

An Analysis of the Composition and Trends in the Foreign Trade of Bangladesh and India

Barenya Nayak¹ • Anushruti²

¹Gokhale Institute of Politics and Economics, Pune

²Shri Ram College of Commerce, University of Delhi

Email Id: final.quasar@gmail.com¹ • anushruti.singh@gmail.com²

Abstract. Increasing foreign trade has been instrumental in triggering rapid economic growth of developing countries since the onset of this millennium. The developing countries, particularly, have begun to realize the potential benefits vested in foreign trade and this is reflected in the rising trend of the volume of their total exports receipts and imports payments. With India being the largest as well as fasted growing economy in the south Asian subcontinent, Bangladesh owns a naturally higher probability of being obvious trade partners to India because of the shared land borders and waters. For higher growth and economic development of Bangladesh, the importance of a higher economic integration with India, by engaging in higher volumes of trade, cannot be ignored. Data from the annual publications of export receipts and import payments of Bangladesh, reflect that the trade with India has shown growth, in terms of total volume of exports to and imports from the country. Data from the same sources also reflects the incidence of a higher dependence on India for imports, over exports for Bangladesh, with the composition of the trade portfolio of Bangladesh with India being less diverse and dominated by an abundance of primary products and a lack of service goods, for the year 2013.

1 Introduction

International trade across the borders of South Asia grew post the liberalization reforms of India in the decade of 1990s. With India being the largest economy in the south Asian subcontinent, Bangladesh could have become very natural trade partner to India because of the geographical proximity, the strategic sharing of land borders and waters and the ethnic similarities. Engaging in rampant trade with India would boost the economy of Bangladesh which has a relatively limited pool of resources and manufacturing units. Higher levels of economic exchange would result in higher economic integration with India, and consequently, yield higher growth in the export-import sectors of Bangladesh as well as in their GDP as a whole. It cannot be denied that since the year 2001, Bangladesh has become an active trading partners of India. This paper aims to analysis the trends in the total exports and import of Bangladesh from the time period of 2000 to 2013 and conduct a study of the growth of exports to

and imports from India. The paper also attempts to comparatively analyze the trends of shares held by major trade partners, in the total exports and imports of Bangladesh from 2005 to 2013 and examine the export-import compositions of the total trade of Bangladesh with India for the year 2013. With such geographical proximities, a higher level of economically integration will aid the economic growth of both nations in context.

2. METHODOLOGY AND DATA SOURCE

This study is based on secondary data published by the government of Bangladesh. The data from annual import payment publications and annual export receipts publications of the Bangladesh Bank (Central Bank of Bangladesh) for the years 2000 to 2013 have been used to establish the growth of the values of total exports and imports as well as of the country-wise share in the total exports and imports per year. This data has then been further used to comparatively examine the shares of major trade partner countries in the total exports and imports of the country and to seek for any discerning trends in the same. Also, with the help of the secondary data, the composition of exports and imports to India for 2013 has been analyzed, by share of individual items as well as value in terms of the state currency or US dollars.

The rest of the paper is organized as follows: Section 2 is a review of the existing literature on the volume and composition of Bangladesh's foreign trade with the world as a whole and India alone. Section 3 is an analysis of trends Bangladesh's total exports to and imports from the world, as well as an analysis of the trends in exports to and imports from India, from 2000 to 2013. Section 4 is an analysis of trends, in shares held by major trade partner countries, in the total exports of Bangladesh. Section 5 is an analysis of trends in shares held by major trade partner countries, in the total imports of Bangladesh. Section 6 contains the composition of imports and exports with India, of Bangladesh for the year 2013. Section 7 includes the concluding observations.

3. LITERATURE REVIEW

The comparative literature on trends in indicators of international trade has been generously contributed to by researchers from ancient times. International trade relations between countries is perhaps that realm of economics that has capture the curiosity of innumerable researchers and hence is a realm that has been questioned, analyzed and researched upon well. With the onset of several trade agreements India made post liberalization in the

decade of 1990s, the recent past has become rife with several studies conducted with regards to analysis of trends in trade of India with her neighboring countries. In a recent study conducted by Rahman (2008), concerns were raised on the long standing huge trade deficits of Bangladesh with India and policy recommendations to improve the country's overall trade balance with India was offered. Gazi, Sarker and Hossain (2014), conducted a study by reviewing the Bangladesh Economic Review, BBS Directory, International publications, Government documents etc. also raised concerns over the growing trade deficits with India of Bangladesh and suggested a guarantee of market access of Bangladeshi products to India. They refused to give into the urge to reduce the deficits by forced reduction of imports. Kumar and Ahmed (2014) investigated the intra-industry trade between India and Bangladesh over the period of 1975 to 2010 and through their studies, revealed a mismatch between Indian imports and Bangladesh exports. They suggested to have Bangladesh diversify its export structure to acquire a positive comparative advantage. Sahoo (2013) raised concerns on the possibility of China surpassing India as Bangladesh's major trade partner because of its increasing trade with Bangladesh since 2004. The study examined various factors contributing to China's growing presence in Bangladesh as compared to India's decline with respect to trade. Ambrose & Sundarraj (2014) analyzed the recent trends in India's trade relation with Bangladesh, Pakistan and Sri Lanka. Sajjad and Mahmood (2014) conducted a study to investigate the determinants of the export supply performance of selected South Asian economies for the period of 1984-2012. Chowdhury and Neogi (2014) conducted a study to examine India's exports to a select number of small and large countries as destinations of India's exports and ran a simple regression to show that geographical distance influences India's export to Bhutan, Nepal, Bangladesh, and Sri Lanka, Thailand.

