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Emerging Trends in Chinese Investments in Bangladesh : Challenges and Opportunities

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1. Introduction

The emerging trends in Chinese investments in Bangladesh need to be analysed in the context of Chinese foreign direct investment (FDI) as a whole. China began to make investments abroad with the onset of the economic reforms in the late 1970s. Initially, the amount of capital was limited and outward investment was dominated by the state-owned entreprises (SOEs). By the late 1980s, China not only opened up its economy welcoming foreign capital, technology and expertise, but also encouraged its own enterprises to invest abroad. Subsequently, 'overseas investment became one of the major elements in [China's] economic development strategy…' (Wu and Chen 2001: 1236-37). Since 1991, more and more Chinese corporations started to invest overseas to 'develop new markets, increase exports, exploit advantageous local conditions and obtain resources' (Wu and Chen 2001: 1237).

Although starting from near zero in the early 1970s and early 1980s, by the end of 2010, more than 13,000 Chinese companies/corporations had established about 16,000 overseas enterprises, spread over 178 countries, with accumulated outward FDI standing at US$317.21 billion (Ministry of Commerce, PRC 2011: 79).

In the case of Bangladesh, the volume of Chinese investments is not particularly noteworthy; until 2010, Bangladesh did not get much priority. Between 1977 and 2010, China invested only US$250 million; however in 2011 alone, it invested some US$200 million (Imam 2012). (In this paper the terms 'outward FDI' and 'overseas direct investment' are used interchangeably)

Although this is still not a large number, in the context of Bangladesh, it is a substantial figure. Against this backdrop, some interesting questions arise: Does China consider Bangladesh an important investment location? If so, what are the factors motivating China to invest in Bangladesh and in which areas is it investing? How does Bangladesh perceive Chinese investments?

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The paper is qualitative in nature and based on primary and secondary data.

2. Theoretical Framework

Why do MNEs invest abroad and what determines their choice of location? In this context, what is special about Chinese MNEs? From existing literature, it is clear that MNEs invest overseas motivated by profit. Before going abroad, they take into account factors like comparative advantages of labour availability, the market, and the investment environment among other things. Buckley and Casson (1976) argue that firms choose locations for their constituent activities that minimise the overall costs of their operations (cited in Buckley et al. 2007: 500). The Upsaala model (Ohanson and Vahlne 1977) claims that MNEs engage in FDI incrementally. At the initial stage, they make only small investments in geographically and culturally proximate countries, but later, as experiences accrue, larger investments are made in countries distant on both counts (cited in Sethi et al. 2003: 316).

John H. Dunning's paradigm concludes that there are three primary motivations which lead to FDI by any country: natural resource-seeking, market-seeking, and efficiency-seeking (cited in Sethi et al. 2003: 316).

Natural resource-seeking FDI occurs to secure the supply of raw materials and energy sources in short supply at home. In the case of China, this aspect is most applicable since resource-seeking, in particular, natural resource-seeking, has been one of the key strategic considerations for China's overseas direct investment since the commencement of the market reforms (Hong and Sun 2004: 9). (Jiang and Sinton 2011:10).'For the past 17 years, China has experienced strong economic growth, and is the second-largest economy in the world. Even since the global economic crisis of 2008, China has managed to achieve 8.7 per cent GDP growth in 2009, and 10.3 per cent in 2010' [1] (Jiang and Sinton 2011:10). It is also estimated that there is likely to be an increase in the Chinese consumer demand – so it is highly likely China needs more access to energy, and other necessary raw materials. According to the *2010 Statistical Bulletin of China's Outward Foreign Direct Investment*, mining is the top priority industry. Yuqing Xing (2012) found that the investment priorities of Chinese companies are: natural resources, technologies, trade facilitations (Xing 2012:13). Purchases of stakes in Australian mineral and food companies by China International Trust and Investment Corporation (CITIC) and the acquisitions of Canada-based PetroKaz by China National Petroleum Corporation (CNPC) are examples (cited in Buckley 2007:504).

Market-seeking FDI is based on several factors like market size, liberal market policy etc. Efficiency-seeking FDI meanwhile, occurs when outward investors seek lower-cost locations for operations, in particular in the search for lower-cost labour.

With regard to Chinese ODI, Peter J. Buckley *et al.* found in their study that:

- the host country's natural resource endowments have had a significant role in driving Chinese ODI from 2001; before that it was not driven so much by the motive to acquire strategic assets;
- policy liberalisation has had a positive influence in stimulating Chinese ODI.
- reduced transaction costs and network effects are important in attracting Chinese investors. (Buckley et al. 2007:513)

In the case of Chinese investments in Bangladesh, it appears that FDI is mostly efficiency-seeking, since the recent increased costs of labour in China has led to the search for comparatively cheap labour and Bangladesh is one of most competitive countries in this regard.

