ISAS Brief
No. 753 – 3 March 2020

Coping with Coronavirus and China: Bangladesh's Twin Challenges

Iftekhar Ahmed Chowdhury

Summary

Bangladesh has so far avoided any direct impact of the Coronavirus crisis. However, given its close trading and economic ties with China, there are growing apprehensions that some negative effects would be unavoidable. Therefore, it may be wise for Dhaka to reduce the overdependence on China by exploring possible alternative partners.

Bangladesh is yet to be directly hit by the outbreak of the Coronavirus. However, the question is not whether the virus will find its way into Bangladesh, but when. Still the authorities are confident that when it does happen, it can be contained. The Ministry of Health has stated that it is taking every precaution and there are daily briefings. There is sufficient public awareness of the matter, and local authorities are seeking to ensure that basic precautions are being taken. Even then, there are widespread complaints of equipment shortage, particularly in the rural regions, which is unsurprising for a developing country of over 160 million people.

The news that there are now six reported positive cases in neighbouring India is tending to erode confidence in Bangladesh though the Indian Health Minister Harsh Vardhan has spoken of close monitoring at the highest levels to prevent its spread. Pakistan is not an immediate neighbour of Bangladesh, though always a yardstick for comparison, has now, according to its Health Minister Zafar Abbas, five confirmed patients. This fact has also been noted seriously. The Bangladesh government, helmed by Prime Minister Sheikh Hasina, is at pains to ensure that an epidemic should be avoided, particularly as the current year is being observed in a grand fashion as the 100th birth anniversary of her father, also known as the Father of the Nation, Bangabandhu Sheikh Mujibur Rahman.

Bangladesh has been performing exceedingly well on the economic front and, hence, should the impact of the virus be significant on related activities, the nation will have much to lose. The growth in terms of gross domestic product (GDP) in fiscal year 2018-19 was 8.15 per cent, the highest recorded in the Asia Pacific region. It is said to be benefitting greatly from strong domestic demand and supportive fiscal and monetary policies. The Ministry of Finance has recently sent a report to the Prime Minister's Office on the potential impact of the virus on the economy. It was optimistic that, things remaining equal as at present, the GDP growth rate would be able to maintain its current momentum. The report bases this conclusion on three main factors. First, the strong growth of remittance will keep contributing to the furthering domestic demand. Second, the increased public expenditure under the current Annual Development Programme and the implementation of the on-going infrastructure mega-projects will keep having positive ramifications. Lastly, the setting up of the economic zones, as is now being done, will lead to increased investments, resulting in a positive impact on macro-economic indicators. However, the report does admit that the magnitude of the consequence on the virus' spread on Bangladesh's international trade cannot be ascertained as yet, and certainly not till the end of March 2020 at the earliest.

There are already some indications that such consequences will be major. This is for a very obvious reason. Bangladesh's largest trading partner is China, where the virus had its origin and where number of persons affected have now exceeded 80 000, a preponderant majority of all global cases recorded. China is also the biggest source of its raw materials, including for its ready-made garment industry, the most critical component of Bangladesh's export basket. In 2018-19, China accounted for more than 20 per cent of Bangladesh's imports, according to data provided by the Bangladesh Bank. Apart from providing the essential raw materials for the garment factories, China supplies 26 per cent of the active pharmaceutical ingredients, without which Bangladesh second largest export business would run the risk of grinding to a halt.

A second set of problems is the mega projects in the all-important infrastructure building sector in Bangladesh. In all these, Chinese companies and workers are involved. These include four massive projects; one, the Padma Bridge designed to connect two parts of the country divided by the mighty river of that name; two , the tunnel under Karnaphuli river by the second largest city of Bangladesh and the port of Chittagong; third, the rapid transport project linking Dhaka Airport to nearby urban areas; and fourth , the massive Payra deep-sea and thermal projects. Some of the contractors, particularly of the all-important Padma Bridge project is from Wuhan city in the Hubei province, the epicentre of the epidemic. An example is the China Major Bridge Engineering Company, which is headquartered in Wuhan.

Happily, however, China is not a major destination of Bangladeshi exports, though the figures are growing. As of now, the export items are confined to garments, jute and jute goods, leather and leather-products, and seafood. Half of the main exports to China have already been shipped to that country during the first seven months of the 2018-19 fiscal year. Given that trend, it has been stated by officials that there are no major risks to exports to China. Still, the next fiscal year is around the corner, and the proof of the pudding will be in the eating at that point in time. In the meantime, it might be judicious to reduce the over-dependence on China by exploring possible alternative partners.

In a meeting with the author in Dhaka last week, Chinese envoy to Bangladesh, Ambassador Li Jiming, expressed confidence that the issue would be behind everyone within a couple of months. However, to the businesses concerned, right now, each day is like a year – a year whose days are long.

. . . . .

Dr Iftekhar Ahmed Chowdhury is Principal Research Fellow at the Institute of South Asian Studies (ISAS), an autonomous research institute at the National University in Singapore (NUS). He is former Foreign Advisor (Foreign Minister) of Bangladesh. He can be contacted at isasiac@nus.edu.sg. The author bears full responsibility for the facts cited and the opinions expressed in the paper.