

Key note paper

China's Look South Policy and Bangladesh's Look East Policy: Convergences and Constraints

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First draft

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I. Introduction

China is one of the few countries in the world that has sustained high economic growth since the 1980s following the then President Deng Xiaoping's initiation of economic reforms (See Figure 1). In fact, it is the only country that has sustained an average GDP growth of 9 percent for three consecutive decades in the history of economic development. With such a persistent double digit growth for a long period, China has become the second largest economy in the world. It is projected to become the largest economy between 2020 and 2030 in real exchange rate terms and much earlier in terms of purchasing power parity (PPP), overtaking the United States (US).

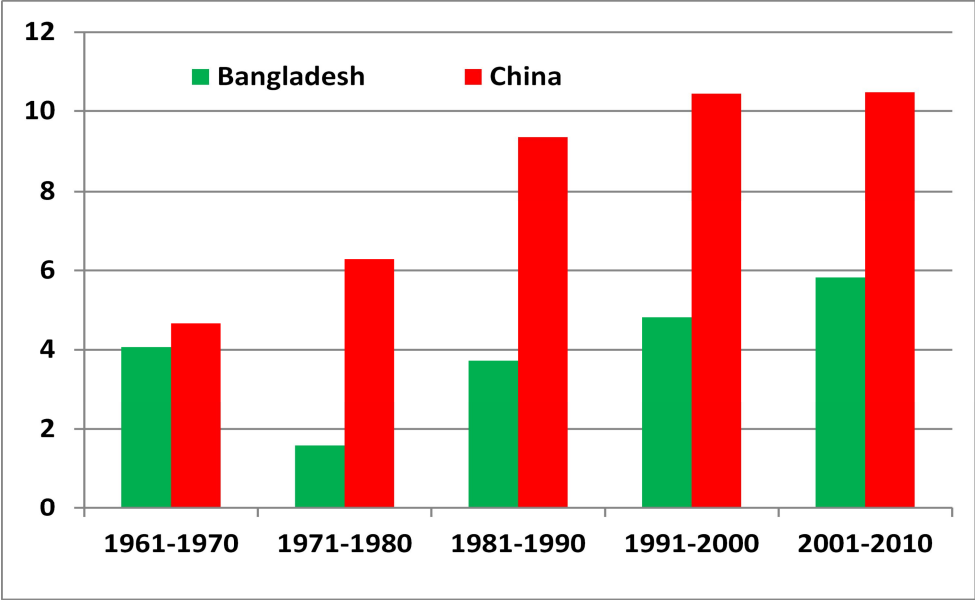
However, there has been spatial differences in China's economic development. While the eastern and coastal regions of the country experienced faster expansion of per capita income, growth in its western parts and hinterland was lower than the country's national average. To bridge the regional economic gap, Beijing launched a comprehensive development programme in 1999 to promote social and economic progress in the central and western parts of the country. Also known as 'Western Development Strategy', the initiative centered Yunnan province of China as an international passage connecting China to Southeast and South Asia.

Yunnan and other landlocked provinces of China in the west have engaged their diplomatic and business infrastructures to integrate with their Southern neighbours namely Myanmar, Bangladesh and India under the aegis of 'Look South' policy. The 'Kunming Initiative', initiated in 1999 as a Track II exercise, is turning into the BCIM forum on regional cooperation involving Bangladesh, China and India. This is a manifestation of Beijing's efforts to link its western provinces with South Asia and Southeast Asia.

Nevertheless, some experts argue that this policy is aligned with Beijing's 'Two Ocean' strategy (Indian ocean and Pacific ocean) that intends to forge greater cooperation with Myanmar, Bangladesh and other Bay of Bengal (Indian Ocean) countries to reduce its reliance on the Pacific (particularly, the Malacca Strait) materializing both economic and geo-political ambitions.

Bangladesh, on the other hand, has experienced significant economic development in the past couple of decades (Figure 1) after launching both economic and political reforms in late 1980s and early 1990s. With GDP exceeding \$120 billion (\$311 billion in purchasing power parity terms) Bangladesh is South Asia’s third largest economy and could become the second largest economy in SAARC overtaking the Pakistan economy by the end of this decade if both the countries’ trend growth persists.

Figure 1: GDP growth rates (in %) in China and Bangladesh: Pre and post-reform eras (1961-2010)



Source: Author’s calculation based on WDI, World Bank.

Bangladesh economy is also globalising fast. It’s trade-to-GDP ratio exceeded 50 percent. One notable development in recent years is that Bangladesh’s direction of trade has increased markedly vis-à-vis East Asian countries (Table 1). China is now Bangladesh’s top trading partner. In fact, the key economies of South Asia, including India, are also experiencing a similar trend (Table 2). The two-way trade between China and South Asia reached \$93 billion and is likely to touch a landmark \$100 billion soon.¹

Nevertheless, China and South Asia’s trade and other economic potentials are much higher than their existing level. To exploit their maximum economic potential, there is a need for greater connectivity between China and South Asia. With Myanmar’s opening and improved relations between India and Bangladesh and other favourable changes, as mentioned, the prospects of physical connectivity between Bangladesh and Southeast and East Asian countries via Myanmar is now better than ever. The ongoing political and economic reforms in Myanmar have

¹ Neighbors talk up trade, China Daily Asia, June 21, 2013.

accentuated this prospect. Some analysts even foresee the revival of the historic *Southern Silk Route* that was once connected South Asia, Myanmar and China, among others.²

Table 1: Bangladesh’s trade share vis-à-vis selected countries/regional economic blocs

Partner	1995	2000	2005	2010	2011	2012
ASEAN	6.8	9.5	8.7	11.1	10.6	10.5
China	6.4	4.6	8.6	11.0	11.6	11.4
India	10.7	6.8	9.3	9.4	9.1	9.3
SAARC	12.8	7.9	10.3	10.8	10.7	10.5
European Union	23.1	21.5	23.3	21.3	23.0	21.4

Source: Asia Regional Integration centre database

Table 2: India’s trade share vis-à-vis selected countries/ regional economic blocs

Partner	1995	2000	2005	2010	2011	2012
ASEAN	7.5	7.7	8.6	9.2	9.9	9.7
China	1.7	2.4	6.9	10.3	9.6	8.8
European Union	27.3	22.8	19.6	14.8	14.5	13.3

Source: Asia Regional Integration centre database

Furthermore, Bangladesh’s settlement of the maritime boundary dispute with Myanmar has opened the opportunity to develop an ocean economy centering the Bay of Bengal. This could change the economic geography of Bangladesh.

