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Sadrel Reza

ISSUES IN TRADE COOPERATION IN SOUTH ASIA: A BANGLADESH PERSPECTIVE

I. INTRODUCTION

The South Asian Association for Regional Cooperation (SAARC) comprising Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka was launched in 1985 after some intensive political activity following the first-ever meeting of Foreign Secretaries of the region, held in April 1981. From the very beginning SAARC adopted a somewhat cautious, step-by-step approach towards regional cooperation. As a result no dramatic results of immediate import could be expected out of this organisation. The progress made so far has been, therefore, rather slow. This has already evoked some sharp criticisms about its future prospects.¹

However, given the long legacy of conflict and mutual suspicions in South Asia - inspite/because of a shared history, a common ecology and a common past - the very fact that a diverse group of countries could gather together under some institutional umbrella for cooperative promotion of their economic development should in itself be considered a significant achievement for the region.² Note that it took South Asia only four years

1. Md. Abdul Halim, "Wither Away the White Elephant Called SAARC?" *Perspective in Social Science*, Vol. 4, April 1992.

2. Cf. I. N. Mukherji, "India's Trade and Investment Opportunities in South Asian Manufactures", in Arif A. Waqif (ed.) *South Asian Cooperation in Industry, Energy and Technology*. Sage Publication, New Delhi, 1987. Also See, Nihal Kappagoda, "Current Policy Issues", in *Towards Regional Cooperation in South Asia*, ADB/EWC Symposium, Manila, March 1987.

S.A.L. Reza, Ph.D is Director General, Bangladesh Institute of Development Studies (BIDS), Dhaka.

from the beginning of its journey to hold the first Summit and that the second-cycle seventh summit has also already been held in Dhaka in 1993. This contrasts very well with the relatively successful, dynamic and more vibrant Association of South East Asian Nations (ASEAN), which took ten years to hold a summit after its establishment in 1967.

The objectives of SAARC, as laid down in its Charter, have been set keeping the priorities of the region in view. They include the following: improving the standard of living of the people of South Asia; economic development of the region, social progress and hastening of cultural development; affording each citizen living within SAARC countries the right to live a life of dignity and facilitating to the utmost the expression of his or her talents; promoting and strengthening collective self-reliance in South Asia; extending the hand of cooperation in solving each other's problems in a climate of mutual understanding and trust; accelerating regional exchange in the socio-economic, cultural, scientific and technical spheres; and strengthening of mutual cooperation in international forums in pursuit of shared interests.

The major areas which have been identified for cooperation in SAARC and included in its Integrated Programme of Action (IPA) are: Agriculture; Rural Development; Meteorology; Telecommunications; Scientific and Technical Cooperation; Health and Population Activities; Transport; Postal Services; Sports, Arts and Culture; Prevention of Drug Trafficking and Drug Abuse; Women in Development; Audio-Visual Exchange; SAARC Chairs, Fellowships and Scholarships; Youth Volunteer Exchange; Prevention of Terrorism; Tourism, etc. Clearly, these are all based on mutual commonality of interests with significant functional relevance. But many other areas of critical importance, such as trade, industry and finance, which bear significantly on the long-term development of the region were left out of the SAARC agenda at the beginning. Some forms of economic integration and trade cooperation are, however, deemed essential if a regional grouping of this nature is to achieve a greater efficiency of resource

utilization and fulfil the second best condition for Pareto optimality.³ This is the reason why issue of trade expansion features prominently in most schemes of regional cooperation. For example, the basic aims of ASEAN, as defined in the Declaration of ASEAN Concord (1967) and the Preferential Tariff Arrangement (PTA) concluded in 1977, are the promotion of intra-regional trade by such means as reduction of tariff and non-tariff barriers, short-and long-term bilateral and multilateral trade agreements within and outside the region and creation of industrial complementarity, particularly through joint ventures involving two or more countries.

Unfortunately, SAARC suffers from certain abiding constraints in choosing the areas of cooperation and the modalities for achieving the objectives of cooperative endeavour. For example, Article X(2) of its Charter provides that "bilateral and contentious issues shall be excluded from the deliberations". Moreover, all decisions of the Association have to be made on the basis of unanimity and in a spirit of friendship, trust and mutual understanding. This means that even the smallest member can exercise a veto power which, however, is understandable since the first precondition for economic cooperation is to create an environment of peace and mutual support in an otherwise strife-torn area.⁴ But there is also a dawning realisation in the region, particularly since the 1988 summit, that concrete results can be achieved within the SAARC framework only by gradually extending the IPA from the purely innocuous to such more fundamental areas as trade, finance and industry. This has been manifested by signing a draft treaty to establish a South Asian Preferential Trading Arrangement (SAPTA) by 1997 or even earlier.⁵ As stated by the then SAARC Chairman, "This would be the first major step towards an eventual economic community in South Asia ... We need to look closer also the

3. M. Dutta, "Economic Regionalization in Western Europe : Asia Pacific Economies- Macroeconomic Core: Micro-economic Optimization", *American Economic Review*, Papers and Proceedings 1992.

4. Tarlok Singh, "Economic Cooperation in South-Asia: An Overview", in Arif A. Waqif (ed.), *op. cit.*

5. *The Daily Star*, Dhaka, Monday, October 5, 1992.

feasibility of a payments unit for regional trade and commercial exchanges".⁶ Note that by the 1993 summit, SAARC efforts have been further extended to cover poverty alleviation, housing and shelter, preferential regional trade, and cooperation among parliamentarians.

The basic object of this paper is to highlight the issues which need careful consideration for the success of the proposed trading arrangement and for the possible graduation of SAARC into an economically well integrated group at some point in time in future. However, it would be appropriate at this stage to briefly examine the nature of the SAARC economies, the structure of their products and trading relations in order that the major relevant problems can be judged in their proper perspective.

