CHAPTER V

FEATURES OF THE SOUTH ASIAN ECONOMY.

Section 1: Current Economic Situation.

Population and resources: The region is to a certain extent very poorly endowed with natural resources. Twenty per cent of world's population live in 3.5 per cent of land area. The position of natural resources compared to this land/population ratio is still worse. Bulk of the resources are in India which is not very significant. India's resources do not mean that she is richer than the other countries in per capita resources base. India is not better off as the quantity is insignificant.

Since land is the most important resource and India is the most dense in the sub-continent next to Bangladesh, the land/man ratio is poor and is not made up through fertility which is important in an area where fuller land utilisation is limited, so that others may be richer than India on this count. All the countries in the region are poor in natural resources which are unevenly distributed. A better distribution will not matter, because no surplus, except iron ore and a few minor minerals, is available for export as the quantity is small. Further, industrialisation will absorb even the little that is exported in some minerals from India except a few specialised minerals. In fact the region is heavily dependent on the rest of the world for deficiencies.

Yet it is but fair to say that India's mineral resources have helped her to build her economy.

1. Refer Statistical Tables appended to the Thesis.
2. Refer Statistical Table VIII.
4. Refer Statistical Table VIII.
There is now some hope for the region if two important resources are tapped for development. These are the rich resources of the Himalayas and the resources of the sea. The region can partly make up in these. They would augment water resources, energy resources, forest resources, mineral resources, fisheries resources etc. There should also be simultaneous measures taken to protect the environment of the Himalayas and the sea. But this can be done only on a cooperative basis by all the countries acting jointly. There is thus a strong case for regional cooperation.

The population of this region has a high rate of growth i.e. 2.2 per cent as compared to 1.7% of world rate. Sri Lanka is the only country with less than 2 per cent reproductive rate in the region. The total of 848 million in 1979 is expected to reach 1368 million by 2000 a.d. This is a very serious problem as it almost neutralises any increase in the G.N.P. There is no alternative to reduction in growth rate. And on the same basis it may be pointed out that India has 77 per cent of the population and 72 per cent of the area in the region. This results in the domination of India over the whole region in all respects. This is a reason impeding regional economic cooperation, but may also be considered a valid reason for collective self-reliance in the light of appropriate technology where India as a big country with much infrastructure could help the smaller countries of South Asia.

Standard of living, manpower, urbanisation, education and training, and health are important problems of the region and reflect the low level of productivity and standard of living.

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5. Refer Chapter VIII, Section 2.
The region is very rich in manpower but has a low literacy rate and a serious rural problem resulting in urban slums. The average per capita income of all the countries in the region is below $200/ which is a bare minimum. There is large inequality and 40 per cent are below the poverty line, having only less than 20 per cent of the total income of the region. Half the poor in the world live in this region. There is practically no improvement in income distribution and the absolute number of the poor is increasing. However, there is greater awareness of the problems of incomes inequalities and of poverty on the part of governments, and causes of these problems are now better understood than before. The governments are, therefore, going beyond the stage of making pious statements and are making determined efforts to tackle these problems. The manpower of the region is very rich but underutilised, so we have to upgrade the labour force through education and training, and provide them with productive and remunerative employment. For this purpose we have to reorient development programmes to job creation. This requires resources for investment to provide jobs for available manpower. Economic policy must therefore change to meet the challenge.

**Industry and Agriculture:** The current situation gives considerable cause for concern. The economies of most of the countries of the region have been stagnant in the past decade, and there is no immediate prospect of a rapid improvement. Industrial growth reached a high rate in the fifties and early sixties but declined thereafter till 1975. It started improving in subsequent years in some countries. Industrial production as a proportion of G.D.P. has been increasing in all countries. This is a reflection of the
structural changes that are taking place in the economies of the various countries. Similar changes have been taking place within the industrial sector and these are quite significant in some countries, particularly in India. The exports of manufactured goods have been increasing quite rapidly in some countries, particularly in India. The exports of manufactured goods have been increasing quite rapidly in some countries, particularly in India and Pakistan. Manufactured exports constitute a very high proportion of the total exports of some South Asian countries. So the access to the markets in the developed countries is of very great importance to the future industrial development of these countries. (This is an important argument for regional economic cooperation).

