Towards A Bi-lateral FTA with China: Potential Implications and Negotiation Strategies for Bangladesh

Raihan, Selim and Razzaque, Mohammad A.

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Selim Raihan[1]
Mohammad A. Razzaque[2]

[1] Dr. Selim Raihan is Professor of Economics, University of Dhaka and Executive Directors, SANEM
[2] Dr. Mohammad A. Razzaque, Research Director, PRI and Chairman, RAPID

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Executive Summary

- The growing relative significance of China in the global economy and international trade has been a defining feature of globalization over the past three decades.
- Trade with China, which continues to grow quite strongly, offers new opportunities for specialization, efficiency gains, export market diversification and attracting investments.
- China is also a prominent force in global supply chains, forming networks of cross-border suppliers. It has now become an important source of technical and financial assistance, particularly in developing large-scale infrastructures.
- Very recently, China has offered an extended duty-free market access of 97.5% of tariff lines to Bangladesh going much beyond of about 62%. However, this kind of unilateral offer remains valid until a country's LDC graduation.
- Bangladesh will have to ensure continuity of the improved market access offer to generate and sustain the interest of investors who would want to take advantage of the preferences. A negotiated trading arrangement (e.g. FTA) with China will thus remain an important issue in the medium to longer terms.
- The analysis undertaken in this paper shows that:
    - In terms of the impacts on welfare and real GDP, a scenario of a less than full-reciprocity FTA where China provides 100% duty-free market access to Bangladesh, and Bangladesh cuts down tariff by 75% on Chinese imports are positive but not significantly different from a full FTA scenario where both parties undertake comprehensive bilateral tariff cuts to zero.
    - Impacts on Bangladesh's export and import growth are not very different under these aforementioned two scenarios. However, under a full FTA scenario, imports from China to Bangladesh would increase by more than 45%, whereas a less than full reciprocity FTA would lead to a rise in import from China to Bangladesh by 34%. The growth in export from Bangladesh to China remains in the range of 7-9% under these two scenarios.
    - The full FTA would also lead to a revenue loss of 2.3% of GDP in contrast to a loss of 1.6% of GDP under the less than full reciprocity FTA scenario.
    - Therefore, in the FTA negotiation Bangladesh should maintain a negative list to protect its defensive interest. The sectors which should fall under Bangladesh's defensive interest include sugar, dairy products, metals, wood products, leather products, paper products-publishing, other crops, transport equipment, mineral products, ferrous metals, metal products, vegetables-fruit-nuts, textiles, rubber and plastic products, and other manufactures.
    - On the other hand the sectors which should fall under Bangladesh's offensive interest include transport equipment, wood products, textiles, wearing apparel, other manufactures.
- Bangladesh also needs to attract Chinese investment to build and generate supply response. Relocation of Chinese firms, as a result of economic transformation that is taking place in China, into Bangladesh can greatly boost supply-side capacities and export response. While the investment pledged by China (in terms of FDI and through its state-owned-enterprises) is quite substantial – almost US$ 28 billion during 2009-19, it is difficult to assess the actually materialized investments as funds coming from the Chinese SOEs get absorbed through the government channels and concessional loans from China are not recorded in the official development assistance global database.

- The Belt and Road Initiative (BRI) presents an opportunity for promoting regional connectivity, improving trade facilitation, and integrating into global value chains. Bangladesh should aim to maximise the benefits from the initiative by judiciously selecting projects, their timely and effective implementation, and maintaining macroeconomic soundness of the economy in the face of rising official debts.
- The negotiation for a meaningful FTA with China should be considered an important task for policymakers. This will require continued proactive engagements while ensuring reaping of benefits. Creating Chinese investment-backed exporting opportunities from Bangladesh should be given an utmost priority in the overall strategy. Bangladesh will also need to manage its economic cooperation and diplomatic relations with all other countries in the process. In this respect, lessons from the countries that have been able to fast expand their trade with China can be helpful.

1. Introduction

Bangladesh's geographical location should make it a natural trading partner of the world's two fastest-growing and largest economies, China and India, thereby providing enormous opportunities for export growth and diversification. According to available estimates, undertaken as part of the TAF+2 scoping study, Bangladesh exports less than its potential by at least US$ 4 billion to India and about US$ 2 billion to China. With India and six other South Asian countries, Bangladesh is a member of the South Asian Free Trade Area (SAFTA). Under SAFTA Bangladesh enjoys trade preferences to India's market, including duty-free market access for readymade garment (RMG) exports. Very recently (in 2018-19), Bangladesh's exports to India rose above US$ 1 billion dollars for the first time. Currently, there is an on-going initiative to strike a Comprehensive Economic Partnership Agreement (CEPA) with India.

Exports to China, however, have not sustained momentum. After some encouraging growth, export earnings have remained at a level less than a billion dollars. There is thus a huge unexploited potential for export expansions. Bangladesh has limited preferential access to the Chinese market and the market access can be improved further.

Very recently China has offered 97% duty-free market access. This offer has come after several years of similar Chinese trade preferences being available to a large number of LDCs. This extended duty-free market access will last until Bangladesh's LDC graduation. Therefore, securing and sustaining a preferential market access in China will remain a major trade policy objective for Bangladesh. Indeed, to ensure continuity of any currently available improved market access, any trade deal such as FTA should be conducted and completed as a country prepares to graduate from the group of LDCs.

Until the most recent offers of China's extended duty-free market access, Bangladesh's trade preference in China has been governed through two arrangements. First, under China's GSP schemes for LDCs, Bangladesh has duty-free market access in 61.5% tariff lines. The other route to Chinese trade preference has been through the Asia-Pacific Trade Agreement (APTA), which, brokered by the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), came into being as a regional arrangement back in 1975. Previously known as the Bangkok agreement, the initiative was renamed as APTA in 2005 with Bangladesh, India, Republic of Korea, Lao PDR and Sri Lanka being five founding members. China's inclusion in the arrangement in 2001 turned it into a preferential trading arrangement of significant interest to other members (including Mongolia which joined in 2013). The goal of this trading agreement is to strengthen trade, commerce and economic integration, while focusing on provisions for trade facilitation, promotion, protection and liberalization of investment for trade in goods and services. Under this agreement, China has provided 100 percent tariff concessions (DFQF) to 83 items of Bangladesh at the HS 8-digit level.

Much prior to the recent offer of extended duty-free market access, China had expressed its interest in having a bilateral FTA with Bangladesh. It was decided by both the parties that , a Bangladesh-China joint feasibility exercise for a bilateral FTA would be undertaken. Some preparatory meetings at the official level have already been undertaken. While the FTA

route is of great interest, Bangladesh is confronted with the challenge of developing a negotiating strategy for such a large and important trading partner as China, which is already the largest source of imports.

Under various provisions of the World Trade Organization (WTO), Bangladesh has benefited from trade concessions, preferences, and often privileges associated with not undertaking any new commitments of trade liberalisation (Raihan, 2011; Raihan, 2012). This has made Bangladesh and other LDCs reluctant about proactively looking for trading opportunities through bilateral and/or regional trade deals. This was further encouraged by unilateral trade preferences granted by certain developed and advanced developing countries to LDCs. However, given that after graduating out of the LDC group, most of the existing policy flexibilities and trade preferences will either be lost or will get significantly reduced, Bangladesh's prospects of export expansion to a large extent could rely on bilateral/regional FTAs (Raihan, 2014). In this respect, a bilateral FTA with China will be a major undertaking.

Against this backdrop this study provides analytical and empirical evidence on potential benefits and costs arising from a bilateral FTA with China along with any strategic and negotiating issues/stances that Bangladesh should consider in negotiating such a trading arrangement. In particular, this study provides a brief account of the state of bilateral trade and tariff situation at broad sector and disaggregated level; reviews the current preferential trading arrangements of China and provide an assessment of their impact on Bangladesh's exports; conducts a modelling exercises to assess the likely trade and welfare gains from a comprehensive FTA with China; assesses revenue implications of a Bangladesh-China trade deal and suggest any options of mitigating any severe consequences; provides an assessment of the scope of including services and investments in such an FTA; and develops concrete recommendations on the approaches to advance and deal with Bangladesh's offensive and defensive interests in the negotiations based on the analysis above.

2. Bilateral Trade and Tariff Situations between Bangladesh and China

China has long been an important trading partner for Bangladesh. However, Bangladesh's imports from China mainly drive the bilateral trade flows.

Figure 1: Bangladesh's export to China

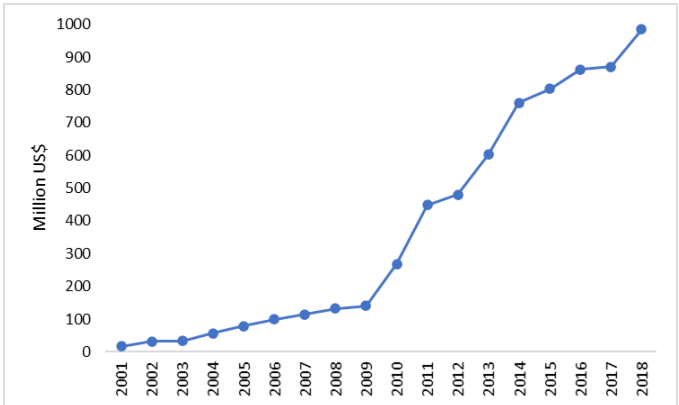
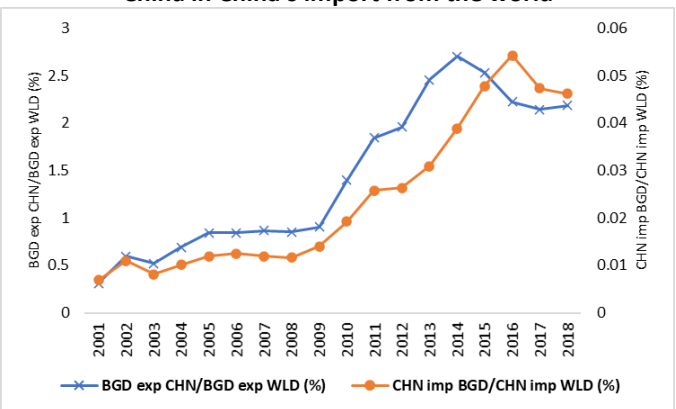


Figure 2: Share of Bangladesh's export to China in total export of Bangladesh and share of Bangladesh's export to China in China's import from the world



Source: Authors' representation based on data from the TradeMAp

Bangladesh's exports of goods to China remained below the US$ 100 million mark until 2006 (Figure 1). The situation started to improve since then with exports reaching a peak of about US$ 985 million in 2018. As Figure 2 suggests, in 2018, China accounted for just 2.3% Bangladesh's exports, which was, however, only 0.3% in 2001. Also, the share of Bangladesh's export to China in China's import from the world increased from 0.01% in 2001 to 0.05% in 2018.

China has become the largest source of imports for Bangladesh. Starting from only US$ 955 million in 2001, imports from China increased to a staggering US$ 17.8 billion in 2018 (Figure 3). In 2018, imports from China accounted for 31% of total imports into Bangladesh, which was only 11.9% in 2001 (Figure 4). Also, the share of China's export to Bangladesh in China's export to the world increased from 0.4% to 0.7% during the same period. More than 30% of Bangladesh's imports from China are imported through bonded-warehouses which are subject to zero tariff. For each broad category of products such as consumers' items, capital and machinery, and raw materials, China has been one of the largest sources of import procurement.

Figure 3: Bangladesh's import from China

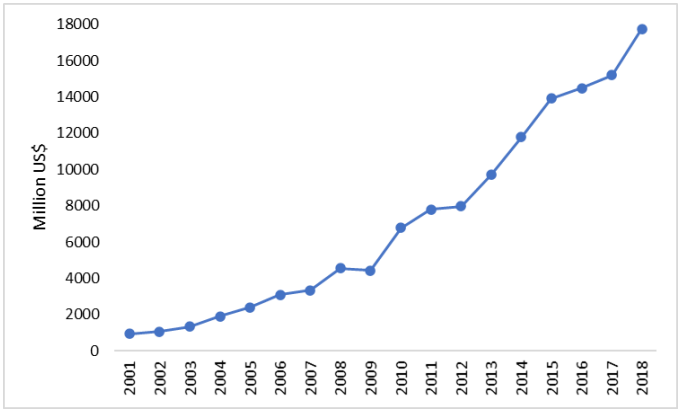
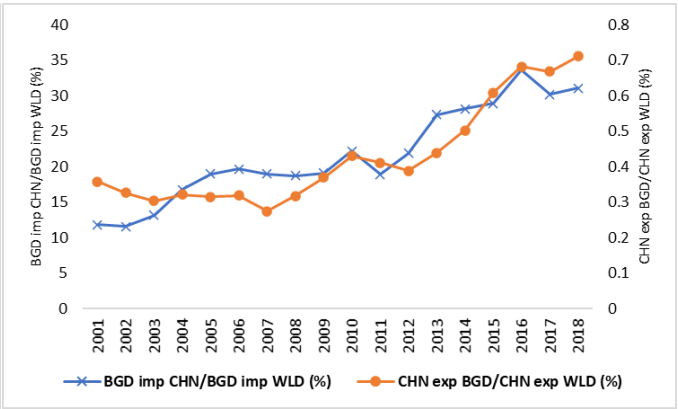


Figure 4: Share of Bangladesh's import from China in total import of Bangladesh and share of China's export to Bangladesh in China's export to the world



Source: Authors' representation based on data from the TradeMAp

Data on bilateral services trade are weak. The balance of payments (BOP) approach to capture services trade shows that in 2017-18 Bangladesh's exports to China were more than US$ 400 million, of which the export of government services alone accounted for more than half.[3]

The composition of Bangladesh's export to China in 2018 is presented in Figure 5. It appears that the major export items are the RMG products. Table 1 suggests that at the HS 2-digt level, top 10 products account for 94.1% of Bangladesh's export to China. China is simultaneously the world's largest exporter and second-largest importer of apparel items. RMG products account for around 60% of Bangladesh's exports to China. Amongst others, jute yarn and textile fibres (HS 53), Meat, fish or crustaceans (HS 16), raw hides, skins and

[3] Government goods and services n.i.e. include: (a) goods and services supplied by and to enclaves, such as embassies and military bases; (b) goods and services acquired from the host economy by diplomats, consular staff and military personnel located abroad and their dependents; and (c) Services supplied by and to Governments and not included in other categories of services.

leather (HS 41) and fish and crustaceans (HS 03) have an export share of 12.4%, 6.5%, 5%, and 3% respectively.