II. SOUTH ASIAN ECONOMIES: BASIC INDICATORS

South Asia is one of the most densely populated area, with high rates of population growth projected to continue over the nineties.⁷ Occupying a land mass of only 3.3%, South Asian population exceeds one-fifth of the world total. On the other hand, per capita income shows that all the seven countries are in the 'low-income' category.⁸ The contrast against the developed countries clearly demonstrates the severity of poverty in the region (Table 1). By and large, there has occurred some significant sectoral shifts in the production structure, away from agriculture towards industry and services but the variations in the magnitude of change amongst countries are considerable (Table 2). On the whole, however, the industries sector in all these countries have still remained underdeveloped. Relatively speaking, India has the most diversified industrial structure in the area and its dominance over all others is striking: its GDP is more than three-fourth of the regional total and its manufacturing value added was more than five times the combined figure for the rest of the region in 1989 (Tables 1 and 3).

6. *Ibid.*

7. However, population density varies widely amongst the SAARC participants.

8. i.e. with a GNP per capita of \$610 or less in 1990. Note that four members of SAARC - Bangladesh, Bhutan, Maldives and Nepal - belong to the category of 'least developed countries' (LDCs).

By and large, the South Asian economies are predominantly exporters of primary products and traditional manufactures, such as textiles and clothing (Table 4). Imports of the region chiefly consist of capital goods, 'other manufactures', food and fuel (Table 5). Over the recent years, the dependence of the region upon the industrial countries has increased both for exports and imports (Table 6). Intra-regional trade, on the other hand, is low and declining in relative terms, and with the exception of Nepal, such trade accounted for less than 10% of their total trade (Table 7).

Moreover, all the South Asian countries suffer from significant trade and current account deficits (Table 8). There is considerable resource gap - gross domestic saving falling far short of gross domestic investment - and as a percentage of GDP, the gap has been widening over the years (Table 9).

To sum up, South Asia is a densely populated region, primarily agricultural with low level of per capita income, low savings and significant external deficits. Intra-regional trade is small and declining while trade and aid dependence on industrialized countries are substantial and growing. Naturally, therefore, these countries are highly susceptible to the prevailing external economic environment. Such factors as global recession, rising protectionism, depressed commodity prices, lower export earnings, decline in concessional aid, etc. can very adversely affect the development prospects of the region. Against such backgrounds, the importance of economic cooperation amongst SAARC members for alleviation of poverty and for promoting national and collective self-reliance through optimum utilization of their human and material resources can hardly be overemphasized.

Trade cooperation, of course, receives top priority for the multifarious gains which are expected to arise out of specialisation, economies of scale, possible improvements in the terms of trade, increased competition and greater allocative efficiency and increased capital flows and technological advances. Besides commercial policy barriers to expansion of intra-SAARC trade, there are a number of other well-known impediments in this regard including: supply constraints, dependence on aid-giving industrial countries for import finance, domestic priorities for protection of infant industries,

overlapping production structures and lack of complementarity, weak infra-structural links, lack of information and political sensitivity.⁹ However, even if there occurs a substantial expansion of intra-regional trade which is policy induced, this will not make any real dent in the overall trade pattern within SAARC because of the structural and other constraints. The scope for gainful trade can be widened and economic cooperation can be meaningfully sustained in the longer run only if such efforts are backed up simultaneously on other fronts by means of industrial cooperation, financial cooperation, development of physical infrastructure, cooperation in services including trade information and also standardization issues which need careful attention and towards which the Association should now immediately turn if SAARC ideals have to be translated in concrete reality.

III. PROSPECTS OF ECONOMIC COOPERATION IN SAARC

This section deals with the relevant issues in the realms of trade, industry, financial and monetary matters, infrastructure, harmonization of documentation etc; and cooperation in the service sector which need careful consideration by the Association for inclusion in its IPA. The issues may be elaborated as follows:

Trade Cooperation

Table 10 indicates the product structure of intra-SAARC trade by broad commodity groups. While the composition of intra-regional product trade is not symmetrical, the dominance of "food items", "other manufactures" and "agricultural raw-materials" is clear as they accounted for around 70% of intra-regional trade in 1985. Within the region, india's shares in the export of "food items", "machinery and equipment" and "others manufactures" are the highest. Pakistan is the highest exporter of "agricultural raw-materials" and "chemical products" and ranks second in case of "machinery and equipment" and "other manufactures". On the other hand, Pakistan is the highest importer of "food items" and "agricultural raw-materials" and Bangladesh in "machinery and equipment".

9. A. R. Bhuyan. "Trade Cooperation in South Asia: A Case Study of Bangladesh", Bangladesh Planning Commission, October 1989, Dhaka, Mimeo.

In order to evaluate the future prospects of trade expansion in the region a number of indices can be calculated to assess the degree of "existing" and "potential" complementarities. Some attempts have been made recently to estimate such relevant indicators as "trade intensity", "complementarity", "country bias" and "revealed comparative advantage".¹⁰ The trade-intensity index measures the extent to which one country's share in another country's exports (imports) is larger or smaller in relation to the former country's share in world's trade. If the index value is more than unity it will indicate that a country is exporting more (or less) to another country than might be expected from the country's share in world trade. The trade-intensity index can be decomposed into two indices of, "complementarity" and "country bias". The former measures the extent to which one country's export pattern matches another country's import pattern more closely than it matches the country's import pattern for world imports. The latter index measures the extent to which one country's export have more or less favourable access to another country's market than might be expected from both country's share in world trade. The revealed comparative advantage (RCA) index shows the comparative advantage in terms of the share of a particular industry in a country's total exports relative to the industry's share in total world exports. If the value of RCA, calculated separately for exports and imports is greater (less) than unity, it indicates a strong comparative advantage (disadvantage) for the economy in the export/import of a given country.

