

ANALYSIS ON THE BILATERAL TRADE FACTORS BETWEEN BANGLADESH AND PHILIPPINES

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ABSTRACT

Bangladesh and Philippines are emerging as growth centers of trade in Asia. Bangladesh in South Asia while Philippines in Southeast Asian. Bilateral relationship has grown between the two countries with respect to recognition and financial assistance in times of need. Each country has a history of imports and exports that support the economy of the other. The study tries to find some factors that has increased or decreased the trade relations between the two countries. The objective was to assist law makers as well provide possibilities that there would be a sound trade relationship between Bangladesh and the Philippines.

KEY WORDS: Bilateral Trade factors, Economic Complexity Index, emerging growth centers, export-import commodities

INTRODUCTION

Different countries have seen, applied and tested the development of Lancaster's intra-industry trade models within countries. Although these models demonstrate the conditions which lead to Intra-Industry trade among economic communities, Webster (1987) claimed that they cannot, in general, predict the direction of bilateral trade flows of the same commodity.

With the increasing focus on regional and bilateral issues, the discussion about having an international economic relationships of the present globalized world is on hand. Trade and commerce is deemed necessary as each country moves for sustainable economic development and social well-being. The North American Free Trade Agreement as well as the European Union were created to facilitate the trade and economic activities within its scope and area of agreements. Similarly, within each nations, countries in Asia had been pulling together to form an ideal Asia-Pacific Economic Community (APEC). APEC would be a formation of a regional "bloccs" where the amount

of trade and investment within and between these supporting countries would work to balance trade deficit and other economic relationship between the countries. In addition, political, cultural and other relationship factors also play roles regarding the bilateral business relationship with other countries.

Asian Development Outlook 2016 published that the Asia economy over the last 5 years, has grown annually by 6.5% as compared with developed countries outside Asia which grew 3.4% and advanced countries only by 1.6% annually. Further, many other Asian economies continue to grow strongly driving multiple growth centers across South and Southeast Asia which includes major economies such as Bangladesh, India, Indonesia, Pakistan, and the Philippines. (*Zhuang and Wignaraja 2016*)

Further, Asian economic integration has intensified over the years where two or more countries agree to eliminate economic barriers, with the end goal of enhancing productivity and achieving greater economic interdependence. This would harness domestic sources of growth, as is evident from the various indicators of integration such as trade flows, foreign direct investment (FDI), tourism, financial links and output correlation. A number of factors contributed to this growth in regionalism, including the rapid expansion of Asian markets and existence of various mechanisms for cooperation. The most well known model of integration in Asia is the Association of Southeast Asian Nations (ASEAN) and Asia Economic Community (AEC), which was formally established in 2015, (*Rillo and Dela Cruz, 2016*) The Philippines belong to both ASEAN and AEC. For Bangladesh on the other hand, it also belongs to other organizations namely South Asia Association of Countries (SAAC) and in the region of Bay of Bengal Initiatives for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) as well as AEC. Both countries are members of the APEC and AEC.

Bangladesh, a growing economic center in South Asia that is bordering the Bay of Bengal, found between Myanmar and India with an aggregate land area is 133,910 square kilometers and terrain is mostly flat, alluvial plain and hilly in the south-east. Most of the country is situated on deltas of large rivers flowing from the Himalayas: the Ganges unites with the Jamuna and later joins the Meghna to eventually empty into the Bay of Bengal. Bangladesh has a parliamentary democratic form of government. It was before East Bengal, then East Pakistan and now Bangladesh. It is a prosperous region of South Asia that includes included the highest rural population density in the world and an annual population growth rate of between 2.5 and 3 percent (*Hossain et al.*).

Further, according to Asia Development Bank as of August 2016, Bangladesh has six (6) Free trade Agreements. Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperations (BIMSTEC) Free trade area and Pakistan-Bangladesh Free Trade Agreement of which negotiations have been launched. Trade Preferential System of the Organization of the

Islamic Conference is not yet in effect. Asia-Pacific Trade Agreement, Preferential Tariff Arrangement-Group of Eight Developing Countries and South Asia Free Trade Area are all signed and in effect. These agreements are important as to having the necessary goods and resources for the country.

