Making The Most of Market Access in China:

What Needs to be Done?

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Background

China has emerged as a global economic powerhouse, having achieved remarkable transformations of its economy and in the process becoming the world's largest exporter. With a GDP of about $20 trillion, China is the world's second-biggest economy. When GDP is measured in purchasing power parity terms, China has already become the largest economy in the world. China is now the second-largest importer of merchandise goods with a market of $2.7 trillion.

Over 100 cities in China have more than one million residents with considerable purchasing power. The country is set to be the world's most crowded retail marketplace very soon. In addition, its 700 million-strong online community is the largest globally. A large majority of Chinese consumers demand high-quality goods.

China is the centre of the globe's supply chains in manufacturing. Partnering with Chinese companies can provide access to funding, new markets, and cutting-edge technologies.

Since 2021, China has provided Bangladesh duty-free market access in almost 98 per cent of tariff lines. Prior to that, Bangladesh used to get similar market access in 61 per cent of Chinese tariff lines.

Nevertheless, Bangladesh's exports to China have seen setbacks coinciding with the Covid-19 outbreak. After reaching a peak of $950 million, exports to China fell to $680 million in FY21. China accounts for less than 2 per cent of Bangladesh's total exports. This is in sharp contrast to its accounting for about a quarter of Bangladesh's imports.

Bangladesh mostly exports readymade garments, jute and jute products, fish and some basic leather items to China. Bangladesh's share in total Chinese goods import is a minuscule 0.04 per cent. Raising this share to just 1 per cent could lead to $27 billion worth of additional exports for Bangladesh.

Why are Bangladesh's exports not picking up?

Despite enjoying duty-free market access, Bangladesh's exports to China are not picking up. There are several reasons for it:

- The imported apparel market in China is quite small: about $10 billion. This is in comparison with $180 billion in the EU, and almost $90 billion in the USA.

- The Chinese domestic market size for clothing is worth $330 billion, catered for by highly competitive domestic manufacturers. Due to the small import market for apparels, it is difficult for Bangladesh to achieve export success in this market based on clothing items only. It is worth noting that China is also the largest exporter of apparel, shipping more than 140

[1] This note summarises the keynote presentation made by Dr M A Razzaque at the BCCCI-RAPID seminar on June 8, 2022.

billion worth of garment items in 2021 and capturing almost 30 per cent of the world apparel market.

- While Bangladesh's export is concentrated on RMGs, China mainly imports electrical machinery and equipment (25% of total imports), mineral fuels (15%), ores, slag and ash (10%), mechanical appliances (9%), plastics (3%). Comparator countries, including India, Malaysia, Myanmar, and Vietnam, have done well in China by diversifying towards these items.

- Bangladesh enjoys more attractive tariff margins elsewhere and this makes other markets more lucrative than the Chinese one. While the average tariff margin for apparel in China is between 6 and 8 per cent, it is 12 per cent in the EU and 17–18 per cent in Canada.

- Furthermore, other comparator countries, including Cambodia, Lao PDR, Myanmar, the Philippines, and Vietnam, have duty-free access to the Chinese market under ASEAN-China FTA, causing Bangladesh to be less competitive.
- The extended duty-free access was provided in July 2020. It is too early to assess the impact of such preferential coverage as export supply response can take time. Since receiving the extended preferential coverage, the covid-19 pandemic wreaked havoc on global exports. China continues to maintain a zero-covid policy, and as such, no export promotional measures can be undertaken.

- Less integration with retailers and lack of participation in marketing, sales and after-sale services are major barriers to export success in the Chinese market. Research and Development, design, branding; manufacturing; distribution; marketing; sales, and after-sale services are different stages of the value chain. Bangladesh operates at the manufacturing stage of the value chain. Lower integration with the local agents and retailers, insufficient network on the ground, etc., hamper export promotion.

- Cultural and language barriers have posed a severe challenge in boosting exports. When exporting to China, it is essential to communicate with customers and handle logistics and clearance through Chinese customs in Mandarin.

- China's stringent labeling and packaging regulations are of major concern. The Product Quality Law (2009 Amendment) mandates that labels on products and packaging in China must display confirmation of product quality inspection certification and all labeling requirements in the Chinese language.

- Chinese growing middle-class and upper-middle-class consumers demand high-quality goods. Chinese products are of higher quality across major export items (apparel, leather, footwear and plastics) than that of Bangladesh. It is difficult for Bangladesh to compete in China with the existing quality.

Way forward for Bangladesh

- China will soon overtake the United States to be the largest importing country. Bangladesh must recognize the significance of the Chinese market for export success. Over the past decades, several half-hearted attempts have been made to establish trade and investment relationships with China. Bangladesh should develop a long-term strategy for export promotion to the Chinese (as well as to the Indian) market.