The emerging economic opportunities are not merely concentrated in the western provinces of China and Myanmar. A number of other countries in the eastern neighbourhood of Bangladesh are also undergoing significant economic reforms. Bound together by the Mekong River, the Greater Mekong Subregion (GMS) is a market of around 326 million people combining Cambodia, Yunnan Province and Guangxi Zhuang Autonomous Region of China, Lao PDR,

² China-Bangladesh relations: Contemporary convergence, Daily Star, January 25, 2012.

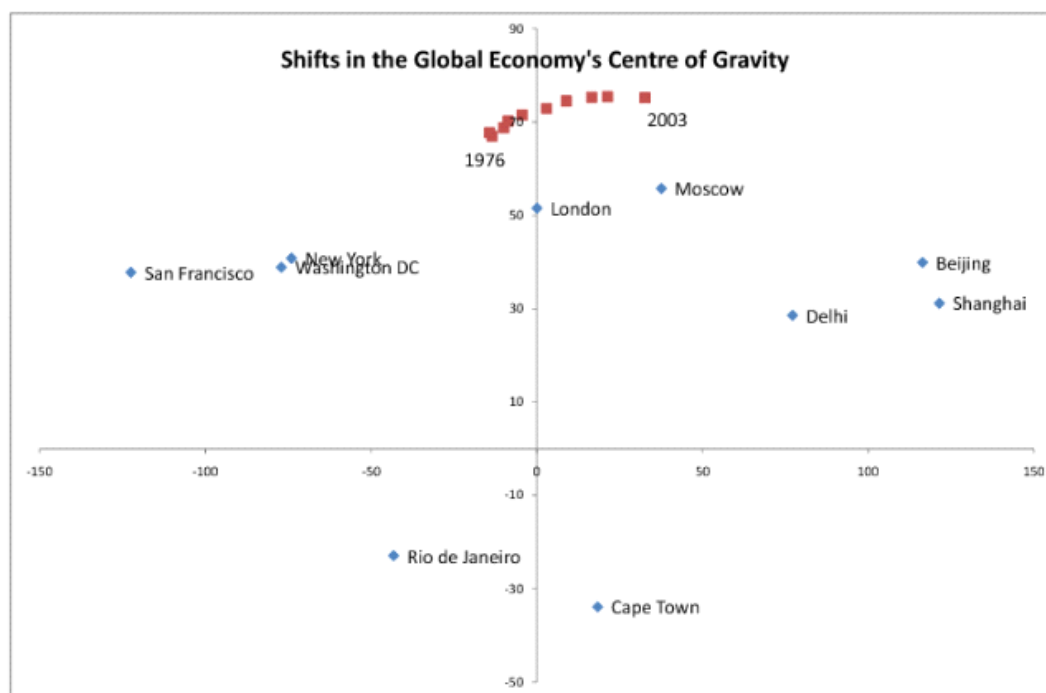
Myanmar, Thailand, and Viet Nam. Both Beijing and Asian Development Bank (ADB) have invested heavily to develop the region.

All these favourable developments are happening in the backdrop of the change in global centre of economic gravity, a theoretical measure of the focal point of global economic activity based on GDP, that has been fast shifting from the Atlantic to the Pacific³ (See Figure 2).

That said, economic opportunities in the region are not without any constraints. There are some emerging security challenges emanating from the region as China ascends both economically and militarily.

Beijing often claims that its rise is peaceful. However, history suggests that the rise of great powers is generally chaotic.⁴ China's thirst for energy and other resources, the question of the integration of Taiwan, rivalry with some of its neighbours either owing to historic reasons (with Japan, for instance) boundary disputes (with India, in particular), tensions in the South China Sea (with its immediate neighbours) and the Sino-US competition in the global geo-political space, among others, have created much worry in the region. This has put Dhaka to test in managing its geo-political challenges.

Figure 2: The world's economic centre of gravity



Source: Quah (2010)

³ Quah, Danny (2010), "The Shifting Distribution of Global Economic Activity", available at http://econ.lse.ac.uk/~dqah/p/2010.05-Shifting_Distribution_GEA-DQ.pdf

⁴ Kennedy, Paul (1989), "The Rise and Fall of the Great Powers: Economic change and Military conflict from 1500 to 2000." Fontana Press, London.

Bangladesh's development of an ocean economy in the Bay of Bengal, physical connectivity with Western China and Myanmar, among others, largely depends on how Dhaka deals with the global and regional powers, particularly China, India and United States. The piracy problem in the high seas, deep sea-port development in Chittagong, oil and gas exploration in the Bay of Bengal, and the Chinese presence in the high water of the Indian Ocean are some of the key issues that has significant security dynamics.

To avail the opportunities in its eastern neighbourhood and managing geo-politics, Dhaka has underutilized its diplomatic and business apparatuses, unlike New Delhi, which has successfully engaged with both East Asia and Southeast Asia thanks to its very well equipped 'Look East' policy. While there is much talk about Dhaka's 'Look East' policy, the State, particularly those involved with foreign policy formulation, has not put enough efforts to pursuit the economic and geo-strategic goals of the country.

That said, the reminder of the paper is organised as follows. Section II discusses the key imperatives of 'Look East' Policy from Bangladesh's perspectives. In Section III, we analyze the security constraints in this regard, particularly focusing on the Bay of Bengal (Indian Ocean). Section IV suggests some policies pertaining to Bangladesh's 'Look East' policy.

