

Comparative Advantage and Export Competitiveness of Bangladesh and India

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Abstract: This paper examines the dynamics of comparative advantages of Bangladesh and India in their bilateral and international trade with an aim to disentangle their absolute and relative advantages, and thus ascertain the potential areas of trade expansion. It uncovers that the classic Heckscher-Ohlin theoretical underpinning clearly explains bilateral trade patterns between these two contiguous countries. Empirical assessment further reveals that removal of trade barriers and increases in global competitiveness have significant positive effects on bilateral export flows. However, India's export basket is more complementary to Bangladesh's export sector while the latter's one is more competitive to the former's exports. Thus, the findings suggest that Bangladesh could slightly slash down its trade deficit with India if the latter removes tariff and non-tariff barriers, particularly on five groups of products, namely fertilizer, headgear, vegetable textile fibers, knitwear, and woven garments. At the same time, exports from India to Bangladesh will continue to increase with the latter's growth of manufacturing export and liberalization of tariff multilaterally. Hence, non-discriminatory liberalization should be preferred to preferential liberalization; and the role of bilateral free trade agreement to curb trade imbalance has no ground.

Keywords: comparative advantage, inter-industry trade, intra-industry trade, gravity model

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