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COUNTER-TRADE IN THE SOUTH : THE CASE OF BANGLADESH-MALAYSIA TRADE

During the past years, the structure of international trade has undergone substantial changes in terms of increasing number of manufactured items traded within the developing countries. However, global economic interaction are still dominated by North-South and South-North directions and South-South trade still comprises less than one quarter of global trade. The predominance of North-South trade can partly be attributed to historical links, control of trade financing institutions by the North and provision of conditionalities in resource transfer to the Third World. But, continued debt/liquidity crisis in the world economy, growing protectionism in the markets of the North, falling commodity prices, declining terms of trade, erratic growth trends in the industrial world and above all, the continued deadlock in North-South dialogue indicate an increased urgency of expanding South-South trade and economic cooperation.

In fact, in recent years an increased emphasis on economic and technical cooperation among developing countries (ECDC and TCDC) has been laid out in the programmes of the UN system, the Non-aligned Movement and the Group of 77. However, in view of the divergent composition of the South on the one hand, and the inertia in structural relations between the North and the South, on the other, the realization of the goals of South-South cooperation continues to remain elusive. An UNCTAD study observes that the basic point of South-South economic cooperation is to make use of deliberate governmental and private efforts to strengthen South-South trade and economic links more rapidly than would be the case if such links were to be created only by the forces of market.[1]

Counter-trade as an alternative method of international exchange can be instrumental in strengthening South-South trade. In an era of growing debt burden and liquidity crisis, balance-of-payments problems and instability, counter-trade appears to be a useful machanism for maintaining growth, promoting exports and fostering economic diversification. This trading device represents a substantial departure from the principles of largely monetised trade of the post-War years and allows mutual payment in commodities circumventing the international pricing mechanism. Although advocates of the classical theory of international trade posit counter-trade as a retrogressive strategy and symtomatic of the basic weakness in world economy, it is increasingly recognised now-a-days that this strategy can push forward South-South trade substantially.

Secondly, economic cooperation or even trade promotion between nations is largely a function of political will. Sufficient commonalities and political will may be available at bilateral or regional levels between and among a particular set of countries and such opportunities, rather than an ambitious collective programme, might be easier to Exploit to the maximum so that the gains from such cooperation may induce others in the developing world for forging similar beneficial ties. Trade promotion between Bangladesh and Malaysia may be viewed in such a perspective, and this is the subject of the present paper.

The first part of the paper outlines the forms of counter-trade, its rationale and scope in South-South trade. The second part reviews the existing pattern of Bangladesh-Malaysia trade and opportunities

1. "Strengthening the Weakest Link : A Review of Certain Aspects of South -South Trade and Finance", UNCTAD/ST/ECDC/28, October 1985, p. 9.

for expansion. Finally counter-trade as a strategy of Bangladesh-Malaysia trade promotion has been suggested.

I

Counter-trade is a trading arrangement to complement the existing trade practices. It refers to any contractual arrangement that commits the seller of a good or service to accept in part or full, payment in goods or services from the buyer. Counter-trade is thus a 'tied' or 'conditioned' transaction in which a firm or country is paid partially or fully by non-monetary means. The simplest form of counter-trade is barter which is seldom used in world trade, except by Soviet bloc countries and sometimes by Opec members. The two most common types of counter-trade used are counter-purchase and import compensation arrangements. Normally counter-purchase arrangements, also called parallel barter, link the value of exports and the value of imports of unrelated products transaction by transaction. In contrast to counter-purchase which is primarily commercial counter-trade, import compensation links exports and imports of related products, i.e., exports of machinery and plants, financed by export credits, payable in resultant output. This is also known as buy-back or develop-for-import arrangements and represents a focus on industrial counter-trade. Bilateral clearing, also a form of counter-trade, is based upon government-to-government trade agreements to ensure bilateral balance in transactions. This balancing assures that no net drain of foreign exchange will occur between the two parties. Counter-trade arrangements may be triangular/multilateral involving more than two parties.