II. Imperatives of Bangladesh's Look East Policy: Opportunities in the East

A) China's rise as a global economic and military power

China's spectacular economic growth has been the hallmark of global economy for the past few decades. With \$8.4 trillion GDP (\$12.5 trillion in PPP terms), it is the second largest economy after the United States.⁵ A large number of projections indicate that China could overtake US within the next two decades (Se Figure 3). China's per capita income has grown from barely \$155 in 1978 to \$6,090 in 2012 (in current US dollar, it's per capita GDP are \$5,680 in Atlas method and \$9,060 in purchasing power parity terms).⁶ China has the highest reserves of foreign exchange (\$3.4 trillion). It is the top trading nation, measured by the sum of exports and imports of goods, in the world. The country's trade in goods in 2012 amounted to \$3.87 trillion.⁷ Ending United States' 110 years of dominance, China became the world's top manufacturing nation in 2010, accounting for 19.8% of the world's manufacturing output.⁸

⁵ World Development Indicators online, The World Bank.

⁶ *ibid*

⁷ China Eclipses U.S. as Biggest Trading Nation. available at <http://www.bloomberg.com/news/2013-02-09/china-passes-u-s-to-become-the-world-s-biggest-trading-nation.html>

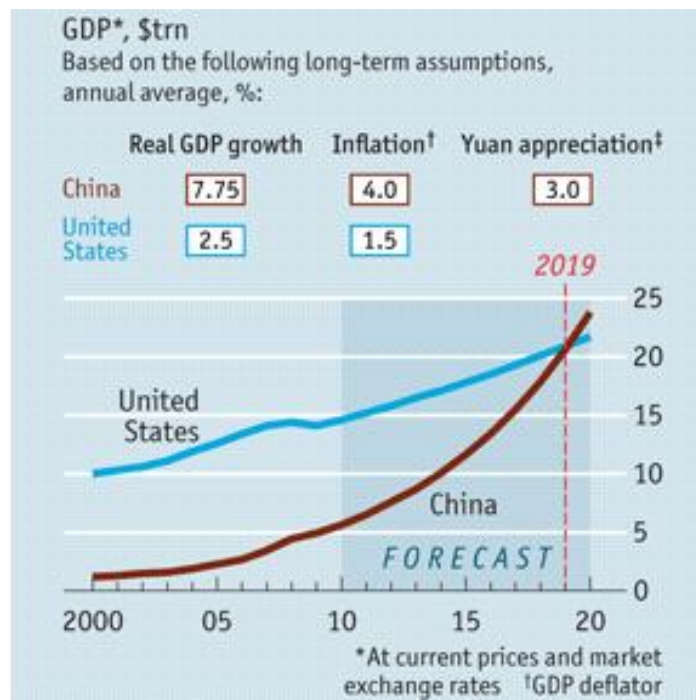
⁸ Shiquan.,Zuo (2013) "China's manufacturing: Reality, Dilemma and strategies", available at <http://www.adbi.org/files/2013.05.10.cpp.sess6.1.zuo.prc.manufacturing.dilemma.strategies.pdf>

The impact of China’s economic muscle is felt in all the continents. In its immediate neighborhood to Europe to America, China is the largest trading partner of most of the countries and regional blocs, including, EU, ASEAN and SAARC. Its outward investment is changing economic geography of Africa.

China’s ascendance as an economic power is also changing the global military equation. It has the third most powerful military in the world after the US and Russia. Various reports indicate that China will be narrowing the gap with the United States in military capabilities in the next two decades. History suggests that military power is generally preceded by economic power. The military capability of the US was even lower than that of Portugal in the 1890s when it overtook the United Kingdom as the world’s top economic power.

The implications of China’s rise are enormous. As Martin Jacques (2020) observed “that China’s impact on the world will be as great as that of the United States over the last century, probably far greater.”⁹

Figure 3: Dating Game: China’s overtaking of American economy



Source: *The Economist*, December 16, 2010.

⁹ Jacques, Martin (2010), “ When China Rules the World: The Rise of the Middle Kingdom and the End of the Western World”, Allen Lane, London

China's impact could be felt in almost all aspects of economic and security equations from WTO to climate change to the Indian Ocean. A three decade long economic growth has lifted the largest number of poor people in the history of economic development. It works closely with other developing countries in preserving their interest in WTO trade talk, climate negotiation and South-South cooperation, among others.

Bangladesh's foreign and economic policies are in need of significant adjustment taking China's meteoritic rise into account.

B) China's massive economic transformation: The rise of vertical economy

China's rise has been transforming its economic structure fundamentally. It is now moving towards high value added manufacturing. Such transformation is likely to affect Bangladesh and other South Asian economies that have abundant supply of labour owing to their favourable demographic windows. Per unit labour cost in China is skyrocketing. Its labour productivity grew at 7-13 per cent in the past two decades. China's exchange-rate policy and global imbalances are also prompting China to go vertical.¹⁰ Moreover, following the recent global financial crisis, there is a realisation among the top Chinese leaders that the country's current growth model that relies excessively on exports and investment needs to be rebalanced, with a greater emphasis on consumption.

China's vertical economy could create much room for South Asia's low-end labour-intensive manufacturing that had faced Chinese competition until recently. Bangladesh's per capita manufacturing value-added, for instance, is less than \$100, compared to over \$700 for China.¹¹ China's shift is already felt in some parts of South Asia. Bangladesh, for instance, is set to become a hub for low value-added apparel products. Bangladesh could narrow its manufacturing catch-up gap by drawing low-end manufacturing units from China.

China could become the next big export market for Bangladesh. It is projected to buy \$10 trillion worth of goods and services by 2020. Currently, Sino-Bangladesh trade imbalances favor China heavily. Beijing has offered duty-free access to 4,721 Bangladeshi products to address the growing trade imbalance.¹² Bangladeshi businesses should explore the China export markets to address the trade imbalances exploiting market access as well as the China's rapidly changing consumer market.

