CHAPTER VIII

ECONOMIC COOPERATION IN SOUTH ASIA: THE CRITICAL FACTOR FOR PROGRESS.

Section 1: Attempts at Integration.

The first voice raised in Asia stressing the importance of international and regional cooperation was that of Nehru. He emphasized the need to transcend the cold war and tackle the social and economic problems of the globe without too much concentration only on a number of particular political problems. He wanted the U.N. Assembly to take a holiday from political issues which really reflected the underlying need for economic amelioration. He even staked on U.S.-U.S.S.R. rapprochement for mitigating the cold war and arms race in order to settle down and look at the vital and urgent economic problems. Others who evinced interest were Soekarno of Indonesia, Tito of Yugoslavia and Nasser of Egypt. Many conferences were convened in the fifties and early sixties to seek ways and means of forging unity among the non-aligned nations of the world in the fields of politics and economics. Of some relevance to our purpose are the Colombo Plan (1950), the Simla Conference (1955), and the New Delhi Conference (1961). It is in this Colombo meeting of the Commonwealth Foreign Ministers of 1950 that the needs of the area were discussed. The figures of aid and assistance under the Colombo Plan showed impressive performance over the period. It emphasized regional cooperation and helped increased production. While the

1. India and Regional Integration in Asia; Sisir Gupta.
plan had achieved considerable results in one sense, it is doubtful whether it can be compared with other regional plans. Bonham regarded it as an envelope covering the development programmes of member countries in South-East Asia, but an American observer says, "The Colombo Plan has not filled the vacuum of economic anxiety prevailing in this, as in other parts of the world."

The Simla Conference of 1963 was another milestone in the attempt to bring together the countries of the region to cooperate in economic development. The U.S. had shown interest in it and offered some aid, but the response was not encouraging. Thirteen Asian countries met at Simla to discuss a six-point agenda. All the proposals were rejected as each country was anxious to have bilateral dealings with the U.S. rather than through a regional organisation. Regional projects and regional trade were not favoured by the countries. Bilateralism was the preponderant thought at the Conference. The Japanese delegation was disappointed though India resigned itself to the inevitable. Reasons suggested by observers were: a) the apathy and fear of the smaller nations; b) the lack of development plans of most nations of the region; c) the fear and suspicion of supra-national organisations; d) the fear of Japan and India becoming powerful. Thus there were economic justifications and non-economic suspicions. The smaller countries were afraid that their own national interests would be subordinated to regional interests. Regionalism was a luxury they could not afford. They preferred to go on as they were.

The next important stage was the New Delhi Conference of 1961 sponsored by the Ecafe. It again considered the problems of region
cooperation. The purposes of the conference were limited and specific. It succeeded in this, but a wider cooperation was stalled by some members. Ceylon sounded a cautious note by warning against the colonial type of complementarity. It was echoed by Pakistan. India thought that a great opportunity was lost. She did not understand why the obvious economic advantages were still so dim and people hesitant. Perhaps the answer lies in the lack of political prerequisites, and the lack of resources and the smallness of market which does not apply to India. So doubt the ECAFE had done considerable ground work in developing a sense of regional unity and in suggesting practical steps for regional cooperation and development. Nevertheless its activities had strengthened the sentiment for a regional approach to the solution of common economic problems.

**Problems of Integration:** India has been assailed, both at home and abroad, for the failure to strive more for achieving results in the field. Most observers of Asian affairs have noted the tremendous complications involved in attempting regional integration in Asia. They say there is no South East Asia except for cartographic purposes. As against this there exists among them a unity of outlook which transcends in large measure their undoubted racial, linguistic and cultural diversity. So, there is considerable scope for regional cooperation, although initiative for this could hardly be expected locally. Even this view, however, takes note of the immense difficulties in the way of integration. Indian authors have stressed the diversities of the Asian countries, the lack of a consensus in the region, the problems created by treaty relations of the Asian countries with outside powers, the political fluidity
of the region, the state of inter-Asian relations and economic competitiveness among them. Apart from the general difficulties there are specific Indian problems impeding India’s initiative in this regard.

Prospects of Integration: The realm of speculations apart, there are specific areas in which integration attempts are conceivable even on the basis of the existing evidences of great power interest in the region. At least in the sphere of economics the prospects of integration are good. The Indian Second Plan had recognized the need to coordinate individual plans with a regional plan. Mutual adjustment was inevitable. They had to provide for trade, production, infrastructure, harmonisation of policies, technical exchange, etc. Besides, E CAPE’s report of 1961 assured trade expansion.

