SOUTH ASIA SCAN

Growing with Two Giants – A Mixed Blessing for Bangladesh

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NUS National University of Singapore | ISAS Institute of South Asian Studies

South Asia Scan

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Executive Summary

Bangladesh has been struggling to balance its relationship with its two important neighbours – India and China. While China now holds the position as Bangladesh's top trading and investment partner, India is its second largest trading partner. Bangladesh largely imports the same products from India and China – predominantly cotton, vehicles and trains, nuclear reactors and heavy machinery. Its main exports to India and China are garment and textile products and some agricultural products, including jute and leather.

Bangladesh has a significant comparative advantage in the apparel, jute and leather sectors. Although Bangladesh has enormous export potential to China and India, this potential remains largely unrealised due to non-tariff measures (NTMs) and the lack of trade facilitation. The Indian anti-dumping duty on jute and jute products imported from Bangladesh is an example of a recent NTM. Computable general equilibrium modelling simulations indicate that if India and China reduce their NTMs by increasing trade facilitation by 50 per cent, Bangladesh's exports could increase by 3.14 per cent within these two markets.

Chinese investments in Bangladesh reached about US$40 billion (S$54.7 billion) in 2019, while Indian investments were about US$5 billion (S$6.8 billion) in the same period. Bangladesh is striving to attract foreign direct investments (FDI), while China and India want to influence their neighbours through their geopolitical strategies. The Sonadia deep-sea port is one of the 'victim' projects which had to be called off due to geopolitical competition in the Bay of Bengal between the two giants. Bangladesh's current strategy is to draw political support from India and financial support from China. However, this balancing act may not be sustainable in the future.

Both China and India have their respective geopolitical interests in South Asia. The China-India strategic rivalry has intensified in recent years, as witnessed by their border conflicts. Australia, India, Japan and the United States (US) formed the Quadrilateral Security Dialogue (also called the Quad) to tackle Chinese influence in the region. Moreover, many of the major Asian countries, including Japan, Korea, Singapore and Taiwan, are looking for alternative investment opportunities, either as part of a 'China exit' or a 'China plus' strategy.

To avoid conflict and become a passive victim of the geopolitical competition in the region, Bangladesh should reiterate its foreign policy principle of 'Friendship towards all, malice towards none'. Maintaining good working relations with India and China are vital for Bangladesh's sustainable economic growth. At the same time, Bangladesh should also attract FDI from other markets, as Dhaka has both geopolitical and economic advantages in the Asia Pacific region. Bangladesh should cultivate and use this unique position to its advantage through tactful involvement in trade and investment with both India and China.

Introduction and Rationale for the Study

Bangladesh has emerged as a regional gateway for South Asia and Southeast Asia and plays an important role in global supply chains. It is one of the most rapidly growing economies in Asia, with an average growth rate of about 6.5 per cent over the past few decades.[1] In 2021, Bangladesh's gross domestic products (GDP) per capita was US$2,462 (S$3,420).[2] In the June 2022 budget presentation, the government forecasted a growth rate of 7.5 per cent for FY2022-23, with a GDP per capita of US$2,885 (S$4,018).[3] The International Monetary Fund had earlier predicted that Bangladesh's per capita would overtake India's by 2021. Bangladesh succeeded in surpassing India in GDP per capita last year,[4] which is a remarkable achievement in Bangladesh's development story. In terms of many social indicators, Bangladesh is in a much better position than India, as pointed out by Noble Laureate Professor Amartya Sen in his various writings.[5] It also superseded Pakistan quite some time ago in becoming the second biggest economy in South Asia.[6]

In the last decade, Bangladesh's total trade increased from an estimated US$43 billion (S$58.8 billion) in 2010 to US$110 billion (S$150.4 billion) in 2019.[7] Furthermore, its trade to GDP ratio is 38 per cent, reflecting its increasing integration with the global economy. Citibank, Goldman Sachs, J P Morgan and Merill Lynch have identified Bangladesh as an important country with unrealised investment potential in the region. The United Nations Committee for Development Policy recently recommended Bangladesh's graduation from the least developed countries (LDCs) category into the developing countries grouping as it has met all three thresholds for LDC graduation, namely, gross national income per capita, the human asset index and the economic and environmental vulnerability index.[8] These indicate that Bangladesh's development model is reaping dividends. Globally, it has become a role model of socio-economic development, far from the "basket case" that American statesman Henry Kissinger dubbed it in 1971.

Bangladesh's next-door neighbours are two giants – India and China. Bangladesh shares about a 4,000-kilometre land border with India and is within China's geographical orbit through the Chinese Belt and Road Initiatives (BRI). Beijing and Delhi are emerging superpowers

on the international stage. The World Economic Forum forecasts that China will overtake the US, in terms of GDP, by 2024 and India will become the third largest economy in the same period.[9] The last few decades have witnessed tremendous economic growth and poverty reduction in both countries. These economic trends have led to a rise in a wealthy middle class with massive spending capacity. However, since 2019, Sino-Indian relations have deteriorated tremendously. Border skirmishes, technology bans and the fallout from the COVID-19 pandemic have worsened the fractious relationship. Both countries have begun courting regional neighbours to balance each other.

Bangladesh has deep historical, cultural and linguistic affiliations with India. After his release from a Pakistan prison, the 'Father of the Nation' – Bangabandhu Sheikh Mujibur Rahman – first landed in Delhi in 1972, enroute to Dhaka from London, where he iterated that India and Bangladesh were "eternal friends and brothers". However, relations between Dhaka and Delhi have not always been steady, owing to domestic politics and changes in government. These played a critical role in changing the bilateral relationship of India and Bangladesh. Nevertheless, in recent years, bilateral relations have improved. India's Prime Minister Narendra Modi visited Bangladesh on 26 and 27 March 2021 to commemorate the 50th year of Bangladesh's independence, where avenues to deepen economic and cultural collaboration were discussed.

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1 Economic data, Bangladesh Bank (2020), https://www.bb.org.bd.

2 Gross Domestic Product (GDP) 2020-21 (Final), Bangladesh Bureau of Statistics, Government of the People's Republic of Bangladesh, https://bbs.portal.gov.bd/sites/default/files/files/bbs.portal.gov.bd/page/057b0f3b_a9e8_4fde_b3a6_6daec3853586/2022-02-08-08-05-3347c0f140eaa82212bc87e82f6181c5.pdf.

3 Budget Documents (2022-23), Finance Division, Ministry of Finance, Government of the People's Republic of Bangladesh, https://mof.gov.bd/site/page/9ea7529b-c8ef-49b5-8b8e-87ef72a2b3ec.

4 India GDP Per Capita, 1958 – 2022, CEICA, https://www.ceicdata.com/en/indicator/india/gdp-per-capita.

5 Bangladesh ahead of India in Social Indicators: https://www.thedailystar.net/top-news/bangladesh-ahead-india-social-indicators-amartya-3540.

6 World Development Indicators (WDI), https://datatopics.worldbank.org/world-development-indicators

7 World Development Report 2020: Trading for Development in the Age of Global Value Chains Washington, DC: World Bank, World Bank, https://doi.org/10.1596/978-1-4648-1457-0.

8 UN LDC Portal https://www.un.org/ldcportal/tags/graduation.

9 "This is what global economy look like in 2024", World Economic Forum (2020), weforum.org.

The India-Bangladesh bilateral relationship has grown closer in the last decade and has been marked by consistency and increased cooperation. According to the joint statement, there are more than 50 bilateral institutional mechanisms between India and Bangladesh in "security, trade and commerce, power and energy, transport and connectivity, science and technology, defence, rivers and maritime affairs, etc."[10] Both sides are active in various regional and sub-regional groups like the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) and the Bangladesh, Bhutan, India and Nepal (BBIN) Initiative.

In addition to BIMSTEC and BBIN, the two countries are part of several other forums, including the South Asian Free Trade Agreement (SAFTA) and the Asia Pacific Trade Agreement (APTA). Better trade and investment opportunities are drivers for improving bilateral relations.[11] However, these benefits are not equally distributed as they are heavily skewed in India's favour.[12]

Relations between Bangladesh and China have generally been less interactive despite the establishment of diplomatic contact in 1975. However, relations between Dhaka and Beijing have slowly gained momentum and culminated during Chinese President Xi Jinping's visit to Bangladesh in 2016. A total of 15 agreements and memoranda of understanding (MoU) as well as 12 loan and mutual agreements were signed during the visit under the BRI.[13] China has now become Bangladesh's largest trading partner and top investor. Beijing's goodwill projects, large-scale investments and non-interference in domestic politics have garnered much support amongst Bangladeshis.

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10 Joint Statement issued on the occasion of the visit of Prime Minister of India to Bangladesh, 27 March 2021, https://mea.gov.in.