On the whole, the results obtained so far by the various studies on the above indices indicate that the existing low level of intra-regional trade in South Asia follows from the low degree of complementarity in the production and trade structures of the countries in the region. The low complementarity has been caused significantly by trade and other barriers

10. See, for example, Mukul Asher and Charan Wadhva (ed.), *ASEAN-South-Asia Economic Relations*, ISEAS, Singapore 1985; S. Reza, "Trade Intensities of Bangladesh with South Asia and Asean : Some Estimates", *Bangladesh Development Studies*, Vol. X, No. 4, December 1982; S. Reza, "Revealed Comparative Advantage in the South Asian Manufacturing Sector: Some Estimates", in *Indian Economic Journal*, October-December 1983; and, M. R. Aggarwal and P. R. Pandey, "Prospects of Trade Expansion in the SAARC Region", *The Developing Economies*, March 1992.

put by the member countries on their intra-regional trade.¹¹ Recently, however, there has been a marked trend towards trade and industrial policy liberalization in most of the SAARC countries, and the economies are increasingly being characterised by privatization and deregulation where market forces are being allowed a more dominant role to play than in the past.

Nevertheless, the conventional methods of trade cooperation like free trade area, customs union or common markets where internal trade barriers are completely dismantled are unlikely to find favour in the region in the near future. There is apprehension that such methods will benefit the larger countries at the expenses of the smaller ones. However, drawing on the experience of other existing integration schemes such as Latin American Integration Association (LAIA) which replaced Latin American Free Trade Association (LAFTA) and ASEAN, it may be quite possible for South Asia to design a mechanism of trade expansion acceptable to all partner countries. For example, there is a continuing effort within ASEAN to improve its PTA scheme which has graduated into the ASEAN Free Trade Area (AFTA). LAIA envisages an economic preference area made up of regional tariff preferences and partial agreements on bilateral tariff reductions. These partial agreements could be multilateralized through a negotiated process.

Within SAARC, bilateral agreements exist between India on the one hand, and Bangladesh, Nepal, Pakistan and Sri Lanka on the other on a variety of products such as coal, mineral, cotton and silk textiles for mutual trade. Trade within the region could start on such mutually agreed products which could initiate the process of building collective self-reliance in South Asia.¹² Expansion of trade on mutually agreed lines should prove beneficial to both stronger and weaker countries as opposed to "across the board" approach which may favour countries with diversified exports.

11. M. R. Aggarwal and P. R. Pandey, *ibid.*

12. Cf. Malcolm S. Adisesiah. "The Economic Rationale of SAARC". *South Asia Journal*, Vol. 1, No. 1, July-September 1987.

However, note that all the SAARC countries are essentially resource-based competitive economies, producing by and large, a similar range of primary products and simple manufactures which has hindered the growth of intra-regional trade. Appropriate supply-side measures are needed to expand and diversify the production structure of the individual countries which can create useful complementarities in the region. Industrial cooperation can play a significant role in this respect.

Industrial Cooperation

Concerted efforts are needed from both the governments as well as from the private sectors of the member countries for greater industrial cooperation. At the government level, there is a need to identify industries which are best suited to the respective countries from the regional viewpoint. At the private levels, as a result of the enlarged market, there is greater prospect for profitable joint ventures on a wide range of manufactured items. However, since all the SAARC countries are relatively capital poor, it would not be realistic to expect any significant intra-regional flows of direct foreign investment although the prospects of exploiting the larger market may encourage transnational corporations from the industrialised countries to look for suitable investment opportunities in the region.

Although the necessity for industrial collaboration is recognised, it is obviously a difficult task to identify the potential areas as well as the mode of cooperation. Thorough studies will be needed in this regard keeping particularly in view the existing resource endowment, skill, technology, physical infrastructure and institutional facilities of the collaborating countries. Some preliminary investigations have already indicated bright prospect for joint industrial venture in a wide range of areas such as:¹³

- (a) resource based industries like paper, rubber, fertilizer, cement, fisheries, and agro-based industries like forest products, processed and packaged foods, fruits and vegetables;

13. Arif A. Waqif (ed), *op. cit.*

- (b) intermediate products like chemicals, pesticides, refractories, solvent extractions, auto-parts, other transport equipment and components, agricultural pumps and motors, foundries, machine and hand tools, etc.; and
- (c) consumer goods like electricals, edible oils, leather goods, handloom and handicrafts, bicycles, film-making etc.

However, the creation of a regional industrial structure must be accompanied by appropriate precautionary measures to prevent unequal distribution of gains amongst the partner countries. Polarization of benefits has created serious dissatisfactions within many of the existing integration schemes. Past experience will suggest the adoption of a policy of balanced regional industrialization through agreed specialization. For example, the "joint industrial programming" of the Andean Group seeks to allocate industries to particular countries based on their actual or potential comparative advantage as determined by respective resource endowments, location and availability of physical and infrastructural facilities. The allocation of such industries may be exclusive or shared between two or more members.

Similarly, the ASEAN Industrial Project (AIP) assigned priority industries to each member country in accordance with comparative advantage to reap the benefits of economies of scale and to avoid wasteful parallelism. Although some projects in the first AIP package had to be scrapped because of some technical and administrative problems due to lack of necessary preparatory work, there is sound logic in the principle adopted for ensuring a fair inter-country distribution of industrial projects. Again, the ASEAN Industrial Complementarity (AIC) Scheme, which aims at simple horizontal specialization in production where member countries produce complementary products may also provide some lessons for SAARC.

In any case, it must be noted that successful industrial cooperation will call for some degree of plan harmonization among countries in order that

wastes of duplication can be avoided.¹⁴ Joint ventures should also be encouraged in the private sector to pool resources in the region so that, besides establishment of new industries, there can also occur cooperation in R&D efforts for product development and improvement in technology.

