CHAPTER I

INTRODUCTION: REGIONAL ECONOMIC COOPERATION.

Introduction: The genesis of the latest concept of the New International Economic Order is as follows: First, the division of the world into exporters of primary products and exporters of manufactures. Second, the adverse factorial terms of trade for the products of the developing countries. Third, the dependence of the developing countries on the developed for finance. Fourth, the dependence of the developing countries on the developed for their engine of growth.

The poverty of developing countries is due to low productivity of agricultural labour which limits the market for manufactures at home, and hence the need for exports. The developing countries look to the world market for their exports of manufactures and agricultural products. This is the most effective way of helping the developing countries. The developing countries require long-term finance while only short-term finance is offered. The oil-crisis requires medium-term credit. The IMF has inadequate standby resources to meet cyclical recession. Moreover, agricultural commodities do not have better prices through stabilisation schemes.

Therefore, the parceling of the world market into a set of regional enclaves has some merit if the developed countries close off their markets to the manufactures of developing countries. With agricultural revolution the home market would be ideal for
manufactures. But this can be developed by broad-basing it first through regional cooperation and specialisation. Integration treaties among developing countries are meant for this, but they are in deep trouble. The reasons are: 1. Each country wants to produce a whole range of light manufactures, so that only a few large-scale heavy industries are eligible for integration and over this there is much quarrelling. 2. Some countries are more advanced than others and benefit from integration at expense of others, so the agreement is unstable. Hence the urgency of the N.I.E.O. with its special emphasis on collective self-reliance among the developing countries. The medium is the United Nations Conference on Trade and Development (UNCTAD).

The first serious attempt at regional trade cooperation in Asia was made by the SEATO in 1960. The SEATO passed a resolution on economic cooperation for development of trade and industry. The countries were to seek to increase intraregional trade to increase production. A suitable pattern of regional cooperation was to be studied, and the Executive Secretary of the SEATO undertook the work. The reasons for this undertaking were: 1. The long-term trend of trade of the region was not very favourable. 2. The major export commodities were subject to wide fluctuations in price and volume. Though the industrial countries of the West had improved economically, they did not help the growth of underdeveloped countries. 3. Import requirement were rising and the gap in foreign exchange earnings became enormous. So it was felt that greater cooperation among

---

1. SEATO Bulletin, June 1961. Refer Chapter VIII, Section 1, for a fuller account.
the countries of the region would bring about a better utilisation of available productive and financial resources, and accelerate economic development and stimulate larger intraregional and interregional trade. The urgency was greater as the newly won political independence, in many cases, had resulted in political and economic fragmentation and had almost led to the disintegration of the region, e.g. India was divided into India and Pakistan (1947) and Burma was separated in 1937. This study examines economic trends in the region, the scope of integration and the possibilities for cooperation. The special case of the least developed countries, the structure of intraregional trade of Ecafe countries—share, importance, commodities, existing arrangements (tariffs, quotas and bilateral agreements), and developments in the EC and Latin America (especially Central America and the Montevideo Treaty) were closely examined. The Ecafe sponsored the New Delhi Conference in 1961 for this purpose, but unfortunately, the response was poor. The findings and the recommendations did not find favour and no progress was made.

Development Through Trade? Can foreign trade propel development, or is it incompatible with development? Classical and neoclassical economists assume that it not only achieves economic efficiency,

but it also can generate growth. There are dissidents who say
it actually widens the gap and creates greater inequality. The
developing countries, according to them, would be better off if
they directed their own development towards an expansion of output
for their domestic markets.

When a country specialises according to its comparative
advantage and trade at the international exchange ratio, it gains
an increase in real income. This gives an outward shift to
production. Though the dynamic factor over time was not considered
by traditional theory, it was recognised by Mill and Hia Nyint
who formulated the direct and indirect effects of trade on a
country's gain and growth. According to classical theory trade
stimulates development through efficient resources allocation
and outward shift in production. Thus the larger the volume of
trade the greater the development also.

