CHAPTER III

NATIONAL TRADE AND INVESTMENT POLICIES OF BANGLADESH AND ASEAN COUNTRIES

3.1 Background

Bangladesh is one of the least developed countries (LDCs) in the world. Like the old ASEAN countries, Bangladesh started to open up its economy in the 1980s and accelerated the process of liberalization in the 1990s. By now Bangladesh is already integrated into the world economy and international trade is considered to be the life-blood for its survival. Bangladesh is a founder member of the WTO and its trade policies are in line with the multilateral trading system. Bangladesh now ranks first among the LDCs in terms of merchandise exports and imports. In 2003 Bangladesh was among the 50 leading importers in the world. On the other hand, national trade and investment policies of the ASEAN countries can be divided into two groups – old members and new members. The old members are Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand. The new members comprise Cambodia, Lao PDR, Myanmar and Vietnam. All old members of ASEAN except Brunei, along with Vietnam from the new members rank among the 50 leading exporters and importers in the world[1]. All old members of ASEAN are committed to market-based trading arrangements and are members of the WTO. Among the new members of ASEAN, Myanmar and Cambodia are members of the WTO as of 16 February 2005. Lao PDR and Vietnam have observer status in the WTO. The new members of ASEAN are in transition, and opening up their economies for integration into the world economy. But they are already integrated into the regional economy.
The economies of ASEAN are among the most open economies of the Asia-Pacific region. Thus, these economies are greatly influenced by international market forces.

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[1] International Trade Statistics 2004, World Trade Organization at www.wto.org

Openness of an economy not only brings opportunities but also is a source of potential vulnerability. The ASEAN economies have experienced the both. Nevertheless, for the case of ASEAN economies, their affluences that come from openness far outweigh the crisis. Openness of these economies has brought about not only rapid growth and economic prosperity over the last two decades but also had put them in the Asian economic crisis in the closing years of the last century. The ASEAN countries adopted measures that would help them exploit the opportunities offered by the liberalizing international economy and minimise the adverse impact of externally induced downturns on their domestic economies. The current level of economic prosperity and affluence of these countries are due to their outward-looking development strategy they boldly adopted in the 1980s and 1990s. As a result, manufactures have taken the prominent position in their exports and thereby have reduced the share of food and agricultural raw materials. In 2003, food and agricultural raw materials constituted, on the average, only 11 per cent of the total merchandise exports of the old ASEAN countries except Brunei, whose data are not available[2]. On the other hand, the share of manufactures in the merchandise exports of these countries was, on the average, 75.8 per cent in the same year. In contrast to these figures, among the new members of ASEAN, Cambodia and Vietnam had, on the average, 63 per cent share of food and agricultural raw materials in their total merchandise exports in 2003. Manufactures constituted, on the average, 25.5 per cent of the total merchandise exports for these two countries in the same year. Data on Myanmar and Lao PDR are not available. This indicates that the old members of ASEAN are highly industrialized while the new members lag behind in industrialization.

In the case of imports, food and agricultural raw materials constituted only 8.2 per cent of the total merchandise imports of the old members of ASEAN, except Brunei, in 2003. The share of manufactures in the total imports of these countries in 2003 was 75 per cent on an average. Among the new members, Cambodia and Vietnam had 8 per cent share of food and agricultural raw materials in their total

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[2] World Development Indicators 2005, World Bank.

merchandise imports in 2003, while manufactures constituted 80 per cent in their total merchandise imports in the same year. Structural changes in the old ASEAN economies during the 1980s and 1990s had brought about significant changes in the composition of their exports and imports. Manufactures now form the bulk of their export earnings. The structural changes reoriented their industries from inward-looking import substitutions to outward-looking export orientation in the last two decades of the last century.

To promote manufactured exports, fiscal incentives such as tax holidays, investment tax credits and accelerated depreciation were adopted by the ASEAN countries in the past. Export incentives such as export allowances, import duty exemptions and export credit financing had helped the ASEAN countries to accelerate exports. However, import substitution activities continued to coexist with export-oriented industries under mild protectionist policies[3]. During the Uruguay Round of the Multilateral Trade Negotiations (MTN), ASEAN countries actively participated to safeguard their economic interests. In the previous MTNs arranged under the auspices of the General Agreement on Tariffs and Trade (GATT), ASEAN countries had played a passive role[4]. They perceived the GATT as a "rich men's club". However, their perception changed and they considered international trade as the life-blood of their economies. It is in this backdrop that Bangladesh and the ASEAN countries are pursuing their trade and investment policies. In the following sections trade policies of Bangladesh and the ASEAN countries are discussed individually and the sections are arranged in alphabetical order.

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[3]Arif, Mohammed [1988], "Multilateral Trade Negotiations: ASEAN Perspectives" in Arif, Mohamed and Loong-Hoe, Tan (eds.), *The Uruguay Round: ASEAN Trade Policy Options*, Singapore: Institute of Southeast Asian Studies, pp. 1-37.

