Continued from last issue

EMERGING TRADE ALLIANCES IN ASIA AND TRADE & BANK OPPORTUNITIES AMONG THE SAARC COUNTRIES

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Constraints to Trade Expansion and Trade Potential in SAARC Region

This would be discussed in terms of trade potential, identification of products for import and exports and constraints to trade. Suggestions would be made as to how the trade potential could be realized.

Trade Potential

The potential for trade is high in terms of trade diversion from traditional sources towards SAARC by removing the constraints and in terms of trade creation and trade expansion by removing import restrictions on products which are not been traded among SAARC countries but are the major exports of South Asian Countries.

Over 50% of exports from South Asia are manufactured goods. This includes mainly textiles and leather products. These are subject to higher rates of import duties, quantitative restrictions and even outright bans in South Asia. There is limited trade in engineering goods due to a number of factors including reliance on Foreign Aid to finance the imports of capital goods, poor quality of goods and heavy import duties on capital goods even by countries who themselves are exporters of capital goods. Therefore, until and unless, import duties are lowered drastically on products which are the major exports of SAARC countries, Trade potential may never be realised. Lowering of import duties and quantitative restrictions would promote Trade. They may have serious implications for infant industries unless effective measures are instituted against dumping. Anti dumping laws in SAARC countries are very effective. Even, within the liberalized economies like that of Sri Lanka, suffcient invisible protection or subsidies for infant industries may have to be provided for industrialization.

Product Indentification of Tradable Items

There are three criterias for selection of product mix.

(a) Products exported to a SARRC country in substantial quantities. The problem is that products may be imported once to get over an acute temporary shortage. Therefore, it may not be a potentially Tradable product on a regular basis due to non -extention of exportable surpluses or lack of adequate demand for such p oducts in importing countries.

The potential Tradable products among SAARC countries are:

* Dried Fruits, fresh fruits, Fresh and dried vegetables.
* Rice
* Black tea
* Dressed and frozen chicken
* Fish, salted, smoked, chilled or frozen
* Residual fuel oil
* Leather and leather goods
* Onyx
* Limestone
* Marble chips
* Mineral products like sulphur
* Gypsum rock
* Rock salt, delineate, magasse, chronite etc.
* Medicines
* Yarn
* Fabrics
* Other Textile goods
* Pure cotton garments
* Art silk fabrics
* Readymade garments
* Medical instruments
* Iron and steel bloc, slabs and plates
* Agricultural implements
* Tractors
* Reapers and other agricultural machinery and equipment
* Light engineering goods (grinder, drilling and pumps/tools)
* Cutlery
* Utencils

(b) Products exported by a SAARC country to the rest of the world whilst the same products are exported by other SAARC countries (Tradables). The problem here is that specifications and quality may vary from each origin, since there is no accepted SAARC standard product specifications.

(c) Identifiable potential traded products. This needs market surveys. Since most SAARC countries are poor, in the SAARC areas it is important to have information on product patterns, specifications, quality an demand patterns. However, the potentially important items of trade are:

Commodities	Potential Exporters	Potential Market
Dry milk	Sri Lanka/India	India, Pakistan, Bangladesh,Nepal
Wheat	Pakistan/India	Sri Lanka, Bangladesh, Maldives
Tea	Sri Lanka	Pakistan, India, Nepal, Bangladesh
Other Food Products	Sri Lanka, Pakistan, India	India, Bangladesh, Nepal, Maldives
Natural Rubber	Sri Lanka	India, Pakistan, Bangladesh
Wood & Cork	India	Sri Lanka, Bangladesh
Bamboo	Sri Lanka	Pakistan, India
Palm and coconut oil	Sri Lanka	India, Pakistan, Bangladesh
Medicamments	India, Pakistan	Sri Lanka, Nepal, Maldives, Bhutan
Mini Cement	Pakistan, India	Sri Lanka, Nepal, Bangladesh
Chemicals	India, Pakistan	Sri Lanka, Nepal, Bangladesh
Machinery	India, Pakistan	Sri Lanka, Nepal, Bangladesh
Engineering Goods	India, Pakistan, Sri Lanka	Nepal, Bhutan, Maldives
Rice - Basmathi	Pakistan, Bangladesh, Sri Lanka	Sri Lanka, Bhutan, India Nepal
- Other	Sri Lanka	India, Bangladesh
Spices - Cinnamon	Sri Lanka	Rest of SAARC countries
Cloves	Sri Lanka	India, Pakistan, Bangladesh
Pepper	Cuba, Sri Lanka	Pakistan, Nepal, Bangladesh
Chillies	India, Sri Lanka, Pakistan	Nepal, Bangladesh
Paultry meat	Sri Lanka	Maldives
Betal Leaf	Sri Lanka	Pakistan, Bangladesh
Ceramics	Sri Lanka, India, Pakistan	Bangladesh, Nepal
Agricultural Machinary	India, Pakistan	Sri Lanka, Bangladesh, Nepal

There are several constraints to trade among SAARC countries. They may be:

(a) Non-availability of exportable surplus of derived specification

SAARC countries export most goods similar to their imports from rest of the world. Yet differences in specifications, poor quality, lack of standards precludes any trade diversions. There are joint-country project possibilities.