Financial and Monetary Cooperation

South Asia as a region suffers from serious resource constraints which has made the countries heavily dependent on external assistance for their essential development imports. This has limited intra-SAARC trade and circumscribed the region's access to adequate international liquidity. In order, therefore, to achieve the objectives of trade expansion and industrial growth in South Asia, it is necessary for the SAARC countries also to cooperate in financial and monetary spheres. Thus, the growth of a regional financial system through the establishment of a regional development bank, a regional import-export bank and a regional finance corporation as joint venture of all member countries could, by drawing on the region's resources, not only help ease region's resource constraints but also reduce its dependence on the global financial system and thereby facilitate trade and investment in the region.¹⁵

Cooperation amongst commercial banks in South Asia can also play an important role by exchanging information and experience on credit policy for devising appropriate methods for effective utilization of bank credits. Similarly, for regional joint ventures commercial banks can mobilize funds by undertaking joint project financing. They can also facilitate expansion of intra-regional trade through provision of credits to the export sector.

Since trade imbalances pose as a serious constraint to trade expansion in South Asia it is necessary that a clearing arrangement be made to settle payments among member countries for clearing their current transactions. Like the Asian Clearing Union (ACU), a mechanism can be so devised as

14. For political and psychological reasons, harmonization of plans may be difficult, but if the potential advantages of coordinated development are recognized, a consensus on intra-regional specialization should not be difficult to achieve.

15. See A. R. Bhuyan, *op. cit.*

to allow the central banks to periodically settle the net outstanding balances of all transactions of member countries which are recorded multilaterally by commercial banks of each country.¹⁶ Such an arrangement helps economies in the use of foreign exchange - since it is needed only to settle the net imbalances at the end of the specified periods - and also save transaction costs. While a South Asian Clearing Union may be set up, it may also alternatively be possible to expand the present ACU by admitting Maldives and Bhutan - two of the SAARC members currently outside the Union. In case South Asia is not prepared as yet for a centrally operated multilateral network of credit lines, they may even consider, at a minimum, agreeing on a swap arrangement of bilaterally determined credit lines as a complement of the clearing agreement.¹⁷

The clearing arrangement, however, provides only interim finance ranging from two months to one year as evidenced from experiences of the existing Unions - and the credit margin available also differs greatly between various schemes. Persistent trade imbalances, therefore, may make the settlement of net debt balances burdensome particularly to the weaker members. This warrants that clearing arrangements are supplemented by provisions of short to medium-term credit arrangements. That is, a payments union may render valuable services by providing an insurance against adverse intra-trade balances which should be of interest for adoption by SAARC.¹⁸ Funds for Payment Union which will be necessary for

16. The Asian Clearing Union was established in 1974 with Bangladesh, Burma, Iran, Nepal, Pakistan and Sri Lanka as member. ACU started operation in 1976.

17. Cf. B. K. Madan, *Payment Arrangements and Monetary Cooperation in South Asia*, CSCD, Colombo, 1985. Under swap arrangement national currency can be swapped for convertible currencies on a short-term but unconditional basis.

18. A number of payments unions are now in operation in different developing regions, such as the Central American Stabilization Fund, the Santo-Domingo Agreement, the Andean Reserve Fund, the Arab Monetary Fund and the ASEAN Swap Arrangement. Under payments union the participating countries agree to provide medium term balance of payments credit to each other. There may be variations in the actual form of a payments unions the key issues involved being determination of shares of participating countries, the denomination of the currency of subscription, the credit limits, the repayment period, whether credit will be automatic or discretionary, etc.

handling possible lags or delays in convertible currency payment and receipts may come from the surplus member countries' contributions though it must be noted that given the overall balance of payments situations in the region, some financial support from external sources including developed countries and financial institutions would probably need to play a critical role in this regard. Alternatively the proposed widened ACU's scope of activity may also be expanded in order for it to function as a Payment Union as well.

Another important factor for ensuring liberalization and expansion of trade is cooperation in respect of exchange rate arrangements. Although not widely dissimilar, the SAARC members currently follow different exchange rate systems such as pegging to a particular currency or a basket of currencies and limited flexibility and "managed floating". The basic distinction is thus in the extent of flexibility of the exchange rate but the variation in such rates of individual countries over the past years has been, by and large, in the same direction. The central banks of the member countries could easily cooperate to stabilize the exchange rate, which is found to be a favourable factor for mutual trade expansion as indicated by the experiences of existing integration schemes.

Infrastructural Development

Although the South Asian markets have the advantage of physical proximity to each other, trade is constrained by inadequacies of regional transport and communication systems. It is important to extend cooperation to these sectors for development and expansion of intra-regional trade and industry. Attempts have already been made to promote functional cooperation in some of these areas in SAARC. However, considerable scope yet remains for cooperation by (i) establishing a regional transportation network such as the Asian Highway Project and the Trans-Asian Railway Project, (ii) developing inland waterways with special provision for transit facilities for land-locked Nepal and Bhutan, (iii) establishing a regional shipping lines with multi-modal transport including containerisation,

regional shipbuilding and repairing facilities and (iv) developing air linkages by pooling together resources of different national airlines. Simultaneously, there is considerable scope for cooperation in the communication side covering postal, telephone, telegraph, telex, fax and also radio and television. Particularly, telecommunications network is vital not only for promoting greater South Asian cohesion but also for developing a fast growing research-intensive sector which has recently been found to be at the forefront of promoting global trade and industry.

Side by side with physical infrastructure, it is also necessary to strengthen the institutional infrastructure of the region for facilitating and consciously promoting economic cooperation amongst the SAARC countries. The SAARC Chamber of Commerce and Industries should be useful for dissemination of information of business environment, potential tradeable goods and possibility of joint ventures. The chambers may also work together in identifying and resolving various trade bottlenecks viz., tariff and non-tariff barriers inadequate production capacity, lack of information, absence of standardization, poor quality control, etc.