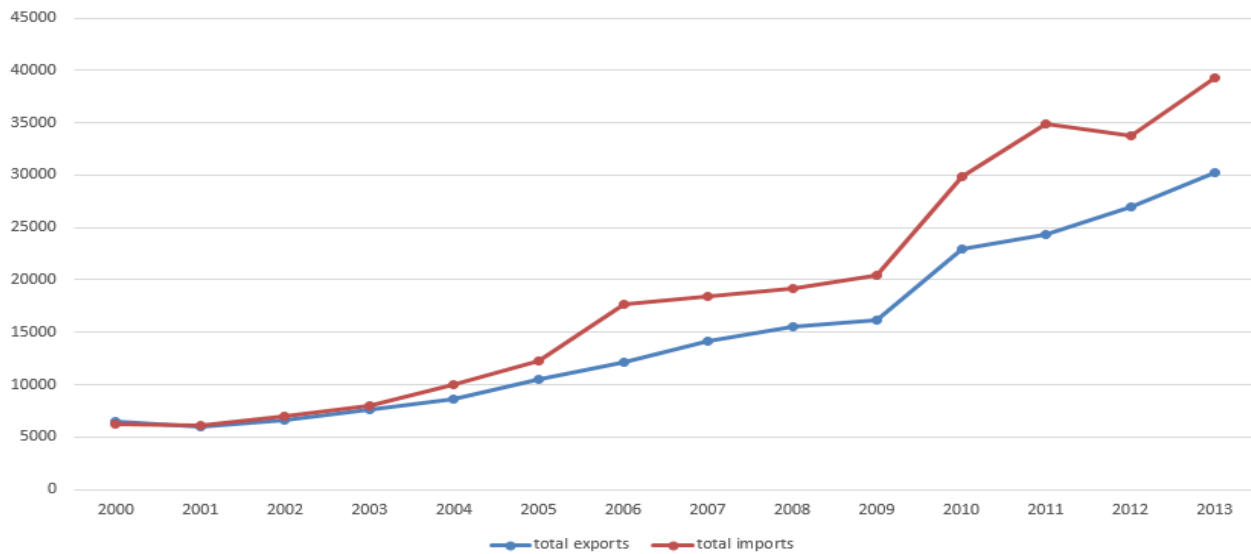
4. TRENDS IN GROWTH OF EXPORTS & IMPORTS

Exports of a country are those goods and services the country has produced and shipped elsewhere for consumption, future sale or trade purposes. Imports are goods and services a country has shipped into her homeland, when those goods and services were produced else. These imports are shipped for future sale or trade or consumption. Exporting and importing of goods have been an ancient function of international trade.

Graph 1 depicts the trends observed in the movement of total imports and total exports (expressed in terms of value in million US Dollars) of Bangladesh during the time period 2000 to

2013. In the year 2000, the total exports of Bangladesh was worth 6467.3 million US Dollars, and the total imports was worth 6255 million US Dollars. The value of total exports has risen consistently to 30186 million US Dollars in 2013. The value of total imports has grown less rapidly to reach 39313 million US Dollars in 2013. In the years 2000 and 2002, Bangladesh's total value of exports was higher than its imports. Barring those two years, through the period of 2001 to 2013, the total worth of imports has been higher than the total worth of imports and Bangladesh has functioned as a net importing country. The margin of difference between Bangladesh's value of total imports and exports has shown a trend of increased growth. The increased volumes of trade exhibited, show Bangladesh's increased economic integration with the world.

Graph 1: Trends in the total imports and total exports of Bangladesh 2000 to 2013 (in million US dollars)
 Source- Annual Import payments publication and Annual export receipts publication, Bangladesh Bank, Central Bank of Bangladesh