One of the factors impeding regional integration in the area is the state of India’s relations with her neighbours, with Pakistan in particular. Nehru was averse to any annulment of Partition but was willing for a federation or a confederation of South Asian countries. He wanted cooperative relations of the two States. Relations were strained and unfriendly. There was an unnatural division of the subcontinent. Conflict and rivalry led to cold war and hot ones too. Tensions and slogans were bandied. Paradoxically, integration movement must start here. The difficulties cannot be exaggerated, but certainly advantages and

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2. India and Regional Integration in Asia; Sisir Gupta (1964)
potentialities are great. Importance of Indo-Pakistan integration cannot be minimised though difficulties are involved. Perhaps Pakistan's intransigence is due to disintegration or due to what may be called political infrastructure and the elite protected by religion. A reasonable scheme for cooperation without disowning the past may be a way out. The present difficulties are caused by elite reactionaries in the name of religion. But the Muslim world is as much attached to nationalism as to Islam. They have similarities with India in regard to many international issues. In fact they have joined economic unions not based on religion. Hence South Asia becomes more than a mere cartographic expression. Pakistan more than ever is compelled to turn towards the subcontinent. There are no other countries of the region with as much in common as India and Pakistan; viewed from all angles they have between them the most fertile ground for attempted integration in Asia. They developed for ages as integrated parts of a single economic and political entity. Partition is a tragedy and is meaningless; it is geographically absurd and economically unviable and politically unstable. It affects the South Asian region. There is natural interdependence and need for greater cooperation. Some kind of integration in the South Asian region is a necessity. Leaders of both countries are aware of this logical path. But problems should not be oversimplified since policies are different. In any event, India's aversion to regional cooperation or integration in Asia is likely to be the least in the economic sphere. Three decades of post-war experience must have taught them the mechanics of integration to suit the level of development of the South Asian countries. Indo-Pakistan integration is both important and full of difficulties.
Two developments impeded the prospects of integration - the Chinese challenge and the American unilateral aid to Pakistan. Though the crucial role of Asia in world affairs and the pivotal position of India in Asia were strong trends in the immediate post-war period, the two developments mentioned above changed the course of events and made India more inward-looking. Nehru's early speeches became obsolete and even the Scoa became lukewarm about it. India had avoided offending any great power. And all attempts at integration became fruitless. The smaller countries kept away from India, and she was not invited for conferences by the South-East Asian countries which conferred closely with Japan, Australia and New Zealand, perhaps on Western initiative. The Asean was the result of such confab and this was clearly a political move. The new collusion between the U.S. and China and the political changes in Indo-China hastened the cooperation among the countries of the Asean.

Nehru defined integration as "to hold together and to advance together," but all efforts by India and the Scoa failed. There were no common political and ideological interests, instead there was confrontation and mutual suspicion. Nationalism and sovereignty took precedence over regionalism. There were wide differences between them. India's proposals were turned down. Even Bandung (1950) did not produce cooperation. The smaller countries did not like domination by an Asian power. There was in fact a cold war in South East Asia also. The proposal for a multilateral trading arrangement and a council for technical cooperation were turned down. Also the proposal for an Organisation for Asian Economic Cooperation. The smaller countries
succeeded. Japan came into the picture. The Reafe had changed its tactics. Only two proposals succeeded - the Asian Coconut Community and the asean. The region lacks traditions of regional cooperation, common interests, and common needs, which are prerequisites of cooperation. Political mistrust, excessive nationalism and fear of domination guide the thinking of the countries of the region. They are non-complementary economics and trade with other areas of the world is considered more profitable. There are preferential arrangements with the West. The countries are uneven in size and level of development. They want to produce all goods. The big countries are also not clear about their attitudes.

India's role had a lot of ups and downs between 1947 and 1961. The story of regional economic cooperation in Asia is the story of endemic frustrations because of reasons that are also endemic. There is romantic desire and sentiment only. The Colombo Plan and the U.N. were thought to be sufficient. India expected too much too soon from Reafe and Asian countries. Hence her enthusiasm cooled off later. But the European Common Market and other factors changed the situation in South East Asia. The countries of the region had reluctant reliance on Japan and sought to counterbalance it with the West. The climate was now favourable to India and South East Asia was willing to have India because of the desire for neutrality and Nehru's idea of South East Asia as an "area of peace", free from intervention by Big Powers.

Section 2. Manila and After

The Fourth Ministerial Meeting of the Group of 77 held in Arusha in February '79 and the Unctad V Meeting held in Manila

3. Harga Reports, Colombo.
in May, '70 have set the ball rolling again for economic cooperation among developing countries (ECDC). Within the framework of ECDC recommended by the Manila Conference, there is need to: a) examine the trade regimes, payments arrangements, investment patterns and government policies in the region; b) identify complementarities and areas of common interests; and c) suggest policy alternatives. These areas could be the core of a programme of studies based on economic and geo-political aspects. Strategies could range from trade to joint ventures, monetary policies, etc. The Asian Clearing Union could be a major step in the right direction. It should keep to the proposals made at the Manila Conference. Economic cooperation would facilitate a more rational geographical division of labour by changing economic structures. Studies on all socio-economic problems will have to be undertaken in addition to possibilities of joint participation in ventures in all fields of production and infrastructure including appropriate technology. Special attention could be paid to the development of transport and communications and to the joint exploitation of the Himalayan resources and the resources of the sea. Other common market arrangements could be studied to demonstrate the benefits of such cooperation. What is lacking is enthusiasm and will to translate the ideas into action. Economic cooperation among developing countries could be evolved in stages. It could be promoted through an association of the countries of the region. Cooperation could also extend beyond the region by formation of inter-regional groups on the basis of commonality of interests. The biggest breakthrough in the activities of the Group of 77 was
their commitment to ECDC. In the eighties they should concentrate on activities leading to the emergence of an ECDC programme. In addition to their preoccupation with the North-South dialogue they should pay attention to the East-South problems as well.

