Chapter Five

ASEAN AND SAARC APPROACHES TO NON-MILITARY ISSUES:
ECONOMIC DIMENSION OF REGIONAL SECURITY

...The aims and purposes of the Association shall be to accelerate the economic growth, social progress and cultural development in the region through joint endeavour in the spirit of equality and partnership in order to strengthen the foundation for a prosperous and peaceful community of South-East Asian Nations...

ASEAN Bangkok Declaration, 1967

...the objective of the Association shall be, ...to accelerate economic growth, social progress and cultural development in the region and to provide all individuals the opportunity to live in dignity and to realise their full potentials...

SAARC Charter, 1985

We have already discussed the case of non-military regional security issues coming to the fore specially in the post Cold War period. Today, there is an ongoing need to study regional security not only from the viewpoint of military security but non-military (economic, environment, transnational organised crime) issues also.

In the next two chapters we will concentrate on the role of ASEAN and SAARC in dealing with non-military regional security issues in South East Asian and South Asian regions respectively. This chapter focuses on regional economic security in the two regions. However, as has already been highlighted in the preceding chapters non-military security issues are not mutually exclusive. They are interdependent in one way or the other. As this is a comparative study between ASEAN and SAARC, we have analysed the two associations in interpolation. Both ASEAN and SAARC members realised the potential of regional associations in enhancing the regional
economic-human security in their respective regions. In fact the SAARC Charter further says that member states are "...convinced further that economic, social and technical cooperation among the countries of South Asia would contribute significantly to national and collective self-reliance...".¹ See Tables 5.1 and 5.2 for Human Development Statistics in the ASEAN and SAARC regions.

In practice SAARC has adopted the 'functional approach' to cooperation. (The approaches to regional cooperation have already been discussed in the second chapter). To begin with the areas chosen for cooperation are those where political concerns are least involved. Though economic growth and collective self-reliance were mentioned as aims and objectives in the Charter, in practice cooperation in the economic field was taken up much later by the member states.

ASEAN was a step ahead of SAARC at its inception itself as member states not only decided to cooperate in economic matters but also decided the issues in the field to be dealt with. ASEAN members decided to cooperate for "...greater utilization of their agriculture and industries, the expansion of their trade, including the study of the problems of international community trade, the improvement of their transportation and communication facilities."²

In operational terms however the first decade of both the associations show striking resemblance in economic cooperation. Till the 1976 Bali Summit, ASEAN

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¹ SAARC, SAARC Charter of South Asian Association for Regional Cooperation, Kathmandu, SAARC Secretariat, 1985.
² ASEAN, Bangkok Declaration, 1967, Jakarta, ASEAN Secretariat
### Table 5.1
Human Development Statistics in the ASEAN Region

<table>
<thead>
<tr>
<th>Countries</th>
<th>Total population (millions)</th>
<th>Annual population growth rate (%)</th>
<th>Life expectancy at birth (years)</th>
<th>Adult literacy rate (% age 15 and above)</th>
<th>GDP PPP US$ billions</th>
<th>GDP per capita PPP US$</th>
<th>GDP per capita annual growth rate %</th>
<th>Population below poverty line</th>
<th>PPP gross National income (GNI)</th>
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</thead>
<tbody>
<tr>
<td>Brunei Darussalam</td>
<td>0.2</td>
<td>0.3</td>
<td>2.9</td>
<td>75.7</td>
<td>91.0</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Cambodia</td>
<td>7.1</td>
<td>12.8</td>
<td>2.4</td>
<td>56.4</td>
<td>68.2</td>
<td>16.0</td>
<td>1,361</td>
<td>1.9</td>
<td>36.1</td>
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<td>Indonesia</td>
<td>134.6</td>
<td>209.3</td>
<td>1.8</td>
<td>65.8</td>
<td>86.3</td>
<td>591.5</td>
<td>3,857</td>
<td>3.0</td>
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<td>Lao, Peoples Democratic Republic</td>
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<td>5.2</td>
<td>2.2</td>
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<td>7.5</td>
<td>1,471</td>
<td>3.8</td>
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<td>Malaysia</td>
<td>12.3</td>
<td>21.8</td>
<td>2.4</td>
<td>72.2</td>
<td>81.0</td>
<td>186.4</td>
<td>8,209</td>
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<tr>
<td>Myanmar</td>
<td>30.2</td>
<td>47.1</td>
<td>1.9</td>
<td>56.0</td>
<td>84.4</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>379</td>
</tr>
<tr>
<td>The Philippines</td>
<td>42.0</td>
<td>74.2</td>
<td>2.4</td>
<td>69.0</td>
<td>95.1</td>
<td>282.6</td>
<td>3,805</td>
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<td>77.4</td>
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<td>Vietnam</td>
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<td>144.21</td>
<td>1,860</td>
<td>6.2</td>
<td>50.9</td>
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### Table 5.2

**Human Development Statistics in the SAARC Region**

<table>
<thead>
<tr>
<th>Countries</th>
<th>Total population (millions)</th>
<th>Annual population growth at rate (%)</th>
<th>Life expectancy at birth (years)</th>
<th>Adult literacy Rate (% age 15 and above)</th>
<th>GDP PPP US$ billions</th>
<th>GDP per capita PPP US$</th>
<th>GDP per capita annual growth rate %</th>
<th>Population below poverty line ($/day) (1993 PPP US$)</th>
<th>National Poverty line (% of population)</th>
<th>PPP Gross National Income (Billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>75.6</td>
<td>134.6</td>
<td>2.4</td>
<td>58.9</td>
<td>40.8</td>
<td>189.4</td>
<td>1483</td>
<td>3.1</td>
<td>29.1</td>
<td>35.6</td>
</tr>
<tr>
<td>Bhutan</td>
<td>1.2</td>
<td>2.0</td>
<td>2.3</td>
<td>61.5</td>
<td>-</td>
<td>1.0</td>
<td>1341</td>
<td>3.4</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>India</td>
<td>620.7</td>
<td>992.7</td>
<td>2.0</td>
<td>62.9</td>
<td>56.5</td>
<td>2242.0</td>
<td>2248</td>
<td>4.1</td>
<td>44.2</td>
<td>35.0</td>
</tr>
<tr>
<td>Maldives</td>
<td>0.1</td>
<td>0.3</td>
<td>3.0</td>
<td>66.1</td>
<td>96.2</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Nepal</td>
<td>13.1</td>
<td>22.5</td>
<td>2.2</td>
<td>58.1</td>
<td>40.4</td>
<td>28.9</td>
<td>1237</td>
<td>2.3</td>
<td>37.7</td>
<td>42.0</td>
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<td>Pakistan</td>
<td>70.3</td>
<td>137.6</td>
<td>2.8</td>
<td>59.6</td>
<td>45.0</td>
<td>247.3</td>
<td>1834</td>
<td>1.3</td>
<td>31.0</td>
<td>34.0</td>
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<tr>
<td>Sri Lanka</td>
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<td>18.7</td>
<td>1.4</td>
<td>71.9</td>
<td>91.4</td>
<td>62.2</td>
<td>3279</td>
<td>4.0</td>
<td>6.6</td>
<td>25.0</td>
</tr>
</tbody>
</table>

did not collaborate much in the economic sphere. Similarly, SAARC too did not move much in the direction of regional economic security till the adoption of South Asian Preferential Trading Arrangement (SAPTA) in 1993. This is not to say that they have done absolutely nothing during the initial years. Small steps were taken by these associations towards economic cooperation during the initial years.

The initial proposal by the Government of Bangladesh for regional cooperation in South Asia identified several economic issues for cooperation,

The countries of this region enjoy a significant share of the world market for a number of commodities, such as tea, jute and cotton. Most of these countries have separately undertaken marketing and promotional efforts for these commodities. It is well recognised that joint initiatives can reduce promotional cost and have greater impact in the export markets. Moreover this will also enable the countries of South Asia, particularly the less developed among them to take full advantage of the liberal measures available under the Generalised System of Preferences (GSP) in the markets of the developed countries. In the face of growing competition from substitutes as well as uncertainties due to price fluctuation, such joint initiatives will provide additional guarantee for further expansion of markets at remunerative prices.  

However, these did not find a place in the final SAARC Charter. But as said earlier, SAARC did deliberate on economic issues in its annual meetings even during the initial years. The very first Summit meeting of the SAARC produced the Dhaka Declaration which highlighted that at the global level,

Sharply falling commodity prices, deterioration in the terms of trade, intensification of protectionist measures, spiralling debt burden and decline in the flow of external resources, especially concessional assistance, had caused a serious setback to the economic

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development of the developing countries. Determined efforts should be made by the international community towards realization of the goals and targets of the International Development Strategy as well as the substantial New Programme of Action for the Least Developed countries. They called for urgent resumption of the North-South dialogue and early convening of an International Conference on Money and Finance for Development with universal participation.4

During the Third Summit Conference held in Kathmandu in 1987, collective self-reliance was reasserted as the fundamental principle in development. Bangladesh also tabled a motion to attract foreign financial resources and enter into cooperation with international and regional financial institutions for development. However members could not reach on an agreement on this issue. It was argued that this would have political implications.

ASEAN in the second standing committee meeting held in 1968 decided to review the entire cooperation project of ASA for implementation. The implemented projects were not very successful. It seems some facts were not taken into consideration like ASEAN consisting of thrice the population than that of ASA and included economies as diverse as that of Indonesia and Singapore.

Singapore's geographical location, lack of natural resources forced her to actively seek foreign investment. Although like Indonesia, Singapore too was concerned about influence of external economic forces, yet it was also confident of its own ability to deal with them.5 In 1968, 50 per cent of Singapore's GDP came from industrial activities and trade; in the Indonesian case it was only about 30 per cent.

4 SAARC. Dhaka Declaration, 8 December 1985, Kathmandu, SAARC Secretariat
5 Amfinn Jorgensen-Dahl, Regional Organization and Order in South Asia (Basingstoke: Macmillan, 1982)
Indonesia preferred import substitution as part of its economic development, whereas Singapore went in for export oriented industrial development. This trend has led to tension within ASEAN with Singapore being the most industrialised state and Indonesia being the least. These different economic developments of member states led to slow growth of economic cooperation in ASEAN. These were further complicated by the political differences and conflicts which are analysed in the chapter on political - military security.

In 1968, at a meeting on commerce and industry the Philippines suggested formation of a free trade area and even a common market, which was opposed by other members. The meeting was already charged with emotion due to the ongoing dispute over Sabah between Malaysia and the Philippines. This dispute held up all the ASEAN meetings for almost a year.

Another important reason why few complementarities exist among ASEAN economies is the fact that except Thailand all ASEAN states are former colonies whose economies were fashioned in such a way as to meet the requirements of the colonial power till independence. These economic relationships continued even after independence even though the newly independent states tried to diversify their economic relations. The same is the case with SAARC members. The economic pattern developed during the British colonial period persisted even after independence with South Asian states supplying raw material and agricultural products and depending on the developed states for machinery and industrial products. This led to little complementarity among South Asian economies with the result that they are competing in the world market in jute, cotton products and tea. Thus,
Conscious effort are needed to develop the economic complementarities by re-orienting the economy of the region towards each other...Regional cooperation can help expand intra-regional trade by expansion in the size of market, reduction in transport cost, promotion of products and diverting trade from metropolitan centres to the countries of the region.6

ASEAN too like SAARC faced criticism for being a slow mover at least in the initial years. But, "The level of interaction between the ASEAN states prior to 1967 was very low except between Malaysia and Singapore, and contacts and relations with former colonial powers and other developed countries were far more advanced. The formation of ASEAN was in one sense, therefore, like a great leap forward...." The same is the case with the SAARC. In fact both ASEAN and SAARC served as a vehicle where respective members learned to negotiate and cooperate. However small it might be, at least a new beginning was made, a step in that direction was taken. Gradually, in ASEAN, "Changes in attitude are expressed in a greater willingness than before to search for mutually advantageous solutions."8

In 1968 ASEAN Foreign Ministers meeting accepted an offer from ECAFE to conduct a survey of the potential for economic cooperation within the ASEAN region. The UN team submitted its report in 1972. It dealt in detail with issues like balanced distribution of benefits among ASEAN states. It further suggested selective and limited trade liberalisation, industrial complementarity agreement and 'package deal' arrangements in the form of joint industrial projects. Though the report was discussed in various ASEAN committees yet progress was slow. In 1973, ASEAN started

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7 op. cit. No. 5, p. 143
8 Ibid.
working on UN report with the meetings of planning agencies, working groups on ASEAN trade statistics and trade liberalisation.

