GDP growth (%)	6.7	10.3
GDP per capita growth (annual %)	4.65	9.73
GNI per capita (annual, atlas method)	700	4,260
Exports of goods and services (% of GDP)	19.43	26.74
Imports of goods and services (% of GDP)	26.55	22.33
Trade balance (% of GDP)	-7.12	4.41
FDI net inflows (BoP, current million US\$)	674.25	2,452.89
Total reserve (with gold, current billion US\$)	10.34	48.73

Source: World Development Indicators (online).

Prediction of GDP (at current billion US\$)

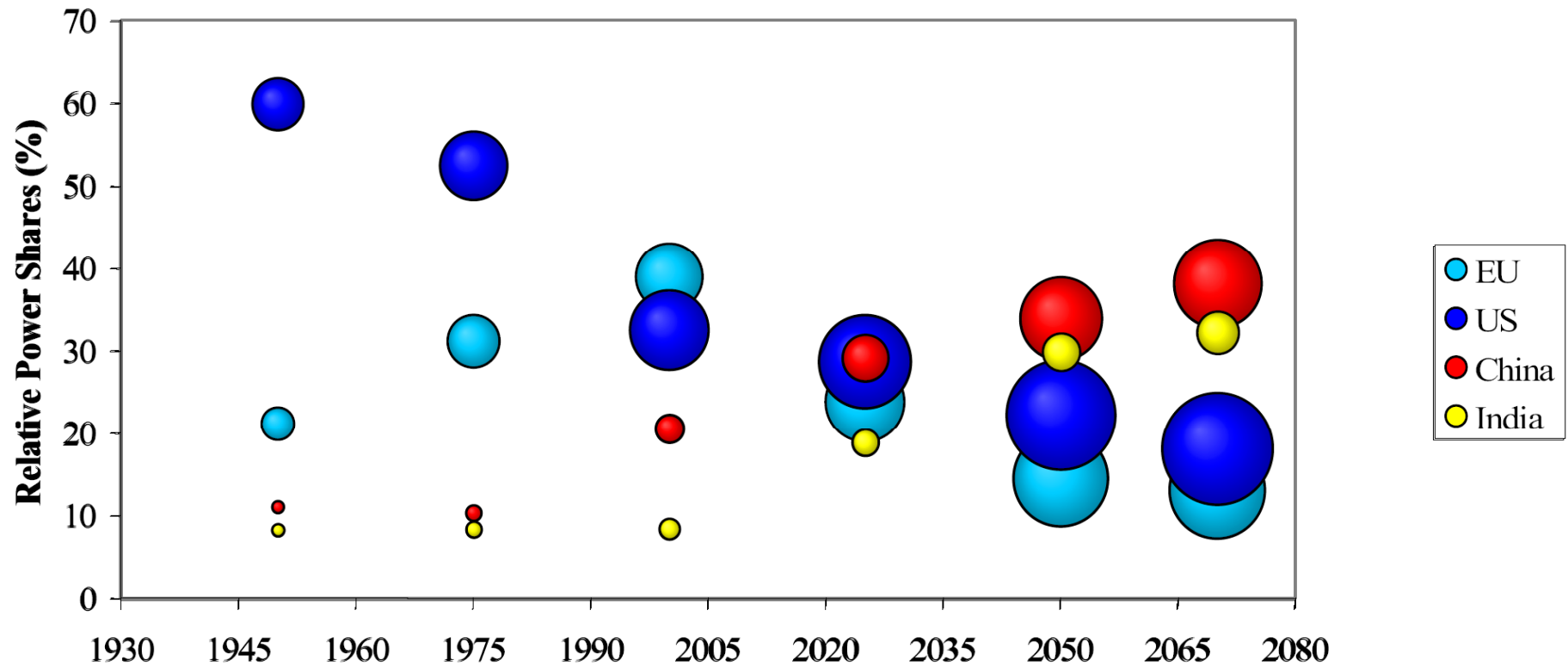
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Source: Author's estimation based on WDI data.