Networking of trade and technology information centres, of experts and institutions engaged in studies and research on trade and investment matters, networking among State Trade Organisation and other relevant public sector organisations are all necessary for profitable exchange of information on trade, technology and consultancy matters.

The SAARC countries should also have frequent exchange of trade delegations and hold trade fairs on rotation basis. Organisation of buyers-sellers meets and technology exposition in the region can contribute over time to significant trade expansion.

Harmonisation of Documentation, Customs, Procedures, Standardisation, etc.

Measures to promote trade and economic cooperation have to be accompanied by trade facilitation measures using uniform standards of trade classification, procedural formalities and documentation. Documents that

need standardization are: (i) offer, acceptance, contract and proforma invoice, (ii) bank documents, (iii) handling documents, (iv) transport and insurance documents, (v) forwarding instructions, and (vi) certificates relating to customs valuation and customs control.

Export Promotion Centres, Chambers of Commerce and Industries, and official pre-shipment inspection agencies of the SAARC countries should work out appropriate mechanisms to ensure quality control, delivery schedules and after-sales services, and for expeditious disposal of traders' complaints.¹⁹ Similarly, national arbitration laws and procedures should be harmonised so as to generate confidence among exporters and investors in joint venture projects. In this regard, consideration may be given to evolving of common code of conduct for importers, exporters and investors.

Finally, there is need to relax curbs on travel, particularly with respect to bonafide businessmen. The SAARC countries may consider allowing measures such as visa-free travel/multi-journey visas as well as exemption from police reporting to commercial travellers within the region.²⁰

Cooperation in the Service Sector

Service sector has a strategic role in the development process. So far cooperation and trade in services within SAARC has been negligible. Moreover, with the exception of Nepal, all other South Asian countries have been facing serious problems with trade in services.²¹ Some areas which have been recently identified by the SAARC Secretariat for cooperation in the service sector include:²²

19. SAARC Secretariat, *SAARC Regional Study on Trade, Manufacturing and Services*, SAARC/SC/14/17, Kathmandu, 1991.

20. *Ibid.*

21. Sadrel Reza, *South Asian Cooperation in the Service Sector : A Bangladesh Perspective*, Bangladesh Planning Commission, September 1989, Mimeo.

22. SAARC Secretariat, *op. cit.*

- (a) Institutional promotion of tourism and hotel industry;
- (b) Consultancy and design;
- (c) Services for small-scale industry development;
- (d) Banking and development finance;
- (e) Insurance including re-insurance;
- (f) Joint investment for R&D;
- (g) Transport network, telecommunication and postal services;
- (h) Information technology and related software development;
- (i) Construction industry; and
- (j) International trade matters.

IV. A BANGLADESH PERSPECTIVE

Judged by its ratio to GDP, foreign trade plays an important role in the economy of Bangladesh. However, inspite of some recent improvements, the country has been suffering from serious export-import gap and therefore, is heavily dependent upon external financial resources for essential imports. The debt service of Bangladesh as a percentage of exports of goods and services has declined but still remains high. Export expansion, including intra-regional trade is, necessarily of critical importance to the country in the existing context.

At present, however, the magnitude of Bangladesh's exports to South Asia is very small. Moreover, the share of South Asia has declined from pre-SAARC 11.4% to 3.6% in 1990 in the country's total world exports. There has been an increase in imports from intra-regional sources, particularly from India and Pakistan signifying significant trade imbalances for the country even within the SAARC framework.

Looking at the commodity structure of Bangladesh's intra-SAARC trade relationship (table 10), it is found to be dominated by food items and agricultural raw-materials, besides 'other manufactures'. The prospects for

export expansion to South Asia with the country's present commodity structure-mostly competitive with other partners - is not really very bright. Even then it is possible to identify some items which account for a significant portion of Bangladesh's exports to the region and which deserve greater attention from the relevant quarters.

Queries received by the Bangladesh Export Promotion Bureau and consultations with representatives of Chambers of Commerce and Industry indicate that depending on availability of sufficient exportable surplus, the country's exports have considerable prospects within SAARC in such items as, fruits and vegetables, potato, pulses, wheat bran, tortoise and turtles, crabs, lizard skin, agar wood, duck chest feather, sunhemp, footwear, pharmaceuticals, soaps and detergents, cosmetics, P.V.C. pipe, electric wires and cables, G.I. pipes, ceiling fan, gas generators, handloom products, bees wax, feature films, earthen pottery, coir and coir products, glass sheets, stationery articles, etc.

It should be evident that a significant increase in exports will entail considerable product diversification and industrial growth in the country. Intra-SAARC trade is inhibited presently by domestic narrow markets and supply side constraints. Currently, the manufacturing sector in Bangladesh is quite small and accounts for around 10% of GDP. In recent times, there has been some marked growth in the country's garment sector, shrimp processing and natural gas based fertilizer production. Regional industrial collaboration can obviously play a significant role in product diversification and manufactured growth through joint ventures and a degree of plan harmonization based on the country's comparative advantage. A recent exercise to determine Bangladesh's comparative advantage on the basis of effective rates of protection indicate that the country has good investment prospects in the following broad industrial categories:²³

23. See, Bangladesh Planning Commission (TIP Reform Programme), Overview of Industrial Assistance Policy in Bangladesh and Recommendations for Reform, Doc. TIP-EPSON/MU-H-part I, March 1987.

- A. Some categories of textiles and garments
- B. Some agro industries
- C. Leather and products
- D. Some engineering items and some miscellaneous goods.

A good number of these products are exportables and some may also be developed primarily for sale in the domestic market. Clearly, these will get a boost if deliberate measures are taken within the South Asian framework to promote joint ventures and trade in these product lines.

Trade and Industrial collaboration also calls for strengthening existing transportation and communication linkages of Bangladesh with SAARC partners. There should also be cooperative efforts in other service related areas, including financial collaboration.

