

TABLE OF CONTENTS

CONTENTS	PAGE NUMBERS
<i>Declaration</i>	
<i>Certificate</i>	
<i>Acknowledgement</i> -----	<i>i</i>
<i>List of Abbreviations</i> -----	<i>ii</i>
<i>List of Tables</i> -----	<i>iv</i>
CHAPTER-I -----	1-12
INTRODUCTION	
1.1 Introduction	
1.2 Meaning of Trade Liberalisation in Bangladesh	
1.3 Brief History of Trade Relations between Bangladesh and China	
1.4 Major Elements of Trade Liberalisation	
1.5 Literature Review	
1.6 Rationale and Scope of the Study	
1.7 Objectives of the Study	
1.8 Research Questions of the Study	
1.9 Research Methodology of the Study	
1.10 Scheme of Chapters	
CHAPTER-II -----	13-35
ECONOMIC HISTORY OF BANGLADESH	
2.1 Introduction	
2.2 Phases of Economic Development in Bangladesh	
2.3 Growth in Service, Industry, Agriculture and External Trade sectors and their contributions to the economic development of Bangladesh	
2.10 Conclusion	

CHAPTER-III-----36-56

DYNAMICS OF TRADE RELATIONS OF BANGLADESH WITH CHINA

3.1 Introduction

3.2 Stages of Trade Relations of Bangladesh with China

3.3 Agreements and Treaties between Bangladesh and China

3.4 Conclusion

CHAPTER-IV-----57-72

CHANGING TRENDS AND PATTERNS OF TRADE RELATIONS BETWEEN BANGLADESH AND CHINA

4.1 Introduction

4.2 Responsible factors for growing interest of Bangladesh trade with China

4.2 Problems and Challenges

4.3 Conclusion

CHAPTER-V-----73-77

CONCLUSION

BIBLIOGRAPHY

CERTIFICATE

This is to certify that the dissertation entitled “**Bangladesh’s Trade Relations With China:1991-2011**” submitted to **Sikkim University** in partial fulfilment of the requirements for the degree of **Master of Philosophy** in International Relations, embodies the result of bona fide research work carried out by Sarad Gurung under my guidance and supervision. No part of the dissertation has been submitted for any other degree, diploma, associate-ship and fellowship. All the assistance and help receiver during the course of the investigation have been duly acknowledged by him.

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Date: 28.02.2015.

Dedicated to my Aama and Baba

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SARAD GURUNG

ABBREVIATIONS

ADB: Asian Development Bank

ADP: Annual Development Programme

AFTA: Asia-Pacific Free Trade Agreement

AL: Awami League

APPR: Action Programme for Policy Reforms

APTA: Asia Pacific Trade Agreement

ATC: Agreement on Textiles and Clothing

BADC: Bangladesh Agricultural Development Corporation

BEPZA: Bangladesh Export Processing Zones Authority

BNP: Bangladesh National Party

BOI: Board of Investment

BSCIC: Bangladesh Small and Cottage Industries Corporation

BTC: Bangladesh Tariff Commission

EPB: Export Performance Benefit

EPZs: Export Processing Zones

FDI: Foreign Direct Investment

FY: Fiscal Year

IMF: International Monetary Fund

LDCs: Least Development Countries

MFA: Multi-Fibre Arrangement

MFN: Most Favoured Nation

NGO: Non-Governmental Organisations

NIP: New Industrial Policy

ODI: Outward Direct Investment

RMG: Ready Made Garment.

SAARC: South Asian Association for Regional Cooperation

SAFTA: South Asia Free Trade Agreement

SAPTA: South Asian Preferential Trade Agreement

TCB: Trading Corporation of Bangladesh

VAT: Value-Added Tax

WIT: World Integrated Trade

LISTS OF TABLES

Sl. No.	Titles of Tables	Page No.
1	Table 1: Economic Growths in Bangladesh	24
2	Table 2: Bangladesh' Economic Growth 1991-2000	24
3	Table 3: Some important phases of the Bangladesh RMG industry	24
4	Table 4: Share of Different Sectors to GDP in Bangladesh	29
5	Table 5: Bangladesh's Trade with China and India (in million US\$)	32
6	Table 6: Bangladesh's trade value with China (in million US dollar)	39
7	Table 7: Bangladesh's Trade Volume with China (in million \$US)	46
8	Table 8: Bangladesh's exports and imports value with China from China 2000 to 2010	47
9	Table 9: Bangladesh's trade statistics with China	47
10	Table 10: Bangladesh's Trade with China (in million US\$)	48
11	Table 11: Bangladesh's export policy to China	64
12	Table 12: Changing Trends of Bangladesh Trade with China	64

CHAPTER-I

INTRODUCTION

1.1 Introduction

1.2 Meaning of Trade Liberalisation in Bangladesh

1.3 Major Elements of Trade Liberalisation

1.4 Brief History of Trade Relations between Bangladesh and China

1.5 Survey of Literatures

1.6 Rationale and Scope of the Study

1.7 Objectives of the Study

1.8 Research Questions

1.9 Research Methods

1.10 Scheme of Chapters

CHAPTER-II

ECONOMIC HISTORY OF BANGLADESH

2.1 Introduction

2.2 Phases of Economic Development in Bangladesh

2.3 Growth in Different Sectors and their Contribution to GDP

2.4 Conclusion

CHAPTER-III

DYNAMICS OF BANGLADESH'S TRADE WITH CHINA

3.1 Introduction

3.2 Stages of Trade Development of Bangladesh with China

3.3 Agreements and Treaties between Bangladesh and China

3.4 Conclusion

CHAPTER-IV

CHANGING TRENDS AND PATTERNS OF TRADE RELATIONS BETWEEN BANGLADESH AND CHINA

4.1 Introduction

4.2 Factors for Growing Interest of Bangladesh in doing Trade with China

4.3 Problems and Challenges

4.4 Conclusion

CHAPTER-V

CONCLUSION

BIBLIOGRAPHY

CHAPTER-I

INTRODUCTION

1.1 Introduction

The proposed study attempts to explore Bangladesh's trade relations with China from 1991 to 2011. The study also attempts to critically analyse the post-liberalisation trade policy of Bangladesh with China. Post-liberalisation phase of Bangladesh was referred to as the economic reforms or trade liberalisation in Bangladesh from 1991-93 when government of Bangladesh introduced the Enhanced Structural Adjustment Facility (ESAF) with the World Bank (WB) and the International Monetary Fund (IMF). With this programme, Bangladesh launched a comprehensive trade policy reforms or trade liberalisation in the early 1990s that included substantial reduction of tariffs, removal of quantitative restrictions, and moves from multiple to a unified exchange rate and from a fixed to freely floating exchange rate system to increase its export performance.¹

After independence in 1975, Bangladesh had followed a strategy of a highly restricted trade regime. This policy was characterised by high tariffs and non-tariff barriers to trade and an overvalued exchange rate system. The trade regime registered a major shift in the mid-1980s, when a policy of moderate liberalisation was initiated. However, in the early 1990s, large-scale liberalisation of trade was implemented under democratic system. Since then, successive governments have reaffirmed their commitment to the development of a more liberal trade regime.²

1.2 Trade Liberalisation in Bangladesh

Trade liberalisation in Bangladesh is considered to be increased in productivity through competition, efficiency, innovation and acquisition of new technology. In other words, the trade liberalisation is mainly for economic growth and poverty alleviation. In particular, trade liberalisation is also considered to expand economic opportunities by enlarging the market size and enhancing the impact of

¹ Ara, Laila A. and Rahman, M. Masudur (2011) "The Competitiveness and Future Challenges of Bangladesh in International Trade" Dhaka, Dhaka University press, p-3.

² Ahmed, N. (2001), *Trade Liberalization in Bangladesh*. University Press Ltd. Dhaka. P-7.

knowledge spill over.³ Further, it deals with the composition of export and import liberalisation. Though international financial institutions such as the World Bank and IMF have been consistently pursuing the claim that trade liberalisation in Bangladesh is conducive to achieving high economic growth and alleviating poverty.

Trade liberalisation has been one of the major policy reforms in Bangladesh for economic development. It has been implemented as part of the overall economic reform programmes namely the Enhanced Structural Adjustment Facility (ESAF) of the IMF and World Bank in 1991-93. This adjustment programme put forward a wide range of economic policy reforms including trade policy, industrial policy, monetary policy, fiscal policy and exchange rate policy, privatisation of state-owned enterprises and promotion of foreign direct investment.⁴

In fact, there have been concerns over whether the impact of trade liberalisation has been favourable to the domestic economy. There are debates over the future direction of trade liberalisation in Bangladesh. Questions have been raised over whether Bangladesh ought to undertake further drastic wholesale liberalisation of trade or adopt a more gradual approach.⁵ Thus, this study analyses the country's economic growth through trade liberalisation with China. Moreover, the study also attempts to examine the country's trade relations with China and how this has impacted upon the economy of Bangladesh.

1.3 Major Elements of Trade Liberalisation in Bangladesh

Further, the trade liberalisation policy of Bangladesh has put forward some important elements of trade liberalisation for reiterating the government's commitment to continue liberalisation policy in Bangladesh. These commitments are manifested in the stated objectives which are to:

1. One of the major elements of trade liberalisation in Bangladesh is de-nationalisation of public sectors. De-nationalisation to the industrial, services, including transportation and power sectors are the important area which was fully liberalised throughout the trade liberalisation of Bangladesh. Throughout the trade liberalisation of Bangladesh, the economy of the country has

³ Raihan, Selim (2008), "Trade Liberalisation, Growth and Poverty in Bangladesh", p-3.

⁴ Ahmad, S. and Sattar, Z. (2004). "Trade Liberalization, Growth and Poverty Reduction: The Case of Bangladesh", World Bank, Dhaka.

⁵ Ahmed, *Op.cit*, (2001), P-5.

undergone important structural transformations over the year. However, remarkable growth in the ready-made garments sector is also contributing to trade liberalisation in the country. As result, the contribution of different sectors to GDP had almost doubled to over 20 per cent over the year.⁶

2. Flexibility of currency is another important element of trade liberalisation of Bangladesh. However, trade reforms initiated in the 1991-93 were aimed at moving towards an open economy by making the currency convertible on the current account. To maintain flexibility in the exchange rate, a policy of creeping devaluation was also followed. An exchange liberalization step took place in the country with the introduction of a fully market-based exchange rate.⁷
3. A reform in the exports of goods of country is also another important element of the trade liberalisation of Bangladesh. Trade liberalisation also focuses on an export diversifying, improving the quality of exports and to stimulating higher value-added exports to machinery and intermediate inputs.
4. Reduction in tariff is also important reforms of trade liberalisation of Bangladesh. The maximum tariff rate was lowered from 350 per cent in fiscal year 1991 to 37.5 per cent in 2000.
5. Liberalisation of the Import Policy of Bangladesh is a step to keep pace with the gradual development of globalisation and free market economy under the WTO. Liberalisation of trade is mainly to provide facility for easy import for the export support industries for the purpose of placing export industries on a sound base, and with this end in view, co-ordinate the import policy of the country with the industrial policy, export policy and other development programmes. Due to the adoption of import policies, the import rate of the country with China increased to US\$ 21,518 million in 2011 which 6,859 in 1995.⁸ While the import liberalisation is meant to correct the domestic

⁶ Rahman, Nurun N. (2009) "Policy Reforms and Trade Liberalization in Bangladesh" (Online Web) retrieved on 23/01/2015 www.unctad.info/upload/TAB/docs/.../bangladesh_study.pdf, p.12.

⁷ Nahar, Bodrun and Mahinda Siriwardana (2009), "Trade Liberalisation and Poverty in Bangladesh: A General Equilibrium Approach", Paper presented at Australian Agricultural and Resource Economics Society 53rd Annual Conference, 10-13 February, 2009, Cairns, Australia, pp-5,6.

⁸ International labour organization (2013) "Bangladesh Country Report: Trade and Employment". P-9. International labour organisation office publications

incentive structure in the form of reduced protection for import-substituting sectors, export promotion schemes.

6. Providing facility for import of technology for the widespread expansion of modern technology is also important area which is developed throughout the trade liberalisation.
7. Elimination of Quantitative Restrictions is also important elements of trade liberalisation of Bangladesh. The first major slashing of QRs took place under the import policy order for 1991–1993, which reduced the number of items on the import control list from 325 to 193. During the period 1993–1997, the number of restricted items was cut to between 111 and 120.⁹
8. Regional Trade Cooperation is also important elements of trade liberalisation of Bangladesh. Regional trade agreements or Cooperation can offer an opportunity for trade liberalization, including tariff reductions among participant countries, which can go beyond multilateral commitments. Bangladesh is currently a member of two Regional Trade Agreements like the South Asia Free Trade Area and BIMSTEC, an economic cooperation arrangement between Bangladesh, India, Myanmar, Sri Lanka and Thailand. To what extent they will open up trade among participating countries will depend upon the outcomes of ongoing negotiations, including the depth and breadth of tariff cuts, disciplines on NTBs, the scope of negative lists, rules of origin and contingency provisions.¹⁰

As a result of the trade policy reforms or trade liberalisation of Bangladesh, Bangladesh's economy has become increasingly open to international market forces.

Bangladesh put forward trade liberalisation policy in 1990s for active participation in world trade. Therefore, the country placed foreign trade and trade liberalization at the core of its development strategy and sought the active intervention of trading partners to facilitate its meaningful participation in world trade. At the 6th Ministerial Conference in Hong Kong 2005, Bangladesh, China reiterated its request for duty- and quota-free market access for all LDCs products in the developed

⁹ Rahman, *Op.cit*, (2009), p-13.

¹⁰ *Ibid*, p-15.

countries and in developing countries in a position to grant such access conditions.¹¹ It also sought a regime to facilitate the movement of temporary service providers. In the light of the erosion of preferences by MFN tariff cuts, Bangladesh considered that more innovative preferential schemes should be found to help the LDCs.

Moreover, an export policy reform of Bangladesh is also meant for increasing assistance to exports. The export policy reforms have been implemented, which have included trade, exchange rate, and monetary and fiscal policy incentives, aimed at increasing effective assistance to exports. A few sectors, especially the ready-made garments (RMG), have been among the beneficiaries of these reforms. The reforms have also provided exporters with unrestricted and duty-free access to imported inputs, financial incentives in the form of easy access to credit and credit subsidies, and fiscal incentives such as rebates on income taxes and concessionary duties on imported capital machinery. They were also aimed at strengthening the institutional framework for export promotion.¹²

At last, it can say that the economic or trade liberalisation in the country is meant for economic growth as well as for active participation in international trade.

1.4 Brief History of Trade Relations between Bangladesh and China

Relations between Bangladesh and China was historically characterised by religious, cultural, political and trade links. But after the establishment of formal diplomatic relation in 1975, the bilateral relationship between two countries became one of the key concerns of all the successive governments of Bangladesh. Since 1975, bilateral economic and trade cooperation between Bangladesh and China have significantly developed with the continuing growth in cooperation fields. Leaders of both countries continuously worked to make cordial relations in every possible way. For instance, the former President of Bangladesh Ziaur Rahman, made the first high level visit to China in 1977 and subsequently in 1978, the Vice-President of China made a visit to Bangladesh. Through this visit by both countries, they reached to sign an Agreement of Cooperation in Economy, Science and Technology.¹³ Relations between Bangladesh and China in 1980s were the period of growth and prosperity.

¹¹ WTO document WT/MIN(05)/ST/38, (Online Web) retrieved on 15 December 2014.

¹² UNESCAP (Online Web) accessed on 02.01.2015, <http://www.unescap.org/tid/Bkkagr.asp> accessed on 02.01.2015.

¹³ Sarker, Noor M. (2014), "Bangladesh-China Relationship at the Dawn of the Twenty-first Century", *Peace and Security Review*, Vol. 6(11), pp.72-96.

Bangladesh is receiving huge construction projects from China like the construction of deep-sea port in Chittagong. Both Dhaka and Beijing took initiatives to create a broader regional co-operation in trade and commerce.

In August 1980, President Zia-ur Rahman visited China. The two governments signed *The Agreement of Loans and the Agreement of Aviation Transportation*. Subsequently, the visit made by Mr. Hussain Mohammad Ershad, the President of Bangladesh, further attached great importance to the development of Bangladesh's relations with China. In March 1986, President Li Xiannian of China visited Bangladesh. Both sides expressed the determination to further strengthen friendship and expand cooperation so as to promote the bilateral relations to a higher level. During the period of Mr. Ershad presidency appreciated Chinese government's "One China" policy. Both the countries successively signed the Agreement of Cooperation in Science and Technology and the Agreement of Establishing Meeting System between Officials of the two Foreign Ministries.¹⁴ In November 1989, further Premier Li Peng paid an official goodwill visit to Bangladesh, during which both sides signed the Agreement on Mutual Exemption of Visas and the Agreement of Trade.

Since the late 1990s, Dhaka has seen Kunming, the capital of Yunnan province, as the gate to the Chinese marketplace and as a linkage to the ASEAN nations. The relations between Bangladesh and China during 1990s were not only marked by economic and trade cooperation but it is also marked by other means of tools such as defence cooperation and the training and technical assistance and regular exchange of high level visits between Bangladesh and China.

In March 1991, Bangladesh Nationalist Party (BNP) won the election and Begum Khaleida Zia became Prime Minister of the government. The new government declared to inherit the internal and external policies of the late President Ziaur Rahman. During this period, the friendly relations and cooperation between Bangladesh and China continued to grow. Again in 1991, Prime Minister Khaleda Zia of Bangladesh paid an official visit to China further enhancing the relations.

¹⁴ You may visit the articles entitled "China-Bangladesh Relations" prepared by the economic and Commercial Counsellor's Office of the Embassy of the People's Republic of China in the People's Republic of Bangladesh.

In 1996 parliamentary election was held in Bangladesh. The Awami League won the election and its Chairperson Sheikh Hashina became Prime Minister of Bangladesh. After coming into power, the Awami League also paid importance to the friendly ties with China and the Sino-Bangladesh relations continued to develop smoothly. During the official visit of Sheikh Hashina to China, two countries agreed to sign the Agreement on Encouraging and Protecting Investment, the Agreement for the Avoidance of Double Taxation and the Agreement of the Prevention of Tax Evasion.¹⁵

In 2002, the Bangladesh Nationalist Party (BNP) led four-party coalition government in Bangladesh adopted a ‘Look East’ policy to maximize economic and strategic achievements that could emerge from closer relations with East Asian countries, especially China. Chinese Premier Zhu Rongji visited Bangladesh in January 2002 and held bilateral conversation with the then Prime Minister Khaleda Zia, where both the parties reiterated to further strengthen the Bangladesh-China friendship and cooperation, including special highlights on bilateral economic cooperation and trade.¹⁶ For the development of trade and economic relations between Bangladesh and China had signed several agreements such as;

- Agreement on Economic and Technical Cooperation.
- Certificate of Handover of the Bangladesh-China Friendship Conference Centre.

