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OP-ED

China-Bangladesh relations: Contemporary convergence

M. Shahidul Islam

The relationship between Bangladesh and China dates back centuries. Historical records show that there were three Silk Roads that connected primeval China with the Indian aubcontinent. The Southern Silk Route was a bridge between the eastern part of Bengal (today's Bangladesh) and the Middle Kingdom. War and other conflicts in the region, particularly during and after World War II, disrupted the Sino-Bengal historical ties and connectivity.

However, economic rise of China in the past three decades as well as Bangladesh's steady economic growth since the early 1990s have resulted in better trade ties between the two nations. Further, the contemporary economic convergence in Asia, thanks to the shifting global centre of economic gravity towards east has created a space to re-establish their historic connectivity.

According to Dany Quah, an academic from London School of Economics, the global centre of economic gravity that was once at a point deep in the middle of the Atlantic Ocean in the 1980s has shifted east over the past 30 years, and could well shift even further over the next 30 years clustering around the border between China and India. Professor Quah observed that as incomes and populations change through time, so too does the world economic centre of gravity shift about on Earth.

That said, the relationship between Bangladesh and China has been coined as "time-tested, all-weather friendship." There is a plethora of bilateral agreements between Dhaka and Beijing including, trade, soft loans, social contacts, cultural exchanges, academic interactions, infrastructure development and military sales. China is the largest supplier of military hardware to Bangladesh. Here I discuss the current state as well as emerging trends in Sino-Bangladesh relations -- focusing on trade, investment, infrastructure and connectivity. The key challenges -- regional geo-politics as well as Bangladesh's internal political dynamics -- to further strengthening the ties between the two nations are also highlighted.

Both China and Bangladesh witnessed marked increase in trade in recent decades: China's Trade-to-GDP ratio has exceeded 55% and that of Bangladesh's approaches 50%. China is Bangladesh's largest trading partner, with total trade exceeding $7 billion in 2010. However, the former remains a minor export destination for the latter. Beijing has offered duty-free access to 4,721 Bangladeshi products to address the growing trade imbalance.

Nevertheless, massive structural shift in the Chinese economy is creating huge opportunities for Bangladesh. Beijing is increasingly focusing on the development of high-end manufacturing and services. This is largely due to the rising wage cost in the coastal regions of China and appreciation of its currency. Moreover, following the recent financial crisis, there is a realisation that the country's current growth model that relies excessively on exports and investment needs to be rebalanced, with a greater emphasis on consumption. Development of high-end manufacturing and service sectors is the key in this regard.

China's move towards a vertical economy has already created much room for Bangladesh, owing to its abundant supply of labour. In fact, Bangladesh is fast approaching Asia's apparel hub, and a recent Mckinzey report indicates that the country's RMG exports will double by 2015 and nearly triple within a decade. With Bangladesh's more favourable demographic transition in hand, more complementarities could also emerge in the medium term owning to contrast in China's ageing and other demographic disadvantages.

While Beijing is offering some privileges to export Bangladeshi products to China, it shows significant promise to eventually become an ultra market for Bangladeshi products, particularly RMG, given its sheer size. This coincides with projected relative economic decline of Europe and the United States, Bangladesh's traditional export markets.

As far foreign direct investment (FDI) is concerned, China has become an important source of outward FDI in Asia and Africa, even in the West. There is also a significant Chinese investment in Bangladesh. But the scale can be much higher than the existing level. In fact, according to the Board of Investment, a record 219 foreign investment projects registered with it in 2011, including a large number from China.

The next critical issue with regard to Sino-Bangladesh relations is connectivity. China's economic growth has resulted in regional inequalities within the country. While coastal areas have witnessed spectacular increase in living standard, the hinterlands are relatively less developed. To bridge the gap between the hinterlands, particularly landlocked south-western China, and the coastal regions, Beijing is making huge investments.

Being landlocked, the Yunnan province of China seeks greater economic engagement with Bangladesh including access to the Bay of Bengal. Both Beijing and Dhaka have been negotiating a number of mega infrastructure projects, notably highway and railway networks, connecting Chittagong and Kunming through Myanmar. While Yunnan has a ready infrastructure and the Myanmar part of the project is being built, Dhaka has to act fast to connect with the network. China also wants to develop a deep-sea port in Chittagong.

If the plan is eventually materialised, the Chittagong-Mandalay-Kunming highway offers another opportunity for Bangladesh in the Mekong sub-region (GMS), consisting of Cambodia, China (Yunnan and Guangxi Zhuang), Lao PDR, Myanmar, Thailand, and Vietnam. The GMS is a natural economic area bound together by the Mekong River, covering 2.6 million square kilometers, and a combined population of around 326 million. China, Asean and Asian Development Bank (ADB) are spending big to develop infrastructure in the region. According to ADB, priority infrastructure projects in the region worth around $10 billion have either been completed or are being implemented.

While the infrastructure projects that aim to connect Bangladesh with south-western China, Myanmar and other GMS regions make much economic sense, geopolitics is a hurdle to connecting the dots between Bangladesh and China. Bangladesh, which is sandwiched between two rising giants China and India, has to address some geopolitical issues aligning with its long term interest. Beijing's massive infrastructure spending, particularly sea port development in South Asia and elsewhere in the world, has been seen, notably by its arch rivals

India and United States,, as part of the Middle Kingdom's "String of Pearl Strategy," a manifestation of China's rising geopolitical influence through efforts to increase access to ports and airfields, develop special diplomatic relationships and modernise military forces, inter alia.

Nonetheless, owing to the highly polarised politics in Bangladesh, the two key political parties' skewed relationship with Beijing and New Delhi has been a barrier for the country to augment its physical connectivity with its South and East Asian neighbours. However, as discussed, economic dynamism in East and Southeast Asia, economic convergence in Asia and Bangladesh's aspiration for higher economic growth indicate that economic forces could triumph over geopolitics in the near future.

To sum-up, while trade volume between China and Bangladesh continues to increase thanks to the latter's steady economic growth and the former's diversified exports basket, China's structural shift could rectify the Sino-Bangladesh trade imbalance to some extent. In fact, trade between Bangladesh and other Southeast and East Asian economies is also on the rise. So is the investment trend. However, when it comes to connectivity and infrastructure development, the state has to play a big role balancing the country's economic imperatives and geopolitical risks. Given the massive economic changes that are taking place in East Asia, centring China, Bangladesh should adopt to a de facto "Look East Policy" to bring itself closer to the new global centre of economic gravity.

The writer is a Visiting Research Fellow at the Institute of Governance Studies (IGS), BRAC University.

E-mail: imonsg@gmail.com

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