

CHAPTER I

INTRODUCTION



1.1 Background

The demise of the Cold War followed by the emergence of the World Trade Organization (WTO) had oriented many countries towards a liberal economic policy in the early nineties of the last century. Collapse of the communist bloc opened up the avenue for the spread of capitalism – market driven economy. The WTO provided the forum for multilateral negotiations and facilitated liberalization of world trade. In this changed international relations Bangladesh also reoriented its economic interests and quickened the opening up of her economy to the external world. During the early years of independence Bangladesh followed a socialist form of economy. Its foreign and economic policies were dictated by aid dependency. The country had to follow a balanced relationship between the western world and the Islamic world. In response to the fast changing global scenario, Bangladesh also readjusted and adapted its priorities over the last decade. Very recently the country has put emphasis on engaging economically with East Asian countries in general and ASEAN in particular. To this effect, Bangladesh has adopted a “Look East” policy, in terms of greater cooperation in trade, investment, technology and employment in pursuance of her rapid economic development. This “Look East” policy is defined, in the words of the Foreign Minister of Bangladesh, as “a focused diversification of ... relations with countries in the East and Southeast Asia ... [to] build partnerships for development and human security”¹. He described this policy as having three components – political, economic and cultural. Politically it signifies cooperation for international

¹ M. Morshed Khan, Foreign Minister of Bangladesh, in an address on "The Look East Policy of the Government of Bangladesh" at the Institute of Defence and Strategic Studies (IDSS), Singapore, 12 November 2003. For details please visit <http://www.mofabd.org/statements/fm14.html>

peace and security. Economically it denotes tapping the potentials of greater cooperation in trade, investment, and technology. Culturally it encourages greater interactions among the people of this region through mutual exchange programmes in various fields.

This new approach to economic relations is explained by the policy makers as a result of the global move towards a market oriented economy. Some leading scholars and analysts in Bangladesh partially attribute the new policy approach to the slow progress of the South Asian Association for Regional Cooperation (SAARC) compared to ASEAN². Bangladesh is a leading founder member of SAARC. SAARC was formed in 1985 and since then has always been a victim of endless squabbles between India and Pakistan over Kashmir. Bangladesh is also frustrated with the Indian dominance in South Asian regional politics. India had made a series of accusations against Bangladesh that the country is a safe heaven for Islamic terrorists which have angered the present government of Bangladesh. With other bilateral problems Bangladesh also incurs huge trade deficits of over US\$ 1 billion against India. But the Government of Bangladesh denies any link of 'look east' policy with the India issue.

Geographically Bangladesh enjoys a strategic position between South Asia and Southeast Asia. This country lies to the eastern periphery of the South Asian sub-continent, but it links up with the Southeast Asian countries through a common border with Myanmar. The country also shares a common geographical, historical and cultural heritage with the Southeast Asian countries. Bangladeshi policy makers believe that strategic and geographic proximity of Bangladesh with Southeast Asia offers each other comparative advantages that can be tapped for mutual benefits. Construction of modern railroads and highways connecting Bangladesh with Southeast Asia through Myanmar will help utilize the natural and human resource

² Dr. C. R. Abrar, professor of International Relations, University of Dhaka, in an interview with the BBC World Bangla Service on 2nd January 2003. For details please visit http://news.bbc.co.uk/1/hi/world/south_asia/2621947.stm

endowments of both South and Southeast Asia. Owing to these facts, Bangladesh seeks membership not only to ASEAN Regional Forum (ARF) but also to ASEAN itself. Thrust of the 'look east' policy is, therefore, to engage with the East and Southeast Asia to harness the benefits trade and investment.

As part of diplomatic efforts, high officials from Bangladesh including the Prime Minister have visited most of the ASEAN countries very recently. Thai Prime Minister Thaksin Sinawarta, Myanmar Prime Minister General Than Shwe, Indonesian President Megawati Sukarnoputri, Vietnamese President Tran Duc Luong and Singaporean Prime Minister Goh Chok Tong also have made official visits to Bangladesh from 2002 to 2004. It seems that since then trade and investment cooperation has increased between Bangladesh and ASEAN countries. Establishment of air links between Chittagong and Chiang Mai signifies the pace of increasing cooperation. This study is an effort to examine the basis and trends of Bangladesh's economic engagement with the ASEAN countries. In doing so, the study addresses only the economic component of Bangladesh's 'look east' policy. It focuses on the trend of the commodities that Bangladesh imports from the present ASEAN 10 countries and also the commodities that the country exports to these countries.