[4] *Ibid.*

3.2 Trade policy of Bangladesh

Bangladesh joined the WTO, along with other developing countries, at the culmination of the Uruguay Round in order to avail the advantages of an open and liberal trading system. By joining the multilateral trading system, the country sought to avail the opportunity to negotiate for enhanced market access in major developed and newly industrialized countries and thereby strengthen the domestic production base and competitive position. In fact, the country had embarked upon an outward looking export-oriented industrialization strategies in the early eighties. Since then it has accelerated its liberalization policies. The country has undertaken a number of bold steps, which include liberalization of the trade and foreign investment regime, strengthening the financial sectors, legislative and regulatory framework, closing and privatizing some loss-making state-owned enterprises (SOEs), adjusting or abolishing some administered prices, broadening the base of VAT collection and taking steps to improve governance. Bangladesh extends most-favoured-nation (MFN) treatment to all trading partners and has taken steps to amend its legislation in the light of its obligations undertaken in the context of the Uruguay Round, including in the areas of customs valuation, anti-dumping and countervailing measures, and protection of intellectual property rights. State's involvement in trade has been greatly reduced, and all counter-trade and special trade arrangements have been abolished. Bangladesh has further opened up many of the state-dominated sectors to private investment including essential infrastructure, such as telecommunications, power generation, and transport.

As to the case of trade liberalization, Bangladesh has put much more emphasis on export diversification and import liberalization in the earlier years. Since 1992, Bangladesh has continued making efforts to simplify and rationalize its trade regime. It has made considerable progress in reducing tariffs and quantitative restrictions (QRs) on imports. Nominal applied most-favoured-nation (MFN) tariffs have fallen by more than half, from an average of 58% in 1992/93 to 22% in 1999/2000. The customs tariff is now Bangladesh's main trade policy instrument. The tariff is also the Government's principal source of revenue, accounting for nearly one-third of total taxes. The tariff structure is characterized by lower tariffs on raw materials and higher tariffs on semi-processed and fully processed goods. It has rationalized the tariff structure by reducing the number of tariff bands from 15 in 1992/93 to 5 in 1999/2000, and lowering the maximum tariff rate from 300% to 37.5% during the same period. Nearly 25% of tariff lines (mainly finished products) face the maximum tariff rate. The unweighted average tariff has fallen from 89% in 1990/91 to about 20% in 1998/99, while the import-weighted average tariff has declined from 30% to about 16%. The percentage of items subject to trade-related quantitative restrictions has been reduced from 40% to 2%, at the HS 8-digit level. The pace of liberalization in the import of intermediate and capital goods moved much faster than for consumer goods. 76% of intermediate and 73% of capital goods were already allowed unrestricted import in 1987; this share increased to 97% and 93%, respectively, in 1994.[5] A smaller "negative list", which specifies items not to be imported without official sanction has replaced the "positive list" that existed earlier.

On the investment front, Bangladesh maintains one of the most liberal regimes in South Asia with few limitations on foreign equity participation and offers immense opportunities such as a relatively cheap and abundant labour. Bangladesh is pursuing an export-oriented pattern of economic growth. According to a study of Japan External Trade Organization (JETRO), Bangladesh has several strengths in the investment climate compared with many Asian Countries. The favourable points include the worker's wages, office rent, rental of industrial estates, water and electricity charges, monthly basic cost for fixed telephones, rate of personal income tax etc. The procedural matters have also improved over the years. One of these aspects is the "Work Permit for Foreigners" which is now issued by a single Agency i.e. the Board of Investment (BOI) within a very short time. Another good aspect is issuance of the "Visa on Arrival". Since the end of 2004, the Government of Bangladesh has opened the "Visa on Arrival" for the visitors of a few developed countries. It is hoped that all of these steps will increase foreign investment in due course. According to estimates by the World Bank, annual foreign direct investment (FDI) in Bangladesh, quadrupled from US$83 million in 1994/95 to US$386 million

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[5] Bangladesh Trade Policy Review: 2000, World Trade Organization.

in 1997/98, with the bulk of FDI going to the gas sector, due to its considerable reserves[6]. Bangladesh offers a wide range of open-ended tax incentives, notably tax holidays and accelerated depreciation. The government now allows FDI outside the export processing zones (EPZs).

It has simplified the regulatory environment for trade in textile and garments, trying to improve port facilities with Asian Development Bank (ADB) assistance and seeking duty-free access for Bangladesh readymade garments into the United States market. The government has initiated several capital projects at the port of Chittagong, the main seaport in Bangladesh. The Chittagong port has been equipped with modern container-handling equipments recently. Procedural and operational solutions have been introduced to improve capacity and thereby enhance the competitiveness of exports and lower the price of imports. Under a project financed by the World Bank, a computerized customs management system developed by the United Nations Conference on Trade and Development (UNCTAD) has been introduced at four inland ports, port of Chittagong, and the National Board of Revenue's (NBR) headquarters. The government has plans to introduce more mechanized cargo handling equipments at the Chittagong port under an ADB financed Chittagong Port Trade Facilitation Project. The exchange rate policy regime is now more unified, flexible and market-based. The government floated its currency in May 2003. The local currency *Taka* is freely convertible for current account transactions.