This shows, "Because the ASEAN leaders wanted ASEAN to be taken more seriously, they seemed to be taking it more seriously themselves." Economic crisis created by the 1973 oil shock seem to have reinforced the view that economic cooperation offered greater chances of increasing the countries political influence.

By 1972 ASEAN had permanent committees on Food and Agriculture, Shipping, Civil Air Transportation, Communication, Finance, Commerce and Industry, Transport and Telecommunication, Tourism, Science and Technology, Socio-Cultural Activities and Mass Media. However, "Ministers responsible for economic affairs were rarely directly involved in ASEAN discussions, nor did they have any mandate to deal directly with each other. They therefore, know little about or had little interest in the efforts to promote economic cooperation, the impetus for which was coming from the foreign ministries. Economic cooperation was treated as foreign relations and not as a question of internal affairs within an economic framework."  

The unexpectedly swift communist countries in Indochina in 1975 proved to be a turning point for ASEAN. In his opening address to the eight ASEAN Ministerial Meeting Malaysian Prime Minister Tun Abdul Razak stressed that the growing habit of consultation and cooperation among member states had become an increasingly important source of strength in laying the foundation for ASEAN to face the testing

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times ahead. In order to make the first ever ASEAN Summit of Heads of Government or State a success, a number of preparatory meetings were held throughout the second half of 1975 and early 1976. For the first time economic ministers of ASEAN states became directly involved with the work of the association.

However, this is not to say that differences did not exist among the ASEAN members regarding economic cooperation. Singapore was engaged in campaigning for ASEAN Free Trade Zone as a major agenda item for the Summit. The Philippines along with Thailand was also campaigning for the same, but Indonesia was not keen to have a free trade zone in South East Asia, fearing it would be disadvantageous to its economy. Ronald D. Palmer and Thomas J. Reckford argue that "The Indonesians who were inhibited by fear of Singaporean industrial dynamism and anxieties about the effects of Singaporean competition on Indonesian industry, insisted that a more modest step by step approach to regional cooperation be taken." 12

First Summit meeting of ASEAN Heads of States was held in Bali in February 1976. The agenda was "resolutely regionalist, heavily economic and inward looking." 13 We have already discussed the Treaty of Amity and Cooperation and the ASEAN Concord signed at this meeting in the last chapter. (Treaty of Amity and Cooperation will be further examined in the chapter on political - military security). Economic aspect of the ASEAN Concord will be dealt with in this Chapter. One of the high points of Concord was stipulation of regular meetings of ASEAN economic ministers.

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11 Quoted in op. cit. No. 9, p. 45
12 op. cit. No. 9, p. 46.
13 op. cit. No.9, p. 48.
In the economic sphere ASEAN Concord calls for the adoption of the following programme of action for cooperation:

1. **Cooperation in basic commodities, particularly food and energy**

   - Member states shall assist each other by according priority to the supply of the individual country’s needs in critical circumstances. and priority to the acquisition of export from member states, in respect of basic commodities, particularly food and energy.
   
   - Member states shall also intensify cooperation in the production of basic commodities particularly food and energy in the individual member states of the region.

2. **Industrial cooperation**

   - Member states shall cooperate to establish large scale ASEAN industrial plants, particularly to meet regional requirements of essential commodities.
   
   - Priority shall be given to projects which utilize the available materials in the members states, contribute to the increase of food production, increase foreign exchange earnings or save foreign exchange and create employment.

3. **Cooperation in trade**

   - Member states shall cooperate in the fields of trade in order to promote development and growth of new production and trade and to improve the trade structure of individual states and among countries of ASEAN conducive to further development and to safeguard and increase their foreign exchange earnings and reserves.
• Member states shall progress towards the establishment of preferential trading arrangements as a long term objective on a basis deemed to be, at any particular time, appropriate through rounds of negotiations subject to the unanimous agreement of member states.

• The expansion of trade among member states shall be facilitated through cooperation on basic commodities, particularly in food and energy and through cooperation in ASEAN industrial projects.

• Members states shall accelerate joint efforts to improve access to markets outside ASEAN for their raw materials and finished products by seeking the elimination of all trade barriers in those markets, developing new usage for these products and in adopting common approaches and actions dealing with regional groupings and individual economic powers.

• Such efforts shall also lead to cooperation in the field of technology and production methods in order to increase the production and to improve the quality of export products, as well as to develop new export products with a view to diversifying exports.

4. Joint approach to international commodity problems and other World Economic Problems: Member states to give priority to the stabilisation and increase of export earnings of those commodities produced and exported by them through commodity agreements including bufferstock schemes and other means.

5. Machinery for Economic cooperation. Ministerial meetings on economic matters shall be held regularly or as deemed necessary in order to:
- Formulate recommendations for the consideration of governments of member states for the strengthening of ASEAN economic cooperation.

- Review the coordination and implementation of agreed ASEAN programmes and projects on economic cooperation.

- Exchange views and consult on national development plans and policies as a step towards harmonizing regional development.14

**ASEAN Industrial Projects (AIP)**

In their March 1976 meeting the economic ministers set up an expert group to study feasibility of establishing large scale industrial plants under the aegis of ASEAN. There projects include: urea production in Indonesia and Malaysia, phosphate in the Philippines, diesel engines in Singapore and soda ash in Thailand. They further asked the expert group to investigate the technical and economic feasibility of establishing additional manufacturing capacity... to supply newsprint and potash; consult with one another on national programmes for development of integrated steel and basic petrochemical industries with a view to coordinating these programmes... and exchange information on various sectors of national economic development ...with a view to identifying possibilities for implementation among existing industries.15

Economic ministers also decided that the experts will make preliminary investigations into projects on metal working machine tools, fisheries, tinplating, heavy-duty tyres and electronic components. Economic Ministers meeting in January

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1977 noted that only one study that of the urea plant in Indonesia had been completed. Subsequent meetings too noted tardy progress.

The ASEAN Industrial projects are large plants calling for investments of US $ 300 million. The host country subscribes to 60 per cent of the equity and the remaining 40 per cent is distributed among the other four countries. ASEAN Industrial Projects scheme was not very successful. According to Antonia Hussey it was overly ambitious.\textsuperscript{16} Even after agreement had been reached implementation of project faced many problems. Inadequate financial and technical support was one reason. Japan committed one million dollars, but other loans were not forthcoming. Of the five original projects only the urea projects were implemented. Other reasons includes reluctance of some ASEAN states to work on their allotted projects and low participation of the private sector.

**ASEAN Industrial Complementation (AIC)**

The other scheme, ASEAN Industrial Complementation concentrated on already established small industries in the private sector. Its main task was to facilitate and promote intra-industrial linkage and trade. But like AIP this scheme too failed mainly due to the cumbersome selection and approval process.

**ASEAN Industrial Joint Ventures (AIJV)**

In 1981 ASEAN Industrial Joint Ventures was launched. It called for participation of at least two member states. Private sector actively participated in this scheme. It encouraged the setting up of industrial joint ventures through pooling of

\textsuperscript{16} Ibid.
capital and technological resources. Transnational corporations were also expected to participate in this scheme.

**ASEAN Preferential Trading Arrangement and SAARC Preferential Trading Agreement**

Agreement on ASEAN Preferential Trading Arrangements was signed in Manila in February 1977. In Article 3 of the agreement a number of instruments of preferential trading were listed. These include long-term quantity contracts, purchase financial support at preferential interest rates, extension of tariff preferences and the liberalisation of non-tariff barriers on a preferential basis. Article 4 mentions initial products for preferential trade - rice and oil as well as products of ASEAN industrial projects.

Singapore and the Philippines favoured an across the board reduction in tariffs. Here too differences came to the fore with Indonesia, opposing the idea. Finally an item-by-item approach was adopted. In the next meeting of economic ministers held shortly thereafter, an Indonesian proposal that each member should offer fifty items for preferential trading and quarterly meetings of the Committee on Trade & Tourism (COTT) was accepted. In the first round 71 products were agreed upon for exchange of preferences. Total number of products reached 2327 by 1979.

So starting initially with the voluntary offers from the members, PTA graduated to an across-the-board approach whereby automatic preferences were given on certain levels of import values. The ceiling values for import receiving preferences were raised from $50,000 to $10 million. However, PTA was not very successful as products included were not trade among ASEAN states.
SAARC "Regional study on Trade, Manufacture and Services" was completed in 1991. It recommended number of ways for promoting regional cooperation in the 'core' economic areas. The study was endorsed by the Council of Ministers at their ninth session in Male in July 1991 and they set up a high level committee on economic cooperation, comprising Commerce Secretaries of SAARC states.

Subsequently, the sixth Summit held in Colombo in December 1991 approved the establishment of an Inter-Governmental Group (IGG) to seek agreement on an institutional framework to pursue trade liberalisation in South Asia. The IGG evolved a draft agreement (SAPTA). The SAARC Council of Ministers signed this document in 1993. With all the member countries having ratified the agreement, it came into force in 1995 - which marks the end of the first decade of SAARC's existence.

This also marked the beginning of SAARC cooperation in the "core" area. We have already discussed different stages of economic cooperation (in the second chapter): preferential trading assignment, free trade area, customs union and economic union. SAPTA is the first stage in this sequence. Several factors contributed to the formation of SAPTA. The end of the Cold War and the advent of democracy in Nepal, Bangladesh and Pakistan brought a new political class which was more open to cooperation. Moreover, by that time SAARC states had already embarked on a programme of economic liberalisation. At the international level, proliferation of regional economic arrangements all over the world also acted as a catalyst.

Preamble of the Agreement on SAPTA highlights that the member states realize that "... the expansion of trade could act as a powerful stimulus to the development of their national economies, by expanding investment and production,
thus providing greater opportunities of employment and help securing higher living standards for their population". It further says, "... convinced of the need to establish and promote regional preferential trading arrangements for strengthening intra-regional economic cooperation and the development of national economies... Bearing in mind the urgent need to promote the intra-regional trade which presently constitutes negligible share in the total volume of the South Asian trade, ... liberalisation of trade in the region through a step by step approach in such a manner that countries in the region share the benefits of trade expansion equitably ... recognising that a preferential trading arrangement is the first step towards higher levels of trade and economic cooperation in the region..." 17

Article 3 enlists the principles on which the agreement is based: "(a) SAPTA shall be based and applied on the principles of overall reciprocity and mutuality of advantages in such a way as to benefit equitably all contracting states, taking into account their respective levels of economic and industrial development, the pattern of their external trade, trade and tariff policies and systems; (b) SAPTA shall be negotiated step by step, improved and extended in successive stage with periodic reviews; (c) the special needs of the Least Developed Contracting states shall be clearly recognised and concrete preferential measures in their favour should be agreed upon; (d) SAPTA shall include all products, manufactures and commodities in their raw, semi-processed and processed forms." 18

Article 4 mentions that arrangement should cover tariffs, para-tariffs, non-tariff measures and direct trade measures. Article 5 discusses the ways of negotiations.

17 SAARC, Agreement on SAARC Preferential Trading Arrangement (SAPTA), Dhaka, 11 April 1993, Kathmandu, SAARC Secretariat
18 Ibid.
"(1) The contracting states may conduct their negotiations for trade liberalisation in accordance with any or a combination of the following approaches and procedures: (a) product by product basis; (b) Sectoral basis; (c) Direct trade measures. (2) contracting states agreed to negotiate tariff preferences initially on a product-by-product basis."¹⁹

During the first round of negotiations a total of 226 products were offered by the member states. Nearly 50 per cent of the products (106) were offered by India. This shows the modest nature of concessions exchanged during the first round. Total value of regional trade liberalised during the first round was no more than 72.5 million dollars, equivalent to no more than 6 per cent of intra-regional trade in 1993.²⁰

Most of the areas in which countries have offered duty reductions, are either not at all traded among the member states or show limited trading. In 1993-94, India imported only 22 of the 106 items offered for concessions. Pakistan imported only 13 of the 35 products it offered. Bangladesh pointed out that it had exports to the SAARC region in the year 1993-94 and 1994-95 in only 18 of the 214 items on which other members have offered concessional tariff rate.

