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## MULTILATERAL MARKETING AND PROCUREMENT ARRANGEMENTS BETWEEN SOUTH ASIAN COUNTRIES

### **Introduction**

#### *The Setting*

One of the most important factors in directional changes in the international economic relations of the recent years has been the realisation by the developing countries (DC) of the need for economic and technical cooperation amongst themselves, which is known as ECTDC. The realisation for ECTDC goes beyond the earlier attempts for regional integration, in respect to both scope and areas of cooperation. The basic philosophy working behind the expansion of the horizons of cooperation amongst the developing countries emerged out of their aspiration to become economically more independent and is aimed at mobilising together their own resources and potential for economic advancements.

Letely, the concern of the DCs for self-sustained development has been accentuated in the face of deteriorating international economic environment characterised by a sluggish growth rate accompanied by high rates of inflation and unemployment, chronic imbalances in international payments and prolonged monetary instability, intensified protectionist pressures, restrictive business practices of the multinationals, structural problems and maladjustments, disruption

and dislocation in the functioning of the international financial and trading systems. The persistence of this state of affairs in the world economy has a profound asymmetrical impact. The majority of the DCs have been hurt the hardest and the stresses and strains in their economies are assuming alarming and critical proportions.<sup>1</sup>

To cope with the situation it is now being increasingly recognised that there is a need to expand, inter alia, South-South cooperation in trade. Whilst several cooperative arrangements, such as Global System of Trade Preference (GSTP) and Trade Information System on barriers to trade among developing countries (TIS), are in development, it is however, being felt that a more integrated and somewhat long term approach is necessary, particularly on multilateral basis, on behalf of the developing countries in the field of economic cooperation with a view to enhancing their collective bargaining capability in, and reducing vulnerability to, world market which is dominated by the advanced industrialised capitalist countries (AICC).

It is reckoned that this approach, beyond the measures of trade liberalisation and expansion, should include strategies to develop joint production and infrastructural projects, promote monetary and financial arrangements, augment well-concerned R&D efforts, establish multilateral marketing and purchasing enterprises, etc., all within the framework of consultation and coordination in external economic policies of the developing countries.

Among the instruments of ECTDC, the idea of launching multilateral marketing and procurement arrangements (MMPA) is relatively a new one and it is more akin to the modus operandi of multinational or transnational companies, although a host of developing countries (particularly Latin American and Sub-Saharan countries) during the past two decades have exploited MMPA, in varying degrees and forms, as one of the significant components of

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1, See for detail UNCTAD *Least Developed Countries Report*, UN, New York, 1987, UNCTAD *Trade and Development Report*, 1988, UN, New York, 1988.

their regional economic cooperation strategy. The concept of multilateral ventures in marketing and procurement has been strongly advocated by the concerned specialised agencies of United Nations.<sup>2</sup> Pursuant to the recommendations of the Mexico City Programme (1976), the Arusha Plan (1979) and the Caracas Programme of Action (1981), the regional and interregional meetings of the non-aligned developing countries held in 1980s adopted a number of decisions to promote MMPA, especially through sectoral negotiations of specific commodities on the basis of recommendations put forward by the UNCTAD and Group of 77 secretariats.

The concept of MMPA is also gaining grounds among the concerned researchers. Concretely fostering the idea of MMPA V.R. Panchamukhi maintained that "why should not India and Sri Lanka have their joint marketing group (like Brooke Bond) for promotion of tea exports? Why should not the export promotion institutions of South Asia, Latin America form a consortium for exchange of their experience and wisdom. There could be joint shipping and transport companies with participation of the countries of the South. In this regard, it is firstly necessary to make an inventory of existing institutional facilities in the South and develop a few new schemes. It should be that such institutional innovations would go a long way not only enabling the countries to exploit the existing complementarities, but also generating new ones."<sup>3</sup>

### The South Asian Context

As a consequence of the world economic crisis and its asymmetric impact, mentioned earlier, the countries of South Asia which constitute a major poverty belt of the world economy are confronting

2. In UNCTAD publications MMPA is usually termed as multilateral marketing enterprises (MME) of joint marketing ventures (JMV).
3. V.R. Pancharukhi, "Complementarity and Economic Cooperation Among Developing Countries: A Methodological Discussion" *ECDC Journal of Group of 77*, Vol. 1, No. 1, 1983.

common problems in the context of their development process, manifesting in continued erosion in terms of trade, increasing limitations on their export markets in AICC, inadequate level of transfer of resources to these countries, growing imbalance in their external payments and hence growing burden of external indebtedness for the majority of them.<sup>4</sup>

