Balance of Trade

Bangladesh Economic Update

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1. INTRODUCTION

The current Bangladesh Economic Update focuses on the current situation of trade. It further concentrates on factors and policies that have been exerting pressure on the external sector.

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The country has been experiencing a negative balance of trade over the years, despite a fall in trade deficit. The reason behind this decline in trade deficit has been a greater decrease in import than that in export. Trade deficit declined from USD 9310 million in FY 2011-12 to USD 7010 million in FY 2012-13, after increasing over the years to reach at peak in FY 2011-12. Trade deficit as a percentage of GDP reached at 8.10 percentage of GDP in FY 2006-07, the highest between FY 2001-02 and FY 2012-13.

Both export and import have observed a fall in the rate of growth in FY 2012-13 after observing an increasing trend since FY 2007-08. Thus, the current account of the country in FY 2012-13 shows a surplus of USD 2525 million, which was USD 447 million as deficit in FY 2011-12. The surplus was accumulated mainly due to increased inflow of remittance and reduction in import.

If the recent business scenario remains as usual, trade deficit as a percentage of GDP might increase further to 7.13 percent of GDP in 2013-14 and 7.23 percent of GDP in 2015-16

The import has increased at 3.69 percent in July, FY 2013-14 compared to the rate of growth of 10.42 percent in July, FY 2012-13. Total import payment on the other hand, decreased at USD 34083.6 million in FY 2012-13 from USD 35516.3 million in FY 2011-12, making a negative growth of 4.0 percent compared to the previous fiscal year. The import of capital machinery decreased to USD 1087 million in FY 2012-13 from USD 2005 million in FY 2011-12.

Although increasing inflow of remittances has enabled the country to achieve current account surplus, if the recent business scenario remains as usual, trade deficit as a percentage of GDP might increase further to 7.13 percent of GDP in 2013-14 and 7.23 percent of GDP in 2015-16. More importantly, the imports of Bangladesh especially technological products and industrial raw materials which are important for sustaining the production process have been declining substantially.

Most notably, terms of trade have been deteriorating over the years since FY 2009-10

Most notably, terms of trade have been deteriorating over the years since FY 2009-10. This reflects the country's inability to embark upon major structural shifts, remaining mainly dependent on export of low value-added industrial products and import of relatively higher value-added items. The situation may further deteriorate, if the current composition of export and import items persists in the future.

The capital account of the country has also depicted some negative symptoms as the rate of growth in FDI (net) has seen a negative trend in FY 2012-13 after observing a positive rate of growth in FY 2011-12 since FY 2008-09, despite Bangladesh Bank has encouraged the domestic private firms to finance from foreign investments.

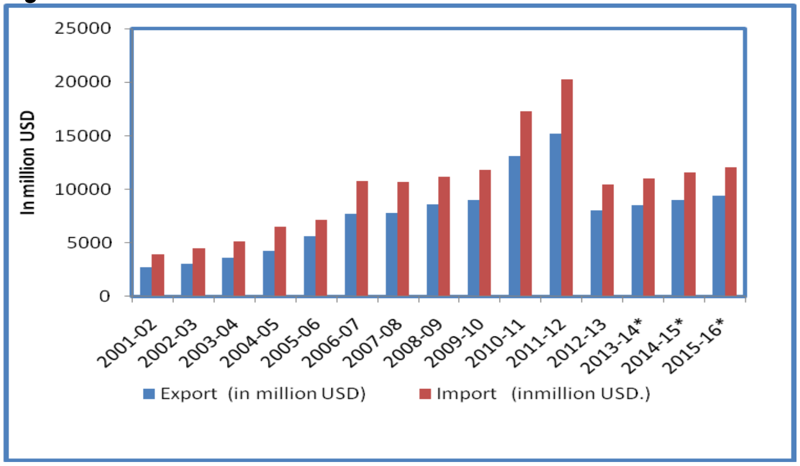
In these circumstances, the Update concentrates on the composition, sources, directions and performance of export and import over the years.

International trade of Bangladesh is comparatively smaller against the size of its population, despite accelerated growth during the last decade

2. OVERALL TRADE SCENE

International trade of Bangladesh is comparatively smaller against the size of its population, despite accelerated growth during the last decade. The situation further aggravated in FY 2012-13 as both export and import witnessed lower rate of growth than the rate of growth observed in previous FY 2011-12. In FY 2012-13, export and import decreased by 46.87 percent and 48.33 percent respectively than that of FY 2011-12. Moreover, both export and import sector experienced a fall in the rate of growth in FY 2012-13 after observing an increasing trend since FY 2007-08. A business as usual projection for 2013-14 to 2015-16 shows that although export and import might increase, such increase would fail to reach the previous level (Figure 1).