Figure 5: Composition of Bangladesh's export to China in 2018

Source: https://oec.world/

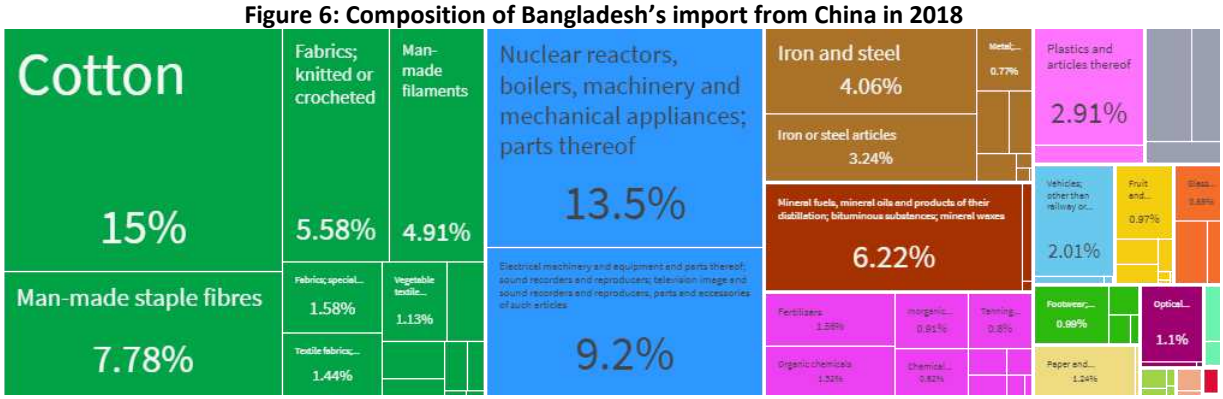
Table 1: Top ten exporting items from Bangladesh to China at HS 2-digit level in 2018

HS code	HS code description	Export (million US$)	% share in total
62	Apparel and clothing accessories; not knitted or crocheted	333.7	34.3
61	Apparel and clothing accessories; knitted or crocheted	238.4	24.5
53	Vegetable textile fibres; paper yarn and woven fabrics of paper yarn	120.3	12.4
16	Meat, fish or crustaceans, molluscs or other aquatic invertebrates; preparations thereof	63.0	6.5
41	Raw hides and skins (other than furskins) and leather	48.5	5.0
03	Fish and crustaceans, molluscs and other aquatic invertebrates	32.6	3.3
90	Optical, photographic, cinematographic, measuring, checking, medical or surgical instruments and apparatus; parts and accessories	23.1	2.4
42	Articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles of animal gut (other than silk-worm gut)	22.8	2.3
64	Footwear; gaiters and the like; parts of such articles	21.1	2.2
63	Textiles, made up articles; sets; worn clothing and worn textile articles; rags	11.9	1.2
	Total of top 10	**915.4**	**94.1**

Source: https://oec.world/

The composition of Bangladesh's import from China in 2018 is presented in Figure 6. The import basket appears to be well diversified as Bangladesh imports a range of products from China. Table 2 suggests that at the HS 2-digt level, top 10 products account for 72.4% of Bangladesh's imports from China. Cotton accounts for 15% of Bangladesh's imports from China. Amongst others, Nuclear reactors, boilers, machinery and mechanical appliances (HS 84), Electrical machinery and equipment and parts (HS 85), Man-made staple fibres (HS 55) and Mineral fuels, mineral oils and products of their distillation (HS 27) have an import share of 13.5%, 9.2%, 7.8%, and 6.2% respectively.

Figure 6: Composition of Bangladesh's import from China in 2018



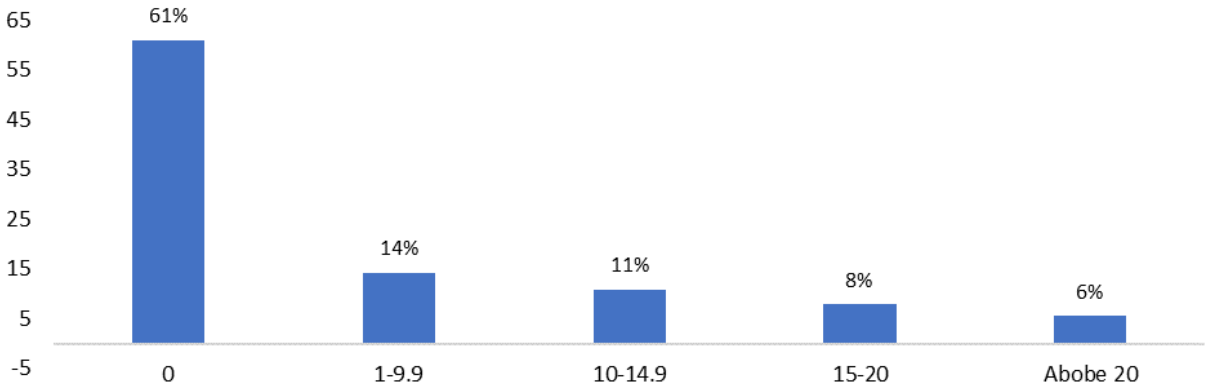
Source: https://oec.world/

Table 2: Top ten importing items from China to Bangladesh at HS 2-digit level in 2018

HS code	HS code description	Export (million US$)	% share in total
52	Cotton	2654.8	15.0
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	2380.7	13.5
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers; television image and sound recorders and reproducers, parts and accessories of such articles	1625.3	9.2
55	Man-made staple fibres	1375.5	7.8
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	1099.5	6.2
60	Fabrics; knitted or crocheted	986.8	5.6
54	Man-made filaments	867.5	4.9
72	Iron and steel	717.6	4.1
73	Iron or steel articles	572.8	3.2
39	Plastics and articles thereof	513.9	2.9
	Total of top 10	**12794.2**	**72.4**

Source: https://oec.world/

Figure 7: Chinese tariff line for Bangladesh (% of tariff line)



Source: Handbook on the Special and Preferential Tariff Schemes of China for LDCs, UNCTAD (2017).

Bangladesh enjoys duty-free, quota-free market access in 61% of Chinese tariff lines under the APTA arrangement. About 11% of Chinese tariff lines have 10-14.9 per cent MFN tariff, while another 14% impose MFN tariff rates of more than 15 per cent (Figure 7 and Table 3). Bangladesh has been granted the tariff preference coverage to 97% from 1 July 2020. The

extension of duty-free coverage will improve Bangladesh's export competitiveness. Currently, in almost one-third of apparel tariff lines, Bangladesh does not have duty-free market access.

Table 3: Items for which Chinese tariffs on Bangladesh are high

15%-20% tariff	Above 20% tariff
Meat and edible meat offal (HS 02), fish and crustaceans (HS 03), dairy produce; birds' eggs; natural honey; edible products of animal origin (HS 04), products of animal origin (HS 05), edible fruit and nuts (HS 08), coffee, tea, maté and spices (HS 09), products of the milling industry; malt; starches (HS 11), oil seeds and oleaginous fruits; miscellaneous grains (HS 12), animal or vegetable fats and oils and their cleavage products (HS15), preparations of meat, of fish or of crustaceans (HS 16), preparations of cereals, flour, starch or milk (HS 19), preparations of vegetables, fruit, nuts or other parts (HS 20), miscellaneous edible preparations (HS 21), essential oils and resinoids; perfumery, cosmetic (HS 33), photographic or cinematographic goods (HS 37), rubber and articles thereof (HS 40), articles of leather (HS 42), furskins and artificial fur; manufactures thereof (HS 43), wood and articles of wood; wood charcoal (HS 44), man-made staple fibres (HS 55), articles of apparel and clothing accessories, knitted or crocheted (HS 61), articles of apparel and clothing accessories, not knitted or crocheted (HS 62), other made-up textile articles (HS 63), footwear, gaiters and the like; parts of such articles (HS 64), articles of stone, plaster, cement, asbestos, mica or similar materials (HS 68), glass and glassware (HS 70), articles of iron or steel (HS 73), tools, implements, cutlery, spoons and forks, of base metal (HS 82), machinery, mechanical appliances, nuclear reactors, boilers; parts thereof (HS 84), electrical machinery and equipment and parts thereof (HS 85), vehicles other than railway or tramway rolling stock, and parts and accessories thereof (HS 87), optical, photographic, cinematographic (HS 90), clocks and watches and parts thereof (HS 91), musical instruments; parts and accessories of such articles (HS 92), furniture; bedding, mattresses, mattress supports (HS 94)	Edible fruit and nuts (HS 08), cereals (HS 10), products of the milling industry; malt; starches (HS 11), animal or vegetable fats and oils and their cleavage products (HS 15), sugars and sugar confectionery (HS 17), preparations of cereals, flour, starch or milk (HS 19), preparations of vegetables, fruit, nuts or other parts (hs20), beverages, spirits and vinegar (HS 22), beverages, spirits and vinegar (HS 24), photographic or cinematographic goods (HS 37), wool, fine or coarse animal hair; horsehair yarn and woven fabric (HS 51), articles of apparel and clothing accessories, knitted or crocheted (HS 61), footwear, gaiters and the like; parts of such articles (HS 64), articles of stone, plaster, cement, asbestos, mica or similar materials (HS 68), glass and glassware (HS 70), natural or cultured pearls, precious or semi-precious stones, precious metals (HS 71) articles of iron or steel (HS 73), machinery, mechanical appliances, nuclear reactors, boilers; parts thereof (HS 84), electrical machinery and equipment and parts thereof (HS 85), vehicles other than railway or tramway rolling stock, and parts and accessories thereof (HS 87), musical instruments; parts and accessories of such articles (HS 92) .

Note: While the items are listed here using HS 2-digit classifications, not all products at a highly disaggregated level (e.g. at the 8-digit level within the same HS 2-digit group) have identical tariff rates. For example, at the HS 8-digit level, for about one-third (31.1%) of Chinese apparel tariff lines Bangladesh is subject to tariff rates of 14–25%. Preferential tariff rates (under LDC-specific or APTA LDC schemes) for the remaining 68.9% apparel products are zero. For knitwear, 32.6% of products attract 14–25% tariff rates, while for woven garments the corresponding rates are in the range 14 – 20%. Bangladesh could not do well in exporting the items for which the duty-free access is not provided.
Source: Adapted from Razzaque et al. (2020).

A close look at Table 4 would reveal that in many of the items with duty-free market access, Bangladesh has done well in China. For example, in T-shirts, singlets and other vests (HS 61091000) and men's and boy's brace trousers (HS 62034200), Bangladesh has large global exports of US$ 6.5 billion and US$ 5.5 billion, respectively. Given the duty-free market access, Bangladesh enjoys large shares in China's imports in these two items: 20% and almost 30%, respectively. However, China's import of apparel is relatively small – only US$ 7 billion – and thus Bangladesh's export earnings from this market have been relatively small.

According to many analysts, China's apparel imports will grow rapidly in the near future, when the duty-free access could be extremely useful. Apart from apparel items, Bangladesh is the most dominant supplier of jute yarn (HS 53071000), accounting for 87% of Chinese imports. But, the overall demand for jute yarn is quite small. In many other items, Bangladesh does not have enough export supply capacities even for the global market, thereby resulting in limited export earnings from China. However, it needs to be pointed out that compared to the major global markets (e.g. the EU and the USA), China's MFN tariffs are high. Consequently, differential tariff advantages due to market access preferences in China are much higher. Given all this, it is very important to secure a greater coverage of DFQF in China and to take concerted measure to build supply side capacities.