In view of the alarming dimensions of some of these problems, a major issue facing the South Asian countries like many other DCs is that of how to mitigate the impact of a very adverse external environment on their economies. Launching of South Asian Association for Regional Cooperation (SAARC) in 1985 has obviously broadened the scope and possibilities of pursuing concerted efforts, targetted towards containing the adverse effects of the extra-regional economics. In this context, in order to identify various avenues and schemes of cooperation within the framework of SAARC, a number of studies have been carried out and/or under way, particularly under the auspices of Committee on Studies for Cooperation in Development in South Asia (CSCD).<sup>5</sup> However, most of these studies till now have been basically involved with the conventional measures of trade promotion and payment arrangements, aimed at desired expansion of intra-regional trade and resulting into subsequent growth in agriculture and industry of the participating countries. In fact all these studies were primarily concentrating on exploring potentials and identifying the constraints of SAARC by exploiting the regional production and services possibilities within an institutional framework to cater for the respective national markets. But studies on regional

4. For a thoughtful analysis on the present status and future prospect of the regional economy, see : Rehman Sobhan and Sultan Hafeez Rahman, "Frontiers of South Asian Regional Cooperation" Paper presented to the Conference on Asia-Pacific Economy Towards Year 2000. Beijing, Nov. 1966.
5. After successfully completing the first and second phase of its research agenda, CSCD is now about to launch a major study in the field of Industrial Cooperation in South Asia.

cooperation should not only aim at exploring complementarities in order to close ties among the member countries, but should also "externalize" itself as far as possible, i.e., should develop common policies and joint actions towards third countries, groups of such countries and other external entities.<sup>6</sup>

Keeping in view the growing interest with respect to promotion of investment and direct trade measures on behalf of the SAARC member countries and taking cognizance of the grim international environment we have to live with, it appears to be only appropriate in context and mature in time to explore the relevance of MMPA in South Asian context and by that assessing the applicability of one of the innovative and prospective trade promoting and facilitating instruments, which is envisaged to be an active conduit of international adjustment process, having far reaching linkage implications for the participating countries.

#### *Objectives and Limitations of the Paper*

The central theme of the present paper relates to the problematique of MMPA in the SAARC context. It stems from the need for the member countries to increase their bargaining power and to preserve the integrity of the regional integration movement in relatively small and economically weak states. In an attempt to inculcate the idea of MMPA, to spell out its rationale, to define its horizons and limits and to evolve a framework for its launching.

It should be mentioned here in no uncertain terms that initiating such an important and complex venture demands carrying out of in-depth rigorous feasibility study, which was beyond the time and resource available for preparation of the paper. The author was also not endowed with the intimate understanding of the

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6. A recent review prepared by a Group of Consultants on Economic Cooperation Among Developing Countries in Trade and Finance has also urged this issue in similar vein. See, United Nations, *Strengthening the Weakest Link, South-South Trade and Finance* : New York, 1986.

intricate issues involved. Thus, the paper remains to be a primary exploration of some of the major issues concerned, leading to some tentative conclusions of indicative nature.

Whilst empirically substantiating the propositions, the author had to operate on an inadequate base. In some cases relevant information were totally unavailable, particularly relating to Bhutan and Maldives. In other cases, available figures were significantly dated, e.g., Indian and Sri Lankan. However, inspite of these data deficiencies, the figures cited in the course of elaboration will perhaps allow the paper to descend from the realm of abstract postulates to the world of real possibilities.

### **Multilateral Marketing and Procurement Arrangement : The SAARC Perspective**

#### *Regional Cooperation and the Concept of MMPA*

The idea of MMPA has been mooted out of appreciation of the fundamental role played by foreign trade (export marketing and import procurement) as a development factor and its contribution to structural change and economic expansion. In spite of the diversity of practices, the staple of MMPA remains to be a strategy agreed upon by the participating countries, based on constant observation and interpretation of the actual and potential characteristics of their extraregional export and import markets, which induce creation and adoption of policies, structures, institutions and methods, aimed at improving communication between the group of exporting/importing countries with their counterparts in order to satisfy the demand for specific goods and services, and thus achieving continuity of work, profit and balanced expansion of the associated sectors of the participating countries.

The MMPA may encompass a wide range of arrangements from a concerted international trade intermediation including promotion of signing of sales and purchase contracts involving medium and long

term supply agreement, simple market sharing agreement, and bulk purchase or bulk sale to launching of joint enterprises for export marketing and/or import procurement, sharing of promotion costs abroad (particularly start-up promotion cost which often tend to be very high), sharing of a single export credit scheme of credit refinancing at regional level. The essence of all these instruments is to extract better conditions on the markets by using its negotiating capacity. Possibly at a matured stage of development of MMPA, establishment of complementary infrastructural (such as warehouses, shipping lines, etc.) and financial (export-import bank, insurance company, etc.) ventures may be envisaged. Organisation of this type of multilateral undertaking even in the embryonic form is supposed to provide significant impetus to more efficient use of existing factors of productions and promote backward and forward linkages in the respective national economies.