For the second round of trade preferences IGG met four times to finalise the National Schedule of Concessions (NSC). In this round, concessions have been granted by specifically identifying the country to which it has been granted. The schedule shows whether the item carries any NTB and if it does, the concessions

¹⁹ Ibid.
granted in that respect. Second round led to a wider exchange of concessions. 2,013 products were conceded concessions. However in practical terms their round too led to a modest trade coverage. Members seemed to be more concerned with the product coverage matter than trade coverage which is vital for trade liberalisation.\textsuperscript{21}

In this round India offered concessions on 911 tariff lines and received concessions on 474 tariff lines. Maximum number of concessions were in favour of Bangladesh 513, followed by Pakistan, 375 products. During this round NTBs were addressed regarding 172 products only. These were in favour of LDCs only. Now the coverage has been expanded to include 2000 of 2600 items on which India currently imposes non-tariff measures.

The Council of Ministers at its nineteenth session at Male in 1997 directed the IGG to conduct third round of negotiations on sectoral and across the board basis. It urged the removal of NTBs. Third round of negotiations were concluded in November 1998. Negotiations for SAPTA fourth round were initiated in 1999. However due to Pakistan's misadventure in Kargil the eleventh SAARC summit stood postponed indefinitely. (It was held in January 2002 in Kathmandu).

High tariffs within the SAARC region encourage informal trade across borders. Moreover the low performance of intra-SAARC trade is not only due to higher tariffs, but also due to NTB specially in the form of quantitative restrictions (QRs). On 1 August, 1998, India unilaterally removed QRs (on 2000 items) on imports from SAARC countries subject to the condition that they comply with the

\textsuperscript{21} Ibid.
rules of origin principles. It has been estimated that Sri Lanka would be the largest beneficiary of this move. The removal of quantitative restrictions is particularly significant for informal trade between India and Sri Lanka. India imports a large volume of agricultural commodities from Sri Lanka. Informal trade is likely to shift to formal channel due to the removal of NTBs. At the 1986 ASEAN Manila Economic Ministers Meeting the Philippines proposed phased reduction of intra-ASEAN tariffs and an external common tariff or in other words a customs union. Indonesia rejected it as it did not want any deadlines. Singapore too was not keen on customs union as it did not want to raise its external tariffs. Low level of intra-ASEAN trade at around 20 per cent and heavy reliance on external market makes customs union an unattractive proposition for ASEAN members.

ASEAN Free Trade Area (AFTA)

During the fourth ASEAN Summit Meeting in Singapore in 1992, AFTA was signed. P. Bowles and B. Maclean identified the following reasons for the formation of AFTA. The change in the international political economy during the 1980s, rise in influence of business interest throughout the ASEAN region and the desire of ASEAN to continue with its position of an important organization in the face of rising new regional organisations. AFTA included abolition of high tariffs or taxes on traded good and scrapping of quantitative restrictions and other non-tariff barriers (NTBs). In 1994 the ASEAN Economic Ministers advanced the date of completing the process of transition of Common Effective Preferential Tariff (CEPT), harmonisation barriers of

22 For rules of Origin, See SAARC, Agreement on SAARC Preferential Trading Arrangement, Annex-III, Dhaka. 11 April 1993, Kathmandu, SAARC Secretariat

standards among ASEAN states, removal of barriers of foreign investments, macro-economic consultations.

**Common Effective Preferential Tariff (CEPT)**

Under this scheme members will lower tariffs on goods originating in the region to levels of between 0 per cent and 5 per cent by the year 2003. At least 40 per cent of the value of the product must originate in the ASEAN to qualify for these preferential tariffs. The CEPT has two forms of tariff reductions—normal track programme and fast track programme. At the end to 1994, 92 per cent of products were already included in the CEPT scheme.24 The ASEAN Economic Ministers meeting in Thailand in September 1994 resulted in acceleration of the process. The 29th ASEAN Ministerial meeting held in Jakarta, 1996 noted an increase of 21 per cent of Intra-ASEAN exports of CEPT products in 1995 i.e. from 49.1 bn US dollars in 1994 to 59.3 bn US dollars in 1995.

In this meeting the private sector was called upon to come up with proposals on trade facilitation measures, SME i.e. Small and Medium Economies development programmes and industry-specific projects. The ASEAN Foreign Ministers also welcomed the signing of the Basic Agreement on ASEAN Industrial Cooperation (AICO) which broadens the scope of industrial cooperation in ASEAN.25

Manuel F. Montes and Francisco A. Magno argue, "Western observers, accustomed to measuring intention against performance, would have little trouble characterizing the consequent AFTA efforts at the regional and national levels as

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being excruciatingly slow and unfailingly modest... While it may be true that some economic considerations played a role in the launching of AFTA, a more realistic interpretation is that, like other ASEAN initiatives, AFTA represents a multipurpose activity whose objective is to magnify the individual states voice in international economic diplomacy.  

Launching of AFTA in a period coinciding with the end of Cold War and the emergence of Asia Pacific Economic Cooperation Forum (APEC) (which is discussed later) seems to be a step to maintain ASEAN's international standing as a regional organization which cannot be taken lightly.

Indonesia, Malaysia, the Philippines and Thailand pursued policies of import substitution till the early 1980s. Though PTA was attractive as it offered larger market to support domestic industries but herein lies the problem with each state guarding its internal market for its own industries. Early 1980 economic slowdown, international debt crisis, adoption of protectionist policies in the US, recession in 1984-85 after a brief security in 1982-83 posed great challenges for the ASEAN states. Moreover, with the international financial institutional becoming more powerful and having a greater say in the domestic affairs of the borrowing states the ASEAN all the more needed ways to boost exports and maintain foreign exchange earnings. Furthermore, in 1980, 28.2 per cent of intra-ASEAN trade was in manufactured goods. In 1990, it was 61.3 per cent. Multinational Corporations played an important role in this change. Thus having shifted to a strategy of FDI sponsored export led growth ASEAN

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wanted to remain a competitive site. See Table 5.3. and Table 5.4 for a comparative analysis of Flows of Aid and FDI in the ASEAN and SAARC regions respectively.

The SAARC Committee on Economic Cooperation in its Sixth Meeting held in New Delhi on 16-17 November 1995 decided to constitute a group of consultants from research institutions of member states to conduct a tripartite study involving government business and academic sectors to accelerate the process of eventual progression to the creation of a SAARC Free Trade Area. The Group met in New Delhi on 6-7 July 1996 for the first time.

**South Asian Free Trade Area**

The ninth SAARC Summit held in Male in 1997 also constituted a Group of Eminent Persons (GEP) to undertake a comprehensive appraisal of the Association and identify measures to enhance the importance and functioning of the association.

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Table 5.3
Flows of Aid and Foreign Direct Investment in the ASEAN Region

<table>
<thead>
<tr>
<th>Countries</th>
<th>Office Development Assistance (ODA)</th>
<th>Foreign Direct Investment</th>
<th>Net Private Capital Flows</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total (US$ millions)</td>
<td>Per capita (US$)</td>
<td>As % GDP</td>
</tr>
<tr>
<td>-----------------------------------</td>
<td>------------------------</td>
<td>---------------------</td>
<td>-----------</td>
</tr>
<tr>
<td>Brunei Darussalam</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Cambodia</td>
<td>278.9</td>
<td>24</td>
<td>3.7</td>
</tr>
<tr>
<td>Indonesia</td>
<td>2,206.3</td>
<td>11</td>
<td>1.5</td>
</tr>
<tr>
<td>Lao Peoples Democratic Republic</td>
<td>293.8</td>
<td>58</td>
<td>17.3</td>
</tr>
<tr>
<td>Myanmar</td>
<td>142.6</td>
<td>6</td>
<td>1.1</td>
</tr>
<tr>
<td>Malaysia</td>
<td>73.2</td>
<td>2</td>
<td>-</td>
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<tr>
<td>The Philippines</td>
<td>690.3</td>
<td>9</td>
<td>2.9</td>
</tr>
<tr>
<td>Singapore</td>
<td>-</td>
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<td>-</td>
</tr>
<tr>
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<td>0.9</td>
</tr>
<tr>
<td>Vietnam</td>
<td>1,420.6</td>
<td>18</td>
<td>2.9</td>
</tr>
</tbody>
</table>

Note: - = Data not available
### Table 5.4
Flows of Aid and Foreign Direct Investment in the SAARC Region

<table>
<thead>
<tr>
<th>Countries</th>
<th>Official Development Assistance (ODA)</th>
<th>Net Foreign Direct Investment</th>
<th>Net Private Capital Flows</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total (US $ Millions)</td>
<td>Per Capita (US$)</td>
<td>As % of GDP</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>1,203.1</td>
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<td>7.0</td>
</tr>
<tr>
<td>Bhutan</td>
<td>66.6</td>
<td>-</td>
<td>16.5</td>
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<tr>
<td>India</td>
<td>1,484.4</td>
<td>1</td>
<td>0.4</td>
</tr>
<tr>
<td>Maldives</td>
<td>30.7</td>
<td>-</td>
<td>14.5</td>
</tr>
<tr>
<td>Nepal</td>
<td>343.7</td>
<td>15</td>
<td>11.7</td>
</tr>
<tr>
<td>Pakistan</td>
<td>732.0</td>
<td>5</td>
<td>2.8</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>251.4</td>
<td>13</td>
<td>9.1</td>
</tr>
</tbody>
</table>

*Note:* - = Data not available

The GEP in its report "SAARC Vision Beyond the Year 2000" recommended three stages for establishing an economic union in South Asia. SAFTA should be negotiated by 1999, with implementation commencing in 2000. It should be in place by 2008, for LDCs, and should be completed by 2010. The second stage will be harmonizing of external tariffs, i.e. a Customs Union by 2015. The third stage will lead to establishment of SAARC Economic Union with harmonisation of monetary and fiscal policies by year 2020.

Other proposals of GEP include expansion of export production capacity of the Least Developed States. It calls for setting up of export oriented joint ventures in the LDCs with financing from the SADF and the private sector of the more developed member states. It also recommends following trade facilitation measures in the first stage: Establishment, harmonization and mutual recognition of standards, adoption of common tariff nomenclatures and harmonization of customs procedures, adoption of regional rules of origin and provision of adequate transport and transit facilities.28

On the more positive side, intra-SAARC exports in total SAARC exports has risen from 3.16 per cent in 1990 to 4.25 per cent in 1996. The share of intra-SAARC imports rose from 1.91 per cent to 4.06 per cent during 1990-96.29 Also see Tables 5.5 and 5.6. Another vital point is to create an integrated mega-sector of trade and services in the region. Only through this they can emerge as strong competitors in the economic field. Competition in the external market will mar the effects of

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Table 5.5

Intra SAARC Exports (US$ million)

<table>
<thead>
<tr>
<th>Countries</th>
<th>Exports within SAARC</th>
<th>Total World Exports</th>
<th>Percentage of Intra SAARC Exports</th>
<th>Exports within SAARC</th>
<th>Total World Exports</th>
<th>Percentage of Intra SAARC Exports</th>
<th>Exports within SAARC</th>
<th>Total World Exports</th>
<th>Percentage of Intra SAARC Exports</th>
<th>Exports within SAARC</th>
<th>Total World Exports</th>
<th>Percentage of Intra SAARC Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
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<td>1687</td>
<td>4.7</td>
<td>45</td>
<td>2037</td>
<td>2.2</td>
<td>55</td>
<td>2277</td>
<td>2.4</td>
<td>60</td>
<td>2699</td>
<td>2.2</td>
</tr>
<tr>
<td>Bhutan</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td>-</td>
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<tr>
<td>India</td>
<td>623</td>
<td>17872</td>
<td>3.5</td>
<td>719</td>
<td>18498</td>
<td>3.9</td>
<td>821</td>
<td>20258</td>
<td>4.1</td>
<td>1002</td>
<td>24150</td>
<td>4.1</td>
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<tr>
<td>Maldives</td>
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<td>18.5</td>
<td>10</td>
<td>40</td>
<td>25.0</td>
<td>11</td>
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<td>31.4</td>
<td>12</td>
<td>48</td>
<td>25.0</td>
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<tr>
<td>Nepal</td>
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<td>257</td>
<td>8.2</td>
<td>46</td>
<td>352</td>
<td>13.1</td>
<td>18</td>
<td>364</td>
<td>4.9</td>
<td>16</td>
<td>348</td>
<td>4.5</td>
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<tr>
<td>Pakistan</td>
<td>125</td>
<td>6494</td>
<td>2.0</td>
<td>241</td>
<td>7269</td>
<td>3.3</td>
<td>127</td>
<td>6701</td>
<td>2.0</td>
<td>147</td>
<td>7332</td>
<td>2.0</td>
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<tr>
<td>Sri Lanka</td>
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<td>1987</td>
<td>3.1</td>
<td>58</td>
<td>2488</td>
<td>2.3</td>
<td>71</td>
<td>2859</td>
<td>2.5</td>
<td>88</td>
<td>3322</td>
<td>2.6</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>920</strong></td>
<td><strong>28351</strong></td>
<td><strong>3.3</strong></td>
<td><strong>1119</strong></td>
<td><strong>30684</strong></td>
<td><strong>3.7</strong></td>
<td><strong>1103</strong></td>
<td><strong>32494</strong></td>
<td><strong>3.4</strong></td>
<td><strong>1325</strong></td>
<td><strong>37909</strong></td>
<td><strong>3.5</strong></td>
</tr>
</tbody>
</table>

Note: - Data not available

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<th></th>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Imports within SAARC</td>
<td>Total World Imports</td>
<td>Percentage of Intra SAARC Imports</td>
<td>Imports within SAARC</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>255</td>
<td>3421</td>
<td>7.5</td>
<td>382</td>
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<tr>
<td>Bhutan</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>India</td>
<td>95</td>
<td>19509</td>
<td>0.5</td>
<td>194</td>
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<tr>
<td>Maldives</td>
<td>23</td>
<td>162</td>
<td>14.2</td>
<td>27</td>
</tr>
<tr>
<td>Nepal</td>
<td>99</td>
<td>500</td>
<td>19.8</td>
<td>83</td>
</tr>
<tr>
<td>Pakistan</td>
<td>88</td>
<td>8431</td>
<td>1.04</td>
<td>98</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>308</td>
<td>3061</td>
<td>10.1</td>
<td>422</td>
</tr>
<tr>
<td>Total</td>
<td>868</td>
<td>35084</td>
<td>2.5</td>
<td>12606</td>
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</tbody>
</table>

Note:- = Data not available

whatever eco-cooperation and trade liberalisation the SAARC members will be able to achieve in the SAARC region.