The CSCE The committee on Studies for Cooperation in Development in South Asia (CSCE) is a private organisation with member institutions in the region. The Marga Institute at Colombo (Sri Lanka Centre for Development Studies) is the Secretariat and coordinating body for its programme of studies. Four meetings of the region have already been held in Colombo, Kathmandu and Becca since September 1978. The Committee has an ambitious programme covering a vast field of studies pertaining to South Asian economic cooperation. It works in union with the Unctad and the NIBO and hopes to translate the ideas to the South Asian situation in respect of ECDC. It receives assistance from International Foundations and U.N. organisations closely connected with the specific projects undertaken for study and research. Its recommendations in its reports are valuable for the countries of the region. A good number of papers were circulated at its meetings by various institutions and individuals for study and follow up action. A revised list of studies contains the following main themes for research and presentation:

1. Survey of Economy and Resources of South Asia.
3. Import-Export Structures and Trade Expansion.
4. Regional cooperation in Human Resources and Employment Policies.

4. Marga Reports, Colombo.
5. Living Standards and Consumption Patterns.

6. Major conditions for cooperation for Development.
   (Political, conflicts, cultural Exchange, Payments
   Arrangements, Monetary cooperation, Trade Channels and
   Inter-State consultation.)


8. Cooperation with the Rest of the world.

   (with special reference to land-locked countries.)

10. Development of Himalayan Resources.


12. Selected Sectors of Economic Activity.
   (Food Production, Commercial crops, Selected Industries,
   Rural Industrialisation, Tourism and Special Problems
   of Mountain Regions and Island Population)

13. Sharing Development Experience and Technology.
   (Rural Development, People's Participation, Educational
   Innovations, Primary Health Care, Role of Youth, Agrarian
   Reforms, Science and Technology, Appropriate Technology,
   Urban Poor, Planning Techniques, Economic Management, Public
   Enterprises and Environmental Protection.)

14. Methodological Issues in Regional cooperation.
   (with special reference to South Asia.)

These studies are under way and they are expected to be completed
by 1981 or 1982. The fifth meeting of the CSCE will be in Delhi
in October this year.
The idea of economic cooperation among developing countries has come to stay. It is no more a question of seeking justification but one of how best to implement a programme. The scope for cooperation is great, but we have to convert a competitive structure into one of complementarity through a deliberate policy which abandons autarky in favour of regional cooperation. Haberler favoured complementarity. Viner favoured competitiveness and Lipsey favoured overlapping production. Basically they should be complementary and have not tried to build up industries protected against competition from the potential partner country, i.e., fundamentally complementary but actually made competitive in their range of production through protection. Hence the need for agreed specialisation with due reference to location and comparative advantage. There is need to look at trade prospects and possibilities for each country specially from the point of view of regional cooperation. Attention should be given to factors which account for the low share of the trade of each country within the region. Exports and imports should be studied on different assumptions. The limitations of infrastructure in terms of transport, banking, marketing, etc., should be studied because they influence the flow of trade. The terms of trade for each country within the region is required to be investigated. In view of recent trends invisibles are called for close study. The countries are all in the process of structural change. This is enough to bring them together with an eye to the future. National self-reliance in food and essentials is necessary while collective self-reliance based on balanced inter-dependence and complementarity relationships has to be kept in view by all.
The South Asian region can fall under three groups: (i) region that is diversified and relatively well developed like India and Pakistan, (ii) countries in which only a few products have made a major contribution to national income and foreign trade like Sri Lanka and Bangladesh, and (iii) countries that are landlocked — Nepal and Bhutan — depending upon transit countries for their economic intercourse with the world.

In terms of industrialisation India and Pakistan are relatively well developed and industrial structure contributes largely to national income as well as employment. These countries are also not heavily dependent on exports for national income. The total share of exports in national income would range between 4 and 15 per cent in the case of these countries. Because the share of exports to national income is low they are dependent critically on foreign exchange for their economic development.

A major characteristic of foreign trade of each of these countries, except Nepal, is their heavy dependence on countries outside of South Asia. The share of intra-regional trade is very small.