11 S Kathuria and N Rizwan, "Benefits of cooperating with big neighbors: The case of Bangladesh and India", in S Raihan and P De (Eds.), Trade and Regional Integration in South Asia: A Tribute to Saman Kelegama (Springer, New Delhi, 2020), pp. 109-127, https://doi.org/10.1007/978-981-15-3932-9.

12 M S Ullah and K Inaba, "Impact of RTA and PTA on Bangladesh's export: Application of a gravity model", Journal of Industry, Competition and Trade, 12(4), 2012: pp. 445-460, https://doi.org/10.1007/10842-011-0116-3; and S Raihan and F Ashraf, Review of Bangladesh's Engagement in Preferential Trading Arrangements, Country Study Series No.1. Enhancing the Contribution of Preferential Trade Agreements to Inclusive and Equitable Trade, Bangkok: ESCAP, 2017.

13 M K Khan, I A Sandano, C B Pratt, and T Farid, "China's belt and road initiative: A global model for an evolving approach to sustainable regional development", Sustainability, 10(11), 2018: 4234, https://doi.org/10.3390/su10114234.

Sahoo (2013) contends that India is losing its market share in South Asia to China.[14]

Steady economic growth and remarkable poverty reduction over the last decade in China and India have attracted global economic interest in these markets. Thus, Bangladesh's close geographical position to China and India allows it the opportunity to develop strong bilateral ties and regional cooperation with these two giants. Against this backdrop, this South Asia Scan's primary focus is to deliberate on how Bangladesh should balance between these two giants and capitalise on trade and investment opportunities with them.

[14] Pravakar Sahoo, "The growing dominance of China in South Asia: An Indian perspective", *The International Trade Journal,* 27(2), 8 March 2013, pp. 111-141, https://doi.org/10.1080/08853908.2013.764241.

Distinctive Facts about the Two Giants

India lags behind China in many major economic and development indicators (see Table 1 for India and China's comparative economic statistics). According to the World Bank, Beijing's economy is roughly five times bigger than India's in terms of GDP and GDP per capita.[15]

Chinese total exports in goods and services were about US$2.64 trillion (S$3.60 trillion) whereas Indian exports were US$524 billion (S$714 billion) in 2019. China has a huge trade surplus as its imports were US$2.48 trillion (S$3.38 trillion) in 2019 whereas India is a trade deficit country, with imports at US$606 billion (S$826 billion) in 2019 (Table 1). Chinese FDI outflow was US$111 billion (S$151 billion) in 2019 while Indian investment outflow was only US$12 billion (S$16 billion) during the same period.

Furthermore, India is still broadly an agriculture-based economy whereas China has progressed to a more industrialised economy. More than one billion Chinese people used the Internet in 2020 and, recently, China introduced the digital yuan in seven cities.[16] On the other hand, India struggles to provide for the basic needs for many Indians, with roughly seven per cent of its population still deprived of electricity.[17] In comparison, all Chinese households enjoy access to basic amenities. The ease of doing business and trade facilitation in China is much better than in India, as illustrated in Table 1.

Although the World Bank envisions a 5.2 per cent global contraction in the near term due to the economic contraction caused by the COVID-19 pandemic, both China and India are forecasted to weather the storm relatively well.[18] In 2020, the Chinese economy registered

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15 World Development Report 2020: Trading for Development in the Age of Global Value Chains, Washington, DC: World Bank, World Bank (2020), https://doi.org/10.1596/978-1-4648-1457-0.

16 "China prepares to launch the world's first official e-currency", The Economist, 17 November 2021, https://www.economist.com/the-world-ahead/2020/11/17/china-prepares-to-launch-the-worlds-first-official-e-currency.

17 World Development Report 2020: Trading for Development in the Age of Global Value Chains, Washington, DC: World Bank, World Bank, https://doi.org/10.1596/978-1-4648-1457-0.

18 Global Economic Prospects, January 2021, Washington, DC: World Bank, World Bank, https://doi.org/10.1596/978-1-4648-1612-3. Also see World Economic Outlook Update, January 2021: Policy Support and Vaccines Expected to Lift Activity, International Monetary Fund (2021), https://www.imf.org/en/publications/weo.

a growth of 5.2 per cent and is forecasted to grow at 8.2 per cent in 2021.[19] Similarly, the Indian economy has shown signs of recovery and these trends are a positive indicator of New Delhi's quick rebound from the health crisis. Both economies will continue to grow in the next decade. This brief distinctive analysis shows China has made tremendous progress in socio-economic development while India still has an enormous potential for progress and development.

Table 1: Selected Socioeconomic Indicators

Economic/Development Indicators	Bangladesh	China	India
Agriculture, forestry and fishing, value added (% of GDP)	12.7	7.1	16.0
Exports of goods & services (% of GDP)	15.3	18.4	18.4
Ease of doing business score (0 = lowest performance, 100 = best performance)	45.0	77.9	71.0
GDP growth (Annual growth rate %)	8.2	6.1	4.2
GDP (Current US$ billion in 2019)	303	14342	2868
GDP per capita (Current US$)	1855	10261	2099
Gross capital formation (% of GDP)	31.6	43.3	29.7
Export in goods and services in 2019 (US$ billion)	46	2641	528
Import in goods and services in 2019 (US$ billion)	64	2476	606
Foreign direct investment outflow in 2019 (US$ billion)	-	111	12

Source: World Bank, 2020, UNCATD (2020)

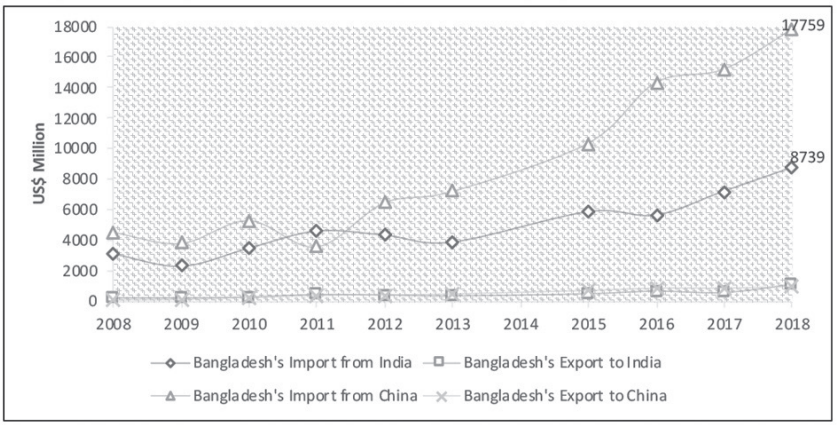
[19] World Economic Outlook Update, January 2021: Policy Support and Vaccines Expected to Lift Activity, International Monetary Fund, https://www.imf.org/en/publications/weo.

Bilateral Trade with the Two Giants

Bangladesh's bilateral trade with India was US$3.4 billion (S$4.64 billion) in 2008 and it increased to US$10 billion (S$13.64 billion) in 2019. On the other hand, China's trade with Bangladesh was US$4.6 billion (S$6.27 billion) in 2008 and increased to about US$18.7 billion (S$25.5 billion) in 2019, almost double that compared to India (Figure 1). In 2019, Bangladesh imports from the world amounted to US$56.99 billion (S$77.71 billion), of which 30 per cent were from China and 15 per cent from India.[20]

However, Bangladesh's exports to its neighbours have not been significant over the last decade. Bangladesh exports to India reached US$1 billion (S$1.36 billion) in 2019 and only US$800 million (S$1.09 billion) to China during the same period.

Figure 1: Bangladesh's Trade with China and India



Source: Bangladesh Bank (2020)

Bangladesh's main imports from India are cotton, vehicles and trains, nuclear reactors and heavy machinery. Its main exports to India are garments and textiles products and some agricultural products, including jute and leather. Its import pattern with China is similar to that of India. Bangladesh imports nuclear machinery and chemical

[20] Trade Intelligence and Negotiation Adviser (TINA) 2021, https://tina.trade/.

items, heavy and light manufacturing products from China, along with cotton, textiles and clothing. In 2019, Bangladesh imported nuclear reactors and machinery worth about US$2.9 billion (S$3.96 billion) from China (Tables 2 and 3).

