

Bangladesh in South Asia, It's Trade and Investment: Issues and Prospects

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Introduction

Bangladesh is the 41st of the largest economy of the world and second largest economy of South Asia, only next to India. Bangladesh is a South Asian and lower-middle-income country with around 163.7 million populations (Hossain & Wadood, 2020). In 2019, Bangladesh was the world's seventh fastest growing economy, with a GDP growth that was rising steadily surpassing 8 percent mark. The real marvel lies in the fact that even in 2020, when economies around the world contracted as a result of Corona virus pandemic, Bangladesh managed a 5.24 percent growth. In 2021, its average per capita income stood at US\$ 2,227, higher than India's i.e., US\$ 1,947 (Sharma, 2021). With a continued average economic growth nearly 7 percent in the last eleven years (2008-2019), Bangladesh now proudly stands as an emerging trade and investment destination.

The steady growth in export business, hard working labor force, and committed entrepreneurs supported by pro-business, pro-investment policies of Bangladesh government are leading Bangladesh towards the line of global business competency. Additionally, inflow of remittance in large amount also helps the wheels of Bangladesh's economy to move faster. Inward remittances have touched US\$ 200 billion while foreign exchange reserves reached to US\$ 45 billion in 2021 (Choudhury, 2021). The garment industry emerged as one of the Bangladesh's success stories in recent decades. It is the second largest globally, only surpassed by China and rank in over US\$ 35 billion a year from export (Ahmed, 2021).

State of Bangladesh's Trade and Investment; Reference to Nepal

Bangladesh's Trade Status:

Bangladesh attained notable success in export expansion because of outstanding performance of the Ready-Made Garment (RMG) industry. The importance of country's export basket has increased steadily which is equivalent to 18 percent of GDP which mostly depends on RMG products (Faiz & Maitra, 2020). Bangladesh's exports have risen by around 80 percent in dollar terms in the past decade, driven by the booming garment industry. While India and Pakistan's exports have actually declined marginally (Bird, 2021). Bangladesh's share in world exports has increased from 0.1 percent in 2011 to 0.3 percent on 2019. The top five export commodities from labor intensive sectors as: textiles, apparels and foot ware accounts for more than 90 percent of the total exports of Bangladesh since 2015 (PTI, 2021). The import items of Bangladesh from

abroad are: machinery including computers, mineral fuel, oil, electrical machinery, iron and steel, plastic, vehicles, etc.

Bangladesh's export trade was US\$ 22928.22 million in 2010 which increased up to US\$ 28785.31 million in 2020. Similarly, its import from abroad was US\$ 33657.40 million in 2010; this figure also increased up to US\$ 54344.40 million in 2020. Bangladesh's export as a percent to import remained at 71.32 in 2020 as shown in Table 1 (Annexes). Major export destination countries of Bangladesh are: USA, Germany, UK, Spain, France, Poland, Italy, India, Netherlands and Japan. Bangladesh's export to USA, Germany, UK and Spain stood at US\$ 6947.01 million, US\$ 5953.51 million, US\$ 3751.27 million and US\$ 2343.99 million respectively in 2020 as shown in Table 2 (Annexes). Furthermore, the data reveals that Bangladesh has more export trade with India followed by Pakistan, Nepal and Sri Lanka in South Asia. Bangladesh's export trade with South Asia is approximately 4 percent of its total export trade as shown in Table 3 (Annexes).

Soon after entering formal diplomatic ties, Nepal and Bangladesh signed a Trade, Transit and Payment agreement in 1976. The Bangladesh government had also allowed Nepal six transit points for entry and exit for trade purpose through Bangladesh. Bangladesh had also offered Nepal to use the Chittagong and Mongla port in 1997 after opening the Kakarvitta-Phulbari-Bangabandhu route via land (KC, 2021). Till 2012, Nepal had favorable trade with Bangladesh; i.e., Nepal had more export trade with Bangladesh than import trade. However, after 2013, the import trade with Bangladesh began to rise and Nepal faced trade deficit with Bangladesh. Nepal's export to Bangladesh was NRs. 1,942.4 million and import from Bangladesh was NRs. 1,446.0 million in 2011. This figure reached to NRs. 478.2 million and NRs. 4381.3 million respectively in 2020. Nepal's trade deficit with Bangladesh stood at NRs. 3903.2 million in 2020 as shown in Table 4 (Annexes).