Philippines on the other hand is a country of 7,100 islands in Southeast Asia. It has a rich cultural history that shapes its beginnings from mixture of cultures from Malayan origin to its conquerors. A tourist destination due to its beautiful scenery and rich in natural resources (*Valcarcel, L.J. and Manabat, C., 2004*) ADB also showed that the Philippines has eleven (11) Free trade agreements. ASEAN-Hongkong, China Free trade, Philippine-EU free trade agreement, Regional Comprehensive Economic Partnership of which the negotiation has been launched. Philippine-European Free trade Association Free trade agreement was signed but not yet in effect. ASEAN Free Trade Area, ASEAN-Australia and New Zealand Free Trade Agreement, ASEAN-India Comprehensive Economic Cooperation Agreement, ASEAN-Japan Comprehensive Economic Partnership, ASEAN-People's Republic of China Comprehensive Economic Cooperation Agreement, ASEAN-Republic of Korea Comprehensive Economic Cooperation Agreement, and Japan-Philippines Economic Partnership Agreement of which was signed and in effect.

The researchers aimed to study possible trade factors that affect bilateral trade between Bangladesh and Philippines. The paper would discuss on issues on what would affect both Bangladesh and Philippines on areas of political relationships, import-export trade, socio-cultural similarities and dissimilarities and the advantages and obstacles needed for a bilateral business venture between the two countries.

Primarily the study would analyze the trade capabilities of both Bangladesh and Philippines and find out the possibility for trade relations. Further, the study aimed to identify the current economic position of both Bangladesh and Philippines as well as compare the export and import trade between them. The study will investigate the existing challenges as well as opportunities for bilateral business between Bangladesh and Philippines. Additionally the study will try to recommend some possible ways of improving the trade and economic relationship further between the countries. Further the study will investigate and analyze the other related and relevant issues like the strengths and weaknesses perceived in the export & import of both the countries.

The researchers hope that this research could assist government agencies of each country to find ways to make better trade agreements and arrangements between the two countries. Further financing institutions would be given qualitative information for policy and approval for granting loans for imports and exports.

Finally, the researchers hope that this research may assist law makers to amend/create laws that would enhance trade of not only between Bangladesh and the Philippines but within the Asia Pacific Countries as well as fellow researcher to divulge into research to find ways of understanding and expanding the trade relations between Asian countries.

Literature review

Discussions about international economic relationships are focusing increasingly on regional and bilateral issues. The North American Free Trade Agreement (NAFTA), the deepening of the European Union, and the potential formation of an Asia—Pacific Economic Community (APEC) have raised questions about what the formation of regional ‘blocs’ mean for the amount of trade and investment within and between these blocs, (Eaton & Tamura). At present the power of bilateral trade between countries is a multidimensional phenomenon. Governments of different countries are focusing on the regional trade organization for the development of business and economy; the bilateral or cross country and cross currency business can play crucial roles in this regard. Past literature claims that exports play important role for the development of Asian countries. No observer of the success of the East Asian exporters can doubt that exports played a key role in accelerating growth. Although the relationship between growth of real per capita GNP and of exports is certainly not perfect (Krueger, 1990).

Although the factors and determinants of bilateral business research have not given much attention, the study of bilateral trade flows has been at the centre of research on international trade flows for almost four decades. Trade costs stemming from geographic distance and Formal trade barriers are an important obstacle to international trade (Trefler, 1995; Anderson and Van Wincoop, 2004).

What factors determine the level of trade that occurs between nations? Why does any given nation trade more with some nations than with others? Are bilateral trade flows of manufactured items explained by the same factors as are raw materials? These questions have received little attention in international trade research, (Srivastava & Green 1986). Srivastava and Green found that the importance of individual trade determinants will depend in part on the type of products being exported.

It is also evident from the previous research that the political stability of the exporter and the cultural similarities of the countries affect the trade between countries. However, observed trade costs do not fully explain international trade flows (Deardorff, 2004), as trade also involves unobserved costs stemming from cultural and institutional differences between countries. The study of M Kabir Hassan (2000) indicated that in the South-East Asia, Bangladesh can be an ideal location for huge foreign direct investment with

amicable and mutually beneficial regional cooperation. His study also mentioned that Bangladesh has a large number of entrepreneurial businessmen who are able to develop and run small and medium scale enterprises. His study also claims that trade in the SAARC region is inhibited by structural rigidities created by political conflicts and removal of such rigidities can open some profitable intra-regional trade channels.