3. Chinese Investments in Bangladesh

FDI has played a key role in the development of the Bangladesh economy. FDI volume increased in Bangladesh from an inflow of US$666 million in 2007 to US$1.136 billion as of 2011(Board of Investment, Bangladesh 2011). There is also an increase in Chinese investment in Bangladesh (Tables 1 and 2) It is also notable that China was the third-largest investor in Bangladesh after Saudi Arabia and South Korea in the year 2009-2010 recording 12 projects

[1] China had become a net oil importer by 1993.

amounting US$21 million (Table 3) (Board of Investment, Bangladesh 2011).

Most Chinese projects in Bangladesh fall in either the infrastructure or service sectors. China has built six bridges in Bangladesh – the important 4.8 km-long Mukhterpur Bridge over the river Dhaleswari, built by China Road and Bridge Corporation, was inaugurated on February 2008 (Rashid 2011). The agreement to build the 7th China-Bangladesh Friendship Bridge at Kajirtek in Madaripur was signed in January 2012 and the consultations are ongoing with regard to the 8th China-Bangladesh Friendship Bridge (*Financial Express* 2012). Furthermore, China is also interested in investing in the Padma Bridge[2] and some Chinese firms have come up with specific offers in this regard. Poly Technologies, a state-owned construction company in China for instance, has proposed an investment of US$2.4 billion in the project, which will be financed by the Exim Bank of China (*Daily Star* 2013, *Prothom Alo* 2013a). In July 2012, another Chinese company Spare Energy Creations Australia Pty Ltd (SECA) also submitted a proposal for building the bridge with the Chinese government proposing to bear 70 per cent of the cost (Imam 2012).

Table 1: China's outward FDI in Bangladesh 2004-10 (US$ millions.)

	2004	2005	2006	2007	2008	2009	2010	2011
Total Chinese FDI in World	5497.99	12261.17	17633.97	26506.09	55907.17	56528.99	68811.31	
Bangladesh	0.76	0.18	5.31	3.64	4.50	10.75	7.24	200

Source: Ministry of Commerce, PRC 2011: 82. For 2011 data, see, Imam 2012.

TABLE 2 : China's Outward FDI stock in Bangladesh, 2004-2010 (US $ million)

	2004	2005	2006	2007	2008	2009	2010
Total	44777.26	57205.62	75025.55	117910.50	183970.71	245755.38	317210.59
Bangladesh	8.66	32.96	39.66	43.30	48.14	60.30	67.58

Source : Ministry of Commerce, PRC 2011: 88.

[2] The Padma Bridge will be the largest bridge in Bangladesh, (6.15 km in length) connecting points in three districts, namely, Munshiganj (Mawa Point/North bank), Shariatpur and Madaripur.

Table 3: Country-wise foreign and joint venture investment during 2009-2010

Country	No. of Projects	Proposed Investment (US$ million)
Saudi Arabia	3	478.652
South Korea	12	33.768
China	**12**	**21.000**
Hong Kong	5	14.805
Netherlands	5	8.544
India	9	8.451
United Kingdom	5	3.507
Australia	4	2.036
USA	5	2.990
Finland	2	3.023
Malaysia	3	3.056
Pakistan	2	0.990
Japan	8	2.624
Denmark	1	1.217
Sri Lanka	2	0.646
Canada	2	1.017
Taiwan	1	0.502
Singapore	4	1.929
Turkey	1	0.150
Greece	1	0.156
Italy	2	1.039
Total	89	590.102

Source: Board of Investment, Bangladesh 2011.

The above tables show that since 2009-10, Bangladesh merited more attention from China as an investment destination. During the visit of the then Chinese vice-president Xi Jinping to Bangladesh in 2010, China agreed to provide RMB40 million (approximately US$6.5 million) as grant under an economic cooperation agreement and two agreements were concluded, one for a fertiliser factory and another for a telecommunication project.

More recently, the Chinese have shifted focus to the manufacturing sector, particularly to the ready-made garments sector (RMG), in Bangladesh. After the building collapse at

Shavar, Dhaka in April 2013, which led to the deaths of hundreds of garment workers in Bangladesh, major RMG export destinations of Bangladesh including the US, EU, and Canada have shown less interest in buying Bangladesh RMG. However, the delegates of the China National Garments Association (CNGA) during a visit in May 2013 to Bangladesh showed keen interest in importing more Bangladeshi RMGs and also expressed interest in investing further in this sector (*Prothom Alo* 2013b). Furthermore, 200 Chinese companies visited Bangladesh in May 2013 to observe the investment environment and showed their keen interest to invest (*Manobkantha* 2013).

Now the pertinent question is why is China showing keen interest in investing in Bangladesh, of late? According to one Chinese garments manufacturer, factories in China are not competitive anymore because of increasing wages of labourers and a sharp hike in overall production costs. She states that:

> "In my factory in China, the salary of workers has been increasing steadily over the last few years. It has reached around US$400 to US$500 (£250 - £315) a month per worker while in Bangladesh the average monthly salary for garments workers is only around US$70 to US$100. If I produce in Bangladesh, price is much more competitive" (Anbarasan 2012).[3]

This competitive low wage is one of the major reasons for increased Chinese interest in investing and relocating some of its companies to Bangladesh. Alongside, 'strategic location, regional connectivity and worldwide access, growing local market and growth, proven export competitiveness, advantageous trading agreements, attractive business and investment climate, competitive cost base, fiscal and non-fiscal incentives and export processing zones' are important factors that attract Chinese investments to Bangladesh (Board of Investment, Bangladesh 2011). Another significant point is that Bangladeshi environmental laws are much more flexible than those of China.

