Getting into the CHINESE MARKET

A Window of Opportunity for Bangladesh

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সেন্টার ফর পলিসি ডায়লগ (সিপিডি)
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Abstract

The paper focuses on Bangladesh-China trade ties to identify opportunities of expanding Bangladesh's exports to the growing import market of China. While China continues to remain Bangladesh's foremost trading partner, the increasingly large bilateral trade deficit with China, to the tune of USD 26.0 billion, has emerged as a major concern for Bangladesh in recent times. The concern emanates primarily from Bangladesh's dismal export performance in China (less than USD 0.7 billion), a country which imports about USD 2,700.0 billion annually. This is in spite of Bangladesh enjoying DF-QF market access offered by China. Particularly in view of Bangladesh's LDC graduation, with consequent loss of preferences, exploring new export opportunities has assumed heightened importance for Bangladesh. In this backdrop, the paper examines the feasibility of a free trade agreement with China to understand its possible implications. The paper finds that an FTA with China will entail significant revenue losses for Bangladesh. The paper carries out a game theoretic exercise to have a deeper understanding in this regard and finds that both trade and revenue implications are likely to work against Bangladesh's interest if an FTA, on a reciprocity basis, is agreed upon.

However, taking cue from the experience of Vietnam, which is considered as a case study, the paper argues that a Comprehensive Economic Partnership Agreement (CEPA) would be a better option for Bangladesh. The CEPA will need to include trade, investment, borrowings, Chinese FDI, involvement of China in Bangladesh's trade-related infrastructure and capacity building, trade facilitation, line of credit, concessional borrowing facilities and technology transfer, among others. The Chinese Special Economic and Industrial zone could be a hub of Chinese investment targetting the Chinese (and other) markets. These will enable Bangladesh to build the supply-side capacities, help translate comparative advantages into competitive advantages and get into the Chinese (and other) markets from a position of strength. The study identifies a number of products, capacity building in which ought to get priority attention on the part of policymakers. To realise the export potentials identified in the paper, Bangladesh's FDI, financial policies and borrowings from China will need to be suitably calibrated.

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Contents

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Acronyms

ACU	Asian Clearing Union
BB	Bangladesh Bank
BCIMEC	Bangladesh-China-India-Myanmar Economic Corridor
BDT	Bangladeshi Taka
BRI	Belt and Road Initiative
CCECC	China Civil Engineering Construction Corporation
CEIZ	Chinese Economic and Industrial Zone
CHEC	China Harbour Engineering Company
CIF	Cost, Insurance, and Freight
CRBC	China Road and Bridge Corporation
CY	Current Year
DF-QF	Duty Free-Quota Free
EIF	Enhanced Integrated Framework
ERD	Economic Relations Division
ESCAP	Economic and Social Commission for Asia and Pacific
EXIM Bank of China	The Export-Import Bank of China
FDI	Foreign Direct Investment
FoB	Free on Board
FTA	Free Trade Agreement
FY	Fiscal Year
GED	General Economic Division
HS codes	Harmonised System Codes
ICT	Information and Communications Technology
IDA	International Development Association
ITC	International Trade Centre
JHCEC	Jiangsu Hengxin Construction Engineering Company
LDC	Least Developed Country

MLT	Medium to Long-Term
ODA	Overseas Development Assistance
PBOC	People's Bank of China
RCEP	Regional Comprehensive Economic Partnership
RMB	Renminbi (Chinese Yuan)
RMG	Readymade Garments
USD	United States Dollar
WB	World Bank

Introduction

In the recent past years, China has emerged as a key economic and development partner of Bangladesh, with the ties encompassing a wide range of areas. The bilateral ties have branched out into trade, investment, lending, infrastructure building and construction, student and cultural exchanges, as also political visits at the highest levels. Two areas stand out in this backdrop- China is Bangladesh's single largest bilateral trading partner, and the country is becoming increasingly involved in building the country's much-needed infrastructure. Indeed, the visit of the Prime Minister of Bangladesh to China in June 2014 and July 2019 and that of President Xi Jinping to Bangladesh in October 2016 were key milestones which have consolidated the geo-economic and geo-strategic ties that underlie the relationship between the two countries and underpin the subsequent initiatives at deepening the ties between the two countries.

The visit of the Bangladesh Prime Minister Sheikh Hasina to China in June 2014 took the bilateral ties to newer heights. Bangladesh formally joined the Belt and Road Initiative (BRI), launched by China in 2013, when President Xi visited Dhaka in October 2016. Indeed, the visit was a turning point in terms of setting out the roadmap for future bilateral relationship. In his speech, following the signing of a large number of deals, memorandum of understandings (MoUs) and agreements, President Xi stated, 'We agreed to elevate China-Bangladesh ties from a comprehensive partnership of cooperation to a strategic partnership' (Paul & Blanchard, 2016). Prime Minister Sheikh Hasina, on her part, stated, 'Bangladesh is willing to actively work with China within the framework of the BRI and support building of an Economic corridor linking the BCIM (Bangladesh-China-India-Myanmar) so as to push forward development in various fields such as investment, agriculture, transport infrastructure and connectivity' (CGTN, 2016). The deals signed during President Xi's visit included both Government to Government (G2G) and Business to Business (B2B) projects and initiatives, worth about USD 25.0 billion and USD 15.0 billion, respectively. These were envisaged to be implemented over the next five years. The projects were to include a wide spectrum of areas, with the involvement of Chinese state-owned companies as also private companies; some projects were to be underwritten exclusively by borrowings from China while others were to be implemented jointly (Rahman, 2023). These projects were related to building various infrastructure projects in Bangladesh, the establishment of Chinese enterprises in dedicated economic zones, defence co-operation and lending on soft terms (Rahman & Saha, 2022).

The interest on the part of Bangladesh to involve China as a key player in Bangladesh's infrastructure-investment scenario and its political commitment to be engaged in the Belt and Road Initiative, and China's commitment to help Bangladesh in its quest for fast pacing its economic development, particularly through building of infrastructure, are foundations on which the bilateral relationship is being developed in recent times (Xinhua, 2023). For Bangladesh, bilateral relationship with China is part of a broader strategy to attain economic development and diversification of the economy through triangulation of multi-modal transport, investment and trade connectivity as articulated in its plan document (GED, 2020). Broadening of export opportunities in China ought to be seen as a key objective of the broadening and deepening of the ongoing multi-dimensional economic ties with China.

As the foremost import source of Bangladesh, China's importance as a trading partner cannot be overemphasised. On the other hand, in spite of the preferential market access for almost all items of export from Bangladesh offered by China [1], the country has not been able to make any mentionable inroads into the growing import market of China. The total number of export items from Bangladesh was only 554 as against 3,449 items (at 6-digit level) of import from China to Bangladesh.

Consequently, Bangladesh's bilateral trade deficit with China has been on a fast rise in recent years which has emerged as a concern for Bangladesh. On the other part, this could potentially also be an opportunity since the aforesaid triangulation of transport, investment and trade connectivity could play an important role in creating the supply-side capacities which could take advantage of the formidable Chinese import market from a position of competitive strength.

In the context of Bangladesh's upcoming Least Developed Country (LDC) graduation and the likely loss of preferential market access in major traditional export destination countries, realising the potential export opportunities in the Chinese market has emerged as an urgent task that calls for closer attention on the part of Bangladesh's policymakers. It is thus important to explore opportunities of raising competitiveness and expanding exports to compensate for the likely adverse impacts of loss of preferences on Bangladesh's exports. China could potentially be a significant opportunity in this connection. In recent times, China has also indicated its interest in establishing a bilateral FTA with Bangladesh, preferably by 2026. The proposal also needs careful examination. These are the motivation of their study.

In view of the above, the objectives of the paper are threefold which have been addressed in three separate sections in the present paper. The first objective is to review the state of bilateral trade relations between Bangladesh and China (Section 1). The second objective is to examine the opportunities of expanding Bangladesh's exports to the growing import market of China (Section 2). The third objective is to identify the measures to enable Bangladesh to take advantage of the Chinese market by creating supply-side capacities, facilitating exports, and enhancing export competitiveness (Section 3). The paper concludes with some final remarks.

SECTION 1: Sino-Bangladesh Bilateral Trade: Patterns and Trends

This section reviews the trends in trade between Bangladesh and China and the changes taking place in the composition of trade over the recent years. Over these past years, China has emerged, as was noted at the very outset, as Bangladesh's foremost bilateral trading partner—total trade between the two countries was about USD 29.13 billion in 2022. Indeed, China replaced India as Bangladesh's most important bilateral trading partner in the early 2010s. As in the case of India, the trade is dominated by imports from China: in 2022, imports from China were USD 28.0 billion, as against exports of only USD 1.13 billion (the two shares in bilateral trade being

[1] Previously China was offering DF-QF market access for 60 per cent of tariff lines under its LDC scheme. Since 2020, 97 per cent of all tariff lines came under the scheme but this left out some leather products exported to China by Bangladesh. In January 2022 China included another 383 items (including leather items), to raise the share to 98 per cent (raising the number of items to 8,930). The list now covers ritually all exports from Bangladesh.

Figure 1.1: Bangladesh's Export, Import and Trade Deficit Vis-a-vis China

Source: (ITC Trademap, 2023a).