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<td>India</td>
<td>7.24</td>
<td>12.39</td>
<td>5.13</td>
<td>10.47</td>
<td>5.36</td>
<td>7.76</td>
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<td>9.77</td>
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<td>16.53</td>
<td>6.95</td>
<td>12.07</td>
<td>8.56</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>10.25</td>
<td>25.71</td>
<td>10.35</td>
<td>23.17</td>
<td>11.36</td>
<td>17.86</td>
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<tr>
<td>Nepal</td>
<td>20.04</td>
<td>63.70</td>
<td>56.34</td>
<td>55.23</td>
<td>60.76</td>
<td>45.41</td>
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S. Report by the IIPT on the Foreign Trade of India (Unpublished, 1980.)
The trading relations are confined to within a few countries and to a few commodities. For example, Sri Lanka depends on tea, rubber, coconut etc., that constitute more than 95 per cent of her total exports.

India is an important trading partner of Sri Lanka. India's share in Sri Lanka’s import was 9 per cent in 1973.

India’s Share in the Total Import of South Asian Countries
1972-73

(in percentage)

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<tbody>
<tr>
<td>Bangladesh</td>
<td>-</td>
<td>6.50</td>
<td>6.55</td>
<td>6.73</td>
<td>4.97</td>
<td>3.98</td>
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<td>Pakistan</td>
<td>-</td>
<td>-</td>
<td>Neg</td>
<td>0.19</td>
<td>1.60</td>
<td>1.90</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>2.97</td>
<td>4.61</td>
<td>2.92</td>
<td>3.82</td>
<td>5.94</td>
<td>3.74</td>
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Nepal is a landlocked country depending on a transit country, and depends on India for transit facilities.

South Asian Region and Rest of World: As stated earlier, South Asian countries depend more on rest of the world than within the region. Their economic importance to rest of the world is not of great significance. Its share in the world import is around 2 per cent. The region is an important supplier of commodities like Tea, Jute, Textiles, Cotton Textiles, Raw Jute, Copra, Coconut, Iron Ore, hides and skins to the world market. The share of the region in total imports of these few commodities is given below.
Share of South Asian Countries in the World Export of Select Commodities in 1970, 1974-76.
(In percentage)

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<tbody>
<tr>
<td>Raw Jute</td>
<td>93.0</td>
<td>70.1</td>
<td>63.8</td>
<td>63.3</td>
</tr>
<tr>
<td>Tea</td>
<td>63.2</td>
<td>57.32</td>
<td>61.9</td>
<td>52.4</td>
</tr>
<tr>
<td>Jute Cloth</td>
<td>92.0</td>
<td>90.35</td>
<td>88.7</td>
<td>82.6</td>
</tr>
<tr>
<td>Oil Cakes</td>
<td>7.5</td>
<td>6.52</td>
<td>2.9</td>
<td>3.8</td>
</tr>
<tr>
<td>Iron Ore</td>
<td>6.1</td>
<td>5.4</td>
<td>4.5</td>
<td>5.2</td>
</tr>
<tr>
<td>Mica</td>
<td>30.4</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Mica Sheet</td>
<td>81.4</td>
<td>-</td>
<td>-</td>
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*India is a major supplier - refers only to India's share.*

**Source:** U.N. International Trade Statistics

In the case of coconut and jute textiles this region claims a semi-monopoly position.

The important factors determining the scope for future cooperation in this region are:

(a) There are reasonably good prospects of political base to facilitate future cooperation.

(b) Countries are highly diversified in size and character of their economies.

(c) Trade and economic dependence of the countries on each other is currently not very significant.

(d) India is a dominating country in terms of size and character of the economy.
(e) Economic domination from outside the region is very high on these countries.

(f) These countries are presently exposed to the challenges and considerable influence of outside powers and strides in technology.

(g) There is a realisation that this region should get out of the boat's trap of its low level of economic development.

(h) The bargaining capacity of the region with regard to certain commodities in the world markets will be higher if they put up a united front.

India's Balance of Trade in South Asian Region 1973-78: During the past five years India continued to have a favourable balance of trade with all the countries in the region except Pakistan. India's trade deficit with Pakistan was of the order of 0.41 million in 1977-78.

