

CPD Occasional Paper Series

**BANGLADESH-EU DEVELOPMENT RELATIONSHIP:
MAJOR FEATURES AND EMERGING ISSUES**

Paper 5

**Mustafizur Rahman
Saifur Rahman**

60.00

Price Tk.

Centre for Policy Dialogue

House No 40/C, Road No 11, Dhanmondi R/A

Mailing Address: GPO Box 2129, Dhaka-1209, Bangladesh

Tel: 8124770; Fax: 8130951; E-mail: cpd@bdonline.com

Website: www.cpd-bangladesh.org

June, 2000

The Centre for Policy Dialogue (CPD), established in 1993, is a civil society initiative to promote an ongoing dialogue between the principal partners in the decision-making and implementing process. The dialogues are designed to address important policy issues and to seek constructive solutions to these problems. The Centre has already organised a series of such dialogues at local, regional and national levels. The CPD has also organised a number of South Asian bilateral and regional dialogues as well as some international dialogues. These dialogues have brought together ministers, opposition front benchers, MPs, business leaders, NGOs, donors, professionals and other functional groups in civil society within a non-confrontational environment to promote focused discussions. The CPD seeks to create a national policy consciousness where members of civil society will be made aware of critical policy issues affecting their lives and will come together in support of particular policy agendas which they feel are conducive to the well being of the country. The CPD has also organised a number of South Asian bilateral and regional dialogues as well as some international dialogues.

In support of the dialogue process the Centre is engaged in research programmes which are both serviced by and are intended to serve as inputs for particular dialogues organised by the Centre throughout the year. Some of the major research programmes of CPD include The Independent Review of Bangladesh's Development (IRBD), Governance and Development, Population and Sustainable Development, Trade Policy Analysis and Multilateral Trading System and Leadership Programme for the Youth. The CPD also carries out periodic public perception surveys on policy issues and developmental concerns.

Dissemination of information and knowledge on critical developmental issues continues to remain an important component of CPD's activities. Pursuant to this CPD maintains an active publication programme, both in Bangla and in English. As part of its dissemination programme, CPD has decided to bring out CPD Occasional Paper Series on a regular basis. Dialogue background papers, investigative reports and results of perception surveys which relate to issues of high public interest will be published under its cover. The Occasional Paper Series will also include draft research papers and reports, which may be subsequently published by the CPD.

The present paper published under the CPD Occasional Paper Series is entitled Bangladesh-EU Development Relationship: Major Features and Emerging Issues and prepared by Professor Mustafizur Rahman, Research Director, CPD and Mr Saifur Rahman, Research Associate, CPD. The report was presented at the national dialogue organized by the Center on the theme of *Bangladesh-EU Development Relationship: Emerging Challenges in the Context of Globalisation* held on May 21, 2000.

Assistant Editor: Ayesha Banu, *Coordinator (Dialogue & Communication), CPD*
Series Editor: Dr Debapriya Bhattacharya, *Executive Director, CPD*

This paper was prepared as a background document for the dialogue on *Bangladesh-EU Development Partnership: Emerging Challenges in the Context of Globalisation* organised by the CPD on May 21, 2000 to coincide with the signing of the new *EU-Bangladesh Cooperation Agreement*.

The paper was prepared by **Professor Mustafizur Rahman**, Research Director, Centre for Policy Dialogue and **Mr Saifur Rahman**, Research Associate, Centre for Policy Dialogue. The authors appreciate able research assistance provided by **Mr Faisal Kamal**, Research Intern at CPD

Contents

SECTION I	INTRODUCTION
SECTION II	EU DEVELOPMENT ASSISTANCE TO BANGLADESH: THE TRADITIONAL AREA OF COOPERATION
SECTION III	BANGLADESH - EU TRADE RELATIONSHIP: THE MAJOR AREA OF COOPERATION
SECTION IV	EU INVESTMENT IN BANGLADESH: THE EMERGING AREA OF COOPERATION
SECTION V	EU- BANGLADESH RELATIONSHIP: SALIENT FEATURES OF THE NEW COOPERATION AGREEMENT
SECTION VI	BANGLADESH - EU RELATIONSHIP: THE EMERGING CONCERNS
ANNEX-1	DISTINGUISHING FEATURES OF THE TWO COOPERATION AGREEMENTS

BIBLIOGRAPHY

List of Tables

Table - 1	Structure of Total Grant Disbursed between 1994 and 1999
Table - 2	Share of Grant in Food Aid (Disbursement)
Table - 3	Distribution of Bangladesh's Export by Destination
Table - 4	GSP Utilisation by Bangladesh
Table - 5	Share of EU Member States in Bangladesh's Total Imports (1998/99)
Table - 6	Net Flow of Foreign Direct Investment in Bangladesh by Source
Table - 7	Presence of EU Member States' Companies in Bangladesh
Table - 8	Distribution of Cumulative FDI Flows in the EPZs by Origin 1998/99 Compared to 1994/95

List of Boxes

Box - 1	Milestones in Bangladesh - EU Relationships
Box - 2	Growing Importance of EU - Bangladesh Relationship
Box - 3	Global Position of EU in Trade and Aid
Box - 4	Official Development Assistance of OECD/DAC Members in 1998
Box - 5	EC Aid to Bangladesh at a Glance
Box - 6	Dynamics of Aid Disbursement by EU (EC+15EU Countries): 1994 and 1999
Box - 7	EC Supported Major Development Projects in Bangladesh
Box - 8	Bangladesh's Export to EU by Commodity (1998/99)
Box - 9	Bangladesh's Export to EU by Destination (1998/99)
Box -10	Investment Proposals Registered with BOI by Origin (as of Dec '99)
Box -11	Major Areas of Cooperation

List of Charts

Chart - 1	Structure of Total Grant Disbursed by Source (FY 1999)
Chart - 2	Distribution of Food Aid (Grant) Disbursed by Source (FY 1999)
Chart - 3	Distribution of Project Aid (Grant) Disbursed by Source (FY 1999)
Chart - 4	Structure of Export by Destination: FY 1995
Chart - 5	Structure of Export by Destination: FY 1999
Chart - 6	Structure of Knit-RMG Export: FY 1999
Chart - 7	Structure of Woven-RMG Export: FY 1999
Chart - 8	Structure of Bangladesh's Imports during FY 1999

SECTION I: INTRODUCTION

Major Milestones in EU-Bangladesh Relationship

Bangladesh-European Union (EU) relationship is entering into a new phase. It has evolved in major ways since the time when it was formally articulated through the *Cooperation Agreement* signed in 1976, and has come under renewed focus and scrutiny in the context of the proposed *Cooperation Agreement* which is going to be signed on 22 May, 2000. Box-1 traces some of the major milestones of this evolving relationship. Over these last two and half decades, as trading as well as development partner, EU countries both as a group through the European Commission (EC), and singly have come to occupy an increasingly important place in Bangladesh's external relations. EU member countries are major trading partners of Bangladesh, and EC and its member states together contribute a significant percentage of the total aid received by Bangladesh.

Box -1: Milestones in Bangladesh - EU Relationships

• 1973	Establishment of diplomatic relationship between Bangladesh and EC
• 1974	Negotiations held for the commercial co-operation agreement between Bangladesh and EC
• 1976	Signing of the <i>Commercial Co-operation Agreement</i>
• 1982	Establishment of EC office at Dhaka under the South Asian Delegation in Delhi
• 1984	EC-Bangladesh Framework Agreement
• 1986	Signing up of the Textile Agreement between Bangladesh and EC
• 1988	The EC office in Bangladesh was promoted to full Delegation under the <i>Vienna Convention</i>
• 1990	The Head of EC Delegation presents his credentials to the President
• 1998	Signing of Agreement between GOB and EIB
• Feb 1999	Initiation of the Co-operation Agreement between EC and Bangladesh
• 22 May 2000	Signing of the EU-Bangladesh <i>Co-operation Agreement</i>

For instance EU accounts for 45% and 10% of Bangladesh's export and import respectively. Bangladesh is the second largest aid recipient of EU in Asia (after India) and is at the top of the list of EC food aid recipients globally. Box-2 mentions some of the highlights of Bangladesh-EU development relationship.

Box - 2: Growing Importance of EU - Bangladesh Relationship

- Bangladesh is the second largest EU aid recipient in Asia
- Bangladesh is the largest EU food aid recipient
- Bangladesh is the fifth largest recipient of EU aid to NGOs
- EU is the most important donor of project aid under grant in Bangladesh
- EU is the most important donor of food aid under grant in Bangladesh
- Bangladesh is one of the most prominent exporters of apparels into the EU
- EU as a group is the most important export destination for Bangladesh
- For knit-RMG and leather EU is the most important market for Bangladesh

EU's Growing Importance as a Global Player

EU's importance for Bangladesh stems both from its increasing economic strength as a *global player*, and also from its growing prominence as a *development partner* of the country. As can be seen from Box-3, the *15 EU countries together account for almost 30% of the global GDP*. EU is a key player in the global trading scenario both as an exporter and also as an importer: 25% of global exports originate in EU and EU accounts for 18% of global imports. This would imply that, EU accounts for about *a fifth of the global trade*. EU's importance as a donor, considering both EU as an organisation and also its constituent member countries, has grown significantly over the years. Although the *Treaty of Rome* did not envisage a close cooperation with the developing countries (excepting the ACP countries), EU has evolved into the *fifth largest aid donor* in the world and accounts for about half of the total ODA and two-thirds of the total grant. It is of interest to note that *EU provides about half of the total global aid to LDCs*, and is by far the largest humanitarian aid donor in the world. Although the 71 ACP countries continue to remain central to EU aid policy, in recent years the spatial distribution of aid has nonetheless been impressive with increasing allocations being set aside for Asian and Latin American (ALA) countries.