Moreover, Bangladesh has rapidly been moving faster to be the largest trading partner of China in the Asian region. In 2010, Bangladesh received duty free access to some 5,000 products from China as a “goodwill gesture” in order to enhance economic ties between the two countries. Bangladesh now extends tariff concessions to China, India, the Republic of Korea, and Sri Lanka on 210 items.¹⁷ In addition, Bangladesh has been freed from bilateral debts of worth more than 600 million Chinese yen in 2011. In Fiscal Year (FY) 2012-13, Bangladesh’s import from China amounted around US\$6500 million, whereas the country’s export to China calculated

¹⁵ *Ibid.*

¹⁶ Sarker, *Op.cit.*, (2014), pp.72-96.

¹⁷ UNESCAP, *Op.cit.*, (2005).

around US\$460 million.¹⁸ Under the auspices of the Asia-Pacific Free Trade Agreement (AFTA), China removed tariff barriers to 84 types of import commodities from Bangladesh and has been working to reduce tariffs over the trade of jute and textiles, which are Bangladesh's chief domestic products.

In recent time, Bangladesh's major exports to China are frozen foods, cotton textiles, fish, tea, chemical products, leather, raw jute, knitwear, etc. Conversely, major imports include textiles, machinery and electronic products, cement, fertilizer, tire, maize, organic chemicals, coffee, spices, organic foods, silk fabrics, etc.¹⁹ Due to close trade relations, the volume of trade between two countries has increased over the years. This study attempts to locate the factors or reasons that are responsible for contributing Bangladesh's growing interest with China and vice versa.

1.5 Survey of Literature

Most of the available literature on trade liberalization in developing countries leads to develop the economy. Import restrictions of any kind create an anti-export bias by raising the price of importable goods relative to exportable goods. The removal of this bias through trade liberalization will encourage a shift of resources from the production of import substitutes to the production of export-oriented goods (Tussie and Carlos Aggio, 8.). In the economic history of Bangladesh since 1971, the Mujib regime (1972-75) is considered unique for the development of the economy of country (Singh, 2003: 39).

Nagendra Kr. Singh's book titled *Economic Development in Bangladesh* (2003) is one of the most important available literatures related to on this topic. This book details the concepts of increasing imbalances of exports and imports between Bangladesh and China. It also provides the concept of recent problems and challenges of Bangladesh's trade with others countries. Nagendra Kr. Singh also discusses in his book unfavourable terms of trade due to higher prices of imported goods and lower prices of some exported goods. He has also shown higher volume of exports of two major exportable items namely raw jute and jute goods, foreign exchange earnings from these items have declined considerably due to lower prices in the international market.

¹⁸ Sarker, *Op.cit*, (2014), p-101.

¹⁹ *Ibid*, p-102.

Muchkund Dubey's book titled *India's Foreign Policy with the Changing World* (2013) discusses about the India, China and Bangladesh, and Bangladesh's got deep to trade with China rather than India. The study also tries to point out the responsible factors for growing interest of Bangladesh with China. Through this study, it came to know that for the development of the economy of the country, Bangladesh received economics aid from others countries such India, USA, China etc.

Vishnu Prajapati *South Asia: Political Priorities and Economic Imperatives* (2003) conducts experiments on regional cooperation, political economy of regional trade blocs and South Asian integration and development strategies and how these factors have been useful to develop the economy of the country. Through this work, it is clear to say that for the development of economy of the country, trade liberalisation or regional trade blocs is very important. Further, it discusses about the benefits of trade or economic liberalisation of South Asian countries and its usefulness.

Gautam Murthy *International Economic relations* (2008) discusses about Regional Trade Agreements, Customs Union, and Free Trade Agreements etc. It also tries to illustrate the concept of trade liberalisation, trade facilitation and investment facilitation in South Asia Region. This study also discusses about the concept of the Least Developed countries (LDCs) and their trade liberalisation and how liberalisation is beneficial to them. The LDCs did not benefit from inflows of capital seeking alternatives destinations or higher returns as the prospects for profits in financial markets in industrial countries deteriorated. The lower incomes due to the slowdown in exports and falling petroleum prices reduced fiscal receipts for many LDCs and by cutting expenditures to keep budgets in balance they further aggravated the down turn in economic activity.

David Lewis *Bangladesh; Politics, Economy and Civil Society* (2011) discusses the benefits of trade liberalisation in Bangladesh. It explains that the trade liberalisation of the country is meant for economic growth as well as poverty reduction. The study also discussed from post 1990s, the GDP growth of the country has been tremendous. Further, he also explained about the export of garments which is one of the largest export items of Bangladesh and how this sector has got momentum for further enhancing trade relations with other countries.

Noor Mahamed Sarker “Bangladesh-China Relationship at the Dawn of the Twenty-first Century” (2014) discusses Bangladesh and China relationship in 21st century. It discusses the overall relationship between two countries rather economic or trade relations. The study mainly focuses on both countries continuously worked to make cordial relations in every possible way. It also discusses Bangladesh’s ‘Look East Policy’ is meant to maximize economic and strategic achievements with East Asian countries, especially China. The study also focuses on Bangladesh’s growing interest to be the largest trading partner of China in the Asian region.

Urvashi Aneja “China-Bangladesh Relations: An Emerging Strategic Partnership?” (2006) is one of the important works for developing the topic. It tries to explain that in recent time Bangladesh and China have been maintaining good relations not only in trade area but also in others aspects of relations such as military or defence cooperation, political relations etc. Thus, it tries to cover overall relationship between Bangladesh and China in recent period.

The present study is meant for bridging the existing gap. This study will try to understand Bangladesh’s growing trade interest with China ; and how has the Chinese government reciprocated ? Is China’s interest in the South Asian region contributing to the trade relations with Bangladesh? The present study will try to look into some of these issues.

1.6 Rationale and Scope of the Study

The dissertation attempts to discuss Bangladesh’s trade relations with China especially from post-liberalisation perspectives. Recently, Bangladesh is considered as one of the largest trading partner of China. Thus, Bangladesh being a third largest trading partner of China, what all are the reasons or factors that led to develop the relations. The study tries to explore from Bangladesh perspectives rather looking from bilateral analysis. Since the study explores from Bangladesh perspectives, it exclusively focuses on post-liberalisation phase of Bangladesh starting 1990s. The study will focus on time period of 1991-2011. Though there are several published works, the present study will attempt to analyse Bangladesh’s trade with China. Along with this, the study tries to explain the prospects and challenges of Bangladesh’s trade with China. Therefore, the present study intends to explore Bangladesh’s overall trade policy with China from post-liberalisation perspectives.

1.7 Objectives of the Study

- To explore the impact of trade liberalisation in Bangladesh and its impact upon Bangladesh economy.
- To analyse Bangladesh's post-liberalisation trade policy with China from 1991.
- To explain responsible factors which led Bangladesh to be a largest trading partner of China.
- To explain the problems and challenges of Bangladesh trade with China.

1.8 Research Questions

1. What are post-liberalisation trade policies of Bangladesh and how does it impact on Bangladesh's economy?
2. What are the Bangladesh's trade policies with China mainly from 1990s?
3. What are the factors that are responsible for growing interest of Bangladesh in trading with China?
4. Is China going to be able to sideline the historical ties of India with Bangladesh?

1.9 Research Methodology

The present study adopts both qualitative and quantitative methods. It will use both primary and secondary data interpretation. For primary data interpretation, the study has used original government's documents, reports, international organisations reports (WTO's trade report, IMF, WB, ADB etc.) and annual report of the various banks of Bangladesh and such other institutions. As far as secondary data is concerned the dissertation has employed books, journals, and news papers articles.

1.10 Chapterisation

The first chapter of this study discusses the meaning of trade liberalisation in Bangladesh and also trace the brief historical overview of trade relations of Bangladesh with China. Second chapter deals with the economic history of Bangladesh. While discussing economic history of Bangladesh, chapter also discusses the different phases of economic development in Bangladesh. The third chapter deals with the dynamics of Bangladesh's trade relations with China which includes different phases of liberalisation and its impact on Bangladesh's trade relations with China. Further, chapter expands the Agreements and treaties between Bangladesh and China on trade related issues. Fourth chapter discusses about changing trends and patterns of trade relations of Bangladesh with China. Widely, this chapter also discusses the responsible factors which led Bangladesh to be a growing trading partner of China and the problems and challenges of Bangladesh's trade with China. The chapter ends with the conclusion comprising of major findings and analysis.

CHAPTER-II

ECONOMIC HISTORY OF BANGLADESH

2.1 Introduction

This chapter explores the economic history of Bangladesh since its independence in 1971. Since the Liberation Movement of Bangladesh 1971, Bangladesh has been characterised as a poor and underdeveloped country having high population, low resource base and persistent socio-political instability. Bangladesh inherited a very weak economy at independence in 1971. An economic issue played a dominant role throughout the national liberation struggle of Bangladesh and has continued to play a critical role in the post-independence politics of Bangladesh. As an independent state, Bangladesh started economic reforms for the development of country which was severely affected by the liberation war of 1971. According to UN study of 2002, the cost of country's economy was estimated to be around \$1.2 billion. Economic infrastructure was severely damaged, domestic production was greatly hampered and external links were seriously disrupted. Loss of human resources also put the economy of the country under constraints.¹ As an underdeveloped country with a poor resource base and low per capita income, economic interest became the primary concern for the country. For the economic development of the country depends mainly on agriculture, industry and trade and service sectors. In Bangladesh's economy, the role of agriculture sector is tremendous. Agriculture is the mainstay of Bangladesh's economy accounting about 19.49% of Gross Domestic Product (GDP).²

2.2 Phases of Economic Development in Bangladesh

Since independence in 1971, political stability and regime survival of Bangladesh often depended on the performance of the economy and sufficient flow of foreign aid. Again, the pattern of foreign policy of the country was designed to achieve economic goals and objectives which are based on foreign policy and expansion of trade.³ Further, after independence, the experiment with the state controlled economy was reversed with the change in the political regime in 1975 and

¹ Singh, Nagendra Kr. (2003). *Economic Development in Bangladesh*, New Delhi, Anmol Publications Pvt. Ltd. Pp-90,91.

² Bakshi, ASM Rejaul Hassan Karim (2005), "The Problem and Potentials of Industrialisation Process in a Transition Economy: Lessons from Bangladesh" *Pakistan Journal of Social Sciences* Vol. 3(4), Grace Publications, P-583.

³ Singh, *Op.cit*, (2003), p-95.

was followed by deregulation and liberalization to promote a process of private sector led development. Bangladesh's continued susceptibility to internal and external vulnerability. The domestic politics of Bangladesh was very bad. The strains on politics and macro-economic balances especially the high rate of inflation, fiscal and monetary imbalances, and inadequate external sector management coupled with low tax efforts and the poor quality of public spending during most of the period made the management of the macro economy a difficult challenge in sustaining a high growth process.⁴ Despite the fact, the pace of implementation of such policies of deregulation and liberalisation, however, varied considerably over different periods. Therefore, next section discusses about the different phases of economic development in Bangladesh.

2.2.1 First Phase in the Economic History of Bangladesh (1971-82)

The first phase (1971-1982) is termed as the period of reconstruction and recovery amidst political turbulence. During this period, the country achieved its pre-independence levels of per capita Gross National Products (GNP) and other macroeconomic indicators, such as gross savings and gross investment as shares of Gross Domestic Products (GDP). The period was also characterised by several socio-political and economic developments such as economic nationalism emphasising inward orientation with strong state control, violent change of political power followed by partial liberalisation.

During this period, the public enterprises were created by Awami League government right after liberation. The 1970s election manifesto of Awami League promised to nationalise the heavy industry in Bangladesh. Just after the liberation war of Bangladesh 1971, the government took over the public ownership of all industrial units abandoned by the Pakistanis with the assets above Tk. 1.5 millions: further more while promising to pay compensations, it nationalised all units owned by Bangladesh citizens in three large scale industries i.e. cotton textiles, jute manufacturing and sugar manufacturing. Since its inception, the programme of nationalisation in Bangladesh has been plagued by many problems. There was an additional problem relating to the financial liabilities of the abandoned enterprises which also required government intervention.

⁴ Mujeri, Mustafa and Sen, Binayak (2002). "A Quiet Transition: Some Aspects of the History of Economic Growth in Bangladesh, 1970-2000." Pp-11-12.

2.2.1.1 The First Five Year Plan in Bangladesh (1973-78)

The First Five Year Plan (1973-1978) was launched by the Mujibur Rahman's government in order to reconstruct the war ravaged economy, to reduce poverty and to achieve social justice falls under the first phase of economic development of the country. The targets of the first five year plan were far from being fulfilled partly because of shortfalls in the implementation capacity. Especially slow improvement in organisation and management and partly because of shortfall of resources.⁵ The course of Bangladesh's economy was to be distribution sensitive and routed through public sector-led growth strategy. It was envisaged that industrialisation would be achieved through an import-substituting strategy and the rural economy would be revitalised through collectivisation.⁶ While there was some success in the reconstruction of the war devastated economy, on the other hand, socio-economic objectives could not be achieved due to a number of reasons such as shortfall of domestic and external resources, natural calamities, worldwide recession, institutional weakness and large scale corruption.

After the political change in 1975⁷, the military government announced a revised industrial policy in December 1975. This policy called for a greater role for private sector in all spheres of economic activity including both trade and industry of Bangladesh. Again by 1977, the government tried to reduce role of public sector by emphasising on private sector to operate in almost all sectors of a country. Production has increased in certain sectors, but in many cases average cost has exceeded the sale price. In such case, the government had to provide easy bank loans or indirect subsidies to keep production going. Thus, while some of the sectors have done fairly well, but the overall financial performance of the sector in the country is very poor.⁸

The major thrust of policies during this period was to promote the development of an indigenous private sector. Government also gave important to expand the scope for private sector participation in all the major areas of economic

⁵ Nurul Islam (1978), Development Strategy of Bangladesh, oxford publications. P-4.

⁶ Singh, *Op.cit*, (2003). P,91.

⁷ The political change in 1975 referred to the change of the nature of political system of Bangladesh.

⁸ *Idib*, P-587.

activity, including industry, trade, banking, insurance and distribution of agricultural inputs.⁹

During the period 1977-80 about a billion dollars were disbursed to promote investment in industry, transport, trade and construction. Investment in both public and private sectors were growing at nearly 15 percent annually in real terms. This was facilitated by a policy that increasingly anchored on foreign aid and was assisted by a privatisation strategy that was based on direct government controls aided by cheap credit as well as other incentives such as protection to domestic industries.¹⁰ However this boom was only short lived as economic mismanagement gradually became all purposive. To a certain degree, current economic problems like sick industries, large scale loan default and default culture originated from this experiment with aid dependent state sponsored private capitalism.

2.2.1.2 The Two Year Plan in Bangladesh (1978-80)

Zia-ur Rahman government initiated the Two Year Plan (1978-80) with the objective to bring about improvement in the standard of living by ensuring adequate supplies of basic needs. During the period of Zia-ur Rahman, economic interests of Bangladesh were to move towards free market economy by de-nationalising industries, giving incentives to private investors. Under this policy, the government put emphasis on rural development and undertook policies and programs aimed at mobilising the rural people toward development activities. Industrial Policy is also one of the outcomes of Zia government. The government revised the industrial investment policy and provided a much greater role for private enterprises. His government rationalised and liberalised the regulatory policy measures on private investment. Thus, the rationalisation and liberalisation policy of industrial policy of Bangladesh, a large number of small scale industry and agricultural banks were denationalised. For the implementation of this policy, the administrative reforms were made at local level and some new administrative initiatives were undertaken to solidify the rural elite people support of the government.

⁹ Mujeri, *Op.cit.*, (2002), P-16.

¹⁰ Mahmud, Wahiduddin (2003) "Bangladesh: Development Outcomes and Challenges in the Context of Globalization," the paper was presented at the conference on *The Future of Globalization: Explorations in Light of Recent Turbulence* co-sponsored by the Yale Center for the Study of Globalization and the World Bank, October 10-11, 2003, Yale University.

General Ershad became the president of Bangladesh in 1980 and continued the policy of Zia-ur Rahman's government. General Ershad rationalised the military takeover in terms of the country's unprecedented corruption, serious economic crises and deterioration of law and order situation. General Ershad was indeed faced with immense economic problems which called for more demanding adjustments in planning strategy, effective and quick implementation of ongoing projects and adoption of other fiscal measures. Thus, the new government's objective was to weed out corruption and to cure the ills of the country. It is also necessary that the distribution of benefits of growth be spread more equitably among the vast majority of the poor people who are living below the subsistence level.¹¹ General Ershad's economic policies for the development of Bangladesh were to maximise the welfare of peoples and government's socio-economic development.¹² Government spelled out five main economic targets. First, it deals with achieving seven percent growth rate for the next fiscal year. Second, it called to prevent wasteful expenditures in the public sector. Third, it deals with encouraging private investment. Fourth, achieving food self sufficiency and finally it deals with undertaking effective and realistic measures to curb population growth.¹³

Too much dependence has limited the options of Bangladesh in following an independent domestic economic policy. The extent of aid dependence is really alarming as in 1980 as much as 85 percent of the country's development budget 60 percent of its investments and 63 percent of its commodity imports depended on foreign aid. This has contributed to increase poverty concentration in the ownership of wealth, inequality in the distribution of income and insignificant expansion of reproduction forces within the economy. The two most important economic and socio-economic goods for Bangladesh during this period were achieving self sufficiency in food grains especially rice and slowing the rate of population growth. Therefore, under Zia-ur Rahman's government accomplished much more in the rural areas in both social and agricultural work. Further, government introduced a food for work programme that tackled smaller works, many of them irrigation projects that

¹¹ *Ibid*, p-9.

¹² For further, please visit the Encyclopaedia of Bangladesh vol. 29 by Nagendra Kr. Singh (2003) *Economic Development in Bangladesh*, New Delhi, Anmol Publications Pvt. Ltd. p-9.

¹³ Kamal Uddin Siddique (1979), "The Political Economy of Land Reforms in Bangladesh" *The Journal of Social Studies* No. 4.

increased cropping intensity. It helped to alleviate the serious problem of unemployment and underemployment of the landless and ease their shortage of food.