The factors prompting for promotion of MMPA, i.e., the belief that unified control over separate export-import activities dispersed in space yields benefits over and above those that would be yielded if they were separately managed,<sup>7</sup> are similar to those making for regional cooperation, namely a perception that net gains procurable for a group of countries from the unified or integrated conduct of certain policy instruments (tariff, commercial, fiscal or monetary). In both cases, the necessity of integration derives from failure of markets to allocate economic activities efficiently among the units being integrated and because of the market imperfections involved, it is assumed that integrated governance of the foreign trading activities will reduce these imperfections by empowering the cooperating countries with a countervailing force.

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7. See for example, Caves R.E, Investment and Location Policies of Multi-national Companies, *Zeitschrift für Volkswirtschaft und Statistik*, No. 3, 1982.

Thus, it is quite logical that most of the MMPAs presently in practice have been designed and executed within the framework of some sort of regional or sub-regional cooperative grouping. The factors mentioned in Table 1 explicitly bring to the fore that the forces favouring multilateral ( corporate ) external marketing and procurement activities closely proximate the forces which encourage regional cooperation.

There may be a temptation to associate all types of producers cartel, such as OPEC, as an embodiment of the concept of MMPA. However what we are trying to emphasize here is not only market promotion strategy of a particular product but a symbiosis of both market promotion and regional cooperation. Among the regional cooperation and integration bodies with general competence where the MMPA approach has been extensively executed, mention may be made of Latin American Economic System (SELA) under which Fertilizer Marketing Company (MULTIFERT), Handicraft Promotion and Marketing, Marine and Fresh-water Products Marketing Committees, etc. operate. The Sugar Agreement and Meat Agreement of the Common Afro-Mauritian Organisation (OCAM), Maghreb Alpha Marketing Board (COMALFA), various African producers' associations (e.g. for coffee, groundnut, timber), are the relevant multilateral marketing organisations in Africa. In Asia and Pacific region, Trade Negotiation Group of Developing Countries (TNG) and South Pacific Bureau for Economic Cooperation deserve special mention.<sup>8</sup>

However, as we review the experience of the above-mentioned and other initiatives, it does not escape our attention that whilst their

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8. For details on those initiatives see: UNCTAD Secretariat Report on *Economic Cooperation and Integration Among Developing Countries. A Review of Recent Developments in Subregional, Regional and Interregional Organisations and Arrangements*, Various volumes.



**Table 1. Forces Making for MMPA and Regional Cooperation and Integration (RCI)<sup>9</sup>**

M M P A	R C I
<p><i>Basic</i> : To improve profitability and long term competitive position in export-import activities.</p>	<p><i>Basic</i> : To increase efficiency of resource use and to enhance economic and strategic strength of the region and member countries.</p>
<ol style="list-style-type: none"> <li>1. To exploit economies of scale.</li> <li>2. To reduce risk and uncertainties associated with external market transaction.</li> <li>3. To protect quality control of products (export items particularly).</li> <li>4. To capture the economics of Synergy which result from the common control of separate but interrelated activities.</li> <li>5. To overcome the transaction costs of using markets.</li> <li>6. To gain competitive strength, particularly in price fixation.</li> <li>7. To share common overheads.</li> </ol>	<ol style="list-style-type: none"> <li>1. To overcome structural market distortions e.g., tariff barriers, subsidies, etc. and to encourage competition.</li> <li>2. To reduce imperfections in foreign exchange, capital and labour markets.</li> <li>3. To facilitate the possibility of product and process specialization within the region, and promote trade in intermediate products.</li> <li>4. To facilitate the conduct of optimal policies and to secure gains from policy coordination in circumstances of structural and policy interdependence.</li> <li>5. To develop economic and strategic strength by adoption of a common policy towards the non-member countries.</li> <li>6. To increase market size and improve technological capability of the member countries.</li> </ol>
<ol style="list-style-type: none"> <li>9. For a similar argument see Dunang J. A. and Rebson P. "Multilateral Corporate Integration and Regional Economic Integration," <i>Journal of Common Market Studies</i>, Special Issue Vol. XXVI, No. 2, Dec 1987. In this review article the authors discuss the issue relating to interface between regional integration in the European Community and crossborder corporate integration.</li> </ol>	

intentions are well articulated, the implementation lags behind. This gap is more significant in the import procurement operation vis-a-vis export marketing. Apparently, it denotes that programmes for MMPA require identification of specific measures to be pursued, concretisation of their certain aspects and creation of the optimal mechanism, economic policies and institutions for their realisation.