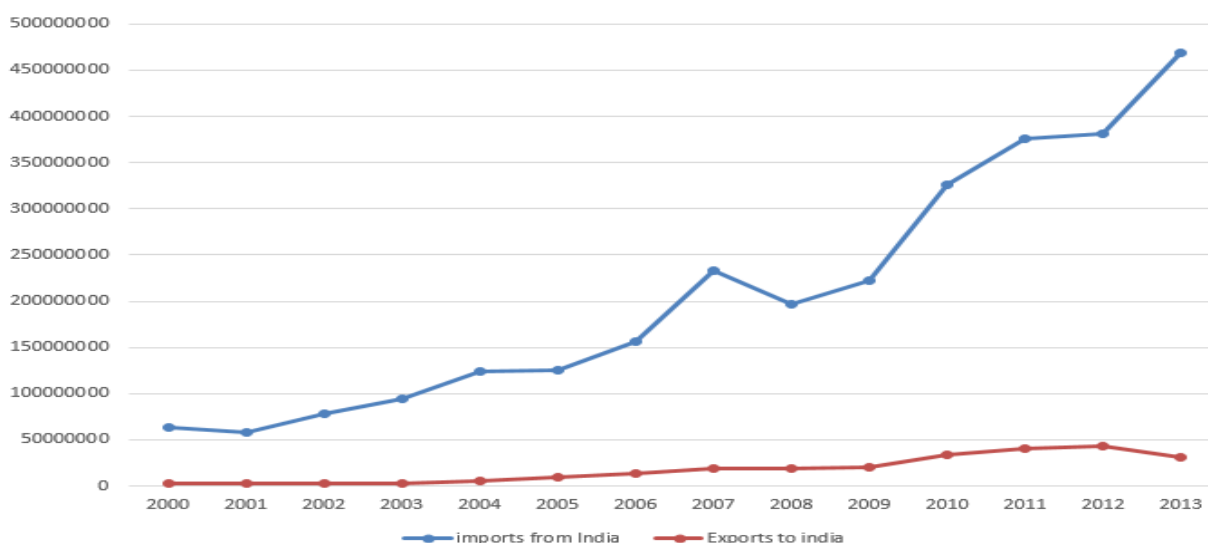


Graph 2 depicts the trends in total value of the trade between Bangladesh and India for the period 2000 to 2013, in terms of thousand takas. In 2000, Bangladesh depended on India more for its imports, than for its exports. The total value of imports from India was 63887200 thousand takas, whereas the total exports to India was 3071396 thousand takas. Bangladesh's dependence on India for its exports, has been very small despite the absolute value of exports rising consistently till 2007 when it was worth 19296427 thousand takas. This value fell to 18333875 thousand takas in 2008 and since then registered a steady gradual increase to 43109855 thousand

takas in 2012. Since then the absolute worth of the total exports of Bangladesh to India has declined systematically to 30755948 thousand takas in 2013. The imports from India, however have exhibited increasing growth through the period of 2000 to 2013. The value of Bangladesh's imports from India has risen to 124646300 thousand takas in 2004, to 222386000 thousand takas in 2009 and to 469125600 thousand takas in 2013. The margin of difference in between the value of total imports from and total exports to India has exhibited increasing growth. This reflects that Bangladesh's dependency on India for her imports has been increasing through 2000 to 2013. Being countries that share land borders, expanding trade across the border opens the scope of higher economic growth for both countries and since the year 2001, this potential is being cautiously untapped. However, the potentials in the Indian Market for absorption of Bangladesh's exports can be unleashed further.

Graph 2: Trends in value of India's trade with Bangladesh 2000 - 2013
(in thousand taka)

Source: Annual imports payment publication and annual export receipts publication, Bangladesh Bank, Central Bank of Bangladesh



5. TRENDS IN SHARES HELD BY MAJOR TRADE-PARTNER IN TOTAL EXPORTS

Table 1, depicts the trends in share held by some major trading-partner countries of Bangladesh, in the total exports of the country for the period 2005 to 2013. The higher volume of trade with a country, is an indicator of higher economic integration with the same country. The major trading partners compared are U.S.A, U.K, France, Germany, Spain, Canada, India, Italy, Netherlands, Belgium and Turkey. The top five countries Bangladesh exported to in the year 2005 comprised of U.S.A, Germany, U.K, France and Italy and they had a share of 27.70%,

16.70%, 10.40%, 7.40% and 4.40% respectively, in the total volume of Bangladesh's exports during that year. India was the not the most significant receiver of Bangladesh's exports in 2005, in terms of volume, neither relatively nor absolutely, and had a share of 1.90% only, in the country's total exports.

In 2006, U.S.A accounted for a marginal decrease of 0.10% in its share but still remained Bangladesh's most preferred export destination. However, the percentage share of U.S.A in the total exports of Bangladesh declined to 24.50% in 2007, to 24.40% in 2008, to 22.50% in 2009, to 21.50% in 2010, to 19.60% in 2011, to 20.20% in 2012 and down to 17.70% in 2013. Germany's share in the total exports of Bangladesh fell to 15.60% in 2006, but rose to 16.10% in 2007. The share held by Germany has fluctuated throughout the period of 2008 to 2013, as it fell to 15% of the total exports in 2008, fell further by a margin of 0.80% in 2009, rose by 1.40% in 2010, rose again by 0.80% in 2011, rose further by a margin of 0.70% in 2010 and declined to settle at 16.60% of the total exports in 2013. U.S.A faces close competition from Germany who has a share of 16.10% in the total exports of Bangladesh for the year 2013. U.S.A in the same year of 2013, registered a share of 17.70% of the total exports. This evidence of potential competition from Germany is backed by the margin of difference in the shares held by both countries. Germany share in Bangladesh's total exports was 11% lesser than U.S.A in 2005. In 2013, Germany's share in Bangladesh's total exports is only 1.50% lesser than the share of U.S.A. This margin has been reduced drastically because Germany's share has fluctuated very little whereas U.S.A's share has majorly declined. U.K was the third most favored destination for Bangladesh's exports in 2005 but its share in the country's total exports fell by a margin of 0.40% in 2006 and remained accountable for 10% of the total exports in 2007 as well. The percentage share of U.K declined in 2008 by a margin of 0.20%, in 2009 by a further margin of 0.20% and by a margin of 0.50% in 2010. In 2011, U.K's share increased and it accounted for 10.30% of the total country's exports. This share rose to 11.10% in 2012 but fell in 2013 to account for only 9.80% of Bangladesh's total exports. France was responsible for 6.90% of the total exports of Bangladesh in 2006 and its share rose marginally to 7.30% in 2007. This further increased to 7.50% in 2008. The share of France in Bangladesh's total exports fell by a margin of 0.50% in 2009 and rose again by the same margin in 210. Since 2011, France has been responsible for a lesser share in Bangladesh's total exports – 6.60% in 2011, 6.70% in 2012 and 6.30% in 2013. Despite the fluctuations in shares, U.S.A, Germany, U.K and France have

