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Ties between Bangladesh and Asian giant China have continued to improve over the years after the Bangladesh Liberation War of 1971. Warming of bilateral relations began after military coups in Bangladesh, which began in 1975 and the subsequent rise of Ziaur Rahman to the seat of power. Rahman’s visits to Beijing and the opening up of the Bangladeshi economy aided in forging a comprehensive alliance by the 1980’s on the defense, commercial and cultural fronts. While the Awami League, the current ruling party at the centre, initially displayed an aversion to China due to recurring vetoes by Beijing to Bangladesh’s United Nations (UN) membership after independence, the incumbent Sheikh Hasina administration has renewed Sino-Bangladesh ties and continued to consolidate the partnership between the two South Asian countries.
BILATERAL COOPERATION AND XI JINPING’S VISIT TO DHAKA

President Xi Jinping’s visit to Bangladesh in October, 2016 was regarded as a ‘historic visit’ since it was the first visit to Dhaka by a Chinese Premier in 30 years. 21 agreements amounting to nearly 40 billion USD were signed between the two countries as China provided a 24 billion credit line to Bangladesh, the largest till date. The loans dispensed were received after several deals pertaining to infrastructural development were signed between Bangladesh and China. Further, the two countries elevated their relations to the status of a ‘strategic partnership’, on the economic front. This elevation directly corresponds to the huge investments funnelled by Beijing into various sectors of the Bangladeshi economy. Both Bangladesh and China reiterated their adherence to the ‘Five Principles of Peaceful Coexistence’. Key sectors such as infrastructure, industrial capacity cooperation, energy and power, transportation, information technology and agriculture were discussed by the two leaders and areas of proposed investment by Chinese firms were identified. Feasibility of establishing a China-Bangladesh Free Trade Area was also discussed while China emphasized its support for new Economic and Industrial Zones in the country. Joint unveiling, inauguration and foundation laying of projects such as the Karnaphuli multi-lane river tunnel in Chittagong, Shah Jalal Fertiliser Company in Sylhet and multiple thermal power plants, dominated the Chinese President’s visit.

Two-way trade between Bangladesh and China is expected to surpass 30 billion USD by 2021. Since 2011, imports from China grew at a rate of approximately 20 percent and exports from Bangladesh at 40 percent. China had voided tariff barriers to 84 varieties of import goods under the Asia-Pacific Free Trade Agreement (AFTA). However, while China has given Dhaka duty-free access to multiple goods, Bangladesh’s exports to the country haven’t exceeded even 1 billion USD. Keeping this in mind, there exists a relatively high incongruity in trade in favour of China. China has also reportedly offered to assist Bangladesh in the specialized fields of water management, nuclear energy, training of police and defense personnel while forming a Joint Economic and Trade Commission to further develop bilateral relations. Bangladesh could benefit immensely if its neighbor continues to invest in the emerging and swiftly growing economy in dominant sectors such as Ready-made Garments (RMG), Natural Gas and Maritime Industries. The Asian Infrastructure Investment Bank (AIIB), a China-led initiative had approved 165 million USD in loans to Bangladesh for infrastructure projects that are being planned or are in construction phases. The defense sector of Bangladesh has also been an area of keen interest for China as it intends on consolidating its presence in South Asia and negate the growing influence of nemeses, India and the US in the region.

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ECONOMIC COOPERATION

**Ready Made Garments (RMG)**

As cited in a previous report of this series, while Bangladesh’s domestic economy majorly depends on agriculture, the main source of foreign exchange is the RMG sector, that accounts for more than 82 percent of exports. China gained membership of the World Trade Organization (WTO) in 2001, following which it became the world’s largest exporter of textiles. Due to cheap labor costs in Bangladesh and ever increasing wages in China, the textile giant has plans of outsourcing its RMG jobs to the country. Woven garments, leather products, travel accessories, knitwear, paper yarn, woven fabric and raw leather have been identified as the premium products exported by Bangladesh. Similarly, raw materials and advanced machinery for the RMG sector has been imported by Dhaka.

RMG exports from Bangladesh represent approximately 6 percent of the global RMG market. International apparel brands such as Zara, H&M, Gap and Levi’s have set up shop in Bangladesh while the RMG industry riding on an ever-increasing demand for readymade clothing is likely to further strengthen in the near term. Bangladesh remains the second largest exporter of RMG behind China and cooperation between the Asian countries in the sector is liable to further bolster the credentials of South Asia as a hub for RMG.