C) Beijing's Western development strategy and its 'Look South' policy

Western development strategy was launched in 1999 to narrow the income gap between Eastern and Western regions of China (See Figure 4). Beijing devised various policies, channeled investment and offered incentives in this regard. They are fiscal transfers and tax preference, investment, financial and credit support, guiding policies, inter alia. More than 43 percent of

¹⁰ Window of Opportunity for South Asia, Business Times, July 09, 2010

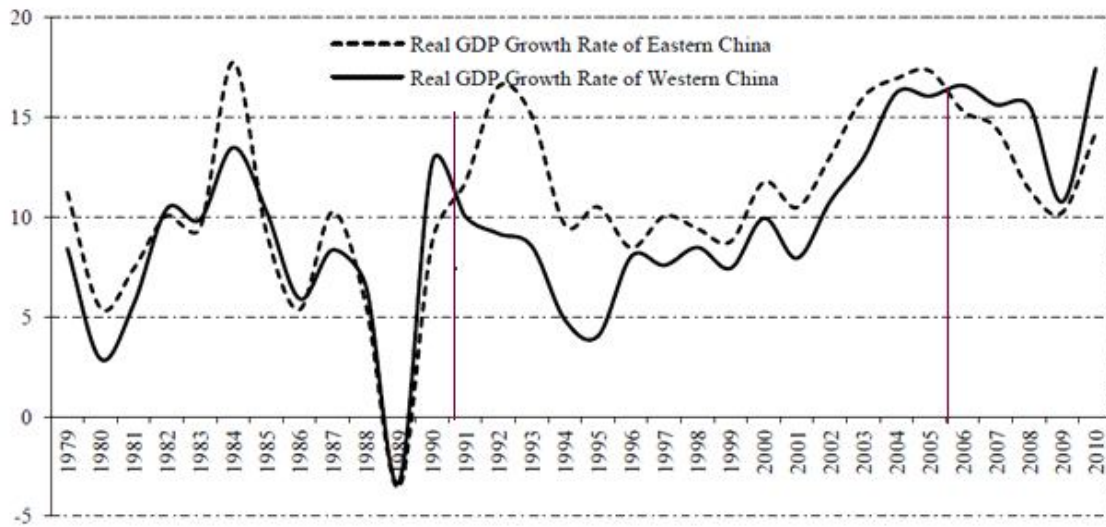
¹¹ UNIDO website, available at <http://www.unido.org/>

¹² China-Bangladesh relations: Contemporary convergence, Daily Star, January 25, 2012.

investment allocated by the central government to expand domestic demand has been used for projects to improve living standards, infrastructure projects, post-disaster reconstruction and technological innovation in western regions. It covers 12 western provinces including Sichuan and Yunnan provinces, and Xinjiang and Tibet autonomous regions.

Yunnan is the pivot of Beijing’s western development strategy. It shares 4,060 km land borders with Laos, Myanmar and Vietnam. There are 11 first-category ports, 9 second-category ports, and over 90 passages to the outside world in Yunnan province. The province is an international passage connecting China to Southeast Asia and South Asia.

Figure 4: GDP Growth rates in Eastern and Western China: 1979-2010



Source: Lu and Deng (2011).

As can be seen in Figure 4, during 1990 and mid-2000 China’s eastern regions experienced higher GDP growth vis-a-vis its western ones. However, in post-2000 the western parts of China performed better than that of prosperous eastern regions.¹³

D) Economic and political reforms in Myanmar

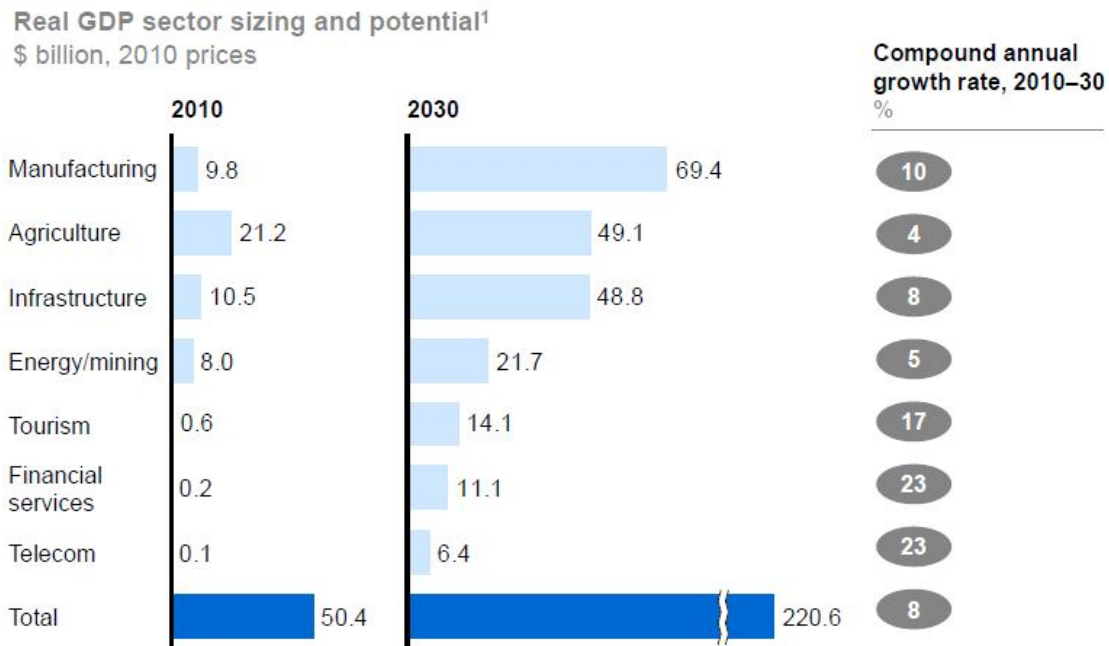
Myanmar, Bangladesh’s immediate neighbour, is currently undergoing significant political and economic reforms after decades of military rule. Myanmar has intrinsic strength from very high reserves of natural gas and oil, precious stones, a young population, fertile lands, abundant water, amongst others. Nevertheless, it’s most important asset is its strategic location – it is at the

¹³ Lu, Zheng & Deng, Xiang, 2011. "China's Western Development Strategy: Policies, Effects and Prospects," MPRA Paper 35201, University Library of Munich.

crossroads of Bangladesh, India, China, Thailand and Lao PDR, constituting the World's 40 percent of population and a market of half a billion population (McKinsey 2013).¹⁴

A McKinsey study projects Myanmar's bright prospects. Naypyidaw's opening up of the economy has drawn global attention and foreign direct investment is pouring into the country. According to McKinsey (2013) the country may attract as much as \$100 billion in FDI over the next two decades.¹⁵ Its economy could quadruple in the next two decades with agriculture, infrastructure, manufacturing, energy/mining, tourism, financial services and telecom sectors undergoing marked transformation (Figure 5).