96.2 per cent and 3.8 per cent respectively)[2]. Between 2015 and 2022, China's exports rose from USD 15.4 to USD 28.0 billion, 1.8 times increase. To compare, in case of Bangladesh's exports to China the increase over the corresponding period was from the lowly USD 1.03 billion to USD 1.13 billion, a rise of only 0.9 times. This resulted in an increasingly large bilateral trade deficit for Bangladesh, rising from USD 14.4 billion to USD 26.9 billion over the corresponding period[3]. Indeed, the bilateral trade deficit with China accounts for 130.0 per cent of Bangladesh's global trade deficit, indicating the magnitude of the trade gap[4].

It is true that in a globalised world it is not the bilateral trade deficit but the global trade balance that should concern countries. Imports of RMG raw materials and intermediate as also machineries from China helps Bangladesh's export-oriented RMG industry to remain competitive in production of apparels, which in turn enables Bangladesh to export more export apparels to the US with which Bangladesh has a significant trade surplus of about USD 10.0 billion. This is not to say that Bangladesh should not do everything to reduce bilateral trade deficit with China, but to say that this should be done primarily by enhancing export opportunities to China. It should be taken into cognisance that Bangladeshi importers source from China, because they find the prices more competitive. Indeed, it is the private sector of the country which is involved in most of the import trade. Over the years, there has been significant import-substitution from other sources,

[2]In case of India, with which total trade in 2022 stood at 15.8 billion, these two shares stood at 87.3 per cent and 12.7 per cent respectively (ITC Trademap, 2023b).

[3]There is some discrepancy between ITC trade figures and trade figures prepared by the EPB (exports) and the Bangladesh Bank (import).

[4]This would mean that this deficit exceeds the surplus that Bangladesh had maintained with rest of the world.

favouring China, in the backdrop of higher labour and capital productivity of Chinese producers and China's rising competitiveness. As a matter of fact, China maintains trade surplus with all South Asian countries, not to say with almost all countries of the world.

Table 1.1: South Asian Countries: Trade Flows and Trade Balance with China (2022)

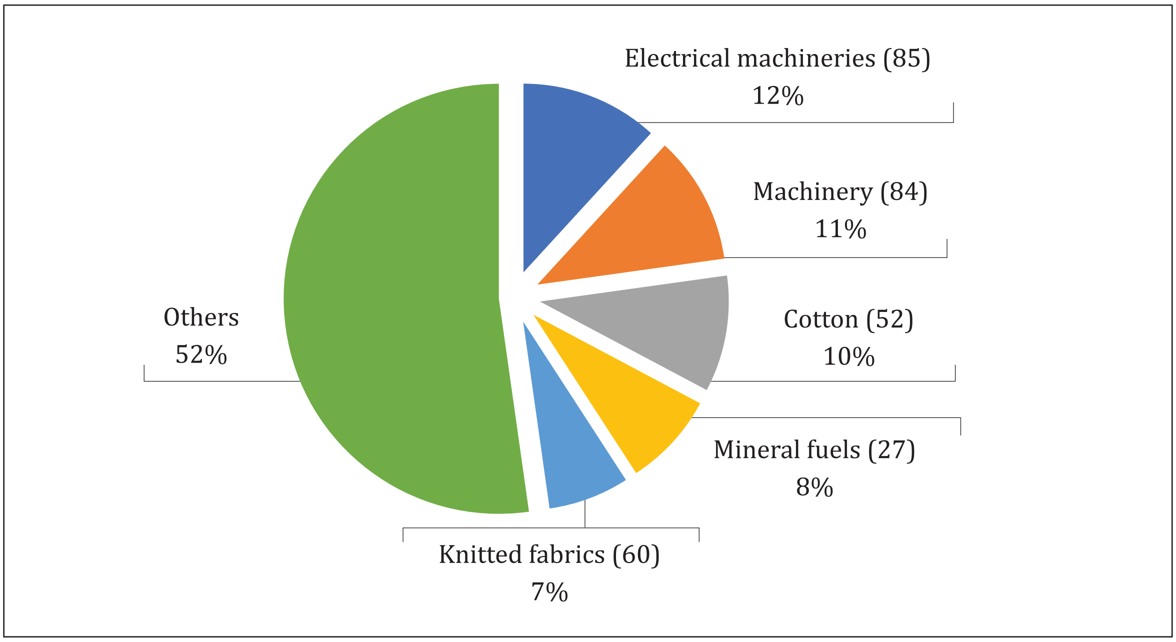
(in Million USD)

Countries	Exports	Imports	Trade balance
Bangladesh	0.98	26.81	-25.83
Afghanistan	0.04	0.55	-0.51
India	17.48	118.50	-101.02
Nepal	0.02	1.66	-1.63
Pakistan	3.41	23.09	-19.68
Sri Lanka	0.49	3.76	-3.26

Source: ITC Trademap, (2023c).

However, the rising trade deficit and the inability to capture the growing Chinese import market[5] remains a concern for Bangladesh. An examination of the import and export structure of Bangladesh vis-à-vis China helps explain the reasons for the low levels of Bangladesh's exports to China; the comparison indicates the shallow base of Bangladesh's exports to China.

Figure 1.2: Bangladesh's Top-5 Imports from China in 2022

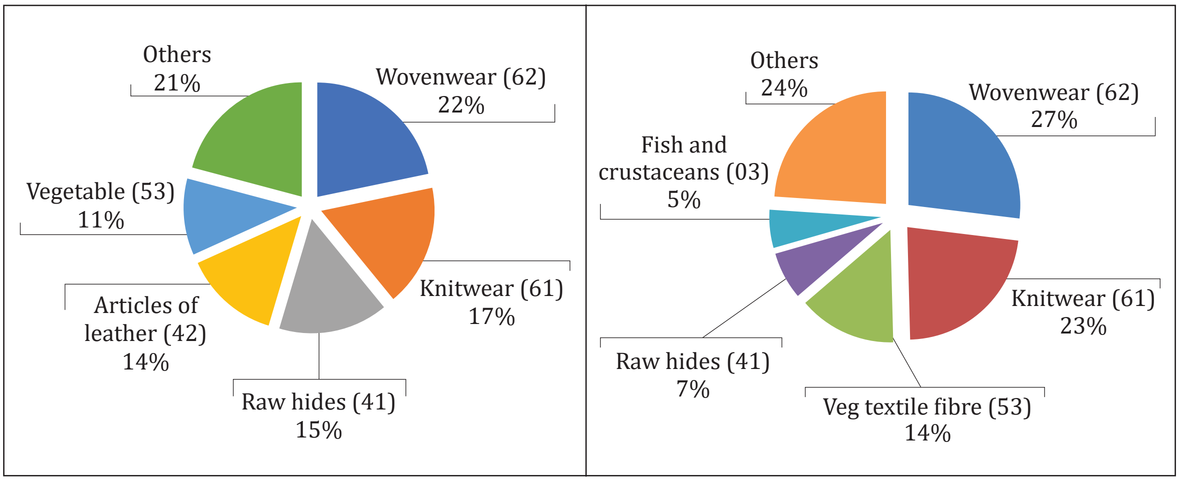


Source: *Authors' estimation based* on ITC Trademap, (ITC, 2023a).

[5] China imported goods worth USD 2,716 billion in 2022 (ITC Trade Map, 2023).

While share of Bangladesh's exports to China was 1.9 per cent of her global exports in 2022, according to ITC database, the corresponding import share is found to be 42.6 per cent (ITC Trademap, 2023a). However, according to the Bangladesh Bank data, the two corresponding shares are found to be 1.74 per cent (for FY2021-22) and 24.9 per cent (BB, 2022b). Such large differences in data, particularly for imports, should be a reason for concern[6]. Nevertheless, the fact remains that Bangladesh is at present very much dependent on Chinese imports for consumer goods, raw materials and intermediates for export-oriented, particularly RMG industries, for equipment and machineries. These are beneficial to Bangladesh in the form of consumer welfare, export competitiveness and labour and capital productivity gains. Thus, the bilateral trade deficit needs to be seen from a macro-economic perspective. However, as was pointed out earlier, the challenge facing Bangladesh is to get into the growing import market of China.

Figure 1.3: Bangladesh's Top 5 Exports to China: FY2014–15 and FY2022–23



Source: Authors' estimation based on EPB (EPB, 2023b).
Note: HS codes of the items are indicated in parentheses.

Lack of export diversification and supply-side constraints remain major obstacles to Bangladesh in taking advantage of the growing import market of China. On the other hand, as imports of goods and services posted a fast rise in Bangladesh, in the backdrop of the rising national income and growing domestic demand in the country, China was able to take advantage of this. However, to note, a large part of import from China are raw materials and intermediate goods that service the demands of the export-oriented apparels sector of Bangladesh (cotton, yarn, fabrics, etc.). Other imports include consumer goods and household appliances as also capital goods for production-oriented enterprises in Bangladesh. The structure of import, as shown in Figure 1.2, bears this out.

A decomposition of Bangladesh's exports to China does not show any discernible change between FY2014–15 and FY2022–23. The top five exports has remained more or less the same: woven wear, knitwear, raw hides and vegetables, with fish and crustaceans replacing raw hides during

[6]Even if the CY (Calendar year) and FY (Fiscal Year) data may have some discrepancy, this significant difference cannot be explained by this. If the FOB Value (of Chinese exports possibly reflected in ITC figure and CIF Value (of Bangladesh imports) is taken into account, then this is even more puzzling.

this period. This high concentration of exports (at two-digit level) is corroborated by the shares of top 5 items in FY2014–15 and FY2022–23, which stood at 79.0 per cent and 76.0 per cent, respectively.