Figure 1: Trends in trade since FY 2001-02

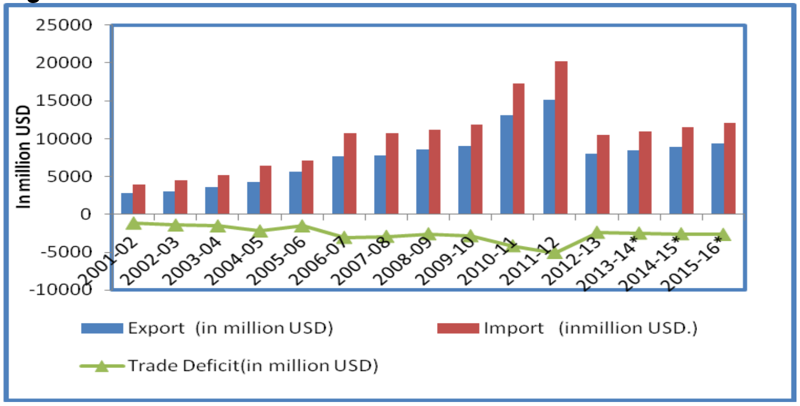


Source: Author's calculation based on Bangladesh Bank, 2013

2.1 Trade Deficit

The country has been experiencing a negative balance of trade,[1] importing more goods than export. Trade deficit declined to USD 7010 million in FY 2012-13 from USD 9310 million in FY 2011-12, after increasing over the years to reach at peak in FY 2011-12. The reason behind the decline in trade deficit has been a greater fall in import. If the trend remains as usual, trade deficit might decline to USD 2494.33 million in 2013-14 and to USD 2667.71 million in 2015-16.

Figure 2: Trade deficit



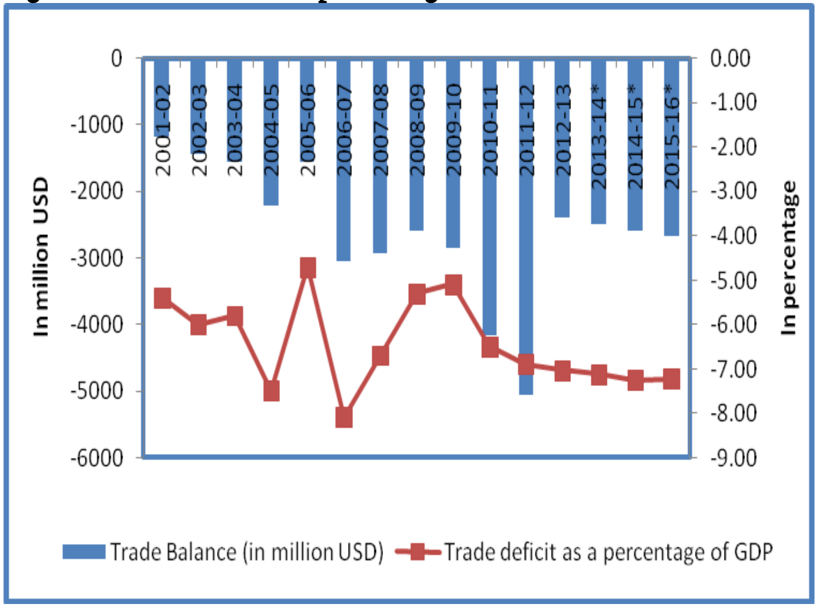
Source: Author's calculation based on Bangladesh Bank, Bangladesh Bureau of Statistics and Finance Division, 2013

[1] The Balance of Trade is the difference between the monetary value of exports and imports in an economy over a certain period. A positive balance is known as a 'trade surplus' if it consists of export more than import. A negative balance is referred to a 'trade deficit' if it consists of import more than export.

The contribution of the export to GDP in the country has been gradually increasing over the years except in FY 2007-08 to FY 2009-10

Trade deficit as a percentage of GDP has been increasing, and reached at 8.10 percentage of GDP in FY 2006-07, the highest between FY 2001-02 and FY 2012-13. If the current trend continues without major changes, trade deficit as percentage of GDP might increase further to 7.13 percent of GDP in 2013-14, 7.25 percent of GDP in FY 2014-15, and 7.23 percent of GDP in 2015-16 (Figure 3).