### India's Trade with South Asian Countries

**Value: Rs. Million**

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<tbody>
<tr>
<td>Pakistan</td>
<td>Export</td>
<td>Nil</td>
<td>7.51</td>
<td>90.09</td>
<td>132.32</td>
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<tr>
<td></td>
<td>Import</td>
<td>Nil</td>
<td>223.93</td>
<td>17.15</td>
<td>239.08</td>
</tr>
<tr>
<td></td>
<td>B/T</td>
<td>-</td>
<td>-216.42</td>
<td>72.94</td>
<td>-105.66</td>
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<tr>
<td>Bangla Desh</td>
<td>Export</td>
<td>537.76</td>
<td>422.12</td>
<td>612.73</td>
<td>548.29</td>
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<tr>
<td></td>
<td>Import</td>
<td>170.41</td>
<td>31.51</td>
<td>46.56</td>
<td>60.70</td>
</tr>
<tr>
<td></td>
<td>B/T</td>
<td>417.35</td>
<td>390.61</td>
<td>566.17</td>
<td>487.59</td>
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<tr>
<td>Sri Lanka</td>
<td>Export</td>
<td>98.19</td>
<td>268.40</td>
<td>231.01</td>
<td>393.10</td>
</tr>
<tr>
<td></td>
<td>Import</td>
<td>8.07</td>
<td>2.93</td>
<td>11.47</td>
<td>22.71</td>
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<tr>
<td></td>
<td>B/T</td>
<td>90.13</td>
<td>265.45</td>
<td>229.54</td>
<td>370.89</td>
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<tr>
<td>Maldives</td>
<td>Export</td>
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<td>0.61</td>
<td>6.31</td>
<td>4.78</td>
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<tr>
<td></td>
<td>Import</td>
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<td>0.12</td>
<td>0.05</td>
<td>0.07</td>
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<tr>
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<td>B/T</td>
<td>1.83</td>
<td>0.49</td>
<td>6.26</td>
<td>4.71</td>
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<tr>
<td>Nepal</td>
<td>Export</td>
<td>501.30</td>
<td>424.01</td>
<td>309.65</td>
<td>517.99</td>
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<tr>
<td></td>
<td>Import</td>
<td>128.33</td>
<td>193.13</td>
<td>331.48</td>
<td>234.97</td>
</tr>
<tr>
<td></td>
<td>B/T</td>
<td>+372.97</td>
<td>+230.88</td>
<td>+178.07</td>
<td>+283.02</td>
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Implication for Regional Trade in South Asia: India has got bilateral treaty covering both trade and transit between India and Nepal. This treaty has facilitated the foreign trade between these two countries. Recently India has concluded limited trade payments agreements with Bangladesh also. India has come into agreements with Sri Lanka, Nepal and Bangladesh on credit and technical facilities. India and Sri Lanka are jointly taking a common front in the Asian and Pacific Coconut Community. They also do take a joint stand regarding marketing of tea in international markets. In fact, India and Sri Lanka are more close to many issues than any other country in tea marketing.

Combined approach to International Trade Problems of Export Products: While International Commodity Agreements are larger solutions to the problems of commodities there must be serious attempts to develop a united stand of the region which is bound to increase their bargaining strength. Tremendous scope exists for such efforts to develop a joint stand with regard to Tea, Coconut and Jute Textile. It should be noted, however, that these efforts will more often be bilateral in character, for, in many commodities not more than two countries are major exporters. Yet it generates an atmosphere of confidence in regional efforts.

Long Term Bilateral Agreements: Despite their inability to supply each other, substantial share of goods, the countries are in a position to supply each other a limited number of economically important products. Hence, long term agreements may be designed in the field of Cotton, Rubber, Copra, Fish and even Electric Power and a large number of other products. This, of course, envisages preparedness of participating countries to reduce their high cost of production at home.
Agreement in Transport and Communication: If these countries can cooperate they should be able to remove the constraints posed by transport and communication difficulties. In the process the greatest beneficiaries will of course be land-locked countries like Nepal. If these efforts are taken assiduously and faithfully, it will be possible to build up the requisite confidence to forge ahead.

The next but advanced stage will be economic integration. Under this form of economic cooperation, harmonisation plans are envisaged. An analysis of the achievements in agriculture, industry and mining reveals that, because of certain factors, there are a few segments of economic activity in this region which are of very high cost. Further, there definitely is a scarcity of capital and technical know-how in the region as a whole. If coordination of planning of certain industries from the regional point of view is made, it may be possible to effect the highest economy in certain sectors. This applies not only to smaller nations but also to India because bigness in geographic size is not always parallel to market size for certain products. Even in India there are segments whose domestic market is extremely limited so as to preclude effective utilization of investment. Hence such cooperation will definitely enable the countries to achieve maximum utilization of their limited resources. It may be worked out in steady stages.

Shipping: India is being serviced by about 50 shipping conferences for its foreign trade. Nepal is serviced through Calcutta port by a treaty between India and Nepal. Export to Bhutan is serviced by road transport. Under normal circumstances generally there is Sri Lanka, Maldives and Bangladesh.
India has entered a transit treaty agreement with Nepal as it is being a land-locked country. By and large, the terms of the transit treaty are in consonance with other similar treaties. The foreign trade of Nepal as it is being a land-locked country is being carried through one of the major ports of India namely Calcutta. As there is bilateral agreement between India and Nepal, if and when there are any irritants in the transit treaty, they are amicably sorted out.

Section 4: Trade and Industrial Policies.

One set of policy measures suggested for the Second Development Decade is trade expansion through regional cooperation and integration amongst developing countries. This may involve regional and sub-regional arrangements such as commodity communities, buffer stocks and price stabilisation schemes; joint ventures in investments, diversification of production and trade, preferential trade agreements; payments arrangements, shipping agreements and so forth. Regional cooperation on trade expansion is conducive to development in helping to reduce their balance of payments deficits. This will avoid breakdown of development plans, and also help aid and special measures from developed countries. Moreover, the distribution by country of increases in intraregional exports and imports will appraise the effects of intraregional trade expansion and the policies needed for implementing such trade expansion. In addition, long-term effects of a dynamic nature ought to be taken into account though such long-term benefits have not been quantified. Besides, policy problems involved should be considered, because a number of implementation problems are bound to arise. Hence a study of trade projections is necessarily hypothetical as they are dependent on successful implementation. It could serve as a target to be
implemented through appropriate policy measures and a spectrum of such measures are required. Measures such as trade liberalisation, distribution of industrial locations, commodity communities, payment arrangement, shipping arrangement and integrated industrial specialisation scheme have to be considered. The findings will indicate that increase in intraregional trade will partly solve the problem of the regional trade deficit, which mainly results from the requirements of capital goods. They also suggest a number of policy problems.

