CHAPTER-VIII

REGIONAL ECONOMIC CO-OPERATION

An obvious measure for expanding trade, with a somewhat remote possibility is the re-organisation of a regional common market. The United Nations, on more than one occasion, has discussed the possibility of fruitful economic co-operation for the ECAFE region which includes India and all the countries of South East Asia.

The variants of economic co-operation are many: It includes long-term trade agreements or tariff preferential schemes (such as the Commonwealth) or schemes for application of quantitative restrictions such as the organisation for European Economic Co-operation (OEEC) or a partial integration scheme (such as European Coal and Steel Community (ECSC)). A Customs
union or a free trade area or an economic union would constitute advanced types of economic integration. In Europe, economic co-operation has been a process of development from the early post-war network of bilateral agreements through the Organisation for European Economic Co-operation (OEEC) and its attendant liberalisation.

1. Under Article XXIV of GATT, a customs union involves the substitution of a single customs territory for two or more customs areas so that (a) duties and other restrictive regulations of commerce are eliminated with respect to substantially all the trade between the constituent territories of the Union, or at least with respect to substantially all the products originating in such territories and (b) the same duties and regulations of commerce are applied by each of the members of the Union to the trade of the territories not included in the Union. In a free trade area, however, member countries are free to apply their separate tariffs to third countries.

2. An economic union is an extreme form of economic integration wherein goods, services and capital move freely without any restrictions and the economic activities and policies of the constituent territories are harmonised and coordinated. The main features of the EEC, as set forth in the Rome treaty, included in addition to the customs union the abolition as between member states of the obstacles to the free movement of persons, services and capital; common transport and agricultural policies; co-ordination of the economic policies of member states; measures for remedying disequilibria in the balance of payments; establishment of a European investment bank to promote economic development specially among the backward regions of the EEC; establishment of rules to ensure competition in the common market and of a European social fund in order to improve employment and mobility of labour, (Belassa, Bela: The Theory of Economic Integration, 1966, London, and also UNP: Possibilities of trade co-operation, Bangkok, p.2.
of quota restrictions among member countries to more advanced types: the European Free Trade Association (EFTA) and the European Economic Community (EEC). The emergence of regional economic arrangements is an outstanding evolution of economic relations in recent years all over the world involving Latin America, Africa and Asia including the Far East.

Although present and proposed arrangements show variations in form and purpose, a common feature is that they seek not merely to provide a means for discussion, and as circumstances require, for joint action on common problems, but also to integrate the economies of the member countries by removing quantitative restrictions and tariffs on trade among member countries supplemented by other measures necessary to secure the establishment of a unified market.

The growth of regionalism of this kind reflects that the goal of world-wide multilateral trade on a non-discriminatory basis in the spirit in which the GATT was conceived of in 1947 is no longer appropriate at the present time. It also reflects the view that, while it may be neither practicable nor desirable to contrast international relations on the concept of the world as the appropriate unit. Nevertheless, many of the benefits of free trade might be secured
by freeing trade on a regional basis amongst countries of similar economic structures and stages of economic development.

B. CASE FOR A REGIONAL COMMON MARKET:

In South East Asia, as we noted in Chapter-II (two), production is of a primary kind with limited export specialisation and the economies have invariably extra-regional trade connections with advanced countries. Fluctuations in both volume and value of the regional major exports occur very frequently while the growth of exports exhibits a marked tendency to fall behind not only that of industrial countries but also behind that of other primary producers outside the region. With significant gaps between export-receipts and import bills resulting in balance of payments difficulties, the countries attempt to implement import-substitution as the basis of internal industrialisation. In such a context, increasing trade co-operation is needed among these countries not only to bring about a better utilisation of available productive and financial resources but also to accelerate economic development.