Agriculture is the mainstay of the economies of most of the countries and agricultural production is dependent on weather conditions. It has been unfavourable very frequently, resulting in the decline of the C.D.P. in all these countries. It is the main source of employment. The rate of growth in the sixties was fair but declined in the seventies. Agricultural production can be increased by increasing the area under cultivation and by increasing crop yields. But the latter is the only feasible one now. Production was stagnant in the seventies as the yields were very low in all countries. A solution lies in increasing yields. There is yet another field of regional economic cooperation.

Economic Growth: The governments' fiscal and monetary policies continue to be highly expansionary and inflation remains at double digit level in most of the countries of the region.

6. Refer Statistical Tables V and VI,
The balance of payments position has shown some improvement in
countries whose exports have been buoyant. However, with the
exception in India, most of the countries are having large balance
of payments deficits. The recent increases in the prices of oil
and oil-based commodities is bound to worsen the terms of trade,
increase the value of imports and adversely affect the balance of
payments position of the countries of the region. The debt service
burden is increasing and is putting a further strain on the balance
of payments.

The future prospects for the growth of exports of the South
Asian Countries appear to be uncertain in view of the impending
world recession and increasing protectionist pressures, in many
developed countries, against the imports of manufactured goods
from the developing countries. This is yet another reason for
regional economic cooperation.

The saving rates continue to be low except in India and to some
extent in Sri Lanka. The budgetary positions remain under strain
and government deficits continue to be an appreciable proportion
of the gross national product in most countries. The net resource
inflows from abroad have been declining in real terms and the
financing of the development programmes is presenting serious
difficulties in some countries. Without a substantial increase
in saving and investment, the future prospects for rapid economic
growth are not too bright. Here is still another argument for
collective self-reliance and regional economic cooperation through
appropriate technology and agreed specialisation.

There is considerable similarity in the development objectives
of the countries of the region as stated in their successive
development plans. A rapid rate of economic growth was considered essential for the achievement of the above stated objectives and was therefore given high priority. The public sector was to play a greater role both in production and in regulation of the economy. However, distributive justice was not built into the development strategies. Land reforms were introduced but seldom implemented, so that the distributed land was a tiny fraction of the total. Unemployment was not solved and population planning was of limited success. The latest plans show awareness of problems and strategies, but much remains to be done in improving the techniques of planning and in creating a new dedication to achieve the social objectives of development.

Our survey of the current economic situation in South Asia draws pointed attention to the need for a strong policy focus on employment breakthrough in agriculture, effective population policies, reform and restructuring of education, action against mass poverty, control of inflation, changes in income distribution, implementation of agrarian reforms, and action at the national and international level aimed at the improvement of the balance of payments of individual countries and of the region as a whole. They are in varying degrees of development and income, but the problems could be partially mitigated by economic cooperation because they are all in the process of structural change.

South Asia: Diversity of Interests and Common Interests:

1. It is necessary to identify not only the conflicting interests which could impede negotiations among developing countries, but

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also those which are most likely targets for exploitation by the developed countries to damage the Group 77 solidarity. The major elements of differentiations identified are—-(a) Differences based on different stages of economic development: 1) semi-developed countries like India and Pakistan, 2) developing countries like Sri Lanka and 3) least developed countries like Bangladesh, Bhutan, Maldives and Nepal, (b) Differences based on the structure of the foreign trade and the external policies linked to such structures: 1) strong position by Bangladesh, and 2) middle position by India, Pakistan and Sri Lanka, (c) The least developed and the land-locked countries form another group, like Nepal, etc., and suffer from many handicaps. (d) Asian countries' aspirations and external policies in the field of shipping reflect clearly the different stages of developing national merchant marines or their dependence on foreign shipping lines. There are countries at both ends. Bangladesh and Sri Lanka have policy objectives to expand their growing fleets as India and Pakistan. (e) There are other groupings like the Commonwealth and A.C.D.P, whose membership adds to the diversity of interests. (f) Finally, there are differences stemming from different political and economic systems. These interest groups often overlap. Thus one country may belong to more than one interest group.