At present, Nepal is exporting pulses, ginger, chiretta (chiraito), sesame seeds, and many other such herbs and spices to Bangladesh, while importing jute, potatoes, plastic products, washing machines, medicine, soybean seeds, machinery materials, batteries, readymade garments, tissue paper etc., from Bangladesh. Although Nepal and Bangladesh are close neighboring countries, trade and economic relation between the two countries are still negligible.

Bangladesh's Foreign Investment Status

Proponents of Foreign Direct Investment (FDI) argue that it brings prosperity to the recipient countries through technological transfer, increasing volume of exports, enhancing job opportunities and increasing government revenue. FDI increases the volume of domestic capital to finance new development projects in the country and simultaneously provides an access to new technology, managerial and marketing knowhow (Kafi, Uddin, & Islam, 2007). Bangladesh is actively seeking foreign investment and is consequently offering a range of incentives under its industrial policy and export-oriented growth strategy.

Foreign and domestic entities can establish and own, operate and dispose of interests in most types of business enterprises. According to Bangladesh Investment Development Authority (BIDA), there are number of potentially lucrative sectors in Bangladesh for investment from abroad including agri-business, garments and textiles, ICT, leather and leather goods, electrical and electronics goods, plastics, light engineering, ship building, renewable energy, ceramics, medical equipment and health care (HKTDC, 2021). Bangladesh succeeds to host US\$ 2563.58

million worth of FDI in 2020 from that of just US\$ 845.26 million in 2005. Similarly, Bangladesh's outward FDI stood at US\$ 11.60 million in 2020 from that of just US\$ 3.30 million in 2005 as shown in Table 5 (Annexes).

The major investor countries in Bangladesh were: China, South Korea, Singapore, UK, USA, Sri Lanka, etc. China, South Korea and Singapore had invested US\$ 195.21 million, US\$ 113.77 million and US\$ 106.61 million worth of FDI in Bangladesh by April 2019 as shown in Table 6 (Annexes).

Issues on Bangladesh's Trade and Investment

Export growth is one of the primary ways in which Bangladesh has prospered. The growth has been made possible by an ample supply of cheap labor and duty-free access to the EU and US markets. However, the export basket and destinations are highly concentrated; readymade garments make up around 70 percent of Bangladesh's exports and the EU and the US absorb 49 percent and 12 percent of exports respectively (EI, 2019). High dependency on the single type of product and a few markets leaves Bangladesh vulnerable to external shocks. A spike on the price of cotton or a sudden change in import regulations of a major destination would have a significant impact on the economy.

Bangladesh's poor port and road infrastructure leads to long delays in the export and import of products. It is also an energy deficit country, plagued with issue of inadequate supply, lack of infrastructure and poorly managed energy companies. This will hinder the country's efforts at industrialization. Additionally, bureaucratic inefficiencies often discourage investment in Bangladesh. Overlapping administrative procedures and lack of transparency in regulatory and administrative systems can frustrate investors seeking to undertake projects in the country. Other impediments to business include transportation blockades called by political parties, which can both keep workers away and block deliveries, resulting in productivity losses (ITA, 2021). Under investment in infrastructure is a binding constraint to growth, and access to services, like water and sanitation, road connectivity and electricity, is poor in Bangladesh (WB, 2020).