Relative Share of Total Output and Productivity Per Capita of Major Contenders, 1950-2070*

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*Size of nation circle represents per capita productivity.

Source: Jacek Kugler and Ronald Tamen (2004), "Regional Challenge: China's Rise to Power", In Jim Rolfe (ed), *The Asia-Pacific: A Region in Transition*, APCSS, Hawaii, p.43.

Bangladesh

China

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- The economy has now reached a growth rate between 6-7% despite several major natural disasters and global economic crisis
 - RMG contributed significantly towards exports, income and employment growth
 - Poverty reduced dramatically and the economy expanded its base of production to the manufacturing and service sectors
 - Vision '2021' – dreams to become a middle-income country
 - Employment is a challenge
- China has been able to maintain its economic growth momentum despite the global financial crisis
 - The phenomenal and robust growth has given China a strong economy
 - China has now become USA's largest creditor
 - Chinese GDP would exceed US GDP in 2025
 - China is already the largest trading partner of Bangladesh
 - Foreign investors are now pursuing '**China+1**' strategy

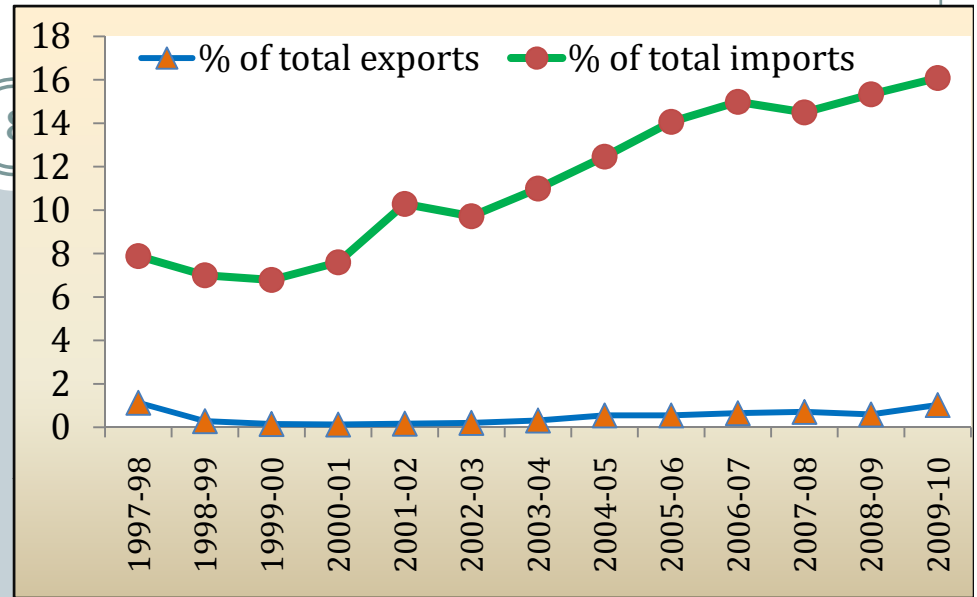
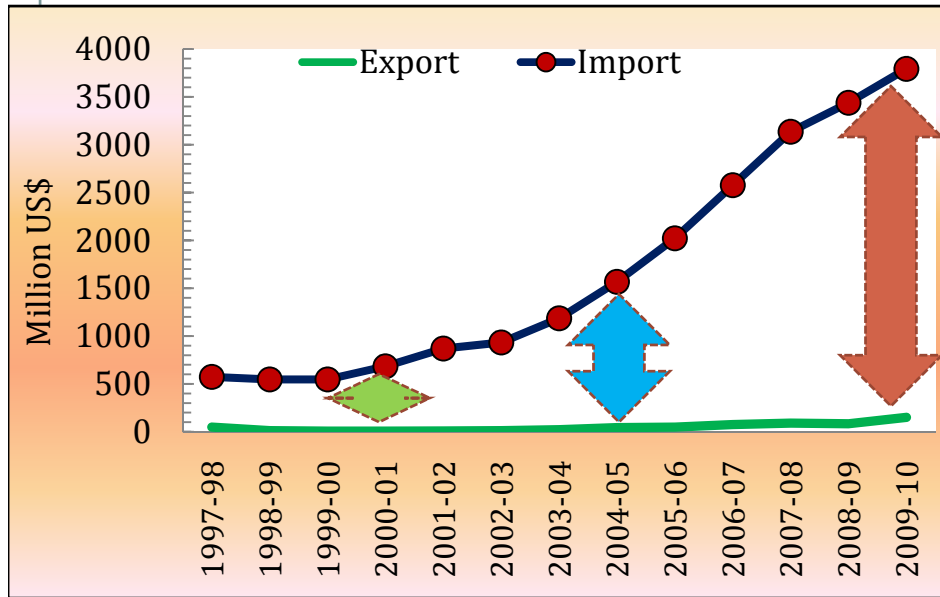
Bangladesh's Major Trading Partners by Share in Total Trade (%)