2. While these may help to formulate a strategy, the identification of common interests could facilitate it, (a) Almost all the countries of this region have been colonies of Imperialist Powers and gained their independence after the Second World War. They are economically linked to the metropolis with all its implications (b) Almost all the South Asian countries are suffering from overpopulation and high unemployment. (c) As with almost all other
developing countries, South Asian countries' economies depend very heavily on the developed countries. (d) Almost all the South Asian countries have in one way or the other been adversely affected from the activities of multinational corporations against whom individual action is difficult. (e) Almost all the countries seem to realise the necessity for collective action. (f) Finally, all the South Asian countries have suffered from the conference practices and have a common interest in both establishing and expanding national merchant marine and regulating the activities of conferences. Once again the interest groups often overlap, and it is necessary to ensure that high priority interests of each group are identified and included for action. (But it is not possible to discuss in detail the interests of each individual country in the matter of their foreign trade policy, economic policy, commodities, manufactures technology, shipping, etc., An overall view would be sufficient for our purposes.)

On the basis of their interests, the South Asian countries may be classified to indicate their interests on issues relating to commodities, manufactures and shipping. Bangladesh and Sri Lanka are primarily interested in commodities and therefore in the Common Fund proposal of the Integrated Programme on Commodities, while India and Pakistan are interested in the removal of non-tariff barriers and transfer of technology for their programme and industrialisation. But most of them are interested in both the issues, because even the former group wishes to reduce its dependence on commodities by developing manufactures and shipping. Again, the issues such as transfer of technology and control of multinational will vary from country to country. A code of conduct in respect of both of them may be required. While protectionist policies have affected almost all the countries in the region
exporting manufactured products, some have been affected more than others. It would depend on the degree of sophistication attained in manufactures. Much would depend on the availability of technology and capital. The divergence of interests in the field of shipping reflects the different stages of development of national fleet, shipbuilding and ship repair facilities, or a lack of a national fleet, resulting in total dependence on foreign lines. But their diversity and range of interests in all these matters need not stand in their way of approaching these problems on a joint basis to bargain and negotiate with the developed countries to find satisfactory solutions to them.

There is no doubt that the work of the Unctad in all these matters has reached a fruitful stage of resolving many of the issues at least partially to the net advantage of the developing countries. Yet the benefits gained are marginal and inconsiderable. There is a long way to go to make the North-South dialogue of any tangible benefit to the developing countries. The Unctad has therefore simultaneously taken action to promote greater economic cooperation among developing countries on a regional and inter-regional basis. Conflicts, contradictions, and inconsistencies among them have to be removed and closer cooperation achieved. Thus South-South dialogue has taken precedence over other avenues in removing their constraints and accelerating development. Regional economic cooperation has become the critical factor of progress among the developing countries. Big or small, they stand to benefit through economic cooperation on a regional basis. Experience in Europe and in other parts of the world point to the difficulties and show the path to rational approach. Cooperation can fan itself out in all directions by stages. Agreed industrialisation and an equitable
distribution of costs and benefits can change wherever competition occurs into one of complementarity for their mutual benefit. Areas of cooperation can be identified and worked out.

Section 2. Trade Patterns and Problems.

Principal Exports:
1. Bangladesh: Raw jute and jute fabrics, fish and newsprint.
3. India: Jute yarn and fabrics, tea, sugar, spices, raw materials, hides and skins, chemicals, leather goods and manufactured goods.
4. Pakistan: Cotton wool, hides and skins and bags and sacks of textile materials.