As is known, Bangladesh is the world's second-largest exporter of apparel, with China being the first[7] (WTO, 2023a). The share of apparels in Bangladesh's total export earnings is more than 84.0 per cent (EPB, 2023a). Even in the case of China, Bangladesh's export basket could not avoid being dominated by apparels (apparels constituted about 50 per cent of total exports in FY2022-23). On the other hand, imports from China are way more diversified. In 2022, the top 5 import items from China (at 2-digit level) constituted only 48.0 per cent of Bangladesh's total imports from China. A decomposition of the imports indicates that a large part of the 5 top import items (accounting for about 52.0 per cent of total imports) were machineries, electric machines, various equipment, etc. (23 per cent), while others constituted mostly fuel, cotton, and fabrics (accounting for another 25 per cent).

The structure of Bangladesh's export, and an examination of China's import structure indicates that the key to expanding Bangladesh's export to China lies in being able to diversify the country's exports by building competitive supply-side capacities. Chinese FDI in Bangladesh could play an important role in this context.

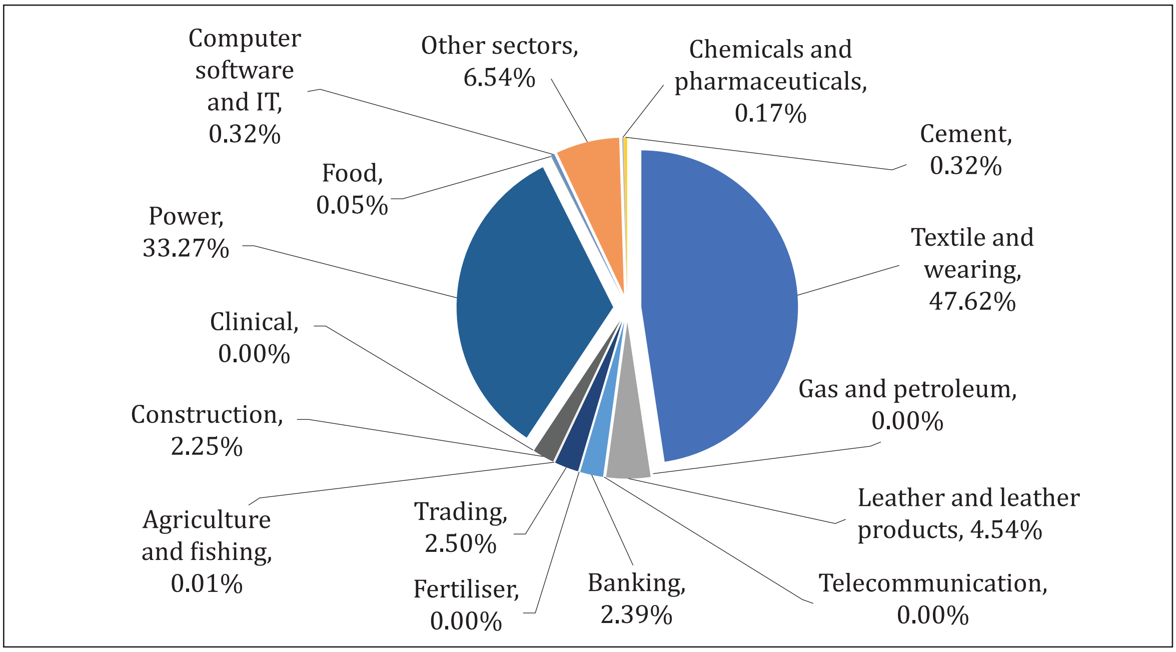
FDI Flow from China to Bangladesh

In recent times, share of China (including Hong Kong) in Bangladesh's inward FDI flow has seen some increase. In 2022, FDI from China stood at USD 764.0 million, about 15.8 per cent of total inward FDI flow to Bangladesh for the corresponding year. The FDI was mostly dominated by Textile and Wearing (47.6 per cent) and Power Sector (33.2 per cent). Bangladesh's FDI stock from China, as of December 2022, amounted to USD 2.6 billion or about 12.4 per cent of the country's total FDI stock. The stock composition reflects the pattern of inward FDI flow to Bangladesh in 2022.

As noted above, one possible strategy to increase Bangladesh's exports to China and reduce this bilateral trade deficit is to attract more investment from China, through the FDI window and other means. This could play a positive role in three ways: firstly, FDI from China targetting the Chinese market by taking advantage of the DF-QF market access would help raise Bangladesh's exports to China (as also to other markets; e.g., Chinese FDI in textiles and apparels); secondly, Chinese investment in Bangladesh that supports the country's building capacities in Bangladesh (e.g., Chinese support for Power Sector infrastructure building), by stimulating private-sector production and export-oriented entrepreneurship; thirdly, Chinese involvement in promoting Bangladesh's trade facilitation (e.g., construction of port related infrastructure) reduces cost of trading that help make Bangladesh's exports more competitive. Thus, while some investment could contribute directly to increasing Bangladesh's exports to China, others could help diversify Bangladesh's exports and raise her export competitiveness in China as also in other countries.

[7] The respective shares in the global apparels market are about 7.9 per cent and 31.7 per cent (WTO, 2023a).

Figure 1.4: Chinese FDI in Bangladesh



Source: *Authors' estimation based* on (BB, 2022a).

To note, China has also been heavily involved in the building of seaport infrastructure in Bangladesh with the Chinese banks, particularly the EXIM Bank of China, acting as a major lender. Chinese sub-contractors are undertaking such works as piling, construction of container ports, dredging of rivers for improving navigability and other works.

In this connection, mention may be made of the involvement of Chinese companies in the piling work at Patenga Container Terminal, building of port structure at Payra seaport, undertaking of jetty work at Chattogram seaport and dredging work at Mongla Seaport. Chinese companies such as China Harbour Engineering Company (CHEC), China Road and Bridge Corporation (CRBC), China Civil Engineering Construction Corporation (CCECC), Jiangsu Hengxin Construction Engineering Company (JHCEC) are involved in these works. These have helped strengthen Bangladesh's port infrastructure, lowered turnaround time at its parts, facilitated docking of larger vessels, lowered trade costs and enhanced trade facilitation which in turn has helped raise competitive strengths of Bangladesh's exports (as also helped bringing down cost of imports). To note, there are about 20 thousand Chinese nationals working in Bangladesh at present who are involved in various construction, production, business, and development projects in Bangladesh (Paul & Blanchard, 2016).

Chinese Lending to Bangladesh

Over the past few years, China has emerged as a major source of borrowings for Bangladesh. The Chinese loans are of two types: ODA (overseas development assistance) and suppliers'/ buyers' credit. These loans, as was noted, include borrowings for establishing transport links and connectivity, setting up production units, providing various services including provision of water

Table 1.2: Bangladesh's External Debt Position with China (as of June 2021)

(figures in million)

China	Disbursement	Debt relief	Repayment	Outstanding as of June 2022 (USD)
ODA (in RMB) *	2560.8	128.1	180.2	2,052.5
ODA (in USD)	653.1	-	209.0	2508.2
As Suppliers / Buyers' Credit (Active)	824.2	-	479.1	345.1
Total			389.2	4760.7
Bangladesh's Total Outstanding Loan				55601.7

Source: ERD, (2023).
Note: *RMB – USD rate is taken to be 0.149.

and sanitation, setting up of ICT networks, building power units and to underwrite government procurement. An assessment of Chinese lending scenarios indicate the followings: (a) Chinese loans are relatively more costly (on average 2.0 per cent per annum) than those provided by, for example, the World Bank's IDA window[8], however, these are still concessional in the sense that the interest rates are below the commercial (market) rates; (b) grace period[9] is shorter (on average 5 years); (c) repayment period is lower (on average 15 years); and (d) there is a service charge attached (on average 2.0 per cent per annum).

Bangladesh's total debt exposure to China (in the form of overseas development assistance extended by the Chinese government and as suppliers'/buyers' credit) is not significantly high — as table 1.2 shows, at present the total outstanding debt stood at USD 4.76 billion or 8.6 per cent of the Bangladesh's corresponding total figure (ERD, 2023).

Table 1.3: China and Bangladesh's Private Sector External Debt (MLT)

(in million USD)

Name of Creditor Countries	Outstanding as at end of (Share in Total)	
	Sep'22	Jun'23
China	2282.5 (25.4%)	2656.1 (30.9%)
Hong Kong	1267.9 (14.1%)	1043.3 (12.1%)
Total Loan	**8990.6**	**8600.6**

Source: BB, (2023).

[8] Such loans are provided through World Bank's soft window, the International Development Association (IDA), which are of highly concessional nature: interest rate/service charge is 0.75 per cent of the disbursed/outstanding amount, with a 5–10 years grace period and 30–40 years of maturity. However, in view of Bangladesh's middle-income graduation, Bangladesh is no longer an IDA only recipient and is now considered as a blend country (concessional and non-concessional loans).

[9] The period after which repayment of loans start.

However, Bangladesh's medium and long-term loans (MLT) to private sector has been on the rise at a rather fast pace, as can be seen from table 1.3. China accounts for about one-third and Hong Kong for about one-seventh of Bangladesh's total outstanding private sector loans. The growth rates of such loans from China have been very high in recent years[10] (BB, 2023).

