

Bilateral and International Trade of Bangladesh and India: Effect of Falling Exchange Rate of Indian Rupee

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Abstract

Money is the most important thing in the current world. It is a tangible good with a lot of intangible properties. It's most important feature is its exchangeability. It pursues a man to purchase. When money is used for exchanging it is defined with a special term called currency. Currency is the only one exchange medium in the modern era. It is universal that the change rate of a currency of a specific nation can change the trade balance of it. And it can influence on the trade of those countries who are involved however with that country. In this paper we will see how a currency rate of one country can reign over international trade of another country.

Keywords: Bilateral trade, Greenback, GDP, FDI, SAFTA, 4207 code

1. Introduction

From the age old era human is using exchange medium for buying or selling goods. One day he used "Barter System". Then he was used to exchange goods for other goods. Those days went over. With the passage of time he invented money which has some special characteristics such as durability, portability, acceptability, divisibility, uniform appearance with limited supply. By the time he improved it but limited supply became more limited due to polarization. So, rate of a currency is so much important as it increases or decreases the value of resources of a country. Due to globalization of market and product exchange rate of one currency affect the trade of another country. If the countries be the neighbors then it is more emphatic as their trade sectors are relatively same. Historical tradition is that the currencies of the countries situated in Indian subcontinent especially India, Pakistan and Bangladesh have affect on their bilateral or international business. Recently Indian rupee has shown the worst performance in Asia during 2013. Experts claim that it will affect the trade balance of Bangladesh also.

2. Historical Background

Indian subcontinent is a great source of resources since its early life. Due to ample source of livelihood people started to come here and started to build their residence here. This area started its formal business when the Dutch came here to trade. After the liberation from British colony in 1947 two countries formed named India and Pakistan. The former East Pakistan became Independent in 1971 and formed a new map named Bangladesh. Since formation Bangladesh is a strong competitor of India in the international trade. The export sectors of two countries are also same. Bangladesh faced its import double during 1971-91 but it has trade surplus recently. In a nutshell, India has a trade deficit in recent economy although it has improved its economy faster than Bangladesh. It is assumed that the account deficiency is the major cause of falling of their currency. Recently rupee has shown the worst performance in the Asian currencies during 2013 and fallen more than 30 percent of its value. It raises anxiety and panic in the forex market especially in Bangladesh.

3. Literature Review

The performance of South Asia is poor in terms of intra-regional trade (De & Bhattacharyay, 2007). Bangladesh, an emerging economy, experienced inward-looking economic philosophy in the 1970s. In the 1980s liberalization of trade and deregulation started and gradually moved forward. In the first half of 1990s level of liberalization became noteworthy as financial and capital accounts were liberalized (Uddin, 2009). Bangladesh's economy has been one of the best performing economies in South Asia in recent times, averaging a growth rate of around 6 percent in the last five years (Acharya & Marwaha, 2012). The rupee has weakened considerably against the dollar, and this poses a headache to importers (Mandal, 2013). Our exports will go down. On the other hand, imports will go up. As a result, India's gain in the bilateral trade will only rise (Mansur, 2013). These related literatures created a necessity to look over this situation with scrutiny.

4. Limitation of the Study

India and Bangladesh both are two poor countries and Bangladesh is a Least Developed Country (LDC). Some hindrances were lying on the research track are as follows:

- Both countries have lack of data sufficiency.
- Bangladesh has less export and more import trade with India.
- Bangladesh has faster GDP growth rate than India.
- India has reduced their imports as rupee skids more than 30% against greenback.

5. Methodology of the Research

Considering it as a qualitative research data were collected from various secondary sources. The authors collected data from various organizations and internet sources. Then it was input in SPSS or Excel to reveal the result.

6. Result and Discussion

The first theory of international trade, mercantilism, emerged in England in the mid-16th century assumed that trade is a zero-sum game (gain of one country will result loss of another). Thus countries were uninterested to trade with others. By the Absolute Advantage theory of Adam Smith in 1776 and Comparative Advantage theory of David Ricardo in 1817 we came to know that trade is a positive-sum game. First of all, I would like to say something about the currencies, bilateral and international trade of the two countries.

6.1 Taka

Taka is the currency of Bangladesh and subdivided into 100 paisa. The most commonly used symbol for the Taka is Tk and ৳. ISO 4217 code is BDT. From 1994 until 2013, the USDBDT averaged 67.5800 reaching an all time high of 83.1600 in February of 2012 and a record low of 40.1000 in June of 1995. Now it is facing its value around 77 against greenback and this exchange rate is in same level since last few months.