3.3 Trade Policy of Brunei[7]

Brunei's economic prosperity is brought about by its abundant petroleum and natural gas resources. Petroleum and natural gas contributes 35% of the country's GDP. In recent years, services have played an increasingly important role in the economy, growing from 38% of GDP in 1990 to 52% by 1999. The services sector is

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[6] *Ibid.*

[7] Based on WTO Trade Policy Review on Brunei: 2001, available at www.wto.org

also an important source of employment, employing some 80% of the population. Brunei's main exports are petroleum and liquefied natural gas. Brunei's proven petroleum reserves are expected to last another 20-25 years at current rates of extraction. The Government has thus been encouraging economic diversification, into both manufacturing and services, especially financial services, tourism, and transport.

Brunei's applied MFN tariffs are low, averaging 3.1% in 2000, zero for agriculture, and 3.6% for non-agricultural products. There are, however, peaks of up to 200%, which affect motor vehicles. Brunei has bound nearly 95% of its tariff lines at the WTO. While the average applied tariff is low, the average bound rate is 24.8%, leaving a considerable gap between the applied and bound rates. Among the key tools to attract investment to Brunei are tax and other incentives offering tax exemptions of up to eight years for companies investing in a wide range of activities. Tariff escalation is especially pronounced in wood and furniture, fabricated metal products and machinery, and chemicals, providing higher effective protection to these industries; by contrast, for wood and furniture, the tariff on unprocessed and semi-processed products is higher than for fully processed products suggesting greater protection for raw and intermediate goods than for finished products.

As a member of the Association of South East Asian Nations (ASEAN) Common Effective Preferential Tariff (CEPT) scheme, which is the main instrument of the ASEAN Free-Trade Area (AFTA), Brunei has been reducing its preferential tariff rates on products included under CEPT. In 2000, Brunei's average CEPT tariff was 1.9%. Brunei's tariff barriers are relatively low. Only a small number of imports and exports are subject to prohibitions, restrictions, and licensing requirements. Imports of opium, firecrackers, vaccines from Chinese Taipei, and arms and ammunition are prohibited for health, security, and moral reasons. Products subject to import restrictions include rice, sugar, and salt, for the purpose of maintaining food supplies. A few products are also subject to export restrictions: timber, oil palm, rice, and sugar; the restrictions are maintained mainly to ensure security of domestic supplies, although in the case of timber, the restrictions are also maintained apparently for environmental reasons.

3.4 Cambodia's trade policy[8]

Cambodia started to liberalize its trade policy in the late 1980s, a decade before it became integrated into the regional economic bloc. The pace of trade policy liberalization was accelerated when it joined ASEAN. ASEAN agreed to accept Cambodia as a full member of the organization at the Hanoi Summit in December 1998. Cambodia formally entered ASEAN on 30 April 1999. The country had gone through internal and regional conflicts throughout its history. The Paris Peace Accords finally had brought stability in the country in 1991. This was followed by the formation of the United Nations Transitional Authority in Cambodia (UNTAC) under which general elections were held and a new coalition government was formed in 1993. Before the Paris Peace Accord of 1991, Cambodia was ruled by a mono-party socialist regime which followed a command economy. It was after 1993 when a multi-party political system emerged in Cambodia and a market oriented economy was introduced.

The new government in Cambodia following the 1993 election took policy measures to restructure its economy. Economic integration into the world and regional economy was seen as a strategy for national reconstruction and development. With a view to integrating the country into the regional economy and thereby into the global economy, Cambodia submitted its formal application for full membership in ASEAN in 1996 and started preparation for entering into the ASEAN Free Trade Area. The new government in Cambodia initiated several steps to streamline the countries tariff lines and abolish quantitative restrictions. These trade policy measures expanded its trade in goods during the 1990s. Accession to the WTO was seen as a part of the general strategy of trade policy of Cambodia, which was directed to effective integration of the country into the world economy and global trading system. Finally Cambodia was admitted to the WTO in October 2004 and thereby its bid for

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[8] This section draws mostly from Kato, Toshiyasu, "Cambodia's Accession to AFTA: Impact, Challenges, and Policy implications" in Than, Mya and Gates, Carolyn L. [2001] (ed.) *ASEAN Enlargement: Impacts and Implications*, Singapore: Institute of Southeast Asian Studies.

integration into the world economy was successful. The relatively short period of liberalization efforts in Cambodia placed the country in a fairly open trade regime, comparable with the other regional economies. The production structure of Cambodia's exports and imports baskets is predominantly agrarian, with a narrow and weak industrial base.

In 2003, Cambodia's merchandise exports were structured by 99% contribution from food and agricultural raw materials. Manufactured contributed only 1% to the total merchandise exports. On the other hand, imports were dominated by manufactures which constituted 84% of the total merchandise imports. Cambodia's small manufacture is dominated by the garments sector. This garments sector is again dominated by foreign direct investment (FDI). In 2003, out of its total 185 garments factory, only 23 were own by Cambodian nationals[9].

3.5 Trade Policy of Indonesia[10]

Indonesia has undergone considerable economic, political, and social change in the aftermath of the severe financial and economic crisis in 1997. The country has implemented major trade, structural, and macro policy reforms. Major democratic reforms together with rapid decentralization of government have also had an important impact on Indonesia's external trade. The country has implemented trade and other structural reforms mainly unilaterally, as key components of its structural reform commitments. Unilateral reforms substantially exceeded WTO obligations in some key areas, such as financial services. Indonesia has commitment to the multilateral trading system. It also has commitment to accelerate regional integration. At the end of 2002, 99% of Indonesian tariff lines were brought into the CEPT

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[9] Siphana, Sok [2003], *Mainstreaming Trade for Poverty Alleviation: A Cambodian Experience*, available at http://www1.worldbank.org/devoutreach/july03/article.asp?id=205.

