Bangladesh-China Trade and Economic Cooperation: Issues and Perspectives

A paper prepared as part of the BEI project on Trade and Investment

This paper has been prepared by Dr Mohammad A. Razzaque (Consultant & BEI Project Leader), Jillur Rahman (Economics Department, Jagannath University) and Hamim Akib (Senior Research Associate, Research and Policy Integration for Development).

September 2019

BANGLADESH ENTERPRISE INSTITUTE

Table of Contents

List of Figures

List of Tables

Executive Summary

Background

China has emerged as a global economic superpower having achieved high economic growth sustained for a very long period and in the process becoming the world's largest exporter of and second biggest market of merchandised goods. For suppliers from across global economies, it presents an unprecedented opportunity for export expansion. It has been the largest trading partner of Bangladesh for more than one-and-a-half decades and the bilateral partnership, in recent years, has reached new heights. Bangladesh needs to make the most from a stronger and more integrated trade and economic relationship with China.

Bilateral Trade and Investment Flows

The value of bilateral trade between the two countries was $12.5 billion in 2017-18 with Bangladesh's exports to China being less than $1 billion. China accounts for more than one-fifth of Bangladesh's total imports although its share in Bangladesh's exports is very small: just above 2 per cent.

Apparel items – knitwear (HS 61) and woven garments (HS 62) – account for more than 60 per cent of Bangladesh's exports to China. Amongst others, jute yarn and textile fibres (HS 53), fish and crustaceans (HS 03) and leather and leather goods (HS 41 and 42 and 6403) are major export items.

Between 2009 and 2019, worldwide overseas investment and construction activities by Chinese state-owned enterprises (SOEs) and private companies accumulated to a staggering $1.78 trillion, much of which was under the Belt and Road Initiative (BRI). Bangladesh is also a key BRI participant country, and one of the proposed economic corridors of this initiative from Kolkata (in India) to Kunming (in China) is supposed to go through Bangladesh. The cumulative Chinese investment pledged (through SOEs, private FDIs, and concessional loans) for Bangladesh during 2009-2019 is about $27.5 billion. This pledged amount is bigger than those for Vietnam and Cambodia. But, in terms of disbursements, Vietnam has received way more than Bangladesh, particularly as foreign direct investment. The realized FDI in Bangladesh from China amounts to just around $2 billion, or 7.3 per cent of all pledged investments over the past decade.

Very recently, China has overtaken the USA as the largest source of net FDI inflows into Bangladesh. In 2018-19, China sourced about one-third of the FDI inflow, amounting $1.16 billion. The power and energy sector has been main focus of Chinese FDI. Textile and apparel, leather, construction, and

trading are other major areas of their investment activities, while non-conventional sectors such as agro-processing and digital commerce platforms are also becoming important. China's investment in Bangladesh's readymade garment sector is still relatively small: only 5 per cent of the total FDI stock in the sector.

Current Trade and Economic Cooperation Arrangements

The bilateral relationship between Bangladesh and China are manifest in multilateral, and regional trading and economic cooperation arrangements where two countries are co-signatories. The Asia Pacific Trade Agreement (APTA) is an important avenue for Bangladesh-China trade cooperation. Under APTA, China provided duty-free and quota-free (DFQF) market access to 83 Bangladeshi products (at the HS 8-digit level). As China introduced a duty-free and quota-free (DFQF) market access programme for the least developed countries (LDCs) in 2010, APTA concessions and LDC benefits together enabled Bangladesh obtaining tariff-free access in approximately 61 per cent Chinese tariff lines. However, as many as 39 other comparator LDCs enjoy such preferences for at least 95 per cent of products. The Government of Bangladesh is currently pursuing this improved LDC market access package.

The Bangladesh-China-India-Myanmar Forum for Regional Cooperation (BCIM), which is supposed to connect China's Yunnan province with West Bengal in India through Mandalay (in Myanmar) and Dhaka, was meant to be a complete network and expressway to facilitate trade in goods and services within the sub-region of South Asia to Southern East Asia. From Bangladesh's perspective, FDI inflows and infrastructure development through BCIM would be important for improved regional connectivity and expanded economic activities. According to one estimate, Bangladesh's real income gains will have been 6.9 per cent of GDP and exports will have grown by 86 per cent due to BCIM-led connectivity between the two Asian sub-regions. However, the progress on the BCIM economic corridor has not been materialised.

The Belt and Road Initiative (BRI) is another avenue for strengthening economic integration with China and other East Asian countries. As BRI activities have been subject to a great deal of criticisms across the world, Bangladesh should draw lessons in deriving benefits. Bangladesh should engage to ensure transparency of the projects (including terms and conditions) and due implementation in a timely manner. According to one estimate, since 2016 China pledged around $24 billion in 27 BRI projects, while the actual disbursement until September 2019 was less than 5 per cent of the commitment.

Bangladesh's Export Potential and Market Prospects in China

Geographical proximity and sizes of economies of China and Bangladesh would tend to suggest huge potential for bilateral trade. Bangladesh should ideally be exporting more to many Asian countries with India and China being the markets where very large export potentials remain unutilised. Estimation of a gravity model – an analytical workhorse most popularly used in predicting bilateral trade flows between countries – shows that Bangladesh is exporting about $2 billion less to China than what can be predicted. Using the product level data (at HS 6-digit level), the results from applying a more refined methodology due to the International Trade Centre (ITC) shows that Bangladesh is utilising just 30 per cent of its export potential in China. Bangladesh's apparel products are found to have a potential market worth of $1.5 billion, of which just about one-third is being utilized. In leather, footwear, jute and frozen fish items, the combined untapped market opportunities are estimated at $220 million. While these model-based estimates make use of current supply-side capacities in determining export prospects, in reality export potential in China should be much greater.

A comparative export prospect analysis considering market shares of rival suppliers reveals that the Chinese market is highly diversified in terms of sources of imports. Bangladesh has some considerable market shares in woven and knitwear products. However, Bangladesh accounts for only 0.05 per cent of all imports into China, while the corresponding shares of market leaders are as follows: the Republic of Korea – 9.6 per cent, Japan – 8.6 per cent, Chinese Taipei – 8.4 per cent, and the United States – 7.3 per cent. Among developing countries, Brazil (3.6%), Malaysia (3.0%), Vietnam (3.0%), and Indonesia (1.6%) are prominent exporters. Over the past several years, Bangladesh's exports to China have grown at an annual rate of just 6 per cent, which has been lower than that of many other developing countries including Cambodia and Myanmar. Given the sheer size of the Chinese market, even a small increase in market share would generate huge export earnings for Bangladesh.

Bangladesh currently has a market share of 7 per cent in knitwear and 8 per cent in woven items. In these product categories, Cambodia, India, Indonesia, Myanmar, Pakistan and Vietnam are prominent rivals of Bangladesh. The Chinese apparel market, currently worth $322 billion, is getting bigger every year, and is expected to soon become the largest market replacing the United States (worth about $350 billion). 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 per cent against its overall world export growth rate of 7.4 per cent. However, exports from Cambodia, Indonesia and Vietnam grew even faster.

Towards a Strengthened Bilateral Trade and Economic Cooperation

This paper highlights significant scopes for expanded trade and economic cooperation between Bangladesh and China. It provides several possible options for enhancing Bangladesh's export prospects in China.

- Bangladesh enjoys duty-free, quota-free market access in 61 per cent of tariff lines under the China's LDC preference scheme and the APTA arrangement. In about 11 per cent of Chinese tariff lines, the MFN tariff rates range 10–14.9 per cent, while another 14 per cent attract tariffs of more than 15 per cent. Bangladesh has made a request to have the tariff preference coverage extended to at least 95 per cent, which China is currently providing to many other LDCs. This is an issue that needs to be pursued further under the current bilateral engagements. It needs to be pointed out that compared to major global markets, China's MFN tariffs are high. Consequently, differential tariff advantages due to market access preferences in China are much higher. Securing a greater tariff-free coverage in China can greatly help generate enlarged export supply response from Bangladesh.

- Considering MFN duties in China vis-à-vis Bangladesh's current export structure, it can be worked out that after LDC graduation more than 42 per cent of Bangladesh's exports to China will be subject to 15–20 per cent tariff. Another 35 per cent exports will fall under the tariff range 10–14.9 per cent. Therefore, the impending graduation will have implications for Bangladesh's competitiveness in China. A partial equilibrium model-based simulation exercise seems to suggest that exports to China could be subject to an adverse shock of 12.5 per cent (i.e. about $125 million) of the current export receipts if Bangladesh loses the LDC-specific preferential access. Bangladesh should therefore ask China to consider measures including, following the EU example, granting of an extended transition period after graduation.

- The likely rapid escalation in tariffs after graduation is going to be a major issue for Bangladesh. For example, many exporters of apparel products in particular, will see tariffs facing their product rising from zero to 14 – 16 per cent. The abrupt tariff hikes cannot be helpful to smooth graduation. This paper therefore argues for a gradual phasing out of tariff preferences post-graduation. Ideally, the gradual phase out should be preceded by an extended transition period. Bangladesh could propose complete phasing out of preferences over a period of five years after the extended transition period. This could imply curtailing 20 per cent preference in each year beginning from 2027 and ending in 2032.

- Establishing a full-fledged free trade area (FTA) is an option to retain the available market access in China, but it comes with reciprocity, i.e. offering the FTA partner similar preferential treatment. As the initial export base for Bangladesh is small, the potential impact of an FTA, as derived from any quantitative model, is likely to be small. An estimation utilising a widely used partial equilibrium model shows that a complete liberalization of all tariffs under a bilateral FTA would have an overall positive impact on Bangladesh's exports by about $200

million, i.e. 22 per cent of current exports to China. On the other hand, Chinese exports could increase by $2 billion, which is about 16 per cent of current imports from China.

- There is some concern that an FTA with China will trigger import surges with consequent loss of import revenues. However, around 30 per cent of Chinese imports into Bangladesh are through bonded warehouses and are used as intermediate inputs for export-oriented enterprises. As tariffs on these products are already zero, the revenue concerns are likely to be exaggerated. The paper proposes a comprehensive approach to a bilateral engagement, which should include an extended transition period following LDC graduation, a gradual phasing out of tariff preferences covering a period of five years, and finally – between now and the end of the transition period – both countries should negotiate a free trade agreement.

- Bangladesh should aim to strengthen bilateral ties with China with the objective of attracting foreign direct investment. Chinese FDI will be important for enhanced global value chain participation and promoting emerging sectors that are increasingly becoming an important determinant of export success. Since Chinese companies have global dominance in R&D, retailing and other GVC activities, Bangladeshi suppliers can benefit from joint ventures. Besides, measures to incentivise more Chinese investments in technology-intensive sectors will be helpful in the overall digital transformation of the country.

- As part of industrial restructuring and shifting comparative advantages, China is leaving space for other countries to enter the global export market by specializing in some relatively labour-intensive and less-skilled manufacturing activities. 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 given the rising production costs and uncertain prospects in the aftermath of China's trade tensions with the USA. This opens a new window of opportunity for Bangladesh to attract and facilitate FDI in garment manufacturing, amongst others.

- Bangladesh can benefit from BCIM and BRI initiatives through infrastructural development and improved connectivity. However, the implementation of these mega-schemes will depend on a complex interplay of extrinsic factors involving the two largest economies of the world (i.e. China and India) with their ever increasing regional and global influence and tensions. Making the most of BCIM and BRI initiatives for Bangladesh will also depend good governance and transparency in project selection, prudent macroeconomic management, judicious handling of geo-political tensions, etc. Bangladesh must avoid any 'debt-traps' by accepting most productive loans only, securing soft terms for repayment, and ensuring effective and timely completion of projects.

- Finally, Bangladesh can immensely benefit from an extended economic cooperation with China through 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 adaptation.

To conclude, building an economic cooperation partnership with China is to be considered an important task for policymakers. This will certainly require continued proactive engagements with

China. 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 and economic cooperation with China can be helpful.

Chapter 1: Introduction

Over the past couple of decades, the People's Republic of China has emerged as a global economic superpower having achieved high economic growth sustained for a very long period of time and in the process becoming the world's largest exporter of merchandised goods. Its rapid structural transformation and development transition to an upper-middle-income country accompanied by a fast-growing and massive urban middle and affluent consumers have also turned it into a major global market, accounting for more than 10 per cent of world imports.[1] For suppliers from across global economies, China presents an unprecedented opportunity for export expansion.

Along with its growing economic and political significance, China has also started proactive engagements with many countries through investment activities. In recent years, advancing connectivity to facilitate trade and promote economic cooperation arrangements has become a priority agenda for Chinese policymakers. Through the Belt and Road Initiative (BRI), China's state-owned enterprises have undertaken trade-related infrastructure development projects at continental scales. At the same time, China's private financers are taking a hands-on investment approach in many developing countries, to look for new trading opportunities created through infrastructural development and attracted by fiscal and financial incentives offered to foreign investors.

China is already the largest trading partner of Bangladesh. However, this trade has been overwhelmingly dominated by Bangladesh's imports from China. Chinese products account for more than one-fifth of Bangladesh's total imports. On the contrary, China's share in Bangladesh's exports accounts for only about 2 per cent. Therefore, exploiting the Chinese market in expanding exports constitutes one important policy consideration. Bangladesh's economy has also expanded considerably through robust economic growth of the past decade and the medium-term growth momentum looks quite solid. Due to geographical proximity, competitive labour costs, a reasonably sizeable manufacturing production capacity in the country, vis-a-vis rising production costs in China, is regarded as an important opportunity for attracting Chinese investors in Bangladesh and building a productive bilateral economic partnership.

As Bangladesh is firmly set to graduate from of the group of least developed countries (LDCs) by 2024, it is of utmost priority for the country to develop bilateral trading and economic cooperation arrangements with other countries to secure a smooth graduation process. From this perspective as well, developing and strengthening trade and investment ties with the second-largest economy of the world is extremely timely. Bangladesh has an opportunity to capitalise on the latest wave of restructuring in China in which the country is shifting towards high value-added and tech-intensive

[1] In 2018, China's imports of merchandise goods were more than $1.8 trillion.

production processes, opening up vast market segments for traditional lower value-added items often facilitated by relocation of firms from to new destinations.

In the above backdrop, this paper analyses emerging patterns and trends of Bangladesh-China trade and economic relationship and considers some options for shaping and strengthening the partnership in a way that should help Bangladesh exploit the market prospects in China and expand domestic supply-side capacity utilizing Chinese investments. The paper highlights various options for Bangladesh's engagement with China in securing a beneficial bilateral trading arrangement in the path to LDC graduation and beyond. Having discussed various aspects of the Belt and Road Initiative, this paper concludes that a deeper economic engagement based on judicious selection of investment projects and their effective implementation will boost productive capacities in Bangladesh.