South East Asian countries are at similar stages of economic development and they produce a limited but competitive range of commodities such as rice, rubber or coconut products. Given the fact that the countries in this
region are industrialising with a resultant potential complementarity, the outlook for achieving economic welfare gains through a customs union or some kind of common market arrangement is probably bright. While industrialisation is fast proceeding, the regional countries might profitably embark on programmes of agreed specialisation. Or, industries might be developed through joint ventures, and of such joint enterprises might range from contributing capital, management, technical knowledge or personnel to a sharing of the market for products. There are also already enough economic institutions such as the Asian Development Bank or the Asian Institute for Economic Development and Planning as a spearhead for organising such joint ventures.

Plan harmonisation on the basis of intergovernmental arrangements, after an exchange of information or consultation and negotiation, would be necessary. The possible uses of monopolistic power might be prevented by devising suitable criteria for accounting and pricing procedures while measures to improve the technique of production as well as other safeguards may be provided.

When the question of the proportion of intra-regional trade to total trade is considered, it may also be pointed out that the region compares favourably with other areas. In 1957-59, intra-regional trade of the ECAFE countries accounted for about one-third of their total trade while corresponding figures for Central American and Latin American countries stood at 3% and 10% respectively. Moreover, the fact that the regional export and import trades are mainly based on leading items does not necessarily reflect the exhaustion of possibility limits for trade expansion in spite of lingering metropolitan links.

4. It was estimated in 1965 that intra-regional exports in the ECAFE region accounted for 35% of the total regional exports, while it was 10% for Latin America, 21% for the EFTA and 32% for the EEC, vide Triffin, Robert payments arrangements within the ECAFE region, Journal of Common Market Studies, Vol.7,1968-69, Oxford.

5. Beverages & tobacco, mineral fuels, chemicals, machineries and transport equipment hold more than 50% of total exports in South East Asia while intra-regional imports of crude materials and mineral fuels hold more than 50% of the total imports, ( Appendix VIII-1).
Finally, it may be said that the proportion of foreign trade to domestic expenditure is fairly high for many developing countries such as Malaysia, Singapore and Thailand. The chances for achieving welfare gains might be minimised with the creation of a regional trading arrangement. If these countries are, however, to develop on the basis of a slow growth of export proceeds, the ratio of foreign trade to domestic expenditure will rapidly decline in future. Welfare gains will arise from the formation of a regional market, for it will prevent such a fall in the ratio of foreign trade to domestic expenditure.

There is not a shadow of doubt about the presumption that South East Asian nations in the ECAFE area will enjoy most of the benefits of economic integration, in case such a scheme is implemented within the ECAFE Zone. These advantages include common gains in productivity arising out of enhanced competition, greater utilisation of differences in comparative costs, minimising external vulnerabilities of a number of economies in South East Asia dubbed more or less as export economies with limited export-cum-production specialisation, limited foreign exchange and borrowing capacity. Last of all, such an arrangement would increase the bargaining power of the entire region.

Coming closer to the prospects of such an arrangement, it is obvious that the products of the region like oil, rubber, timber, hides and skins, rice, coconuts, oilseeds and hard fibres could figure in intra-regional trade.

In Asia, forestry is considered one particular industry where development is impeded by small markets. It is said that development of a timber industry would certainly be assisted by economic integration in the region. This necessity is further reinforced by the fact that low per capita incomes obtain in these countries and also by the fact that a wide range of import restrictions is imposed by these countries to protect their domestic markets.

The countries might also want to realise external economies through the development of a number of industries. But the cost of such balanced industrial growth would tend to be particularly high if, owing partly to the small size of the market, a number of production units operated with a great deal of excess capacity. A regional market would solve problems of this kind. Given the general attitude of apathy by advanced countries to imports from

developing countries particularly manufactures and semi-manufactures, industrialisation in the region would demand a regional market permitting scale economies to be enjoyed, in as much as even large countries of the region are not sufficient by themselves. A regional common market is probably more necessary where trade barriers are higher and where more investments are needed.

Even though India has a large population, her per capita incomes are among the lowest in the world and she might, therefore, be persuaded that economic integration with neighbouring areas would make it convenient to push import substitution further into fields where only access to a larger than national market would yield the full benefits of scale.