For example, Bangladesh holds out significant prospects of improving its air and road links with Nepal and Bhutan which could provide important alternative outlets to these land-locked countries. Rail links to move freight in particular can easily be developed with India. Similarly, in the field of waterways, the formulation of river conservancy measures jointly by India and Bangladesh is urgently needed over the entire river route from Calcutta onwards upto Neamati. Hydrographic and hydrological surveys and planning conservancy works will have to be jointly worked out by both the countries. There are also considerable prospects for cooperation in road transport between Bangladesh and India which, in turn, with some transit facilities, will imply improved trade relations with both Nepal and Bhutan as most of Bangladesh's trade with these countries have to move through India. Note that improved road, rail, water and air transport will not only provide a boost for intra-SAARC trade but will also facilitate the growth of tourism with concomitant implications for hotel and restaurant as well as recreational and personal services. Similarly, in the energy sector, Bangladesh can gainfully cooperate with Nepal and India to tap the huge Himalayan resources. Without collective and coordinated possibilities vast potentials will be wasted in all these areas which a poor region like SAARC can hardly afford.

CONCLUSIONS

The creation of SAARC has been an important event in South Asian regional history. But confining it only to non-contentious issues cannot fulfil the objectives of national development and attainment of collective self-reliance. The Association has to address itself more firmly to the many fundamental issues of economic cooperation in the domains of trade and industry if it is to thrive as a vibrant organisation. For furthering intra-regional trade, not only trade policies need to be liberalized but positive measures are needed to promote industrial joint ventures and adopt some harmonization plans. Besides, cooperation in such areas as infrastructural development, communication, services, and standardization of products and trade procedures are all considered matters of vital importance. Also, significant potentials exist for cooperation in agriculture and rural development, water resources, energy, science and technology, education, health and population control, etc. Moreover, South Asia can expect to benefit significantly by taking a common stand on external economic relations and by projecting a unified viewpoint on such issues as trade, aid and development in various international forums namely, the World Bank, the IMF, UNCTAD and GATT.²⁴ The governments in the SAARC countries appear to be aware of the urgency of the issues and some progress has already been made under the aegis of SAARC Secretariat in the regard. Concerted and determined efforts are now needed to further strengthen and diversify the areas of cooperation.

24. It is noteworthy that the South Asian States presented a joint position on environmental issues at the recently held UN Conference on Environment and Development.

Table 1

Basic Economic Indicators of South Asian Countries : Population, Land Area and GDP

Country	Population		Area '000' Sq. Km.	Population Density	Average Annual growth rate of population (percent) 1980-1990)	Projections for 1989- 2000	GNP per capita		GDP	
	(Million) mid-1990	Perce- ntage share in the region					US dollars 1990	Average annual growth rate(%) 1965-90	Million US dollars 1990	% share in the region
1. Bangladesh	106.7	9.55	144	741	2.3	1.8	210	0.7	22,880	7.07
2. Bhutan	1.4	0.13	47	30	2.1	2.4	190	—	280	0.09
3. India	849.5	76.80	3,288	258	2.1	1.7	350	1.9	254,540	78.70
4. Maldives	0.21	0.02	0.3	713	3.2	-	450	2.8	96	0.03
5. Nepal	18.9	1.71	141	134	2.6	2.5	170	0.5	2,890	0.89
6. Pakistan	112.4	10.16	796	141	3.1	2.7	380	2.5	35,500	10.98
7. Sri Lanka	17.0	1.54	66	258	1.4	1.1	470	2.9	7,250	2.24
Total South Asia	1106.11 (20.8)	100.0	4,482.3 (3.3)	247	2.4	2.0	338	1.9	323,436	100.0
High-income Economies	816.4		31,790	26	0.6	0.5	19,590	2.4	163,16,290	

Source : World Bank, *World Development Report*, 1992.

Note : - Not available

Figures in parentheses are percentage of World total.

Table 2
Structure of Production in South Asian Countries
(Distribution of GDP (Percent) by Sectors)

Country	Agriculture		Industry		Manufacturing ^a		Services	
	1965	1990	1965	1990	1965	1990	1965	1990
Bangladesh	53	38	11	15	5	9	36	46
Bhutan	—	43	—	27	—	10	—	29
India	44	31	22	29	16	19	34	40
Nepal	65	60	11	14	3	5	23	26
Pakistan	40	26	20	25	14	17	40	49
Sri Lanka	28	26	21	26	17	15	51	48

Source : Same as table 1. Data on Maldives are not available.

^a Share of Manufacturing in GDP shown separately from industry which includes, apart from manufacturing, mining, construction, electricity, water and gas.

Table -3
Structure of Manufacturing in South Asian Countries

Country	Value added in manufacturing (millions of current dollars)		Distribution of Manufacturing Value Added (Percent, Current Prices)									
			Food, Beverage and Tobacco		Textiles and Clothing		Machinery and Tr. Eqpt.		Chemicals		Others ^a	
	1970	1989	1970	1989	1970	1989	1970	1989	1970	1989	1970	1989
1. Bangladesh	527	1,730	30	23	47	36	3	5	11	18	10	18
2. Nepal	32	151	—	35	—	25	—	2	—	8	—	30
3. India	7,928	44,445	13	11	21	12	20	26	14	17	32	33
4. Pakistan	1,462	5,923	24	30	38	19	6	8	9	16	23	27
5. Sri Lanka	369	969	26	52	19	20	10	2	11	3	33	23

Source : Same as table 1. Data for Bhutan and Maldives are not available.

Note : ^a Unallocated items.

- not available.

