

Living with Elephant and Dragon: Bangladesh's perspective

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Presentation Outline

➤ Bangladesh's relations with China and India: historical links and contemporary convergence

-drivers of convergence

➤ Trade, investment and other economic relations

-existing pattern and emerging opportunities

➤ Key challenges

-Geo-politics, internal political idiosyncrasies in Bangladesh

- Recent developments

➤ Bangladesh's choices

➤ The way forward

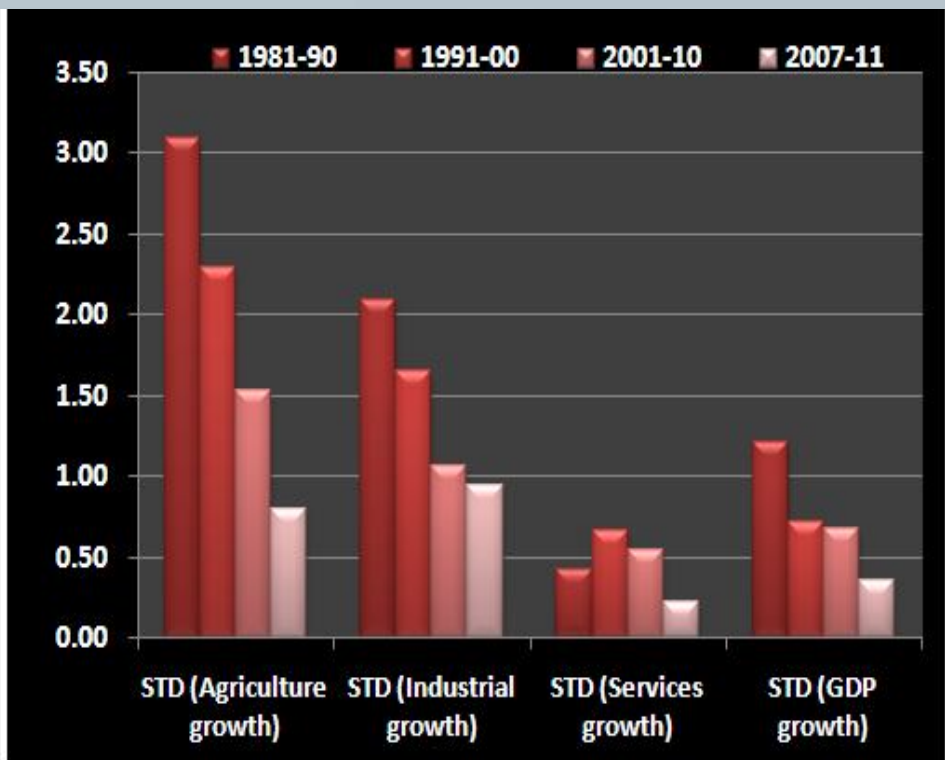
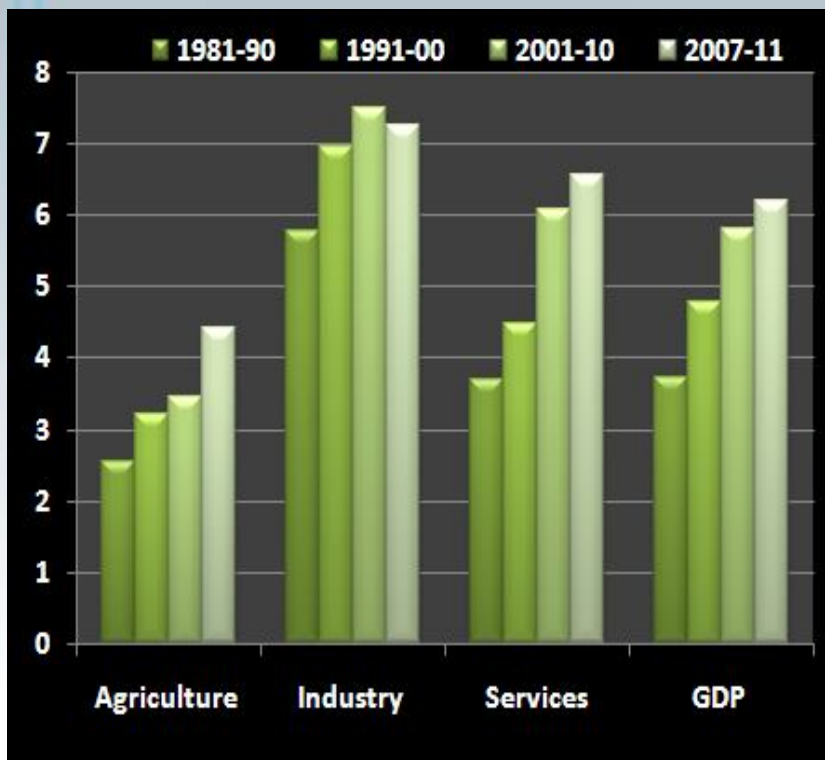
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Indo-Bangla relations