For example: Sri Lanka exports rubber. Most countries in the SAARC region do not import Sri Lankan rubber product including rubber car tyres and tubes, dipped rubber goods. They import finished products from outside SAARC.

Other factors which act as a constriant are the heavy duty on exportable (surplus goods), quantitative restrictions outright bans.

(b) Inefficiency in Product Processes

Low product efficiency, poor quality and lack of standards are common characteristics. The domestic resource cost of earnings (savings) of one unit of foreign exchange through manufacturing process exceeds the official exchange rates because of product inefficiency. SAARC export do not grow because of inherent inefficiencies in production processes and restrictive trade practices breeding inefficiencies.

(c) Communication Gaps

There is hardly any information existing on the production and consumption patterns, trade channels, and about goods that can be trade with each other.

(d) Domestic savings are inadequate for investments to bring acceptable growth rates of output in the SAARC region. The export earnings are inadquate to finance imports. Therefore, there is a heavy reliance on direct foreign investments and foreign aid. Nearly 50% of imports depend on foreign aid. Since they are tied to source, trade diversion is impossible. However, idle capacities exists in a large number of idustries in the SAARC region. This holds much promise for trade diversion and demand stimulation can be done through proper marketing methodology.

(e) Restricted Trade Practices

Sri Lanka is the most liberalized country in the SAARC region. The other countries shall follow restricted import policies which affect inter regional trade advicely.

(f) Transit Facilities

Transit facilities, transport cost, handling charges, delay in delivering shipment of goods, landed cost of imports like in Nepal and their exports are some aspects of importance.

Realizing Trade Potential

There are five areas of vital importance to opening business opportunities in the SAARC areas:

1. **Improvements in Communication**

This can be achieved through the following strategies:

(a) Issu of special passport cover to the trade circles;

(b) Holding of trade fairs and exhibitions annually in each SAARC country;

(c) Introduction of a liberalized system of foreign exchange taking note of the fact the currencies in the regions have limited convertibility;

(d) Establishment of Import/Export information centres in each of the SAARC countries.

(e) Establishment of a SAARC Chamber of Commerce and Industry.

(f) Improve and make available postal, telex, telefax and telegraph facilities at a minimum cost to industrialists in SAARC countries.

2. **Liberalization of Trade in SAARC Region**

There is a need to lower the duties on potential tradable items and all non-tariff barriers needs to be reviewed to encourage competition.

3. **Easing Resource Constraints**

Long term finances should be provided for transaction by exporting countries. It will undoubtedly enhance trade and reduce products costs.

e.g. Pakistan giving long term loan to Bangladesh helps Pakistan to export Engineering goods to Bangladesh. Similar arrangements could be made between Sri Lanka, Pakistan and India with buy back arrangements.

4. **Generation of Exportable Surpluses of Required Specifications**

This will require reorientation of their production structures, marketing systems and identification of industries with comparative advantages.

5. **Transit Facilities**

There is a need to provide transit facilities to cover output cost, handling charges, delay in delivery etc.

A. Framework For Enhancement of Trade in the SAARC Region

Suggestions have been made that trade can be enhanced in the SAARC area through a Free Trade area or through a Customs Union. Unfortunately, the problem in the SAARC region is that bilateral and multilateral political and economic issues accelerated integration. There are three possible strategies towards attaining the envisaged goal of integration.

(a) Encourage Bilateral Trade Agreements

Each country should negotiate the level and composition of trade with her trading partner which require no tariff costs or changes in import regimes. Each country has to balance her trade with the other.

(b) Establish Multilateral Trade Agreements

Countries of the region can agree on the level and composition of imports and exports to and from each other. The problem in this strategy is the difficulties in ensuring balanced trade than under bilateral trade agreements. However, it promotes trade without ongoing in any tariff negotiation.

c. Preferential Treatment

The proposed South Asian Preferential Trade Area (SAPTA) proposal give preferential treatment to imports from the region. The preference may be in the form of lower tariff rates on imports from other SAARC South Asian countries than from the rest of the world. Therefore, this requires negotiations amongst SAARC countries leading to equitable sharing of benefits from enhanced trade. The tariffs have to be no more than the minimum tariff levied in the region.