Table 2: Bangladesh Trade with India in 2019 (US$ Million)

Products	Import	Products	Export
Cotton	1,583	Apparel & clothing accessories, not knitted	369
Vehicles other than railway or tramway rolling stock, & parts & accessories	1,002	Animal or vegetable fats, oils; edible fats, animal or vegetable waxes.	159
Nuclear reactors, boilers, machinery, & mechanical appliances	626	Vegetable textile fibres; paper yarn and woven fabrics	142
Iron and steel	322	Apparel and clothing accessories, knitted or crocheted	130
Residues & waste from the food industries; prepared animal fodder	286	Readymade textile articles; worn clothing and worn textile	41
Electrical machinery and equipment, and parts and accessories of such articles	284	Plastics and articles thereof	33
Organic chemicals	259	Inorganic chemicals, precious metals, radioactive elements	32
Plastics and articles thereof	259	Cotton	28
Tanning or dyeing extracts; dyes, pigments and colouring	242	Iron and steel, metal	28
Edible vegetable and certain roots	233	Beverages, spirits, and vinegar	28
Others items	2,551	Others items	259
Total Imports from India	**7,648**	**Total Exports to India**	**1,248**

Source: World Bank, 2020, UNCATD (2020)

Bangladesh's main exports to China are readymade garments, mainly apparels which require a huge amount of cotton. Bangladesh imported cotton amounting to US$2.2 billion (S$3 billion) from China and US$1.5 billion (S$2.05 billion) worth from India in 2019.

This bilateral trade analysis shows Bangladesh's trade with China and India was almost similar in 2011. However, within a decade, China's trade relationship with Bangladesh doubled, compared to Indian engagement with Bangladesh (Tables 2 and 3).

Table 3: Bangladesh' Bilateral Trade with China in 2019 (US$ Million)

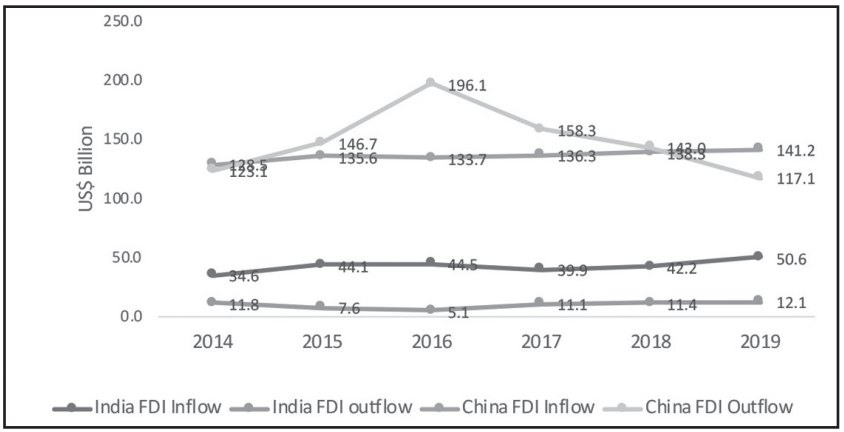
Products	Import	Product: HS 2 Digit	Export
Nuclear reactors, boilers, machinery & mechanical appliances	2,924	Articles of apparel and clothing accessories	283
Cotton	2,199	Articles of apparel and clothing accessories, knitted or crocheted	224
Electrical machinery and equipment and parts; electronics items	1,637	Vegetable textile fibres; paper yarn and woven fabrics	105
Man-made staple fibres	756	Fish & crustaceans, mollusc & other aquatic invertebrates	74
Knitted or crocheted fabrics	744	Raw hides & skins (other than fur skins) and leather	39
Man-made filaments	669	Mineral fuels, mineral oils and products of distillation; bituminous; mineral waxes	16
Iron and steel	613	Footwear, gaiters and the like; parts of such articles	13
Plastics and articles thereof	385	Man-made staple fibres	10
Fertilisers	307	Made up textile articles; worn clothing and worn textile	9
Organic chemicals	255	Optical, photographic, cinematographic, medical or surgical	7
Others items	3,151	Others items	51
Total Imports from India	**13,639**	**Bangladesh Exports**	**831**

Source: Bangladesh Bank (2020) and Export Promotion Bureau (2020)

Investment Relations with the Two Giants

China has emerged as a global source of investments over the past few decades, thanks to its huge trade surplus and high national savings. China used to be an investment receiving country but has now emerged as a major provider of global investments. In 2019, Chinese global investments were about US$117 billion (S$160 billion) whereas Indian global investments amounted to only US$12 billion (S$16.37 billion) – mostly in its neighbouring countries (Figure 2).

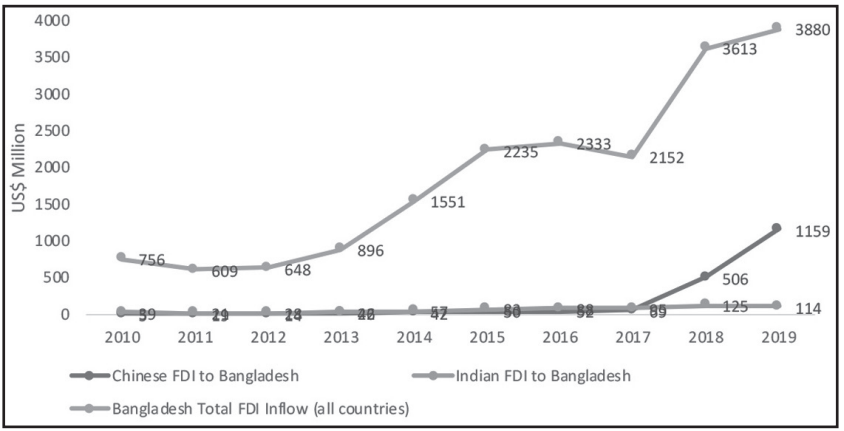
Figure 2: Chinese and Indian Investment Inflow and Outflow



Source: UNCTAD World Investment Report (2020)

India is an investment receiving country – its national savings are much lower than its investments and it runs a high trade deficit. This explains the rise of Chinese investment in the region, especially after Xi visited Bangladesh in 2016 and Bangladesh officially joined the BRI. Figure 3 shows Chinese and Indian investment trends in Bangladesh. Investments from both countries were more or less similar until Chinese investments took off post-2016 after Bangladesh formally joined the Chinese BRI. China has now become the largest investor in Bangladesh.

Figure 3: Chinese and Indian Net Investment in Bangladesh



Source: Bangladesh Bank Survey (2020)

Bangladesh has developed 98 special economic zones (SEZs) for its rapid industrialisation. According to the Bangladesh Economic Zone Authority, China is one of the major investors in these zones. According to the Bangladesh Investment Development Authority (BIDA), China registered 78 new projects among 166 total projects in 2020,[21] which accounted for about US$2 billion (S$2.73 billion) – 60 per cent of total investments in Bangladesh (Table 4). Apart from China, Japan is another major investor in Bangladesh. Tokyo has implemented two major projects: an elevated express railway in Dhaka and the Matabari deep seaport.

[21] Bangladesh Investment Development Authority (BIDA), 2020; http://bida.gov.bd/.

Table 4: Bangladesh Foreign Investment in FY2019-2020

Country	Number of Project	US$ Million	Sectors
China	78	1,934	Power sector, infrastructure, textiles and wearing, footwear
Malaysia	2	1,200	Chemicals, power sector, textiles and wearing
Singapore	7	168	Power sector, textiles and wearing
India	18	23	Power sector, textiles and wearing Pharmaceutical, and hospital and trading
United Arab Emirates	1	109	Gas and petroleum, banking
Korea	6	17	Textiles and wearing, footwear
Japan	17	18	Infrastructure and communication and fertiliser
Taiwan	3	78	Electronics, textiles and wearing, and trading
Mauritius	1	33	Power sector, infrastructure, textiles and wearing, footwear
Netherlands	4	41	Cement and leather products
Others country	29	63	
Total	**166**	**3,685**	

Source: BIDA and Bangladesh Bank

In addition to infrastructure and industrial sector investments, Chinese investments are prominent in Bangladesh's capital market. The Shenzhen Stock Exchange bourse acquired a 25 per cent stake in the Dhaka Stock Exchange in 2018. An Indian stock exchange consortium was a prominent opponent to the Chinese investor.[22] However, it failed in its bid to acquire a stake.

Besides, Bangladesh has been implementing some major projects, most of which are financed by China, Japan, India and Russia. This is aimed at balancing the relationship among these countries and diversifying its financing portfolio.[23]

22 Dhaka Stock Exchange, Annual Report 2018; https://dsebd.org.
23 Bangladesh Investment Development Authority (BIDA), Annual Report, 2019-20.

Chinese and Indian Influence on Major Infrastructure Projects

Bangladesh requires significant investments to keep up with the pace of its ongoing growth and development. Foreign investments will not only bring the required capital to finance its growth but will also provide Dhaka with the technical and managerial know-how, which will have a ripple effect on the growth and development of the country.

Bangladesh has been implementing several mega projects with Chinese and Indian support. China primarily supports the construction of the country's road and transport infrastructure while India focuses on railway and power plant implementation.[24]

The following are several key projects that were recently developed or are in the process of being developed in Bangladesh.

