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OPTIONS TO TRADE IN US DOLLAR: BANGLADESH PERSPECTIVE

Abstract

In recent times, Bangladesh has been gripped by an acute dollar crisis, which is an outcome of some external and internal events such as, rapid spread of the novel coronavirus, the outbreak of the Russia-Ukraine conflict and the slow-down of the influx of foreign remittances into Bangladesh. The dollar crunch has led to the devaluation of the Bangladeshi Taka (BDT), an increase in trade imbalance, and a rise in inflation. To address this crisis, the article, while examining potential of barter trade, currency swap and trading in alternative currencies, argues that the options, at present state of Bangladesh's economy, will not be viable owing to some factors e.g., lack of trade complementarity, a significant trade imbalance disfavoring Bangladesh, the nature of current geopolitics and lack of interest on the part of trading partners and business communities to accept a currency other than US dollar (US$). Therefore, the paper concludes that the US$ in the coming days would still remain the dominant currency for Bangladesh in international transactions.

Keywords: Currency Options, Barter Trade, Trade Barriers, Dollar Crisis

1. Introduction

Foreign currency reserves have been regarded as one of the key parameters of the macroeconomic health of any economy, playing the role of stabiliser of the economy during the times of crisis.[1] Globally the US dollar (US$) is considered as the most

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[1] Sajid Amit and Abdullah Al Kafi, "Addressing the dollar crisis by investigating underlying causes, effects, and strategic solutions in emerging economies," *Research in Globalization* 8, (2024): 100187, https://doi.org/10.1016/j.resglo.2023.100187.

widely accepted form of reserve currency. Economies around the world hold the dollar to maintain stability in the value of their own currencies, ensure the competitiveness of the export items, pay-off the foreign debt, make payments of import bills, boost the level of confidence of foreign investors and safeguard against sudden capital flight.[2] However, in recent times Bangladesh, like some other developing economies, has been gripped by an acute dollar crisis as foreign currency reserves have depleted significantly. It causes concerns amongst entrepreneurs, businessmen, policymakers and academicians alike.

The dollar shortages in Bangladesh can be attributed to a host of factors. The crisis is aggravated by the outbreaks of global pandemic and global conflict in the form of Russia-Ukraine war.[3] Also, a considerably sluggish growth in foreign remittances further worsens the crisis over a period of six months.[4] Meanwhile, the value of Bangladesh Taka (BDT) depreciated quite sharply against the US$. While each dollar was sold at BDT 86 in January 2022, its price soared to almost BDT 111 by the end of 2023.[5] Furthermore, the country's over-reliance on import does not help the situation either.

As a consequence of the dollar crunch, the economy of Bangladesh has taken a heavy toll. The import bills have jumped significantly with the price of dollars increased. The dollar shortages made it difficult for local businessmen to open letters of credit (LC) with commercial banks to import essential commodities.[6] This results in an increase in price level, and cost of living for the common people, and a decrease in profitability on the part of small businesses and enterprises.[7]

Should Bangladesh government resort to any alternate strategy to lessen dollar dependency or should it focus on boosting up US$ reserves? This is a vital question that the country is facing now. It is particularly vital in context of the government's plan to implement Vision 2041 which aims to transform the economy into a smart and

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[2] Luis AV Catão and Gian Maria Milesi-Ferretti, "External liabilities and crises," *Journal of International Economics* 94, no. 01 (2014): 18–32, https://doi.org/10.1016/j.jinteco.2014.05.003.

[3] Amit and Kafi, "Addressing the dollar crisis by investigating underlying causes", 2.

[4] Amit and Kafi, "Addressing the dollar crisis by investigating underlying causes", 2.

[5] "Remittance Rate Jumps to TK124 per Dollar," The Business Standard, updated November 8, 2023, https://www.tbsnews.net/economy/banking/remittance-rate-jumps-tk124-dollar-735222.

[6] Sajidur Rahman, "Why is Bangladesh facing a dollar crisis while others are not?" The Business Standard, February 19, 2023, https://www.tbsnews.net/economy/why-bangladesh-facing-dollar-crisis-while-others-are-not-587650; Golam Mowla, "Dollar crisis in most Bangladeshi banks disrupting LC Opening," The Dhaka Tribune, updated November 17, 2022, https://www.dhakatribune.com/business/279231/dollar-crisis-in-most-bangladeshi-banks-disrupting.

[7] Jagran Chakma and Sohel Parvez, "Dollar crisis puts small and medium firms on weaker footing," The Daily Star, updated January 15, 2024, https://www.thedailystar.net/business/economy/news/dollar-crisis-puts-small-and-medium-firms-weaker-footing-3519281.

heavily digitized one and thus requires a seamless flow of bilateral trade and attract investment from foreign investors.

In the meantime, the government of Bangladesh has responded with some policies to moderate the adverse impacts on the economy due to the dollar shortfalls. These, among others, include limiting imports and "lowering ERQ" (exporter's retention quota).[8] Furthermore, the government regulated the foreign exchange market through some measures like, enhancing market surveillance and introducing exchange rate cap.[9] Also, in an attempt to reduce the dollar dependency in international trade, Bangladesh Bank has authorised local businesses to conduct transactions with India in Indian Rupee. This step marks a drive towards alternative trading arrangements wherein there are other modes of transactions like barter trade and currency swap which may reduce reliance on US$, at least theoretically.

Even before the recent global crisis of the dollar, there were discussions on the future of the US$ amidst the slow but increasing tendency of de-dollarisation in many countries around the world. Therefore, a good amount of literature is already available on de-dollarisation, particularly on its drivers, prospects, and challenges.[10] There is also literature on various arrangements like currency swap and trade in local currencies, which may act as an alternative to trading in US$. Literature is available on the objectives and benefits of currency swap,[11] the drivers of the recent currency

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[8] Amit and Kafi, "Addressing the dollar crisis by investigating underlying causes," 7.

[9] Amit and Kafi, "Addressing the dollar crisis by investigating underlying causes," 8.

[10] Nilanjan Banik and Khanindra Ch. Das, "The Story of De-dollarization and Internationalization of the Chinese Renminbi," *Journal of Emerging Market Finance* 23, no. 04 (2024): 471-494; Barry Eichengreen, *Exorbitant Privilege: The rise and fall of the Dollar and the Future of the International Monetary System* (Oxford University Press, 2011); Richard N. Cooper, *The Future of the Dollar* (Policy Brief, Peterson Institute for International Economics, September 2009); Barry Eichengreen, *Managing a Multiple Reserve Currency World* (The Future Global Reserve System: An Asian Perspective, April 2010); Gita Gopinath, Emine Boz, Camila Casas, Federico J. Díez, Pierre-Olivier Gourinchas, and Mikkel Plagborg-Møller, "Dominant Currency Paradigm," *American Economic Review* 110, no. 3 (2020): 677–719*;* Benjamin J. Cohen, "Renminbi Internationalization: A Conflict of Statecrafts" (Chatham House, 2017); Y. W. Cheung and M. Kawai, "Renminbi Internationalization: Achievements, Prospects, and Challenges" (2015); Robert H. Wade, "The Beginning of the End for the US' Dollar Dominance," London School of Economics, updated February 29, 2024, https://blogs.lse.ac.uk/internationaldevelopment/2024/02/29/long-read-the-beginning-of-the-end-for-the-us-dollars-global-dominance/.

[11] David F. DeRosa, *Central Banking and Monetary Policy in Emerging-Markets Nations* (Charlottesville, VA: 2009); Claudio Borio and Gianni Toniolo, "One Hundred and Thirty Years of Central Bank Cooperation: A BIS Perspective," *SSRN Electronic Journal* (2006); Claudio Borio, Gianni Toniolo, and Piet Clement, *The Past and Future of Central Bank Cooperation* (Cambridge: Cambridge University Press, 2008); Aditi Sahasrabuddhe, "Drawing the Line: The Politics of Federal Currency Swaps in the Global Financial Crisis," *Review of International Political Economy* 26, no. 3 (2019): 461–89, https://doi.org/10.1080/09692290.2019.1572639; Beatrice Weder di Mauro and Jeromin Zettelmeyer, "The New Global Financial Safety Net: Struggling for Coherent Governance in a Multipolar System," *CIGI Essays in International Finance* 4 (January 2017); Edwin L.-C. Lai, *One Currency, Two Markets: China's Attempt to Internationalize the Renminbi* (Cambridge: Cambridge University Press, 2021); Naohiko Baba, Frank

swap surge,[12] its relevance for emerging economies,[13] and individual country experience of currency swap.[14] Since India started trade in Rupee as a part of its attempt to internationalise Rupee, studies have also been conducted on this issue, for example, from the perspective of India.[15]

However, studies on what developing nations such as Bangladesh can do in the face of a dollar crisis are rather scant. Though there are a few studies on how Bangladesh can address the ongoing reserve crunch,[16] to the best of knowledge, there has been no academic study so far on the options for Bangladesh which the country can pursue as an alternative to trade in US$. The current article strives to bridge this gap by offering and analysing three options.