Figure 5: The projected size of Myanmar's key sectors and GDP: 2010-2030



Source: McKinsey Global Institute (2013)

The ongoing reforms in Myanmar will have significant implications for Bangladesh. Being one of the closest of neighbours, Bangladesh could markedly benefit from Myanmar's growth. It could help in reopening historic trade links between these two countries. Myanmar is the key country in connecting Bangladesh with ASEAN and East Asia, including that of the western regions of China and GMS. Moreover, a close cooperation between Dhaka and Naypyidaw could

¹⁴ Myanmar's moment: Unique opportunities, major challenges – Available at: http://www.mckinsey.com/insights/asia-pacific/myanmars_moment#sthash.puQ9fuF8.dpuf

¹⁵ ibid

help Bangladesh in developing an ocean economy in the Bay of Bengal. Myanmar's democratic reforms could also help Dhaka to settle some of its bilateral problems, particularly the *Rohingya* refugee issue.

To materialize all of these goals Dhaka needs to develop a special relation with Naypyidaw given its very high economic and strategic importance.

E) Development of the Greater Mekong Sub-region (GMS)

The Greater Mekong Subregion (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 of Cambodia, China (specifically Yunnan Province and Guangxi Zhuang Autonomous Region), Lao PDR, Myanmar, Thailand and Vietnam (Figure 6).¹⁶

Both China and ADB invested heavily in developing the region. An estimated US\$10 billion are being invested to develop infrastructure in the region. In 1998, the 8th GMS Ministers Meeting advanced to build economic corridor, combine construction of transport corridor with economic development, and provide facilitation for GMS member's cooperation and traffic (Figure 6). GMS economic corridor consists of North-South Economic Corridor (covering Kunming-Bangkok, Kunming-Hanoi and Nanning-Hanoi economic zones), East-West Economic Corridor (covers from Mawlamyine to Thailand and middle Vietnam), and South Economic Corridor (covers the area from Bangkok to Phnom Penh and the south of Vietnam). China and Myanmar acceded to GMS Agreement for facilitation of cross-border transport of people and goods in December 2002 and September 2003.

Agriculture, energy, human resource development, investment, telecommunication, tourism, transport infrastructure and environment are some of the priority areas of the region.

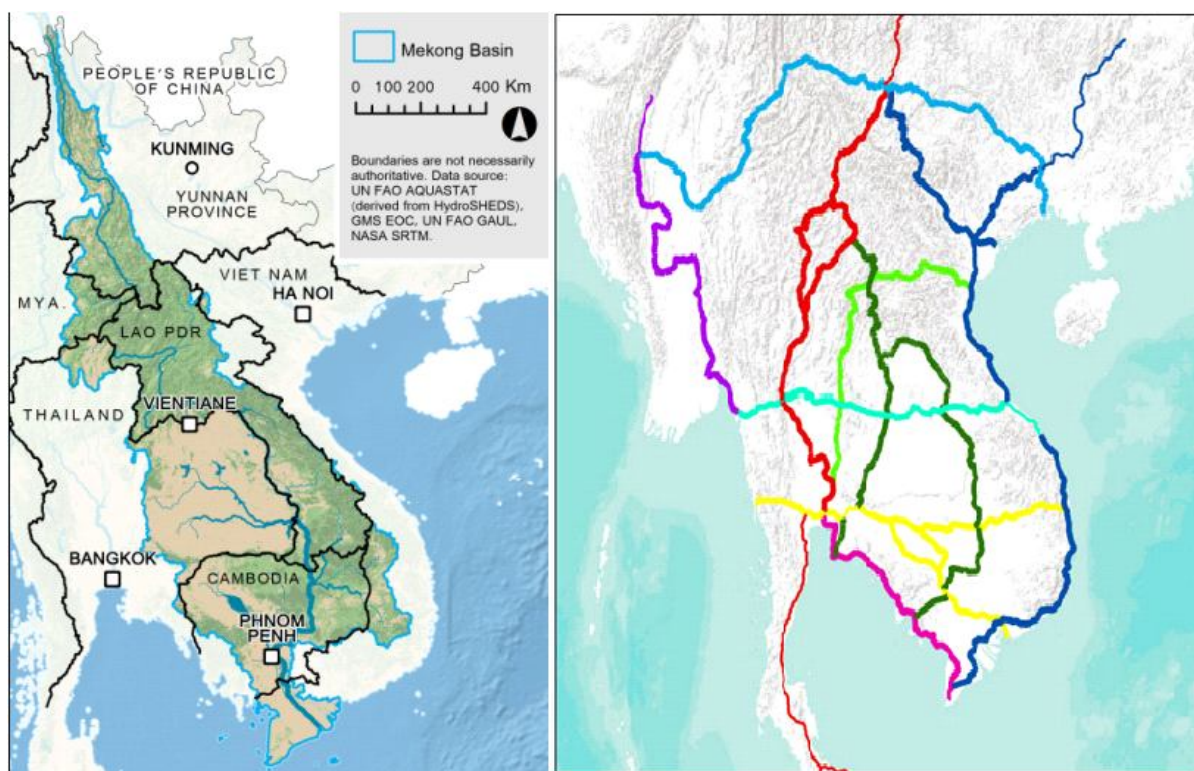
Increasingly, modernization and industrialization are emerging and the Mekong countries are gradually shifting from subsistence farming to more diversified economies. In parallel with this there have been growing commercial relations among the six Mekong countries, notably in terms of cross-border trade, investment, and labor mobility. The rich human and natural resource endowments of the Mekong region have made it a new frontier of Asian economic growth. Indeed, the Mekong region has the potential to be one of the world's fastest growing areas.