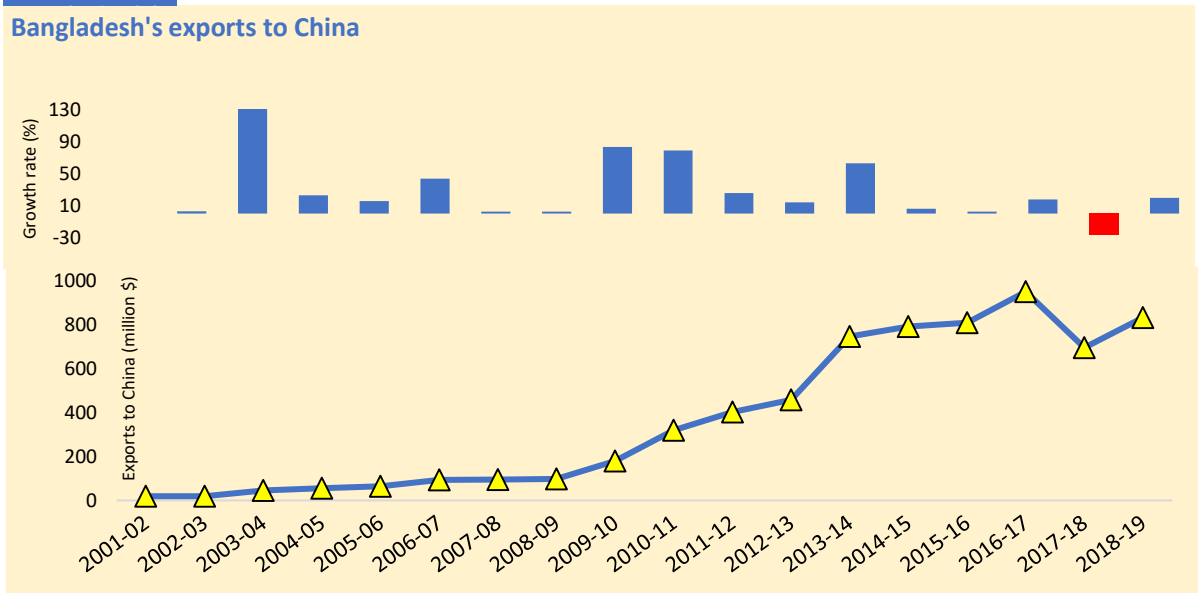
The paper is organised as follows: after this introduction, section II provides the state of current trade and investment flows between the two countries. Section III reviews the existing arrangements of economic cooperation including the Asia Pacific Preferential Trade Agreement (APTA), Bangladesh-China-India-Myanmar Economic Corridor (BCIM), and the Belt and Road Initiative (BRI). Section IV provides an assessment of Bangladesh's overall export potential and market prospects of some selected export products in China. Section V considers several other avenues to strengthen trade and economic cooperation between the two countries. Finally, section VI concludes.

Chapter 2: Bangladesh-China Economic Engagements

2.1 Trade in goods and services

China has long been an important trade partner for Bangladesh, but the bilateral trade flows are mainly driven by Bangladesh's imports from it. Indeed, Bangladesh's exports of merchandised goods to China remained below the $100 million mark until FY2009 (Figure 2.1). The situation started to improve since then with exports reaching a peak of about US$ 950 million in 2016-17. Export receipts tumbled by almost a quarter in 2017-18. Despite some recovery in the following year, earnings were slightly behind the level reached in 2017. China accounts of just 2.38 per cent of Bangladesh's exports.

Figure 2. 1



Source: Authors' representation based on EPB and Bangladesh Band data.

In contrast, China is the largest source of imports, accounting for more than 22 per cent of Bangladesh's total import payments on merchandise goods. In absolute terms, Chinese imports into Bangladesh has risen from less than US$ 4 billion in 2009-10 to almost US$ 12 billion in 2017-18 (Figure 2.2).[2] More than 30 percent of Bangladesh's imports from China are imported through bonded-

[2] Data on Bangladesh's imports from China vary between sources. According to Bangladesh Bank, total imports from China in 2017-18 was $11.7 billion while as per NBR data it was $13 billion (import for home consumption $9 billion and import under bond $4 billion). On the other hand, the ITC data shows Bangladesh imported $17.7 billion from China in 2018.

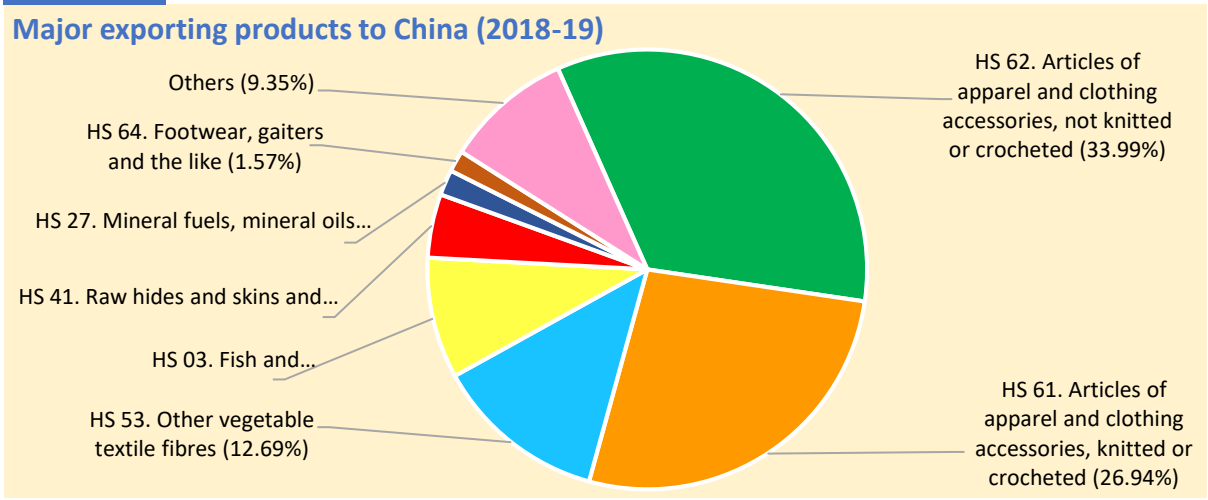
warehouse which are subject to zero tariff. For each broad category of products such as consumers' items, capital and machinery, and raw materials, China has been one of the largest sources of import procurement.

Figure 2. 2

Source: Authors' representation based on Bangladesh Bank data.

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]

Figure 2. 3



Source: Authors' representation based on export data.

[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.

China is simultaneously the world's largest exporter and second-largest importer of apparel items. Woven and knitwear products account for more than 60 per cent of Bangladesh's exports to China (Figure 2.3). Amongst others, jute yarn and textile fibres (HS 53), fish and crustaceans (HS 03) and raw hides, skins and leather (HS 41) have an export share of about 13 per cent, 9 per cent and 5 per cent, respectively. Bangladesh's top ten exported goods are listed in Table 2.1 while major exporting items at six and eight-digit (HS) levels are given in the annex (Table A1 and Table A2).

Table 2. 1 Top ten exporting items at HS two-digit level

HS code	Product description	2011-12		2015-16		2018-19		Average growth 2011-19 (%)
		Exports (million $)	Share (%)	Exports (million $)	Share (%)	Exports (million $)	Share (%)	
62	Articles of apparel and clothing accessories, not knitted or crocheted	57.8	14.4	197.8	24.5	282.6	34.0	26.9
61	Articles of apparel and clothing accessories, knitted or crocheted	46.7	11.6	143.4	17.7	224.0	26.9	28.4
53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn	110.2	27.4	102.2	12.6	105.5	12.7	0.6
03	Fish and crustaceans, mollusk and other aquatic invertebrates	17.7	4.4	34.7	4.3	74.0	8.9	54.2
41	Raw hides and skins (other than furskins) and leather	22.2	5.5	52.1	6.4	38.9	4.7	21.9
27	Mineral fuels, mineral oils-products of their distillation; bituminous substances; mine	0.0	0.0	0.0	0.0	15.6	1.9	..
64	Footwear, gaiters and parts of such articles	2.9	0.7	33.5	4.1	13.1	1.6	40.6
55	Man-made staple fibres	1.4	0.3	2.0	0.3	10.0	1.2	47.4
63	Other made up textile articles; sets; worn clothing and worn textile articles; rags	21.7	5.4	20.9	2.6	9.4	1.1	-7.5
90	Optical, photographic, cinematographic, measuring, precision, medical or surgical	0.0	0.0	9.4	1.2	7.4	0.9	47.5
39	Plastics and articles thereof	41.5	10.3	21.1	2.6	7.0	0.8	-14.2
52	Cotton	6.0	1.5	1.4	0.2	5.0	0.6	37.9
	Total	401.9	100	808.1	100	831.2	100	

Source: Authors' representation based on EPB.

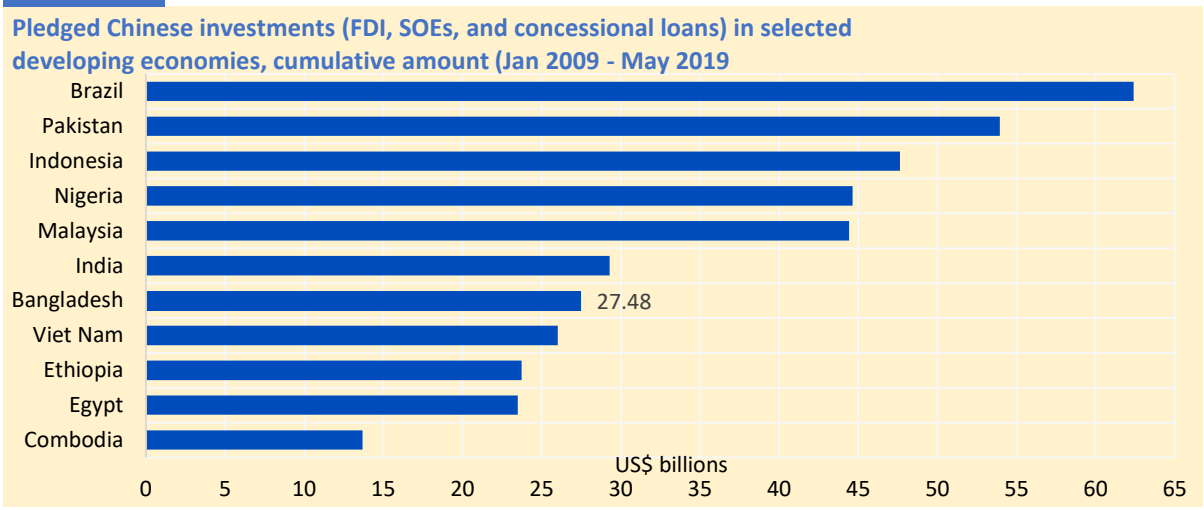
2.2 Chinese investment in Bangladesh

Traditionally, high saving rates of China's households have allowed its economy to generate enormous investment opportunities. Beijing's 'Going Global' strategy opened the door for funds to be invested

overseas.[4] Between 2009 and 2019, the value of overseas investment and construction activities by Chinese state-owned enterprises (SOEs) and private companies accounted for $1.78 trillion (American Enterprise Institute, 2019). Most of these investments have been directed towards the developed world (OECD countries) and a large proportion of fund transfers took place in projects under SOEs. Since the inception of the Belt Road Initiative (BRI), funds have started flowing to the developing markets as well.

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 $27.5 billion (Figure 2.4). However, it is quite difficult to assess how much of this pledged amount has actually been materialised. Because investments coming from the Chinese SOEs absorbed through the government channels, while the data on concessional loans from China are not recorded in the global database of official development assistance.[5] Sectors like infrastructure, transport, and energy have been the key destinations. 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.[6]

Figure 2. 4



Source: Authors' presentation based on the China Global Investment Tracker database, 2019.

Although pledged Chinese investments to Bangladesh look quite substantial, realized FDI inflows account for a small part of it (just around $2 billion, or 7.3% of all pledged investments over a decade). This reflects Bangladesh's erstwhile struggles to attract FDIs. Until the 1990s, the annual average FDI inflow to Bangladesh was a paltry $300 million. Inadequate energy and utility supplies, lack of physical

[4] 'Going Global' is PRC's strategy to encourage its enterprises to invest overseas. To negate the pressure of currency appreciation from large foreign reserves and strengthen China's presence in the global sphere, Chinese policymakers in 1999 came up with the idea of employing foreign reserves for acquiring assets overseas.

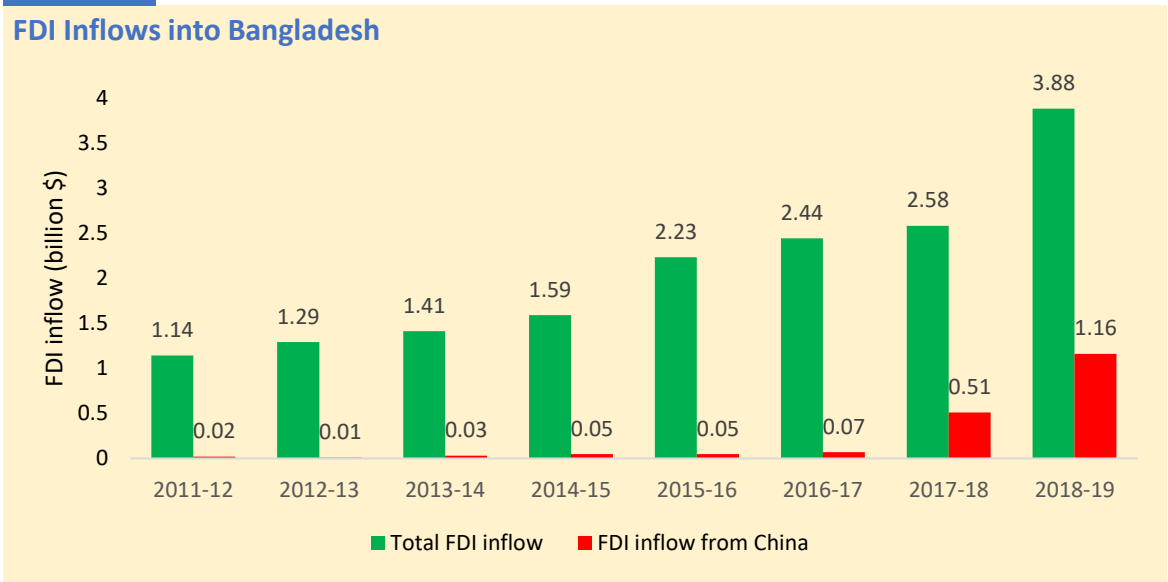
[5] Investigating Bangladesh external debt stock reveals China is the fourth largest debt holder of government debts Bangladesh. Which includes data on concessional loans from Chinese government or Chinese SOEs to government of Bangladesh.

[6] Since 2009, Vietnam has received more than $16 billion as Chinese FDI (Ha, 2019).

infrastructures, unstable political atmosphere concerns, shortage of human capital, and overall high cost of doing business kept Bangladesh as an unfavorable destination for FDIs. Recently, several government measures including attractive incentives for foreign investors, including generous tax holiday exemptions and improvements in infrastructural facilities have had some positive impact. In 2010-11, annual FDI inflows to Bangladesh reached the $1 billion mark for the first time (Figure 2.5).

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.

Figure 2. 5



Source: Based on Bangladesh Bank data.