But historical experience of developing countries belies this
assumption. External trade has induced comparatively little
internal development in developing countries. Production was
increased for export only. It resulted in the colonial type of
development. Changes in factor supplies were export biased.
The income elasticity of demand for imports has been greater than
for exports. Both production and consumption were export-biased.
Despite this increase in exports, development process did not
catch up in many developing countries. Why did the export sector
not propel the rest of the economy? The critics say that the
conclusions of the traditional theory are not relevant, and that historically international trade has impeded the development of the less developed countries. But the traditionalists contend that the theory of comparative cost is still valid for developing countries also since traditional theory does not argue for equal wages and incomes. The other argument by Myrdal that market force will tend to accentuate international inequalities in a cumulative way and that it would lead to the impoverishment and stagnation of the developing countries is sought to be answered by denying the assumption on which Myrdal bases his theory. They claim to have disproved them, but the arguments on these issues have to be reassessed.

We are nonetheless left with the question as to why the classical optimism regarding development through trade has not been vindicated in the developing countries. Why have the gains from trade not led to more substantial gains from growth? Why did it not have more penetrative power and induce more significant secondary changes elsewhere in the domestic economy? The blame should squarely lie on both external constraints and domestic policies. It would be difficult to decide which has greater significance. The long-term trends in the exports of less developed countries made through empirical studies in international trade show that exports of industrialised countries have been increasing at a faster rate than those of the less developed countries? This may reflect a relatively slow increase in the quantity of exports of the less developed countries and/or

3. Refer Table I.
a relatively slow rise in the prices of their exports. Further protectionist policies and other technological reasons have made it difficult for the developing countries to have access to the markets of the developed countries. This has during recent years been accentuated with the rise in price of oil. This has affected their programmes of economic development in both industry and agriculture.

Constraints on Growth and Employment: The balance of payments is the predominant constraint on growth along with that of saving and investment. They affect also the absorption of the unemployed. The neo-classical model of economy is one in which optimum expenditure policies in conjunction with exchange rate adjustments keeps it in a perpetual balance of payments equilibrium so that there is no scope for import controls or for other trade restrictions imposed for balance of payments reasons; tariffs are imposed only in accordance with the optimum tariff argument, and any other domestic distortions are dealt with by appropriate subsidies and taxes financed in a neutral manner. But we are only begging the question. Notwithstanding all the levers and instruments of economic policy it is now accepted that the balance of payments problem could not have been solved by holding to the market share of traditional exports. Imports grew faster than national product because of capital content of imports. This was used for development. Either way the balance of payments posed a problem. It required the discovery of large new forms of exports, or a reduction of the import ratio of the countries, or more probably some element of both.
The choice merges into the general problem of the allocation of resources. Foreign trade enables investment in production grants advantage and economies of scale despite limitations of domestic market. Efficiency requires best investment under foreign trade. Comparative advantage must decide allocation of resources, but in developing countries this is not a true indicator, as resources are underdeveloped. Long-term comparative advantage cannot be judged from the present pattern of production and trade. Moreover comparative advantage according to classical theory is static. Hence allocation of resources should take into consideration growth effects associated with different projects, of course without sacrificing current output. Investment must take into account decreasing costs and external economies, linkage effects, effects on the propensity to save and on the formulation of skills. There is of course the need for careful planning of investment that does not justify indiscriminate import substitution.

In the present stage of knowledge, no single, simple and unambiguous operational criterion is available to guide the allocation of resources in the developing countries. Even otherwise the ex ante estimates of costs and benefits must by their very nature contain an element of uncertainty. A country faced with unfavourable prospects of traditional exports, rising domestic requirements of intermediate products and capital goods, cannot lose the advantage of the proximity of iron ore and coal to develop the iron and steel industry. Low return does not rule out the need for an industry. It is part of the general problem
of low productivity of capital in a poor country. But import-substitution must follow carefully worked-out priorities. For example, non-essentials were not discouraged from being produced. There was lack of careful planning. Exports will also have to face competition from industrialised countries. They also require a large domestic market to gain economies of scale before export. Industrial exports depend on the efficiency of the process of import-substitution.