Table 4: Bangladesh's exports of top 20 products and Chinese tariff rates (2018-19)

HS code	Product Description	Bangladesh's world exports (US$ million)	Bangladesh's exports to China (US$ million)	China's imports from the world (US$ million)	China's share in Bangladesh's exports (%)	Bangladesh's share in imports of China (%)	MFN tariff (%)	Tariff applicable Bangladesh (%)
61091000	T-shirts, singlets and other vests, of cotton, knitted or crocheted	6552.8	121.0	600.8	1.8	20.1	14	0
62034200	Men's or boys' bib & amp; brace trousers, breeches, shorts, of cotton	5555.9	114.9	385.8	2.1	29.8	16	0 and 16[4]
62046200	Women's or girls' trousers, breeches, cotton	3062.5	44.3	254.1	1.4	17.4	16	0
61102000	Jerseys, pullovers, cardigans, waistcoats & amp; similar art., knitted or crocheted	2209.3	33.8	457.5	1.5	7.4	14	0
62052000	Men's or boys' shirts of cotton	1954.2	32.5	217.3	1.7	15.0	16	0
61103000	Jerseys, pullovers, cardigans, waistcoats, knitted or crocheted of man-made fibre	1384.1	10.2	300.7	0.7	3.4	16	0
61046200	Women's or girls' trousers, etc, of cotton, knitted or crocheted	933.3	11.6	81.7	1.2	14.2	16	0
62034300	Men's or boys' bib & brace trousers, breeches & shorts of synthetic fibres	815.6	3.9	145.1	0.5	2.7	14	0
61051000	Men's or boys' shirts of cotton, knitted or crocheted	805.9	5.5	125.8	0.7	4.4	16	0
61109000	Jerseys, pullovers, cardigans, waistcoats, knitted or crocheted of oth. text. mater	516.3	2.1	12.6	0.4	16.8	14	0
62121000	Brassisres	499.8	1.0	148.5	0.2	0.7	14-16	0
61099000	T-shirts, singlets, etc, of other textiles, nes, knitted or crocheted	458.4	5.4	234.1	1.2	2.3	14	0
61112000	Babies' garments, etc, of cotton, knitted or crocheted	432.3	8.1	106.1	1.9	7.7	14	0
62019300	Men's or boys' anoraks, wind jackets/cheaters, etc, of man-made fibres	404.6	12.7	320.7	3.1	4.0	17.5	0
61082100	Women's or girls' briefs and panties of cotton, knitted or crocheted	399.5	1.2	19.9	0.3	6.2	14	0

[4] Two tariff lines items have been defined: 62034210 (16% tariff) and 62034290 (0% tariff)

HS code	Product Description	Bangladesh's world exports (US$ million)	Bangladesh's exports to China (US$ million)	China's imports from the world (US$ million)	China's share in Bangladesh's exports (%)	Bangladesh's share in imports of China (%)	MFN tariff (%)	Tariff applicable Bangladesh (%)
61071100	Men's or boys' underpants and briefs of cotton, knitted or crocheted	392.0	2.6	19.9	0.7	13.1	14	0
53071000	Single yarn of jute or of other textile bast fibres of 5303	383.6	69.4	79.2	18.1	87.6	6	0
3061700	Other shrimps and prawns	357.7	5.2	1360.6	1.5	0.4	5-8	0
61034200	Men's or boys' trousers, etc, of cotton, knitted or crocheted	317.5	4.0	131.3	1.3	3.1	16	0
62029300	Woman's or girls' anoraks, wind jackets/cheaters, etc, of man-made fibres	290.2	5.7	165.0	1.9	3.4	17.5	0

Note: Chinese imports from the world correspond to calendar years.

3. Review of the Current Preferential Trading Arrangements of China[5]

The bilateral relationship between Bangladesh and China are manifested in multilateral, and several regional trading arrangements where two countries are co-signatories. These arrangements include the Asia-Pacific Trade Agreement (APTA), Belt and Road Initiative (BRI), Bangladesh–China–India–Myanmar Forum for Regional Cooperation (BCIM), etc.

3.1. Asia-Pacific Trade Agreement (APTA)

The Asia Pacific Trading Agreement (APTA), also known as the Bangkok agreement, came in to being in 1975. Bangladesh, India, South Korea, Lao PDR, and Sri Lanka were the five founding members of APTA. China's inclusion into the group in 2001 turned it into a preferential trading arrangement of significant interest to other members. Until the recent offer of duty-free market access by China, primary market access facilities and trade preferences enjoyed by Bangladesh into the Chinse market are governed by the APTA.

APTA members approve common operational procedures for the certification and verification of the origin of goods. A major feature of the agreement is the differential treatment and lesser stringent tariff concessions for LDCs and the vulnerable island nation of Sri Lanka.

Trade among APTA members accounted to more than US$ 479 billion in 2018 with Bangladesh trading about US$ 24 billion with APTA members during that time. China accounted for more than three-fifths of all trade by Bangladesh with APTA members. When it is about exporting to China, Bangladesh far from making most out of the APTA arrangements. Only Sri Lanka's export volume to China was lower than Bangladesh's.

Tariff concession in APTA follows a positive list measure. In this process, members negotiate concessional tariffs on a slow "product-by-product" basis. Therefore, it never achieved a truly meaningful regional FTA. But after APTA ministerial declaration of 2017, members

[5] This section draws heavily on Razzaque et al. (2020).

decided to provide at least 33% tariff concessions measured as an average of Margin of Preference (MOP) for all products covered (except LDCs and Sri Lanka).[6] The implementation of the outcomes of the extended tariff concessions began from July 2017.

Previously, under APTA, China provided duty-free and quota-free (DFQF) market access to 83 items of Bangladesh at the HS 8-digit level, while the Republic of Korea provided 100% tariff concessions to 139 items at the HS 10-digit level. As China introduced the DFQF system for LDCs back in 2010, APTA concessions were readjusted with Bangladesh receiving DFQF in approximately 61% products on Chinese tariff lines (UNCDP, 2019) until the very recent offer of the extended market access as mentioned earlier.[7]

3.2. Bangladesh–China–India–Myanmar Forum for Regional Cooperation (BCIM)

Later considered as a part of China's Belt and Road Initiative (BRI), the Bangladesh-China-India-Myanmar Forum for Regional Cooperation (BCIM) was initially considered as an important regional connectivity initiative. The idea of a 2,800 km long BCIM economic corridor connecting four countries was originally proposed in 1999. The envisaged corridor is supposed to connect China's relatively remote and landlocked Yunnan province with West Bengal in India through Mandalay (in Myanmar) and Dhaka . With a combination of roads, rail lines and ports, BCIM was meant to be a complete network and expressway to facilitate trade of goods and services within the sub-region of South Asia to Southern East Asia. By ensuring improved connectivity and comprehensive investment in infrastructures, the BCIM forum expected to ultimately revive the culture of smooth and voluminous flow of labour and goods that prevailed over the historic Southern Silk Road.

According to Hahm and Raihan (2018), there are significant economic benefits to China and the participating countries along all six Belt and Road Initiative (BRI) economic corridors. However, to maximize these benefits, the social and environmental risks need to be well managed. The analysis shows a clear sequencing in terms of priority corridors. Two corridors have minimal investments and immediate returns, two corridors have significant investments with huge returns, and two corridors have high investments with lower returns. Overall, the paper demonstrates that to ensure the sustainability of any BRI corridor development, there is a need to consider its costs and benefits from the economic, social and environmental perspectives. Solely from Bangladesh's perspective, BCIM can be the gateway to other regional trading arrangements. BCIM members are also signatories to big regional arrangements such as ASEAN, ACFTA, SAFTA, APTA, and BIMSTEC. FDI inflow and infrastructure development through BCIM can be a potential game-changer for Bangladesh. According to ADB (2015), Bangladesh's real income gains will be 6.9% of GDP and exports will grow by 86% if connectivity between South Asia and Southeast Asia improves. However, Bangladesh needs an estimated US$ 14 billion investment to prepare its road, rail, ports and energy infrastructures to contribute to the integration. According to another estimate, given the existing production capacity, Bangladesh could export additional goods worth of up to $650 annually to North-Eastern Indian provinces, Myanmar and China if the BCIM corridor

[6] Fourth Session of the Ministerial Council The Asia-Pacific Trade Agreement, ministerial declaration: https://www.unescap.org/sites/default/files/APTA-MC4-Ministerial-Declaration-adopted_13-Jan-2017.pdf

[7] This includes Bangladesh's receiving DFQF under the Chinese package for LDC market access and APTA tariff preferences.

would be fully operational (Bhattacharjee, 2016). While for India, the intra-regional trade costs would be reduced by 30 per cent.

Despite significant promises and 20 years since its conception, the progress on the BCIM economic corridor is far from reality. Unfortunately, it got caught up in the regional hegemony or power politics of China and India. As things stand, much more work will need to be undertaken before any meaningful benefits can be derived from BCIM.

3.3. The Belt and Road Initiative

Regarded as one of the most ambitious transcontinental connectivity and trade infrastructure projects, the Belt and Road Initiative (BRI_ - proposed by Chinse President Xi Jinping in 2013 – aims to connect more than 70 countries with a combined GDP of $24 trillion. Most of BRI activities are Chinese-funded projects although in many cases the individual countries also invest in these projects. It is estimated that BRI-related infrastructure development will require investments worth of US$ 26 trillions in the Asia-Pacific region, with the Chinese government pledging US$ 1 trillion to date (CSIS, 2018).

For BRI participants, it is a massive opportunity to unleash their export potentials through improved connectivity. Sectors such as public transportation, power, and energy, trade-related mega-infrastructures have been at the centre of BRI's attraction. At the same time, it also opens up the possibilities of investing into country-specific export competitive industries. All these reasons are pertinent to Bangladesh in particular.

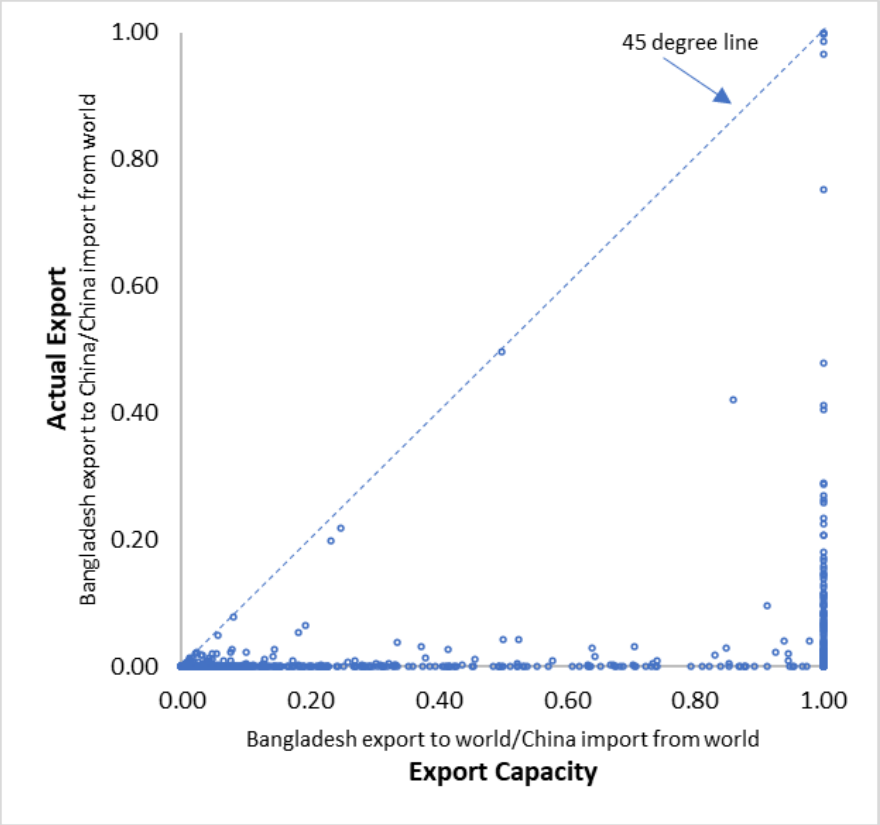
For example, mega-infrastructure projects, funded by the government and/or through public-private partnerships can be good for local steel manufactures. According to industry sources, mega-infrastructure projects currently account for 35-40% of annual steel consumption in Bangladesh. In 2018, local manufacturers had an annual capacity of producing more than 8 million tonnes of steel. The excess demand has also led to FDI inflows into this sector. For example, Chinese steel manufacturers Kunming Iron and Steel Holding Company (KISC) decided to invest US$ 2.4 billion in a US$ 3.5 billion joint venture with 17 local companies. Bangladesh's greater inclusion in BRI and timely disbursement of pledged funds can be an important boost to supply-side response.