remained the top four countries Bangladesh exported to, by volume of exports, during 2005 to 2013. The 5th most favored destination for Bangladesh's exports, amongst these countries in the year 2006 was Italy with a share of 4.80% in the total exports whereas Both Italy and Netherlands were the 5th most preferred in 2007 and had a share of 4.40%. In 2008 and 2009, Netherlands had a share of 6.50% and 6.40% respectively and was ranked fifth in the volume of total exports of Bangladesh amongst these trade partners. Belgium accounted for 5.60% of the total exports in 2010 but in 2011, Netherlands had a share of 4.60%. Spain was the 5th most preferred destination for exports in 2012 and 2013, amongst these countries, with a share of 5% and 4.80% respectively whereas the 10th most preferred export destination for Bangladesh in 2006 as well as 2007 was India with shares of 2.10% & 2.60% in the total exports respectively. India was the 11th largest shareholder in Bangladesh's total exports, when compared against these major trading partners, in 2008 and 2009 with 2.20% and 2.40%, the 8th largest shareholder with 3.40% in 2010, the 11th largest in 2011 with 2.60%, the 8th largest in 2012 with 2.90% and the 11th largest in 2013 with 1.70%. The trends in shares held by some major trading-partner countries ,in Bangladesh's total exports, during the period of 2005 to 2013, as in Table 1, has been represented through a line graph in Graph 3.

Table 1/Graph 3: Trends in country-wise share of the total exports of Bangladesh 2005-2013

Source: Annual import payments publication and annual export receipts publication, Bangladesh Bank, Central bank of Bangladesh

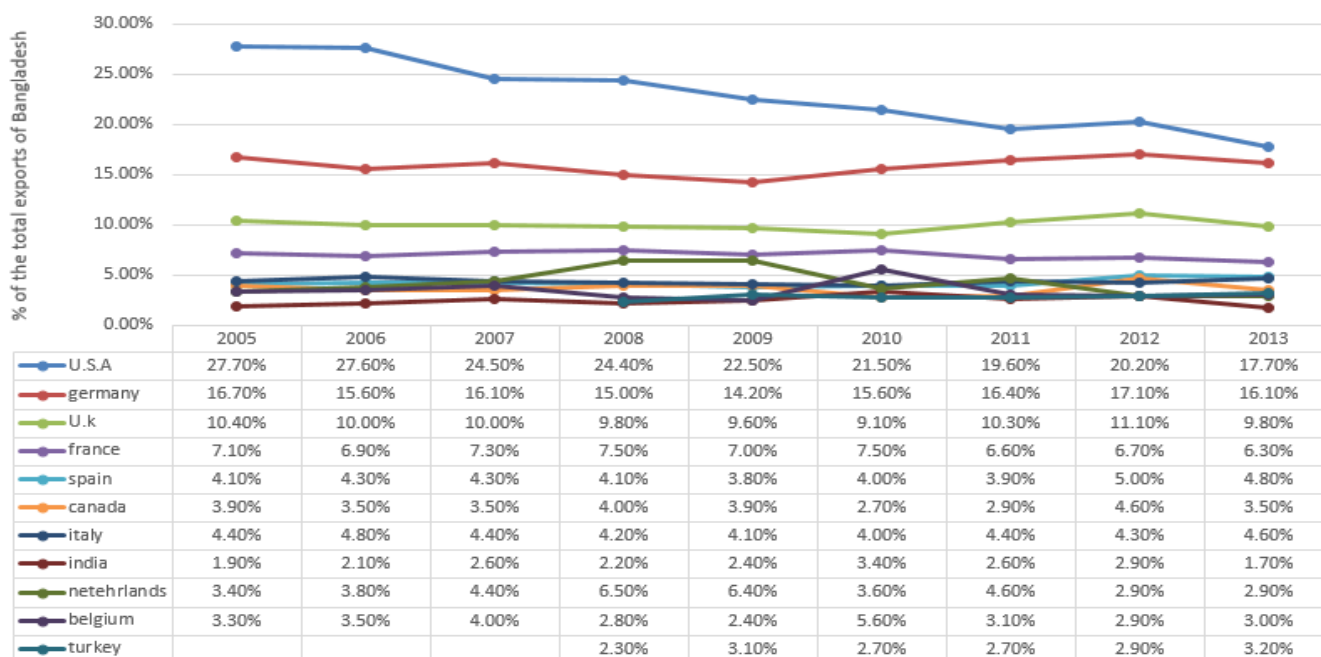
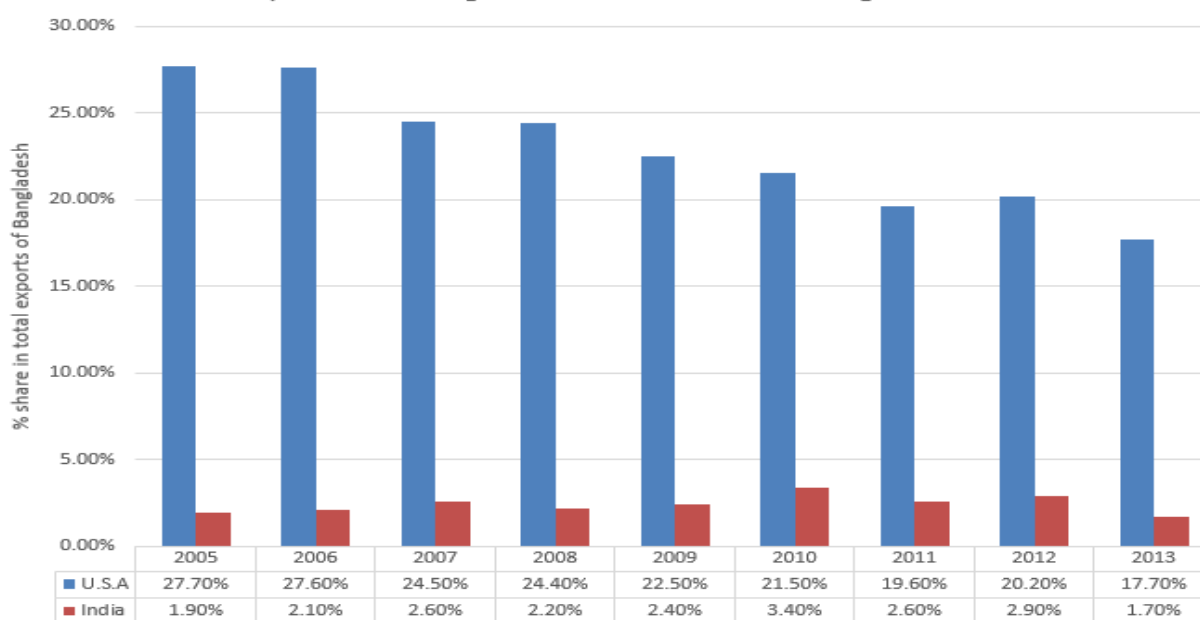