Another study found that the Philippines is a newly industrialized country, Bangladesh a resource importer, and Myanmar a primary resource provider and, thus, the fundamental differences in their development and economic structures provide a strong foundation for comparing the driving factors of their resource use (*Maung et al, 2015.*).

Businesses consume energy and energy consumption may have relation with the economic development of the country. A study (Nasreen & Anwar, 2014) on 15 Asian countries covering the period of 1980-2011 found that the impact of economic growth and trade openness on energy consumption has positive relation.

Bilateral trades are affected by cultural factors. Cultural similarities and dissimilarities play roles in determining the amount of bilateral trade between countries. Besides cultural differences, we also expect institutional factors to affect international trade flows (Kostova, 1997). Primarily the characteristics of a country's institutions like legal systems that enforces the law and its legislature that imposes economic policies mostly determines security in trade. The effectiveness of a country's formal rules affects inter-personal trust and the ways of doing business (Linders et al., 2005). The enforcement of property rights and the adherence to trade contracts with foreign exporters varies significantly between countries (Zhang et al, 2003), and environmental uncertainty can lead to frictions and conflicts between trading partners (Achrolet al., 1983; Skarmeasetal, 2002).

According to the past literature the travel costs and visa issuance process also affect the bilateral trade between countries and the FDI. By raising the costs of travel and deterring some visitors, visa restrictions hamper personal contact across borders, which is detrimental to trade and FDI (Neumayer,2011). If one country unilaterally requires a visa from nationals of the other country with no reciprocal restriction in place by the partner country, this lowers bilateral trade and FDI by up to 19 and 25 per cent, respectively. If both countries require a visa from nationals of the other country, the effect on trade is larger, but less than double, at up to 28 per cent, while the effect on RN is essentially the same as for unilateral restrictions (Neumayer, 2011).

RESULTS AND DISCUSSIONS

Export and Import Statistics of Bangladesh

Observatory Economic Complexity (OEC), named Bangladesh as the 61st largest export economy in the world and the 136th most complex economy according to the Economic Complexity Index (ECI). In 2014 OEC report, Bangladesh exported \$33.4B and imported \$36.9B, resulting in a negative trade balance of \$3.49B. The main export commodities of Bangladesh include knit and non-knit wearing both for men and women, refined petroleum, woven cotton, raw cotton and palm oil.

Further OEC report mentioned that Bangladesh mainly exports to US, UK, France, Spain, Germany, India, Indonesia, China, Singapore and Hong Kong. On the otherhand \$36.9B imports in 2014 made Bangladesh the 59th largest importer in the world. During the last five years the imports of Bangladesh have increased at an annualized rate of 16%, from \$17.5B in 2009 to \$36.9B in 2014. Recently refined petroleum and heavy pure woven cotton are the most leading import commodities of Bangladesh.