[10] Based on WTO Trade Policy Review on Indonesia: 2003, available at www.wto.org

scheme with an average tariff of 4%, as part of its endeavour for regional trade liberalization.

Tariff has increasingly become Indonesia's main policy instrument. The average applied MFN tariff has declined from 9.5% in 1998 to 7.2% in 2002, reflecting mainly unilateral reductions. As is true with other countries, also Indonesia applies high tariff rates to certain drinks and transport equipments. Tariff dispersion has fallen overall, but escalation exists for final products, especially for food, beverages, and tobacco, and wood and furniture. Almost all applied rates are *ad valorem*, thereby making the tariff more transparent. In addition, Indonesia has taken trade facilitation measures such as computerized custom clearance procedures and documentation. Registration of importers has remained a major requirement.

However, non-tariff barriers in some form remains. The scope of import restrictions and licensing appears to have increased. These affect sensitive products, such as rice, sugar, footwear, and textiles, and are granted on the basis of domestic needs. In addition, Indonesia occasionally uses anti-dumping actions largely in response to domestic manufacturers' concerns. Government procurement policy in Indonesia is also aimed at encouraging greater domestic content in order to assist local industry and expand employment. On the other hand, the government applies some restrictions to exports as well. They include bans, quotas, licensing, and 'supervision'. These tools are used to promote higher-value-added activities in the country, to upgrade export quality, and to ensure adequate domestic supplies of essential products at reasonable prices, as well as in accordance with international commitments.

Indonesia generally applies its trade policies on a non-discriminatory basis. The country has privatized many state-owned entities. This deregulation policy is to be continued in future as well. Indonesia has opened up some sectors to private and foreign investors. However, state participation is not totally abandoned. The financial sector reform now allows foreign participation in the banking sector partially. Telecommunication and transport sectors are also open to foreign investment but with limited equity. However, taxi and bus services, and inter-island shipping services are prohibited for foreign investment. Trade liberalization and other structural reforms, and enhanced stabilization policies have contributed to Indonesia's economic turnaround following the financial and economic crisis. It has increased its openness to trade through unilateral, as well as multilateral liberalization. This would also help boost investor confidence and, if matched by necessary institutional and economic governance reforms, would facilitate foreign investment, a key to Indonesia's future prospects.

3.6 Trade Policy of Lao PDR[11]

Lao PDR had been a centrally planned economy before the introduction of new economic mechanism in 1988. Its external trade was highly restricted revolving around the centralized allocation of goods for exports. In 1988 the government began to decentralize some of its trade related responsibilities under the new economic mechanism which included planning and arranging trade contracts with foreign suppliers. Trade had been conducted by some state trading companies and some provincial trading companies. The management and control of export-import activities had been supervised by the state and its agencies.

Lao PDR is not a member of the WTO. However, the country has an observer status in the world trading body. The country began to deregulate its trade regime in the early 1990s as part of its preparation for entering into the regional trading bloc, ASEAN. Lao PDR became a full member of ASEAN in 1997 and thereby joined the AFTA. Since then the country began to implement the CEPT scheme. Thereby Lao PDR has been integrated into the regional economy.

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[11] Based on country-data on Lao PDR, available at http://www.country-data.com/cgi-bin/query/r-7853.html

3.7 Trade Policy of Malaysia[12]

Malaysia has been one of the success stories in the developing world. The country has achieved one of the highest economic growth rates in the world during the last two decades. With the help of an unorthodox policy package, political stability, Malaysia has dramatically reduced unemployment rate and has increased living standards remarkably. The country has been pursuing liberal trade and foreign investment policies since the early 1980s. Even the recent financial crisis did not deviate Malaysia from this firm commitment. Attainment of food self-sufficiency by the mid-1970s, supremacy in the world natural rubber market, production of palm oil and coco, and a rapid expansion of manufacturing were the magic behind Malaysia's success story. Between 1987 and 1997, the manufacturing sector grew at an average annual rate of 14 per cent.

Rapid expansion of export orientation was the whole-mark of industrial transformation in Malaysia. By the mid-1990s, with manufacturing counting for 80 per cent to total exports of the country, Malaysia had become the sixth largest exporter of manufactured goods in the developing world after the four newly industrialized countries in East Asia. Foreign direct investment has played a pivotal role in export-led industrialization in Malaysia. Foreign firms accounted for over 45 per cent of total manufacturing value added and over three-quarters of total manufactured export by the mid-1990s exports. Rapid export-led growth was a result of a sound economic policy, which reflected a unique combination of outward-looking development strategy and a comprehensive affirmative action programme aimed at maintaining ethnic harmony and social stability.