Bangladesh is the second largest recipient of Chinese loans under the BRI in South Asia, after Pakistan. Whilst Chinese investment in Pakistan as part of the China-Pakistan Economic Corridor (CPEC), at more than USD 60.0 billion, dwarfs that in Bangladesh[11], the amount has been on the rise. At present nine projects are ongoing in Bangladesh as part of the BRI. These include the recently completed Bangabandhu tunnel under river Karnaphuli and the Padma Bridge Rail Link Project, and the coal fired powerplant in Payra, among others.

The upshot of the above discussion is that Bangladesh will need to generate the required foreign exchange to underwrite the debt servicing obligations associated with Chinese lending (as also lending by other bilateral as also multilateral institutions). It is thus crucial that Chinese lending, FDI and involvement of Chinese companies generate the income to service the debts. For this, Bangladesh will need to raise her forex earnings significantly. Increasing exports to China could play a significant role in view of this emergent scenario.

SECTION 2: Opportunities to Enhance Bangladesh's Exports to China

It goes without saying that given Bangladesh's export structure it is extremely difficult to get into the Chinese market. As was noted in the preceding section 84.0 per cent of Bangladesh's exports constitute apparels. On the other hand, China is by far the world's leading exporter of apparels. One could hardly expect these two countries to trade heavily in RMG products. Nonetheless, as was noted earlier, almost half of Bangladesh's exports to China are apparel items (both woven wear and knitwear). Since China imports some apparel items (mostly lower-end items in the backdrop of China's shift to upper-end segment of the apparels market), Bangladesh has an opportunity to make further inroads into this particular market where it has competitive strength. This is borne out by table 2.1.

The fluctuating fortunes of Bangladesh's exports to China is captured in table 2.1. As can be seen from table 2.1 between FY2015 and FY2022 Bangladesh's share in China's import market for apparels has come down from 7.1 per cent to 3.6 per cent. This has been so despite of Bangladesh enjoying DF-QF market access in the Chinese market.

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[10] These loans are mostly going to such sector as power (89.7 per cent of total loan) and construction (10.0 per cent of total loan). It is also to be noted that, while MLT loans incurred by Bangladesh's private sector (USD 7.91 billion, as shown in table 2) from various sources is relatively low, the amount of short-term debt is rather high, at USD 17.07 billion (as of end-March 2022).

[11] Pakistan's total external debt to China currently stands at more than USD 77.3 billion.

Table 2.1: RMG Import of China from Bangladesh and World

(in Million USD)

Commodity	2015			2022		
	Import from Bangladesh	Import from world	Bangladesh's share (%) in China's import of the item	Import from Bangladesh	Import from world	Bangladesh's share (%) in China's import of the item
Knitwear (61)	169.5	2,309.9	7.34	170.2	4,662.6	3.65
Wovenwear (62)	256.3	3,694.9	6.94	215.7	6,071.7	3.55
Overall	425.7	6,004.8	7.09	385.8	10,734.3	3.59

Source: Extracted from ITC Trademap, (2023a).

Table 2.2: Volatility of Performance of Major Export Items in the Market of China

(in million USD)

Major exports to China	FY2012	FY2017	FY2023
Knitwear	46.7	169.8	119.3
Wovenwear	57.8	221.8	170.4
Leather hides	22.2	76.4	52.9
Leather products	21.7	144.7	6.8
Footwear	2.9	19.5	17.9
Fish products	17.7	26.5	42.1
Pharmaceuticals	0.0	0.2	0.4
Total top 7 exports (China)	169.0	658.9	409.8
Total exports (China)	401.9	949.4	677.4
Bangladesh's total exports (Global)	24231.0	34656.0	55559.0

Source: Estimated based on EPB, (2023b).

The above track record is not limited to apparels only. An analysis of the dynamics of Bangladesh's export to China indicates a large amount of volatility, as is borne by table 2.2. The table indicates that for a number of products Bangladesh is not being able to hold on to the Chinese market after having made some initial inroads. One finds that between FY2012 and FY2017 Bangladesh's exports have experienced notable rise, albeit from a very low base. However, what is rather disconcerting is that between FY2017 and FY2023 there has been a significant decline in exports to China, overall and for all major items.

However, as argued above, likelihood of large-scale exports of apparels to China is likely to be limited. The challenge facing Bangladesh is to enter into the markets of other products. This section delves deeper into avenues of opportunities to increase Bangladesh's export to China over the medium term. The analysis here goes beyond the headline figures and undertakes a disaggregated examination of the patterns and structure of Chinese imports. An attempt has been made to identify where the export opportunities for Bangladesh could lie. The analysis also puts the spotlight on Vietnam to see how Vietnam has been able to emerge as a major trading partner of China. Whilst the country does have a bilateral trade deficit with China, over the recent past years Vietnam has been able to expand its exports to the Chinese market in a significant way. The paper also draws lessons from what could be learned from the experience of Vietnam.

Table 2.3: Items Imported by China from the World but not from Bangladesh, While Bangladesh Exported these Items to the World but not to China (2022, at 2-digit level)

(in USD million)

HS code	Product name	Bangladesh's export to world	Chinas import from world
04	Dairy produce; birds eggs; natural honey; edible products of animal origin, not elsewhere ...	8.7	9694.5
07	Edible vegetables and certain roots and tubers	53.8	2854.3
11	Products of the milling industry; malt; starches; inulin; wheat gluten	1.7	1957.5
14	Vegetable plaiting materials; vegetable products not elsewhere specified or included	14.4	209.4
21	Miscellaneous edible preparations	5.5	4832.0
23	Residues and waste from the food industries; prepared animal fodder	126.9	6523.1
26	Ores, slag and ash	22.3	272763.3
31	Fertilisers	26.1	2765.3
33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations	4.9	24117.4
35	Albuminoidal substances; modified starches; glues; enzymes	3.2	4758.2
68	Articles of stone, plaster, cement, asbestos, mica or similar materials	2.9	2275.7
79	Zinc and articles thereof	1.2	1684.6
88	Aircraft, spacecraft, and parts thereof	125.2	13016.6
89	Ships, boats and floating structures	34.3	3731.8

Source: Authors' estimation based on ITC Trademap, (2023a).

As was noted earlier, Bangladesh's exports to China are characterised by two key disadvantages: these are highly concentrated in a few items and the export value is rather low. As part of our analysis, we investigated a number of products which Bangladesh exported to the world but not to China, while China imported these products from the world but not from Bangladesh. The above would imply that Bangladesh did have the supply-side capacities in producing these items and is currently exporting those items to some countries, but not to China. Table 2.3 bears this out very clearly.

Our discussion with concerned stakeholders indicates that relative price competitive strength vis-a-vis other countries entering the Chinese market of these products, labour and capital productivity differentials, supply-side constraints, higher lead time, high costs of transport etc. were found to be the reasons. On the other hand, this would also indicate that Bangladesh could potentially enter into Chinese market of these products if the attendant concerns could be tackled, particularly because it has demonstrated capacity in producing the items. Some such items are cement, tobacco, wood products, etc.

Table 2.4: Selected Products Imported (at 6-digit disaggregated level; items worth USD 10 million) by China from the World but not from Bangladesh, While Bangladesh Exported these Products to the World in 2022 but not to China

HS code	Product name	Bangladesh's export to world	China's imports from world
120190	Soya beans, whether or not broken (excluding seed for sowing)	13.9 mn	53.5 bn
271019	Medium oils and preparations, of petroleum or bituminous minerals, not containing biodiesel, ...	37.6 mn	11.3 bn
240120	Tobacco, partly or wholly stemmed or stripped, otherwise unmanufactured	117.4 mn	1.1 bn
940161	Upholstered seats, with wooden frames (excluding convertible into beds)	16.6 mn	0.25 bn
850710	'Lead-acid accumulators of a kind used for starting piston engine 'starter batteries' (excluding ...)	26.6 mn	0.10 bn
230400	Oilcake and other solid residues, whether or not ground or in the form of pellets, resulting ...	124.4 mn	59.3 mn

Source: Authors' estimation based on ITC Trademap, 2023.

Our analysis indicates that even at 6-digit disaggregated level there are items for which the above holds. Annex 1 brings this out more clearly. Indeed, the table shows that there are significant opportunities for increasing exports of these items to China since Bangladesh has demonstrated some capacity in producing these items. The annex table shows items for which Bangladesh's global exports are greater than USD 10.0 million.

Table 2.5: Global Value Chain Indicators for Bangladesh and China

(in per cent)

Countries	Forwards linkage (%)	Backwards linkage (%)	Share of GVC in gross GDP
China	9.1	13.1	22.2
Bangladesh	1.9	12.9	14.8

Source: Estimated based on ADB, (2023).
Note: Calculated on the basis of 2021 data.

One of the major reasons why Bangladesh is not being able to translate its comparative advantages into competitive advantages is the weak backward and forward linkages. Excepting for RMG, Bangladesh's backward and forward linkages are very weak, as can be seen from table 2.5. If for China, the share of global value chain is 22.2 per cent, for Bangladesh it is only 14.8 per cent. It is from this vantage point that developing regional and sub-regional value chains and production networks, as also China and other South Asian countries, assumes such heightened interest from Bangladesh.