In recent years, about 70% of incremental OECD aid has been attributable to the growth of aid from EC and member states, and as a result, the share of this group in total OECD aid has gone up significantly over the past years. At present EU provides about half of total OECD aid. It is to be noted that the ODA contribution of EU is still less than half of the UN target of 0.7% of GNP (Box 4), although this share is somewhat higher for EU compared to the OECD countries as a group.

Box - 3: Global Position of EU in Trade and Aid

- EU countries account for 30% of global GDP
- Accounts for 25% of world merchandise export
- 18% of world import
- Largest exporter of commercial services
- Accounts for 1/5 of world trade
- 1/4 of multilateral ODA (second after IDA)
- EC + members provide 1/2 of OECD ODA
- Provide 2/3 of world grant
- EC ranks as Fifth largest aid donor
- Largest humanitarian aid donor
- Provides almost 1/2 of total aid to the LDCs

Box - 4: Official Development Assistance of OECD/DAC Members in 1998

Total DAC (OECD)	0.23% of donors GNP
of which EU	0.34% of GNP
of which non-EU	0.18% of GNP
UN Target	0.70% of GNP

Source: DAC and Commission estimates, 1999.

Changing Focus of EU Development Policy

European Community's Development Policy published on 26 April, 2000, indicates that EU is determined to play a more prominent role internationally, both through bilateral programmes, and also through the various global platforms. If we trace the role of EU as a development partner over the years, we find that the *first generation of EU cooperation accords with their focus mainly on aid issues evolving into second generation accords with their emphasis on trade and development issues and then evolving into third generation accords to go beyond the traditional areas with focus on such issues as governance and human rights issues.*

In this backdrop, it is not unexpected that the new cooperation agreement also reflects significant departures from the previous accord in terms of focus, strategies and instruments. Now is, thus, an opportune moment to have a critical look at some of the important issues emerging in the changed context of Bangladesh-EU relationship, and discuss some of the key issues which will need to be addressed in the near future.

Focus of the Present Paper

This paper looks at the current status of Bangladesh-EU relationship, identifies the salient features of the new Cooperation Agreement and looks at some of the important emerging challenges in the context of the evolving Bangladesh-EU relationship.

The paper is organised in the following way. Section II looks at the trends and structure of aid from EU to Bangladesh over the past years; Section III undertakes an overview of Bangladesh - EU trade relations, and Section IV looks at investments by EU countries in Bangladesh; Section V points out some of the major features of the proposed *Cooperation Agreement* and Section VI identifies a number of issues which are expected to have important implications in terms of the development of Bangladesh - EU partnership in the coming days.

SECTION II: EU DEVELOPMENT ASSISTANCE TO BANGLADESH: THE TRADITIONAL AREA OF COOPERATION

Trends in EU Aid to Bangladesh

Aid has been the traditional area of Bangladesh-EU cooperation. As a matter of fact Bangladesh is one of the leading recipients of EC aid to Asia-Latin America (ALA) developing countries and ranks second, after India, as recipient of EC aid in Asia. This rank has been sustained over the last decade and half, although *the share has slightly decreased from 16.6% in the late 1980s to 14.0% in the late 1990s*. Of interest here is to note that, EC channels all its aid in the form of grants although member countries offer part of their respective aid in the form of loans.

Box - 5 provides some information on the dynamics of aid disbursement by EU in Bangladesh. The information shows *actual disbursement of EU aid has come down significantly over the last five years*, mainly on account of Bangladesh's inability to utilise the committed funds. Thus, although commitments over this period has increased from \$254.5 million to \$437.3 million, or by 71.8%, actual disbursement of EU funds have come down from \$244.5 million to \$194.2 million, or by 20.6% during the matching period.

During the first period of EC cooperation, the emphasis of project interventions was on infrastructural development (in areas such as irrigation and roads etc.) and on rural development programmes (agricultural production and integrated rural development programmes). While both sectors have continued to remain important, in the past few years, new projects have covered the social sectors (health, education, social mobilisation, etc.). These projects emphasise the need for grassroots development to assist the poorest groups, especially women, through improvement in their living conditions and social status. In addition to project assistance, the EC has provided food aid (590 Mecu) and emergency assistance (101 Mecu) to Bangladesh.

Box-5: EC Aid to Bangladesh at a glance

Start of financial and technical cooperation:	1976
Total EC financing:	1185 Mecu
No. of development projects:	61
Main sectors:	Disaster response; Food storage; Irrigation; Rural development; Rural production; Health and education
Percentage of projects addressing key poverty alleviation issues:	Food security (60%); Economic development of rural areas (60%); Social development (45%);
<i>* all forms of aid</i>	

Structure of EU Aid

As all EU development assistance come in the form of grant, it will be useful to take a closer look at its composition and dynamics. We observe that *EU's share in total grant received by Bangladesh during the last five years has come down from 37.7% in 1993/94 to 28.7% in 1998/99*. Although it remains the largest donor in terms of grants to Bangladesh (see Table-1), the fall in share was paralleled by a decline in absolute amount from \$335 to \$192 during the corresponding period. In 1998/99, EU's share in the \$176.9 million of food aid under grant received by Bangladesh was 15.6% (see Table - 2), whilst the share in the \$373.4 million project aid under grant was 43.9%. In other words, almost 90% of EU's grant in aid to Bangladesh was channeled as project aid and about 10% count as food aid. These shares are shown in Pie Charts 1-3.

Table - 1: Structure of Total Grant Disbursed between 1994 and 1999

	(Percentage)					
Country	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99
USA	15.13	12.88	7.57	4.80	5.22	10.33
Japan	28.59	24.05	31.32	37.38	16.84	23.97
Multilateral Agencies (Excluding EC)	9.49	13.36	9.44	12.26	20.76	22.50
EC	7.62	7.21	13.42	8.42	11.30	5.84
EC+15 EU	33.27	37.69	37.95	36.61	46.28	28.66
15 EU	25.65	30.48	24.53	28.19	34.98	22.82
<i>Of which</i>						
UK	5.52	6.01	4.91	2.80	6.92	7.78
Germany	4.58	12.55	9.46	4.60	9.66	5.48
Netherlands	5.69	2.01	4.85	9.77	4.08	6.44
France	1.70	3.26	1.44	3.28	6.11	1.54
Others	13.51	12.02	13.72	8.95	10.90	14.55
Total	100.00	100.00	100.00	100.00	100.00	100.00
Total (Million US\$)	710.09	890.13	677.49	736.07	502.84	669.06

Source: ERD, Ministry of Finance

One of the major reasons for the fall in EU's share in total grant receipt is explained by the decline in disbursement of EU aid as a percentage of commitment from 96.0% in 1993/94 to only 44.0% in FY 1998/99 (the corresponding figures for all types of aid were 64.0% and 54.0%).

Table - 2: Share of Grant in Food Aid (Disbursement)

	(Percentage)					
Country	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99
USA	38.75	33.54	26.65	6.24	0.00	22.37
Japan	10.56	7.00	7.02	7.84	0.00	3.73
Multilateral Agencies (excluding EC)	13.95	26.79	22.97	18.16	46.79	45.72
EC	18.07	20.45	26.76	35.96	31.22	12.80
EC+15 EU	18.07	23.69	31.07	47.86	36.48	15.55
15 EU	0.00	3.25	4.30	11.90	5.26	2.76
<i>Of which</i>						
France	0.00	3.03	3.66	4.06	5.26	2.76
Others	18.67	8.97	12.30	19.90	16.72	12.63
Total	100.00	100.00	100.00	100.00	100.00	100.00
Total (Million US\$)	117.85	137.43	138.02	100.94	93.11	176.94

Source: ERD, Ministry of Finance

**Box-6: Dynamics of Aid Disbursement by EU (EC+15EU Countries):
1994 and 1999**

1993/94	1998/99
Total Aid	Total Aid
<ol style="list-style-type: none"> Total Aid (Disbursement) = 244.53 million US\$ which is 15.69% total aid disbursement. Total Grant (Disbursement) = 236.26 million US\$ which is 33.27% of total grant. Total Loans (Disbursement) = 8.27 million US\$ which is 0.97% of total loans. 	<ol style="list-style-type: none"> Total Aid (Disbursement) = 194.12 million US\$ which is 14.56% total aid disbursement. Total Grant (Disbursement) = 191.74 million US\$ which is 28.66% of total grant. Total Loans (Disbursement) = 2.38 million US\$ which is 0.36% of total loans.
Food Aid	Food Aid
<ol style="list-style-type: none"> Food Aid (Disbursement) = 21.29 million US\$ which is 18.1% of total food aid, 8.70% of total aid from EC+15EU, 1.36% of total aid in Bangladesh. <p>Of which,</p> <ol style="list-style-type: none"> Grant = 21.29 million US\$(100% of food aid from EC+15EU) which is 18.1% of total grant in food aid to Bangladesh and 18.1% of total food aid to Bangladesh. Loan = Zero 	<ol style="list-style-type: none"> Food Aid (Disbursement) = 27.52 million US\$ which is 15.55% of total food aid, 14.17% of total aid from EC+15EU, 2.06% of total aid in Bangladesh. <p>Of which,</p> <ol style="list-style-type: none"> Grant = 27.52 million US\$(100% of food aid from EC+15EU) which is 15.55% of total grant in food aid to Bangladesh and 15.55% of total food aid to Bangladesh. Loan = Zero
Commodity Aid	Commodity Aid
<ol style="list-style-type: none"> Commodity Aid(Disbursement) = 20.49 million US\$ which is 4.54% of total Commodity aid, 8.37% of total aid from EC+15EU, 1.31% of total aid to Bangladesh. <p>Of which,</p> <ol style="list-style-type: none"> Grant = 20.49 million US\$(100% of commodity aid from EC+15EU) which is 4.54% of total grant in commodity aid to Bangladesh and 4.54% of total commodity aid to Bangladesh. Loan = Zero 	<ol style="list-style-type: none"> Commodity Aid (Disbursement) = 0.50 million US\$ which is 0.41% of total Commodity aid, 0.25% of total aid from EC+15EU, 0.04% of total aid to Bangladesh. <p>Of which,</p> <ol style="list-style-type: none"> Grant = 0.50 million US\$(100% of commodity aid from EC+15EU) which is 0.42% of total grant in commodity aid to Bangladesh and 0.41% of total commodity aid to Bangladesh. Loan = Zero
Project Aid	Project Aid
<ol style="list-style-type: none"> Project Aid (Disbursement) = 202.75 million US\$ which is 20.49% of total project aid, 82.91% of total aid from EC+15EU, 13.01% of total aid to Bangladesh. <p>Of which,</p> <ol style="list-style-type: none"> Grant = 194.48 million US\$ which is 95.92% of total project aid from EC+15EU, 47.70% of total grants in project aid to Bangladesh, 19.65% of total aid to Bangladesh. Loan = 8.27 million US\$ which is 4.08% of total project aid from EC+15EU, 1.42% of total loans in project aid in Bangladesh, 0.53% of total aid to Bangladesh. 	<ol style="list-style-type: none"> Project Aid (Disbursement) = 149.67 million US\$ which is 14.46% of total project aid, 77.10% of total aid from EC+15EU, 11.22% of total aid to Bangladesh. <p>Of which,</p> <ol style="list-style-type: none"> Grant = 163.72 million US\$ which is 98.57% of total project aid from EC+15EU, 43.85% of total grants in project aid to Bangladesh, 12.28% of total aid to Bangladesh. Loan = 2.38 million US\$ of which 1.43% of total project aid from EC+15EU, 0.36% of total loans in project aid in Bangladesh, 0.18% of total aid to Bangladesh.