In this backdrop, the current article seeks to examine the following question: Are there any viable alternative trading arrangements for Bangladesh? In the process, the paper attempts to discuss the pros and cons of barter trade, currency swap, trade in Rupee with India, and the probable implications for Bangladesh's international trade. The paper argues that switching from US$ to any other medium of transaction is quite contentious because of the dominant role of US$ in global finance, limitations involved with the alternative options, and structural weakness of Bangladesh's economy. As such, in the foreseeable future US$ will still remain as a key reserve currency. Therefore, the Bangladesh government needs to follow a cautious approach in regard to the adoption of alternative trading options.

The article is qualitative in nature and uses secondary data which has been collected from relevant journal articles, books, reports, newspapers and various other documents. The article scrutinizes Bangladesh's situation in comparison to the BRICS nations. The reasons are threefold. First, BRICS countries include the major

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Packer, and Teppei Nagano, "The Spillover of Money Market Turbulence to FX Swap and Cross-Currency Swap Markets," *BIS Quarterly Review* (2008): 73–86.

[12] Shu-Fen Liao and Daniel McDowell, "No Reservations: International Order and Demand for the Renminbi as a Reserve Currency," *International Studies Quarterly* (2016), https://doi.org/10.1093/isq/sqv020; Y. Zhang, J. Gao, and Z. Fu, "Valuing Currency Swap Contracts in Uncertain Financial Market," *Fuzzy Optimization and Decision Making* 18 (2019): 15–35, https://doi.org/10.1007/s10700-018-9284-5; Christophe Destais, "Central Bank Currency Swaps and the International Monetary System," *Emerging Markets Finance & Trade* 52, no. 10 (2016): 2253–66; Ziliang Yu, Xiaomeng Liu, Zhuqing Liu, and Yang Li, "Central bank swap arrangements and exchange rate volatility: Evidence from China," *Emerging Markets Review* 56 (2023): 101044

[13] Camila Villard Duran, *The International Lender of Last Resort for Emerging Countries: A Bilateral Currency Swap?* (GEG Working Paper No. 2015/108, 2015).

[14] Naglaa Nozahie, "The Treatment of Currency Swaps Between Central Banks: Egypt Experience," (Paris, France: Thirtieth Meeting of the IMF Committee on Balance of Payments Statistics, 2017).

[15] Shekhar Hari Kumar and Ila Patnaik, "Internationalisation of the Rupee," *National Institute of Public Finance and Policy (NIPFP)*, Working Paper No. 222 (New Delhi, February 7, 2018).

[16] Amit and Kafi, "Addressing the dollar crisis by investigating underlying causes," 8.

import partners of Bangladesh. Second, they are among the most vocal countries against US$ domination. And, third, they are ahead of others in seeking and offering alternatives to trade in dollars.

The article is structured as follows. The second section provides a brief account of the importance of the US$ in the global economy. The third section explains barter trade, currency swap arrangement and trade in Rupee. The fourth section provides some insights into the likely implications of these options for Bangladesh. The last section concludes.

2. The Relevance of US$ in the Global Economy

The sustainability of the US$ as the most important international currency or vehicle currency is quite remarkable. The dollar has been widely accepted around the world to settle payments and transactions in international trade and finance. Many nations hold the dollar as their premier reserve currency. Exporters from most of the countries accept their payments in US$, and the majority of the traders use the dollar as the trade invoicing currency.[17] Such is the dominance of dollar in the international monetary system that this currency has been considered “the world’s monetary lingua franca”.[18]

What makes US$ the most relevant currency in the international monetary system? There is little consensus on this issue in the literature. From a historical point of view, Eichengreen (2010) claimed that the dollar’s relevancy as an international currency might be attributed to its continuity as an anchor currency. Studies also reported a correlation between the economic might of the US and US$. Mundell (1993) mentioned that the strength of the dollar has been derived from the greater power status of the US in the global political and economic spectrum. By contrast, Cohen (2013) argued the other way around. He stated that the strength of the dollar made the US a great power. Nevertheless, US’s greater influence over global trade and financial transactions was instrumental in driving dollar’s role in the world economy.[19] Also, the creation of a central bank in the US under the Federal Reserve Act 1913 has been regarded as a turning point for the US$.[20]

[17] Gopinath et al., “Dominant Currency Paradigm,” 677.

[18] Barry Eichengreen, *Exorbitant Privilege: The Rise and Fall of the Dollar and the Future of the International Monetary System* (Oxford: Oxford University Press, 2011).

[19] M. Doval, “The Role of the United States Dollar in the Global Economy,” bachelor thesis, (unpublished, 2014).

[20] Barry Eichengreen and Marc Flandreau, “The Federal Reserve, the Bank of England, and the Rise of the Dollar as an International Currency, 1914–1939,” *Open Economies Review* 23, no. 1 (2011): 57–87, https://doi.org/10.1007/s11079-011-9217-1.

Prior to the ascendancy of the dollar, British sterling was the most influential currency in the global monetary system. The dollar gradually started to surpass the pound sterling as an international currency during the beginning of the twentieth century, when the US economy grew substantially.[21] Its GDP and international trade became larger than those of the UK.[22] In fact, in this period, the US was well ahead of the UK in terms of total population, per capita industrialisation, manufacturing output, and industry potential.[23] Particularly, the dollar became dominant as a global currency around the 1920s when it was employed to finance world trade.[24]

However, the transformation of the US$ into a global currency was rather slow since British sterling still had its relevance in the global monetary system. Sterling managed to stay influential due to factors like the devaluation of the US$ against Sterling in the early 1930s, the UK's influential roles in global politics and economics, and London's status as the most important global financial hub.[25] However, the creation of the Bretton Woods System in the mid-1940s, coupled with the impact of Second World War on the British economy brought about a significant change in the order of world monetary system.[26]

In fact, the Second World War marked the decline of British sterling. The UK's political and economic command over other countries was on the wane as this once great power took a heavy blow from the war. Furthermore, the formation of the Bretton Woods System in 1944 consolidated the position of the US$.[27] The Bretton Woods System led to the global dominance of the US$ as the leaders of 44 nations came to a consensus that the new global monetary system would be encircled around the dollar.[28] Under this system, most of the nations pegged their respective currencies to the US$.[29] The dollar prevailed as the key currency in the global monetary system until the collapse of the Bretton Woods System in the early 1970s.

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[21] Doval, "Role of the United States Dollar."
[22] Doval, "Role of the United States Dollar."
[23] Paul Kennedy, *The Rise and Fall of the Great Powers: Economic Change and Military Conflict from 1500 to 2000* (New York: Random House, 2010).
[24] Eichengreen and Flandreau, *Exorbitant Privilege*,
[25] Doval, "Role of the United States Dollar," 25.
[26] Robert A. Mundell, "International Monetary Reform 2011," presentation at China G-20 Seminar, Nanjing, PRC, March 31, 2011, http://robertmundell.net/ebooks/free-downloads/ (accessed October 18, 2024). Adam Tooze, "The Rise and Fall and Rise (and Fall) of the US Financial Empire," *Foreign Policy*, March 15, 2021; Zachary D. Carter, *The Price of Peace: Money, Democracy, and the Life of John Maynard Keynes* (New York: Random House, 2020); Eichengreen and Flandreau, "The Federal Reserve, the Bank of England," 57.
[27] Carter, *The Price of Peace.*
[28] Doval, "The Role of the United States Dollar in the Global Economy," 26; Jeffrey Frankel, "On the Dollar," essay written for the entry "The Dollar" in *The New Palgrave Dictionary of Money and Finance* (1991).
[29] Doval, "The Role of the United States Dollar in the Global Economy," 26.