Table 2.6: Export Potential of Bangladesh's Major Sub-Sectors in China

(in million USD)

Sector-wise	Export potential	Actual exports	Unrealised potential
Apparel	1600	469	1200
Flax, hemp and natural fabric n.e.s	153.0	114.0	40.0
Fish and Shellfish	146.0	53.0	101.0
Footwear	120.0	29.0	91.0
Miscellaneous manufactured product	77.0	37.0	44.0
Skins, leather & products thereof	62.0	85.0	9.7
Optical products, watches & medical instruments	22.0	12.0	14.0
Vegetal textile fibres	20.0	16.0	3.4
Cotton (fabric)	17.0	20.0	3.1
Plastics and Rubber	13.0	8.2	8.7

Source: Extracted from ITC EPM, (2023).

The ITC Export Potential Map allows an estimation of one country's export potential with respect to another country. The tool has been deployed here to come to an estimation of Bangladesh's export potential in various items. The tool helps to compare export potential with actual exports and identifies the unrealised export potentials of Bangladesh in the Chinese market (the difference between the two amount). As table 2.6 indicates, there are significant unrealised export potentials for a number of items, including apparels, fish and shellfish, footwear items, manufactured products., etc.

SECTION 3: Strategies and Options for Deepening Bilateral Economic Ties

This section identifies some of the actions that which Bangladesh could pursue to deepen trade relations with China to gain from export opportunities in the Chinese Market.

A Possible FTA with China

In recent times, the idea of an FTA with China has been mooted by different circles in Bangladesh[12]. The idea is to put in place an FTA by 2026. As is known, this timing coincides with the timeline of Bangladesh graduating out of the group of LDCs which is scheduled to take place in November 2026.

Revenue Loss Implications of FTA

We have estimated the revenue loss implications of an FTA based on both reciprocity and non-reciprocity. Since China provides DF-QF market access for almost all exports from Bangladesh, the revenue-less scenario remains unchanged (zero) for China. On the other hand, the picture is quite different for Bangladesh. Our estimates, presented in table 3.1, show that Bangladesh is significantly dependent on various duties collected on items of imports from China. As table 3.2 indicates, the Total Tax Incidence (TTI) on Chinese imports is as high as 58.4 per cent of import value. The TTI (which includes customs duties (CD), supplementary duties (SD), Value Added Tax (VAT), advance income tax (AIT), regulatory duties and advance tax (AT). The total revenue implication is also significantly high from imports from China, consequently also very high on an import of USD 26.19 billion in 2022, the revenue collected was about USD 15.3 billion.

Table 3.1: Revenue Collected by Bangladesh from Imports from China (2022)

		Import from China (in mln USD)	Revenue from CD (in mln USD)	CD Revenue as (%) of imports	Revenue from TTI (in mln USD)	TTI Revenue as (%) imports
All Sections	All imported products (8 digit level)	26198.4	4546.0	17.4	15290.1	58.4
Top-10	Top-10 imported products (8 digit level)	4906.9	756.1	15.4	2595.4	52.9

Note: The import data is extracted from ITC Trade Map database, which is based on calendar year 2022. The operative tariff schedule is sourced from Bangladesh's National Board of Revenue, which is based on fiscal year 2022-23.
Source: Authors' estimation based on (ITC Trademap, 2023a) and (NBR, 2022).

This is also borne out by table 3.2 which indicates that the amount of revenue collected from various items of imports from China is quite high. Annex 1 provides information on items of

[12]The Chinese Ambassador, at a meet with diplomatic journalists on November 10 stated that a feasibility study is currently being carried out to examine the various aspects of establishing a free trade area. This was to be followed by actual negotiation (Paul & Blanchard, 2016).

Table 3.2: Top-10 Imported items from China in 2022 and their Operative Schedule, Import Tax Revenue in Bangladesh

Product code	Product label	Value in 2022 (in mln USD)	CD (%)	SD (%)	VAT (%)	AIT (%)	RD (%)	AT (%)	TTI (%)	Tax revenue collected (mln USD)
27101923	Diesel oils	1135.4	10	0	15	2	0	5	34	386.0
27101911	Aviation kerosene, without biodiesel	911.4	10	0	15	2	0	5	34	309.9
31053000	Diammonium hydrogenorthophosphate (diammonium phosphate)	516.0	0	0	0	0	0	0	0	0.0
52114200	Coloured denim, cotton85%, wt.200g/m2	429.7	25	20	15	5	3	5	89.32	383.8
60063200	Other knitted/crocheted fabrics of dyed synthetic fibres, nes	399.9	25	20	15	5	3	5	89.32	357.2
54075200	Dyed woven fabrics of synthetic filament yarn, textured polyester85%	389.7	25	20	15	5	3	5	89.32	348.1
60019200	Pile fabrics of man0made fibres, nes, knitted or crocheted	358.8	25	20	15	5	3	5	89.32	320.5
60041030	Knitted/crochetd fabrics of synthetic, wid>30cm,5%, not rubber thread	295.7	25	20	15	5	3	5	89.32	264.1
73089000	Structure/parts nes, prepd plate,rods etc for struct, i/s	239.6	25	0	15	5	3	5	58.6	140.4
85177930	Parts of wireless telephone handsets (other than aerials)	230.8	10	0	15	5	0	5	37	85.4
	Total (Top-10)	**4907.0**							**Total**	**2595.4**

Source: Author's estimation based on ITC Trademap and NBR, 2023.

imports from China for all 21 sections. As table 3.2 in the text testifies, the import revenue on the top ten imported items (at 8-digit level) is estimated to be USD 2.59 billion (on an import of USD 4.90 billion), with the total tax incidence being 52.9 per cent of import value. These are indeed very high figures. As may be noted, at present, Bangladesh does not provide any preferential treatment to imports from China.

Because of the combination of high import duties on imports from China in Bangladesh and the significant amount of imports, there is likely to be substantial revenue loss implications from an FTA with China. Our estimates indicate that an FTA with China will result in largescale revenue losses for Bangladesh. In view of this, Bangladesh will need to strategise in a way that reduces its potential losses and increases its potential gains in terms of exports originating from the proposed FTA. One strategy is to defer the FTA and argue for continuation of the DF-QF market access offered by China beyond 2026 (LDC graduation timeline for Bangladesh).

The EU and UK have already offered an extension of three years to the graduating LDCs including Bangladesh. Indeed, to recall China has offered an extension of its unilateral preferential scheme for LDCs (for certain items of exports) to Samoa following the country's graduation from the LDCs in 2014. Also, mention may be made about a recent decision of the WTO concerning a deal to support LDCs on the path to graduation. The decision encourages 'WTO members to remove countries from their DF-QF preference programmes upon graduation from the UN LDC list to provide a smooth and sustainable transition period for the withdrawal of these preferences after graduation'(WTO, 2023b). It marks an important contribution to the implementation of the Doha Programme of Action for LDCs (2021-2031). There may be a ministerial decision as regards this at the upcoming 13th WTO Ministerial Meeting (WTO-MC13), where a timeline (number of year extension of the DF-QF facilities beyond graduation) is expected to be set to give effectiveness and concreteness to this decision. China may be requested to join this initiative at the 13th Ministerial Conference (MC13). In that case, the decision about the FTA may be deferred till the timeline set at the Conference.

If and when an FTA with China is negotiated, Bangladesh should ask for less than full reciprocity in terms of trade liberalisation on grounds of being the relatively weaker partner. The significant revenue loss quoted above, remains a major concern for Bangladesh. Such two-track trade liberalisation is a standard practice in FTAs. For example, this was the case when the ASEAN-FTA was negotiated: there was a second (slower) track for CMLV countries (Cambodia, Myanmar, Laos and Vietnam). A slower-paced track and lower obligations were allowed to the four aforementioned ASEAN member countries. The Rules of Origin should also be negotiated in a way that takes cognisance of Bangladesh's domestic value-addition capacities.

Reducing Bangladesh's formidable bilateral trade deficit with China will call for initiatives beyond mere trade liberalisation. It may be advisable to go for a Comprehensive Economic Partnership Agreement (CEPA) type of arrangement rather than just an FTA. Of course, any such FTA or RCEP should have flexible rules of origin, safeguard measures (e.g. in view of import surge, compensation for revenue losses, etc.), a two-track trade liberalisation policy, provisions for technology transfer, incentivisation of FDI flows to Bangladesh and other measures to take care of Bangladesh's concerns and advance her interests. Bangladesh should carefully identify its offensive and defensive interests, Offer lists and Request lists, list of Sensitive Items and the non-negotiables. This will require evidence-based strategies and negotiating capacities and careful preparation to undertake FTA/RCEP discussions in an informed and strategic manner.

Assessing Impact of a Bilateral FTA With Help of Game Theory

To assess what will be the impact of a Sino-Bangladesh bilateral FTA, we have carried out a game theoretic exercise which is presented below:

Game Theory Application for Possible FTA

We have deployed game theory approach in order to explore some of the possible outcomes based on different scenarios. We have built a game to find a pure strategy Nash equilibrium. A pure strategy Nash equilibrium is a scenario in a game where each player chooses a strategy that is the best response to the tactics chosen by the other players, and no player can benefit by changing their strategy while the others keep theirs intact. In other words, a pure strategy Nash equilibrium is a combination of tactics where no one has an incentive to deviate from their own plan. We put this idea to practice to estimate the results under various scenarios. In our game, we have two players: Bangladesh and China. The players have two strategies to pick from- imposing import tariff on exports from partner and not imposing import tariff on imports from partner country. For simplification, we have chosen the Top-10 export items of each country at 6-digit level. For purposes of simulation, we have used Trade Intelligence and Negotiation Adviser (TINA) developed by UNESCAP (ESCAP, 2023).