The tenth SAARC Summit held in Colombo 1998 decided to establish a Committee of Experts with specific terms of reference to work on drafting a comprehensive treaty regime for creating a free trade area. They emphasised the importance of finalising the text of regulatory framework by the year 2001. As said earlier, things could not move further due to the political differences among the SAARC states leading to the indefinite postponement of the eleventh SAARC summit. (It was finally held in January 2002).

Sri Lanka took the initiative in the year 2000 to revitalise the SAARC process and a SAARC Senior Official meeting was held in Colombo in November 2000. The meeting covered a wide range of topics related to the Association's economic, social, technical and cultural agenda.

South East Asian Economic Crisis

In 1995 the South East Asian economies grew at an average of 6.71 per cent compared to the global average of 2.8 per cent. Even Myanmar economy recorded a growth rate of 4.2 per cent, Laos 8.4 per cent, Cambodia 5.2 per cent and Vietnam 8.8 per cent.  

Things changed fast with the South East Asian economic crisis in 1997. The sharp slide in the exchange rate of the Thai baht vis-a-vis the US dollar in mid-1997 set off a chain reaction which primarily affected Indonesia, Malaysia, the Philippines and Vietnam. When the ASEAN Ministerial Meeting (AMM) met in Kuala Lumpur in July 1997, many ASEAN states had suffered the impact of the crisis as their economies suffered devaluation. However politically and economically, ASEAN is still a regional grouping of top rank, notwithstanding its problems.

Though the currency crisis revealed that ASEAN economics are not flawless with the East Asian export growth dropping by 75%, but these problems are more cyclical than structural. The economies remain fundamentally sound. South East Asia essentially failed to outgrow a system of fixed exchange rates that made sense when they were single-mindedly geared to exporting to the US market. The region is now likely to move to a regime of flexible exchange rates and tighter financial systems. Singapore, which already had such a regime, largely remained untouched by the crisis. The experience should spur ASEAN towards more genuine monetary cooperation. By defying the US, the Association's historical mentor, over Myanmar and also embracing the poor cousins of Indochina, ASEAN has shown maturity. This will create some problems for ASEAN in the coming years but will keep it distant from its Cold War origins. ASEAN's efforts to involve China in a constructive engagement policy are efforts in this direction only.

The second ASEAN Informal Summit held in Kuala Lumpur in December 1997, adopted the ASEAN Vision 2020. In order to implement the long term vision, action plans were drawn up. The Hanoi Plan of Action (HPA) is the first in a series of plans. The HPA has a six-year time frame covering the period from 1999 to 2002. The progress of its implementation shall be reviewed every three years. The HPA calls for maintaining regional macro-economic and financial stability by strengthening the ASEAN surveillance process. It further calls for strengthening of financial systems. It envisages promotion of liberalisation of the financial services sector under the ASEAN Framework Agreement on Services (AFAS). Cooperation in money, tax and insurance matters has to be intensified. It was decided to undertake a study on the feasibility of establishing an ASEAN currency and exchange rate system. ASEAN capital market has to be developed by facilitation of cross-border capital flows and investments and also facilitation of clearing and settlement systems within ASEAN. HPA further envisages accelerating the implementation of the AFTA through trade liberalisation and customs harmonisation. It was decided to enhance trade facilitation in customs by simplifying customs procedures, expanding the Green Lane to cover all ASEAN products and implementing an ASEAN Harmonised Tariff Nomenclature by the year 2000. It also calls for implementation of the framework Agreement on ASEAN Investment area (AIA) and liberalise trade in services by strengthening and enhancing existing cooperation efforts in service sectors through such means as establishing or improving infrastructure facilities, joint production and marketing research and development and exchange of information.\(^{33}\)

Thirty-first ASEAN Ministerial Meeting held in Manila in July 1998 endorsed the decision made by ASEAN finance ministers to establish an ASEAN surveillance mechanism to closely monitor regional macro-economic and financial indicators and to serve as an early warning system. They welcomed the Finance Ministers decision to support the use of regional currencies for promoting intra-ASEAN trade and the use of bilateral payments arrangements on a voluntary basis between individual ASEAN countries.\(^{34}\)

In 1999 "Surveillance" group established by ASEAN reported that despite their strong recovery, South East Asian countries remain economically vulnerable and need to do more to avoid possible future crises. The report said an unexpectedly resilient global economy and sustained demand in the US for Asian exports have helped the region recover. But it also warned that bank and corporate restructuring in ASEAN states have been slow and investment has not recovered sufficiently.

In 1999 ASEAN Summit, member-states advanced the target date for the total elimination of tariff from the year 2015 to 2010. The idea of the fast track towards free trade within South East Asia was a significant step. ASEAN economy grew by 4.6% in 1999 compared to a contraction of 4.4% a year earlier. ASEAN'S export also recovered, growing by 6.4% from US $322.8 billion in 1998 to US $343.4 billion in 1999.\(^{35}\) See Tables 5.7 and 5.8.

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\(^{34}\) ASEAN, *Joint Communiqué of the 31st ASEAN Ministerial Meeting*, Manila, 24-25 July 1998, Jakarta, ASEAN Secretariat, 1998

\(^{35}\) ASEAN, *Joint Communiqué of the 33rd ASEAN Ministerial Meeting*, Bangkok, July 2000, Jakarta, ASEAN Secretariat, 2000
Table 5.7

Intra ASEAN 10 Exports (US $ million)

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<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Brunei Darussalam</td>
<td>709</td>
<td>0.43</td>
<td>886</td>
<td>0.46</td>
<td>904</td>
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<td>0.50</td>
<td>942</td>
<td>0.29</td>
<td>795</td>
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<td>890</td>
<td>0.25</td>
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<tr>
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<td>2888</td>
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<td>0.76</td>
<td>3038</td>
<td>0.82</td>
</tr>
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<td>Laos</td>
<td>81</td>
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<td>141</td>
<td>0.08</td>
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<td>0.09</td>
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<td>5.08</td>
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<td>5.81</td>
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<td>9.36</td>
<td>25715</td>
<td>7.97</td>
<td>26481</td>
<td>7.74</td>
<td>26674</td>
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<td>21192</td>
<td>6.42</td>
<td>24764</td>
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<td>0.30</td>
<td>1232</td>
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<td>919</td>
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<td>825</td>
<td>0.22</td>
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<tr>
<td>The Philippines</td>
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<td>1706.6</td>
<td>0.91</td>
<td>2420</td>
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<td>2840</td>
<td>1.22</td>
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</tr>
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<td>8.88</td>
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</tr>
<tr>
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<td>3.37</td>
<td>7145</td>
<td>3.33</td>
<td>8626</td>
<td>3.69</td>
<td>11925</td>
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<td>12611</td>
<td>3.69</td>
<td>11206</td>
<td>3.15</td>
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<tr>
<td>Vietnam</td>
<td>215</td>
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<td>723.5</td>
<td>0.39</td>
<td>1472</td>
<td>0.69</td>
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<td>1.07</td>
<td>3048</td>
<td>0.94</td>
<td>3028</td>
<td>0.88</td>
<td>3171</td>
<td>0.89</td>
<td>2971</td>
<td>0.90</td>
<td>3312</td>
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<table>
<thead>
<tr>
<th>Countries</th>
<th>1991 Intra ASEAN Imports (US$ million)</th>
<th>% of World Imports</th>
<th>1992 Intra ASEAN Imports (US$ million)</th>
<th>% of World Imports</th>
<th>1993 Intra ASEAN Imports (US$ million)</th>
<th>% of World Imports</th>
<th>1994 Intra ASEAN Imports (US$ million)</th>
<th>% of World Imports</th>
<th>1995 Intra ASEAN Imports (US$ million)</th>
<th>% of World Imports</th>
<th>1996 Intra ASEAN Imports (US$ million)</th>
<th>% of World Imports</th>
<th>1997 Intra ASEAN Imports (US$ million)</th>
<th>% of World Imports</th>
<th>1998 Intra ASEAN Imports (US$ million)</th>
<th>% of World Imports</th>
<th>1999 Intra ASEAN Imports (US$ million)</th>
<th>% of World Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brunei Darussalam</td>
<td>472</td>
<td>0.26</td>
<td>580</td>
<td>0.29</td>
<td>450</td>
<td>0.19</td>
<td>459</td>
<td>0.16</td>
<td>524</td>
<td>0.15</td>
<td>445</td>
<td>0.12</td>
<td>332</td>
<td>0.09</td>
<td>202</td>
<td>0.07</td>
<td>464</td>
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<tr>
<td>Cambodia</td>
<td>28</td>
<td>0.02</td>
<td>123</td>
<td>0.06</td>
<td>136</td>
<td>0.06</td>
<td>207</td>
<td>0.07</td>
<td>248</td>
<td>0.07</td>
<td>128</td>
<td>0.03</td>
<td>184</td>
<td>0.05</td>
<td>145</td>
<td>0.05</td>
<td>571</td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td>984</td>
<td>0.53</td>
<td>1218</td>
<td>0.61</td>
<td>1836</td>
<td>0.79</td>
<td>2095</td>
<td>0.74</td>
<td>2910</td>
<td>0.81</td>
<td>2718</td>
<td>0.72</td>
<td>3560</td>
<td>0.95</td>
<td>3671</td>
<td>1.31</td>
<td>4228</td>
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<tr>
<td>Laos</td>
<td>50</td>
<td>0.63</td>
<td>49</td>
<td>0.62</td>
<td>105</td>
<td>0.05</td>
<td>176</td>
<td>0.06</td>
<td>165</td>
<td>0.05</td>
<td>140</td>
<td>0.04</td>
<td>114</td>
<td>0.063</td>
<td>93</td>
<td>0.03</td>
<td>127</td>
<td></td>
</tr>
<tr>
<td>Malaysia</td>
<td>12317</td>
<td>6.67</td>
<td>13451</td>
<td>6.70</td>
<td>16997</td>
<td>7.30</td>
<td>21153</td>
<td>7.48</td>
<td>26636</td>
<td>7.40</td>
<td>25870</td>
<td>6.86</td>
<td>25980</td>
<td>6.94</td>
<td>20538</td>
<td>7.32</td>
<td>23224</td>
<td></td>
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<tr>
<td>Myanmar</td>
<td>109</td>
<td>0.06</td>
<td>139</td>
<td>0.07</td>
<td>184</td>
<td>0.08</td>
<td>237</td>
<td>0.08</td>
<td>399</td>
<td>0.11</td>
<td>284</td>
<td>0.08</td>
<td>255</td>
<td>0.07</td>
<td>192</td>
<td>0.07</td>
<td>168</td>
<td></td>
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<tr>
<td>The Philippines</td>
<td>631.2</td>
<td>0.34</td>
<td>734.3</td>
<td>0.37</td>
<td>967</td>
<td>0.42</td>
<td>1539</td>
<td>0.54</td>
<td>2256</td>
<td>0.63</td>
<td>2904</td>
<td>0.77</td>
<td>3622</td>
<td>0.97</td>
<td>4579</td>
<td>1.63</td>
<td>5603</td>
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<tr>
<td>Singapore</td>
<td>12126</td>
<td>6.57</td>
<td>13583</td>
<td>6.77</td>
<td>15071</td>
<td>6.48</td>
<td>17971</td>
<td>6.35</td>
<td>21049</td>
<td>5.84</td>
<td>23346</td>
<td>6.19</td>
<td>22571</td>
<td>6.03</td>
<td>17614</td>
<td>6.28</td>
<td>19936</td>
<td></td>
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<tr>
<td>Thailand</td>
<td>3513.7</td>
<td>1.90</td>
<td>4432</td>
<td>2.21</td>
<td>5577</td>
<td>2.40</td>
<td>7845</td>
<td>2.77</td>
<td>10785</td>
<td>2.99</td>
<td>12748</td>
<td>3.38</td>
<td>12873</td>
<td>3.44</td>
<td>10086</td>
<td>3.59</td>
<td>11248</td>
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</tr>
<tr>
<td>Vietnam</td>
<td>323</td>
<td>0.17</td>
<td>406.3</td>
<td>0.20</td>
<td>706</td>
<td>0.30</td>
<td>805</td>
<td>0.28</td>
<td>945</td>
<td>0.26</td>
<td>994</td>
<td>0.26</td>
<td>1414</td>
<td>0.38</td>
<td>1744</td>
<td>0.62</td>
<td>1784</td>
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<tr>
<td>Total</td>
<td>30553.9</td>
<td>16.54</td>
<td>34715.6</td>
<td>17.29</td>
<td>42031</td>
<td>18.06</td>
<td>52487</td>
<td>18.55</td>
<td>65917</td>
<td>18.30</td>
<td>69577</td>
<td>18.44</td>
<td>70905</td>
<td>18.95</td>
<td>58864</td>
<td>20.91</td>
<td>67353</td>
<td></td>
</tr>
</tbody>
</table>