By the end of 1981, the unrealistic size of the plan had to be slashed down to taka 18 thousands crore from its original size of Taka 25,595 crore due to shortages of domestic resources and foreign capital inflow. In an editorial the “New Nation”¹⁴ maintained that in spite of government stress on domestic resource of mobilisation, dependence on external assistance amounted to move 55 percent for financing even the revised plan.¹⁵ Thus, government gave greater attention to expansion of foreign investment and the promotion of trade in order to maintain her economic stability.¹⁶ Therefore, the government during the Second Five Year Plan gave greater incentives to offering liberal, fiscal and monetary facilities in the forms of investment and allowances such as preferential custom duty and easy long term loans. During 1980s, nationalised industrial sectors were given freedom to fix their own prices and management of their own.¹⁷ Thus, during fiscal year of 1981-82, Bangladesh Agricultural Development Corporation (BADC) decided to implement 28 schemes, 15 of which were in the agricultural sector and the rest in the irrigation sector under the Annual Development Programme (ADP). But it failed to complete 30 percent of its targeted projects as the government could not provide the necessary funds.¹⁸

2.2.2 Second Phase in the Economic History of Bangladesh (1983-90)

The second phase (1983-1990) was the period of slow economic growth with growing macro-economic instability. The slow growth became increasingly unsustainable and the ensuing macroeconomic crisis led to the implementation of a range of stabilisation measures. By 1983, the government of Bangladesh announced the New Industrial Policy (NIP) which further enhanced liberalising the industrial sector. To facilitate private investment in industry, loan approval and disbursement procedures were simplified. For example, the government has established the first export processing zone in Chittagong for encouraging the Foreign Direct

¹⁴ The term *New Nation* signifies change of Bangladesh’s economic nature with free mobilisation of domestic resources and dependence on external assistance.

¹⁵ Rehman, Sobham, (1981) “Bangladesh and the world economic system: the crisis of external dependence” *Development and Change*, vol.12,p-327.

¹⁶ *Ibid*, p-328.

¹⁷ *Idib*, P-337.

¹⁸ Parta S. Ghosh (1982), “Ersad’s problems and promises,” *Mainstream*, vol. XX, No. 34, p-9

Investment.¹⁹ It has been followed by other measures such as tax holidays, income tax rebate and other infrastructural benefits to the export oriented enterprises. Although the reform measures were driven by balance of payments crisis and the severe deterioration of macro-economic balances characterised by poor domestic resource mobilisation effort and low savings and investments low rate of export growth and a growing dependence on foreign aid, a policy of reforms for stabilisation and structural adjustment was initiated under the guidelines of the World Bank and International Monetary Fund. The major reforms of these policies were the three year IMF Structural Adjustment Facility (1986), three year IMF extended Structural Adjustment Facility (1990) and Action Programmes for Policy Reforms. The major objective of these policies was an expansion of role of private sectors which was based on an increasingly important and dominant role of market forces in resources allocation.²⁰

The Structural Adjustment Package in Bangladesh envisaged wide-ranging measures in different sectors of the country which includes de-nationalisation, divesting and privatisation of state owned enterprises, improved management of public utilities, demand management through credit control and fiscal discipline, market oriented public pricing policies, de-subsidisation, import liberalisation and tariff rationalisation, flexible exchange rate management and export incentives. During 1985-86, the role of industrial sector and service sector of Bangladesh in the economic development was pre-dominant. The industrial sector includes small, medium to large scale manufacturing industry and cottage industry. About 17% real GDP comes from industry sector, 12% of civil labour force employ in this sector. About 82% GDP comes from the foreign exchange or exports earning come from industry in which garments industry covered the maximum share.²¹

Trade and Fiscal policy reforms during the second phase of economic development of Bangladesh envisaged a flexible market determined exchange rate, removal of all quantitative restrictions, rationalisation of value added tax, an improvement in internal resources mobilisation effort leading to decreasing dependence on foreign and institutional strengthening. A five year Financial Sector Reform Project was also initiated during this period which was underwritten by the

¹⁹ *Ibid*, P-10.

²⁰ Sultan, Parves (2008). "Trade, Industry and Economic Growth in Bangladesh" *Journal of Economic Cooperation* Vol. 29(4), pp-71-74

²¹ *Ibid*, P-73.

World Bank under its Financial Sector Adjustment Credit Programme. The major objectives of this program in Bangladesh was gradual removal of distortions in the interest rate structure with a view to enhancing resource allocative efficiency in the monetary sector, improvement of debt recovery, expansion and strengthening of capital market, improvement of administrative efficiency of financial system and general move towards a market determined financial system.²²

The General Ershad's government has imposed an immediate ban on the import of 14 industrial and other items in keeping with the new regime's economic policy of protecting indigenous industries and increasing production. The governments encouraged the private sectors to invest in the country. He has also pointed out that political freedom of a country was meaningless without economic emancipation. Thus, he tried to remove the corruption, unplanned expenditure, inefficient management. Encouragement of private sector is the cornerstone of the government's industrial policy. The government has already decided to disinvest 11 industrial units in the fifteenth disinvestment package. Bangladesh faced a food crisis during the early 1982 due to lower food production of 13.9 million tons and cuts in food aid from the donors. Some corrective measures taken by the government in streamlining the food supply system of the country name helped to stabilise food prices. Besides import of food grains, the government liberalised food movement restrictions and released 25,000 tons of food grains from government stock to tackle the crisis.²³ The government of General Ershad gave indeed important to land reforms for the economic development of Bangladesh. Land reform for better redistribution of rural incomes and to reduce massive poverty, but it involves some sensitive issues and different interests groups. To take necessary measures the land reform committee had been constituted.

With the introduction of liberalisation policy, economy of Bangladesh developed faster than earlier. Openness can have a positive effect on economic growth, exports, imports, FDI and remittance of a country. Moreover, policy reforms towards liberalization and creating a more market-based economy had varied pace of implementation across sectors and over different periods. The progress with

²² Economy of Bangladesh (Online Web) retrieved on 17.09.2014.

https://www.princeton.edu/~achaney/.../Economy_of_Bangladesh.html

²³ Anthony Mascarenhas (1982), "The New Battle for Bangladesh" The Times of India.

deregulation and liberalization was relatively fast in the case of trade policies, particularly in the early 1990s, resulting in significant reduction in tariff and non-tariff barriers. The deregulation in the industrial sector, however, was slow and generated mixed outcomes. The emergence of a dynamic readymade garments sector is a significant positive achievement in the manufacturing sector although the rest of the manufacturing activities suffered from deep-rooted governance, finance, infrastructure and other problems calling for deeper and wider reforms. The overall impact of the policies was favourable with positive effects on agricultural production and productivity.²⁴

In the 1990s, three more export processing zones were established in Dhaka, Khulna and Ishwardi. In Bangladesh, 1990s was the turning point for initialising democratic system as well as liberalising economy.²⁵

2.2.3 Third Phase in the Economic History of Bangladesh (1991 to Recent)

Post 1990 period was the new phase or third phase in the economic history of Bangladesh. The new liberalisation policies were initiated under democratic system. The new economic policies include tariff reduction, import liberalisation etc. The outcome of reforms package in terms of economic performance has been showed remarkable development in the economic history of Bangladesh. After 1990 these package, the growth in national saving and GDP growth reached to 12 percent. The growth in Industrial Sector has showed good progress of Bangladesh's economy. This has largely been affected in the Ready-Made Garments sector as well as in backward linkage textile sector.

The fiscal sector of the country has registered some good improvement in the 1990s. The contribution of this sector to the GDP growth reached to 12 percent which was remarkably good sign of progress. Growth in Financial Sector has also contributed to the GDP of Bangladesh. A number of foreign, local and joint venture commercial bank have been set up in the private sector. Interest rate has been decontrolled. Currently it is market determined. A number of steps were taken to improve credit management; including classification of loans into various categories likes unclassified, sub-standard, doubtful and bad loans.

²⁴ Mujeri, *Op.cit*, (2002), P-12.

²⁵ Sultan, *Op.cit*, (2008), p-74.

The economy of Bangladesh accelerated sharply from 1990 due to mainly trade openness and restoration of democracy. The country's import needs are large and the imperative to increase exports is immediate. In order to enhance finance those imports and also to reduce the country's dependence on foreign aid grants, the government since liberation has been trying to enhance foreign exchange earnings through planned and increased exports. In 1991-92, foreign trade's contribution to government revenue was more than 37 percent export oriented industry's contribution to industrial value addition was 56 percent export industries share of employment in the manufacturing sector was 60 percent and growth of export earning was 16.09 percent.²⁶ In the last two decades Bangladesh economy was characterized by successful expansion of export-oriented garment industry, and the implementation of a 'Green Revolution' (A significant increase in agricultural productivity resulting from the introduction of High-yield varieties of grains, the use of pesticides) in rice production.²⁷ In meantime, success was measured in more limited and immediate accomplishments, greater production of food grains year by year, greater vigour shown by the private sector in generating investment capital and using its productivity and measurable growth and diversification of exports.²⁸ For high GDP growth, investment in both public and private sectors need to be accelerated. The prevailing political and economic stability has greatly encouraged investment in the private sector.

Reforms in export and import sector are also outcome of adjustment programme. The growth rate of these sectors reached to 36% and 38% respectively in 1995.²⁹ The exports growth of Bangladesh is seen as a determinant of import capacity, which in turn is a determinant of the level of domestic economic activities. In recent year, Bangladesh has been achieving not only a substantial increase in the volume of exports but also an important change in the composition of exports away from traditional items such as jute and jute products, and towards new manufactured products such as ready-made garments.³⁰ Therefore, Bangladesh has been experiencing the shift from the traditional sector (agricultural sector) to the non-

²⁶ Mahmud, *Op.cit*, (2003), p- 56.

²⁷ Manni, Umme Humayara and Afzal, Munshi Naser Ibne (2012). "Effect of Trade Liberalization on Economic Growth of Developing Countries: A Case of Bangladesh Economy" *Journal of Business, Economics and Finance*, Vol.1(2), p-37.

²⁸ M.H. Syed (eds) (et al;). World Infopaedia: Bangladesh, New Delhi, Pragun Publication. Pp-263,64.

²⁹ Sultan, *Op.cit*, (2008), p-75.

³⁰ *Ibid*, p-76.

traditional sector (industrial and service sectors) in economic growth of the country in recent year. The contributions of industrial sector and service sector to GDP in 2005 were 28% and 51% respectively and in 2004, those were 27% and 52% respectively. The share of agricultural sector in GDP was 20.5% in 2005 and 21% in 2004 respectively.³¹

The share of agriculture in GDP declined to 22 percent in 2006 from 33 percent in 1980. The deregulation in the industrial sector was slow and generated mixed outcomes. Despite the emergence of a dynamic and export oriented readymade garments sector, the rest of the manufacturing activities suffered from deep-rooted governance, finance, infrastructure and other problems in the absence of wider and deeper reforms. The reforms in agriculture covered several policy changes, such as liberalisation of the fertiliser and irrigation equipment markets, reforms in the public food grain distribution system and elimination of subsidies on modern inputs. The overall impact of the policies was favourable that crated significant positive impact on agricultural production and productivity. However, reforms in other areas, such as in the financial sector and in infrastructure policies.

The import policy for 2003–2006 aims at the following objectives: (a) further simplification of the import regime to respond to globalization and to facilitate increased liberalization in the light of the WTO agreements; (b) strengthened provisions for technology imports to enable the widespread dissemination of modern technology; (c) provision of simplified import procedures for export oriented industries to enable the development of a robust export supply capacity; and (d) gradual removal of import protection to make available industrial raw materials and enhance competitiveness, competency and efficiency. At the same time, the overall trade policy emphasizes regional economic and trade cooperation.

The country has well performed especially in recent years showing that a country can achieve significant human and social development even at relatively low levels of income, along with creating strong fundamentals for future growth. The overall growth performance of the Bangladesh economy has not been spectacular over the past two decades although there has been a moderate acceleration in the growth in

³¹ *Ibid*, p-77.

2007 compared with the earlier periods.³² According to the International Monetary Fund, Bangladesh ranked as the 48th largest economy in the world in 2009, with a gross domestic product of US\$256 billion. The next section will explain how different sectors of the country helped to develop the economy of Bangladesh.

The following tables have presented that how annual average growth rate in economy of the country has been getting high momentum for the development of economy of the country over the year. And third table has presented RMG's contribution to the economic development.

Table 1: Economic Growths in Bangladesh

	Annual average growth rate (percent)				
	1981-1990	1991-1996	1997-2001	2002-2006	2007
GDP	3.7	4.4	5.3	5.7	6.5
Population	2.2	2.1	1.5	1.4	1.4
Per Capita Income	1.5	2.3	3.8	4.3	5.1

Source: BBS 2000, 2001, MOF 2007.

Table 2: Bangladesh' Economic Growth 1991-2000

	Average Annual Growth (%)	
	1981-1990	1990-2000
GDP	3.7	4.9
Per Capita GDP	1.5	3.0

Source: BBS 2000, 2001.

Table 3: Some important phases of the Bangladesh RMG industry

Period	Events
1977-1980	Early period of growth
1982-1985	Boom days
1985	Imposition of quota restrictions
1990s	Knitwear sector developed significantly
1995	Child labour issue and its solution
2003	Withdrawal of Canadian quota restriction
2005	Phase-out of export-quota system.

Source³³

³² Mujeri, M.K (2004). "Changes in Policy Framework and Total Factor Productivity Growth in Bangladesh" *The Bangladesh Development Studies* Vol. XXX (3&4), pp-3,4.

³³ This part is derived from the article "textile industries in Bangladesh and challenges of growth" written by Islam, Md. Mazedul et.al you may visit *Research Journal of Engineering Sciences*, Vol. 2(2), (2013) pp-31-37.

Table 2 and 3 have shown the economic growth in the country since 1980 upto 2007. It has also depicted GDP growth in the country in which GDP was doubled compared to 1980. It was 3.7 in 1980 but in 2007 it was 6.7. It shows faster growth of GDP in the country. Again, population growth was one of the problems in the country was reduced from 1980 in which government tried to give attention on economic growth. Table has shown population reduction in the country. It was 2.2 population growth per year but 2007 it was just 1.4. In term of per capita income of the country was developed. It was since 1980 government gave attention to economic growth or economic liberalisation and it helped to maintain per capita income growth. Compared to 1980 the per capita income was nearly triple by 2007.

2.3 Growth in Service, Industry, Agriculture and External Trade Sectors and Their Contributions to the Economic Development of Bangladesh

For the development of economy of the country, three important sectors such as agriculture, industry and service sector have been playing crucial role. The impressive growth performance was contributed by corresponding growths in agriculture, industry, and services sectors. During 2001-2011, industrial sector grew by, on average, 7.6% per annum followed by the services sector (6.1%) and agriculture sector (3.6%), indicating satisfactory performances of all the three broad sectors of the economy. During the Sixth Five Year Plan (SFYP) 2011-15, the Government plans to achieve average annual growth target of industry by 10.4%, services 7.3% and agriculture 4.4%. And also accelerating growth and reducing poverty is the main targets of Sixth Five Year Plan. Both large and small enterprises need to contribute to this growth. The textile and clothing, machinery, and other industries will be the major drivers of overall industrial growth while the services sector is projected to experience steady growth. With regard to deceleration in agriculture sector growth, major fall is expected in cereal crops production.³⁴

2.3.1 Growth in Service Sector and its Contribution to Economic Development

Especially in Bangladesh, the service sector has played a crucial role to grow the economy of the country. For instance, the annual average growth in services has increased from 3.71 percent in 1981-90 to 4.48 percent in 1991-00 to 5.67 percent during 2001-05 for Bangladesh. Between 1980-81 and 2006-07, the industry

³⁴ Islamic Development Bank Group (2013). "Country Economic Work; Diagnostic Analysis of Bangladesh Economy: Foundation for Member Country Partnership Strategy", p-17.

increased from 17.3 percent to 29.8 percent. During the same period, the services sector contributed around 50 percent of Bangladesh's GDP.³⁵ The significant change in Bangladesh's approach towards trade and investment liberalisation in services may be attributed partly to the growing importance of the services sector in the economy and its trade and investment flows in recent years. One of the striking features of the Bangladesh's growth performance during the last decade has been the strength of the services sector.

With regard to sectoral shares in GDP, the share of services sector went up gradually from 48.7% in 2000 to 54% in 2010 and industrial share went up from 25.7% to 27.4%, while the share of agriculture declined from 25.6% to 18.6% during the same period. As known fact is that the service sector constitutes a significant share of gross domestic product (GDP) in most of the developing countries in South Asia, Africa and the Caribbean region since these countries have an important stake in the Doha Round of negotiation on services liberalisation.

2.3.2 Growth in Industry Sector and its Contribution to Economic Development

In industrial sector, Textiles or ready-made garments have been contributing an important share of growth of economy of Bangladesh. Bangladesh is the world's second biggest exporter of clothing after China. Readymade garments make up 80 percent of the country's \$24 billion in annual exports and 15 percent share of GDP.³⁶

The growth in large-scale manufacturing has been led almost singularly by the ready-made garment industry. The national income estimates of manufacturing value-added by sector show that, during the 1990s, medium and large-scale manufacturing grew at about 7 percent annually; but at only about 4 percent excluding the garment industry. This implies that growth in medium and large-scale manufacturing has been mainly export-led. But it also means that the economy has moved away from, rather than moving towards having a more diversified manufacturing and export base.³⁷

In Asia, Bangladesh is the one of the biggest largest exporter of textile products providing employment to a great share percent of the work force in the

³⁵ Jyoti Rahman and Asif Yusuf (2010), *Economic Growth in Bangladesh: Experience and Policy Priorities*.

³⁶ Ahmed, Salman (2009), "Bangladesh's Economy: Surrounded by Deadly Threats", *International Journal of Social Economics*, Vol. 36.

³⁷ Mahmud, *Op.cit*, (2003), p-59.

country. Currently, the textile industry accounts for 45% of all industrial employment in the country and contributes 5% of the total national income. However, although the industry is one of the largest in Bangladesh and is still expanding, it faces massive challenges, principally because the country does not produce enough of the raw materials necessary, unfavourable trade policies, and inadequate incentives for expansion. As a result, Bangladesh's textile industry relies heavily on imports, and the country does not earn as much foreign exchange from its textile industry as it should.³⁸

Due to increasing demand of sustainable apparel design, environmental changes, market competition, unpredictable consumer demand, market trends of variety, short product life cycles and low barriers of entry the textile and apparel industry is one of the most highly competitive manufacturing sectors in the country. The industrial sector has seen a rapid increase in globalization for global economic competition. However, the potentials in the Ready-Made Garments (RMG) can be realized only if the challenges in some areas like – infrastructures, compliances, workforces supply, suppliers' performances, raw materials, political stability are tackled.³⁹

Recently Bangladesh textile industry is facing problems and challenges due to lack of new investment. Bangladesh textile industry is facing problem of low productivity due to its obsolete textile machineries. To overcome this problem and to stand in competition, Bangladesh Textile Industry will require high investments. The unpredictable internal conditions of Bangladesh cause a rapid decrease in foreign investment that affected all industries but especially textile industry.⁴⁰

2.3.3 Growth in Agriculture Sector and its Contribution to Economic Development

Bangladesh is one of the agricultural countries where most of the country's GDP come from agriculture. Crops and horticulture sub-sector accounts for 60% of agricultural GDP, while the contributions of fisheries, livestock and forestry are 20%, 13%, and 7% respectively. In spite of gradual decline of relative importance of crop

³⁸ Islam, *Op.cit*, (2013), pp-31-37.