Scrutinising the already accumulated experiences in the field of operation of MMPAs, it may be noted that, whilst initiating a regional venture in this regard, efforts should be directed (i) to selectively implement already verified features and instruments of establishing, functioning and promoting MMPA and (ii) to adapt certain aspects and mechanisms, which have demonstrated satisfactory results, in the context of South Asia.

#### *MMPA for South Asia : The Rationale*

The rationale of cooperation among the South Asian countries is already well documented in literature.<sup>10</sup> The general premises favouring economic and technical cooperation among the countries of the region also hold true in the case of MMPA. Basically these premises for cooperation relate to two aspects, viz., political and economic.

The political basis for espousal of South Asian cooperation stems from the concern regarding the relative isolation in which the

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10. There exists now a growing body of literature on South Asian regional cooperation. For an earlier perception see the Inaugural Address by Rehman Sobhan and the set of papers presented to the International Conference on South Asian Regional Economic Cooperation (SAREC) held at Dhaka., Feb. 1985. The significant amount of research done under the auspices of CSCD constitute the bulk of this literature. The research carried out by the Research and Information System of Non-aligned and Other Developing Countries has also contributed significantly towards this end. Amongst the recent publications mention can be made of *South Asian Cooperation in Industry, Energy and Technology* (Ed. by Arif, A. Waqif), Sage Publication, 1987 and *Towards Regional Cooperation in South Asia*. Asian Development Bank, 1988.

countries of the region may find themselves in the international fora. Given the tendency in the world politico-economic system towards multi-polar centres of powers and greater cohesion in regional and sub-regional blocs, the need for cooperation among the South Asian countries has acquired new dimensions. Faced with the issue of enhancing their capacity for making an impact commensurate with their intrinsic global importance on multinational positions within various platforms and in view of the growing importance of the international negotiating process on economic issues, in particular those effecting the development process in the region, the need for evolving a well developed institutional arrangements for consultation on matters of mutual interest and coordination of approaches towards multinational position have assumed greater significance.

Underlying the economic rationale for cooperation among the South Asian countries are two major factors. The first relates to the need for expanding and intensifying horizontal economic linkages among these countries in order to reduce their inherited structural dependence on economic links with the AICC and to enhance their autonomous and self-generating growth. The second factor relates to the necessity of strengthening the position of South Asian countries in the world economy and enhancement of their bargaining power in international negotiations, particularly in the context of bringing about structural changes in their favour in the existing international economic system.

The very sombre picture which unfolds before us as we realistically apprise the current status and mid-term prospect of world economic situation and their implications for the South Asian region, it seems pertinent to initiate systematic collective actions by the countries concerned to provide alternative solutions to the exogenous problems they are facing and at the same time to generate more meaningful and effective responses from the major advanced industrialised countries. It was correctly pointed out elsewhere, on the eve of launching of SAARC that in the South Asian context, the world

economic outlook may be an important factor in evoking positive responses from the countries of the sub-region to the proposal for economic and technical cooperation on a sub-regional basis within the framework of the strategy of Third World collective self-reliance".<sup>11</sup> In a recent paper it has been noted that "the countries of the South Asian region, may have many distinguishing concerns on these ... issues and as such there is scope for the intellectuals, researchers and policy-makers of this region to pool their resources to have more effective intra-regional dialogue and evolve their strategies on them. They could by this process improve their bargaining position in the international negotiations".<sup>12</sup> It appears that MMPA very well deserves to be one of the issues of such intra-regional dialogue and may subsequently become a significant component of the strategy relating to cooperation on world economic issues.<sup>13</sup>

However, the rationale for launching of MMPA will be better appreciated if we briefly analyse the foreign trade structure of the South Asian countries (SAC).<sup>14</sup>

First, foreign trade plays an important role in the regional economies, denoting their extensive interface with the world economy.

11. Jagdish C. Saigal, "Launching of Cooperation in South Asia. : Main Issues". Paper presented to the International Conference on SAREC, Dhaka, Jan, 1985.
12. V.R. Panchamukhi, "Trade Cooperation in South Asia; A Profile of Issues and Prospects". Paper presented at the Symposium on Regional Cooperation on South Asia, Manila, 1987.
13. The other components of the strategy relating to cooperation on world economic issues could have been coordinated positions of SAC on the questions of real transfer of resources to these countries from the North and debt relief, regulation of the activities of the multinational and debt relief, regulation of the activities of the multinational and transnational companies, etc.
14. For a detail review of the trade structure of the South Asian Countries see Indranath Mukherjee, "Trade Expansion in South Asia: Liberalisation and Mechanisms (A Synthesis Study)" (mimeo) CSCD, Dec 1988.

The smaller countries such as Maldives, Bhutan and Sri Lanka have a larger trade/GDP ratio (22%, 50% respectively) in comparison to Pakistan, Bangladesh and India (30%, 27%, 14% respectively). The trade/GDP ratio have either changed very little or has marginally declined in the recent past.