In 2001 the sagging US demand for their exports and the falling Japanese Yen was a cause of concern for South East Asian states,

We noted with concern the recent volatility of financial markets and the major currencies, particularly the depreciation of the Japanese yen, which has created uncertainty and instability in regional financial markets and could adversely affect the prospects for continued growth of ASEAN countries.\(^{36}\)

This shows how interdependent the international economy is.

At the time of the expansion of ASEAN during the second half of the 1990s, the ASEAN leaders were worried about the possibility of a two-tier regional forum coming into effect. The concern was mainly over Indochina and Myanmar. But now ASEAN has in effect become a multi-layer of economies at different levels of growth and security. Singapore remains on top, making all adjustments as the region recovers. Singapore primarily remained untouched by the South East Asian economic crisis. At the second level Malaysia managed through a series or controls and regulations and averted a major crisis. However, it has to implement sweeping reforms in the financial and business sectors. Thailand and the Philippines stand at the third level. At the fourth level we have Indochina states and Myanmar. Indonesia remains at the bottom with its teething problems.\(^ {37}\)

\(^{36}\) ASEAN, Joint Communique of the ASEAN Finance Ministers Meeting, Kuala Lumpur, April 2001, Jakarta, ASEAN Secretariat, 2001  
Intra-regional Cooperation in Financial Matters

ASEAN Economic Ministers in their third meeting in Manila in 1997 decided in favour of decentralisation whereby each ASEAN member would host one committee, designate the chairman, provide secretariat and convene meetings. The Committee on Finance and Banking (COFAB) was handled by Thailand. In addition to this permanent committee, there is a committee on Budget under the standing committee which deals with the management and disbursement of the ASEAN Fund. ASEAN also has special coordinating committee of ASEAN Central Banks and Monetary Authorities.

The ASEAN Finance Corporation was established in Singapore with a capital of $100 million with equal stakes by public or private commercial banks in each member state. The Finance Corporation aimed at providing a vehicle for participation in projects involving two or more ASEAN members as well as to raise further development funds.

ASEAN Central Banks and Monetary Authorities established an ASEAN reciprocal currency or "SWAP" arrangement to provide immediate short-term credit facilities for emergency foreign exchange financing to an ASEAN country with temporary international liquidity problems. The total amount available for swap transactions is $200 million, with a maximum of $40 million being contributed by each participant. The maximum amount received by any participant at any one time is not to exceed $80 million.

Recognising the important role of external financing the Heads of Governments of ASEAN states in their second Summit meeting held in Kuala...
Lumpur called on the developed states to extend financial assistance to ASEAN for their industrial projects on favourable terms.

Under the framework of the SAARC, Article IX of the charter specifically mentions that the contribution of each member state towards financing of the activities of the association shall be voluntary. For external financing approval of the SAARC standing committee is necessary. For the successful carrying out of SAARC activities it is vital to work out proper funding modalities. A SAARC fund for regional projects (SFRP) with a funding of $5 million is in operation since 1992. Nodal development Financing Institution of member states have contributed to this fund. Its main aim is to fund the feasibility studies for joint ventures between two or more members states.

The Seventh SAARC Summit held in Dhaka in 1993 decided to establish an IGG on the South Asian Development Fund (SADF). Its task was to work out the size, structure, resources and operational modalities of the proposed fund. The eighth Summit of SAARC held in New Delhi in 1995 endorsed the establishment of South Asian Development fund with the merger of the SAARC fund for regional projects and the SAARC Regional fund. The main purpose of SADF is to promote projects that benefit more than one member state. The initial capital of the fund was $5 million, with India contributing $1,605,000.

**Food Security**

In tune with one of the SAARC objectives as enshrined in the Charter, "to accelerate eco-growth and social progress", SAARC countries are concerned about serious problems of poverty in the region. Thus, in 1987 the SAARC countries signed an Agreement on the Establishment of SAARC Food Security Reserve. This
became operative from 12 August 1988. See Table 5.9 for Food Security Statistics in South Asia.

The preamble of the agreement declares,

Recognising the importance of regional collective self-reliance with respect to food security as a means of combating the adverse effects of natural and man-made calamities; recognising further that the establishment of an emergency food security reserve by member countries of the South Asian Association for Regional Cooperation based on the principle of collective self-reliance would improve their food security...38

Article I mentions that the Reserve shall be administered by a Board. Article VII further explains the infrastructure. The Board shall comprise a member from each SAARC country. The Board shall elect a chairman and vice-chairman based on the principle of rotation among member countries whose terms of office shall be two years. Article VIII elaborates the functions of the Board which include undertaking a periodic review and assessment of the food situation and prospects in the region including factors such as production, consumption, trade prices, quality and stocks of foodgrains; examining immediate, short-term and long-term policy actions as may be considered necessary to ensure adequate supplies of basic food commodities in the region and to submit, on the basis of such examination, recommendation for appropriate action to the Council of Ministers; reviewing implementation of the

Table 5.9
South Asian Food Security Statistics

<table>
<thead>
<tr>
<th>Country</th>
<th>Daily per capita supply of calories</th>
<th>Food aid in cereals (‘000 mt) 1994-95</th>
<th>Food import as % of merchandise imports 1997</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1970</td>
<td>1996</td>
<td></td>
</tr>
<tr>
<td>Bangladesh</td>
<td>2177</td>
<td>2105</td>
<td>888</td>
</tr>
<tr>
<td>Bhutan</td>
<td>-</td>
<td>-</td>
<td>4</td>
</tr>
<tr>
<td>India</td>
<td>2078</td>
<td>2415</td>
<td>264</td>
</tr>
<tr>
<td>Maldives</td>
<td>1428</td>
<td>2495</td>
<td>3</td>
</tr>
<tr>
<td>Nepal</td>
<td>1933</td>
<td>2339</td>
<td>21</td>
</tr>
<tr>
<td>Pakistan</td>
<td>2198</td>
<td>2408</td>
<td>103</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>2229</td>
<td>2263</td>
<td>342</td>
</tr>
</tbody>
</table>

Note :- = Data Not Available

provisions of the Agreement, calling for such information from member-countries as may be necessary for the effective administration of the Reserve and issuing of guidelines of technical matters such as maintenance of stocks, storage conditions and quality control.

Now comes the most crucial part that is of "implementation". Herein lies the problem. Though the agreement 'schedule' showed an agreed total reserve of 200,000 in metric tonnes by member states, in actual practice there is no central granary to take care of it. Thus the agreement has never been functional. The Group of Eminent Persons in their report "SAARC Vision Beyond the Year 2000" made some suggestions. Member-states facing foodgrain shortages should initially exhaust the possibility of drawing foodgrains from the SAARC Food Security Reserve. Transparency should be ensured with regard to the negotiations on the procurement of foodgrains from the SAARC Food Security Reserve.

The ASEAN Food Security Reserve Agreement became operational in June 1980. At their first meeting in Bangkok in 1980, the ASEAN Food Security Reserve Board settled the terms and conditions for the holding of the ASEAN Rice Reserve. The ASEAN Food Security Reserve includes an ASEAN Rice Reserve of 50,000 tonnes.

**Agriculture Sector**

In this sector a number of both short and long-term programmes were implemented under the Integrated Programme of Action (IPA) in the SAARC region. Programmes included exchange of scientific and technical information among
member states. Seminars, workshops and short training courses were organised by member countries on different topics of agricultural research. A training course on wheat production technology in New Delhi was held from 31 March to 11 April 1986. A meeting of scientists from SAARC states was held in Delhi from 22-23 May 1986 on livestock improvement. Apart from these multi-location testing of promising crop varieties and breeding lines for the following identified crops - rice, wheat, groundnut, mustard, mungbean, millet and potato were taken up. A SAARC Agricultural Information Centre was also established in Dhaka.

Under the framework of ASEAN, a common agricultural policy was adopted by the ASEAN Agriculture Ministers in 1979. It led to the establishment of an ASEAN Common Quarantine Ring for Plant and Animal Protection, an ASEAN Plant Quarantine Training Institute and an ASEAN Animal Protection Programme Group.

The 1997 ASEAN Hanoi Plan of Action specifically calls for enhancing food security and global competitiveness of ASEAN's food agriculture and forestry products. It asks the member-states to enhance ASEAN Food Security statistical database and information by establishing an ASEAN Food Security Information System (AFSIS) which would allow member-states to effectively forecast plan and manage food supplies and utilization of basic commodities; develop a common framework to analyse and review the regional food trade policies in light of the AFTA, and to enhance intra-ASEAN food trade by undertaking a study on the long-term supply and demand prospects of major food commodities (rice, corn, soybean, sugar, pulses and oilseeds) in ASEAN; strengthen the food marketing system of agricultural cooperation for enhancing food security in ASEAN; and review the Agreement on the ASEAN Emergency Rice Reserve
(AFRR) to realise effective corn-supply arrangement of food during times of emergency.\(^{39}\)

It further called on members to develop and adopt existing and new technologies, and enhance private sector involvement. The Hanoi Plan also asks members to promote capacity building and human resource development.

**Cooperation in the Transport and Communication Sectors**

Lower transport and transaction costs among geographically contiguous countries can contribute significantly to intra-regional trade creation. Intra-SAARC trade routes are given in Table 5.10. Also see Maps 5.1 and 5.2. SAARC Technical committee on Transport and Technical committee on Communications are an important aspect of the Integrated Programme of Action (IPA) from the very beginning.