Padma Multipurpose Bridge

This project is worth US$3.65 billion (S$4.98 billion). It is a 6.1-kilometre double-deck bridge funded by the Bangladesh government which will connect the southern part of Bangladesh with Dhaka. China's Major Bridge Engineering Company Ltd was selected to construct the project. On 25 June 2022, Bangladesh's Prime Minister Sheikh Hasina inaugurated the landmark Padma Bridge, the longest bridge in Bangladesh.

Matarbari Deep Sea Port

The Sonadia deep-sea port investment was called off due to geopolitical competition in the Bay of Bengal between India and China in 2016. Bangladesh then planned to develop its first deep-sea port in cooperation with Japan at the Matarbari area of Cox's Bazar district. The Matarbari deep seaport will have a 16-metre water draft and its strategic location would aid in reducing dependency on the Singapore and Colombo ports.

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[24] Bangladesh imports 1,160MW of power from India each year.

This mega project is a result of the Bay of Bengal Industrial Growth Belt declared by Hasina and Japan's late Prime Minister Shinzo Abe when the former visited Japan in 2014. The total cost of this project is US$2 billion (S$2.73 billion), and the Japan International Cooperation Agency (JICA) will provide loans for 80 per cent of the financing. The rest is to be contributed by the Bangladesh government. Japan's Nippon Koei JV, in collaboration with the Roads and Highways Department of Japan, will develop the project by 2025.

Dhaka Elevated Expressway

This is a 46-kilometre-long highway which will cost around US$1.4 billion (S$1.9 billion). China Exim Bank is investing US$461 million (S$628 million) while China ICBC will lend US$400 million (S$545 million) to Bangladesh for this project. The Italian-Thai Development Corporation has signed a US$1.062 billion (S$1.45 billion) contract with the China Railway Construction Corporation to build the Dhaka Elevated Expressway. This is the first big infrastructure project under the public-private partnership initiative based on the build, operate and transfer module in Bangladesh, which is supposed to be completed by December 2022.

Karnaphuli Underwater Tunnel

This project is worth US$2.49 billion (S$3.39 billion) and is mainly funded by the China Exim bank under the BRI. Hasina and Xi laid the foundation for this project in 2016 when Xi visited Dhaka. The China Communication Construction Company and China Road and Bridge Engineering Company are in charge of building the tunnel under a government-to-government agreement.

Dhaka Metro Rail

The Dhaka Metro Mass Rapid Transit (MRT) is the mega metro rail project implemented by Japanese finance and is set to be partially operable by the end of 2022. The estimated cost of this project is US$2.5 billion (S$3.41 billion), in which 75 per cent of the project cost is taken as a soft loan (0.1 per cent interest) from JICA. The Asian

Development Bank recently approved a loan amount of US$33.26 million (S$45.33 million) for the project, and the rest will be managed by the Bangladesh government.

Investment in the Special Economic Zone

The Bangladesh government has established 98 SEZs comprising 70 government and 28 private economic zones for long-term sustainable economic and industrial development. Many different types of incentives are offered to both domestic and foreign investors in the SEZs. Japanese, Korean, Indian and Chinese SEZs have been established to increase product diversification and cluster development for industrialisation. The implementation of these economic zones marks a breakthrough for Bangladesh's aspiration to industrialise. The Chinese Economic and Industrial Zone (CEIZ),[25] Indian Economic Zone (Mongla)[26] and Japanese Economic Zone (Araihazar)[27] are top investors in the SEZs.

This brief mega project analysis indicates that Bangladesh is set to move to a new phase of development. Most of the mega projects will be completed within a few years. When all these projects are in operation, the country will transform into a new regional hub in regional supply chains. Most of the infrastructure projects are being implemented with Chinese finance. However, Bangladesh has been trying to diversify its foreign investment sources to reduce its investment dependence on China and India.

Despite success stories in many development aspects, Bangladesh has not been successful in attracting enough foreign investments. From 2010 to 2019, FDI inflows (net) remained at about US$1 billion (S$1.36 billion) to US$2 billion (S$2.72 billion) annually. The share of FDI, as a percentage of the GDP, has not grown, which is, on average, 0.73 per cent of the GDP over the last 25 years.[28] However, Chinese

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25 Chinese Economic and Industrial Zone (CEIZ), Bangladesh Economic Zones Authority, www.beza.gov.bd/chinese-economic-industrial-zone.

26 Indian Economic Zone (Mongla), Bangladesh Economic Zones Authority, https://www.beza.gov.bd/indian-economic-zone-mongla.

27 Japanese Economic Zone (Araihazar), Bangladesh Economic Zones Authority, https://www.beza.gov.bd/japanese-economic-zone-araihazar.

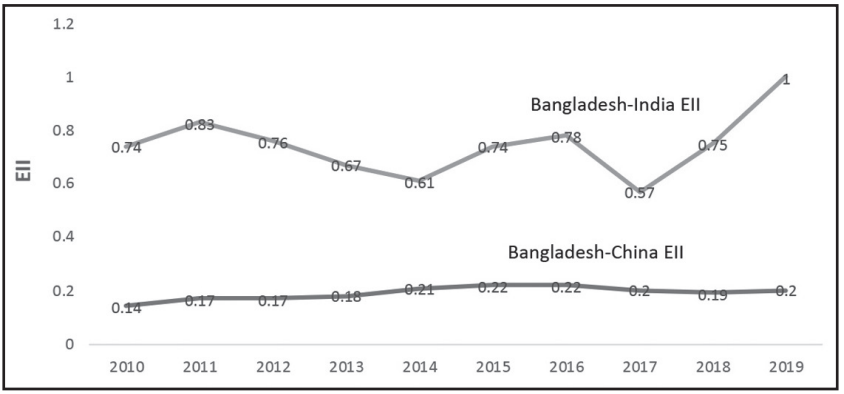
28 World Development Indicator (WDI) 2021, World Bank, https://databank.worldbank.org/source/world-development-indicators.

and Indian investments began to gain momentum after 2016 when both countries' top leaders visited Dhaka and become strategic development partners. Bangladesh is trying to attract investments from its neighbouring countries for its economic development without jeopardising its geopolitical prey.

Export Intensity with China and India

The Export Intensity Index (EII) determines bilateral trade intensity.[29] It is used to determine whether the bilateral trade between two countries is greater or smaller than expected, compared to its global trade. It is described as the ratio of a country's export share going to a trading partner divided by the share of global trade going to that same partner.[30] If the EII is greater than one, the trade between the two entities is deemed intense, compared to the rest of the world.

Figure 4: Bangladesh Export Intensity Index with China and India



Source: Author's calculation

Bangladesh's exports to India stood at about US$1 billion (S$1.36 billion), which is less than one per cent of Indian total imports in 2019. The EII value for Bangladesh's exports to India has been consistently below the value of one. This value indicates that Bangladesh is trading less intensely with India than with the rest of the world. Further, Figure 4 indicates the inconsistencies surrounding trade relations between Bangladesh and India. It shows that New

[29] EII=(xij / Xiw) / (xwj / Xww), where xij is Bangladesh's exports to China/India, Xiw is Bangladesh total exports into the world, xwj is the world exports to China/India, and Xww is world total exports. An index of more than one indicates that trade flow between countries is larger than expected given their importance in world trade.

[30] Technical Indicators, Asia Regional Integration Center, 2020, https://aric.adb.org/integrationindicators/technotes.

Delhi and Dhaka restored trade intensity in 2019. India offered duty free imports for all except 25 products from Bangladesh under the SAFTA.

The EII value for Bangladesh's exports to China has remained consistently low, indicating that Bangladesh is not an active export partner of China due to Dhaka's limited export baskets. However, Figure 4 displays a steady increase over the last decade, signalling the potential for improving Bangladesh's export share to China.

Export Potential to India and China

The Revealed Comparative Advantage (RCA) is widely used as a standard indicator of a country's competitive export strength.[31] A country is said to have a revealed comparative advantage in a given product when its ratio of exports to its total exports of all products exceeds the same ratio for the entire world. When the RCA value for a given product is greater than one for a country, that country is a competitive producer and exporter of that product relative to a nation exporting that good at or below the world average. Table 5 shows Bangladesh's bilateral RCA with China and India.

The export potential of Bangladesh to Indian and Chinese markets is mostly in apparel items, footwear, jute and jute products. Dhaka has a significantly higher RCA value in exporting jute products to both India and China. Although Bangladesh is an agriculture-based country, the RCA on food products against India is low. This could be due to India being a leading exporter of essential commodities to Bangladesh. However, amongst Bangladesh's top 30 exports, it has a much higher RCA with China than India. However, exports to the Chinese market are meagre.