Table 2 depicts the share of India and U.S.A, in the total exports of Bangladesh, during the period of 2005 to 2013. The table reflects the dominating role of U.S.A, in the absorption of Bangladesh's exports. Bangladesh's preference for U.S.A, as the major destination for exports has remained constant, despite the absolute share registering a gradual decline from 2006. India has been at its best in 2010, when it accounted for 3.40% of the total share of the country's export. Barring 2010, Bangladesh has not been significantly dependent on India, for its exports. The absolute share of India in the total exports has never exceeded 3%, except for the year 2010. A comparison of the shares held by U.S.A and by India, in the total exports of Bangladesh has been depicted through a line graph in Graph 4.

Table 2/ Graph 4: Trends in the shares of U.S.A and India, in the total exports of Bangladesh (2005-2013)

Source: The annual import payments publication and annual export receipts publication, Bangladesh Bank, Central Bank of Bangladesh



6. TRENDS IN SHARES HELD BY MAJOR TRADE-PARTNER IN TOTAL IMPORTS

Table 3 depicts the trends in share held by some major trading-partner countries of Bangladesh, in the total imports of the country for the period 2004 to 2013. The countries compared are, China, India, Malaysia, Japan, Singapore, South Korea, Brazil and Indonesia. The top five countries Bangladesh imported from in the year 2004 comprised of India, China, Singapore, Japan and Korea with shares of 17.80%, 14.30%, 7.90%, 4.70% and 3.70% respectively, in the total volume of Bangladesh's imports during that year. In 2004, Bangladesh

received the second largest volume of imports from India and India accounted for a share of 17.80%, in the country's total imports whereas China received the second largest volume of imports with a share of 14.30% in the total share of Bangladesh's imports. China's share in imports rose gradually and consistently to 20.70% in 2013. India, however has exhibited higher degrees of fluctuations in its trend of receiving imports from Bangladesh in terms of total volume and percentage of imports received. India's share declined to 14.20% in 2005 and rose by a margin of 1.20% in 2006 and a further margin of 1.20% in 2007. India's share fell to 14% in 2008 and since then has risen to 5.20% 2010. It remained stable at 5.20% in the year 2011 as well. The shares rose by a larger margin to 16.30% in 2012 and to 16.60% in 2013. Singapore in 2004 importer 7.90% of the total imports from Bangladesh. The fluctuations in Bangladesh's volume of imports received from Singapore, relative to other major trading nations, has been significant. In 2005, Singapore's share fell by a margin of 1.40%, and in 2006, it rose to 7.10%. In 2007, Singapore's share had fallen to 6.60% and in 2008, it had risen to 8.70%. In 2009, Bangladesh imported 7.30% of its total imports by volume from Singapore and in 2010 and 2011, Bangladesh imported as little as 4.00% and 4.70% respectively. In 2012 and 2013, Singapore's share was 3.70% and 6.30% respectively. Malaysia on the other hand has had a stable share in the total imports of Bangladesh by volume, with 2.40% in 2004, 2.60% in 2005, 2.30% in 2006 and 2.40% in 2007. Since then, Malaysian share in the total imports of Bangladesh has jumped to a higher trajectory with 3.40% in 2008, a further increase by a margin of 1.50% in 2009 and another additional increase by a margin of 0.90% in 2010. In 2011, Bangladesh imported 4.40% of its total imports from Malaysia, in 2012, 5.10% and 5.60% in 2013. Japan has exhibited fluctuations within the range of 4.10% and 4.90% throughout the period of 2004 to 2013 with outliers of 5% shares in 2008 and 3.5% shares in 2013. Brazil has contributed less in the shares of Bangladesh's imports by volume with a share of 1.20% in 2008, which rose to 1.90% in 2009, to 2.30% in 2010, to 3.80% in 2011 and declined again to 2.80% in 2012 and by a further .10% in 2013. Indonesia has contributed less than 3% till 2008 and since having a share of 3.1% in 2009, its share has declined again in 2010 to 2.80%. Its share rose by a margin of 1.10% in 2011 and was at 3% in 2013. The major importing countries of Bangladesh in 2012 were China, India, Malaysia, and South Korea, followed by Japan. China and India have consistently been the two largest players throughout the period of 2004 to 2013. The largest players in 2011 were China, India, South Korea, Singapore and Japan. In 2010, the top five

players were China, India, Malaysia, Japan, and Singapore. In 2009, the top players were China, India, Singapore, Japan, Malaysia. In 2008, the top players were China, India, Singapore, Japan, and South Korea. In 2007, the top players were India, China, Singapore, Kuwait and Japan. In 2006, the top players were China, India, Singapore and Hong Kong. The trends in shares held by some major trading-partner countries ,in Bangladesh’s imports, during the period of 2005 to 2013, as in Table 3, has been represented through a line graph in Graph 5.