Figure 3: Trade deficit as percentage of GDP



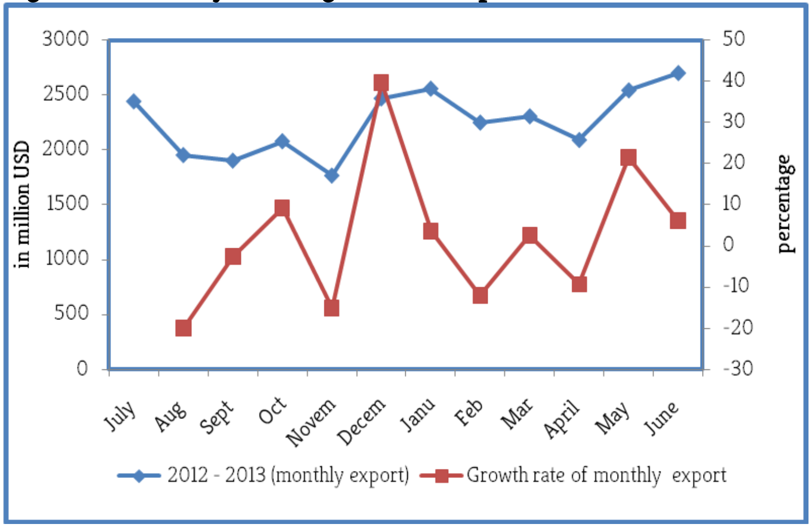
Source: Author's calculation based on Bangladesh Bank, 2013 and Bangladesh Bureau of Statistics and Finance Division, 2013

2.2 Situation of Export and Import

The contribution of the export to GDP in the country has been gradually increasing over the years except in FY 2007-08 to FY 2009-10. Share of export in GDP was 12.6 percent in FY 2001-02 while this share reached at 21.4 percent in FY 2012-13. These contributions might increase further to reach at 22.2, 23.0 and 23.8 percent in FY 2013-14, FY 2014-15 and FY 2015-16 respectively. In contrast, import as percentage of GDP has been increasing since FY 2008-09, and reached at 28.5 percent in FY 2012-13. Furthermore, the current trends in growth suggest that import as a percentage of GDP might rise to stand at 29.4, 30.3, and 31.1 percent in FY 2013-14, FY 2014-15 and FY 2015-16 respectively.

In the first quarter of the FY 2013-14, the export has increased at 21.24 percent compared to the rate of growth of 2.03 percent in the first quarter of the previous fiscal year

Figure 4: Monthly rate of growth in export in FY 2012-13

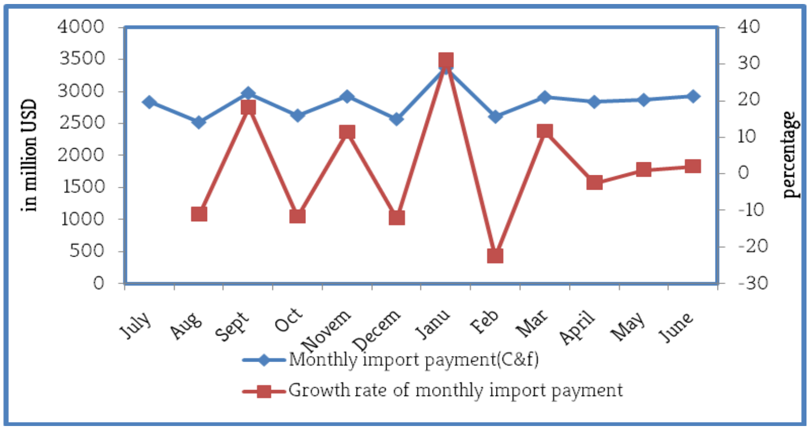


Source: Bangladesh Bank, 2013

Total export earnings in FY 2012-13 increased at USD 27027.36 million from USD 24301.90 million in FY 2011-12, making a growth of 11.22 percent compared to the previous fiscal year. On the other hand, total import payment in FY 2012-13 decreased to USD 34083.6 million from USD 35516.3 million in FY 2011-12, making a negative growth of 4.0 percent compared to the corresponding period of the previous fiscal year.

In the first quarter of the FY 2013-14, the export has increased at 21.24 percent compared to the rate of growth of 2.03 percent in the first quarter of the previous fiscal year.