Principal Imports:
1. Bangladesh: Machinery, textiles, chemicals, transport equipment, manufactured goods and food items, and petroleum.
2. Sri Lanka: Manufactured goods, machinery, textiles, chemicals, mineral fuels, lubricants and related items, cereal preparations, and food items.
3. India: Machinery, chemicals, base metals and petroleum, raw cotton, manufactured goods, transport equipment, and food items.
4. Pakistan: Machinery, transport equipment, manufactured goods, chemicals, textiles, animal and vegetable oils and fats, mineral fuels, lubricants, and related materials, cereals, and food items.

Major Exporters of Selected Commodities:

1. Fish - India, Bangladesh
2. Sugar - India
3. Tea - Ceylon, India
4. Spices - Ceylon, India
5. Hides and skins - India, Pakistan
6. Natural Rubber - Ceylon
7. Wood - Pakistan, India
8. Jute and allied fibre - India (bag and cloth)
9. Raw hemp - India
10. Coal - India
11. Iron Ore - India
12. Copra and coconut oil - Ceylon
13. Manganese Ore and concentrates - India
14. Cotton Fabrics - India
15. Capital goods - India.

India and Sri Lanka export 75 per cent of world's tea. India and Bangladesh supply almost the entire jute.

World Trade: (in million U.S. for 1977.)

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<thead>
<tr>
<th></th>
<th>Imports</th>
<th>Exports</th>
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<tbody>
<tr>
<td>1. Bangladesh</td>
<td>1133</td>
<td>451</td>
</tr>
<tr>
<td>2. India</td>
<td>6936</td>
<td>6222</td>
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<tr>
<td>3. Nepal</td>
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<tr>
<td>4. Pakistan</td>
<td>2447</td>
<td>1149</td>
</tr>
<tr>
<td>5. Sri Lanka</td>
<td>695</td>
<td>763</td>
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Principal Export Countries: Exports go to the following:

3. Nepal: India

It should be noted that these are in respect of traditional exports only. All countries of the region, except Nepal, trade with the outside world.

**Nature of Products**: The general products of this region could be divided into products of which the countries of the area compete with one another and those in which they do not. Competitive products are tea, jute (raw), cotton, rubber, coconut, spices, fish and fish products, forestry, rice, maize, and hides and skins. Those that do not are iron ore, base metals, coal, cement, chemicals and drugs, leather products, cotton fabrics, sugar, and technical know-how in manufactures and service sectors. One should note that products that compete are raw materials, especially agro-based and forest-based, while minerals, manufactures and technical know-how are complementary. This is in respect of overall development of the region. Metal-based industries could be induced to achieve complementarity since minerals and mineral-based industries are comparatively complementary. India produces nearly 50% of its petroleum requirements but much of the bye-products are wasted in India and Bangladesh. Expansion of petroleum in the region is promising potentially very similar to that of the Arabian peninsula. The possibilities of cooperation and its benefits are very great in the matter of all raw materials and foodstuffs to make the industrial and agricultural development of the region truly viable. The industrial sector, especially offers scope for immense cooperation to the mutual benefit of all the countries if all the constraints
are removed. Their outward-looking economics can be made more inward-looking.

**Sri Lanka: Resource Development:** We examined the nature of products of the region and found some to be competitive and others complementary as between nations. Agricultural raw materials and foodstuffs were generally competitive, while minerals and processed and finished goods and manufactures were complementary. This is so in the nature of things, with higher stages of production differentiation and specialisation taken place. This leads to the unique position of the countries individually as compared to the rest of them. Further, India has the good fortune to possess some essential mineral raw materials not found in other areas. An added strength comes from the fact that the small nations like Nepal and Sri Lanka possess resources much in need by the bigger countries of the sub-continent, e.g. forest produce, condiments, fruits and plantation products which can meet the deficiencies of India and Pakistan and Bangladesh in these fields. In the matter of primary commodities joint international action and greater use within the region will create a more viable position for them just as it happened to some of the core commodities enjoying international agreements and schemes. Greater processing and finishing of available raw materials and minerals will create wider scope for complementarity.