Prospects on Expansion of Trade and Investment for Bangladesh

In recent years, Bangladesh has emerged as a leading manufacturer of textile products and become front runner in South Asia. With a GDP of over 409 billion US\$, Bangladesh currently has the world's 37th largest economy and forecast suggest that the size of the economy could double by 2030. The garment has changed not only its economy but also improved women's status with the assurance of more and more employment. This sector employs approximately 4 million people. Bangladesh has set an overall target for exports amounting to US\$ 51 billion in 2022 (Ahmed, 2021). Bangladesh's growth and expansion of its export trade lies on the supply of regular energy and open border within South and South-East Asia. Prevalence of proposed South Asian Highway would further boost Bangladesh's export and import trade and thereby support on obtaining higher profile of economic growth desired by Bangladesh. Lessening of tariffs and free trading practices by Bangladesh could support on extension of Bangladesh's industry and agriculture sector and facilitate on growing its export trade with South and South-East Asian countries.

Cooperation in the power sector has become one of the hallmarks of India-Bangladesh relation. Bangladesh is currently importing 1160 MW of power from India. Bangladesh is keen

to develop hydropower projects in eastern parts of Nepal through joint-venture. Bangladesh desires to import 1,000 MW of electricity from ongoing Koshi High Dam projects to meet their ever-increasing demand for electricity (Singh, 2021). Nepal could become a net energy provider to Bangladesh, using the Indian transmission lines for the border trade, which India has already agreed upon.

Bangladesh has decided to join the world's largest trading bloc, the Regional Comprehensive Economic Partnership (RCEP), to stay eligible for duty free trade facilities in the markets of nearly one third of the global economies after its graduates to a developing nation in 2026 (Kashem, 2021). This initiative aims to lower tariffs, open up trade in services and promote investment to help emerging economies to catch up with rest of the world. Despite some regulatory and institutional obstacles, Bangladesh has the opportunities to attract substantial FDI flows in the years to come. Geographically, Bangladesh is located at advantageous position between India, China and ASEAN region. Foreign companies are gradually showing interest in investing in Bangladesh because of its large domestic market and low production cost due to cheap supply of labor.

Annexes

Table 1: Bangladesh's Export - Import Scenario

| Year | Export (In US\$ Million) | Import (In US\$ Million) | Balance (In US\$ Million) | Export as percent to Import |
|-------------|---|---|--|--|
| 2010 | 22928.22 | 33657.40 | -10729.18 | 68.12% |
| 2011 | 24301.90 | 35516.30 | -11214.40 | 68.42% |
| 2012 | 27027.36 | 33969.00 | -6941.64 | 79.56% |
| 2013 | 30186.62 | 40692.90 | -10506.28 | 74.18% |
| 2014 | 31208.94 | 40638.50 | -9429.56 | 76.80% |
| 2015 | 34257.18 | 40097.40 | -5840.22 | 85.43% |
| 2016 | 34846.84 | 43663.00 | -8816.16 | 79.81% |
| 2017 | 36668.17 | 52953.40 | -16285.23 | 69.72% |
| 2018 | 40535.04 | 55956.50 | -15421.46 | 72.44% |
| 2019 | 33674.09 | 48699.00 | -15024.91 | 69.15% |
| 2020 | 38758.31 | 54344.40 | -15586.09 | 71.32% |

Source: (EPB, 2020)

Table 2: Major Export Countries of Bangladesh (in US\$ Million)

| Countries | Year | | |
|------------------|-------------|-------------|-------------|
| | 2018 | 2019 | 2020 |
| USA | 6876.29 | 5832.39 | 6974.01 |
| Germany | 6173.16 | 5099.19 | 5953.51 |
| UK | 4169.31 | 3453.88 | 3751.27 |
| Spain | 2554.82 | 2189.03 | 2343.99 |
| France | 2217.56 | 1703.58 | 1962.14 |
| Poland | 1273.09 | 1164.25 | 1503.64 |
| Italy | 1643.12 | 1282.81 | 1308.62 |
| India | 148.05 | 1096.38 | 1279.67 |
| Netherlands | 1365.74 | 1200.78 | 1183.64 |
| Japan | 731.43 | 649.75 | 681.78 |

Source: (EPB, 2020)