Figure 5: Rate of growth in monthly import payment in FY 2012-13



Source: Statistics Department, Foreign Exchange Policy Department, Bangladesh Bank, 2013

On the other hand, import has increased at 3.69 percent in July, FY 2013-14 compared to the rate of growth of 10.42 percent in July, FY 2012-13. In FY 2012-13, settlement of letters of credit (LCs) decreased by 7.07 percent to USD 32356.76 million against USD 34814.55 million of the previous fiscal year. Fresh opening of LCs for import in FY 2012-13 decreased by 2.84 percent to USD 35984.62 million compared to the previous fiscal year.

Export receipts from primary commodities have observed a negative growth in FY 2013-14 (July-March), while industrial commodities have observed a positive growth

2.3 Exports and Imports by Major Categories and Countries

Export receipts from primary commodities have observed a negative growth in FY 2013-14 (July-March), while industrial commodities have observed a positive growth. Primary commodities have continued to witness negative growth for the second consecutive year in FY 2012-13. Additionally, the rate of growth for industrial commodities is lower than FY 2010-11 and higher than FY 2011-12 (Table 1).

Table 1: Sector wise export receipts

Items/Fiscal year	2010-11	2011-12	2012-13*
A) Primary commodities	1316 (48.9)	1267 (-3.7)	941 (-3.2)
B) Industrial commodities	19986 (30.4)	21248 (6.3)	17498 (11.5)
C) Others	1623 (46.8)	1787 (10.1)	1265 (3.9)

*Note:*July-March*
Source: Export Promotion Bureau, 2013

Country-wise export of goods shows how geographically diversified the export sector is. The export items of Bangladesh mainly go to nine countries such as USA, Germany, UK, France, Belgium, Italy, Netherlands, Canada and Japan. In FY 2000-01, 82.91 percent of total export went to these countries (Table 2). In FY 2012-13, this remains staggering at 71.44 percent.

Table 2: Country wise export earnings

Country/Fiscal year	2000-01 (In million USD)	2011-12 (In million USD)	2012-13 (In million USD)
USA	2500.42	5100.91	4960.74
Germany	789.88	3688.98	3736.89
UK	598.18	2444.57	2615.94
France	365.99	1380.37	1380.75
Belgium	253.91	741.96	653.88
Italy	295.73	977.41	950.7
Netherlands	327.96	691.3	528.43
Canada	125.66	993.67	1046.63
Japan	107.58	600.53	679.78
Percent of export in major countries	82.91	68.43	71.44

Source: Author's calculation based on Bangladesh Bank, 2013

Capital machineries might witness negative rate of growth and stand at 8.8 percent, 7.2 percent and 12.3 percent in FY 2013-14, FY 2014-15 and FY 2015-16 respectively

Import payments in the major primary commodities and capital machineries decreased by USD 1846 million and USD 918 million respectively in FY 2012-13 from USD 4149 million and USD 2005 million respectively in FY 2011-12. Hence, rates of growth in major primary commodities and capital machineries were negative which were 44.5 percent and 45.8 percent respectively in FY 2012-13. These rates were 26.3 percent and 13.8 percent respectively in FY 2011-12. If these trends continue, capital machineries might witness negative rate of growth and stand at 8.8 percent, 7.2 percent and 12.3 percent in FY 2013-14, FY 2014-15 and FY 2015-16 respectively (Table 3).

Table 3: Sector wise import performance

Items/Fiscal year	2009-10	2010-11	2011-12	2012-13	2013-14*	2014-15*	2015-16*
A) Major primary commodities	2940 (0.8)	5626 (91.4)	4149 (-6.3)	2303 (-4.5)	2111 (-8.3)	1977 (-6.4)	1816 (-8.1)
B) Major industrial commodities	4957 (-2)	7511 (52)	9263 (23)	5321 (-43)	5401 (1.5)	5461 (1.1)	5545 (1.5)
C) Capital Machinery	1595 (12.3)	2325 (45.8)	2005 (-13.8)	1087 (-45.8)	991 (-8.8)	919 (-7.2)	807 (-12.3)