	China	India	Singapore	Japan	Hong Kong	Taiwan	S Korea	USA	Malaysia	Others	Total
IMPORTS											
2000-01	7.60	12.68	8.83	9.06	5.12	4.41	4.40	2.66	1.59	43.65	100
2001-02	10.28	11.93	10.20	7.67	5.16	3.65	4.05	3.06	1.70	42.30	100
2002-03	9.71	14.06	10.35	6.26	4.48	3.40	3.45	2.31	1.75	44.22	100
2003-04	10.99	14.69	8.36	5.06	3.97	3.46	3.85	2.07	2.34	45.21	100
2004-05	12.49	15.44	6.75	4.25	4.30	3.34	3.24	2.50	2.10	45.58	100
2005-06	14.10	12.67	5.76	4.41	4.25	3.21	3.32	2.34	2.05	47.90	100
2006-07	14.99	13.22	6.03	4.02	4.35	2.76	3.22	2.21	1.95	47.25	100
2007-08	14.50	15.69	5.89	3.85	3.80	2.21	2.87	2.27	2.09	46.85	100
2008-09	15.34	12.72	7.86	4.51	3.78	2.21	3.84	2.05	3.12	44.57	100
2009-10	16.09	13.54	6.53	4.41	3.32	2.28	3.53	1.98	5.19	43.13	100
2010-11*	18.49	14.34	4.01	3.70	2.70	1.77	3.10	1.78	4.76	45.35	100
EXPORTS											
	USA	Germany	UK	France	Belgium	Italy	Netherland	Canada	Japan	Others	Total
2000-01	38.66	12.21	9.25	5.66	3.93	4.57	5.07	1.94	1.66	17.04	100
2001-02	37.07	11.38	10.82	6.91	3.53	4.38	4.73	1.84	1.61	17.73	100
2002-03	32.91	12.53	11.89	6.39	4.42	3.96	4.24	2.60	1.65	19.41	100
2003-04	25.87	17.08	11.81	7.27	4.30	4.16	3.82	3.74	1.55	20.40	100
2004-05	27.87	15.64	10.90	7.24	3.76	4.27	3.37	3.87	1.41	21.67	100
2005-06	28.79	16.76	9.96	6.44	3.41	4.04	3.11	3.86	1.31	22.32	100
2006-07	28.26	16.06	9.64	6.01	3.58	4.23	3.77	3.75	1.21	23.49	100
2007-08	25.45	15.41	9.74	6.75	3.46	4.10	4.63	3.78	1.22	25.45	100
2008-09	26.03	14.58	9.64	6.62	2.63	3.95	6.24	4.26	1.30	24.73	100
2009-10	24.38	13.50	9.31	6.33	2.41	3.85	6.28	4.12	2.04	27.79	100
2010-11**	23.30	14.37	8.91	6.27	2.70	3.74	5.75	4.29	1.86	28.81	100

* Up to February 2011. ** Up to March 2011.

Source: Author's calculation from Finance Division data.