As the Bretton Woods System ended, the countries moved to a flexible or floating exchange rate regime from a pegged or fixed exchange rate regime.[30] Under this new regime, the countries could freely set the exchange rate of their national currency against the dollar. Although the importance of the dollar as a global currency diminished when the Bretton Woods System collapsed, the US$ was not replaced by another currency.[31] In fact, the US$ held on to its status as the world's premium currency with noticeable changes in the exchange rate regime.[32]

However, empirical evidence on the future of the US$ as a global anchor currency is rather mixed. On one hand, a number of studies have argued that US$ would prevail owing to the strength and depth of the US economy and financial market, its military might, the level of confidence people have in the dollar, and the scale economies of the US.[33] Conversely, some studies have raised doubts and posed questions about the future of the dollar. A number of researchers have identified some factors that might lead to the downfall of the dollar. These include lesser US influence on the global economy, a large current account imbalance and the federal debt of the US, "trade and budget deficit", high inflation in the USA and the devaluation of the US$.[34] A study by Doval (2014) pointed out three-pronged challenges faced by US$. The introduction of the Euro in the major European economies, financial debacles in the US in the late 2000s, and the rise of China posed the main threats to the dominance of the dollar as a vehicle currency.[35] In recent times, events like the outbreak of the Novel coronavirus and the beginning of the Russia-Ukraine war also questioned the future of the dollar.[36]

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[30] Doval, "The Role of the United States Dollar in the Global Economy," 26.

[31] Peter B. Kenen, *The Role of the Dollar as an International Currency*, Occasional Papers No. 13 (New York: The Group of Thirty, 1983).

[32] Kenen, "The Role of the Dollar as an International Currency," 4.

[33] Cooper, *The Future of the Dollar*; Barry Eichengreen, *Managing a Multiple Reserve Currency World: The Future Global Reserve System: An Asian Perspective* (April 2010); Carol Bertaut, Bastian von Beschwitz, and Stephanie Curcuru, "The International Role of the U.S. Dollar: Post-COVID Edition," *FEDS Notes* (Washington: Board of Governors of the Federal Reserve System, June 23, 2023), https://doi.org/10.17016/2380-7172.3334; David Harvey, *A Brief History of Neoliberalism* (Oxford: Oxford University Press, 2007).

[34] Kalim Siddiqui, "The US Dollar and the World Economy," *The US Dollar and the World Economy* 6, no. 1 (2020): 21–44, https://doi.org/10.30958/ajbe.6-1-2; Benjamin J. Cohen, "Currency and State Power," in *Back to Basics: State Power in a Contemporary World*, ed. Martha Finnemore and Judith Goldstein (New York: Oxford University Press, 2013), 159–76; Doval, "The Role of the United States Dollar in the Global Economy," 24.

[35] Doval, "The Role of the United States Dollar in the Global Economy," 23; Siddiqui, "The US Dollar and the World Economy".

[36] Carol, Beschwitz and Curcuru, "The International Role of the U.S. Dollar," 1; Henry M. Paulson Jr., "The Future of the Dollar: US Financial Power Depends on Washington, Not Beijing," *Foreign Affairs*, May 19, 2020, 1–8.

Despite all the challenges, the immediate future of the dollar as an international currency appears to be more or less smooth. The dollar weathered economic setbacks like global financial crises in the opening decade of 2000 as this event did not diminish the global demand for the dollar.[37] To fulfill the demand, the US Federal Reserve supplied a bulk amount of the US$ to global investors.[38] The threat of Chinese currency to the US$ also looks preeminent because of China's weaknesses in its financial market.[39]

Furthermore, in a post-Covid world, which is marked by a global conflict (the Russia-Ukraine war) and US's sanction on the Russian economy, the dollar as an international currency is still going strongly.[40] Although by 2022, the US share in world GDP fall to only 25 per cent from 40 per cent in the 1960s, US$ accounted for roughly 60 per cent of the global foreign exchange reserve.[41] For global investors, the dollar still remains a well-accepted currency. By the end of 2022, foreign investors owned Treasury Securities worth US$ 7.4 trillion.[42] For the same period, it has been estimated that foreigners had US$ 1 trillion at their disposal in the form of bank notes.[43]

Moreover, the dollar remains acceptable and popular amongst international traders as a medium of exchange. From 1999 until 2019, US$ has been employed in roughly 80 per cent of global export invoicing.[44] Even in Europe, where the Euro is the dominant medium of exchange, the share of US$ in export invoicing has been slightly over 20 per cent.[45] From 2000 to 2022, the usage of the dollar as a global anchor currency remained stable with an index of 70, followed by the Euro, which has an index of approximately 20 only.[46]

3. Alternatives to trade in US$

As mentioned before, the ongoing dollar crisis in Bangladesh has strained its economy and businesses. This current section explains some possible alternatives to

[37] Paulson, "The future of the dollar," 1.
[38] Paulson, "The future of the dollar," 1.
[39] Kalim, "The US dollar and the world economy," 36; Paola Subacchi, *The People's Money: How China Is Building a Global Currency* (New York: Columbia University Press, 2016), https://doi.org/10.7312/suba17346.
[40] Carol, Beschwitz and Curcuru, "The International Role of the U.S. Dollar," 1.
[41] Siddiqui, "The US dollar and the world economy"; Carol, Beschwitz and Curcuru, "The International Role of the U.S. Dollar," 2.
[42] Carol, Beschwitz and Curcuru. "The International Role of the U.S. Dollar," 2.
[43] Carol, Beschwitz and Curcuru. "The International Role of the U.S. Dollar," 3.
[44] Carol, Beschwitz and Curcuru. "The International Role of the U.S. Dollar," 3.
[45] Carol, Beschwitz and Curcuru. "The International Role of the U.S. Dollar," 4.
[46] Carol, Beschwitz and Curcuru. "The International Role of the U.S. Dollar," 4.

the use of US$ in international trade. These alternatives are barter, currency swap and trade in Rupee.

3.1 Barter

Prior to the emergence of currency, barter was the one and only form of trade. However, in contrast to popular belief, barter did not disappear after the advent of the market economy. Barter has not only coexisted with the market economy, with the penetration of technology in trading, barter has become more organised, particularly at retail and corporate levels.[47] There are three types of barter – retail barter, corporate barter, and international barter (counter-trade). The first two types involve private businesses while in the third category, trade is conducted between two state parties.

Existing literature generally agrees on the rising trend in barter of all types (including counter-trade), though the estimates differ significantly from 1 per cent (IMF) to 25 per cent (US Department of Commerce) of total world trade.[48] The present article will mainly discuss the case of international barter (counter-trade).

Historically, international barter or counter-trade has been associated with crises. In fact, modern counter-trade practices began with the Great Depression in 1929, which prompted many European countries to engage in barter agreements. Germany, for example, used barter at that time to ensure the supply of food and raw materials.[49] During the 1970s oil price shock, counter-trade flourished again. Faced with deteriorated terms of trade, most of the non-oil exporting LDCs increasingly embarked on countertrade to compensate for their lagging export earnings.[50] This period also saw an upsurge of countertrade activities between the US on one hand and the LDCs and East European countries on the other hand. A combination of high level of indebtedness and overvalued currencies compelled the latter two groups to engage in countertrade instead of traditional trading.[51]

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[47] John Taskinsoy, "The Reincarnation of Barter Trade & Barter Economy," *SSRN Electronic Journal*, May 2023, https://doi.org/10.2139/ssrn.4456717; Daniel O. Rice, "Barter's Back! Internet Barter: The Recent Resurgence of an Ancient Practice," *Association for Information Systems AIS Electronic Library (AISeL)*, December 2003, https://aisel.aisnet.org/cgi/viewcontent.cgi?article=1473&context=amcis2003.

[48] Günther G. Schulze, "Reasons Behind Barter Reconsidered," *Diskussionsbeiträge - Serie II*, No. 103 (Konstanz: Universität Konstanz, Sonderforschungsbereich 178 - Internationalisierung der Wirtschaft, 1990).

[49] Ozgul Uyan, "Barter as an Alternative Trading and Financing Tool and Its Importance for Businesses in Times of Economic Crisis," *Journal of Economics, Finance and Accounting* 4, no. 03 (2017): 241–51, https://doi.org/10.17261/Pressacademia.2017.696.

[50] Adrian E. Tschoegl, "International Barter," *Alfred P. Sloan School of Management, Massachusetts Institute of Technology (MIT) Working Paper* #996-78 (May 1978).

[51] Scott J. Lochner, "Guide to Countertrade and International Barter," *The International Lawyer* 19, no. 3 (1985): 619–24.

According to Taskinsoy (2023), the tendency of embarking on countertrade at times of crisis has been observed in recent times too. Such practice was observed during the Great Financial Crisis of 2008, the sovereign debt crisis of 2009-2012, and the latest Covid-19 pandemic.[52] In recent times, the sanctions on Iran and Russia and their consequent attempts at countertrade also show the use of this alternative trade arrangement as a way of avoiding economic crises. In the latest development, during the recent financial crisis in Pakistan, the country identified 26 commodities to barter with Afghanistan, Iran, and Russia.

