

**REGIONAL  
STUDIES**

**38:3  
Autumn 2020**

**INSTITUTE OF REGIONAL STUDIES ISLAMABAD**

## **EDITORIAL BOARD**

Nadeem Riyaz – Editor-in-Chief

Aarish U Khan – Editor

## **INTERNATIONAL ADVISORY BOARD**

Amb Riaz Mohammad Khan  
Former Foreign Secretary  
of Pakistan

Mr Qasim Niaz  
Member BOG, IRS,  
Former Secretary Commerce Ministry,  
Islamabad, Pakistan

Dr Michael Kugelman  
Director, South Asia Center,  
Stimson Center, Washington DC, USA

Dr Christophe Jaffrelot  
CERI-Sciences Po/CNRS and  
King's College,  
London

Dr Hu Shisheng  
Director and Research Professor,  
China Institutes of Contemporary International  
Relations (CICIR), China

Dr Christopher Snedden  
Former Professor  
Asia-Pacific Centre for Security Studies  
Honolulu, Hawaii, USA

D Suba Chandran  
Professor and Dean, International Strategic and  
Security Studies Programme, National Institute  
of Advanced Studies (NIAS), India

Dr Li Jing Feng  
Director,  
Regional Studies and Strategic Research  
Centre, Sichuan Academy of Social  
Sciences, China

Dr Hassan Abbass  
Director at NESAS,  
University of Washington, USA

Dr Salma Malik  
Assistant Professor  
Quaid-i-Azam University,  
Islamabad, Pakistan

Dr Khadga K.C.  
Associate Professor,  
Asian Institute of Diplomacy and International  
Affairs (AIDIA), Kathmandu, Nepal

Mr Asanga Abeyagoonasekera  
Geopolitics and Foreign Policy Analyst,  
Colombo, Sri Lanka

Dr Maria Saiffudin Effendi  
Assistant Professor,  
Department of Peace and Conflict Studies,  
NDU, Islamabad, Pakistan

Mr Shahab Enam Khan  
Professor at Jahangirnagar University,  
Dhaka, Bangladesh

# REGIONAL STUDIES

Quarterly Journal of the  
Institute of Regional Studies, Islamabad

---

38:3

Autumn 2020

---

## CONTENTS

- Families and Political Recruitment in Minor Political Parties in Bangladesh 3-25  
— *Md. Bakhtear Uddin*
- Geopolitics of RCEP and the Sino-American Competition in the Asia-Pacific 26-49  
— *Furqan Khan*
- Bangladesh-China Economic Relations: Investment Projects and Partnerships 50-73  
— *Mohammad Jahirul Quiyum*
- Pakistan's Blue Economy Amid Increasing Militarisation in the Indian Ocean 74-99  
— *Wasim Sajjad*
- Trade Deficit with China: Realising Gains for Pakistan 100-115  
— *Ali Haider Saleem*



# FAMILIES AND POLITICAL RECRUITMENT IN MINOR POLITICAL PARTIES IN BANGLADESH

MD. BAKTHEAR UDDIN\*

## Abstract

*Political dynasties play an important role in several modern states. There has been a remarkable increase in the role of families in political parties and politics not only in Bangladesh but also in the whole world. No country in South Asia is immune from the dominance of families in politics. Bangladesh is not an exception in this regard. More or less, each and every political party has a dynastic leadership. Families play a role in leadership recruitment not only in the major parties but also in the minor ones in Bangladesh. This paper assesses the role of families in leadership recruitment in the minor parties in Bangladesh. An attempt has been made here to give a description of recruitment of leaders of some minor parties in Bangladesh from the members of the families of the powerful leaders of those parties. This paper claims that control by families of most minor parties has its material, psychological, and anthropological roots as these parties are primarily an extended clan of the principal leader of these parties.*

**Keywords:** *political parties, families, leadership recruitment, minor parties, dynastic leadership*

## Introduction

The role of families in political recruitment in Asia in general and South Asia in particular is a matter of common knowledge.<sup>1</sup> It is now known that the Nehru-Gandhi family in India, Bandaranaike and Rajapaksa families in Sri Lanka, the Koirala family in Nepal, the Bhuttos

---

\* Md Bakthear Uddin is an Assistant Professor in the Department of Political Science at the University of Chittagong, Bangladesh.

*Regional Studies*, 38:3, Autumn 2020, pp.3-25

and Sharifs in Pakistan, the Sheikh Mujib and Zia/Khaleda families in Bangladesh are the prominent and most dominant families in politics of these countries. These families lead the most powerful parties like the Congress Party in India, Sri Lanka Freedom Party (SLFP) and Sri Lanka People's Front (SLPF) in Sri Lanka, Pakistan People's Party (PPP) and Pakistan Muslim League-Nawaz (PML-N) in Pakistan, Nepali Congress in Nepal and Awami League (AL) and Bangladesh Nationalist Party (BNP) in Bangladesh. All these are large and major parties. Thus, there might be a perception that family plays role in recruitment of leaders only in major parties. Political observers and researchers have primarily focused on major parties and not paid adequate attention to the role the families play in recruiting leaders in the smaller or minor political parties. They have simply overlooked the role of families in recruiting leaders of the minor parties. This paper is a modest attempt to fill in this gap and to shed some light on the role of families in leadership recruitment in the minor parties in Bangladesh. Ideologically speaking, these minor parties range from hard-line communist parties to extremist Islamist parties.

In this paper, parties which have never gained more than 1 per cent of total votes cast in any parliament election and never won more than 5 seats in the Sangsad ever since the independence of Bangladesh and cannot make much impact on Bangladesh politics on their own have been defined as minor parties. This paper describes the role of families in leadership recruitment in the minor parties of Bangladesh. It is a descriptive and interpretive paper based on data collected from relevant books, newspapers, magazines, reports, and in-depth discussions with some party activists and experts.

### **Minor Islamist Parties in Bangladesh**

There are numerous Islamist Parties in Bangladesh. Bangladesh Jamaat-i-Islami was the largest of all. Since it was a major party, it requires a separate treatment and is not included here in the category

of minor Islamist Parties.<sup>2</sup> This section of the paper, thus, deals with minor Islamist parties to see whether/or to what extent families play a role in leadership recruitment of these parties. One may commonly assume that the Islamist parties would follow the Islamist rationality in selecting their leaders and leadership will be selected on the basis of the strength of *Iman* (faith in Allah), *Taqwa* (fear of Allah), and leadership skill. Are persons with deep faith leadership skill recruited as leaders to lead the Bangladeshi minor Islamist parties? Unfortunately, the answer is 'No'. Family connections in many cases prevail over Islamist 'rationality'. The analysis below will bear this out.

Islamists, as legal political actors, emerged in Bangladesh under military regimes after 1975, as the generals lacked legitimacy and, thus, used religion as a tool to consolidate their power. Moreover, the military rulers removed the constitutional bar to form political organizations in the name of religion by amending the Constitution. Currently, there are at least 70 active Islamist parties, 12 of which are registered with the Bangladesh Election Commission (EC). They are: Bangladesh Tarikat Federation, Bangladesh Khelafat Andolan, Bangladesh Muslim League, Jamiat-e Ulama-e Islam Bangladesh, Islamic Front Bangladesh, Islami Oikya Jote, Bangladesh Khelafat Majlish, Islami Andolan Bangladesh, Bangladesh Islami Front, Khelafat Majlish, Bangladesh Muslim League-BML, and Zaker Party. "Indeed, a large number of these parties exist only as letterheads, but some of them have gained significant power and influence, not to mention mobilizational capacity. Although they haven't succeeded in garnering large support from the electorate, they have built up enough manpower to organize street agitations. On occasions, they have flexed their muscles as well."<sup>3</sup>

In 1979, only two Islamist parties participated in the general election. By 1991, the number of Islamist parties in Bangladesh had increased to 17, with one more party, Jamaat-e-Islami joining mainstream politics in 1996. But, in 2001, the number reduced to 11

and in 2008 to 10. Their share of votes also dropped from a little above 14 per cent in 1991 to around 6 per cent in 2008. One of the oldest Islamist parties, the Bangladesh Jamaat-e-Islami, lost its registration following the apex court's order in 2013. It has been barred by the Bangladesh Election Commission from participating in the future polls. Many of its senior leaders were hanged after being convicted by the court for committing war crimes and for their crimes against humanity during Bangladesh's War of Liberation in 1971 and the 'legality' of the party is under threat. Bangladesh Jamaat-i-Islami bagged 4.7 per cent of the votes cast contesting in 39 constituencies in the 2008 election. In the 1996 national election, it contested in all 300 parliamentary constituencies and secured 8.7 percent of the total votes cast and won three seats.<sup>4</sup>

The role of family in leadership recruitment of the following minor Islamist Parties is discussed below.

### **Khelafat Andolon**

Maulana Mohammadullah Hafezzi Huzur, known as the Hufezi Huzur, a traditional Islamist representing the normally politically disinterested Quomi Madrassa variety of the Islamists, performed well as a presidential candidate in the 1981 presidential election and later formed the Khelafat Andolon (Khelafat Movement) on 29 November 1981. The party aims to contribute to the 'global movement for establishing *Khilafah* and to establish a '*Khilafah* in Bangladesh'. In a surprising result, he secured 3<sup>rd</sup> position with 388,741 (1.80 per cent) of the total votes cast and made the presence of his party felt in the political landscape of Bangladesh in the early 1980s. He formed and led the 11-party Sammilito Sangram Parishad (Combined Action Council) in 1984. Huzur participated in the 1986 presidential elections, boycotted by all major parties. He secured second position in this election. Three of his disciples, Allama Azizul Haque, also known as Shaikhul Hadith (meaning an interpreter of

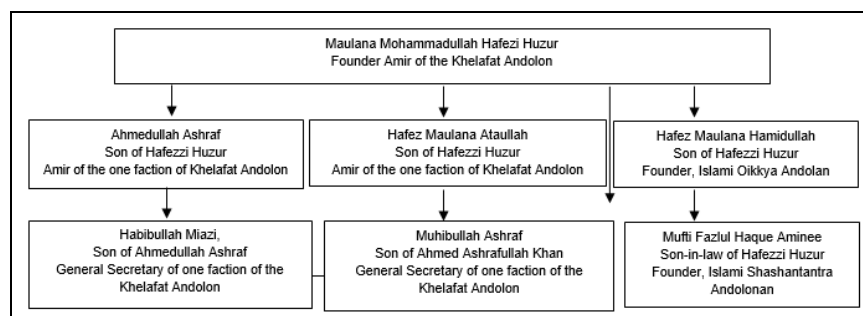


Prophet Muhammad's sayings) who once headed Jamiatul Ulama, Mufti Fazlul Haque Amini (his son-in-law), and Maulana Syed Fazlul Karim (the late Pir of Charmonai) held senior positions in Khelafat Andolon. Upon Hafezi Huzur's death in 1987, all of these leaders left the party, presumably having fallen out with his sons and formed separate parties.<sup>5</sup> Shaikhul Hadith Allama Azizul Haque's faction of the Khelafat Andolon formed the Khelafat Majlish by joining hands with the Islamic Democratic League (IDL) of Maulana Abdur Rahim and Islami Jubo Shibir led by Abdul Kader Bacchu (Ahmed Abdul Kader)—the two dissident variants of the Jamaat. The Majlish later joined the Islami Oikkya Jote (IOJ-Islamic Unity Alliance) in December 1990.<sup>6</sup>

After the death of the Hafezzi Huzur, one of his sons, Maulana Ahmedullah Ashraf, became the Amir of the Khelafat Andolon. As he fell sick, his brother Hafez Maulana Ataullah Ibn Hafezzi was elected Amir of the party. While Zafrullah Khan was re-elected party's Secretary General, Ahmedullah Ashraf's eldest son Habibullah Miaji wanted occupy the post.<sup>7</sup> Hafez Maulana Hamid Ullah, leader of the Khelafat Andolon and another son of Hafezzi Huzur formed the Islami Oikkya Andolon. In 2017, Khelafat Andolon split into two. One faction of the party declared Maulana Zafrullah Khan the Amir of this faction of the Khelafat Andolon and Muhibullah Ashraf, son of Ahmedullah Ashraf and grandson of the Hafezzi Huzur, was made the General Secretary of this faction of the party. Another split of the Khelafat Andolon took place when Hafez Maulana Ataullah Hafezzi, the youngest son of the Hafezzi Huzur, was made the Amir of the party and his nephew Habibullah Miazi, a grandson of Hafezi Huzur and son of Ahmedullah Ashraf, was made the secretary general of Khelafat Andolon.<sup>8</sup> Yet, another faction of the Khelafat Andolon, led by Huzur's flamboyant son-in-law Mufti Fazlul Haque Aminee left the party and formed the Islami Shashantantra Andolon (Islamic Constitution Movement) with the then Pir of Charmonai, Syed Fazlul Karim, one of the three major leaders of the Khelafat Andolon.

**Table 1**

**Hafezzi Huzur's Family in Bangladesh Politics  
and the Khelafat Andolon**



Sources: Information contained in this Table was gathered by the author himself from various newspapers, magazines, journal articles, books, etc.

The aforementioned table and discussion show clearly that family members played a major role in determining the leadership of Khelafat Andolon. The sons of Hafezzi Huzur treated the party as paternal property and divided the party as if to get their share of the family property. Other senior companions were not given a major leadership role in the party even though these leaders like Syed Fazlul Karim, Allama Azizul Haque and Mufti Fazlul Haque Aminee were the three major leaders of Hafezzi Huzur's party, the Khelafat Andolon. There is no way to know on what religious ground the sons of the Huzur inherited the leadership of the Khelafat Andolon.

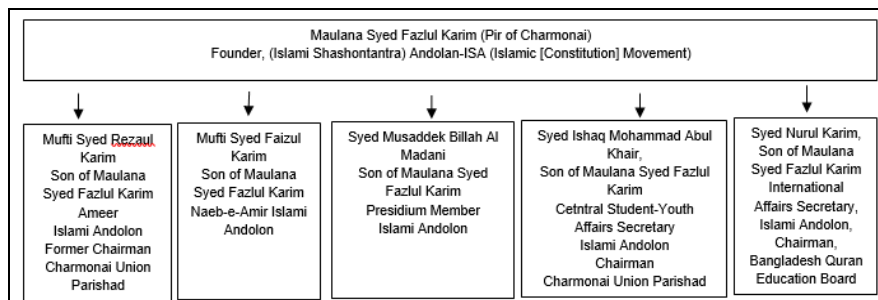
### **Islami (Shashantantra) Andolon**

One of the three prominent leaders of the Khelafat Andolon Maulana Syed Fazlul Karim, the Pir of Charmonai, and Mufti Fazlul Haque Aminee, the son-in-law of Hafezzi Huzur, left the Khelafat Andolon and formed the Islami Shashantantra Andolon or the ISA (Islamic Constitution Movement).<sup>9</sup> 'Formulating an Islamic Constitution' and transforming Bangladesh into a "total Islamic State in the light of the experience of Khilafat" are the stated goals of the ISA. It later joined the IOJ and got split again in the year 2000. The Aminee

faction with the new name, Islami Morcha, remained in the IOJ and ISA led by the Pir of Charmonai, Syed Fazlul Karim formed the Islami Jatiya Oikkya Front (IJOFF) with the Jatiya Party (JAPA), led by former military ruler Lt Gen Hussein Muhammad Ershad.

**Table 2**

**Maulana Syed Fazlul Karim (Pir of Charmonai) Family in Islami (Shashontantra) Andolon**



Sources: Information contained in this Table was gathered by the author himself from various newspapers, magazines, journal articles, books, etc.

Upon Mufti Syed Fazlul Karim's death, Mufti Syed Rezaul Karim, one of sons of late Pir of Charmonai, Mufti Syed Fazlul Karim, became the Amir of the Islami Andolon, who also served two terms as the Chairman of Charmonai Union Parishad in Barishal district beginning in 2003. He is still the Amir of the Islami Andolon. Another son of the late Pir of Charmonai, Mufti Syed Faizul Karim, is the Naib-e-Ameer (Deputy Chief) of the Islami Andolon. Three other sons of the late Pir of Charmonai are actively involved in various institutions led by the Charmonai Darbar Sharif (Court of Charmonai). One of them is Syed Musaddek Billah Al Madani. He is the Presidium Member of the Islami Andolon. Another son, Syed Nurul Karim, is the International Affairs Secretary of the Islami Andolon and Chairman of Bangladesh Quran Education Board, a Charmonai-directed Institution. The third one,

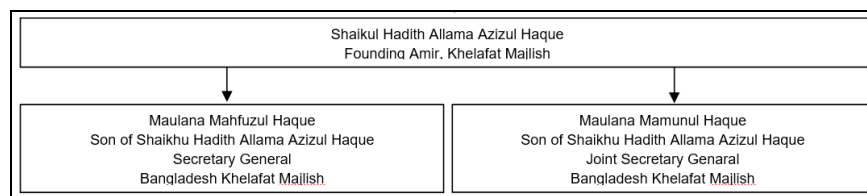
Mufti Syed Ishaq Mohammad Abul Khair, is the Central Student and Youth Affairs Secretary of the Islami Andolon and the current Chairman of the Charmonai Union Parishad.<sup>10</sup>

### **Bangladesh Khelafat Majlish**

Khelafat Majlish was formed with the Jubo Shibir, Islamic Democratic League (IDL), and a faction of the Khelafat Andolon led by Shaikhul Hadith Allama Azizul Haque on 8 December 1989. Both Maulana Mahfuzul Haque and Maulana Mamunul Haque are the sons of Allama Azizul Haque. They are the leaders of the Khelafat Majlish. In 2005, the Bangladesh Khelafat Majlish faced a split when its leader Maulana Azizul Haq insisted on appointing his son as the party secretary general. One faction of the Majlish is led by his son, Maulana Mahfuzul Haque. He is the general secretary of the 2019-20 committee of the Bangladesh Khelafat Majlish. Another of his son, Maulana Mamunul Haque was the secretary of the party's Dhaka city unit. He is the joint secretary general of Bangladesh Khelafat Majlish and Central President of the Bangladesh Khelafat Jubo Majlish. Now, he is the acting general secretary of Khelafat Majlish. Earlier, Khelafat Majlish itself got split into the Shaikhul Hadith faction and Maulana Ishak-Ahmed Abdul Kader faction.<sup>11</sup>

**Table 3**

#### **Shaikhul Hadith Allama Azizul Haque's Family in Bangladesh Politics and Khelafat Majlish**



Sources: Information contained in this Table was gathered by the author himself from various newspapers, magazines, journal articles, books, etc.

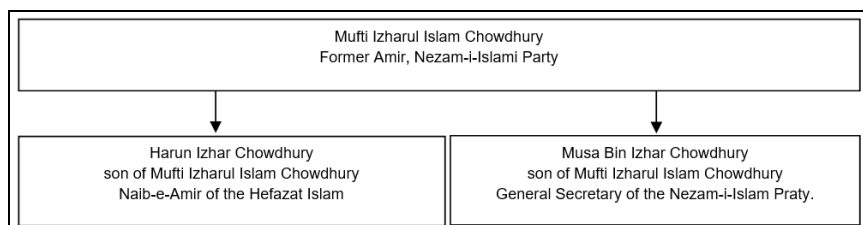
Khelafat Andolon, Khelafat Majlish, and Islami (Shashontantra) Andolon are the three parties led by the blood-descendents of senior non-blood companions of Khelafat Andolon’s founder leader, the Hafezzi Huzur. It seems that the kins of the Hafezzi Huzur claimed stake in the Khelafat Andolon and the ‘deprived’ senior non-kin companions of the Huzur left the Khelafat Andolon and formed their own parties. Their sons, in turn, claimed control over these parties as their paternal enterprises.

**Nezam-i-Islam Party**

The roots of the Bangladesh Nezam-i-Islam Party can be traced back to the Jamaat-i-Ulema-e-Islam. In 1954, the Jamaat-i-Ulema-e-Islam, Pakistan, decided to name its parliamentary party as the Nezam-i-Islam Party. It joined the IDL in 1976 but later re-emerged as Nezam-i-Islam Party (NIP) and joined the Sammilito Sangram Parishad in 1984. It later joined the 7-party Islami Oikkya Jote (IOJ) formed on 22 December 1990 with other parties such as Jamiat-e-Ulama-Islam, Faraezi Jamaat, Islami Shashontantra Andolon, Khelafat Majlish, and Khelafat Andolon. Mufti Izharul Islam Chowdhury was the long-time Amir of the Nezam-e-Islam Party. Harun Izhar Chowdhury, the son of Mufti Izharul Islam Chowdhury, became the Naeb-e-Amir of the Hefazat Islam and Musa Bin Izhar Chowdhury, another of Mufti Izhar’s sons, is the General Secretary of the Nezam-i-Islam Praty.<sup>12</sup>

**Table 4**

**Mufti Izhar’s Family in the Nezam-i-Islami Party**



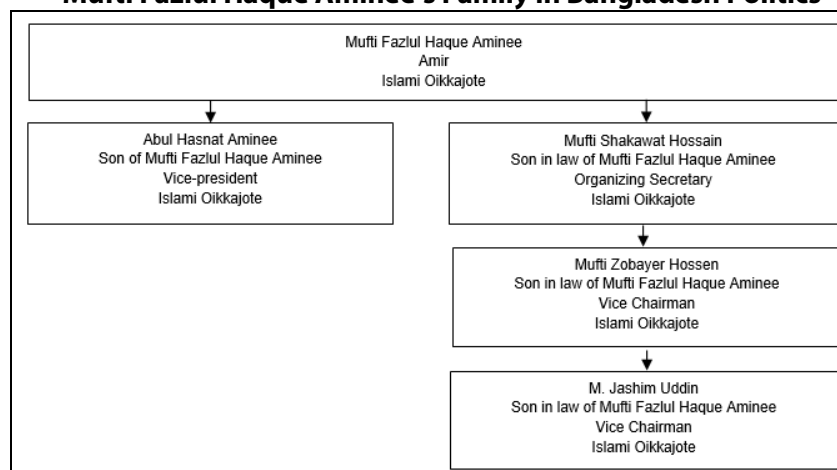
Sources: Information contained in this Table was gathered by the author himself from various newspapers, magazines, journal articles, books, etc.

### Islami Oikkya Jote (IOJ)

The IOJ first split between the Shikhul Hadith and Mufti Fazlul Haque Aminee factions in 2001. In 2005, the Aminee faction split into the Aminee and Mufti Izharul factions and the Shaikhul Hadith faction split into Shaikhul Hadith and Maulana Ishaq factions. All four factions, however, stayed within the BNP-led-4-party alliance.

Abul Hasnat Aminee, vice-president of the Aminee faction of the Islami Oikkya Jote, is the son of Mufti Fazlul Haque Aminee. Mufti Shakhawat Hossain (organizing Secretary, Islami Oikkya Jote), Mufti Zobayer Ahmed and M Jashim Uddin are the sons-in-law of Fazlul Haque Aminee. Respectively, they are the organising secretary and Vice Chairman of the Aminee faction of the IOJ.<sup>13</sup> Aminee's son Abul Hasnat and his brother-in-law Shakhawat Hossain had a conflict with the party Chairman Abdul Latif Nezami and secretary general Mufti Faizullah. Abul Hasnat wanted to become secretary general. IOJ was the smaller partner of the 4-party alliance government during 2001-06.

**Table: 5**  
**Mufti Fazlul Haque Aminee's Family in Bangladesh Politics**



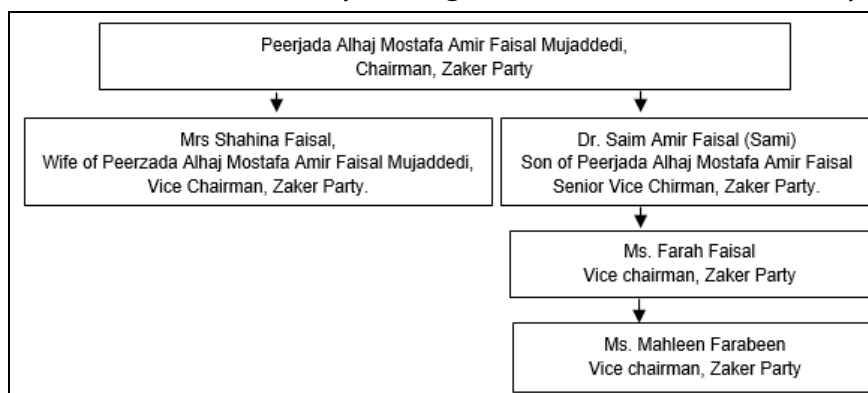
Sources: Information contained in this Table was gathered by the author himself from various newspapers, magazines, journal articles, books.