The SAARC Committee on Economic Cooperation (CEC) comprising commerce secretaries of SAARC member-countries has recognised the importance of adequate infrastructure in the fields of transport and communications to promote trade. The SAARC Council of Ministers directed the CEC to suggest steps for further improvement of transport infrastructure and transit facilities in the region in order to

\(^{39}\) op. cit. No. 30
### Table 5.10
**Inter SAARC Trade Routes (Border Crossings)**

<table>
<thead>
<tr>
<th>Transport</th>
<th>Pakistan</th>
<th>India</th>
<th>Bangladesh</th>
<th>Nepal</th>
<th>Bhutan</th>
<th>Sri Lanka</th>
<th>Maldives</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Railways (with India)</td>
<td>Broad gauge line between Amritsar and Lahore</td>
<td>As written for various other countries</td>
<td>Broad Gauge Pradhan (BD) to Calcutta. Metre Gauge Radhikapur (I)</td>
<td>Metre gauge between Raxaul (I) &amp; Birgunj (N) Narrow Gauge</td>
<td>No railway line available</td>
<td>Thalammunnar (S.L.) with India &quot;Southern Railway branch line also connecting Trincomalee (S.L.) Batticola (S.L.)</td>
<td>No railway line available</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Parbatipur (BD)</td>
<td>Metre Gauge</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Maishashan (I) &amp; Dhaka (DB)</td>
<td>Metre Gauge Gitadat (I) &amp; Lalmunirhat (BD)</td>
<td>Through ferry services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) Roads &amp; Highways</td>
<td>With India – NH-1 Islamabad, Lahore, (via Amritsar) Open to international traffic -NH_1 A: Rawalpindi Muzaffarabad Baramula Srinagar Not open to international traffic</td>
<td>-Roads / Highways connection to Pakistan, Bangladesh, Nepal, Bhutan -Through ferry service to Sri Lanka &amp; Maldives</td>
<td>With India – NH 34: Bangaon (BD) to Petrayole (I) connecting Dhaka &amp; Jessore (BD) -NH 31: Siliguri (I) to Dhaka via Dinajpur &amp; Bogon (BD) -NH 44 Shillong Agartala (I) Dhaka (BD) -NH 51 Dalu (I) to Dhaka via Sylhet (BH)</td>
<td>1) With India -NH-38: Raxaul (I) Kathmandu -NH 31: Siliguri &amp; Pithagarh (I) connected to East West Highway in Nepal 2) With Bangladesh (through India) only 16 km of Indian territory intervening</td>
<td>1) With India Rangiy Darranga Road in India. Continuous as Darranga Tashigong Road in Bhutan -Garubasha Hatisar Tongsa Road (Bhutan) -Bongaigaon Hasimara Road (I) connects Phuntsholing (Bhutan) 2) With Bangladesh</td>
<td>Ferry Services</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Map 5.1
NETWORK OF RAILS IN THE SOUTH ASIAN REGION

Map 5.2
NETWORK OF ROADS IN THE SOUTH ASIAN REGION

accelerate the growth of trade. The CEC commissioned a study on the Transport infrastructure and Transit facilities in the SAARC Region to pursue the task assigned to it.

The activities of the SAARC technical committee on transport include exchange of data and information, preparation of status papers, preparation of Compendia of Information on Roads, establishing a SAARC Highway, undertaking the first updating of the data on rail transport, optimising of operational efficiency in railway systems, organising meeting of Chief Executives of Airlines and the Directors of Civil Aviation of the member states, preparation of Directories on Consultants and Experts in the field of transport and exchange of information in the field of highway safety. The SAARC Technical Committee on Transport recommended establishment of high speed (cross-border) trains, improvements in safety and energy conservation, uniformity of technical standards and procedures related to physical and traffic management aspects, inter-sectoral cooperation with other related Technical Committees of SAARC and cooperation with concerned international organizations and upgradation of transport technologies. In 1994, a Memorandum of Understanding has been signed between SAARC and Asia Pacific Telecommunity (APT) for cooperation in this field.

The Constitution of the SAARC Chamber of Commerce and Industry, formally inaugurated in 1994, included, the development of "shipping and other modes of transportation within the SAARC region" as one of its objectives. The agreement on SAPTA also emphasises the need for improvement of transport and
communication link in the region. Article 12 specifically mentions, "contracting states agree to undertake appropriate steps and measures for developing and improving communication system, transport infrastructure and transit facilities for accelerating the growth of trade within the region." 40

The Indian Railways (IR) have agreed to construct the broad gauge rail link between Rayaul and Sirsiya and extend the broad gauge rail link up to the proposed railway container terminal at Birgunj in Nepal. The Indian Railways are already working on conversion of Muzaffarpur-Raxaul metre gauge line into broad gauge. This will provide uni-gauge rail access to the main gateway to Nepal from all over India and help rationalise the transit pattern by shifting the movement of goods from road to rail 41. The Bangladesh rail system was divided into two zones by the river Brahmaputra (Jamuna) which flows in the north south direction. Now direct road communication between the two zones is available with the completion of the Jamuna Bridge in 1998.

To encourage regional cooperation in the development of land transport infrastructure the ESCAP Asian Highway Project connecting 15 countries of Central and South Asia including Pakistan, Indian, Nepal and Bangladesh and a Trans-Asian Railway Project. But the project did not materialise due to the civil war in Afghanistan and other border disputes between the concerned states. The present important station on system of Asian Highway and the System of Trans Asian Railway through SAARC states are given in Tables 5.11 and 5.12.

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40 op. cit No. 16.
<table>
<thead>
<tr>
<th>Pakistan</th>
<th>India</th>
<th>Bangladesh</th>
<th>Nepal</th>
<th>Bhutan</th>
<th>Sri Lanka</th>
<th>Maldives</th>
</tr>
</thead>
<tbody>
<tr>
<td>A1</td>
<td>A1</td>
<td>From Jessore</td>
<td>A1</td>
<td>Enters from</td>
<td>No highway network available.</td>
<td>No major network or Asian highway.</td>
</tr>
<tr>
<td>10,784 km stretch beginning from Bazargan (Iran) passes through Tabrez and Tehran enters Afghanistan and passes through Heart, Kandhar, Ghazni, Kabul, Islamabad enters Pakistan passes through Peshawar, Islamabad, Jehlum Lahore and enters India through Amritsar. A2 Begins at Kermanshah (Iran) passes through Tehran &amp; Zahidan enters Pakistan at Dalbadin passes through Quetta, Rohri, Sahiwal Kasur enters India at Ferozpur. A2</td>
<td>Passes through Ludhiana, Delhi, Agra, Kanpur, Kolkata, Bangaon enters Bangladesh at Jessore. A2</td>
<td>Enters from India at Babasa From Jessore goes by ferry service to Dhaka, Chittagong &amp; enters Myanmar through Technaf. From Bangladesh enters into Myanmar &amp; enters in Hochinmin city in Vietnam.</td>
<td>From Muzaffarpur (India) passes through Sitamari (India) and reenters Nepal at Janakpudham</td>
<td>A5</td>
<td>From Birgunj goes to Kathmandu.</td>
<td></td>
</tr>
<tr>
<td>A2</td>
<td>From Ferozpur passes through Delhi, Muradabad and enters Nepal at Banbasa, reenters India at Siliguri and then enters Bangladesh at Dinajpur. A5 Connects Jhumritaliya, passes through Bihar, Muzaffarpur, Raxaul connects Nepal at Birgunj. AHR 45 AHR 47 AHR 4</td>
<td>A5</td>
<td>Connects Jhumratliya, passes through Rangpur, Bogra, Dhaka &amp; connects route A1 or Comilla &amp; then goes to Chittagong.</td>
<td>No highway available.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AHR 45 +47 connects at Chennai, goes up to Paramagudi where it becomes AHR 4 &amp; goes to Dhanushkodi</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 5.12
System of Trans-Asian Railway through SAARC Countries

<table>
<thead>
<tr>
<th>Pakistan</th>
<th>India</th>
<th>Bangladesh</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trans-Asian Railway</td>
<td>From Lahore to Amritsar (I)</td>
<td>From Bangaon passes through</td>
</tr>
<tr>
<td>Central Route</td>
<td>passes through Delhi</td>
<td>Jessore &amp; Golawada Ghat.</td>
</tr>
<tr>
<td></td>
<td>Mughalsarai, Kolkata</td>
<td>Steamer link to Narayanganj</td>
</tr>
<tr>
<td></td>
<td>crosses into Bangaon (BD)</td>
<td>and then to Dhaka &amp;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Chittagong.</td>
</tr>
<tr>
<td></td>
<td>Starts from Zahidan (Iran)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>passes Sibi, Quetta,</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Lahore, crosses into India</td>
<td></td>
</tr>
<tr>
<td></td>
<td>at Lahore.</td>
<td></td>
</tr>
</tbody>
</table>

To promote cooperation in the field of telecommunications and postal services, the SAARC Technical Committee on Telecommunications and a Technical Committee on Postal Services were established in 1983. These two were subsequently amalgamated into the new Technical Committee on Communications in 1993. The new committee focused on efforts to promote technological and human resource development and management in these sectors. There has been substantial progress in implementing the recommendations for the establishment of ISD, automatic telex, adoption of SDR as common automating unit and off-peak period tariff.42

Under the framework of ASEAN, the Bangkok Declaration 1967 calls for the improvement of transportation and communication facilities among member-states. ASEAN devoted a lot of attention to shipping cooperation in view of the importance of this mode of transport to member states. The ASEAN Economic Minister meeting adopted in 1982 the Integrated Work Programme in shipping for 1982-1986. ASEAN also undertook following studies and projects: Study of the feasibility of setting up a regular ASEAN liner service; ASEAN bulk shipment project; cooperation in maritime transport with a view to controlling marine pollution; expansion and modernization of ASEAN member fleets; technical cooperation among shipping services and coordination among shipping and port sectors; and a feasibility study for establishing an ASEAN regional seaman board.

The following projects and studies have been agreed upon in the field of civil aviation: a regional air freight development study, an inter and intra-ASEAN air

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passenger traffic study, a study of the feasibility of establishing an ASEAN International Airports Association.\textsuperscript{43}

In the communications field, the priority areas cover cooperation in telecommunications, like establishment of the ASEAN submarine cable project, and ASEAN regional satellite project and the domestic satellite project for each ASEAN member state.

The Hanoi Plan of Action, 1998 asks member states to develop the trans-ASEAN transportation network by the year 2000 as the trunkline or main corridor for the movement of goods and people in the ASEAN consisting of interstate highway railway networks, principal ports, and sea lanes for maritime traffic. It further calls for operationalising the ASEAN Framework Agreement on the facilitation of goods in transit by 2000. It also asks the member states to develop and implement the Singapore-Kunning Rail Link and the ASEAN highway network Projects.

The Joint Communique issued at the end of the thirty-third ASEAN Ministerial Meeting held in Bangkok in July 2000 welcomed the progress made to develop a region-wide transportation network which will comprise 23 ASEAN highway routes, 46 shipping ports, and some 30 customs airports. It further noted the progress made in the work on all the remaining implementing protocols for ASEAN Framework Agreement on the Facilitation of Goods in Transit as well as the draft Framework Agreement on the Facilitation of Inter-state Transport and the draft Framework Agreement on Multi-Modal Transport.\textsuperscript{44}


\textsuperscript{44} op. cit. No. 32
ASEAN SAARC and Extra-Regional Associations and States

One of the aims and objectives of ASEAN as enshrined in the Bangkok Declaration, 1967 is, "To maintain close and beneficial cooperation with existing international and regional organizations with similar aims and purpose..." 45 Specifically on the economic front ASEAN Concord declares, "The principle of ASEAN cooperation on trade shall also be reflected on a priority basis in joint approaches to world economic problems such as the reform of international trading system, the reform of international monetary system and transfer of resources in the United States and other relevant multilateral fora with a view to contributing to the establishment of the New International Economic Order." 46

On similar lines the SAARC Charter under Article I states, “the objectives of the Association shall be... to strengthen cooperation among themselves in international forums on matters of common interests and to cooperate with international and regional organizations with similar aims and purpose.” 47

The most fascinating aspect of ASEAN cooperation be it in the field of economics or polities is their common approach of dealing with external states or groupings irrespective of different perceptions. These differences do come to the fore many times, but a self-restraint is usually exercised by members in favour of a consensus arrived through consultations.

45 op. cit. No. 2
46 op. cit. No. 14
47 op. cit. No. 1
The 1971 ASEAN Foreign Ministers meeting started addressing the issue of joint view before international forums. The ASEAN Senior Trade officials on Multilateral Trade Negotiations look after the interests of the members within the General Agreement on Trade and Tariffs (GATT). The ASEAN ambassadors to the United Nations in Geneva assist ASEAN Senior Trade Officials.

The Special Coordinating Committee of ASEAN Nations (SCCAN) was formed in 1972 to adopt common policies and negotiate with EEC on trade and tariff related issues. The ASEAN Brussels Committee (ABC) consisting of accredited ASEAN ambassadors to the EEC assist SCCAN. In 1973, ASEAN also took a joint stand in opposing Japan's plans to increase production of synthetic rubber.

ASEAN-Dialogue partners meetings with Australia, Canada, EEC, Japan, New Zealand, and the United States need special mention here. These led to the formation of ASEAN - EEC Trade and Development Forum and ASEAN - EEC Development Fund; the ASEAN - Australia Economic and Technical Cooperation Projects on Food Handling; the ASEAN - Japan Promotion Center on Trade Investment and Tourism; The ASEAN - New Zealand Afforestation Project; and ASEAN -US Business Council as well as watershed conservation and Management Research project and the ASEAN Canada Business Council. ASEAN has also signed agreement with United Nations Development Plan (UNDP) through the Economic and Social Commission for Asia and the Pacific (EACAP).