Table 3/graph 5: Trends in country-wise share of the total imports of Bangladesh 2004-2013

Source: Annual import payments publication and annual export receipts publication, Bangladesh Bank, Central Bank of Bangladesh

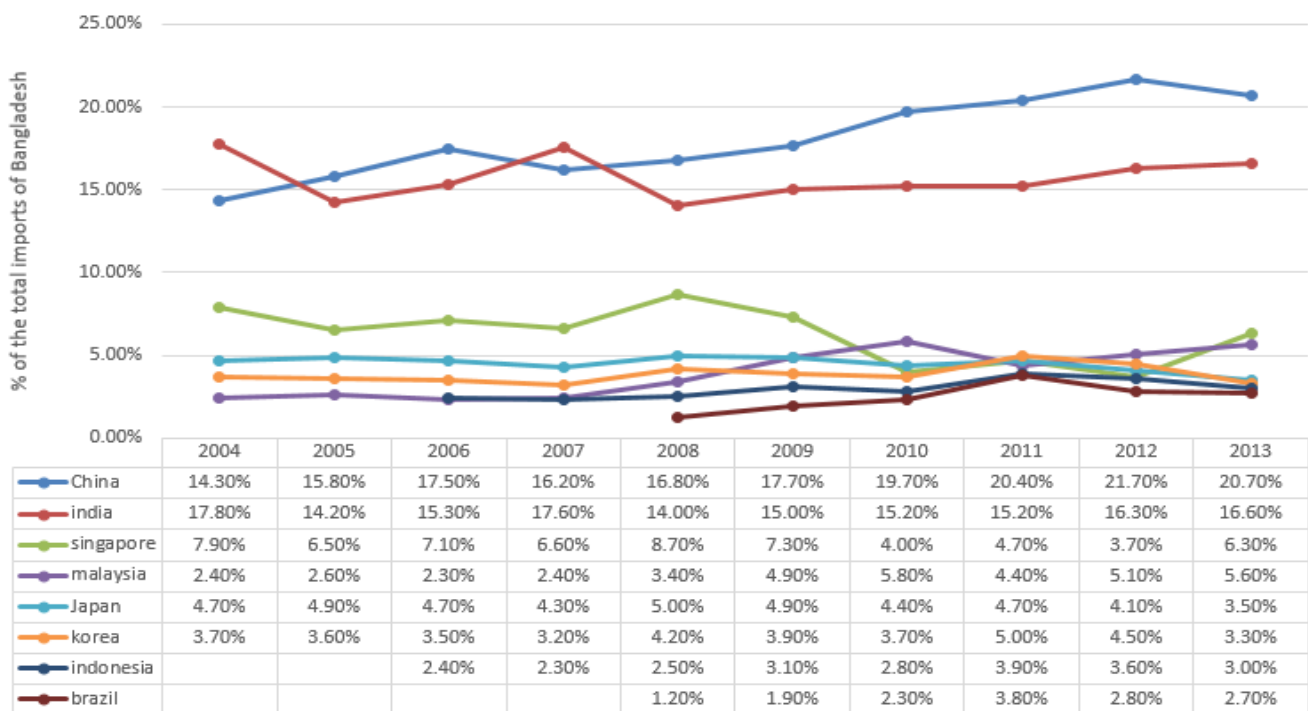
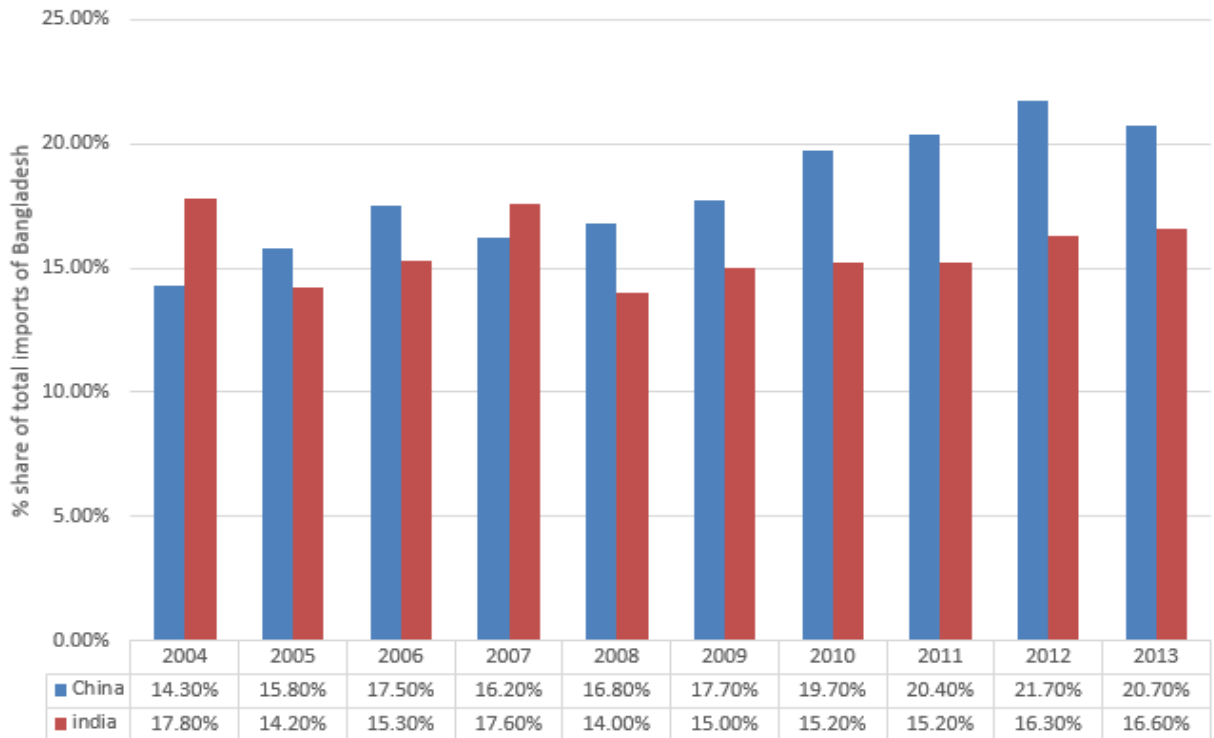