Intra Regional Trade Projections: The Eescap published in 1972 a report by a group of experts on 'Intraregional Trade Projections, Effective Protection, and Income Distribution'. A list of 35 commodities were projected for a ten-year period to study the potentialities of trade cooperation in the area. The study indicated that the potential for intraregional trade expansion was substantial, it also showed the need for devising appropriate policy instruments to realise that potential and to ensure the equitable distribution of gains. These gains could be substantial for all countries in the region. It was expected that the intraregional trade could go up by 30 per cent. The present intraregional trade was about one-third of exports and imports, but this was chiefly due to Japan. Otherwise it would be only 9 per cent though it was still comparably high than that of Latin America and other regional grouping of the developing world. This contrasted with Western Europe where intracommodity trade rose from half to two-thirds of their total trade within a decade. The selected commodities rose from half to two-thirds of their total trade within a decade. The selected commodities were divided into: 1) Food and beverages; 2) Consumer goods (non-
food); 3) Intermediate products and raw materials; 4) Capital goods. The first two categories of commodities could be taken up immediately under a short-term plan. The third category involves low-level and medium-level technology and there could be a long-term plan accompanied by mutual transfer of technology, employment, and trade. The fourth category may be considered as involving higher technology where the countries of the region could engage in collective bargaining if necessary with the developed countries. Adjustments between countries of the same sub-region would expand their trade relations through a process of reallocation.

**Intra-Regional Trade Cooperation:** Intra-regional trade projections made for 35 commodities suggest trade cooperation among them to make increased trade and development possible. 1. The interaction between the domestic and the external factors needs to be recognised in fixing the export targets of each country. They depend on supply and demand conditions. The adjustment has to be introduced gradually during the projection period. 2. Another important aspect of decision-making, which the developing countries face, is in the field of import substitution. The choice of industries should be considered from the long-run viability. It should be considered at the regional level on a mutually helpful basis to increase trade. The implications for intraregional trade should be kept in view. 3. Trade policies, such as tariffs, controls, taxes and subsidies, affect the imports, exports and also the domestic production levels of the different commodities. Protective policies should be so devised that the broader objectives of cooperation in production and trade in the region could be served.
4. The adjustment of the domestic resources (savings) to the level and pattern of trade flows is an important aspect of fixing the targets for exports and import-substitution. Some countries have to make determined efforts to increase the mobilisation of savings.

5. Intraregional trade expansion would be greatly facilitated by development of a suitable intraregional payment system and monetary cooperation. Aid from the developed countries should be increased and provided in an untied form.

6. The possibilities of regional or subregional groupings depend upon the extent to which the countries can have complementarity in trade. The degree of complementarity in trade depends on the commodity structure of production and export surpluses in the different countries. Intraregional trade can be fostered by proceeding gradually, starting from bilateral and subregional groupings.

**Some Policy Problems**: The findings suggest a number of policy problems. 1. Even if the intraregional trade flows were expanded through intraregional trade agreements, there would still be a number of commodities whose supply is far in excess of regional requirements and which will therefore have to be exported outside the region. Developed countries will be required to grant special preferences for these commodities. 2. Maximum intraregional trade expansion requires that countries in the region shift import purchases from developed countries to the developing countries of the region. The expansion of intraregional trade requires that such countries be given the necessary incentives to do so.

3. Initially trade policies might have the modest aim of selecting such trade expansion as would be beneficial to all parties involved. This would help to maximise trade in the region. But this would
only help countries with import licensing. 4. Pairs of countries may be considered to calculate their degree of complementarity to promote mutual trade. This method will have great potentialities. 5. Financially, the uneven distribution of gains clearly suggests the necessity for adjustments to national development plans. Cooperation should start at this level. 6. The projected balance of payments deficits indicate that capital goods may be one field in which large gains could be made in terms of balance of payments movements. The intraregional trade expansion policies might accordingly be supplemented by intensive efforts towards import substitutions at the regional level in the field of capital goods.

The study thus made by the SaCa indicates that the potential for intraregional trade expansion is substantial; it also shows the need for devising appropriate policy instruments to realise that potential and to ensure the equitable distribution of gains. These gains could be substantial for all countries in the region.

**Commodity List:** The projections made for study were in respect of the following 35 commodities listed below. They cover all the important products for the SaCa region and are specially applicable to South Asia.