6.2 Rupee

Rupee is the currency of India, Pakistan, Maldives, Nepal, Indonesia, Mauritius and Seychelles. The rupee used in India is called Indian rupee. From 1973 until 2013, against the USD INR averaged 31.9600 reaching an all time high in September of 2013 and a record low of 7.1900 in March of 1973. In different parts of India, the currency is known as the rupee, roopayi, rupaye, rubai or one of the other terms derived from the Sanskrit rupyakam. The most commonly used symbols for the rupee are Rs, Rp and ₹. ISO 4217 code is INR. It was 69.5 against dollar at 26th September, 2013 and 62.60 at 1st October of the same year.

Here is the comparison of Bangladeshi currency and Indian currency in last few months.

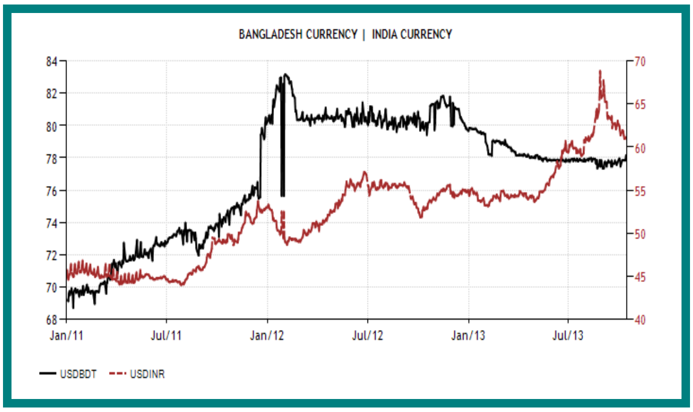

Figure 1: Comparison of currency of Bangladesh and India

Source: www.tradingeconomics.com

6.3 Trade of Bangladesh & India

Normally it is found that Bangladesh is a trade deficit country after its independence in 1971. In the first two decades it showed tender situation in its trade balance but it has been improving the situation since 1990s when trade liberalization was achieved. It has shown trade surplus in last July.

6.3.1 Exports of Bangladesh

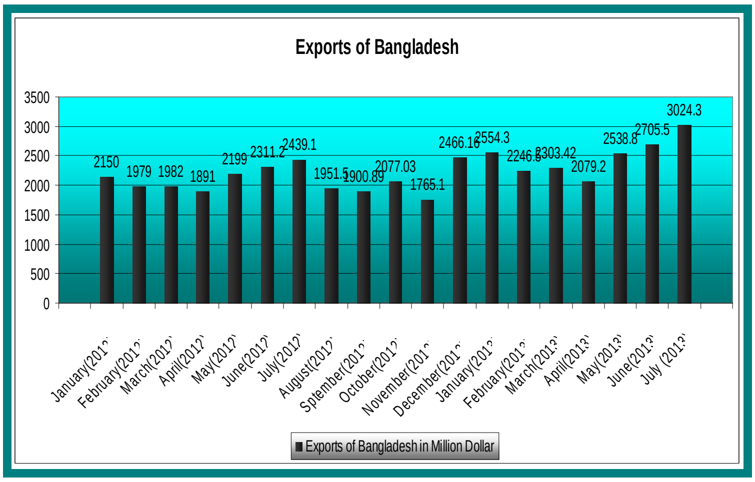

Figure 2: Exports of Bangladesh

Source: Bangladesh Bank

According to Bangladesh Bank, Exports in Bangladesh were 3024.30 USD Million in July of 2013 increased from 2705.50 USD Million in June of 2013. From 1995 until 2013, Bangladesh Exports averaged 3267.3 USD Million reaching an all time high of 15565.2 USD Million in June of 2009 and a record low of 1024.0 USD Million in October of 2009. Bangladesh exports mainly ready made garments (75% of exports revenue), frozen fish, jute goods, leather goods, ship and tea. Major exports partners of Bangladesh are United States (23% of total), Germany, United Kingdom, France, Japan and India. Here we are seeing that export of Bangladesh is regular as their previous trend in 2013.