Chart - 1: Structure of Total Grant Disbursed by Source (FY 1999)

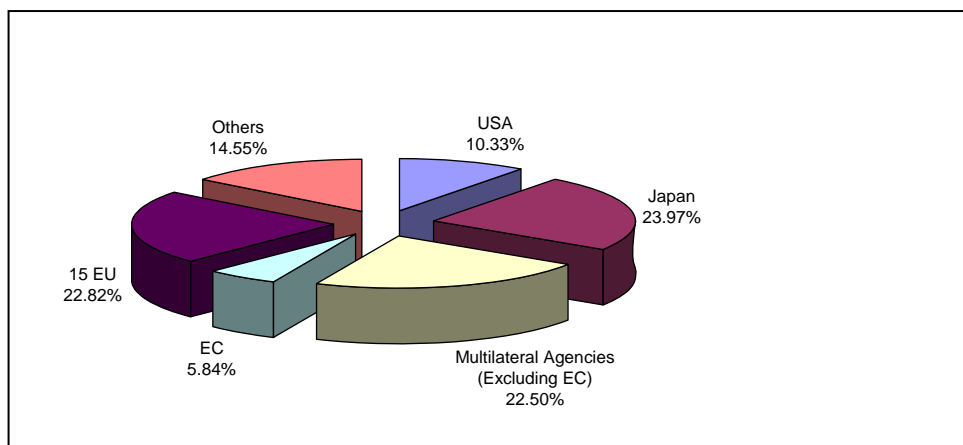


Chart - 2: Distribution of Food Aid (Grant) Disbursed by Source (FY 1999)

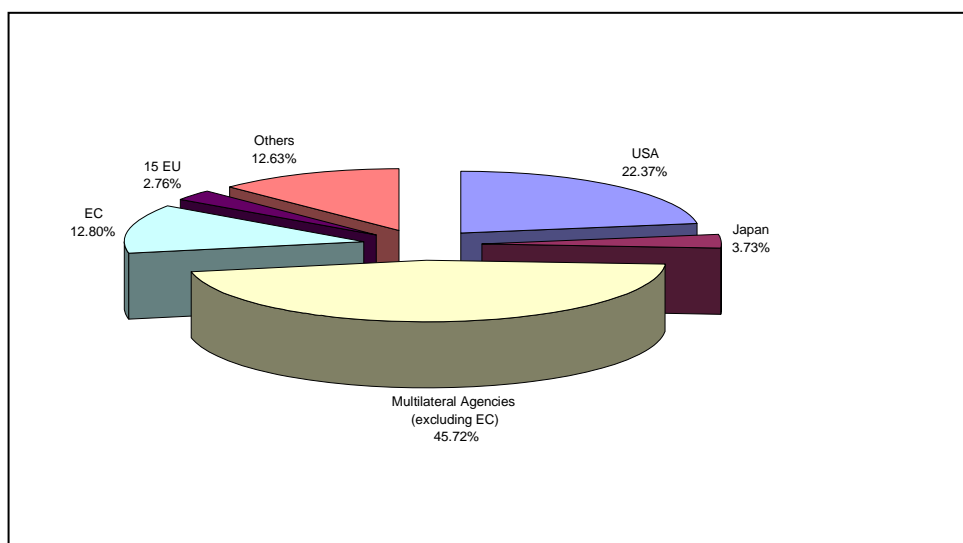
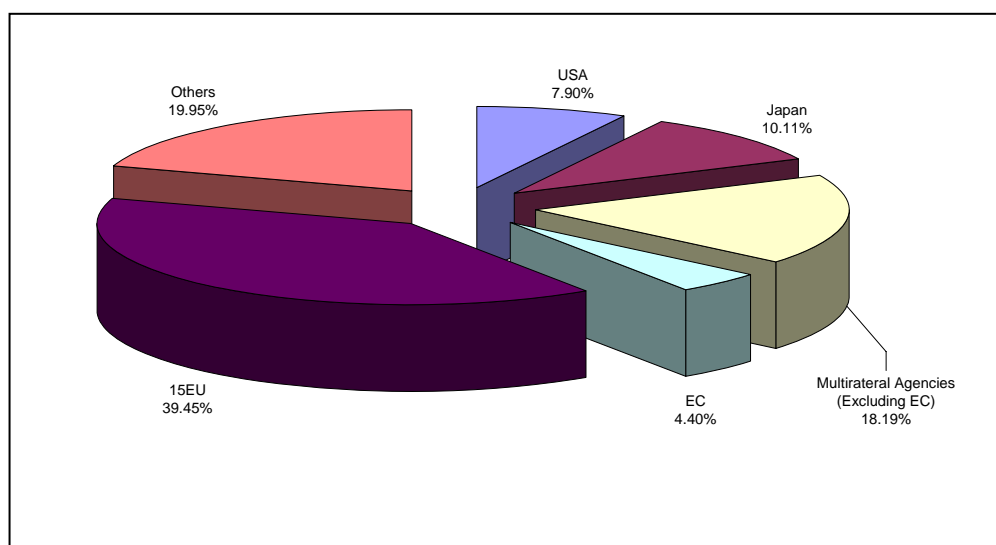


Chart - 3: Distribution of Project Aid (Grant) Disbursed by Source (FY 1999)



Although EC assistance to Bangladesh started as a classic food aid operation, the food aid policy was subsequently reformed into EC development policy which integrated food aid with agricultural inputs within the broad ambit of food security. Annual average disbursement of EU (EC+15) aid in Bangladesh over the last three years was about 15% of total aid (or about 225 million *Euro*). The EC and member countries, in recent years, in line with the evolution of the donors' mainstream strategy, have targeted their aid mainly on poverty reduction projects. However, accent of individual EC members regarding their respective development assistance policy have tended to vary with UK and Sweden emphasising governance and institutional support, Denmark giving prominence to the agriculture sector, river transport and water supply and sanitation, and Norway focusing on human resource development and micro enterprises and promotion of human rights and democracy.

If all investments in EC financed projects since 1976 is added up it would amount to an impressive amount 700 Mecu. The total amount committed to ongoing projects supported by EU members was about 400 Mecu. It is to be noted that EC supported development and food aid programme in Bangladesh is amongst the largest EC-supported programmes in the world.

One salient feature of EC cooperation in Bangladesh is that EC has implemented a significant part of its development cooperation programmes through various local NGOs by way of co-financing. *A fourth of the total funds committed to various development projects in Bangladesh, amounting to about 100 Mecu, is channeled through this type of financing.* Channeling increasingly more funds through NGOs is an important feature of EU aid policy in recent years which is not unique to Bangladesh.

Box-7 lists a number of major on-going projects implemented by GOB and NGOs with assistance from the EU.

Box - 7: EC Supported Major Development Projects in Bangladesh

Name of Projects/ Programmes	Emphasis	Executing Agencies	Priority Sectors	Expected Results
1. Adarsha Gram I	Raise productive capacity to the landless	GOB	Poverty alleviation	i. Settle homeless and landless families ii. Provide land deeds to the landless. iii. Train the landless in productive activities
2. FPHP	i. Reduce fertility ii. Decrease morbidity and mortality of children under 5 iii. Enhance nutritional status of women and children iv. Reduce disability, morbidity and mortality from common poverty related diseases v. Improve effectiveness and efficiency in family planning and health services.	GOB	Population and Health	i. Decline in fertility and improvement of child survival- rate. ii. Improve quality and the efficiency in the delivery of the health and FP services
3. Integrated Food Assisted Development Programme (IFADEP)	Raising living standard and creating income generating opportunities.	GOB & NGOs	Food Security	1. Mobilise the landless people to construct roads and infrastructures. 2. Improve alternative income generating sources such as the Pisciculture. 3. Food ration for the abandoned wives.
4. NFPE	Create cost effective basic education for poor children, particularly girls who do not receive education from the public primary education system	BRAC	Education	1. provide cost effective primary education at a lower rate compared to the government supported institutions. 2. Reduction in Drop-out Rates
5. Vulnerable Group Development Project (VGD)	Emphasis on Women	GOB & NGOs.	Poverty Alleviation	Improve the productive capacity of the poor; strengthen capacity of the NGOs and Directorate of Women's Affairs to support and implement schemes for Women.
6. PROSHIKA Poverty Alleviation Phase V	i. Attack poverty ii. Improve literacy rate iii. Reduce mortality rate iv. Improve gender balance	PROSHIKA	Poverty Health, Education and Gender issues	i. Promote high literacy rate ii. Improve education and health. iii. Involve women in income generating activities iv. Create entrepreneurs from the landless people.