In the 1950s and 1960s, import substitute industrialization was a key emphasis of the Malaysian development strategy. Malaysia never resorted to non-tariff protection and direct government involvement in manufacturing through setting up of public sector enterprises as means of promoting industrialization. Tariff protection to

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[12] Based on WTO Trade Policy Review on Malaysia: 2001, available at www.wto.org

domestic manufacturing in Malaysia has been low relative to other countries. The role of government was by and large limited to the provision of conventional public services and implementation of rural development schemes. There was no direct government involvement in manufacturing through the establishment of state-owned enterprises (SOEs). As the government continued to maintain an outward oriented overall policy stance, trade and foreign investment regimes continued to remain open. As a result, there was ample room for the private sector to expand through greater integration in the global economy.

Tariffs on a wide range of manufactured good were increased in the first half of 1980s as part of the heavy-industrialisation move. But there was no significant reliance on quantitative import restrictions; only 8 per cent of total merchandise imports were under such restrictions by the mid-1980s. By the mid-1990s, only 3 per cent of all import tariff lines were subject to licensing requirements. Malaysia faced economic crisis during 1985-87. The subsequent policy package included strengthening the conditions for export-oriented industrialization through greater participation of FDI. The policy package also involved a gradual process of privatisation and restructuring of state-owned enterprises. More generous incentives for private investors were introduced in 1986. Reforms also involved significant tariff reductions and removal of quantitative import restrictions, removing restrictions on foreign portfolio investment in the country, a gradual process of privatization and restructuring of state-owned enterprises and labour market reforms to make Malaysia more cost-competitive as a location of international production.

The average applied MFN tariff has increased from 8.1% in 1997 to 9.2% in 2001. Domestic tariff peaks have declined. Tariff peaks apply to automobiles, beverages, textiles and clothing. Nearly 60% of total tariff lines, which relate mostly to inputs to domestic industry, are duty free. The country's average tariff rate is low by the regional standards. However, the degree of dispersion of tariff in Malaysia is relatively very high because of high tariff peaks relating to a few product lines like motor vehicles. Malaysia has no import quotas and the existing import prohibitions are limited to those implemented for national security reasons. Some primary products, notable forest products, crude oil, and selected palm oil products are subject to export duties. A few agricultural products are also subject to prohibitions, restrains, and licensing requirements. There are no export duties on manufactured products. On the contrary, assistance is provided to manufactured exports through import tariff concessions, tax exemptions, export credit, export insurance and export credit guarantees, export promotion and marketing assistance.

3.8 Trade Policy of Myanmar[13]

Import substitution industrialization and export promotion are the basic component of Myanmar trade policy. The country is a founder member of the GATT and the WTO. It offers most favoured nation (MFN) treatment to all members of the WTO except the countries which face United Nations embargo and the countries with which Myanmar has cut off diplomatic relations. The country also joined ASEAN and ASEAN Free Trade Area (AFTA) in 1997. So Myanmar's trade policy is in line with the international trading system and regional integration agreements. Myanmar had been pursuing a socialist economic system since it achieved independence. The State Law and Order Restoration Council (SLROC) took over power in late 1988 and began to take steps towards a more open and market-based economy. Though the private citizens are allowed to do export-import business under registration, they need to follow the government instructions. State monopoly in internal and foreign trade has reduced to a great extent. Private and co-operative sectors are now encouraged to engage in internal and foreign trade. The country has taken steps to regularize border trade with its five neighbouring countries. Though in a limited scope, Myanmar allows forming of joint venture co-operations with the State Economic Enterprises and local and foreign private enterprises which can be described as an initial step towards privatization. For trade facilitation and promotion, Myanmar is taking steps for lowering the technical barriers to trade as well as simplifying export-import trade procedures.

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[13] Based on country-profile: Myanmar, available at http://www.aseanindia.net/asean/countryprofiles/myanmar/trade-policy.htm

Myanmar gives incentives to private citizen to promote exports in the form of allowing retention of 100% export earnings for importation of capital goods. It gives exemption of commercial tax and customs duties to imported items like fertilizers, agricultural machineries and implements, insecticides and pesticides, medicine and raw materials. As a result of these steps, state's share in the country's foreign trade has reduced. Private share in the foreign trade of Myanmar has increased to 70% by December 2000. Export-first is a requirement for the private sectors' involvement in external trade. However, accounts transfer between different foreign currency accounts holder is permitted. The government of Myanmar allows all commodities for exportation by the private sectors except certain restricted items such as rice and rice products which are solely exportable by the State-owned Economic Enterprises, with a view to maintaining food security in the country.

Myanmar follows three basic principles as part of its trade policy. These three principles are – (1) trade activities should be aimed at the interest of the state and the people; (2) trade activities should not be a burden to the people; (3) trade activities should be aimed at structuring a long-term viable trading system rather than to gain a short term profit. Therefore, all exports and imports by the private sector including foreign traders and the State-owned Economic Enterprises are subject to licensing from the government. The government specifies some priority items for imports which include agricultural machineries, farm implements, fertilizer, edible oil, raw materials for industries, machineries and equipments, construction stores and building materials etc. The private sector has a specified ratio of these priority items for importation.