In terms of taking labourers from China, in 2012, a Chinese company named the China Railway Bridge Group Co. Ltd, showed its interest in the construction of Padma Bridge and proposed taking labourers from China while buying bricks, sand and cements from Bangladesh. The question arises – why do Chinese companies need labourers from home in the infrastructure sector? This is a question that needs further study.

On the question of how Bangladeshis see Chinese investments in the country, it can be argued that from political leaders to civil society, all welcome Chinese investments. Sheikh Hasina, the Prime Minister of Bangladesh, for instance, in October 2012, in a meeting between Chinese and Bangladeshi delegates at Dhaka, offered land in the special economic zones for Chinese companies with special amenities. During the same meeting, Dhaka and Beijing signed several agreements to boost cooperation (*Prothom Alo* 2012). Various sections of civil society, academics and the media, also welcome Chinese investments in Bangladesh (Imam 2012; Rashid 2011, 2012).

4. Challenges and Opportunities

There are a number of challenges regarding Chinese investments in Bangladesh such as poor infrastructure and political instability. Shortage of electricity and gas is the main hindrance for foreign investments in Bangladesh. According to the World Bank's *Doing Business 2012* report, in 2005, foreigners needed 185 days to get the permission for construction in Bangladesh and it worsened to 201 days in 2011; similarly, the days required for getting electricity connection in industries in 2011 was more than a year (372 days) (cited in Unnayan Onneshan 2012: 15; see Table 4).

Table 4: The Position of Bangladesh in Ease of Doing Business (days)

	Singapore	Bangladesh	India	Pakistan	China
Starting business	3	19	29	21	38
Construction permit	26	201	227	222	311
Registering property	5	245	44	50	29
Getting electricity	36	372	67	206	145
Overall rank	1	122	132	105	91

Source: World Bank 2012: 81-125

[3] According to one report, in Bangladesh, the monthly wage of a labourer is US$40, while in China, it is US$200 (*Dainik Ittefaq* 2012).

Another important determinant for FDI is the political risk factor. The home country wishes to make sure that host countries are politically stable in order to avoid production disruption, damage to property, threats to personnel and so on. According to the *Global Investment Report 2012*, countries in the South Asian region rank high in the country risk guides of political-risk assessment services (for details see, UNCTAD 2012b: 47); this has deterred FDI inflows. Bangladesh, for example, sees frequent *hartals* or strikes and political violence.[4]

Another challenge is regional geopolitics and the internal political dynamics of Bangladesh. Like India, China is also often used as a trump card in Bangladeshi politics for political gains. For instance, the Awami League accused the opposition Bangladesh Nationalist Party (BNP) Chairperson Khaleda Zia, of fracturing good Sino-Bangla relations during her visit to China in 2012. For its part, the BNP also claims that under the Awami League, Dhaka ignores Sino-Bangla relations while emphasizing more on Indo-Bangla relations (Rafique 2012).

Although there are challenges for Chinese investments in Bangladesh, there are also several opportunities. Since Bangladesh has enough cheap labour, particularly in the RMG sector, China should utilize it but in order to be a win-win situation, Chinese companies should also ensure minimum wage for labourers. It needs to be noted that while in the first half of 2012, FDI inflows declined by 11 per cent in developing Asia and 40 per cent in South Asia, strong interest by foreign investors in manufacturing, especially in garments, helped keep FDI inflows to Bangladesh at a relatively high level, at about US$430 million in the first two quarters in 2012 (UNCTAD 2012a: 3-4).

The energy sector can be another area for Chinese investments since the energy demand of China is growing and Bangladesh is rich in energy resources. According to Energy Information Administration, 'Bangladesh has proven reserves of 5 trillion cubic feet (tcf) of natural gas and the potential to meet the rising demand for energy in Asia' (cited in Singh 2010: 273). Needless to say, this huge volume of energy reserves can be an opportunity for further Chinese investments.

Another potential avenue for Chinese engagement is in Sonadia, Cox's Bazar where the Bangladesh government has decided to build a deep sea port. This deep sea port can bring win-win situation for both countries since it could work as regional trading hub and serve the strategic and economic interests of both China and Bangladesh. During her last visit to China in March 2010, Prime Minister Sheikh Hasina sought Chinese investments in Sonadia to which China responded positively (*Financial Express* 2012). Other avenues for Sino-Bangladeshi engagement include the areas of agro-processing, pharmaceuticals, and power.

Thus, as far as Chinese investments in Bangladesh are concerned, there are challenges as well as opportunities. Dhaka and Beijing should address the challenges on a priority basis and utilize the opportunities for further engagement based on mutual respect and interests.

[4] During 2001-2006, for instance, a total of 173 days of nationwide *hartals* were enforced (Rashid 2012).

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