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THE EUROPEAN COMMUNITY AND BANGLADESH

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The following memorandum outlines relations between the Community and Bangladesh.

It is published on the occasion of the fifth session of the EC-Bangladesh Joint Commission in Brussels on May 6th and 7th 1981.

THE EUROPEAN COMMUNITY AND BANGLADESH

Introduction

Bangladesh is amongst the neediest developing countries; it is also among the most populous. In 1980 the country had an estimated population of 90 million and a per capita GNP of some \$110. While GNP grew by 5.5 % a year, in real terms, between 1974 and 1979, population grew by 2.5 - 2.7 % a year. Drought and floods can bring down the economic growth rate at any time, but there is no clear evidence as yet of a decline in population growth rates.

Bangladesh, quite simply, is one of the 30 or so countries officially described by the U.N. as least developed. And yet the country is rich in terms of its agricultural potential and manpower. It has a fertile soil, an abundant water supply and a large labour force. The economy predictably is heavily dependent on agriculture, which still accounts for over half the total GDP and provides employment for three-quarters of the labour force.

The Second 5-Year Plan, announced in 1980, has given priority to agriculture and, within agriculture, to food production. At the same time, the efforts to control population growth through family planning will be intensified. The planners also hope to be able to reduce, if not eliminate, the major constraints on economic development, such as poor land use, insufficient irrigation, inadequate public administration and social obstacles to change.

Among the goals of the Second 5-Year Plan are: agricultural reforms; a doubling of food production; rural electrification; the exploration, development and utilization of such mineral resources as coal and limestone; further exploration for oil and gas; further development of natural gas and development of the transportation system.

Expenditure during the plan period (1980-85) has been put at \$ 16,000m., of which some \$ 9,000m. will be met from external sources.

Recent political developments which merit attention include the election, by an overwhelming majority in June 1978, of General Ziaur Rahman as President. In January 1979, general elections to the National Assembly gave the Presidential party a comfortable majority.

Relations with the EC

Bangladesh established diplomatic relations with the Community in July 1973. In March 1974, it requested negotiations for a commercial cooperation agreement (CCA in Community shorthand) similar to the one the EC had concluded with India in December 1973.

The CCA with Bangladesh was signed on 19 October 1976 and came into effect on 1 December 1976. It is a 5-year non-preferential agreement under which the two sides undertake "to promote the development and diversification of their mutual trade to the highest possible level". They also agree to develop their economic cooperation, where linked with trade, "in fields of mutual interest".

The CCA, as an instrument of Community policy, is intended to provide a framework for commercial and economic cooperation. Its main instrument, therefore, is a Joint Commission, which has the task of ensuring the proper functioning of the agreement.

The Agreement with Bangladesh requires the Joint Commission to devise ways of overcoming trade barriers, on the one hand, and to recommend ways and means for "the progressive adaptation of the trade pattern and marketing structures" of the EC and Bangladesh. The basis for adjustments of this kind is economic complementarity, a notion first introduced in the CCA with India.

Operation of the CCA

The first session of the Joint Commission took place in April 1977. It has met each year since then (the second session was in Dacca) and will be holding its fifth session in Brussels on May 6 and 7, 1981. The two major areas of activity have been trade promotion and economic cooperation.

Trade promotion

Bangladesh is the second largest beneficiary of the Community's trade promotion programme, receiving about 7 % of the annual total of some ECU (1) 6 million. The EC has financed a wide range of activities, including participation in trade fairs, trade and sales missions and workshops, and the provision of experts.

Since last year the Community allows beneficiary countries also to take part in fairs held outside the EC and to send trade missions to countries other than the ten member states. Bangladesh made ample use of these new facilities and elected to send sales missions to the Middle East, the ASEAN countries and Africa.

Consultancy services sought by Bangladesh, and made available by the EC, have been in such areas as jute wall coverings and furnishings and the grading, packaging and quality control of agricultural products.

In 1979 the Community undertook to meet most of the costs of the Bangladesh Trade Office in Copenhagen. It also agreed to provide a full-time expert for the Trade and Display Centre in Rotterdam.

(1) ECU: European Unit of Account

Economic Cooperation

The goal, especially from Bangladesh's point of view, is the setting up of joint ventures. Faced with a growing trade deficit and continuing dependence on foreign aid, the Bangladesh Government has taken steps to encourage foreign investors to participate actively in the country's industrialization programme. Investments are protected under an Act of Parliament and bilateral investment protection agreements are to be signed with the U.K. and Belgium.

In 1978 a Community-sponsored export promotion mission established contacts with several branches of European industry, including food processing, plastics, chemicals and agricultural machinery. This resulted in several joint production ventures.

More recently, the EC engaged a consultant to identify the more promising sectors of the Bangladesh economy from the viewpoint of the foreign investor. Those in which the Joint Commission has been active include tanning, fisheries and natural gas.

These activities have revealed that European tanners are likely to be attracted if offered security of supplies. While capital investment in the fisheries industry seems unlikely at present, the Community has suggested sending a fact-finding mission. In the case of natural gas, a study on export possibilities has been commissioned.

Sectoral agreements

The Joint Commission also has responsibility for the proper functioning of any sectoral agreements between the EC and Bangladesh. The most important of these agreements relates inevitably to jute manufactures, a major item in the Community's imports from Bangladesh. It is dealt with separately in some detail, given its importance.