The scope for economic expansion for Sri Lanka within the framework of regional cooperation is so vast that it could lift her by the bootstrap. She has rich deposits of laterite in the central regions and a very rich deposit of limestone in the continental shelf all around. The bauxite from the former could be converted
into alumina or aluminium concentrates which could be exported to the mainland for aluminium or used with the limestone deposits from the sea for cement manufacture. It would be necessary to get coal from India for the purpose. The forest wealth could be used for the production of paper and paper pulp or the cellulose used for all kinds of synthetics. These have a demand in India and Pakistan. Then there is the possibility of processing and manufacturing foodstuffs and confectionery from the plantation minor crops. Fishing perhaps offers the greatest scope for expansion. Needless to say all the rubber and coconut produce in all their multifarious forms will have a great market in the subcontinent. The other countries in the region offer an unlimited market for edible vegetable oil and rubber and coir manufactures. Thus the plantations, forestry, fishing, and mining provide a vast opportunity for Sri Lanka to specialise and market the produce in the region. But economic cooperation alone can assure such a development for Sri Lanka and foster economic growth in the future.

From Competition to Complementarity: Our discussion of the current situation and trade patterns of the South Asian region has enabled us to gain a view of the problems and the possibilities for converting a competitive economy into one of complementarity. The present trade structure is one of dependency on outside of the region and is the result of the colonial past, both political and economic. The region under the British was geared to the parent-country in both exports and imports. There is very little intraregional trade as a consequence. This has continued even after political independence because of political dismemberment and rivalry. In addition, the desire for import substitution and self-sufficiency has resulted in identical autarkic policies, yet
continuing to depend on the West for capital goods and for access to markets for manufactured goods. The acceleration of development and the need for investment resources further bound their economy to the West in more ways than one. But this trend had to come to an end with recession in the West and protectionism taking the form of further non-tariff barriers. The added problems were the net inflow of resources and technology transfers. Commodity problems capped them all. Hence the developing countries had to seek other ways of overcoming their constraints.

Greater intra-regional trade and agreed industrial specialisation was the immediate remedy available to them, because they had to bargain unitedly from a position of strength. It was possible only by utilising their raw materials to a greater degree and by industrialising on a planned basis for the region. The ESCAP investigation proved that the possibilities for intra-regional trade was great and that the commodity situation could be alleviated considerably. Only in the case of tea and jute would international action be needed to safeguard their interests. The ESCAP also pointed out that capital goods produced within the region could augment and accelerate the expansion of trade between the countries of the region. Industrialisation should also be agro-based or mineral-based and later they could move on to technological and infrastructure-based industries. Economies of scale and larger markets would improve products, cost-wise and quality-wise.

There should also be an attempt to reach self-sufficiency in food, combined with specialisation in some categories of it. The opportunities to absorb excess raw materials for further industrialisation are wide and deep. With world economy at the cross roads and with the spirit of collective self-reliance spreading among the
developing countries, trade and industry can evolve new patterns within and among the emerging countries so that what was competitive erstwhile will become complementary with time. While trade changes can be achieved in the short run, development can be achieved only in the long run. But the countries have to follow a conscious and deliberate policy.

The conclusion of the traditional theory is that a customs union will be most beneficial where trade creation dominates, and that this occurs when the constituent economies are competitive in products, rather than complementary, prior to the formation of a customs union. This analysis from Viner has been extended by Meade and Lipsey. Among their refinements, two from Lipsey are: 1) A Customs union is more likely to raise welfare the higher the proportion of trade with the country’s union partner and the lower the proportion with the outside world; and 2) a customs union is more likely to raise welfare the lower the total volume of foreign trade is relative to domestic purchases prior to the formation of the union. This makes the customs unions between developing countries not beneficial as trade diversion will dominate, because it is usually manufacturing countries which are competitive and developing countries which are complementary both to manufacturing countries and to each other. Brown has pointed out that, as opposed to Lipsey’s countries, less-developed countries’ trade is mostly with developed countries rather than with each other, and they often have very large foreign trade sectors in relation to national output. In the face of this, some economists like