Trend of Imports and Exports



- China remains a minor export destination (only 1% of total exports in 2009-10 and less than 1% in most of the times)
- The top-most import source (around 16.9% of total import), superseding India's supremacy twice (in 2005-06 and 2008-09)
- Ever-increasing trade gap
- Bangladesh has also become unable to bridge this huge trade gap with its very short export list

Composition of Exports to China (% of Total)

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Sl	Category	2006-07	2007-08	2008-09	2009-10
1	Textiles and textile articles	53.0	60.6	61.1	68.7
2	Plastics and articles thereof; rubber and articles thereof	11.5	12.5	8.4	8.8
3	Raw hides and skins, leather fur skins and articles thereof; saddlery and harness; travel goods, handbags and similar containers; articles of animal gut (other than silk-worm gut)	17.3	12.5	9.9	6.8
4	Base metals and articles of base metal	10.2	4.7	4.8	6.1
5	Live animals; animal products	6.2	8.0	3.9	4.6
6	Mineral products	0.0	0.0	1.4	3.1
7	Vegetable products	0.3	0.4	4.7	0.9
8	Others	1.6	1.3	5.7	1.1
	Total	100	100	100	100

Source: Author's calculation from Bangladesh Bank data.

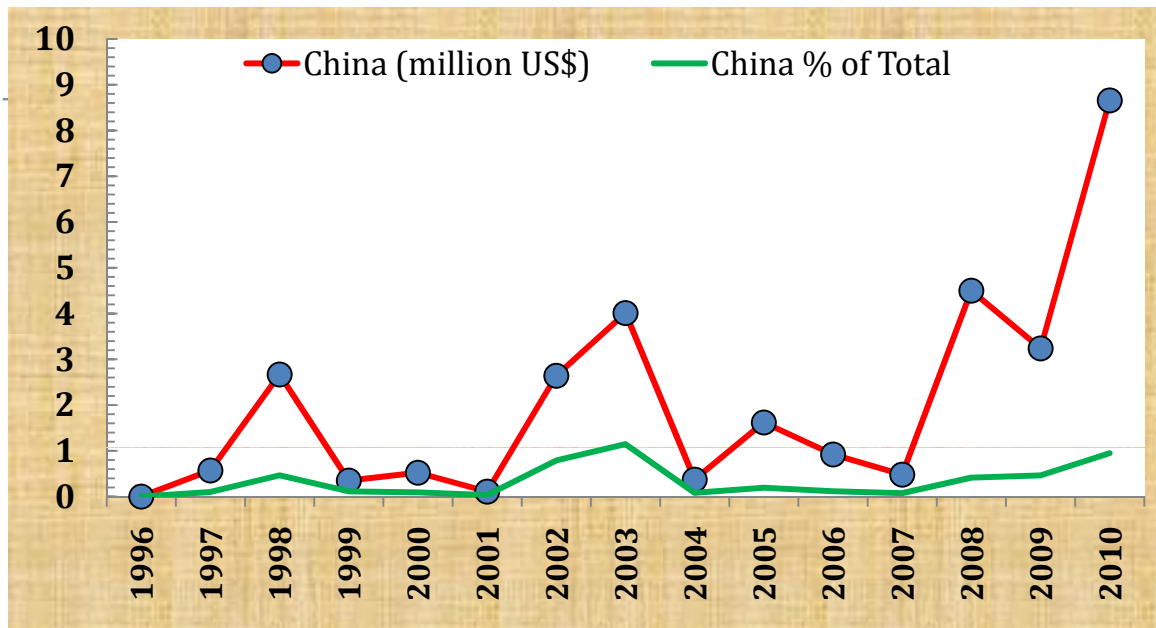
Composition of Imports from China (% of Total)