Table 3: Bangladesh Export to SAARC Region (in US\$ Million)

| Countries | Year | | | | |
|-------------------------------|--------|---------|---------|---------|---------|
| | 2016 | 2017 | 2018 | 2019 | 2020 |
| Afghanistan | 5.00 | 6.98 | 6.26 | 5.77 | 8.64 |
| Bhutan | 3.21 | 4.38 | 7.56 | 4.36 | 6.89 |
| India | 602.82 | 873.27 | 1248.05 | 1096.38 | 1279.67 |
| Sri Lanka | 27.40 | 31.60 | 45.55 | 38.40 | 47.32 |
| Maldives | 2.97 | 5.39 | 6.38 | 5.14 | 6.02 |
| Nepal | 27.41 | 45.30 | 38.05 | 46.01 | 68.66 |
| Pakistan | 62.18 | 73.88 | 56.41 | 50.54 | 82.71 |
| Total | 730.99 | 1040.80 | 1408.27 | 1246.59 | 1499.92 |
| Percent Share of SAARC Region | 2.10 | 2.84 | 3.47 | 3.70 | 3.87 |

Source: (EPB, 2020)

Table 4: Nepal – Bangladesh Trade (in Nepalese Rupees)

| ^S Year | Export | Import | Total Trade | Trade Deficit |
|-------------------|------------------|------------------|------------------|-------------------|
| 2011 | 1,942,357,202.00 | 1,446,090,190.00 | 3,388,447,392.00 | 496,267,012.00 |
| 2012 | 3,388,441,963.00 | 1,833,327,391.00 | 5,221,769,354.00 | 1,555,114,572.00 |
| 2013 | 1,783,674,209.00 | 1,806,251,141.00 | 3,589,925,350.00 | -22,576,932.00 |
| 2014 | 1,858,355,500.00 | 2,369,951,164.00 | 4,228,306,664.00 | -511,595,664.00 |
| 2015 | 703,960,117.00 | 2,399,768,734.00 | 3,103,728,851.00 | -1,695,808,617.00 |
| 2016 | 1,388,496,473.00 | 5,014,049,530.00 | 6,402,546,003.00 | -3,625,553,057.00 |
| 2017 | 1,020,740,130.00 | 4,149,385,385.00 | 5,170,125,515.00 | -3,128,645,255.00 |
| 2018 | 1,297,977,993.00 | 4,783,283,919.00 | 6,081,261,912.00 | -3,485,305,926.00 |
| 2019 | 1,364,290,441.00 | 5,863,737,652.00 | 7,228,028,093.00 | -4,499,447,211.00 |
| 2020 | 478,128,105.00 | 4,381,321,830.00 | 4,859,449,935.00 | -3,903,193,725.00 |

Source: TEPC (2022), Trade and Export Promotion Center, Pulchowk, Kathmandu, 2022

(Note: 1 US\$ = NRs. 118.00)

Table 5: FDI inflow and outflow of Bangladesh (in US\$ Million)

| Financial Flows | 2005 | 2010 | 2015 | 2020 |
|------------------------|-------------|-------------|-------------|-------------|
| FDI Inflows | 845.26 | 913.32 | 2235.39 | 2563.58 |
| FDI Outflows | 3.30 | 15.40 | 45.50 | 11.60 |

Source: UNCTAD (2021), General Profile: Bangladesh, Geneva, United Nation Conference on Trade and Development, www.unctadstat.unctad.org

Table 6: FDI Gross Inflows by Major Countries – April 2019 (in US\$ Millions)

| Countries | Total Gross FDI Inflows |
|------------------|--------------------------------|
| China | 195.21 |
| South Korea | 113.77 |
| Singapore | 106.01 |
| UK | 97.56 |
| USA | 56.87 |
| Sri Lanka | 49.25 |
| Hong Kong | 44.45 |
| India | 43.17 |
| Japan | 33.59 |
| Netherlands | 31.47 |

Source: Mujeri, 2021

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