Depreciation of China’s currency has made the RMG market even more competitive as the cost of production remains more or less flat. Notwithstanding, China continues to be the largest RMG manufacturer in the world, Bangladesh has tapped into the market in China due to its ever-increasing middle-class population. This has been attributed to China’s failure to focus on its domestic market, that has been valued at around 150 billion USD due to its supposedly non-lucrative nature. The textile market in emerging economies such as China and India with regards to retail and consumption is likely to be valued at 750 billion USD by 2020.

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INFRASTRUCTURE
Collaborative projects between Bangladesh and China have seen major advancements in the last decade. By the last quarter of 2016, multiple infrastructure and technical cooperation projects were initiated by the countries with the aid of credit pumped in by Chinese firms. Bangladesh’s Economic Relations Division (ERD) and China’s Department of Outward Investment and Economic Cooperation have proposed to work together on timely implementations of projects in the pipeline, following Premier Jinping’s visit in October 2016. A first of its kind project intended at bringing all government offices under the umbrella of a single network is in the works with the financial assistance from China. The project has been christened, Development of National ICT Infra-Network for Bangladesh and is part of the government’s VISION 2021.

The China-backed Asian Infrastructure Investment Bank (AIIB) has played a vital role in providing loans to Bangladesh pertaining to infrastructure projects. In June 2016, AIIB had provided loans worth approximately 165 million USD to Dhaka for a power distribution system upgrade and expansion program. The project will provide around 2.5 million new service connections in rural areas while upgrading two grid substations. The upgradation of overhead distribution lines into underground cables in northern Dhaka has also been proposed under the project. China’s Jiangsu Etern and the Power Grid Company of Bangladesh signed an agreement to expand, rebuild and upgrade Bangladesh’s electrical network system. The project comprises of 100 Grid Substations and 1000 kilometer transmission lines. Etern also won the bid for a 305 million USD power plant project in August 2016. On March 28, 2017, AIIB extended a loan amounting to 60 million USD to address Bangladesh’s energy deficit and enhance production of natural gas, utilizing its deposits.

Given that Bangladesh is a disaster-prone region, China has also invested another 83 million USD in the ‘Disaster Emergency Operation Centre and Information Platform’. Further, the much anticipated Padma Bridge Rail Link from Dhaka to Jessore, a 4.44 billion USD project will be developed by the China Railway Construction Corp Ltd. (CRCC). The rail link project includes construction of 66 main bridges, 244 minor bridges, 14 new rail stations and obtaining 100 passenger coaches. The project will be built under the Trans-Asian Railway (TAR) project aimed at creating a freight railway network across Europe and Asia. Other major projects include Dhaka-Chittagong rail link, Dhaka-Ashulia elevated expressway and the Sitakunda-Cox’s Bazar marine drive expressway.

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On November 14, 2016, the Bangladesh Navy acquired two Type 0356 diesel-electric submarines (SSK’s), for a reported price of 203 million USD, from China. The acquisition falls in line with PM Sheikh Hasina’s concerns with regards to the development of a three-dimensional force (air, surface and sub-surface) for the country’s defense forces.

The acquisition was also directed towards consolidating Bangladesh’s presence in the Bay of Bengal and follows a UN Convention on the Law of the Sea (UNCLOS) tribunal, that affirmed the south Asian country’s claims on approximately 111,000 square kilometres of sea as well as parts of the continental shelf in the bay. While the purchase of the submarines indicates the intentions of the Sheikh Hasina government with regards to protecting its interests, specifically maritime trade in the Bay of Bengal, the acquisition has been skeptically looked at by defense experts. Although the acquisition might be to increase the capabilities of the Bangladesh Navy, it is liable to strain relations with neighbouring nations, especially India. Further, Bangladesh’s limited maintenance capabilities combined with a lack of technical education in the Bangladesh Navy with regards to submarines, might hamper the effective use of subsurface entities.

Sources have further indicated that the development of modern surface combatants, oriented for the role of national defense might have served Bangladesh better rather than the aforementioned acquisition. This further raises doubts about the conditions in which the acquisition was made and whether the People’s Liberation Army Navy (PLAN) lobbied for the submarines. Since 2004, China has provided 78 percent of Bangladesh’s defense purchases. The submarine acquisition is said to have further deteriorated the balance of power in south Asia, specifically in the Bay of Bengal, that has for ages been a matter of contention for
developing regional powers China and India as each of them continues to engage Bangladesh in an effort to surpass the other, to seemingly gain prominence in the region.