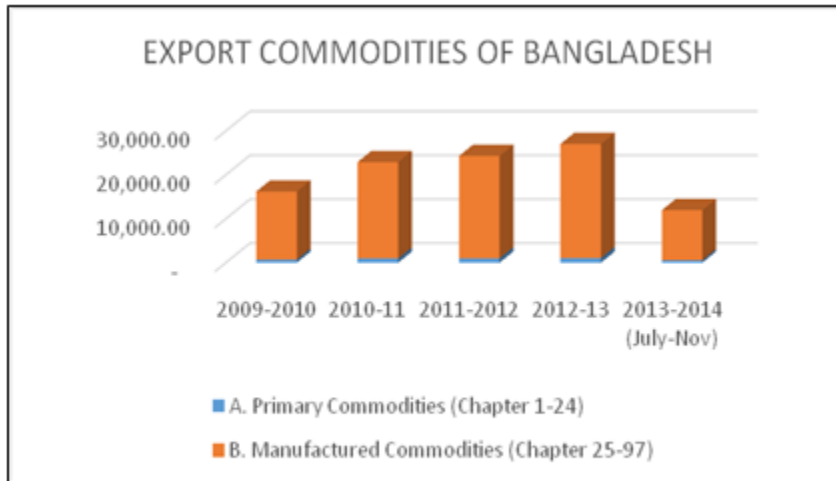


Figure 1: Bangladesh Breakdown of export commodities

The export commodities of Bangladesh (Figure 1) for the period of 2009-10 to 2013-14 classifies two major categories namely Primary and Manufacturing commodities. It could be glimpse that Bangladesh exports much more of its manufactured commodities as compared with the primary commodities. In the year 2009-10 the export of manufacturing commodities was USD 15,517.12 million and from that year it continued to increase until 2012-13. In the year of 2012-13 the export of manufacturing commodities became USD 25,947.78 million from USD 23,300.78 million in the year of 2011-12. But in the following year (2013-14) the export of manufacturing commodities drastically reduced to USD 11,405.32 million. On the otherhand the trend of export of primary commodities shows a fluctuations and the period 2009-10 to 2013-14 the maximum amount of export of primary commodities was USD 1079.58 million in the year of 2012-13 while the lowest export of primary commodities happened in the year of 2013-14 (USD 554.29 million). It is to be mentioned that the main primary export commodities include frozen foods, shrimps, agricultural products, vegetables, tobacco, frozen fish etc. On the otherhand the main manufacturing export commodities include petroleum bi-products, chemical products, pharmaceuticals, plastic products, leathers, cotton, jute & jute goods, knitwears, woven garments, home textile, footwear, engineering products, copper wire, iron steel, electric products and computer services. A details of the categories of the exporting commodities can be found in Appendix- 1.

BBC News timeline confirms that during 2012 to 2013, events like Muslim rioters attack Buddhist villages and shrines in southeast Bangladesh as well as the vetoed Islamic Bill to outlaw criticism of Islam by Prime Minister Sheikh Hasina leads a fear with non-Muslim business men to engage into full business in Bangladesh. Further, in May 2013 European retailers promised to sign an accord to improve safety conditions after more than 1,100 people died in the collapse of a garment factory in Bangladesh. All these events as well as a bit of political unrest may have caused the decrease in the exports.