### Zaker Party

According to its official version, the Zaker Party is “the symbol of divine peace, welfare and infinite justice.”<sup>14</sup> Zaker Party officially launched its journey in 1989 with an aim to bring about a qualitative change in politics. Its Chairman Pirzada Mostafa Amir Faisal Mujaddedi has been the party Chairman since its inception in 1989 through his family connection. Dr Saim Amir Faisal (Sami), son of Amir Faisal, is the senior Vice Chairman of the Party. His wife Shahina Faisal is the Vice Chairman of the Party. Farah Faisal and Mahleen Farabeen are the Vice chairmen of the Party. Both are the family members of the party Chairman, Amir Faisal. It appears that all the senior positions of the Zaker Party are occupied by the family members of the Pir Saheb of Atroshi.<sup>15</sup>

**Table 6**

#### **Pir Saheb Atroshi’s Family in Bangladesh Politics and Zaker Party**



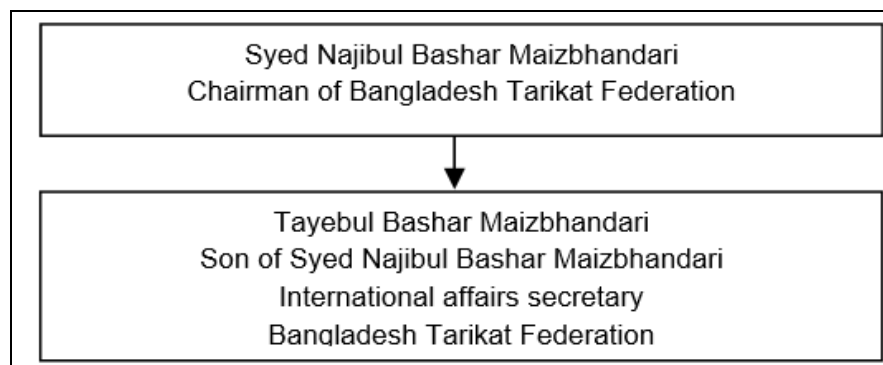
Source: Information contained in this Table was gathered by the author himself from various newspapers, magazines, journal articles, books, etc.

### **Bangladesh Tarikat Federation (BTF)**

Bangladesh Tarikat Federation (BTF) was founded in 2005 by Syed Najibul Bashar Maizbhandary, a leading member of the Maizbhandari Sufi tradition based in Chittagong. Bangladesh Tarikat Federation contested the general Election in 2014 and won two parliamentary seats. Najibul Bashar is a Member of Parliament (MP) from Chittagong-2 Constituency. He was elected in 2014 as a candidate of Bangladesh Tarikat Federation. He was elected MP with Awami League nomination in 1991 and joined the BNP in 1995. He was also elected MP in the 15 February 1996 election. He resigned from the BNP, accusing BNP's major partner in 4-party alliance, Jamaat-i-Islami of being linked to bombings at shrines throughout the country. He told the reporters at that time that, "I do not want to be in a party which is influenced by the Jamaat".<sup>16</sup> Now, he is the Chairman of the Sufi-oriented Bangladesh Tarikat Federation. He belongs to the Naksbandia tradition of Sufi stream. His son Tayebul Bashar Maizbhandari has been made the international affairs secretary of this party.

#### **Tables 7**

#### **Syed Najibul Bashar Maizbhandari's Family in Bangladesh Politics and Bangladesh Tarikat Federation**





Source: Information contained in this Table was gathered by the author himself from various newspapers, magazines, journal articles, books, etc.

### **Minor Leftist Parties**

The leftist parties in Bangladesh also have experienced the influence of families in recruiting their leaders, even though it could quite expectedly be assumed that these parties would recruit their leaders on the basis of the leaders' ideological commitment and leadership qualities. Here also, ideological commitments to Marxism-Leninism, dedication, etc. are given lesser importance than to be the members of the 'right' families in reality in selecting the leaders of these parties. Discussion below shows the presence of family connections in recruitment of leaders of the parties on the left. There are about two dozen leftist political parties in Bangladesh, though, there are only nine leftist parties among 40 parties registered with the Election Commission. They are Bangladesher Sammoyabadi Dal (ML), Bangladesher Communist Party, Bangladesh National Awami Party (NAP), Bangladesher Workers Party, Jatiya Samajtantrik Dal –JASOD (Inu), Jatiya Samajtantrik Dal –JSD (Rab), Bangladesher Samajtantrik Dal –BASOD, Bangladesh National Awami Party-Bangladesh NAP, and Bangladesher Biplobi Workers Party.<sup>17</sup> Of these parties, the following parties would be discussed here.

#### **Jatiya Samajtantrik Dal (JSD)**

Polarisation in Bangladesh Chatra League, AL's student front in May 1972 caused a split in the Chatra League and its breakaway faction formed the first opposition party in independent Bangladesh. The name of the new party was Jatiya Samajtantrik Dal. It became popular among the restless young generation very quickly. The Jatiya Samajtantrik Dal (JSD) was founded in 1972 under the leadership of Sirajul Alam Khan by the breakaway faction of Bangladesh Chattra League. A convening committee was declared on 31 October 1972.

Officially JSD as a political party started its journey, seven-member convening committee was formed: two of the joint conveners were Major (Retd) Mohammad Abdul Jalil and ASM Abdur Rab. Five other members of the convening committee were Shahjahan Siraj, Bidhan Krishna Sen, Sultanuddin Ahmed, Nur-e-Alam Ziku, and Rahamat Ali. The “nucleus” within Chatra League was formed in 1962 and through the formation of the JSD, the “nucleus” reached to its logical conclusion.<sup>18</sup>

The first council of JSD tenuit on 23 December 1972 at Sohrawardhy Uddhyan. The council formed a 51 member of executive committee. Major (Retd) Mohammad Abdul Jalil, ASM Abdur Rab and Shahjahan Siraj were made the President, General Secretary and Joint Secretary respectively.

During Ziaur Rahman’s rule, Jatiya Samajtantrik Dal split twice. ASM Abdur Rob and Shajahan Siraj were heading two separate groups. Khalequazzaman Bhuiyan broke away and formed Bangladesh Samajtantrik Dal (BSD) in 1980.

#### **Jatiya Samajtantrik Dal (JSD-Rob)<sup>19</sup>**

The next major crack came in 1985. Rab and his followers left the party and formed a new party Jatiya Samajtantrik Dal, known as JSD (Rob). He is the founder general secretary of the Jatiya Samajtantrik Dal.

JSD (Rab) and JSD (Siraj) participated in the third parliament election in 1986. They got four and three seats in the parliament respectively. They also participated in the fourth parliament election in 1988. They got 19 and 3 seats respectively. ASM Rab served as a minister in 1996 first Sheikh Hasina government. Rab became the leader of the opposition in 1988 and also served as a minister under Sheikh Hasina's cabinet during 1996-2001. Tania Rob is the vice president and standing committee member of the Rab faction of the JSD. She is the wife of JSD (Rob) faction president ASM Abdur Rob.<sup>20</sup>

JSD (Rab) boycotted the election. Now, JSD (Rab) is the alliance partner of Jatiya Oikkyafrot along with 20 party alliances.

JSD (Siraj) had only the elected parliament member in the 5<sup>th</sup> parliament in 1991. Then Shahjahan Siraj joined the BNP, held the post of vice chairman and was a state minister in the 1991-96 BNP government and a minister in 2001-06 BNP-led four party alliance government. Rabeya Siraj, wife of Shahjahan Siraj, was a leader of women's movement and former president of the BNP's Dhaka city women's front and a member of the BNP national executive committee.

### **Jatiya Samajtantrik Dal–JASOD (Inu)**

Hasanul Huq Inu joined the 14 party alliances. In 2008, the Inu faction of the Jatiya Samajtantrik Dal–JASOD got three seats in the ninth parliament. In 2014, JASOD (Inu) got five seats. JASOD-Inu is a key component of the Awami League-led 14-party alliance.<sup>21</sup> Afroza Haque Rina, wife of Inu, is the central leader of the JSD and the convener of Jatiya Nari Jote. Professor Syed Anwar Hossain, brother of Col Abu Taher is the Standing Committee Member of the JSD. Col Abu Taher's wife, Lutfah Taher, was the MP in the 10<sup>th</sup> Parliament. She has been made vice-president of the Inu-led JSD. Selina Moinuddin, widow of former MP Moinuddin Khan Baddol sought nomination in her husband's constituency. Thus, the family members of major leaders of the party have clear edge in leadership recruitment in the Inu faction of the JSD.

### **Bangladesher Workers Party**

Rashed Khan Menon, who has been the president of the Bangladesher Workers' Party (BWP) for long, has siblings who were active in politics of other parties. His sister, Selima Rahman, was a minister in the BNP government and is at present a member of the National Standing Committee (NSC) of the BNP. Journalist Enayetullah Khan, brother of Rashed Khan Menon was the owner-editor of the

influential weekly *Holiday* and was well known for his Pro-Beijing and anti-Indian views. He was a minister in the 1970s in the Zia government. Another brother of Rashed Khan Menon, AZM Obaidullah Khan (former secretary and poet), was a minister in the Ershad government. All of them are the sons and daughters of Speaker Abdul Jabbar Khan who was a former Speaker of the then Pakistan National Assembly and former president of East Pakistan Muslim League. Rashed Khan Menon's wife, Lutfun Nesa Khan is a leader of the Workers Party. She is an elected MP of the 11th Parliament from the Reserved Seats for Women. Workers' Party is an alliance partner of the ruling AL-led alliance.<sup>22</sup>

### **Other Minor Parties in Bangladesh**

Some other political parties in Bangladesh also follow the same dynastic pattern where party leaders are recruited from the family members of the powerful party leaders.

#### **Jatiya Party-JP (Monju) and Bangladesh Jatiya Party-BJP (Naziur): Breakaway faction of the Jatiya Party (JAPA)**

Anwar Hossain Monju was a former minister in Sheikh Hasina's cabinet (1996-2001, 2009-18) and for long he was the influential secretary general of the Jatiya Party of General H M Ershad. He left the Jatiya Party (JAPA) of Ershad and formed his own faction of the Jatiya Party (JP). Tasmima Hossain, wife of Anwar Hossain Monju, was an MP of the 7<sup>th</sup> Parliament. He arranged for his wife a seat in the Parliament through a bi-election. His brother, Barrister Moinul Hossain, was a former MP of the 1<sup>st</sup> parliament. He was an advisor in charge of the Law, information and land affairs under Fakhruddin Ahmed's caretaker government. They are the sons of famous Tofazzal Hossain Manik Miah, editor-owner of the Daily Ittefaq. Sheikh Shahidul Islam, Sheikh Hasina's first cousin is the general secretary of this party.

Bangladesh Jatiya Party (BJP) is another breakaway faction of the Ershad-led Jatiya Party (JAPA). It's Chairman and freedom fighter

Naziur Rahman Monzur was an alliance partner of the BNP-led 4 party alliance. After his death, his son Barrister Andaliv Rahman Partho has been leading the BJP as its new Chairman. Ashikur Rahman Shanto, another son of Monzur, is also active in politics. Andaliv, along with his brother Ashikur Rahman Shanto, contested in the 9<sup>th</sup> parliamentary election respectively from Bhola-1 and Bhola-2 constituencies. In May 2019, the party left the BNP-led 20-party Alliance. They are the nephews of Sheikh Fazlul Karim Selim and, for that matter, Sheikh Hasina.<sup>23</sup>

### **Krishak Sramik Janata League (KSJL)**

The Siddiquis of Tagnail is an influential family in their locality. There are four brothers of this family in active politics in Tangail. Bir Uttam Abdul Kader Siddiqui, popularly known as Bangabir Kader Siddiqui is a former leader of the Awami League. During the Liberation War, he formed formidable Kaderia Bahini to fight against the Pakistan Military. He was elected to Parliament as a Bangladesh Awami League candidate in 1996. He was expelled from Awami League in 1999. He formed his own party Krishak Sramik Janata League (KSJL). Nasrin Siddique, wife of Kader Siddique, had submitted nomination in bi election which felt vacant after Latif Siddique, brother of Kader Siddiqui, resigned from parliament in 2015. Krishak Sramik Janata League President Abdul Kadesr Siddique's daughter Kuri Siddique had submitted nomination form for the 11<sup>th</sup> general election on December 2018.

Abdul Latif Siddiqui, brother of Kader Siddiqui, was former MP, Minister and Awami League (AL) presidium member. His wife Laila Siddiqui was a Jatiya Party MP from Tangail-4 under the women's reserved seat in 1988. Latif Siddiqui was widely criticized for his remarks criticizing the Muslim Pilgrimage, the Hujj, in September 2014. Latif was sacked from the cabinet on 12 October and from the AL Presidium, the party's highest policy making body. He was expelled

from the party for hurting religious sentiments of the Muslims on 24 October 2014.

Besides Latif and Kader, their youngest brother Azad Siddiqui had submitted nomination paper for Tangail-4 (Kalihati) constituency as KSJL candidate in the 2008 election. Another brother of the family Murad Siddiqui had also submitted nomination paper for Tangail-5 (Sadar) constituency as a KSJL candidate in the 2008 election. He was the joint conveners of the Tangail district KSJL.<sup>24</sup>

### **Liberal Democratic Party (LDP) and Bikalpo Dhara Bangladesh: Breakaway factions of Bangladesh Nationalist Party (BNP)**

Colonel (retired) Oli Ahmed was a former senior BNP leader and one of the founding leaders before quitting the BNP in 2006. He formed a new party named the Liberal Democratic Party (LDP). He made his wife the Member of the Parliament through bi-election when he was the law maker of the BNP.

AQM Badruddoza Chowdhury was one of the key founding leaders of the BNP and a former President of the country. He was forced to resign from the post of president on 21 June 2002 after encountering criticism in the BNP parliamentary party meeting for not showing "due" respect to the memory of the party's founder, Ziaur Rahman (Zia's widow Khaleda had inherited the party leadership and was the then prime minister).<sup>25</sup> He formed a political party of his own named the Bikalpa Dhara Bangladesh. He was the son of Kafil Uddin Chowdhury who was former minister of Jukhtofront government in 1954. His son, Mahi B Chowdhury, is the important leader of the party. His party is an ally of the current ruling party; AL. Mahi was elected MP from his father's constituency in Munshiganj.

### **Jatiya Gonotantrik Party (JAGPA)**

Shafiul Alam Prodhan was the son of East Pakistan Provincial Assembly speaker Mr Tamizuddin Prodhan was involved in politics during his student life and became the general secretary of the

Chhatra League (1973-74). He formed the JAGPA on 6 April 1980. JAGPA is a component of the BNP-led 20-party alliance. Rehana Prodhan, widow of late Shafiul Alam Prodhan, was the acting president of JAGPA after the death of the party president Shafiul Alam Prodhan on 21 May in 2017. Later, Rehana was made president on 28 November 2017. Barrister Tasmia Prodhan, daughter of Shafiul Alam Prodhan, and also vice-president of the JAGPA is the acting president of JAGPA after the death of her mother.<sup>26</sup> Rashed Prodhan and Tasmia Prodhan are the son and daughter of Shafiul Alam Prodhan. They sought nomination in the 11<sup>th</sup> Sangsad elections in December 2018 as JAGPA candidate from Jatiya Oikkya Front (Front of National Unity) from Panchagarh-1 and 2 constituencies. Here too, party leadership appears to be the territory of the family members of Shafiul Alam Prodhan.

### **Some Important Leaders and their Families**

Abu Naser Khan Bhasani, son of Maulana Abdul Hamid Khan Bhasani, founder president of Awami Muslim League, was active in politics. He was a minister in Zia's cabinet.

Faezul Huq was a Bangladeshi politician, lawyer, and columnist and the son of Sher-e-Bangla AK Fazlul Huq. Faezul served as a member of parliament on three occasions and held various ministerial portfolios. Faiyazul Huq Raju, son of Faezul Huq and grandson of Sher-e-Bangla AK Fazlul Huq is also active in politics. He is a member of International affairs sub-committee of the Awami League.

Mashiur Rahman (1924–1979), also known as Jadu Mia, was the senior minister with the rank and status of Prime Minister. Before joining the BNP, he was the general secretary of National Awami Party by Maulana Bhashani (NAP-B). Shafiqul Ghani Swapan, was the eldest son of Mashiur Rahman Jadu Mia. He was a state minister in the government of President Ziaur Rahman and President Hussain Muhammad Ershad.

## **Conclusion**

The discussion above shows that family-based political recruitment is not the trait of big and major parties only which are controlled by the families of major leaders of national, regional, and global stature. The parties with smaller/minor stature and influence also have family-based leadership recruitment process. The leaders of these minor parties treat these parties as family-owned private enterprises which can be allocated among the descendants of the leaders. This is more prevalent among the Islamist parties in general and the Pir/Sufi-based Islamist parties in particular. As regards the Pir/Sufi-based parties, it is considered 'natural' as it is taken as a given that the Pir's son (Pirzada) would inherit the deceased Pir's place and will replace his father as the new Pir. Thus, naturally, leadership of any Pir-led party gets transferred to the Pir's sons, ensuring the family-based leadership of these Islamist parties. Other non-Pir-based minor Islamist parties are no exception in this regard. Khelafat Andolon is an ideal example in this regard. The Hafezzi Huzur founded Khelafat Andolon as a new formation and without depending on family members. Rather, three major non-kin leaders/companions of the Khelafat Andolon were the major leaders of the party. But after the death of the Huzur, his sons began scrambling for the leadership of the party as if they were scrambling to get the maximum 'share' of the 'party enterprise'. The 'money rush' from Iran after the Iranian revolution made the 'Islamist-politics-business' a lucrative one. Thus, family control of the party was used for increasing family wealth and influence. Non-Islamist minor parties also followed the same path of recruitment of leaders from the family members of the main leader of the party. 'One family one party' concept works for the family as the family-led recruitment ensures a tight grip of the family on the party. It ensures various incentives for the party leadership. With the rise of growing importance of coalition politics in Bangladesh and dependence of the AL and BNP on the support of the minor parties as



alliance partners, the political value of these parties has grown. As the influence of these parties has grown, so have the efforts of the families of the major leaders to establish and maintain monopolist control over them.

## Notes and References

**Acknowledgement:** I would like to express my gratitude to professor Dr Bhuian Md Monoar Kabir of the University of Chittagong for his comments on an earlier version of this paper.

- <sup>1</sup> The present author has already written papers on family-based political recruitment in South Asia and major parties in Bangladesh, titled respectively, "Family-Based Political Recruitment in South Asia: A Descriptive Study," Accepted for publication in *Asian Profile*, (Canada) and also "Families and Political Recruitment in Bangladesh: A Study of Major Political Parties." Accepted for publication in *Regional Studies*, (Islamabad).
- <sup>2</sup> Jamaat-i-Islami got more than five (5) seats in the 3<sup>rd</sup> and 5<sup>th</sup> Jatiya Sangsad and as such, it is not included in the category of minor parties according to our own operational definition.
- <sup>3</sup> Ali Riaz, "'God Willing': The Politics and Ideology of Islamism in Bangladesh", *Comparative Studies of South Asia, Africa, and the Middle East*, Vol. 23, No. 1&2, 2003.
- <sup>4</sup> Ali Riaz, "Why Bangladesh's mainstream parties rely on Islamists", *DW*, 19 December 2018; Prof. Sarwar Md. Saifullah Khaled, "Islamic parties and elections," *The Independent* (Dhaka) 31 May 2017.
- <sup>5</sup> Nazmul Ahasan, "What Rocks Hefajat's Boat?," *The Daily Star* (Dhaka), 9 November 2018.
- <sup>6</sup> Bhuian Md Monoar Kabir, *Politics and Development of the Jamaat-i-Islami Bangladesh* (New Delhi: South Asian Pub. House, 2006), 3-18; Bhuian Md Monoar Kabir, Mustafizur Rahman Siddiqui and Md. Bakhtear Uddin, *What Do The Bangladeshi Muslims Think? A Religio-Cultural Politico-Strategic Study* (Dhaka: A H Development Publishers House, 2014).
- <sup>7</sup> *Prothom Alo* (Dhaka), 27 August 2015.
- <sup>8</sup> "Abar Vanghlo Khelafat Andolon," *Prothom Alo* (Dhaka), 7 April 2017. [The Khelafat Movement split again.]
- <sup>9</sup> Kabir, Siddiqui and Uddin, *What Do The Bangladeshi Muslims Think? A Religio-Cultural Politico-Strategic Study*, 39.
- <sup>10</sup> Kabir (Ref. 5), 13-18; also see, Salman Tarek Shakil, Chowdhury Akbar Hossain, "Vote Politics: The Silent Rise of Islami Andolon," *Dhaka Tribune* (Dhaka), 20 May 2018; Fer Islami Andoloner Amir

- Mufti Rezaul Karim, *Manabjamine* (Dhaka), 2 January 2021. [Mufti Rezaul Karim is the Amir of the Islamic Movement once again.]
- <sup>11</sup> Ali Riaz, "‘Dynastic Politics’ and the Political Culture of Bangladesh," *In Inconvenient truths About Bangladesh Politics* (Dhaka: Prothoma Prokhason, 2012), p.236; also see, Kabir, (Ref 5), pp.13-18. Kabir, Siddiqui and Uddin, (Ref. 5); "Bangladesh Khelafat Majlish er Notun Committee", *Naya Dighanta* (Dhaka), 2 February 2019 [New Committee of the Bangladesh Khelafat Majlish]; also see, "Hothath Hathazari Madrasai Mamunul: Babu Nogory soho tin netar sathe sakkhath," *Jughantor* (Dhaka), 9 December 2020 [Mamunul is on a sudden visit to Hathazari Madrasa: Meeting with three leaders including Babunagari].
- <sup>12</sup> Ali Riaz and Christine C Fair, *Political Islam and Governance in Bangladesh*, (London; Routledge., 2010), 55.
- <sup>13</sup> Chitta Ranjan Sarkar, "Bangladesher Rajnitite Poribartantra and Songskar," *Banik Barta* (Dhaka), 13 August 2007 [The Dynastic Politics in Bangladesh and its reform].
- <sup>14</sup> Zakerpartybd.com
- <sup>15</sup> Riaz and Fair, *Political Islam and Governance in Bangladesh*; Kadir Kallol, "Bangladesher Pir Sufider Rajniteer Vobissyot," *BBC Bangla* (Dhaka), 6 December 2019 [Future prospects of politics of the Pirs and Sufis in Bangladesh].
- <sup>16</sup> See Riaz and Fair, *Political Islam and Governance in Bangladesh*.
- <sup>17</sup> Bangladesh Election Commission
- <sup>18</sup> Mohiuddin Ahmad, *Jashoder Utthan Poton: Osthir Somoyer Rajniti*, (Dhaka), Prothoma Prokhashan, 2014, 87, 92-93 [The Rise and Fall of the Jasod: Politics of the Turbulant Time].
- <sup>19</sup> The JSD led by ASM Rob got more than five (5) seats in the 4<sup>th</sup> Jatiya Sangsad election held in 1988 and as such, it is supposed not to be included in the category of minor parties according to our own operational definition. But since that election was boycotted by all other parties and the election was neither inclusive nor representative, we can have made an exception and include JSD (Rob) in the category of minor parties.
- <sup>20</sup> "Hasina's cabinet sets a record," *Gulf News*. 24 October 2018; Partha Pratim Bhattacharjee, "Inu fails to convince dissidents: Election to GS post led to JSD split," *The Daily Star* (Dhaka), 14 March 2016.

- <sup>21</sup> Mohiuddin Ahmad, *Jashoder Utthan Poton: Osthir Somoyer Rajniti*, 262-263.
- <sup>22</sup> Rounaq Jahan, Political 'Parties in Bangladesh: Challenges of Democratization,' *Prothoma Prokhasan* (Dhaka), 2015, 119.
- <sup>23</sup> Riaz and Fair, *Political Islam and Governance in Bangladesh*, 235.
- <sup>24</sup> "Kader Siddique and daughter submit nomination forms in Tangail-8," *Dhaka Tribune* (Dhaka), 28 November 2018; "Kader Siddique's Nomination cancelled his party calls Tangail shutdown for Wednesday," *bdnews24.com* (Dhaka), October 13, 2015; "Latif Expelled from AL," *The Daily Star* (Dhaka), 25 December 2014; "Latif Siddiqui bids farewell to elections," *bdnews24.com* (Dhaka), 11 June 2013; "Four Siddiqui brothers ran in Tangail-3, 4, 5, 8 constituencies," *The Daily Star*, (Dhaka) 4 December 2008.
- <sup>25</sup> Rounaq Jahan, "Bangladesh in 2002: Imperiled Democracy," *Asian Survey* Vol. 43, No.1 (Jan-Feb, 2003), 226.
- <sup>26</sup> "Jagpa president Shafiul Alam Prodhan dies," *The Daily Star* (Dhaka), 22 May 2017; "Jagpa president Rehana Prodhan dies," *New Age* (Dhaka), 23 October 2018.