Allen, Meier, and Mikesell (first paper) have popudated the traditional theory as not relevant to developing countries, while Mikesell (second paper), Bibrick, Kitamura, Urquidi, Linder, and Cooper and Massell have preferred to choose other criteria for Customs union. There are two strands in the latter: the first strand concerns industrialisation and the second, the saving of scarce foreign exchange by import substitution. These are both, of course, common elements in the theory of development. The traditional theory does not give weight to either of these two factors. Thus, customs union may look bad on trade alone, with a predominance of trade diversion, but this may be consistent with promoting much-desired industrialisation in the less-developed countries involved. Again, trade diversion means import substitution and also permanent savings of scarce foreign exchange which promote development. As described earlier, in Chapter Two, the work of Cooper and Massell is very significant in this respect. If the outward-looking linkages have to be changed and the less-developed countries made to be less dependent on the manufacturing countries, then industrialisation and economic development in the less developed countries would have to be built on a complementary basis for one another’s markets. This would have to be on a deliberate policy with coordinated plans on an efficient basis. Tinbergen is of the view that the less-developed countries would have to plan out their large and heavy industries to avoid the wastes of competition and to benefit by the scale of economics. Location and distribution should not prove difficult in order to achieve efficiency. Wherever competition occurs for products facing the world market the possibilities of forming monopolistic or oligopolistic arrangements should be evolved. Thus integration
among developing countries would have to be strengthened on the basis of complementarity.

Yet another consideration leads to the same conclusion. Viner's idea of competitiveness applies to Europe, while Haberler's idea of complementarity seems to fit in with the needs of the developing countries. The reasoning goes as follows. The ideal for a customs union is that before union a maximum range of products is produced in both member countries, with maximum differences in marginal costs, one country being an exporter of each commodity. Large differences in comparative advantage exist. The economies should be complementary as far as basic productive conditions are concerned, but competitive in the range of products actually produced due to protection against third countries. (Based on constant costs.) Basically they should be complementary but have not tried to build up industries protected against competition from the potential partner country. They can then form a customs union without becoming exposed to more competition from inside the union, but can get a tariff discrimination in their favour from the partner country for its own export industry. A more concise formulation would be that customs unions should be formed by countries which are fundamentally complementary but actually made competitive in their range of production through protection. If complementary, it would be mainly protectionist in its efforts. If competitive, the effect would be small. (One wonders if this does not already approximate to the case of South Asia, or if it would not do so in future through a deliberate policy of agreed

10. European Integration: Michael Hodges, Chapter 2.
industrial distribution. (The odds are in favour of the region.) This should take place soon after initial industrialisation and agricultural specialisation take place. In the light of this we propose that economics of scale be studied in respect of all standard products to locate them on the basis of efficiency and equitable distribution for the mutual benefit of all concerned.

Economies of Scale and Location of Industries: It is very necessary that the countries of the region agree on a planned distribution of industries based on comparative advantage. For the purpose we have to work out economies of scale for at least two dozen industries in the region representing various fields of economic activity. The following standard products would be representative and would require a study of their cost (price) structure for location.

1. Raw Jute
2. Jute Cloth (Packing)
3. Raw cotton
4. Cotton Yarn
5. Nylon cord Tyre (two varieties)
6. Rubber Tunes
7. Copra
8. Coconut Fibre
9. Fertilisers (Nitrogenous)
10. Fertilisers (Phosphatic)
11. Sugar
12. Baby Food
13. Drugs (Vitamins A, B and C Concentrates)
14. Finished Leather
15. Basic Metals: Zinc (Ingots)
16. Basic Metals: Aluminium (Ingots)
17. Steel
18. Lathes
19. Storage Batteries
20. Electric Motors (W.P.)
21. Tractors
22. Jeeps
23. Refrigerators
24. Air-conditioners (Tons)
25. Television Sets
26. Agricultural Pumps. (Adjustment for exchange rates should be made). The necessary raw materials (agricultural and mineral) are available in the region to meet the needs of an industrial society. They need to be mobilised and canalised. Both technical and institutional changes are required to step up growth rates.
There is a definite possibility in the region for a transition from a competitive to a complementary economy if the above economies of scale are worked out.