- Deep cultural, historic and economic relations
- Most important neighbour, some tensions as well
 - *You can choose friends, not neighbours (a former Indian Prime Minister)*
- Contemporary convergences
 - the economic rise of India since early 1990 (*its systemic importance in the global economy*)
 - Bangladesh's steady economic growth
 - Trade, investment and connectivity

Bangladesh's economic growth with low volatility



Sino-Bangla Relations: Historical Links and Contemporary Convergence

“we can always get a better understanding of the present by reviewing the past”- an ancient Chinese proverb

- ❖ Historical records show there were three *Silk Roads* connecting China and Indian Subcontinent
- ❖ The *Southern Silk Road* was closely related to Bangladesh. It started from the province of Shu (today's Chengdu Plain), ran southwards through Kunming, Dali, Baoshan and Ruili of Yunnan Province and entered Myanmar and then Bengal/ India
- ❖ The rise of Sino-Bangla contacts during China's Ming Dynasty (14th - 17th Century), Buddhism was exported to China from India

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Sino-Bangla Relations: Historical Links and Contemporary Convergence

❖ War and other conflicts in the region, particularly during and after World War II, disrupted the *Sino-Bengal* historical ties and connectivity.

-This has also created suspicion between China and India eventually affecting relatively smaller states' (like Bangladesh) relations vis-a-vis both the countries

❖ However, the economic rise of China in the past three decades as well as Bangladesh's steady growth since the early 1990s have resulted in better trade ties between the two nations.

Sino-Bangla Relations: Contemporary Convergence

- ❖ Not only with China, Trade between Bangladesh and ASEAN+2 is on the rise New market Opportunities in the Greater Mekong Sub-region
- ❖ Further, the contemporary economic convergence in Asia, thanks to the shifting global centre of economic gravity towards East (centering China), has created a space to re-establish their historic connectivity

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Seeing Asia from Space at Night! What does it Indicate?



Data SIO, NOAA, U.S. Navy, NGA, GEBCO
Image © 2011 GeoEye
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Google earth

The global centre of economic gravity has shifted East over the past 30 years (black dots), and could well shift even further east over the next 30 years (red dots).

Source: *The Global Economy's Shifting Centre of Gravity* by Quah Danny, LSE



Bangladesh's Trade and other Economic Relations with China and India

❖ Existing trade patterns:

❖ Marked increase in trade following their entry into the WTO: China's Trade/GDP ratio exceeded 55%, India's 30% and Bangladesh's approaching to 50%

❖ China is Bangladesh's largest (de jure) trading partner (official) with total trade exceeding \$8 billion in 2011

❖ India is Bangladesh's 2nd largest trading partner, but if one considers unofficial trade it is number of trading partner

❖ But both India and China remains minor export destinations for Bangladesh- Notwithstanding textiles exports have seen a steep rise in recent years