Table 4, depicts the trends in shares held by India and China, in the total imports of Bangladesh, during the period of 2004 to 2013. The table reflects the competitive role of both countries, in the imports of Bangladesh. Bangladesh has not exhibited a clear preference for one country over the other. In 2005 and 2006, China was the largest receiver of Bangladeshi imports whereas in 2004 and 2007, it was India. From 2008 to 2013, Bangladesh received the second largest imports from India, in terms of volume of imports. Bangladesh’s preference for China over India, as the major country to import from, since 2008 is backed by data evidence because there exists a small yet steady and consistent margin of difference in the total volume of imports

received by Bangladesh from each, when expressed in terms of % share of the total imports. The comparison of the shares held by China and India, in the total imports of Bangladesh, as shown in table 4, has been represented by line graphs in graph 6.

Table 4/Graph 6: Trends in the shares of China and India, in the total imports of Bangladesh (2004-2013)

Source: the annual import publication and the annual export receipts publication, Bangladesh Bank, Central bank of Bangladesh

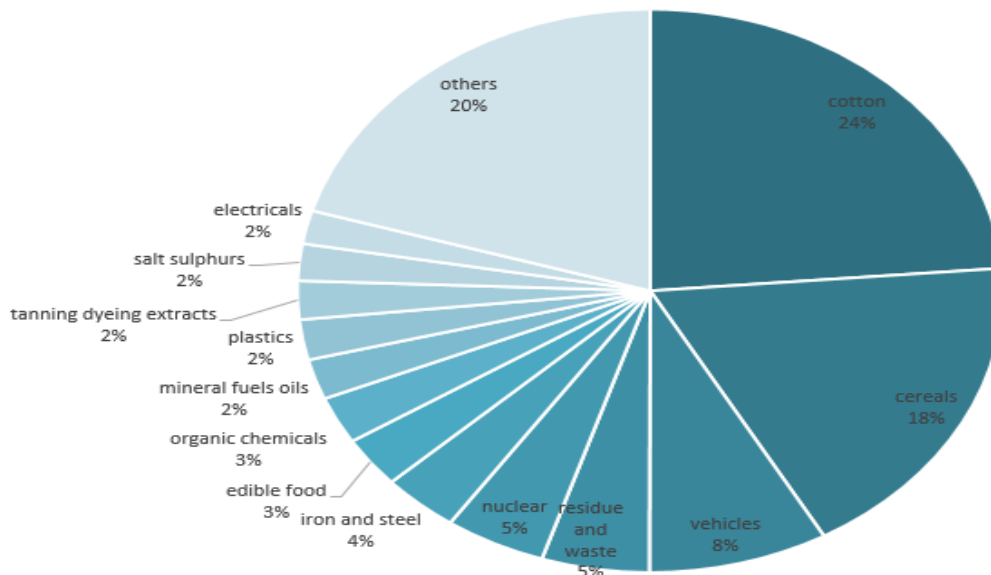


7. COMPOSITION OF IMPORTS TO AND EXPORTS FROM INDIA IN 2013

Graph 7 “Composition of Bangladesh’s imports from India 2013” depicts the share of major items Bangladesh imported from India in the year 2013. The total value of imports from India in 2013 was 6035.5 million U.S Dollars. The major item Bangladesh imported from India in the year 2013 was Cotton, in terms of value of imports in million US Dollars. The share of the value of cotton imported from India, in the total imports of Bangladesh from India, was 24%, cereals was 18%, vehicles was 8%, residue and water was 5%, nuclear was 5%, iron and steel was 4%, edible food was 3%, organic chemicals was 3%, mineral fuel oils was 2%, plastics was 2%, tanning dyeing extracts was 2%, salt Sulphur’s was 2%, electricals was 2% and the others

cumulatively was 20%. Bangladesh imported 1421.4 million U.S Dollar worth of ‘cotton’ from India, 1085.9 million U.S dollars’ worth of ‘cereals’ from India and 497.7 million US Dollars’ worth of ‘vehicles other than railways or tramway and accessories thereof’ from India, in 2013. These reflect that the major single item of import of Bangladesh from India is Cotton. Bangladesh imports almost one-fourth of its total imports from India, in the form of Cotton. The portfolio of items imported from India by Bangladesh is evidently not very diverse.