Countries use counter-trade not only to avoid financial crises but also to foster export and achieve other economic and political gains. The Petrocaribe agreement of Venezuela could be an example. Under this agreement, Venezuela conducted a barter of oil in exchange for food, medicine, and building supplies from 18 Caribbean countries. The PetroCaribe also allowed these countries to settle their debts by providing goods and services to Venezuela.[53] Other such examples include China's purchasing mines from some African countries for making infrastructure investments, Saudi Arabia's purchasing food from Asian countries for oil supply, US' sale of atomic research reactor to Ghana in exchange for lumber, US' sale of tractors to Sudan in exchange for cotton etc.[54]

As the historical examples show, counter-trade usually involves essential and strategic goods.[55] Therefore, countries endowed with such resources usually pioneer in the practice of counter-trade. The above discussion also suggests that economic compulsions such as the exchange rate of domestic currency, a tightened foreign exchange reserve, or other economic or financial crises, including sanctions, act as the primary drivers of counter-trade. There are, however, political drivers too. As Schulze (1990) argues, given the economic inefficiency of counter-trade, it makes sense only in the presence of interventions in national and international markets. According to him, counter-trade is practiced in many LDCs and centrally-planned economies due to the presence of individuals or groups who benefit from it.[56] On the other hand, referring to the case of the oil price shock in the 1970s, Vora (1986) argued that many times the hesitation of developed countries in providing credit and foreign aid to LDCs and developing countries at times of crises encourages them to opt for countertrade instead.[57]

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[52] Taskinsoy, "The Reincarnation of Barter Trade & Barter Economy," 10.
[53] Taskinsoy, "The Reincarnation of Barter Trade & Barter Economy," 37.
[54] Uyan, "Barter as An Alternative Trading," 292.
[55] Uyan, "Barter as An Alternative Trading," 290.
[56] Schulze, "Reasons behind barter reconsidered".
[57] Rajeshri Vora, *Barter and Countertrade: Implications for U.S. Trade* (Oklahoma State University, July 1986).

3.2 Currency Swap

Currency swap involves the use of reciprocal currencies between two concerned countries. At the inception of currency swap, the equivalent principal amounts are exchanged between them at the spot rate, which they return over a specified period of time. Swaps offer a means to hedge against exchange rate risk over the long term.[58] At present, China, the second-largest global economy, has the highest amount of currency swap which amounts to approximately 3000 billion.[59]

Currency swap markets emerged in the 1990s to facilitate the trading of currency basis swaps, which involve exchanging floating rate payments in one currency for another. In the 2000s, the trading volume of currency swaps grew due to globalisation and the growth of financial markets.[60] The practice of currency swap increased even further following the Global Financial Crisis in 2008.[61] At that time, currency swap was used extensively by European countries for financial stabilisation. In 2013, the central banks of the US, the UK, Canada, Japan, Switzerland, and the EU established permanent currency swap lines to be used in times of crises. The practice of currency swap among the developed countries again increased during the Covid-19 pandemic.[62]

The present swap agreements made by the People's Bank of China (PBoC) with foreign central banks differ from previous ones in that they are primarily driven by strategic purposes aimed at promoting the internationalisation of the RMB in the long run.[63] Since 2008, PBoC has expanded its swap network by collaborating with 37 central banks across six continents. This network, alongside the Asian Infrastructure Investment Bank and the Belt and Road Initiative, has encouraged China to move for

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[58] David Bock and Christine I. Wallich, *Currency Swaps: A Borrowing Technique in a Public Policy Context*, World Bank Staff Working Paper No. 640 (Washington, D.C.: World Bank, 1984).

[59] Yi Zhang, Jinwu Gao, and Zongfei Fu, "Valuing Currency Swap Contracts in Uncertain Financial Market," *Fuzzy Optimization and Decision Making* (Print), February 1, 2018, https://doi.org/10.1007/s10700-018-9284-5.

[60] Naohiko Baba and Frank Packer, "Interpreting Deviations from Covered Interest Parity During the Financial Market Turmoil of 2007–2008," *BIS Working Paper* 33, no. 11 (November 2009): 267, https://doi.org/10.1016/j.jbankfin.2009.05.007.

[61] Baba and Packer, "Interpreting deviations from covered interest parity," 1.

[62] Benn Steil, Benjamin Della Rocca, and Dinah Walker, "Central Bank Currency Swaps Tracker," *Council on Foreign Relations*, updated February 9, 2024, https://www.cfr.org/article/central-bank-currency-swaps-tracker.

[63] Beatrice Weder di Mauro and Jeromin Zettelmeyer, *The New Global Financial Safety Net: Struggling for Coherent Governance in a Multipolar System* (CIGI Essays in International Finance 4, January 2017); Edwin L-C. Lai, *One Currency, Two Markets: China's Attempt to Internationalize the Renminbi* (Cambridge University Press, 2021); Benjamin J. Cohen, *Renminbi Internationalization: A Conflict of Statecrafts* (Chatham House, 2017); Y. W. Cheung and M. Kawai, *Renminbi Internationalization: Achievements, Prospects, and Challenges* (2015).

international adoption of the RMB.[64] The bilateral RMB local currency exchange lines serve as a liquidity facility for offshore trading, ensuring market stability and connecting China's financial sector with the global market. They are also seen as a fallback measure for trade settlements.[65]

Studies have found that big economies, geographically close to China,[66] and experiencing greater economic integration with the country are more likely to engage in currency swap with China.[67] Destais (2016), on the other hand, observes that swap agreements with the People's Bank of China (PBoC) appear to be less burdensome than other central bank swap networks due to a lack of policy conditionality or supervision. This could inspire some countries to consider China's swap lines as a viable substitute.[68]

In 2013, Pakistan used around $600 million from its swap arrangement with China to bolster its foreign reserves and prevent a currency crisis ahead of the elections.[69] Argentina utilized its swap line with China in 2014 to address a scarcity of reserves that posed a risk of a currency crisis during the period of the elections.[70] China did not directly supply US$ to its swap partners, but Pakistan and Argentina successfully exchanged their Chinese yuan for US$ in the offshore RMB market. This allowed them to release pressure on their existing dollar reserves.[71] During the recent foreign exchange reserve crisis, Sri Lanka also engaged in a US$1.5 billion currency swap with China.[72]

3.3 Trade in Rupee

The arrangement of trade in Rupees can be seen as a part of the global tendency toward currency diversification in general and India's drive for the

[64] Christophe Destais, "Central Bank Currency Swaps and the International Monetary System," *Emerging Markets Finance & Trade* 52, no. 10, https://doi.org/10.1080/1540496x.2016.1185710.
[65] Zhitao Lin, Wenjie Zhan, Yin-Wong Cheung, "China's Bilateral Currency Swap Lines," *China & World Economy*, 24 no 06, https://doi.org/10.1111/cwe.12179
[66] Shu-Fen Liao and Daniel McDowell, "No Reservations: International Order and Demand for the Renminbi as a Reserve Currency," *International Studies Quarterly* 60, no. 02, https://doi.org/10.1093/iq/sqv020..
[67] Zhang, Gao and Fu, "Valuing Currency Swap Contracts in Uncertain Financial Market," 2
[68] Destais, "Central Bank Currency Swaps and the International Monetary System," 2.
[69] "Foreign Policy," *Pakistan Perspectives* 18, no. 2 (2013): 204-246.
[70] Ken Parks, "Argentina Central Bank Borrows $814 Million under China Currency Swap," Wall Street Journal, October 30, 2014, https://www.wsj.com/articles/argentina-central-bank-borrows-814-million-under-china-currency-swap-1414704667.
[71] Ben Steil and Dinah Walker, "Are China's RMB Swap Lines an Empty Vessel?" Council on Foreign Relations, blog post, May 21, 2015, https://www.cfr.org/blog/are-chinas-rmb-swap-lines-empty-vessel.
[72] "Sri Lanka Boosts FX Reserves with Lift Chinese Swap," Reuters, December 29, 2021, accessed April 18, 2024, https://www.reuters.com/markets/currencies/sri-lanka-boosts-fx-reserves-with-lift-chinese-swap-2021-12-29/.

internationalisation of Rupee in particular. As discussed before, following the Great Financial Crisis in 2008, China embarked on an ambitious project of RMB internationalisation, which was soon followed by India. The Reserve Bank of India (RBI) commissioned two studies in 2010 and 2011, both of which suggested a cautious approach, highlighting the limitations which among others includes lower presence in global trade and partial capital account convertibility. The studies further recommended that India "should start by increasing the role of the Rupee in its local region, where the Renminbi has taken a lead over the Rupee".[73] It is in this context, the RBI initiated its Rupee trade settlement mechanism through which countries can engage in trade transactions utilising the Rupee instead of US$. In July 2023, Bangladesh became the 19th nation to be engaged in a bilateral trade agreement with India to conduct trade transactions in Rupee. Before Bangladesh, a total of 18 nations, including Russia, Germany, the United Kingdom, Singapore, Sri Lanka, Malaysia, Oman, and New Zealand, had already initiated trade in Rupee.