Over the last few years, increasing attention has been given to counter-trade as a necessary form of international trade. It is estimated that about 20 percent of total world trade is now carried out on counter-trade basis.[2] The OECD countries

2. John C. Griffin and Willium Rouse, "Counter-trade as a Third World Strategy of Development," *The Third World Quarterly*, Vol. 8, No. 1, January 1986, pp. 177-204.

generally view counter-trade as an aberration of trade norms and symptomatic of basic defects in the economies of socialist and developing countries. The advocates of the classical theory of international trade argue that counter-trade was a mere adaptation to periodic economic crises in the world economy and hence it should not be pursued during normal time. Since counter-trade is based on 'administered' price and not on international pricing mechanism which is determined by free competition among market forces, it is argued that this trading device does not encourage efficiency in production and effective international division of labour. Yet the western companies are increasingly engaging in counter-trade practices particularly with the Soviet bloc countries.

However, the major and/or traditional exponents of countertrade are the socialist, Opec and other Third World countries who are gradually resorting to counter-trade. It is conducted primarily due to a lack of foreign exchange to pay for imports and for saving hard currency, for diversification of trade sources, for capital formation and transfer of technology. Besides, this trading device makes possible a collective view of the bargaining strength of a country. Let us now see in greater details how counter-trade can promote South-South trade.

First, most of the developing countries are experiencing a declining volume of foreign exchange reserves due to the decrease in export earnings and outflow of resources for debt service payments. This has limited the growth of South-South trade. Currently, many developing countries are forced to cut their balance-of-payments deficit by reducing imports and this badly hits the exports of other developing countries. In such unfavourable circumstances, the developing countries can strike out counter-trade deals with each other, by-passing the need to pay in convertible currency, at the same time maintaining momentum in South-South trade. Hard currency, thus saved, can then be used to repay interest on loans, making the balance-of-payments position more favourable.

Second, since counter-trade transactions are 'conditioned', they reduce the negative effects of the destabilizing swings in the relative values of imported to exported goods. Thus, the exports between developing countries on counter-trade basis can evade the effects of the deteriorationg terms of trade, currently experienced in North-South trade.

Third, only a proportion of the export earnings of the debtor countries can be used to finance development imports, because part of the earnings through global integration must go for debt repayment. This is like a 'tax' on export earnings adding further to the increasingly deteriorating terms of trade. This puts premium on increasing exports to other debtor countries where the additional export earnings are available for additonal imports on the basis of counter-trade, trade credits, long-term contracts and financial clearing arrangements. Thus, counter-trade serves as an incentive of expanding trade in such ways as to avoid 'tax' involved in conventional export process.[3] As a matter of fact, in the absence of counter-trade large debtor nations would virtually have to use all of their export earnings for debt-servicing.

Fourth, liquidity and terms of trade are not the only motivating factors behind 'linked' trade. Many countries like South Korea, Indonesia, Malaysia, Saudi Arabia or China insist upon counter-trade for diversification of trade sources, inspite of their having solid foreign currency reserves. For example, Malaysia recently diversified its imports of rice through rice purchase from Burma (with whom Malaysia runs a balance-of-trade surplus) and reducing rice imports from Thailand (with whom Malaysia runs a balance-of-trade deficit).[4] Thus, by means of counter-trade, bilateral balance and diversification of trade could be achieved. In addition, greater outlets for exportables and greater sources for importables create a more competitive market in the South.

3. Hans W. Singer, "South-South Trade Revisited, in a Darkening World Environment," *Development and South-South Cooperation*, Vol. II, No. 2, p. 28.
4. John C. Griffin and Willium Rouse, *op. cit*, p. 197.