Thus the classical theory of International Trade does not illuminate on the structural and dynamic problems of the developing countries. They justify protection in the developing countries in terms of its effects on growth and development. Many leading economists of the West justify protection and industrialisation in developing countries on the basis of a dynamic approach, to foster structural transformation of these economies. Comparative advantage is changing and can be changed. Unemployed resources, external imbalances, export dependence, inflow of capital—all await solution as a result of protection. Development of new skills through industrialisation, sociological advances, stimulation of activities, increased rate of growth and growth targets are the results of protection. This is the basis of the thinking with the Economic Commission for Latin America (ECLA) and the Economic Commission for Africa (ECA), and the United Nations Conference on Trade and Development (UNCTAD). All accept protection as necessary for industrial development, initially by import-substitution. This is the new conventional wisdom in

4. Refer Chapter II, Section 2.
development economies. And this principle has been extended to integration processes of developing countries, for integration is seen as reinforcing growth effects by enabling industrial development more economical by taking advantage of the economies of scale and specialisation within the region. Trade creation is therefore irrelevant. But integration has growth reinforcing effects. Integration, though based on the case for protection, does not work of customs unions in promoting specialisation and economies of scale.

**Economic Integration:** It has a variety of meanings and it embraces several forms of international economic cooperation. These forms 1) facilitate expanded specialisation and exchange, and 2) entail discrimination against non-members. Integration is a means and not an end for anticipated economic benefits. Customs union and trade creation are only a part of the problem of developing countries. Conventional economics and static trade theory have limited relevance to the problems of developing countries. Static theory is of little use for evaluating the desirability and possible consequences of integration in developing countries. Dynamic arguments look beyond existing patterns of production and trade to what is likely to emerge in the future, when comparative advantage and trade patterns are likely to be different, i.e., after transformation. Hence economists question the applicability of the theory to the potential gains from regional trading arrangements for developing countries. There are several reasons for this being so. 1) The traditional static

---

5. Refer Chapter II, Section 2.
theory does not provide a logical basis for choosing integration rather than free trade. 2) In the context of a case for protectionism, it is evident that the central criterion of benefit in the static model is inappropriate. Dynamic assumptions give income gains that outweigh considerations of diversion. 3) The traditional theory of integration has little to say about the distribution of benefits within the union. Growth of production must be distributed among all for welfare reasons.

Rationale of Integration: The purpose of integration is manifold. It leads to modernisation and genuine independence; bargaining power in international politics; economies of scale; overcome the disadvantages of small size; attain greater rate of economic growth; overcome poverty; attain satisfactory standard of living; take advantage of differences in comparative advantage in the production of commodities; wider markets will attract foreign capital and increase employment; diversify output and stabilise economy and promote growth; reduce external economic dependence and achieve greater economic autonomy. The objectives of economic policy will find more effective attainment in integration. Pan-Asianism will support this ideology. But the gap between aspiration and achievement will be large, and benefits will not be automatically reaped by members of integration, especially if the stages of development are different. There should be an equitable distribution of benefits and an assurance of durability of arrangements. Vital services, like tele-communications, power and transport must be properly distributed. There will be the need for international negotiations. Sharing of power is involved. States normally seek immediate welfare and benefits as against
future advantages. Integration thus enjoins on us many objectives while being subject to limitations.

One of the fundamental problems of integration will be the equitable distribution of benefits or industries. This will be aggravated by the tendency for polarisation or backwash effects. But there are limits to this polarisation. Yet there is the need to redistribute if the costs of redistribution are not too high. Gains may be redistributed to all by taxing incomes from the industry. Alternate proposals for the distribution and location of industries will have to be considered, because the potential benefits would have to be taken into account. Moreover mere removal of tariffs and quotas is not enough. Other instruments also will have to be harmonised - fiscal policies, monetary policy, industrial harmonisation policies, infrastructure, including communications and power, and labour mobility which is of little relevance.

The policy aim of integration is to promote industrial development and a balanced economic structure. One difficulty as stated earlier is to arrange an equitable distribution of benefits. Groupings must make it possible to have balanced development. Cultural differences and political factors are likely to stand in the way. Magnitude of gains will be another factor of consideration. It is wise to integrate at the earliest without having to wait till a comprehensive integration is evolved. Limited objectives are better to start with for experience. Limited products and preferential trade are two ways of implementing it. There are bound to be difficulties in allocating industries to each country. Harmonisation arrangements are very necessary. Members should be given firm assurance and international support
should be sought. There will be the need for an acceptable form of integration. External finance would be necessary from such sources as the developed countries and international agencies to finance payments schemes and infrastructure investment. All justifiable integration schemes have a greater chance of reaching fruition. One of the aims of the Unctad is to bring about the consummation of the ideal of economic integration among the developing countries in order to develop and cultivate self-reliance on a collective basis and overcome their weak bargaining power in international economic relations.