8. In these countries, although the export trends are still disappointing, their direction and composition have improved owing to industrialisation, Stoneham, P.E.: A rt" Intra-regional Trade Co-operation in Developing Asia", Journal of common market studies, Vol2,1968-69, Oxford.

9. UNCTAD: Trade Expansion and economic integration among developing countries, August, 1966, Geneva, p.8. Sometimes, it is argued in some quarters that many small European countries could achieve remarkable economic performance without colonies or benefits of a larger regional market. They, therefore, belittle the importance of economic integration among small nations in Asia and elsewhere. An adequate reply may, however, be found in differences of economic backgrounds. Those European nations could enjoy many favourable factors such as political stability, high levels of community organisation, high standards of education and free movement of production factors, etc.
When the entire region faces a basic commodity export-lag with a low income elasticity of demand for most primary commodities (coupled with adverse factors such as the growth of synthetics and agricultural protectionism in advanced countries), Prof. Ragnar Nurkse would suggest the possibility of a break-through via exports of manufactured goods in contrast with the traditional pattern of growth through exports of primary commodities. When the question of exporting such manufactures arises, it becomes sensible to tinker with the idea of a regional market reviving the traditional trade of Asia. We may conclude with a hopeful note struck in the Asian Ministerial Conference on Regional Economic Co-Operation. "Although the fact that countries elsewhere have decided to organise themselves into regional economic units is not a sufficient reason for suggesting that countries in the ECAFE region should follow suit, yet these examples are bound to create a climate of opinion in favour of similar arrangements. Moreover, the remarkable expansion of trade which has followed upon the reduction of artificial barriers in the Latin American free trade association (LAFTA) suggests that similar arrangements might be appropriate in

PROBLEMS AND DIFFICULTIES:

For the ECAFE Countries, in general and South East Countries in particular, it is absolutely impossible to arrive at an advanced form of economic integration without first fulfilling a number of pre-requisites. POLITICO-socio-economic factors will, however, take the region a pretty long time to settle their differences. A medley of diverse monetary-trade-cum-political connections and of different ethnic, religious, cultural and linguistic strands complicate the situation.

Persistence of intra-regional politics and absence of infra-structural links between the different parts of this geographically contiguous area would, however, encourage economic integration among under-developed countries to be opposed.

11. UNOs Regional Economic Co-operation (Report of the Ministerial Conference on Asian Economic Co-operation : held at Manila, the Philippines, from 3rd December to 6th December, 1963) Bangkok, P.63

Even if an ultimate integration scheme is granted, there is a fear concerning concentration of investment in more developed areas. The view that less developed areas in the region will suffer in case of economic integration is based on the following grounds:

(i) There will be no more protection of infant industries against imports from within the region.

(ii) There is a possibility of loss of revenue since duty would be charged only on imports from outside the region.

(iii) There is a possibility of a rise in the cost of living if commodities are imported from within the region than outside the region.

In the light of the historical and recent experiences of countries like Brazil, East Africa and Italy, the probability of higher development of certain regions spreading benefits to other areas is ruled out on account of rigidities of traditional social patterns. This fear is likely to materialise in countries where similar levels of per capita incomes obtain, owing to the comparative advantage or disadvantage enjoyed by one factor or another essential for economic development. Such uncertainties are more likely to develop when there was previously little trade among the partners.