- Bangladesh should consider signing a trade agreement to boost Chinese investment-backed export expansion. Signing a trade agreement with China could help Bangladesh's exports grow faster. As China is a developing country member, even without a free trade agreement (FTA), there is enormous room for a more productive and meaningful PTA. The trade agreement with China must be complemented with trade and investment facilitation. Under a trade agreement, Bangladesh can negotiate to continue the current market access while opening the Bangladeshi market with a longer implementation period. A GTAP based simulation shows that a Bangladesh-China FTA might enhance Bangladesh's exports by about a quarter. It would quadruple if the FTA is supported by 10 per cent trade facilitation.

- A trade agreement promotes business-to-business (B2B) and government-to-government (G2G) collaborations. This will create an opportunity to engage with Chinese businesses to invest in Bangladesh. China has a high interest in diversifying its production and supply chain. Chinese investors can significantly increase the profit margins by taking advantage of the low cost of labor and potentially the large-scale supply capacity. Bangladesh is a country that can offer economies of scale in production, given its large labor force. As part of the trade agreement, China can consider Bangladesh a regional manufacturing hub to supply to other markets. Chinese investors can invest in sectors that heavily depend on imports from China, opening a huge market for them. Also, by investing in Bangladesh, China can make use of the duty-free market access in Canada, the EU, the UK and other export destinations.

- China's duty-free benefit for Bangladesh will expire with its graduation in 2026. As comparators have duty-free access in this market, the preference erosion will significantly impact exports and competitiveness. The pottental exports will fall by 12.5% to 18.7% from current exports to china. Bangladesh must request an extension of LDC preferences. With an extended LDC preference period, the country can negotiate a trade agreement.

- Joining the Regional Comprehensive Economic Partnership (RCEP) can be an alternative to an FTA with China. The RCEP, being the largest trade block, can help Bangladesh promote export and welfare by trade and investment facilitation. Results from GTAP simulation suggest that Bangladesh's overall exports could increase by 20 per cent by joining RCEP.

- Consumers in China are becoming more concerned about the quality of their purchases. According to a recent study, 60 per cent of Chinese consumers like to buy high-end products, and 49% prefer to purchase premium products from overseas retailers through online. Therefore, improving product quality is a prerequisite for export success in the Chinese market. Foreign Direct Investment could help with transferring the necessary technology needed to upgrade the product quality. They could also help to set up the necessary infrastructure needed to manufacture high quality products. It is high time for Bangladesh to step up the quality ladder and improve product standards and quality.

- Bangladesh should adopt aggressive export promotion strategies targeting the Chinese market. Setting up export pavilions in China (Vietnam and other comparable countries have pavilions in China), forging business-to-business (B2B) collaborations, engaging Bangladesh Embassy in China in export promotions, and establishing links with retailers are some of the strategies Bangladesh can deploy. Additionally, Bangladesh can participate in and host trade fairs with the government's support.

- Unlike other destination countries, it is difficult to gain export success in China based on garments only. Bangladesh should focus on other sectors to boost exports to the Chinese market. Diversifying exports through electrical equipment, leather and footwear, plastics, light engineering, and electrical components can be a potential area for export success. China expanded the duty-free benefit for leather and leather products from Bangladesh in FY 2022. This opens an opportunity to increase leather exports.

- China is the largest e-commerce market in the world. The digital economy accounts for 38% of China's GDP. China accounts for more than half of the world's e-commerce retail sales - bigger than the combined total of Europe and the US. In 2021, there were 842 million mobile online shoppers. E-commerce participation in the Chinese market can help boost exports. Bangladeshi exporters can establish linkages with Chinese e-commerce organizations, delivery channels, and logistics suppliers. Bangladesh can target many e-commerce platforms, including Taobao, JD.com, Tmall, and Alibaba.

- Having a local presence on the ground with native Chinese speakers is essential to build sales in China. The language and cultural differences can be offset by establishing relationships with local agents, distributors or other local partners. Because of the size of the market, exporters should consider having more than one agent or distributor.

- Bangladesh must work towards understanding the the dynamics of Chinese market. Other developing countries are creating research projects In order to understand the Chinese market better. The traditional LDC-like duty free access is not enough to generate success. There must be an undertaking of an integrated approach towards entering the market with production to after sales service.

Concluding remarks

Traditional LDC-style duty-free market access alone will not be enough to promote exports to China. A trade agreement can help boost investment-backed export promotion. To stimulate the supply response, Bangladesh must attract Chinese investment. Bangladesh must develop an export development and promotion strategy targeting marketing market share in China. Due to the growing geopolitical competition, China must also diversify its supply networks. With the support of Chinese finance, Bangladesh must expand its product line beyond apparel paying special attention to developing export suppply capacities in electric machinery & equipment, plastic, leather items, footwear, iron and steel based manufacturing. Bangladesh could also take additional measures to increase exports to China. For export success in China, aggressive export promoting activities, building a solid B2B linkage, establishing a local presence, participating in online sales etc., can help boost exports to China.