However, there are reasons to be cautious. BRI has already earned a great deal of criticisms across the world. Absence of well-specified activities makes it difficult to track what projects are being currently considered as part of the initiative. Issues such as lack of transparency and corruption have also adversely affected stakeholders' confidence in the corresponding projects. Another criticism is favouring Chinese state-owned enterprises (SOEs) while handing out contracts. There are concerns that large-scale public investments in BRI projects can crowd out local investment opportunities. Projects often include clauses to employ a big number of Chinese nationals, which has given rise to tensed relationships between local and alien workers in many countries. It has also been pointed out by many that in pursuing BRI projects, large loans were given to economically weaker developing nations without considering their debt sustainability and fiscal situations.

4. Export Potential of Bangladesh in China

The massive size of the Chinese economy, its continued strong growth – albeit at a lower rate of around 6% compared to double digit rates of the previous decades – and its geographical location would tend to suggest huge export potential for Bangladesh. Using the methodology developed by Raihan (2013), in Figure 8 we compared the export capacity of Bangladesh with the actual export in the context of exporting from Bangladesh to China. Using the data at the 6-digit HS code level, Bangladesh's export capacity to the Chinese market is defined as the ratio between Bangladesh's export to the world and China's import from the world. There are cases where such ratio would turn out to be higher than 1. For simplicity, the maximum value of this ratio is considered to be 1. On the other hand, Bangladesh's actual export to China is defined as the ratio between Bangladesh's export to China and China's import from the world. The maximum value of this ratio is also 1. Figure 8 shows the graphical representation of this exercise. The 6-digit HS code products are shown as dots. The slope of this graph is the ratio between Bangladesh's export to China and Bangladesh's export to the world, which can take a maximum value of 1. At the 6-digit level, in 2018, Bangladesh exported to the world 2278 products, and exported to China only 462 products. However, it appears that there are a number of products where Bangladesh had some export capacities, but actual export was very low or zero.

Figure 8: Bangladesh's export capacity and actual export of Bangladesh to China

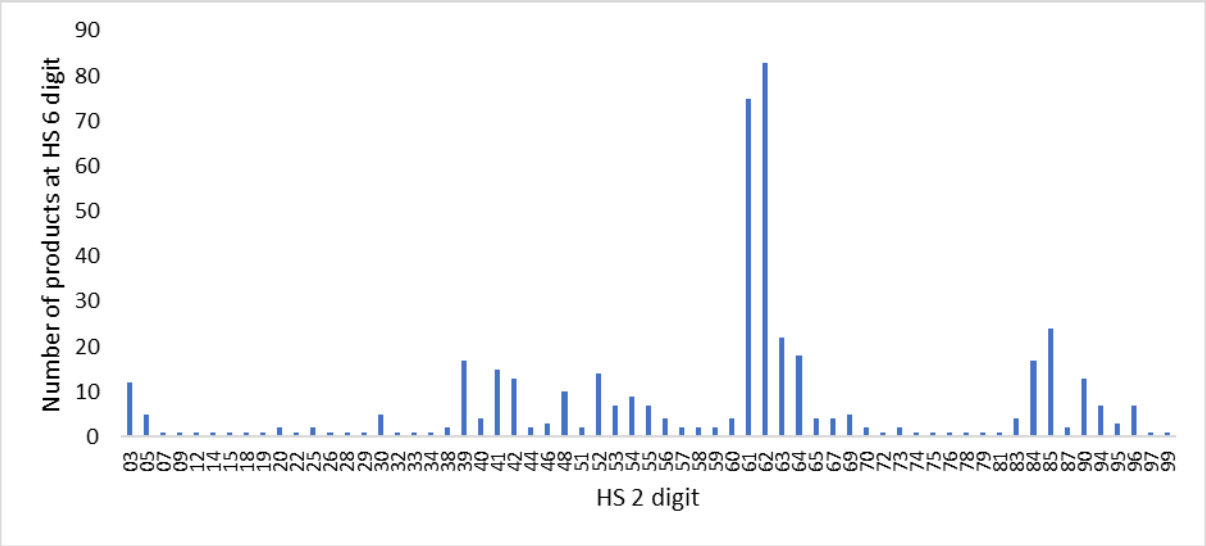


Source: Authors' illustration from TradeMap data

Figure 9 presents the number of products at the HS 6-digit under each HS 2-digit where the actual export to China is lower than Bangladesh's capacity of export to China. It appears that

the major concentration of products are at the HS 61 and 62 categories followed by HS 63, 64, 84, 85, 03, 39, 41, 42 and 52.

Figure 9: Number of products at the HS 6-digit under each HS 2-digit where the actual export to China is lower than Bangladesh's capacity of export to China



Source: Authors' illustration from TradeMap data

Although the above presentation of potential exports are helpful indicators, in reality export potential in China should be much greater. The presented analysis is based on Bangladesh's current supply-side capacities. With limited exports and lack of diversification as initial conditions, any estimated export potential will be small. As supply-side capacities are developed further and export diversification is achieved, market opportunities should be expanded further.

It is of great interest to ascertain how some selected products that Bangladesh consider as its important export items are faring in the Chinese market while facing rival suppliers. One analytical framework for undertaking such a market prospect analysis is due to the International Trade Centre (ITC). The underlying tool helps portray the recent growth of exports of all rival suppliers in the destination market and how the import demand in the destination countries by suppliers is changing. When applied at the disaggregated product level, it offers important insights regarding the competitiveness of an exporting country in a particular market. The analysis is based on three primary factors: (i) export growth rates of competing countries in the Chinese market, (ii) all competing countries' export growth in the global market, (iii) competing countries' market share in the Chinese market. For brevity, the market prospect analyses here are summarised from Razzaque et al. (2020).

First, considering the overall market in China, the Republic of Korea accounts for the largest share of Chinese imports (9.6%), closely followed by Japan (8.6%), Taiwan (8.4%) and the United States (7.3%). Among developing countries, Brazil (3.6%), Malaysia (3.0%), Vietnam (3.0%), and Indonesia (1.6%) prominent exporters. It is worth pointing out that Vietnam has seen fastest growth (more than 30% per annum) in the market share over the past five years, while most other major suppliers are showing signs of maturity by having average annual growth rates of around 5% during the same period. Bangladesh's current market share is tiny, 0.05%, which has grown at an annual rate of just 6%. Given the size of the

Chinese market, even a small increase in market share would generate huge export earnings.

Turning to individual products used in Razzaque et al. (2020), the market sizes of knitwear and woven garment imports in China in 2018 were US$ 3.4 billion and US$ 4.2 billion, respectively. Bangladesh has a share of 7% in knitwear and 8% in woven items. In both cases, Vietnam is the most dominant supplier capturing around a share of 20% in each case. Cambodia's share in knitwear is close to 9% and it is experiencing much faster growth rate than that of Bangladesh. In the case of woven garments, its share is still small, 2.2%, but its exports have grown at an average annual rate of close to 30% over the past five years. Along with Cambodia, such suppliers as India, Indonesia, Myanmar and Pakistan are prominent rivals for Bangladesh. Overtime, the size of the Chinese market is likely to expand several times and competitive pressures will grow as following LDC graduation Bangladesh could lose duty-free market access in many of the items. The Chinese apparel market is currently worth US$ 322 billion, which is expected to grow bigger every year at a rate of more than 5% per annum due to the rising purchasing power of China's middle class (Statista, 2019). Over the past five years, Bangladesh's RMG exports (woven and knitwear items together) to China has expanded at an annual average rate of 15.1% against its overall world export growth rate of 7.4%. Nevertheless, during the same time, Cambodia, Myanmar, Vietnam, Indonesia, Pakistan and the Philippines enjoyed faster export growth in China.

In leather and leather goods, Bangladesh is a small supplier (with a market share of just 0.8% per cent) to China. The market size of Chinese leather and leather goods imports was more than US$ 10 billion in 2018. The largest supplier of these items is Italy, capturing one-fifth of the market, followed by Vietnam (9.3%), USA (9.2%) and France (5.7%). Vietnam with its second position in the Chinese market is experiencing above 20% growth rate over the past five years while Bangladesh's annual growth rate has been about 12%. The Philippines, on the other hand, experienced the largest growth rate (close to 60%). Given the comparable high growth rate of Bangladesh's exports of leather and leather goods and the size of the Chinese market, Bangladesh is expected to have significant prospect for expanding export of these items.

The analyses suggest that on the whole Bangladesh has a high untapped potential in China. Bangladesh's average yearly growth of exports in the Chinese market over the past ten years has been 28.3%, albeit with some large variations around this average rate. Sustaining this growth would result in Bangladesh's exports to China exceeding US$ 12 billion by 2030. But, a low export growth of 10% per annum will yield only about US$ 2.5 billion over the same reference period.

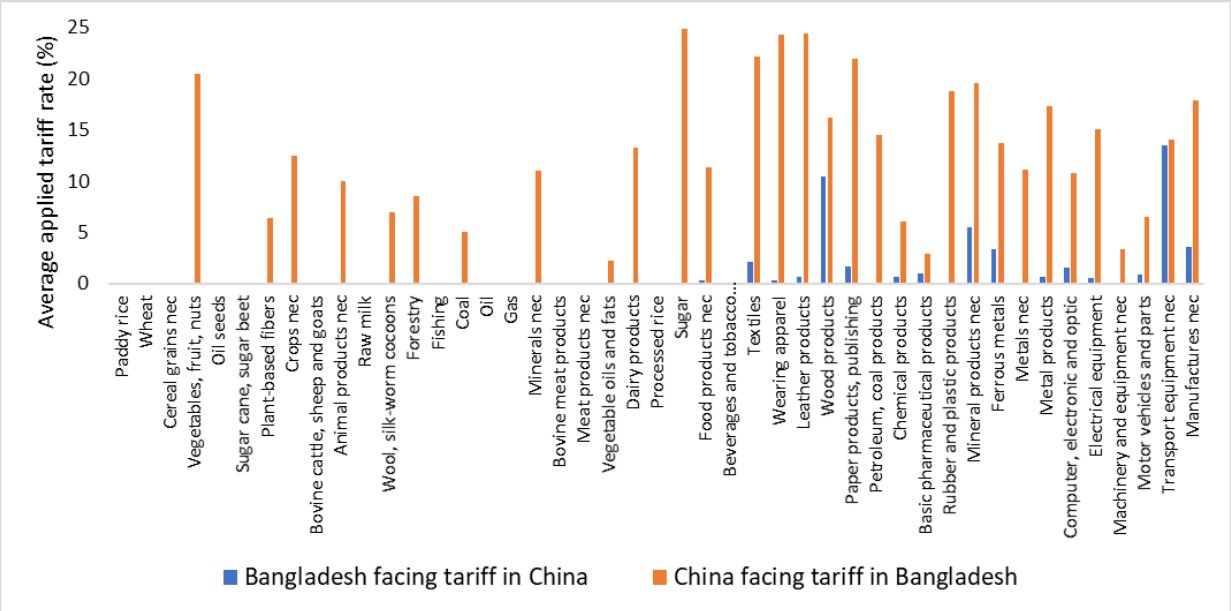
5. Trade and Welfare Effects from a Comprehensive FTA with China

Having a full-fledged FTA is always an option to retain market access, but it comes with reciprocity, i.e. offering the FTA partner(s) similar preferential treatment. Given the size of the Chinese market, Bangladesh will certainly like to continue with favourable market access there. On the other, the growing size of domestic market in Bangladesh and China's already dominant position as the most source of import also makes the latter interested in bilateral trade deal. Indeed, in 2014, China proposed considering a bilateral FTA. Subsequently,

during Chinese President Xi Jinping's visit to Bangladesh in 2016, the two sides agreed to launch a feasibility study for a possible FTA. Both countries further expressed interest and discussed making progress on the joint feasibility study during the visit by the Prime Minister of Bangladesh to China in July 2019. The work on the proposed study has been initiated with no significant progress yet been reported by any of the countries.

About 80% of Bangladesh's exports (in absolute value terms) to China have duty-free access, while 17% are subject to MFN tariffs up to 10%. As China has approved the higher LDC duty-free package, duty-free access for 97% products will be achieved. From such a situation of already having duty-free access to FTA will keep market access provisions largely unchanged, and as such, the benefits of an FTA are often not appreciated. However, it is the policy continuity of stable market access commitments within a trade agreement backed by an agenda of wider economic cooperation that boost exporters' and investors' confidence in engaging trade and production activities. Figure 10 presents the average applied bilateral tariff rates faced by Bangladesh and China in each other's market. This data is taken from GTAP database of version 10 where tariff data for 45 goods are available using the GTAP classification. It is clear from Figure 10 that for most of the products Bangladesh faces either zero or very low level of tariff rates in China's market. For the major export items (textile and wearing apparels, leather products, fishing) tariff rates are very low. However, tariff rates appear to be high in the cases of wood products, mineral products and transport equipment. In contrast, China faces high average applied tariff rates while exporting most of the products to Bangladesh. Therefore, a bilateral FTA between China and Bangladesh will have an important implication related to granting China a larger market access to Bangladesh.