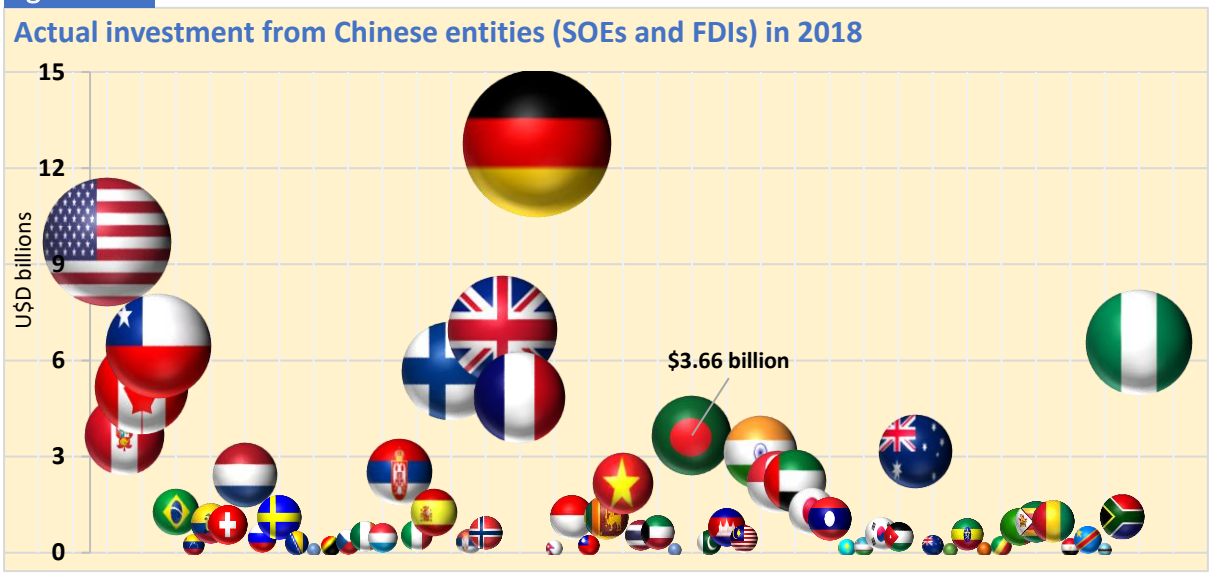
Data from the Bangladesh Bank show that between FY11 and FY17 Chinese investments in the country were worth of $230 million. The situation changed quite remarkably in FY18 in the aftermath of investment treaties signed during President Xi Jinping's visit to Bangladesh. Chinese investors poured in $506.13 million as FDI in FY18 and then $1.16 billion in FY19, making China the largest source of net FDI inflows into Bangladesh for the very first time.

Traditionally, US investors have been the largest source of FDI to Bangladesh, followed by the EU, South Korean, Japanese or Indian businesses. Sectors that have been of interest to foreign companies include gas and petroleum, textile and apparel, banking and telecommunication. Investments in these sectors account for almost 60 per cent of Bangladesh's almost $19 billion FDI stock. Chinese investors are showing a deep interest in energy and power generation ($834 million Chinese FDI inflow in FY19). At the same time, the sectors such as food and agriculture-processing also gained their attention along with readymade garments. Many other non-traditional sectors are also receiving Chinese investment proposals. 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.

Considering actual FDI disbursements and realised SOE investments, Bangladesh received $3.66 billion Chinese investment in FY18 and was among the top 10 destinations for outward Chinese investments (Figure 2.6). Despite being the traditional largest source of source of FDI, US investors only provided $166 million in FY18 and $174 million in FY19. Bangladesh's competitors such as India, Indonesia, Malaysia and Vietnam have been successful in attracted large foreign investments as reflected in the current stock of Chinese FDI (Figure 2.7). This is in sharp contrast to cumulative pledged investments as shown in Figure 2.4.[7]

Figure 2. 6

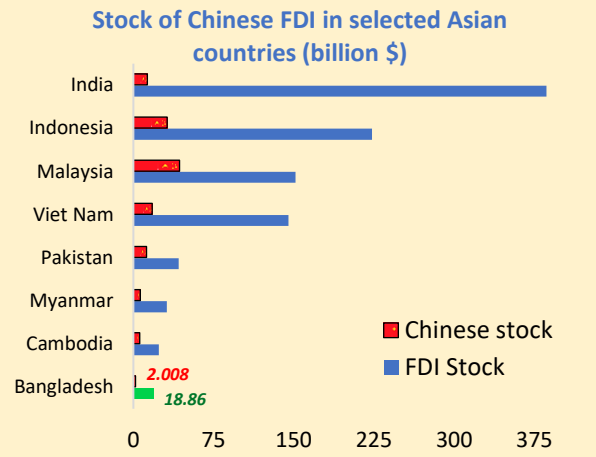


**Note: Each bubble represents a recipient country, while the size of the bubbles determines direct inward investment values. Countries are listed from left to right on a continental basis (America, Europe, Asia, Australia, and Africa)*
Source: Authors' presentation based on data from CSIS China Power Project, American Enterprise Institute and Heritage Foundation, China Global Investment Tracker.

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 per cent of the stock), as shown in Figure 2.8. Chinese investors have taken interests in power and other non-traditional sectors (Figure 2.9), 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 $190 million (Figure 2.9), which is just about 5 per cent of total RMG FDI stock (Figure 2.10).

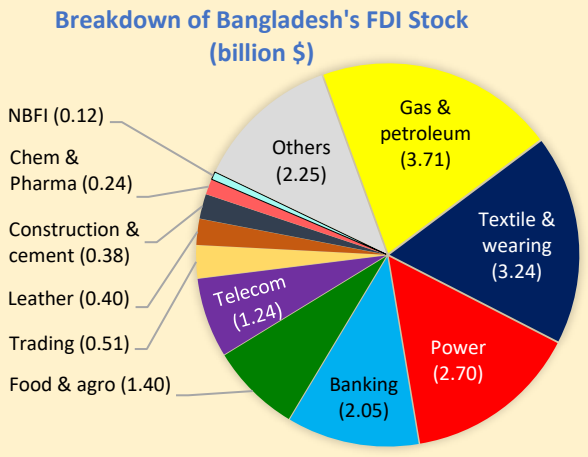
[7] Although pledged investment flows (SOEs and FDIs) are close to $27.5 billion, FDI inflow is low. And from figure 3.4, we can see China has sizeable debt stock in Bangladesh.

Figure 2. 7



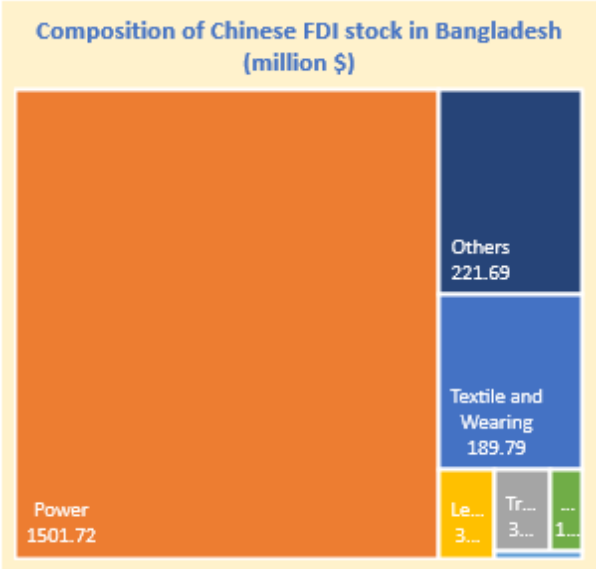
Source: Based on UNCTADStats database, 2019.

Figure 2. 8



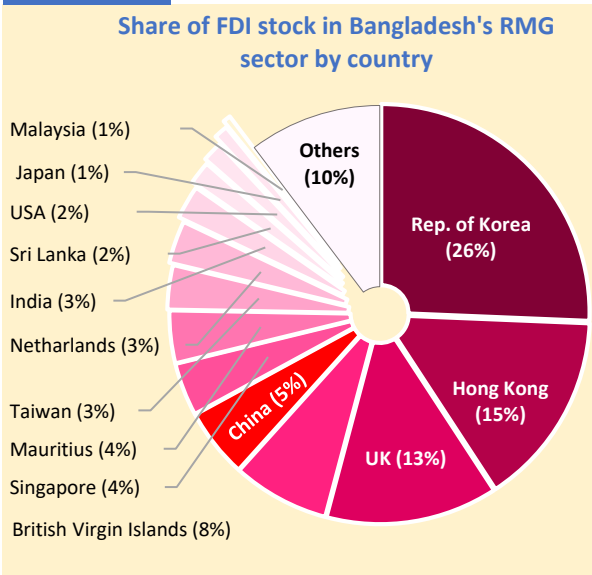
Source: Based on Bangladesh Bank data.

Figure 2. 9



Source: Based on Bangladesh Bank data.

Figure 2. 10



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.

Currently, about 1,500 website-based and 10,000 Facebook-based e-commerce platforms operate in Bangladesh. But almost all of them suffer from a lack of seed money or primary funding as the concept of venture capitalism is still quite new in the country. Some startups have already received interests from international investors, including China-based venture capital firms. For example, online grocery store *chaldal.com* and ride-sharing startup *Shohoz* have stake-holding investors from China. As digitalization 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.[8]

[8] 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 $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.

Chapter 3: Current Trade and economic cooperation arrangements

Due to geographical proximity and other mutual interests, the bilateral relationship between merchants, travelers and religious figures of the two countries dates back to the Qin dynasty (221-206 BC) period. Exchange of ambassadors between Chinese empires and Bengal Sultanates from the early 15th century suggests two regions' maintaining warm official ties. After independence, Bangladesh-China official diplomatic ties resumed in 1976. A relationship that was primarily relied upon military cooperation and aid-related support measures turned into broader bilateral economic engagements. In 2006, China became the largest bilateral trade partner of Bangladesh, overtaking India for the first time in the process.

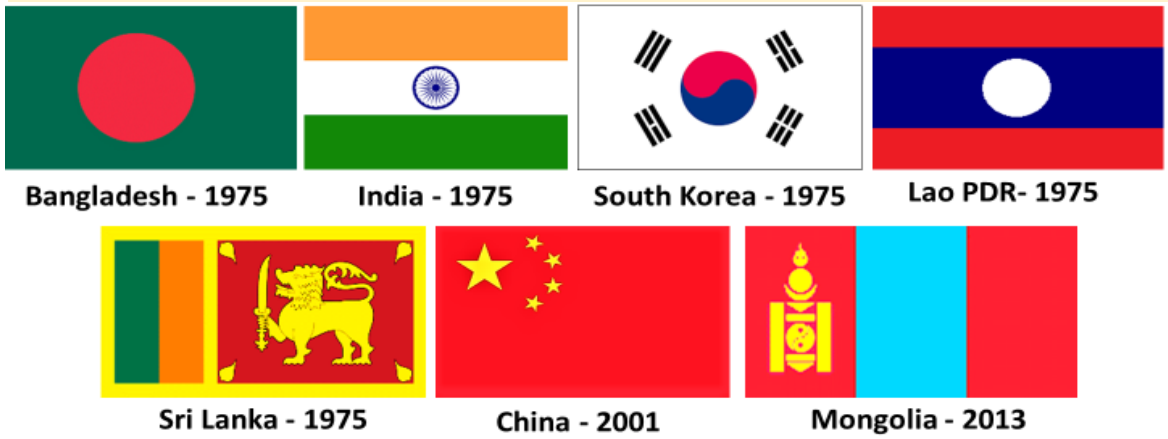
The bilateral relationship between Bangladesh and China are manifest in multilateral, and several regional trading arrangements where two countries are co-signatories. These arrangements include the Asia-Pacific Trade Agreement (APTA), Belt and Road Initiative (BRI), Bangladesh–China–India–Myanmar Forum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

3.1 Asia-Pacific Trade Agreement (APTA)

Previously known as the Bangkok agreement, the Asia Pacific Trading Agreement (APTA) came in to being in 1975. As one of the earliest regional trading arrangements, the treaty was backed by the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) at the time of its formation. 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. To this day, primary market access facilities and trade preferences enjoyed by Bangladesh into the Chinse market are governed by the APTA. 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.

Figure 3. 1

APTA members and their accession to the agreement



Source: Authors' presentation.

Based on the agreement, 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. APTA is important for Bangladesh because it allows enjoying some degree of DFQF market access in China and the Republic of Korea (Bangladesh's trade with India is governed by SAFTA provisions).

As a regional trading agreement, APTA holds a great deal of strategic and economic importance for the member countries, involving 2.6 billion population and some fast-growing economies from East to South Asia with the provision of expanding on to other regions. APTA is the only regional trading agreement that binds the two largest developing economies of India and China. Trade among APTA members accounted to more than $479 billion in 2018 (Table 3.1) with Bangladesh trading about $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.

Table 3. 1 Trade among the APTA members in 2018 (billion $)

		EXPORTS							
	Countries	Bangladesh	China	India	Lao PDR	RO Korea	Sri Lanka	Mongolia	Total
IMPORTS	Bangladesh	0	11.7	8.752	0.004	1.238	0.048	0.0001	22.801
	China	0.985	0	16.404	2.031	204.566	0.341	6.432	230.759
	India	0.892	73.738	0	0.017	16.364	1.319	0.001	92.331
	Lao PDR	0.0001	1.456	0.037	0	0.840	0.003	0.001	2.337
	RO Korea	0.347	109.028	4.780	0.302	0	0.088	0.212	114.757
	Sri Lanka	0.031	4.267	4.661	0.011	0.282	0	0.0001	9.252
	Mongolia	0.008	1.647	0.028	0.002	0.262	0.002	0	1.949
	Total	2.263	202.095	34.662	2.367	223.552	1.801	6.646	**473.386**

Source: Based on ITC and EPB data.

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 decided to provide at least 33 per cent tariff concessions measured as an average of Margin of Preference (MOP) for all products covered (except LDCs and Sri Lanka).[9] 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 per cent 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 currently receiving DFQF in approximately 61 per cent products on Chinese tariff lines (UNCDP, 2019).[10]

APTA concessions and Chinese DFQF for LDCs

China is the largest export destination for the LDCs, capturing more than 25 per cent of the latter's exports. It has implemented DFQF offers for LDCs in three phases. As mentioned above, beginning in 2010, it first implemented just about on 60 per cent of duty-free tariff lines. It later extended the coverage to 95 per cent in 2013 and then to 97 per cent in 2015.

[9] 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

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

Unfortunately, Bangladesh is still stuck with DFQF at 61 per cent tariff lines while as many as 39 Other comparator LDCs enjoy such preferences for at least 90 per cent of products. Lao PDR enjoys DFQF access in 90 per cent tariff lines due to ASEAN membership; countries such as Cambodia, Myanmar, Nepal enjoy 95 per cent coverage as they signed a letter of exchange with China after 2015; Afghanistan and 24 African LDCs enjoy the highest possible coverage of 97 per cent as they completed signing letters of exchange before 2015. The Government of Bangladesh has been pursuing LDC market access package covering at least 95 per cent duty-free access, giving up APTA preferences.[11] Availing improved LDC access in the Chinese market comes with the rules of origin requirements that beneficiaries must have 45 per cent value addition for their export products. Currently, Bangladesh needs to comply with the 35 per cent value addition criterion under APTA preferences.