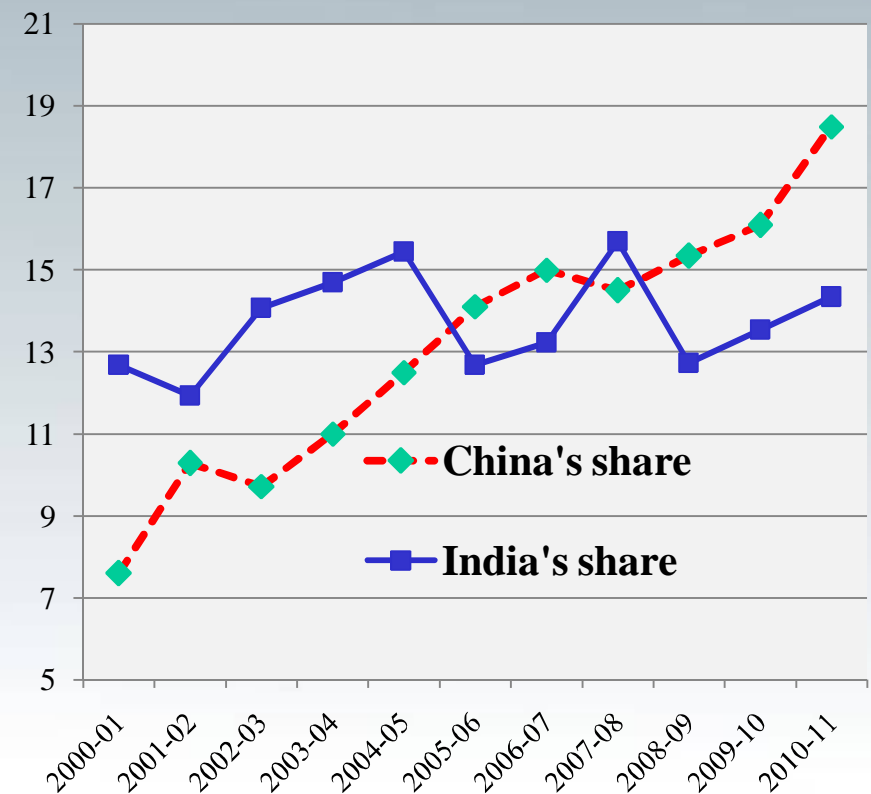
Bangladesh's Trade and other Economic Relations with China and India

- ❖ This is largely due to Bangladesh's trade pattern (importing from neighbourhood and exporting to advanced economies) and non-diversified export basket
- ❖ However, trade imbalance is a worry:
 - ❖ *China has offered duty free access to 4,721 Bangladeshi products*
 - ❖ *India has also rendered similar trade concessions, notwithstanding Beijing has been quite aggressive in this regard.*

Bangladesh's Trade with China and India

(the left hand Table shows exports and imports values, in US\$, and the right hand graph indicates share in total trade, %)

Year	Chain's Export	India's Exports	China's Imports	India's Imports
2000	900	640	19	79
2001	955	776	17	89
2002	1066	1063	32	64
2003	1335	1026	33	56
2004	1906	1653	57	72
2005	2403	1613	79	69
2006	3090	1720	99	104
2007	3350	1668	114	224
2008	4556	2064	132	233
2009	4441	3243	141	330
2010	6789	2177	269	234



Bangladesh's Trade and Investment with China and India: Some emerging Trends

➤ China's structural shift and emerging complementarities

➤ *China is increasingly focusing on the development of high-end manufacturing and services, given the structural needs of its economy*

➤ *The rising unit labour cost and upward adjustment in its currency mean that a plethora of low-end manufacturing jobs are moving out from China's coastal areas*

➤ *China's move towards a vertical economy has already created much room for Bangladesh: RMG, for instance*

➤ *Bangladesh is already an apparel hub, could become an important manufacturing center for other low-end manufacturing*

➤ China's demographic window closes, Bangladesh's opens

➤ China's technological know-how, finance and Bangladesh's cheap labour

China's investment in Bangladesh is on the rise

- ✓ Chinese investment in Bangladesh: telecom, manufacturing, RMG, mining and power
- ✓ Bangladesh in the regional investment map: 219 projects registered with BoI in 2011, worth \$ 6.4 billion
 - *The rise of Chinese investment (both proposed and actual realization) in Bangladesh*
 - *This is critical to develop infrastructure and augment industrial capacity in Bangladesh, expedite technology transfer, China can take advantage of Bangladesh's LDC status*