# GEOPOLITICS OF RCEP AND SINO-AMERICAN COMPETITION IN THE ASIA-PACIFIC

FURQAN KHAN\*

## Abstract

*RCEP consolidates the strategically sensitive Asia-Pacific Region into the world's largest free trade bloc, where China is rising under the sceptic observation of the United States and its likeminded allies in the region. The newly signed agreement offsets the externalities of the Noodle Bowl Effect of multiple free trade agreements under ASEAN+1 formula as well as enhances regional economic integration. The RCEP, on the one hand, gives China the opportunity to link regional economies including those of the regional opponents like Japan and South Korea. This helps China to discourage the US-led regional opposition to its rise in the Asia-Pacific Region. On the other hand, the substantial neglect towards multilateralism may weaken America's position vis-a-vis China, in addition to direct and indirect implications. Therefore, the paper looks into the strategic importance of the RCEP and its role in shaping the relative influence of both the great powers i.e. China's rise and declining credibility of the American opposition to it. It attempts to address the following questions: what is the RCEP and its role in regional economic integration? How does the RCEP bring economic and geopolitical benefits for China? Why is the RCEP a precursor to the decline in the US influence in the Asia-Pacific Region? And what are the fundamental*

---

\* Mr Furqan Khan is an undergraduate student of International Relations at the National Defence University, Pakistan.

*Regional Studies*, 38:3, Autumn 2020, pp.26-49

*contours of the RCEP in shaping geopolitical trends across the Asia-Pacific region and its impact on the Sino-American geopolitical competition? The paper concludes that a successful RCEP amplifies the strategic ambiguity among regional US allies and strategic partners in their commitment to counter China and will further weaken the credibility of the American efforts to contain China's rise in the Asia-Pacific region.*

**Keywords:** *Asia-Pacific Region, China, RCEP, economy, free trade, Noodle Bowl Effect, ASEAN, QUAD, strategic ambiguity, the US.*

## **Introduction**

In November 2011, fifteen Asia-Pacific countries comprising ASEAN and its five major trade partners clubbed together to establish the Regional Comprehensive Economic Partnership (RCEP) to improve regional economic integration in Southeast Asia.<sup>1</sup> The negotiations spanning 31 rounds in eight years formally concluded in a landmark RCEP agreement by fifteen of its members including China, Japan, South Korea, Australia, and New Zealand, in addition to the ten ASEAN countries, on 15 November 2020.<sup>2</sup> This made East Asia the world's largest free trade area, surpassing the European Union or North America. The RCEP integrates a regional market of around 2.2 billion people with \$26.2 trillion global output, which means roughly 30 per cent of the world's total population and global GDP.<sup>3</sup> RCEP emerges not only as a remedy to the negative impacts of the Noodle Bowl Effect of the existing individual Free Trade Agreements (FTAs), the RCEP ushers in a new trend of geopolitics in the Asia-Pacific Region where regional power dynamics are defined spatially by the complex economic interdependence. More specifically, the agreement has implications for the geopolitical competition between China and the US where the later risks falling behind while the former is emerging as the new rule maker in regional trade and economic integration.

For China, RCEP is a geopolitical win as it allows Beijing to integrate regional economies closer to its economic orbit including its regional opponents like Japan and South Korea with whom Beijing never had any bilateral FTA. Having their economic fortunes linked with Beijing's economic progress, regional countries are expected to be more dependent on China with a weakened position to confront its growing ambitions in the region. In this way, by improving the degree of regional economic interdependence, RCEP offers lucrative geopolitical opportunities for China to trim down regional opposition to China's rise in the Asia-Pacific Region. In fact, this is the reason that despite being an economic enterprise of ASEAN, experts call the success of the RCEP as a 'strategic milestone' for China, which broadens the prospects for its rise with slackening regional opposition in the Asia-Pacific region.

On the other hand, the RCEP as a China dominated trade bloc is more likely to put to test the long-held strategic influence of US in the Asia-Pacific region. This is because; first, the multilateral economic arrangement brings some of the America's staunchest treaty allies including South Korea, Japan and Australia—the two key US partners in the quadrilateral regional security grouping called the QUAD, which is supposedly raised to counter China. Second, the RCEP was signed in the backdrop of the American withdrawal from its own Trans-Pacific Partnership (TPP) – a similar trade agreement originally established to counter China's geopolitical use of its economic power, making the possibility of success of a Chinese alternative even more feasible. Where the rest of the 11 members including Australia and Japan renegotiated the TPP to establish the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP), the success of RCEP makes it even more difficult for the Biden administration to reverse on Trump's four years of strategic retreat from multilateralism. Third, India's withdrawal from the RCEP removes a prominent balancer and brings China to the

fore in shaping the rules of this comprehensive regional arrangement that covers the most dynamic Asian market.

RCEP as a successful free trade bloc highlights one of the fundamental realities about the Asia-Pacific Region. It shows that policy priorities of the East Asian countries centres on economics, opening it for economic integration with less emphasize on becoming a strategic playground for a geopolitical competition between China and the US. Secondly, China's leading role in the RCEP negates the presumed opinion about the Dual Circulation Strategy by which China is supposedly focusing on developing and protecting its domestic market. Instead, China's emphasize on promoting free trade by reducing the cost of doing business and supporting an integrated regional supply chain provides incentives for regional countries to march alongside China. Thirdly, and most importantly, the singing of the RCEP by some of the region's leading economies including the US allies like Japan, Australia, and South Korea, shows that despite having political differences and even maritime disputes with China, regional countries may well chose not to become a boggy of strategic hostility between the two competing power but to benefit from the a mutually beneficial economic integration like RCEP.

The research paper is divided into four parts. Part one explains the RCEP as a remedy to the growing Noodle Bowl Effect of individual free trade agreements in East and Southeast Asia. Part two describes the importance of the RCEP as a strategic milestone in the context of China's rise. The third part describes the success of RCEP as a strategic set back to America's strategic influence in the region. Finally the fourth part sums up the broader perspective of RCEP and its strategic significance in shaping the Sino-American geopolitical competition in the Asia-Pacific Region.



### **RCEP as a Remedy to the Noodle Bowl Effect**

East Asia is home to some of the fastest growing economies with highly integrated economic market where ASEAN acts as the regional agency in regulating free trade. ASEAN, as per its 'centrality' principle, promotes free trade among its member states but also encourages integration with the non-ASEAN countries using its ASEAN-plus-one formula which allows the economic union to undertake individual FTAs with other regional economies. For instance today, ASEAN has five such free trade agreements with China, Japan, South Korea, Australia and New Zealand, and India. Here, free trade is mostly identified by a number of FTAs, as much as 133 only in East Asia by 2016. However, besides leaving aside important features of trade liberalisation, a network of individual FTAs in the region creates problems for the countries involved under the Noodle Bowl Effect.

Noodle or Spaghetti Bowl Effect is a phenomenon in trade economics which was introduced in his paper "US Trade Policy: The Infatuation with Free Trade Agreements" by Jagdish Bhagwati in 1995.<sup>4</sup> According to the Noodle Bowl Effect, the "increasing number of FTAs between countries slows down trade relations between them."<sup>5</sup> The phenomenon is a major challenge to global free trade as too many of the crisscrossing individual FTAs without a coherent pattern of regulation leads to discriminatory trade practices which reduces the utilities of global free trade.

East Asian economic dynamics are more prone to the Noodle Bowl Effect because of a close trading network; the intra-regional trade is more than inter-regional trade. More importantly, trade in the region is done mostly in 'intermediate goods' and not in 'finished products' which the products are manufactured by passing them through different 'manufacturing steps' established in different regional countries, creating a complex regional chain.<sup>6</sup> Therefore, besides the differences in internal and external tariffs, a web of FTAs brings with them varying Rules of Origin (ROO) to determine the country of origin

of different products. This makes it complicated for the countries involved to comply with all the ROO and therefore becomes a barrier in free trade.

ASEAN has dealt with some of these non-tariff barriers but still, regional growth in trade is fraught with challenges including the multiple Rules of Origin (ROO) with different criteria and standards for tariffs. To deal with this, RCEP is committed to integrating the Southeast Asian economies through improved liberalisation and introduces shared set of ROO to mitigate the negative implications of Noodle Bowl Effect of the existing network of individual FTAs. The unified ROO standardize the degree to which a product should be produced in a region to qualify for tariff-free treatment without discrimination. Deborah Elms, founder of the Asian Trade Centre, puts it more simply that the RCEP allows the firms to “build and sell across the region with just one certificate of origin paper and no more juggling different forms and rules.”<sup>7</sup> It is estimated that with shared ROO, RCEP will reduce export cost of goods which will encourage regional trade and boost merchandize exports by around \$90 Billion.<sup>8</sup>

RCEP as a trade bloc adds extensive benefits to regional and even global trade. With a market size of five times its contemporary peer the CPTPP, the RCEP intends to add around \$209 billion to the world income (when global income will reduce by \$301 billion due to China-US trade war) and a remarkable \$500 billion to global trade by the year 2030.<sup>9</sup> Therefore, the RCEP promises equitable trade benefits for the advanced and developing regional economies. Geopolitically, however, the economic arrangement leaves some states like China at a greater advantage than the others.

Overall, the RCEP will reduce the transaction costs, discourage protectionism, strengthen the production networks, make it simpler for companies to set up supply chains covering different countries, and improve free trade across the East Asian region.

## **RCEP: China's Geopolitical Triumph**

The signing of RCEP is a geopolitical package where the arrangement offers Beijing the means to raise its profile as the rule maker of regional trade, demonstrate its leadership as the benign actor rising for greater benefit of the region, and improve its strategic influence in East and Southeast Asia. Broadly speaking, the arrangement brings the following imperatives to China.

### **Economic Imperatives**

RCEP presents a multitude of economic benefits to Beijing. Besides offsetting the anticipated impact of China-US trade war and gradual decline of *Chimerica*, the RCEP reduces the cost of doing business in East Asia and offer China the opportunity to invest in energy, transport, and communication sectors in East Asian countries under its \$1.4 trillion Belt and Road Initiative (BRI).<sup>10</sup> It streamlines China's products in the greater market size of the Asia-Pacific by removing sourcing restrictions and helping it play as counterweight to global disruptions and 'slowbalisation' caused by the COVID-19 Pandemic.<sup>11</sup> Therefore, the arrangement increases China's importance as the major destination of investment, end market, and in supporting the global supply chain.

It allows China to attract huge investment from regional countries, since the RCEP promotes trade liberalisation and reduces cross-border trade barriers with Beijing promising to increase market access to multi-national corporations (MNCs) by reducing limitations. The infringement of the intellectual property rights (IPR) remains essentially the most important concern from the MNCs. In addition to the existing Chinese laws, articles 11.15, 11.17, and 11.62 of the RCEP chapter on IPR requires China to take strict measures to protect IPR.<sup>12</sup> In fact, the RCEP is set to facilitate countries to distance the global IP trade policy from the rules set by the US FTA IP policy or even TRIPS standards as the World Trade Organisation also lacks a formal

Appellate Body (AB) to resolve disputes on IP.<sup>13</sup> Therefore, this helps China to set a new global policy on intellectual property and boost confidence of the MNCs to invest in China. In this war, China can emerge as the new rule maker in regional trade and economic integration.

RCEP gives China the opportunity to build and lead the south international economic order by accommodating the developing and neglected economies of the third world. For instance, RCEP is a unique arrangement which has diverse nature of its membership with rich and poor, vast and tiny, and advanced and nascent industrial economies making it an all-inclusive free trade arrangement. In this respect, article 4 of the guiding principles and objectives of the RCEP call for 'special and different treatment' based on the level of development among member states, especially for Laos PDR, Cambodia, Myanmar, and Vietnam.<sup>14</sup>

### **East Asia's Regional Turn towards China and its Growing Influence**

RCEP is a geopolitical opportunity for China as the consolidation of the region in a coherent set up of economic interdependence galvanizes China's principle of 'peaceful development' and raises its geopolitical profile. It is geopolitically more of a symbolic heft for China than a trade stimulator. The Citi Research states that the "diplomatic messaging of the RCEP may be just as important as economics" while also calling the arrangement 'coup for China' given its geopolitical advantages to Beijing.<sup>15</sup> The arrangement carries more weight at a time when China's growing economic and military assertiveness in the Asia-Pacific is subject to continuous suspicion and opposition by regional countries spearheaded by the United States. Being the world's second largest economy, China is expected to play a bigger role in integrating regional economies and encouraging their economic interdependence over Beijing. Also, China's dominant presence in the

world's largest free trade arrangement is a greater geopolitical threat at a time when America's economic ties with the region and its leading position is fraught with uncertainty, given the latter's withdrawal from multilateralism, i.e., the TPP. Therefore, the RCEP is a geopolitical win for China and a prudent cashing of this opportunity allows Beijing to shape regional economic policies and to reassure China's commitment towards multilateralism. This will help Beijing mitigate regional opposition to its rise in the Asia-Pacific Region.

Geopolitically, China stands at a greater advantage from the RCEP. This is because the multilateral arrangement for the first time links China to its regional opponents like Japan and South Korea in a free trade arrangement. This is why Takashi Terada has termed the RCEP the 'de-facto China-Japan FTA', leaving the two countries benefitting from the deal.<sup>16</sup> Therefore, the RCEP is more beneficial for China with expected annual gains of \$100 billion followed by Japan with some \$46 billion and South Korea with \$23 billion.<sup>17</sup> ASEAN countries will also gain some \$19 billion since the member states are already engaged in free trade agreements. Overall, however, the RCEP is growingly turning East Asia into a sphere of China's economic and strategic influence.

The RCEP establishes a regional economic environment which ends up with greater regional dependency over China in the long run as their favourite trade destination. For instance Eswar Prasad, former head of the International Monetary Fund's China Division, states, "The trade pact more closely ties the economic fortunes of the signatory countries to that of China and will over time pull these countries deeper into the economic and political orbit of China."<sup>18</sup> In this way, RCEP is yet another string enmeshing the existing China-ASEAN partnership especially the six key areas of cooperation under the agreement strengthening regional economic connectivity, in addition to others including China-ASEAN Investment Cooperation Fund, Silk

Road Fund, and the 'express train' of China's Belt and Road Initiative that none of the ASEAN members can afford to miss.<sup>19</sup>

Given the uncertainty about America's leadership and India's withdrawal from the agreement, East Asia as a region is highly anticipated to take a regional economic and political turn towards Beijing. Peter A Petri and Michael G Plummer argue that let alone the economic benefits; the RCEP is essentially significant in terms of "East Asia's regional turn on China's prospects for leadership in the region. The CPTPP and RCEP15 agreements, without the United States and India, remove powerful balancing influences in determining economic policies in East Asia."<sup>20</sup> Therefore at this juncture when the US is giving cold shoulder to multilateral arrangements like the TPP, China's willingness to support and participate in multilateralism reassures the confidence of its neighbours over China in its commitment to establish and preserve regional environment of shared economic growth and mutual development.

It is interesting to note that the RCEP is not a China-led project but spearheaded by the ASEAN. Yet, China consistently supported the 'rollercoaster negotiations' under ASEAN's leadership, which allow it to expand its economic and political cooperation with regional countries. In fact, had China been leading the arrangement, Japan and South Korea would not have joined the RCEP.<sup>21</sup> Therefore, without coming to the forefront, China is likely to use the RCEP to negotiate with ASEAN on different political issues like the Code of Conduct negotiations on the disputed South China Sea. In short, RCEP improves China geopolitical advantage vis-a-vis the US as its primacy geopolitical competitor in the Asia-Pacific region.

### **RCEP as a Trade Bloc and Withdrawal from Multilateralism: Recipe for America's Strategic Decline**

The RCEP as the world's largest trade bloc with China as the dominant player integrates regional economies with Beijing. Such a scenario where China is emerging as more viable alternative, the East

Asian economies are becoming less dependent (at least economically) over the US for trade and could cost Washington its long held strategic influence in the Asia-Pacific region. Chinese state-controlled *Global Times* has already termed the deal the “end of US hegemony in the Western Pacific” which though is an exaggeration but still, a warning of a destined decline to the American position vis-a-vis China.<sup>22</sup> Although, the RCEP is being termed as a big loss to the US and its influence in the region, America actually lost four years ago when former US president Donald Trump reversed decades of the American diplomatic efforts for leading the region’s trade policies, backed out of from the international agreements, and rather imposed tariffs on friends and foes in the region. More significantly, the withdrawal from TPP which was essentially raised to counter China’s rise, was a strategic blunder whose consequences are yet to come manifolds. With America’s retreat from multilateralism complemented by the success of RCEP in specific, the prospected decline in America’s influence is two-fold, i.e., direct and indirect.

### **Economic Decoupling from Southeast Asia**

The US is bent on achieving a decoupling from China in the post-Pandemic world, where undoing decades-long economic relations and achieving independence from the Chinese firms, factories, and investments remains the end game of the ensuing trade war between the two great powers. In a letter in 1935, the then US Ambassador to Japan, Joseph Grew warned the policymakers in Washington to refrain from a cut-off and rather give Japan, the then heavyweight in the Far East, an ‘economic elbow-room’, or else, it will end up building up an economic empire of their own.<sup>23</sup> Therefore, America’s efforts of a similar disentanglement from what experts call the ‘dangerous economic bear hug’ of Beijing could land Washington in a similar situation with prospects for a strategic standoff amidst the negligible economic interdependence.<sup>24</sup> However, this time, the successful chapter of the RCEP could transform this decoupling into a

regional level with the US at the receiving end of the costs of a cleavage from the dynamic East Asian economies. In fact, the latest data from Organisation of Economic Cooperation and Development (OECD) suggests that such an East Asian economic decoupling from the West and the US in particular is already happening.<sup>25</sup> This is because China has replaced the US as the leading source of final demand for the East Asian exports. Secondly after the 2008 economic crisis, the East Asian economies have become far more internally driven than before. Most of their exports end up within the East Asian countries while the Western countries including the US as the source of final demand of East Asian products are at a position they were two decades ago.

Therefore, the RCEP is likely to directly accelerate the decoupling process of the East Asian economies from the US given the significant lowering in trade costs; sidetracking America's influence from the world's most dynamic economies. It makes it more difficult for the US firms to compete in Asia as the regional firms will have the benefit of lower tariffs, more investment opportunities, and improved open access to the huge Asian market. Asian economic dependence will decline over the US market and its products will be discriminated against in a much cheaper East Asian market. For instance, Kawasaki reports that the US economy will decline by 0.16 per cent in case the RCEP materialises.<sup>26</sup> The US Chamber of Commerce has expressed its fear of being left behind in the region, which is expected to gain 5 per cent average growth rate during the pandemic-hit 2021.<sup>27</sup> Therefore, access to the lucrative market of Southeast Asia is essential for the US workers, farmers, and exporters to share a relatively high growth rate. Should the US keep on decoupling from China, its overall decoupling from the Southeast Asian economies is more of a destined reality with the economic bonhomie between China and other regional economies whose economic fortunes are intertwined in RCEP.



### **Slackening Influence Over Allies in East Asia**

With America turning its back towards trade negotiations and multilateralism, countries in Southeast Asian region have not stayed still, but clubbed together to adopt their own course. This includes renegotiating of the CPTPP into a minus-US multilateral trade arrangement and joining China to establish the world's largest free trade arrangement. However, more significant for the US is the fact that the club includes some of America's staunchest treaty allies like Japan, South Korea, and Australia, in addition to its strategic partners like Indonesia, Singapore, and Vietnam. Therefore indirectly, RCEP presents China as the primary competitor of the US bringing it closer to American allies and strategic partners who also happen to be China's competent regional opponents. For instance, more important is the inclusion of two of the US treaty allies Japan and Australia which are part of the US-led Quadrilateral Security Dialogue (QUAD), a strategic and military counter-weight to China's rise in the region. QUAD members are already embroiled in a dilemma of strategic ambiguity vis-à-vis partnering with the US in its efforts to contain China, given their complex economic relationship with Beijing. For instance, China is the largest and second largest trading partner of Australia (with \$158 billion trade volume) and Japan (with \$330 billion trade volume), respectively, and the RCEP not only strengthens their economic interdependence with Beijing but also increases the degree of strategic ambiguity among QUAD members in partnering in the US efforts to confront China because of the growing cost of such confrontation.

On the other hand, continuous American reluctance, more explicitly under Trump administration, to demonstrate its commitment towards its allies and strategic partners in Asia-Pacific region and withdrawal from multilateralism like TPP increases uncertainty over Washington's willingness to lead. For instance threats

of withdrawing troops from Japan and South Korea and withdrawal from the TPP are more recent examples.

Therefore, RCEP only accelerates decline of America's primacy in the Asia-Pacific region where its own allies are less certain about the future of American leadership. For instance, South Korea's ambassador to the US was more convinced about this fact who argued, "Just because Korea chose the U.S. 70 year ago does not mean it has to choose the U.S. for the next 70 years, too".<sup>28</sup> Similarly, frustrated by the anti-free trade rhetoric in Washington and its failure to ratify the TPP, the Singaporean Prime Minister raised question over America as to "How can someone believe in you [U.S.]".<sup>29</sup>

In fact, America's withdrawal and uncertainty in its commitment to engage and lead the region remains an essential motivation for many of the Asia-Pacific countries to join the RCEP. In short, the RCEP signals the declines the credibility of the American efforts to contain China's assertiveness in the Asia-Pacific as Trump's protectionist policies identified by the 'America First' inward-looking approach have relatively abandoned the spirit of multilateralism.

### **Changing Geopolitics in the Asia-Pacific and the Role of RCEP**

Asia-Pacific region is becoming a centre of gravity for global trade and prosperity but is also fraught with the contemporary geopolitical challenges. To date, *Pax Americana* was the rule of the order in this region and so was in the world at large. However, China's rise is perceived to challenge the idea of American primacy in the region. Such a geopolitical scenario is manifested in the Sino-American geopolitical competition as the defining strategic trend across the Asia-Pacific region in the twenty first century.

The signing of RCEP indicates greater willingness among the East and Southeast Asian economies to pursue regional economic growth more preferably under a coherent platform of multilateral cooperation. However, RCEP is rather emerging as the epitome of a

geopolitical contest between China and the United States. China is not part of the erstwhile TPP (now CPTPP), and the United States, which spearheaded the original TPP, is not part of the RCEP. The fact that the US is not party to any of the multilateral free trade agreement in the region, and China's outstanding economic performance especially during COVID-19 and its willingness to lead the East Asian market increases China's probability to emerge as the economic and political alternative.

According to a brief presented to the European Parliament, the RCEP is a geopolitical win for the participating countries, most notably ASEAN and China. For ASEAN, it is a victory in terms of its 'middle power diplomacy' which helped in facilitating the deal, demonstrating its cooperative approach not only to work, but also in its ability to bring long-standing conflicting parties such as China, Japan, and South Korea, into a pool of mutual interests.<sup>30</sup> For China, the US withdrawal from the TPP and its overt manoeuvres to isolate Beijing backfired to the Chinese benefit as it has antagonised the regional countries. With the US no more part of the economic multilateralism in East Asia, China has found on broader opening to write the rules of future cooperation and hence turn the tide of the balance of power against the US.

On the other hand, India also spent some eight years in negotiating the RCEP only to withdraw from it in 2019 fearing the Chinese products flooding in to damage the domestic markets. Indian inclusion was expected to increase the RCEP's global output by some 25 per cent. However, since most of the output was supposed to flow back to India, therefore, its withdrawal is of less significance to the other members. In short, India will increase its national income by \$60 billion if it rejoins the RCEP but will lose \$6 billion annually if it continues to stay out. Moreover, by staying out, India makes it even easier for China to dictate the rules of economic and political engagement in East Asia.

This landmark agreement also demonstrates willingness among regional countries, including US allies and strategic partners, to prioritize their larger economic interests irrespective of their political differences with Beijing. Also, antagonized by the American withdrawal and uncertain leadership role, regional countries goes ahead with RCEP despite being a non-American and a Chinese dominated arrangement. Jennifer Hillman, a senior fellow at the Council on Foreign Relations, argues that the signing of the RCEP shows that the world, whether Europe or East Asia, is no longer waiting around for the US to take the lead but rather continues to respond to its protectionist policies with integrated multilateral structures.<sup>31</sup> The US President, Joe Biden is aware of the fact as he put it that; “countries will trade with or without the United States. The question is who writes the rules that govern trade? ... The United States, not China, should be leading that effort.”<sup>32</sup> For now, Biden has shown no commitment to rejoin the CPTPP but has expressed his willingness to “work with its allies to set global trading rules to counter China’s growing influence.”<sup>33</sup> He declined to comment on whether the US will join the RCEP or not but argued that “we make 25% of the economy in the world ... We need to be aligned with the other democracies, another 25% or more so that we can set the rules of the road instead of having China and others dictate outcomes because they are the only game in the town.”<sup>34</sup>

Although the new administration has undone a number of Trump’s decisions such as on climate change and health, it has not taken any concrete steps towards rejoining the CPTPP or even expressed its willingness to join the trade bloc it created.