Table 3. 2 LDC specific DFQF in Chinese market

Countries/ Concessional trade measure	Duty-free access as %tariff lines
Bangladesh (APTA preferences and LDC DFQF), Mauritania (2010 DFQF)	61%
Lao PDR (ASEAN)	90%
Angola, Benin, Cambodia, Comoros, Eritrea, Liberia, Myanmar, Nepal, the Niger, Rwanda, Samoa, Timor-Leste, Togo, and Zambia (LDCs)	95%
Afghanistan, Burundi, Central African Republic, Chad, DR Congo, Djibouti, Equatorial Guinea, Ethiopia, Guinea, Guinea-Bissau, Lesotho, Madagascar, Malawi, Mali, Mozambique, Senegal, Sierra Leone, Somalia, Sudan, South Sudan, Uganda, Tanzania, Vanuatu and Yemen (LDCs)	97%

Source: Authors' presentation based on the information from the Ministry of Commerce (FTA wing) and UNCTAD (2017).

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

Previously known as the 'Kunming initiative', and 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 (Figure 3.2). 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

[11] China insisted on not offering improved LDC market access and APTA preferences simultaneously to any country. Bangladesh has signed a letter of exchange to avail at least 95 per cent duty-free access and now, at the time of writing this paper (November 2019) awaits a decision from China.

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.

Figure 3. 2

The proposed BCIM Economic Corridor

Source: Authors' presentation based on various sources.

Gains from BCIM could potentially be enormous for all participating countries. At a primary stage, it facilitates trade with good infrastructure and leads industrial transfers, boosting such activities as manufacturing, rare earth and mining, agro-processing and commercial logistics. The Yunnan province of China and India's North-Eastern provinces suffer from lack of connectivity. Difficult terrains and lack of port facilities have hindered economic transformation in those areas. The BCIM corridor would help resolve the problems by opening the borders of four countries to access a larger Asian market. Another critical issue envisaged by BCIM was the shifting of labour-intensive industries from China to the regions with better connectivity and infrastructure for trade. Chinese FDI has been have flown to places that can offer cheap labour, good infrastructures and low cost of doing business.

Solely from Bangladesh's perspective, BCIM is 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 per cent of GDP and exports will grow by 86 per cent if connectivity between South Asia and Southeast Asia improves. However, Bangladesh needs an estimated $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 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. India maintains skepticism about China's ulterior motives behind elaborate investment in neighbouring countries through the BRI.

China considered BCIM as part of the BRI. Staunch opposition from India claiming that the regional cooperation idea of BCIM predates BRI finally persuaded the Chinese government to remove this from list of initiatives under BRI. 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

The Belt and Road Imitative (also known as the One Belt One Road Initiative) is regarded as one of the most ambitious transcontinental connectivity and trade infrastructure projects in the history of mankind. Proposed by Chinse President Xi Jinping in 2013, it extends to more than 70 countries with a combined GDP of $24 trillion and 4.6 billion people. There is no official definition of what qualifies as a BRI project. There are Chinese-funded projects in countries not participating directly in the BRI that share many of the same characteristics. It is estimated, BRI related infrastructure development will require $26 trillion of investments in the Asia-Pacific region, with the Chinese government pledging $1 trillion to date (CSIS, 2018).

Figure 3. 3

Belt Road Initiative at a glance

Source: Authors' representation based on various sources.

With a heavy focus on infrastructure and trade, BRI includes five key objectives: (i) policy coordination; (ii) unimpeded trade (through regional economic integration); (iii) facilitating connectivity (infrastructure development); (iv) financial integration (coordination in monetary and fiscal policies, joint financial institutions); and (v) people-to-people bond (tourism, cultural and academic exchanges).

BRI is unfolding at a time when China is making the transition to a more strategically active member of the international community playing a fundamental role in shaping the pattern of development from East Asia to South Asia, Central Asia, Eurasia and to the continent of Africa. China has now integrated itself into the global economic system. As domestic economic conditions and capacities

improved substantially, China is now poised to take the position of the largest economy in the next decade although after several decades of buoyant growth its economy is reaching maturity by showing signs of slowing down.[12]

3.4 Prospects and concerns about BRI in Bangladesh

For BRI participants, it is a massive opportunity to unleash their export potentials through improved connectivity. For most developing countries in or around the proposed economic corridors, BRI also offers unprecedented scope to integrate into the global supply chains. Sectors such as public transportation, power, and energy, trade-related mega-infrastructures have been at the center 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 per cent 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 $2.4 billion in a $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.

But 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. Several countries, including Pakistan and Sri Lanka from the South Asian region, have faced difficulties in servicing debts incurred by Chinese funded infrastructure projects.[13].

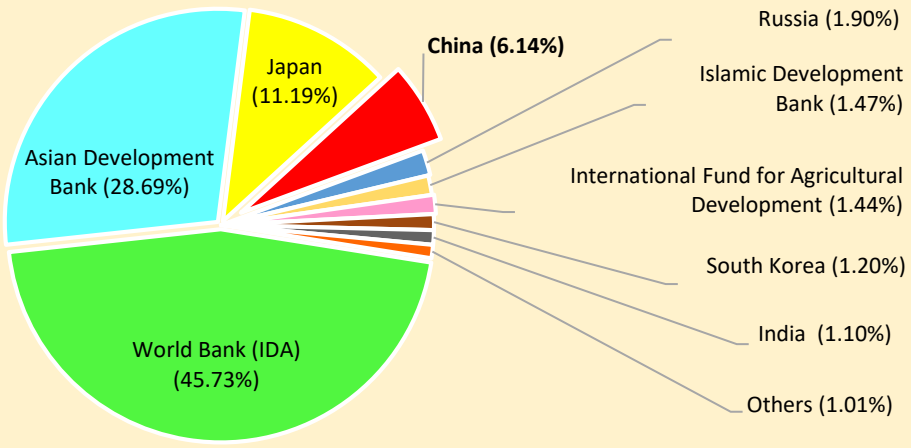
[12] In Q2 of 2019 China experienced of 6.2% GDP growth rate, slowest in 27 years.

[13] According to various reports, Pakistan is thought to have received Chinese funding worth of more than $60 billion for the Chinese Pakistan Economic Corridor project. The debt has had huge pressure on the already frail financial stability of Pakistan, compelling it to seek IMF assistance. Similarly, Sri Lanka built the port of Hambantota, which turned out to be unprofitable and later was been handed over to a Chinese company on under a debt-equity swap deal.

The cross-country experience of BRI project should provide valuable insights. Chinese debts account for 6 per cent of Bangladesh's all outstanding external debts. The World Bank, Asian Development Bank and Government of Japan have much bigger stakes in the country's debt stock (Figure 3.4). But it is worth noting that loans offered from these sources come with much lower interest rates and softer terms and conditions compared to Chinese loans. So far, Bangladesh has never missed its repayment windows on foreign loans, featuring strength in servicing debts. Bangladesh's foreign debt-GDP ratio is about 33 per cent (second lowest in South Asia after Nepal), while long term credit rating stands at Bangladesh Bank - with a stable outlook in 2019.

Figure 3. 4

Share in the external debt stock of Bangladesh



Source: Based on ERD data.

While the indicators suggest Bangladesh to have some comfort zone and thus perhaps can engage more actively in BRI, ensuring transparency of the projects, including terms and conditions and due implementation in a timely manner, should be a key priority. Instead of handing out all contracts to foreign entities, joint ventures or consortium-based engagements to ensure enhanced participation of local investors is likely to have much greater beneficial effects. Bangladesh's geopolitical importance in BRI seems to have weakened as China's investment in Myanmar has grown in recent years. According to information obtained in various reports, despite pledging around $24 billion in 27 BRI projects in 2016, China disbursed less than 5 per cent (only $986 million) funds to Bangladesh until September 2019.[14]

[14] Both countries have started a joint study group to identify the reasons behind the slow disbursement of funds. While red tapes exist on both sides, there are compatibility issues between project developing and managing teams. If teams from both countries cannot agree on certain issues, loan disbursements are delayed. At the same time, China's EXIM bank has now a limited annual disbursement capacity (of $3 billion) to any country to avoid repayment failures. Bangladesh needs to closely assess all these underlying factors to make best use of the funds available from China.

Chapter 4: Bangladesh's Export Potential and Market Prospects in China

4.1 Export Potential

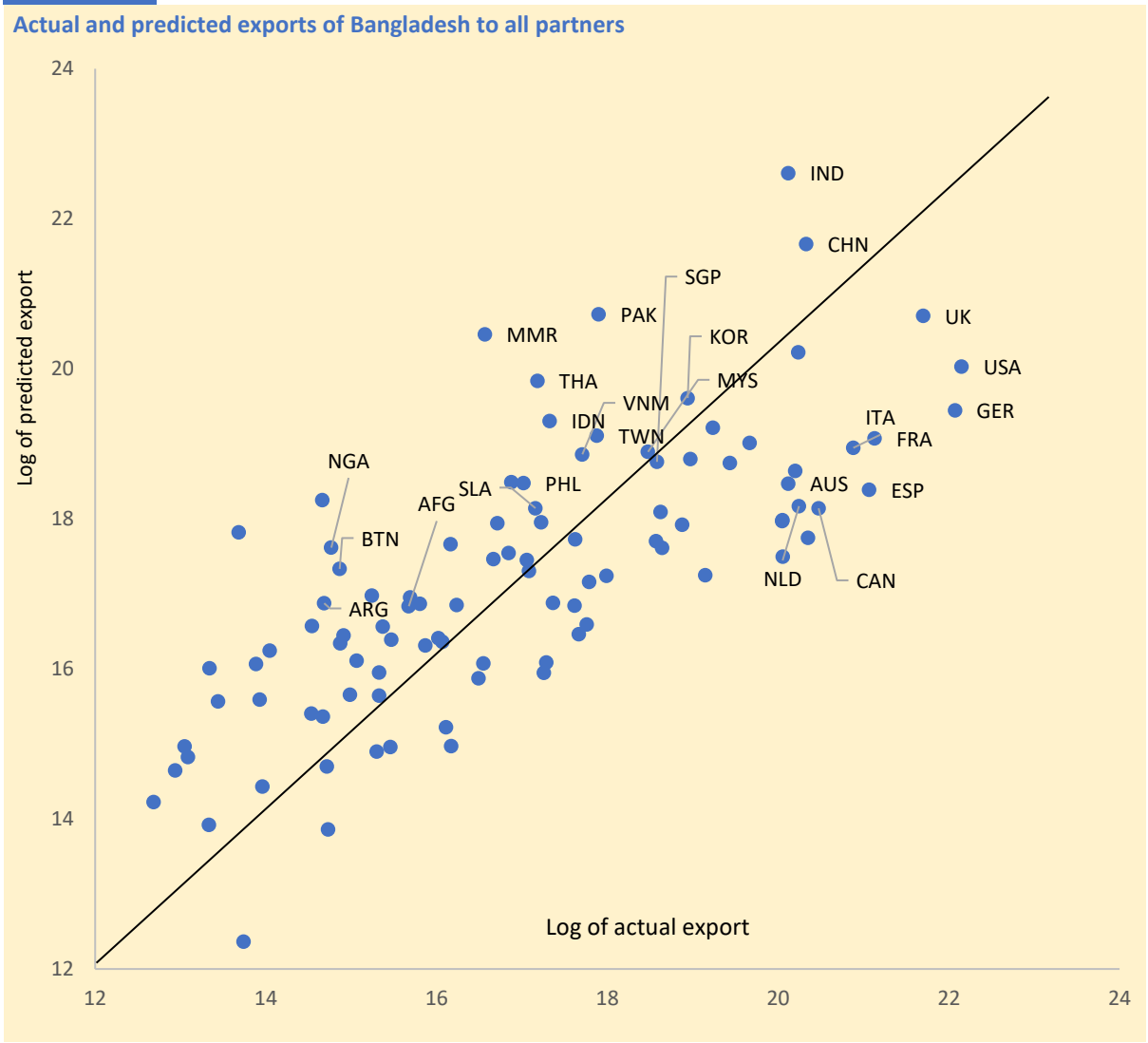
The massive size of the Chinese economy, its continued strong growth – albeit at a lower rate of around 6 per cent per annum compared to double digit rates of the previous decades – and its geographical location would tend to suggest huge export potential for Bangladesh. The gravity model[15] of international trade is often used to ascertain the scope of increased trade with a partner country. Generally regarded as one of the most successful analytical tools in explaining trade flows between countries, the model predicts trade between any pair of countries based on cross-country experiences of such trade taking place between all bilateral trade partners while taking into consideration a large number of factors that are known to affect trade flows. Amongst others, this analytical workhorse suggests that larger and richer countries would trade more (and more between themselves) than the smaller and poorer countries, other factors remaining the same; geographical proximity promotes bilateral trade flows as it reduces transport and information costs; and, factors, such as having land borders, common language, past colonial linkages and regional trade agreements tend to augment trade flows between two countries. The predicted trade values can then be compared with actual trade. When the predicted values are larger than actual trade flows, it would imply that the country's potential is underutilised (given the average experience of global economies). On the other hand, actual trade higher than the predicted value will indicate the country's having an inherent advantage in doing more trade with the partner in question.

Geographical location and economic sizes of China and Bangladesh would imply the perceived trade between the two countries to be substantial. As mentioned earlier, China is already the most important import partner for Bangladesh while the latter's exports to the former is quite small. Therefore, using the gravity model, which has been estimated as part of this study here, an attempt has been made to ascertain if Bangladesh is utilising its export potential in China. Using the relevant regression results, Bangladesh's actual versus predicted exports are summarised in Figure 4.1. The partner countries that fall below the 45-degree (the diagonal line from the origin) are those where Bangladesh exports more than what could be predicted from the model. These are mainly developed

[15] In general terms, the gravity model depicts that bilateral trade flows between countries are directly proportional to economic sizes (measured by GDP) and are inversely proportional to trade costs (e.g. distance and many other factors that can influence transaction and/or information costs) between the trade partners.

countries including Australia, Canada, EU members, and the United States, which are Bangladesh's traditional strategic markets, accounting for more than four-fifths of the country's exports. With the exception of the United States, Bangladesh, as an LDC, receives very comprehensive and attractive duty-free market access in these markets. Bangladesh will have to maintain its export performance in these markets to ensure a smooth graduation. On the other hand, partners that lie above the 45-degree line are those where current exports are less than model predictions. For example, Bangladesh should ideally be exporting more to many Asian countries with India and China being the markets where very large export potentials remain unutilised. The gravity model results show that Bangladesh is exporting at least $6 billion less to India (than what can be predicted). Similarly, under-exporting to China amounts to about $4 billion.