Sri Lanka has an average tariff of 20% whilst in more SAARC countries it exceeds 60%. Therefore, major tariff cut will become a long drawn and protracted negotiation exercise. Hence, a product by product approach with a focus on industries which have made a successful transition from infant stage to nature industries in all SAARC countries will have to be followed. This will undoubtedly provide competition to import substitution industries enabling the dynamic benefits to these producers. The size of the tariff would be crucial: It has to be sufficiently low to expose the domestic industries in the region to some competition and simultaneously sufficiently high that domestic industries are not unfairly exposed to competitive imports. There are three principals to guide the height of the tariff.

(i) all the countries may apply uniform rates of duty on the imports of a product from other SAARC trading partners;

(ii) rates of duties should be no higher than the fixed costs as a percentage of the FOB values;

(iii) countervailing duties on imports may be imposed on external countries.

(d) Financial Arrangement for Integration

There are three strategies in the field of finance.

(e) Creation of Multilateral Clearing Arrangements

This is aimed at:

(i) encouraging the use of national currencies to expand the trade;

(ii) encourage the rational use of scarce foreign exchange resources;

(iii) reduce the cost of trade transactions;

(iv) provide short term credit;

(v) enhance co-operation and consultation among SAARC members on marketing and economic matters.

(B) Asian Clearing Union

This Union became operative in December 1974. The seven members of the Asian Clearing Union are: Sri Lanka, Iran, Pakistan, Bangladesh, Nepal, Burma.

The main objectives are:

* provide facilities to settle, on a mutal basis, payments for current international transactions among participating countries.
* promote the use of participant currencies in current transactions between their respective territaries and thereby effect economies in the use of exchange reserves of the participants.
* promote monetary co-operation and closer relations among the Banking Systems in these countries' territaries and contribute to trade expansion and economic development.

The accounts of the ACU is kept in Asian Monetary Unit (AMU) whose value is fixed in terms of SDR, settlements of transactions are done through commercial bank operations. The participants permit the Banks in their respective countries to maintain account with their corresponding bank in the other participating countries. All payments are settled by the banks through these accounts. The operation of these accounts are governed by the prevailing exchange control regulations and other directives issued from time to time.

The ACU maintains an account in AMU's for each participant to which payments advised by the participants are debited or credited. Interest is payable by the participants on the net debt/credit balances.

The ACU's procedures have been revised from time to time and the following changes have been effected so far.

(a) Initially the entire system was based on disbursement by the Central Bank against each transaction. This was changed and authorized Commercial Banks are now allowed to maintain accounts and balances with their correspondents in other member countries, through which the transaction passes. The Central Bank gets involved only when one of the Commercial Banks wants to sell or buy the currency of another member country.

(b) A swap facility has been provided whereby members have agreed to provide short term credit to each other on the basis of the volume of transction passing through the banks of ACU's and their debit position in the Union. The swap transactions are reversed after two months.

(c) The following payments are not eligible to be made through the clearing facilities:

(i) Payments between Nepal and India

(ii) Payments between Pakistan and Iran

(iii) Payments which are not current international transaction as defined by the Articles of Association of the IMF.

The total transaction through ACU was US$ 700 m. (1988). This was an increase of 45% over 1978. Nearly 26% (US $ 180.3 Million) was settled through Foreign Exchange and 74% (US $ 520 Million) was settled within the system. Total credit/debit to the participants in 1988 was AMU's $ 1.8 Million interest which was 1% of the members net position or 0.3% of the total transactions channelled through the system. In 1988 the monthly average interest was 7.144% and in 1987 it was 6.677%.

The scope for ACU:

(a) ACU should extend to all SAARC countries.

(b) SAARC should channel their total transactions through the loan should be extend.

(c) A SAARC Reserve Fund should be established.

(d) Monetary Union

This will require a complete pooling of Monetary Resources and issuance of a common currency (like the EEC) for the participating countries. This will require integration of the financial markets and national monetary policies. It has to wait till a Customs Union is formed.

Conclusions

It was evident from the analysis of trade and business opportunities in the SAARC areas that business opportunities tend to multiply in economies which are open in the sense not only of liberal trade and exchange rate policies but also liberal internal economic policies under which saving and investment decision are unhampered by government regulation: freedom to undertake any economic activity in response to profit potentiality is unrestricted, within the usual parametres of the countries socio-political goals. Also the innovative spirit and entrepreneurial leadership should be given a free play. However, unless this is recognised internal liberalization can hardly progress accompanied simultaneously by external liberalization. The liberalization of either trade or industrial policy does not necessarily imply that the government plays a passive role in the domestic economy. What is suggested is a true partnership between the government, the private sector and the international marketing/trading community which is guided by the market indicators in decisions to invest and to produce. Except Sri Lanka, and also Pakistan and to some extent India, most SAARC countries have been slow to move in this direction. Unless this situation changes they cannot achieve a dynamic international status.