Second, the import share in GDP is substantially higher than the export share for all countries in the region. This is because the South Asian countries are all net importers of capital and it leaves them vulnerable to the pressures of the world market forces, which gets reflected in their eroding terms of trade.

Third, all the SAC have large trade deficits in their merchandise trade and the trade balance has deteriorated for most of the countries during the recent past, implying, inter alia, the necessity for augmentation of their export capabilities and rationalisation of their import demand.

Fourth, structures of merchandise export and import of these countries by broad economic categories are by and large similar. The export structure of all the countries are dominated by primary commodities (36-75%) and textile and clothing (53-17%), whilst the major share of import is attributed to manufactures (51-72%). Broad homogeneity of export-import items indicate possibilities of policy coordination with respect to particular commodity.

Fifth, intra-South Asia trade constitute a marginal portion (2-3%) of the world trade of the region and it is declining over time. It indicates that whilst expansion of intra-South Asia trade is desirable, the South Asian countries can not neglect the necessity of coordinating their approach towards extrar-regional trade issues. Under the given circumstances the latter aspect appears to have greater importance than the first in dimension.

Sixth, the direction of trade of SAC by broad country groups are basically similar. Except for Maldives, in case of all the SAC, the

the AICCs (or industrial marked economies according to IMF classification) appear to be the dominant partners both as the sources of imports (44-45%) and destinations of exports (48-49%). This means that it is also in the general interest of the regional countries to evolve a collective position vis-a-vis the influential group of actors of the world market.

Seventh, contiguity and geographical proximity of the SAC indicate the joint export and import possibility using common transportation facilities, thus reducing per unit freight charges and other associated overhead costs (e.g. insurance). This aspect is more pertinent for the land-locked countries, such as, Nepal and Bhutan.

Eighth, the broad commonality and uniformity in the trading systems in the countries of the region is the outcome of the historical past. It applies, equally to customs systems and procedures, banking and credit formalities, legal requirements for sale and agency contracts, insurance laws and procedures, government procurement systems, etc. The existing systems may, at the most, be marginally readjusted to implement a trade cooperation scheme such as MMPA.<sup>15</sup>

All points made above indicate the need and, to some extent, the basis for designing an extra-regional foreign trade strategy on behalf of the South Asian countries. However, these afore-mentioned aspects do not necessarily reveal the real possibilities which may exist, under the given parameters, to go for a joint marketing or procurement arrangement, dealing with heterogenous types of commodities and involving numerous trading partners interacting under diverse trade regimes. Thus, in order to establish mutuality of interest for the SAC, what is necessary is to identify in more disaggregated/manner the common commodities of import and export of the region with respect to common trading partners.

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15. See for details : Brij Mohan, "Report on Trade Channels—Systems and Procedures (A Synthesis Study)" (mimeo) CSCD, Oct 1984.

*Identification of Commodities for Extraregional Export and Import by Sources and Destinations*

It has been observed that during the period 1980-85 a handful of items contributed towards high concentration of export commodities of the SAC. The top ten export commodities for each of the countries accounted for overwhelming portion (around 70-90%) of the export volume (except for India where the corresponding figure is 45%). The major commodities which are of interest to maximum number of countries are shellfish fresh and frozen, tea and mate, leather, textile fabrics and articles of various types.

Analysis of relative shares of the top ten major export markets of the SAC shows that for the bigger countries, the top ten destinations of export account for 60-70% of the total volume of the respective countries, (for Nepal and Maldives the corresponding figure is above 95%). The major importers of commodities from the region are USA, Japan and UK. Other big destinations (e.g. France, FR Germany, USSR) are of importance to individual countries.

The relative shares of the top ten items in the import structures of the SAC are less (45-55%) in comparison to the same number of export products. Unmilled wheat, crude petroleum oils refined petroleum products fixed nonsoft vegetable oil fertilizer textile yarn and iron and steel universal plate are the major items of general interest.

The import structures by major sources of the SAC appear to be less diversified in comparison to the same by major commodity groups, thus expressing an overwhelming dependence of the regional economies on a small set of countries. These countries include USA, Japan, UK, Singapore, FR Germany and Saudi Arabia.<sup>16</sup>

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16. Figures relating to commodity concentration and market structure of ten most important export/import items of the SAC have been borrowed from Indranath Mukherjee, *op. cit.*

However, commonalities of the export and import structures of the regional economies become more explicit if we consider not only the ten major commodities, but all the export and import items. Table 2 reveals that there were at least 10 products (during the period 1980-85) which were regularly exported by 5 major countries of the region (Bangladesh, India, Nepal, Pakistan and Sri Lanka). Further probing exposed that, out of these 10 products in five cases, i.e. for fresh and preserved vegetables textile articles and various non-knitted garments there exist significant overlapping of export markets. According to our estimate these 5 export items of the of the region having similar export markets account for 33.3%, 6.4% 26.3%, 12.8% and 16.6% of total export of Bangladesh, India, Nepal Pakistan and Sri Lanka respectively.<sup>17</sup>

Table 2 also brings out the scope for export coordination on particular products involving two or more countries. For example, there are at least 15 products where (except those 10 mentioned earlier) where Bangladesh, India, Pakistan and Sri Lanka may come together; India, Pakistan and Sri Lanka have 53 common export interest and for India and Pakistan the corresponding number is as high as 116.