SECTION III: BANGLADESH - EU TRADE RELATIONSHIP: THE MAJOR AREA OF COOPERATION

Dynamics of Exports to EU

The first agreement signed between Bangladesh and EU in 1976 was, in principle, a commercial cooperation agreement. Since then EU as a group has become the foremost trading partner of Bangladesh. Bangladesh exported \$ 2.46 billion worth of commodities to the 15 EU member countries in 1998/99 which was 46.50% of its total annual exports and was a significant rise from the 32.4% posted a decade earlier (Table-3). Amongst the 15 EU member countries, Germany topped the list (11.8%) in terms of market share followed by UK (9.3%) and France (6.5%).

Table - 3: Distribution of Bangladesh's Export by Destination

Country	(Percentage)							
	1989/90	1994/95	1995/96	1996/97	1997/98	1998/99	1998/99, Jul-Dec)	1999-2000, Jul-Dec)
USA	29.18	34.10	30.85	32.41	37.38	37.03	36.91	39.97
Japan	3.65	0.28	3.11	2.58	2.18	1.75	1.86	1.87
EU	32.41	41.21	46.80	44.97	43.47	46.36	46.30	43.87
<i>Of which:</i>								
France	4.09	5.56	7.03	7.08	7.14	6.50	6.33	6.10
Germany	5.55	8.65	9.51	9.69	9.90	11.77	11.97	11.28
Italy	8.62	6.08	5.33	4.61	5.24	5.08	5.49	3.99
Netherlands	2.50	3.94	4.72	4.72	4.57	4.74	4.73	5.12
UK	6.38	9.17	10.76	9.91	8.53	9.25	9.34	8.74
Others	34.77	24.41	19.24	20.03	16.97	14.86	14.93	14.28
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Total export (million US\$)	1523.71	3472.56	3882.42	4418.28	5161.20	5312.86	2560.70	2744.50

Source: Computed from Export Promotion Bureau's data

Box - 8 and Box - 9 provide the distribution of Bangladesh's exports to EU by commodity and destination.

Box - 8: Bangladesh's Export to EU by Commodity (1998/99)

Commodity	Share in Export	Rank
Knit RMG	69.15%	1
Woven RMG	46.56%	2
Leather	35.61%	1
Frozen Food	35.27%	1
Total Export	46.36%	1

Box - 9: Bangladesh's Export to EU by Destination 1998/99

Country	Share in Export to EU	Rank
Germany	25.38%	1
UK	19.94%	2
France	14.01%	3
Italy	10.95%	4
Netherlands	10.21%	5

Chart - 4: Structure of Export by Destination: FY 1995

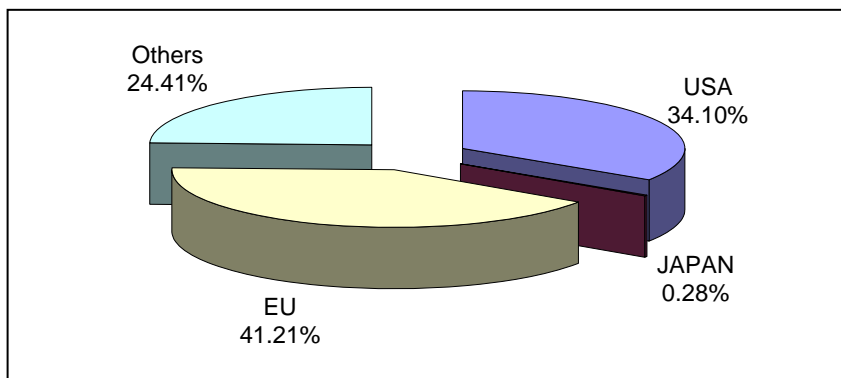


Chart - 5: Structure of Export by Destination: FY 1999

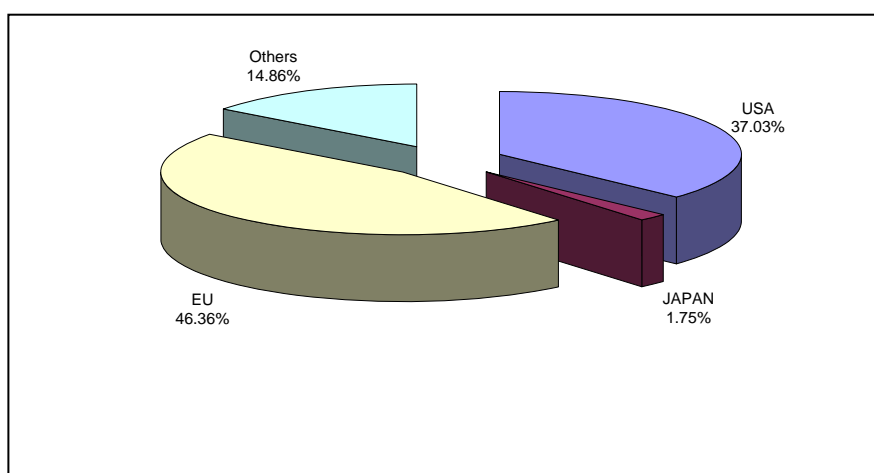


Chart - 6: Structure of Knit-RMG Export: FY 1999

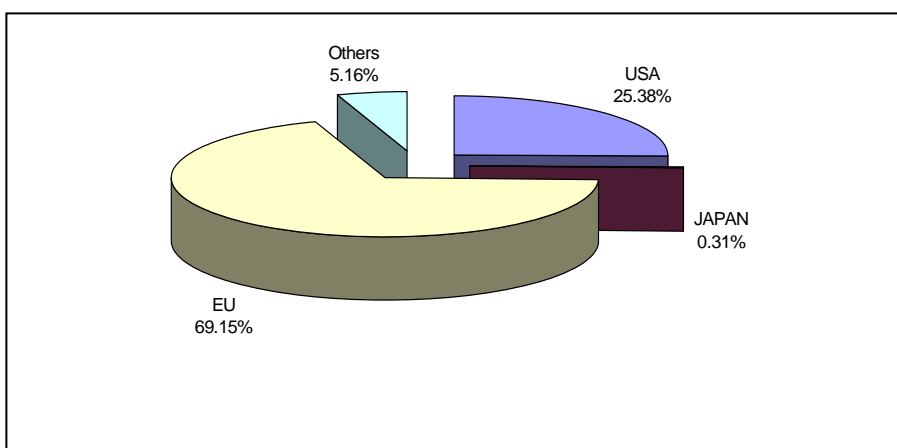
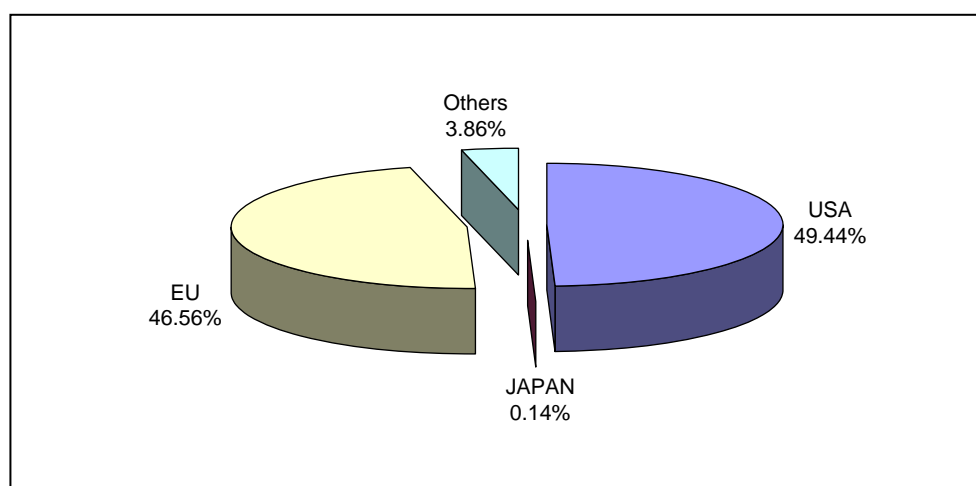


Chart - 7: Structure of Woven-RMG Export: FY 1999

Structure of Exports

Sectoral decomposition of Bangladesh's exports by destination reveals that EU is the single most important importer of Knit-wear from Bangladesh. EU accounts for 69.2% of total *knitwear exports* of the country in 1998/99. In case of woven-RMG, EU ranks second preceded by, USA, accounting for 46.6% of total exports of *woven-RMG*. Within the EU, Germany was the premier export market of Bangladesh in both woven (15.6%) and knit-RMG (14.1%). In case of export of *leather*, EU ranked first with a share of 35.6% of total export in FY 1999. Here Italy was the foremost importer accounting for 22.8% of total exports in FY 1999. EU accounted for 35.2% of total exports of *frozen food*, mainly shrimp, from Bangladesh in FY 1999, a close second to USA whose share was 36.1%. Among the EU countries, UK was the largest importer of frozen food with a share of 13.1% of the total exports from Bangladesh, followed by Belgium with 9.8%.