Fifth, experience shows that wide trade gaps between surplus and deficit nations have been at the root of tensions within the Central American Common Market, the Andean bloc, the ASEAN and several African economic groupings. ASEAN nations are currently practising bilateral balance within the group and are increasingly opting for similar agreements with their dialogue partners. Therefore, in the event that trade imbalances result at the end of bilateral clearing agreement between two developing countries, credits can be provided by the surplus party to the deficit party as purchasing power, or surplus commodities can be sold to 'switch' traders at a discount, who then market the goods internationally. One example of switch trading was Malaysia's agreement to take payment in cocoa from Mexico in exchange for Malaysian rubber. The cocoa was then resold for US dallars to US confectionery markets.[5]

Finally, import/industrial compensation as a form of counter-trade may serve as an effective vehicle for transfer of technology within the developing countries. Some of the newly industrializing countries (NICs) of the South have already achieved a significant degree of self-reliance in technology and knowhow. Such producers of capital goods may supply their products to other developing countries in exchange for a specified share of the resultant output, once the ventures become operational. In such buy-back arrangements, the exporting country can also train the required manpower, needed to efficiently run the joint venture. Thus, the importing country can ultimately own both the hard and softwares.

Currently, markets of developing countries absorb about 30 percent of the exports of other developing countries and constitute an important market not only for fuel, accounting for approximately 50 percent of exports, but also for a growing number of manufactured products and primary commodities.[6] However, the level in South-South trade

5. *ibid*, p. 189.
6. Farooq Sobhan, *Opportunities for South - South Cooperation* (ISIS, Malaysia, 1987), p. 8.

is still far from what should have been the case. Although a system of generalised preferences (GSP) for developing country trade has been in existence since 1973, it did not do much. As Philip Bowring rightly points out, "It may have diverted a small amount of trade to developing from developed countries, but seems unlikely to have created trade"[7] Till todate, South-South counter-trade transactions are all the more negligible and much of counter-trade takes place between the developed and the developing countries.

But the scope of counter-trade among developing countries seems to be enormous, if one looks at the composition of the South and their economic structures. The South includes oil-rich capital-surplus OPEC nations and the newly industrialising countries (NICs) with increasing capacity both in manufacturing and technology. Then there are middle-income oil-importing countries with growing capacity for manufactured exports. There are both food-surplus and food-shortage countries. At the lowest rung of the ladder are situated the least developed countries (LDCs) with low production base and a monoculture economy. The existence of divergences in the level of development within the Third World itself should provide enough scope of South-South trade. The South as a whole owns sufficient capital in terms of financial, physical and human resources, together with technology, ideally suited to the needs of the less developed countries.

Some initial infra-structure to promote counter-trade within the South has also been already laid out. In order to provide better information on trade potentials and market intelligence, action was initiated through UNCTAD to establish in 1984 an Association of State Trading Organizations (ASTRO) of Developing Countries. The ASTRO secretariat, presently located in Ljubljana, Yugoslavia, is reported to have done some very useful work on counter-trade. It has also established a comprehensive reference service on counter-trade

7. Philip Bowring, "The Quick and the Dead in International Trade", *Far Eastern Economic Review*, 6 November 1981, p. 106.

to provide systematic information on operating guidelines, policies and procedures of developing countries active in this field.[8] Besides, it proposed a vehicle for counter-trade and barter arrangements between developing countries. With these general perspectives on counter-trade and its scope and potential, focus is now turned into prospect of counter-trade between Bangladesh and Malaysia, two Asian developing countries with excellent political rapport with each other on the one hand, and wide scope for mutually beneficial economic collaboration on the other.

II

Malaysia was one of the first countries to recognize Bangladesh as an independent state in April 1972 and bilateral trade between the two countries began in 1974. In the following years till todate, some institutional framework was created in order to facilitate, and increase the level of bilateral trade between Bangladesh and Malaysia. This included conclusion of several bilateral agreements, such as, Trade Agreement (1977), Economic and Technical Cooperation Agreement (1979), Air Services Agreement (1978), Avoidance of Double Taxation Agreement (1983) and Maritime Transport Agreement (1983).