The ground for import coordination appears to be as may be expected, broader than export. As Table 3 shows there were at least 122 common products regularly imported by Bangladesh, India, Nepal, Pakistan and Sri Lanka. Here again, further investigation revealed that in this common set of 122, there are at least 47 commodities where total correspondence with respect to import sources exists. These 47 commodities add upto 10.5%, 7.0%, 10.9%, 8.55 and 9.2% of the total import of Bangladesh, India,

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17. Export figures of Bangladesh, India, Nepal, Pakistan and Sri Lanka are all from UNCTAD sources and for the year 1985 (except for India and Sri Lanka). The most recent detailed figures on India's export items by distinctions, available to the author, were for 1980 and in case of Sri Lanka for 1983.



Table 2 Common Commodities of Exports of South Asian Countries

Exported by Two Countries		Exported by Three Countries		Exported by Four Countries		Exported by Five Countries	
Countries	No. of Commo- dities	Countries	No. of Commo- dities	Countries	No. of Commo- dities	Countries	No. of Commo- dities
Ban+Ind	1	Ban+Sri+Ind	7	Ban+Nep+Pak+Ind	4	Ban+Nep+Sri+Pak+Ind	10
Nep+Ind	6	Ban+Pak+Ind	1	Ban+Sri+Pak+Ind	15		
Pak+Ind	49	Ban+Nep+Ind	1	Ban+Nep+Sri+Ind	3		
Sri+Ind	13	Nep+Pak+Ind	2	Nep+Sri+Pak+Ind	7		
Nep+Pak	1	Pak+Sri+Ind	28				
Nep+Sri	1	Sri+Nep+Ind	1				
Sri+Pak	1						
<b>Total</b>	<b>72</b>	<b>Total</b>	<b>40</b>	<b>Total</b>	<b>29</b>	<b>Total</b>	<b>10</b>

Source : Calculated from UNCTAD Commodity Trade Statistics (Various volumes)

Table 3 Common Commodities of Imports of South Asian Countries

Imported by Two Countries		Imported by Four Countries		Imported by Five Countries			
Countries	No. of Commodities	Countries	No. of Commodities	Countries	No. of Commodities		
Ban+Ind	2	Srl+Pak+Ind	6	Nep+Srl+Pak+Ind	8	Ban+Nep+Srl+Pak+Ind	122
Pak+Ind	9	Nep+Srl+Ind	2	Ban+Nep+Pan+Ind	4		
Srl+Ind	3	Ban+Pak+Ind	2	Ban+Srl+Pak+Ind	20		
Srl+Ind	3	Ban+Srl+Pak	9	Ban+Nep+Srl+Ind	2		
Nep+Pak	1	Nep+Srl+Pak	7	Ban+Nep+Srl+Pak	7		
Nep+Srl	5	Ban+Nep+Srl	3				
Ban+Srl	1	Ban+Nep+Srl	3				
Total	24	Total	32	Total	41	Total	122

Source : Calculated from UNCTAD Commodity Trade Statistics (Various volumes)

Nepal, Pakistan and Sri Lanka respectively.<sup>18</sup> The major common import sources for these 47 commodities are Japan, FRG, UK, USA, Singapore, China, Republic of Korea, Australia, Hong Kong, Switzerland, Thailand, France, etc.

Table 3 also depicts the structure of common import interest of the regional countries. For four country trade cooperation in import, the dominant set constitutes of Bangladesh, India Pakistan and Sri Lanka (20 items, excluding 122 mentioned earlier); for exclusive cooperation maximum scope exists for Bangladesh, Pakistan, and Sri Lanka, closely followed by (Nepal, Sri Lanka, Pakistan) and (India, Pakistan, Sri Lanka). Here again in case of bilateral cooperation the major importing partners can be India and Pakistan - 171 commodities.