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**NATURAL GAS**

Recently, reports emerged of Chinese state-run firm Zhenhua Oil’s aim of buying Chevron’s natural gas fields in Bangladesh for a sale price of 2 billion USD. The deal which is in its preliminary stages is set to be China’s first energy investment in south Asia. The Chevron gas fields are located in Jalalabad, bibiyana and Moulavi Bazar.

However, the right to first refusal is still maintained by Bangladesh and it could obstruct the deal in the case that it deems the natural gas deposits viable for the country’s utilization. National oil company, Petrobangla, has also displayed its interest in purchasing the oil fields and has reportedly employed energy consulting firm Wood Mackenzie for assessing the viability of a future acquisition. The seventh largest natural gas deposits located in Bangladesh are likely to be of interest to the supposedly energy-hungry China, that has remained vital in providing impetus to gas exploration in Bangladesh, with its resources and influence in the region.
While Chinese investment will act to ease supply constraints and transmission bottlenecks, the Beijing-Dhaka cooperation will add to sustainable economic growth of Bangladesh’s economy through sustainable means. Bangladesh, that heavily relies (around 75 percent) on natural gas to meet its energy needs and is likely to benefit from the Chinese involvement in bettering transmission for imported natural gas. Offshore gas exploration is an area where Bangladesh’s lacks the required technological infrastructure and funds required. According to a recent estimate, the Bay of Bengal region has approximately 200 trillion cubic feet of natural gas reserves, in addition to the 13.77 trillion cubic feet present on land in Bangladesh.

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BELT AND ROAD INITIATIVE

The much talked about ‘Belt and Road’ initiative has been viewed by the world as China’s way of engaging the international community as well as an attempt to make a ‘Superpower’ statement. Premier Jinping’s brainchild, the project primarily focuses on increasing connectivity and cooperation between China and several countries in the Eurasia region. It comprises of two basic components, the Silk Road Economic Belt (SREB) and the Maritime Silk Road (MSR).

SILK ROAD ECONOMIC BELT (SREB):

The SREB includes countries located along the ancient ‘Silk Route’ through Central Asia, West Asia, the Middle East and Europe. Under the SREB, China envisions to deepen economic ties, forge closer cooperation and expand development in Eurasia. While skeptics have deemed the ambitious project as an initiative by the Chinese government to gain more global influence, the SREB will meet its end by promoting common development and mutual cooperation in Asia and Europe. Many have cited that by developing the SREB, China intends on fulfilling its ‘oil needs’. Given Bangladesh’s location in the scheme of things and as a nation party to the Belt Road Initiative (BRI), China has identified it as a pivotal player in the SREB. The presence of financial institutions such as the BRICS Bank and AIIB will add further traction with regards to critical funding.
MARITIME SILK ROAD (MSR):
The MSR, a sister project of the SREB will pan across several proximate water bodies such as the South China Sea, South Pacific Ocean and the Indian Ocean. The MSR has identical goals when it comes to economic cooperation and development, however, the motives behind the revival of the old sea route for trade are yet to be ascertained. In context of China-Bangladesh relations, given that Beijing regards Dhaka as one of its allies in south Asia along with Pakistan and Sri Lanka, the rejuvenation may be directed towards negating Delhi’s influence over the Indian Ocean. The Hambantota Port in Sri Lanka can be cited as an apt example in relation to this strategy, where a Chinese company was invited to oversee the management of the second phase of the port’s development, in October 2014.

The Bay of Bengal region, that has several important ports such as Kolkata, Chennai, Chittagong, Yangon, Kakinada, Pondicherry, and Vishakhapatnam has traditionally been home to various inter-continental and regional trade routes. Bangladesh's natural gas deposits are also predominantly located in this region while the Bay is a hotspot for the fisheries, oil and mineral sectors. Due to the abovementioned, the regional power that is able to garner the support of Bangladesh with regards to utilizing the resources in the Bay is liable to reach a dominant position in the Indian subcontinent in years to come. Therefore, the primary objective of the Chinese with the development of the MSR might be to achieve a dominant position in the Bay of Bengal after the South China Sea, where it already has several military and surveillance facilities.
FORECASTS