³⁹ *Ibid*, p-39.

⁴⁰ *Ibid*, p-41.

sub-sector, it has still remained the most important sub-sector in agriculture.⁴¹ The deregulation in agriculture, which started in the early 1980s, involved liberalization of the fertilizer and irrigation equipment markets, reforms in the public food grain distribution system, and elimination of subsidies on modern inputs. The overall impact of the policies was favourable with positive effects on agricultural production and productivity. The growth of agricultural GDP accelerated from 2.5 per cent in the 1980s. Fisheries, within agriculture, have been another high performing sector, with the annual growth rate increasing from about 2.5 percent in the 1980s to over 8 percent in the 1990s. It is no coincidence that, next to garments, frozen shrimp has been the only other fast growing major export item in the 1990s.⁴² In particular, rapid adoption of the High Yielding Varieties (HYVs) of rice enabled the country to expand rice production at a faster rate than the growth of population and eventually Bangladesh was able to achieve self sufficiency in rice in the 1990s. The GDP growth of agriculture sector in Bangladesh is 3.2 per cent in the 1990s.

Bangladesh has experienced strong economic development over the past decade. Economic growth is progressing at a steady rate of 5–6 percent per year on average since 2004. The twin drivers of the economy are robust remittances mainly from the West Asia and exports with the garment sector contributing two thirds. The impact of the global economic crisis has been relatively limited and prospects of continued growth are relatively good. Though Bangladesh is agriculture based country has been gradually shifting towards manufacturing based country. Half of the GDP is generated by the service sector; agriculture with its 20 percent share remains the mainstay and employs half of the working population. Thus, the economy of the country is gradually shifting from agriculture to manufacturing.⁴³

All three broad economic sectors – namely, agriculture, industry and services contributed to the growth acceleration of the economy of Bangladesh.

⁴¹ Islamic Development Bank Group (2013). “Country Economic Work; Diagnostic Analysis of Bangladesh Economy: Foundation for Member Country Partnership Strategy”, p-87.

⁴² By the mid-1990s, Bangladesh accounted for more than 4 percent of commercial shrimp, although productivity per acre is very low by international standards.

⁴³ Ministry of Foreign Affairs of Denmark Report (2011) “Challenges and Opportunities in Bangladesh”

Table 4: Share of Different Sectors to GDP in Bangladesh

Contribution (% share in GDP)								
Sectors	1980-81	1985-86	1990-91	1995-96	2000-01	2004-05	2005-06	2006-07
Agriculture	33.07	31.15	29.23	25.68	25.03	22.27	21.84	21.11
Industry	17.31	19.13	21.04	24.87	26.20	28.31	29.03	29.77
Service	49.62	49.73	49.45	48.77	49.42	49.13	49.12	
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Annual Average Growth (%)								
Agriculture	3.31	3.31	2.23	3.10	3.14	2.21	4.94	3.18
Industry	5.13	6.72	4.57	6.98	7.45	8.28	9.74	9.51
Service	3.55	4.10	3.28	3.98	5.53	6.36	6.40	6.74
GDP Growth	3.74	3.34	3.24	4.47	5.41	5.93	6.63	6.51

Source: Bangladesh Economic Review (2007)

Table has shown that since 2004-05, the overall GDP of the economy has been increasing at a rate over 6 percent, which has been facilitated by high growth in industry and services sectors. During 2001-05, services sector in Bangladesh grew, on average, at a rate of 5.67 percent per annum as against of 5.5 percent growth in overall GDP. The rates of growth in some services sub-sectors have been higher than the growth in overall GDP growth rate in 2006-07. Services sector's contribution to GDP in Bangladesh in 2006-07 was around 35%.

2.3.4 Growth in External Trade and its Contribution to Economic Development

External trade is one of the vital components for Bangladesh's socio-economic development as it provides capital, managerial expertise, technology, and employment generation. More than half of the GDP belongs to the service sector and remaining based on agriculture sector and other items such as fish, vegetables, leather and leather goods, ceramics, rice etc.⁴⁴ Moreover, wheat production is also one of the major food crops in Bangladesh. Consistent with the trends of free market economy and globalization, Bangladesh has made solid progress in liberalizing its foreign trade by pursuing a liberal trade policy since 1990s. Bangladesh has also made significant progress over the years in reducing tariff levels - the highest tariff is now 25%, as opposed to 300% ten years ago - and the number of bands has also been reduced. A large number of trade barriers were either dismantled or significantly decreased such as customs duty rates. Policies were deployed towards this including tariff liberalization, flexible exchange rate, opening up of most sectors for private and FDI

⁴⁴ Economy of Bangladesh (Online Web) https://www.princeton.edu/~achaney/.../Economy_of_Bangladesh.html retrieved on 17.09.2014.

and privatization of public sector enterprises. This has induced export-led industrialization in Bangladesh thus leading to both higher exports and trade-openness which reached 57% of GDP in 2011. However, external trade depends on a narrow export basket with more than 80% of export earnings derived from clothing exported mainly to US and EU markets.⁴⁵ The Doha Round points out national policy objectives to be a valid concern as long as these are not used to restrict trade. It strives to facilitate trade in services and yet focuses on achieving a level playing field between domestic and Foreign Service providers.⁴⁶

Bangladesh also exports hats and it is 14th position of world ranking. The main destination of Bangladesh export is USA, Germany, England, France and Canada, Belgium, Japan, Hong Kong, China and Korea. However, Bangladesh has increased considerably trade openness in recent years the ratio of total trade to GDP has increased from 17.6 percent in 1990 to around 42.0 percent in 2007 where Indian 'trade openness is 39 percent in 2007. It also exports textiles which rank is 43 in the world. Bangladesh also exports significantly in fishing and fishing product and its world ranking 39. Bangladesh leather and leather product exporting rank is 35 in the world.⁴⁷

As World Integrated Trade (WIT) 2008 pointed out that Bangladesh economic growth over the last half decade is more than 6 percentages and fastest real trade growth country rank 13th out of 152 countries which is emerging economy in South Asia. The real export growth is more than 9 percent higher than all other south Asian countries except India. Bangladesh's export share to GDP was 10 percent in 2004 which was the lower than India, Pakistan, Sri Lanka, even Cambodia just higher than some least developed Countries in Africa. The export share to GDP has been increasing over the year but not very significant. The export share to GDP in 2007 is 17 percent.⁴⁸ Nonetheless, the economy is still saddled with one of the least liberal trade policy regimes in the world, reflected in its rank near the bottom. The maximum tariff rate has declined from a high of 300 percent in the late 1990s to just 25 percent in 2007. The country has liberalized its banking and telecommunication sectors.

⁴⁵ *Ibid.*

⁴⁶ Jyoti Rahman and Asif Yusuf (2010), *Economic Growth in Bangladesh: Experience and Policy Priorities*.

⁴⁷ Ara, Laila A. and Rahman, M. Masudur (2011) "The Competitiveness and Future Challenges of Bangladesh in International Trade" Dhaka, Dhaka University press, p-5.

⁴⁸ For details please visit Export Promotion Bureau's report of 2008.

Although, Bangladesh did not make any commitment in financial sector under GATS but the rate of liberalization in the financial sector has been quite rapid. This is a sector where Bangladesh has limited export but very crucial for country's economic development. However, the low overall GATS commitment suggests ample room for greater future multilateral commitments to services liberalization.⁴⁹

Bangladesh's export boom for in the 1990s particularly the rapid expansion of the readymade garment (RMG) exports under the umbrella of the Multi-Fibre Arrangement (MFA) and under the WTO Agreement on Textiles and Clothing (ATC). The RMG sector contributes 10.5 percent to GDP and more than 78 percent of the country's export earnings. Bangladesh's share of world export in clothing is 2.3 percent in 2005 and 4th position in Asia just after China, Hong Kong and India.

Moreover, the policy reforms towards liberalization and creating a more market-based economy had varied pace of implementation across sectors and over different periods. The progress with deregulation and liberalization was relatively fast in the case of trade policies, particularly in the early 1990s, resulting in significant reduction in tariff and non-tariff barriers. The deregulation in the industrial sector, however, was slow and generated mixed outcomes. The emergence of a dynamic readymade garments sector is a significant positive achievement in the manufacturing sector although the rest of the manufacturing activities suffered from deep-rooted governance, finance, infrastructure and other problems calling for deeper and wider reforms.

A country's trade is closely related to its stage of development and degree of industrialisation. As a nation advances economically, the structure of its foreign trade alters to correspond with a shifting pattern of resource endowment and comparative advantage. Globalisation factor has also played an important role to accelerate the economy of the country. Therefore, in order to understand the change or shifting paradigm of economy of Bangladesh, it is important to understand how process of globalisation has played an important role. With the process of globalisation, the economy of a country has been increasing integration of national economies with global economy. Development of economies of a country and cooperation among the countries has been facilitated through promotion of trade, transport, investment and

⁴⁹ *Ibid.*

finance and that will assist to build global integration of their respective economies. Although the foreign trade sector of Bangladesh constitutes an important part of its economy, the country suffers from a chronic deficit in its balance of trade. The balance of trade in Bangladesh with other countries, especially with SAARC countries, does not show any hopeful sign for the desirable contribution to country's economic development.⁵⁰

The implication of service trade liberalisation to Bangladesh economy is still least explored. Throughout the study, there are both optimistic and pessimistic views on trade liberalisation of Bangladesh. According to optimistic scenario of the study, liberalisation will bring efficiency, predictable environment for investment, and will create new opportunities for exporting services.⁵¹ And, according to pessimistic view of the study, liberalisation of all services sectors might jeopardise the macroeconomic stability of the economy. The table shows Bangladesh's trade with India and China.

Table 5: Bangladesh's Trade with China and India (in million US\$)

Year	China's Exports	India's Exports	China's Imports	India's Imports
2000	900	640	19	79
2001	955	776	17	89
2002	1066	1063	32	64
2003	1335	1026	33	56
2004	1906	1653	57	72
2005	2403	1613	79	69
2006	3090	1720	99	104
2007	3350	1668	114	224
2008	4556	2064	132	233
2009	4441	3243	141	330
2010	6789	2177	269	234

Source: The World Integrated Trade Solution (WITS), World Bank (2011).

⁵⁰ Sultan, *Op.cit.*, (2008), p-73.

⁵¹ *Ibid*, p-80.

2.4 Conclusion

This chapter has explored the overall economic development in different sectors of the country and also some of the setbacks of economic growth of Bangladesh. Further, this chapter also highlighted the major Bangladesh government's policy towards economic development or liberalisation. It is true that the most of the policy reforms in the country was accelerated from early 80s but it was not well implemented. The wide ranging trade policy or economic policy was launched from 1990s. The current apprehensions, however, highlight that in the absence of a second wave of reforms it is unlikely that the rapid growth of the 1990s could be sustained. This also raises an important question as to whether Bangladesh's aggregate economic growth had undergone a structural break in the 1990s. If such a break had not taken place, then the failure to initiate a second wave of reforms could decelerate economic growth to its pre 1990s pace. Credible evidence on the issue, however, is yet to emerge. Nevertheless, the slowdown of the reform process in the late 1990s points to the importance of its institutionalization based on the basis of a broad based social and political consensus.

Bangladesh faces the challenge of achieving accelerated economic growth and alleviating the massive poverty that afflicts nearly two-fifths of its 135 million populations. Strategies for meeting this challenge have included a shift away from state-bureaucratic controls and industrial autarky towards economic liberalization and integration with the global economy. These policy reforms were initiated in the mid-1980s against the backdrop of serious macroeconomic imbalances, caused in part by the declining level of foreign aid and in part by a preceding episode of severe deterioration in the country's terms of trade. The policy reforms in the 1980s included the withdrawal of food and agricultural subsidies, privatization of state-owned enterprises, financial liberalization, and withdrawal of quantitative import restrictions. The beginning of the 1990s saw the launching of a more comprehensive reform program, which coincided with a transition to parliamentary democracy from a semi-autocratic rule. These later reforms were particularly aimed at moving towards an open economy – such as making the currency convertible on the current account, reducing import duties generally to much lower levels, and removing virtually all controls on the movements of foreign private capital. Besides, fiscal reforms were undertaken including the introduction of the value-added tax.

The extent and the speed of further import liberalization remain a contentious issue in the country's economic reform agenda. One important concern is the possible adverse effect of tariff reductions on government revenue. Although the introduction of the value added tax has reduced to some extent the dependence on import duties, more than half of total tax revenue still comes from such duties. So far, the reductions in the rates of protective duties (that is, customs duties) have been more or less compensated by the growth of import. In fact, revenue from import duties as a proportion of GDP slightly increased during the period of rapid import liberalization in the first half of the 1990s. If there is now a slowdown in trade expansion because of global economic factors, the revenue concerns will become stronger in further trade liberalization.

Bangladesh has potential comparative advantage in a number of export items like horticultural products (fresh and processed), leather goods, light engineering products and certain chemical products. The country should also be able to take advantage of duty-free access of LDC exports to be provided by the EU, Canada, Australia and other industrialized countries. To take advantage of these opportunities, attention has to be given to a number of export facilitating factors, such as better infrastructure including efficient port facilities, standardization of product quality, technological improvements leading to higher productivity, and an improvement in the overall domestic investment climate. Foreign direct investment can also be an important factor not only by bringing in investment funds, but also by promoting export through product quality assurance.

Though there are several setbacks as well as success in economic history of Bangladesh, it is relevant to place the statement made by Dr. Rob Vos, Director UN Department of Economic and Social Affairs. While presenting the Annual Report on World Economic Situation, he stated that while economies of the developed countries of Euro Zone and North America are teetering on the brink of another major downturn, few developing economies namely that China and India and low income country like Bangladesh are maintaining high growth rates and higher per capita income growth in 2011. Their growth is expected to remain robust; growth in China is projected to slow below 9% in 2012-13, while India is expected to grow by between 7.7 and 7.9%. However, among the least developed countries (LDCs), Bangladesh

economy is maintaining a high growth rate over 6% and expected to maintain its high growth rate in 2012 despite the global slowdown.

Zia-ur Rahman's government is committed to market economic and has been pursuing policies for supporting and encouraging private investment and eliminating unproductive expenditures in the public sector. A number of measures have been taken to strengthen the planning system and intensify reforms in the financial sectors. Despite sustained domestic and international efforts to improve economic and demographic prospects, Bangladesh remains a poor over populated and ill governed nation. Although, half of the GDP is generated through the service sector, nearly two thirds of Bangladeshis are employed in the agriculture sector with rice as the single most important product.⁵² From the above mentioned, it clearly differentiates three different phases of economic growth of Bangladesh. The first phase (1971-1982) is termed as the period of reconstruction and recovery amidst political turbulence. The second phase (1983-1990) was the period of slow economic growth with growing macroeconomic instability. The slow growth became increasingly unsustainable and the ensuing macroeconomic crisis led to the implementation of a range of stabilisation measures. And the third phase (1991 to recent) was the period of implementation of such policies.

⁵² M.H. Syed (eds) (et al;). World Infopaedia: Bangladesh, New Delhi, Pragn Publication. Pp-266,67.

CHAPTER-III

UNDERSTANDING DYNAMICS OF BANGLADESH'S TRADE RELATIONS WITH CHINA

3.1 Introduction

This chapter attempts to explore Bangladesh's trade relations with China from the perspective of post-liberalisation era of Bangladesh. Since its independence, the government of Bangladesh followed the policy of liberalisation in trade and economy for the development of country. But more than one decade, the country was ruled by the semi-military.¹ However, Bangladesh started its liberalisation policy right after the independence. For the purpose of greater development of the economy of the country, the government of Bangladesh introduced a deep and wide-ranging trade policy with the world from post 1990s. Therefore, chapter's attempts to critically analyse three different phases of economic development of Bangladesh and its impact on trade relations with China.

3.2 Phases of Trade Development of Bangladesh with China

The development of trade relations of Bangladesh with China can categorically be divided into three important phases.

3.2.1 First Phase of Trade Relations of Bangladesh with China (1971-1982)

The first phase of Bangladesh's trade relations with China is very limited. In other words, the scenario of trade relations of Bangladesh with China was marked by high level official visit. Between 1972 and 1975, Prime Minister Sheikh Mujibur Rahman and the ruling party of Bangladesh, Awami League (AL) adopted the policy of command economy. In 1973, the total imports of Bangladesh from China were US\$ 3,027 million.² Moreover, Bangladesh's exports to China during this period include primary commodities or raw materials (Leather, Raw Jute, etc) and some industrial goods.

¹ The term semi-military signify the meaning that the nature of the government was ruled by both military head as well democratic practices. Therefore, the nature of Bangladesh economy has also been controlled by the military head as well as democratic government since independence.

² International labour organization (2013) "Bangladesh Country Report: Trade and Employment". P-9. International labour organisation office publications

Bangladesh relied on a strong public sector and promoted the policy of nationalization to rebuild itself after the 1971 Liberation War. The Awami League (AL) became the dominant party of Bangladesh; gradually Sheikh Mujib replaced parliamentary government with a form of one party presidential rule for addressing the problems of growing opposition to the regime. Foreign policy of Bangladesh during this period was based on close political and economic relations with China and others countries such as Soviet Union and India. The initial focus of Bangladesh's policy with China was placed on internal development of both countries with emphasis on the development of import-substituting industries and the agricultural sector which employed about 70 per cent of both countries total labour force in the late 1970s.³ For strengthening the relations between Bangladesh and China, the People's Republic of Bangladesh and the People's Republic of China officially established diplomatic relations on October 4, 1975. Since then the friendly relations and cooperation between Bangladesh and China have been growing soundly and smoothly. Through this agreement, both the countries were able to maintain fruitful cooperation and cordial relations in the field of politics, economy, military and culture, etc.

When General Ziaur Rahman took over the reign of Bangladesh in 1975, Bangladesh's relations with People's Republic of China was strong. Bangladesh National Party (BNP) of Ziaur Rahman opened up the new economic policy for foreign investment in Bangladesh. Thus, the beginnings of policy reform and trade liberalization of Bangladesh with China can be traced to deregulation measures starting in 1976 under a Zia-ur Rahman's government, which increasingly distanced itself from the earlier socialist approach. However, initial trade reform efforts had neither a clear direction, nor a broad time frame for implementation. The policy of Bangladesh with China during this period was the reduction of restrictions on investment; limited reduction of tariffs and incentive packages for the emerging ready-made garments sector.⁴

³ Kiichiro Fukasaku and Henri-Bernard Solignac Lecomte (1996), "Economic Transition and Trade-Policy Reform: Lessons from China", OECD Development Centre, Working Paper No. 112, p-13.