As we identify the common intercepts of export-import structures of the regional countries with regard to their destination and sources, it should be borne in mind that the scope for joint marketing and procurement arrangement highlighted above only reflects the minimum possibilities under the present, historically inherited, trading pattern. Once the SAARC gains momentum, it will obviously regionalise some of the trade flow, exploiting complementarities of the regional economies. On the other hand, once the SAC decides to embark upon the MMPA, the countries concerned will have to systematically readjust and rationalise their foreign trade structures (particularly with respect to export markets and import sources) subserving the objectives of MMPA. Thus, evaluation of prospect of South Asian MMPA in a static framework is likely to be incomplete. The fact remains that long-term effects of economic cooperation, of the proposed nature, in the region may be of more fundamental importance. Finally, a significant part of economic relations

18. Import figures mentioned here are all from UNCTAD Trade Statistics (various country volumes) for 1985 (except for India and Sri Lanka). As mentioned earlier foreign trade data for India and Sri Lanka in requisite format were only available for 1980 and 1983 respectively.

can not be fully explained on the basis of cost-differentials due to factor availabilities, resource endowments, etc. Non-economic factors, such as peoples taste and preferences, common heritage identity of perspectives, etc. may also play a role.

### MMPA : The Performance Requirements

The issue of economic viability happens to be a crucial aspect of launching of the venture. As a matter of fact, all the perceived advantages of embarking upon such an enterprise are supposed to contribute towards its cost-effective operation. However, if a regional marketing and procurement arrangement is to be launched, it should be able to operate in compliance with the general rules of international competition. From an analytical point of view, two different sets of factors could be expected to have bearing on the viability of the venture.

First, the cost of managing overseas operations of the regional marketing and procurement enterprise should not exceed transaction-specific costs involved in dealing with otherwise independent exporters and importers of the participating countries. Alternatively stated, a condition for multilateral cooperation to play a role in extraregional marketing and procurement is that:

$$C < T \quad \dots \dots \dots (i)$$

where C = the multilateral marketing/procurement arrangement cost (per unit of export/import) of managing its operation,

and T = transaction-specific costs (per unit of export/import) of independent exports/imports of respective countries.

Transaction specific costs refer here to the costs of coordinating business activities through market transactions instead of internally within the same firm. These correspond first of all to the resources required in negotiating and enforcing business agreements. Furthermore, the future realisation of these agreements is usually subject to a degree of uncertainty representing a cost to both parties involved.

A second determinant of joint marketing and procurement collaboration is that, the regional venture must possess some kind of advantage over domestic firms offsetting the former's higher cost of operation in an alien environment. In other words, for multilateral cooperation in export marketing and import procurement to play a scope it is a necessary condition that:

$$M > C \quad \dots \dots \dots (ii)$$

where  $M$  = the joint marketing/procurement arrangements' cost advantage per unit of export/import over domestic exporters/importers.

Another method of choosing between the modalities of MMPA and existing system of foreign trade operation can make use of the net present value (NPV) approach. The potential advantage of the NPV approach is that it captures some quasi-dynamic elements of the choice of optimal mode. MMPA should in principle calculate NPV for each of the commodities to be exported or imported by considering the difference between the discounted revenues and costs (both normal and special). It should then choose the products which has maximum NPV for the length of time it is anticipated that the market will be serviced.

The NPV of MMPA and the existing systems for each of the products are to be determined as :

$$\text{for MMPA, NPV} = \frac{R_t + C_t - A_t}{(1+r)} \quad \dots \dots \dots (iii)$$

$$\text{for the existing system, NPV}^* = \frac{R_t^* - C_t^* - A_t^*}{(1+r)^t} \quad \dots \dots \dots (iv)$$

where  $R$  and  $R^*$  are total revenues from sale or purchase of the commodity using and not using specific advantages of MMPA respectively.

$C$  and  $C^*$  are cost of import/export of the commodity under MMPA and existing systems respectively.

$\bar{A}$  and  $A^*$  are additional costs incurred by the two modes for carrying out their operation.

In order to assume that for a particular commodity MMPA is optimal, it is necessary that the following condition be satisfied:

$$NPV > \max. NPV^* \quad \dots \dots \dots (v)$$

Without expanding our conjectures concerning the behaviour of the variables in these equations at this stage, it may be only indicated that once the group of commodities satisfying condition (v) are indentified, it will be then necessary to derive aggregate estimates in order to ascertain whether MMPA will be a worthwhile feasible operation with its possible coverage.

In absence of any empirical exercise in this regard it will be only appropriate to conclude that such an exercise involving the efficiency and cost advantage factors should be the organic core of a rigorous feasibility study, pursued under product approach drawing upon the countries interested about the particular product.

### **MMPA: The Constraints**

As we propagate the idea of launching of MMPA, we however do not remain oblivious of the existing structural and operational constraints which inhibit promotion of such an initiative. We will mention in this section some of the major factors of concern.