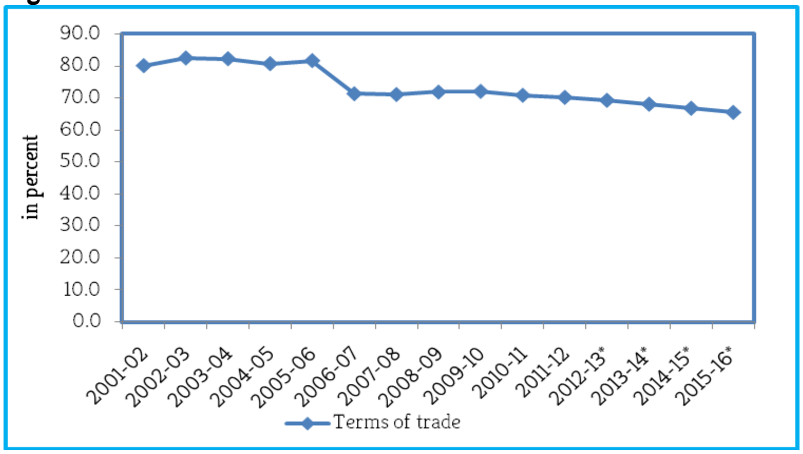
Note: Figures in brackets indicate the rate of growth

Source: Author's calculation based on Bangladesh Bank, 2013

2.4 Terms of Trade

Terms of trade measures relative competitiveness of a country in case of trade. It is considered as an improvement if export prices rise comparative to import prices. That is, a unit of export buys relatively more imports. If import prices rise compared to export prices, it is said that deterioration has been occurred in the terms of trade.

Figure 6: Terms of trade



Source: Author's calculation based on Bangladesh Bank, 2013

According to the projection from 2012-13 to 2015-16, terms of trade might deteriorate in the upcoming years to reach even at 69.2 percent in FY 2012-13, 66.7 percent in FY 2014-15, and 65.5 percent in FY 2015-16, if radical shifts are not made

The deterioration of terms of trade has remained unabated since FY 2005-06. The terms of improved to reach its peak of 82.3 percent in FY 2002-03 since FY 2001-02. This rate, however, was still less than 100 percent, which means that more capital had to go out to pay for the imports. According to the projection from 2012-13 to 2015-16, it is seen that terms of trade might deteriorate in the upcoming years to reach even at 69.2 percent in FY 2012-13, 66.7 percent in FY 2014-15, and 65.5 percent in FY 2015-16, if radical shifts are not made.

Terms of trade are influenced by a number of factors. Among them, the elasticity of demand for exports and imports of a country is a significant one. If the demand for exports of a country is less elastic as compared to its imports, the terms of trade will tend to be favourable as exports can command higher price than imports. Conversely, if the demand for imports is less elastic than that for exports, the terms of trade will be unfavourable. In this regard, terms of trade in Bangladesh is in unfavourable situation as the country is dependent on export of low value-added products, whereas its import items mainly consist of high value-added products. The main seven export items of the country in FY 2012-13, indicate that they are dominated by low value-added labour intensive products (Table 4). Although in FY 2012-13, exports of woven garments, jute goods (excluding carpet) increased a little bit compared to the previous FY 2011-12, the exports of frozen food, knitwear, raw jute, chemical products, engineering and electric goods, and tea witnessed a decrease compared to the previous FY 2011-12.

Table 4: Commodity wise export receipts (excluding EPZ)

Items/Fiscal year	2012-13 (million USD)	2011-12 (million USD)	Percentage change
Knitwear	9102	9006	1.07
Woven garments	6966	6222	11.96
Jute manufactures	750	658	13.98
Raw Jute	211	236	-10.59
Home Textile	415	459	-9.59
Fish, shrimps and prawns	448	605	-25.95
Leather and leather	677	540	25.37

Source: Bangladesh Bank, 2013

The main five import items comprise food grains, crude petroleum, raw cotton, capital machinery, and iron, steel and other base metals. Except food grain, these products are comparatively high value-added industrial goods compared to the export items of the country.