The case of the India-Russia Rupee trade is a classic example of the challenges involved in bilateral trade agreements in national currencies. In 2018, the imposition of US sanctions had an impact on India's military payments to Russia, prompting talks on the possibility of conducting commerce between the Rupee and the Russian ruble.[74] Later, India used this arrangement to import oil from Russia. Between April 2022 and February 2023, India's imports from Russia increased nearly five times which worth US$ 41.56 billion. The Russian-Indian trade negotiations reached a stalemate in May 2023 when India wanted the trade transactions to be conducted in Rupee while Russia was wary about the stockpile of Rupees which was not a convertible currency. The Russian Central Bank estimated that if such mechanism continued, Russia would end up with an annual Rupee surplus of more than US$ 40 billion, given the large trade imbalance in its favour. The two countries finally worked out a middle-ground, with India paying for Russian oil with Emirati dirhams.[75]

4. Options to Trade in US$

Bangladesh's total trade is 130 billion US$ of which 99 per cent is conducted in US$. Amidst a declining foreign exchange reserve, the country is now striving for alternative trading arrangements to moderate the impact of the reserve crunch. This

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[73] Shekhar Hari Kumar and Ila Patnaik, "Internationalisation of the Rupee," Working Paper no. 222 (New Delhi: National Institute of Public Finance and Policy, February 7, 2018).

[74] "Russia Pitches for Return to Rupee-Rouble Trade," The Telegraph, October 6, 2018, UN-COMTRADE Database.

[75] Robert H. Wade, "The Beginning of the End for the US Dollar Dominance," London School of Economics, February 29, 2024.

section will investigate whether Bangladesh has any viable options to trade in dollar. For that purpose, it will explore the possibility of three options—barter, currency swap and trading in a foreign currency other than dollar. Regarding the third option, the section will examine the case of trade in Rupee offered by India.

4.1 Counter-trade

Setting aside the challenges involved in the process of counter-trade arising from price determination and quality ensuring issues, this section examines whether Bangladesh has any option for countertrade with the selected BRICS countries.

The analysis starts with Iran, which is likely to be the most interested in counter-trade arrangement. Iran's major export items are crude petroleum, plastic ingredients, iron, copper, and other minerals, organic chemicals, and nuts and fruits. Refined petroleum is a major import item for Bangladesh, but due to a lack in refining capacity of Iran,[76] there is little opportunity that Bangladesh can opt for bartering Iranian oil with other products as some other countries do.

Plastic ingredients could be a potential item for barter since plastic is a thriving industry in Bangladesh[77] and it depends on imported raw materials.[78] Bangladesh imports plastic ingredients from China, the Middle East, and some Southeast Asian countries.[79] Iran could be a good alternative source of raw materials for the plastic industry. The problem is that there is no suitable item that Bangladesh can offer Iran in exchange. Most of Iran's major import items (for example, broadcasting equipment, electrical machineries, pharmaceutical ingredients, vehicles, and grains) are also included in the import list of Bangladesh. It can be mentioned here that in 2022, Iran imported 1.78 billion US$ worth of fine rice and 252 million US$ worth of tea.[80] Iran imports these two items from India and Sri Lanka, two neighboring countries of Bangladesh. However, despite being a major rice producer, Bangladesh has not yet established itself as a rice exporter. This leaves Bangladesh with the only option; tea as a potential item of barter with Iran.

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[76] *Dalga Khatinoglu, "How Iran's Refineries Became Unprofitable and Unhealthy," Iran International, February 12, 2024, https://www.iranintl.com/en/202402124152.*

[77] "Plastic Goods Export Triples in 13 Years," The Daily Star, January 22, 2024, https://www.thedailystar.net/business/news/plastic-goods-export-triples-13-years-3525486.

[78] Khondaker G. Moazzem and Farzana Sehrin, "Export-Oriented Plastic Industry of Bangladesh: Opportunities and Challenges," Centre for Policy Dialogue (CPD), January 27, 2015, https://cpd.org.bd/export-oriented-plastic-industry-bangladesh-khondaker-golam-moazzem-farzana-sehrin-cpd/.

[79] Rokon Mahmud with Rafikul Islam, "Raw Material Import Costs Rise up to 70%," The Business Post, July 31, 2022, https://businesspostbd.com/front/2022-07-31/raw-material-import-costs-rise-up-to-70-2022-07-31.

[80] OEC World, https://oec.world/en/profile/country/irn?yearlyTradeFlowSelector=flow1

Thus, the existing trade pattern suggests that there is little scope for Bangladesh to practice barter with Iran. Iran's protectionist policies are stemmed from its drive for survival amidst sanctions which further limit the scope as it bans the import of RMG and leather goods, which are major export items of Bangladesh.[81]

Bangladesh's potential for counter-trade is not much brighter for Brazil either. Brazil accounts for about half of Bangladesh's raw sugar import and 17 per cent of raw cotton imports which amount to 453 million US$ and 490 million US$ respectively.[82] Bangladesh also imports half of its soybeans from Brazil, amounting to 343 million US$.[83] Brazil wants to increase its share of Bangladesh's 3.5-4.0 billion US$ import of raw cotton.[84] On the other hand, Bangladesh is eager to boost its RMG exports to Brazil to around 800 million US$, which is only around 50 million US$.[85] Thus, in the case of Brazil vis-à-vis Bangladesh, though a few items match in the reciprocal export import lists, given the existing trade pattern heavily tilted towards Brazil, the scope for Bangladesh to save dollars through counter-trade is limited at present.

Another issue with counter-trade between the two countries is the varying nature of products. Since counter-trade requires matching demand and supply items and involves price and standard issues, it usually involves essential primary commodities or raw materials. But in the case of Bangladesh and Brazil, the item that the former can offer is a consumer product (RMG), which is difficult to match against the primary commodity and raw material offered by the latter (raw sugar and raw cotton).

For Russia, major export items include fuels (petroleum, gas, and coal), minerals, machinery, fertilizers, and agricultural products (wheat, corn etc.). Though petroleum could have been a lucrative item for counter- trade between Bangladesh and Russia, at present it is not viable for Bangladesh to buy petroleum from the latter due to

[81] "BD Mission Suggests Direct Shipment of Goods to Iran Thru Sea Route," Financial Express, May 29, 2022, https://thefinancialexpress.com.bd/trade/bd-mission-suggests-direct-shipment-of-goods-to-iran-thru-sea-route-1653791656.

[82] "Brazil," OEC World, accessed October 22, 2024, https://oec.world/en/profile/country/bra.

[83] "Bilateral Product: Soybean Oil," OEC World, accessed October 22, 2024, https://oec.world/en/profile/bilateral-product/soybean-oil/reporter/bgd?redirect=true.

[84] Saddam Hossain, "Brazil Wants to Increase Cotton Supply in Bangladesh," Dhaka Tribune, June 15, 2022, https://www.dhakatribune.com/business/272584/brazil-wants-to-increase-cotton-supply-in.

[85] "Dhaka Eyes $400M RMG Exports to Latin America," BGMEA, Source: *The Daily Star*, https://www.bgmea.com.bd/page/Dhaka_eyes_%24400m_RMG_exports_to_Latin_America#:~:text=Brazil's%20readymade%20garment%20import%20amounted,knitwear%20and%20%2416.688%20million%20wove).

refining related issues.[86] In 2021, in the year preceding the recent sanction, Bangladesh's import from Russia was 1.72 billion US$ of which the majority was machinery item; other items included iron, wheat, fertilizer etc. On the other hand, Bangladesh's export to Russia was 1.27 billion US$ which mainly consisted of RMG. Amidst the withdrawal of various international brands from Russia due to the Russia-Ukraine war, the former has expressed interest in sourcing its RMG from Bangladesh while increasing its exports of wheat and fertilizer to Bangladesh.[87] Here also, matching the demand and supply items would be difficult due to their different natures.

In the case of Bangladesh-India trade, several studies have found that the latter has greater comparative advantage over the former.[88] There is high complementarity between Bangladesh's imports and India's exports, but the complementarity index is low between Bangladesh's exports and India's imports.[89] It implies that Bangladesh has more scope for import from India but less scope for export to it. This further implies limited potential for the expansion of counter-trade even if the parties show interest in counter-trade.