Besides, there are at present a Joint Committee at the official level and a private sector sub-committee established between the Chambers of Commerce and Industry of the two countries. These were created in order to hold periodic review and consultation about issues of bilateral trade and its growth, both at the government and private sector levels, As experience shows, they could not make any breakthrough in development of bilateral trade. The governments of the two countries are conscious of this trend and during the visit of the President of Bangladesh to Malaysia in November 1985, a Special Trading Arrangement (STA) was signed between the Trading Corporation of Bangladesh (TCB) and Malaysian International Trading Corporation

8. Farooq Sobhan, *op. cit.*, pp. 9-10.

(MITCO). The Arrangement stipulated mutual trading worth US $ 10 million each way per annum in the following specified items :

Proposed Trade Items under STA

Imports from Malaysia	*Exports to Malaysia*
1. Palm Oil & Palm Oil Prods.	1. Raw Jute & Jute Products
2. Rubber	2. Tea
3. Timber	3. Leather
4, Tin	4. Newsprint
5. Fertilizer	5. Potato
6. Petroleum Products	6. Spices
7. Cement Clinkers	7. Coriander Seeds
8. Any other products to be mutually agreed	8. Black Cumin Seeds
	9. Textile Goods
	10. Any other items to be mutually agreed

Despite all these endeavours, the level of bilateral trade could not pick up at a desired rate as the following discussion reveals.

A look at the present bilateral trade indicates that both Bangladesh and Malaysia are minor trade partners to each other relative to their overall trade with the external world. Roughly 2-3 percent of Bangladesh merchandise imports (excluding imports under loan/grants) comes from Malaysia and her exports to the latter comprises only 0.3-0.4 percent of total exports (Table-I). Bangladesh as a trade partner of Malaysia is still more insignificant, with only 0.2-0.3 percent of the latter's exports to and 0.1 percent of imports from the former during the last few years (Table-II).

Time series data indicate that Bangladesh imports from Malaysia continue to expand, although erratically, in recent years due to import of some new items and growing demand of certain essential commodities. Against this, exports from Bangladesh have not increased, on the contrary, it tends to go down, rusulting in an uncomfortable trade

TABLE—I

Bangladesh's Trade With Malaysia

(In Million Taka)

Year	Exports to Malaysia	% of Total Exports	Imports from Malaysia	% of Total Imports	Balance	Total Trade with Malaysia	%contribution of Bangladesh's Total Trade
1983–84	44.5	0.22	688.2	2.3	– 643.7	732.7	1.5
1984–85	52.0	0.20	1259.0	3.2	– 1207.0	1311.0	2.0
1985–86	103.0	0.38	812.0	1.9	–709.0	915.0	1.3

Source : Bangladesh Bank, *Annual Exports Receipts and Import Payments 1983—86.*
Export Promotion Bureau, *Bangladesh Export Statistics 1983—86.*

TABLE—II

Malaysia's Trade With Bangladesh

(In Million Malaysian $)

Year	Exports	% of Total Exports	Imports	% of Total Imports	Balance	Total Trade	% Contribution Malaysia's Total Trade
1983	67.3	0.2	12.9	*	54.4	80.2	0.12
1984	114.1	0.3	8.0	*	106.1	122.1	0.17
1985	107.6	0.3	11.4	*	96.2	119.0	0.17
1986	64.4	0.2	8.1	*	56.3	72.5	0.11

* $< 0.1\%$

Source : Department of Statistics, Malaysia, 1983—86.

imbalance. The cumulative imbalance in trade since 1978-79 upto 1985-86 stands at about US $ 250 million (Table-III).

TABLE-III

Bangladesh-Malaysia Trade (In million US $)

Year	Exports from Bangladesh	Imports into Bangladesh	Total	Balance
1978-79	0.51	14.39	14.90	-13.90
1979-80	0.65	28.45	29.10	-27.80
1980-81	2.44	59.28	61.72	-56.28
1981-82	3.07	41.08	44.14	-38.00
1982-83	8.69	22.61	31.30	-13.90
1983-84	2.08	27.52	29.60	-25.50
1984-85	2.57	48.50	51.07	-45.92
1985-86	3.45	27.16	30.61	-23.71