Figure 10: Average applied tariff rates (%)



Source: Authors' estimate using data from GTAP version 10

In this section, we employ the global computable general equilibrium (CGE) modelling framework of the Global Trade Analysis Project (GTAP) (Hertel, 1997) to assess the trade and welfare implications of an FTA between Bangladesh and China. The GTAP model is the best possible way for the *ex-ante* analysis of the economic and trade consequences of

multilateral or bilateral trade agreements. The GTAP model is a comparative static model, and is based on neoclassical theories.[8] The GTAP model is a linearized model, and it uses a common global database for the CGE analysis. The model assumes perfect competition in all markets, constant returns to scale in all production and trade activities, and profit and utility maximising behaviour of firms and households respectively. The model is solved using the software GEMPACK (Harrison and Pearson, 1996).

In the GTAP model each region has a single representative household, termed as the regional household. The income of the regional household is generated through factor payments and tax revenues (including export and import taxes) net of subsidies. The regional household allocates expenditure over private household expenditure, government expenditure and savings according to a Cobb Douglas per capita utility function.[9] Thus each component of final demand maintains a constant share of total regional income.

The private household buys commodity bundles to maximise utility subject to its expenditure constraint. The constrained optimising behaviour of the private household is represented in the GTAP model by a Constant Difference of Elasticity (CDE) expenditure function. The private household spends its income on consumption of both domestic and imported commodities and pays taxes. The consumption bundles are Constant Elasticity of Substitution (CES) aggregates of domestic and imported goods, where the imported goods are also CES aggregates of imports from different regions. Taxes paid by the private household cover commodity taxes for domestically produced and imported goods and the income tax net of subsidies.

The government also spends its income on domestic and imported commodities and also pays taxes. For the government, taxes consist of commodity taxes for domestically produced and imported commodities. Like the private household, government consumption is a CES composition of domestically produced goods and imports.

The GTAP model considers the demand for investment in a particular region as savings driven. In the multi country setting the model is closed by assuming that regional savings are homogenous and contribute to a global pool of savings (global savings). This is then allocated among regions for investment in response to the changes in the expected rates of return in different regions. If all other markets in the multi-regional model are in equilibrium, if all firms earn zero profits, and if all households are on their budget constraint, such a treatment of savings and investment will lead to a situation where global investment must equal global savings, and Walras' Law will be satisfied.

In the GTAP model, producers receive payments for selling consumption goods and intermediate inputs both in the domestic market and to the rest of the world. Under the zero profit assumption employed in the model, these revenues must be precisely exhausted by spending on domestic intermediate inputs, imported intermediate inputs, factor income and taxes paid to regional household (taxes on both domestic and imported intermediate inputs and production taxes net of subsidies).

[8] Full documentation of the GTAP model and the database can be found in Hertel (1997) and also in Dimaranan and McDougall (2002).

[9] Savings enter in the static utility function as a proxy for future consumption.

The GTAP model considers a nested production technology with the assumption that every industry produces a single output, and constant returns to scale prevail in all markets. Industries have a Leontief production technology to produce their outputs. Industries maximise profits by choosing two broad categories of inputs namely, a composite of factors (value added) and a composite of intermediate inputs. The factor composite is a CES function of labour, capital, land and natural resources. The intermediate composite is a Leontief function of material inputs, which are in turn a CES composition of domestically produced goods and imports. Imports are sourced from all regions.

The GTAP model employs the Armington assumption which provides the possibility to distinguish imports by their origin and explains intra-industry trade of similar products. Following the Armington approach import shares of different regions depend on relative prices and the substitution elasticity between domestically and imported commodities.

This study uses the version 10 database of the GTAP global general equilibrium model. The version 10 of the GTAP database has 2014 as the base year and it covers 65 commodities (45 goods and 20 services sectors), 141 regions/countries, and 5 factors of production. The current study has kept the 65-commodity classification but has aggregated 141 regions into 7 as shown in Tables 4 and 5 respectively.

Table 5: GTAP commodity classification in the present study

#	Sector Name	#	Sector Name
1	Paddy rice	34	Basic pharmaceutical products
2	Wheat	35	Rubber and plastic products
3	Cereal grains nec	36	Mineral products nec
4	Vegetables, fruit, nuts	37	Ferrous metals
5	Oil seeds	38	Metals nec
6	Sugar cane, sugar beet	39	Metal products
7	Plant-based fibers	40	Computer, electronic and optic
8	Crops nec	41	Electrical equipment
9	Bovine cattle, sheep and goats	42	Machinery and equipment nec
10	Animal products nec	43	Motor vehicles and parts
11	Raw milk	44	Transport equipment nec
12	Wool, silk-worm cocoons	45	Manufactures nec
13	Forestry	46	Electricity
14	Fishing	47	Gas manufacture, distribution
15	Coal	48	Water
16	Oil	49	Construction
17	Gas	50	Trade
18	Minerals nec	51	Accommodation, Food and servic
19	Bovine meat products	52	Transport nec
20	Meat products nec	53	Water transport
21	Vegetable oils and fats	54	Air transport
22	Dairy products	55	Warehousing and support activi
23	Processed rice	56	Communication
24	Sugar	57	Financial services nec
25	Food products nec	58	Insurance
26	Beverages and tobacco products	59	Real estate activities
27	Textiles	60	Business services nec
28	Wearing apparel	61	Recreational and other service

#	Sector Name	#	Sector Name
29	Leather products	62	Public Administration and defe
30	Wood products	63	Education
31	Paper products, publishing	64	Human health and social work a
32	Petroleum, coal products	65	Dwellings
33	Chemical products		

Source: GTAP Database Version 10

Table 6: GTAP region aggregation in the present study

Aggregated regions	Comprising regions
East and Southeast Asia	Hong Kong, Japan, South Korea, Mongolia, Taiwan, Rest of East Asia, Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Philippines, Singapore, Thailand, Vietnam, Rest of Southeast Asia
China	China
Bangladesh	Bangladesh
Rest of South Asia	India. Nepal, Pakistan, Sri Lanka, Afghanistan, Bhutan and Maldives
USA	USA
EU28	European Union
ROW	Rest of the World

Source: GTAP Database Version 10

In the model we considered the following five scenarios:

Scenario 1: Full FTA - both parties undertaking comprehensive bilateral tariff cuts to zero (assumption of full employment labour market closure for all countries/regions)

Scenario 2: Full FTA - both parties undertaking comprehensive bilateral tariff cuts to zero (assumption of full employment labour market closure for all countries/regions except Bangladesh)

Scenario 3: FTA where China provides 100% duty-free market access to Bangladesh, and Bangladesh cuts down tariff by 75% on Chinese imports (assumption of full employment labour market closure for all countries/regions)

Scenario 4: FTA where China provides 100% duty-free market access to Bangladesh, and Bangladesh cuts down tariff by 75% on Chinese imports (assumption of full employment labour market closure for all countries/regions except Bangladesh)

Scenario 5: Unilateral Chinese offer of 100% duty-free market access to Bangladesh (assumption of full employment labour market closure for all countries/regions except Bangladesh)

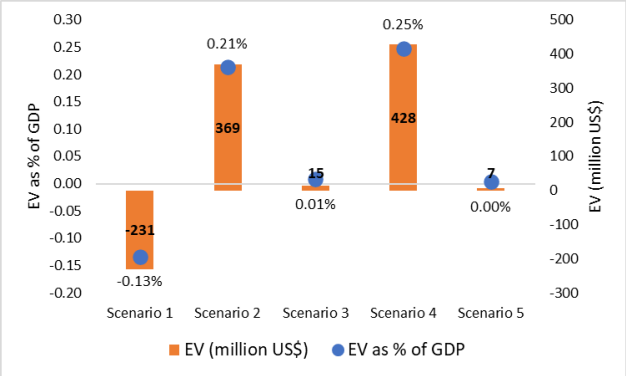
Table 7: Welfare effect (US$ million at 2014 prices)

	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
East & Southeast Asia	-346 (0.00%)	-346 (0.00%)	-254 (0.00%)	-254 (0.00%)	-1 (0.00%)
China	1644 (0.02%)	1650 (0.02%)	1191 (0.01%)	1194 (0.01%)	0 (0.00%)
Bangladesh	**-231 (-0.13%)**	**369 (0.21%)**	**15 (0.01%)**	**428 (0.25%)**	**7 (0.00%)**
Rest of South Asia	-573 (-0.02%)	-570 (-0.02%)	-432 (-0.02%)	-430 (-0.02%)	0 (0.00%)
USA	30 (0.00%)	26 (0.00%)	18 (0.00%)	15 (0.00%)	-1 (0.00%)
EU_28	138 (0.00%)	130 (0.00%)	92 (0.00%)	85 (0.00%)	-2 (0.00%)
ROW	-199 (0.00%)	-181 (0.00%)	-147 (0.00%)	-134 (0.00%)	0 (0.00%)

Source: Authors, based on GTAP simulation

Note: Figures in parenthesis show welfare effect (EV) as % of base GDP. EV = equivalent variation

Figure 11: Welfare effect (million US$ and % of base GDP) in Bangladesh



The welfare effects for all seven countries/regions of the five scenarios are presented in Table 7. Figure 11 presents the welfare effects for Bangladesh. It seems that in terms of welfare, Bangladesh stands to gain most from the scenario 4 followed by scenario 2.

The impact on real GDP for all seven countries/regions of the five scenarios are presented in Table 8. Figure 12 presents the real GDP effects for Bangladesh. It seems that in terms of impact on real GDP, Bangladesh stands to gain most from the scenario 2 followed by scenario 4.

Table 8: Impact on real GDP (% change from the base)

	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
East & Southeast Asia	-0.02	-0.02	-0.01	-0.01	0.00
China	0.06	0.06	0.04	0.04	0.00
Bangladesh	**0.72**	**1.12**	**0.69**	**0.97**	**0.02**
Rest of South Asia	-0.12	-0.12	-0.09	-0.09	0.00
USA	-0.01	-0.01	-0.01	-0.01	0.00
EU_28	-0.01	-0.01	-0.01	-0.01	0.00
ROW	-0.01	-0.01	-0.01	-0.01	0.00

Source: Authors, based on GTAP simulation

Figure 12: Impact on real GDP (% change from the base) in Bangladesh

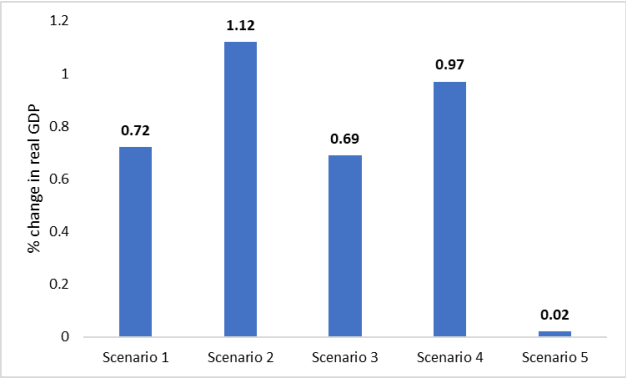
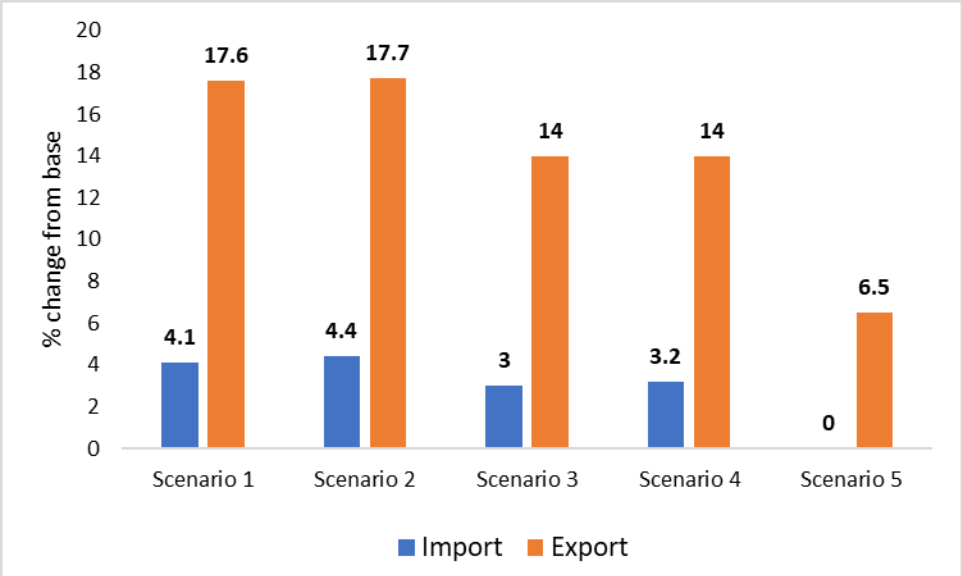


Figure 13 presents the simulation results related to the impact on Bangladesh's imports and exports. The largest impacts on export and imports under observed under the scenario 2. The interesting observation is that a mere duty free market access (scenario 5) will lead to a much lower export growth than that under a full FTA scenario.