EU GSP Utilisation Rate

One important element of Bangladesh-EU trade is that as a LDC Bangladesh receives duty free access for its products under the EU GSP scheme and a quota free access for its textile products. A significant part of Bangladesh's export to EU is covered under the Generalised System of Preference (GSP) scheme which provides preferential tariff treatment to Bangladeshi exports to EU markets. However, since Bangladesh is unable to comply with the stringent EU rules of origin for GSP, it has been difficult for the exporters to take full advantage of the market access opportunity offered by the EU GSP scheme.

Table - 4: GSP Utilisation by Bangladesh

(Million ECU)					
Indicators	1986	1991	1995	1996	1997
Total Exports eligible for GSP					
Covered by GSP	180	616.633	1208.116	1404.054	1700.854
Received GSP	111	267.588	521.932	678.910	465.519
GSP utilisation (%)	61.66%	43.40%	43.20%	48.35%	27.37%
Agricultural Export					
Covered by GSP	63	73.163	102.475	104.341	80.277
Received GSP	37	55.866	87.772	98.199	77.178
GSP utilisation (%)	58.73%	76.36%	85.65%	94.11%	96.14%
Industrial Products					
Covered by GSP	29	52.884	95.749	117.412	122.885
Received GSP	22	42.380	85.150	93.895	89.801
GSP utilisation (%)	75.86%	80.14%	88.93%	79.97%	73.08%
Textiles and Clothing					
Covered by GSP	20	490.586	1009.892	1182.301	1497.692
Received GSP	3	169.342	349.010	486.816	298.540
GSP utilisation (%)	15%	34.52%	34.56%	41.18%	19.93%
Total export to EC	236	656.801	1259.80	1474.362	1771.641
<i>Total export of duty free products (MFN basis)</i>	NA	39.386	46.565	64.056	54.919

Source: Compiled from Various EC document

As Table 4 shows, over the recent years, *GSP utilisation rate of Bangladesh has deteriorated* significantly - from 43.2% in 1994/95 to only 27.3% in 1996/97. This has been mainly due to Bangladesh's inability to comply with the *three-stage* and *two-stage* conversion requirement of EC for the knit-RMG and the woven-RMG exports from Bangladesh respectively. The GSP utilisation rate for knit-RMG has registered considerable improvement since 1999, thanks to EC's change of rules of origin which now allows imported yarn for knit-fabrics to qualify for GSP. It should be noted that although special Rules of Origin requirement constrains Bangladesh's duty free access to EU market, the quota free entry has allowed Bangladesh to access EU markets in a big way over the past years. The facility of *quota-free access* is critically important for Bangladesh since exports from all major competitors of Bangladesh in the EU market have restricted entry because of quota. Such quotas are scheduled to be eliminated in the year 2005. The spectacular growth of Bangladesh's exports to EU will face a major challenge once this happens. Since the three stage conversion requirement is still in place for woven-RMG, the GSP utilisation rate at present is limited to only 30-35% of total exports to EU. The situation may be largely explained by low value added content of Bangladesh's woven-RMG products due to absence of backward linkages in the sector.

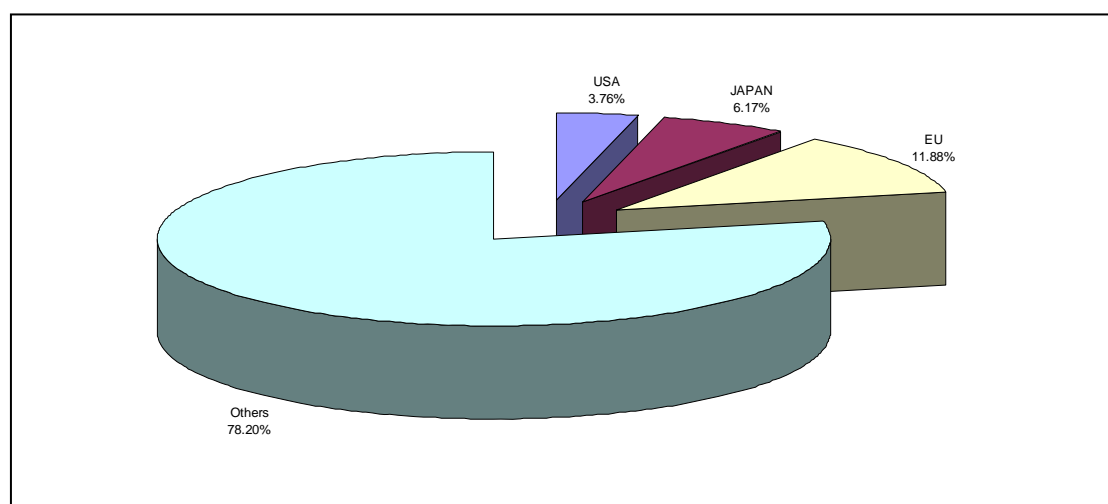
Bangladesh - EU Trade Relations: Imports

Table - 5 shows the changing features of EU imports to Bangladesh. EU is the second largest trading partner of Bangladesh as far as imports are concerned. In 1998/99, EU accounted for 9.5% of total imports by Bangladesh, second only to India (15.4%) and far ahead of both USA (3.7%) and Japan (6.1%) (Pie Chart 8).

Table - 5: Share of EU Member States in Bangladesh's Total Imports (1998/99)

Country	(Million US\$)					
	Cash	Share	Loans & Others	Share	Total	Share
USA	233.86	3.65	66.80	4.58	300.88	3.76
Japan	263.36	4.11	230.41	15.81	493.93	6.17
EU	577.69	9.01	175.80	12.06	763.62	9.54
<i>Of which</i>						
UK	151.87	2.37	48.39	3.32	201.88	2.52
Germany	125.71	1.96	33.98	2.33	159.71	1.99
France	66.61	1.04	10.42	0.71	78.46	0.98
Netherlands	63.66	0.99	37.16	2.55	100.82	1.26
Italy	59.30	0.93	0.00	0.00	59.41	0.74
Others	5333.59	83.23	984.80	67.55	6447.96	80.54
Total	6408.50	100.00	1457.80	100.00	8006.40	100.00

Source: Bangladesh Bank

Chart - 8: Structure of Bangladesh's Imports during FY 1999

It may be noted that EU countries controlled a higher share (13.1%) in Bangladesh's import in 1989/90. In terms of form of transaction in 1998/99, more than 87% of the imports from EU by Bangladesh is done through payment in cash.

As far as imports under loan component is concerned, EU's share is 12.5%, second only to Japan whose share is about 15.8%.

Amongst EU member states UK topped the list accounting for about 26.4% of Bangladesh's import in 1998/99. Shares of Germany and France were 20.8% and 10.3% respectively. Products of chemical and allied industries, machineries and transport equipments and base metals constituted major imports of Bangladesh from EU in FY 1999.

Remittance

As far as remittance earnings from EU is concerned, a sharp fall is visible over the last decade. Two of the leading EU countries from which there was a substantial flow of remittances, i.e. UK and Germany, accounted for 8.5% of Bangladesh's total receipt of remittances from migrant workers in 1989/90. By 1998/99 the combined share of UK and Germany in total remittances receipt has come down to only 3.4%.

Bangladesh, thus, maintains a surplus in the *current account* with the EU. In FY 1998 the surplus in the trade, services and income account was \$ 1408.9 million; the surplus on *trade account* treated separately, stood at \$ 1421.1 million in FY 1998.

SECTION IV: EU INVESTMENT IN BANGLADESH: THE EMERGING AREA OF COOPERATION

Net Inflow of FDI from EU

Flow of private direct investment from EU countries to Bangladesh, inspite of overall upturn, has tended to fluctuate quite considerably since mid -1990s. Table 6 provides some information on net flow of EU investment to Bangladesh (these figures, obtained from the Bangladesh Bank, should be treated as indicative since data on actual FDI flow have tended to vary quite considerably from source to source due to differences in estimation approach). Net inflow of FDI from EU peaked in 1996/97 when it reached \$217.8 million, to come to about \$100.0 million in the following year. It seems that net inflow has registered significant rise in 1999, mainly thanks to investments from UK. As a matter of fact, almost all of the incremental net FDI during the last three and half years (1997-99) was accounted for by UK, mainly due to its investments in Bangladesh's power and gas sector.

Table - 6: Net Flow of Foreign Direct Investment in Bangladesh by Source

(Million US\$)

Country	1995	1996	1997	1998	1999 (Jan-Jun)
USA	23.38	0.37	71.24	225.65	39.76
Japan	-2.24	18.07	-12.37	43.97	7.74
Korea	11.14	50.86	73.30	6.82	28.17
Malaysia	2.26	0.66	6.58	5.87	13.30
EU (15 countries)	-17.36	91.31	217.80	99.98	216.17
<i>Of Which</i>					
UK	3.96	79.65	207.54	79.54	227.42
Germany	1.42	1.67	2.81	14.03	1.41
France	-20.95	9.72	6.23	-10.21	-4.85
Netherlands	-0.57	-1.81	2.06	0.22	-0.56
Others	6.09	48.78	215.15	333.77	102.56
Total	23.28	210.04	571.71	716.06	407.70

Source: Bangladesh Bank

Many EU member states, including UK, Belgium, Denmark, France, Germany, Italy and Netherlands have signed *agreements on investment protection/promotion and avoidance of double taxation* with the Government of Bangladesh. A number of companies from these countries are at present operating in the country. Table - 7 provides information about presence of companies from EU member states in Bangladesh. A total of 106 companies is listed in the table of which about three-fourth are 100% foreign owned and one-fourth are joint venture companies. Pharmaceuticals, chemicals, electronics and services are some of the major areas of EU investment interest in Bangladesh.