Apart from these, at their 20th Ministerial Meeting held in Singapore in 1987 the ASEAN Foreign Ministers noted with concern the continuing debt crisis in many developing states. This has threatened the international finance system and affected
the growth prospects of many states. They urged for an international action to rectify the situation.⁴⁸ SAARC too in its annual meetings raised this issue. In their seventh Summit meeting held in Dhaka in 1993, leaders "strongly underlined the need to continue efforts to seek a comprehensive durable and growth-oriented solution to the external indebtedness of the developing countries... A lasting solution to the debt crisis... must take into account the need to significantly reduce the stock and service of all types of debts of indebted developing countries to argument the concessional aid flows to SAARC countries and work out anticipatory measures to prevent the recurrence and proliferation of the debt problem."⁴⁹ See Tables 5.13 and 5.14 for an idea of debt of ASEAN and SAARC countries.

The first SAARC Ministerial Meeting on International Economic Issues was held in Islamabad in 1986. It agreed to have the second meeting in India in 1991 to review the outcome of the Uruguay Round and to coordinate positions at its special session to study the question of cooperation between SAARC and appropriate regional and international associations taking into account the evolution of the SAARC activities in the core economic areas.⁵⁰ Thus SAARC leaders have repeatedly stressed the need to develop common South Asian position on important international issues. SAARC Secretariat has negotiated and entered into cooperative economic agreements or Memorandum of Understanding (MOU) with the following

⁴⁸ ASEAN, Joint Communique of the 20th ASEAN Foreign Ministers Meeting, Singapore, 16 June, 1987, Jakarta, ASEAN Secretariat, 1987
### Table 5.13
Trade and Finance in the ASEAN Region

<table>
<thead>
<tr>
<th>Countries</th>
<th>Merchandise Trade</th>
<th>Manufactured exports % of total merchandise exports</th>
<th>High technology exports % of manufactured exports</th>
<th>Current account balance million dollars</th>
<th>External debt total million dollars</th>
<th>Present value % of GNI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brunei Darussalam</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Cambodia</td>
<td>590</td>
<td>700</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-76</td>
</tr>
<tr>
<td>Indonesia</td>
<td>62,016</td>
<td>33,547</td>
<td>54</td>
<td>10</td>
<td>5,785</td>
<td>150,096</td>
</tr>
<tr>
<td>Lao Peoples Democratic Republic</td>
<td>300</td>
<td>560</td>
<td>-</td>
<td>-</td>
<td>-76</td>
<td>2,262</td>
</tr>
<tr>
<td>Malaysia</td>
<td>98,237</td>
<td>82,210</td>
<td>80</td>
<td>5,9</td>
<td>12,606</td>
<td>45,939</td>
</tr>
<tr>
<td>Myanmar</td>
<td>1,350</td>
<td>2,450</td>
<td>-</td>
<td>-</td>
<td>-232</td>
<td>5,999</td>
</tr>
<tr>
<td>The Philippines</td>
<td>40,000</td>
<td>34,600</td>
<td>41</td>
<td>59</td>
<td>7,910</td>
<td>52,022</td>
</tr>
<tr>
<td>Singapore</td>
<td>137,953</td>
<td>134,675</td>
<td>86</td>
<td>61</td>
<td>21,254</td>
<td>-</td>
</tr>
<tr>
<td>Thailand</td>
<td>68,920</td>
<td>62,040</td>
<td>74</td>
<td>32</td>
<td>12,428</td>
<td>96,335</td>
</tr>
<tr>
<td>Vietnam</td>
<td>14,308</td>
<td>15,200</td>
<td>-</td>
<td>-76</td>
<td>23,260</td>
<td>79</td>
</tr>
</tbody>
</table>

Note: - = Data not available

Table 5.14
Trade and Finance in the SAARC Region

<table>
<thead>
<tr>
<th>Countries</th>
<th>Merchandise Trade</th>
<th>Manufactured exports % of total merchandise exports</th>
<th>High technology exports % of manufactured exports</th>
<th>Current account balance</th>
<th>External debt total</th>
<th>Present value % of GNI</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Exports million dollars</td>
<td>Imports million dollars</td>
<td>1999</td>
<td>1999</td>
<td>1999</td>
<td>1999</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>5,700</td>
<td>8,480</td>
<td>91</td>
<td>0</td>
<td>-394</td>
<td>17,534</td>
</tr>
<tr>
<td>Bhutan</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>India</td>
<td>42,358</td>
<td>49,830</td>
<td>76</td>
<td>6</td>
<td>-3,699</td>
<td>94,393</td>
</tr>
<tr>
<td>Maldives</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Nepal</td>
<td>795</td>
<td>1,590</td>
<td>69</td>
<td>-</td>
<td>-168</td>
<td>2,970</td>
</tr>
<tr>
<td>Pakistan</td>
<td>9,132</td>
<td>11,060</td>
<td>84</td>
<td>0</td>
<td>-2,187</td>
<td>34,269</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>5,410</td>
<td>7,205</td>
<td>75</td>
<td>3</td>
<td>-493</td>
<td>9,472</td>
</tr>
</tbody>
</table>

Note: - = Data not available

organizations: United Nations Development Programme (UNCP), United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), United Nations Conference on Trade and Development (UNCTAD), The European Commission, Canadian International Development Agency (CIDA), SAARC-Japan Special Fund. The SAARC Secretariat - EC MOU lists these areas of Cooperation: Exchange of information and staff training to strengthen the functioning of the SAARC Secretariat and its regional centres on agriculture and metrology (Dhaka) and technical assistance including finance for selected programmes.

The SAARC - Japan Special Fund has been created by funding from the government of Japan. The financial allocation in 1995-96 for component I dealing with cultural events and component II dealing with technical studies, meetings, seminars related to the promotion of economic partnership with SAARC countries comprised US $200,000 and US $300,000 respectively.

The second meeting of the SAARC Commerce Ministers held in Islamabad in 1998 decided to coordinate SAARC's position on issues of common concern at the World Trade Organization (WTO)'s Seattle meeting. The 1998 Colombo Summit directed the consultative Group of SAARC Permanent Representatives to the WTO at Geneva to consult closely with like-minded countries to advance the interest of developing countries at the WTO conferences.\(^5\)

The 1996 ASEAN annual Foreign Ministers Meeting held in Jakarta noted the progress made in the establishment of trade and investment linkage between AFTA

\(^5\) op. cit. No. 27
and countries of the Australia-New Zealand Closer Economic Relations Trade Agreement (ANZCERTA) and encouraged the establishment of such linkage with other regional groupings and trading arrangements.

ASEAN-US, ASEAN-Japan relations form the core of ASEAN economy. Thus the US-Japanese bilateral trade imbalance and resultant trade policy conflicts since the late 1980s have been a matter of concern for ASEAN countries. This conflict could affect them adversely if the US raises protectionist barriers to Japanese exports originating in offshore plant in the ASEAN states. In the absence of counterbalancing flows from other states specially the US, ASEAN fears it would become more dependent on Japan with reduced bargaining power in international trade, investment and technology transfer. The US fears that Japan's massive capital investment in ASEAN together with its substantial aid could signal an increasingly monopolistic dominating of Japan of these large and fast growing economies. This shows how interdependent international economy is. Similarly in 2001, ASEAN Post Ministerial Meetings held in July in Hanoi, members showed concern over the slowdown in the US economy and its ramifications for ASEAN states.

Similarly how inter-linked domestic political conditions and economy is clear from the May Day message of the Singapore Prime Minister, Goh Chok Tong who said: "The ASEAN economies are under severe stress...They have not fully recovered from the Asian financial crisis. In addition, several of them face domestic political

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problems .. The region's uncertain political and economic outlook will affect investor's confidence and interest."\textsuperscript{53}

US trade policies towards developing states have caused various problems between the US and the ASEAN. The United States linking of market access with human rights, labour rights, democracy, environment and intellectual property rights is considered as unwarranted and political interference in the domestic affairs of ASEAN states. It is considered as another form of protectionism by the developed states.

China is also rapidly developing as an exporter to ASEAN states as well as a market for ASEAN exports in food and raw materials. Investment links are also growing between ASEAN and China. Recently at Brunei, ASEAN and China agreed to set up a free trade area within 10 years. The Brunei Sultan Hassanal Bolkiah who chaired the session said that with a combined market of 1.7 billion people, a FTA between ASEAN and China would have a GDP of $2 trillion and two way trade of $1.23 trillion.\textsuperscript{54}

\textit{Natural Economic Territories (NETs)}

"...the development of... NETs in the region, at various stages of development and with differing degrees of public and private sector involvement: yet all are generating innovative means of economic interaction that have limited consonance with traditional economic controls and political arrangements. It is a phenomenon particularly suited to the Asian context, where there is a strong predilection for informal agreements rather than legalistic and binding treaties, and for instrumental rather than bold systemic change. NETs also allow


\textsuperscript{54} Amit Baruah, "ASEAN China Agree on Free Trade," \textit{The Hindu}, Chennai, 3 November 2001, p. 17.
states to experiment with cooperating with each other, which they approach cautiously given the region's varying levels of economic development, its different socio-political systems and its complex security and political relationships.\textsuperscript{55}

Sub-regional economic cooperation in South East Asia is flourishing with government support. At the fourth ASEAN Summit in Singapore in 1992, the "growth triangle" approach was endorsed as a parallel and supportive mechanism for regional economic cooperation.

**Indonesia-Malaysia-Singapore Growth Triangle (IMS-GT):**

- This NET is the oldest and most developed in South East Asia. It is also known as SIJORI (for Singapore, Johor and Riau). See Map 5.3. This growth triangle involves the relocation of industries from Singapore to Johor and to Batam. These industries range from light to high-tech and include tourism utilizing the infrastructure and management expertise of Singapore.

**Indonesia-Malaysia Thailand Growth Triangle (IMT - GT):**

- Asian development Bank (ADB) conducted a feasibility study of economic prospects in the area on the request of the three concerned governments. The report was favourable and concluded that there exists great potential for cross-border economic complementarities. Moreover strong historical ties of economic interaction, cultural and ethnic affinities are already creating some cross-border economic flows, including smuggling and illegal trade. The report further highlights that complementarities also exist for developing

agribusiness and agro-processing industries utilizing marine and forestry reserves.

Thus this growth triangle builds on existing cross-border trade. Development of the respective sub-regions is of vital concern to the three central governments who want to tap surplus labour and agriculture based economies in Sumatra and Southern Thailand with the more industrialized area surrounding Penang in Northern Malaysia. (See Map 5.3). "The Net is therefore an example where governments are seeking to balance uneven economic growth in their respective hinterlands and to create new modes of economic development complement their overburdened urban centers." 56

The Golden Quadrangle NET

- This NET covers the border region connecting Myanmar, Thailand, Laos and western China (Map 5.4). There is now a renewed flourishing trade among

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56 Ibid.
local entrepreneurs of the border areas that shares common historical, cultural and ethnic ties. Ancient routes like old silk and Burma Roads as well as the Ambassadors' road that connects Myanmar with Kunming in Mainland China are being revitalized.

Other examples include Tongkin-Mekong Economic cooperation which is being undertaken by Hongkong, Northern Vietnam, Laos, Guangdong and Guangxi with a population size of 146 million and an area which is yet to be developed, it basically aims at facilitating trade in consumer goods.

South China-Indo China Economic Cooperation involving Thailand, Cambodia, Southern Vietnam and Singapore aims to have a cooperation of joint ventures in manufacturing. It covers a populations of 99 million.

The East ASEAN Growth Triangle which was proposed by president Fidel Ramos, comprises the economies of Mindanao, Sabah, Sulaweri, Brunei and Iran Jaya, The cooperation priorities are trade, tourism and some joint ventures in the exploitation of natural resources.

The 1998 ASEAN Hanoi Plan of Action explicitly mentions "...to narrow the gap in the level of development among member states and to reduce poverty and socio-economic disparities in the region [member states should] actively expedite the implementation and further development of growth areas..." 57

In SAARC ministerial meeting in Kathmandu in 1996, Nepalese officials circulated a draft proposing sub-regional cooperation This was followed up by a

57 op. cit. No. 30
foreign secretaries level meeting in 1997 among officials of Bangladesh, Bhutan, Nepal and India to work out a "Growth Quadrangle".