Table 5: Bangladesh Top Export Products Level RCA with China and India

HS 4-digit level Commodities	Bangladesh Exports to China	China Total Imports	RCA China market	Bangladesh Exports to India	India Total Imports	RCA India market	Global Export
6109: T-Shirts, knitted or crocheted	120.4	955	1.01	30.3	87	0.26	46,800
6203: Men's or boys' suits, jackets, trousers	123.0	1,088	0.94	145.0	216	1.11	51,373
6110: Jerseys, pullovers, knitted or crocheted	60.5	1,192	0.45	24.8	75	0.17	57,192
6204: Women's or girls' suits, jackets, dresses	87.4	1,088	0.56	41.6	130	0.24	67,341
6205: Men's or boys' shirts	35.3	253	0.98	76.8	108	2.14	14,111
6104: Women's or girls' suits, knitted or crocheted	18.4	397	0.20	10.7	48	0.12	25,640

31 To calculate the bilateral RCA index, please see Balassa, (1965). If RCA > 1, in which Bangladesh has a comparative advantage in exporting that product to India/China; and B Balassa, "Trade liberalisation and revealed comparative advantage", The Manchester School, 33(2), 1965: pp. 99-123, https://doi.org/ https://doi.org/10.1111/j.1467-9957.1965.tb00050.x.

6201: Men's or boys' overcoats, & articles	35.3	609	0.84	4.2	30	0.10	16,505
6108: Women's panties, knitted or crocheted	3.0	79	0.09	6.3	22	0.19	12,911
6105: Men's or boys' shirts, knitted or crocheted	9.3	174	0.43	11.2	32	0.51	8,563
6202: Women's or girls' overcoats, and articles	10.9	594	0.21	2.0	14	0.04	19,342
5307: Yarn of jute or textile bast fibres of 53.0	84.0	85	61.96	51.3	54	37.48	540
6206: Women's or girls' blouses, shirts	7.3	142	0.23	5.9	33	0.19	12,517
6403: Footwear, with rubber, plastics, leather	33.3	2,254	0.24	1.0	72	0.01	54,151
6103: Men's suits, ensembles, knitted or crocheted	14.0	284	0.42	8.1	42	0.24	13,080
6107: Men's or boys' briefs, knitted or crocheted	9.0	63	0.48	2.5	9	0.13	7,318
6212: Brassieres, girdles, corsets, braces, garters	1.0	157	0.03	13.3	60	0.45	11,728
6302: Bed linen, table, toilet & kitchen linen	6.3	95	0.12	0.1	7	0.00	20,052
6210: Garments, made up of fabrics of 56.02, 56.03, 59.03, 59.06 or 59.07	5.9	102	0.23	0.2	16	0.01	10,316
6111: Babies' garments, cloths, knitted or crocheted	11.4	112	0.59	3.5	39	0.18	7,492
0306: Crustaceans, fresh, chilled or frozen	62.1	7,027	0.83	0.0	35	0.00	29,529
6211: Track suits, ski suits and swimwear;	10.4	434	0.29	0.8	10	0.02	14,222
6209: Babies' garments and clothing accessories	9.4	30	1.61	2.8	23	0.49	2,297
4202: Trunks, suit-cases; handbags, leather items	38.8	3,552	0.21	27.9	437	0.15	74,514
6505: Hats and other headgear, knitted or crocheted	2.1	68	0.15	2.3	16	0.16	5,684
6305: Sacks and bags, used for packing goods	0.7	28	0.05	17.9	50	1.29	5,446

6102: Women's or girls' overcoats articles, knitted	0.9	47	0.10	0.8	5	0.10	3,463
6404: Footwear with rubber, plastic, leather soles	2.3	2,099	0.02	10.2	322	0.10	42,473
5303: Jute, etc. (excl. flax.)	17.4	18	39.25	47.2	47	106.90	174

Source: Authors Calculation from UN COMTRADE data (2020)

Why Non-Tariff Measures and Trade Facilitation Matter

Although China and India are vast markets and Dhaka has a huge comparative advantage in many products, Bangladesh's exports to these neighbours are relatively low. Having said that, there is significant and unrealised potential.

Against this backdrop, this Scan explores the NTM scenario in these markets. NTMs are policy measures other than customs tariffs that have the potential of affecting international trade. NTMs comprise all policy-related trade costs that arise from production to the final consumer, apart from tariffs.[32] Under the United Nations Conference on Trade and Development (UNCTAD) NTMs classification, 15 out of the 16 NTMs relate to imports. There are three technical measures: technical barriers to trade (TBT), sanitary and phytosanitary measures (SPS) and pre-shipment inspection. Twelve NTMs are non-technical measures under this classification while three measures are called antidumping contingency measures, countervailing duties and safeguards. However, 85 per cent of measures that have been reported to the World Trade Organization (WTO) are related to the SPS and the TBT.[33]

Both China and India offer generous tariff reductions on imports from Bangladesh under either the APTA or the SAFTA. Bangladesh has been exporting almost all products to India under zero duty tariffs. Recently, China offered tariff elimination on 97 per cent of Bangladesh's exports to the country. Although China and India's tariffs on Bangladesh's goods are low to zero, they have been increasing the rates through different forms of NTMs every year. The recent COVID-19 pandemic has accelerated the number of NTMs by both giants.

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32 Deep Regional Integration and Non-Tariff Measures: A Methodology for Data Analysis Policy Issues in International Trade and Commodities Research Study, Series No 69, UNCTAD (2015), https://unctad.org/system/files/official-document/itcdtab71_en.pdf.

33 TBT Information System, WTO, http://tbtims.wto.org/en.

Table 6: The Trend of Chinese and India NTM on Imports from Bangladesh

	Chinese NTM on Bangladesh			Indian NTM on Bangladesh		
Year	Harmful Interventions	Liberalising Interventions	Total	Harmful Interventions	Liberalising Interventions	Totalt
2009	18	12	30	9	5	14
2010	10	9	19	16	6	22
2011	13	8	21	13	25	38
2012	13	5	18	13	16	29
2013	10	7	17	20	3	23
2014	16	13	29	12	3	15
2015	33	16	49	20	5	25
2016	20	23	43	17	3	20
2017	19	24	43	10	2	12
2018	22	12	34	21	3	24
2019	1	2	3	8	1	9
2020	1	8	9	9	2	11
Total	**176**	**139**	**315**	**168**	**74**	**242**

Source: Global Trade Alert 2020

Table 6 shows that China has imposed about 315 different NTMs whereas India has imposed 242 NTMs on imports from Bangladesh – most of these are harmful to Bangladesh exports, according to the Global Trade Alert 2020. The COVID-19 pandemic has accelerated the rate of NTMs exponentially in 2020.

Table 7 shows a product-level NTM index of China and India on their imports. Three indices are commonly used to explain the extent and influence of NTMs. The Frequency Index (FI) is used primarily to show the percentage of products affected by one or more NTMs. On the other hand, the Coverage Ratio (CR) indicates the share of trade affected by NTMs, as one product could be affected by more than one NTM. The Prevalence Score (PS) identifies how many NTMs apply to a given number of products.

Both the FI and CR are almost one for Chinese imports, which indicates that China imposes NTMs on almost every one of its imported products – from agricultural to textiles. Compared to China, India places a lower number of NTMs on its imported products (Table 7).

All three NTMs indices, including the FI, CR and PS for India, are much lower than China. Although India's weighted average applied tariffs are comparatively higher compared to Chinese import tariffs, Indian NTMs seem to be lower than Chinese NTMs.

Table 7: Chinese and Indian NTM Index (Imports)

Products	China			India		
	FI	CR	PS	FI	CR	PS
1. Animal	100	100	25	79	86	8
2. Vegetable	100	100	24	97	100	11
3. Food	100	100	24	100	100	11
4. Mineral & Fuels	90	98	5	27	71	1
5. Chemicals	69	76	8	23	24	1
6. Plastics & Rubbers	71	64	7	3	3	0
7. Hides & Leather	100	100	12	37	49	1
8. Wood	68	91	6	5	30	0
9. Textiles	99	100	3	100	100	3
10. Footwear	74	90	4	21	4	0
11. Stone & Glass	82	79	5	3	32	0
12. Metals	97	97	4	15	27	0
13. Electrical	100	100	6	16	13	0
14. Transportation	100	100	5	68	41	1
15. Miscellaneous	89	99	5	6	6	0

Source: UNCTAD (2021), https://trains.unctad.org/forms/Analysis.aspx,
Note: Frequency Index (FI), Coverage Ratio (CR), Prevalence Score (PS)

This analysis indicates that agricultural products are affected by more measures, compared to industrial products. Table 7 shows China imposes much higher NTMs on its imports, compared to India. China imposes more than one NTM on all its imported products. This indicates that although import tariffs have been reduced, NTMs are the main export barriers to China and India.