Similar is the case with China, the largest import partner of Bangladesh. Over the period, 2005-2012, China's trade intensity with Bangladesh increased from 2.43 to 2.85 per cent, while in the same period, China's trade complementarity with Bangladesh fell from 1.73 to 1.35 per cent.[90] It implies that trade between Bangladesh and China has grown, but the growth has been tilted in favor of China, which indicates lack of potential of counter-trade between these two countries.

Thus, the above discussions suggest evidence that there is a very limited scope of counter-trade for Bangladesh. Additionally, though some of the countries discussed above have expressed interest in enhancing trade relations with Bangladesh, none

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[86] Saiful Islam, "Russian Participation in Bangladesh Economy May Increase," Bonik Barta, March 4, 2024, https://bonikbarta.net/home/news_description/375578.

[87] *Ibid*; "Russia Proposes Wheat Export to Bangladesh, Discusses Bilateral Trade Expansion," *Dhaka Tribune*, January 18, 2024, https://www.dhakatribune.com/bangladesh/foreign-affairs/337076/russia-proposes-wheat-export-to-bangladesh.

[88] Anisul M. Islam, "Bangladesh Trade with India: Trends and Patterns," *Athens Journal of Business & Economics* 5, no. 02 (2019): 123–40, https://www.athensjournals.gr/business/2019-5-2-2-Islam.pdf.

[89] Arifa Tabassum, "Trade Intensity and Trade Complementarity between India and Bangladesh," *Webology* 18, no. 01 (2021): 325–34, https://www.webology.org/data-cms/articles/20220219105147amwebology%2018%20(5)%20-%2074%20pdf.pdf.

[90] Ishfaq Malik and Ajaz Rather, "China's Trade Intensity with South Asian Countries," *Journal of Economics and International Finance* 10, no. 04 (April 2018): 30–42, https://doi.org/10.5897/JEIF2015.0682.

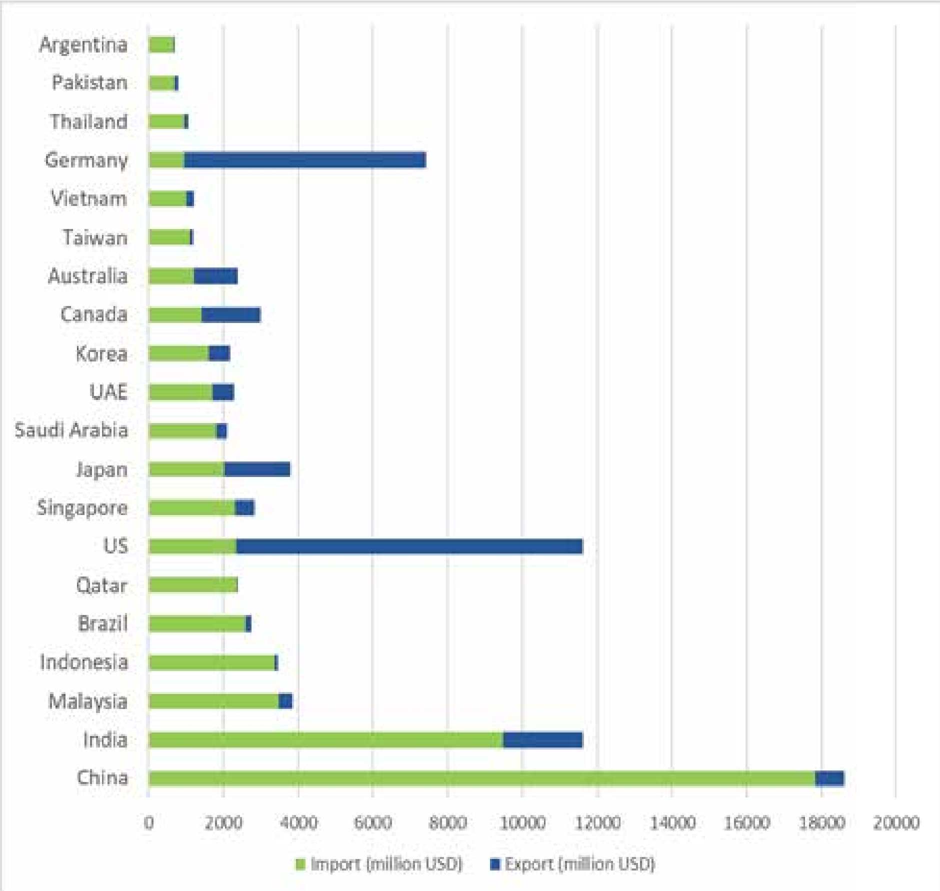
have so far expressed interest for countertrade owing to the difficulties inherent in this option.

4.2 Currency Swap

The extent to which a country can be involved in a currency swap with another country depends on the availability of currency from the latter to the former and vice versa. Since the aim of currency swap is to save dollars or find alternative to dollar to pay import bills, to check the potential of currency swap between Bangladesh and its trade partners, it will be imperative to first look at the level of the country's bilateral trade with its major import partners.

As can be seen from figure 1, out of its 20 top import partners, for only six countries – the US, Germany, India, Japan, Australia, and Canada - Bangladesh's export exceed 1 billion US$ while for others the export figure is minimal. Since, the currency swap in question is about finding alternatives to dollar, the case of the US$ can be dropped in the discussion of currency swap. So far, Japan, Germany, Australia, or Canada has not shown any interest in currency swap with Bangladesh, and given the geopolitical context, these countries are less likely to do so in the future. This leaves Bangladesh with only two countries to consider a currency swap – China and India from whom Bangladesh imports 38 billion US$ but its exports to these markets are less than 3 billion US$.

Figure 1: Bangladesh's export and import in top 20 import partner countries (million US$, FY 2022-23)[91]



Thus, in an ideal scenario assuming no constraints, through currency swap Bangladesh can save US$ 2-3 billion at best given the present trade composition. Therefore, the huge trade gap between Bangladesh and its major import partners is a challenge to currency swap utilisation because it limits the extent to which the former country can engage in currency swap with its major import partners. Another major challenge is the lack of interest from businesses in this arrangement since it involves

[91] Ministry of Planning, Government of Bangladesh, "Foreign Trade Statistics of Bangladesh 2022-23," Bangladesh Bank, updated March 20, 2024, https://www.bb.org.bd/en/index.php/econdata/index.

forgoing the US$ earnings of traders on both sides.[92] For example, in the case of the currency swap with China, for which the country has expressed interest,[93] though there is interest at the state level, experts and practitioners apprehend a lack of interest from businesses on both sides. Though the Bangladesh government declared the RMB a convertible currency back in March 2014 and the Bangladesh Bank gave clearance to commercial banks to settle payments for international trade through the Chinese Yuan in September 2022.[94] Many banks still shy away from settling transactions of foreign trade through the currency.[95] Even the private sector of China seems to be not much interested in trading in RMB.[96]

There are several reasons behind this lack of interest in RMB. As a global currency, RMB is far behind US$ on several accounts: it has low convertibility, lacks stability, and hence has not been able to achieve businesses' confidence. These challenges of the RMB are reflected in its consistent low share in the global reserve (see Figure 2) and international trade transaction (see Figure 3). Even after the Chinese government's recent push for internationalization of RMB, which resulted in RMB's overtaking of US$ in China's cross-border trade for the first time in March 2023,[97] thereby making it the fourth most active currency in SWIFT,[98] the share of RMB in global reserves and international transactions stood at a mere 2.29 per cent and 2.5 per cent respectively in 2023. The corresponding figures for the US$ for the same period are 58.4 per cent and 43 per cent respectively. On the other hand, in recent years, in terms of exchange rate, US$ has become increasingly stronger against all other major currencies (see Figure 4). Against this backdrop, Bangladeshi exporters are least likely to be interested in receiving RMB instead of US$ for their exports unless they are simultaneously engaged in imports. With a stronger position

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[92] Titu Datta Gupta, "Can Bangladesh Get What It Wants from Trade in Local Currency?" The Business Standard, April 28, 2023, https://www.tbsnews.net/economy/can-bangladesh-get-what-it-wants-trade-local-currency-623418.

[93] "China to Promote Currency Swaps, Strengthen Monetary Cooperation," Reuters, March 27, 2024, https://www.reuters.com/world/china/china-promote-currency-swaps-strengthen-monetary-cooperation-2024-03-27/.

[94] "Banks Allowed to Maintain Yuan Accounts," The Business Standard, September 15, 2022, https://www.tbsnews.net/economy/banking/banks-allowed-maintain-yuan-accounts-496930.