1. Food and beverages; Fish and fish preparations; wheat; Rice; Maize; Sugar; Tea; Pepper; Copra oil.

2. Consumer Goods (Non-food); Tobacco manufactures; Textile yarn and thread; Cotton fabrics (woven) woven textiles (non-cotton); Footwear.

3. Intermediate products and raw materials; Tobacco (unmanufactured); Copra; Natural rubber; pulp and waste paper; Cotton; Jute; Synthetic fibres; Iron ore and concentrates; Bauxite; Crude and partly refined Petroleum; Petroleum products; Fertilisers (manufactured); Veneers; Plywood, etc.; Paper and paper products; Cement etc.; Iron and Steel; Copper; Aluminium; Tin.
Capital goods: Machinery (other than electrical); Electrical machinery; Transport equipment.

The Harmonisation of Industrial Policy: An important area in which economic co-ordination is desirable if the benefits from market integration are to be fully exploited concerns the member countries' policies towards the operations and the development of manufacturing industries and towards the development of the economic infrastructure.

With respect to the development of manufacturing industry the need for coordination derives from the need to provide an appropriate framework for competition. Much of modern manufacturing industry is in the terminology of Sargent Florence, 'footloose' - which means that it is capable of being operated in a wide range of alternative locations at comparable costs. As Dell puts it: 'except in industries tied closely to highly specific natural resources that are expensive to ship, the advance of modern technology has greatly reduced the natural advantages of siting manufacturing activities in one place rather than another. By now, the advantages of one site over another are largely man-made rather than nature-made. And if advantages are made by man, they can also be changed by man in accordance with rational and deliberate planning criteria. Although this may be true, this statement disregards what is normally the real problem, which is the cost of infrastructure investment necessary to make such industries viable.'
Nevertheless, where a suitable infrastructure exists, since footloose industries may lack any important natural locational advantages, they may not be set up on the scale made feasible by their access to protected markets in the other countries of the group unless there is some assurance that similar enterprises will not be encouraged by artificial inducement to establish themselves in those countries until the market has grown sufficiently large to support the additional output.

To avoid the waste of resources entailed in this kind of situation, an agreed pattern of investment concessions may be of help. But since there are many less direct ways of bringing about the same ends, the avoidance of this kind of development would demand coordination of policies in several fields. It would be necessary, for instance, to ensure that the investment decisions of public development corporations are guided by economic considerations and that their operations are not made a vehicle for the subsidization of unprofitable enterprises. Likewise, in relation to development undertaken wholly by the private sector, it would be necessary to ensure that such factors as unilateral quantitative restrictions, or a threat of their imposition, are not employed to foster developments which would not be profitable, given the agreed common level of tariff protection.

One way of providing the necessary assurances would be for the countries forming the union to operate a system of industrial licensing to back up an agreed sharing of industries in which economies of scale were important. Joint governmental financial participation in common-market based industries, either directly or through a regional development bank, might also be of value in
limiting the unilateral provision of artificial inducements to the establishment of industries. Ultimately the establishment of a comprehensive code of trading conduct may be the best solution if the operation of the common market from this point of view were to be as fully beneficial as possible, though the administrative and judicial problems of operating such a code would doubtless be enormous. Such a code might also deal with monopolistic practices by private and public enterprises, which again may hinder the full exploitation of the primary gains from regional integration. On grounds such as these some coordination of the policies of the separate governments towards the operation and the establishment of private manufacturing industry is called for if the gains from scale are to be fully exploited, and indeed the gains from specialisation.

On different grounds it can be argued that a coordination of development plans in the public sector is also desirable in order to facilitate the coordinated development of complementary resources made possible by the development of the common market. This is particularly important in relation to infrastructure investment in communications, power, and water development, etc. These are activities in which economies of scale, external economies and interdependencies are likely to be large, so that coordination may affect the viability of particular projects. Coordination of key projects may enable a group of projects to be undertaken profitably for the regional market if carried out simultaneously, whereas in isolation, none would be feasible. For instance, it may not be worthwhile carrying out a power project in one country, and a railway construction in a second, unless industry is developed in a third to make use of the railway and the power. But the
industrial development in the third country may itself not be feasible unless the infrastructure facilities are provided. In isolation none of these projects may be started because of the risk that the others may not be undertaken at the appropriate time. In this kind of situation joint planning of development to coordinate initiatives and the phasing, character, and location of development has obvious merits. A variety of possible ways of effecting such cooperation may be devised ranging from a regional investment board, jointly financed, which would have the responsibility of planning and undertaking investment in infrastructure and possibly in some industries which serve the common market, to joint boards established to deal, on a regional basis, with particular kinds of activity such as power, irrigation, etc. But if each country insists on retaining sole responsibility for planning, financing and operating its own development projects, a minimum condition for the effective exploitation of integration gains will be consultation and harmonization with respect to key development projects.