The changing pattern of China-US relationship necessitates the realisation of the fact that economic growth cannot be separated from the political and strategic imperatives in the region. China realizes the potential of RCEP in holding regional countries in

bandwagon to prevent them from becoming a serious hurdle in its geopolitical rise in the region.

More important is the willingness in Beijing to cooperate through multilateral frameworks; something that tunes with the mode of economic boost in East Asia. For instance, China's signal to join the CPTPP brings additional geopolitical benefits to China and can add around \$485 billion economic benefits to global trade.<sup>35</sup> Gains from the extended membership of CPTPP could raise up to a trillion US dollars which can even offset the losses pertaining to China-US trade war by three times, which would equally be a burden on regional economies. Therefore for most of the East and Southeast Asian economies, China's desire to support regional economic integration outweighs the benefits of a growingly uncertain US premiership in the region. Also, the RCEP and CPTPP could be an opportunity for the Chinese leadership to manage and lead the COVID-19 affected economies and reverse the free fall of global economic order.

Still, however, regional countries have joined the RCEP to get economic benefits but they certainly are unwilling to choose between China and the US, given the security apprehensions from Beijing which is as relevant today as they previously were for the last few years. Therefore, the degree of the US relevance in East Asia depends largely on how China manages to convince regional countries into its 'win-win' approach and that its rise in the Asia-Pacific is benign with mutual benefit as its core objective. The onus also lies on the Biden administration as to how does he respond to the changing geopolitical developments, security of its allies, and commitment towards multilateralism in the Asia-Pacific Region.

## **Conclusion**

The RCEP not only brings the regional countries closer to form the world's largest free trade union but has significant geopolitical consequences for the strategic competition between China and the

US. It brings greater geopolitical advantages for Beijing by scaling down the degree of regional opposition to its rise. This leaves the US at the receiving end of costs for its withdrawal from the multilateralism, which threatens the credibility of its primacy in the Asia-Pacific Region.

With its huge free trade market and potential economic benefits, the RCEP offers China an opportunity to link regional economies, especially of Japan and South Korea, promote regional trade, and make confrontational behaviour costlier for regional opponents. It offsets the prospected economic decline and the negative impact of the breakage of *Chimerica* because of the China-US trade war that could otherwise cost the East Asian economies.

Having the economic fortunes of regional countries tied together, Beijing is able to discourage regional opposition to China's rise in the Asia-Pacific. This becomes more likely as India has abandoned the free trade bloc as an appropriate balancer to China in the group. India, though, has less to gain and more to lose in staying away from the deal but its role in promoting China's influence in East Asia has rather greater geopolitical costs for India and the US.

The United States, whose global leadership has suffered a downward descend under President Donald Trump, is more likely to feel the heat of a Chinese-dominated the RCEP. The motivation for the American allies to join the RCEP, the economic entente between China and Washington's treaty allies, its own disregard for multilateralism, and withdrawal from the TPP leaves Washington relatively weaker in terms of its influence, ability, and credibility to lead the region.

President Joe Biden—though declaring China a competitor and expressing a commitment to lead its allies against China's assertiveness—needs to understand the threshold of China's rise which has already transcended the ability of regional and extra-regional powers. Considering the costs of confronting China and growing ambiguity among its allies including the QUAD, the US needs

to revive its role in multilateralism and adopt a less combative and more accommodative approach towards China.

However, the Chinese leadership also needs to understand the gravity of the challenges it faces vis-à-vis its policies from Hong Kong to the disputes in South China Sea, driven by a “wolf warrior” diplomatic approach which persuades less and alienates more.<sup>36</sup> Having said that, neither can China transformed its global influence into what the Singaporean Prime Minister termed as the ‘unencumbered power’ nor can East Asia emerge as the Asian model amidst regional countries seeing an assertive China rising as a threat.<sup>37</sup> Therefore, the RCEP convinces the East Asian states about China’s rise as a benign development and brings them closer to the economic and political orbit of Beijing. Yet, joining China in RCEP is not as simple a trade off between Washington and Beijing for regional countries as RCEP hosts five regional countries having either maritime disputes with or security apprehensions from China. Hence, the role of the United States as the primary security provider in the region is less likely to be affected by RCEP.

The US needs to recognise the new realities of East and Southeast Asia including China’s inevitable rise, mature independent Southeast Asian economies, and the relative credibility of both China and the US. Because President Trump has failed in doing so; therefore, the nature of the American posture and its credibility in the region depends on how President Joe Biden responds to developments like the RCEP, security concerns of its allies, and foremost is Washington’s attitude towards multilateralism in the Asia-Pacific region.

## Notes and References

- <sup>1</sup> "ASEAN Framework for Regional Comprehensive Economic Partnership", *Association of Southeast Asian Nations (ASEAN)*, <https://web.archive.org/web/20130621031416/http://www.asean.org/news/item/asean-framework-for-regional-comprehensive-economic-partnership>, (accessed on 2 January 2021)
- <sup>2</sup> Charmaine Ng, "15 countries, including Singapore, sign RCEP, the world's largest trade pact", *The Strait Times*, 16 November 2020. <https://www.straitstimes.com/singapore/politics/15-countries-including-singapore-sign-rcep-the-worlds-largest-trade-pact>.
- <sup>3</sup> "Joint Leaders Statement on Regional Comprehensive Economic Partnership (RCEP)", *Ministry of Foreign Affairs of the People's Republic of China*, [https://www.fmprc.gov.cn/mfa\\_eng/wjdt\\_665385/2649\\_665393/t1832612.shtml](https://www.fmprc.gov.cn/mfa_eng/wjdt_665385/2649_665393/t1832612.shtml), (accessed on 6 January 2021)
- <sup>4</sup> Jagdish Bhagwati, "US Trade Policy: The Infatuation with FTAs", *Department of Economics Columbia University; Discussion Paper 726*, Page No. 4, April 1995. <https://academiccommons.columbia.edu/doi/10.7916/D8CN7BFM>.
- <sup>5</sup> Osama Sajid, "Youth Voices: Effects of The Spaghetti Bowl on South Asia-East Asia Trade Relations", *The World Bank Blogs*, 11 February 2015. <https://blogs.worldbank.org/endpovertyinsouthasia/youth-voices-effects-spaghetti-bowl-south-asia-east-asia-trade-relations>.
- <sup>6</sup> Andrew Caine, "The Geopolitics of Indo-Pacific Trade", *RUSI*, 15 November 2020. <https://rusi.org/commentary/geopolitics-indo-pacific-trade>.
- <sup>7</sup> Amy Gunia, "Why the US Could be the Big Loser in the Huge RCEP Trade Deal between China with 14 Other Countries", *Time*, 17 November 2020. <https://time.com/5912325/rcep-china-trade-deal-us/>.
- <sup>8</sup> Georges Dib et al., "RCEP: Common rules of origin could boost regional trade by around USD 90bn annually", *Euler Hermas Global*, November 17, 2020. [https://www.eulerhermes.com/content/dam/onemarketing/ehndbx/eulerhermes\\_com/en\\_gl/erd/publications/pdf/2020\\_11\\_17\\_RCEPrulesoforigin.pdf](https://www.eulerhermes.com/content/dam/onemarketing/ehndbx/eulerhermes_com/en_gl/erd/publications/pdf/2020_11_17_RCEPrulesoforigin.pdf)



- <sup>9</sup> Mercy A Kou, "RCEP: The Future of Trade in Asia: Insight from Peter Petri", *The Diplomat*, 8 December 2020. <https://thediplomat.com/2020/12/rcep-the-future-of-trade-in-asia/>.
- <sup>10</sup> Niall Ferguson and Xiang Xu, "Make Chimerica Great Again," *Hoover Institution Economic Working Paper 18105*, Stanford University, 3 May 2018. <https://www.hoover.org/sites/default/files/research/docs/18105-ferguson-xu-final.pdf>.
- <sup>11</sup> Evelyn Cheng, "New regional trade deal to help China to 'sustain its advantages' in global supply chain", *CNBC*, 23 November 2020. <https://www.cnbc.com/2020/11/23/china-set-to-dominate-global-supply-chains-as-rcep-trade-deal-is-signed.html#:~:text=new%20trade%20agreements-,China%20and%2014%20other%20countries%20signed%20the%20Regional%20Comprehensive%20Economic,and%20sell%20within%20the%20region.>
- <sup>12</sup> Mark Cohen, "RCEP and Phase 1: Strange Bedfellows in IP", *China IPR*, 3 December 2020. <https://chinaipr.com/2020/12/03/rcep-and-phase-1-strange-bedfellows-in-ip/>.
- <sup>13</sup> Ibid.
- <sup>14</sup> "Guiding Principles and Objectives for Negotiating the Regional Comprehensive Economic Partnership", *Japan's Ministry of Foreign Affairs*, Page No. 1, [https://www.mofa.go.jp/mofaj/press/release/24/11/pdfs/20121120\\_03\\_03.pdf](https://www.mofa.go.jp/mofaj/press/release/24/11/pdfs/20121120_03_03.pdf), (accessed on 6 January 2021)
- <sup>15</sup> Yen Nee Lee, "'A coup for China': Analysts reacts to the world's largest trade deal that excludes the U.S.", *CNBC*, 15 November 2020. <https://www.cnbc.com/2020/11/16/rcep-15-Indo-Pacific-countries-including-china-sign-worlds-largest-trade-deal.html>.
- <sup>16</sup> Takashi Terada, "RCEP Negotiations and Implications for the United States", *The National Bureau of Asian Research*, 20 December 2018. <https://www.nbr.org/publication/rcep-negotiations-and-the-implications-for-the-united-states/>.
- <sup>17</sup> Peter A Petri and Michael Plummer, "China could help stop the free falls in global economic cooperation", *Brookings*, 16 July 2020. <https://www.brookings.edu/blog/order-from-chaos/2020/07/16/china-could-help-stop-the-freefall-in-global-economic-cooperation/#cancel>.
- <sup>18</sup> Amy Gunia, "Why the US...", *Time*, 17 November 2020.

- <sup>19</sup> Zhixin and Zhang, "China's International Strategy and Its Implications for Southeast Asia," *Southeast Asian Affairs*, 2016, pp. 55-66. <https://www.jstor.org/stable/26466918>.
- <sup>20</sup> Peter A Petri and Michael G Plummer, "East Asia Decouples from the United States: Trade War, COVID-19, and East Asia's Trade Blocs", *Peterson Institute for International Economics (PIIE)*, Pages 22-23, June 2020. <https://www.piie.com/system/files/documents/wp20-9.pdf>.
- <sup>21</sup> Peter A Petri and Michael Plummer, "RCEP: A new trade agreement that will shape global economics and politics", *The Brookings*, 16 November 2020. <https://www.brookings.edu/blog/order-from-chaos/2020/11/16/rcep-a-new-trade-agreement-that-will-shape-global-economics-and-politics/>.
- <sup>22</sup> Wang Jianguo, "RCEP will end US hegemony in Western Pacific", *The Global Times*, 14 November 2020. <https://www.globaltimes.cn/content/1206815.shtml>.
- <sup>23</sup> "The Ambassador in Japan (Grew) to the Secretary of State", *Foreign Relations of the United States Diplomatic Papers, 1935, The Far East, Volume III, Office of the Historian*, 14 June 1935. Accessed on 15 April 2021 at <https://history.state.gov/historicaldocuments/frus1935v03/d202>.
- <sup>24</sup> Keith Johnson and Robbie Gramer, "The Great Decoupling", *Foreign Policy Magazine*, 14 May 2020. <https://foreignpolicy.com/2020/05/14/china-us-pandemic-economy-tensions-trump-coronavirus-covid-new-cold-war-economics-the-great-decoupling/>.
- <sup>25</sup> "Guide to OECD's Trade in Value Added (TiVA) Indicators, 2018 Edition", *Organization of Economic Cooperation and Development (OECD)*, December 2019. [https://www.oecd.org/sti/ind/tiva/TiVA2018\\_Indicators\\_Guide.pdf](https://www.oecd.org/sti/ind/tiva/TiVA2018_Indicators_Guide.pdf).
- <sup>26</sup> Renuka Mahadevan, "Can the Regional Comprehensive Economic Partnership minimize the harm from the United States-China trade war?", *The World Economy*, Vol. 42; issue 11, pp. 3148-3167, 13 August 2019. <https://onlinelibrary.wiley.com/doi/epdf/10.1111/twec.12851>.
- <sup>27</sup> "US Chamber Statement on the Regional Comprehensive Partnership Agreement (RCEP)", *The US Chamber of Commerce*, 16 November 2020. <https://www.uschamber.com/press-release/us->

chamber-statement-the-regional-comprehensive-partnership-agreement-rcep.

- <sup>28</sup> Choi Sung-jin, "Time for 'Korea first' policy", *The Korea Times*, 20 October 2020. [https://www.koreatimes.co.kr/www/opinion/2020/12/673\\_297866.html](https://www.koreatimes.co.kr/www/opinion/2020/12/673_297866.html).
- <sup>29</sup> Bhavan Jaipragas, "Why does Singapore keep talking about TPP when everyone else has given up on it?", *The South China Morning Post*, 27 October 2016. <https://www.scmp.com/week-asia/geopolitics/article/2040674/why-does-singapore-keep-talking-about-tpp-when-everyone-else>.
- <sup>30</sup> "Short Overview of Regional Comprehensive Economic Partnership (RCEP)," Policy Department of External Relations, European Parliament, Page No. 12-13, February 2020. [https://www.europarl.europa.eu/RegData/etudes/BRIE/2021/653625/EXPO\\_BRI\(2021\)653625\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2021/653625/EXPO_BRI(2021)653625_EN.pdf).
- <sup>31</sup> Keith Bradsher and Anna Swanson, "China-led Trade Pact Is Signed, in Challenge to U.S.", *The New York Times*, 24 November 2020. <https://www.nytimes.com/2020/11/15/business/china-trade-rcep.html>.
- <sup>32</sup> Joseph R Biden, "Why America Must Lead Again", *Foreign Affairs*, March/April, 2020. <https://www.foreignaffairs.com/articles/united-states/2020-01-23/why-america-must-lead-again>.
- <sup>33</sup> David Lawder, "Biden says U.S., allies need to set global trade rules to counter China's influence", *Reuters*, 17 November 2020. <https://www.reuters.com/article/us-usa-trade-biden/biden-says-u-s-allies-need-to-set-global-trade-rules-to-counter-chinas-influence-idUSKBN27X00U>.
- <sup>34</sup> Ibid
- <sup>35</sup> Lu Zhenhua, "Premier Sends 'Powerful' Signal for China to Join Indo-Pacific's Largest Trade Pact", *Caixin*, 29 May 2020. <https://www.caixinglobal.com/2020-05-29/premier-sends-powerful-signal-for-china-to-join-Indo-Pacifics-largest-trade-pact-101560855.html>.
- <sup>36</sup> Laura Silver, Kat Devlin and Christine Huang, "Attitude towards China", *Pew Research Center*, 5 December 2019. <https://www.pewresearch.org/global/2019/12/05/attitudes-toward-china-2019/>.

- <sup>37</sup> Lee Hsien Loong, "The Endangered Asian Century", *Foreign Affairs*, July/August 2020. <https://www.foreignaffairs.com/articles/asia/2020-06-04/lee-hsien-loong-endangered-asian-century>.

# BANGLADESH-CHINA ECONOMIC RELATIONS: INVESTMENT, PROJECTS, AND PARTNERSHIPS

MOHAMMAD JAHIRUL QUIYUM\*

## Abstract

*In recent years, Bangladesh-China economic relation has emerged as a strong and mutually beneficial relationship due to steady development. Bangladesh and China have expanded their economic cooperation in infrastructure, transportation and communication, information technology, power, maritime, and other sectors. Chinese investment, assistance, and cooperation are being carried out on the basis of equality, mutual benefit, and economic development. Both Bangladesh and China are trying to develop and employ innovative ideas for increasing economic engagement. As a result of this, it is expected that in the near future Bangladesh-China economic relation is going to emerge as an obligatory part for each other's economic development. To ensure mutual and faster economic development, both sides are giving importance to economic investment, projects, and partnerships. In the process, several potential sectors have been identified which can play an important role in increasing investment as well as for engaging in new projects. This paper gives a descriptive view of Chinese investments, projects, and partnership on the economy of Bangladesh and at the same time assesses the scope and prospect of Chinese investment, projects, and partnerships in recent years.*

**Keywords:** *Bangladesh, China, economic, investment, partnerships, prospects.*

---

\* Dr. Mohammad Jahirul Quiyum is an Associate Professor at the Department of Political Science, University of Chittagong, Bangladesh.  
*Regional Studies*, 38:3, Autumn 2020, pp.50-73

## **Introduction**

In the last few decades, Bangladesh and China have got closer and have been working together to achieve common goals of development and prosperity. Extensive economic cooperation at the turn of the twenty-first century has added a new stanza in Bangladesh-China economic relations. To accelerate the development based on common desire and to ensure a bright future, both countries agreed to promote bilateral relations. As a result of this, China's role in economic development of Bangladesh has increased significantly. As regards Bangladesh-China economic relations, a huge development has been noticed in investments, projects, and partnerships. Chinese investment has increased significantly. Numerous potential sectors have drawn the attention of Chinese investors. Attractive geographical location, cheap labour, and low production costs have attracted Chinese investors. Although infrastructural weaknesses and several other obstacles are a major concern for an investment-friendly environment, investment projects and partnerships are the major areas where Bangladesh-China economic relations are getting stronger and surging ahead. This paper discusses Bangladesh-China economic relations focusing on investment projects and partnerships in recent years.

## **Scenario of Boosting Investment and Cooperation between Bangladesh and China**

Chinese investment is growing in Bangladesh. Bangladesh aims at achieving upper middle-income country (UMIC) status by FY 2031. To meet the ambitious goal of Bangladesh, it needs a huge investment. Therefore, Bangladesh is trying to attract foreign direct investment (FDI) from China to develop her infrastructure.<sup>1</sup> Beijing expressed its interest in investing in various promising sectors like ports, infrastructure, and energy sectors. As a result, investments have risen faster than before in the last few years. According to Chinese

Ambassador Li Jun, more than 200 Chinese entrepreneurs are eager to invest in Bangladesh. This investment would increase Bangladesh's exports to China, leading to a more balanced bilateral trade.<sup>2</sup> In 2015, Bangladesh received \$200 million from India and \$600 million from Japan. During the visit of Chinese President Xi Jinping in 2016, China wished to begin a new era with Bangladesh on the basis of the expansion of 'One Belt, One Road' and, as a result, Dhaka has been promised to get \$24 billion in investment. In this context, former Foreign Secretary Moufle R Osmani said that there was ample potential for Bangladesh-China economic cooperation. Since Bangladesh has infrastructural deficiencies, this huge investment will help in making the best use of the potential economic sectors. Osmani thinks that relations with China have moved to a new horizon of economic cooperation.

Table 1 shows that from 2001 to 2017, the total annual FDI inflow from China increased from a paltry \$0.11 million to \$90.12 million. After 2017, a rapid increase was seen in FDI inflow, which jumped to \$1029.90 million although a dramatic fall was seen 2019. Mainly after 2010, an upward trend of FDI inflow from China emerged. China has invested \$3.5 billion in readymade garments, two and three-wheeled auto-motives, paper mills, plastic, textile products, and various other sectors from 1977 to 2015. Bangladesh has a huge market of 160 million people through which Bangladesh is attracting Chinese investment in different new sectors such as shipbuilding, heavy industries, agricultural sectors, etc. Besides, the special economic zone is also a highly promising sector for Chinese entrepreneurs.<sup>3</sup> In 2014, Prime Minister Sheikh Hasina urged Chinese entrepreneurs to invest more in manufacturing and service sectors. She also suggested that drugs, ceramics, tourism, roads and railway communication, as well as petrochemical and agricultural sectors could be promising, profitable, and meaningful sectors for Chinese enterprises. She encouraged them for joint investments in these

sectors as well.<sup>4</sup> Chinese investment has increased at a higher rate in recent years than before. Yet, only a few sectors attracted Chinese investment the most. Bangladeshi Prime Minister Sheikh Hasina predicted that public-private partnership (PPP) and build-operate-transfer (BOT) projects like international airports, seaports, waterways, roads, and highways could bring good prospects for both countries and Chinese enterprises might be interested in these sectors.<sup>5</sup> Although the estimated FDI from China in 2015 was \$50 million, Bangladesh was expecting more in future.<sup>6</sup>

**Table 1****FDI Inflows from China**

Year	January-June (\$ million)	July-December (\$million)	Total (\$ million)
2001	0.05	0.06	0.11
2002	-	2.64	2.64
2003	3.94	0.07	4.01
2004	-	0.37	0.37
2005	1.44	1.18	1.62
2006	-	0.92	0.92
2007	-	0.18	0.18
2008	2.99	1.51	4.50
2009	1.03	2.21	3.24
2010	2.96	5.70	8.66
2011	12.87	5.78	18.65
2012	8.57	9.32	17.89
2013	16.69	23.29	39.98
2014	16.81	26.25	43.06
2015	31.15	25.64	56.79
2016	26.73	34.67	61.40
2017	33.91	56.21	90.12
2018	449.92	579.68	1029.90
2019	579.44	46.48	625.92

Source: Foreign Direct Investment in Bangladesh, Survey Report-2014, 2018, 2019, Statistics Department, Bangladesh Bank.



**Table 2**

**FDI Inflows from China in Major Sectors  
from 2015-'16 (In Million \$)**

Sectors	2015		2016	
	Net Inflows	Gross Inflows	Net Inflows	Gross Inflows
Textile and Wearing	34.25	47.97	23.08	30.83
Power	0.91	1.28	0.42	0.42
Trading	0.46	0.52	1.92	2.17
Chemicals and Pharmaceuticals	0.02	0.02	0.07	0.07
Agriculture and Fishing	0.87	0.87	-	-
Leather and Leather Products	5.26	6.90	6.22	12.00
Fertilizer	---	---	-0.30	0.91
Construction	---	---	0.03	---
Metal and Machinery Products	0.30	0.30	---	-
Vehicle and Transport Equipment	0.02	0.02	---	---
Other Sector	7.75	9.45	20.93	21.53
Total	49.84	67.33	52.37	67.93

Source: Foreign Direct Investment in Bangladesh, Survey Report- 2015, 2016, Statistics Department, Bangladesh Bank.

Table 2 shows that the major attractive sectors for investment are almost similar. In this situation, when Bangladesh was seeking more and more, Xi Jinping's visit in 2016 brought about a good opportunity for Bangladesh to attract Chinese investment. During this visit, China committed to invest \$40 billion. Economists, businessmen, and industrialists of the country assess that if this amount of money is invested, the entire economy will change and it will affect the Bangladesh-China relation remarkably. Moreover, Bangladesh will not

be dependent on the World Bank, International Monetary Fund (IMF), and Asian Development Bank (ADB) anymore.

**Table 3**

**FDI Inflows from China in Major Sectors  
from 2018-'19 (In Million \$)**

Sector	2018		2019	
	Net Inflows	Grows Inflows	Net Inflows	Grows Inflows
Power	834.13	837.31	562.06	562.06
Food	0.03	0.03	0.97	0.97
Textile and Wearing	39.56	59.64	29.94	52.87
Leather and Leather Products	1.42	10.83	1.56	38.85
Trading	14.67	20.70	5.65	9.22
NBFI (Including Financial Intermediaries)	113.07	113.07	---	---
Construction	8.62	10.29	4.83	6.88
Chemicals and Pharmaceuticals	0.01	0.01	3.51	3.51
Fertilizer	0.03	0.03	0.21	---
Computer Software and IT	---	---	0.20	0.20
Agriculture and Fishing	0.06		0.05	0.05
Metal and Machinery Products	---	---	0.09	0.09
Telecommunication	-0.12	---	---	---
Other Sectors	18.42	22.01	16.85	20.95
Total	1029.90	1073.92	625.92	695.65

Source: Foreign Direct Investment in Bangladesh, Survey Report- 2018, 2019, Statistics Department, Bangladesh Bank.

These investments are expected to create a promising environment for short and long term business as well as a better

opportunity for technology and skill transfer.<sup>7</sup> Commercial Councilor of Chinese embassy Li Guangyam, stated that Chinese government was encouraging investors to invest more and establish factories. Explaining the Chinese investment potential, he said that China intended to use the cheap labour force of Bangladesh and believed that it would be a profitable sector for China.<sup>8</sup> Sheikh Hasina expressed her optimism about infrastructural development, emerging electronic sectors, and the special economic and industrial areas in Chittagong. She believed that there were a lot of opportunities to expand the involvement of both countries in these sectors and expect that Chinese investors and enterprises would invest more in those potential sectors.<sup>9</sup> As a result, Chinese investment in recent years has increased more rapidly than in previous years.