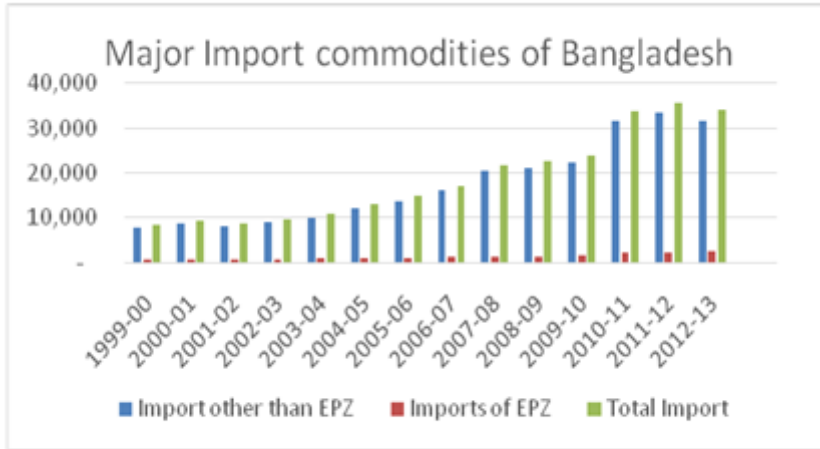


Figure 2: Bangladesh Imports 1999-2013

Figure 2 shows the major import commodities of Bangladesh where the total import commodities during the period of 1998-99 to 2012-13 have been divided into two categories, one is the import of EPZ(Export Processing Zone) and another is the import other than EPZ. The table shows that import of EPZ is only a very small portion of the total import of the country. In the chart it is seen that import of EPZ shows a increasing trend from 1998-99 to 2012-13 except a very small slowdown in the year of 2001-02. The EPZs import became USD 2,505 million in the year of 2012-13 although it was only USD 496 million in 1998-99. The import other than EPZ and the total import continued to increase until the year of 2011-12 when the import other than EPZ and total import became USD 33,402 million and USD 35,516 million respectively. After 2011-12 both the import other than EPZ and the total import started to decrease and the total import dropped to USD 34,084 million while the import other than EPZ became USD 31,579 million in 2012-13. Here it can be said that the total import is dominated by the import other than EPZ. Here it is to be noted that the import other than EPZ mainly includes rice, wheat, edible oil, crude petroleum, POL, chemical, raw cotton, plastic and rubber articles, yarn, textile & articles thereof, iron, steel & other base metals and capital machinery, milk & cream, oil seeds, clinker, sugar, fertilizer, dyeing tanning etc materials and staple fibre. In 1998-99 import of rice was the highest as an individual import commodity and gradually the import of rice is decreasing. The import of rice decreased to USD 30 million only from USD 680 million in the year of 1998-99. And the trends of all other import commodities are seen to be increasing gradually. Specially wheat, edible oil,

crude petroleum, POL, chemical, raw cotton, plastic and rubber articles, yarn, textile & articles thereof, iron, steel & other base metals and capital machinery are being imported by Bangladesh.

It could be gleaned from the Worldometers data that Bangladesh is the number eight largest population with 162 million and estimate of yearly change of 1.19% or 1.9 million increase in population every year. This would necessitate an increase in personal needs where regular produce cannot sustain totally thus increasing imports.

Import and Export statistics of Philippines

OECD (2014) posted that the Philippines is the 41st largest export economy in the world and the 61st most complex economy according to the Economic Complexity Index (ECI). In 2014, the Philippines exported \$80B and imported \$80.7B, resulting in a negative trade balance of \$741M. The top export items of Philippines include integrated circuits, computers, office machine parts, semiconductor devices, cars & planes, helicopters and nickel ore. Philippines export in many countries including mostly in China, Japan, US, Singapore and Hongkong. On the otherhand \$80.7B imports in 2014 made the Philippines 38st largest importer of the world. During the last five years the imports of the Philippines have increased at an annualized rate of 9.7%, from \$50.8B in 2009 to \$80.7B in 2014. The most recent imports are led by Integrated Circuits which represent 12% of the total imports of the Philippines, followed by Refined Petroleum, which account for 7.63%.

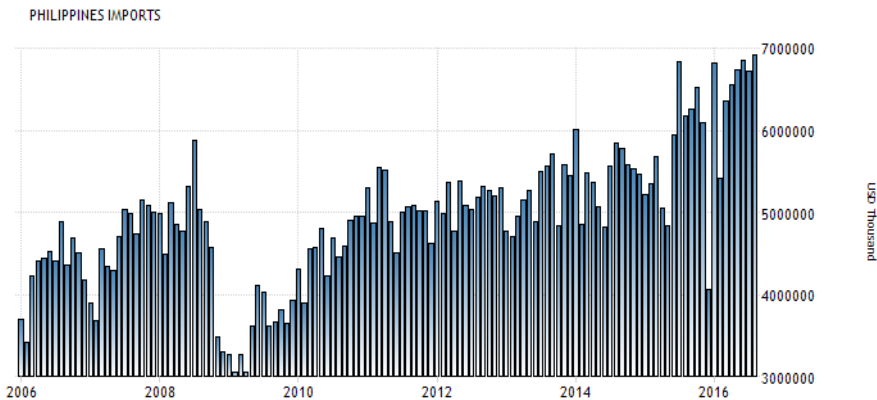


Figure 3. Philippines Imports

Figure 3 shows the trend of import of Philippines from the period between 2006 to 2016 where it is seen that the import trend of Philippines was

fluctuating from 2006 to 2008. After 2008 the import reduced drastically that again started to increase immediately after 2009. From 2010 to 2014 the import trend was fluctuating but continued to increase. Finally in 2016 the import trend of Philippines is seen to be increasing faster although there was a small slow down in the year of 2015.

There was a slowdown in the imports in 2009 was an effect of the global financial crisis. This was further affected a bit by local events (BBC newsline) such as the Mindanao massacre, and safety unrest that happen in the southern side of the Philippines and political climate that the perceived political affairs of President Arroyo as president and the incoming President Aquino coming into play by 2010.