The World Bank showing eagerness to support ASEAN type cooperative ventures in South Asia has unveiled "South Asia Development Triangle" (SADT) with a programme of Trans-boundary development cooperation encompassing most of the Ganga-Brahmaputra-Meghna basin and covering the eastern and northeastern parts of India, Bangladesh, Nepal and Bhutan. The Asian Development Bank has also offered its expertise and resources having viewed that an effective cooperation in this sub-region can produce rich dividends in particular the potential for cooperation in hydro-power and other infrastructural development. The 1997 SAARC meeting of the four foreign secretaries as mentioned earlier named the initiative South Asia Growth Quadrangle (SAGQ) and decided not to consider it as an initiative under the SAARC. Bangladesh opposed this view for a long time.

Sri Lanka, Pakistan and Maldives were of the view that establishment of sub-regional grouping could adversely affect the SAARC. At Male, the SAARC agreed to take these concerns into account and consider sub-regional cooperation only under Article 7 of the Charter which allows cooperation among two or more states but not necessarily all the SAARC members.

Nepal has proposed development of inland waterways to get access to seaports in India and Bangladesh. Bangladesh has stressed that sub-regional cooperation involving the four countries concerned will help in evolving solutions to the developmental needs of that particular area. The Bangladesh-Bhutan-India- Nepal Growth Quadrangle (BBIN-GQ) will follow a project led approach to cooperation in
the core economic areas of multi-modal transport and communications, energy, trade and investment facilitation, tourism, optimal utilisation of natural resource endowments and environment. These projects are to be supportive of and complementary to the national plans of the concerned states. This sort of an effort would be free of Indo-phobia that bilateral projects generally witness.

However this is not to belittle the importance of the bilateral cooperation in the SAARC region. India and Sri Lanka in December 1998 signed a Free-Trade Agreement. As all other South Asian nations need to secure transit and trade agreements through India to boost their mutual transactions, Indian role becomes vital. Nepal and Bhutan already have preferential trading agreements with India. With Sri Lanka joining the group, Bangladesh is also keen to have such agreement.

In November 2000, Singapore signed a Free-Trade Agreement with New Zealand. Earlier it also signed such an agreement with Mexico. The Singapore Prime Minister Goh Chok Tong said that during the last one year 17 out of the 21 APEC states have signed FTAs. Most of these are not between neighbouring countries but between states of different regions. However, as with the SAARC region, ASEAN members too have some reservations regarding these free trade agreements.

**The Concept of New Regionalism**

With the end of the Cold War a new wave of regional cooperation has come to the fore in the form of 'open regionalism'. Open regionalism means that the states of a particular region should reduce impediments to economic transactions within the region, without creating any new artificial trade impediments between their
association and other extra-regional economies, thus avoiding new forms of discrimination.

In the 1990s, the purpose of forming a regional-trading association was not to be more independent of the global economy but to be able to play a role in it. 'North-South regionalism' and 'multiple regionalism' are two important aspects of this new wave of regionalism. Usually it is argued that trading blocs suit more to the countries with roughly equal level of development. However, today many regional associations consist of members who form part of two different levels-developed and developing. For example APEC. 'Multiple regionalism' means countries belonging to different regional associations form part of another regional group i.e. regional associations have overlapping membership. For example, the ASEAN members are also part of the APEC.58

Asia Pacific Economic Cooperation (APEC)

The phenomenal growth of South East Asian economies in the 1980s and a relative decline of the American and West European economies turned international attention from Western Europe to this region. Australia put forward a proposal of Free-Trade area in 1989 which included not only the countries of Northeast Asia and South East Asia, but also the Pacific Rim nations such as Australia, Canada, New Zealand, and the US. Initially there were many apprehensions regarding proposal where membership of the organisation spanned such a vast region. In response, Malaysian Prime Minister, Mahathir Mohammed announced an Asian version of a regional economic association called the East Asian Economic Grouping (EAEG).

58 For details see op. cit. No. 24, pp. 225-226.
This created a speculation that in this case Japan could take charge and a 'Yen bloc' in Asia will be inevitable, thus marginalising the US gradually.

However, the proposal of EAEG faced problems within ASEAN itself as member states have extensive economic contacts with the US and Western Europe.

Thus Malaysia came up with more moderate proposal of an East Asian Economic Caucus. But even this was rejected by America.

Finally, Asia Pacific Economic Cooperation was formalised. APEC'S first ministerial meeting was held in Canberra in 1989. The 1991 Seoul APEC Declaration reaffirmed the commitment to an outward-looking approach that set out the objectives of APEC as follows:

- To sustain the growth and development of the region for the common good of its peoples and in this way, to contribute to the growth and development of the world economy.

- To enhance the positive gains, both for the region and the world economy, resulting from increasing economic interdependence, by encouraging the flow of goods, services, capital and technology

- To develop and strengthen the open multilateral trading system in the interest of the Asia-Pacific and all other economies

- To reduce barriers to trade in goods and services and investment among participants in a manner consistent with GATT principles, where applicable, and without detriment to other economies.
The Bangkok Ministerial Meeting took an important decision to set up a permanent Secretariat in Singapore. It also decides to implement four proposals:

- establishment of an electronic tariff database for APEC members to facilitate regional trade through better information flows; harmonisation and facilitation of customs procedures and practices, examination of the administrative aspects of market access and recommendations on means of reducing the costs they impose on trade; and preparation of a detailed guidebook on investment regulatory procedures in the region.\(^5^9\)

In Seattle in 1993, ministers endorsed an APEC Framework for Trade and Investment Cooperation based on outward-looking, GATT-consistent principles. The Boger Summit Meeting in 1994 was another step forward with member states adapting a "variable speed" approach to regional economic integration. Developed countries were to remove all the trade barriers by 2010 and developing countries by 2020. The Boger Declaration also established a private sector advisory body called the Pacific Business Forum.

By 1995, the APEC economies accounted for about 55 per cent of the total global income, 40 per cent of the global trade and a combined income of over 13 trillion US dollars.\(^6^0\) The Osaka meeting of APEC mandated the members to come up with Individual Action plans that detailed voluntary but concrete steps that each state would initiate from 1 January 1997, to achieve the goal of trade and investment liberalisation. However, differences started cropping up within the organisation, with

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Malaysia and Indonesia, openly expressing apprehension on the pace of removing barriers as it could adversely affect their domestic industry. Individual action plans by states were presented in the fourth APEC Summit held at Subic (near Manila) in 1996. However, they fall short of the expectations. The Manila Action Plan of APEC (MAPA) reiterated the earlier Boger goal of trade and investment liberalisation and instructed ministers to identify the sector where early voluntary liberalisation would have a positive impact on trade investment and economic growth in the individual APEC economies as well as in the region and recommend on how this could be achieved.

**Neo-Liberalism and the 'Asian View'**

ASEAN has taken its gradualist and consensus approach to APEC also. APEC shows two distinct conceptions of regionalism. "Neo-liberalism emphasises the maximisation of individual economic welfare and the need for markets to operate without undue interference from governments... In the international arena, governments should actively foster free trade by eliminating any barriers to the international movements of goods and capital while encouraging other states to do the same". When APEC came into being, the Western states wanted to use it to lobby for greater liberalization of GATT provision. On the other hand the Asian states hoped that this would keep the vital North American and Western European markets open to their exports. Thus APEC emphasized the notion of 'open-regionalism'.

The 'Asian view' put more emphasis on the group or the community as a vital unit of society with the individual interest subordinated to that of the wider society.

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"The economic dimension of the Asian view highlights the strong links between government and business and the role of government in shaping economic development. It also emphasizes the distinctive East and South East Asian approach to doing business, which revolves around informal flexible "network-based" economies rooted in social relations as opposed to the "firm based" economies rooted in laws and binding contracts which are characteristic of the West."\textsuperscript{62} The Asian members of APEC have argued for a "concerted unilateral" approach. This would allow the much needed flexibility to the member states. It is argued that liberalization "should come about fundamentally through the unilateral endeavour and action of every member economy, acting without intimidation."\textsuperscript{63} There is mounting pressure on the APEC to make security issues (in the traditional sense) a part of the agenda. Security issues are important, however, there is considerable opposition to depart from the economic mandate of the association. With the creation of ASEAN Regional Forum, the Asian members of APEC are not at all interested in blocking APEC by making China-Taiwan or US-Japan differences a part of the agenda. However, this is not to say that political and security issues have never been highlighted or brought to the floor of the APEC. In the 1998 Kuala Lumpur Summit of APEC Malaysian Prime Minister Mahathir Mohammed was criticised for his authoritarianism by foreign leaders. Similarly, the 2001 APEC meeting dealt with the issue of international terrorism.

The tenth APEC Ministerial Meeting held in Kuala Lumpur in 1998 endorsed the submission of improved Individual Action Plans. The APEC Economic leaders meeting held in Auckland in 1999 agreed to strengthen markets by

\begin{itemize}
  \item \textsuperscript{62} Ibid.
  \item \textsuperscript{63} Noordin Sopiee, "Asian Approach Best Way to Build Enduring APEC", \textit{The Strait Times}, 1 September 1994.
\end{itemize}
Providing greater transparency and predictability in corporate and public sector governance; enhancing the role of competitors to improve efficiency and broaden participation by enterprises; improving the quality of regulation and the capacity of regulators to design and implement policies for sustainable growth; reducing compliance costs and facilitating business growth; building a favourable regional and international environment for free and fair competition.64

Conclusion

Thus, ASEAN and SAARC regions faced more or less similar problems as far as question of expansion of intra-regional trade is concerned. ASEAN economies with the exception of Singapore, being exporters of primary products to the industrialised states were not complementary. Moreover, the economies of ASEAN states were at different levels of development with Singapore having a small population but high per capita income. Thailand and Malaysia, the two newly industrialised states were enjoying high economic growth. Comparatively Indonesia and the Philippines have lower per capita income and sales of growth. However the ASEAN economies have become exporters of industrialised goods and have also taken successful steps to build complementary economies. Similarly, in the SAARC region disparities in the level of economic development of different states with India being the most developed have created a feeling among the least developed states that expansion of intra-regional trade would not be as beneficial as with other developed states.

Moreover, in both the ASEAN and SAARC regions non-tariff barriers, such as import quotas, licensing and prohibition form part of efforts to protect domestic industries. These barriers are seen as the main obstacle in the expansion of intra-

64 APEC, APEC Economic Leaders Declaration, Auckland, September 1999.
regional trade. ASEAN member states were aware of this problem for a long time. Gradually they have taken steps like AFTA to end these barriers. Many SAARC members too have adopted a restrictive import policy to promote import substitution to develop domestic industries.

Protectionist tendencies like non-tariff barriers were not removed during the first two rounds of SAPTA negotiations - one reason for SAPTA's slow performance. This problem has been recognised since then. The SAARC Group of Eminent Persons Report too draws attention to the issue. Inadequate transport and communication facilities constitute another obstacle to intra-regional cooperation in South Asia.

However the main obstacle to regional cooperation in South Asia is political. Political differences and the lack of political will on the part of the member-states of SAARC to augment economic cooperation is unlike the ASEAN region. ASEAN members do have their own share of political differences and some of them are still unresolved - still members are cooperating in the economic field. In fact members are working together in political and security matters too. ASEAN members do express their differences but they stop short of jeopardising the association itself as they realize the international standing that 'ASEAN' as an association has given them. Even the recent economic crisis in South East Asia did not disturb ASEAN's international aura.

SAARC states can go the ASEAN way by learning from positive results of ASEAN cooperation and avoiding its mistakes. The ASEAN states are increasingly trading and investing in one another. Cooperation in the service sector will intensify interaction among the SAARC states as it happened with the ASEAN states. In South
East Asia 83% of the external funds is private capital, unlike SAARC, where 85% of the external money is still from official flows. South Asia has to attract more Foreign Direct Investment (FDI).

In the final, to quote Eric Gonsalves,

"Regional institutions almost never come into existence on a wake of enthusiasm. In almost every case, their proponents had to wage an uphill battle for acceptance at the political and public levels. National sentiments can easily be aroused as the whole case of British entry into European Union and now into the common currency shows. Yet, in South Asia almost no effort is devoted to advertising the genuine benefits that would accrue to every citizen from regionalisation, this needs to be remedied by breaking the vicious circle that national interest will be jeopardised by regionalisation, by demonstrating the opposite. Already the growing bilateral trade and investment within the region is providing gains to ever larger groups."

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