Source : *Bangladesh Bank, Annual Export Receipts and Imports Payments 1978-86.*

The composition of Bangladesh-Malaysia trade reflects a narrow range of commodities from both sides. Bangladesh export base has a preponderance of one non-traditional commodity, viz., fish including crustaceans, while Malaysian exports to Bangladesh is dominated by palm oil (Table-IV). The share of fish including frozen shrimps and prawns accounted for more than 78 percent of Bangladesh's total exports to Malaysia in 1985-86. Other commodities of lesser significance were jute manufactures, pharmaceuticals, tea, small quantity of leather, fruits and vegetables. Jute goods shared about 16 percent of total exports to Malaysia in 1984-85, but in 1985-86 it amounted to nil. Tea, although at lower volume, has been a new addition over the years 1983-85, but no tea has been exported during 1985-86. However, textile and ready-made garments, a new export to Malaysia, have occupied second position during 1985-86 comprising 16.7 percent of

TABLE-IV

Malaysian Exports to Bangladesh During 1985 (in Malaysian $)

Items	Amount	Percentage
1. Fruits and Nuts	11,641,624	10.82
2. Vegetables, Roots & Tubers	854,849	0.79
3. Suger & Honey	3,691,392	3.43
4. Crude Veg. Materials, nes	2,187,930	2.03
5. Fixed Veg. Oils (Fluid/Solid Crude, Refined, Purified)	77,057,568	71.61
6. Animal Veg. Oils & Fats	1,110,362	1.03
7. Fabrics of Cotton & Man-made Fibres	5,312,942	4.94
8. Textile Yarn	449,267	0.42
9. Tubes, Pipes & Fittings of Iron/Steel	2,343,312	2.18
10. Natural Rubber & Latex	217,152	0.02
11. Glassware	677,505	0.63
12. Tin	363,351	0.34
13. Others	1,696,042	1.58
Total :	107,603,296	100.00

Source : Department of Statistics, Malaysia, *External Trade Statistics 1985.*

Bangladesh's total exports to that country. Malaysia is a net exporter of textiles and garments. So imports from Bangladesh are presumably for re-exports to other markets.[9] An insignificant amount of potato, pharmaceuticals and black cumin seeds have been exported to Malaysia during 1985-86 (Table-V).

On the other hand, Malaysia exports a wide variety of items ranging from primary agricultural products to manufactured goods. Major commodities are palm oil, oil seeds, nuts and karnels, textile yarn and fabrics, fruits and vegetables, chemicals, sugar, etc. Palm

9. Discussion of the Author with Mr. M.K. Chen, Senior Assistant Director of Federation of Malaysian Manufacturers, Kuala Lumpur, 27 July 1987.

TABLE-V
Bangladesh Exports to Malaysia

Commodities	1983-84		1984-85		1985-86	
	Value in '000' Tk.	Percent share	Value in '000' Tk.	Percent share	Value in '000' Tk.	Percent share
Frozen fish	2,72,57	61.28	3,08,93	60.30	5,06,26	61.76
Jute manufactures	88,20	19.83	88,80	15.77	—	—
Frozen shrimps	33,96	7.64	64,30	12.55	1,36,28	16.63
Tea	22,49	5.06	6,61	1.29	—	—
Tortoise & turtles	11,63	2.61	13,11	2.56	22,70	2.77
Potato	8,26	1.86	—	—	1,44	0.18
Crabs	3,88	0.87	5,25	1.02	3,87	0.47
Froglegs	2,59	0.58	—	—	—	—
Jute yarn & twine	64	0.14	2,85	0.56	5,51	0.67
Handicraft	—	—	—	—	19	0.02
Foot wear	56	0.13	—	—	—	—
Vegetables	—	—	9,13	1.78	—	—
Garlic	—	—	5,69	1.11	—	—
Leather	—	—	1,14	0.22	—	—
Printed materials (incl. books & magazines)	—	—	1,34	0.26	—	—
Pharmaceuticals	—	—	—	—	5,05	0.62
Readymade garment	—	—	—	—	1,36,56	16.66
Black cumin seeds	—	—	2,10	0.41	1,84	0.22
Agar bati	—	—	31	0.06	—	—
Other commodities n.e.s.	—	—	10,79	2.11	—	—
Total :	4,44,78	100.00	5,20,35	100.00	8,19,70	100.00

Source : Export Promotion Bureau, *Bangladesh Export Statistics 1983-86*.

oil's share is about three-fourth of Malaysian total exports to Bangladesh (Table -IV). Then comes fruits and nuts (about 11%), fabrics of cotton and man - made fibres (5%) and sugar and honey (3.4%). However, cement as a new item has been added to the list of Malaysia's exports to Bangladesh since 1985-86.