Thus, GMS offers ample opportunities for Bangladesh, particularly from its food security perspective, provided the country's diplomatic and business apparatuses are employed efficiently to engage with the region institutionally.

F) Connectivity (to be written)

¹⁶ See Greater Mekong Subregion, available at <http://www.adb.org/countries/gms/main>

Figure 6: Mekong Basin (left panel) and GMS Economic Corridor (right panel)



Source: GMS Environment Operations Center, available at <http://www.adb.org/countries/gms/main>

G) Beijing's renewed efforts to engage with South Asia and the prospects of BCIM Economic Corridor

Given South Asia's steady economic growth, a market of about 1.5 billion population and the importance of the Bay of Bengal, China intends to forge greater economic ties with the region. The new leadership in China has placed special focus on South Asia which was reflected in the new Premier's picking of South Asia (New Delhi and Islamabad) as the destination for his first state visit. It was also reflected in the joint statement issued by New Delhi and Beijing following

the Chinese Premier Li Keqiang's visit to New Delhi. Both sides appreciated the progress made in promoting cooperation under the BCIM (Bangladesh, China, India and Myanmar) Regional Forum. Both Beijing and New Delhi agreed to consult the other parties with a view to establishing a Joint Study Group on strengthening connectivity in the BCIM region for closer economic, trade, and people-to-people linkages and to initiating the development of a BCIM Economic Corridor.¹⁷

China-South Asia economic engagement could get a new momentum in the coming years given the structural shift in the Chinese economy. South Asia will start to put greater focus on exports, shifting a little from such modern services as information technology to manufacturing and high value added agriculture.¹⁸ New complementarities could emerge, owing to aging structure of the two regions, between China and South Asia.

Dhaka should actively engage with the forum given the fact that it could be the first effective institutional mechanism that could connect two rising powers and a market of 2 billion plus population. This is also critical for Bangladesh to connect the country with China and ASEAN.

H) East Asian dynamism, the rise of China and India and the global economy's shifting centre of gravity

East Asian dynamism has been widely discussed and recognised in development literature.¹⁹ The rise of Japan and other miracle economies namely Singapore, Hong Kong, South Korea and Taiwan have made the region the most dynamic economic geography in the world. East Asia's growth momentum continued following China's landmark reforms in 1980s. The persistent high growth in a host of East Asian countries and the rise of China and India have changed the economic geography of Asia. It is hardly surprising that the global economy's economic centre of gravity is fast shifting from west to east (Figure 7 and Figure 8).

Other imperatives

Ocean economy development in the Bay of Bengal

Bangladesh has not paid much attention to the Bay of Bengal (BoB) until recently. Its historic victory against Myanmar on maritime boundary settlement has opened new opportunities in the Bay of Bengal. The judgment by the International Tribunal for the Law of the Sea (ITLOS) established Bangladesh's sovereign rights to a full 200 nautical mile exclusive economic zone in

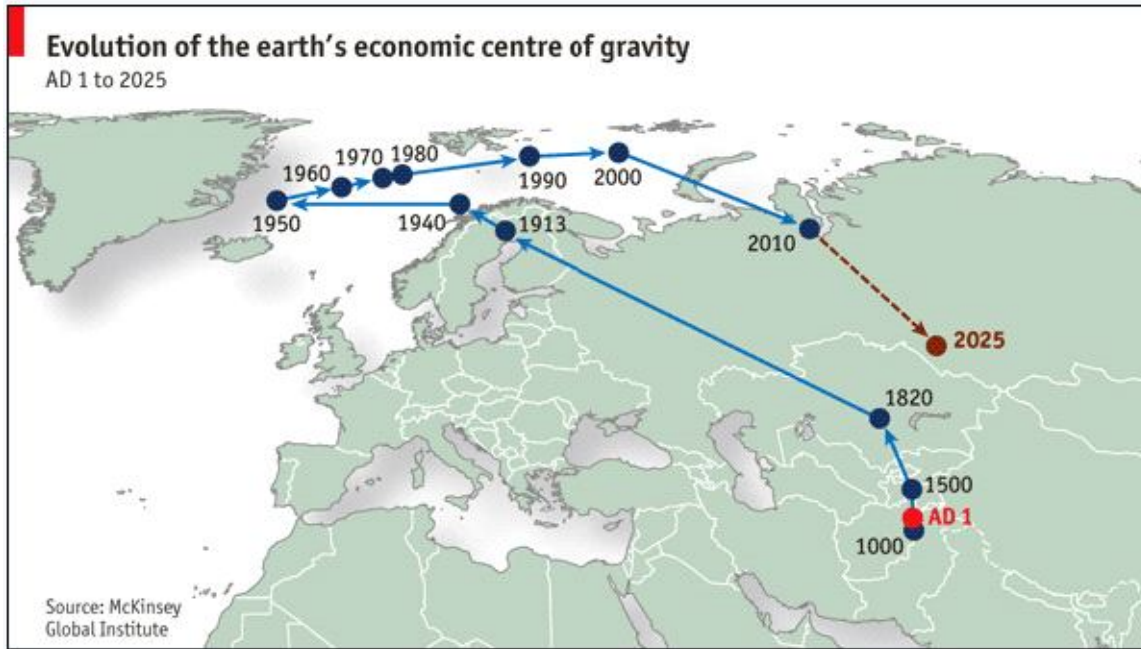
¹⁷ Joint Statement on the State Visit of Chinese Premier Li Keqiang to India, available at <http://www.mea.gov.in/bilateral-documents.htm?dtl/21723/Joint+Statement+on+the+State+Visit+of+Chinese++Li+Keqiang+to+India>

¹⁸ Two Asias: Will they converge or diverge?, Business Times, Singapore, 8 June 2012.

¹⁹ Clark, Cal and Jung, Changhoon, "The Resurrection of East Asian Dynamism: A Call to Look Beyond the Orthodoxies in Development Studies, Asian Affairs 31 (3) Fall, p.131-151.

the Bay of Bengal, and to a substantial share of the "outer continental shelf" beyond 200 nautical miles.²⁰ Dhaka is also likely to settle its maritime boundary dispute with India in the near future.