⁴ Raihan, S. (2007), *Dynamics of Trade Liberalisation in Bangladesh: Analysis of Policies and Practices*, Dhaka, Pathak Shamabesh.

Bangladesh's trade with China presents a remarkable growth in 1975-76. The total Bangladesh's trade with China during this period trade was 13.75 million dollar.⁵ In 1978, Bangladesh's president Ziaur Rahman paid a visit to China. During the visit, Bangladesh and China signed the Agreement of Cooperation in Economy, Science and Technology. For enhancing trade relations between Bangladesh and China, both the governments established the Agreement of Loans and the Agreement of Aviation Transportation in 1980.

Therefore, the first phase of trade relations of Bangladesh's with China reveals the high level official visits of both countries. In other words, Bangladesh's trade with China during this period was dominated by imports of goods from China rather than exports of goods. In other words, Bangladesh's trade relation with China during the first phase of trade development is marked by its imports of goods. However, the exports of Bangladesh to China during this period were; Frozen Food, Agri Products, Raw Jute and Jute Goods. Imports of Bangladesh from China during this period were mainly manufactured goods and electronics goods. The major import items of Bangladesh from China were Cotton, Machinery and mechanical appliances, Electrical machinery and equipment, Fertilizer, Iron and steel, Organic chemicals, etc.⁶

3.2.2 Second Phase of Trade Relations of Bangladesh with China (1983-1990)

Trade relations between Bangladesh and China changed with the establishment of the Joint Economic Commission (JEC) 1984. The main objective of commission was to widen the scope of trade with China. Therefore, during the period between 1980 and 1990, Bangladesh's trade volume with China increased significantly. During the visit of General Ershad to China in 1985 developed strong trade relations and both countries agreed to achieve common interests through mutual trade. In 1989, Premier Li Peng paid an official goodwill visit to Bangladesh. Another important agreement was signed during the visit called "The Agreement on Mutual Exemption of Visas and the Agreement of Trade".

⁵ Singh, Nagendra Kr. (2003) *Economic Development in Bangladesh*, New Delhi, Anmol Publications, p, 39.

⁶ Data is derived from the bilateral trade statistics between Bangladesh and China, Import Payment, Bangladesh Bank and Export Statistics, Export Promotion Bureau & Bangladesh Bank.

The joint venture between Bangladesh and China for enhancing mutual understandable trade relations was also held during this period. For future development of trade and the economy of the both the countries, there was new agreement for enhancing cordial trade relations and exemption of visas between Bangladesh and China reached into an agreement in 1989 which is called “The Agreement on Mutual Exemption of Visas between Bangladesh and China”. The agreement promoted trade relations through mutual exemption of visas. This provided free movement of investors and traders to access their trade relations. During the period of 1982-86 the policy of Bangladesh with China came under the purview of the policy based lending of the World Bank and IMF which enhanced trade relations of Bangladesh’s with China.⁷ The following table tries to explain Bangladesh’s trade value with China during the period of 1989-1993.

Table 6: Bangladesh’s trade value with China (in million US dollar)

Year	Bangladesh’s Export	Bangladesh’s Import	Balance of Payment
1989	35	134	-99
1990	25	124	-99
1991	21	147	-126
1992	16	215	-199
1993	6	204	-198
Total	103	824	-721

Source⁸

3.2.3 Third Phase of Trade Relations of Bangladesh with China (1991-Recent)

Post 1990 period is a new period in the trade history of Bangladesh with China. Bangladesh launched comprehensive trade reforms in the early 1990s that included substantial reduction of tariffs, removal of quantitative restrictions, and moves from multiple to a unified exchange rate and from a fixed to freely floating exchange rate system to increase its exports performance to China.⁹ Bangladesh received number of benefits from Chinese government during this phase. Both the governments give primary attention on the development of high-end manufacturing and services for the

⁷ Manni, Umme Humayara and Afzal, Munshi Naser Ibne (2012). “Effect of Trade Liberalization on Economic Growth of Developing Countries: A Case of Bangladesh Economy” *Journal of Business, Economics and Finance*, Vol.1(2), p-38.

⁸ The data is cited in the book *Economic Development of Bangladesh* 2003, p, 39.

⁹ Laila A. Ara and M. Masudur Rahman, (2011) “The Competitiveness and Future Challenges of Bangladesh in International Trade” Dhaka, Dhaka University press, p-3.

development of trade between Bangladesh and China. Therefore, development of high-end manufacturing and service sectors are the key in this regard.¹⁰ The volume of Bangladesh's trade with China during this period improved. World Bank figures show a jump in GDP growth from an annual average of 5.2 percent during the second half of the 1990 through Bangladesh's trade with China. Export earnings increased steadily, from 7 percent of the GDP in 1991.¹¹

Therefore, trade liberalisation policy was one of the most significant policy reforms carried out by Bangladesh with China. The trade liberalization and export promotion policy of Bangladesh have remained the central elements of trade policy with China. The liberalisation policy of Bangladesh includes the duty-free and quota-free access for the development of trade relations.¹² In 1992-93, the major trade items of Bangladesh with China were woven garments and knitwear.

In 1991, the trade relations of Bangladesh with China are marked by tariffs reductions, anti-dumping procedures and market access. For developing Bangladesh's trade policy with China, the Bangladesh Tariff Commission (BTC) of 1992 played an important role. The Commission aimed at advising to the government on trade related matters, including the protection of Bangladesh's industry, the promotion of competition in the production of industrial goods, the development of export-oriented industries.¹³

The trade relations of Bangladesh with China present the remarkable economic growth in the early 1990s. The expansion of the export products such as Frozen Food, Agri Products, Tea, Chemical Products, Leather, Raw Jute, Jute Goods, Knitwear, and Woven Garments to China present the expansion of trade relations. In order to develop the export incentive, Bangladesh introduced export incentive scheme such as Export Performance Benefit (XPB). In 1990, Bangladesh's export to China reached to \$0.64

¹⁰ Islam, M. Shahidul (2012), "China-Bangladesh relations: Contemporary convergence"

¹¹ Lewis, David (2011), *Bangladesh: Politics, Economy and Civil Society*, Cambridge, Cambridge University Press, p-136.

¹² BTI (2014), Bangladesh Country Report, p-19.

¹³ United Nation Conference on Trade and Development (2013), investment policy review of Bangladesh, Pp, 68-69.

billion at an annual average rate of 13 percent.¹⁴ In 1995, the Bangladesh's total trade with China reached to US\$ 6,859 million which is the growth of 48 percent from last three year (1990-93).¹⁵

The Bonded Warehouse Scheme was introduced in 1996 to strengthen the trade policy of Bangladesh with China. The main objective of the scheme is to focus on exports of manufactured goods and to import raw materials and inputs without payment of duties and taxes. This facility is extended to exporters of Ready-Made Garments (RMG), specialized textiles such as towels and socks, leather, ceramic, printed matter and packaging materials which are required to export at least 70 percent of their produce. Again Bangladesh has introduced the scheme such as Duty Drawback Scheme for the development of trade relations with China. The scheme focus on the exporters of manufactured products are given a refund of customs duties and sales taxes paid on the imported raw materials that are used in the production of goods exported. For the development of trade policy or export and import reforms, the government of Bangladesh has launched a Duty Free Import of Machinery Scheme. The scheme further helped to develop the country's import and export trade policies with China. The Export Processing Zones (EPZs) is also one the important scheme of Bangladesh for the development of trade relations with China. The scheme highly intends to promote export policy of the country¹⁶

In 1997-98, the government of Bangladesh launched a five-year export policy along with a more liberal five-year import policy with the objective of attaining a favorable trade balance and gradual improvement in the foreign exchange reserve situation. Bangladesh wanted to promote rapid export growth by reducing and eliminating the anti-export bias prevalent in the trade relations with China.¹⁷ Moreover, the liberal trade policy of Bangladesh contributed to the growth of close trade relations between Bangladesh and China. Therefore, the trade relations of Bangladesh with China

¹⁴ Aneja, Urvashi (2006) "China-Bangladesh Relations: An Emerging Strategic Partnership?" Institute of Peace and Conflict Studies report. New Delhi, India. *Asia Analysis Group*, Paper no. 1345, India.

¹⁵ *Ibid*, p-10.

¹⁶ HSBC Global Connections (2014) "Bangladesh Trade Forecast Report"

¹⁷ Rahman, Mohammad Mafizur (2007) "The Foreign Trade of Bangladesh: Its Composition, Performance, Trend, and Policy" p-30.

were rationalized and simplified through lowering the tariff rates, phasing out quantitative restrictions, streamlining import procedures and introducing tax reforms.

In 2001 and 2002, there was a negative growth of imports. In order to improve and creating a balance the trade of Bangladesh, the country has introduced reformation in trade policy which focused on generous support and promotional measures for exports. While the import liberalisation was meant to correct the domestic incentive structure in the form of reduced protection for import-substituting sectors, other such as export promotion schemes were undertaken to provide the exporters with an environment where the previous bias against export-oriented investment could be reduced significantly. Important export incentive schemes available in Bangladesh include, amongst others, subsidised rates of interest on bank loans, duty free import of machinery and intermediate inputs, cash subsidy, and exemption from value-added and excise taxes.¹⁸ Though, Bangladesh's import needs are substantial; hence the urgency is to rapidly increase exports. In order to finance imports and also to reduce the country's dependence on foreign aid, the Government has been trying to enhance foreign exchange earnings through planned and increased exports.¹⁹

From 1990s the government of Bangladesh has consistently worked toward reducing the tariff. As a result of this, average unweighted customs duty between Bangladesh and China fell from 47 percent of 1993 to 16 percent in 2004. During the same period, the average weighted import customs duty fell from 23 percent to 12 percent. The share of bound duties between two countries remained unchanged between 1997 and 2003, at 13.2 per cent, while the share of duty free tariff lines increased nearly fourfold in a decade, from 4 per cent in 1992 to over 15 per cent in 2002.

Tariff Rationalization was one of the trade policy reforms of Bangladesh with China. During the 2002, Bangladesh not only significantly reduced its tariff rates with China but also rationalized the tariff structure. The country progressively moved towards obtaining the goal of simplicity and transparency of customs tariffs. In 2003, the custom

¹⁸ International labour organization (2013) "Bangladesh Country Report: Trade and Employment", International labour organisation office publications", P-11.

¹⁹ Islamic Development Bank Group (2013). "Country Economic Work; Diagnostic Analysis of Bangladesh Economy: Foundation for Member Country Partnership Strategy", p-99.

duty rate between Bangladesh and China reduced to 32.5 percent which was 350 percent in 1992. Through this reform, the average customs duty of the country with China decreased from 57 percent in FY 1992 to 16.5 percent in FY 2003. In this particular reform, the average protective tax also declined to 22 percent in FY 2003 which was 61 percent in FY 1992. Therefore, it can say that the policy reform of Bangladesh with China presents a progress of achieving a degree of uniformity and removing some tariff anomalies that existed due to higher tariffs on intermediate products between two countries. By doing this, Bangladesh nominal import protection level is now low and tariff reduction between Bangladesh and China have been growing significantly.²⁰

The import duty of Bangladesh was also reduced drastically from 350 per cent in 1992 to 30 per cent in 2003.²¹ Resultantly, Bangladesh's total imports were 18.4% in 2003. Adjustments in the rate of exchange have been undertaken from time to time, taking into account the rates of inflation, movement of exchange rates and trade weights with partner countries like China. In 2003, Bangladesh opted for an open market exchange rate policy by free float of the taka with China.²²

In 2003, manufacturing accounted for 92 per cent of total merchandise exports.²³ Among exports of manufactures, textiles and clothing (ready-made garments and knitwear) accounted for nearly 75 percent of total merchandise exports in 2003-04 indicating an exceptionally high export concentration in this sector. The real export growth of Bangladesh with China is more than 9 percent higher than all other south Asian countries except India. Bangladesh export share to GDP was 10 percent in 2004 through trade with China.

Thus, creating a close trade ties, Bangladesh and China have been focusing on duty free access. Bangladesh government has always followed duty-free and quota-free access with China. In other words, Bangladesh has followed the policy of zero tariff trade

²⁰ Rahman, *Op.cit*, (2007), p-31.

²¹ Rahman, Nurun N. (2005) "Policy Reforms and Trade Liberalization in Bangladesh" pp-106-107.

²² *Ibid*, p-108.

²³ International merchandise export refers here to measure the quantity, value, origin, etc of goods which are sent out of country permanently. Further it provides information about country's trading role within the global economy. It covers all moveable goods which subtract from country's stock of material resources, as a result of their movement out of country.

with China for development of cordial trade relations. China has also followed the policy of 95% free access from least developed countries including Bangladesh. As discussed already, Bangladesh had launched the policy of wide-ranging trade with the China and the world since 1990s. This policy particularly includes such as tariff reductions, elimination of large number of quantitative restrictions, flexible exchange rate system and provision for the fiscal and financial incentives for the promotion of export between Bangladesh and China. Again the import policy of Bangladesh with China during the period of 2003–2006 aims at improving and developing further trade relations. For the fastest development of trade relations of Bangladesh with China, the trade relations of Bangladesh with China during 2003-06 have following objectives:

- Further simplification of the import regime to respond to globalization and to facilitate increased liberalization in the light of the WTO agreements;
- Strengthened provisions for technology imports to enable the widespread dissemination of modern technology;
- Provision of simplified import procedures for export-oriented industries to enable the development of a robust export supply capacity; and
- Gradual removal of import protection to make available industrial raw materials and enhance competitiveness, competency and efficiency.²⁴

Therefore, the objectives of trade relations of Bangladesh are mainly to increase trade with China in a globalised world and giving incentives towards liberalisation policy.

The applied MFN tariff of 2005/06 contains four tariff bands zero, 6% for basic raw materials, 13% for intermediate goods and 25% for finished goods between Bangladesh and China.²⁵ The export share to GDP has been increasing over the year but not very significant. According to Export Promotion Bureau Report of 2008, the export share of Bangladesh to GDP in 2007 is 17 percent.²⁶ Further, exports of ready-made garments comprise mainly low value items. By 2009, garments constituted three-quarters

²⁴ Bangladesh Bureau of Statistics, 2002

²⁵ Rahman, *Op.cit*, (2007), p-31.

²⁶ Laila Ara, *Op.cit*, p-3.

of total exports and were worth nearly \$11 billion a year.²⁷ As pointed out that the ready-made garment sector is a central to the economy of the country has given rise to stimulate local production.²⁸

The Import Policy Order 2009-2012 and Export Policy 2009-2012 are the two major policies governing Bangladesh's international trade with China. In fiscal year 2010, the export of the readymade garments with China was 78.2% and from 2010 to 2011 jute exports saw a slight share increase from 1.2% to 1.6%, while the share of jute products and frozen foods remained the same at 3.3% and 2.7% respectively.²⁹ They outline export and import targets, priority sectors requiring special assistance, strategies to promote import-substituting, domestic market-oriented and labour-intensive industries. The main objective of Bangladesh's export policy is to strengthen export-led industrialisation through enhancing exports, increasing productive capacity of export-oriented industries and facilitating overall export sector through capacity building of local industries. The import policy, on the other hand, aims to make the import regime compatible to the World Trade Organization (WTO), simplify the procedure to import capital machineries and raw materials, provide facilities for technological innovation and allow import of essential commodities on emergency basis.³⁰

Bangladesh's new trade policy which includes import liberalisation, tariff reduction, free exports etc with China plays an important role for the growth of GDP of the country. Through this policy, the government of Bangladesh expected to grow her GDP by 5.7% in 2010 following 5.9% growth in 2009. But due to the global economic downturn has reduced demand for Bangladesh's exports in China. Commodities exports decreased 7.7% year on year as of November 2009. In April 2009, the government announced a \$500 million stimulus package to stimulate economic growth and placed emphasis on public-private partnerships.³¹

²⁷ Lewis, *Op.cit.*, (2011), p-136.

²⁸ *Ibid*, p-136.

²⁹ BTI (2014), Bangladesh Country Report, p-20.

³⁰ Islamic Development Bank Group (2013). "Country Economic Work; Diagnostic Analysis of Bangladesh Economy: Foundation for Member Country Partnership Strategy", p-91.

³¹ Vaughn, Bruce (2010) "Bangladesh: Political and Strategic Developments and U.S. Interests" *Congressional Research Service*. P-16.

According to the Export Promotion Bureau (EPB), in 2010 Bangladesh exported goods worth \$319 million to China while it imported goods worth \$5.91 billion. A huge trade imbalance of around \$5.6 billion exists between the two countries. In order to fill the gap, China offered zero tariff facility to 95 percent products of the least developed countries (LDC) since July 2010 which may further be increased to 97 per cent under the Hong Kong declaration of the Doha Round under the World Trade Organization (WTO).³² Thus, it can say that there are huge trade imbalances between Bangladesh and China. But it is also important to analyse that how Chinese government tries to improve this by using different methods such as zero tariff facilities to 95 percent products of the least development countries as Bangladesh and also gave certain provision to increase it to 97 percent. The following table shows the trade value of Bangladesh with China.

Table 7: Bangladesh’s Trade Volume with China (in million \$US)

Fiscal Year	Export to China	Import from China	Trade Ratio	Trade gap with China	Amount of total trade
2000-01	11.67	7.8.94	1:60.75	697.27	720.61
2001-02	18.92	657.78	1:34.77	638.86	676.70
2002-03	19.50	779.50	1:41.79	760	799
2003-04	45.65	1132.72	1:24.81	1087.70	1178.37
2004-05	56.07	1643.77	1:28.58	1587.70	1699.84
2005-06	64.35	2078.99	1:32.31	2014.64	2143.34
2006-07	92.97	2572.62	1:27.67	2479.65	2662.59
2007-08	106.95	3136.70	1:29.33	3029.75	3243.65
2008-09	97.06	3451.47	1:35.56	3354.41	3548.53
2009-10	178.63	3819.28	1:21.38	3640.65	3997.91
2010-11	319.66	5912.55	1:18.49	5592.89	6232.21
2011-12	401.94	6433.21	1:16	6031.27	6835.15
2012-13	458.12	6324	1:13.8	5865.88	6782.12

Source: Bangladesh Bank (2013).

Table highlighted the segments of Bangladesh-China bilateral trade from 2001 FY to 2013 FY. In 2003 alone, total trade volume amounted US\$1.368 billion with an increase of 12.45% from 2002. Besides, bilateral trade between these two countries was arrived at US\$3 billion in 2005 from US\$100 million in 2002. As of 2009, the volume of trade between the countries stood at about US\$4.5 billion.

³² *Ibid*, p-10.