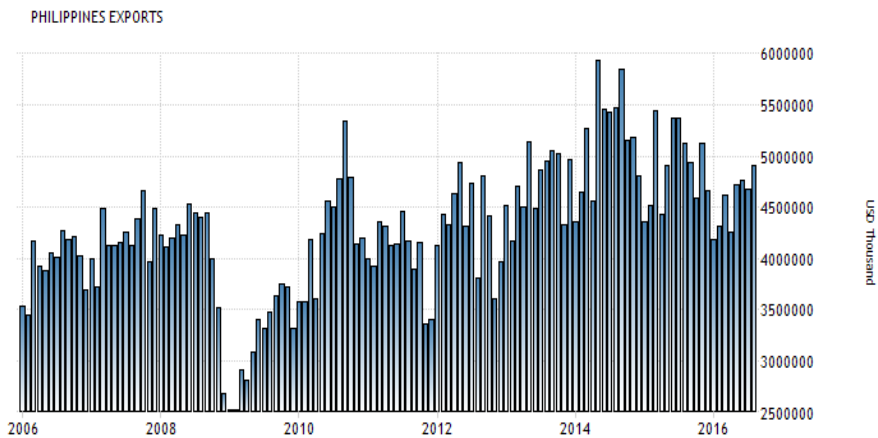


Figure 4: Philippine Export Trends

The export trend of Philippines in Figure 4 above shows that from 2006 to 2008 the export trend was almost fluctuating and after that it was dropped down suddenly in 2009. After 2009 the export again started to increase and peaked in the year of 2014 though there were some small fluctuations during the period. But after 2014 it again started to trend down however recovered at the end of the period.

It could be seen that on figure 4 the effect of the global financial crisis of 2008 – 2010. However, business still goes on as exports goes up during these period but at a slower rate. As the year progresses from 2010 to 2016 there is an increase in both export and imports as there is sign of growth from companies whether national or multinational in nature. Export processing zones in the Philippines has increase in business as President during this period goes out to invite more foreign investment for the Philippines within the investment priority areas of manufacturing, Information Technology and

Business Process outsourcing, Tourism and Agro industrial companies.

Bilateral Relations between Bangladesh and Philippines

The Philippines was among the countries who gave steady and open support to Bangladesh's struggle for liberation, and supported Bangladesh's admission to the United Nations, which was achieved in 1974. Further, when a powerful cyclone hit southern Bangladesh devastating hundreds of villages along the coastal area in November 14, 2007, the Philippines donated PHP 5 million.

On 14 November 2007, a powerful cyclone hit southern Bangladesh devastating hundreds of villages along the country's coastal area. Millions of people were affected and hundreds of thousands became homeless. As a show of solidarity, the Philippines donated PHP 5 million for the Philippines' support for the continuing rehabilitation program for the cyclone victims.

Bangladesh Government in return gave immediate aid to the Philippines after Typhoon Yolanda, with assistance of USD 1 million in humanitarian assistance last 14 November 2013 and the sending of a naval ship with a medical team for the Filipinos affected by Typhoon Yolanda (Haiyan). Square Pharmaceuticals Ltd., a leading Bangladesh pharmaceutical company, also conveyed through the Bangladesh Ministry of Foreign Affairs donation of USD38,000 worth of medicine.

The Embassy of Philippines in Dhaka Bangladesh claimed that industrial manufactures like chemicals, construction materials, machineries/transport equipment/apparatus and parts, metal manufactures and electronics account for the major export by the Philippines to Bangladesh, followed by resource-based products like textile yarns, twine and cordages, mineral products, and other resource-based commodities, consumer manufactures like fashion accessories and other consumer manufactures like paper and other paper products, cosmetics and personal care and household products, and food and food preparations. Further, the increasing economic growth in Bangladesh placed increasing demand for utility vehicles, construction materials, computers, household appliances, farm machinery, automobile spare parts, house ware, and the like coming from the Philippines.

Figure 5 shows the import by Bangladesh from Philippines and the export by Bangladesh to Philippines between 1995-96 to 2014-15. It could be noticed that from 1995-96 to 1999-2000, Bangladesh was exporting more than its imports to the Philippines. Roughly, in 2000-2002 and 2012-2013, there was a sign of close trade balance between the two countries however the impact was not that great. After 2000 – 2001, the exports of Philippines comparatively are more than Bangladesh.