Table 4
Structure of Merchandise Exports of South Asian Countries
 (Percentage share in total)

Country	Fuels, Minerals and Metals		Other Primary commodities		Machinery and Tr. Equipment		Other Manufactures		Textile and Clothing	
	1965	1990	1965	1990	1965	1990	1965	1990	1965	1990
1. Bangladesh	—	1	—	25	—	1	—	72	—	60
2. India	10	8	41	19	1	7	48	66	36	23
3. Nepal	—	—	—	25	—	—	—	74	—	57
4. Pakistan	2	1	62	29	1	—	35	70	29	58
5. Sri Lanka	—	6	99	47	—	1	1	47	—	34

Source : Same as table 1. Data on Bhutan and Maldives are not available.

Table 5
Structure of Merchandise Imports of South Asian Countries
(Percentage Share in Total)

Country	Food		Fuel		Other Pri- mary commo- dities		Machinery and Tr. equipment		Other manu- facture	
	1965	1990	1965	1990	1965	1990	1965	1990	1965	1990
1. Bangladesh	—	30	—	14	—	6	—	17	—	33
2. India	22	8	5	17	14	12	37	18	22	45
3. Nepal	—	9	—	9	—	10	—	26	—	46
4. Pakistan	20	19	3	17	5	8	38	7	34	29
5. Sri Lanka	41	16	8	15	4	4	12	22	34	44

Source and Notes: Same as table 4.

Table 6
Direction of Trade of South Asian Countries by Country Groups
(in Per Cent)

Country	Industrial Market			Countries of			Developing Market			Of which:		
	Economic			Eastern Europe			Economics			South Asia		
	1984	1987	1990	1984	1987	1990	1984	1987	1990	1984	1987	1990
Export												
1. Bangladesh	50.8	66.1	71.3	4.0	5.9	4.7	45.1	28.1	24.0	11.4	4.1	3.6
2. India	53.4	61.1	60.3	19.2	14.1	13.6	27.4	24.8	25.8	3.8	2.8	2.7
3. Maldives	13.9	15.1	50.2	—	—	—	86.1	84.9	49.8	22.2	22.2	8.1
4. Nepal	44.1	68.7	72.7	—	—	—	55.9	31.3	27.3	48.5	27.8	20.6
5. Pakistan	46.9	60.2	60.8	3.2	3.4	2.3	49.9	36.4	36.8	3.3	3.9	4.0
6. Sri Lanka	44.1	58.6	61.5	12.1	6.7	6.2	43.8	34.7	32.2	4.5	4.1	3.7
South Asia	50.9	61.0	61.3	14.1	10.4	10.3	35.0	28.6	28.4	4.6	3.5	3.2
Total												
Import												
1. Bangladesh	44.0	44.9	42.9	18.3	19.9	15.0	37.7	35.2	42.1	3.1	4.3	6.8
2. India	49.1	59.7	60.6	11.1	7.9	7.6	39.8	32.3	31.7	0.7	0.5	0.6
3. Maldives	23.5	25.9	23.1	—	—	—	76.5	74.1	76.9	11.1	10.2	7.7
4. Nepal	38.4	53.6	39.1	—	—	—	61.6	46.4	60.9	45.3	18.8	26.7
5. Pakistan	51.7	58.4	55.2	1.0	0.9	1.0	47.3	40.7	43.8	2.1	1.6	1.0
6. Sri Lanka	46.8	43.4	40.1	0.4	0.8	0.2	53.4	55.8	59.7	7.3	6.7	7.0
South Asia	48.8	56.6	55.9	8.7	6.9	6.4	42.6	3.5	37.7	2.2	1.9	2.2
Total												

Source : IMF, *Direction of Trade Statistics Yearbook, 1991*.

Indicates nil or negligible.

Table 7
Bilateral Trade of SAARC Member Countries, 1984 and 1990

Exports to Imports	Bangladesh		India		Maldives		Nepal	
	1984	1990	1984	1990	1984	1990	1984	1990
Bangladesh								
Export	—	—	28.3	21.7	—	—	14.6	7.4
Imports	—	—	60.1	107.3	—	—	—	1.5
India								
Exports	90.0	201.0	—	—	2.0	4.0	95.5	123.0
Imports	27.0	16.0	—	—	—	—	44.0	56.0
Maldives								
Exports	—	—	0.06	0.02	—	—	—	—
Imports	0.3	—	1.74	4.24	—	—	—	—
Nepal								
Exports	—	1.40	39.83	51.07	—	—	—	—
Imports	16.09	8.09	104.47	135.76	—	—	—	—
Pakistan								
Exports	38.2	102.8	25.3	49.0	1.6	0.6	0.1	1.1
Imports	72.5	38.2	12.7	45.7	1.3	—	0.6	0.4
Sri Lanka								
Exports	14.1	9.8	12.5	20.2	3.9	7.4	—	0.1
Imports	0.2	8.9	115.0	1.8	6.2	—	—	—

Table 7 (Contd.)

	Exports to Imports	Pakistan		Sri Lanka		Total		World	
		1984	1990	1984	1990	1984	1990	1984	1990
Bangladesh									
Exports		63.3	23.2	0.3	8.2	106.5	60.5 (11.4)	931.3 (3.6)	1671.8
Imports		18.6	70.1	4.1	8.0	82.8	249.9 (3.1)	2692.8 (6.8)	3656.1
India									
Exports		11.0	30.0	117.0	128.0	315.0	486.0 (3.8)	8231.0 (2.7)	18183.0
Imports		20.0	48.0	14.0	14.0	105.0	134.0 (0.7)	15115.0 (0.6)	23321.0
Maldives									
Exports		1.19	—	1.65	5.67	2.91	5.69 (22.2)	13.11 (8.1)	69.94
Imports		1.78	0.61	4.34	8.14	7.89	12.99 (11.1)	70.84 (7.7)	168.84
Nepal									
Exports		0.52	0.40	—	0.01	40.35	52.88 (48.5)	83.26 (20.6)	256.61
Imports		0.09	1.26	0.02	0.09	120.67	145.2 (45.3)	266.64 (26.7)	542.87
Pakistan									
Exports		—	—	20.1	68.9	8.53	222.4 (0.03)	2558.7 (3.9)	5587.2
Imports		—	—	36.0	37.0	123.1	121.3 (2.1)	5852.2 (1.6)	7383.0
Sri Lanka									
Exports		34.2	32.5	—	—	64.7	70.0 (4.5)	1435.6 (3.7)	1895.3
Imports		17.1	50.8	—	—	134.6	183.9 (7.3)	1845.6 (7.0)	2633.5

Source : Same as table 6.