6.3.2 Imports of Bangladesh

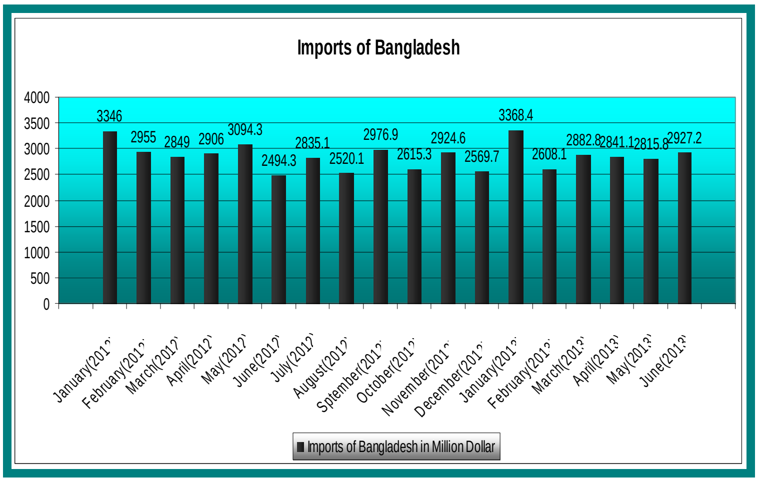

Figure 3: Imports of Bangladesh

Source: Bangladesh Bank

Imports in Bangladesh were 2927.20 USD Million in June of 2013 from 2815.80 USD Million in May of 2013. From 1995 until 2013, Bangladesh Imports averaged 4407.9 USD Million reaching an all time high of 20291.4 USD Million in June of 2009 and a record low of 1424.2 USD Million in August of 2009. Bangladesh imports mostly machinery and equipment, chemicals, iron and steel, textile raw materials, foodstuffs, petroleum products and cement. Major import partners of Bangladesh in 2008 are China: 15.8%, India: 15.7%, Kuwait: 8.1%, Singapore: 7.6%, Japan: 4.4%. In 2013 China contributes 17% and India is also the second exporter to this country. Bangladesh imports raw cotton and intermediate inputs from India. Most of the products Bangladesh imports from India are price sensitive and the country doesn't get its proper duties. Critical concerns on the Bangladesh side include the massive trade deficit with India and the large volumes of informal imports from India across the land border which avoid Bangladesh import duties (Pursell & Sattar, 2006). Bangladesh import is lower or slightly higher than export which is enough to recognize it as moderate.

India is also a trade deficit country. Recently it has faced the lowest price of rupee in the history due to account deficit which created 6.1% inflation rate, the highest of last six months. But India thinks that it is temporary and the rumor is exaggerated. They reduced their imports and FDI 100% form 400%.

6.3.3 Exports of India

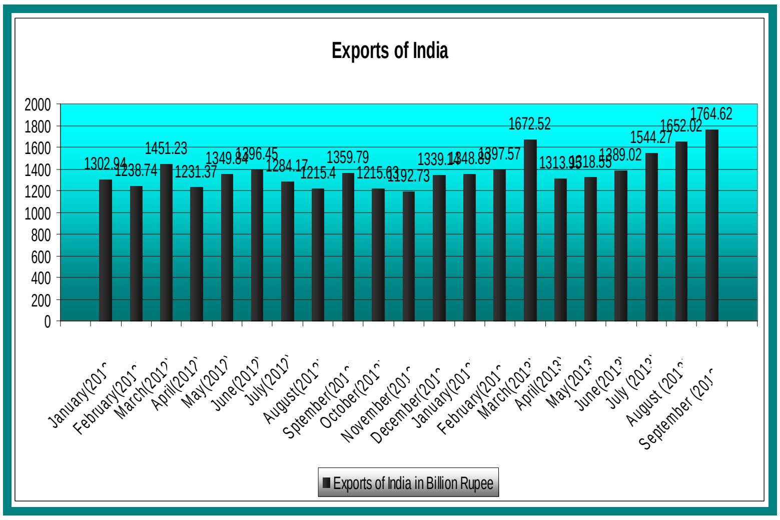

Figure 4: Exports of India

Source: Ministry of Commerce and Industry, India

According to Ministry of Commerce and Industry, India exports of India were 1764.62 INR Billion in September of 2013 from 1652.02 INR Billion in August of 2013. Exports in India is reported by the. India Exports averaged 257.34 INR Billion from 1978 until 2013, reaching an all time high of 1764.62 INR Billion in September of 2013 and a record low of 3.75 INR Billion in May of 1978. India's main exports are engineering goods (19 percent of total exports), gems and jewelry (15 percent), chemicals (13 percent), agricultural products (9 percent) and textiles (9 percent). India is also one of Asia's largest refined product exporters with petroleum accounting for around 18 percent of total exports. India's main export partners are United Arab Emirates (12 percent of total exports) and United States (11 percent), China, Singapore, Hong Kong and Netherlands. Exports of India are increasing rapidly. It is most probably a cause of depreciation of rupee. For the depreciation of rupee they are becoming more competitive in the global market as they can reduce their cost of production than the neighboring competitors. It is an indicator that their all time highest export revenue came in September of 2013.