A comparison of Tables 2 and 3 clearly shows that although the investing sectors are quite similar, a huge difference is noticed in the invested amount. Chinese government has encouraged its enterprises to invest more in Bangladesh. The following factors are encouraging the Chinese investors and firms:

1. Geographical and strategic location of Bangladesh has identified it as an important destination for investment;
2. Bangladesh is suitable for setting up agro-based industries, as it has a favourable natural environment and plenty of raw materials;
3. Increasing wage of Chinese labour in comparison to available low-cost and easily trainable labour in Bangladesh encourages Chinese enterprises to relocate in Bangladesh and invest more in Bangladesh;
4. Investing in infrastructural development projects in Bangladesh is a way to export goods with duty-free privilege to other countries;

5. Huge potential of electronic sector because of the increasing demand for electronic products both in domestic and international market;
6. Available raw materials for high-quality leather and leather goods in low-cost and low-tariff facilities to major importing countries;
7. Avoidance of double taxation and tax holiday for more than five years;
8. Export Processing Zone with additional facilities for China.<sup>10</sup>
9. Reserve of natural gas has created enough energy sector potential to attract Chinese investment;
10. Potentiality of Sonadia deep sea port, which can be profitable for both Bangladesh and China for being an important regional economic hub, also motivates China to invest in Bangladesh;
11. Beijing's intention to create regional connectivity and world-wide access for China;
12. Flexible environmental laws of Bangladesh in comparison to China.<sup>11</sup>

### **Scenario of Projects and Partnership between Bangladesh and China**

From the view-point of current China-Bangladesh economic cooperation, China has presented itself with a good opportunity in Bangladesh to strengthen cooperation on projects and partnerships. Bangladesh, from the very beginning, reiterated its utmost willingness to involve Chinese companies in different projects and hoped for partnerships as well. In 2014, Bangladesh sought China's support in five huge projects. The five proposed projects were the national ICT infra-Network for Bangladesh Government (Phase-III), construction of Rajshahi surface water treatment plant, construction of second railway-road bridge over the Karnaphuli at Kalurghat point,

construction of a New Dual Gauge Railway line from Chittagong to Cox's Bazar via Ramu and Ramu to Gumdhum near Bangladesh-Myanmar border, and establishment of Eastern Refinery Unit-2 and Single Point mooring Project.<sup>12</sup> In 2015, China funded five projects worth \$820 million and seven other projects were in the pipeline. Numerous projects were under Chinese grants also. They are the Exhibition Centre Project, Second Batch Shipment for Calamity Rescue and Medical Equipment, Flood Management Project, Bangladesh-China 8<sup>th</sup>, 9<sup>th</sup>, and 10<sup>th</sup> Proposed Friendship Bridge, Hybrid Rice Institute, agricultural equipment, etc.<sup>13</sup> 2016 was also a significant year for both Bangladesh and China, as during the visit of President Xi Jinping Bangladesh and China signed several agreements and Memorandums of Understanding (MoUs) under which China agreed to fund 21 projects.<sup>14</sup> Bangladeshi Prime Minister Sheikh Hasina said, "China is our biggest business partner and we consider China as a trusted partner in implementing our dreams. China is a major player in funding and providing technical support for many of our mega projects."<sup>15</sup>

**Table 4****Major Projects with Chinese Assistance in Bangladesh**

Area	Name of Project	Amount
Industrial Park	China Special Economic Zone in Anwara. Garments Industrial Park	\$280million
Railway	Padma Bridge rail link Double line (Joydevpur-Ishwardi) Double track ((Joydevpyur-Mymensingh) Conversion of dual-gauge rail line (Akhaura-Sylhet) New ICD near Dhirasram Railway Station	\$3.3 billion \$867 million \$258 million \$1.76 billion \$200 million

Roads	Marine Drive Expressway (Sitakunda-Cox's Bazar) Dhaka-Sylhet four-lane Highway Dhaka-Ashulia Elevated Expressway Karnapuli tunnel	\$2.86 billion \$1.6 billion \$1.39 billion \$703 million
Power and Energy	Installation of single point mooring with double pipeline Expansion and strengthening of power system network under DPDC Power grid network strengthening project under PGCB Five million electrometers 350 MW Gazaria Coal-fired Thermal Power Plant Replacement of old transformers Prepayment metering Project	\$550 million \$2.04 billion \$1.32 billion \$165 million \$433 million \$230 million \$521 million
Livelihood Projects	Rajshahi Wasa Surface Water Treatment Plant Five full-fledged TV stations BMRE in public sector jute mills Water supply and sanitation in small municipalities Modernization of Mongla port facilities	\$500 million \$128 million \$280 million \$150 million \$249 million
Information Technology	Info-Sarkar-III Modernization of telecommunication network Establishing digital connectivity Modernization of rural and urban lives through ICT	\$150 million \$200 million \$1 billion

Source: The Daily Star, 14 October, 2016.

Moreover, in 2016, Bangladesh and China jointly inaugurated six projects, namely, Karnafuli Multilane Tunnel in Chittagong, Confucius Institute of Dhaka University, Tire National Data Center in Kaliakoir of Gazipur, 1320 MW Thermal Power Plant at Patia in Patuakhali, 1320 MW Thermal Power Plant at Banshkhali in Chittagong, and Shahjalal Fertilizer Company at Fenchuganj of Sylhet in 2016.<sup>16</sup> Subsequently, several other projects were also approved. In 2017,

China funded \$151.64 million and \$550.67 million for National ICT Infrastructure Network for Government Phase III and Installation of Single Point Mooring with Double Pipeline, respectively. Besides, modernisation of telecom network for digital connectivity, expansion and strengthening of power system network under DPDC area project were also undertaken in 2017. In 2018, China funded \$224.96 million and \$1402.93 million, respectively. Very recently, in 2020, China funded for Power Grid Network Strengthening Project under PGCB.<sup>17</sup> It is expected that these projects will bring about a dramatic change in the economy as it is a big opportunity for Bangladesh to exchange technology and skill and also employment.

### **Joint Venture Projects**

Presently, China considers Bangladesh a vital partner in South Asia and desires to increase convenient dealings with Bangladesh. The number of collaborative projects is increasing since China has expressed its willingness to invest in joint venture projects with Bangladesh. So far, China has signed several joint venture projects of which the following projects were prominent. In 2014, Bangladesh's state-owned North West Power Generation Company Ltd and Chinese Company CMC jointly started building 1,320 MW power plant at Patuakhali. China and Bangladesh jointly started constructing 1.2 km 4-lane flyover on Dhaka-Sylhet highway. The deal was signed between the China Railway 24<sup>th</sup> Bureau Group Co Ltd and the local Spectra En Ltd.<sup>18</sup> A leather products industry at Mongla Export Processing Zone was set up by Bangladesh-China joint venture Company M/S Rich Time Enterprise of which the Chinese side holds 75 per cent of the company and Bangladesh holds the rest. The project was worth \$21.5 million and its annual production capacity is 5 million square feet of finished leather, 0.2 million pieces of bags, and one hundred thousand pieces of shoes. The Chinese enterprises created employment opportunities for 3,162 Bangladeshi employees.<sup>19</sup> A number of collaborative projects

between Bangladesh and China were signed in 2016. During the signing ceremony of these joint venture projects, Chinese President Xi Jinping said "China-Bangladesh relationship is now at a new historical beginning point and it is heading towards a promising future."<sup>20</sup> Chinese companies signed 13 joint venture agreements with Bangladesh to boost up the trade relations which was worth \$13.6 billion.<sup>21</sup> The Table below shows the joint venture projects of 2016.

**Table 5****Bangladesh-China Joint Venture Projects 2016**

Project Name	Chinese Signatories	Bangladeshi Signatories	Amount (US\$)
Construction of International Cricket Complex at Purbachal in Dhaka	China Civil Engineering Construction Corporation	Youth and Sports Ministry	Not Revealed
Construction of Sheikh Kamal Football and Cricket Stadium at Cox's Bazar	China Civil Engineering Construction Corporation	Youth and Sports Ministry	Not Revealed
Establishing Digital Connectivity	China Railway International Group	Department of ICT	1 billion
Teesta Solar Power (200 MW)	TBEA	Beximco Power	About 400 million
Mirsarai 2x660 MW Coal-Fired Power Plant	Zhejiang Jindun Holding Co	Bangladesh Economic Zones	2.5 billion



		Authority	
Designing and Building Double line between Joydevpur-Ishwardi Section of Bangladesh Railway	China Civil Engineering Construction Corporation	Bangladesh Railways	1.5 billion
Dhaka Safe City Project for Bangladesh Police	CETC International	Home Ministry	620 million
660 MW Coal-Fired Power Plant Boalkhali	China Electric Power Construction Group Co	Beximco Power	861 million
2x660 MW Coal-Fired Power Plant at Daudkandi	Power Construction Corporation of China	Meghna Electricity Generation Co	1.7 billion
350 MW Coal-Fired Power Plant at Gazaria	Power Construction Corporation of China and Hubei Hongyuan Group Co	Bangladesh Rural Power company	433 million
2x660 MW Coal-Fired Power Plant at	China Electric Power Construction	Beximco Power	Not Revealed

Rajakhal	Group Co		
Investment on Renewable Power Projects and Power Industry Park	China Electric Power Construction Group Co	BEZA	2.8 billion
Sustainable River Management in Bangladesh	China Electric Power Construction Group Co	Bangladesh Water Development Board	1.5 billion

Source: R. U. Mirdha, 2016.

Bangladesh and China also have signed several joint venture projects in 2017 among which the construction of 100 km rail lines and necessary infrastructure in the country's southeastern district of Cox's Bazar bordering Myanmar is prominent. It is expected to be completed in three years.<sup>22</sup> Bangladesh and China have also jointly invested \$0.11 billion in Southeast Union Ceramic Industries Limited (SEUCIL) to manufacture high quality and colorful tiles. The current goal of the company is to produce 269,000 square feet of tiles per day. It has 1,050 technical staff and workers who have been trained by 50 Chinese personnel. It is expected that after the completion of the second phase of this company, it will be able to produce 430,000 square feet of tiles per day and also be able to create new employment opportunities.<sup>23</sup> In 2019, a Chinese and Bangladeshi joint venture has started construction of the 48 km mega expressway bypassing Dhaka. The project will cost \$0.47 billion and is expected to be completed in 2022. The expressway will establish an easy link for the industrial belts around Dhaka with the port city Chittagong and northeastern Sylhet region.<sup>24</sup> Another joint venture project was signed in 2019 between Bangladesh and China to implement a mega water project in Dhaka's new township under public-private partnership (PPP) initiative. The

project will cost \$72 million and expected to be completed in 2023.<sup>25</sup> The growing trend of joint venture projects highlight the fact that Bangladesh-China relation is not limited only in the areas of aid, grants, and loans. It has reached a higher level and Bangladesh has emerged as a trusted trading partner of China.

### **Growing Tend of Project Aid and Loans**

In the past decade, Bangladesh made steady and moderate progress and achieved economic growth of around 6 per cent and at the same time continuing to be a home of a vast population where majority of people are poor. According to the estimation of the Household Income and Expenditure Survey, 31.5 per cent people of Bangladesh used to live below the poverty line and could not fulfill nutrition requirement of 2,122 calories per day in 2010.<sup>26</sup> In such circumstances, Bangladesh received Chinese assistance in the form of grants, interest-free loans, and supplier's credits, which generated prospects of future cooperation. Bangladesh received \$181 million interest-free loans, \$75 million as ISP loans, \$764 million as supplier's credits, and \$32.94 million as grants until 2005. Later in 2010, Chinese Premier declared that all debt-free loans given to Bangladesh up to 2008 would be released. They also committed to provide 40 million RMB to Bangladesh to ease Bangladesh's loan burden.<sup>27</sup> As Bangladesh-China relation is getting deeper in the recent years and China wants to be a development associate of Bangladesh in the future, so, it seems cooperation in these sectors will grow to a great extent. Bangladesh has received a noticeable amount of development assistance as food aid, project aid, and commodity aid. Payments for food and other associated costs with food supply including transportation, distribution, and storage are covered up with food aid while commodity aid covers fund for consumer items, intermediate inputs, and industrial raw materials. Likewise, project aid covers the financial assistance for developmental projects. During the early stage

of independence, most of the development assistance was for food and other commodities. The amount of project aid was very small. But with the passage of time, project aid has increased greatly compared to food and commodity aid. Data show that food and commodity aid in 1971-80 accounted for 42 per cent and 32 per cent, respectively, of the total aid to Bangladesh. In 2001-12, they accounted for only 4 per cent and 2 per cent respectively compared with 26 per cent project aid during 1971-80 and 94 per cent during 2000-10. At present, loans constitute a huge amount of total foreign assistance. For example, during 2000-10, it was 68 per cent of the total aid while during 1971-80 it was 42 per cent.<sup>28</sup> Starting from 2010-12, China is increasing its foreign assistance in the form of complete projects, goods and materials, technical cooperation, and human resource development cooperation, emergency charitable aid, reducing or exempting the debts of the recipient countries. All these sectors, especially, in Asia, Africa, and low income developing countries have experienced growing assistance from China. In giving assistance, China strongly adheres to the principle of non-interference in internal affairs of any country and allows the recipient countries to make up their own mind which is really good for the developing countries.<sup>29</sup> China's principle of mutual respect, benefit, equality, win-win strategy, and keeping promises has made China a very close partner of Bangladesh. As a trusted friend of Bangladesh, China always helps Bangladesh by giving food aid, commodity aid, and project aid.

**Table 6**

**Commitment and Disbursement of Chinese Aid  
from 1971/'72-2018/'19 (In Million \$)**

Sector	Commitment			Disbursement			Pipeline on July 1, 2019		
	Grant	Loan	Total	Grant	Loan	Total	Grant	Loan	Total
Food Aid	2.170	8.457	10.627	2.170	8.457	10.627	—	—	0.000
Commodity Aid	0.725	15.187	15.912	—	14.479	14.479	—	—	0.000

Project Aid	384.349	2914.568	3298.917	42354	2733.506	2775.860	297.573	461.623	759.196
-------------	---------	----------	----------	-------	----------	----------	---------	---------	---------

Source: Flow of External Resources into Bangladesh 2018-'19, Economic Relations Division, Ministry of Finance, Government of Peoples Republic of Bangladesh

From 1971-72 to 2015-16 China’s total aid disbursement to Bangladesh was \$122.3 million. During this period, China committed \$15.9 million as commodity aid of which actual disbursement was worth \$14.5 million. Similarly, project aid disbursement was worth \$1,197.2 million from committed amount of \$1,492.843 million and food aid disbursement was worth \$10.6 million.<sup>30</sup> But according to table 6 from 1971-72 to 2018-19 China committed \$ 3325.456 as food, commodity, and project aid and disbursed \$2,800.966 million. A rapid increase was seen in Chinese project aid in the recent year.

China always helped Bangladesh through its aid and assistance. In 2007 China donated \$1 million for relief and reconstruction of the Sidr-affected people of cyclone-hit areas.<sup>31</sup> In 2007, it gave an aid of \$10.5 million.<sup>32</sup> In 2009, 4 million women and children received Chinese help as food assistance under WFP’s ‘vocational training’ aimed at making them skilled manpower.<sup>33</sup> Recently, though China supported Myanmar on the Rohingya issue, she has expressed her sympathy with the displaced people (the Chinese government uses this term for the Rohingyas) and appreciated Bangladesh’s humanitarian activities for the refugees. According to Lu Kang, spokesperson of the Chinese Foreign Ministry, “the Chinese side is highly concerned about the difficulty faced by Bangladesh in resettling the displaced people in the Myanmar-Bangladesh border area. In order to help the government of Bangladesh with the resettlement efforts, the Chinese government has decided to provide emergency humanitarian supplies to the government of Bangladesh. The Chinese side supports Bangladesh’s efforts to resettle the displaced people properly and stands ready to continue providing assistance to Bangladesh as its capacity allows”.<sup>34</sup> China has given 150 tons of aid including 2000 relief tents and 3000

blankets.<sup>35</sup> China is also positive to play constructive role to end the Rohingya issue.

So far, China has given a huge amount of development assistance for projects including roads, bridges, tunnels, and power plants in the form of project loan and supplier's credit. China has made outstanding contributions to the construction of seven friendship bridges, the enormous conference center named Bangabandhu International Conference Centre, Shahajalal fertilizer factory, Barapukuria coal mine and coal-based electricity generation, upgrading mobile networks and many other joint projects through concessional lending. China also has expressed her intention to play a significant role in alleviating the power shortage of Bangladesh by developing the country's natural gas resources. Recently, both countries have reached an accord on the eighth China-Bangladesh Friendship Bridge and China-Bangladesh Friendship Exposition Centre. China also agreed to give financial support for the renovation of the Bangabandhu International Convention Centre. China's increasing financial support has made China one of the most important development associates of Bangladesh.<sup>36</sup> China has granted \$23.8 million for setting up economic and technical cooperation projects in March 2017 and then again \$133 million as a soft loan for the Phase-II of Development of National ICT Infra-Network for Bangladesh Government. These projects will help bring Bangladesh in the platform towards the implementation of Sheikh Hasina's Vision 2021.<sup>37</sup> In 2017, Bangladesh asked for \$8.93 billion in Chinese assistance as a follow-up step of Chinese President Xi Jinping's 2016 visit. This is mainly for the eight most important projects of which \$3.13 billion was sought for Padma Bridge Rail Link Project, \$1.60 billion for Dhaka-Sylhet Four-Lane Highway, \$1.65 billion was for the Expansion and Strengthening of Power System Network project and the rest was sought for Development of National ICT Infra-Network for Bangladesh Government Phase III, Installation of Single Point Mooring with Double

Pipeline, Power Grid Network Strengthening Power under PGCB, Modernization of Telecommunication Network for Digital Connectivity and Industrial Zone in Chittagong.<sup>38</sup> Bangladesh is reaching its goal by implementing all these projects taken so far with Chinese assistance. It is hoped that China's growing economic assistance will help Bangladesh to meet up its economic goals in future also.

### **Scope and Prospect of Bangladesh-China Economic Investment, Projects, and Partnerships**

Bangladesh and China are having excellent economic relations. Mutual trust between these two countries has created scope for further investment projects and partnerships. Investment in readymade garments sector, special economic zones, chemical and pharmaceuticals, leather and leather products, power generation, and water management has come out as potential sectors for mutual benefit. So far, China has invested a significant amount in infrastructure development too. Numerous projects have been undertaken on roads, railways, and information and communication technology realizing the prospects of these sectors. Bangladesh and China have already made many developmental moves to achieve the best from these sectors. Both the governments are trying to increase investment and at the same time trying to develop the infrastructure so that investment in the potential sectors may not be hampered due to the infrastructural weakness. Moreover, the signing of the BCIM-EC and its rapid operation agreement is aimed to establish connectivity all over the world. It is predicted that proper implementation of this worldwide connectivity will increase investment, and joint venture projects and will facilitate economic growth and ensure economic development. Initiatives taken under BCIM-EC for the development of roadway, railways, waterways, and also for airway will increase the chances of success of all the ongoing projects. As readymade garment manufacturing business is growing faster in Bangladesh compared to the other South Asian countries and the terms and conditions of

labour laws are more flexible in Bangladesh, it holds a good prospect for Chinese investors as well for Bangladesh. Due to the cheaper labour cost in Bangladesh, total cost of the production will be much lower than many other countries. On the other hand, Bangladesh can get entry into the huge Chinese market by supplying garment products to the middle and lower middle classes at a cheaper rate. Establishment of special economic zone for China could also be a good move to attract Chinese investment. Bangladesh's plan to establish new economic zones in Maheshkhali, Gojaria, Miresharai and in the southern part of Noakhali will attract investment in machinery, equipment, raw materials, chemicals, and other industrial products. China is also willing to assist Bangladesh in developing substitute energy technology. Many projects taken by both sides for power generation will help develop its energy sector, solve its power problem, and ensure results in all the invested projects. So, considering the current trend of investment projects and partnerships and also China's mega projects like BCIM-EC, Bangladesh's attractive geographical location, cheap labour cost, etc. Bangladesh and China hold a great prospect for Chinese investment projects and partnership in the future also.

### **Conclusion**

Given the overall scenario of Chinese investment projects and partnerships with Bangladesh, it can be said that economic cooperation between Bangladesh and China holds a bright prospect, which can play an incredible role in the overall development of both the countries. Mutual cooperation to raise Chinese investment, joint venture projects, and partnerships will help Bangladesh eliminate its infrastructural weakness and at the same time will help implement all the ongoing projects. It will ultimately help Bangladesh to stand on a very strong footing in the world economy. For this, Bangladesh and China will need to establish and ensure a friendly environment for



economic cooperation. In this case, the government of Bangladesh can form an attractive and conducive climate for investment to attract more Chinese investors. Policymakers should adopt various policies for the improvement of business environment. Some necessary arrangements in this regards have been taken to facilitate large, small, and medium enterprises. As the workers' wage is high in China, those who are losing their competitiveness due to the increasing wage rate can relocate their factories to Bangladesh, work jointly, and could be benefited by using the low cost labour in Bangladesh. Both governments should take the responsibility to assist and support the business delegations during their trade visits so that new business associates could have the chance to start businesses in both countries. Besides, both the governments of Bangladesh and China should also explore new potential areas to engage in trade, commerce, and investment and to enhance economic cooperation. To ensure a positive business environment, they have to take effective initiatives to develop the industrial sector. They can even make efforts to establish industrial cities. It will create new opportunities for trade and investment. It can also create job opportunities for a large number of workers through the upcoming projects.

### Notes and References

- <sup>1</sup> Sadik Ahmed, "Strengthening Bangladesh-China Economic Cooperation," *The Financial Express* (Dhaka: An English Daily), 11 October 2016.
- <sup>2</sup> Li Jun, "A New Opportunity for China-Bangladesh Cooperation," *bdnews24.com*, 12 March 2014, available at <http://opinion.bdnews24.com/2014/03/12/a-new-opportunity-for-china-bangladesh-cooperation/> (last accessed 21 February 2019).
- <sup>3</sup> *Prothom Alo* (Dhaka: A Bengali Daily), 14 October 2016.
- <sup>4</sup> Sumon Mahbub, "Bangladesh Ekhon Unnoyoner Model: Proadhanmantri (Bengali), Now Bangladesh is the Model of Development: Prime Minister," *bdnews24.com*, 10 June 2014.
- <sup>5</sup> "Shamriddhir Anshider Hishabe Chin-ke Chai: Proadhanmantri (Bengali), China is Wanted as Part of Prosperity: Prime Minister," *The Daily Ittefaq* (Dhaka: A Bengali Daily), 8 June 2014.
- <sup>6</sup> Sadik Ahmed, "Strengthening Bangladesh-China Economic Cooperation," *The Financial Express*, 11 October 2016.
- <sup>7</sup> *The Daily Inqilab* (Dhaka: A Bengali Daily), 16 October 2016.
- <sup>8</sup> *Kaler Kantho* (Dhaka: A Bengali Daily), 14 October 2016.
- <sup>9</sup> *Kaler Kantho*, 14 October 2016.
- <sup>10</sup> Mohammad Rafiqul Islam, Mohammad Abdullah Mahfuz and Liza Khanam, "Motives for Investing Chinese Companies in Bangladesh and their Outwards FDI," *International Journal of Scientific and Research Publications*, Vol. 3, Issue 12 (2013), 1-7.
- <sup>11</sup> Shariful Islam, "Emerging Trends in Chinese Investments in Bangladesh: Challenges and Opportunities," ICS Analysis, *Institute of Chinese Studies*, Delhi, no. 12, July 2013.
- <sup>12</sup> *The Daily Star* (Dhaka: An English Daily), 10 June 2014.
- <sup>13</sup> M Jashim Uddin, "Prospects and Challenges for Bangladesh-China Comprehensive Economic Partnership: A Bangladesh Perspective," *Journal of International Affairs*, Vol. 19, No. 1&2 (2015), 49.
- <sup>14</sup> Jagaran Chakma, "Chinese President Xi Jinping's Dhaka Visit: \$40b Deal on Cards," *The Independent* (Dhaka: An English Daily), 7 October 2016.
- <sup>15</sup> *Kaler Kantho*, 14 October 2016.