Figure 4. 1



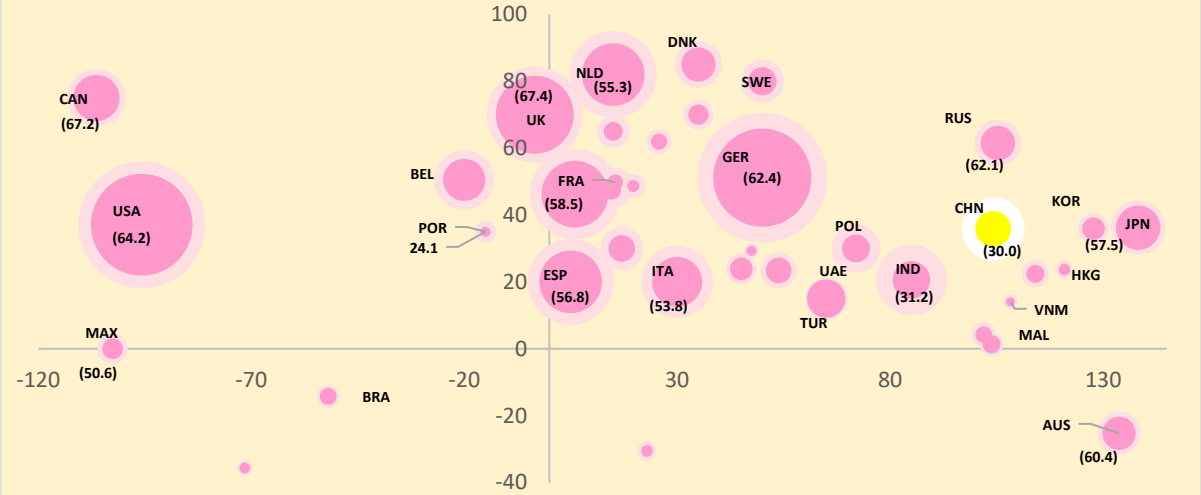
Note: The graph presented here is based on a global gravity model explaining bi-lateral trade flows for the period 1995-2015. The number of observations used in the exercise was 1,053,696. Predicted exports for Bangladesh are then calculated based on the estimated regression parameters. In the graph, actual exports are lower than the predicted exports for the countries lying above the 45-degree line.

Source: Authors' estimation.

A more refined methodology – due to the International Trade Centre (ITC) – can also be used to analyse unutilized export potential in China. The ITC methodology (Decreus & Spies, 2016) is based on two specially constructed indicators: the export potential indicator (EPI) and product diversification indicator (PDI).[16] The EPI identifies products in which an exporting country has already proven to be internationally competitive and which is likely to have good prospects for export success in some target markets. The potential export value is estimated based on exporters' supply capacity, demand condition in the target market and market access conditions.[17] Potential export values are compared with actual export earnings to reveal untapped opportunities. The product diversification indicator, on the other hand, serves a country that aims to diversify its exports and develop new export sectors. These are the products which a country does not yet export competitively in foreign markets but are considered to have high growth prospects based on the composition of its current export basket and export structures of similar countries. To identify diversification opportunities, the export supply capacity is assessed using a country's current comparative advantages that can also be linked to similar products.[18] To identify likely products for diversification, the supply side is combined with importers' demand and bilateral market access conditions.[19]

Figure 4. 2

Export potential map of Bangladesh



Note: Numbers in parentheses indicate percentage of estimated export potential currently being utilised.
Source: Authors' presentation using data from the ITC Export Potential Map.

[16] The ITC Export Potential Map uses data at the HS 6-digit level and employs several measures to enhance data quality. It focuses beyond extractive industries and environmentally damaging and hazardous products, to guide export development towards a less volatile and more environmentally conscious path.

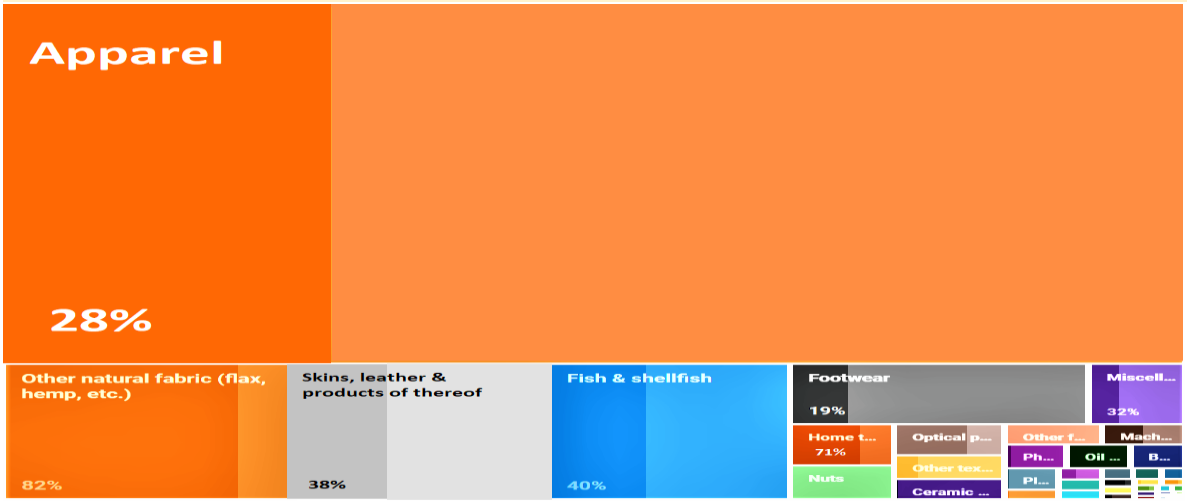
[17] The supply capacity is approximated based on market shares corrected for expected GDP growth and global margin of preference. The import demand in the target market is computed taking into consideration expected GDP growth, population growth and distance between the trading economies. Detail methodology and mathematical model is explained in ITC Export Potential Map. See: http://exportpotential.intracen.org/media/1089/epa-methodology_141216.pdf

[18] This is based on the concept of product space as developed by Hausman *et al.* (2007).

[19] The product diversification indicator only generates product ranking based on which a country can provide support for diversification. In the current context, the export potential analysis is of interest. Compared to the gravity model-based predictions, the export potential analysis is arguably more robust in explaining untapped potential as in the latter case supply capacities along with importers demand behaviour are taken into account at the product level.

Figure 4. 3

Export potential for sub-sectors in the Chinese market



Note: Darker shade of colours and the percentage figures indicate the share of potential being currently utilized by Bangladesh.
Source: ITC Export potential map.

Using the product level data (at HS 6-digit level), the results from applying the ITC methodology are summarized in Figure 4.2, which shows Bangladesh's export potential in all major export destinations. It is found that Bangladesh has been able to utilise just 30 per cent of its current export potential in China. This is comparable to Bangladesh's untapped export potential in India.

Figure 4.3 shows Bangladesh's export potential in China by various export sub-sectors. The products with greatest export potential are apparel and clothing items; other natural fabric (flax, hemp, etc.); and leather products. Bangladesh's apparel products have a potential market worth of $1.5 billion, of which just about one-third is utilized. In leather, footwear, jute and frozen fish items, the combined untapped market opportunities are estimated at $220 million.

Although the above estimates of potential exports are helpful indicators, in reality export potential in China should be much greater. The presented estimates are 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. The gravity model-based analysis considers export trade of all countries, while Bangladesh should focus on the performance of those countries that have done well in the Chinese market such as the East Asian countries. Vietnam's exports to China in 2018 reached above $35 billion, and countries such as Malaysia, the Philippines and Thailand all experienced rapid growth of their export to the same market as well. Along with the fast-growing Chinese domestic market, integrating into regional and global supply chains led by Chinese investors is a key determinant of improved export prospects.

Economists often use the so-called Revealed Comparative Advantage (RCA) indices in identifying products to assess export potential. This is a measure of calculating the relative advantage as well as

competitiveness of a country in a certain class of goods or services as evidenced by trade flows. The bilateral RCA for one country shows goods or products that have revealed comparative advantage in the concerned partner country, compared to the rest of the world. If the normalized RCA score of an exported item is close to 1, it provides an indication of comparative market advantage in the partner country. A list of Bangladesh's products with favourable normalized RCA scores in the Chinese markets are given in Table 4.1. As expected, Bangladesh has a strong revealed competitive advantage in jute, woven and knitwear products. Other products with high RCA values include leather, fish rags and carpets, footwear, etc. Table 4.2 shows the products for China. It is quite striking that in a range of products China has very large market share (in imported items) in Bangladesh, yet the corresponding normalized RCA values are not that high. That is, in comparison with Bangladesh, China has other markets with bigger comparative advantages. It is clear from the RCA analysis that the two countries' pattern of specializations are different and there are scopes for expanded trading activities.

Table 4. 1 Bangladesh's products in China with the revealed comparative advantage

HS code	Product description	Share in China's import (%)	Normalised bilateral RCA
53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn	13.83	0.99
62	Articles of apparel and clothing accessories, not knitted or crocheted	8.02	0.99
61	Articles of apparel and clothing accessories, knitted or crocheted	7.04	0.99
65	Headgear and parts thereof	2.68	0.97
63	Other made-up textile articles; sets; worn clothing and worn textile articles; rags	2.47	0.96
41	Raw hides and skins (other than furskins) and leather	1.02	0.91
57	Carpets and other textile floor coverings	0.91	0.90
3	Fish and crustaceans, molluscs and other aquatic invertebrates	0.82	0.89
67	Prepared feathers and down and articles made of feathers or of down; artificial flowers; articles ...	0.73	0.88
42	Articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles ...	0.69	0.87
64	Footwear, gaiters and the like; parts of such articles	0.45	0.82
46	Manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork	0.35	0.77
55	Man-made staple fibres	0.30	0.73
14	Vegetable plaiting materials; vegetable products not elsewhere specified or included	0.22	0.65
5	Products of animal origin, not elsewhere specified or included	0.13	0.49
94	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; ...	0.10	0.37
95	Toys, games and sports requisites; parts and accessories thereof	0.08	0.29
48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	0.05	0.08
52	Cotton	0.05	0.06

Source: Authors' computation using ITC data.

Table 4. 2 Chinese products in Bangladesh with the revealed comparative advantage

HS code	Product description	Share in Bangladesh's import (%)	Normalised bilateral RCA
66	Umbrellas, sun umbrellas, walking sticks, seat-sticks, whips, riding-crops and parts thereof	99.92	0.51
50	Silk	88.88	0.47
53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn	88.85	0.47
95	Toys, games and sports requisites; parts and accessories thereof	88.63	0.47
42	Articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles ...	84.16	0.45
64	Footwear, gaiters and the like; parts of such articles	82.00	0.44
69	Ceramic products	81.58	0.44
70	Glass and glassware	81.19	0.43
67	Prepared feathers and down and articles made of feathers or of down; artificial flowers; articles ...	79.80	0.43
61	Articles of apparel and clothing accessories, knitted or crocheted	76.56	0.41
94	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; ...	75.99	0.41
43	Furskins and artificial fur; manufactures thereof	75.99	0.41
56	Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof	75.94	0.41
13	Lac; gums, resins and other vegetable saps and extracts	72.94	0.39
60	Knitted or crocheted fabrics	72.05	0.38
55	Man-made staple fibres	70.93	0.38
59	Impregnated, coated, covered or laminated textile fabrics; textile articles of a kind suitable ...	69.75	0.37
51	Wool, fine or coarse animal hair; horsehair yarn and woven fabric	68.27	0.36
68	Articles of stone, plaster, cement, asbestos, mica or similar materials	67.73	0.36
83	Miscellaneous articles of base metal	66.55	0.35
54	Man-made filaments; strip and the like of man-made textile materials	65.10	0.34
82	Tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal	63.52	0.33
58	Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery	60.50	0.31
5	Products of animal origin, not elsewhere specified or included	59.76	0.30
73	Articles of iron or steel	57.92	0.29
91	Clocks and watches and parts thereof	57.23	0.28
65	Headgear and parts thereof	55.44	0.27
92	Musical instruments; parts and accessories of such articles	54.89	0.26
62	Articles of apparel and clothing accessories, not knitted or crocheted	53.12	0.25
6	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	52.80	0.24
63	Other made-up textile articles; sets; worn clothing and worn textile articles; rags	49.16	0.21
8	Edible fruit and nuts; peel of citrus fruit or melons	47.08	0.19
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television ...	40.54	0.12
52	Cotton	40.35	0.11
37	Photographic or cinematographic goods	39.34	0.10
35	Albuminoidal substances; modified starches; glues; enzymes	38.81	0.10
31	Fertilisers	37.72	0.08
57	Carpets and other textile floor coverings	37.59	0.08
89	Ships, boats and floating structures	36.70	0.07

HS code	Product description	Share in Bangladesh's import (%)	Normalised bilateral RCA
84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	34.99	0.04
44	Wood and articles of wood; wood charcoal	33.55	0.02
28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, ...	33.47	0.02
29	Organic chemicals	33.43	0.02

Source: Authors' computation using ITC data.

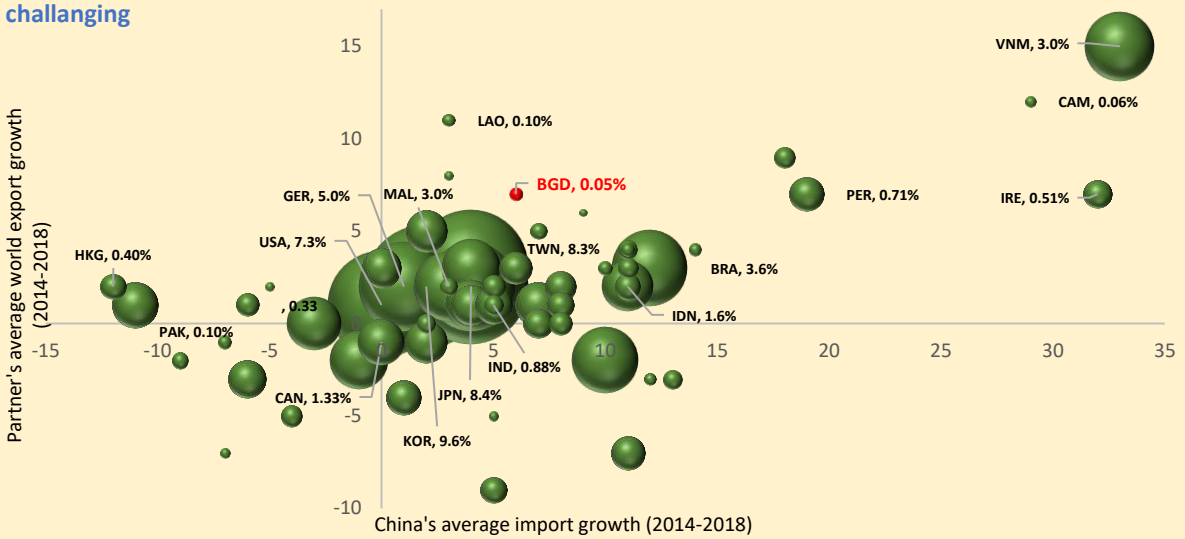
4.2 Understanding market prospects of some selected products in the Chinese market

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 have been carried out for Bangladesh's overall exports and a few other selected items only.

First, an overall market prospect analysis is undertaken, i.e. how Bangladesh compares with others. In Figure 4.4, bubble sizes represent shares of various suppliers in the Chinese market. 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 cent 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 per cent during the same period. Bangladesh's current market share is tiny, 0.05 per cent, which has grown at an annual rate of just 6 per cent. Given the size of the Chinese market, even a small increase in market share would generate huge export earnings.