**Section 3. Intra-Regional Cooperation.**

There are three aspects to the study of intra-regional cooperation, namely, 1) common problems for concerted action which are shared by more than one country and which can be tackled better through cooperation among the countries concerned rather than by action at the national level, 2) obstacles to cooperation and 3) scope for cooperation.

(1) **Common problems:** In the field of trade the countries of the region have some common problems in respect of exports, imports and terms of trade. Jute and tea have special problems. So too with manufactures which are subject to tariff and non-tariff barriers in the Western countries. Oil imports present common problems. They can negotiate better if they act together. The position is similar with regard to the transfer of technology, the IMF and the Conference Lines. This is also true of all other matters falling under N/S Dialogue — aid, monetary systems, etc. There is very great identity of interest amongst the South Asian countries in all these matters. A common line of action has therefore to be pursued.

(2) **Obstacles to cooperation:** But there are serious obstacles to such cooperation which cannot be ignored. 1) The prevailing political climate is one, and there should be no war. 2) Another problem is the size and population of India relative to the other
countries of the region. India has 72% of the area and more than three times the population of all the other countries of the region put together. India has a virtual monopoly of the mineral resources of the region. Under the operation of normal economic forces, cooperation between India and the other countries cannot be on equal terms unless special arrangements are made to ensure equality in the terms of cooperation. 3) Another matter of very great importance is the stages of economic development reached by the cooperating countries. The more developed countries stand to gain from cooperation, more than the others unless special care is taken to ensure an equitable sharing of costs and benefits of cooperation. 4) A serious obstacle to economic cooperation is the lack of complementarity in the economies of the countries concerned. They are not complementary, and this is evident from the direction of trade statistics of the countries. The landlocked character of Nepal needs special arrangement for its trade with India, and if this trade is excluded the intra-regional trade of the countries of the region is a very small fraction of their total foreign trade. This is so because their economies are not complementary with one another. 5) The inadequacy of trade linkages can be a possible reason for the very small volume of trade amongst these countries. Their trade with the developed countries is large partly because of the historical trade linkages with them. But this is not likely to be the main cause of the small volume of intra-regional trade. 6) Lack of payments arrangements and inadequacy of transport and communication facilities can be other possible causes. Obstructive trade controls and cumbersome customs formalities can also be a barrier. The existence of preferential trade agreements with countries outside the region can also be an important constraint.
There are some of the possible obstacles to trade which need to be studied in depth. Their solution may not be difficult.

7) There are other more fundamental obstacles. These are the lack of balanced interdependence, self-sufficiency in respect of goods which could be imported from other countries of the region and the protection of domestic industries. The trade between India and the other countries of the region tends to be unbalanced. The benefits are not equitably shared and there is one-sided dependence which is not in line with the basic idea of cooperative costs and benefits must be shared equitably, as otherwise they would not enter into such cooperative relationship. Moreover, economic dependence might lead to political dependence also which they will not contemplate. Dependence has to be mutual to be effective.

(3) **Scope for Cooperation**: But these obstacles are not insuperable. They could be overcome. The costs of political conflicts are becoming very high. But the ground for cooperation should be got ready. And the non-political obstacles can be resolved at a technical level. On the positive side, the scope for cooperation, the costs to be incurred and the benefits to be derived therefrom, need to be identified. Some areas of cooperation may be briefly indicated: (1) Cooperation can take the form of supply of inputs for production and a market for the output under arrangements which are mutually beneficial. (2) Commodity projections need to be studied to forecast future imports and exports of the region in order to match their production with demand. (3) The economies of the countries of the region can be made complementary for balance inter-dependence through production planning. India would have to abandon the policy of self-sufficiency in respect of manufactured
goods. It may be to the common advantage of all to promote
dependence on one another rather than self-sufficiency for each.
(4) Geographical proximity and lower transport costs can create
comparative cost advantage in trading amongst the countries of the
region. Transport costs will play an important role in the future.
This will increase the potential for economic cooperation.
(5) There are many other areas possible for cooperation and which
need to be explored. Trade linkages can be promoted. Payments
arrangements can be extended. Obstructive trade controls can be
based and customs formalities simplified. Common shipping and
insurance services could be established. Technical assistance
and training facilities, collective negotiations with the MEE,
common facilities for S.T.C. for evolving appropriate technology,
are other fields of cooperation that are possible. Manpower could
be exchanged for finance with the Middle Eastern countries. They
need a common secretariat to study the problems of cooperation and
for all general problems confronting the region.