The preceding discussion reveals that the existing level of bilateral trade between Bangladesh and Malaysia is very low. The average volume of Malaysian exports to Bangladesh has been in the region of US $35-45 million per year, while Bangladesh oxports to Malaysia average only US $ 3-5 million (5-10 percent of the former). But in the context of Heckscher-Ohlin model of international trade, differences in factor endowments and dissimilarity in the stages of development between Bangladesh and Malaysia should provide enough scope for expansion of bilateral trade. Some resources, the so-called Ricardo goods are place-specific, like jute and tea in Bangladesh and tin, rubber and palm-oil in Malaysia.

Besides, a market survey conducted by the Malaysian Trade and Industry during 1984 and also a Market Research Report sponsored by the Commonwealth Secretariat during mid-1984 revealed that jute goods, tea, spices and frozen fish of all kinds and shrimps have good prospect in the Malaysian market. During discussions with officials and business community both in Bangladesh and Malaysia in July 1987, the author found that together with the above items, potato, leather and pharmaceuticals had also good potential for export to Malaysia.[10]

However, one of the main reasons of low level of trade between the two countries is that presently bilateral trade takes place only in convertible currency under a provision stipulated in the Trade Agreement signed between Bangladesh and Malaysia in 1977. But, that is

10. Opportunities of Bangladesh - Malaysia Trade have been discussed in details by the Author in Bangladesh - Malaysia Trade : Problems, Opportunities and Strategies," Study Report presented at the Second Bangladesh - Malysia Joint Colloquium, Kuala Lumpur, 26-27 January 1988.

advantageous for a country if it enjoys positive trade balance with surplus foreign exchange. The situation is reverse in case of countries with negative trade balance, as it happens with Bangladesh. So it is coutinuously loosing scarce foreign exchange in trading with Malaysia with no compensatory arrangements for export or supplier credit. On 1 January 1987 the Malaysian Parliament enacted an Exchange Control Act which allows Malaysian traders to do business in any currency of the world except those of Israel and South Africa. Earlier Malaysia conducted its foreign trade only in 19 selected currencies.[11] Now, whether the private traders of Malaysia will go the new way with acceptance of Bangladesh currency as medium of exchange is a question to be tested by reality. No system of counter-trade still also exists between Bangladesh and Malaysia. The STA which can be considered as a counter-purchase arrangement signed in 1985 is yet to be implemented.

III

We have seen that the conventional trade practices have been gtreatly thwarting the potential of trade expansion between Bangladesh and Malaysia. When the relations at the political level between the two countries are excellent and also there is a commitment in both the countries to South-South cooperation, there is no reason why bilateral trade cannot be expanded. For this, it is argued that other problems notwithstanding, counter-trade practices in its varied forms can go a signicant way in both increasing the volume of trade and achieving a gradual balance in Bangladesh-Malaysia trade.

Currently, Malaysia is an advocate of counter-trade arrangements and it opened a unit of Counter-trade in the Ministry of Trade and Industry that encourages and advises the government and private agencies on counter-trade modalities. Malaysia is now more willing to accept counter-trade agreements particularly in its tender of government procurements. The party awarded the tender or contract must

11. Bank Negara, *Annual Report, 1986*, p. 201.

purchase Malaysian goods upto a certain percentage of the tender value. As a newly-industrializing country with increasing technological and manufacturing capacity. Malaysia is out to diversify its trade relations and boost its exports to non-traditional markets like Bangladesh.