1.2 Rationale of the study

Bangladesh with a surface area of about 144 thousand square kilometre houses nearly 140 million people. With a population density of over 1,000 persons in every square kilometre the country ranks 2nd, in the world in terms of density of population, just behind Singapore. To survive with a large number of populations comparatively in a small territory, in a highly competitive world, Bangladesh needs to expand its economic activities as well as it needs to search for new markets. The country is desperate to eradicate its poverty, reduce its aid dependency and thereby to have a self-drive economy. The country needs to explore new partners, new markets and thereby broaden its external economic relations to benefit from trade and investment. Southeast Asian countries appear to be prospective to this end where Bangladesh can diversify its export market and encourage more investments that can provide jobs for

the unemployed Bangladeshis. For instance, trade between Bangladesh and Myanmar is still a trickle although the same can increase much in volume to the benefit of both countries. Myanmar is a major producer of raw materials for different industries that Bangladesh may like to import at competitive prices. Bangladesh has consumer products which it should be able to successfully market on a long lasting basis to Myanmar. Thus, there exists scope for increasing the bilateral trade for mutual benefit. Bangladesh needs to increase its economic relationships not only with Myanmar but needs market access through Myanmar to Thailand and other resourceful ASEAN countries for its products. ASEAN has appeared as a successful regional grouping among the developing countries. Success of the 'look east' policy will depend on how far Bangladesh can appeal to ASEAN countries as a destination for investment or joint venture scheme. The areas of investment will have to be precisely identified and promoted tenaciously.

An analysis of the trend of Bangladesh's trade and investment relations with ASEAN will help evaluate the thrust of Bangladesh's 'Look East' policy. Such a study has not only an academic value but also has practical implications for future action. No study has been found in the available literature on the economic dimension of Bangladesh's engagement with ASEAN. It is expected that the study will contribute to the scholarly and political discourse on Bangladesh's engagement with Southeast Asia and provide incentives to the future researchers of the field of regional economic cooperation.

1.3 Objectives:

In broad terms this study aims at examining the trend of Bangladesh's engagement with the ASEAN countries in terms of trade and investment. Specific objectives of the study are to –

- I. Examine the basis of Bangladesh's initiatives to engage with ASEAN; and
- II. Explore the prospect of cooperation between Bangladesh and ASEAN.

1.4 Scope of the Study

This study focuses mainly on the economic aspect of Bangladesh's engagement with the ASEAN countries. Economic engagement here implies trade and investment in the past and present from both sides. Trade data date back to the 1990/1991 period and move on to the 2003/2004 period. For an analysis of trade and investment relations between Bangladesh and ASEAN, an analysis of trade and investment policies of these countries was necessary. ASEAN countries refer to the present 10 members of the organization, namely Brunei, Cambodia, Indonesia, Peoples Democratic Republic of Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam. Thereby, the political and cultural dimensions of the "Look East" policy have not been addressed here in details. However, the historical background of the ASEAN countries as well as Bangladesh has essentially come under the purview of this study. In addition, other countries of the East beyond ASEAN are outside the purview of the research.

1.5 Methodology

This is a qualitative study. To attain the objectives, trade policies of Bangladesh and ASEAN countries have been analysed in a descriptive way. Data were collected from secondary sources. Data on Bangladesh's political relations with ASEAN have been collected from the available literature on the subject. These include books, journal articles, newspaper reports, internet etc. In addition, information has been collected from the Southeast Asia Division of the Ministry of Foreign Affairs of the Government of Bangladesh during my stay in Bangladesh from May 20, 2005 to July 6, 2005. For an analysis of the trade and investment policies of the said countries related books and documents have been consulted. In many cases the internet has been an essential source for collecting information on the trade policies. The WTO trade policy review reports on the individual countries covered by this study have been particularly important for trade policy analysis.

To understand the trend of Bangladesh's export products to the ASEAN countries and its import products from the same, export-import data have been collected from the Bangladesh Bank (the central bank of Bangladesh) during the period mentioned above. The Bangladesh Bank annually publishes two books compiling its export-import data. These two books are: 'Import Payments', and 'Export Receipts'. Product-wise volume of imports from the present ASEAN 10 countries since 1990/1991 up to the fiscal year 2003/2004 has been collected from the 'Import Payments' book stored in the Bangladesh Bank Library. Similarly, product-wise export volume to the same countries during the aforesaid period has been collected from the 'Export Receipts' book stored in the same place. Investment related information has been collected from the Board of Investment of Bangladesh.