Table 8: Bangladesh's Exports and Imports Value with China from 2000 to 2010

Year	Imports Value (million USD)	Import Share	Exports Value (million USD)	Exports Share	Trade Balance (million USD)
2000	862.36	10.73%	23.75	0.34%	-838.61
2010	6,781.26	27.43%	259.16	1.29%	-6,522.10

Source: BACI, calculated using Trade Sift.

This table has shown the growth of imports and exports of Bangladesh from China. It has figured out that the trade relations between Bangladesh and China in terms of imports and exports have been growing tremendously since 2000. Imports value of the country from China has doubled in 2010 than 2000. Again import share has also got momentum. Further, exports value and share have also increased many folds. From this table it cleared out that the trade relations between two Asian giants have been flourishing topmost facilities through trade relations. Further, table has attempted to analyse China as the single largest source of Bangladeshi imports. Bangladeshi imports from China have grown from 10% in the year 2000 to 27% in 2010 reaching 6.7 billion USD.

Table 9: Bangladesh's Trade Statistics with China

Year	Export	Import	Trade Ratio
1997-98	2200.81 (48.51)	26933.30 (592.46)	1: 12.22
1998-99	509.09 (10.61)	26936.40 (560.47)	1: 52.83
1999-00	529.24 (10.56)	28579.00 (568.06)	1: 53.79
2000-01	629.71 (11.67)	38254.70 (708.94)	1: 60.75
2001-02	1095.46 (18.92)	35494.00 (657.78)	1.: 34.77
2002-03	1129.15 (19.50)	45211.00 (779.50)	1: 41.79
2003-04	2692.05 (45.65)	66762.83 (1132.72)	1: 24.81
2004-05	3448.85 (56.07)	101092.00 (1643.77)	1: 28.58
2005-06	4324.96 (64.35)	139458.90 (2078.99)	1: 32.31
2006-07	6420.35 (92.97)	177587.9 (2572.62)	1: 27.67
2007-08	7336.49 (106.95)	215178 (3136.70)	1: 29.33
2008-09	6677.73 (97.06)	237461 (3451.47)	1: 35.56
2009-10	12357.69 (178.63)	264217.9 (3819.28)	1: 21.38
2010-11	22750.06 (319.66)	420796 (5912.55)	1: 18.49
2011-12	31793.45 (401.94)	508867 (6433.21)	1:16
2012-13	36612.95 (458.12)	505460 (6324)	1:13.8

Source: Import Payment, Bangladesh Bank and Export Statistics, Export Promotion Bureau & Bangladesh Bank. Prepared by: DCCI Research Cell.

Table has shown the growth rate of exports and imports between Bangladesh China since 1997 and how this has been rapidly increasing over the year. We can see the growth of imports between two countries which is drastically fast and also export of both countries are extremely fast. From this we analyse that in recent time there is close trade connectivity between two countries. And trade ration has also been increased over the year. Next table will show Bangladesh's widening trade gap with India and so far its growing interests towards China rather India.

Table 10: Bangladesh's Trade with China (in million US\$)

Year	Bangladesh's Imports	Bangladesh's Exports
2000	900	19
2001	955	17
2002	1066	32
2003	1335	33
2004	1906	57
2005	2403	79
2006	3090	99
2007	3350	114
2008	4556	132
2009	4441	141
2010	6789	269

Source: The World Integrated Trade Solution (WITS), World Bank (2011).

As discussed above, the Bangladesh and China's trade relations developed from 1990s when both the government got highest influence from the policy of liberalisation of trade. Also focus on what type of trade policy has been followed by Bangladesh to do trade with China. Historically, Bangladesh has opted for an industrial strategy based on import substitution and the development of infant industries with China. This strategy entailed a rather closed trade policy characterized by high tariffs and quantitative restrictions. As a result, Bangladesh's economy has been marked by a small share of merchandise trade to GDP and low levels of FDI inflows. But with increased idea of international competitiveness of some domestic industries, the country has made significant changes towards a more open trade policy with the China and the world. These new type of trade policy of the country are highlighted in a number of policy

documents, including Vision 2021.³³ The share of international value chains in global trade has steadily increased and Bangladesh could derive increased benefits more from further internationalizing its economy. Therefore, post 90s trade policy of Bangladesh with the China and the world made significant progress in reducing applied tariffs. However, the trade policy of the country has been a significant change which is from centralised state planning towards a partially liberalised economy with a greater level of integration with the China and the rest of the world.³⁴

From the above analysis, the whole trade policy reforms of Bangladesh with China can be summarized in the following ways:

First, through this trade policy reform of Bangladesh with China has been marked that there is integration of industrial and import policies for reducing the administrative complexities for obtaining prior approval from different Ministries, a requirement for industrialization and commercialization. The condition for declaration about the country of origin for import of raw materials has been lifted for export-oriented industries. Import licensing is no longer required for any import into Bangladesh. The role of the Trading Corporation of Bangladesh (TCB), the state trading body, in import and export has been reduced. For the development of the trade relations between two countries, in the import policy, quality control of imported goods has also to strengthen.

Second, high tariff was one of the problems of Bangladesh for creating healthy trade relations with China. Therefore, tariff reduction is the important trade policy followed by the country for the development of trade with China. Bangladesh has reduced average tariff rates with China significantly. The mean tariffs on all products were reduced from 114 percent in 1989 to 22 percent in 1999; and the weighted mean tariff declined from 114 percent to 19 percent over the same period. Through this new trade policy of Bangladesh created good and healthy trade relations with China.

³³ This is a political and economic agenda of the Awami League before the elections of 2008 which focus on different developmental goals of the country. One of the important developmental goals of this agenda is to develop the economy of the country. For details please see Bangladesh vision 2021 prepared under the initiative of NAGORIK OMMITTEE of 2006.

³⁴ United Nation Conference on Trade and Development (2013), “Investment policy review of Bangladesh”, Pp-68-69.

Third, Bangladesh has also taken step to liberalise import policies. For the first time, Bangladesh has taken initiative to improve in trade and economic development of country through trade relations with the world. Therefore, Bangladesh liberalised her imports policies from 1990s for the betterment of trade relations with China. From 90s Bangladesh abolished all import taxes, for example development surcharges, regulatory duties and sales taxes.

3.3 Agreement and Treaties between Bangladesh and China

For the better development of trade between Bangladesh and China, both countries reach into the number bilateral treaties and agreements. Due to close trade relations, the economy of both the countries have been increasing steadily fast in the world. The growths of economy of both countries suggest that signing a Free Trade Agreement (FTA) could be good to them for enhancing and promoting trade in future. The policy of FTA would provide both to obtain good trade ties and also would be possible way to reduce the prices faced by consumers in Bangladesh. FTA would also provide to remove trade barriers which were existed between Bangladesh and China. Bangladesh has also been received some preferences from China in order to promote good bilateral trade relations and also to enhance impact of liberalisation of Bangladeshi exports. In fact Bangladesh has been exporting very different product to China than it is to the rest of the world. Bangladesh's top imports from China are mainly intermediates for the textile and garment industry and these already have duty free access into the Bangladeshi market. Despite the fact, there are some contentious issues during FTA negotiations due to the fact that both China and Bangladesh are efficient producers of textiles and garments. Bangladesh's policy of granting duty free market access to China is likely to affect government revenue as this is the top import partner and hence a strong contributor to overall customs revenue.³⁵ Nonetheless, trade liberalisation policy of Bangladesh leads to a reduction in the landed price of products and hence yields benefits to consumers.

The highlight of Bangladesh's bilateral relationship with China would be the latter country's active investment in infrastructure development. China has so far contributed to

³⁵ Gonzalez, Javier Lopez and et.,al (2009), "Evaluating Bangladesh's FTA options and challenges", p-4.

the construction of seven Bangladesh-China friendship bridges all over the country. These gestures are further enhanced through regular political and cultural exchanges.³⁶

The Agreement on Economic and Technical Cooperation was held in 1999 between the Government of the People's Republic of Bangladesh and the Government of the People's Republic of China. This agreement aimed at improving the economy and technology of both countries for developing friendship and promoting trade.

The Agreement on Economic and Technical Cooperation was held on 11th January 2002 between the Government of the People's Republic of Bangladesh and the Government of the People's Republic of China. This agreement also opened the way for the development of trade relations between two countries.

The Closer Comprehensive Partnership of Cooperation was held on March 19, 2010, to take bilateral relations between China and Bangladesh forward. This agreement aimed at intensifying cooperation which included sharing hydrological information on the Brahmaputra, intensifying exchanges, Chinese dredging of river beds, enhancing transportation links, increasing bilateral trade, and strengthening exchange and cooperation.

The Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income was held in 2011 between the Government of the People's Republic of China and the Government of the People's Republic of Bangladesh. This agreement extensively aimed at emphasising on avoidance of double taxation.

Article 9 of this agreement reads as; *where a Contracting State includes in the profits of an enterprise of that State and taxes accordingly profits on which an enterprise of the other Contracting State has been charged to tax in that other State and the profits so included are profits which would have accrued to the enterprise of the first mentioned State if the conditions made between the two enterprises had been those which would have been made between independent enterprises, then that other State shall make an appropriate adjustment to the amount of the tax charged therein on those profits. In*

³⁶ Sobhan, *Op.cit*, (2012), p-11.

determining such adjustment, due regard shall be had to the other provisions of this Agreement and the competent authorities of the Contracting States shall if necessary consult each other.

Again Article 23 of this agreement deals with the Methods for Elimination of Double Taxation of both countries. In Chinese case, in order to remove or eliminate the double taxation will follow following methods:

1. Where a resident of China derives income from Bangladesh the amount of tax on that income payable in Bangladesh in accordance with the provisions of this Agreement, may be credited against the Chinese tax imposed on that resident. The amount of credit, however, shall not exceed the amount of the Chinese tax on that income computed in accordance with the taxation laws and regulations of China.
2. where the income derived from Bangladesh is a dividend paid by a company which is a resident of Bangladesh to a company which is a resident of China and which owns not less than 10% of the shares of the company paying the dividend, the credit shall take into account the tax paid to Bangladesh by the company paying the dividend in respect of its income.

Similarly Article 23 of this agreement also deals with the removal of double taxation of Bangladesh with China which will follow following methods:

1. Subject to the provisions may be taxed in China, Bangladesh shall allow as a deduction from the tax on the income of that resident, an amount equal to the income tax paid in China.
2. Such deduction shall not, however, exceed that part of the income tax, as computed before the deduction is given, which is attributable to the income which may be taxed in China.
3. Where a resident of Bangladesh derives income which, in accordance with the provisions of this Agreement, shall be taxable only in China, Bangladesh may include this income in the tax base, but shall allow as a deduction from the

income tax that part of the income tax, which is attributable to the income derived from China.

Article 24 of this agreement discussed the Non-Discrimination nature of tax between Bangladesh and China. This Article reads as follow:

- Nationals of a Contracting State shall not be subjected in the other Contracting State to any taxation or any requirement connected therewith, which is other or more burdensome than the taxation and connected requirements to which nationals of that other State in the same circumstances are or may be subjected.
- The taxation on a permanent establishment which an enterprise of a Contracting State has in the other Contracting State shall not be less favourably levied in that other State than the taxation levied on enterprises of that other State carrying on the same activities.
- Except where the provisions of paragraph 1 of Article 9, paragraph 7 of Article 11, or paragraph 6 of Article 12, apply, interest, royalties and other disbursements paid by an enterprise of a Contracting State to a resident of the other Contracting State shall, for the purpose of determining the taxable profits of such enterprise, be deductible under the same conditions as if they had been paid to a resident of the first mentioned State.
- Enterprises of a Contracting State, the capital of which is wholly or partly owned or controlled, directly or indirectly, by one or more residents of the other Contracting State, shall not be subjected in the first mentioned State to any taxation or any requirement connected therewith which is other or more burdensome than the taxation and connected requirements to which other similar enterprises of the first mentioned State are or may be subjected.

Prime Minister of Bangladesh traveled to China in March 2010 to seek closer cooperation in various areas such as trade cooperation and the construction of deep sea port at Chittagong and to establish a road link from Chittagong to Kunming, China. Through this, bilateral trade between Bangladesh and China is expected to increase to \$5

billion in 2010 from \$4.58 billion in 2009. It cannot deny the fact that the Chinese government investment in developing a deep sea port at Sonadia near Cox's Bazaar, which is relatively close to Bangladesh's border with Burma, and using Kunming Burma Road linkages.

Therefore, the trade relations between two countries have been fruitful to express satisfaction on the fact that trade between Bangladesh and China surpassed US\$8 billion in 2012 with an annual increase by 17% in the previous year. During the first quarter of 2013, the trade volume reached US\$ 3.3 with a year-on-year increase by 36% with the possibility of taking the bilateral trade figure to a record high.³⁷ Increased of trade volume between two countries over the year has been shown the good record. And it shows the positive impact of Bangladesh's liberalisation trade policy towards China. Through the liberalisation trade policy has shown the good sign of trade. Despite the fact that there were some trade imbalances or trade barriers between Bangladesh and China, it continues to be good signal of increasing cordial trade relations between Bangladesh and China. It cannot deny the fact that the period of 2006-07, there was huge trade gap or imbalances between two countries. But as discussed that both the countries have been materialized this through their collective efforts. However, economic rise of China in the past three decades as well as Bangladesh's steady economic growth since the early 1990s have resulted in better trade ties between the two nations.

Therefore the trade relationship between Bangladesh and China has been coined as "time-tested, all-weather friendship."³⁸ There is a plethora of bilateral agreements between Dhaka and Beijing including, trade, soft loans, social contacts, cultural exchanges, academic interactions, infrastructure development and military sales. Beyond trade and economic ties, there was close military relations between Bangladesh and China. It is also true that Bangladesh is receiving largest number of military hardware from China. It is well known fact that the both Bangladesh and China witnessed increase in trade in recent decades. Because of the good trade ties, the GDP growth of Bangladesh and China has exceeded 50% and 55% respectively. Being Bangladesh third largest trade

³⁷ Tribune Report (2013) "China considering expansion of trade preferences for Bangladesh"

³⁸ Islam, *Op.cit*, (2012).

partner of China, total trade exceeding of both the countries was \$7 billion in 2010. As discussed already that Bangladesh has received duty free access to 4,721 Bangladeshi products to address the growing trade imbalance from China.³⁹

The emerging trends between Sino-Bangladesh relations have been focusing on trade, investment, infrastructure and connectivity. There were some challenging issues which has created problem between two countries such as regional geo-politics as well as Bangladesh's internal political dynamics.⁴⁰

3.4 Conclusion

Finally, it can safely be said that the trade relations between two countries have been growing fast due to availability of certain facilities such as liberalisation trade policy of Bangladesh. Ongoing engagement by Bangladesh and China in South Asian region, particularly in the area of developing port access, has led to suspicion of China's motives among some in strategic circles in India and the United States. From this perspective, port development in Bangladesh could be seen as part of a "String of Pearls" strategy that could be used by China to secure sea lanes that cross the Indian Ocean and link its industrialized eastern seaboard with the energy resources of the Middle East.⁴¹

Moreover, there is lack of knowledge about preferences of Chinese consumers has been cited as the reason for the low level of Bangladesh's exports to China. But in some addition, some analysts have claimed that the language barrier creates some hindrances to growth smooth business or trade between Bangladesh and China. Although Bangladesh's labour cost is significantly lower than China's, the lack of adequate communication infrastructure, political instability as well as the severe energy crisis, have also hindered Chinese investment in the country. Currently there is no Export Processing Zone for China although Bangladesh has offered such facilities to other countries.

With the highlight of Bangladesh's trade relationship with China it is worth mentioning that China has made active investment in infrastructure development. Along

³⁹ *Ibid.*

⁴⁰ *Ibid.*

⁴¹ Vaughn, Bruce (2010) "Bangladesh: Political and Strategic Developments and U.S. Interests" *Congressional Research Service*. Pp-13-14..

with Bangladesh's contribution, it cannot simply deny the role of Chinese government for the construction of seven Bangladesh-China friendship bridges all over the country. Again both Dhaka and Beijing have been negotiating a number of mega infrastructure projects, notably highway and railway networks, connecting Chittagong and Kunming through Myanmar.

Despite the growing relationship between the two countries, the absence of a well defined programme of public diplomacy on either side, has meant that knowledge about China in Bangladesh is rather limited and vice versa. As China develops into a global power Bangladesh should develop a policy based on improving cultural, educational and tourism co-operation between the two countries. Since 1978, China has been implementing free trade and capitalist-based business models that have resulted in it being the second largest economy in the world. And it is also necessary to apply this largest capitalist policy with Bangladesh for improving trade relations. As discussed above, both countries have been initiated liberalisation trade policy with each other in post 1990s but in some way it has not been fully applicable.

CHAPTER-IV

CHANGING TRENDS AND PATTERNS OF TRADE RELATIONS BETWEEN BANGLADESH AND CHINA

4.1 Introduction

This chapter attempts to explore the trends and patterns of Bangladesh's trade relations with China. As discussed in the previous chapter, the whole trade development of the country was flourished from 1990s when the system of the government was changed. It is also the period in which witnessed the military regime changed into democracy. Thus, the country launched the deep and wide ranging trade relations with China. It can also be said that the new trade policy of the country was accelerated from 90s. This chapter will also show how and why the nature of the trade relations between Bangladesh and China have been developed and changed over the year. It posed the questions such as that Bangladesh being a liberal democratic country could flourish trade with communist country such as China. Further, the aim of this chapter is to analyse the responsible factors for the development of trade relations between Bangladesh and China. And also tries to analyse the problem and challenges of trade relations of Bangladesh with China.

4.2 Factors for growing interest of Bangladesh in doing Trade with China

One of the important factors that led to develop Bangladesh's trade relations with China is the Awami League (AL) and Bangladesh National Party (BNP) of the country which continued the liberal policy of trade in order to stimulate growth through increased market-based activity. This has meant a reduced role for government and a range of efforts to stimulate private-sector activity. The AL government that followed (1996–2001) continued this trend with a set of reforms that attempted tighter tax administration and a loosening of import duties. However, during this period the visibility, if not also the extent, of widespread administrative mismanagement and corruption increased, and this brought negative implications for government revenue and expenditure. When the second BNP government was elected in 2001, the liberalisation policy of the country with China continued, and in 2003 the exchange rate floated.¹ The liberalisation policy is the policy of new government

¹ Lewis, David (2011), *Bangladesh; Politics, Economy and Civil Society*, Cambridge, Cambridge University Press, pp-146-47

under democratic system to stimulate export growth with China. Bangladesh's first Export Processing Zone (EPZ) had been constructed in Chittagong during the early 1980s and had been a centre for the expanding garment industry. Business established within EPZs is provided with a wide range of concessions. They are permitted duty-free import of capital and raw materials, to retain their foreign currency earnings, and to hire expatriate and non-unionised workers. Another Export Processing Zone (EPZ) was opened in Dhaka in 1993 specialising in high-technology companies. In 2002, Export Processing Zone (EPZs) was generating more than \$1 billion in export revenue per year and employed more than one hundred thousand workers.² Therefore, it can be analysed from the point that the trade liberalisation policy of the country is one of the factor which led to develop deep trade relations of Bangladesh's with China.