In spite of the fact that all the countries of the region are more or less at similar stage of economic development, there exists significant difference in factor productivities among them. In order to capture extra-regional export markets through collective effort, the basis for competitive price formation for the common products of the region will be the least average cost. In that case, countries with lower than average factor productivities will have to sell the products at less than their domestic costs, at least initially. In the same vein, the countries with more diversified economies of the region will have a larger number and volume of products to offer to their external

markets and will be also able to absorb larger quantum of commodities in their domestic markets by which they may be able to secure country specific trade creation and trade diversion concessions. In that case it is not in the interest of these countries to tag themselves up with the rest of the countries of the region. As a matter of fact with growing rigidities and protectionist measures in the world capital and commodity market, the apprehension that the countries of the region will get involved in cut-throat competition among themselves for getting greater access to export quota or sources of credit remains potential. Our analysis of regional trade structure revealed that the SAC together do not pose for the role of a large buyer or seller of any significant number of commodities (not to say of monopoly or monopsony position). Account should be taken of the fact that considerable part of the import of the regional countries is financed by various types of loan, grants, and suppliers, credit, which are quite often conditional or tied to the source. This may also constrain the countries from taking advantage of any other procurement arrangement besides those stipulated in the financing agreements.

The potential benefits which SAC may derive from designing and executing of MPA appear to get neutralized by the above mentioned factors and other classical problems which usually arise in the process of regional cooperation and integration. Under the circumstances, what is possibly necessary is that remaining sensitive to these aspects, in order to ensure mutuality of interest, any form of MPA as and when found viable, should work out, on consensual basis, a programme involving benefit and income distribution and cost compensation mechanism. Obviously, such a programme will imply harmonisation of economic policies including monetary, fiscal, investment, etc., which in its own turn will contribute to the enhancement of the general objectives of regional cooperation.

However, the *realpolitik* of the region also emerges as a significant constraint. Unfortunately the crucial areas, viz. finance, trade

and industry which may offer the ground for fruitful cooperation though MMPA have been deliberately excluded from the SAARC agenda and regional cooperation till now remains limited to the politically 'neutral' areas of the market place. This owes to the potential and perceived notions about rampant Indian entrepreneurs' overrunning the smaller economies of the region.<sup>19</sup> However, the basic contention of MMPA urges the weaker economies to realise structural diversification in their domestic economies and external trading relations and thus develop a degree of autonomy through an agreed comprehensive format, failing which the market forces will prevail exacerbating the existing politico-economic disequilibrium.

#### **In Lieu of a Conclusion : Proposal for an Action Programme**

The conceptual and practical difficulties to be encountered in designing and promoting an efficient and equitable extra-regional marketing and procurement arrangement for the South Asian countries are considerable, but not insurmountable. The existing models of such cooperation do not provide a well-developed framework to cater to the specific situation abiding the South Asia region. Thus, it is recommended that in order to ascertain the benefits which the countries of the region may reap if such a venture is floated, as well as to assess other implications, an Action Programme may be initiated. A rigorous and comprehensive feasibility study should constitute the major agenda of such an Action Programme. Cooperation of international institutions having specialised knowledge in the field of developing MMPA (such as UNCTAD) may be sought in this connection.

In order to explore the promises and problems of a MMPA, the contemplated Action Programme should have provision to launch sectoral studies to identify commodity-specific implication of the

19. For an analysis on political perspective of regional cooperation see Rehman Sobhan, *Political Dimensions of South Asian Cooperation : The Perspective for Bangladesh*; BIDS Research Report No. 75, June 1988.



venture. At the same time, open-ended sectoral and multisectoral meetings of the producers, consumers, exporters and importers are to be organised so as to detect the opportunities, promote new initiatives and identify the compatibility of the envisaged venture with the existing modalities.

The Action Programme should mainly concentrate on mobilising the concerned public institutions of the respective countries to get involved in the process. Experience, reality and trends suggest that the main institutional vehicle for promotion of such an effort should be the state trading organisations (STO). Representatives of the national Federations of Chambers of Commerce and Industries should however remain closely associated with the process from the very beginning. The Action Programme should also initiate a dialogue to tap the expertise and experience of the private entrepreneurs and should evolve a mechanism to benefit from their skill and resources.

Since launching of MMPA will necessitate harmonisation of regional economic policies, to this end provision should be created to draw upon the services of concerned financial institutions, viz., commercial banks and insurances. As a part of the Action Programme, inventories need to be done on the existing infrastructural facilities of the region and the prospective multilateral projects (e.g. regional shipping lines) may be explored. Collection, exchange and systematisation of information and documents among the concerned regional institutions may be regarded as a part of the Action Programme, which would eventually, as and when the venture is launched, end up in establishing a regional market intelligence and information exchange service centre.

The programme described above stems from the conclusion that an instrument such as MMPA, in whatever form it may be arranged, has the potential to emerge as an effective weapon in the arsenal of the South Asian countries in their pursuit to sustain, adjust and develop in an unfriendly international environment.