Bangladesh relations with China: beyond trade and investment

- ✓ A plethora of bilateral agreements that range from economic engagements, soft loans, social contacts, cultural exchanges, academic interactions, infrastructure development and military sales
- ✓ Special military relations- the largest supplier of military hardware to Bangladesh

India's greater engagement with Bangladesh: transport, transit and concessionary loan

- ❖ Some major developments in recent years as far as its connectivity is concerned, although many attempts are half-hearted leading to public discontents
- ❖ Several Indian textile firms are setting up base in Bangladesh taking advantage of the cheap labour costs and tariff concessions on offer in developed countries
- ❖ Concessionary loans to develop infrastructure but not much progress

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Yunnan-Bangladesh Economic Cooperation

Existing trade:

Trade volume between Yunnan and Bangladesh rose 35.6 percent year on year to \$140 million in 2011 (January-November).

Complementarities/advantages

Yunnan economy has a comparative advantage in some resource-based industries such as steel, coal and tobacco

China's most environmentally and culturally diverse province, "green pearl" on the Tropic of Cancer

Yunnan/China- Myanmar energy infrastructure

Bangladesh's geographically favorable location, port facilities, bridge between South and Southeast Asia

Potential areas for cooperation

Infrastructure and connectivity, renewable energy, agro processing and tourism

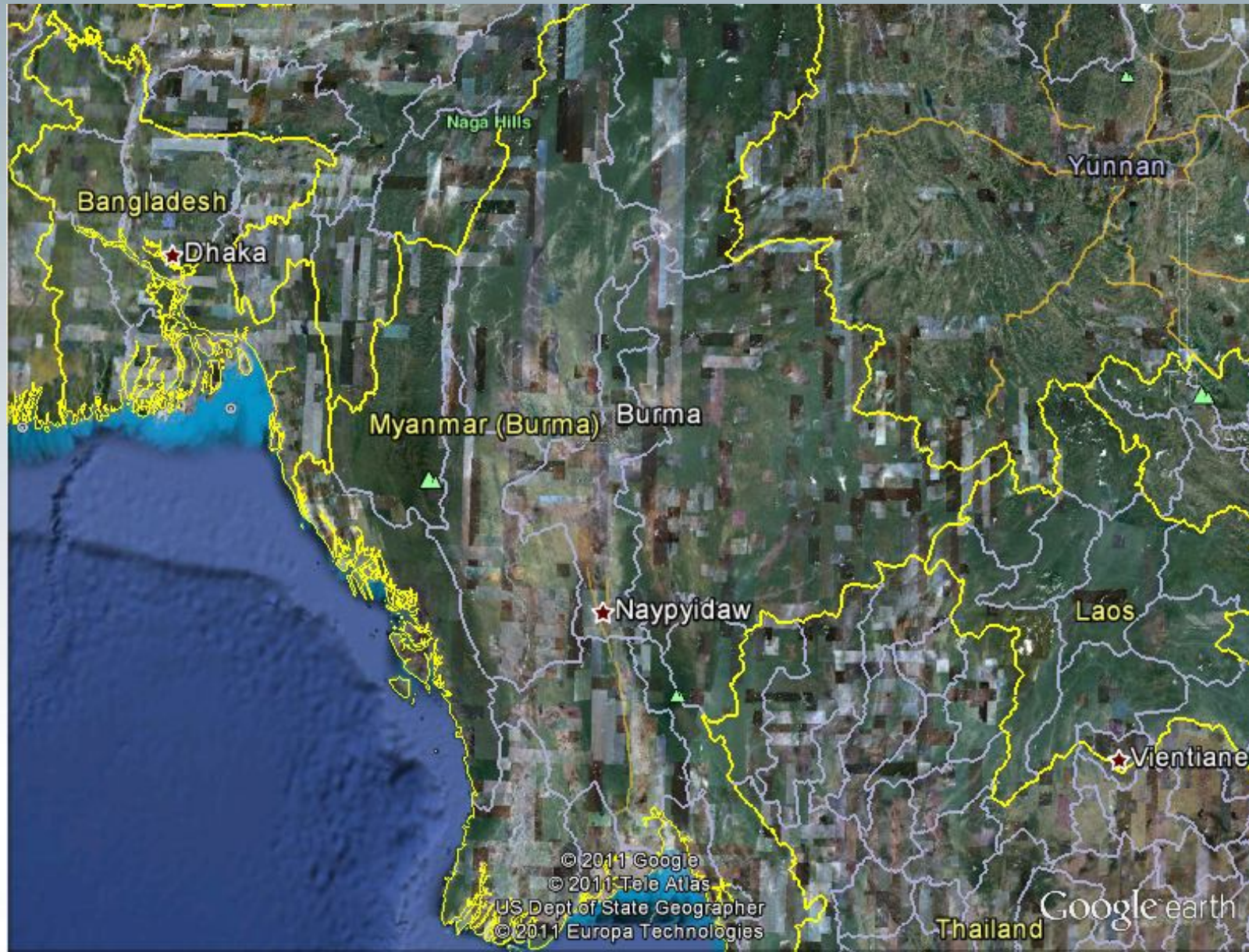
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Bangladesh's political constraints and geopolitics: Missed opportunities