Background to Cooperation: Perhaps the most affected area of economic development is South Asia. The net rate of growth is the lowest (less than 1%) even when compared to Tropical Africa or North Africa (Arab countries). Even South-East Asia is far better not to say of East Asia. No doubt India and Pakistan have achieved great industrial capacity and turned the corner in food supplies. But population explosion and the low net rate of growth of income per capita leaves the future with much misgivings. The area is next to China the biggest and the densest in population covering a population of a thousand million people, or a quarter of humanity. Could any humane consideration afford to overlook and neglect the fate of this large chunk of the world population. When the World Bank president pinpointed the gravity of the international economic situation he had in mind the large percentage of people below the poverty line and the immense magnitude of the problem of unemployment. How are they to be met?

Could the present methods of tackling the problems within the frontiers of these countries suffice to act as an economic lever? Could the affluent West afford to give a permanent dole? External help could at best be a catalyst in promoting development, which must perforce be undertaken by the countries of the region themselves. Perhaps India with its varied resources may opt to go it alone. But could she do it going alone? Has she solved her external constraints? And, if so, how far? Is the internal market and purchasing capacity adequate to absorb all her resources working at full capacity? Surely no country can boast of such a privilege or prerogative, not even the economically viable United States. By all counts India is in need of cooperation with her neighbours in order to raise her productivity to full capacity and raise the standard of living of her people. Witness her desperate bid to penetrate the markets of South-East Asia and enter into contracts in the Arab world. But more than that, there is both self-interest and moral obligation for India to cooperate with her neighbours for more than one reason. As member of the Unctad, this in fact, enjoins on her to take a more realistic attitude to promote united action for collective self-reliance. She is also well-placed to play the role of coordinator, because of her strategic position in the Indian Ocean, immense manpower, industrial resources and development and administrative machinery.

The countries of South Asia possess similar environments, similar economic structures, similar standards of life and face similar problems. They were attempting to solve almost the same problems in almost the same physical and environmental setting by somewhat different policies. (Exchange of experience valuable
In some cases all adopted similar solution. (Was it the only solution?). In recent years Pakistan and India have been developing new exports and changing their pattern of trade, but which of them will find export markets is a guess. Pakistan increased exports on plentiful low-cost labour and low capital intensity and employment of skills above average. Her experience is a pointer, but it must be borne in mind that the tariff and quantitative restrictions meant for balance of payments are now used for domestic protection and revenue purposes. Hence it would be unrealistic to think of Customs Union or Free Trade Area or the like for cooperation among these countries. Customs Union will result in trade diversion and this will cause loss of ability to use exchange as an instrument to achieve their numerous objectives. But against this is the gain to them of achieving their economic objectives through better coordination of their policies. There is immense gain in many directions through cooperation which await the desire and willingness to cooperate with one another. Many solutions are ready at hand, and with better analytical study and more considered plans the possibilities of certain measures to increase exchange of goods between nations of South Asia are immense. A start must be made as a first step without waiting to evolve the best step to forge cooperation. Delay breeds danger, and the earlier the commencement the better would be the chances of avoiding errors and mistakes in the allocation of resources or the location of industries in the future. Even exchange on a small scale of particular commodities could lead to the much needed esprit de corps. Development would lead to many inequalities and polarisation which would require not only better regional
planning within each state, but would require correction of the unevenness of growth between nations.

Objectives and Principles of Cooperation: Trade and exchange rate policies in these countries led, with industrial planning and licensing controls, to the growth of uncompetitive industries by safeguarding their profitability against foreign competition. This is coming to an end because of inefficiencies created. Thus it is now realised, consistent with protection for industrialisation, the developing countries can indulge in profitable division of labour between one another. Such trade would also enable the developing countries to exploit economies of scale by widening markets beyond the narrow national frontiers—a argument of particular relevance to the smaller countries of South Asia. Most trade might even involve greater efficiency through increased foreign competition in an otherwise sheltered market. Many alternative schemes could be considered. Perhaps many industries could reach the optimum scale within the frontiers of some countries, but there are still many of these industries whose plant size may require markets beyond the frontiers, because they involve substantial economies of scale and the optimum sized plants may be too large for domestic demand. Such a situation would have arisen by now for India and Pakistan. One example for Pakistan would be some petrochemical processes.