Figure 13: Impact on Bangladesh's imports and exports (% change from the base)



Source: Authors, based on GTAP simulation

Table 9 presents the simulation results related to sectoral imports into Bangladesh. For the scenarios 1-4, the largest growth in imports are observed in sectors such as leather

products, metal products, wood products, metals, mineral products, transport equipment, meat products, textiles, wearing apparel, dairy products and other manufactures in the range between 36.8% (leather products) and 7.5% (other manufacturing). For the scenario 5, the import growth is very low.

Table 9: Impact on sectoral imports into Bangladesh (% change from base)

Sectors	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
Paddy rice	6.3	7.9	4.8	6.3	0.0
Wheat	-0.2	0.4	0.0	0.4	0.0
Cereal grains nec	-0.5	-0.1	-0.2	0.1	0.0
Vegetables, fruit, nuts	4.2	4.9	3.2	3.7	0.0
Oil seeds	-1.0	-0.3	-0.5	-0.1	0.0
Sugar cane, sugar beet	0.0	0.0	0.0	0.0	0.0
Plant-based fibers	-12.8	-12.4	-9.1	-8.8	0.1
Crops nec	4.4	5.9	3.6	4.6	0.1
Bovine cattle, sheep and goats	0.0	0.0	0.0	0.0	0.0
Animal products nec	2.3	3.0	1.9	2.4	0.1
Raw milk	0.0	0.0	0.0	0.0	0.0
Wool, silk-worm cocoons	-17.0	-16.7	-12.3	-12.2	0.0
Forestry	5.4	6.3	4.3	4.6	0.0
Fishing	1.4	2.4	1.4	2.0	0.0
Coal	-9.5	-8.9	-6.5	-6.0	0.1
Oil	-8.4	-8.1	-6.0	-5.8	0.0
Gas	0.0	0.0	0.0	0.0	0.0
Minerals nec	2.7	3.5	2.0	2.5	0.0
Bovine meat products	5.3	5.3	5.3	5.3	0.0
Meat products nec	8.7	8.7	4.3	4.3	0.0
Vegetable oils and fats	2.2	2.6	1.8	2.0	0.0
Dairy products	7.2	7.6	5.3	5.6	0.1
Processed rice	4.1	5.0	3.3	3.9	0.0
Sugar	2.6	2.9	2.0	2.2	0.0
Food products nec	4.2	4.4	3.2	3.3	0.0
Beverages and tobacco products	1.9	2.3	1.5	1.5	0.0
Textiles	8.0	8.1	5.6	5.7	0.0
Wearing apparel	7.9	8.2	6.2	6.4	0.0
Leather products	36.8	36.8	25.6	25.6	0.1
Wood products	16.5	17.1	11.5	11.8	0.3
Paper products, publishing	5.9	6.2	4.2	4.4	0.0
Petroleum, coal products	-4.0	-3.6	-2.8	-2.5	0.0
Chemical products	1.7	2.1	1.3	1.5	0.0
Basic pharmaceutical products	4.2	4.2	3.1	3.2	0.0
Rubber and plastic products	-1.2	-0.8	-0.6	-0.4	0.0
Mineral products nec	13.2	13.4	9.4	9.5	0.0
Ferrous metals	6.6	6.9	4.7	5.0	0.0
Metals nec	15.8	15.7	11.0	10.9	0.1
Metal products	17.6	17.9	12.8	13.0	0.0
Computer, electronic and optic	1.2	1.6	1.0	1.3	0.0
Electrical equipment	-1.3	-0.8	-0.6	-0.3	0.0
Machinery and equipment nec	4.1	4.5	3.0	3.3	0.0
Motor vehicles and parts	2.3	2.7	1.8	2.0	0.0
Transport equipment nec	11.7	12.0	8.4	8.6	0.0
Manufactures nec	7.1	7.5	5.4	5.7	0.0
Electricity	0.0	0.0	0.0	0.0	0.0
Gas manufacture, distribution	0.0	0.0	0.0	0.0	0.0
Water	9.1	12.1	6.1	6.1	0.0
Construction	5.5	6.2	3.4	4.1	0.0
Trade	5.7	5.8	4.1	4.2	0.0
Accommodation, Food and servic	3.3	2.5	2.5	1.9	0.0
Transport nec	1.5	2.1	1.3	1.7	0.1
Water transport	2.2	2.8	1.7	2.2	0.0
Air transport	3.5	3.9	2.6	2.9	0.0
Warehousing and support activi	4.6	5.4	3.6	3.9	0.0
Communication	4.1	4.5	2.8	3.0	0.0
Financial services nec	1.2	2.0	1.0	1.5	0.0
Insurance	4.8	5.2	3.5	3.9	0.0

Sectors	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
Real estate activities	4.6	5.2	3.1	3.6	0.0
Business services nec	0.3	0.8	0.3	0.7	0.0
Recreational and other service	3.3	4.0	2.5	3.0	0.1
Public Administration and defe	2.7	3.2	2.1	2.4	0.1
Education	3.2	3.7	2.5	2.8	0.0
Human health and social work a	2.2	2.7	1.9	2.2	0.0
Dwellings	0.0	0.0	0.0	0.0	0.0
Total	**4.1**	**4.4**	**3.0**	**3.2**	**0.0**

Source: Authors, based on GTAP simulation

Table 10 presents the simulation results related to sectoral exports from Bangladesh. For the scenarios 1-4, the largest growth in exports are observed in sectors such as rubber and plastic products, textiles, wearing apparel, fishing, vegetables-fruit-nuts, plant-based fibers (jute), beverages and tobacco products, wood products, minerals, oil seeds, and leather products in the range between 27.2% (rubber and plastic products) and 7.4% (leather products). Under the scenario 5, the largest growth in exports are observed in sectors such as wood products, fishing, vegetables-fruit-nuts, beverages and tobacco products, vegetable oils and fats, plant-based fibers (jute), bovine meat products, paper products-publishing, rubber and plastic products, and minerals in the range between 27.3% (wood products) and 13.2% (minerals).

Table 10: Impact on sectoral exports from Bangladesh (% change from base)

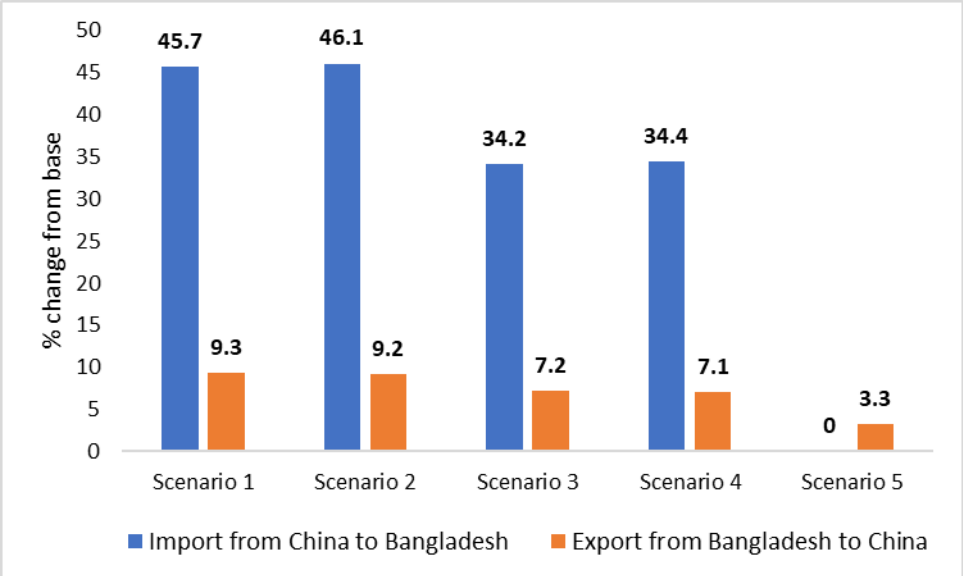
Sectors	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
Paddy rice	0.0	0.0	0.0	0.0	0.0
Wheat	0.0	0.0	0.0	0.0	0.0
Cereal grains nec	0.0	0.0	0.0	0.0	0.0
Vegetables, fruit, nuts	14.7	13.9	15.2	14.6	17.7
Oil seeds	7.4	6.4	7.8	7.1	10.5
Sugar cane, sugar beet	0.0	0.0	0.0	0.0	0.0
Plant-based fibers	14.1	13.0	14.0	13.2	14.7
Crops nec	5.4	3.3	6.3	5.0	11.3
Bovine cattle, sheep and goats	0.0	0.0	0.0	0.0	0.0
Animal products nec	5.6	3.7	5.6	5.6	7.4
Raw milk	0.0	0.0	0.0	0.0	0.0
Wool, silk-worm cocoons	50.0	50.0	50.0	50.0	0.0
Forestry	0.0	-5.9	0.0	0.0	5.9
Fishing	17.1	16.3	17.3	16.8	19.1
Coal	0.0	0.0	0.0	0.0	0.0
Oil	0.0	0.0	0.0	0.0	0.0
Gas	0.0	0.0	0.0	0.0	0.0
Minerals nec	11.4	11.4	11.4	11.4	13.2
Bovine meat products	2.9	2.9	5.9	5.9	14.7
Meat products nec	-10.7	-10.7	-7.8	-7.8	2.9
Vegetable oils and fats	6.3	6.3	8.7	8.7	15.1
Dairy products	-9.1	-9.1	0.0	0.0	9.1
Processed rice	1.1	0.0	2.2	1.1	7.7
Sugar	-1.6	0.0	1.6	1.6	7.8
Food products nec	-0.5	-0.3	0.8	1.0	4.6
Beverages and tobacco products	13.1	13.2	13.9	14.0	16.1
Textiles	20.7	21.1	17.0	17.2	8.9
Wearing apparel	19.3	19.4	15.0	15.1	6.2
Leather products	6.5	7.4	5.8	6.5	5.7
Wood products	12.1	12.1	16.2	16.2	27.3
Paper products, publishing	5.1	5.1	7.1	7.1	14.3
Petroleum, coal products	5.3	5.3	5.6	5.6	6.2
Chemical products	0.3	0.3	2.0	2.0	7.1
Basic pharmaceutical products	-6.6	-5.9	-3.7	-3.4	4.1
Rubber and plastic products	27.2	26.9	22.9	22.7	13.9
Mineral products nec	2.9	3.3	5.3	5.6	12.3
Ferrous metals	1.9	2.7	4.2	4.8	10.9
Metals nec	-7.4	-6.3	-4.2	-3.3	5.5

Sectors	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
Metal products	-5.2	-3.9	-1.3	-1.3	7.8
Computer, electronic and optic	-8.6	-7.9	-4.6	-4.2	6.8
Electrical equipment	-7.6	-7.0	-3.6	-3.2	7.8
Machinery and equipment nec	-10.8	-10.1	-7.0	-6.6	3.8
Motor vehicles and parts	-8.1	-6.5	-4.8	-4.8	1.6
Transport equipment nec	-6.7	-6.2	-3.4	-3.1	6.3
Manufactures nec	-1.3	-1.1	1.2	1.3	8.6
Electricity	0.0	0.0	0.0	0.0	0.0
Gas manufacture, distribution	0.0	0.0	0.0	0.0	0.0
Water	-11.1	-11.1	-11.1	-11.1	0.0
Construction	-6.9	-6.9	-4.2	-5.6	0.0
Trade	-5.3	-4.4	-3.5	-3.5	0.0
Accommodation, Food and servic	-5.6	-5.6	-5.6	-5.6	0.0
Transport nec	-3.8	-4.1	-2.9	-3.2	0.0
Water transport	-6.3	-6.3	-4.7	-4.7	0.0
Air transport	-5.8	-5.8	-4.2	-4.2	0.0
Warehousing and support activi	-6.5	-6.5	-4.8	-4.8	0.0
Communication	-4.3	-5.1	-3.6	-3.6	0.0
Financial services nec	-6.6	-6.6	-4.8	-4.8	0.0
Insurance	-7.0	-7.0	-4.7	-5.8	0.0
Real estate activities	-9.1	-9.1	-9.1	-9.1	0.0
Business services nec	-7.3	-7.4	-5.3	-5.5	0.0
Recreational and other service	-7.0	-7.0	-5.0	-5.0	0.0
Public Administration and defe	-6.3	-6.3	-6.3	-6.3	0.0
Education	-6.1	-6.1	-4.3	-4.3	0.0
Human health and social work a	-5.8	-5.8	-4.3	-4.3	0.0
Dwellings	0.0	0.0	0.0	0.0	0.0
Total	**17.6**	**17.7**	**14.0**	**14.0**	**6.5**

Source: Authors, based on GTAP simulation

Figure 14 presents the simulation results related to the impact on Bangladesh's bilateral imports and exports with China. The impacts of full FTA (under scenarios 1 and 2) are larger than partial FTA (under scenarios 3 and 4). The interesting observation is that a mere duty free market access (scenario 5) will lead to a much lower export growth from Bangladesh to China than that under a full FTA scenario.