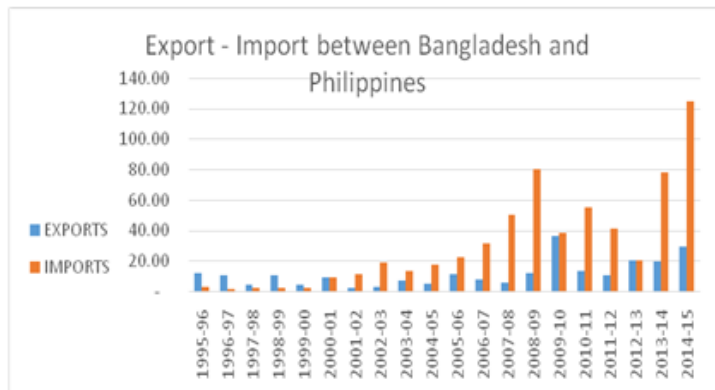


Figure 5. Export - Import Between Bangladesh and Philippines (Bangladesh Data)

During 1995-2000, Bangladesh's amount of export to Philippines was not even mentionable. After 2001-02 Philippines started to increase their export to Bangladesh but the trend of Bangladeshi export to Philippines is seen almost same or a bit fluctuating until 2008-09. Whereas by 2008-09 Philippines's export to Bangladesh reached a very good level that increased to USD 79.76 million in the year of 2008-09 from USD 49.82 million in the year of 2007-08. From the figure it can be mentioned that after 2008-09 Bangladesh's export to Philippines increased suddenly and became USD 35.98 million in 2009-10 while the Philippines's export to Bangladesh dropped drastically in that year. This could be attributed with the effect of the Global Financial Crisis that affected the whole world.

In the year of 2009-10 Export and import of both the countries were almost same. In the following year (2010-11) Philippines's export to Bangladesh again started to increase although in the next two years it decreased and became only USD 20.10 million in the year of 2012-13. In 2010-11 the amount of Bangladeshi exports to Philippines and dropped to USD 10.66 only in the year of 2011-12. The export import of both the countries became exactly same in 2012-13 from where the export of both the countries are gradually increasing but the Philippines export trend is increasing much faster than the export trend of Bangladesh. Finally in the year of 2014-15 the amount of Bangladeshi export to Philippines was USD 29.44 million while the amount of Philippines's export to Bangladesh was USD 124.65 million which is around 4 times of Bangladesh's export.

Further still, in the 21 of April 2015 - The Philippines and Bangladesh signed an agreement to establish a mechanism for a periodic review of bilateral relations. These is seen to move closer cooperation and collaboration between the two countries on various areas to a higher level.

CONCLUSIONS

Both countries has a history of bilateral relations coming since 1972 when the Philippines recognized Bangladesh as a new state. In Asia, growth centers are emerging like that of Bangladesh in South Asia while Philippines in South-Asia. Both are link in models of integration where each country would benefit from this integrations except for some instances beyond each countries control such as the cold relationship of Bangladesh with Pakistan.

Philippines exports primarily integrated circuits, computers and other electronical devises. Bangladesh on the other hand exports textile and its products. Raw materials for each primary products are imported by both parties.

Both countries would attain better bilateral relationship if it would reach a political stability, further development of the energy sector, promote safety and harmonious relationship between each trade partners. Further, bilateral agreements can be strengthen by lightening each country business partners in visa and passport acquisition. Further still, educator who brings capabilities of enhancing nationals of each country be allowed to have easy access to visa and passport acquisition to enhance knowledge and skill transfer. Trade should not only be based on goods and services but also with the possibility of having faculty and student exchanges.

The research suggest that to maximize trade relations between these two countries, a free trade agreement be bounded between both nations to maximize the interest of each country. Further, some businessmen from both countries may have a joint ventures on what commodities would be needed by both countries.

Further, each country should aim to create a country that is political stable, safe and secured from international and locally grown terroristic attacks. Religious as well as cultural respect and exchange be fostered for a bilateral environment.

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