On the basis of a need for cooperation among South Asian countries, both big and small, we might enunciate the principles of cooperation for various schemes and various stages and various

---

fields of activities. We might establish a rapport between the countries of the region by starting on a small scale by exchanging goods through trade cooperations and the like. South Asian region offers good prospects for essentially trade-creating liberalisation, This is encouraging. Since industrialisation is the main backbone of economic cooperation a systematic effort will have to be made for large and allied industries to be located in the region so as to give proportionate benefit to all of them without discrimination. if need be by being partial to the small and least developed nations to industrialise rapidly and catch up with the big compatriots in forging the economic strength of the region. There are two reasons for this: 1) First is the Unctad resolution on the least developed countries; and 2) the need to have viable neighbour for the larger partners. We know that quality-wise and price-wise the products of India and Pakistan would not be competitive in the world. Hence regional cooperation is essential. Further there must be a home-based market to build up the foreign markets to gain competitive power and avoid risks to the industries concerned. The small nations are unable to industrialise because of the market problem. They would otherwise develop and gain comparative advantage in many products. The chief reason is that the public sector plays an important role in the economies of the countries of this region and therefore it should be possible for them to plan out a comprehensive scheme of industrialisation which would cover the whole gamut of industries and help in locating them for mutual benefit. They have all a long way to go in industrialisation and it is through a coordinated and uninhibited plan that

8. Economists like Bhagwati have argued for competitive power through liberalisation and devaluation to improve quality and price.
they could achieve a worthwhile target. This will be no small
gain for them in their endeavour to face the severe conditions
of the world. Initially it may take the form of the ASEAN plan
but at later stages it could become as complex as the CHINA. The
consequences of the partition of India could be removed by such
an approach, while at the same time the smaller nations could sit
'on a firmer saddle. The effect of cooperation is even greater
in the solution of the primary agricultural commodities and raw
materials. In many of them monopoly or oligopoly conditions
could be created, synthetics and substitutes could be replaced
substantially, some agricultural land used for commercial crops
could be diverted to food production and greater flexibility and
lesser rigidity could be introduced into them. Thus the problems
of international commodities and manufacturing industries could
be resolved in a very satisfactory way. It would help to improve
quality and bring down prices of all categories of goods. There
could be coordination and cooperation in the fields of transport
and shipping, communications and power, irrigation and flood-
control, etc. Common projects could be financed by the U.N.
Agencies or similar agencies of foreign aid. All of them require
harmonisation of policies (economic) in all the countries of the
region. These would produce economic benefits.

Some of Cooperation: We have indicated the various directions
in which development in all the countries could take place as a
result of regional economic cooperation. The pace of development
would get quickened and economic activity would reach a new high
of heightened confidence. Development would be multilateral,
both industry and agriculture receiving equal attention. The
disastrous consequences of the partition can very well be an indicator to show the way its removal would mean to the new direction of development. A few examples would show the hasty start it could make. In the matter of tea and jute there is near monopoly and the terms of trade could turn in their favour. Cotton and rubber could facilitate greater utilisation of them within the region. Wheat and rice deficiency can be met from within the region. So could sugar find bigger market within the countries of the region. Iron ore and coal are adequate to meet the needs of the region. Pakistan can meet the requirements of natural gas. Other minerals except petroleum products are adequate. Textiles could find a large market. So too would the intermediate and capital goods along with consumption goods. Electrical and electronic goods could also find greater markets. The region is in need of developing heavy chemicals and sophisticated engineering goods. Why India should look to foreign markets while her neighbours import from other countries is an inexplicable happening; especially when one takes the transportation costs into account. These are avoidable acts of waste for developing countries.