For the development of trade relations of Bangladesh with China the worldwide exchange of goods and services has considerably been playing an increasingly important role. According to the World Trade Organisation (WTO), total international trade of Bangladesh in 2006 was worth US \$17 trillion. Whereas the value of goods exported in 2007 was more than 30 times, nominal world GDP only increased about eightfold. The dynamic development of international trade of Bangladesh shows the increasing economic linkages with China. Yet despite this globalisation process, consumption and business activity of Bangladesh with China continue to have a strong home market bias – with these home markets often crossing national borders and encompassing whole regions.³

However, the relative values of exports and imports are important factors that led to develop Bangladesh's trade with China. Both the countries are improving the export and import ratio. In spite of decreasing term of trade of Bangladesh, there are some important developments in the export and import policy of Bangladesh with China. There is increasing trend in Bangladesh's export-import ratio which indicates the growth in the volume of exports is higher than that of imports.⁴ In recent time the country has tried to balance the trade relations with China by increasing exporting goods to China. Hence, there is close connectivity between Bangladesh and China in

² *Ibid*, pp-147-48.

³ Koopmann, Georg and Lars Vogel, (2008) "Regionalisation of Trade and Regionalism in Trade Policy – Patterns, Strategies and Impact" *Intereconomics*

⁴ Research Department, Bangladesh Bank (2012) "Terms of Trade and Its Implications: Bangladesh Perspective", p-12. www.bangladeshbank.org.bd retrieved on 12/01/2015.

terms of import and export of goods. Following table will show how the country is increasing her trade relation with China through import and export of goods.

Imports value of the country from China has doubled in 2010 than 2000. Again import share has also got momentum. Further, exports value and share have also increased many folds. From this table it cleared out that the trade relations between two Asian giants have been flourishing topmost facilities through trade relations. Further, table has attempted to analyse China as the single largest source of Bangladeshi imports. Bangladeshi imports from China have grown from 10% in the year 2000 to 27% in 2010 reaching 6.7 billion USD. This huge increase suggests that Bangladesh became efficient to Chinese market. It is also an attempt to examine hypothetical fact that the FTA could better flourish trade relations and it will promote Bangladesh's exports to China.⁵

Another important factor that led to the development of the trade of Bangladesh with China is continuous economic engagement of Bangladesh and China in the South Asia region. Through continuous economic engagement of Bangladesh with China in the region has helped to expand trade between two Asian nations in recent time which recorded as approximately \$40 billion to \$85 billion from 2006 to 2011.⁶ And these increases create opportunities for growth and development as a wider variety of exports flow from China into the country, and as Chinese Outward Direct Investment (ODI) improves infrastructure and creates jobs for the country. At the same time, Chinese involvement in the region as well as in Bangladesh may challenge India's regional dominance. Thus, it can safely be said that the continuous involvement of Bangladesh and China in development projects of Bangladesh helps to develop good trade relations of Bangladesh with China.⁷

Since 2003, Bangladesh's economic involvement with China has created good trade relations. The period between 2003 and 2012, Bangladesh's imports were dominated by Chinese exports to the country. In other words, Bangladesh's maximum imports now come from China. Bangladesh is receiving huge number of

⁵ Gonzalez, Javier Lopez and et.,al (2009), "Evaluating Bangladesh's FTA options and challenges", p-18.

⁶ Brunjes, Emily and et. Al (2013) "China's Increased Trade and Investment in South Asia (Spoiler Alert: It's The Economy)" Prepared for the U.S. Government Office of South Asia Policy: Madison, University of Wisconsin.

⁷ *Ibid.*

developmental projects from China. Developmental project such as construction of port is playing vital role to bridge the trade gap of Bangladesh with China. The reason behind the increased engagement of Bangladesh government with Chinese in the field of trade is to increase their profit in cheaper way. Along with seeking profit in cheaper way, there is close geopolitical proximity of Bangladesh with China.

Bangladesh's growing interest of trade with China is to expand the trade routes of Bangladesh with China. Bangladesh government's continuous engagement with Chinese creates good trade relations between two countries.⁸ Prime Minister Begum Khaleda Zia's visit to China in December 2002 was also a significant landmark in strengthening Bangladesh's trade relations with China. During the visit of Prime Minister of Bangladesh made three important treaties and a Memorandum of Understanding were signed covering military, economic, and technological cooperation with China. To appease Bangladesh, China has been sending purchase missions and has promised to import Bangladeshi commodities in large quantities under preferential trade policies and promote Chinese investment. Bangladesh decides to involve with China for the growth of trade relations under Asia Pacific Trade Agreement (APTA), which is an initiative of the Economic and Social Commission for Asia and the Pacific.

In 2002, Bangladesh's total imports from China were worth 64.2 million USD while its exports were worth 19 million USD which is the highest rate of exchange of trade comparing to other states.⁹ Through deep trade relations between Bangladesh and China, the volume of trade of Bangladesh in 2004 amounted to 1.96 billion USD, an increase of 43.5 percent from the previous year, and also Bangladesh import from China stood at 1.9 billion USD, up 42.8 per cent from 2003. Chinese imports from Bangladesh totaled 57.01 million USD, an increase of 70.7 per cent.¹⁰ Despite healthy trade links between Bangladesh and China, there exists a huge trade gap between two countries. During Bangladesh Foreign Secretary's visit to Beijing on 19 April 2006, both countries agreed to take steps to reduce this gap with Beijing promising to send a team to explore possible mechanisms for increasing imports from Bangladesh. The

⁸ Huan, Yanana (2010), "Bangladesh Holds Reception to Mark 35th Anniversary of Diplomatic Ties with China." Xinhua News, October 6.

⁹ Aneja, Urvashi (2006), "China-Bangladesh Relations: An Emerging Strategic Partnership?" Institute of Peace and Conflict Studies report. New Delhi, India. Pp-3-5.

¹⁰ *Ibid*, p-6.

Foreign Secretary also requested for duty free access to Bangladeshi goods by China. At present, under the Bangkok agreement, China provides duty free access to 84 Bangladeshi products, though Dhaka is pushing for a complete opening of the Chinese market for its products in order to reduce the trade imbalance. During this 8th annual consultation, officials also discussed various issues like China's possible investments in small and medium scale industrial plans under joint ventures, as well as the matter of providing grants and credits to help reduce the yawning gap.¹¹

For further development of Bangladesh's trade with China is continuous Chinese involvement in the domestic market of Bangladesh. Bangladesh is receiving large number of goods from China in cheaper price. In 2005-06, Bangladesh received goods from China as amounted as 495.5 million USD which is the largest imports of the country from any single country.¹²

Through close trade link of Bangladesh with Chinese government raise the volume of trade roughly six-fold between 2003 and 2011.¹³ Comparing to the trade of Bangladesh with other countries, the half of the trade volume of the country is dominated by trade with China. Therefore, in recent time as discussed above the deep interest of Bangladesh to do trade with China is to surpass India's presence in the region.¹⁴

Since then, successive governments have shown their commitments to more liberal trade regimes. These liberalisation programmes have led to a remarkable decline in quantitative restrictions, notable opening up of trade in many restricted items, significant rationalisation and diminution of import tariffs and complete liberalisation of the foreign exchange regime. Another important element of trade policy reform of Bangladesh with China was the introduction of generous promotional measures for exports. Important export incentive schemes available in Bangladesh include, amongst others, subsidised rates of interest on bank loans, duty

¹¹ Dr. Kazi Chesham and Mohammad Mahabubur (2005), "Sino-Bangla relations and Bangladesh's Look East policy," (Online Web) <http://www.thedailystar.net/2005/05/23/d505231501126.htm> retrieved on 13/12/2014.

¹² Kumar, Anand (2006), "China Replaces India as largest exporter to Bangladesh," *South Asia Analysis Group*, (Online Web) <http://www.saag.org/%5Cpapers18%5Cpaper1717.html> retrieved on 13/12/2014.

¹³ Lum, Thomas (2008), *Comparing Global Influence: China's and U.S. Diplomacy, Foreign Aid, Trade, and Investment in the Developing World*. Washington D.C.: Congressional Research Service. (Online web) <http://www.fas.org/sgp/crs/row/RL34620.pdf>. accessed on 29th Dec. 2014, 02.04.00.

¹⁴ Brunjes, *Op.cit.*, (2013), P-14.

free import of machinery and intermediate inputs, cash subsidy, and exemption from value-added and excise taxes.¹⁵

Important Export Incentive Schemes in Bangladesh scheme such as Export Performance Benefit (XPB) and nature of this operation is beneficial to facilitate trade of Bangladesh with China. It allows the exporters of non-traditional items to China. Again other scheme such as Duty Drawback and its operation Exporters of manufactured products are given a refund of customs duties and sales taxes paid on the imported raw materials that are used in the production of goods exported. Exporters can also obtain drawbacks on the value added tax on local inputs going into production.¹⁶ The primary objective of Bangladesh's export policies is to promote export-led growth by supporting major export drivers as well as new "export potentials", thereby expanding and diversifying exports so as to enhance Bangladesh's position. Any export incentive shall take into consideration the industry's value addition, employment generation, export share, existing and potential backward linkages, domestic and export market potential, environmental and social impacts, competitive and comparative advantage vis-à-vis similar products from other countries and potential for sustainable growth. Therefore, it can be said that this is also one of the important factors that have been instrumental in the development of congenial trade relation between Bangladesh and China.

This can also be placed as an important factor that led to develop Bangladesh's trade with China is the Beijing's attempts to pacify the situation by outsourcing textile jobs to Bangladesh where labour is available at half the cost, and with the comparatively low wage levels, Chinese producers might consider moving operations to Bangladesh. Although in comparison with India, or even Pakistan, Chinese trade and economic cooperation with Bangladesh is comparatively minimal, Bangladesh is actively seeking to pave the way for much greater trade integration with China. Even though enhanced trade cooperation of Bangladesh with China does not, by itself, result in a strategic partnership, it does help provide a wider basis for a long-term partnership, especially when combined with infrastructural development.¹⁷

¹⁵ International labour organization (2013) "Bangladesh Country Report: Trade and Employment", International labour organisation office publications, P-11.

¹⁶ Lewis, *Op.cit*, (2011), p-136.

¹⁷ Aneja, *Op.cit*, (2006), Pp-5-6.

Further, for the growth of Bangladesh trade with China is the liberal import policies of Bangladesh which led to facilitate trade. Due to the adoption of these policies, the import rate of the country with China increased to US\$ 21,518 million in 2011 which 6,859 in 1995.¹⁸ While the import liberalisation was meant to correct the domestic incentive structure in the form of reduced protection for import-substituting sectors, export promotion schemes were undertaken to provide the exporters with an environment where the previous bias against export-oriented investment could be reduced significantly.

The trade volume of Bangladesh with China has been expanded from 6.5 billion USD in 2001 to 73.9 billion USD in 2012, which recorded as an average growth rate of 26 percent. This expansion is even greater than the country's overall trade increase globally.¹⁹ Through this growth, both the country has been able to increase their economic conditions globally. At the same time, continued reform and opening in China will forge a huge market for Bangladesh.²⁰ Bangladesh's export to China and attract more Chinese investment, facilitate the mutual understanding and friendly exchanges between Bangladesh and China and provide a golden opportunity to Bangladesh to deepen her trade cooperation with China. The economic and trade cooperation of Bangladesh with China have maintained good momentum in recent years, and the proportion of Bangladesh trade volume with China is increasing. Bangladesh now has become China's third biggest trade partner in South Asia, while China is the largest origin of Bangladesh's imports. According to China's statistics, the trade volume between two countries reached 8.45 billion USD in 2012, 7 times more than that of 2002. The growth rate of Bangladesh trade with China has achieved 36.6% in the first quarter of this year, with that of Bangladesh's export to China standing at 37.5%, which is quite encouraging. Garment exports alone from Bangladesh to China surged by over 68 percent between the fiscal years 2012-13 and 2013-14. Overall trade between China and Bangladesh is said to have reached \$6.7 billion in 2013 – over 10 percent of Bangladesh's total volume of trade in the year as per reports by the Export Promotion Bureau of Bangladesh.²¹ In Bangladesh, FDI

¹⁸ International labour organization (2013) “Bangladesh Country Report: Trade and Employment”, International labour organisation office publications, P-9.

¹⁹ Zongyi, Liu (2014) “China’s Economic Relations with SAARC: Prospects and Hurdles” China Institute of International Studies. P-12.

²⁰ *Ibid*, P-15.

²¹ Bangladesh eager to join BRICS Bank following Chinese interest? (2014)

growth rate is accelerating from China. At the same time, there are still some challenges to overcome, i.e. reducing trade imbalance, enriching cooperation modalities, diversifying trade categories, and expanding trade platforms. The next section will discuss about the problems and challenges of Bangladesh trade with China.

Table 11: Bangladesh’s Export Policy to China

Export Policy (2006-09)	Export policy (2009-12)	Export policy (2012-15)
Agro-products and agro-processing products	Agro-products and agro-processing products	Agro-products and agro-processing products
Light engineering products (including auto-parts)	Light engineering products (including auto-parts)	Plastic products
Footwear and leather products	Footwear and leather products	Footwear and leather products
Home textile	Home textile	Home textile

Source: Bangladesh trade policy support programme: comprehensive trade policy of Bangladesh (2014)

Table 12: Changing Trends of Bangladesh Trade with China

Year	Exports	Imports	Total Trade	Total Goods Trade	Share of Trade in Total Trade
2002	849	1406	2254	13882	13.97%
2003	1012	1711	2723	16542	14.14%
2004	1083	1931	3014	19308	13.50%
2005	1249	2207	3456	21804	13.68%
2006	1334	2340	3674	25997	12.38%
2007	1617	2885	4502	29144	13.38%
2008	1996	3664	5660	37008	13.27%
2009	1975	3409	5384	34750	13.27%
2010	2412	4392	6804	44324	13.31%
2011	2423	5274	7696	57175	11.86
2012	2021	5202	7223	54905	11.63%
Annual Compound Growth Rate 2012 over 2002			12.35%	14.74%	

Source: UNCTAD Statistics, 2012.

4.3 Problems and Challenges

The relationship between Bangladesh and Yunnan has maintained close economic, trade and cultural exchanges since ancient times. The two places were tightly linked by the Ancient Silk Road, while Yunnan has been the bridgehead and leader in the bilateral economic and trade cooperation. By further developing this

cooperation, Bangladesh will be connected to the south western part of China and the whole mainland at large.²²

One of the major challenges facing the Bangladesh's while doing trade with China is increasingly trade gap. There is huge trade gap or trade imbalances exist between Bangladesh and China. The fact which we cannot deny that the trade liberalisation policy of Bangladesh has helped to eradicate the poverty and also improvement in educational system but there is some weakness of this policy which created huge inequality or imbalances of trade with China.²³ As discussed that the trade liberalisation policy of Bangladesh itself is a problematic or it has created problem or trade imbalances for flourishing trade relations with the China. Bangladesh embarked upon the path of trade liberalization in earnest in the early 1990s and has since made considerable progress in this regard. The speed of liberalization seemed to have stalled, however, in the later 1990s, and this has caused some concern among some quarters, especially the Breton Woods institutions. Paradoxically, some others have claimed that Bangladesh has actually liberalised too fast, especially in relation to its neighbouring countries. Both claims have some empirical validity, but the question of whether the speed of liberalization has been too fast or too slow cannot be resolved simply by looking at past speed or the speed of other countries. Therefore, one of the challenges or problem facing the policy makers is to take these and other relevant parameters into account and arrive at a judgement about the desirable speed and sequencing of trade liberalisation for the short to medium term future.

One of the disturbing features of the Bangladesh trade with China in the recent past has been the tendency for the growth to be stifled by the balance of payments constraint. Because of the highly import-dependent nature of the economy of the country has created hamper for the development of trade relations with China. This suggests the need for reorienting the production structure so as to reduce excessive import dependence. However, it is important to explore whether there are some critical areas where judicious and selective import substitution could help remove

²² Embassy of People's Republics of China in the People's Republic of Bangladesh Report prepared by Qu Guangzhou "China-South Asia Exposition Will Create New Opportunities for China-Bangladesh Economic and Trade Cooperation"

²³ Osmani S. R. (2008) "ACHIEVEMENTS AND CHALLENGES OF THE BANGLADESH ECONOMY: AN OVERVIEW" P-9.

important bottlenecks to domestic production and thereby reduce import dependence. It is well known fact that the trade of Bangladesh with China is highly dominated by import rather than export to China. In short, it can say that the nature of Bangladesh's trade with China is to be understood in terms of importing goods in large number.

Another set of issues relates to the phenomenon of persistent Bangladesh's trade with China is huge trade deficit. Bangladesh has run a large and persistent trade deficit with China for many years. Recently, trade deficit with China has got bigger proportions. Any attempt to deal with the concern with large Bangladesh's trade deficits must try to keep these issues separate for analytical purposes, even though in practice the same policy measure may have a bearing on several of these issues at the same time. The financial sector of Bangladesh also exists for reducing trade balance between Bangladesh and China because of the significant changes in financial sectors of the country in the recent years. As result of this, there are some changes in the trade history of Bangladesh with China. Because of changes in financial sectors led to changes in private sectors in commercial banking. The combined effect of all these factors is to reduce the reach and strength of Bangladesh Bank's direct control over the allocation of financial resources and to strengthen the market forces so as to increase the efficiency of trade development of the country with China.

The publicly owned Adamjee Jute Mill at Narayan Ganj near Dhaka, the largest in the world and employing twenty-five thousand workers, and a potent national symbol but that had long been a largely unproductive public-sector asset, was closed down in 2002.²⁴ The economic problem or factor of Bangladesh plays a critical role to develop the trade relations of Bangladesh with China. Economic conditions of Bangladesh stood as one of the challenging factor for the development of trade between Bangladesh and China. The economy of the country is not diversified and is highly dependent on the agricultural sector; services and apparel only make up a small percentage of the economy of the country. Because of that the trade relations between Bangladesh and China could not accelerate in developing way. Slow pace of reform due to government bureaucracy and lack of alignment of policies at the various levels of government high levels of corruption, even within the judiciary, undermines investor confidence.

²⁴ Lewis, *Op.cit.*, (2011), pp-146-47.