- Bangladesh's domestic constraints to receive FDI
- Poor connectivity and power shortage hurt trade and investment
 - Some fundamental problems in politics leading to lack of long-term commitments from politicians to develop power and infrastructure
- *Chittagong-Myanmar-Kunming highway, a proposed deep sea port at Sonadia, Chittagong, access to Bay of Bengal-Indian Ocean area have been the victim of global and regional powers geopolitical interplay*
- *Bangladesh, owing to its weaknesses in domestic politics, is less than effective in managing two giants interests (US is also in the equation)*

Infrastructure Development and Connectivity



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Landlocked Yunnan's Priority: Increase Connectivity and Infrastructure Development in the Neighbourhood

Name	Yunnan		Overseas	
	Mileage	Level	Mileage	Level
Kunming—Hanoi—Haiphong	400	High speed	350	Second or third class
Kunming—Laos—Myanmar	688	High speed or second-class	1119	Second or third class
Kunming—Mandalay—Rangoon	732	High speed or second class	1167	Third class

Resource: 2010 Yunnan Traffic Development Report.

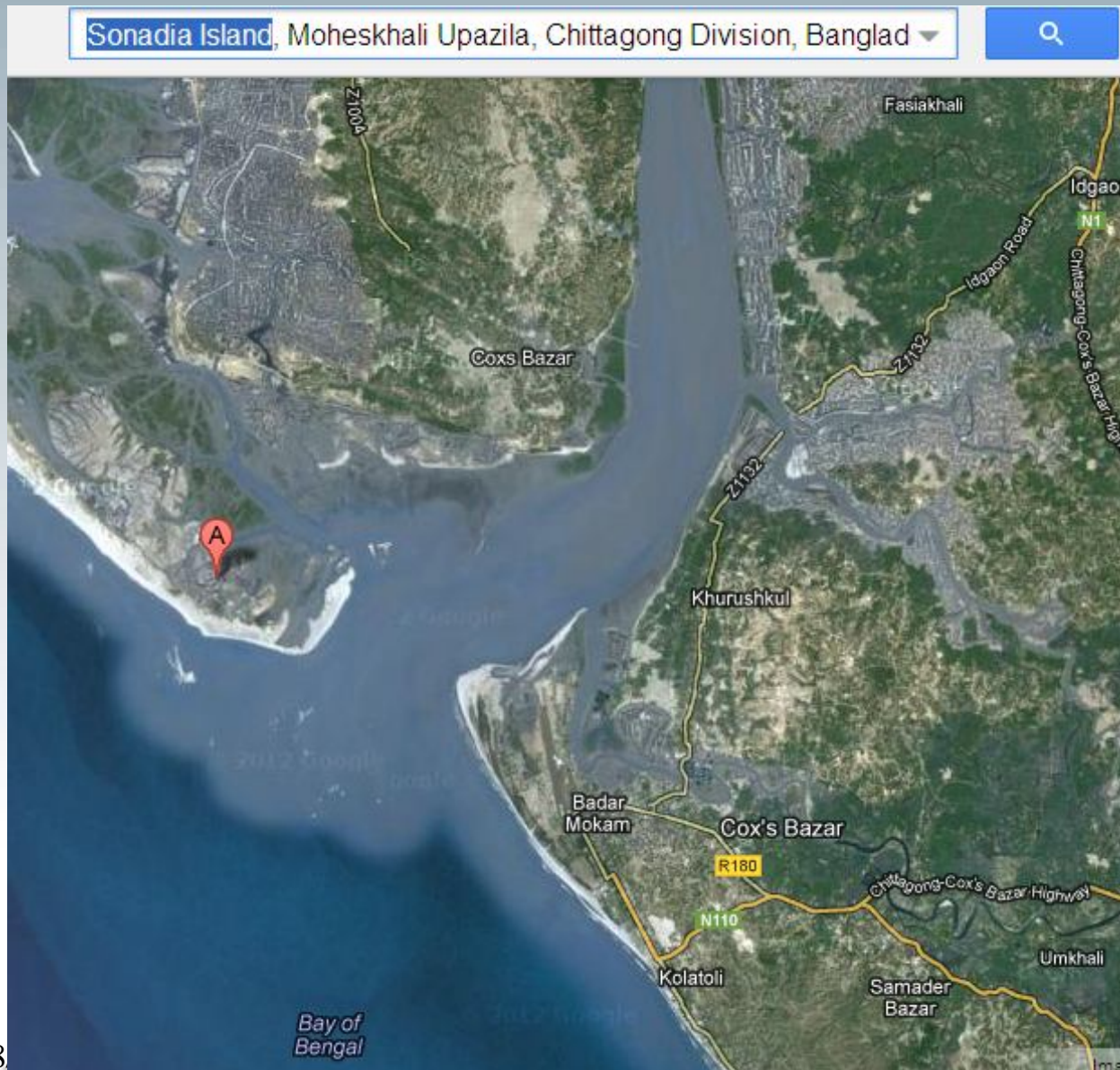
Name	Total Mileage (km)	New Railway	Yunnan Province		The time of starting (Year)	Oversea (km)
			(km)	Investment (billion dollars)		
Kuming-Hanoi—Haiphong	815	419	309	12	2005	396
Kunming—Mandalay—Rangoon	1920	470	340	13	2007	130
Kunming—Vientiane—Bangkok	1830	1110	600	23	2011	500

Resource: Yunnan Province Railway Development Report, 2007.

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Proposed sea-port in Chittagong