Figure 7: Evolution of the earth's economic centre of gravity: AD1-2025



Source: McKinsey Global Institute

Given economic and security importance of the Bay of Bengal, Bangladesh can develop an ocean economy around the world's largest Bay. Some of the key components of its ocean economy should include energy security (oil and gas resources), fishery and fresh water resources preservation, port and logistics facilities development, piracy and illegal trade control, trade route secure, tourism development, ecosystem protection, among others. However, given the massive undertaking, it requires involvement of regional as well as global powers, particularly, India, China and the US, to develop a modern ocean economy.

The involvement of naval powers is also important in dealing with the issues such as piracy, illicit drug trafficking, and trade and climate security. The littoral surrounding the Bay of Bengal, including the Eastern Indian states of West Bengal and Odisha, Bangladesh and coastal Burma are particularly vulnerable to climate change, perpetuated by the rising sea level.

In fact, during the Chinese Premier's recent visit to New Delhi both China and India have agreed to beef up their bilateral cooperation on maritime security, searching and rescuing at sea, oceanic scientific research and environment protection, work together to tackle increasingly outstanding non-traditional security threats, and strengthen cooperation in naval escort missions in the Gulf

²⁰ A 'Great Win' for Bangladesh, Daily Star, March 27, 2012.

of Aden and waters off the coast of Somalia, earnestly safeguarding security of international sea-lanes and freedom of navigation.²¹

The challenge here for Bangladesh is to engage these three big powers, among others, in the Bay of Bengal to exploit its economic potential and address the challenges emanating from security fronts.

Figure 8: The world's economic centre of gravity- 1980–2007 (black) and extrapolated (in red, reduced size, italicized), at 3-year intervals



Source: Quah (2010)

III. Security perspectives

Beijing's shift from a land-based (inward looking) to a sea-focused (outward-looking) policy signifies the importance of the Indian Ocean, thus making Bangladesh a strategically important country in China's policy discourse.

The security architecture of the Indian Ocean in general, and the Bay of Bengal in particular, is still fluid. Historical animosities, war, conflicts, lingering bitterness of the past, unresolved

²¹ Joint Statement on the State Visit of Chinese Premier Li Keqiang to India, available at <http://www.mea.gov.in/bilateral-documents.htm?dtl/21723/Joint+Statement+on+the+State+Visit+of+Chinese++Li+Keqiang+to+India>

territorial disputes, strategic competition, new ambitions and new suspicions continue to hobble relations among Asian countries.

However, security dynamics of Asia is changing very fast, no less than the region's rapid economic transformation. Given the growing importance of the Indian Ocean which is now the world's busiest trade corridor, carrying two-thirds of the world's oil shipments and a third of its bulk cargo, mostly to or from East Asia, the security paradigm of the region switched from Asia Pacific to the Indo-Pacific. This is an emerging Asian strategic system that encompasses both the Pacific and Indian Oceans, defined in part by the geographically expanding interests and reach of China and India, and the continued strategic role and presence of the United States in both.

When it comes to security architecture in Asia, the East Asia Summit, comprising 10 ASEAN members plus key economies including China, India and the United States, has emerged as the prime security architecture of Asia. EAS is used to explore with other Asia-Pacific leaders ways to enhance cooperation on the region's most pressing challenges, including energy, maritime security, non-proliferation, and humanitarian assistance and disaster response. The ASEAN Regional Forum (ARF) is a key forum for security dialogue in Asia. It draws together 27 countries, including Bangladesh, which have a bearing on the security of the Asia Pacific region.

In the Bay of Bengal, the northeastern part of the Indian Ocean, the key stakeholders are Bangladesh, India, Sri Lanka and Myanmar. China and United States are other two key players that have a growing interest in the world's largest bay. To reduce its dependency on the Malacca Strait, which is *de facto* under US control, Beijing has invested heavily in the Bay of Bengal and other parts of Indian Ocean, installing energy pipelines and developing deep seaports.

China has built two gas and oil pipelines with annual capacity of 22 million tonnes of oil and 12 billion cubic meters of gas respectively, connecting the port of *Kyaukpyu* on the Bay of Bengal with Yunnan. It is estimated that the new pipelines through Myanmar could reduce China's dependence on the Malacca Strait by about one-third and could cut down transportation distance for the African and Arabian oil shipments by 1200 kilometers. Beijing is also aggressively building deep sea ports in the Bay of Bengal and other parts of the Indian Ocean. In South Asia, it has already developed two deep sea ports in Pakistan and Sri Lanka. It has also expressed its intention several times to build one in *Sonadia*, Chittagong.

Growing Chinese influence in the Bay of Bengal (Indian Ocean area) worries New Delhi and Washington. To counter Chinese influence in Myanmar, both India and United States are trying hard to reach out Naypyidaw.

That said, Bangladesh's relations with three big powers- China, India and US- is markedly different than that of Pakistan and Sri Lanka that has significant geo-strategic implications. As observed by Chowdhury (2010), "Pakistan, for instance, viewed China as a clear counterpoise to India. For Bangladesh it was more complex and largely depended on how the party in power perceived India: the 'counterpoise-to-India paradigm' was more applicable to the Bangladesh

Nationalist Party (BNP), whereas the Awami League favoured a parallel relationship along with that of India, nonetheless seeing China as a kind of ‘reinsurance’.”²²

This complex relationship with Beijing and New Delhi and Washington’s influence over Dhaka has put Bangladesh in a diplomatic test. Beijing should also take this note seriously and convince both Dhaka and other stakeholders in the Bay of Bengal that its interest in Bangladesh and the Bay of Bengal is driven by its economic interest.

Nevertheless, the elephant in the room is the United States. It is no denying that Bangladesh has gained from its partnership with US in combating piracy, *inter alia*, in the Bay of Bengal, given its constraints to manage security in the high seas. At the same time, the geo-political (great) game in the Bay costs some of core interests of Dhaka. Bangladesh has to build a deep sea port in Sonadia, Cox’s Bazar as the capacity of the Chittagong Port is likely to be exhausted by 2015. There has been a feasibility study on this project by JICA. The study estimates that the port could boost the country's GDP growth by 2 percent, as it would generate huge employment, increase export and import and raise the country's capacity to handle cargo. There are several proposals to develop a deep sea port by China, Netherlands and UAE.