As the economies of the countries of the region are not
complementary with one another, the present level of economic
cooperation amongst them is insignificant. But the scope for
these economies becoming complementary is enormous. There are,
however, problems. One is the size of India. It prevents
coopration on terms of equality. But this problem can be over-
come if the countries of the region agree on a policy of balanced
interdependence amongst themselves, so that the smaller countries
can cooperate with India and with one another on terms of equality.
There are many areas of fruitful and mutually beneficial cooperation
which can be explored.
Presence of Positive Factors. There are very many factors favourable to a real take off. The region has a variety of physical features, climate and vegetation. It has a variety of soil and some useful minerals for industrialisation. It has a teeming population with plentiful supply of labour force. It has skilled labour and entrepreneurship. It has attained a fair degree of diversification and development. There is a large infrastructure and a sizeable coastal shipping. The area was unified by the British and the English language provides a strong link for their cooperation. Though dismembered in the process of political independence in the post-war period, their period of rivalry has come to an end after thirty years of bitter feelings. Bangladesh has taken the initiative for regional cooperation recently. Economically they have reached the usefulness of import substitution and seek further development through regional specialisation and economies of scale. The region overhangs the strategically important Indian Ocean which may be kept as a nuclear-free zone through their adherence to non-alignment and Third World Policy. It is no more a region for the cartographer and the anthropologist, but a vitally coherent developing region on sound principles. Culturally and racially they may be incoherent, but there is unity in diversity and basically united both geographically and historically. The population is a hardworking lot and their wants and needs are few. They have efficiency and a sound administrative system run by a dedicated bureaucracy. Their culture, customs, and habits are very much alike. Educational standards and technical ability are high and they have reached intellectual heights comparable to any in the West and East. They have research institutions and have gained appropriate technology commensurate
with the availability of capital and labour. In fact India, instead of dominating and proving a liability for others in the region, could be the centre for centripetal forces to emanate and spread to the rest of the region. Otherwise, collective self-reliance would lose its meaning if such centres do not exist for regional development. The countries of the region have a minimum population of 15 million people to serve as a market for national industries as distinct from regional industries requiring regional market. Even national industries are in need of forward and backward linking. With improved transport and communications and a well-calculated location for large industries a balanced development of the region is possible. We have to emphasise the great importance of the Himalayan resources and the resources of the sea for the future expansion of the regional economy. The Himalayan resources and the resources of the sea cannot be developed and exploited without regional cooperation. On that basis lies the future prosperity of the region. A close study of their possibilities is an urgent need of the hour. River basins for multi-purpose uses require further study and utilisation. New energy sources have to be discovered and tapped. The region has an undisputed geographical unity and is the centre of historical confluence and cultural mergers. It has the severest commodity problems as compared to other developing regions. They need urgent solution, but one ray of hope is that many of them are near monopoly for the region. This is an added reason for regional cooperation. The region will provide a viable market even for the sophisticated products involving advanced technology. There is a large scope for tourism. Savings are fairly high, and investment habits are promising. The region holds the key to the Indian Ocean. There is scope to develop agro-
based and mineral-based industries in the short run and technology-based and infrastructure-based industries in the long run. Self-sufficiency in food and essentials are possible. Oil and other power-resources are in good supply. The post-war period has given them rich experience and lot of valuable lessons.