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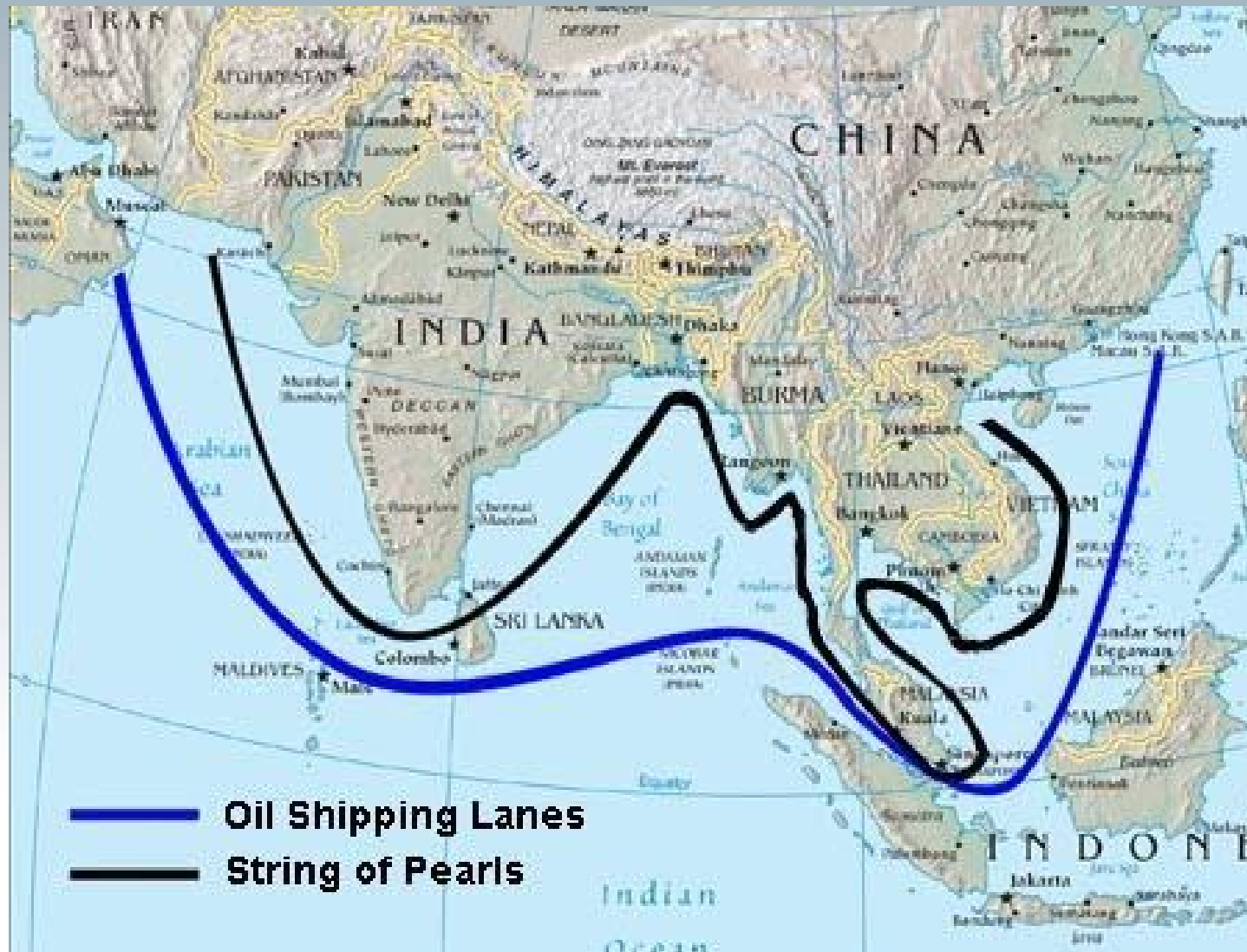
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Infrastructure projects, geo-politics and Bangladesh's political constraints

- ❖ Geo-politics: Bangladesh sandwiched between two giants China and India
- ❖ Beijing's massive infrastructure spending in the region: Middle Kingdom's 'String of Pearl Strategy' or economic interest?
- ❖ Bangladesh's passive relations with Myanmar
- ❖ Bangladesh's domestic politics: Major political parties relation with Beijing and New Delhi
- ❖ Political weaknesses in Bangladesh lead political parties dependant on regional power costing national interest

Geo-politics Matters



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Mismatch between Bangladesh half-hearted “Look East Policy” and China’s aggressive “Look South Policy”

Bangladesh’s “Look East Policy”

“limited in words, not in reality”

There is a need for a clear policy what India has on East Asia

China’s “Look South Policy”

-connecting China to Southeast Asia and South Asia and China’s geo-economic and geo-strategic interests

disequilibrium leading to a lose-win (lose-lose) situation?

- Bangladesh’s domestic political constituency
- Asian geo-politics
- India’s neighbourhood policies (Indo-centric South Asian trade and connectivity)

Addressing geo-politics

- Bangladesh's connectivity with Southeast- and East Asia will depend on how economics and geo-political forces behave
- However, economic dynamism in China, economic convergence in Asia and Bangladesh's aspiration for higher economic growth indicate that economic forces could triumph over geo-politics

Some important factors/developments in this regard:

- *Growing bi-partisan consensus in Bangladesh pertain to economic engagement with China and India*
- *China can do more convincing the respective stakeholders that its interest in Bangladesh is pure economic.*
- *A Consortium to develop a deep sea port in Chittagong?*
- *South-South Cooperation*
- *Engaging regional bodies like ADB, ASEAN for connectivity apart from bi- and tri-lateral talks*

Conclusions and the way forward

- The rise of China and India have been beneficial for Bangladesh
- However, more can be achieved if the regional geo-political tensions involving China and India are eased
- Bangladesh's domestic political weaknesses a drawback to manage two giants leading to lose-win or lose-lose situation
- However, in some key difference between China and Bangladesh

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