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Sl	Category	2006-07	2007-08	2008-09	2009-10
1	Boilers, machinery and mechanical appliances, parts thereof	17.1	15.5	16.0	17.6
2	Cotton (all types), cotton yarn/thread and cotton fabrics	20.0	17.2	18.8	15.8
3	Electrical machinery and equipment and parts thereof, sound recorders and reproducers, television image and sound recorders and reproducers and parts and accessories of such articles	12.2	11.0	10.9	12.7
4	Fertiliser	5.1	12.2	7.4	8.4
5	Man-made staple fibres	7.4	5.5	6.3	5.6
6	Knitted or crocheted fabrics	5.4	4.9	5.8	4.2
7	Man-made filaments	3.2	3.2	3.7	3.0
8	Organic chemicals			2.4	2.8
9	Vehicles other than railway or tramway rolling-stock and parts and accessories thereof	1.4	1.2	1.4	2.1
10	Inorganic chemicals, organic or inorganic compounds of precious metal, of rare-earth metals, of radioactive elements or of isotopes	2.7	3.6	3.0	1.9
11	Others	25.5	25.7	24.3	25.9
	Total	100	100	100	100

Source: Author's calculation from Bangladesh Bank data.

Stock of FDI from China



Source: Author's calculation from Bangladesh Bank data.

- From a scant US\$ 0.57 million in end-1997, the FDI from China increased to US\$ 8.66 million in end- 2010
- Still, FDI flow remains one of the lowest, only 0.36% of total, with the highest 1.14% in 2003 and the lowest 0.03% in 2001 during the last 14 years

FDI (100%) and Employment by Top Countries (1977-2010)

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Country	No of units	Investment (US\$ million)	Employment	I/L
UAE	6	2,229.9	6,513	0.342
Saudi Arabia	4	1850.4	2,154	0.859
UK	45	952.0	26,194	0.036
USA	23	735.4	3,881	0.189
Netherlands	7	351.2	595	0.590
Egypt	2	177.2	243	0.729
Malaysia	7	162.0	833	0.194
South Korea	88	123.7	46,089	0.003
India	43	93.8	7,982	0.012
China	54	55.6	7,071	0.008
Top 10	279	6,731.20	101,555	0.066
Total	418	7,012.77	141,957	0.049

Source: BoI (2011), *Foreign Direct Investment in Bangladesh (1971-2010)*, Dhaka.

Joint venture investment Registered with Bangladesh(1977-2010)

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Country	No of units	Investment (US\$ million)	Employment	I/L
Saudi Arabia	10	2275.7	2,373	0.959
Norway	5	1651.7	2,525	0.654
USA	95	1045.7	18,857	0.055
Japan	98	911.4	14,108	0.065
UK	111	687.7	32,967	0.021
Malaysia	37	569.5	7,998	0.071
Hong Kong, China	58	309.3	13,329	0.023
Singapore	57	294.2	7,848	0.037
France	19	274.4	4,174	0.066
Netherlands	37	228.5	11,012	0.021
UAE	22	223.9	4,616	0.049
Germany	44	200.3	11,642	0.017
China	93	188.2	21,271	0.009
Top 13	686	8860.447	152,720	0.058
Total	1179	10,172.47	259,207	0.039

Source: BoI (2011), *Foreign Direct Investment in Bangladesh (1971-2010)*, Dhaka.

Issues of Trade and Investment

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- China provided around 40% value of the merchandises are added in Bangladeshi shore
- Duty-free access to Chinese market is very important for Bangladeshi merchandise, as it is the fastest growing economy in the world
- China has provided duty-free access to 4,721 Bangladeshi products
 - aim to offset the trade gap
 - include major exportable, *e.g.*, garments, frozen food, jute and leather
 - it is almost similar to the European Union trade facility under “Everything But Arms” policy
- Bangladesh and China are members of the APTA — the oldest PTA of developing countries in the Asia-Pacific region

Issues of Trade and Investment (cont'd)

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- China and Bangladesh are old friends
 - In recent years, Dhaka-Beijing relations have reached new heights as replacing India
- It has become a key source of funds for Bangladesh's infrastructure development
 - already funded the construction of six friendship bridges and one international convention centre
- Low-cost Chinese products are making Bangladesh more dependent on China
 - Import from China surged mainly due to its wide range of products and prices
- China offers goods with wide price range and importers cling to China because of its easy trade procedure and speedy shipment