Interest of EU companies in Bangladesh is also reflected by the number of such companies which have registered with the Board of Investment (BOI). As Box - 10 shows, as of December, 1999, in terms of proposed investment UK ranks second (with \$1476 million) amongst countries, according to country of origin. France occupies seventh place (with \$ 285 million of registered investment) and Germany eleventh place (with \$ 207 million registered investment). In absence of any reliable information on countrywise actual investment figures, this may provide some indication about the level and magnitude of interest of potential investors from the EU in Bangladesh.

Box - 10: Investment Proposals Registered with BOI by Origin (as of Dec'99)

Country	Rank	No of Projects	Investment Proposed
UK	2	124	\$1476 Million
France	7	14	\$285 Million
Germany	11	61	\$207 Million
Netherlands	19	23	\$67 Million
USA	1	72	\$3479 Million
Japan	4	103	\$839 Million

Source: Board of Investment

Table - 7: Presence of EU Member States' Companies in Bangladesh

Member State	Number of Companies 100% Foreign Share	Number of Joint Ventures	Number of Agents or Representations	Main Sectors of Investment
Denmark	1	1	31	- Fertilizer
France	15	3	9	- Telecom - Banking - Exploration - Power Generation - Railways - Aviation - Paper - Water - Cement - Pharmaceuticals and veterinary products - Electrical goods - Garments
Germany	15	6	87	- Electrical goods - Electronics - Chemicals - Pharmaceuticals - Machines - Leather - Garments
Italy	Data not available	Data not available	62	Data not available
Netherlands	12	11	52	- Petroleum & Gas - Consumer goods - Pharmaceuticals - Chemicals - Electrical & Electronics - Textiles - Garments - Water Sector & Dredging - Consultancy & Services - Logistics & Storage - Agriculture
Sweden	10	5	20	Data not available
UK	23	Data not available	20	Data not available
Total	80	26	281	

Source: EC Delegation, Dhaka, April, 2000

Investment in EPZ

As Table 8 shows, investment from EU countries are having a growing presence in the two EPZs of Bangladesh. The share of EU recorded an increase to 6.5% in total investments in EPZ by June 1999, from 4.6% in June 1995. Similar positive movements are also discernible in case of joint ventures as well as 100% foreign owned companies. Here again UK had the most prominent presence accounting for almost 80% of EU investment, followed by France whose share was about 5%.

Table - 8: Distribution of Cumulative FDI Flows in the EPZs by Origin 1998/99 Compared to 1994/95

Country	As in June 1995			As in June 1999		
	Share of Total FDI	Share of Joint Venture	Share of 100% Foreign Investment	Share of Total FDI	Share of Joint Venture	Share of 100% Foreign Investment
USA	9.75	40.81	7.10	5.68	26.90	4.54
15 EU	4.61	11.17	4.05	6.44	13.18	6.07
<i>Of Which</i>						
UK	0.97	1.57	0.92	4.17	1.03	4.34
France	0.22	1.39	0.12	0.47	4.53	0.25
Denmark	0.97	0.00	1.06	0.16	0.00	0.17
Others	85.63	48.01	88.85	87.88	59.92	89.39
Total	100.00	100.00	100.00	100.00	100.00	100.00
Total (Million US\$)	137.61	10.83	126.78	322.72	16.54	306.18

Source: Bangladesh Export Processing Zone Authority

Other Development Partnership

A number of projects have also been taken up in Bangladesh under the various EU schemes including the *European Community Investment Partner Scheme (ECIP)* and the *Asia Investment Programme*. A few years back, with assistance of the ECIP scheme, which is a global initiative for Asia, Latin America and Mediterranean countries, the *Dutch-Bangla Bank* was established. A number of other projects including the Beximco Belgian Joint Venture for utilising nuclear radiation for preservation, joint venture glucose fluid factory of Orion Group (with Italian company) and a joint venture unit for processing of shrimp have also been initiated. These have ranged from undertaking feasibility study to setting up of pilot projects. A few initiatives have also taken place under the *Asia Investment Scheme* which is intended to promote business linkages between EU and Asia by providing assistance in technical know-how transfer and business contact development, including a study on investment potential of EU companies in Bangladesh. However, the potential opportunities provided by the abovementioned schemes have tended to remain unexplored and underutilised due to various reasons. For example, one could recall here that some time back *Apex Footwear* applied jointly with a Spanish Company for a loan under the ECIP to start a pilot project. The failure of BSB, the competent ECIP financial institution for Bangladesh, compelled the JV company to go ahead in on their own. All successful ECIP projects in Bangladesh were processed through European financial institutions/banks.

A major development of recent period is the participation of the *European Investment Bank (EIB)* in the Consortium (with investment equaling about 30 million Euro) which is assisting the Islam Group to set up a French-Bangladesh joint venture (La Farge) cement factory in Sylhet with limestone brought in from Meghalaya via a 14 km conveyer belt. However, till now this is the only venture of its kind in Bangladesh.

SECTION V: EU- BANGLADESH RELATIONSHIP: SALIENT FEATURES OF THE NEW COOPERATION AGREEMENT

As was mentioned at the very outset, Bangladesh - EU relationship will be entering into a new era with the signing of the *New Cooperation Agreement*. This agreement which was signed on February 17, 1999 and will enter into force on May 22, 2000 will bring to an end the *EC-Bangladesh Commercial Cooperation Agreement* which has been in force since 1976.

An analysis of the provisions of the proposed Agreement shows that the new agreement takes a more comprehensive approach to the development partnership compared to the earlier one. However, it needs to be noted that the strategy which is being pursued by EU in recent years has already covered new grounds than was originally envisaged in the 1976 agreement. The proposed Cooperation Agreement broadly follows the guideline which is mentioned in EU's *Asia and Latin America (ALA) strategy*. The proposed Agreement also mentions that it took synergy from the bilateral strategies of EC member states in Bangladesh, and draws on their complementarities.

A look at the various provisions of the proposed Agreement bears it out that the document reflects EU's approach in the context of *globalisation* which emphasises *developmental issues*, a concern for *environment, human rights and security*. Such an approach is found to have been articulated by the European Commission recently in the following fashion: *The Union must increase its influence in world affairs, promote values such as peace and security, democracy and human rights, provide aid for the least developed countries, defend its social model and establish its presence on the world markets.... prevent major damage to the environment and ensure sustainable growth with an optimum use of world resources.*

The declared objectives of the new Cooperation Agreement are four-fold:

- (a) to support sustainable economic and social development of Bangladesh as a LDC with particular emphasis on interests of the poor, and the women;
- (b) to stimulate two-way trade in accordance with WTO provisions, and assist Bangladesh in diversifying its productive potentials;
- (c) to promote investment and economic, technical and cultural links; and
- (d) to pursue equilibrium between policies for sustainable economic growth, social development, and protection and conservation of the natural environment.

The agreement focuses on nine key areas of cooperation which are given in Box - 11.

Box - 11: Major Areas of Cooperation

- Development cooperation
- Trade and commercial cooperation
- Environmental cooperation
- Economic cooperation
- Regional cooperation
- Cooperation in Science and Technology
- Drug Precursor Chemicals and Money Laundering
- Human Resource Development
- Information, Culture and Communication

The matrix presented as Annex-1 highlights the major points of departure between the 1976 and the proposed *New Cooperation Agreement*. If the 1976 agreement was mainly concerned with development of trade and commercial cooperation, the new one takes a more comprehensive approach as is evidenced by the areas of cooperation mentioned in Box - 10. The Agreement puts *poverty alleviation* at the heart of EU's cooperation strategy for Bangladesh. The strategy attempts a focused approach of development cooperation with small targetted programmes aimed at development of micro and SMEs and their modernisation, with emphasis on skills enhancement and training. Environmental protection also receives prominence in the agreement with EC agreeing to provide technical assistance to put in adequate legislative measures and transfer of appropriate technology.

Of interest in the new agreement is the declaration of EU in support of *regional cooperation* through:

- (a) technical assistance in practical aspects of integration;
- (b) promotion of intra-regional trade; and
- (c) support for studies on regional and sub-regional issues including transport, communication and environment.

The issue of promoting *private investment* from EU member countries in Bangladesh is mentioned in the Agreement; however, the modalities are not concretised. It is of interest to note that Bangladesh undertakes concrete commitments to accede to the relevant international conventions on intellectual, industrial and commercial property which is to be implemented not later than January, 2006. Although it is mentioned in the Agreement that this will be done without prejudice to commitments under the TRIPs Agreement, this appears to be an important undertaking. In general, the document projects a concern for proper implementation of the various WTO provisions by Bangladesh and elimination of the remaining non-tariff barriers. The issue of freedom of association of the workers and right to organise trade unions have also been spelt out explicitly in the proposed Agreement. These provisions have important implications for Bangladesh.

A *Joint Commission*, also present under the 1976 Agreement, has been set up to monitor the implementation of the agreement. The proposed Agreement takes a broader approach to the issue of cooperation between Bangladesh and EU taking into cognisance Bangladesh's major constraints and the emerging opportunities in a globalised economy. At the same time one also gets a feeling that future cooperation and EU assistance will critically hinge on Bangladesh's *compliance* with a number of key commitments articulated in the agreement in the area of intellectual property rights, labour rights, decentralisation, privatisation, environment and governance. Factoring these issues in the cooperation strategy is also one of the new features of the proposed Agreement. However, whether these will be applied as *conditionalities* for EU development assistance is not yet clear.

The new strategy puts emphasis on *private sector* and *non-government organisations* as agencies for implementing the cooperation programmes. The role of the state appears to be perceived as a regulatory one excepting in few areas such as health and R&D. There is no clear indication in the proposed Agreement as to how the financial resources will be mobilised for implementing many of the objectives set out in the agreement. This is all the more important since a large part of which would, of necessity, have to come from private sources, either through credit or investments.