6.3.4 Imports of India

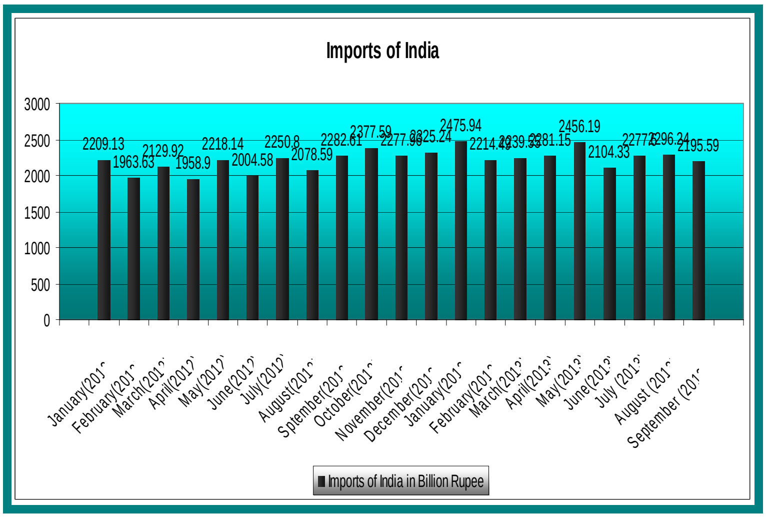

Figure 5: Imports of India

Source: Ministry of Commerce and Industry, India

Imports in India decreased to 2195.59 INR Billion in September of 2013 from 2296.24 INR Billion in August of 2013 reported by the Ministry of Commerce and Industry, India. India Imports averaged 381.67 INR Billion from 1978 until 2013, reaching an all time high of 2475.94 INR Billion in January of 2013 and a record low of 4.98 INR Billion in April of 1978. India is heavily dependent on coal and foreign oil imports for its energy needs. Other imported products include: machinery, gems, fertilizers and chemicals. India's main import partners are China (12 percent of total imports), United Arab Emirates, Switzerland, Saudi Arabia, United States, Iraq and Kuwait. India has purchased their highest foreign products in January 2013. It can be a cause for the drastic depreciation of rupee. But Indian government is regulating the market and foreign direct investment so that they could reduce their import as more rupees can be gone outside.

The data above show that India is facing a huge trade deficit economy.

6.3.5 Comparison of balance of trade between Bangladesh and India

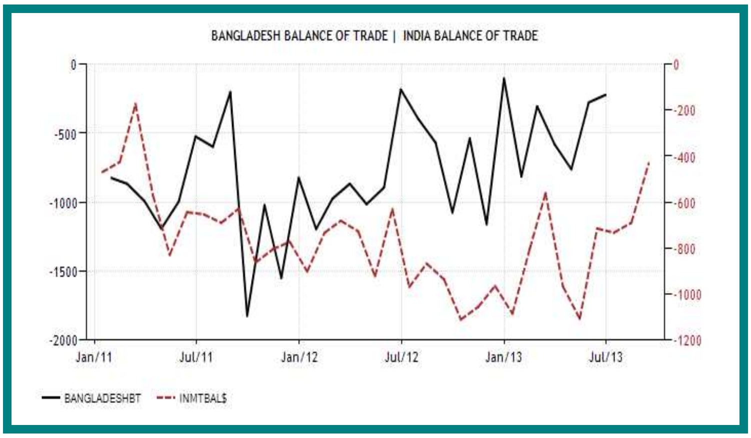

Figure 6: Comparison of balance of trade between Bangladesh and India

Source: www.tradingeconomics.com

Bangladesh is recovering its deficit trade balance faster than India. India is lacking of huge population along with more inflation and other economic problems recently. But Indian Prime Minister thinks that it will not last long. Economic growth has slowed down at present and we are working hard to remedy the situation (Singh, 2013). For the falling of exchange rate of rupee overseas funds have pulled out nearly 12 billion from India's stock and debt markets. It is found that India was facing a lot of deficit in the balance of trade as they were importing more. But after the regulation of their policy recently they are becoming strong now in the balance of trade. In other hand, balance of trade of Bangladesh is normal and it is prosperous.