Issues of Trade and Investment (cont'd)

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- Bangladesh is an untapped market and China understands its significant economic potential
- Bangladesh too has abiding interest in China's rising economic prowess
 - the onus is on the businessmen and their competitiveness for tapping the opportunities in a new market
- Increasing Chinese export and investment in Bangladesh, especially in telecom, manufacturing, RMG, mining, power and agriculture, and the Chinese government's incentives to import Bangladeshi products

Issues of Trade and Investment (cont'd)

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- On 9 June 2011, Bangladesh signed a loan agreement worth US\$211 million (\$198 million) with the Export-Import Bank of China to upgrade the country's telecommunications network
- In the case of Bangladesh, the move comes on top of Chinese support in building a 150 megawatt power project in Chandpur, which will be built by Chengda Engineering Corporation of China, and construction of the seventh 'friendship bridge' at Kajirtek
- Two countries decided to establish a "Closer Comprehensive Partnership of Cooperation"

Connectivity

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- If we can connect with China through Myanmar, considering the magnitude of commercial prospects, Bangladesh could become a commercial hub of South- and South-East Asia.
- This will institute immense value to our economic growth. China's southwestern Yunnan province is nearer to Chittagong than it is to Shanghai or Beijing.
- Allowing China to link up with a Bangladeshi sea-port would be a lucrative offer to China's booming commerce.
- As a result, Bangladesh's trade with China will burgeon dramatically.

Opportunities

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- Bangladesh has competitiveness in RMG sector
- China-Bangladesh cooperation could work better if Chinese investment for establishing backward linkage industries in the field of textile and clothing could be attracted
- Bangladesh has also done excellent progress in the knit sector, and Chinese cooperation can give further boost to these sectors
- Jute-based textiles can also be planned to explore for future expansion

Issues of Trade and Investment

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- China is a major trading and development partner
- China has also provided financial and technical assistance for setting up of power plants, fertilizer factories, mines development and operation, etc. on concessional loans or supplier's credit
- Bangladesh has thus been an important destination for Chinese project outsourcing

Issues of Trade and Investment

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- Visas are never a problem in Chinese cases and China invites Bangladeshi enterprises to participate in exhibitions in order to obtain better information about Chinese products
- Chinese exporters are even ready to redesign branded products at the request of Bangladeshi importers to cater to the price-sensitive local market
- Chinese businesses show a lot of interest in taking care of logistics and trade difficulties and consistently follow up complaints
- China is also will for technology transfers

Initiatives

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- China is giving development assistance and project loans, which fosters goodwill
- China is looking for natural gas reserves in Bangladesh and has been offered exploration rights at Barapukuria
- China has gained naval access to Bangladesh's Chittagong port
- The two countries are also cooperating on the Bangladesh-Myanmar-China road link through Kunming to further increase economic cooperation

Connectivity

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- China-Myanmar-Bangladesh road and rail link received fresh impetus last year with all three countries agreeing to sign an agreement to develop transit facilities
- Bangladesh has sought China's assistance to develop and use the Chittagong port, as well as a deep sea port at Sonadia Island
 - This will serve to reduce China's dependence on Malacca Straits
- Chinese-backed infrastructure development in Bangladesh is a boon for economic prosperity in the country
- Road link connecting China and Bangladesh via Myanmar will reduce the distance between China's Yunnan Province and Bangladesh's Chittagong to 111 km, which will further boost economic activities
 - In the long run, this could prove to be vital for Bangladesh