- <sup>16</sup> "Natun Itihashe Bangladesh-China (Bengali)," Bangladesh-China in the New History, *Bangladesh Pratidin* (Dhaka: A Bengali Daily), 15 October 2016.
- <sup>17</sup> Jagaran Chakma, "China Funded Projects Back on Track," *The Daily Star*, 7 October 2020.
- <sup>18</sup> "China-Led Joint Venture to Construct 1.2 km 4-Lane Flyover in Bangladesh," *Pakistan Defence*, 27 October 2015.
- <sup>19</sup> Sumon Shaha, "\$21.5 m Leather Plant at Mongla EPZ," *The Daily Star*, 23 January 2015.
- <sup>20</sup> Rezaul Karim and Shakhawat Liton, "Strategic Partners: Dhaka, Beijing Upgrade Ties; Sign Biggest Ever Investment Deals; Agree on Silk Road Initiative," *The Daily Star*, 15 October 2016.
- <sup>21</sup> Karim and Liton, "Strategic Partners."
- <sup>22</sup> "Bangladeshi Chinese Firms Sign Joint Venture Pacts to Build Railway," *Xinhua net*, 16 September 2017, available at [http://www.xinhuanet.com/english/2017-09/16/c\\_136614653.htm](http://www.xinhuanet.com/english/2017-09/16/c_136614653.htm) (last accessed 11 February 2019).
- <sup>23</sup> "China-Bangladesh Joint Venture Begins Ceramic Tiles Production," *Dhaka Tribune* (Dhaka: A Bengali Daily), 24 April 2017, available at <https://www.dhakatribune.com/business/2017/04/24/china-bangladesh-joint-venture-begins-ceramic-tiles-production> (last accessed 8 February 2019).
- <sup>24</sup> "China-Bangladeshi Joint Venture Constructs Mega Expressway Bypassing Dhaka," *Sinhua*, 27 December 2019, available at [http://www.xinhuanet.com/english/2019-12/27/c\\_138661782.htm](http://www.xinhuanet.com/english/2019-12/27/c_138661782.htm) (last accessed 9 February 2020).
- <sup>25</sup> "China-Bangladesh Joint Venture to Implement Dhaka's Mega Purbachal New town Water Project," *Sinhua*, 11 November 2019, available at [http://www.xinhuanet.com/english/2019-11/12/c\\_138548688.htm](http://www.xinhuanet.com/english/2019-11/12/c_138548688.htm) (last accessed 9 February 2020).
- <sup>26</sup> Fahmida Khatun, "South-South Cooperation and Changing Bangladesh Aid Scenario," *The Financial Express*, 21 December 2013.
- <sup>27</sup> M Ashique Rahman and Mohammad Jashim Uddin, "Bangladesh-China Relations: Potentials of Growing Partnership and Its Implications," in B M Kabir (ed.), *Sino-South Asian Relations:*

- Continuity and Change*, Chittagong: Department of Political Science, Chittagong University, (2013), 170.
- <sup>28</sup> Khatun, "South-South Cooperation."
- <sup>29</sup> *China's Foreign Aid 2014*, Information Office of the State Council, The People's Republic of China, July 2014, available at [english.gov.cn/archive/white\\_paper/2014/08/23/content\\_281474982986592.htm](http://english.gov.cn/archive/white_paper/2014/08/23/content_281474982986592.htm) (last accessed 18 May 2019).
- <sup>30</sup> *The flow of External Resources into Bangladesh 2015-16*, Economic Relations Division, Ministry of Finance, Government of Peoples Republic of Bangladesh.
- <sup>31</sup> K M Rehan Salauddin, "China-Bangladesh Relations: Friendship with Cooperation," China. Org. Cn, 7 October 2010, available at [http://www.china.org.cn/opinion/2010-10/08/content\\_21078441.htm](http://www.china.org.cn/opinion/2010-10/08/content_21078441.htm) (last accessed 11 February 2019).
- <sup>32</sup> "China Grants over USD 10 mln Aid to Bangladesh," *The Economic Times* (Dhaka: An English Daily), 23 July 2007.
- <sup>33</sup> Anthea Webb, "Bangladesh: Legendary Gymnast Distributes China's Food Aid," 18 December 2009, available at <https://www.wfp.org/stories/bangladesh-legendary-gymnast-distributes-chinas-food-aid> (last accessed 11 February 2019).
- <sup>34</sup> Gao Charlotte, "China Aids Rohingya Refugees in Bangladesh While Backing Myanmar Government," *The Diplomat*, 2 October 2017, available at <https://thediplomat.com/2017/10/china-aids-rohingya-refugees-in-bangladesh-while-backing-myanmar-government/> (last accessed 11 February 2019).
- <sup>35</sup> Charlotte, "China Aids Rohingya Refugees."
- <sup>36</sup> Narayani Basu, "China's Strategic and Economic Forays in Bangladesh: Implications for India," *India Writes*, 21 December 2017, available at <https://www.indiawrites.org/diplomacy/chinas-strategic-and-economic-forays-in-bangladesh-implications-for-india/> (last accessed 1 April 2019).
- <sup>37</sup> Basu, "China's Strategic and Economic Forays in Bangladesh."
- <sup>38</sup> "Dhaka Seeks over \$ 8.9 b Chinese Assistance for 2017," *The Independent*, 4 March 2017, available at <http://www.theindependentbd.com/arcprint/details/83620/2017-03-04> (last accessed 11 February 2019).

# PAKISTAN'S BLUE ECONOMY AMID INCREASING MILITARISATION IN THE INDIAN OCEAN\*

WASIM SAJJAD

## Abstract

*This study focuses on the potential of 'blue economy' for Pakistan given its unique geography and considerable coastline with resources like fish, islands, beaches, ports, etc. Pakistan has yet to fully tap the economic potential of its maritime resources. Among various causes of the under-utilisation of the land and maritime connectivity for the country's economic development are the regional fault-lines, i.e., Kashmir and Afghanistan, and power competition in the Indian Ocean, which impacts developing countries like Pakistan. The bilateral trade between India and Pakistan is the lowest among all the South Asian countries whereas both countries spend huge amounts on defence procurement from extra-regional countries. The strategic triangle between India, China, and Pakistan and growing alliances in the Indian Ocean Region (IOR) also have a significant impact on the prospects of the 'blue economy' for Pakistan. Due to its security-centric foreign policy, Islamabad missed many economic opportunities. If developed sustainably, the country's blue industry has the potential to strengthen and stabilise the economy by creating an enormous amount of trade and employment opportunities not only for Pakistan but also for neighbours and landlocked Central Asia and Afghanistan.*

**Keywords:** *Indian Ocean Region, blue economy, blue industry, strategic triangle, IORA,*

---

\* Mr Wasim Sajjad is an intern at the Institute of Regional Studies, Islamabad. *Regional Studies*, 38:3, Autumn 2020, pp.74-99

## Introduction

*Whosoever controls the Indian Ocean, dominates Asia. In the 21st century, the destiny of the world will be decided upon its waters.<sup>1</sup>*

*Alfred Thayer Mahan*

Ocean economy has a substantial part in the economic development of any country. More than 71 per cent of the earth's surface is covered with waters in the form of rivers, lakes, seas, oceans, etc. There are five key oceans in the world, namely, Pacific, Atlantic, Indian, Southern, and the Arctic. Most of the trade across the globe is carried out through waters, i.e., oceans and seas. So, the landlocked countries of the world have a clear disadvantage in this regard. Pakistan being a littoral state to probably the most important ocean has enormous economic potential. Nevertheless, the foreign policy of Islamabad is always driven by national security or the geostrategic importance for the international powers, which neglects the country's geo-economic potential. The Indian Ocean with an area of 70,560,000 sq. km is the third-largest ocean of the world, among the littoral states of which are the nuclear-armed arch-rivals India and Pakistan.<sup>2</sup> Due to their important geostrategic features, they manage to attract the attention of international players. For instance, India being a neighbour to the fastest growing economies of Southeast Asia and vital sea routes like the Strait of Malacca, while Pakistan being neighbour to the largest reserves of oil, gas, and minerals, and both being neighbours to the challenger to the US hegemony, China. Due to their mutual fault-lines, the two states are unable to explore the benefits of the ocean.

The Indian Ocean has always been a transnational zone of cross-cultural interaction between merchant communities and armies of different civilisations. In ancient times, it flourished as a region of trade. In the medieval era, the region was embroiled in the imperial rivalry. Later on, the cold war accelerated the arms race. In the aftermath of the cold war, competition for economic dominance

began in the Indian Ocean Region (IOR).<sup>3</sup> Around 90 per cent of the global trade is carried out through maritime transportation and a sizeable share of it passes through the Indian Ocean.<sup>4</sup> The mounting presence of regional and extra-regional powers in the IOR and particularly the growing cooperation between New Delhi and the Western and West-Asian States has increased insecurity in Islamabad. Pakistan is a littoral state and a geo-strategically vital player in the IOR owing to its location at the gateway of the Strait of Hormuz through which some \$200 billion worth of oil transits each year.<sup>5</sup> Having a blue policy is vital for the country's geo-strategic ambitions. Oceans have been of significant value for people and states for centuries. They are the main sources of food, trade, energy, warfare, entertainment, etc. According to a report issued by the World Wildlife Fund (WWF) in 2015, about 10-12 per cent of the people globally depend on the oceans for their livelihoods, whereas the economic benefit is \$2.5 trillion per year.<sup>6</sup>

Littoral States of the region try to protect their economic and security interests either through cooperation or competition. The traditional rivalries of regional and extra-regional powers, i.e., India-Pakistan, China India, US-China spread to the oceans as well. Following these rivalries, the major stakeholders try to strengthen their grounds through military alliances, economic ventures, logistic advancement, etc. The paper aims to discuss growing challenges for Pakistan in the IOR due to changes in the regional geopolitical landscape, i.e., the increasing influence of India in regional as well as global politics, China-India tensions, US-China competition, and expansion of Indo-Pak rivalry in the IOR. The paper argues that the prospects of Pakistan's blue economy are eroded by the regional political climate despite having an enormous amount of ocean resources.

This paper explains the significance of economic security for Pakistan and addresses essential questions about the significance of blue economy for Pakistan, such as the following:

- How can Islamabad use its blue industry to attain economic security?
- What are the domestic, regional, or international factors that create challenges for Pakistan?
- What are the areas in which Pakistan could develop cooperation with different countries of the world?

The paper gives a detailed insight into the enormous resources and capabilities of the country and also explains the importance of regional connectivity to benefit not only from its resources but the resources of neighbours like Central Asia.

### **Blue Economy**

The term 'blue economy' is used to describe sustainable usage of water/ocean resources by the countries to get the economic benefit, maintain marine biodiversity, and contain climate change.<sup>7</sup> The European Union's executive branch also described blue economy as "all economic activities related to oceans, seas, and coasts. Blue economy covers a wide range of interlinked established and emerging sectors."<sup>8</sup> Countries, transnational organisations, regional organisations, and multinational corporations around the world are turning towards the seas as a major source of their economic activities. It is very difficult for developing countries like Pakistan to secure their economic interests in such a competitive environment while maintaining a sustainable ecosystem especially because the desire to boost economic growth results in over-reliance upon natural resources on the one hand and the absence of capabilities to protect the ecosystem that creates the risk of extinction of resources on the other.

The significance of the blue economy has been highlighted at the international level on various occasions. In 2012, at the Rio+20 Conference, countries pledged to "protect and restore the health and productivity and resilience of oceans and maritime ecosystems, to maintain their biodiversity, enabling their conservation and



sustainable use for present and future generations.”<sup>9</sup> The 2014 UN Conference on Trade and Development also focused on the sustainable usage and management of marine biodiversity and ecosystem. The World Bank and the European Commission in 2017 and 2018, respectively, emphasised sustainable development of blue resources.<sup>10</sup>

On the one hand, there is an increasing dependence on the ocean as a major food and energy source and for economic activity. On the other hand, there are threats such as territorial disputes in oceans to control the resources as we see in the South China Sea and the Mediterranean Sea. There is also a threat of extinction of various species due to global warming, overfishing, and pollution because of the solid waste dumped into the oceans and oil spills—such as Torrey Canyon and Exxon Valdez. Conflict of economic and security interests of the states sharing the same oceans and maritime security threats, i.e., sea piracy and terrorism have also made ocean resources vulnerable as stated by the Senior Vice President of WWF, Brad Ack, “The oceans are our ‘natural capital’, a global savings account from which we keep making only withdrawals. To continue this pattern would lead one to bankruptcy.”<sup>11</sup> The increased dependence of states and non-state actors on oceans for their economic activities gave rise to a new economic concept called the blue economy. The blue economy could play a significant role in the development of littoral states like Pakistan but due to lack of infrastructure, technology, disputes in the region, and influence of the international community, countries cannot use their resources.

### **Regional Dynamics**

Geographical location is a huge factor in determining a country’s potential and impact on international affairs. Pakistan’s neighbourhood—having the world’s fastest-growing economies, nuclear powers, huge populations, largest reserves of natural

resources, and a long coastal line with deep sea ports—makes it one of its kind in the international system. Pakistan has been using its geostrategic leverage to defend its national interest and to attain its socio-economic and security goals. For example, the whole world applauds the role of Islamabad during the Afghan war, the war against terrorism, and the most recent Afghan peace process and evacuation of American forces from Afghanistan.

“The natural urge of the facts of history and geography should broaden itself to include exploring the concept of Indian Ocean Rim for socio-economic cooperation and other peaceful endeavours,” said Nelson Mandela on his visit to India in 1995.<sup>12</sup> The Indian Ocean plays the most important role in the global political economy, both because of the major trade routes it possesses and due to its natural resources, i.e., fish, plants, and oil and gas. Around 22 countries from three continents (Australia, Asia, and Africa) share their coastal region with the Indian Ocean, which plays a key role in their national economies. The countries have established an intergovernmental organisation called the Indian Ocean Rim Association (IORA) in 1996 following a visit of Mandela to India in 1995, the purpose of which is to promote regional cooperation in various areas. In 2015, the IORA’s Indian Ocean Dialogue Forum in Perth, Australia, identified blue economy along with other maritime focus areas, e.g., maritime security, trade and investment facilitation, fisheries management, disaster risk reduction, tourism promotion and cultural exchanges, as well as emerging sectors such as maritime chemistry, ocean engineering, and ocean power biomedicine.<sup>13</sup>

The members of the organisation are Australia, Bangladesh, Comoros, India, Indonesia, Iran, Kenya, Madagascar, Malaysia, Mauritius, Mozambique, Oman, Seychelles, Singapore, Somalia, South Africa, Sri Lanka, Tanzania, Thailand, UAE, and Yemen.<sup>14</sup> Pakistan—despite its significant geostrategic location on the Indian Ocean with a coastal area of about 1,000 km and three deep seaports—is not a

member of IORA. The country can not only benefit economically through the membership of IORA but can also enhance its technology and security in the region through cooperation with other countries.

In March and May 2017, all member states of IORA signed the Jakarta Concord and the Jakarta Declaration simultaneously in Indonesia, which emphasised cooperation to enhance the sustainable blue economy. The different areas of cooperation included sustainable use of marine resources, job creation, economic growth, poverty alleviation, trade and investment, R&D, technology and innovation, SMEs, skill and human resource development, fisheries management, disaster risk management, tourism and cultural exchanges, enhancing cooperation among stakeholders, strengthening IORA's institutions, and augmenting regional connectivity.<sup>15</sup> Indian Ocean Naval Symposium (IONS), a regional naval institution led by the Indian Navy established in 2008 to provide a consultative mechanism on maritime security issues. All IOR states are members including Pakistan.<sup>16</sup>

The historical and social roots of India in Africa lie in the migration of Indians to eastern and southern Africa during the British Colonial rule, which resulted in the inclusion of Africa in New Delhi's policy. During the mid and late 20th century, India had social roots in Africa but with the beginning of the 21st century, Delhi began to develop economic relations through multilateral platforms like India-Africa Summit, which involves 15 African countries and India, Brazil, and South Africa (IBSA) forum.<sup>17</sup> The economic interests of the countries of eastern and southern Africa combined with the military presence of countries like the US, France, Italy, Japan, and China in Djibouti at the Horn of Africa, creates competition and challenges for the economic prospects of countries like Pakistan in the region.<sup>18</sup> On the other hand, Conflicts between Pakistan and India are actively backed by Beijing and Washington respectively and the 'New Great Game' in the IOR revolves around the Belt and Road Initiative of

Beijing. India being a rapidly growing regional power tries to counter the growing Chinese military and economic influence in the region.

### **Chinese Presence in the Indian Ocean**

China included oceans in its policy in the 1980s to form a blue water navy to protect its own interests in the western Pacific Ocean. Later on, with the growth in China's military and economic strength, its influence spread to other parts of the world, one of which is the Indian Ocean.<sup>19</sup> China's growing economy has expanded its trade relations all over the world of which 90 per cent takes place through seas. In the 18th Congress of the Communist Party of China (CPC), Beijing decided to grow as a maritime economy for which it adopted a three-pronged strategy. First, through expanding its reach via the One Belt One Road (OBOR) initiative. Second, through the naval modernisation program by equipping its naval force with the latest technology, i.e., building aircraft carriers to secure its economic and security interests in seas and shifting its policy of focus on one ocean (the Pacific Ocean) to focus on two oceans (the Pacific and Indian Oceans). Third, through greater access to the ports of the Indian Ocean and providing economic and military aid to Bangladesh, Sri Lanka, and Pakistan.<sup>20</sup> Chinese investment in the Gwadar port of Pakistan, Payra seaport of Bangladesh, and Hambantota port of Sri Lanka are viewed as a part of its 'string of pearls' strategy or the New Maritime Silk Route, which is a part of its greater OBOR project connecting Beijing to the rest of Asia, Africa, and Europe.<sup>21</sup> New Delhi sees it as a threat to India's military and economic might in the IOR as China has recently expanded its military base in Doraleh in Djibouti.<sup>22</sup>

The China Pakistan Economic Corridor (CPEC), which is a flagship project of the Belt and Road Initiative (BRI), has the potential to create enormous opportunities for social and economic development. China's investment in the development of Gwadar port enables Pakistan to boost its blue economy.<sup>23</sup> This corridor can connect China to the Middle East and Europe, India to resource-rich

Central Asia via Pakistan and China Central Asia to Southeast Asia, Western Europe and Australia through the Indian Ocean.

### **Competing India**

Indian strategic thinking in the IOR is driven by the ideology that the one who gets sea power can control the world. Following this ideology, New Delhi's dream is to make the Indian Ocean 'India's Ocean'. This vision was expressed by former Indian Prime Minister Atal Bihari Vajpayee in the following words: "National security lies in the area from the Arabian Sea in the west to Malacca Strait in the east."<sup>24</sup> India is a rising player not only in the South Asian region but also in the international political arena and as it grows it poses greater challenges to Pakistan politically, militarily, and economically due to historical grievances. Delhi, under the leadership of Narendra Modi, wishes to play a leading role not only in the Indian Ocean but also in the regions that are connected by it, i.e., Southeast, Central, and West Asia.<sup>25</sup> According to a former Secretary in the Indian Ministry of External Affairs, "If India aspires to be a great power, then the only direction in which India's strategic influence can spread is across the seas. In every other direction there are formidable constraints." But in the modern world, those constraints are extended to the oceans as well.<sup>26</sup>

India and Pakistan have always been bitter rivals. The two countries have fought several wars as well. Although the war of 1947 did not have a significant naval involvement, both countries gradually started developing their naval power. The obvious reason for Pakistan to do so was to ensure and secure its connectivity to East Pakistan. Delhi, however, realised the importance of the ocean for its security in the 1961 Indo-Portuguese War in which it relied on its naval capabilities to free Goa from the Portuguese. In the subsequent Indo-Pakistan wars, the navies of both countries played a substantial role, particularly in 1971 when East Pakistan seceded from Pakistan to become Bangladesh.<sup>27</sup> These events also added to the new dimension

in India's strategic thinking and Delhi included the ocean in its economic policies as well.

With the beginning of the 21st century and the increase in the economic growth of India, its ambitions grew global. With the rise of globalisation and complex interdependence, Delhi with its growing market emerged as a major global actor and tries to play its part both militarily and economically. Being a littoral state, New Delhi not only tries to take control of the affairs of the Indian Ocean but also desires to expand its reach to the resources and market of Afghanistan and Central Asia via Chabahar Port of Iran following its policy of isolating Pakistan. Modi became the first Indian leader to visit all Central Asian States in 2015. Among the Central Asian states, Uzbekistan enjoys special relations with Delhi as it has signed a civil nuclear agreement as well in 2019 under which the Central Asian State agreed to supply India with Uranium. Moreover, in December 2020, India, Iran, and Uzbekistan held a trilateral meeting on the use of Chabahar Port, in which Afghanistan was also invited as a major stakeholder.<sup>28</sup> New Delhi has begun to expand its deployment of warships and submarines in the quest of being able to counter Chinese and Pakistani navies in the high seas and its naval strength is of great significance for international powers.

Delhi's potential to buy defence apparatus made it a favourite market to exporters like France, Israel, and Russia. India has signed deals with France not only to buy Rafale planes and Panther choppers but to transfer 100 per cent assembly line for Panther choppers and 70 per cent of the assembly line for Rafale fighter planes, which will increase its combat potential.<sup>29</sup> In the third round of strategic dialogue held between French President's Diplomatic Adviser Emmanuel Bonne and Indian National Security Adviser Ajit Doval in the first week of January 2021, France asked India to participate in the EU's naval monitoring mission in the Persian Gulf.<sup>30</sup> In 2018, Delhi signed a deal worth \$5.4 billion with Moscow to buy the S-400 air defence missile

system from Russia despite the US threats to put sanctions on India. The delivery of the systems will be complete in five years.<sup>31</sup> The US, however, has built very strong cooperation through trade and investment on one hand while on the other hand security cooperation through subsequent agreements. The agreements such as the General Security of Military Information Agreement (GOMIA) in 2002, Logistic Exchange Memorandum of Agreement (LEMOA) in 2016, and in 2018, Communications Compatibility and Security Agreement (COMCASA), for safeguarding information shared by the Pentagon with the Indian defence ministry<sup>32</sup>. Most recently in October 2020, the US-India signed the Basic Exchange and Cooperation Agreement (BECA), which enables both countries to share sensitive satellite data. These agreements focused on sharing critical information, encrypted defence technology and also to provide the Indian Military with the logistic support, supplies and services. Although these agreements were signed to counter China's power these also have serious security and economic implications for Pakistan, given the hostilities between Islamabad and New Delhi.<sup>33</sup>

### **Challenges**

Even though Pakistan has opportunities to expand its economic as well as political reach from its position of being a littoral state in the IOR. Simultaneously the country could face traditional and non-traditional challenges. The bellicosity of India due to geopolitical and boundary disputes, the competing global powers such as the US, Russia, France, the UK, and China to establish their position creates great power rivalry in the region and challenges to the regional developing economies like Pakistan, other factors like terrorism, sea piracy and smuggling also add to the problem.<sup>34</sup> An increase in international interference in the region creates greater demand for technical and operational expertise, but the regional political dynamics do not allow countries like Pakistan and India or Pakistan

and Bangladesh to exchange such expertise.<sup>35</sup> The failure of regional organisations like SAARC, IORA, and IONS to address regional issues because of the hegemonic behaviour of India also adds to the miseries of growing countries like Pakistan. To give an example, India invited all IONS member states but Pakistan in the session held at Kochi, India, on the 10th anniversary of the Symposium on 13-14 November 2018, which showed India's "proactive reductionism."<sup>36</sup>

The enormous increase in India's naval spending over the past two decades also raised fear of Indian ambitions in the IOR. With the procurement of advanced weapon systems and technologies, Delhi is emerging as the largest military power among the littoral states of the Indian Ocean in general and in South Asia in particular. There are speculations in Pakistan that the sensitive aspirations of India in the region, supported by western powers to counter China-Pakistan cooperation could try to sabotage Pakistan's prospects of economic development.<sup>37</sup>

The deep sea ecosystem not only creates economic opportunities for countries like Pakistan but the global and regional politico-environmental changes create certain challenges like cooperation, policymaking, resource management, the sustainability of the resources. UN General Assembly has also passed resolutions 59/25, 61/105 and 64/72 to regulate fisheries for fishing due to the vulnerability of marine habitat. The resolutions emphasise the following:

- Assessments of the impact of bottom fishing activities on marine habitat.
- Prevention of adverse impacts of fishing including the closing of certain fishing areas if necessary.
- Establishment and implementation of fishing protocols.

Taking measures according to the precautionary approach, ecosystems approach and international law.<sup>38</sup> Every move of Islamabad to form any kind of relationship with regional and



international states creates concerns and speculations in the policy circles of New Delhi. Despite having a crucial geostrategic location, the country lacked in having a firm foreign policy over decades. This is partly because of the poor economic and security conditions after the independence of India and Pakistan. Later on, the civil-military relations created deep impacts on foreign policy. The country needs to have a holistic policy that not only includes CPEC but strategic considerations of IOR, i.e., connectivity, trade and investment, and sustainable eco-friendly development of resources as well.