[95] M. S. Siddiqui, "Bangladesh's Cross Border Transaction in Chinese RMB," The Business Post, October 5, 2022, https://businesspostbd.com/opinion/bangladeshs-cross-border-transaction-in-chinese-rmb.

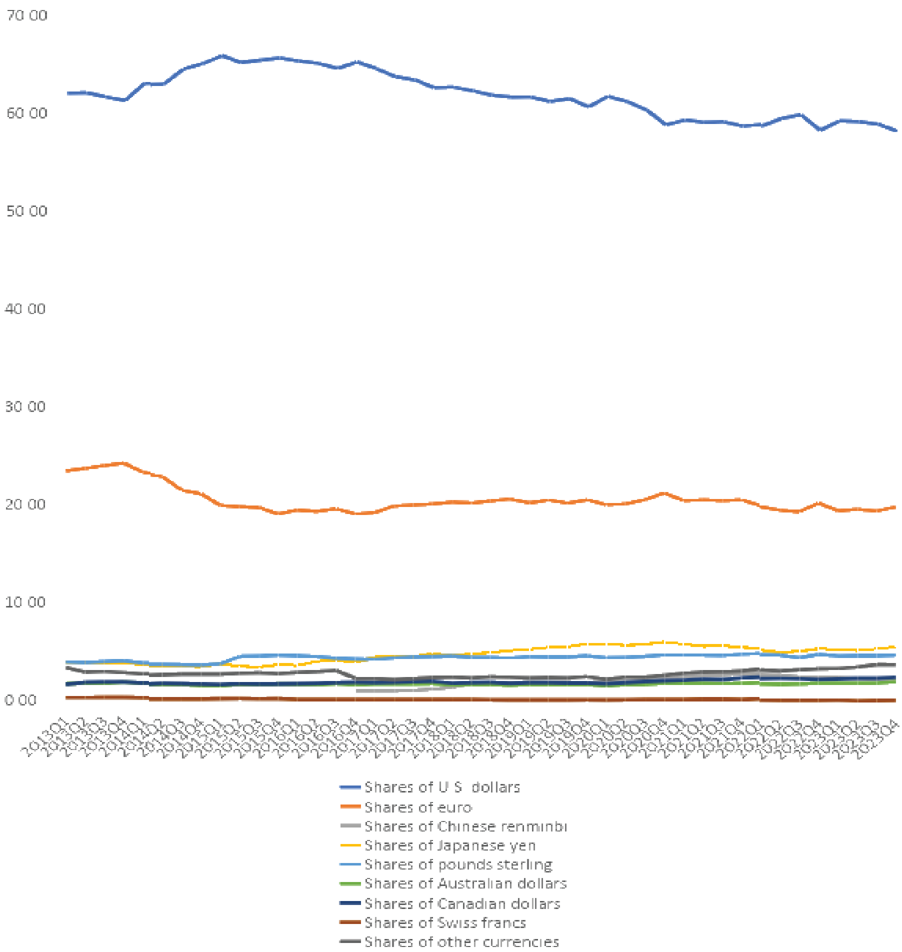
[96] Ahsan Habib, "Trade with India in Rupee: How Much Will Bangladesh Benefit?" The Daily Star, July 18, 2023, https://www.thedailystar.net/business/global-economy/news/how-much-will-bangladesh-benefit-3371811.

[97] Noriyuki Doi and Saki Akita, "Yuan Exceeds Dollar in China's Bilateral Trade for First Time," Nikkei Asia, July 24, 2023, https://asia.nikkei.com/Business/Markets/Currencies/Yuan-exceeds-dollar-in-China-s-bilateral-trade-for-first-time.

[98] Chu Daye, "Yuan's Global Role Enhanced as It Becomes 4th Most Active Currency," *Global Times*, December 22, 2023, https://www.globaltimes.cn/page/202312/1304147.shtml.

of US$ compared to RMB, Chinese exporters may also not be interested in receiving RMB instead of US$ unless there is any government compulsion. Also, many Chinese exporters have businesses in multiple countries, so they may find transactions in RMB less advantageous.[99]

Figure 2: Share of Major Currencies in Global Foreign Exchange Reserve (2013-2023)[100]



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[99] Asian Development Bank Institute, *The Benefits and Costs of Renminbi Internationalization* (Beijing: International Finance Studies at Central University of Finance and Economics, 2014), https://www.adb.org/sites/default/files/publication/156336/adbi-wp481.pdf.

[100] "Currency Composition of Official Foreign Exchange Reserves," IMF, accessed October 22, 2024, https://data.imf.org/regular.aspx?key=41175.

Figure 3: Share of Major Currencies in International Trade Transaction (2013-2023)[101]

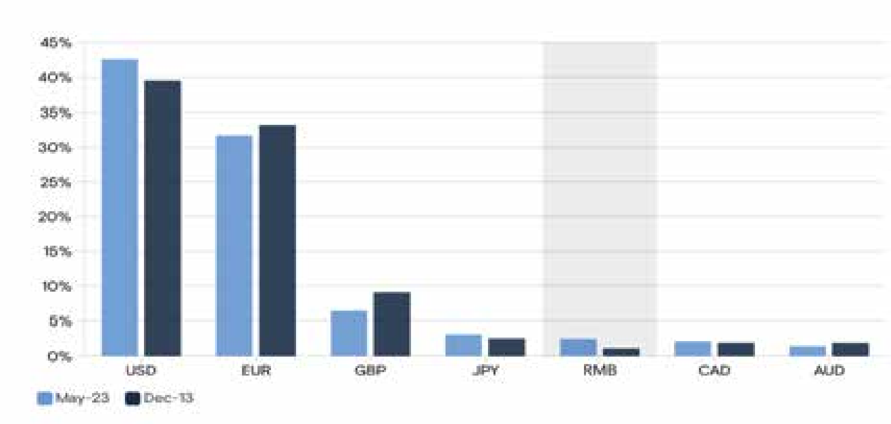
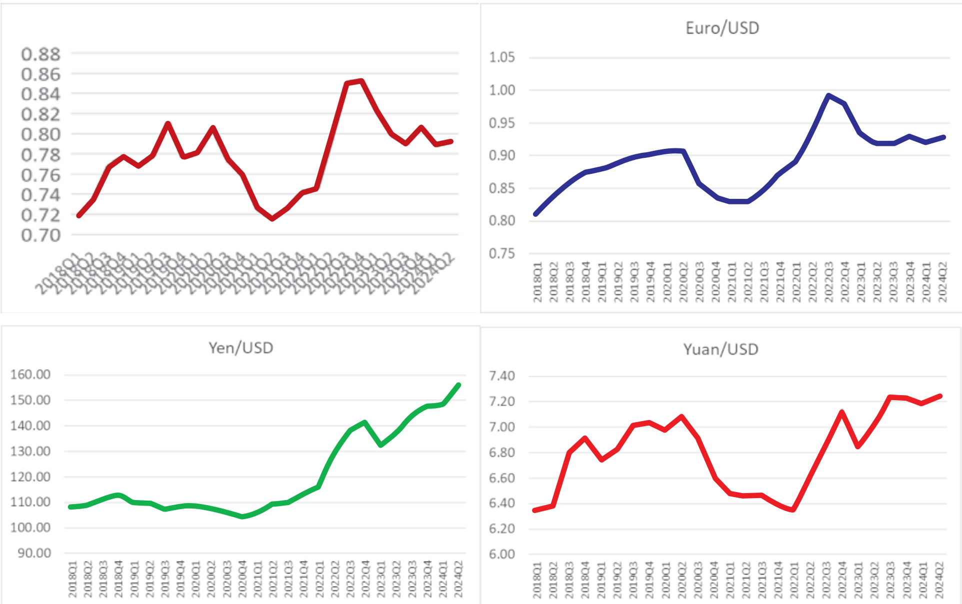


Figure 4: Exchange rate of major currencies against US$, period average, 2018-2024[102]



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[101] "China's Currency Rises in Cross-Border Trade but Remains Limited Globally," Goldman Sachs, July 26, 2023, https://www.goldmansachs.com/intelligence/pages/chinas-currency-rises-in-cross-border-trade-but-remains-limited-globally.html.

[102] "Exchange Rates incl. Effective Ex. Rates," International Monetary Fund, accessed October 22, 2024, updated March 25, 2024, https://data.imf.org/regular.aspx?key=61545850.