What is more inexplicable is India's efforts to grow her own rubber, jute and cotton, while they are available from her neighbours and in junct position import food items from foreign countries which form a sizable import bill when foreign exchange is hard to come by. Shipping is an ideal enterprise for joint venture, while the many suggestions already mentioned cry for early implementation. There are other fields of cooperation like irrigation between India and Bangladesh, hydroelectric power between India and Nepal, aluminium plant installation by India in Sri Lanka, sharing of raw materials, transfer of appropriate
or intermediary technology, etc., etc. Certainly it is not possible nor desirable for any country to be self-sufficient in everything. Some of the "economic miracles" are the result of large size and large markets; e.g. Latin America. It is another imperative why integration should take place. Monetary policies cannot remedy the situation, because in an unequal world there is the limit to devaluation and liberalisation, which will be a continuous need to remedy the situation. Every kind of discussion on the economy of developing countries lead to regional integration and collective self-reliance (CS-R). The proposition holds good in relation to South Asia in even greater measure. If Western Europe requires peace the Indian sub-continent is in greater need of it. If the U.S. and China can come together, albeit for economic reasons, and if France and Germany can integrate, there is no reason for COUNTRIES OF SOUTH ASIA not seeing the wisdom in cooperating for economic purposes, which is a necessity. Let us remember that economics gives the best argument for integration.

Impact on Trade 9 We have already indicated the manner in which development can take place through regional economic cooperation. There would be more trade within the region and paradoxically enough and more (and not less) with foreign countries. This will be a surprising turn of events. Certainly the first would be the greater trade in primary agricultural commodities and raw materials. Marginal efficiency and productivity will rise, and India for example would be able to reallocate its scarce resources for better use while taking in the products of her neighbours.

9. Refer Chapters V & VIII for fuller discussion.
This accords well with theory. If it is land she could devote for food production, and if it is industry producing synthetics or substitutes in place of commodities now imported from her neighbours it could produce alternative goods, consumer, intermediate, or capital. One good result that would emerge is that quality would improve and prices would decline. Besides primary commodities and raw materials, it is known that certain varieties of textiles of Pakistan are of better quality and of lower price in the categories she produces. Why on earth should India divert her resources to the production of goods cheaply available from her neighbours while she herself could augment food and other items imported from foreign countries is a baffling part of economics and diplomacy. There are severe political blinkers to this curious procedure. This applies equally vis-à-vis other countries of the region with their tentacles reaching out to far off places while markets are available closer at hand. Political innuendos have to be overcome. The smaller countries have their peculiar difficulties as developing countries and are placed in the unfortunate category of the least developed countries for one reason or the other. It is the moral obligation of India and Pakistan to help them with preferential treatment as much as they claim preferential treatment from the developed countries. This has been quite categorically and specifically provided by the Unctad. Industrial and agricultural capacity acquired through cooperation could lead to greater volume of trade with foreign countries. Thus development creation and self-reliance will promote greater trade with others and will help all the countries of the region to benefit each other.
Other Instruments of Cooperation: Regional economic cooperation cannot take place in a vacuum. Like planned national development, it requires careful planning and steering through a competent body with the necessary research and instruments of cooperation, capable of tackling all the multifarious problems connected with it and arising from time to time. There are several prerequisites for its success. This is so in socialist and in capitalist countries with regard to economic integration there. It is also the same thing with the developing countries. All countries, both big and small, would look for both short-term and long-term benefits that would accrue to them. Some may not be able to reap any benefits in the short period but may gain ultimately over longer duration. The smaller countries are bound to be the immediate beneficiaries. That should be a sufficient reason for cooperation. With advanced stages of industrialisation and with the eventual rise in the standard of living, the bigger partners also are likely to reap the benefits of cooperation. But even they are bound to gain on infrastructure, transport and defence, even at the very start of the move to cooperate. There are bound to be cumulative effects which would spiral up and boost their economies. There could be a supranational body to plan as in the EEC, or a coordinating body that does not infringe on the sovereignty of the nations as in the case of OEEC. Fiscal, monetary and industrial policies have to be harmonised. This is no small task. Prices and exchange rates must be kept stable and inflation controlled at any cost. A uniform trade policy and commercial policy would have to be followed. Adequate transport and communication facilities would have to be provided to avoid regional and sectoral inequalities and polarisation.
Finance and other infrastructural facilities must be undertaken without discrimination. Shipping and airways must be coordinated. Research and technology should be made commonly available. Administration must be geared up for development.