Based on the above, we constructed a payoff matrix reflecting each country's payoff for the respective strategies pursued by both the countries. We have picked only the Top-10 products for calculating the payoffs. The payoffs for each country for each scenario are computed on the basis of two impacts- revenue impact (positive or negative) and trade impact. The impacts of own strategy and the effect of the other players' strategy are captured in the result matrix. Each Cell represents a separate scenario. Cell (a) represents the scenario where Bangladesh and China both imposes tariffs on each other commodities; Cell (b) represents a scenario where Bangladesh imposes tariff but China does not, which is the current scenario (Bangladesh currently imposes tariffs on imports from China, while China does not); Cell (c) is the scenario where China imposes tariff, but Bangladesh does not; and Cell (d) is the scenario when both Bangladesh and China are not imposing tariff which is the Free Trade Agreement scenario.

For example, in the payoff matrix's Cell (a), Bangladesh and China both imposes tariffs. So, the payoff for Bangladesh will depend on the change in tax revenue originating from imposition of tariff in China, the loss in trade value because of China applying tariff and the amount of taxes paid to China. Results of the four payoffs from the four possible scenarios have been presented in the Annex Section. After calculating the payoffs, we get the following results table:

Table 3.3: Payoff Matrix for Bangladesh and China

(in million USD)

Country		China	
		Tariff	No Tariff
Bangladesh	**Tariff**	-145.5, 20.7 (a)	0, 0 (b)
	No Tariff	-1026.7,2166.7 (c)	-901.9, 2146.0 (d)

Source: Authors' estimation based on TINA, 2023.

The payoff matrix indicates that of all the four possible scenarios, Cell (b) is the preferred option for Bangladesh (Bangladesh imposes tariff and China does not, which is the current scenario). In all other scenarios, Bangladesh stands to incur losses in terms revenue and adverse trade impacts. On the other side, an FTA scenario (with both countries going for duty-free market access, Cell (d) will end up with Bangladesh having to incur significant losses in terms of revenue and trade. If Bangladesh is to sign an FTA with China, with full trade liberalisation (meaning if tariffs are brought down to zero), it will have quite formidable revenue implications (revenue loss) for Bangladesh.

In contrast, for China, there is no revenue implications for China if an FTA with full trade liberalisation is established since China already provides DF-QF market access to Bangladesh under the country's LDC scheme of preferences. Thus, it is not advisable for Bangladesh to go for an FTA based on full reciprocity. However, one must concede that from a general equilibrium model perspective, cell (d) could also potentially generate favourable outcomes (positive externalities, consumer and producer welfare and competitive gains from cheaper imports) if other parallel initiatives are also put in place as indicated earlier. So, the option of FTA should not be discarded altogether. However, as was mentioned earlier, a two-track trade liberation, supported by investment, trade facilitation, technology transfer, concessional loans and other forms of support within the ambit of a CEPA, may be considered as a possible option.

Learning from Vietnam

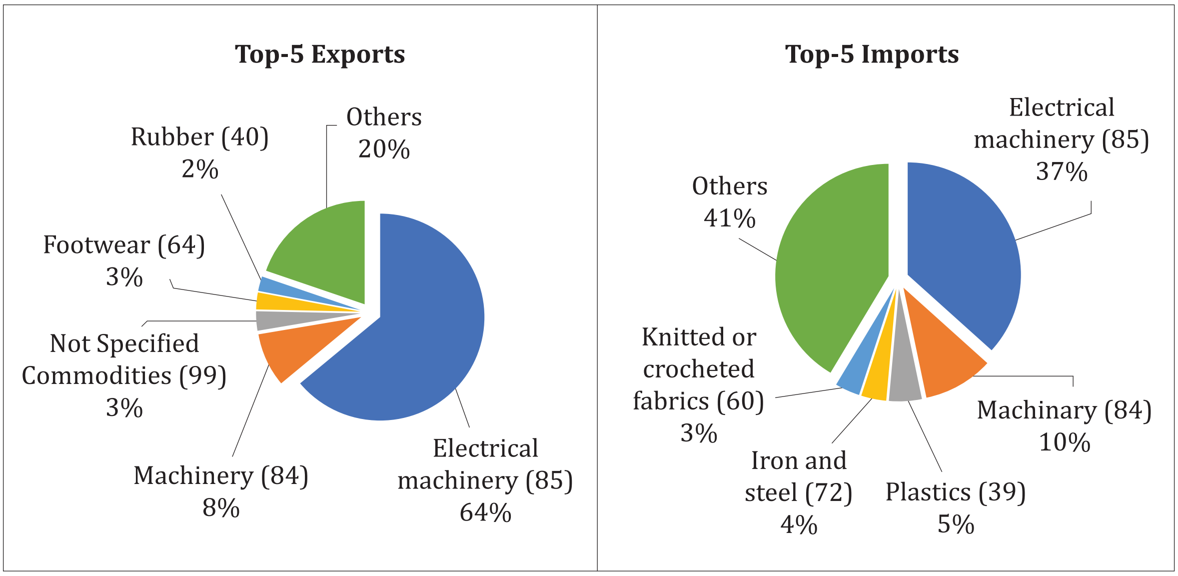
Table 3.4: Vietnam's Exports and Imports to/from World and China.

(in million USD)

Year	Exports to world	Exports to China	Import from world	Import from China
2015	162.0	16.6	165.8	49.4
2016	176.6	21.9	175.0	50.0
2017	215.1	35.4	213.2	58.5
2018	243.6	41.4	236.9	65.5
2019	264.6	41.4	253.4	75.6
2020	281.4	48.9	261.3	84.2
2021	335.8	55.9	330.8	109.9
2022	370.9	57.7	358.8	117.6

Source: Extracted from ITC Trademap (2023).

Figure 3.1: Vietnam's Top-5 Exported and Imported Items as Share in Terms of Total Export From and Imports to China (Hong Kong included) in 2022



Source: Authors' estimation based on ITC Trademap, 2023.
Note: HS codes in parentheses.

One country which is of heightened interest from the perspective of the potential of Sino-Bangladesh economic ties is Vietnam. Vietnam's bilateral trade with China is worth about a whopping USD 175.3 billion (in 2022), equivalent to about 24.1 per cent of the country's global trade. Corresponding shares of the Chinese market in Vietnam's global exports (USD 57.7 billion or 15.6 per cent) and imports (USD 117.6 billion or 32.8 per cent) were very high. As can be seen from Table 3.4, in recent years, Vietnam was able to take advantage of the growing Chinese import market in a significant way: the country's exports to China have seen a rise from USD 16.6 billion to USD 57.7 billion, a 3.4-fold rise between 2015 and 2022. True, the imports have also risen in tandem, from USD 49.4 billion to USD 117.6 billion, a 2.4-fold increase (ITC Trademap, 2023c). Indeed, a large part of Vietnam's exports to China depended on imported inputs, raw materials and intermediate products from China. The country's backward and forward linkages with China, through FDI and production networks are also very strong.

A closer look at the Sino-Vietnam trade performance indicates that Vietnam has taken advantage of increasing flow of FDI from China but also from Singapore, South Korea to enhance and diversify its supply-side capacities, raise competitive strength and consequently significantly increase its exports, both globally and to China. It can be discerned by studying Vietnam's experience that it has moved strategically to make inroads into the Chinese market. The trade structure of Vietnam, with its highly diversified exports and imports, demonstrates this.

Table 3.5: Technology-Intensiveness of Export of Manufacturers

(in per cent)

Manufacture products based on	Bangladesh		Vietnam	
	2010	2021	2010	2021
Natural resource	4.06	2.40	9.23	7.50
Low-technology	89.48	93.40	40.70	29.30
Medium technology	1.61	1.20	9.16	12.90
High technology	0.42	0.80	10.63	40.70

Source: Authors' calculation based on Lall, (2000) and (UN Comtrade, 2023).

The FDI has helped Vietnam to significantly raise its technological embeddedness of exports, as may be evidenced by Table 3.5. Whilst the *share of low technology-embedded* exports in Bangladesh's total exports stood at 93.4 per cent in 2021 (to note, increasing from 89.5 per cent in 2010, a disquieting development), that of Vietnam experienced a decrease to 29.3 per cent (from 40.7 per cent over the corresponding period). On the other hand, the share of medium and high technology exports of Vietnam stood at 53.6 per cent in 2021, registering a significant rise from 19.8 per cent in 2010. In contrast, the two corresponding figures for Bangladesh were 1.1 per cent and 2.0 per cent. Not surprisingly, with a GDP of USD 460 billion (FY2022), share of Bangladesh's global exports (USD 52.0 billion) in the GDP was a lowly 11.3 per cent. While Vietnam's GDP (USD 408.0 billion) was lower than that of Bangladesh, its global exports (USD 370.9 billion) were much higher, accounting for 90.9 per cent. This clearly demonstrates how Vietnam has moved strategically over the past decade in pursuing an export-oriented industrialisation and development strategy. There is a lesson to be learned by Bangladesh from this. As was noted, FDI from China and other countries and value chain linkages with China have played a key role in this.