However, owing to regional geo-politics, Dhaka is apparently not in a position to take a unilateral decision (unlike Colombo or Islamabad) undermining the geo-political interest of New Delhi or Washington. Both India and US remain skeptical about Beijing’s intention of financing and building the port. As one of the US Congressional research reports illustrates, the growing importance of Bangladesh, “...could potentially be a state of increasing interest in the evolving strategic dynamics between India and China” (Vaughn 2010).²³ Similar sentiment was expressed by a member of the Indian government’s National Security Advisory Board “this kind of effort (Chinese efforts in building sea ports) is aimed at counterbalancing and undermining India’s natural influence in these areas” (The New York Times 2010).²⁴

As observed by IGS (2012), ‘there are plenty of opportunities to leverage Bangladesh’s geographical and geostrategic location vis-à-vis the external actors such as US, China and India. However, Bangladesh has largely been unable to reap optimum benefits from its geo-strategic importance due to its weak bargaining power and lack of national consensus.’²⁵

Thus, Bangladesh’s domestic political dynamics needs a marked transformation to shape the country’s foreign policy vis-a-vis the regional and global powers. The nation needs a consensus on some key issues to secure its core national interest.

²² Chowdhury, Iftekhar Ahmed (2010), “Bangladesh-China: An Emerging Equation in Asian. Diplomatic Calculations”, ISAS Working Paper No. 105 (Singapore: Institute of South Asian Studies).

²³ Vaughn, B., (2010), “Bangladesh: Political and Strategic developments and U.S. interests”, R41194. Washington, D.C.: Congressional research service, p. 2.

²⁴ India worries as china builds ports in South Asia, The New York Times, 15 February 2010,.

²⁵ IGS (2012), “State of Governance in Bangladesh 2010-11”, Institute of Governance Studies, BRAC University, Dhaka, available at: <http://igs-bracu.ac.bd/images/stories/pdfs/sog%202010-2011.pdf>

IV. Shaping Bangladesh's Look East policy: what should be Dhaka's strategy?

Given geographic proximity, historical linkages and contemporary convergence, Bangladesh has a historic opportunity to develop greater economic ties with China and other eastern neighbours. However, it has to devise a comprehensive 'Look East' policy to exploit economic opportunities managing geo-political and other security risks.

While not exhaustive, we identify and propose a number of issues that the policymakers could take into account to cultivate extensive economic and strategic relations with Southeast and East Asia.

A. New Geo-economic Reality: Trade, Market, Infrastructure and Connectivity

a.1) That East Asia, centering China, has become the most dynamic economic region and the centre of economic gravity in the world, Dhaka needs a sea-change in its mindset to develop a comprehensive relations with the region. However, it is also important to understand historical, cultural, political and economic trajectories of individual countries of East Asia. As observed by Jacques (2010), 'China is very different from earlier Asian tigers like South Korea and Taiwan. Unlike the latter, it has never been a vassal state of the United States'. Moreover, the author also reminded us that 'China is the product of history and culture which has little or nothing in common with that of the west. The Chinese, in constantly making reference to what they describe as their 5,000-year history, are aware of what defines them is not a sense of nationhood but of civilization. In this context, China should not primarily be seen as a nation state but rather as a civilization-state.'

Thus, Dhaka should engage its best diplomats, other state machineries and its business entities to develop comprehensive economic and strategic relations with Beijing.

a.2) To enhance trade relations with China, Myanmar and other East Asian and Southeast Asian nations, Dhaka should conduct feasibility study to negotiate a host of free trade agreements with them. The *ASEAN-India Free Trade Area* and the *India-Singapore Comprehensive Economic Cooperation Agreement (CECA)* could be a guide in this context. Capacity should be developed at home to increase the manufacturing base to increase its export capacities to China, taking the changing structure of the Chinese Economy.

a.3) To develop special relations with Myanmar. This could help Bangladesh become a connecting point between South and Southeast Asia.

a.4) To place a greater focus on China's Western regions to exploit business opportunities.

a.5) To develop an institutional mechanism to increase economic ties with GMS.

a.6) To increase cooperation with India, Myanmar, China and the US in developing Ocean economy in the Bay of Bengal. Efforts should be given to attract FDI in the region from other East Asian countries, including South Korea and Japan that have much expertise on maritime economy.

a.7) To increase connectivity and trade linkages with the East and India, Dhaka should put forward its agenda with regards to BCIM quadrilateral cooperation.

a.8) Diplomatic efforts should also be beefed up to engage regional bodies such as ADB to facilitate trans-border infrastructure and connectivity projects.

a.9) To attract FDI from China and other countries of East Asia as well as ASEAN, deep sea port development, export processing zone facilities should be expanded in the coastal areas of Chittagong and other parts of the country.

a.10) Infrastructure and other facilities should be provided to Chittagong making it the key centre to engage with eastern cities of Asia.

a.11) Dhaka should make efforts to make SAARC effective and should welcome China and economic powers' presence in the regional block. It should study pros and cons in upgrading China's status from an observer to a full member of SAARC.

B. Evolving Security Architecture and Bangladesh's response

a.1 Given the rise of China, the security architecture of Asia has taken on a new dimension. Nevertheless, Dhaka to keep balanced relations with the regional and global powers and clearly evaluate its own interest.

a.2 Dhaka should consolidate its position in bilateral and multilateral security blocs, including ARF. It should make efforts to become an associate member or observer of the EAS.

A.3 Special focus should be placed on preserving the country's interest in the Bay of Bengal to keep its high water safe for trade and marine resources. Given its limitations, Dhaka should use a collaborative approach with the regional powers to combat piracy in the high seas.

Finally, there should be a mechanism to reduce the influence of polarised domestic politics in foreign policy formulation. Dhaka needs a bi-partisan consensus with regard to the country's 'Look East' policy.