Export and import data have been processed through the Microsoft Excel programme of the computer. Statistical Package for Social Sciences (SPSS) programme has been used to run simple statistical analysis and for making graphs and charts. The export-import documents in Bangladesh are arranged in accordance with a Bangladeshi fiscal year which begins on 1st July and ends on 30th June. As the value of the export-import transactions in the said documents is in the Bangladeshi currency *Taka*, necessarily data processing has been conducted using this local currency. The value of the export-import commodities for a particular country for a particular period has been converted into US dollar using the total value of export/import for the particular period that is given in both currencies *i.e.*, Bangladeshi *Taka* and US dollar.

The study was intended to interview relevant policy makers and analysts during the data collection period in Bangladesh. But because of some limitations (see section 1.8 below) this could not happen. However, content analysis has been adopted instead. The opinions and views of the prospective policy makers and analysts that appeared in the newspapers or other electronic media have been picked up for analysis.

1.6 Definitions and Symbols

Definitions:

Engagement: means Bangladesh's trade and investment relations with the ASEAN countries.

ASEAN: means the present 10 members of the organization namely Brunei, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.

Fiscal Year: means a Bangladeshi fiscal year which begins on 1st July and ends on 30th June.

Taka: means Bangladeshi currency.

GNI: means Gross Nation Income. It is the sum of value added by all resident producers in a country plus any product taxes (less subsidies) not included in the valuation of output plus net receipts of primary income (compensation of employees and property income) from abroad.

GNI Per Capita: is gross national income divided by midyear population.

PPP GNI: is gross national income converted to international dollars using *purchasing power parity (ppp)* rates. An international dollar has the same purchasing power over

GNI as a U.S. dollar has in the United States.

GDP: means Gross Domestic Product. It is the sum of value added by all resident producers plus any product taxes (less subsidies) not included in the valuation of output.

Gini Index: measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. A Gini index of 0 represents perfect equality, while an index of 100 implies perfect inequality.

Merchandise Exports: show the f.o.b. value of goods provided to the rest of the world valued in U.S. dollars.

Merchandise Imports: show the c.i.f. (cost, insurance and freight) value of goods purchased from the rest of the world valued in U.S. dollars.

Food: comprises the commodities in Standard International Trade Classification (SITC) sections 0 (food and live animals), 1 (beverages and tobacco), and 4 (animal and vegetable oils and fats) and SITC division 22 (oil seeds, oil nuts, and oil kernels).

Agricultural Raw Materials: comprise SITC section 2 (crude materials except fuels) excluding division 22, 27 (crude fertilizers and minerals excluding coal, petroleum, and precious stones), and 28 (metalliferous ores and scrap).

Fuels: comprise SITC section 3 (mineral fuels).

Ores and Metals: comprise the commodities in SITC divisions 27, 28, and 68 (nonferrous metals).

Manufactures: comprise the commodities in SITC sections 5 (chemicals), 6 (basic manufactures), 7 (machinery and transport equipment), and 8 (miscellaneous manufactured goods, excluding division 68).

Commercial Service: international transactions in services are defined as the economic output of intangible commodities that may be produced, transferred, and consumed at the same time.

Transport: covers all transport services (sea, air, land, internal waterway, space, and pipeline) performed by residents of an economy for those of another and involving the carriage of passengers, movement of goods (freight), rental of carriers with crew, and related support and auxiliary services. Excluded are freight insurance, which is included in insurance services; goods procured in ports by non-resident carriers and repairs of transport equipment, which are included in goods; repairs of harbours, railway facilities, and air field facilities, which are included in construction services; and rental of carriers without crew, which is included in other services.

Travel: covers goods and services acquired from an economy by travellers in that economy for their own use during visits of less than one year for business or personal purposes. Travel services include the goods and services consumed by travellers, such as meals, lodging, and transport (within the economy visited), including car rental.

Other Commercial Services: include such activities as insurance and financial services, international telecommunications, and postal and courier services; computer data; news-related service transactions between residents and non-residents; construction services; royalties and license fees; miscellaneous business, professional, and technical services; and personal, cultural, and recreational services.

Symbols:

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means that data are not available or that aggregates cannot be calculated because of missing data in the years shown.

0 or 0.0

means zero or less than half the unit shown.

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in dates, as in 1990/91, means that the period of time, usually 12 months, straddles two calendar years and refers to a crop year, a survey year, or a fiscal year.

\$

means US dollars.

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means more than.

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means less than.