Poor road connectivity and electricity supply can also be placed as one of the problems or challenges of trade relations of Bangladesh with China. As commonly known the road connectivity plays an important role to develop the relations of any countries in any matters. Thus, trade is also one important area in which road connectivity plays a vital role to develop the trade roots of the country. But the road connectivity of Bangladesh with China is not good. Bad conditions of road connectivity of Bangladesh with China hamper to foster trade relations in proper way.

One of the biggest problems of Bangladesh trade development with China is the lack of Research and Development (R and D) in economic sector of Bangladesh. The lack of research and development (R and D) in the economic sector of Bangladesh has resulted in low quality of products in comparison to rest of Asian countries. Because of the subsequent low profitability in products, the volume of trade with China has been quite low. Along with R and D, lack of modernize equipment is also one of the cause which has led to decline Bangladesh's trade. The inability to timely modernize the equipment and machinery has led to the decline of Bangladesh trade competitiveness. Due to obsolete technology the cost of production is higher in Bangladesh as compared to other Asian countries like India, Pakistan etc.²⁵

Increasing Cost of Production has also led to hamper the trade relations between two countries. The cost of production of textile rises due to many reasons like increasing interest rate, double digit inflation and decreasing value of Bangladeshi Taka. The above all reason increased the cost of production of textile industry which create problem for a textile industry to compete in international market. And it has direct impact upon trade relations of the country with China. Along with this, increasing internal problems of the country have posed a larger threat for Bangladesh's trade relations with China. Bangladesh textile exports have gone through challenges during last three years as exporters cannot effectively market their products. Additionally, he stressed that government should take immediate measures to remove slowdown in the textile sector. High cost of doing business is because of intensive increase in the rate of interest which has increased the problems of the trade history of the country with China.

²⁵ Islam, *Op.cit*, (2013), pp-31-37.

Another problem or challenge for the development of trade relation of Bangladesh with China is the lack of focused trade related policies. Trade-related policies in Bangladesh lack focus as well as trade-related instruments and institutions fail to function with due efficiency. Continuing lack of transparency, inconsistency and un-clarity in trade regulation and policy changes are amongst the major weaknesses of trade-related policies which result in poor implementation and outcomes. Poor linkage between relevant policies related to exports and imports, inadequate use of trade policy tools for the development of domestic market-orientated and import-substituting industries; and lack of institutional capacity building initiatives in the areas of trade diplomacy; and trade promoting bodies.²⁶

The MFN applied simple tariff average of 14.14 percent in 2007 is lower than its late 1990s average of 21.8 percent and similar to the regional mean, which however is lower compared to India. The garments export industry is allowed duty free import of raw materials. The maximum tariff rate has declined from a high of 300 percent in the late 1990s to just 25 percent in 2007. The country has liberalized its banking and telecommunication sectors. Although, Bangladesh did not make any commitment in financial sector under GATS but the rate of liberalization in the financial sector has been quite rapid. This is a sector where Bangladesh has limited export but very crucial for country's economic development. However, the low overall GATS commitment suggests ample room for greater future multilateral commitments to services liberalization.²⁷

Though there stood plentiful problems and challenges in the way of trade relations of Bangladesh and China. Despite the fact, there is continuous works for the betterment of both countries or to bridge the existing gap. As the report of 18th National Congress of the Communist Party of China (CPC) stated that "China will continue to promote friendship and partnership with our neighbours, consolidate friendly relations and deepen mutually beneficial cooperation with them, and ensure that China's development will bring more benefits to our neighbours". Both Bangladesh and China always attaches importance to addressing problems in bilateral economic and trade cooperation and has taken positive steps. It is also true to note that

²⁶ Islamic Development Bank Group (2013). "Country Economic Work; Diagnostic Analysis of Bangladesh Economy: Foundation for Member Country Partnership Strategy", p-87.

²⁷ *Ibid*, p-88.

since 2010, China has gradually given Bangladesh made goods duty-free status in Chinese markets. Currently, more than 4,700 items of Bangladesh made goods enjoy duty-free facility when exported to China, and China is expected to further expand the facility in 2013 and gradually achieve the goal to cover 97% of the Bangladesh made goods duty free in Chinese market.²⁸

Again higher growth in the volume of exports of country is motivated by steady augment in the prices of our exportable products, although the slower growth in prices of exportable deteriorated the terms of trade. In addition, a steady increase in the prices and higher growth in the volume of exportable commodities of the country with China can also be regarded as an improvement of Bangladesh's competitiveness in the international market. However, the types and productivity of the exportable commodities of Bangladesh contribute to steady increase in export price index and massive growth in the volumes of exports.²⁹ The following table will show the exports and imports between Bangladesh and China and how these exports and imports have been increasing over the year.

As different country experiences suggested that the trade liberalisation alone cannot act for growth and development of trade relations between the countries. Especially for the LDCs, lack of trade related infrastructure facilities and deficiency of knowledge on sectoral potentiality deprive them from gaining through greater openness. Following are some of the issues need to be taken into account for improving trade relation of Bangladesh with China:

- The problem of lack of infrastructure facilities is acute for Bangladesh, which involves poor transportation, port and customs, and storage facilities, along with power supply and communication system. The marketing and distribution facilities are far from satisfactory. Moreover, Bangladesh experienced problems of implementing WTO commitments, partly due to lack of know-how and institutional capacity. 'WTO Cell' under the Ministry of Commerce and 'Bangladesh Foreign Trade Institute' has been formed to improve the institutional and human capacity in trade negotiations. Despite these efforts,

²⁸ Embassy of People's Republics of China in the People's Republic of Bangladesh Report prepared by Qu Guangzhou "China-South Asia Exposition Will Create New Opportunities for China-Bangladesh Economic and Trade Cooperation"

²⁹ Research Department, Bangladesh Bank (2012) "Terms of Trade and Its Implications: Bangladesh Perspective", (Online Web) www.bangladeshbank.org.bd retrieved on 20/11/2014. p-12.

Bangladesh still lacks the capacity to manage the whole negotiation process. For improving better trade relations between Bangladesh and China, Bangladesh has to improve for the betterment of trade relations in future.

- The complications relating to service trade negotiations call for policy makers to be able to assess the potential implications arising out of certain provisions. Furthermore taking effective participation in services trade may require enacting the necessary domestic regulations. For effective utilisation of all these requires technical assistance.
- Aid for Trade can be an effective instrument to provide technical assistance to Bangladesh in this regard to build the supply capacity for services sectors, to strengthen domestic services capacity, efficiency and competitiveness, to build institutional and human capacity, and to put up requisite infrastructure and new technologies. Technical assistance through the Integrated Framework could be provided to Bangladesh in this regard and it will help improve the institutional capacity of the country to participate actively in trade negotiations with China.
- The Hong Kong Declaration emphasised on assisting LDCs to enable them to identify sectors and modes of supply that represent development priorities. However, there is no such initiative from the developed country members to consider the special priority sectors and LDC modes of supply. There also lacks LDC initiatives to prepare a negotiable ground for this. Bangladesh should identify the areas where technical assistance is required. Service sector has the growing potential to be a driver of sustainable economic growth and significant poverty alleviation in Bangladesh. The growing trade in services has important implication for the productivity enhancement and economic growth. Services sector in Bangladesh is the largest sector, and it is the area where local firms have larger participation and are better able to compete, as compared with the manufacturing sector.
- Bangladesh faces a huge trade gap with China. Therefore, in order to reduce trade imbalance, the Government of Bangladesh needs to take initiatives for direct communication with the Chinese business community to expand its

export volume to China and remove its structural problems as the Chinese market is quite diversified and competitive.

- Bangladesh may invite the Chinese to build the Kunming-Chittagong direct road through Myanmar to access Chittagong port for economic and strategic reasons.
- Bangladesh may diversify its export baskets and remove its structural problems in order to get more access to the Chinese market which was very diversified and competitive.
- Bangladesh may persuade to make sure the Chinese investment in the country's deep sea port. Bangladesh may also seek the enhancement of capacity of Mongla and Chittagong ports with Chinese cooperation.

As a result, the issue about trade liberalisation in services raises an important concern to the government as to what extent service trade liberalisation will be beneficial to achieve the national objectives such as economic growth, poverty alleviation, and inequality reduction. Bangladesh has liberalised important services sub-sectors unilaterally rather not using the right to liberalise under request-offer process of the GATS negotiations. Unilateral service trade liberalisation has been the hallmark of Bangladesh trade policy reforms. However, there are concerns among, negotiators, policy makers, and civil society that unilateral service trade liberalisation may not ensure persistent economic growth and poverty alleviation. Unilateral service trade liberalisation is one of the issues that have given rise to greater concern alike. Moreover, as service sector is the major stakeholder in our economy, decision about service trade liberalisation has greater implication for the economy.³⁰

From the aforementioned table, it is clear to say that over the recent past Bangladesh has witnessed a widening of trade deficit with India which stood at \$3.0 billion in FY2008 and \$2.6 billion in FY2009. However, it is important to note the recent dynamics of export to India which has experienced significant rise from \$89.3 million to \$358.1 million in FY2008 and \$276.6 million in FY2009 which is a

³⁰ Mahmud, Wahiduddin (2003) "Bangladesh: Development Outcomes and Challenges in the Context of Globalization," the paper was presented at the conference on *The Future of Globalization: Explorations in Light of Recent Turbulence* co-sponsored by the Yale Center for the Study of Globalization and the World Bank, October 10-11, 2003, Yale University.

three-to-four fold increase within a span of five years. Although from relatively low base, this growth provides an indication about potential opportunities to expand Bangladesh's exports to India. But trade relations between Bangladesh and China which has experienced a massive increase cannot ignore. We can see the growth of export and import over the year between two countries is extremely fast.

4.4 Conclusion

It can be said that along with negative growth of trade between Bangladesh and China, there are positive aspects too. Bangladesh being a developing country is trying to increase its economy globally through trade cooperation. Thus, its relations with China have been getting good impetus recently. As a result, Bangladesh became the third largest trading partner of China. As discussed earlier, there are huge trade deficit between two countries but both countries are trying to merge the existing gap through mutual cooperation in trade. The government of Bangladesh willingly stood to continue its vigorous economic cooperation with China taking all possible measures to further enhance trade relations between the governments. Improving the trade deficit with China would be a top priority and Bangladesh would seek the active cooperation of India and China in identifying the demands in their respective countries for Bangladeshi products as well as technical cooperation and infrastructure development.

Bangladesh has also reaffirmed its support to the 'One China Policy.' China has also been extended its support to the efforts of Bangladesh in upholding national and regional peace, stability and progress. It is also true to say Bangladesh and China recognised that economic cooperation and trade constitute an important part in forging closer comprehensive cooperative partnership. So, they agreed to intensify cooperation on trade, investment, finance, agriculture, science-technology-innovation, health, education, transportation and infrastructure development based on equitable mutual benefits. In view of this, Bangladesh and China agreed to take further concrete measures to increase bilateral trade, widen economic cooperation and augment investment flow with a view to reducing huge bilateral trade imbalance. Bangladesh welcomed the Chinese proposal and appreciated China's long-term support to Bangladesh's economic and social development and also agreed to consider the modalities for such cooperation between the two countries.

CHAPTER-V

CONCLUSIONS

From the preceding chapter, it can be affirmed that Bangladesh's overall trade development depends on economic development which can categorically be put under three different phases.

The first phase (1971-1982) as already discussed in the previous chapter is the period of reconstruction and recovery amidst political turbulence. During this period, the country achieved its pre-independence levels of per capita GNP and other macroeconomic indicators, such as gross savings and gross investment as shares of GDP. The period is also characterised by several socio-political and economic developments such as economic nationalism emphasising inward orientation with strong state control, violent change of political power followed by partial liberalisation. Therefore, the economic development or trade development of Bangladesh is based on nationalising the economy. Moreover, trade relations of Bangladesh during the first phase with China is marked by frequent high level official visit by both countries for strengthening trade relations

The second phase (1983-1990) was the period of slow economic growth and macro-economic instability. The slow growth became increasingly unsustainable and the ensuing macroeconomic crisis led to the implementation of a range of stabilisation measures. Although the reform measures were driven by balance of payments crisis and were a part of the conditionality related to the Enhanced Structural Adjustment Facility (ESAF) of the World Bank and the IMF its implementation signalled qualitatively new phase of development in Bangladesh. The large number of trade liberalisation programme was launched during the second phase of trade development of Bangladesh with China.

The third phase is the period between 1990 to recent development of trade relation of Bangladesh with China. The third phase shows new phase in the trade history of Bangladesh with China where new liberalised policies were initiated for the growth of trade relations with China. For example, in 2009-12 Bangladesh introduced Import Policy Order for enhancing trade relations with China which includes substantial reduction of tariff, import liberalisation etc.

Moreover, the dissertation also tries to examine the concept of international trade of Bangladesh with China and how this has provided ample opportunity to foster the economy of the country. The study on Bangladesh's trade relations with China reveals the dynamics of trade relations between two countries. Bangladesh's growing interest is to balance her trade in South Asian region as well as to make the position strong in the region. Chinese government's deep interest in trading with Bangladesh is to involve in the South Asian Region as well as to be members of SAARC and to balance her trade in the global arena which has been suffered from US and European states. For the growth of trade relations between Bangladesh and China; Bangladesh, China, India and Myanmar (BCIM) is there as a regional trading bloc which has been playing an important role to connect two countries in the region. Both countries are trying to balance their trade relations in the world for the betterment of future trade.

As discussed already that in recent time Bangladesh is showing its deep interest to trade with China. Due to this, Bangladesh has given its label best to connect its trade relations with China. At present, China is making every effort to adjust its economic structure, change the modality of development, and implements the strategy of developing the western regions and expands its opening-up. With rich human resources, high level economic openness and preferential fiscal & monetary policies, Bangladesh has achieved strong economic growth in recent years. China and Bangladesh are highly complementary in economy, and there is great potential for the two regional countries to deepen economic and trade cooperation.

One of the reasons of Bangladesh's growing attitude with China is that Chinese government has been provided some of the facilities for the economic growth as well as other aspects of growth of the country. Bangladesh has also reaffirmed its support to the 'One China Policy', which the Chinese government has expressed its support to the efforts of Bangladesh in upholding national and regional peace, stability and progress. The joint statement between Bangladesh and China recognised that the economic cooperation and trade relations constitute an important part in forging closer comprehensive cooperative partnership. So, they agreed to intensify cooperation not only on trade but also on investment, finance, agriculture, science-technology-innovation, health, education, transportation and infrastructure development based on equitable mutual benefits. Through this joint statement between Bangladesh and China, both countries agreed to take further concrete

measures to increase bilateral trade, widen economic cooperation and augment investment flow with a view to reducing huge bilateral trade imbalance. Bangladesh welcomed the Chinese proposal and appreciated China's long-term support to Bangladesh's economic and social development and agreed to consider the modalities for such cooperation between the two countries.

The growing trade relation of Bangladesh with China is to balance its trade in the region. Ongoing engagement of Bangladesh with China in the region is to have port access. Bangladesh's export to China attract more Chinese investment, facilitate the mutual understanding and friendly trade cooperation between China and Bangladesh, and also provide a golden opportunity to two countries to deepen bilateral economic and trade cooperation. Throughout the study, it is evident the economic and trade cooperation between China and Bangladesh have maintained good impetus in recent years, and the proportion of bilateral trade volume is increasing in the total trade volume between China and South Asian countries. Chinese volume of trade with South Asian countries is marked by the trade with Bangladesh. And also Bangladesh trade has been dominated by trade with China recently rather with India.

Bangladesh now has become China's third largest trade partner in South Asia, while China is the largest origin of Bangladesh's imports. According to China's statistics, the trade volume between Bangladesh and China reached 8.45 billion USD in 2012, which is seven times more than that of 2002. The growth rate of bilateral trade has achieved 36.6% in the first quarter of 2012, with that of Bangladesh's export to China standing at 37.5%, which is quite encouraging. More and more Chinese businessmen are willing to invest in Bangladesh and the growth rate of direct investment is accelerating. At the same time, there are still some challenges to overcome, i.e. reducing trade imbalance, enriching cooperation modalities, diversifying trade categories, and expanding trade platforms.

For the development of country's economy through trade with China, Bangladesh government has also spelled out five main economic targets. Firstly, it deals with achieving 7 percent growth rate for the next fiscal year. Secondly, it refers to prevent wasteful expenditures in the public sector. Thirdly, it deals with encouraging private investment. Fourthly, it refers to achieve food self sufficiency and

to reduce poverty in the country. However this boom was only short lived as economic mismanagement gradually became all purposive. To a certain degree, current economic problems like sick industries, large scale loan default and default culture originated from this experiment with aid dependent state sponsored private capitalism and it has greatly impact upon country's trade with China. Deterioration in terms of trade, slow macro-economic growth rate and other factors led to a considered deterioration of the macro-economic balances and Bangladesh had to seek \$800 million short term financing under the Extended Fund Facility from IMF. In the backdrop of the above mentioned severe deterioration of macro-economic balances characterised by poor domestic resource mobilisation efforts and low savings and investments, low rate of export growth and a growing dependence on foreign aid, government of Bangladesh need to take serious step to balance the country's economic development. Again the government need to take policy reforms for stabilisation and structural adjustment under the guidance of the World Bank (WB) and International Monetary Fund (IMF).

Nonetheless, trade liberalisation in Bangladesh raises an important concern to the government as to what extent service trade liberalisation will be beneficial to achieve the national objectives such as economic growth, poverty alleviation, and inequality reduction. Bangladesh has liberalised important services sub-sectors unilaterally rather not using the right to liberalise under request-offer process of the GATS negotiations. Unilateral service trade liberalisation has been the hallmark of Bangladesh trade policy reforms. However, there are concerns among, negotiators, policy makers, and civil society that unilateral service trade liberalisation may not ensure persistent economic growth and poverty alleviation. Unilateral service trade liberalisation is one of the issues that have given rise to greater concern alike. Moreover, as service sector is the major stakeholder in our economy, decision about service trade liberalisation has greater implication for the economy.

It is also said that the idea of liberal democracy is one of the important pillar in order to develop the economy or trade history of any country. For example India, for liberalising her economy in 1991 with the adoption of SAP, the economy of the country increased manifold. It is also true in the context of Bangladesh, after the introduction of liberalisation policy, the economic condition as well as the trade history of Bangladesh increased surprisingly. The whole chronology of the economic

development of Bangladesh revealed that the booming of trade with China and with other world only after the introduction of economic and trade liberalisation policy in the country.

As discussed, there is a huge trade deficit between two countries. But more importantly, they are focusing on to merge the existing gap through expansion of mutual trade cooperation. The government of Bangladesh willingly stands to continue its vigorous economic cooperation with China taking all possible measures to further enhance trade relations between two governments. Improving the trade deficit with China would be a top priority and Bangladesh would seek the active cooperation of India and China in identifying the demands in their respective countries for Bangladeshi products as well as technical cooperation and infrastructure development.

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