Other sectoral agreements relate to handicrafts and handloom fabrics in silk and cotton, Bangladesh being a beneficiary since 1974 of the duty free quotas opened annually by the EC for these products when imported from certain developing countries.

A textile agreement was initialled in 1978 as one of a series of bilateral agreements concluded by the Community in the context of the MFA (1). Bangladesh textile exports being negligible, the agreement does not set any self-restraint ceilings. It does allow the EC, however, to introduce quotas should imports of a given product reach a certain pre-determined percentage of its imports from all 'low-cost' countries.

EC/Bangladesh Jute Agreement

Under three successive agreements the EC progressively reduced its customs duties on jute products from Bangladesh (and India). As a result, these duties have been suspended at zero since 1 January 1978, the suspension itself being implemented within the framework of the Community's Generalized System of Preferences (GSP).

(1) MFA: Multifibres Arrangement

Under the agreement concluded in March 1980, the Community has undertaken to remove all quantitative restrictions on jute imports from Bangladesh at the expiry of the agreement - i.e. from 1 January 1984. Of immediate importance to Bangladesh is the Community's decision to remove all quantitative restrictions on carpet backing. These are very wide fabrics (over 310 cm. in width) which are used by carpet manufacturers in Europe and therefore represent the growth end of the market.

The 1980 agreement also provides for a substantial increase in the residual restrictions (quotas) applied by three member states on various categories of jute goods (mainly narrow fabrics and sacks).

In return, Bangladesh has agreed to exercise self-restraint in respect of two categories of jute fabrics. Exports will be kept within the quantitative limits fixed under the agreement. These limits are substantially higher than under previous agreements; will be increased by 10 % a year and could be exceeded in the event of increased demand within the Community.

As jute manufactures represent roughly 25 % of the Community's total imports from Bangladesh (raw jute accounting for another 25 % or so), the 1980 agreement can be expected to have a favourable effect on EC/Bangladesh trade.

Generalized System of Preferences (GSP)

As mentioned earlier, the CCA is a non-preferential agreement: it does not grant preferential entry to Bangladesh's exports to the Community. But as Bangladesh is among the 30 or so least developed - i.e. poorest - developing countries, its exports enjoy duty free as well as quota free entry under the Community's GSP scheme.

In 1979 the Community decided, as a concession to the least developed countries, that their exports of manufactured products would no longer be subject to the "butoir", while exports of agricultural products covered by the GSP would be duty free. (For other developing countries agricultural tariffs are only partly suspended under the GSP). In 1980 the least developed countries, including Bangladesh, of course, were granted a further concession: the butoir no longer applied even to exports of sensitive products, including textiles. Under the new GSP introduced on 1 January 1981 for the eighties, these concessions were maintained.

Trade

The EC is Bangladesh's principal trading partner: in 1979 it took some 32 % of the country's exports, which was a much higher proportion than Japan (5,6%) and the United States (12,7 %).

The following Table shows the evolution of the Community's trade with Bangladesh between 1973 and 1980:

	<u>EC Imports</u>	<u>EC Exports</u>	<u>Trade Balance</u>
	(in million ECU)		
1973	96	126	+ 30
1974	85	123	+ 38
1975	55	189	+ 134
1976	113	121	+ 8
1977	117	195	+ 78
1978	98	254	+ 156
1979	139	335	+ 196
1979 (10 Mos)	115	273	+ 158
1980 (10 Mos)	116	281	+ 165

The Community's principal imports include raw jute, jute manufactures, leather, tea and seafood.

Manufactured products, including machinery, transport equipment and chemicals, account for the major part of its exports to Bangladesh. However, foodstuffs can account for up to 40 % of the total, reflecting the high level of food aid.

Development assistance

Food aid

Bangladesh is one of the main beneficiaries of the Community's food aid programme. The following Table gives details of the quantities made available since 1977.

	<u>Cereals</u>	<u>Skimmed milk powder</u>	<u>Butteroil</u>
	(in tonnes)		
1977	100,000	-	-
1978	115,000	9,000	3,000
1979	100,000	-	3,000
1980	105,000	-	3,000
+1981	135,000	5,000	3,000

+ Quantities proposed by the European Commission.

The quantities proposed by the European Commission for 1981 (which must be approved by the Council of Ministers) are substantially higher, reflecting the increased quantities of cereals the EC is committed to supplying under the new Food Aid Convention. (Member states' grain contributions are not included in the above figures. They are substantial. In 1979, for example, they amounted to another 66,000 tonnes of cereals).

Financial and technical aid

As a populous, least developed country Bangladesh is an important beneficiary of the Community's programme of financial and technical assistance to the non-associated developing countries. In 1978, for example, it was allocated ECU 6.6 million, to be used to co-finance a British project for the replanting of tea bushes to increase yields.

In 1979 Community aid, amounting to ECU 8 million, was earmarked for a grain storage project, jointly financed with the FAO(1). This aid had risen to roughly ECU 11 million in 1980 and is to be used to finance two development projects, one involving livestock, the other cotton production.

As mentioned earlier, the Community has financed the activities of the Joint Commission, set up under the CCA, through its trade promotion programme.

All Community aid, incidentally, is in the form of grants and covers much of the local costs also.

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The official visit of Mr. Jamal Uddin Ahmed, Prime Minister and Minister for industries of Bangladesh, to the European Commission on 27th and 28th April 1981 paves the way for the further developing of economic and commercial cooperation between the EC and Bangladesh.

(1) FAO: Food and Agricultural Organization

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