Myanmar has bilateral trade agreements with China, Thailand, Bangladesh, India, Pakistan, Laos, Malaysia, Philippines, Vietnam, and Republic of Korea, and also with another six Eastern European countries. Terms and conditions of the bilateral trade agreements are based on the MFN treatment of the WTO. Myanmar has already joined the AFTA and has adopted policy measures to comply with the Common Effective Preferential Tariff (CEPT) scheme of AFTA. In addition, Myanmar is also a member of the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC).

3.9 Trade Policy of the Philippines[14]

The Philippines' general trade policy objectives include moving towards a more outward-oriented trade regime, strengthening and increasing overseas market access for exports, and greater integration into the world economy. These objectives are being pursued through multilateral, bilateral and regional trade initiatives, in particular through ASEAN. In the early 1980s, the Philippines embarked on a medium-term structural reform programme with the objective of rendering Philippine industries more efficient and internationally competitive. The two main instruments of the structural reform programme were the Tariff Reform Programme and the Import Liberalization Programme. Tariff reforms were intended to reduce tariffs to rates ranging from 0-5% by 2004, with some exceptions for sensitive agricultural products, which would retain a tariff of 30%. However, in 2002 the President announced that due to the budget deficit, tariffs could not be lowered. Moreover, the President ordered a review of the tariff liberalization policy with a view to encouraging manufacturing. In January 2003, the President announced that the unilateral tariff reduction programme was to slow down.

The tariff shows a clear pattern of escalation in most industries, with higher tariffs on processed items than on semi-processed goods and raw materials. Nevertheless, the general pattern of protection has been intended to promote development of the manufacturing sector, which concentrates on the processing of parts and components. Imports of certain goods are prohibited. In general, imports of dangerous chemicals that are an unreasonable risk to health or the environment are restricted or prohibited. The entry (or transit) of hazardous and nuclear wastes is also banned. Imports of cereals seemingly require a permit. Imports of rice are subject to

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[14] Based on WTO Trade Policy Review on the Philippines: 2005, available at www.wto.org

quota. There are legislations to regulate anti-dumping and countervailing duties. During 1999-2003, the Philippines initiated 13 anti-dumping investigations. Only plantation (non-native) logs are subject to an export tax (20% of f.o.b.). All other export taxes were abolished from July 1986 under Executive Order 26. However, provisions still appear to exist that enable export taxes to be re-imposed on other products. Fish exports are also regulated on grounds of domestic food security. The government does not provide export subsidies. Several incentives e.g. duty exemptions, drawbacks, export-processing zones, and tax relief support exports.

Tariff remains a substantial source of tax revenue for the government. There have been ups and downs in the tariff structure. The Philippines tariff schedule had 10,688 eight-digit tariff lines in 2004, with rates ranging from 0% to 65% including out-of-quota rates. The simple average applied MFN tariff rate fell from 9.7% in 1999 to 5.8% in 2003, but rose to 7.4% in 2004. However, this is still low by developing country standards. Non-tariff barriers to imports, especially licensing and permits, affect a number of goods, mainly for health or safety reasons. Furthermore, the President may prohibit imports of goods from any country that discriminates against Philippine exports. Some items are subject to export prohibitions and other restrictions; the President may impose export quotas on any goods. On the other hand, export support policies exist partly in an effort to offset the anti-export bias from restrictive import policies.

The Philippines has a long history of providing incentives (mainly tax) to selected activities. The main strategy has been to channel investments into sectors considered desirable for meeting key objectives, such as generating exports and employment. Incentives encourage investment in specific activities, regions and non-traditional exports. Tax and non-tax incentives are used to encourage investment in export-oriented activities, specific sectors, and less developed regions. In the EPZs, 100% foreign ownership is allowed. Incentives include: exemption from corporate income tax for four to eight years, duty exemptions on imports of capital equipment and raw materials; exemptions from excise taxes on exports; refunds of value-added taxes paid on imports for re-export. Import and export procedures are also made simplified. The government provides exporters with loans, guarantees, insurance, and technical cooperation, and pre-shipment export finance guarantees. Export promotion is mainly undertaken through the participation of Philippine exporters in trade fairs, special exhibits, in-store promotions, and other promotional activities.

3.10 Trade Policy of Singapore[15]

Singapore started business as a British trading colony due to its close proximity to the region rich in spices and the People's Republic of China (PRC). In the early years of its separation from Malaya, Singapore adopted import substitutions strategy to become a newly industrialized country. But soon it realized that only import substitution industrialization can not solve its unemployment and balance of payment problems. Soon it moved towards export oriented industrialization and implemented various trade measures to support this policy. Singapore's total trade volume is now three times its GDP. The trade measured included removing tariffs and quotas, developing basic infrastructure, streamlining import and export procedures, providing trade finance and export credit, and establishing the Trade Development Board (TDB). Since then the role of TDB has been to engage in trade promotion, trade facilitation and trade policy. Singapore does not provide export subsidy. Instead, the TDB provided other form of assistance including seminars on new markets, airfare subsidy in trade mission participation, and printing of brochures. Moreover, the participating firms will have double tax deductions from these activities.