The recent developments due to massive Chinese investment in the region through CPEC to expand its reach to Asia, Africa, and Europe has increased the significance of Balochistan. Due to its geostrategic importance and economic potential, the province attracts the attention of global powers. Different countries have different interests in the region, which they try to fulfil through various means, e.g., the Soviet Union after its control over Afghanistan tried to sabotage peace in Balochistan by convincing Baloch to revolt against Pakistan assuring the insurgents to have autonomy over greater Balochistan. Moscow aimed to make it either part of Afghanistan or an independent Balochistan with Soviet influence, either way, it would get its way to the warm waters of the Indian Ocean. Although it had learnt its lesson in Afghanistan but its Indian Ocean policy would not die down.<sup>39</sup>

Pakistan having full membership of the 'Shanghai Cooperation Organisation (SCO)', can be an effective trade outlet for the organisation's Eurasian Nations.<sup>40</sup> The states of Central Asia have huge reserves of natural resources but due to their landlocked status, they are dependent on neighbours like Russia and China to export their resources. The security situation in Afghanistan is the biggest hurdle in their way to the ports of Pakistan, Islamabad needs to increase connectivity to Central Asia to benefit from the resources.

The development of Chabahar and Gwadar ports by Iran and Pakistan, respectively at a mutual distance of 79 kilometres has not only created a potential competition between Tehran and Islamabad but also between Beijing and New Delhi as both countries have huge investments in these ports. China invests in both countries for its economic gains, whereas India, being the arch-rival of Pakistan, invested in the development of Chabahar Port to expand its political and economic influence to Afghanistan and Central Asia via sea route through Iran as Pakistan was the biggest hurdle in the land route. Pak-Iran relations faced various ups and downs as Iran accuses Pakistan of supporting the Jundallah Organisation for insurgency in Iranian provinces of Sistan and Balochistan and vice versa. So, instability in Balochistan means a delay in the development of Gwadar Port, which serves India in two ways: first, creating hurdles in the Chinese way and, second, effecting Pakistan's economic growth.<sup>41</sup>

While India and Pakistan increase their arsenal and put their ammunition on display through Malabar- and Aman-like activities in their high waters, it is the economy that suffers. Countries like Pakistan must explore options other than military exercises to engage the global community.

### **The Country's Blue Industry**

A carefully engineered Indian Ocean policy can be vital for Pakistan to upscale its economic network. The geostrategic status of being a littoral state in the IOR gives Pakistan leverage over various regional and international players, e.g., the Central Asian states are rich in natural resources but they do not have direct access to the sea routes to export their resources, Pakistan could provide that access. During the past decades, the Afghan war has been the biggest hurdle between Pakistan and Afghanistan. But Afghanistan can benefit while using its seaports. China is another example of the investment of

billions of dollars in Pakistan because of the country's geographical location. The country's blue industry has enormous growth potential.

### **Seaports and Shipping**

Karachi port, Port Qasim and Gwadar port are an important part of the maritime economy and Pakistan's ports are the talk of the town in the international community due to CPEC. Besides CPEC, the ports can be connected to the hinterland of Central Asia to increase regional connectivity so that they can become a new gateway for Central Asian cargo. Asian Development Bank is promoting regional cooperation and development in the region. It established the Central Asian Regional Economic Cooperation (CAREC) in 1997, other countries like China, Mongolia, Azerbaijan, and Georgia also became part of the program. Pakistan also joined the program in 2010.<sup>42</sup>

The port of Karachi, one of South Asia's largest and busiest deep-water ports, handles about 70 per cent of the nation's cargo (25 million tons per annum). The port handles 1,600 shipments every year with its 33 berths which are very low as compared to the ports like Shanghai which handles 2,000 shipments per month with its 125 berths. The geographic location of the port places it in close proximity to major shipping routes such as the Strait of Hormuz. The administration of the port is carried out by the Karachi Port Trust (KPT).<sup>43</sup>

Port Qasim, Pakistan's second busiest port, handles about 17 million tons of cargo per annum. This port handles more than 90 per cent of all external trade of Pakistan. The port covers a total area of 12,000 acres (49 km<sup>2</sup>) and encompass many industrial zones. Other than the Pakistan Steel Mills and K-Electric (formerly Bin Qasim Power Plant), around 80 per cent of Pakistan's automotive industry is located at this port. The port also provides direct waterfront access to the nearby Export Processing Zone of Landhi and Korangi Industrial Area. The port is managed by Port Qasim Authority which is a semi-autonomous government body.

Gwadar port has been constructed as the third and probably the most important port of Pakistan due to its significance in CPEC. It is situated on the coast of Balochistan, at a distance of about 460 km from Karachi and 120 km from the Iranian border. Its strategic location at the gateway of the gulf and choke points of the Strait of Hormuz and Gulf of Oman add to its value, the port is envisaged to become a new regional hub of trade and commerce, serving incoming and outgoing commercial traffic of the Middle East, China, Central Asia and Gulf countries. Keeping in view this significance, the government has declared Gwadar as a duty-free port and Free Economic Zone.<sup>44</sup>

### **Fisheries and Aquaculture**

The UN's Food and Agriculture Organisation (FAO) reported aquaculture as the fastest growing food production sector with a growing share of 35 per cent around the globe, however, it is relatively new in Pakistan with a negligible share.<sup>45</sup> Pakistan possesses a market for fish and fish products at the international level. The country earns substantial amount of foreign exchange by exporting ocean resources like shrimp, fish, and their bi-products to various countries i.e., Europe, North America, Japan, etc. The majority of the export is from capture fisheries, whereas aquaculture farming is practised at a small scale, which contributes 1 per cent to the GDP.<sup>46</sup> Various organisations have intended to set up research projects covering both marine and inland fisheries as well as allied aquaculture. Emphasis on research surveys as well as research and development will boost the growth potential of the industry.

### **Coastal Tourism**

Tourism is an important sector of the global economy and coastal tourism is a vital part of the blue economy. The contribution of the IORA region's tourism sector to the world economy in 2015 was \$670 billion, 8.5 per cent of the world's tourism industry. Apart from its job creation potential, coastal tourism helps strengthen the country's

economy.<sup>47</sup> The tourism and recreation potential of the coastal areas of Pakistan is highly underestimated and the stunning beaches along the coasts of Karachi and Balochistan, such as Gaddani and Kund Malir are limited to local tourists. However, if invested carefully and sustainably, there is enormous potential for recreation and nature-based tourism in the Indus Delta, and along the Balochistan coast i.e., Churna Island and Astola Island, Jiwani and Hingol areas, which could attract tourists from across the globe.<sup>48</sup> Well-developed coastal tourism will not only strengthen the country's economy but also boost Pakistan's soft image in the world.

### **Ocean Knowledge Clusters**

Ocean/maritime clusters are geographic concentrations of similar or related maritime firms - such as shipping, seafood, marine technology, and/or port operations that share common markets, technologies, worker skill needs, and are often linked by buyer-supplier relationships and operate in close interactions with one another directly or through multiple networks. Jacob K. Clasen defines it as naturally-occurring collections of different types of maritime activities.<sup>49</sup> Larger companies use these networks to improve their efficiency and engage a networked economy. In some cases, these clusters have emerged as organisational entities that aim to enhance the competitiveness and collaboration among their maritime company participants, related institutions, and other stakeholders. In addition to providing a platform for the companies in maritime sectors that are related to each other, these clusters link all companies or organisations within a specific sector. Areas such as renewable ocean energy and seabed exploration of minerals also have a huge potential and are yet to be developed in the country. The country must explore ways to cooperate with neighbours and the stakeholders in the IOR to utilise the blue resources to their maximum through joint ventures, research and development, etc.

### **Blue Technology**

Technology is an essential component of the Blue Industry, the development of the blue economy depends upon the modernity of the infrastructure. Technology not only reduces human effort but also increases the quality and volume and better processing and packing of the product. With growing global issues like climate change, land and water pollution, extinction of species, rising sea levels due to the melting of arctic glaciers, it is important to upgrade or introduce new technology in Blue Industry to ensure sustainable development. Countries like Australia, New Zealand, East Asian and European nations have developed infrastructure and technology in this regard, e.g., The 'European Institute of Innovation and Technology' (EIT) supports several projects that contribute to eco-friendly port development under 'climate knowledge and innovation community' (Climate-KIC). Under EIT one project is to set up eight Deep Demonstrations as test environments for the '1.5-consistent systems transitions', the Ports of Valencia, Piraeus and Cyprus participate in this project. The project aims to find solutions to reduce emissions of shipping activities in the region. Another Climate KIC example is the 'LOOP-Ports' project which aims to contribute to the transition to a circular economy model in the port sector by creating a network of ports to establish an innovative ecosystem and stimulate circular economy activities.<sup>50</sup> China and India are also moving rapidly in the direction of technological development.

Marine biotechnology is another sector that is very recent and has the potential to impact human lives not only economically but through the manufacturing of important drugs as well, e.g., several drugs (for example, Ara-A, AZT, Ara-C) have been developed in the past from the Caribbean coral reefs. Various drugs derived from marine organisms are commercialised in recent years, this sector is yet to be explored in Pakistan's maritime industry.<sup>51</sup>

## Conclusion

Pakistan's foreign policy has always remained security-centric, despite having enormous potential for economic development. Islamabad has to reshape its policies on economic grounds with countries like Australia and other NATO members. In the past, following the Afghan war, Pakistan and Australia cooperated in defence. For example, both countries engaged in security dialogues, gave scholarships and training to each other's officers, government agencies and think tanks discussed issues of mutual strategic interests. But now is the time to discuss mutual economic interests.<sup>52</sup> Sustainable development must be a part of policy, which will not only make the economy sustainable but also help the country secure its environment and marine ecology.

Free access of Chinese firms to the ports of its neighbours, i.e., Sri Lanka, Bangladesh, and Pakistan, alarms policy circles in New Delhi. To counter China, India tries to deepen its cooperation via trade, technology, and most recently through 'vaccine diplomacy'. However, due to historical antagonism with Pakistan, India adopts a declared containment policy through influencing neighbours, i.e., Afghanistan, Iran, and Gulf Countries and also via propaganda to defame Pakistan in the Western societies, a recent example of which is the *Indian Chronicles*, a research report published in December 2020 by the EU Disinfo Lab that revealed Indian subversive activities over the past fifteen years in Europe and other countries to undermine Pakistan.<sup>53</sup>

The power polarity in the region, historical fault-lines, the hegemonic vision of India, and increasing militarisation due to the contention between New Delhi and Islamabad also resulted in the failure of the regional organisations, such as the South Asian Association for Regional Cooperation (SAARC) to boost economic cooperation in the region. Pakistan has always been economically less connected with its immediate neighbours, i.e., India, Afghanistan, and Iran. While bilateral connectivity with China under CPEC is

encouraging, connectivity with other countries of the region is crucial for the economic development of the country.<sup>54</sup> Pakistan could also avail Chinese technological assistance to strengthen various sectors of the blue economy through infusion of technology.

The year 2020 was declared as the year of blue economy by Prime Minister Imran Khan but due to the Covid-19 pandemic, the economy suffered. Now it is time to focus on it as the pandemic is almost under control. To boost economic growth, the country must have a multi-dimensional economic policy, of which blue economy should be an important part. To strengthen the blue economy, Islamabad must invest in its resources and enhance connectivity with other countries. Firstly, investment in resources may include development of infrastructure, i.e., ports and shipyard construction, the introduction of modern technology and efficient catching, packaging, and transportation of fish and fish-products, research and development in the maritime sector, public-private partnership, and communication and coordination among federal and provincial departments responsible for the maritime sector.<sup>55</sup> Secondly, a three-way connectivity could be established. First is through including the blue industry in trade and investment with other countries, which could be either regional or extra-regional. Second is through assisting or acting as a conduit for the trade of the neighbouring land-locked countries, i.e., Afghanistan and Central Asia, and utilising its geostrategic advantage of being a littoral state. Third and more important is cooperating with countries in areas such as sustainable development of the ocean resources, security of the region, technological exchange, skill development, etc.

Pakistan could cooperate with different countries of Europe, Australia, East Asia, and North America on developing a blue economy through upgrading technology. Marine biotechnology is another sector where Pakistan could cooperate with developed countries or international research institutions to utilise marine resources for better



medical purposes. At the same time, the conservation of the natural environment is very important for biodiversity.

## Notes and References

- <sup>1</sup> James R. Holmes and Toshi Yoshihara, "China and the United States in the Indian Ocean: An Emerging Strategic Triangle," *Naval War College Review*, Vol. 61, No. 3 (Summer 2008), 43.
- <sup>2</sup> Iftikhar Ahmed Rao, *Elements of Blue Economy* (Islamabad: Institute of Policy Studies, 2020), 13.
- <sup>3</sup> Manoj Gupta, *Indian Ocean Region: Maritime Regimes for Regional Cooperation*, (London: Springer, 2010), 60.
- <sup>4</sup> Anit Mukherjee, "Indian Ocean Region Strategic Outlook," *ASEAN and the Indian Ocean: the Key Maritime Links* (S. Rajaratnam School of International Studies, 2017), 22. <http://www.jstor.com/stable/resrep05888.7>.
- <sup>5</sup> James R. Holmes and Toshi Yoshihara, "China and the United States in the Indian Ocean: An Emerging Strategic Triangle," *Naval War College Review*, Vol. 61, No. 3 (Summer 2008), 44.
- <sup>6</sup> Somen Banerjee, *Maritime Power through Blue Economy: in the Indian context*, (New Delhi: Vivekananda International Foundation, 2018), 22.
- <sup>7</sup> "Diving into the blue economy", *UN DESA*, 15 January 2019, New York, <https://www.un.org/development/desa/en/news/sustainable/blue-economy.html>.
- <sup>8</sup> Iftikhar Ahmed Rao, *Elements of Blue Economy* (Islamabad: Institute of Policy Studies, 2020), 2.
- <sup>9</sup> *Ibid.*, 13.
- <sup>10</sup> *Ibid.*, 13.
- <sup>11</sup> Kimberly Vosburgh, "Ocean Assets Valued at \$24 Trillion, but Dwindling Fast," 22 April 2015, <https://www.worldwildlife.org/stories/ocean-assets-valued-at-24-trillion-but-dwindling-fast>
- <sup>12</sup> Dennis Rumley and Sanjay Chaturvedi, *Geopolitical Orientations, Regionalism and Security in the Indian Ocean* (New York: Routledge, 2015), 148.
- <sup>13</sup> Lee Cordner, "Maritime Cooperation in the Indian Ocean Region," in *ASEAN and the Indian Ocean: the Key Maritime Links*, ed. Sam Bateman, Rajni Gamage and Jane Chan (Singapore: S. Rajaratnam School of International Studies, 2017), 36.

- <sup>14</sup> "Member States," Indian Ocean Rim Association, Accessed 22 December 2020, <https://www.iora.int/en/about/member-states>
- <sup>15</sup> Jakarta Declaration on Blue Economy," Indian Ocean Rim Association, 8-10 May 2017, <https://www.iora.int/media/8218/jakarta-declaration-on-blue-economy-final.pdf>; "Jakarta Concord," Indian Ocean Rim Association, 7 March 2017, <https://www.iora.int/media/23875/jakarta-concord-7-march-2017.pdf>.
- <sup>16</sup> Catherine Lea, "India's Extending Naval Horizons and Partnerships," in *Navigation the Indo-Pacific Arc*, ed. Euan Graham and Henrick Z. Tsjeng (Singapore: S. Rajaratnam School of International Studies), 41, <https://www.rsis.edu.sg/wp-content/uploads/2014/12/Monograph32.pdf>.
- <sup>17</sup> Christopher Alden, "Resurgent continent?: Africa and the world: emerging powers and Africa," *LSE Research Online* (May 2012), 14-15, <http://eprints.lse.ac.uk/43657/>.
- <sup>18</sup> Maria Bastos, "Pakistan's foreign policy towards the Indian Ocean region," *Pakistan Politico*, 4 May 2018.
- <sup>19</sup> David Brewster, "Security Challenges: An Indian Sphere of Influence in the Indian Ocean?" *Institute for Regional Security*, Vol. 6, No. 3 (Spring 2010): 5, <https://www.jstor.org/stable/26459796>.
- <sup>20</sup> Anit Mukherjee, "Indian Ocean Region Strategic Outlook," *ASEAN and the Indian Ocean: the Key Maritime Links* (S. Rajaratnam School of International Studies, 2017), 22. <http://www.jstor.com/stable/resrep05888.7>.
- <sup>21</sup> Kwa Chong Guan, "Prospects for Indian Ocean Regionalism," in *ASEAN and the Indian Ocean: the Key Maritime Links*, ed. Sam Bateman, Rajni Gamage and Jane Chan (Singapore: S. Rajaratnam School of International Studies, 2017), 20.
- <sup>22</sup> Agathe Maupin, "France in the Indian Ocean: A Geopolitical Perspective and its Implications for Africa," *Policy Insights* 42 (March 2017): 8.
- <sup>23</sup> "Maritime cooperation under CPEC has potential to promote the blue economy of Pakistan," *China Pakistan Economic Corridor*, 3 June 2020, <http://cpecinfo.com/maritime-cooperation-under-cpec-has-potential-to-promote-the-blue-economy-of-pakistan/>.

- <sup>24</sup> Cuiping Zhu, "India's Ocean: Can China and India Coexist?" (Singapore: Springer, 2018), 7, <https://www.pdfdrive.com/indias-ocean-can-china-and-india-coexist-e158462564.html>.
- <sup>25</sup> Sharifah M. Alatas, "India's Maritime Strategy in the Indian Ocean Region: Issues of the Strategic Culture," *Journal of South Asian Studies* 3, No. 3 (December 2015): 402, <https://esciencepress.net/journals/index.php/JSAS/article/view/1324>.
- <sup>26</sup> David Brewster, "Security Challenges: An Indian Sphere of Influence in the Indian Ocean?" *Institute for Regional Security*, Vol. 6, No. 3 (Spring 2010): 2, <https://www.jstor.org/stable/26459796>.
- <sup>27</sup> Alexandr Burilkov, "The Maritime Strategy of Regional Powers: China, India, Iran, and Brazil from 2001 to 2015," (Dissertation, University of Hamburg Faculty of Economics and Social Sciences, 2016), 123; Ed. Abbas Amirie, *The Persian Gulf and the Indian Ocean In international Politics* (Tehran: Institute on International Political Economic Studies, 1975), 182-183.
- <sup>28</sup> Rajeswari Pillai Rajagopalan, "India-Iran-Uzbekistan Pursue Central Asian Connectivity," *The Diplomat*, 18 December 2020, <https://thediplomat.com/2020/12/india-iran-uzbekistan-pursue-central-asian-connectivity/>.
- <sup>29</sup> Shishir Gupta, "On Rafale and deadly Panther choppers, India gets a huge offer from France", *Hindustan Times*, 10 January 2021, <https://www.hindustantimes.com/india-news/france-offers-to-shift-panther-chopper-assembly-line-to-india-rafale-too-101610181121676.html>.
- <sup>30</sup> Sandeep Dikshit, "France invites India to join EU operations in the Persian Gulf," *The Tribune*, 7 January 2021, <https://www.tribuneindia.com/news/nation/france-invites-india-to-join-eu-operations-in-persian-gulf-195430>.
- <sup>31</sup> Rezaul H Laskar, "Despite US sanctions threat, S-400 deal advancing well," *Hindustan Times*, 22 December 2020, <https://www.hindustantimes.com/india-news/despite-us-sanctions-threat-s-400-deal-advancing-well/story-LsDbYrG8l1htstXJXH6YmK.html>.
- <sup>32</sup> Lakshi Bhatia, "What the 4 Indo-US defence agreements mean for India," *Times of India*, 14 November 2020, <https://timesofindia.indiatimes.com/india/what-the-4-indo-us-defence-agreements-mean-for-india/articleshow/78949570.cms>.

- <sup>33</sup> "US-India 2+2: Crucial defence deal signed," *BBC News*, 27 October 2020, <https://www.bbc.com/news/world-asia-india-54655947>.
- <sup>34</sup> Ristian Atriandi Supriyanto, "The Indian Ocean and Indonesia's Global Maritime Fulcrum: Relevance to ASEAN," in *ASEAN and the Indian Ocean: the Key Maritime Links*, ed. Sam Bateman, Rajni Gamage and Jane Chan (Singapore: S. Rajaratnam School of International Studies, 2017), 54.
- <sup>35</sup> Upadhyaya Shishir, "A case for a pan-Indian Ocean information grid for improved maritime domain awareness," *Journal of the Indian Ocean Region* (New South Wales: Routledge, 2017), 8, <http://dx.doi.org/10.1080/19480881.2017.1332716>.
- <sup>36</sup> Sohail A. Azmie, "India's refusal to invite Pakistan for Indian Ocean naval symposium," *The News International*, 15 January 2019, <https://www.thenews.com.pk/print/419200-india-s-refusal-to-invite-pakistan-for-indian-ocean-naval-symposium>.
- <sup>37</sup> Indian Ocean: Security and Stability in the Post-Cold War Era (Islamabad: Directorate of Naval Educational Services, 1994), 190-192.
- <sup>38</sup> Alex D. Rogers and Matthew Gianni, "The Implementation of UNGA Resolutions 61/105 and 64/72 in the Management of Deep-Sea Fisheries on the High Seas," International Programme on the State of the Ocean, May 2010, <http://www.savethehighseas.org/publicdocs/61105-Implementation-finalreport.pdf>.
- <sup>39</sup> Umbreen Javaid and Javeria Jahangir, "Balochistan: A Key Factor in Global Politics," *South Asian Studies*, Vol.30, No.2, July-December 2015, 97.
- <sup>40</sup> Zafar Nawaz Jaspal, "Shanghai Cooperation Organization-A Chance for Pakistan," *Arab News*, 20 September 2020.
- <sup>41</sup> Zeus Hans Mendez, "Repression and Revolt in Balochistan: The Uncertainty and Survival of a People's National Aspirations," *Journal of Indo-pacific Affairs*, 31 August 2020, <https://www.airuniversity.af.edu/JIPA/Display/Article/2331243/repression-and-revolt-in-balochistan-the-uncertainty-and-survival-of-a-peoples/>.
- <sup>42</sup> Ryuichi Shibasaki, Satoshi Tanabe, Hironori Kato and Paul Tae-Woo Lee, "Could Gwadar Port in Pakistan Be a New Gateway? A Network Simulation Approach in the Context of the Belt and Road

- Initiative," *Sustainability* 11, no. 20: 5757 (2019): 5, <https://www.mdpi.com/2071-1050/11/20/5757#cite>.
- <sup>43</sup> Naveed Khan, "Pakistan needs to focus on developing seaports," *The Express Tribune*, 2 September 2019.
- <sup>44</sup> CPIC, "Why the Gwadar Port is Significant to Pakistan," 14 November 2019, <https://www.cpicglobal.com/why-the-gwadar-port-is-significant-to-pakistan/>.
- <sup>45</sup> Asaf Humayun & Naghmana Zafar, "Pakistan's "Blue Economy": Potential and Prospects." *Policy Perspectives* 11(1), (2014), 69. <https://sci-hub.se/10.13169/polipers.11.1.0057>.
- <sup>46</sup> Muhammad Younis Laghari, "Aquaculture in Pakistan: Challenges and Opportunities," Research Gate, 10 March 2018, 56-57, <https://vulms.vu.edu.pk/Courses/ZOO510/Downloads/Article%20for%20Assignment%20%20No.%201.pdf>.
- <sup>47</sup> S.K. Mohanty, Priyadarshi Dash, Aastha Gupta and Pankhuri Gaur, "Prospects of Blue Economy in the Indian Ocean," Research and Information System for Developing Countries (New Delhi, 2015), 13, <http://www.ris.org.in>.
- <sup>48</sup> MFF Pakistan, "A Handbook on Pakistan's Coastal and Marine Resources," (Ministry of Climate Change Government of Pakistan, 2016): 21, [https://www.iucn.org/sites/dev/files/pk\\_coastal\\_resources\\_handbook.pdf](https://www.iucn.org/sites/dev/files/pk_coastal_resources_handbook.pdf).
- <sup>49</sup> Lorelei Yang, "Maritime clusters: the future of the marine industry?," 4 March 2020, <https://www.wartsila.com/insights/article/maritime-clusters-the-future-of-the-marine-industry>.
- <sup>50</sup> "The EU Blue Economy Report 2020," European Commission (2020), 88, available at [https://ec.europa.eu/maritimeaffairs/sites/maritimeaffairs/files/2020\\_06\\_blueeconomy-2020-ld\\_final.pdf](https://ec.europa.eu/maritimeaffairs/sites/maritimeaffairs/files/2020_06_blueeconomy-2020-ld_final.pdf).
- <sup>51</sup> Pawan G. Patil, John Virdin, Sylvia Michele Diez, Julian Roberts and Asha Singh, "Toward a Blue Economy: A Promise for Sustainable Growth in the Caribbean," World Bank Group (REPORT NO: AUS16344, September 2016), 26.
- <sup>52</sup> Sam Bateman, Anthony Bergin and Hayley Channer, "Terms of Engagement: Australia's regional defence diplomacy," *Australian Strategic Policy Institute* (2013), 61-62.