Investment Opportunity

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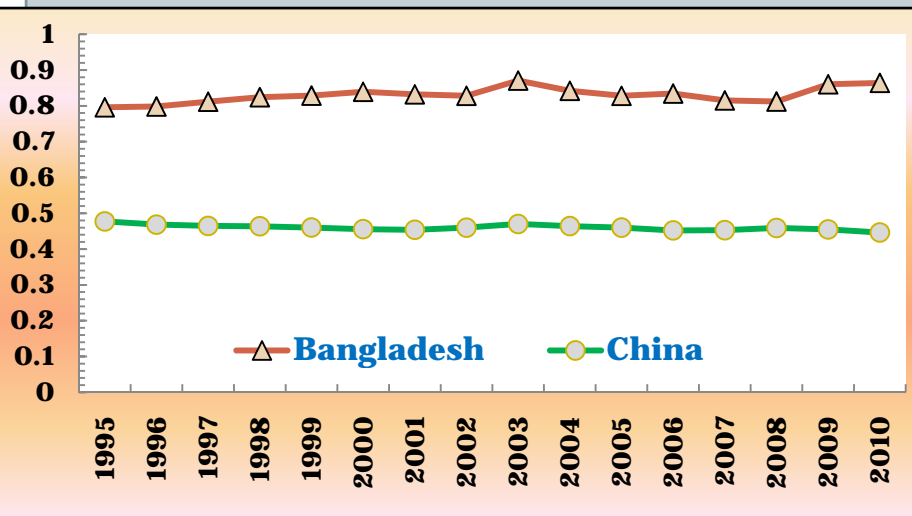
- Bangladesh offers immense investment potential with high return for investors
- The attractive economic climate was due to pro-investment fiscal policies, such as avoidance of double taxation, allowing 100% foreign equity, the unrestricted exit policy and full repatriation facilities of dividend and capital on exit
- Bangladesh welcomed investment in the growth industries of IT outsourcing, tourism, healthcare, education, power, telecom, infrastructure development and pharmaceuticals

Opportunities

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Bangladesh's 'Look East' policy adopted in the early 2000s to maximize economic and strategic gains helped make relations closer with China

✓ this shift in policy was primarily aimed at trade diversification



Source: UNCTAD Statistics.

- Asia has become a central dynamic to the global system, and the centre of this engine is now China and India
 - This is a unique opportunity for Bangladesh
- Bangladesh should diversify its export baskets and remove its structural problems in order to get more access to a very diversified and competitive Chinese market

Initiatives

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- **Following the June 2010 visit of the Chinese Vice-President to Bangladesh, agreements were signed, pledging financial assistance and expertise to:**
 - launch Bangladesh's first space satellite
 - upgrade the Pagla water treatment plant and the Shahjalal fertiliser factory
 - cooperate in building a conference centre and seven bridges; build the 600-1000 MW Pabna nuclear power plant, with a US\$1.5 billion (\$1.4 billion) Chinese concessional loan;
 - build a 900 km highway linking Chittagong to Kunming via Myanmar
 - engage in joint-venture oil and gas exploration
- **By late 2010, up to 55 Chinese businesses had submitted 186 investment proposals in the infrastructure, trade and business sectors worth US\$320 million (\$303 million).**
- **In May 2011, the Chinese energy consortium, Sinopec Shengli Oilfield Services, had won its bid to partner with BAPEX, to explore four gas fields in the CHT**

Potential Areas of Cooperation

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- One of the major producers of raw jute and major manufacturers of jute products
- There was no significant comparative advantage for China to remain tied to the jute sector
- China could give a new stimulus to the jute sector of Bangladesh
- The garment sector could be another area of cooperation
 - China still remains Bangladesh's competitor in the RMG and other labour intensive sectors

Potential Areas of Cooperation

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- With the Chinese economy evolving and its market moving towards high-end products, China could move out from the labour intensive areas at the lower end of manufacturing sectors and effectively relocate in Bangladesh.
- Bangladesh could be a destination for FDI
 - China should come to invest in Bangladesh's manufacturing sectors in which Bangladesh was not its competitor
- The Kungming initiative to build a new growth zone involving South West China's Yunan Province, Myanmar, Bangladesh and North East India
 - This initiative would encourage trade relations between the two countries

Value of Chinese Exports by Product Category (1990=100)