Figure 4. 4

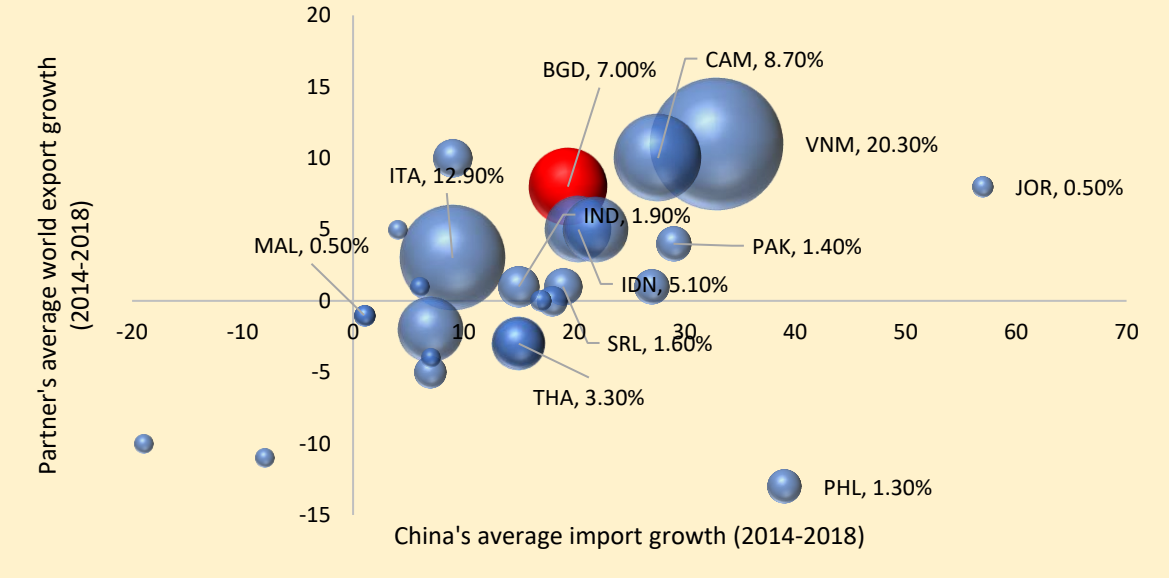
Significant export prospects for Bangladesh in Chinese market – although challanging



Note: The bubble sizes represent shares of various suppliers in the Chinese market, while numbers indicate the per cent of market share. Countries are indicated as BGD – Bangladesh, Cam – Cambidia, CAN – Canada, FRA – France, GER – Germany, HKG – Hong Kong, IDN – Indonesia, IND – India, IRE – Ireland, ITA – Italy, JPN – Japan, JOR – Jordan, KOR – Republic of Korea, LAO – Lao PDR, LKA – Sri Lanka, MAL – Malaysia, MEX – Mexico, NLD – Netherlands, NPL – Nepal, PAK – Pakistan, PER – Peru, PHL – Philippines, POL – Poland, SGP – Singapore, THA – Thailand, TUR – Turkey, UK – United Kingdom, USA – United States of America, VNM – Vietnam.
Source: Authors' analysis using ITC data.

Figure 4. 5

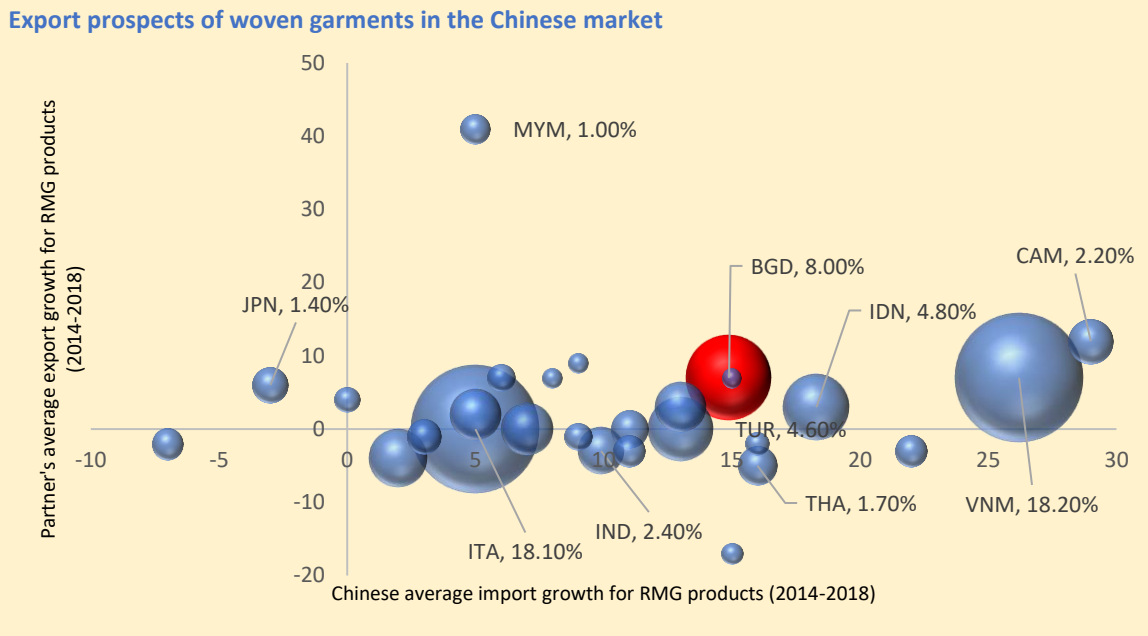
Export prospects of knitwear in the Chinese market



Note: Myanmar is the outlier with 69 per cent growth rates in Chinese market and 99 per cent overall export growth in knitwear. Therefore, it is not incorporated in the chart.

Source: Authors' analysis using ITC data.

Figure 4. 6



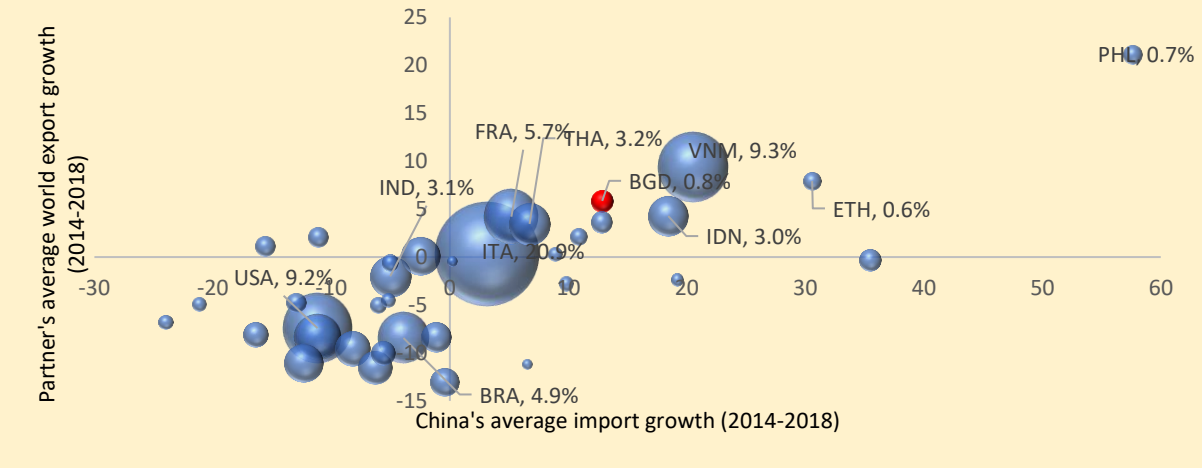
Source: Authors' analysis using ITC data.

The market situations for knitwear and woven apparel products are shown separately in Figures 4.6 and 20, respectively. The market sizes of knitwear and woven garment imports in 2018 were $3.4 billion and $4.2 billion, respectively. Bangladesh currently has a share of 7 per cent in knitwear and 8 per cent in woven items. In both cases, Vietnam is the most dominant supplier capturing around a share of 20 per cent in each case. Cambodia's share in knitwear is close to 9 per cent 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 per cent, but its exports have grown at an average annual rate of close to 30 per cent 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, as discussed later. The Chinese apparel market is currently worth $322 billion, which is getting bigger every year (and is expected to grow at more than 5 per cent per annum) due to the rising purchasing power of China's middle class (Statista, 2019). It will soon become the largest market for apparel items, replacing the USA (which is currently having a market size of about $350 billion).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 per cent against its overall world export growth rate of 7.4 per cent. 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 (Figure 4.7). The market size of Chinese leather and leather goods imports was more than $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 per cent growth rate over the past five years while Bangladesh's annual growth rate has been about 12 per cent. 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.

Figure 4. 7

Market prospect of leather and leather goods in China



Source: Authors' analysis using ITC data.

The analyses presented in this paper thus 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 28.26 per cent, albeit with some large variations around this average rate. Sustaining this growth would result in Bangladesh's exports to China exceeding $12 billion by 2030. But, a low export growth of 10 per cent per annum will yield only about $2.5 billion over the same reference period.

Chapter 5: Towards a Strengthened Economic Cooperation

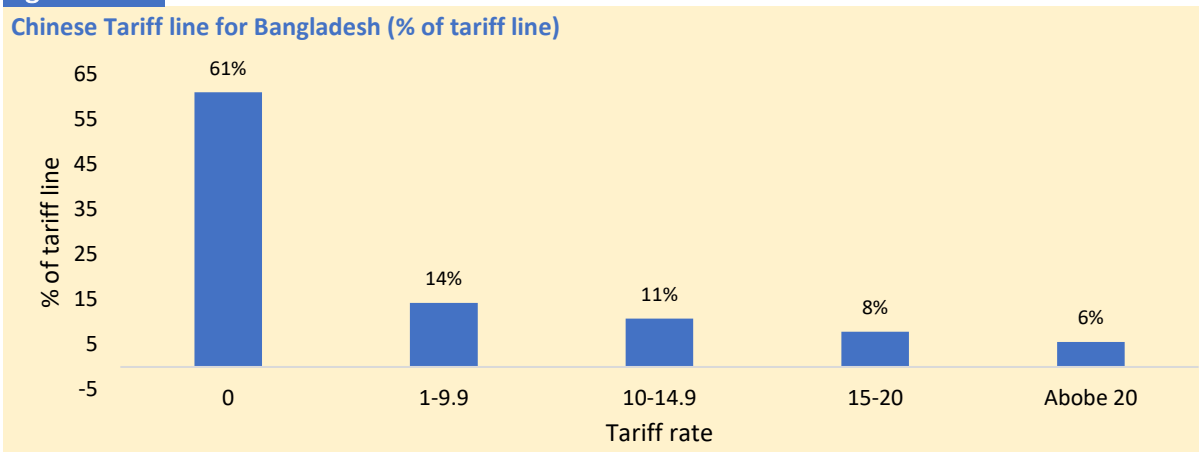
Despite less than impressive export performance in the Chinese market, the massive opportunities that China presents for promoting Bangladesh's trade and development objectives cannot be overstated. There exist significant scopes for expanded trade and economic cooperation between the two countries. Several possible options for enhancing Bangladesh's export prospects in China are discussed below.

5.1 Possible trading arrangements with China to help improve Bangladesh's export prospects

5.1.1 Securing LDC market access for all products until graduation

As mentioned earlier, Bangladesh enjoys duty-free, quota-free market access in 61 per cent of Chinese tariff lines under the APTA arrangement. About 11 per cent of Chinese tariff lines have 10-14.9 per cent MFN tariff, while another 14 per cent impose MFN tariff rates of more than 15 per cent (Figure 5.1 and Table 5.1). Bangladesh has requested China to extend the tariff preference coverage to 97 per cent as China is currently providing to many other LDCs. This is an issue that needs to be pursued further and can greatly help promote the bilateral engagement. 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.

Figure 5. 1



Source: Authors' analysis based on UNCTAD (2017).

Table 5. 1 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 per cent. Preferential tariff rates (under LDC-specific or APTA LDC schemes) for the remaining 68.9 per cent apparel products are zero. For knitwear, 32.6 per cent of products attract 14–25 per cent tariff rates, while for woven garments the corresponding rates are in the range 14 – 20 per cent. Bangladesh could not do well in exporting the items for which the duty-free access is not provided.

Source: Authors' analysis based on UNCTAD (2017).

A close look at Table 5.2 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 per cent and almost 30 per cent, respectively. However, China's import of apparel is relatively small – only $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 per cent 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 5. 2 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[20]
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
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

[20] 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 (%)
03061700	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.

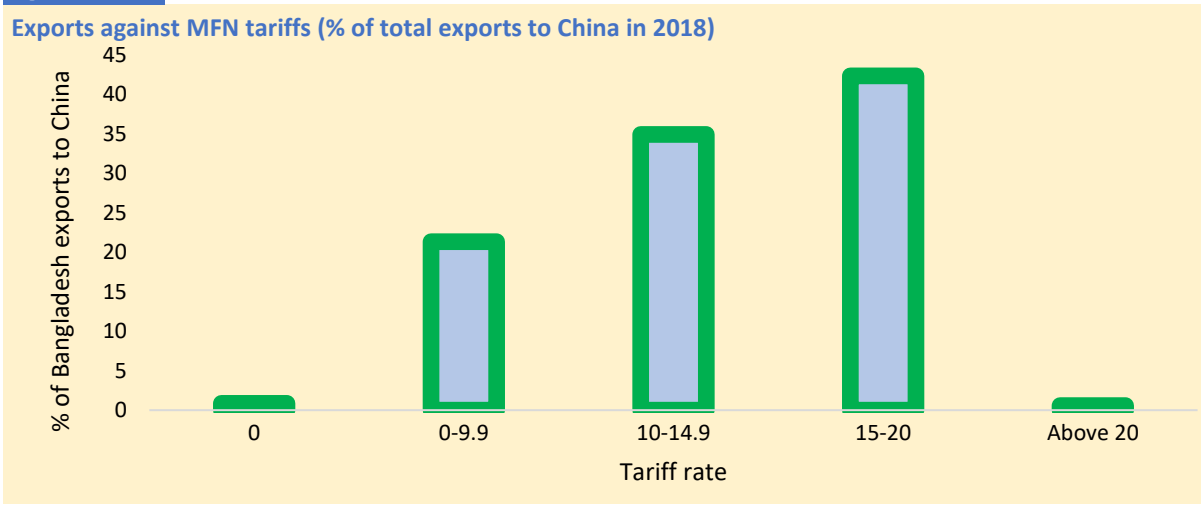
Source: Authors' analysis based on EPB, ITC and WITS data.

5.1.2 Pursuing an extended transition period for LDC-specific preferences

Along with securing expanded duty-free market access coverage comparable to other LDCs – from currently 61 per cent of tariff lines to at least 95 per cent – Bangladesh, as part of a greater economic cooperation, should pursue 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.

Considering MFN duties in China vis-à-vis Bangladesh's current export structure, it can be worked out that after graduation more than 42 per cent of Bangladesh's exports to China will be subject to 15–20 per cent tariff (Figure 5.2). Another 35 per cent exports will fall under the tariff range 10-14.9 per cent. The export structure against the distribution of MFN tariff rates might change if Bangladesh gets improved duty-free coverage as other LDCs are currently availing.