Table 5: Category wise import payments

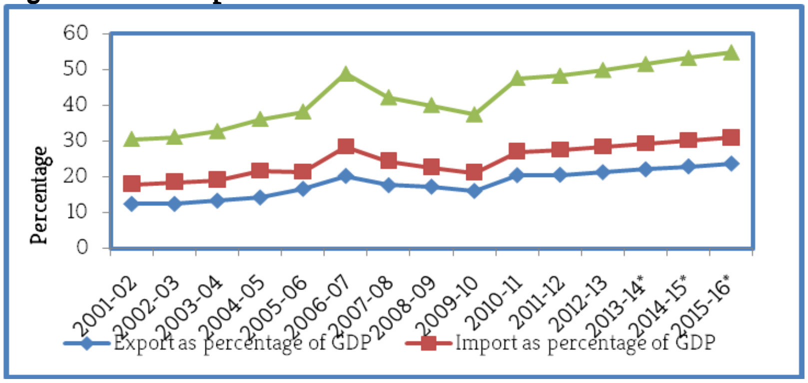
Items/Fiscal year	2012-13 (million USD)	2011-12 (million USD)	Percentage change
Food grains	726	901	-19.42
Crude petroleum	1102	987	11.65
Raw cotton	2005	2084	-3.79
Iron, steel and other base metals	2335	2224	4.99
Capital machinery	1835	2005	-8.48

Source: Bangladesh Bank, 2013

2.5 Trade Openness

In FY 2012-13, the trade openness[2] considering the export and import share of GDP was 49.9 percent in which 21.4 percent was export related openness and 28.5 percent was import related openness, against the value of 48.3 percent in FY 2011-12. The trade openness index thus has reached at the highest level since FY 2001-02. Continuation of the current trend suggests that trade openness might increase to 51.6 percent in FY 2013-14. It is a matter of concern that trade openness is increasing while terms of trade is decreasing, casting a doubt over the nature of liberalisation.

Figure 7: Trade openness



Source: Author's calculation based on Bangladesh Bank, 2013

3. BALANCE OF PAYMENT

The trade deficit of Bangladesh economy exposes several risk factors including pressure on current account balance

The trade deficit of Bangladesh economy exposes several risk factors including pressure on current account balance. The current account balance is one of the main three components of balance of payment, a regular record of all economic transactions between the residents of the reporting country and the residents of foreign countries during a certain period (specifically one year) where capita account and financial account being the other two. This section focuses on the balance of payment of the country to discuss the major trends observed in it as well as link with the balance of trade.

[2] Trade openness means {(export/GDP) + (import/GDP)}

3.1 Current Account Balance

Although the current account has depicted a large surplus in the recent months, such surplus, however, has been mainly the result of fall in import items and higher inflow of inward remittances. The current account includes trade in goods and services, income receipts such as dividends and interest; and unilateral transfers of assets i.e. foreign aid. Current account of the country recorded in FY 2012-13 showed a surplus of USD 2525 million which was USD 447 million as deficit in FY 2011-12.

Although the current account has depicted a large surplus in the recent months, such surplus, however, has been mainly the result of fall in import items and higher inflow of inward remittances

Reasons for this huge surplus of current account are the rise in remittances and fall in import payments, which decreased by -48.33 percent in FY 2012-13, compared to previous fiscal year whereas import payments were 17 percent in FY 2011-12. Surplus of current account is sometimes considered as a good sign for the economy. However, for an economy like Bangladesh, which is mostly dependent on imports of raw materials and capital machinery for its industrial sector, any surplus achieved through reducing import may not be considered a blessing. Moreover, this surplus of current account appreciates the local currency against the US dollar, leading to the loss in export competitiveness.

Table 6: Current account balance

Fiscal Year	Current Account Balance (million USD)
2004-05	-557
2005-06	572
2006-07	936
2007-08	702
2008-09	2416
2009-10	3724
2010-11	885
2011-12	1630
2012-13	2525

Source: Bangladesh Bank, 2013

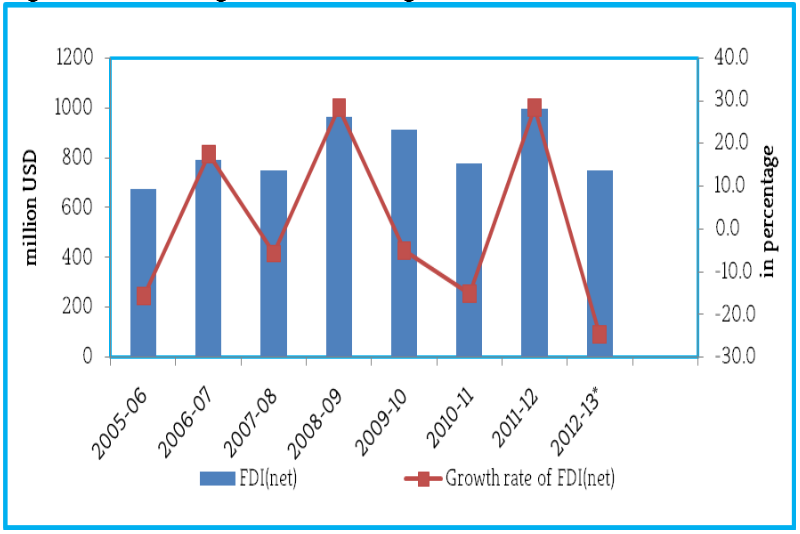
3.2 Capital Account Balance

Among the different items of capital account, two items mainly assumes prominence for Bangladesh economy: foreign direct investment (FDI) and portfolio investment.