**LINES OF ACTION PROPOSED:**

While the previous section of this chapter indicated a set of general difficulties which less developed countries have to face in case of economic integration,
advantages of a regional economic union might, in fact, swamp the disadvantages of further polarisation. This hypothesis is made on the basis of a multiple set of potential advantages accruing from economic integration among developing countries and also on the basis of various corrective measures such as a scheme of integration can profitably include in order to avoid the undesirable consequences likely to befall less developed partners. These corrective measures are enumerated below: Infant industries must be temporarily be protected against regional competition until they become mature enough to compete. The regional infra-structure should substantially be strengthened. Any preferential rate enjoyed by the advanced partners should be removed. If unemployment on a large scale is feared owing to the disruption of present employment opportunities, a vent for re-employment in alternative industries is to be created. Identification of current and potential exportable surpluses and import requirements in all possible sectors, and construction of matrices of intra-regional commodity flows, being initially confined to a few commodities, along with trade liberalisation must be completed within a prescribed time-table. Such a systematic confrontation of import needs and export capabilities would, no doubt, reveal trading opportunities. A regional development-cum-financial agency might also be necessary.
The regional investment policy should establish priority industries so as to avoid unnecessary duplications. While bringing about an equitable distribution of benefits, it must strengthen domestic enterprises with participation of foreign capital and decide on locations of investments although the task is fraught with difficulties. The regional investment policy likely to be more successful with national plans operating in the countries must attempt new investments on the basis of a programme of agreed specialisation consistent with the needs of balanced development. While light industries also might be given to them, countries like Burma, Thailand and Cambodia may undertake to invest more in agriculture. When, however, these agricultural products are exchanged with manufactures, any unfavourable effects on the terms of trade must be compensated properly. A regional investment policy is more applicable to the countries where industrialisation is new, but for a relatively advanced country like India where every type of conceivable industry is in operation at some stage or another, it would be proper to return to an earlier suggestion that India should better concentrate on heavy industrial products.

Trade in agricultural products is also to be promoted so that it promotes sufficient reciprocity among countries in a matching way, although freeing of trade is likely to
generate disruptive tendencies like unemployment. While concessional sales of advanced countries constitute an impeding factor in freeing agricultural trade, the agricultural sector has a high degree of rigidity so that it is difficult to reorient cultivation of land and put it to alternative uses. Moreover in areas where differences in productivity are not presently considerable, increases of exportable production due to improved methods might lead to undesirable consequences upon the agricultural population of the partner countries that did not make equivalent efforts.

A common external tariff would enhance development costs of less developed partners in the region as regards imports from third countries so that exemptions might be granted to them from the obligations on an ad-hoc basis without causing trade deflections. Or in some cases, it might be advantageous to operate a system of drawbacks on imports of enterprises situated in the less developed area. Or in some other cases where the approach to integration is through agreements on industrial sectors or through a package of allocated enterprises, the less developed country’s interest in bala need opportunities might be safeguarded by the content of the agreements concerned, without making it necessary to exempt it from the obligation to harmonise the duties. Otherwise a common external tariff is necessary for effective use of the joint bargaining strength towards third countries since
diverging national tariffs and trade restrictions would lead to trade deflections.

Monetary policy may be harmonised in order to avoid the over-valuation or under-valuation of different currencies so that the exchange rate becomes the basis of fair competition. Differences in the nature and rates of various taxes on production and consumption between various countries of a common market will distort competitive conditions and will prevent production maximisation or trade optimisation. It is, therefore, essential that there should be co-ordination in economic, financial, commercial, fiscal and balance of payments policies and policies concerning freedom of movement of labour and capital.

Gradual reduction of tariff and non-tariff barriers may be initiated on a tentative basis with a few commodities. Similarly, membership of the area may be confined to a few countries which can reach mutual understanding, leaving the doors wide open for other members to join later. In view of the known vicissitudes of item by item negotiations, serious consideration may be given to the across-the-board approach rather than to the selective approach. There must be reasonable safeguards for insufficiently consolidated industries in more advanced countries, for instance, against foreign enterprises established in the less developed countries.
In a group of countries where industrialisation is in the initial stage, very simple and self-contained projects may be worked out. If over-emphasis on complete balance is not to constitute a handicap in the negotiations, it would be necessary to provide a special means to offset the drawback for a particular country not being chosen as the location.