Table 8: Product-wise Chinese and Indian NTM on Imports from Bangladesh

Indian NTMs Importing from Bangladesh			Chinese NTMs Importing from Bangladesh		
Product Code	**Product Name**	**No. of Harmful Measures**	**Product Code**	**Product Name**	**No of Harmful Interventions**
282	Apparel, except fur	53	461	Electric motors, generators, transformers	43
271	Made-up textile articles	51	282	Apparel, except fur apparel	31
019	Fibre crops, plants beet, forage plant, flower seeds, rubber, tobacco, vegetables	29	469	Other electrical equipment and parts thereof	27
263	Textile yarn and thread of natural fibres	24	354	Chemical products	11
292	Luggage, handbags; saddlery and harness; articles of leather	22	392	Non-metal wastes or scraps	11
265	Woven fabrics (except special fabrics) of natural fibres other than cotton	22	483	Optical instruments & photographic equipment	9
352	Pharmaceutical products	21	346	Fertilisers and pesticides	8
291	Tanned or dressed leather; composition	21	381	Furniture	8
392	Non-metal wastes or scraps	21	042	Fish live, fresh or chilled for human consumption	8
293	Footwear, leather or textile materials	21	393	Metal wastes or scraps	7
266	Woven fabrics (except special fabrics) of cotton	21	846	Broadcasting, programming, and distribution services	5
464	Accumulators, primary cells and batteries	19	352	Pharmaceutical products	5
296	Parts of footwear; removable insoles, heel cushions	17	482	Instruments and appliances for testing, navigating	5
272	Carpets & other textile floor coverings	17	043	Crustaceans, live, fresh or chilled	5
461	Electric motors, generators, transformers	16	161	Chemical & fertiliser minerals	5
273	Twine, cordage, ropes and cables, and articles	15	843	Online content	5
393	Metal wastes or scraps	15	844	News agency services	5
012	Vegetables	14	342	Basic inorganic chemicals	5
239	Food products n.e.c.	14	961	Audio-visual services	4
212	Prepared and preserved fish, crustaceans, molluscs, aquatic	14	962	Performing arts, live entertainment, presentation services	4
499	Other transport equipment and parts thereof	14	836	Advertising services and provision of advertising	4

384	Sports goods	13	963	Services of performing and other artists	4
389	Other manufactured articles	13	474	Goods of classes 4721 to 4733 and 4822	4
381	Furniture	12	838	Photography and photo processing services	4
216	Vegetable oils	12	964	Museum and preservation services	4
364	Packaging products of plastics	12	499	Other transport equipment and parts thereof	4
471	Electronic valves and tubes, electronic components, parts	11	415	Semi-finished products of copper, nickel, aluminum, lead, zinc, and tin, alloys	4
281	Knitted or crocheted fabrics	11	347	Plastics in primary forms	3
385	Games and toys	11	271	Made-up textile articles	3

Source: Author's calculation from Global Trade Alert (2021)

Table 8 shows the product-wise NTMs imposed by India and China on imports from Bangladesh. Most of the Indian NTMs are on the textiles and apparel sectors, which are the main export items for Bangladesh. Table 8 illustrates that 80 per cent of the NTMs are imposed on apparel sector imports from Bangladesh. India has also imposed many NTMs on pharmaceutical, footwear and agricultural products from Bangladesh. Historically, the Indian agricultural sector is highly protective, and the average applied MFN tariff was about 61 per cent in 2020, while Bangladesh's average applied tariff rate was about 12.5 per cent in the same year.[34]

On the other hand, Chinese NTMs are mostly placed on the import of electronics machinery and chemical items, which are not the main export items of Bangladesh. Although China has imposed some NTMs on apparel items, these are much less than those by India, which indicates that Bangladesh has a vast advantage in exporting apparel products to the Chinese market, compared to the Indian market.

[34] Tariff Profiles, WTO, https://www.wto.org/.

Bangladesh is one of the top jute producers and exporters globally, as the country has substantial comparative advantages in jute production and exports. Its main jute export market is India. However, India imposed an anti-dumping duty, ranging from US$19 to US$351 per tonne (S$26 to S$478 per tonne), on Bangladesh's jute yarn/twine, hessian and sacking bags in January 2017.[35] Bangladesh exported about US$816 million (S$1.1 billion) worth of jute and jute products to India in 2018, which dropped to US$650 million (S$885 million) in 2019 due to the anti-dumping duties. Dhaka has been unable to convince New Delhi to eliminate the anti-dumping duties on jute good imports from Bangladesh and has since lodged an appeal with the WTO.

Trade Facilitation Matters

The Trade Facilitation Agreement (TFA) is one of the key WTO agreements to simplify and harmonise the export and import processes to reduce trade costs. Bureaucratic delays, customs inefficiency and red tape pose a huge burden for the trading of goods across borders. The WTO has reckoned that the full realisation of the TFA could slash trade costs by an average of 14.3 per cent and improve global trade by up to US$1 trillion (S$1.36 trillion) per year, with the biggest gains taking place in the poorest countries.[36]

A detailed trade facilitation update is presented in Appendix I. Bangladesh has only implemented five TFA measures while 22 are partially implemented. There are another 17 trade facilitation measures in the planning stage while nine measures are not implemented at all. On the other hand, the Chinese have already implemented most of the trade facilitation measures as described by the WTO. China has already implemented 26 measures and 24 are partially implemented. Only three measures are not implemented, as shown in Appendix I. India has also improved its performance in implementing the TFAs significantly over the years.

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35 Corrigendum notification on "Anti-Dumping investigation concerning imports of 'Jute Product' viz- Jute Yarn/Twine (multiple folded/cabled and single), Hessian fabric and jute sacking bags from Bangladesh and Nepal reg", 9 February 2017, Directorate General of Anti-Dumping & Allied Duties, Department of Commerce, Ministry of Commerce & Industry, Government of India, https://www.dgtr.gov.in/sites/default/files/Jute%20-%20English%20Corrigendum.pdf.

36 WTO | Trade facilitation.

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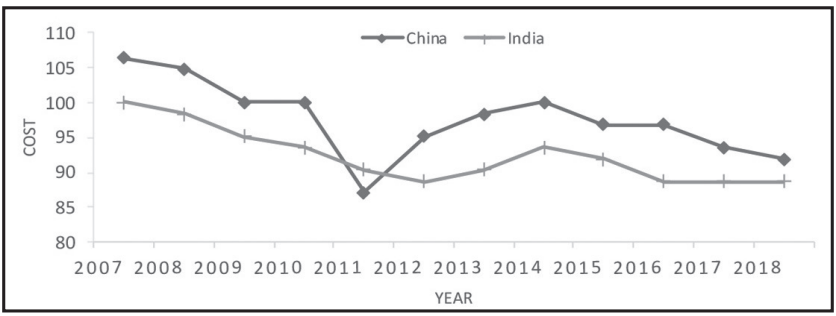
Box 1: Bangladesh's Bilateral Trade Costs with China and India[37]

Rahman & Strutt (2021) investigate the bilateral trade costs of Bangladesh and its major trading partners using the inverse gravity model. Figure 5 reflects that the bilateral trade costs of Bangladesh with China and India have been gradually reduced over the last decade. Bangladesh's trade costs reduced by about 12 per cent in 2018, compared to 2007, with China and India.

The authors find that trading with India and China poses the lowest cost for Bangladesh. Bangladesh has a long traditional trading relationship with China as an APTA partner and with India under the SAFTA and the APTA. The bilateral trade costs analysis signals that Bangladesh's trade costs have decreased moderately over the decade, which might be due to reduced tariffs but this requires further investigation to understand the determinants of the trade costs.

Figure 5: Bangladesh's Trade Costs with China and India over the Decade (2007-2018)



Source: Rahman & Strutt (2021)

[37] Rahman, M M and Strutt, A, "Trade Restricting Impact of Non-Tariff Measures in Bangladesh", Journal of the Asia Pacific Economy, 2021, https://www.tandfonline.com/doi/abs/10.1080/13547860.2021.1963043.

The implementation status of the trade facilitation measures indicates that Bangladesh's domestic trade facilitation measures are critical barriers to export. Improved trade facilitation and seamless connectivity have created a huge supply chain in East Asia. Bangladesh is significantly behind in implementing trade facilitation measures, compared to its East Asian competitors. Malaysia, Vietnam and Thailand have been implementing most of the trade facilitation measures[38] and are the top-most FDI recipient countries in the Asia Pacific region.

Additionally, Bangladesh ranked 168th out of 190 countries in the Ease of Doing Business index in 2019.[39] Customs clearance at Chittagong port takes about five days, whereas in Vietnam, it clears within two days.[40] Compared to competitors like Vietnam, Malaysia and Thailand, there is a huge gap in many areas – from basic infrastructure to trade facilitation.

Bangladesh needs to deal with its trade facilitation measures and be proactive in the regional integration process, which may boost investors' confidence and enable capitalisation on the benefit of regional integration.