- Notes : 1) Ideally, figures in rows and columns of corresponding inter- country transactions should match since one country's exports are the other country's imports. But for well-known reasons, wide deviations may occur.
- 2) Figures in parentheses are the respective country's share in South Asia as percent of world total.

Table 8
Balance of Payments, Reserves and External Debt Position of South Asian Countries

Country	Current Account Balance (Million dollars)		Gross International Reserves Million dollars in months of import coverage			Total long-term outstanding debts 1990		Debt Service as percent of	
	1970	1990	1970	1990	1990	Million dollars	As % of GNP	GNP 1990	Export of goods and services 1990
1. Bangladesh	-234	-1,541	—	660	1.8	12,245	50.8	1.5	25.4
2. Bhutan	—	-38	—	86	7.4	83	32.3	—	6.8
3. India	-591	-9,828	1,023	5,637	1.9	70,115	25.0	2.0	28.8
4. Nepal	-25	-316	94	354	5.4	1,621	53.0	1.0	18.2
5. Pakistan	-705	-1,902	195	1,046	1.2	20,683	52.1	3.6	22.8
6. Sri Lanka	-71	-474	53	447	1.7	5,851	73.2	3.8	13.8

Source : Same as table 1. Data not available for Maldives.
 - not available

Table 9
Structure of Demand : Distribution of GDP (Percent)

Country	Government Consumption		Private Consumption		Cross Domestic Investment		Cross Domestic Savings		Export of goods and non-factor Services		Resource Gap	
	1965	1990	1965	1990	1965	1990	1965	1990	1965	1990	1965	1990
1. Bangladesh	9	9	83	89	11	12	8	2	10	8	-4	-10
2. Bhutan	—	20	—	58	—	36	—	22	—	29	—	-14
3. India	9	12	76	68	17	23	15	20	4	8	-2	-3
4. Nepal	a	12	100	80	6	18	—	8	8	12	-6	-10
5. Pakistan	11	15	76	73	21	19	13	12	8	16	-8	-7
6. Sri Lanka	13	9	74	76	12	22	13	15	38	30	1	-8

Source : Same as table 1. Data not available for Maldives.

(a) Government consumption figures are not available separately; they are included in private consumption.

(b) Resource gap is the difference between export of goods and non-factor services and imports of goods and non-factor services.
 - not available

Table - 10
Composition of Intra-Regional Exports and Imports for SAARC Member Countries by Commodity Category and Their Share in Regional Exports and Imports by Commodity Category, 1985

	Food Items (SITC 0+1+22+4)		Agricultural Raw Materials, etc. (SITC 2-22+67+68)		Fuels (SITC 3)	
	Composition	% Share in Intra-regional Trade	Composition	% Share in Intra-regional Trade	Composition	% Share in Intra-regional Trade
Bangladesh:						
Exports	31.09	11.99	38.35	21.42	0.00	0.00
Imports	9.56	8.04	24.65	29.08	4.35	12.17
India:						
Exports	18.40	31.83	10.19	25.54	2.65	36.77
Imports	32.24	13.91	30.66	18.55	0.00	0.00
Nepal:						
Exports	61.82	26.48	10.70	6.64	0.00	0.00
Imports	19.13	26.69	5.90	11.54	18.92	87.83
Pakistan:						
Exports	14.85	13.72	27.41	36.67	2.89	21.47
Imports	53.24	26.70	42.03	29.57	0.00	0.00
Sri Lanka:						
Exports	52.96	15.98	22.16	9.37	17.15	41.76
Imports	40.98	24.66	13.33	11.25	0.00	0.00
Intra-region - 1980						
Exports	23.62	—	17.59	—	17.31	—
Imports	31.59	—	16.68	—	1.15	—
Intra-region - 1985						
Exports	26.52	—	18.31	—	3.30	—
Imports	26.53	—	18.91	—	7.97	—

Table- 10 (Continued)

(Percentage)

	Commercial Products (SITC 5)		Machinery and Equipment Equipment (SITC 7)		Other Manufactures (SITC (6+) - (67+68))	
	Composition	% Share in Intra-regional Trade	Composition	% Share in Intra-regional Trade	Composition	% Share in Intra-regional Trade
Bangladesh:						
Exports	1.29	1.26	0.41	0.26	28.85	11.64
Imports	12.31	26.53	27.35	45.12	21.70	21.30
India:						
Exports	7.79	33.96	30.81	88.28	30.16	54.60
Imports	9.59	20.61	1.34	1.13	26.17	13.18
Nepal:						
Exports	6.57	7.09	0.00	0.00	20.90	9.37
Imports	12.53	44.79	13.04	35.63	30.48	49.62
Pakistan:						
Exports	24.48	57.02	7.39	11.31	22.97	22.21
Imports	0.99	1.28	1.12	1.11	2.62	1.57
Sri Lanka:						
Exports	0.88	0.67	0.27	0.14	6.84	2.17
Imports	10.87	16.79	14.37	16.96	20.45	14.36
Intra-region - 1980						
Exports	4.51	—	15.58	—	21.39	—
Imports	6.25	—	18.40	—	25.93	—
Intra-region - 1985						
Exports	10.52	—	16.01	—	25.34	—
Imports	10.35	—	13.52	—	22.72	—

Source : M.R. Aggarwal and P.R. Pandey, *op.cit.*