1.7 Review of Literature

Affordable sources of literature do not provide any information of existence of any study on or related to the subject of this study. However, sporadic newspaper reports and analysts' opinion relating to the topic of the study have appeared in the consulted sources. Some other kinds of study not directly related to the present research have been found. The faculty members of the Bangladesh Institute of International and Strategic Studies (BIISS) conducted a research in mid-1987 whose outcome was published by the institute in the form of a book named "*ASEAN Experiences of Regional and Inter-regional Cooperation: Relevance for SAARC*" in 1988. This study focuses on the dynamics of ASEAN as an organization and also the dynamics of SAARC and the relevance of ASEAN experiences for SAARC. It seeks to find out the possibilities of cooperation between ASEAN and SAARC at the organizational level.

Another book titled "*Conflict Management and Sub-Regional Co-operation in ASEAN: Relevance for SAARC*" published by the BIISS in August 2000 was an outcome of two studies. These two studies were conducted by two faculty members of the BIISS under a programme called *Research Fellowship in Bangladesh-Southeast Asian Relations* funded by the Ford Foundation. A.K.M. Abdus Sabur conducted his research at the Institute of Southeast Asian Studies (ISEAS), Singapore under the title of *Managing Intra-Group Conflicts in ASEAN: Relevance for SAARC* during December 1996 – February 1997 and Mohammad Humayun Kabir conducted his research titled *Growth Triangles in ASEAN: Relevance for Sub-Regional Co-operation in South Asia* during October – December 1997 at the ISEAS. These two studies focus respectively on conflicts management and sub-regional co-operation within ASEAN.

A third book was published by the BIISS titled *Bangladesh-Southeast Asia Relations: Some Insights* in 2002. This recent book edited by Shaheen Afroze is a compilation of eight articles written by eight scholars: seven Bangladeshi and one

Thai. None of them deals with economic engagement of Bangladesh with the Southeast Asian countries.

1.8 Limitations

This study has many limitations. Firstly, available time and resources were not sufficient for such a study. However, endeavour has been sought to use the limited time and resources in an efficient way to bring the best possible result. Secondly, intended interviews could not take place because of the shortage of time. The data collection period in Bangladesh was not enough to make appointments with the intended analysts and policy-makers. However, abortive endeavour was made to this effect. In addition to that, June is the last month of a Bangladeshi fiscal year. Naturally officials keep themselves busy for closing the fiscal year in June. This was another reason for not getting appointments with the targeted persons. Thirdly, the WTO trade policy review reports on the individual countries covered by this study are based on different years. So there remains a time inconsistency in the trade policy analysis of the studied countries.

1.9 Hypothesis

Engagement with ASEAN will economically benefit Bangladesh and enhance mutual cooperation.

1.10 Organization of the Report

The *next chapter* puts Bangladesh and ASEAN in their historical perspectives. It will be seen here that the people of these countries share the same history and cultural heritage. Bangladesh between South Asia and Southeast Asia has been a connecting land. Similarities between the people outweigh the dissimilarities. After the decolonization period, these countries faced the same problem of nation building. In this process cooperation among them was necessary. Memberships to different

sub-regional, regional and international organizations provided forums to them for perpetuating their cooperation. This chapter also focuses on the recent developments in their mutual cooperation. Lastly it lists some statistics pertaining to their economy, geography and developments.

The *third chapter* analyses the trade and investment policies of Bangladesh and the ASEAN countries. Here an attempt has been made to examine the pattern of economic growths over the years, trade liberalizing policy measures, and consistency of the tariff regimes of the studied countries. In doing so, it focuses on these countries' commitments to regional trading cooperation and also their commitments to the multilateral trading system.

The *fourth chapter* presents the findings of the study. It begins with an overall trade performance by Bangladesh and ASEAN. A summary of trade performances from the fiscal year 1990/91 to the fiscal year 2003/04 is presented here. Then the chapter moves on to discuss Bangladesh's trade relations with the ASEAN 10 countries separately. Tables and graphs have been used to analyse trade relations from different perspectives. Lastly, the chapter ends with a brief discussion on investment relations between Bangladesh and ASEAN. *Fifth chapter* concludes the report with a summary of the findings and forwards some recommendations to the concerned authorities.

Appendices and bibliography have been attached to the end of the report. *Appendix-A* shows the codes used in this study and reveal the meanings they stand for. *Appendix-B* presents Bangladesh's exports and imports data to, and from the individual ASEAN countries from the fiscal year 1990/91 to the fiscal year 2003/04. The bibliography includes some of the books, articles and documents that have been read in the previous two semesters of my study although some of them do not directly help the writing of this report.