Graph 7: Composition of Bangladesh's imports from India- 2013
 Source: annual import payments publication, Bangladesh Bank, Central bank of Bangladesh

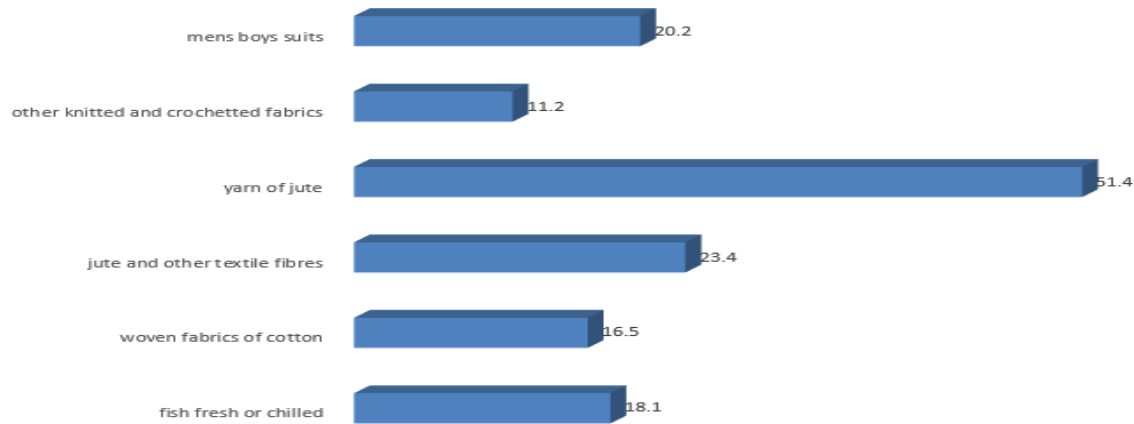


Graph 8 depicts ‘value of major items Bangladesh exports to India 2013 (in million US Dollars)’ depicts the share of some of the major items exported by Bangladesh to India in the year 2013. Bangladesh’s exports to India, in the year 2013, was worth 381.9 million US Dollars. The export of ‘yarn of jute’ to India, by itself earned Bangladesh a total of 51.4 million U.S Dollars. The total value of ‘men’s, boys suits’ and ‘jute and other textiles’ exported to India by Bangladesh in 2013, was worth 20.2 million U.S dollars and 23.4 million U.S dollars. Exports of ‘woven fabrics of cotton’ to India, was worth 16.5 million U.S Dollars to Bangladesh whereas exports of ‘fresh or chilled fish’ was worth 18.1 million U.S dollars. The earnings from export of

‘other knitted and crocheted fabrics’ to India was 11.2 million U.S dollars. This reflects the dominance of yarn of jute in the composition of Bangladesh’s exports to India for the year 2013.

Graph 8: value of major items Bangladesh's exported to India 2013 (in million U.S Dollars)

Source: annual export receipts publication, Bangladesh bank, central bank of bangladesh



This reflects that the major single item of export to India, by Bangladesh is Jute products. Jute products like “yarn of jute” and ‘jute and other textile fibers’ account for 13.35% and 6.12% of the total value of items exported to India by Bangladesh and together they add up to 19.47% of the total value of exports. With almost one-fifth of her total exports from India, in some form of Jute the composition of items Bangladesh has exported to India, is just as little diverse as is the composition of items Bangladesh imported from India.

8. CONCLUSION

Bangladesh has been unleashing the potentials of economic growth via increased international trade, since 2001. It has primarily been a net importer of goods and services, but it is observed that the total value of imports has been diverging from the total value of exports, at an increasing rate. This divergence increases the probability of Bangladesh’s existing trade deficit with India to persist. The divergence commenced in the year 2005.

While a higher volume of trade with India would mean a higher level of economic integration for the country with India, it is observed that Bangladesh has only attempted to unleash the potentials of India as an import base. Bangladesh depends on the Indian and Chinese markets for sources of import. While Bangladesh has been exhibiting a higher reliance on

Chinese markets for the source of her imports from 2008, the margin of difference in the value of shares held by China and India, in the total exports of Bangladesh for the year 2013, is considerably small.

Bangladesh exports a major bulk of its total commodities and services to U.S.A and Germany. The percentage of share held by India in the total exports of Bangladesh has undergone marginal fluctuations but India has been one of the top 14 countries Bangladesh has exported, during 2001 to 2013.

While both countries could be natural trade partners because of geographical and ethnical proximities, Bangladesh's imports from India are much higher than the exports to India. This can be explained by the smaller industrial and natural resource base that the Bangladesh is endowed with. However, as long as the Indian economy continues to grow, the availability and willingness of Indian markets to absorb exports from the neighboring countries, will exhibit an upward trend in growth.

The export and import portfolios of Bangladesh and India are not diverse. Bangladesh mostly trades in primary goods like 'jute' and other jute derivate products or fish. This is not well explained by the natures of the Indian and Bangladeshi economies which are predominantly service oriented with the manufacturing sector contributing lesser to the GDP of the respective countries, than the service sector. One possible outlet for diversification of Bangladeshi exports to India is the Information technology enabled services – business process outsourcing sector which has a thriving presence in India already.

9. REFERENCES

World Bank (2012), Consolidating and accelerating export in Bangladesh, Bangladesh

Development series, Paper no- 29, World Bank, Dhaka

Export Performance of Bangladesh Global recession and after, working paper, M.A. Taslim and M.S. Haque, Bangladesh Foreign Trade Institute, March 2011

Annual Import payments publication, Bangladesh Bank, Central Bank of Bangladesh. (2004-2013)

Annual export receipts publication, Bangladesh Bank, Central bank of Bangladesh (2005-2013)