Figure 14: Impact on bilateral trade between Bangladesh and China (% change from the base)



Source: Authors, based on GTAP simulation

Table 11 presents the simulation results related to sectoral imports into Bangladesh from China. For the scenarios 1-4, the largest growth in exports are observed in sectors such as sugar, dairy products, metals, wood products, leather products, paper products-publishing, other crops, transport equipment, mineral products and ferrous metals in the range between 167.2% (sugar) and 71.3% (ferrous metals). For the scenario 5, the import growth is very low.

Table 11: Impact on sectoral imports from China to Bangladesh (% change from base)

Sectors	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
Paddy rice	5.9	8.8	5.9	5.9	0.0
Wheat	0.0	0.0	0.0	0.0	0.0
Cereal grains nec	0.0	0.0	0.0	0.0	0.0
Vegetables, fruit, nuts	51.7	52.8	36.6	37.2	0.0
Oil seeds	0.0	0.0	0.0	0.0	0.0
Sugar cane, sugar beet	0.0	0.0	0.0	0.0	0.0
Plant-based fibers	10.4	11.1	8.1	8.9	0.0
Crops nec	89.8	91.8	61.2	63.3	0.0
Bovine cattle, sheep and goats	0.0	0.0	0.0	0.0	0.0
Animal products nec	11.3	12.1	8.5	9.0	0.0
Raw milk	0.0	0.0	0.0	0.0	0.0
Wool, silk-worm cocoons	-11.2	-10.7	-7.4	-7.1	0.0
Forestry	0.0	0.0	0.0	0.0	0.0
Fishing	0.0	0.0	0.0	0.0	0.0
Coal	0.0	0.0	0.0	0.0	0.0
Oil	0.0	0.0	0.0	0.0	0.0
Gas	0.0	0.0	0.0	0.0	0.0
Minerals nec	11.0	11.6	7.7	8.4	0.0
Bovine meat products	0.0	0.0	0.0	0.0	0.0
Meat products nec	0.0	0.0	0.0	0.0	0.0
Vegetable oils and fats	15.6	15.6	11.5	11.5	0.0
Dairy products	127.3	127.3	81.8	81.8	0.0
Processed rice	0.0	0.0	0.0	0.0	0.0
Sugar	166.4	167.2	104.7	105.5	0.0
Food products nec	37.6	37.9	26.9	27.1	0.0
Beverages and tobacco products	0.0	0.0	0.0	0.0	0.0
Textiles	49.5	49.7	37.9	38.0	0.0
Wearing apparel	31.6	31.9	25.3	25.5	0.0
Leather products	98.1	98.1	71.1	71.1	0.0
Wood products	106.3	107.4	72.6	73.7	0.0
Paper products, publishing	98.0	98.6	68.3	68.6	0.0
Petroleum, coal products	28.6	29.1	21.1	21.4	0.0
Chemical products	30.8	31.3	22.4	22.7	0.0
Basic pharmaceutical products	16.6	16.6	12.2	12.3	0.0
Rubber and plastic products	43.3	43.9	33.2	33.6	0.0
Mineral products nec	77.9	78.2	55.1	55.2	0.0
Ferrous metals	70.8	71.3	49.4	49.7	0.0
Metals nec	109.6	109.4	74.0	73.9	0.1
Metal products	57.5	57.9	42.6	42.8	0.0
Computer, electronic and optic	34.5	35.0	26.5	26.8	0.0
Electrical equipment	38.0	38.7	30.2	30.6	0.0
Machinery and equipment nec	18.8	19.2	13.8	14.1	0.0
Motor vehicles and parts	28.2	28.7	20.5	20.8	0.0
Transport equipment nec	80.3	80.7	58.0	58.2	0.1
Manufactures nec	42.8	43.4	33.0	33.4	0.0
Electricity	0.0	0.0	0.0	0.0	0.0
Gas manufacture, distribution	0.0	0.0	0.0	0.0	0.0
Water	100.0	100.0	0.0	100.0	0.0
Construction	0.0	0.0	0.0	0.0	0.0
Trade	6.7	6.7	3.3	3.3	0.0
Accommodation, Food and servic	0.0	0.0	0.0	0.0	0.0
Transport nec	1.8	1.8	1.8	1.8	0.0
Water transport	0.0	0.0	0.0	0.0	0.0
Air transport	3.2	3.5	2.5	2.8	0.0
Warehousing and support activi	0.0	0.0	0.0	0.0	0.0
Communication	0.0	0.0	0.0	0.0	0.0

Sectors	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
Financial services nec	0.0	0.0	0.0	0.0	0.0
Insurance	0.0	0.0	0.0	0.0	0.0
Real estate activities	0.0	16.7	0.0	0.0	0.0
Business services nec	0.0	0.9	0.0	0.9	0.0
Recreational and other service	2.9	2.9	0.0	2.9	0.0
Public Administration and defe	0.0	5.9	0.0	0.0	0.0
Education	5.0	5.0	2.5	5.0	0.0
Human health and social work a	5.0	5.0	5.0	5.0	0.0
Dwellings	0.0	0.0	0.0	0.0	0.0
Total	**45.7**	**46.1**	**34.2**	**34.4**	**0.0**

Source: Authors, based on GTAP simulation

Table 12 presents the simulation results related to sectoral exports from Bangladesh to China. For the scenarios 1-5, the largest growth in exports are observed in sectors such as transport equipment, wood products, textiles, wearing apparel, other manufactures, rubber and plastic products, ferrous metals and leather products in the range between 100% (transport equipment) and 6.9% (leather products).

Table 12: Impact on sectoral exports from Bangladesh to China (% change from base)

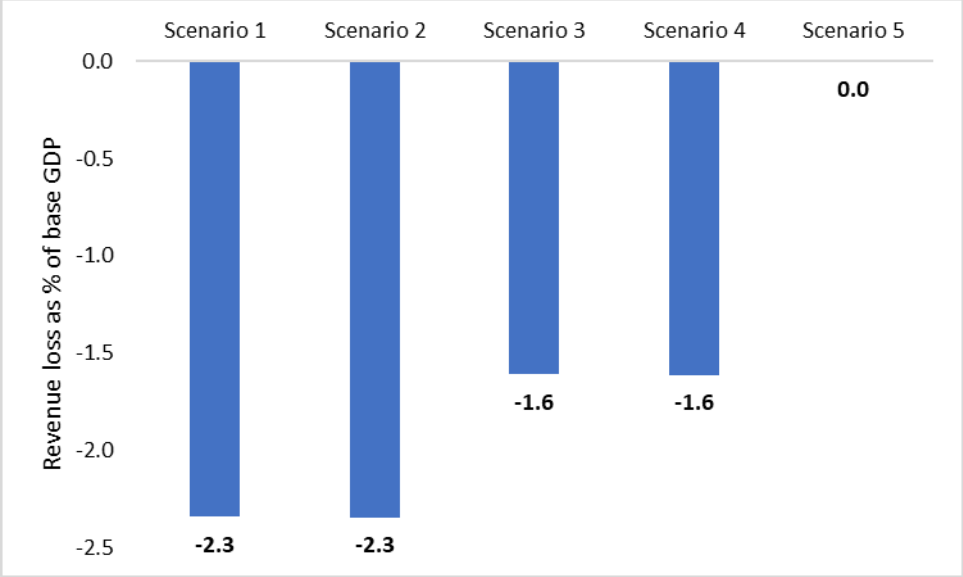
Sectors	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
Paddy rice	0.0	0.0	0.0	0.0	0.0
Wheat	0.0	0.0	0.0	0.0	0.0
Cereal grains nec	0.0	0.0	0.0	0.0	0.0
Vegetables, fruit, nuts	0.0	0.0	0.0	0.0	0.0
Oil seeds	-3.0	-4.0	-2.3	-3.3	0.0
Sugar cane, sugar beet	0.0	0.0	0.0	0.0	0.0
Plant-based fibers	0.2	-0.8	-0.1	-0.8	0.0
Crops nec	0.0	0.0	0.0	0.0	0.0
Bovine cattle, sheep and goats	0.0	0.0	0.0	0.0	0.0
Animal products nec	0.0	0.0	0.0	0.0	0.0
Raw milk	0.0	0.0	0.0	0.0	0.0
Wool, silk-worm cocoons	0.0	0.0	0.0	0.0	0.0
Forestry	0.0	0.0	0.0	0.0	0.0
Fishing	-1.8	-2.4	-1.5	-2.0	-0.2
Coal	0.0	0.0	0.0	0.0	0.0
Oil	0.0	0.0	0.0	0.0	0.0
Gas	0.0	0.0	0.0	0.0	0.0
Minerals nec	0.0	0.0	0.0	0.0	0.0
Bovine meat products	0.0	0.0	0.0	0.0	0.0
Meat products nec	0.0	0.0	0.0	0.0	0.0
Vegetable oils and fats	-16.7	-16.7	-16.7	-16.7	0.0
Dairy products	0.0	0.0	0.0	0.0	0.0
Processed rice	-33.3	-33.3	-33.3	-33.3	0.0
Sugar	0.0	0.0	0.0	0.0	0.0
Food products nec	-4.7	-4.7	-3.1	-3.1	0.0
Beverages and tobacco products	0.0	0.0	0.0	0.0	0.0
Textiles	26.9	27.2	22.9	23.3	12.7
Wearing apparel	14.9	15.0	10.6	10.6	1.6
Leather products	5.9	6.9	5.3	5.9	4.9
Wood products	60.0	60.0	66.7	66.7	44.4
Paper products, publishing	0.0	0.0	0.0	0.0	0.0
Petroleum, coal products	0.0	0.0	0.0	0.0	0.0
Chemical products	-3.7	-2.8	-1.9	-1.9	2.7
Basic pharmaceutical products	0.0	0.0	0.0	0.0	0.0
Rubber and plastic products	11.5	11.2	7.8	7.6	0.3
Mineral products nec	0.0	0.0	0.0	0.0	20.0
Ferrous metals	7.9	8.8	10.5	10.5	14.9
Metals nec	0.0	0.0	0.0	0.0	0.0
Metal products	0.0	0.0	0.0	0.0	0.0
Computer, electronic and optic	-3.0	-2.5	1.3	1.7	11.9
Electrical equipment	-10.8	-10.8	-6.8	-6.8	3.9
Machinery and equipment nec	-8.3	-8.3	-8.3	-8.3	0.0
Motor vehicles and parts	0.0	0.0	0.0	0.0	0.0

Sectors	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
Transport equipment nec	100.0	100.0	100.0	100.0	50.0
Manufactures nec	14.6	14.6	17.7	17.7	20.7
Electricity	0.0	0.0	0.0	0.0	0.0
Gas manufacture, distribution	0.0	0.0	0.0	0.0	0.0
Water	-100.0	-100.0	-100.0	-100.0	0.0
Construction	0.0	0.0	0.0	0.0	0.0
Trade	0.0	0.0	0.0	0.0	0.0
Accommodation, Food and servic	0.0	0.0	0.0	0.0	0.0
Transport nec	-5.9	-5.9	-5.9	-5.9	0.0
Water transport	0.0	0.0	0.0	0.0	0.0
Air transport	-4.2	-4.2	-4.2	-4.2	0.0
Warehousing and support activi	-8.6	-8.6	-5.7	-5.7	0.0
Communication	0.0	0.0	0.0	0.0	0.0
Financial services nec	0.0	0.0	0.0	0.0	0.0
Insurance	0.0	0.0	0.0	0.0	0.0
Real estate activities	0.0	0.0	0.0	0.0	0.0
Business services nec	0.0	0.0	0.0	0.0	0.0
Recreational and other service	0.0	0.0	0.0	0.0	0.0
Public Administration and defe	0.0	0.0	0.0	0.0	0.0
Education	0.0	0.0	0.0	0.0	0.0
Human health and social work a	0.0	0.0	0.0	0.0	0.0
Dwellings	0.0	0.0	0.0	0.0	0.0
Total	**9.3**	**9.2**	**7.2**	**7.1**	**3.3**

Source: Authors. based on GTAP simulation

It is true that an FTA will also result in a rise in Bangladesh's imports from China, which is already the most dominant exporter to Bangladesh. Bangladesh has a highly protective domestic market in a wide range of products and Chinese exporters, under any FTA arrangements, will likely to replace some domestic production and/or imports from other preferential sources. The analysis of the aforementioned simulation results suggests that a full FTA would lead to around 4.4% rise in total imports into Bangladesh while the import from China would increase by around 45%. This suggests that China will replace a large part of the import sources for Bangladesh.

Figure 15: The loss in revenue as % of base GDP in Bangladesh



Source: Authors, based on GTAP simulation

There is a concern that an FTA will trigger massive import flows from China and this could lead to loss of government revenues collected from imports. The revenue implications of a

Bangladesh-China FTA is presented in Figure 15. It appears that the loss in revenue as percentage of base GDP in Bangladesh can be as high as 2.3% under a full FTA scenario (scenarios 1 and 2) and 1.6% under a partial FTA scenario (scenarios 3 and 4). The Scenario 5 doesn't have any revenue loss.