3.2.1 Performance of Foreign Direct Investment

Both the investor and the recipient can take advantage from foreign direct investment. It allows money to go freely to whatever business has the best prospects for growth. The FDI in the country has usually observed much fluctuation. For example, FDI increased in FY 2006-07, FY 2008-09, and FY 2011-12, and decreased from FY 2004-05 to FY 2012-13. Most importantly, rate of growth in FDI (net) has been seen a negative trend in FY 2012-13, after observing a positive rate of growth in FY 2011-12 since FY 2008-09 despite BB has encouraged the domestic private firms to finance from foreign investments.

Figure 8: Rate of growth in foreign direct investment

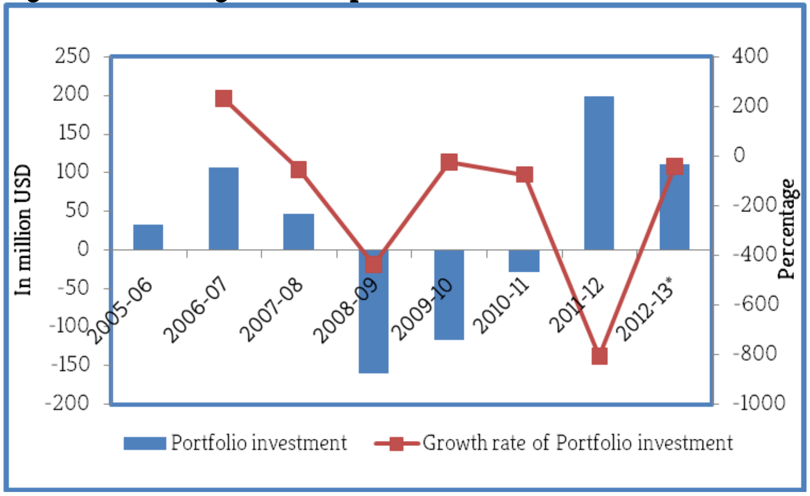


Source: Bangladesh Bank Annual Report, 2011-12

3.2.2 Status of Portfolio Investment

As already stated, portfolio investment is another component of BOP. However, the contribution of portfolio investment in capital market is low. In FY 2012-13, the portfolio investment stood at USD 110 million from USD 198 million in FY 2011-12 after observing a negative rate of growth of 44 percent.

Figure 9: Rate of growth on portfolio investment



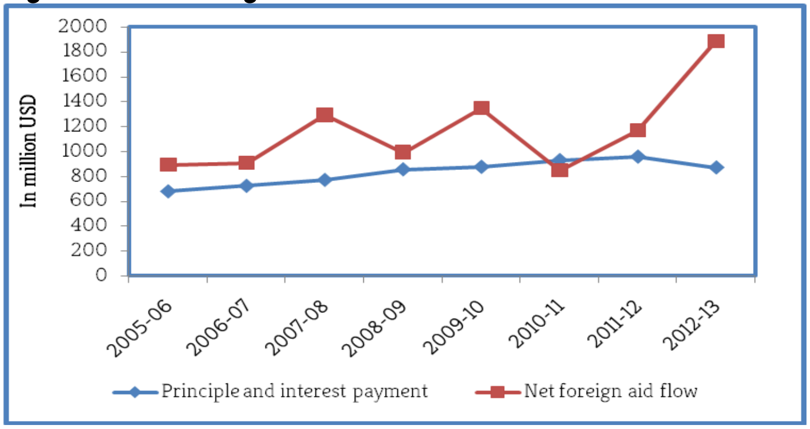
Source: Bangladesh Bank, 2013

Moreover, portfolio investment in the country has been seen a decreasing trend since FY 2007-08 except in FY 2006-07. This negative rate of growth in portfolio investment trend indicates that the stock market is not performing well for foreign investors.