A scheme of regional economic integration may be assisted by a Secretariat body (such as the ECAFE Secretariat), although a wider responsibility rests on the governments of the countries concerned. Substantial aid may be expected from international institutions as well as from advanced countries.

While the lines of action suggested herein should be considered neither exhaustive nor final, it may be pointed out that, the more thoroughly the development potentials of the various parts of the region can be analysed, the more will it be possible to aim at a production pattern that would be based on a dynamic notion of comparative advantage and that would provide guidance for the application of the various corrective measures.

Intra-regional trade is growing up particularly in South East Asia which continues to be the region with the strongest trade relationship with other partners. These countries have also to be more dependent on intra-trade for
manufactured products partly owing to the high costs that characterise many of their industries which enable such goods to be sold within the framework of bilateral and preferential arrangements. When faced with payments troubles in many of these countries, a payments mechanism is essential to mitigate the inconveniences arising out of a shortage of convertible currencies.

Countries in the ECAFE AREA or in South East Asia are under-developed countries facing external imbalances. With their basic position as primary producers, they have faced an inelastic international demand. Moreover, the growth of synthetics in the advanced countries has been partly responsible for the structural trade gap. The consequence has been the stepped-up rate of import substitution in developing countries on a national basis. Import substitution on a regional basis is to be more effective and payments arrangements will help liberalising import restrictions among these countries.

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This will help to expand mutual trade in new manufactures as against to developed countries. To quote the UNCTAD: "if it is recognised that a scheme of regional trade liberalisation provides a valid approach, it seems to follow that a payments arrangement that complements such a programme is also valid". Payments arrangements may even be accompanied by various forms of industrial expansion for the promotion of trade in new products. Payments arrangements, by minimising fluctuations in balance of payments, would help regional planning from the beginning.

**GEOGRAPHICAL COVERAGE:**

In the ECAFE area, there might be too many deficit countries and too few surplus countries. While foreign assistance of an institutional type is expected, any effective credit arrangements will be successful with the inclusion of reserve gainers such as Japan, Australila and Iran. In South East Asia, Malaysia and Thailand can be expected to contribute since the Vietnam War and its escalations have enabled South East Asian Countries to gain reserves. When the war is over, aid will rush for rehabilitation and reconstruction purposes. While it is more appropriate that a country like Japan which

has played a leading role in ECAFE's intra-regional trade should join in any payments scheme, the prospects of a payments scheme in the rest of the developing ECAFE countries are still bright and this statement is made in view of the developing ECAFE's gaining reserves. When the payments scheme covers the entire ECAFE area, each country will earmark for itself a modest portion of the vast reserves which they lend or pay to the outside world as well as to the IMF. Out of this workable fund in convertible currency, Prof. Robert Triffin suggests, members may lend at somewhat higher levels than borrow. While special drawing rights may be negotiated with the IMF, borrowing limits must be within their quota. Countries in deficits will make cash settlements rather than use interim finance in full. The clearing House must be so authorised that it may reduce the pro rata borrowing rights of each member and may also demand that their use be combined with partial cash settlements. When favourable circumstances prevail for extreme creditor countries, they may also be asked to supply a contingent supplementary line of credit.

CONCLUSION:

As an ultimate measure for trade expansion, regional economic co-operation is suggested. Despite the far-flung implications and involvements of such a regional union, it will certainly have long-run importance. India and South East Asian countries are members of the Economic Commission for Asia and the Far East (ECAFE) and a regional union has been visualised on several occasions within the ECAFE framework. A tentative arrangement may otherwise be undertaken by India and her neighbouring South East Asian countries on the basis of common interests and mutual agreements. Regional economic unions are never quite new nor quite unexplored. Already there is the ASEAN (Association of South East Asian Nations) formed in 1967 consisting of five countries; Thailand, Malaysia, Singapore, Indonesia and the Philippines aimed at lowering tariffs on intra-regional trade. Two other sub-regional groupings are the Asian and Pacific Council and the Australia-New Zealand Free trade area of which the latter has a trade liberalisation accent.