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	Food	Fuels	Iron & Steel	Chemicals	Office & Telecom Equipment	Electronic Data Processing and Office Equipment	Telecom Equipment	Automotive Products	Textiles	Clothing
1990	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1991	112.1	90.3	130.1	102.7	118.8	139.8	114.6	159.3	111.0	126.6
1992	122.5	91.7	103.0	115.9	170.3	302.1	147.9	102.7	118.9	172.8
1993	126.3	80.3	82.5	123.2	208.8	439.1	172.4	138.9	120.5	190.7
1994	154.8	79.5	128.9	166.2	320.6	710.5	257.1	164.9	163.7	245.4
1995	156.3	104.2	407.4	242.4	464.0	1,280.7	320.6	240.8	192.8	248.7
1996	158.0	115.9	283.3	236.6	550.2	1,791.1	343.3	229.4	167.8	258.9
1997	165.9	136.5	348.1	272.6	687.6	2,465.0	392.8	283.7	191.5	328.9
1998	154.8	101.1	256.4	275.1	810.8	3,159.0	423.6	308.7	177.5	310.8
1999	149.1	91.0	207.3	276.5	964.1	3,564.9	497.9	403.0	180.7	311.1
2000	172.3	153.5	342.4	322.4	1,391.5	4,970.1	743.7	612.7	223.5	373.1
2001	180.8	164.2	245.8	355.9	1,671.9	6,286.0	905.8	733.2	233.1	379.0
2002	205.4	164.8	259.1	408.4	2,415.9	9,660.7	1,220.6	1,037.7	284.8	427.1
2003	244.6	217.1	375.3	521.9	3,772.8	16,668.3	1,716.8	1,384.3	372.6	538.4
2004	264.6	282.9	1,082.1	702.5	5,495.3	23,227.0	2,611.4	2,431.0	463.0	639.7
2005	313.1	344.2	1,503.2	953.4	7,228.5	29,518.7	3,616.3	3,859.3	568.6	767.0
2006	354.1	347.1	2,535.6	1,186.8	9,191.2	35,865.1	4,712.6	5,585.2	674.3	986.4
2007	421.5	407.8	4,017.7	1,608.2	11,126.7	44,233.5	5,576.6	8,926.8	776.0	1,194.7
2008	456.1	620.7	5,532.2	2,113.8	12,228.2	47,154.0	6,173.9	11,099.2	905.3	1,245.2
2009	448.9	398.2	1,844.9	1,652.6	11,082.5	41,951.6	5,672.7	7,694.7	828.6	1,109.3

Source: Calculated from WTO Statistics.

Tap Benefits of “China +1” Strategy

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- As China is getting wealthier, and its population older, it is getting more expensive to manufacture there
- China’s comparative advantage as a source of low-cost labor has slipped, as its manpower costs have risen
- With an abundance of multinationals recruiting, the country’s workforce is graduating from low-wage labor in favor of higher paying skilled employment
- Costs have increased further due to a dependence on imported raw materials, and China’s manufacturing dominance in many product sectors has seen export limits imposed on Chinese-made products by some trading partners
- While mainland China remains the primary production base, rising costs on the mainland have convinced many companies to establish secondary manufacturing operations in other developing economies
 - Challenge – how to compete with Sri Lanka, Viet Nam, Cambodia, etc.

Challenges

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- Electricity
 - Uninterrupted supply in EPZs
 - Special plant
- Physical infrastructure
 - Road – Extremely congested
 - In Bangladesh 8,614 and in Dhaka division 11,259 people use per km of paved road
 - Rail – need investment & reform
 - Only 55 goods trains including container trains
 - Waterway
 - Environment-friendly & cheap but attention not paid
 - Seaport
 - Chittagong over-utilised in container handling
- Develop capacity – supply of skilled workers
 - only 5.89% of population completed secondary education
- Developing an enabling regulatory regime
- Governance – law and order, labour unrest

* Minimum Wage in Manufacturing Sectors

	US\$ (2010)
Bangladesh	43*-50
Cambodia	61*
China	150*- 200
India	87*
Indonesia	140*- 160
Vietnam	63-90*

**Thank You Very Much for
Your Kind Attention**