3.3 Net Foreign Aid Inflow

The trend of net foreign aid inflow increased to USD 1887 million from USD 1169 million in FY 2011-12 by 61.39 percent. In July of FY 2013-14, the total foreign aid was USD 170.55 million and principal payment was USD 212.39 million. As a result, net foreign aid has been found negative as USD 41.84 million.

Figure 10: Net foreign aid inflow



Source: Bangladesh Economic Review, 2013

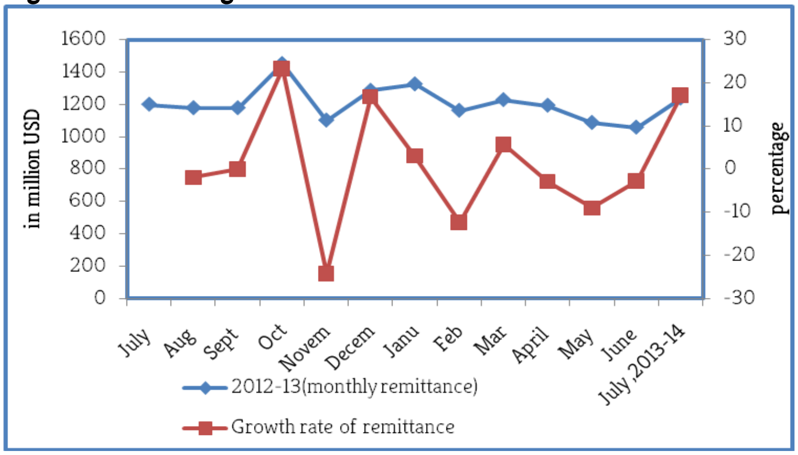
On the other hand, in July of FY 2012-13, the total foreign aid was USD 209.99 million and principal payment was USD 53.17 million for which net foreign aid was positive as USD 156.82 million.

3.4 Performance of Remittance Flows

In July, FY 2013-14, total remittances increased by USD 37.81 million (3.15 percent) to USD 1238.96 million against USD 1201.15 million in July, 2012

Remittances mainly from the Middle East are the major sources of foreign exchange earnings. In July, FY 2013-14, total remittances increased by USD 37.81 million (3.15 percent) to USD 1238.96 million against USD 1201.15 million in July, 2012. Furthermore, in FY 2012-13, the total amount of remittance increased by USD 1617.71 million to USD 14461.14 million whereas the amount was USD 12843.43 million in FY 2011-12. If remittances through informal channels were taken into account, for which no official data are available, this would be even higher. Thus, Bangladesh has emerged as a major exporter of manpower, targeting particularly the labour-intensive sectors of the various developed and developing economies.

Figure 11: Rate of growth in remittance



Source: Foreign Exchange Policy Department, Bangladesh Bank, 2013

Setting aside the role of remittances in terms of beefing up the foreign exchange reserves of Bangladesh and enhancing its ability to import, remittances received from overseas also play a vital role in strengthening consumption of the rural people.

There are also concerns. For example, Malaysia banned Bangladeshi workers in 2009 due to malpractices in the recruitment process. The authorities have launched a massive operation from September 1, 2013 against the foreign workers without valid permits[3]. This may create a negative impact on remittance of the country.

4. CONCLUSIONS

The continuous deterioration in terms of trade is a major structural weakness of the economy. The dependencies on high value-added import items and low value-added export products have become the major constraints for the external sector of the country. There is need for a structural shift, which requires transcending from the current practice of government taking policies on an adhoc basis as the problems aggravate. The continuous decline of terms of trade requires introduction of a mix of medium to long-term policies as a way out of the current heightened condition.

The dependencies on high value-added import items and low value-added export products have become the major constraints for the external sector of the country

The government has mostly focused on ensuring inflow of remittance through official channels in order to sustain a positive current account balance. Such policy alone cannot be the purpose of a prudential import financing policy. As the current rise in the trade deficit is partly internal (e.g. the decision of installing oil-based quick rental power plants), partly global (e.g. the recessions in export destinations), and partly structural (e.g. concentration of exports in a few products and countries), a comprehensive policy change is required.

Most importantly, coordinated monetary and fiscal policies are the need of the hour to stave off further deterioration of terms of trade. The country needs such a strategy by way of fiscal incentives, subsidies and tax breaks to embark upon manufacturing high value-added products

[3] http://www.thedailystar.net/beta2/news/special-id-cards-to-stop-job-changes/

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