Figure 5. 2



Source: Authors' calculation using data from UNCTAD (2017).

The impact of tariff hikes after graduation will potentially undermine Bangladesh's already weakened comparative advantage in the Chinese market. Utilising a partial equilibrium model, as in Razzaque and Rahman (2019), the likely consequences on exports due to the erosion of LDC preferences are estimated using 669 HS 8-digit products that were exported to China in 2018. The results suggest an adverse effect on exports to the tune of 12.5 per cent (i.e. $122.7 million) (Table 5.3).[21] This considerably large impact is due to the fact that China's MFN tariffs on apparel items are high – 15.5 per cent on average. Home textile, leather and leather goods, footwear, and fish and fish products are other products that also have significant adverse implications. etc.[22]

Table 5. 3 Loss of export earnings after graduation

Products	Exports in 2018	Loss in export earnings after graduation	
		Loss (million $)	Per cent of current export (%)
RMG (HS 61 and HS 62)	572.0	-88.6	-15.5
Fish (HS 03)	95.7	-12.0	-12.5
Jute and jute products (HS 53)	126.8	-7.6	-6.0
Optical, photographic, cinematographic, measuring (HS 90)	23.1	-2.7	-11.9
Leather and leather products (HS 41 and HS 42)	71.5	-5.2	-7.2
Footwear (inc. leather footwear) (HS 64)	21.1	-1.9	-9.2
Home textile (HS 63)	12.0	-1.7	-14.0
All exports	984.4	-122.7	-12.5

Source: Authors' estimation.

There is no denying that any quantitative impact assessment will be associated with shortcomings in terms of particular methodologies to be utilized and various assumption used in operationalizing the underlying models used. However, what is most important to acknowledge that from a situation of tariff-free access to being subject to tariff hikes would certainly result in weakened competitiveness. Considering the likely consequences, Bangladesh should ask China to allow for an extended period LDC- graduation**.** It is quite commonplace to grant LDCs with such provisions to facilitate their smooth transition. The EU, for example, allows an additional three-year-period for graduating countries to

[21] These results are based on the standard assumption of the price elasticity of demand for Bangladesh's exports being 1. A higher elasticity value will result in larger loss estimates.

[22] The estimations have certain limitations. The short comings are associated with underlying assumptions made in developing the models and making them operational. The models also cannot capture many real-life complexities.

continue with LDC-specific preferences. There is also a precedence of China's providing similar transition period to Samoa, which graduated in 2014.

5.1.3 Gradual phasing out of LDC-specific preferences

The United Nations resolutions call for smooth transition for graduating LDCs. This is based on the principle that LDC-specific support to be phased out in a gradual and predictable manner following graduation so that the development progress of the graduating country is not to disrupted. LDC-specific trade preferences and their phasing out are not universal. Some developed and developing countries including China, have applied some form of smooth transition procedures to past LDC graduates.

Unlike Bangladesh, there has been no other LDCs that were able to significantly benefit from duty-free market access. Previously graduating LDCs used to supply only a few products in very limited quantities, in which the problem of post-graduation tariff hikes was not highlighted to be a major concern. For Bangladesh, however, the likely rapid escalation in tariffs is going to be a major issue. For example, many Bangladeshi exporters, of apparel products in particular, will see tariffs facing their product rising from zero to 14 – 16 per cent. The abrupt tariff hikes cannot be helpful to smooth graduation. This paper therefore argues for a gradual phasing of tariff preferences post-graduation. Ideally, gradual phase out tariff preferences should be preceded by an extended transition period.

One important task for Bangladesh is thus to request China to: (1) commit to an extended transition period (of at least three years beyond the likely graduation in 2024) as soon as possible so that the exporters can have policy certainty over a longer period of time, and (2) then to roll out a programme of gradual phase out of tariff preferences. Bangladesh could propose complete phasing out of preferences over a period of five years. This would imply curtailing 20 per cent preference in each year beginning from 2027 and ending in 2032. An alternative approach could be to consider gradual phasing out preferences in such selected imports from Bangladesh as apparel, leather and footwear, home textile, etc.

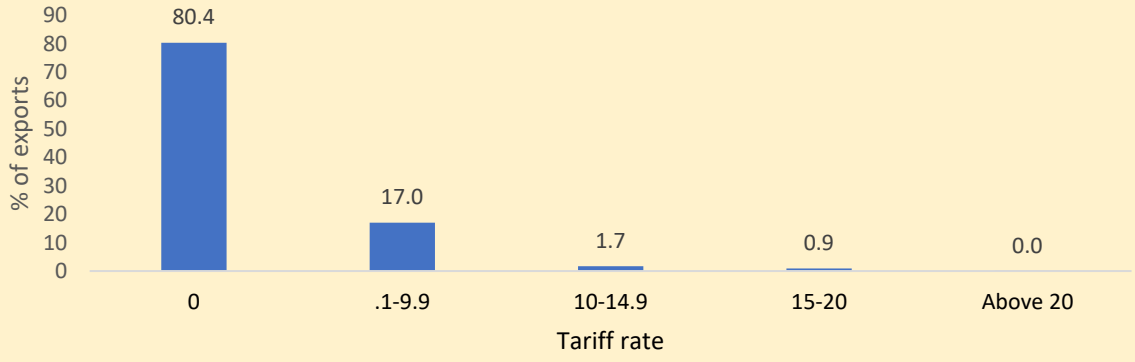
5.1.4 A full-fledged free trade agreement

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 per cent of Bangladesh's exports (in absolute value terms) to China have duty-free access, while 17 per cent are subject to MFN tariffs up to 10 per cent (Figure 5.3). If China is approving the higher LDC duty-free package (for which Bangladesh has already made a formal request), duty-free access for 95 per 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 5. 3

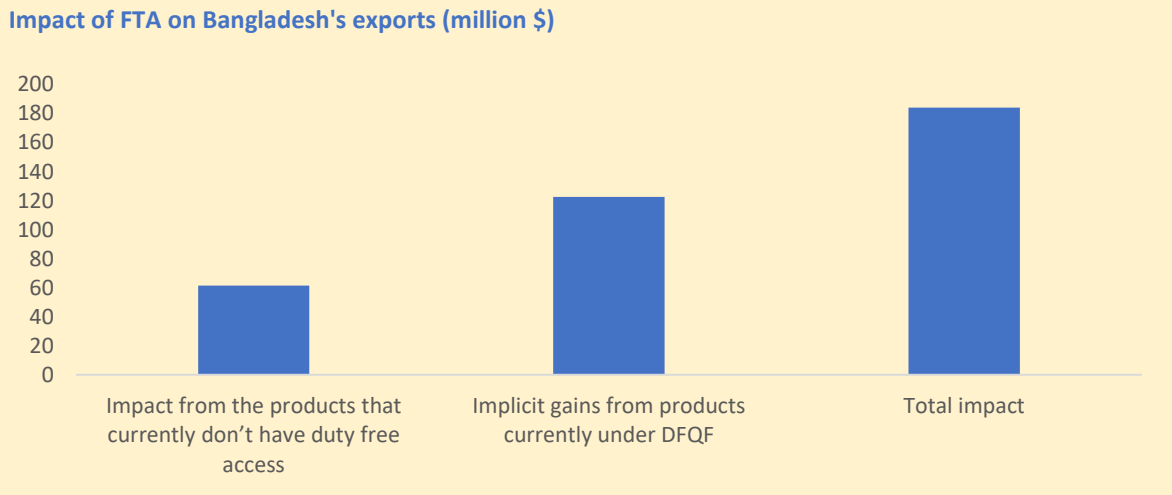
Applied tariff rates on Bangladesh's exports to China



Source: Authors' estimatation using WITS data.

It is important to recognize that the potential impact of an FTA on export responsiveness can be found to be small, if the initial export base is small. This is an inbuilt limitation of any quantitative and/or modelling (both static and dynamic) exercise given the availability of information and perceived notion of supply-side capacities. Notwithstanding, when the popularly-used WITS-SMART partial equilibrium model, developed by UNCTAD and the World Bank, is utilized, employing the data on trade flows and applied MFN tariff rates at the HS6-digit level of disaggregation, it is found that a complete liberalization of all tariffs on Bangladesh's exports would lead to an increment in export revenue by about 8 per cent (i.e. about $80 million). The impact of trade creation dominates this change, which has favourable welfare implications. It is worth pointing out that since this simulation is undertaken from the current situation of tariff free access for 80 per cent exports, the resultant impact is associated with which the items for which applied tariff rates in China are non-zero. If the results are considered in conjunction with possible adverse implications arising from China's applying MFN duties on all products as the base case scenario, the changes in exports would be close to $200 million, i.e. 22 per cent of Bangladesh's current exports to China (Figure 5.4).

Figure 5. 4



Note: Implicit gains from products currently under DFQF have also been included in estimating the total impact.
Source: Authors' estimation using WITS/SMART model.

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. Estimates using the same methodology as mentioned above, show that Chinese exports could increase by $2 billion, which is about 16 per cent of current imports from China. Given the size of Bangladesh economy, this additional import should not cause any major disruption. Rather, it would improve consumers' welfare and help producers, particularly those who import intermediate inputs and capital goods as part of import-substituting production. There is some concern that an FTA will trigger massive import flows from China and this could lead to loss of government revenues collected from imports. However, as discussed above, around 30 per cent of Chinese imports into Bangladesh are imported through bonded warehouses as intermediate inputs for export-oriented enterprises and thus tariffs on these products are already zero. Therefore, the revenue concerns are likely to be exaggerated.

It will be most effective to consider a comprehensive bilateral framework for cooperation in the medium to long run. Under this, Bangladesh must effectively engage with China so that the LDC-specific extended duty-free access can be secured immediately. The second element of the framework should comprise pursuing an extended transition period of LDC graduation and a gradual phasing out of tariff preferences covering a period of five years. Finally, between now and the end of the transition period, both countries should negotiate a free trade agreement.

5.2 Attracting foreign direct investments from China

Chinese investments have just started flowing into Bangladesh. This is an encouraging factor, but along with infrastructural development projects, large-scale FDIs are needed in the export-oriented sectors. The booming domestic economy will certainly attract a lot of investment aiming to meet the demands of the local consumers. However, FDIs in export-oriented enterprises can help diversify exports, beak

into new markets, and take advantage of unexploited trade preferences, e.g., in the EU of in Canada, Japan, etc. where Bangladesh will have preferential market access for several years ahead. Bangladesh also needs investment for expanding exports to the vast market of India. Chinese FDIs will be important for enhancing global value chain participation and promoting emerging sectors that are increasingly becoming an important determinant of export success.

- ***Enhancing global value chain participation:*** When it comes to global value chain (GVC)-based production network – in which, a country produces only a part of any final good. Bangladesh has very limited participation, as discussed in various chapters in this volume. Only the apparel sector has successfully been integrated into the GVC process, but local suppliers overwhelmingly operate at the bottom end of the value chain where capturing the least share of retail prices. With limited value-added margins, manufacturers must afford imported raw materials, production processes, wage payments, compliance and transportation costs, amongst others. In the value chain, higher returns are associated in the areas such as research and product development, branding, marketing, retailing and after-sales services. Since Chinese companies have global dominance in R&D, retailing and other points of GVC, Bangladeshi suppliers can benefit from joint ventures. The benefits of FDI are well-established in numerous studies and analyses and one of the most important advantages is FDI firms' rich supply chain network involving global retailers. Direct investment and/or joint ventures will also generate spillover effects in developing expertise in such areas modern management systems, new product development and global retailing through e-commerce.

- ***Promoting new and emerging sectors:*** While investment in conventional areas such as energy, readymade garment, and construction will remain destinations for Chinese FDI, it is equally essential to focus investments in new and emerging sectors. China is a global hub for tech startups and e-commerce-based economy. Each year, Chinese tech giants invest or buy shares of new startups across the world, especially in developing countries. Bangladesh has untapped market potential with a massive customer base in e-commerce., making it an attractive destination for potential investors. Such technology-intensive industries require technical and financial support from established venture capitals or tech companies. Measures to incentivise more Chinese investments in these sectors will be helpful in the overall digital transformation of the country. Similarly, sectors such as food and agro-processing, financial services, non-bank financial institutions, chemical and pharmaceuticals, retail businesses, entertainment, hotel, and tourism, etc. sectors should also be given more priority in promoting for foreign investments. Export potential from some of these sectors is huge in today's world.

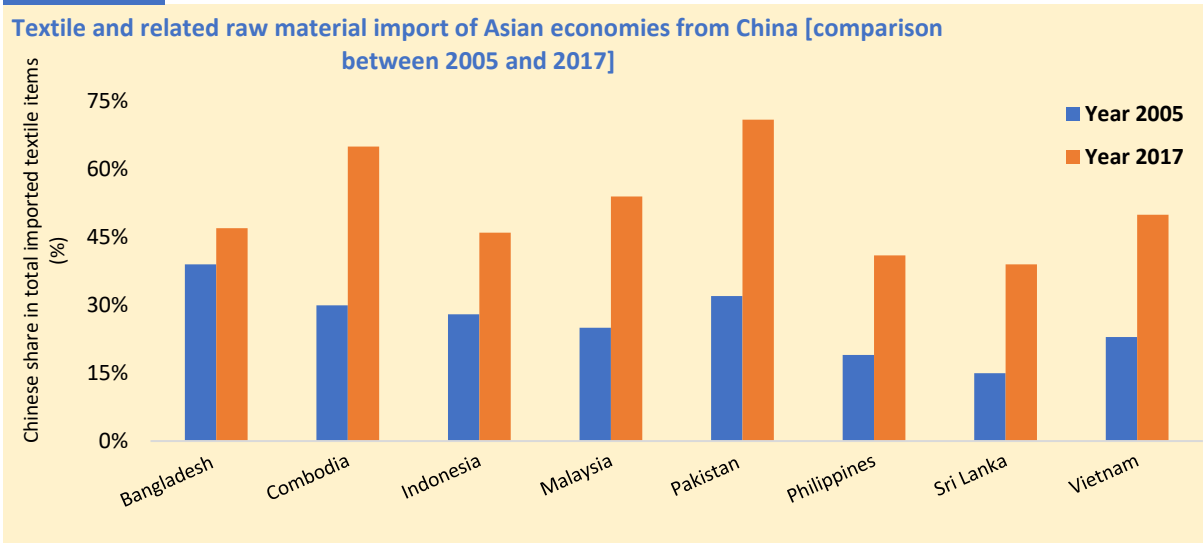
5.3 Facilitating relocation of Chinese firms in Bangladesh

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. It is generally recognized that while China will remain as the world's largest clothing exporter for the foreseeable future, issues such as rising labour costs, and the national focus on a strategic shift towards high value-added

manufacturing are gradually changing its composition of exports. Trends of global protectionism since the global financial crisis of 2008 and the recent USA-China trade war have accentuated this process. 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 given the uncertain prospects in the aftermath of trade tensions with the USA. The preferred destinations of relocated firms are mainly Vietnam and other South-East Asian countries.