6.3.6 Comparison of exports between Bangladesh and India:

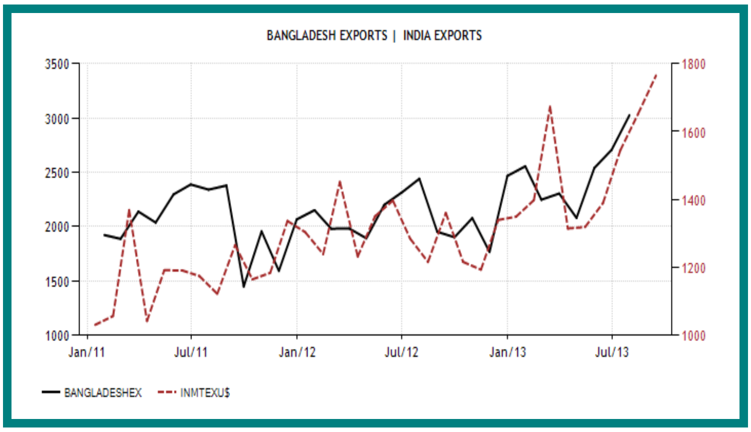

Figure 7: Comparison of exports between Bangladesh and India

Source: www.tradingeconomics.com

It is seen that export is increasing for India drastically due to lower price in the international market. Bangladesh is also increasing their export due to higher demand of their quality garment products. They are now the first choice of the garment buyers.

6.3.8 Comparison of imports between Bangladesh and India

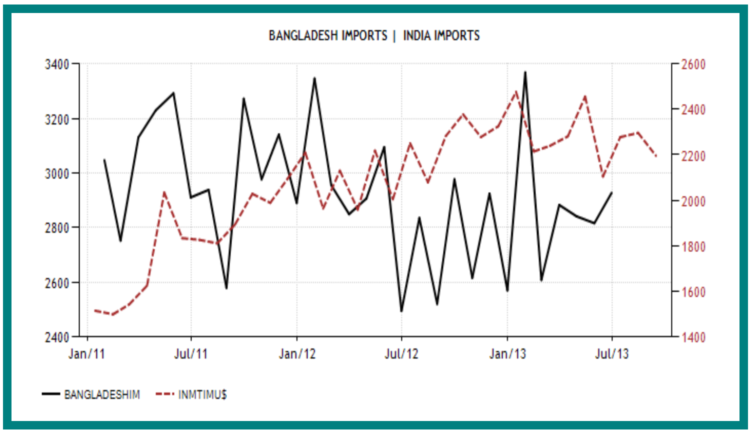

Figure 8: Comparison of imports between Bangladesh and India

Source: www.tradingeconomics.com

Imports of Bangladesh are trying to be balanced with export since last two decades. Imports of India were trying also but now a days it is found moving upwards.

Here are some data of export and import between Bangladesh and India:

Bangladesh export during July- August in 2013-14: 55360233.94 USD

Bangladesh export during July- August in 2012-13: 75347511.15 USD

It shows that exports to India reduced than the same time of previous year.

7. Findings:

We have found that the country India has current account deficiency. As a result they are facing the falling exchange rate of their currency. Now they can export more today as they are more competitive in the world market. For the worst performance of their currencies they are importing less. They are achieving trade balance. Can we say that it is good for India? In macro sense it creates inflation inside the country. Price hike of the price sensitive products will diminish its economy in micro level. Investment will be decreased. They will not be able to save their money and standard of livelihood will be eroding in the near future. If rupee continues to decrease its value it can be a matter of damage for the neighboring competitors. As the export sector of Bangladesh is same it will be less competitive in the world market as India will provide the goods in a cheaper rate. The products, Bangladesh imports from India are highly price sensitive. Bangladesh will import more and India will try to reduce its import cost more. SAFTA will fall in a threat. The countries enlisted in SAARC will not be able to achieve their target. Ultimately the whole region will be hampered. So fall of rupee will not convey any good news for the economy of Bangladesh rather it will create obstacles if it continues. But, the result is not so much imminent. And a matter of hope that rupee is gaining its rate again.

8. Conclusion and Suggestion:

Both the countries should be aware about the future impact of their bilateral and international trade. As Bangladesh has a fast growing economy it will not feel the result rapidly. But if the situation continues Bangladesh have to take necessary steps for maintaining its trade smoothly. As the result will not be appeared recently the country will get time for taking or modifying its policy. As the bilateral trade is negative with India it must look over the import obviously but reducing import can not be a permanent solution. Bilateral trade policy should be improved. Trade is a positive sum game.

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