The Challenge of Cooperation: What stands in the way to this vista of opportunities that await the consummation of the long-cherished ideals of the developing countries? Some kink somewhere in the brain must be preventing its realisation. Whatever the achievements of these countries in the three decades since World War II, they should be faulted for two grave mistakes. 1) Defective trade policies and commercial policies, and 2) weakness in the management of their economies. Perhaps by themselves they are not responsible for the economic plight of these countries which however would have had to face insurmountable difficulties arising out of lack of technological progress and its concomitant effects on their foreign trade and balance of payments constraints, but much waste and inefficiency in the use of resources could have been saved and the plight lessened. Perhaps planning was unrealistic and did not take social problems sufficiently into account in judging economic activity with regard to saving and investment. However, the technique of production and the allocation of resources require better handling in the state of development these countries are in. On that basis, cooperation among them becomes imperative. Otherwise productivity cannot increase and the standard of living cannot rise for the people of this region. (Talking of choice of technique it may be relevant to point out here that both obsolete low-capital-intensity techniques and modern high-capital-intensity techniques
are not suited to South Asia. Actual engineering research and development seems needed to develop South Asia's own techniques, taking account of the fact that management intensive techniques and skill intensive techniques may run into almost as severe limitations of resources as capital intensive techniques. The big business houses in these countries no doubt play a leading role, yet the public sector is very important for these economies. It is this that holds out hopes for a planned coordinated industrial development of the whole region, rich in all resources, manpower, skill, administration and all that go to make up economic efficiency.

Integration Possibilities in South Asia: We may here consider the practical aspects of integration in the South Asian region. Customs Union and Free Trade Area between India and Pakistan are of no use in view of the wide usage of the import licensing system. Nor has the most-favoured-nation treatment any validity. There is no possibility of having a single licensing authority. But now it is realised that this system too is coming to the end of its profitability. Industries developed under this system have made profits but have become very inefficient, in price and quality. Moreover, there is undercapacity. Thus the system of industrial planning and licensing controls have buttressed the growth of uncompetitive industries by safeguarding their interests. It has now become clear that, consistent with protection of industrialisation, the developing countries could indulge in profitable division of labour between one another. Such trade would also enable the developing countries to exploit the economies of scale by widening the market beyond the narrow national
frontiers - an argument of particular relevance to the smaller
countries of South Asia (Nepal, Bangladesh and Sri Lanka).
More trade might even involve greater efficiency through increased
foreign competition in an otherwise sheltered market. The
LAFTA, Central American integration, the East African Federation,
the UDEAC (French territories), the ASEAN, the ECD and other
tries among the developing countries have borne some results
that should encourage South Asian cooperation as well. Since
customs union or free trade area is not feasible we could
consider preferential tariff-cuts, import liberalisation,
coordination of investment decisions, and the like. Even though
tariff-cuts would be ideal, the wide coverage by quantitative
restrictions leaves it as redundant, and compels us to resort
to the use of specific liberalisation of quota restrictions to
gain preferential treatment for mutual trade expansion. Tariff
cuts are thus an inappropriate form of trade promotion for this
region. Hence quantitative restriction, liberalisation has to be
considered as the lesser of the two evils for selected
commodities. This applies to all countries of the region.
Even granting the inherent inefficiency from the impact of such
quantitative restrictions liberalisation vis-a-vis tariff cuts under a regime that does not rely on quantitative restrictions,
it may be argued that the South Asian region offers good
prospects for essentially trade-creating liberalisation.
Their geographical oneness and pre-partition conditions would
justify cooperation between India and Pakistan, both in trade
and infrastructure. Many of the measures aimed at getting
increased exploitation of trading opportunities in the South
Asian region are likely to produce economic benefits. Trade diversion will result and this will cause loss of ability to use exchange rate as an instrument to achieve their numerous economic objectives. But against this there is the gain to both of achieving their economic objectives through better coordination of the policies of the two countries.

Almost all the South Asian countries have more similarities than differences between them. They rely on import licencing, and have not developed an export trade sufficient to produce large foreign exchange reserves. Nor have they attracted large foreign investments. The industrial structure as yet is inefficient and non-competitive. Perhaps in many industries the plant size is adequate. Firms in many industries could reach the optimum scale within the markets of each country. The problem of inadequacy of plant size may be more relevant for development hereafter. Certain industries, for instance, involve substantial economies of scale, and optimum-sized plants may be too large for domestic demand. We may presume that in the case of India and Pakistan that stage has been arrived at when further industrialisation would require cooperation. The smaller nations could also benefit from both the market availability for smaller industries and from an allocation or location of large industries to promote their economic welfare. This is the context in which South Asian cooperation is approached.

---

10. Economic Development in South Asia; Eds. Robinson and Kidron