6. Bangladesh's Offensive and Defensive Interests in the Negotiations

Along with securing expanded duty-free market access coverage comparable to other LDCs – from currently 61 per cent of tariff lines to 97 per cent – Bangladesh, as part of a greater economic cooperation, should pursue an FTA with less than full reciprocity, under which Bangladesh will have a full duty free market access in China while Bangladesh will maintain a negative list for imports from China for a period of time. In the meantime, Bangladesh should negotiate for an extended LDC transition period from China. The impending graduation will have implications for Bangladesh's exports including those to China as the current preferential market access conditions will get eroded. As MFN duties are relatively high (in comparison with those in the EU and other developed country markets), LDC graduation will lead to significant tariff hikes in the Chinese market. There is no provision of generous preferential market access in China for the developing countries.

Table 13 presents the list of the sectors with high growth of import from China to Bangladesh. These sectors are sugar, dairy products, metals, wood products, leather products, paper products-publishing, other crops, transport equipment, mineral products, ferrous metals, metal products, vegetables-fruit-nuts, textiles, rubber and plastic products, and other manufactures. While assessing the defensive interests, Bangladesh may consider gradual liberalisation of imports for these sectors under an FTA between Bangladesh and China.

Table 13: Top 15 sectors with high growth of import from China to Bangladesh (% change from base)

Sectors	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
Sugar	166.4	167.2	104.7	105.5	0
Dairy products	127.3	127.3	81.8	81.8	0
Metals nec	109.6	109.4	74	73.9	0.1
Wood products	106.3	107.4	72.6	73.7	0
Leather products	98.1	98.1	71.1	71.1	0
Paper products, publishing	98	98.6	68.3	68.6	0
Crops nec	89.8	91.8	61.2	63.3	0
Transport equipment nec	80.3	80.7	58	58.2	0.1
Mineral products nec	77.9	78.2	55.1	55.2	0
Ferrous metals	70.8	71.3	49.4	49.7	0
Metal products	57.5	57.9	42.6	42.8	0
Vegetables, fruit, nuts	51.7	52.8	36.6	37.2	0
Textiles	49.5	49.7	37.9	38	0
Rubber and plastic products	43.3	43.9	33.2	33.6	0
Manufactures nec	42.8	43.4	33	33.4	0

Source: Authors, based on GTAP simulation

Table 14 presents the list of the sectors with high growth of exports from Bangladesh to China. These sectors are transport equipment, wood products, textiles, wearing apparel, other manufactures. While assessing the offensive interests, Bangladesh should purse full

duty free market access of these sectors in China under an FTA between Bangladesh and China.

Table 14: Top 5 sectors with high growth of exports to China from Bangladesh (% change from base)

Sectors	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
Transport equipment nec	100	100	100	100	50
Wood products	60	60	66.7	66.7	44.4
Textiles	26.9	27.2	22.9	23.3	12.7
Wearing apparel	14.9	15	10.6	10.6	1.6
Manufactures nec	14.6	14.6	17.7	17.7	20.7

Source: Authors based on GTAP simulation

7. The Scope of including Services and Investments in the FTA[10]

In terms of pledged investments, Bangladesh has been able to attract the attention of Chinese financers. Cumulative Chinese investments pledged (through SOEs, foreign direct investment, and concessional loans) in Bangladesh during 2009–2019 is about US$ 27.5 billion. However, it is quite difficult to assess how much of this pledged amount has actually been materialised. Interestingly, considering pledged amounts, Bangladesh has attracted more Chinese investments than Vietnam and Cambodia. But in terms of disbursements, Vietnam has received way more than Bangladesh, particularly under in terms of FDI.[11] Although pledged Chinese investments to Bangladesh look quite substantial, realized FDI inflows account for a small part of it (just around US$ 2 billion, or 7.3% of all pledged investments over a decade).

Chinese investors have been exploring different economic opportunities in Bangladesh. This has got a further impetus from an enhanced bilateral engagement between the two countries since the visit by the Chinese President in 2016. There is now a renewed interest from Chinese private investors considering Bangladesh as one of the next destinations for their overseas moves. The on-going USA–China trade war is also forcing Chinese manufacturers to reallocate their production facilities in alternative locations. At the same time, the private sector of Bangladesh has grown capacities in many areas, including the ability to handle big joint proprietorships with foreign counterparts.

Data from the Bangladesh Bank show that between FY11 and FY17 Chinese investments in the country were worth of US$ 230 million. The situation changed quite remarkably in FY18 in the aftermath of investment treaties signed during President Xi Jinping's visit to Bangladesh. Chinese investors poured in US$ 506.13 million as FDI in FY18 and then US$ 1.16 billion in FY19, making China the largest source of net FDI inflows into Bangladesh for the very first time. This reinvigorated interest in Bangladesh is perhaps also because of the BRI. In fact, Chinese investments in power, steel, heavy machinery, and consumer products have increased in countries with BRI destinations.

[10] This section draws on Razzaque et al. (2020).

[11] China has been increasing its investment in Vietnam rapidly. Over the years, it has become the seventh largest investor in Vietnam. In 2018, it moved up to fifth and in 2019 to fourth (see https://www.vietnam-briefing.com/news/fdi-in-vietnam-investment-by-sector.html/).

Unlike in many other countries, Bangladesh does not have any negative perception about Chinese investments. Bangladesh's overall FDI stock is highly concentrated in six sectors (accounting for 70% of the stock). Chinese investors have taken interests in power and other non-traditional sectors, while they are yet to focus on the export-oriented RMG sector. China's FDI stock in Bangladesh's textile and apparel sector is less than US$ 190 million, which is just about 5% of total RMG FDI stock.

Chinese FDIs in unconventional sectors is to be interpreted as a positive sign. The Vastly experienced Chinese investors in Digital Financial Systems (DFS) are already playing a pivotal role in Bangladesh's mobile banking. The world's leading fin-tech company Ant Financial Services Group (an affiliate of Alibaba Group) has already signed a strategic partnership with bKash Limited in April 2018. By becoming an equity partner of bKash, it wants to promote financial inclusion for the unbanked-underbanked communities and jointly create a local version of Alipay in Bangladesh. Chinese investors are also introducing technology to conventional banking systems. In November 2018, UnionPay International (subsidiary of the China UnionPay), officially launched card issuance and mobile payment cooperation with the Mutual Trust Bank (MTB) of Bangladesh to provide diversified payment services for consumers. As digitalization in the Bangladesh economy deepens further, there will be more investment opportunities. While Bangladesh offers many such sectors to attract potential Chinese investments, there have also been issues in materializing investment inflows.[12]

China is going through a process of industrial restructuring, which is creating opportunities for other countries. The emerging trend seems to suggest that because of shifting comparative advantages, it is leaving space for other countries to enter into the global export market by specializing in some relatively labour-intensive and less-skilled manufacturing industries. In the aftermath of the recent USA-China trade war, firms from Japan, the Republic of Korea, Singapore, and Taiwan which have traditionally relied on low-cost production in mainland China, are now relocating their business outside. This opens a new window of opportunity for Bangladesh to attract and facilitate FDI in garment manufacturing as well as in other sectors.

It is worth pointing out that in the immediate aftermath of the USA-China trade, Bangladesh benefited to some extent through some increased export orders that were diverted from China. However, countries like Indonesia and Vietnam have been successful in attracting the diverted FDI along with export orders. This has ensured their medium to long-term export prospects.

Both the BCIM and BRI initiatives, if successfully implemented, should promote infrastructural development and connectivity from which Bangladesh will benefit. The cooperation at the regional level encompasses gains that go beyond market access for export products. However, the implementation of these mega-schemes will depend on a

[12] There have been incidents of Chinese firms backtracking after showing interests and signing primary partnership agreements with local counterparts. For example, Bay Leather Group attracted about US$ 25 million worth of Chinese investments in 2018, hoping that they would be able to build a private effluent treatment plant (ETP) to maintain international standards and compliance. Unfortunately, it failed to get the clearance do so. As the central ETP at Savar was still not ready, the proposed investment proposal could not be materialized.

complex interplay of extrinsic factors involving the two largest economies in the world, China and India, along with their ever increasing regional and global influence. Bangladesh needs to remain open about the opportunities trading and economic cooperation with both the countries.

China's economic expansion has seen strong investments in R&D of new products and technologies and scientific advancements. Although China is frequently accused of violating intellectual property rights (IRP), it is now geared up for protection of IPR issues. It moved into the second position as a source of international patent applications filed via the World Intellectual Property Organization (WIPO). in 2017. In digital communication, electrical machinery and computing technologies, it has emerged as one of the key driving forces in innovation.

Bangladesh can immensely benefit from an extended economic cooperation with China through the transfer of technologies. China is already one of the most important sources of capital goods used by Bangladeshi firms. However, joint venture projects can foster the process acquisition of appropriate technologies and their adoption. Chinese technology can also be helpful in finding solutions to challenges unique to the Bangladesh context. Chinese entrepreneurs and private businesses can also contribute to the skill development of Bangladesh's labour force. This can be very timely given that shortage of skilled workers has become a major problem facing enterprises in Bangladesh.

8. Conclusion

The growing relative significance of China in the global economy and international trade has been a defining feature of globalization over the past three decades. Despite concerns about competitive pressure triggered by such a giant economy like China, its rapid growth and economic transformation has generated unprecedented opportunities for trade and investment flows. Trade with such a major economy, which continues to grow quite strongly, offers new opportunities for specialization, efficiency gains, export market diversification and attracting investments. China is also a prominent force in global supply chains, forming networks of cross-border suppliers. It offers favourable market access to LDCs and has now become an important source of technical and financial assistance, particularly in developing large-scale infrastructures.

Very recently, China has offered an extended duty-free market access of 97.5% of tariff lines going much beyond of about 62%. Although delayed by several years, but it is a welcome offer for China. However, this kind of unilateral offer remains valid until a country's LDC graduation. Therefore, Bangladesh will have to ensure continuity of this improved market access offer to generate and sustain the interest of investors who would want to take advantage of the preferences. A negotiated trading arrangement (e.g. FTA) with China will thus remain an important issue in the medium to longer terms.

The analysis undertaken in this paper shows that in terms of the impacts on welfare and real GDP, a scenario of a less than full-reciprocity FTA where China provides 100% duty-free market access to Bangladesh, and Bangladesh cuts down tariff by 75% on Chinese imports are positive but not significantly different from a full FTA scenario where both parties

undertake comprehensive bilateral tariff cuts to zero. Also, impacts on Bangladesh's export and import growth are not very different under these two scenarios. However, under a full FTA scenario, imports from China to Bangladesh would increase by more than 45%, whereas a less than full reciprocity FTA would lead to a rise in import from China to Bangladesh by 34%. The growth in export from Bangladesh to China remains in the range of 7-9% under these two scenarios. The full FTA would also lead to a revenue loss of 2.3% of GDP in contrast to a loss of 1.6% of GDP under the less than full reciprocity FTA scenario. Therefore, in the FTA negotiation Bangladesh should maintain a negative list to protect its defensive interest. The sectors which should fall under Bangladesh's defensive interest include sugar, dairy products, metals, wood products, leather products, paper products-publishing, other crops, transport equipment, mineral products, ferrous metals, metal products, vegetables-fruit-nuts, textiles, rubber and plastic products, and other manufactures. On the other hand the sectors which should fall under Bangladesh's offensive interest include transport equipment, wood products, textiles, wearing apparel, other manufactures.

Along with any trading arrangement, Bangladesh needs to attract Chinese investment to build and generate supply response. China has emerged as the largest source of foreign investments into Bangladesh with the net FDI inflows from China reaching US$ 1.16 (28.5% of the total FDI) in 2018-19. The stock of Chinese FDI however remains very small at around US$ 2 billion. Most of these investments came in power and energy, textile and clothing, banking and agro-processing sectors. It is important to attract Chinese investments in export-oriented sectors. Relocation of Chinese firms, as a result of economic transformation that is taking place in China, into Bangladesh can greatly boost supply-side capacities and export response. This paper finds that the investment pledged by China (in terms of FDI and through its state-owned-enterprises) is quite substantial – almost US$ 28 billion during 2009-19. It is difficult to assess the actually materialized investments as funds coming from the Chinese SOEs get absorbed through the government channels and concessional loans from China are not recorded in the official development assistance global database.

The Belt and Road Initiative (BRI) presents an opportunity for promoting regional connectivity, improving trade facilitation, and integrating into global value chains. Although there are concerns about BRI projects and loans, Bangladesh should aim to maximise the benefits from the initiative by adopting a strategic approach. The strategy should include judicious selection of projects, their timely and effective implementation, and maintaining macroeconomic soundness of the economy in the face of rising official debts.

To conclude, the negotiation for a meaningful FTA with China should be considered an important task for policymakers. This will certainly require continued proactive engagements while ensuring reaping of benefits. Creating Chinese investment-backed exporting opportunities from Bangladesh should be given an utmost priority in the overall strategy. Bangladesh will also need to manage its economic cooperation and diplomatic relations with all other countries in the process. In this respect, lessons from the countries that have been able to fast expand their trade with China can be helpful.

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