SECTION VI: BANGLADESH - EU RELATIONSHIP: THE EMERGING CONCERNS

Ensuring an effective aid-development nexus is an important and critical aspect of any cooperation agreement. Bangladesh-EU development partnership is no exception in this regard. It is to be noted that, unlike the Lomé Conventions for the ACP countries, Bangladesh-EU Cooperation Agreement does not include instruments such as the SYSMIN which were introduced to provide *short-term financial compensation* for export earning losses due to fluctuations in the global market prices (although some support in the form of STABEX, for jute and tea had been in place in Bangladesh since mid - 1980s). As is now recognised, inspite of such schemes the ACP countries have not been able to significantly improve their market access capacity in the European countries. As Phillip Lowe, Director General of EU had to admit: "Trade preferences to ACP countries have been more generous than any group of third world countries. But these preferences alone won't give the ACPs the security and predictability of a solid trading relationship on which they can build their competitiveness through access to the EU market." Not surprisingly, the new - 20 year partnership programme to replace the current Lomé IV Convention, has decided to abandon the abovementioned instruments and replace it with other new initiatives and instruments. This growing recognition within the EC to the effect that aid policies pursued in the past have, in many instances, failed to bring about the desired results has led to some major rethinking in the EC as regards its cooperation policies. This has been a global exercise which has reflected on EC's regional and bilateral development policies. As we have seen, this rethinking has also influenced the proposed Bangladesh-EU Cooperation Agreement, with new approaches and new areas of coopearation. However, important issues remain to be addressed if Bangladesh-EU relationship is to develop more effectively in the future. Here we flag only a few of those.

Utilisation of GSP

A major form of EU's assistance to Bangladesh has traditionally been the *EU GSP scheme*. The limitations of the policy of providing preferential market access to EU as they exist under the current GSP scheme has become quite evident in recent years, specially in the context of falling tariffs and subsequent erosion of the preferential margins. In the past, Bangladesh has also been severely constrained owing to the stringent Rules of Origin (RoO) requirements of the EC. As we have seen, less than one-third of exports from Bangladesh which are eligible for EU GSP can actually access the facility. Quota free entry to EU has provided Bangladesh with an important market access advantage over its competitors. The fact that quota restriction on imports of textiles to EU will be phased out by the year 2005 should be a major cause for concern for Bangladesh. This once again reemphasises the need for serious strategic rethinking about the furure of Bangladesh's export-oriented RMG sector.

In absence of *appropriate aid-trade linkage*, and *coherence between trade and investment policies*, it will continue to remain difficult for Bangladesh to fully comply with the EC rules of origin and thereby enhance the GSP utilisation coverage. A major challenge for Bangladesh - EU future relationship will be to identify areas of cooperation through which *export competitiveness* of Bangladesh's RMG sector could be raised in the run up to the post-MFA phase through promotion of backward and

forward linkage activities in this particular sector. Raising the required capital through promotion of FDI flow from EU countries and arranging credit facilitation from EIB and under ECIP schemes ought to receive urgent attention in this regard.

Technology Transfer

Technology is becoming an important factor for countries such as Bangladesh as they strive to translate their comparative advantages into competitive advantage. The EU aid policy needs to focus more on concrete measures towards technology transfer to Bangladesh through various initiatives.

Integrated Framework Initiative

As is known, under the *Integrated Framework Initiative* of the six major multilateral agencies which was designed to address supply side constraints, Bangladesh has identified 33 projects with a total investment requirement amounting to about \$300 million. These areas have been identified on the basis of Bangladesh's felt needs articulated through a participatory process and should have commanded a more proactive response from Bangladesh's development partners such as the European Union. No concrete commitment to address these identified supply side constraints is yet to come in the form of actual commitments. If we recall the case of *shrimp-turtle dispute*, or the *ban on imports of shrimp* from Bangladesh imposed by EU on the ground of non-compliance with EC health standard requirements, the need for establishing better coherence between EC's trade and aid policies becomes even more clear.

Translating EU's Global Initiatives

An important emerging area where EU-Bangladesh cooperation could play a positive role concerns global platforms and global initiatives. Recently EU Trade Commissioner Mr. Pascal Lamy has submitted the *European Initiative in Favour of the LDCs* in Geneva. This initiative calls for 100% coverage of imports from LDCs to be brought under the EU GSP schemes. As a matter of fact, the draft proposal submitted by EU at the *Seattle Ministerial* did contain a proposal for zero-tariff market access to LDCs. As has been pointed out earlier, it is not as much the coverage of the scheme as the actual ability to access the facilities which is of critical importance. Here EU's global policy ought to be tuned to address the increasing difficulties of the LDCs in accessing the preferential treatment through concrete proposals of technical assistance. The Special and Differential Status (S & D) accorded to LDCs and the opportunity to enforce trade rights through institutions such as *Dispute Settlement Body* (DSB) will eventually remain *theoretical* if the aid-trade nexus can not be strengthened through concrete and focused measures.

Promoting Regional Integration

One important strategic novelty of the new cooperation Agreement is that there is a clear commitment to strengthen the *regional integration* in South Asia. The experience of cooperation in Europe, a journey from disparate treaties to preferential treatment, to free trade area, to customs union and now to economic union, is a useful learning curve for Bangladesh. As is known, the significant intra-regional trade within the EU is underwritten by EU's ability to maximise the regional complementarities

through intra-industry trade. A major challenge as far as it concerns the medium to long term interest of Bangladesh and also her neighbours, is to attract investments from EU countries to exploit the complementarities within the South Asian region. A major issue of concern here should be to identify cross-border investment opportunities and then to encourage European firms to come forward to exploit these opportunities. We have mentioned about the EIB credit facility which is providing financial assistance to one such venture. An important area of future strategic intervention ought to be in the area of stimulating such initiatives further.

Emergence of Euro

The emergence of an European single currency, *Euro*, to be effective following operationalisation of the *European Monetary Union* in the year 2001 needs to be taken note of, from Bangladesh's vantage point, from a forward looking perspective. As is known, Bangladesh closely monitors the real exchange movement of a basket of currencies and the trade-weighted movement of these currencies play an important role in determining the exchange rate of Bangladeshi *Taka*. A majority of these currencies are those of the 11 EU member states which have entered into the Monetary Union. Once the *Euro* is in place, trade with EU members will need to be quoted and done in *Euro*. It is expected that this will have important implications for trade with our major European trading partners. Bangladeshi exporters and importers should be well prepared to deal with the new situation. On the other hand, *Euro* may also provide a welcome diversification in an otherwise dollar dominated foreign exchange regime of the country. *Euro* could also help diversify the risks in reserve management at times of wide currency fluctuations. A single currency such as *Euro* could also help servicing of debt liability by Bangladesh as far as EU members are concerned by removing the need to settle individual claims with a number of currencies.

New Elements in the Agreement

As we have seen, a major departure of the proposed cooperation agreement is that many new issues have been brought within the ambit of bilateral development relationship. These include such diverse issues as compliance with *TRIPs*, *labour rights* and *governance*. These are important issues which should command urgent attention of Bangladesh's policy makers. However, the experience of LDCs over the past years has been that such issues have often been used to support protectionist measures aimed at denying market access. This should not be the case here. It should be further noted that democracy and fundamental human rights are considered *essential elements* in the new Cooperation Agreement. This was totally absent in the 1976 Agreement. It is stipulated in the Agreement that any infringement on these by 'either' party allows suspension of cooperation. This is a very important clause and has important implications in terms of EU's future policy in Bangladesh.

Stakeholder Participation

EU's cooperation strategy has been placing an increasingly greater emphasis on private sector and NGOs. This would mean that the need for multistakeholder participation in EU policy design for Bangladesh has become a critically important factor for successful implementation of EU's development policy in Bangladesh. It is from this perspective that dialogues and discussions with participation of key stakeholder groups in Bangladesh could play a crucial role for the development of a successful Bangladesh-EU relationship in the future.

Distinguishing Features of the two Cooperation Agreements

Nature of the Agreement	Cooperation Agreement 2000				Commercial Cooperation Agreement 1976			
	Objectives	Strategic Fields	Targeted Strategies	Implementation Procedures	Objectives	Strategic Fields	Targeted Strategies	Implementation Procedures
1. Development Co-operation	Support sustainable social and economic development particularly of the poorest sections with special emphasis on women	<p>a. Poverty alleviation</p> <p>b. Gender issues</p> <p>c. Drug Control and AIDS</p>	<p>i. improvement of educational standard</p> <p>ii. skill development</p> <p>iii. improvement of living condition of the disadvantaged people</p> <p>i. stop abuse of children and women</p> <p>ii. improvement of economic situation of the women</p> <p>iii. improvement of social environment of the women</p> <p>i. prevention, monitoring and reduction of AIDS</p> <p>ii. strengthening of health facilities for the AIDS victims</p> <p>iii. rehabilitation of drug addicts</p> <p>iv. exchange of relevant information</p> <p>v. prevent drug trafficking</p>	<p>i. setting up of the educational institutions</p> <p>ii. setting up of the vocational training institute</p> <p>iii. safe guarding basic rights of the workers</p> <p>i. improvement of living condition of the disadvantaged people</p> <p>ii. undertake development projects emphasizing on women</p> <p>i. initiate information and educational activities</p> <p>ii. strengthen of treatment compatibilities</p> <p>iii. projects for re-integration of addicts into work & social environment</p> <p>iv. develop protected information exchange system</p> <p>v. prevent the diversion of drug percussion chemicals</p>	Not Present	Not Present	Not Present	Not Present
2. Trade and Commercial Co-operation	<p>i. create conditions to promote the increase and development of two-way trade in accordance with the WTO rules</p> <p>ii. assist Bangladesh in diversifying its productive potentials</p> <p>iii. monitor anti-dumping procedures</p> <p>iv. improve conditions for effective protection and enforcement of intellectual, industrial and commercial property rights</p>	<p>a. enhancement of competitiveness</p> <p>b. monitoring anti-subsidy</p> <p>c. intellectual property rights</p> <p>d. international maritime transport services</p>	<p>a.1. elimination of tariff and non-tariff barriers</p> <p>a.2. improve co-operation in customs matter</p> <p>b.1. elimination of tariff and non-tariff barriers</p> <p>c.1. implementation of TRIPs</p> <p>d.1. consider transit/ re-export matters</p>	<p>a.1. share information on Anti-dumping and Anti-subsidy</p> <p>a.2. harmonization of custom procedures</p> <p>b.1. monitoring Anti-dumping</p> <p>c.1. active participation in various international conventions</p> <p>c.2. ensure suitable protection of personal data</p> <p>c.3. provide technical assistance</p> <p>d.1. improve exchange of information</p> <p>d.2. provide access to respective public procurement markets on the basis of reciprocity</p> <p>d.3. ensure unrestricted access to the international maritime market and traffic on a commercial basis</p>	Improving the balance and raising the volume of mutual trade to a higher level	a. trade liberalization	<p>a. provide maximum facilities compatible with policies and obligations for</p> <p>b. promote development & diversification of mutual interest products of interest</p>	<p>a. grant each other most-favoured – nation (MFN) treatment</p> <p>b. take appropriate steps to improve export opportunities</p>