The primary alternative destination of relocated firms, Vietnam, is also reaching a saturation point and being overcrowded. It has only 7 million skilled labour, which has been already absorbed, with wages rising significantly. Other countries such as Cambodia, Lao PDR, and Myanmar have also seen rising inflows of Chinese investment. But these countries lack skilled labour and their capacity of prompt supply response at vast scales is limited. This opens a new window of opportunity for Bangladesh to attract and facilitate FDI in garment manufacturing, amongst others. Despite having no formal barriers, local exporters have never been more than lukewarm towards foreign investments, suggesting their need only in the high value-added segments and not in basic apparel items.

Figure 5. 5



Source: Based on Sheg Lui (2018).

However, it is important to reconsider the position as increasing export supply response is becoming increasingly more difficult. Relocation of Chinese firms elsewhere will create pressure on Bangladesh's competitiveness and undermine the scope of future growth. Also, relocation does not mean Chinese companies are going away from the whole business. While its share in clothing exports is gradually falling, China's significance as a source of textile and textile-related intermediate inputs and capital goods have become more important than ever (Figure 5.5). China's share in Bangladesh's textile and related raw materials imports rose to 47 per cent in 2017 from 39 per cent in 2005. As Chinese manufacturers already have good backward linkage in this business, they can contribute to substantial export gains by Bangladesh. Through the relocated firms, Local entrepreneurs can gain important insights into China's high value-added premium quality apparel items.

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.

5.3 Making the most of BCIM and BRI initiatives

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 complex interplay of extrinsic factors involving the two largest economies in the world along with their ever increasing regional and global influence. It will be a contest between two neighboring power which will shift the future of both BCIM and BRI. Bangladesh needs to remain open about the opportunities arising from both the initiatives. Several issues must be judiciously considered in moving forward with these arrangements.

- **Governance and transparency:** Good governance and transparency in project selection, implementation conditionalities and fund utilization should be given serious attention. Since several large infrastructure projects currently under implementation, lessons can be drawn in considering future projects while ensuring maximum gains. There is also a need for developing large project management capacities and dealing with emerging bilateral donors including China and India.
- **Maintaining stability through prudent macroeconomic management*:*** Large infrastructure projects can trigger some challenges in macroeconomic management. They require massive imports of capital machinery and construction materials, putting pressures on foreign exchange reserves. On the other hand, increased economic activities in an already buoyant economy is likely to induce demand-pull inflation. All this will require delicate policy choices involving fiscal and monetary instruments. Any fall out from macroeconomic instability could hurt external competitiveness and export performance. Therefore, prudent macroeconomic management will be critical.
- ***Debt financing:*** While Bangladesh's debt profile looks stable until now, the situation can change quickly if cautionary measures are not taken in managing loans BRI projects. Availability of soft loans with long repayment windows is likely to become scarce as Bangladesh has already become a middle-income country. It has been pointed out by many observers that Chinese lending processes often overlook international standards in carrying out rigorous economic impact analysis and in assessing risks involved. Bangladesh must avoid any 'debt-traps' by accepting most productive loans only, securing soft terms for repayment, and ensuring effective and timely completion of projects.
- **Protecting the environment and local interests:** As land is scarce in Bangladesh, expanded economic activities through large-scale infrastructure projects could come at a cost of protected forests, rivers, swamps and biodiversity. Protecting environment should not lose sight while undertaking any development projects. At the same time, the concerns of displaced local and marginalized groups should be dealt with utmost sincerity. Creating jobs for local communities will also assist the distribution of welfare gains from BRI activities.

- **Judicious handling of geo-political tensions*:*** Bangladesh is not insulated from the emerging global geopolitical tensions. Regional rivalry between China and India in the current global economic environment of heightened policy uncertainty can generate difficult policy situations in promoting the agenda of regional economic cooperation including Bangladesh's building strong trade relationships with both the countries. It should be borne in mind that both China and India are potentially very important export markets and are sources of investment. Therefore, Bangladesh needs make the most of regional cooperation arrangement through judicious and productive economic engagements, maintaining strong relationships with all trade and development partners.

5.4 Seeking transfer of technology from China

China's economic expansion has seen strong investments in R&D of new products and technologies and scientific advancements. It has now become the highest publisher of research papers in scientific and technical journals amongst the global economies. According to the information obtained from online sources, China's private sector is rapidly catching up with technological advancement with such companies as Huawei and Alibaba investing massively in R&D, which are comparable with similar investments by global tech leaders such as Apple and Goggle. 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.

Chapter 6: 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 specialisation, 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.

Despite the geographical proximity between the two countries, and Bangladesh's enjoying duty-free access in 61 per cent of product lines, exports to china remain low – less than US$1 billion. However, in recent times, both countries agreed to expand and deepen trade, investment and industrial capacity cooperation to expand mutual benefits. China acknowledged the importance of reducing the extremely large trade imbalance between the two countries and agreed to provide support in enhancing Bangladesh's exports to China.

This paper shows that Bangladesh has an untapped export potential of about $3 billion in the Chinese market. That is, given the current supply capacity, Bangladesh exploits less than one-third of its export potential in China. It is also shown that even in readymade garments, where Bangladesh is major global exporter, less than 30 per cent of export potential is utilised. The analysis of market prospects seems to suggest that Bangladesh has some considerable market shares in Chinese imports of woven and knitwear exports. However, Bangladesh's recent export expansion rate in China is significantly lower than that of many other countries including Cambodia, Myanmar and Vietnam. The Chinese clothing markets is growing fast and is set to become the biggest amongst the world market soon. Apart from apparel items, jute and jute goods, leather and leather products, footwear, and fish and fish products should have good export market prospects as reflected by the bilateral revealed comparative advantage indicators.

In order to expand trade and economic cooperation between with China, the paper suggests several policy options. To begin with, Bangladesh must proactively pursue the case of obtaining an extended coverage of LDC-specific duty-free access from the currently around to 61 per cent of product lines to at least 95 per cent that China has offered to other LDCs. Having secured this, Bangladesh should request for an extension of the LDC transition period until 2027 following the example of the EU as well as such precedence of China's granting the same to at least another LDC previously. A gradual phase-out of the duty-free market access should be pursued after the transition period for facilitating

a smooth LDC graduation. Finally, the option to explore a bilateral free trade agreement should be considered seriously in the post LDC graduation period.

Recently, China has emerged as the largest source of foreign investments into Bangladesh with the net FDI inflows from China reaching $1.16 (28.5% of the total FDI) in 2018-19. The stock of Chinese FDI however remains very small at around $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 $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, building an economic cooperation partnership with China is to 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.

Chapter 7: References

ADB. (2015). *Connecting South Asia and Southeast Asia.* Japan: Asian Development Bank and Asian Development Bank Institute. Retrieved from https://www.adb.org/sites/default/files/publication/159083/adbi-connecting-south-asia-southeast-asia.pdf

American Enterprise Institute. (2019, October 1). *China Global Investment Tracker*. Retrieved from www.aei.org: https://www.aei.org/china-global-investment-tracker/

ASEAN/UNCTAD. (2018). *The ASEAN Investment Report: Foreign Direct Investment and the Digital Economy in ASEAN.* United Nations Conference on Trade and Commerce. The ASEAN Secretariet. Retrieved from https://asean.org/storage/2018/11/ASEAN-Investment-Report-2018-for-Website.pdf

Bhattacharjee, R. (2016, October 18). *BCIM-EC Could Be a Game Changer for Bangladesh*. Retrieved from www.bdnews24.com: https://opinion.bdnews24.com/2016/10/18/bcim-ec-could-be-a-game-changer-for-bangladesh/

BIDA. (2019). *Private Investment Proposals Registered with Bangladesh Investment Development Authority.* Retrieved from http://bida.gov.bd/: http://bida.gov.bd/?page_id=5135

CSIS. (2018). *How Will the Belt and Road Initiative Advance China's Interests?* (C. f. Studies, Ed.) Retrieved from https://chinapower.csis.org: https://chinapower.csis.org/china-belt-and-road-initiative/#toc-2

Decreus, Y., & Spies, J. C. (2016). *Export Potential Assessments A Methodology to Identify Export Opportunities for Developing Countries.* Geneva: ITC.

Hahm, H., & Raihan, S. (2018). "The Belt and Road Initiative: Maximizing Benefits, Managing Risks—A Computable General Equilibrium Approach. *Journal of Infrastructure, Policy and Development; , 2(a)*(140). doi:10.24294/jipd.v2il.140.

Statista. (2019). *Market Directory for Apparel Items: China*. Retrieved from www.statista.com: https://www.statista.com/outlook/90000000/117/apparel/china

UNCDP. (2019). *Ex ante* Assessment of the Possible Impacts of the Graduation of Bangladesh from the Category of Least Developed Countries (LDCs). Retrieved from https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/IA-Bangladesh-2019.pdf

UNCTAD. (2019). *World Investment Report: The Sepcial Economic Zones.* Geneva: United Nations Publications. Retrieved from https://unctad.org/en/PublicationsLibrary/wir2019_en.pdf

UNCTADStat. (2019). *Foreign Direct Investment: Inward and Outward Flows and Stock*. Retrieved from unctadstat.unctad.org: https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx

Annex

Table A 1 Major exporting items at HS 6-digit level to China [2018-19]

HS code	Description	Exports (million $)
610910	T-shirts, singlets and other vests, of cotton, knitted or crocheted	121.03
620342	Men's or boys' trousers, breeches, etc, of cotton	114.85
530710	Single yarn of jute or of other textile bast fibres of 53.03	69.37
620462	Women's or girls' trousers, breeches, etc, of cotton	44.32
611020	Jerseys, pullovers, etc, of cotton, knitted or crocheted	33.84
620520	Men's or boys' shirts of cotton	32.55
030614	Frozen crabs	26.41
410449	Tanned or crust, in the dry state other than full grains, unsplit, grain splits	21.92
530720	Multiple or cabled yarn of jute or of other textile bast fibres of 53.03	18.13
271012	Other kerosene type jet fuels	15.61
030192	Live eels	14.79
530310	Jute,etc (excl. flax, true hemp and ramie), raw or retted	14.04
620193	Men's or boys' anoraks, wind-cheaters, etc, of man-made fibres	12.67
610462	Women's or girls' trousers, etc, of cotton, knitted or crocheted	11.60
611030	Jerseys, pullovers, etc, of man-made fibres, knitted or crocheted	10.23
030624	Crabs (excl.frozen)	9.75
550320	Synthetic staple fibres, of polyesters, not carded, etc	8.87
410799	Leather of other animals, without hiar on including sides, nes	8.30
030389	Other fish, excluding livers and roes	8.13
611120	Babies' garments, etc, of cotton, knitted or crocheted	8.12
	Total	831.20

Source: Based on EPB data.

Table A 2 Major exporting items at HS 8-digit level to China [2018]

HS code	Product description	Quantity exported ('000)	Unit of exports	Bangladesh's exports in 2018 (million $)
62034290	Men's or boys' trousers, breeches, nes, of cotton	12688.4	No of items	111.4
61091000	T-shirts, singlets & other vests, of cotton, knitted or crocheted	68477.4	No of items	108.1
62046200	Women's or girls' trousers, breeches, etc, of cotton	8690.1	No of items	66.7
3063399	Other live/fresh/chilled crabs, not for cultivation	7425.3	Kilogram	57.2
62052000	Men's or boys' shirts of cotton	4989.3	No of items	32.1
53071000	Single yarn of jute or of other textile bast fibres of 53.03	103832.3	Kilogram	79.2
61102000	Jerseys, pullovers, etc, of cotton, knitted or crocheted	5884.9	No of items	30.3
62019390	Men's or boys' anoraks, wind-cheaters, etc, of man-made fibres, nes	953.3	No of items	20.5
61103000	Jerseys, pullovers, etc, of man-made fibres, knitted or crocheted	4168.9	No of items	22.2
3019999	Live fish nes, excl. Fry	5323.4	Kilogram	20.6
90021190	Objective lenses for photo camera/enlarger/reducer, projector, nes	121.0	Kilogram	11.2
42022100	Handbags, outer surface of leather, or of composition/patent leather	122.4	Kilogram	16.3
62019290	Men's or boys' anoraks, wind-cheaters, etc, of cotton, nes	566.7	No of items	9.5
61046200	Women's or girls' trousers, etc, of cotton, knitted or crocheted	3662.0	No of items	9.3
53072000	Multiple or cabled yarn of textile bast fibres of 53.03	28151.9	Kilogram	24.5
61112000	Babies' garments, etc, of cotton, knitted or crocheted	469.9	Kilogram	10.1
64039119	Other boots,leather upers & plastic outsole, not cover-calf	570.0	Kilogram	14.1
61051000	Men's or boys' shirts of cotton, knitted or crocheted	2201.8	No of items	8.4
61034200	Men's or boys' trousers, etc, of cotton, knitted or crocheted	1880.9	No of items	7.6
62043200	Women's or girls' jackets & blazers of cotton	700.7	No of items	7.0
61044200	Dresses of cotton, knitted or crocheted	2201.4	No of items	6.7
62063000	Women's or girls' blouses, shirts, etc, of cotton	1414.4	No of items	6.2
62033200	Men's or boys' jackets & blazers of cotton	484.5	No of items	6.1
61142000	Garments of cotton, knitted or crocheted, nes	2515.3	No of items	6.0
41044100	Bovine/equine hide&skin, tanned, dry state, full grain, unsplit; grain splits,	1318.6	Kilogram	19.1
62034390	Men's or boys' trousers, breeches, nes, of synthetic fibres	569.2	No of items	5.2
62029290	Woman's or girls' anoraks, wind-cheaters.., of cotton, nes	402.3	No of items	5.7

HS code	Product description	Quantity exported ('000)	Unit of exports	Bangladesh's exports in 2018 (million $)
62092000	Babies' garments & clothing accessories of cotton	221.7	Kilogram	6.4
61099090	T-shirts, singlets, etc, of other textiles, nes, knitted/crocheted	2311.8	No of items	6.1
3063392	Live/fresh/chilled swimming crabs, not for cultivation	823.1	Kilogram	5.8
53031000	Jute & other textile bast fibres, raw or retted	28605.7	Kilogram	15.3
62045200	Skirts & divided skirts of cotton	787.7	Number of item	5.4
41079200	Other bovine/equine leather, grain split, further prepd after tanning	2621.3	Kilogram	13.9
62029390	Woman's or girls' anoraks, wind-cheaters.., of man-made fibres, nes	162.1	Number of item	3.7
62104000	Men's or boys' garments of fabrics of 59.03, 59.06 or 59.07	98.1	Number of item	3.5
62064000	Women's or girls' blouses, shirts, etc, of man-made fibres	511.9	Number of item	3.2
41062200	Hide&skin of goat/kid, tanned/crust, without wool, dry state	257.8	Kilogram	3.9
53101000	Unbleached woven fabrics of jute or of other textile bast fibre	9508.9	Metre	5.0
62114390	Women's or girls' garments, of man-made fibres, nes	180.9	Number of item	2.7
65050099	Hats&other headgear, knitted or made up from lace or other fabric in the piece	740.9	Number of item	2.3

Source: Authors' presentation based on General Administration of Customs of the People's Republic of China (GACC) data.