Attract FDI from China

A key strategy for Bangladesh should be to attract Chinese FDI to Bangladesh that targets Chinese market, as also other markets. In this context, the Chinese Special Economic and Industrial Zone (SEIZ) in Anwara Upazila in Chattogram could play a very important role in attracting investment by Chinese companies. As was noted, a large part of Vietnam's export to China originates from Chinese FDI in Vietnam. The Chinese SEIZ could play a similar role. The SEIZ is the first specialised G2G economic zone in Bangladesh. The zone is very well served by multi-modal connectivity and is expected to create about two lac jobs when fully operationalised. The recently completed tunnel under the river Karnaphuli[13] will create good connectivity between SEIZ and the Chattogram port; the tunnel will also reduce the distance between SEIZ and the Chattogram airport and the under-construction Matarbari port. Possible industries to be set up at the SEIZ are chemical industries, automobile assembling, high-end garments, pharmaceuticals, leather, and footwear, etc. The CEIZ could also potentially be a hub of sunset industries of China. However, the zone will

[13]This is the first of its kind underwater tunnel in South Asia.

need to have other facilities and services in place[14] before the MoUs are realised on the ground and the enterprises could be up and running.

China as Part of Bangladesh's Open Regionalism Strategy

Closer co-operation with China should not preclude opportunities of deepen co-operation with other countries, regions and sub-regions. Besides closer co-operation with India, Bangladesh should also explore opportunities of closer co-operation with other, through bilateral and plurilateral initiatives. In this connection, Bangladesh may consider entering into negotiations with the 15-member Regional Comprehensive Economic Partnership (RCEP), of which China is a key member[15].

Underwriting Chinese Imports through Credit Lines

Given that at present Bangladesh is experiencing balance of payment problems and forex reserve shortage, Bangladesh may come to an agreement with China to defer payment for imports through short-term credit arrangement. Bangladesh is a significant export market for China, and it is in China's interest that Bangladesh has the capacity to pay for the imports from China. On the other hand, Chinese imports are important for Bangladesh's consumers, producers, import-substituting industries and exporters. Chinese trade-related lending thus could be a win-win for both the countries. Such concessional lending could be part of terms of with the proposed CEPA.

Yuan as a Trading Option

The overwhelming share of Bangladesh's trade is intermediated through the US Dollar. On the contrary, in recent times, China has been trying to promote Yuan (Renminbi) as a global reserve currency[16]. Given the current shortage of USD being faced by Bangladesh, trading in Yuan is an option that China has offered, and Bangladesh could explore. True, there are several factors that constrain the use of Yuan for trading purposes at present. The most important of these is Bangladesh's limited access to Yuan: given the significantly large bilateral trade deficit (favouring China), the availability of Yuan for Bangladesh, through export to China, is rather limited. So, trading via Yuan can be done only by buying Yuan (through conversion of USD in which most export and remittance earnings are made). This does not make sense since it will entail double conversion for Bangladesh with consequent losses. The composition of Bangladesh's forex reserves is also heavily tilted towards USD, and to a lesser extent, other non-Yuan currency[17]. One possible option in this backdrop is to widen the ambit of bilateral BDT-Yuan transactions beyond the limited remit of trade, by including other transactions-borrowings from China, Chinese investment flows to Bangladesh, debt servicing and other avenues in view of which Yuan needs to be converted to taka (which is currently being done mostly via intermediation of USD). There

[14] As per the One Stop Service Act of Bangladesh, the investors are to receive all necessary services through a single window.

[15] India had opted out of RCEP, established in 2020, at the last moment, in 2019.

[16] As is known, Bangladesh and India have already taken first steps to trade in Indian Rupee, although till now the volume of trading in the Indian Rupee has been rather limited.

[17] Share of Yuan in Bangladesh forex reserve is envisaged about 2 per cent.

can also be an Asian Clearing Union (ACU) type trade settlement uninvolving country which are trading with China in Yuan[18]. This way, the bindings of the trade deficit could be to some extent overcome. However, there has to be well-crafted and well-planned co-operation between the two central banks, the Bangladesh Bank (BB) and the People's Bank of China (PBOC), for coming to such an overarching arrangement. Indeed, if a CEPA between the two countries was to be signed, such an agreement could constitute one of its central components.

Concluding Remarks

The analysis presented in the preceding sections argues for the need for Bangladesh to look at the fast-growing Chinese market from a strategic vantage point. At present, the bilateral trade balance with China is overwhelmingly tilted against Bangladesh. Indeed, over the past years China has been able to make significant inroads into Bangladesh's import market. China is also major player in the borrowing scenario and in view of infrastructure investment in Bangladesh. However, on its part, Bangladesh has not been able to take advantage of the growing import market of China in spite of the preferential treatment offered by China for almost all items of the export items from Bangladesh. The present study has tried to establish that there is significant export potentials for Bangladesh in the Chinese market. The analysis at disaggregated level bears the export potentials that Bangladesh has in the Chinese market.

The study found that there are a large number of items which are imported by China from other countries, but not from Bangladesh, while Bangladesh exports the same items to other countries, but not to China. Bangladesh should consider these items as strategic exports with high potentials in the Chinese market. Development of production networks and value chains in such areas as assembling industries, medium to high-end apparels, labour-intensive products, leather and footwear, pharmaceutical products and others are likely to have high export potentials.

Building supply-side capacities, diversification of production and raising competitive strength are the key drivers in this backdrop. For these potentials to be realised, the bilateral relationship will need to be elevated to strategic partnership, in alignment with the communique issued by the two sides at the time of visit of the Chinese president to Bangladesh in 2016.

The analysis bears out that a mere FTA with China will not bring any tangible benefits to Bangladesh; rather it will have significant negative implications from fiscal perspective (formidable revenue erosion). The payoff matrix calculated by the authors' (based on Game Theory exercise) reveals the payoffs for both the countries under different scenarios. Based on the exercise, an FTA with China is not advisable.

However, this is a static scenario. Our analysis shows that there are significant export potential in a number of products if appropriate strategies are pursued from the perspective of a comprehensive economic partnership agreement which include along with an FTA, an investment deal, as also other avenues of deepening economic comparison. The study proposes Bangladesh's possible

[18]De-dollarisation and internationalisation of Yuan appear to be moving in tandem. Share of Yuan as a global currency in overall trade related transactions is rising. It's share in global trade finance rose to 5.8 per cent in September 2023. In recent times India had opted to trade with Russia in Yuan albeit for a limited period.

negotiating stance in view of deepening the partnership with China. The study argues that in going for strategic partnership Bangladesh should clearly identify its offensive and defensive interests, should carefully weigh revenue loss implications, rules of origin, way of attracting Chinese investment to Bangladesh (particularly in the dedicated CEIZ), technology transfer, and currency co-operation possibilities.

The study draws important lessons from Vietnam in this connection. A triangulation of multi-modal transport, investment and trade connectivity's will be called for to translate Bangladesh's comparative advantages into competitive advantage with a view to raising exports to China. The study has taken Vietnam as a case study in this backdrop and has drawn attention to the lessons that could be drawn by Bangladesh from the experience of bilateral ties between Vietnam and China.

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Annexes

Annex 1: Products Imported by China from the World but not from Bangladesh While Bangladesh Exported these Products to the World in 2022 but not to China (at 6-digit disaggregated level; items worth USD 10 million)

HS code	Product name	Bangladesh's export to world	China's import from world
120190	Soya beans, whether or not broken (excluding seed for sowing)	13.9 mn	53.5 bn
271019	Medium oils and preparations, of petroleum or bituminous minerals, not containing biodiesel, ...	37.6 mn	11.3 bn
880240	Aeroplanes and other powered aircraft of an of an unladen weight > 15.000 kg (excl. helicopters, ...)	123.8 mn	9.9 bn
100630	Semi-milled or wholly milled rice, whether or not polished or glazed	14.6 mn	1.2 bn
240120	Tobacco, partly or wholly stemmed or stripped, otherwise unmanufactured	117.4 mn	1.1 bn
293359	'Heterocyclic compounds with nitrogen hetero-atom[s] only, containing a pyrimidine ring, whether ...	10.7 mn	0.29 bn
940161	Upholstered seats, with wooden frames (excluding convertible into beds)	16.6 mn	0.25 bn
720449	Waste and scrap of iron or steel (excluding slag, scale and other waste of the production of ...)	14.4 mn	0.19 bn
252329	Portland cement (excluding white, whether or not artificially coloured)	10.5 mn	0.18 bn
140490	Vegetable products n.e.s	14.2 mn	0.12 bn
850710	'Lead-acid accumulators of a kind used for starting piston engine 'starter batteries' (excluding ...)	26.6 mn	0.10 bn
30289	Fresh or chilled fish, n.e.s.	18.7 mn	82.0 mn
230400	Oilcake and other solid residues, whether or not ground or in the form of pellets, resulting ...	124.4 mn	59.3 mn
720421	Waste and scrap of stainless steel (excluding radioactive, and waste and scrap of batteries ...)	40.8 mn	44.9 mn

(Annex 1 contd.)

(Annex 1 contd.)

HS code	Product name	Bangladesh's export to world	China's import from world
284700	Hydrogen peroxide, whether or not solidified with urea	18.8 mn	38.4 mn
841821	Household refrigerators, compression-type	16.5 mn	28.6 mn
310210	Urea, whether or not in aqueous solution (excluding that in pellet or similar forms, or in ...)	26.1 mn	28.4 mn
240110	Tobacco, unstemmed or unstripped	10.5 mn	23.6 mn
190540	Rusks, toasted bread and similar toasted products	25.2 mn	17.7 mn
150790	Soya-bean oil and its fractions, whether or not refined (excluding chemically modified and ...)	27.9 mn	17.2 mn
600634	'Printed fabrics, knitted or crocheted, of synthetic fibres, of a width of > 30 cm (excluding ...)	20.8 mn	13.0 mn

Source: Authors' estimation based on ITC Trademap, 2023.