A SUMMARY: A summary of our approach and discussion of integration in South Asia would be valuable to indicate the omissions and commissions of our analysis of trade and industry in the region. We have made a general case for partial integration on a step-by-step basis as a prelude to a special treatment of Sri Lanka’s cooperation in the region in the next chapter. In Part II we discussed the trends and problems of the economies of the countries of this region and pointed to the need for regional economic cooperation in a limited sphere with limited objectives, i.e., for partial integration on a preferential basis. ECAFE and ESCAP report
on the subject reveal possible favourable trends if the countries of the region so desire to come together for mutual benefit and gain. The early post-war competitive nature of their economies after thirty years of advance in the industrial sector as well could give place to a complementary nature by the selective projection of commodities (capital, intermediate and consumer) over a long period for intraregional trade. This would solve the problems of the various sectors of their economy in the direction of development creation, and self-reliance. If after production and demand projections are made for all the principal commodities of the region, there is still left a surplus, special measures from the developed countries could be sought when everything possible has been done by way of regional trade expansion. The picture of intraregional trade flow matrices thus obtained can serve as a target to be implemented through appropriate policy measures. To design such measures is the next stage of the study. A spectrum of policy measures are required, and measures such as trade liberalisation, distribution, of industrial locations, commodity communities, payment arrangement, shipping arrangement and integrated industrial specialisation scheme have to be considered. In addition fiscal policies, monetary coordination and industrial cooperation are urgent prerequisites. These are, of course, based on existing development plans of the countries involved, but the plans themselves may have to undergo lot of changes followed by changes in policy measures in each of the member countries. Thus there would be a need to reconcile internal policy criteria or conditions with the policy considerations required for integration. In the process, problems of reconciliation of the aforesaid reconciliation are bound to arise. A number of such policy problems would follow regional
trade. They have also been discussed here. Regional cooperation would therefore seem to help overcome balance of payments deficit and reallocate resources so as to cause specialisation based on comparative advantage and natural resources. There would be greater self-sufficiency and greater self-reliance. The odds are that South-Asia can do it given the present level of skill, technical ability and resources. The heights of any sophistication can be reached if the past is forgotten and a new leaf is turned. What is fundamentally required to sustain and maintain integration is the hope that polarisation would give place to spread effect and that all members are assured of proportionate benefits and the weaker members given a preferred treatment. Otherwise, it would go the way many integration movements have gone.

8 To quote one author: "India by the sheer size of its area and population is likely to dominate the union. Though the static welfare effects are negative for India, the longer term gains for India are substantial as her exports in manufactured goods would be admitted free of impediments into the regional market, in preference to outside imports. The other members, especially Nepal and Sri Lanka, though able to raise their primary exports to India, would not be able to make substantial gains in exports. Further, they might lose the tariff revenue on imports diverted from third countries towards the union. Also foreign investment would be drawn towards India and Pakistan. If polarisation grows, the future of the union would be uncertain. A Supranational agency must intervene to encourage investments in less advanced areas through

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fiscal incentives and infrastructure. Regional disparity can be removed only by a supranational body as between members. It is precisely this state of affairs that we should avoid. With indirect taxation and wide licensing system a once-for-all union is not a realistic approach. A planned approach is a necessity. The need for a union could be shelved in favour of a more realistic and systematic mutually beneficial scheme in a limited sphere with limited objectives. This would obviate problems of trade diversion and creation and their measurement in terms of benefits and gains under static conditions because each stage is accompanied by development creation beneficial to each one of them. Pareto's laws operate. If experience means anything, the lessons of integration elsewhere must bear fruit in our case. For countries with high tariffs and low elasticities for imports and exports and a complete licensing system the door is open only via partial integration.

South Asia presents a sordid picture. It contrasts with Europe in both its economy and trade. Even compared to Latin America, Africa, West and East Asia, it is confronted with problems of greater severity. The E.E.C. discriminates against it while granting concessions to other regions. Even China is given better treatment along MFN lines. The present trade pattern is one of dependency on outside the region, and intraregional trade is hardly 10% of the total. There is lack of unity in dealing with primary products even of those in which the region has world monopoly e.g. tea and jute. Critical minerals are wanting, and population growth cancels any rate of growth of the economy. In all these respects the region is at a disadvantage, compared to other developing regions. Yet there is the necessary skill and technical and administrative
ability in the region to cope with development. What is required is to coordinate plans, mobilise investment resources and enable skilled labour to be more mobile in the region. A decision to pool technological advances and determine the appropriate choice of technique to various sectors and intrasectors would raise the rate of growth. There is adequate infrastructure and coastal shipping to save on transport to far-off regions and to develop more of intraregional trade based on complementarity. With greater reliance on inter-regional cooperation and global cooperation of developing countries it is possible to evolve a transitional form of regional cooperation with due consideration for the future development of other developing regions. The potentialities for agro-based and mineral-based industries are great in the short-run and of technology-based and infrastructure-based industries in the long-run, thanks to a viable industrial and manpower potential. With specialisation in the region there would be less trade dependency on the West and more with the Underdeveloped countries. The present trading patterns would give place to new patterns of industry and trade within and without the region. And of prime importance is the immediate relief to all the member countries of the balance of payments deficit hitherto experienced by them.