Singapore underwent an economic recession in 1985 for the first time in its history. To encounter the recession, the government adopted corrective measures like lowering the labour wages, promotion of high value-added technology- based manufacturing and skill development. Singapore diverted attention to capacity

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[15] Based on WTO Trade Policy Review on Singapore: 2004, available at www.wto.org and Executive Summary Series No. S58/02, Trade Policy Issues, 25 February – 1 March 2002, Singapore Executive Summary of Proceedings, Tokyo: Asian Development Bank Institute, 2002.

building and economic diversification. It also led to proactive measures to develop an external economy through trade generating investments so as to counteract the impact caused by domestic fluctuations. The second recession caused by the regional economic crisis in 1997 adversely affected Singapore's service exports. After the second recession, Singapore aims to transform its economy into a knowledge-based one.

To develop its external economy Singapore encourages its domestic firms to venture overseas. Cost factors are driving out Singapore's labour-intensive industries to neighbouring countries. While the labour-intensive industries move out, Singapore continued to attract high value business activities to stay in the country. Thus, while the actual manufacturing of garments has shifted to Indonesia and Thailand, Singapore's strategy has been to move up to promote higher value chain like fashion design and development. The characteristic of Singapore's economic development is that it has progressed from a commerce and labour-intensive manufacturing economy in the 1970s to higher value-added manufacturing base by the 1990s.

Singapore has enjoyed one of the highest economic growths in the world. The essential ingredient of this growth of Singapore has been its commitment to openness to trade and investment flows. Singapore's imports are free from duties, excepting few items like alcoholic beverages and tobacco products. Although Singapore is a major proponent of global trade and investment liberalization, Free Trade Agreements (FTAs) are also now an integral part of Singapore's trade policy. Since 2000, Singapore has been involved in discussions with a number of countries on the possibility of bilateral trade agreements. This FTA approach can be explained as Singapore's remedy to forge strategic partnerships, maintain investor confidence, and diversify export markets and reduce cost. However, Singapore is also committed that FTAs should not be pursued at the cost of the multilateral trading system.

3.11 Trade Policy of Thailand[16]

To stabilize the economy towards full recovery after the economic and financial crisis, Thailand has implemented ambitious domestic reforms. The reform areas include financial sector restructuring, institutional capacity building and human resource development. The reforms have been aimed to increase the level of productivity and efficiency of market participants, especially small and medium enterprises. These policy reforms have helped Thailand's commitment to openness to international trade and investment.

Thailand is an open economy to foreign trade and investment. It has strong commitment to integrate into the world economy, which is reflected in its active engagement in bilateral, regional and multilateral economic arrangements. Free Trade Area (FTA) agreement has been an important trade policy instrument of Thailand. The country is in the process of engaging in FTAs with a number of countries. Its FTA approach is aimed at expanding its export markets beyond the region. Thailand believes that its FTA agreements will act as a building bloc for multilateral trade and investment liberalization through gradual domestic adjustment process.

With regard to investment, Thailand is committed to improving overall investment environment. The country seeks to promote investment in industries namely agro-business, automobile, fashion including textile, leather and jewellery, electronic industries, as well as high-value services. FDI is seen as a means of promoting employment, economic growth, and technology transfer. As of 2003, Thailand had 84 state owned enterprises (SOEs). Thailand is accelerating the process of corporatisation of the commercially oriented SOEs.

Thailand's trade policy supports export promotion with limited export control. Few items are subject to prior approval for reasons such as public health, economic stability, national security, and protection of public morals, etc. There are some

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[16] Based on Trade Policy of Thailand collected from the Ministry of Commerce, Thailand

measures on export control in order to meet its importers' requirements on food standards. Thailand is restructuring its tariff lines to further reduce its applied tariff rates. As of 2003, Thailand applies tariff quotas to 23 agricultural products. The average applied tariff is 14.61% and 16.84% for WTO members and non-WTO members respectively. Thailand was committed to restructure its tariff rate as 1% for raw materials, 5% for intermediate products and 10% for finished articles by 2003.

Thailand's investment regime is one of the most liberal in the region. The country is in favour of substantial improvement in market access, substantial reduction of domestic support and elimination of export subsidies. In the manufacturing sector there are no foreign equity restrictions. The country allows foreign participation in a wider range of activities such as brokerage services, wholesale and retail trade, construction, non-silk textile, garments, footwear, hotel, beverages production, and auction business. Since August 2000, the criteria for granting investment incentives have been free of local content requirements and export requirements. On the regional integration front, Thailand has currently brought all product items under the CEPT scheme and tariff rates of those items are between 0-5%. Moreover, 60% of those items have the tariff rates of 0%.

3.12 Trade Policy of Vietnam[17]

Vietnam has been carrying out market reforms since the declaration of *doi moi* (renovation) in 1986. One aspect of *doi moi* has been reorientation of its international economic relations, moving from a centrally planned economy with planned trade and financial links with the Council for Mutual Economic Assistance (CMEA) to a market oriented economy. Its bid for integration into the world economy led Vietnam towards initializing market oriented reforms. From the early 1990s, Vietnam was successful in reorienting its production and trade modalities to satisfy demand from new trade

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[17] Based on an article titled *Vietnam's Trade Policy In The Trend Of International Trade Liberalization* by Nguyeãn Thò Thanh Hoaøi, available at http://www.ueh.edu.vn/tcptkt/english/2000/thang3/VIETNAM.htm

partners: it quickly shifted from managed trade with the CMEA to competitive trade with international market economies, particularly in East Asia.