- In the case that political stability remains intact in Bangladesh following the 2018-19 general elections, economic growth is expected to exponentially increase. If the Sheikh Hasina government manages a re-election, the economy is liable to be further strengthened as a perceivably one-party rule in the country might be consolidated. The incumbent government is a known supporter of free-market economics and has adhered to a balanced approach between two of its significant allies, China and India with regards to aid pertaining to economic development.
- Strengthened compliance procedures for the RMG sector might re-enforce enthusiasm in foreign investors, many of whom have refrained from heavily investing in the country, due to the lacking standards. Genuine implementation of labor reforms, specifically an increase in the daily minimum wage might further the case of the government concerning its commitment to avoiding workers backlash and continued labor unrest, which has seen a spike in the recent past. While not extensively documented, China has had its own labor issues. Keeping this in mind, increasing daily wages in China might force the country’s textile industries to outsource operations to Bangladesh, as mentioned in the relevant section of the report.
- Technological advancement and constant technical support from China might increase the capacity of operations of the RMG sector and may lead to further cooperation between the public and private sectors under the umbrella of Chinese funding. New free trade agreements with a more diversified approach towards investment in RMG, might help Bangladesh garner backing for its most promising industrial sector.
- As infrastructure development remains pivotal for achieving the Vision 2021 goal of the Sheikh Hasina government, China is likely to continue to be Dhaka’s primary partner with regards to collaboration on economic projects in the near term. China's technological support, proximity to Bangladesh and Myanmar's close ties with Beijing will act to further engagement of the Asian giant in developmental works.
- The formation of AIIB and the loans provided by the bank to Dhaka will help the incumbent government bridge the critical infrastructure financing gap and strengthen regional connectivity, thus helping Bangladesh gain the status of a vital trade link between China, India, Myanmar and other south Asian nations. Through the loans disbursed by AIIB, China is liable to wield a supplemental influence over South Asia as it attempts to counter India’s ‘Look East’ Policy.
- China’s increasing investments in developing Bangladesh’s infrastructure might also be a part of the purported ‘String of Pearls’ strategy, an alleged plan to dominate the Indian Ocean by placing its military installations across countries that bestride the ocean.
- As an emerging economy, Bangladesh is likely to invest in the defense sector and should view China as a strategic partner in the coming days, given the growing interest of Beijing in various developing areas of business in the country. China might
view constant backing to Dhaka's military ambitions as a means to expand its influence within the SAARC countries, given that it already possesses a strategic presence in Sri Lanka and is the foremost ally of Pakistan.

- China’s perceptible expansionist military agenda has already been identified with respect to construction of military bases in the South China Sea, disregarding a crucial ruling of the International Court, that ruled in favor of the Philippines, pertaining to Beijing’s ‘Nine-Dash Line’, that encroaches upon the Exclusive Economic Zones (EEZ) of various southeast Asian countries. Keeping this in mind, installation of naval bases in Bangladesh remains a distinct possibility in the near future. However, a development of this magnitude might be opposed by India and could certainly lead to souring of relations between the neighbors and heightened geopolitical tensions in the region.

- Continued goodwill attained by the Chinese, related to the training of Bangladeshi security of training personnel and cooperation in defense equipment technology might endear Dhaka to Beijing and could lead to a state of additional dependence in the near future.

- Natural gas, a national resource for Bangladesh, that has not been entirely tapped by successive governments due to infrastructural incapacities, has developed an interest in Chinese petrochemical firms. With the aid received from prospective investors, Bangladesh might be able to utilize its natural gas deposits to initiate extensive developmental works in other sectors and reduce its energy deficit, spurring robust industrial growth. Chinese assistance in exploration of offshore deposits in Dhaka’s EEZ, that are estimated to be one of the largest in Asia, might further encourage other nations across the globe to invest in Bangladesh’s petrochemical sector.

- Bangladesh’s tactical location in south Asia in context to the Belt and Road Initiative should prove an advantage and lead to the promotion of trade and connectivity, specifically along the belt bloc countries. This might make Bangladesh a transportation hub in the years to come.

- Foreign Direct Investment (FDI) might receive a much needed boost as Exclusive Economic Zones (EEZ) are likely to be developed for China and other regional players with respect to the Belt and Road Initiative in Bangladesh. Access to markets in China and India might prove facile, stimulating trade facilitation.

- Employment generation is slated to revitalize and might aid poverty alleviation, a primary objective of the Sheikh Hasina government. Energy cooperation, another area of interest for the incumbent government is liable to receive augmented support from the Chinese, as Bangladesh remains a focal entity in the Belt and Road initiative.

- While the current SREB or MSR do not constitute any major Bangladeshi cities, the development of the sea port in Chittagong by a Chinese firm will have a direct effect on development of the impoverished Cox’s Bazar area. Further, while the Chinese missed out on the opportunity to develop Sonadia Deep Sea Port, its expedited development is essential for the evolution of the Cox’s Bazar-Chittagong Development Zone.