- <sup>53</sup> Gary Machado Alexandre Alaphilippe, and Roman Adamczyk, "Indian Chronicles: Deep Dive into a Fifteen Year Operation Targeting the EU and UN to Serve Indian Interests," EU Disinfo Lab (9 December 2020), <https://www.disinfo.eu/publications/indian-chronicles-deep-dive-into-a-15-year-operation-targeting-the-eu-and-un-to-serve-indian-interests/>.
- <sup>54</sup> Vaqar Ahmed, *Pakistan's Agenda for Economic Reforms* (Pakistan: Oxford University Press, 2017), 260-261.
- <sup>55</sup> Amjad Hussain Dawar, "CPEC: Prospects for Pakistan's Blue Economy," *Daily Times*, 28 December 2020, <https://dailytimes.com.pk/706877/cpec-prospects-for-pakistans-blue-economy/>.

# TRADE DEFICIT WITH CHINA: REALISING GAINS FOR PAKISTAN

ALI HAIDER SALEEM\*

## Abstract

*The trade deficit between Pakistan and China has been expanding for several years for a variety of reasons with serious repercussions for Pakistan's economy. This paper aims to suggest policy options for Pakistan to address this issue. It analyses quantitative and qualitative information regarding Pakistan's economy and trade figures with China. Many of the issues in promoting Pakistan's exports have been highlighted. Given the significance of the China-Pakistan Economic Corridor (CPEC) in determining future economic ties of both countries, its impact on boosting Pakistan's export potential, and challenges have been elaborated. The paper also discusses the promise of the economic transformation in China for Pakistan. A number of recommendations to reduce the trade deficit with China have been offered but the paper also attempts to explain why they may not be enough. That said, there is still plenty to gain for Pakistan from its economic relationship with China and it can certainly be sustainable.*

**Keywords:** CPEC, trade, economy, industry, connectivity

## Introduction

International trade is one of the most critical components of a country's economic outlook. Developing strong trade relations and

---

\* Mr Ali Haider Saleem is a Research Associate at the Institute of Strategic Studies, Islamabad.

*Regional Studies*, 38:3, Autumn 2020, pp.100-115



sustaining them brings stability to the external accounts of an economy. Trade between two countries has political, cultural, and economic ramifications. When the trading partner shares its border and is the second biggest partner in terms of trade value, the significance of maintaining strong trading relations becomes pivotal. The interests of Islamabad and Beijing seem to match regularly in international affairs and the two countries are often on the same page on multilateral forums.

That said, this warmth is not reflected in the trading relationship between the two countries. Despite harmonious interactions, the representatives from both sides have struggled to come to terms while renegotiating the free trade agreement. The original agreement, signed in 2006, helped in boosting Pakistan's exports to China. In the last few years, however, imports from China have risen much sharply. Pakistani exporters have found it difficult to penetrate Chinese markets, whereas there has been a surge of Chinese products in Pakistan.

Pakistani exporters have complained about the terms of the agreement and the lack of incentives offered to them under the agreement. The swelling up of Pakistan's trade deficit with China in recent years proves the agreement to be harmful to Pakistan. Pakistan's exporters have also suffered from various other issues such as the energy crisis, political instability, and lack of competitiveness. On the other hand, the rise in demand for Chinese goods and changing consumption patterns have also tilted the trade figures in China's favour.

Trade agreements are bound by political influence and bureaucratic hurdles. In today's rapidly transforming and competitive world, countries need to make swift adjustments to ensure a facilitative environment for local businessmen. With Pakistan under persistent macroeconomic pressure, policy measures need to be taken seriously.

This paper explores multiple ways through which Pakistan can reduce its trade deficit with China and make trade between the two countries mutually sustainable. It analyses the causes of the present situation and examines the opportunities lying ahead for Pakistani policymakers and the business community that could be availed to improve the present outlook.

The study draws on expert opinions and national accounts data. It also incorporates the latest developments and views from the business community, including both export-oriented industries and those affected by Chinese imports. The paper also analyses the evolving nature of international trade and proposes gainful strategies for Pakistan in accordance with them.

### **China-Pakistan Trade Outlook**

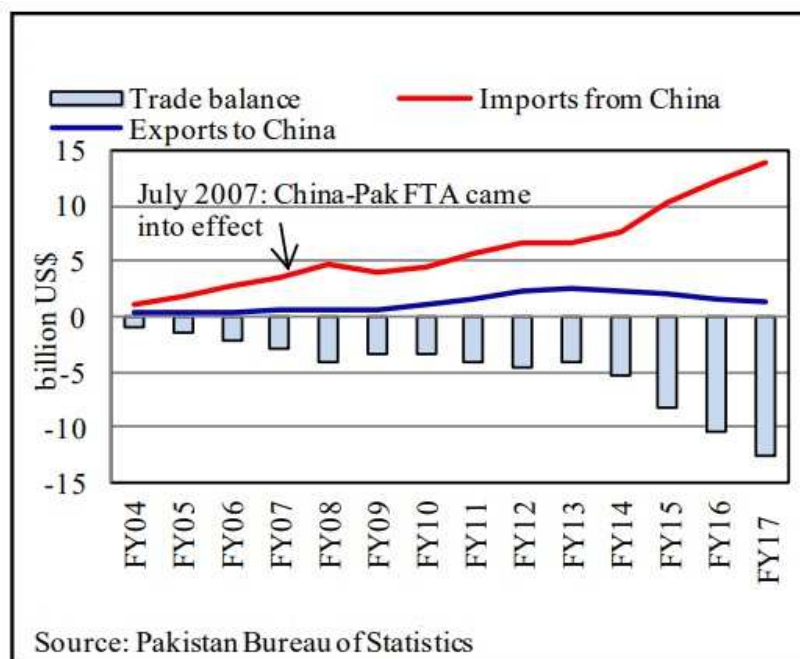
Pakistan and China commenced bilateral trade in the 1950s and have entered into multiple arrangements since then. Efforts have been made to facilitate and promote trade between the two countries through various measures. In 1979, an overland trade route was established after the completion of the Karakoram Highway. Due to harsh weather and the long distance between main Chinese markets and the border crossing, however, a very small portion of trade between the two countries moves through land route. In 2006, the two countries signed a free trade agreement (FTA), which led to a significant rise in Pakistan's economic dependence on China. There was a significant rise in Pakistan's exports to China. In Pakistan's overall exports, China's share doubled by 2010.<sup>1</sup>

Despite promising numbers, according to Naved and Sarah, the structure was not encouraging. The export basket to China comprised mainly of primary manufactures and raw materials. They also observed that from 2000 to 2010, the list of commodities exported was largely unchanged.<sup>2</sup> For the expansion of exports, it is necessary that Pakistan shifts from primary products to higher value-

added products. One of the causes of difficulty for Pakistani products in entering the Chinese markets is nontariff barriers imposed by the Chinese government.

On the other hand, the low cost of Chinese products has driven out many local manufacturers and impaired the economy. Pakistani importers and Chinese exporters have also been accused of understating the value of imported Chinese products in Pakistan. Due to this practice, there have been revenue collection losses and the domestic industry has suffered from unfair competition.

Pakistan’s trade balance with China in the year in which the FTA was implemented was negative \$2.4 billion. 10 years later, in 2016, the deficit rose to \$12 billion.<sup>3</sup> Under the FTA, China granted relatively more concessional lines to Pakistan but the latter has availed only 5 per cent of them, whereas China has availed 57 per cent. A key cause of Pakistan’s underutilization is the irrelevancy of the concessional line given by China or negotiated by Pakistani officials.<sup>4</sup>



The above graph illustrates the failure of FTA. Before 2007, the trend had already set in and there was a need to counter the widening trade deficit. Rather than improving the external outlook of Pakistan's economy, the FTA with China contributed to the worsening of it. Moreover, the volume of exports also began to fall after a few years. On the other hand, several factors contributed to the sharp increase in imports from China, including the growing demand for machinery to cater for the development activities taking place in Pakistan, the establishment of local assembly plants that have raised the demand for raw materials from China, a large market with a strong demand for cheap goods, and an overall shift from other trading partners.

While capital goods have a significant share in Pakistan's import basket, their contribution in spurring local industry has not been remarkable. Furthermore, Pakistan's industry has been well outpaced by the growth in the Chinese industry, leaving Pakistani goods with little share. The non-innovative approach and lack of diversification have also contributed to the declining share of Pakistani goods in the Chinese market. Indirect factors, such as China's FTA with ASEAN countries and the slowdown of China's economy, have also significantly contributed to the poor export volume.

The impact of geography and infrastructure development in boosting trade with regard to CPEC is examined by Matthew McCartney. He studied cases of transformative infrastructure expansion in the nineteenth century to present conditions under which CPEC could support Pakistan's economic objectives. Analysing CPEC politically, he warned that infrastructure development was not always undertaken to sustain economic benefits. The author also alarms about the negative impact of infrastructure development on Pakistan's trade outlook with China as there is a possibility that Chinese goods will increase in Pakistan at the expense of local ones and China may get access to more markets through Pakistan. This

could crowd out Pakistan's exports to other countries as well and weaken the local industry.<sup>5</sup>

The Federation of Pakistan Chambers of Commerce and Industry (FPCCI) published a report titled *FPCCI's Stance on CPEC* in 2017. Among the various concerns highlighted by FPCCI, the two major concerns were feelings of mistrust towards the government and the adverse impact on local businesses. Many experts gauge that the inflow of Chinese investment and business enterprises will prove to be detrimental to the interests of Pakistani business communities. It also pointed out flaws in FTA-I which inflicted severe losses on the local economy.<sup>6</sup>

Realising the detrimental impact on the local economy, the Pakistani government pushed for renegotiating the trade deal with China and the FTA-II came into effect on 1 January 2020. The terms under the new agreement are more favourable for Pakistan. There are greater incentives for exporters while import restrictions would not only reduce import bill but also protect local industries from Chinese competition in the domestic market.<sup>7</sup>

### **Challenges Faced by Pakistan**

Pakistan's persistently poor export performance is the main challenge that has to be addressed to reduce the trade imbalance with China. Afia Malik, Ejaz Ghani, and Musleh ud Din suggested that Pakistan failed to become competitive globally despite the liberalisation of the trade regime. They pointed towards policies that supported domestic industries but reduced their incentives for participation in international trade. According to them, local industries did not prepare themselves to deal with the competitiveness of the global markets. They have called for attention towards strengthening state institutions and improvement in their capacity to support the private sector in boosting exports.<sup>8</sup>

The growing deficit between China and Pakistan witnessed in the last few years reflects various weaknesses in the economic environment of Pakistan. With the rapid advancement in technology and an extensive focus on research and development, countries are at greater risk of losing their share in global markets if they do not adapt. Pakistan's trade deficit with China is not only because Chinese industries are more vibrant and competitive but also since China's other trading partners have progressed and taken their share in the Chinese markets at the expense of Pakistani goods.

Data for trade in commercial service is a pertinent reflection of an economy's advancement. Pakistan exported just \$3.9 billion worth of commercial services in the financial year 2017, whereas China reported figures around \$205 billion in the same category.<sup>9</sup> Demand for services is on the rise globally and Pakistan's deficit in service trade is likely to widen despite positive developments in the local IT industry.

There has also been little progress in modernising goods produced in the country. Pakistan's main exports are primary and low-technology products, which lack sophistication and demand from high-end consumers. This deficiency has also contributed to growing import costs in recent years as machinery and electronic equipment have been usually imported. Hence, there is no surprise that Pakistan's terms of trade are in an adverse state. According to data from the Pakistan Bureau of Statistics, the average terms of trade were 56 per cent from 2008 to 2017 while in the previous decade (1998-2007) this figure was around 88 per cent.<sup>10</sup>

Lack of innovation has hampered the integration of Pakistan's economy into the global economy. Former Finance Minister and present Advisor to PM on Finance, Abdul Hafeez Sheikh, pointed out that a continuing failure of government and business community has been the inability to integrate the Pakistani economy with the rest of

the world. Pakistan has lagged in boosting exports and has also failed to attract capital from abroad.<sup>11</sup>

Integration also opens up avenues for the transfer of capital and technology that are necessary for sustainable economic progress. The United Nations Industrial Development Organization (UNIDO) points out that in developing countries like Pakistan that the development potential of local industries cannot be attained often due to isolation from the global economy. Moreover, local businesses also get stuck in uncompetitive business models.<sup>12</sup> Pakistan has struggled to remain competitive and has lost its share in the global economy to its rivals.

### **Future of Textile Industry**

China is one of the largest importers of Pakistani cotton and cotton occupies the majority share of Pakistan's total exports to China. However, the textile sector fears stiff competition from China in the times ahead. As CPEC is gaining momentum, China has begun to focus primarily on the Xinjiang province, which happens to border Pakistan. Xinjiang contributes 60 per cent to China's seven million tons of cotton production. While it was previously underdeveloped, the province is now being industrialised rapidly to accommodate a major textile hub.

To develop the said textile hub, China has also unveiled a 10-year development plan for the textile industry in Xinjiang. As per this plan, by 2023, Xinjiang is expected to become China's largest cotton textile production base along with the largest garment export processing base.<sup>13</sup>

In Pakistan, many believe that with such developments taking place adjacent to Pakistan, serious setbacks to the local textile industry are expected especially in the absence of safeguarding measures in the bilateral agreements between the two countries. It was articulated by Mian Zafar Iqbal of FPCCI that more than a hundred textile mills had shut down during the tenure of the previous government. He pointed

out that machinery worth millions of rupees in the spinning sector was sold as scrap. According to Iqbal, on the contrary, Chinese investors were installing the latest machinery in Xinjiang. He shared that government officials had repeatedly neglected appeals from the people working in the largest contributing sector of the Pakistani economy. He even added that despite being one of the largest producers of cotton in the world, Pakistan could end up as only a raw material supplier if the government did not address the challenges and protected the interests of the local textile industry in CPEC negotiations.<sup>14</sup>

In the last decade, Pakistan has lost its market share in international markets to its competitors. The share of value-added textile goods in Pakistan's export basket has also been declining. Energy shortage, higher costs, and lack of innovation have jolted Pakistan's key industry. Pakistan can no longer rely on it to cover up deficiencies in other sectors.

Pakistan needs to diversify its export mix and also modernise the textile industry to produce competitive value-added products. This will require investment in human capital and machinery. By collaborating with China and incorporating its expertise, the textile sector can be revived more effectively. Due to the limitation of resources, joint ventures with Chinese firms would be more viable.

### **China's Economic Transformation and Opportunities under CPEC**

Over the last few decades, low cost manufactured goods from China have benefited the consumers in developing countries and elevated the living standards of the lower and middle class. Local markets in many of these countries including Pakistan are dominated by Chinese goods. However, access to these goods has had a detrimental impact on local industries as it is quite tough to compete with Chinese manufacturers.



Largely based on its manufacturing prowess, China's staggering growth rates have turned around the global economy. While serving many of the needs and ambitions of the world's most populated country, the era of rapid growth has resulted in economic imbalances in the country. The services sector, human development, and environmental protection have not been exhibiting impressive figures during this period. This has raised concerns domestically and internationally. It looks unlikely that such a model will be sustainable in the coming years.

China consistently achieved double-figure GDP growth for decades but that is no longer the case. The gains from initial policy reforms and imported technologies seem to be exhausted. Moreover, demographic challenges are also likely to halt China's economic expansion.

China 13<sup>th</sup> Five Year Plan (2016-20) emphasises achieving more "balanced, inclusive and sustainable development."<sup>15</sup> It also aims to open up Chinese markets more deeply for other countries and look to increase imports of items that have limited supply at home.

In the follow-up, China hosted the first-ever import expo in China in November 2018. Millions of Chinese buyers were given the platform to engage with representatives of foreign companies and governments. The expo signified Beijing's commitment towards making China a more open market for the rest of the world. By the end of the six-day event, multiple deals worth billions were secured. In food and agriculture-related industries, the valuation of the agreements was \$12.7 billion.<sup>16</sup>

Like Pakistan, Bangladesh has been suffering trade losses against a much larger economy. Indian economy's size and technical advantages have been detrimental to industrial development in Bangladesh. The trade deficit with India is likely to persist while policy measures can only limit the harm. Connectivity is also a major issue for Bangladeshi exporters. Much of India's consumer base is hard to

access despite being surrounded by India. Geographical limitations are more severe for Pakistani exporters.

Pakistan must realise the economic reality of having China as a trading partner. Pakistani industries cannot enjoy economies of scale anywhere near their counterparts in China. Moreover, China has stronger trading relationships with the rest of the world, which offers it a range of imported goods.

A study at Stimson Centre in Washington DC highlighted that apart from extending close ties with Pakistan, China is also driven to export its industrial capacity due to economic slowdown in the country and to secure new markets in the region to sustain its economy.<sup>17</sup>

The role of CPEC will be critical in determining the future of China-Pakistan trade. The *Long Term Plan for CPEC* published by the Planning Commission of Pakistan emphasises regional economic integration through enhanced trading activity. Pakistan will have the opportunity to utilise its resources through CPEC and tap its comparative advantage.<sup>18</sup> A study by Deloitte on CPEC's impact on Pakistani exports also made encouraging forecasts. It stated that farmers in northern areas had the potential to double their sales through the corridor. The present mode of sending fruits to China via air is much costlier.<sup>19</sup>

In the near future, Pakistan's domestic economy is largely going to be shaped by Chinese investments under CPEC. The development work requires machinery from China which is raising import costs for Pakistan. Until 2030, when all CPEC projects are expected to be completed, such imports are likely to continue. On the other hand, the returns from CPEC investments and the operationalisation of SEZs is not quite certain.

Expressing his views on CPEC, Raja Amir Iqbal, former president of Rawalpindi Chamber of Commerce, posited that the SEZs held the key to the success of CPEC as they could create new jobs and

help in the expansion of the economy. He suggested that local industries needed to be given support in these zones and joint ventures between Chinese and local companies needed to be encouraged. Failure to do so, he argued, would allow Chinese companies to take up a majority share which would eventually scale down the benefits for the Pakistani economy.<sup>20</sup> Pakistan's overall debt burden and restructuring requirements would also offset some of the advantages offered to exporters under CPEC. Policymakers in Pakistan need to come up with a long-term strategy and resist political temptations. The gains from CPEC can only be maximised if time and effort are put in place to address longstanding issues.

### **Covid-19: Implications for China-Pakistan Trade**

The outbreak of coronavirus has halted business activity across the globe. The global economy has slowed with only essential items being traded. Given this scenario, infrastructure development and connectivity have been pushed behind in the policy agenda. The progress of CPEC projects has been disrupted with local labour forced to stay at homes and Chinese manpower facing travel restrictions.

Countries are expected to alter their trade relations and globalisation is likely to be compromised. This will cause CPEC projects that are aimed at strengthening regional connectivity to be less impactful than previously expected. As countries rushed to secure the supply of healthcare equipment, China's supremacy in manufacturing was apparent. Chinese economy's resilience would mean that it would recover sooner than its trade partners and is likely to increase its exports. Moreover, the Chinese authorities would be more cautious about future economic downturns and would like to ensure local production of essential items. This will minimise opportunities for countries like Pakistan to penetrate the Chinese market.

Lastly, Covid-19 has boosted demand for technological goods and services, which is an area where China is much more advance than

Pakistan. Pakistan will look towards Chinese companies soon to secure such products. This will further compromise gains made by Pakistan in improving the trade deficit with China. By encouraging Chinese tech companies to invest in Pakistan, this trend can be offset.

### **Conclusion and Recommendations**

It is a daunting challenge to reverse the trade trajectory with China. Nevertheless, there are plenty of direct and indirect opportunities available to offset pressures on the local economy. By concentrating on internal issues and redirecting policies towards better utilisations of resources, Pakistan can strengthen not only the exporters but also meet local demand through domestic products. CPEC projects, especially the planned SEZs can usher in a new era of industrial activity in the country. They can significantly support local producers to become more competitive globally and attract foreign investments in production of high value-added products. Many Chinese companies will be encouraged to set up joint ventures with Pakistani companies, which would help in lowering import costs in the future and also open doors to China's vast market for locally produced goods.

Long term planning and sound implementation are required to generate exportable surplus and attain import substitution targets. An approach dealing exclusively with the trade deficit may not serve Pakistan's interest in the longer run. A comprehensive strategy and continuous collaboration with China will be more practical and fruitful.

Learning from China's impressive growth in the 1980s and 1990s, Pakistan should make concrete efforts to integrate into the global economy. The SEZs and Gwadar port have the potential to transform the country into a regional trading hub. In that case, Pakistan will be able to negotiate more favourable terms with China and other countries as well. China will remain a lucrative market for many years to come. Therefore, products need to be diversified based

on the demands of Chinese consumers. Joint ventures can play a critical role in developing products for Chinese markets in Pakistan. Pakistan should offer Chinese businessmen the right incentives and environment to undertake joint ventures with Pakistani counterparts.

Since Pakistan needs to improve its competitiveness, Pakistani businesses must choose their partners carefully. Large and influential Chinese enterprises seem to be a safer option but evidence suggests that they are less motivated by efficiency and profitability and more focused on growth. Strategic and long-term interests between the partners should match so that these joint ventures can sustain their operations in Pakistan.

The services sector is expected to gain a greater share of the Chinese economy in the coming years. Pakistan should focus on such industries and train professionals that can develop in-demand products and services. Understanding future economic trends will be essential to maintain healthy trade ties with China.

Besides these steps, geo-economic leverage can play a significant role in improving Pakistan's trade outlook vis-à-vis China. For better integration in the global economy, Pakistan needs to expand its economic engagement with other countries as well. This will result in new opportunities for Pakistani exporters and also open up the economy for goods from those countries. With China reorienting its economic policies, other countries may take away China's share in Pakistan's import basket. Lastly, the policymakers need to take necessary precautions to safeguard the future of local industries.

### Notes and References

1. United Nations Statistics Division, *UN Comtrade*.
2. Naved Hamid and Sarah Hayat, "The Opportunities and Pitfalls of Pakistan's Trade with China and Other Neighbors," *The Lahore Journal of Economics*, September 2012.
3. "Increasing Imports, Declining Exports & Premature Deindustrialization," *Pakistan Business Council*, 2017.
4. Ibid.
5. Matthew McCartney, "CPEC: Considering Contemporary Pakistan through Old-Fashioned Economics and Historical Case Studies," *The Lahore Journal of Economics* 23:2 (Winter 2018).
6. "FPCCI's stance on CPEC," Federation of Pakistan Chambers of Commerce & Industry, December 2016.
7. "Pakistan gets advantage in phase-II of FTA with China," *The Express Tribune*, 7 May 2019.
8. Afia Malik, Ejaz Ghani and Musleh ud Din, "An Assessment of Pakistan's Export Performance and the Way Forward," Pakistan Institute of Development Economics, 2017.
9. World Bank Group, 'Commercial Service Exports,' <https://data.worldbank.org/indicator/TX.VAL.SERV.CD.WT?locations=PK-CN>.
10. "Pakistan needs to go for high value-added export basket," *Express Tribune*, 22 October 2018.
11. "CPEC 2018 Summit: Is Pakistan ready to make the right choices?" *Dawn*, 2 July 2018.
12. United Nations Industrial Development Organization. *Supporting Small and Medium Industry Clusters*. <https://www.unido.org/our-focus/advancing-economic-competitiveness/supporting-small-and-medium-industry-clusters>.
13. "Xinjiang Plans to cultivate cotton sector," *China Daily*, 7 November 2014.
14. "Xinjiang's 10-year textile plan poses serious threat to Pakistan's textile sector," *Pakistan Today*, 6 September 2017.

15. National Development and Reform Commission. "The 13<sup>th</sup> Five Year Plan," Beijing.
16. "China International Import Expo 2018: Did it Live Up to the Hype?" *China Briefing*, 13 November 2018.
17. Raja Amir Iqbal, Interview by DBTV, July 2018 <https://dbtv.live/shows/brief-cpec-impact-on-pakistans-commerce/>.
18. Hamzah Rifaat & Tridivesh Singh, "CPEC: Strategic Rationales, External Perspectives, and Challenges to Effective Implementation," Stimson Centre, Washington DC, 2016.
19. Planning Commission, Government of Pakistan, *Long Term Plan for China-Pakistan Economic Corridor*, 2017.
20. "How will CPEC boost Pakistan's economy," Deloitte, 2017 <https://www2.deloitte.com/content/dam/Deloitte/pk/Documents/risk/pak-china-ecocorridor-deloittepk-noexp.pdf>.