Annex 2: Revenue Collected by Bangladesh from Imports from China (2022)

All imports from China		Import from China (in mn USD)	Revenue from CD (in mn USD)	CD revenue as (%) of imports	Revenue from TTI (in mn USD)	TTI revenue as (%) imports
All Sections	All imported products (8 digit level)	26198.4	4546.0	17.4		58.4
Top-10	Top-10 imported products (8 digit level)	4906.9	756.1	15.4	2595.4	52.9
Section-wise division	Classification					
Section 1	Animals and animal products	136.5	25.3	18.5	78.0	57.2
Section 2	Vegetables and vegetable products	282.5	61.0	21.6	242.9	86.0
Section 3	Fats, oils and waxes	1.9	0.2	10.3	0.7	37.4
Section 4	Foodstuffs, beverages, and tobacco	67.4	13.5	20.0	41.8	62.1
Section 5	Mineral products	2289.5	390.9	17.1	863.3	37.7
Section 6	Chemical products	1646.6	148.1	9.0	578.3	35.1
Section 7	Plastics and rubber	1310.4	173.0	13.2	743.0	56.7

(Annex 2 contd.)

(Annex 2 contd.)

All imports from China		Import from China (in mn USD)	Revenue from CD (in mn USD)	CD revenue as (%) of imports	Revenue from TTI (in mn USD)	TTI revenue as (%) imports
Section 8	Leather, fur skins and articles thereof	129.7	20.7	16.0	81.2	62.6
Section 9	Wood, cork, and basket ware	22.2	4.0	17.9	12.2	54.7
Section 10	Paper and paperboard	446.1	99.5	22.3	251.6	56.4
Section 11	Textiles and textile articles	9324.0	2101.0	22.5	7285.8	78.1
Section 12	Footwear, headgear, and accessories	484.8	121.2	25.0	436.2	90.0
Section 13	Stone, cement, ceramic and glass	386.5	68.3	17.7	327.1	84.6
Section 14	Pearls, stones, metals, and jewellery	20.9	5.2	24.9	18.6	89.0
Section 15	Base metals and articles thereof	2487.9	419.1	16.8	1253.7	50.4
Section 16	Machinery, electrical equipment, and parts thereof	5785.7	544.2	9.4	2170.9	37.5
Section 17	Vehicles, aircraft, vessels, and transport equipment	439.0	155.1	35.3	352.4	80.3
Section 18	Instruments, clocks, watches, and musical instruments	284.3	74.2	26.1	94.1	33.1
Section 19	Arms and ammunition	0.0	0.0	0.0	0.0	0.0
Section 20	Miscellaneous manufactured articles	652.4	121.5	18.6	458.1	70.2
Section 21	Works of art, collectors' pieces, and antiques	0.0	0.0	0.0	0.0	0.0

Source: Authors' estimation based on ITC Trademap and National Board of Revenue, 2023.
Note: The import data is extracted from ITC Trade Map database, which is based on calendar year 2022. The operative tariff schedule is sourced from Bangladesh's National Board of Revenue based on fiscal year 2022-23.

Annex 3: Game Theory

The existing trade agreements between Bangladesh and China were considered while calculating each country's payoffs. Bangladesh faces zero tariffs on 98 per cent of the exported products to China. In contrast, China does not receive any tariff concession on their exported products to Bangladesh.

The Game

The two countries, Bangladesh, and China are the two players. Assuming they will have two strategies: Imposing tariffs and Not Imposing tariffs. In the game, we will denote imposing tariff as tariff and not imposing tariff as No Tariff.

We have denoted each strategy box a, b, c and d for ease of understanding. Here, box (b) reflects the current scenario where Bangladesh face zero tariffs on almost 98 per cent of the exported goods to China, and China faces the usual tariff rates on their exported goods to Bangladesh. Box (d) reflects a scenario in which a Free Trade Agreement occurs between the two countries.

Calculation of Payoffs

We have taken only the Top-10 products for calculating the payoffs.

The payoffs for each country for each strategy are calculated from two aspects—the effect of their strategy and the impact of the other players' strategy. For example, in the payoff matrix's box (a), Bangladesh and China impose tariffs. So, the payoff of Bangladesh will depend on the change in tax revenue from imposing tariffs on China, the decrease in trade value due to China imposing tariffs, and the amount of tax paid to China.

Based on these, to calculate the payoff of a country for a given strategy, we are using the formula below:

A country's payoff = T+V, where T=Change in Tax Received+ Tax Paid and V= Change in Trade Value.

The payoff for this game will be,

Country		**China**	
		Tariff	**No Tariff**
Bangladesh	**Tariff**	BP1, CP1 (a)	BP2, CP2 (b)
	No Tariff	BP3, CP3 (c)	BP4, CP4 (d)

When Bangladesh and China both imposes Tariffs,
Bangladesh's Payoff, BP1 = T + V = Δ in T + Δ in V = -20.7 - 124.8 = -145.5
China's Payoff, CP1 = T+V = Δ in T + Δ in V = 20.7 + 0 = 20.7

When Bangladesh Imposes Tariff, and China does not impose tariff,
Bangladesh's Payoff, BP2 = T + V = Δ in T + Δ in V = 0 + 0 = 0
China's Payoff, CP2 = T+V = Δ in T + Δ in V = 0 + 0 = 0

When Bangladesh do not impose tariff, and China imposes tariff,
Bangladesh's payoff,
BP3 = T + V = Δ in T + Δ in V = -922.6 – 124.8 = -1047.4
China's Payoff, CP3 = T+V = Δ in T + Δ in V = 20.7 + 2146.0 = 2166.7

When Bangladesh and China do not imposes any tariff,
Bangladesh's Payoff, BP4 = T + V = Δ in Tax Received + Δ in Trade Value = -901.9 + 0 = -901.9
China's Payoff, CP4 = T+V = Δ in Tax Received + Δ in Trade Value = 0 + 2146.7 = 2146.7

Source: Payoff calculation is based on TINA Trade Simulations.

So, the payoff matrix table will look like this,

Country		China	
		Tariff	No Tariff
Bangladesh	Tariff	-145.5, 20.7	0, 0
	No Tariff	-1026.7, 2166.7	-901.9, 2146.0

Pure Strategy Nash Equilibrium,
If China decides to impose tariffs on Bangladeshi exports, Bangladesh will choose to impose tariff.

Country		China	
		Tariff	No Tariff
Bangladesh	Tariff	-145.5, 20.7	0, 0
	No Tariff	-1026.7, 2166.7	-901.9, 2146.0

If China decides not to impose any tariff on Bangladeshi Exports, Bangladesh will choose to impose tariff,

Country		China	
		Tariff	No Tariff
Bangladesh	Tariff	-145.5, 20.7	0, 0
	No Tariff	-1026.7, 2166.7	-901.9, 2146.0

If Bangladesh decides to impose tariff, China's best response would be to impose tariff,

Country		China	
		Tariff	No Tariff
Bangladesh	Tariff	-145.5, 20.7	0, 0
	No Tariff	-1026.7, 2166.7	-901.9, 2146.0

If Bangladesh decides not to impose tariffs, China's best response is to impose tariffs,

Country		China	
		Tariff	No Tariff
Bangladesh	Tariff	-145.5, 20.7	0, 0
	No Tariff	-1026.7, 2166.7	-901.9, 2146.0

So, the pure strategy Nash Equilibrium for this game would be,

Country		**China**	
		Tariff	**No Tariff**
Bangladesh	**Tariff**	-145.5, 20.7	0, 0
	No Tariff	-1026.7, 2166.7	-901.9, 2146.0

The pure strategy Nash equilibrium for this game is the Cell (a) of the payoff matrix which implies Bangladesh and China should impose tariffs on each other.

But Bangladesh would have been better off if the current situation continues Cell (b) where China gives tariff concessions on Bangladeshi exports and Bangladesh imposes the MFN tariffs on imports from China.

If both of the countries agree on signing an FTA cell (d), Bangladesh will lose more compared to other strategies (except cell c strategies) whereas China will stand to make significant gains. However, this is a static scenario. If other elements, besides and beyond the FTA, are brought into the picture, the payoff will likely significantly change. In this context, the paper has presented some of the possible measures which can enable Bangladesh to ensure win-win outcomes by deepening its bilateral economic partnership with China.

China continues to remain Bangladesh's most important bilateral trading partner. However, whilst in recent years imports from China have been rising at a fast pace, exports to China from Bangladesh remains rather insignificant. The present study explores the underlying factors driving Bangladesh's growing bilateral trade deficit with China and comes up with concrete proposals to tap into the growing import market of China. The study investigates the feasibility of the recently-mooted bilateral Free Trade Agreement with China. By deploying appropriate analytical tools the study critically examines the rationale for such an agreement. The study argues in favour of a comprehensive economic partnership agreement to deepen multi-sectoral bilateral economic ties with China. This should include not only an FTA, but also an investment agreement, measures towards non-reciprocal, two track market access, concessional borrowings, currency cooperation, and attracting FDI from China in the Chinese Economic and Investment Zone in Bangladesh.

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