Bangladesh's Market Access to India and China: Issues of Rules of Origin

Bangladesh, China and India are members of the APTA, while Bangladesh and India are members of the SAFTA, BIMSTEC[41] and BBIN sub-regional trade agreement. The tariff concessions are varied in terms of product coverage as well as the margin of preferences under the various agreements. The rules of origin criteria that must be met to be eligible for tariff concessions are slightly different for all these agreements. The margin of preference is higher in the case of the APTA.

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38 Trade Intelligence and Negotiation Adviser (TINA), 2021; https://tina.trade.

39 World Development Report 2020: Trading for Development in the Age of Global Value Chains, Washington, DC: World Bank, 2020, https://doi.org/10.1596/978-1-4648-1457-0.

40 Mohammad Masudur Rahman, "Resilient Supply Chain Initiative: Attracting Japanese Investment to Bangladesh," ISAS Brief No. 813, 12 October 2020, https://www.isas.nus.edu.sg/papers/resilient-supply-chain-initiative-attracting-japanese-investment-to-bangladesh/.

41 The SAFTA is fully functional while BIMSTEC is yet to be functional.

The rules of origin criteria followed in the APTA are given below:

i. In the case of single country content, the value addition requirement is 35 per cent for the least developed countries (LDCs) and 45 per cent for the non-LDCs; and

ii. In the case of regional cumulation, the local content requirement is 50 per cent for the LDCs and 60 per cent for the non-LDCs.

Tariff Concessions and Sensitive Lists under the SAFTA

The Tariff Liberalisation Program (TLP) under the SAFTA commenced on 1 July 2006. Under the first phase of the TLP, all the non-LDCs lowered their tariffs to 20 per cent while the LDCs brought the tariffs down to 30 per cent by 2007. In the second phase of the TLP, the non-LDCs brought the tariffs down from 20 per cent to 0-5 per cent in 2012 (Sri Lanka by 2013) while the LDCs did so by 1 January 2016. This TLP would cover all tariff lines except those reserved in the sensitive or negative lists of the member states. The third phase of the TLP is under negotiation. The sensitive lists comprise products on which the member states do not provide any tariff concession. Recently, the sensitive lists have been revised and 20 per cent of the items from the total number have been withdrawn from the sensitive lists. India has offered duty-free for all except 25 products for the LDCs but there are 614 products under the negative lists for the non-LDCs which would be a major concern for Bangladesh after its LDC graduation.

Rules of Origin under the SAFTA

The rules of origin criteria followed in the SAFTA are given below:

i. In the case of single country content, value addition requirement is 30 per cent plus change of tariff heading (CTH) for the LDCs and 40 per cent plus CTH for the non-LDCs; and

ii. In the case of the South Asian Association for Regional Cooperation cumulation, along with CTH regional content requirement in 40 per cent for the LDCs and 50 per cent for the non-LDCs, with the requirement of 20 per cent value addition in the exporting country.

Impact of the Non-Tariff Measures and Trade Facilitation on Exports

Methodology

In this section, we investigate the impact of Bangladesh's export potential to China and India if the two giants reduce their NTMs and increase trade facilitation. We use the Global Trade Policy Analysis Project (GTAP) framework and model for this analysis. The GTAP is well known for international trade policy analysis. The computable general equilibrium (CGE) model and the GTAP structure are presented in Hertel (1997).[42]

The basic structure of the GTAP database includes industrial sectors, households, governments and global sectors across countries. Countries and regions in the world economy are linked together through trade. Prices and quantities are simultaneously determined in both factor markets and commodity markets. The main factors of production are skilled and unskilled labour, capital, natural resources and land.

We have used the statistic GTAP model and database for the NTM impact and trade facilitation analysis.[43] The approach we use is a well-known "iceberg trade cost" that increases the technical coefficient "import augmenting technical change". Here, the iceberg trade costs "ams" import-augmenting "technical change" variable has been used to represent trade facilitation. The parameter "ams (i,r,s)" has been introduced to handle bilateral services liberalisation as well as other efficiency-enhancing measures that serve to reduce the effective price of goods and services imports.[44] The introduction of this variable facilitates simulation of efficiency improvements such as customs automation or e-commerce. An increase in "import augmenting technical change" confirms a fall in the effective domestic price of goods exported from Bangladesh to partner countries like China and India. We use GTAP version 10, which has the base year of 2014. A detailed sectoral and regional aggregation are presented in Appendix II.

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42 See Hertel Refer (1997) for a full introduction to the database. T W Hertel, "Global Trade Analysis Project: Modelling and applications", Cambridge University Press, 1997.

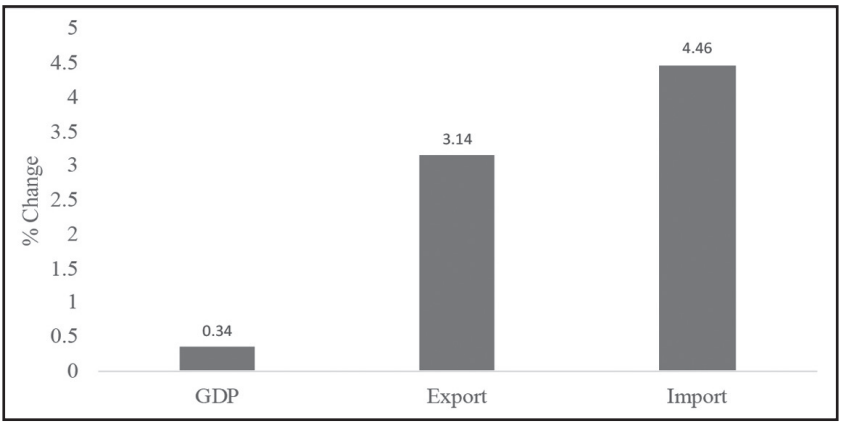
43 Ibid.

44 Rahman, M M, C Kim and P De, "Indo-Pacific cooperation: what do trade simulations indicate?", Economic Structures 9:45, 2020, https://doi.org/10.1186/s40008-020-00222-4.

Simulation Results

The economic effects of the trade facilitation simulations are presented in Figure 6. The results show that if India and China reduce their NTMs, Bangladesh is expected to experience a considerable gain in real GDP, exports and imports. The real GDP could be increased by 0.34 per cent and exports may increase by 3.14 per cent. Bangladesh imports will also increase.

Figure 6: Impact on Chinese and Indian NTM Reduction and Trade Facilitation on Bangladesh



Source: Author's calculation

Table 9 shows Bangladesh's sectoral export potential to China and India. If trade facilitation increases by 50 per cent, Bangladesh's export to China and India will increase significantly. The simulations show that the impact of textiles and apparel exports to the two markets will not increase significantly, compared to the other sectors. As the textiles and apparel sector is one of the biggest sectors for China and India, Bangladesh has a lower comparative advantage than these two giants exporting readymade garments products.[45] Light manufacturing and agricultural sectors are the main competitive sectors of Bangladesh's exports to its neighbours. Therefore, the elimination of NTMs will increase the exports of light manufacturing and the agricultural sector from Bangladesh.

[45] China's textile and clothing industry is the largest manufacturer and exporter in the world, while India is the third-largest exporter globally.

Table 9: Bangladesh's Potential Exports to Chinese and Indian Market (% Change)

Sectors	China	India
Grains & crops	2.78	2.94
Meat & livestock	5.34	5.56
Processed food sector	3.56	3.68
Textiles & apparel	0.02	0.32
Light manufacturing sector	5.72	5.84
Heavy manufacturing sector	3.9	4.08

Source: Author's calculation

Concluding Thoughts

Conventionally, when two elephants fight, the grass suffers. However, the China-India rivalry has created enormous opportunities for the smaller South Asian countries. Bangladesh has been quite successful in balancing ties with these titans. Dhaka's current strategy is to get political support from India and financial support from China. However, this may not be sustainable in the future. China has become Bangladesh's top trading partner, especially being the main importing country – Beijing accounts for about 30 per cent of Bangladesh's total imports. India is the second-biggest trading partner of Bangladesh and its second largest import partner.

Bangladesh imports almost similar products from India and China which are mostly cotton, vehicles and trains, nuclear reactors and heavy machinery. Bangladesh's main exports to India and China are garments, textiles products and several agricultural products, including jute and leather.

Bangladesh has a huge a comparative advantage in the apparel, jute and leather sectors, and, at the same time, both countries offer generous tariffs elimination to imports from Bangladesh. However, various NTMs and a lack of trade facilitation are mounting barriers in exporting to the giants' markets. Indian anti-dumping duty on jute and jute products from Bangladesh is an example of recent NTMs. Although Bangladesh has enormous potential for exports to these markets, it remains largely unrealised due to NTMs and trade facilitation. The computable general equilibrium modelling simulations indicate that if India and China reduce their NTMs through the harmonisation of rules and increased trade facilitation by 50 per cent, Bangladesh's exports may increase by 3.14 per cent to these two markets.