Another challenge of a currency swap with China involves the issue of determining the exchange rate of RMB. The business bodies in general welcomed the introduction of RMB as a currency for trade transactions on account of reducing dependency on a single currency, but they advocated for initiating a dialogue between the central banks of both countries on issues such as the exchange rate between BDT and Yuan and ensuring adequate availability of the Yuan.[103] Concern regarding the exchange rate arises from the lack of capital account openness in China and the Chinese government's influence in determining the exchange rate of RMB.[104]

4.3 Trade in Rupee

Under the trade in Rupee arrangement, Bangladeshi banks will open nostro accounts with Indian banks. Proceeds from Bangladesh's exports will be deposited in the nostro accounts in Rupees. This export proceeds in Rupee will be used to pay the import bill of the Bangladeshi importers who will open import LCs in the banks having the nostro accounts of India. Thus, like the case of currency swap with China, the extent to which Bangladesh can engage in trade in Rupee with India will ultimately depend on its exports to India. The huge trade imbalance tilted towards India acts as a barrier to the expansion of trade in Rupee as is the case with currency swap with China.

Trade in Rupee is advantageous for Indian traders – both importers and exporters, since they can avoid convertibility through the arrangement. On the other hand, for Bangladeshi traders, trading in Rupee does not imply avoiding convertibility; rather, for them, it implies convertibility to a new currency (BDT to Rupee or vice versa) instead of the old one (BDT to dollar or vice versa).[105]

Trade in Rupee also involves exchange rate risks, which implies that Bangladeshi exporters might lose if the exchange rate of Rupees falls between the time of the transactions. The trend of fluctuation of the Rupee compared to the US$ and its devaluation trend suggest that Bangladeshi banks will be exposed to losses in such cases. By trading in Rupees, Bangladeshi traders, however, will gain in times when

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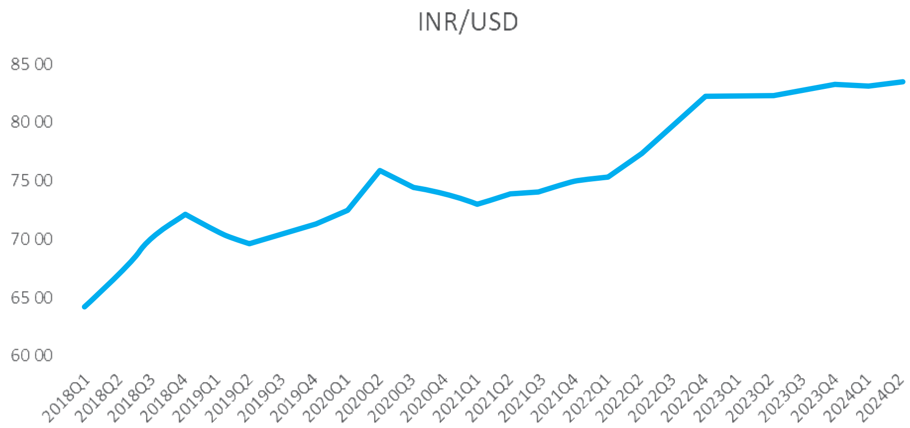
[103] "Businesses Welcome Move to Allow Yuan," The Daily Star, September 18, 2022, https://www.thedailystar.net/business/economy/news/businesses-welcome-move-allow-yuan-3121956.

[104] "Internationalisation of the Renminbi and Capital Account Openness," European Central Bank, accessed October 22, 2024, https://www.ecb.europa.eu/press/other-publications/ire/focus/html/ecb.irebox202306_01~d3f9e5dbdf.en.html#:~:text=The%20share%20of%20the%20Chinese,the%20euro%20(about%2020%25).

[105] Ahsan Habib, "Trade with India in Rupee: How Much Will Bangladesh Benefit?" The Daily Star, July 18, 2023, https://www.thedailystar.net/business/global-economy/news/how-much-will-bangladesh-benefit-3371811.

depreciation is higher for BDT compared to Rupees. Also, if Bangladesh trades in a foreign currency, it will become dependent on other nations' monetary policies and economic conditions. As a financial analyst observes, the current design of trading in Rupee will expose Bangladeshi commercial banks and central banks holding large amounts of Rupee reserves to potential arbitrage losses since, as an export-oriented nation, India is expected to tend to favour Rupee devaluation (see Figure 5).[106]

Figure 5: Exchange Rate of Rupee against US$, period average, 2018-2024[107]



Moreover, unlike the BDT-RMB currency swap, trade in Rupee is not supposed to help the reserve situation. RMB is a reserve currency, and hence the stock of RMB under the currency swap at any point in time, is counted as a part of the foreign exchange reserve.[108] This will not be the case for trade in Rupee arrangement as Rupee is not considered a reserve currency. Last but not the least, the Rupee trade arrangement is also expected to suffer from a lack of interest. Bangladesh's experience after six months of the introduction of the Rupee trade arrangement shows

[106] Faisal Mahmud, "Will Trade in Rupees with India Benefit Bangladesh?" Al Jazeera, August 10, 2023, https://www.aljazeera.com/economy/2023/8/10/will-trade-in-rupees-with-india-benefit-bangladesh.

[107] "Exchange Rates Incl. Effec. Exchange Rates," International Monetary Fund, updated March 25, 2024, https://data.imf.org/regular.aspx?key=61545850.

[108] "The Treatment of Currency Swaps Between Central Banks: Egypt Experience," International Monetary Fund (IMF), Thirtieth Meeting of the IMF Committee on Balance of Payments Statistics, October 24–26, 2017, https://www.imf.org/external/pubs/ft/bop/2017/pdf/17-25a.pdf.

that Bangladeshi exporters are not willing to receive Rupee instead of US$, though the importers have shown interest in trading in Rupee.[109]

For Bangladesh, therefore, the benefit from trade in Rupee is thus mainly limited to businesses that are engaged in both import from and export to India. Particularly, the businesses that import raw materials from India and export finished goods will benefit most.[110] The only unique benefit that trade in Rupee might offer is that in absence of a convertibility issue, it might act as an impetus for Indian local importers to import more from Bangladesh, the extent though is not sure yet.[111]

5. Concluding Remarks

The recent dollar crisis has resulted in unprecedented implications for the economy of Bangladesh as a whole. As the crisis deepened, the country experienced a significant devaluation of local currency, a surge in inflation, a rise in import bills, and a deterioration in its trade balance. All these have strained the lives of common people and the conditions of local businesses. Against this backdrop, the article has assessed options to trade in US$.

As far as barter trade is concerned, the study has examined its opportunities with some of Bangladesh's major economic partners India, China, Iran, Brazil, and Russia. But, this article revealed that there is very little scope for barter trade with these countries because of limited trade complementarity. The study also delves into the potential of currency swap to reduce the usages of dollar. It examines the currency swap with India, Japan, China, and Russia. While it is unlikely for Japan to accept BDT in exchange for Yen due to geopolitical reasons, the current sanction will also not allow BDT-Ruble swap. Trading with India and China provides Bangladesh with the opportunity to save approximately 3 billion US$ through currency swap arrangements. However, a formidable challenge has emerged from the lack of interest on the part of business communities from all the trading parties to get involved with currency swap. Lastly, in regards to trade in Rupee with India, this article has argued that this option is not viable for Bangladesh as it always suffers from a significant trade imbalance with India. Furthermore, the study has found that the benefits of trade in Rupee are hardly mutual and is likely to favour India, which would reap the

[109] Md. Mehedi Hasan, "Trade in Rupee Had a Lofty Aim. But Data Paints a Different Picture," The Daily Star, December 27, 2023, https://www.thedailystar.net/business/economy/news/trade-rupee-had-lofty-aim-data-paints-different-picture-3503781.
[110] Mahmud, "Will trade in rupees with India benefit Bangladesh?" 3.
[111] Hasan, "Trade in rupee had a lofty aim. But data paints a different picture," 2.

advantages because it might not face the issue of currency convertibility unlike Bangladesh. Thus, in the coming days dollar would continue to play the most significant role for Bangladesh in conducting foreign trade and settling international payments.

Given the findings, this paper comes up with some policy recommendations:

- As US$ is likely to play a dominant role in Bangladesh's foreign transactions, the country needs to adopt a cautious approach in contemplating alternatives to dollar. This is particularly important for Bangladesh, given the risks of financial turbulence and geopolitical repercussions.
- Limited trade complementarity and a yawning trade gap with major trading partners have been identified as challenging elements in implementing trading options to address dollar shortages. In this regard, Bangladesh needs to take measures to diversify its exports, in terms of both product varieties and destination markets.
- In light of the issues of low trade complementarity and large trade deficits, Bangladesh might make an effort to foster investment cooperation with its major trading partners.