As parts of its reorientation programmes, Vietnam began to rationalize its tariff structure, reduce export duties on many commodities, and decentralize and simplify the complex trade system. Vietnam also ended its state monopoly in foreign trade by allowing more state agencies and private companies into the dealings of foreign trade. Although the government rationalized its tariff structure by reducing customs duties on many commodities, it maintained a high tariff structure for luxurious items, and non-essential goods. The practice of other non-tariff barriers also continued such as a long list of goods still remained subject to quantitative restrictions (QRs), and licensing. As of 2000, Vietnam had 18 different tariff rates from 0% to 100%. The highest tariff rates 100% and 60% are applied to liquor, beer, second-hand clothing, autos, motorbikes etc. while 0% is applied to basic chemicals, machinery and equipments, plant and animal strains etc. Trade reforms, supported by price and currency reforms, have enabled Vietnam to expand its trade levels and diversify its trading patterns and commodities. During the first decade since *doi moi* was announced, Vietnam's exports grew at an average annual rate of 27 per cent. But its imports also increased at a more speed than export's growth. As a result, Vietnam's trade deficits grew over the years.

One important aspect of Vietnam's economic reforms was opening up its economy to foreign direct investment (FDI). State laws and regulations have been amended to attract FDI. The 1992 constitution and other laws provides guarantee against nationalization of private and foreign enterprises. The country also offers generous tax incentives. From 1988 to 1995 Vietnam's foreign direct investment amounted from virtually zero to US$ 3.8 billion. But the committed amount was much bigger, US$ 18.4 billion. Many investors did not invest due to some technical and market problems. But the country has a geographic locational advantage, comparatively bigger internal market, and cheap labour force that can attract more FDI.

Vietnam's trade policy has been a combination of import substitution and export promotion strategies. But in the past, the country had put more emphasis on import substitution strategy. Therefore, capital goods and raw materials constituted the major part of its total imports. Vietnam is not a member of the WTO. But it has an observer status in the organization. The country joined ASEAN in 1995. Thereby it has entered the AFTA and is implementing the CEPT scheme. It has to fulfil its obligation by reducing tariff to 0-5% in the tax-cut schedule of the AFTA by 2006. In addition, it has to eliminate its non-tariff barriers to comply with its commitments to the AFTA. Vietnam's polity adaptation with AFTA is helping the country for its preparation to enter into the world trading body.

3.13 Regional Arrangement and Multilateral Commitment

Regional trading arrangement has been a pertinent feature of the contemporary international relations. There is a controversy over the impact of regional trading arrangement upon the multilateral trading system. Yet the number of regional trading arrangement has grown over the years. Regional trading arrangements have also developed in South Asia and Southeast Asia. Bangladesh is a leading founder member of the South Asian Association for Regional Cooperation (SAARC). Other members of SAARC comprise Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. The SAARC countries signed the SAARC Preferential Trading Arrangement (SAPTA) in 1993 under which preferential tariff concessions have been granted to each other by the member countries. In the 12th SAARC Summit held in Islamabad in January 2004, the SAARC countries signed the South Asian Free Trade Area (SAFTA) agreement which is scheduled to enter into force on 1st January 2006. Under the SAFTA agreement the member countries have agreed to create a free trade area in South Asia by the year 2016. The member countries have agreed to cut down their tariff rates to 0-5% by the year 2016 following different schemes mentioned in the agreement.

On the Southeast Asia front, the old ASEAN members have already reduced the tariffs of the products listed in their respective Inclusion List (IL) to 0-5% under the common effective preferential tariff (CEPT) scheme. The Sensitive List (SL) is to be phased into IL and then to be reduced to 0-5% tariff rates by 2010. The new member countries have got different time schedule for implementation of their CEPT scheme. Overall, 54,367 tariff lines out of the total 55,525 lines of the ASEAN countries are either in the IL or the Temporary Exclusion List (TEL). In other words, 97.9 per cent tariff lines have been brought to 0-5% tariff rates by the old members, while Vietnam has to bring them to the same rates by 2006, Lao PDR and Myanmar by 2008, and Cambodia by 2010. This means that ASEAN free trade area will be a reality by 2010.

Another important development in regional trading arrangement in South and Southeast Asia has been the formation of the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC). BIMSTEC has been a linking regional organization between South Asia and Southeast Asia because its members come from both the region: Bangladesh, Bhutan, India, Nepal and Sri Lanka from SAARC; and Myanmar and Thailand from ASEAN. Since its inception in 1997, BIMSTEC has generated six ministerial meetings and one Summit meeting. BIMSTEC can draw much importance to it over the coming years as it has a vast economy of US$ 741.28 billions and a big market of 1.32 billion populations. The BIMSTEC leaders have signed a framework agreement for a BIMSTEC free trade area.

Along with the regional developments, Bangladesh and the ASEAN countries have shown their firm commitment to the interest of liberalizing world trade through the development and strengthening of the multilateral trading system. Among the ASEAN countries, only Lao PDR and Vietnam are not members of the WTO. But they have observer status in the world trading body. These countries have been adapting their national trade policies in accordance with the WTO rules.