Nature of the Agreement	Cooperation Agreement 2000				Commercial Cooperation Agreement 1976			
	Objectives	Strategic Fields	Targeted Strategies	Implementation Procedures	Objectives	Strategic Fields	Targeted Strategies	Implementation Procedures
3. Environmental Co-operation	i. pursue equilibrium between policies for sustainable growth and social development ii. protect and conserve the natural environment	a.I. reduction of environmental risk	a.I. develop an effective environment policy and mobilise resources to implement it a.II. development of sustainable and non polluting energy sources a.III. solution to urban and industrial pollution problems a.IV. establishment of international voice against pollution	a.I.1. protection against natural disaster and soil erosion a.I.2. training, capacity building and transfer of appropriate environmental technology a.II. avoid environment damaging activities a.III. environmental impact assessment a.IV. achievement of the objectives of multilateral environmental agreement	Not Present	Not Present	Not Present	Not Present
4. Economic Co-operation	promote investment economic, technical and cultural links of mutual interest	a. competitive economic environment b. promote commercial exchanges and investments c. develop small and medium size enterprises (SMEs) d. improve business environment e. energy policy and transfer of appropriate know-how f. private investment	a.1. facilitating the transfer of technology b.1. design better commercial policy c.1. facilitate exchange of information regarding the SMEs d.1. strengthen management training e.1. design better f.1. establish more favourable climate for private investment	a.1. transfer of technology in the fields of design, packaging, standard such as consumer and environmental standard b.1. facilitate contract between economic indicators c.1. improve business and investment environment for the SMEs to get them together d.1. interact effectively with European business environment e.1. promote dialogue between Bangladesh & EC f.1. create condition for transfer, protection of private investment between EC & Bangladesh	develop commercial exchange to facilitate mutual benefit in economic and social progress	linking trade with economic co-operation	develop economic co-operation linking with trade in the fields if mutual interest	promote contracts and co-operation between economic organisations
5. Regional co-operation		a. technical assistance b. intra regional trade c. support for regional institution d. studies of regional issues	a.1. training and consultation b.1 promote intra regional trade c.1. support regional institutions such as SAARC d.1. support studies on regional/sub regional issues	a.1.1. acquire service from outside experts a.1.2. training of the technical staff b.1. promote intra regional trading trade agreement c.1. support inter-regional joint projects and initiatives d.1. support studies on intra regional issues such as transport, environment	Not Present	Not Present	Not Present	Not Present

CPD Occasional Paper Series 5

Nature of the Agreement	Cooperation Agreement 2000				Commercial Cooperation Agreement 1976			
	Objectives	Strategic Fields	Targeted Strategies	Implementation Procedures	Objectives	Strategic Fields	Targeted Strategies	Implementation Procedures
6. Co-operation in Science and Technology	promote scientific and technological co-operation in areas of common interest	a. science b. technology	a. co-operation on standards and quality control b. co-operation telecommunication, information society and multimedia applications	a.1. putting in place adequate regulations and policies for telecommunication b.1. promotion of global navigational satellite systems c.1. multi-media technology for telecommunications d.1. telemetric networks and applications	Not Present	Not Present	Not Present	Not Present
7. Other Strategic Agreements a. Joint Commission	I.a. ensure proper functioning and implementation of the agreement I.b. set priorities I.c. make recommendations I.d. ensure proper functioning of any sectoral agreements	II. joint commission composed of representatives from both sides	II. co-ordinate the formulation and implementation of programme and project in the frame work of the agreement	II setup specialised sub-groups to assist the performance of the commission	a.1. study and device ways to promote trade liberalisation a.2. recommend adoption of policies to stimulate trade and development cooperation	a.1. trade liberalisation a.2. economic co-operation	a.1. device ways to overcome trade barriers a.2. rectify imbalances to maintain complementarity between commercial & economic relation	a.1. facilitate exchange of information a.2. take resources to develop market intelligence, export services and executive performance
b. Consultation	I.a. proper implementation of the agreement through mutual co-operation	II. international, economic and commercial issues related to the agreement	II. consultation II. dialogue II. meetings	II organise meetings and dialogues between the responsible authority	Not Present	Not Present	Not Present	Not Present
c. Evolutive clause	I.a. expand the agreement and mutual co-operation to specific sectors and sub-sectors	II any sector explicitly not covered within the agreement	II. agreement on specific sectors or subsection	II. make suggestions for widening the scope of the agreement based on previous experience	I.a. expand the agreement on mutual co-operation to specific sectors and sub-sectors	II any sector explicitly not covered within the agreement	II. agreements on specific sectors or subsection	II. identify ways and means for widening the scope of the agreement based on previous experience
d. other agreement	strengthen bilateral agreement between Bangladesh and member states	any issue within the development and co-operation agreement	Facilitate member countries' power to engage in individual co-operation with Bangladesh	allow provisions for bilateral co-operation agreement	Not Present	Not Present	Not Present	Not Present
e. Non-Execution of the Agreement	provide for modification or execution of the agreement	co-operation agreement	both the parties have the power to rescind the agreement	I. notification about difficulties II. consultation to seek remedies	Not Present	Not Present	Not Present	Not Present

BIBLIOGRAPHY

- ISAB (2000), "*Integration and Cooperation: The European Union and Bangladesh*", prepared for the Seminar organised by the International Studies Association Bangladesh (ISAB), the Delegation of the European Commission in Bangladesh and the Dhaka Chamber of Commerce and Industry (DCCI), 3rd June 1999, ISAB.
- European Commission (1999), "*Europe's Agenda 2000: Strengthening and Widening the European Union*" Office For The Publication of the European Commission, Luxembourg.
- European commission (1992), "*Council regulation (EEC) NO 443/92 of 25 February 1992 on Financial and technical assistance to, and economic cooperation with, the developing countries in Asia and Latin America*", volume 35, 27th February, 1992.
- European Commission (1999), "*The EU Approach to the WTO Millennium Round*".
- European Commission (2000), "*The European Community's Development Policy*", Office for the Publication of the European Communities, Brussels.
- European Commission (1999), "*The EC and Bangladesh cooperation Strategy 1999-2001*" Office For The Publication Of The European Commission, Luxembourg.
- European Commission (1999), "*Cooperation Agreement Between The European Community and the Peoples' Republic of Bangladesh*" Draft, European Commission, Luxembourg.
- European Commission (2000), "*An Outlook on European Union-Bangladesh Relations*", European Communities.
- Cox Aiden and Koning Antonique (1997), "*Understanding European Community Aid: Aid Policies, Management and Distribution Explained*", European Commission.
- European Commission (1998), "*Consolidated Version of the GSP Regulation*", Council Regulation (EC) No 2820/98 European Commission, Luxembourg.
- UNCTAD (1999), "*Quantifying The Benefits Obtained By Developing Countries From The Generalised System of Preferences*", Note by the UNCTAD Secretariat, Unedited Text, UNCTAD/ITCD/TSB/Misc.52, 7th October, 1999.
- European Commission (1999), "*European Union: Millenium Round*", 3rd WTO Ministerial Conference, Seattle, European Commission.
- European Commission (1999), "*Alleviating Poverty: Twenty Years of European Community Support to Asia*", European Commission.
- Sobhan, Rehman (1997), "*Rethinking Technical Assistance*".
- Common Report (1999), "*European Foreign Direct Investment*", The Heads of Mission of the European Community and the Delegation of the European Commission in Bangladesh.
- European Commission (1994), "*Towards A New Asia Strategy*".
- European Commission (1993), "*The Communities' Generalised Scheme of Preferences(GSP)*", European Commission.
- Centre For Policy Dialogue (1997), "*Crisis in Governance: A Review of Bangladesh's Development*", University Press Limited.
- Centre For Policy Dialogue (1996), "*Growth or Stagnation?: A Review of Bangladesh's Development*", University Press Limited.
- European Community Humanitarian Office (1999), "*Asia et Oce'anie Bangladesh*" European Commission, Brussels.
- European Union Website: www.Europa.eu.int/comm
- European Commission (1998), "*External Relations: The European Community and Bangladesh*", European Commission, Brussels.
- European Commission (1976), "*Council Regulation on the Conclusion of the Commercial Cooperation Agreement between the European Economic Community and the Peoples Republic of Bangladesh*", Council Regulation (EEC) No 2785/76, European Commissions, Brussels.
- Randel Judith, German Tony and Ewing Deborah (1998), "*The Reality of Aid 1998/99: An Independent Review of Poverty Reduction and Development Assistance*", Earth Scan Publication Ltd., London.