Bangladesh as a trade deficit country must adopt different methods of counter-trade particularly with countries that have very favourable trade balance with her. Malaysia is such a country which buys back only about one-tenth of her exports value to Bangladesh. In view of such a huge and growing trade imbalance, a healthy bilateral relationship cannot be sustained and consolidated. In fact, there have been diplomatic moves between Bangladesh and Malayasia for counter-trade arrangements, linking particularly the palm oil and jute goods, the major export items of the two countries. The STA signed between TCB and MITCO is not taking off the ground because of lack of interest in Malaysian side. It may be mentioned that Bangladesh buys about 5-6 percent of Malaysia's total plam oil exports (direct and via Singapore). Besides, plam oil is now facing stiff competition from soyabean oil and a vigorous campaign is currently being pursued by US soyabean traders against palm oil. Keeping in view all these considerations, Bangladesh, both at the public and private sector levels, may adopt the following counter-trade devices to increase her volume of exports into Malaysian market and gradually achieve balance in bilateral trade :

(a) The agreed STA should be immediately implemented. The items specified in the STA for mutual exchange are quite comprehensive and the full implementation of the Agreement that stipulates exchange of goods worth US$ 10 million each way per annum would provide greater scope of trade expansion between Bangladesh and Malaysia. The Bangladesh side keeps on insisting on its implementation, but the MITCO officials indicated that the STA proved to be a

12. Discussion of the Author with Officials of the MITCO, Kuala Lumpur, 25 July 1987.

wrong start with its relatively bigger size.[12] Therefore, the governm-ent of Malaysia may have to adopt compelling measures to induce the MITCO to go for full realization of the STA. The operational problems, if there arises any in implementation process, could be settled by mutual negotiations (clause 7, Art 3 of the STA).

(b) In view of the continued huge imbalance in bilateral trade, the 'most-favoured treatment' clause in the bilateral Trade Agreement may be reviewed by Bangladesh in her trade practices with Malaysia. Bangladesh may pursuade the government of Malaysia for a system of bilateral clearing to achieve balance in trade accounts (initially might be a graduated approach in clearing). The STA itself stipulates, "The parties shall use their best endeavours, to ensure that there shall be balance of trade and countertrade between them so that supply of goods and commodities by one party shall be reciprocated by the supply of goods and commodities by the other party in order to help balance the trade in terms of monetary value" (Clause 9, Art.1). In the event that trade imbalances continue to persist, as in the case with Bangladesh, export credit may be provided by Malaysia to Bangladesh, or surplus commodities can be sold to 'switch' traders at a discount, who then may resell them to international markets.

(c) The Bangladesh palm oil importers may induce their Malaysian export partners, as a precondition of import, to arrange buying of Bangladeshi goods either by the exporters themselves or by third parties in Malaysia or elsewhere, at least certain percentage of the Malaysian export value. Sudan, for example, used this technique with Bangladesh in case of its buying of jute and jute goods on condition of selling cotton to Bangladesh.

(d) Bangladesh may buy crude, instead of processed, palm oil from Malaysia in tankers and not in drums which would give a fair amount of price advantage. Bangladesh, then, can process the oil locally in an oil refinery and tanker terminal established on a joint venture basis with Malaysia. The processed palm oil, after meeting domestic needs, could be jointly supplied to other South Asian markets. Also joint venture projects can be established under buy-back or develop-for-import arrangements in areas, such as, shrimp culture, textiles and garments, processing of fruits and vegetables, leather processing, manufacture of truck tyres, PVC resin pharmaceuticals etc. In most of these areas Malaysia already produces capital goods and possesses technological knowhow which could be transfered to Bangladesh under import compensation arrangements. The Malaysian Industrial Development Bank expressed its readiness to finance joint venture projects between the two countries provided necessary capital equipments are bought from Malaysia.[13] The resultant output from these joint ventures could be either bought back by Malaysia or jointly exported to third markets. This form of counter-trade could greatly boost the existing low level of Bangladesh - Malaysia trade, thereby contributing to establishing enduring trade relationship between Bangladesh and Malaysia, two non-aligned brotherly Muslim countries and serve as an effective example of South-South cooperation.

13. Interview with officials of the Industrial Development Bank of Malaysia, Kuala Lumpur, 24 July 1987.