Both countries are the main sources of investments in mega projects in Bangladesh, ranging from power plants to tunnels under rivers. Chinese investments accounted for about US$40 billion (S$54.48 billion) under different projects when Xi visited Dhaka in 2016 as Bangladesh joined the BRI. In contrast, Indian project loans and project investments are much lower. According to the UNCTAD World Investment Report released in 2020, Chinese global FDI outflow was

US$117 billion (S$159.34 billion), whereas Indian FDI outflow was only US$12 billion (S$16.34 billion) in 2019. Bangladesh is striving to attract FDI while both China and India want to extend their influence through investments and connectivity. While Bangladesh is actively trying to capitalise on the opportunity by attracting their investments, it may become a passive victim of the India-China rivalry. To curb dependency on Indian and Chinese investments, Bangladesh is seeking alternative sources, especially through attracting Japanese investments.

Modi visited Dhaka in 2021 to commemorate the 50th year of the independence of Bangladesh and signed more than 50 agreements, ranging from trade and commerce to security. However, the sharing of the Teesta River water has consistently been a point of contention between Dhaka and New Delhi. Concurrently, the Chinese government has proposed a massive Teesta River development project which is another concern for India.

Recently, the China-India strategic rivalry has been intensified due to their border conflict. Australia, India, Japan and the US have developed the Quad to tackle Chinese influence in the region. Moreover, most of the Asian countries, including Japan, South Korea, Singapore and Taiwan, are looking for alternative investment opportunities, either in a 'China exit' or a 'China plus' strategy. Both China and India have their own interests in the region.

In an effort to avoid any conflict or becoming a passive victim of this geopolitical competition, Dhaka should stress on its foreign policy principle of 'Friendship towards all, malice towards none' and use its strategic position tactfully without swaying one way or the other. Maintaining good working relations with both India and China is vital for Bangladesh's sustainable economic growth. At the same time, Bangladesh should attract FDI from other markets and attempt at regional integration with the Asian countries as Dhaka has both geopolitical and economic advantages in the Asia Pacific region.

Appendices

Appendix I: WTO's Trade Facilitation Measures Implementation Status

Trade Facilitation Measures	Bangladesh	China	India
1. Formulation of National Trade Facilitation Committee	Fully Implemented	Partially Implemented	Fully Implemented
2. Online publication of import-export rules and regulations	Partially	Fully	Partially
3. Stakeholders' consultation on new draft regulations	Partially	Partially	Fully
4. Proper notification of new regulations before implementation	Partially	Fully	Fully
5. Advance ruling on tariff & rules of origin	Fully	Fully	Fully
6. Risk management analysis	Planning stage	Fully	Fully
7. Pre-arrival processing of the shipment	Partially	Fully	Fully
8. Post-clearance audits service	Partially	Fully	Fully
9. Independent appeal mechanism	Partially	Fully	Fully
10. Separation of release from final customs duties	Fully	Fully	Fully
11. Publication of average release times	Fully	Partially	Fully
12. Trade facilitation measures for authorised operators	Planning Stage	Fully	Fully
13. Expedited shipments	Planning Stage	Fully	Partially
14. Acceptance of copies of original supporting documents required for trade	Fully	Partially	Partially
15. Automated customs system	Partially	Fully	Fully
16. Internet available to customs	Partially	Fully	Fully
17. Electronic single window system	Planning Stage	Partially	Partially
18. Online submission of customs declaration	Partially	Fully	Partially
19. Online application & issuance of both import & export permits	Planning Stage	Partially	Partially
20. Online submission of ocean cargo manifests	Partially	Fully	Fully
21. Electronic submission of air cargo manifests	Partially	Fully	Fully
22. Online application & issuance of Certificate of Origin	Partially	Partially	Planning Stage
23. E-Payment of customs duties, tax and other fees	Planning Stage	Fully	Fully
24. Online application for customs refunds	Not Implemented	Partially	Fully
25. Laws & regulations for electronic transactions	Partially	Partially	Fully
26. Recognised certification authority	Planning Stage	Fully	Fully
27. Electronic exchange of customs declaration	Planning Stage	Partially	Planning Stage

28. Electronic exchange of certificate of origin	Not Implemented	Partially	Planning Stage
29. Electronic exchange of sanitary & phyto-Sanitary certificate	Not Implemented	Partially	Partially
30. Paperless payment from a documentary letter of credit	Planning Stage	Partially	Not Implemented
31. National legislative framework for border agencies cooperation	Partially	Fully	Fully
32. Government agencies delegating controls to Customs authorities	Planning Stage	Not Implemented	Not Implemented
33. Alignment of working days & hours with neighbouring countries	Planning stage	Partially	Partially
34. Alignment of formalities & procedures with neighbouring countries at border crossings	Planning Stage	Partially	Partially
35. Transit facilitation agreements	Partially	Partially	Partially
36. Limiting physical inspections of transit goods	Partially	Partially	Partially
37. Supporting pre-arrival for transit facilitation	Planning Stage	Partially	Partially
38. Cooperation between agencies of countries involved in transit	Not Implemented	Partially	Partially
39. Trade-related information measures for SMEs	Partially Implemented	Fully	Partially
40. SMEs in the Automatic Economic Operators (AEO) program	Not Implemented	Fully	Fully
41. SMEs access in the National Single Window	Not Implemented	Fully	Partially
42. SMEs participation in National Trade Facilitation Committee	Not Implemented	Fully	Fully
43. Special measures for SMEs	Planning Stage	Partially	Fully
44. Testing laboratory facilities to meet SPS	Planning Stage	Fully	Fully
45. National standards & accreditation bodies to compliance with SPS	Partially	Fully	Fully
46. Electronic application and issuance of SPS certificates	Partially	Fully	Partially Implemented
47. Special treatment for perishable goods	Partially	Fully	Partially Implemented
48. Female traders in the trade facilitation strategy	Planning Stage	Not Implemented	(Data not available)
49. Female membership in the National Trade Facilitation Committee	Partially	Partially	(Data not available)
50. Single window facilitates traders to access finance	Not Implemented	Partially	(Data not available)
51. Electronic exchange of data between trading partners allow by bank	Not Implemented	Partially	(Data not available)
52. Variety of trade finance services	Planning Stage	Partially	(Data not available)

	Bangladesh	China	India
Fully Implemented	5	26	26
Partially Implemented	22	24	16
Planning Stage	17	0	3
Not Implemented	9	3	2
(Data not Available)	0	0	5

Source: Trade Intelligence and Negotiation Advisor (TINA) 2021

Appendix II: Product and Regional Aggregation of GTAP Dataset

SL	Region Aggregated	GTAP Region	SL	Aggregated Products	GTAP Products
1	China	China	1	Grains Crops (10 products)	Paddy rice, wheat, cereal grains, vegetables, fruit, nuts oil seeds, sugar cane, sugar beet, plant- fibres
2	United States	United States	2	Meat Lstk (8 products)	Cattle, sheep, goats, horses, animal products, meat, raw milk wool, silk-worm cocoons
3	EU25	EU25 Cuntries	3	Extraction (6 products)	Forestry, fishing, coal, oil, gas, minerals
4	Canada	Canada	4	ProcFood (7 products)	Vegetable oils & fats, dairy products, processed rice, sugar, food, beverages & tobacco
5	Australia & New Zealand	Australia & New Zealand	5	Text Wapp (2)	Textiles & clothing
6	India	India	6	LightMnfc (7)	Leather products, wood products, paper products, publishing, motor vehicles, transport equipment, manufacturers NEC, metal products
7	Japan	Japan	7	HeavyMnfc (11)	Electronic items, machinery and equipment, petroleum, coal, rubber, plastic products, mineral products, ferrous metals, chemical products
8	ASEAN	ASEAN	8	Util & Cons (4)	Electricity, gas manufacture and distribution, water and construction service
9	Korea	Korea	9	Trans Comm (6)	Trade, transport, land, sea & air transport communication, accommodation and food service, warehousing and support activities
10	Latin America	All Latin America	10	Other Services (6)	Financial services, business services, recreation, pub admin, defence, health, education, dwellings, real estate activities
11	Bangladesh	Bangladesh			
12	Rest of the world	Rest of countries in the GTAP Database			

Source: GTAP version 10

About the Author

Dr Mohammad Masudur Rahman is a Visiting Research Fellow at the Institute of South Asian Studies in the National University of Singapore. He is an international trade economist by training, with over 17 years of work experience in New Zealand, China, Japan, Vietnam, Korea, Switzerland and Bangladesh. His primary research focuses on international trade policy analysis using the Computable General Equilibrium and gravity modelling.

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He has been a consultant for several projects for the International Finance Corporation, United Nations, Asian Development Bank and Korea University of Foreign Studies. Recently, he developed two trade portals – Vietnam Trade and Information Portal and Bangladesh Trade Portal, with support from the World Bank.

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