The present study seeks to analyse the nature and scope of regional economic integration among the countries of South Asia i.e. Bangladesh, Burma, India, Nepal and Sri Lanka. Schemes of regional economic integration have been under way in many parts of the less-developed world, particularly in Africa and Latin America and their genesis and rationale have obviously sprung from similar attempts among developed countries. but as will be brought out subsequently, it is not quite appropriate to build on those models, a theory of economic integration for a group of countries which are the subject of the present study. Such a theory needs to be reshaped in accordance with the peculiar economic conditions prevailing in this region. The present study seeks to evaluate the various theories

1. Latin American Free Trade Association (LAFTA), Central American Common Market (CACM), East African Economic Community (EAEC), Central African Economic and Customs Union, West African Customs Union, and Arab Common Market may be mentioned as some of the attempts made at regional economic integration.
of customs union which have been propounded from time to time with a view to formulating an alternative theory so as to fit this region.

The existing customs union theories answer the problems of developing countries inadequately. They ignore the problems of development in the sense of capacity use and growth, coordination of industrialisation and commodity concentration of exports. The old straight-jacket of optimal specialisation under trade, which was at the centre of the theory of customs union, should better be set aside and the theory of economic integration among the developing countries should converge more and more on the economics of development.

It is now recognised that regional economic integration is a potentially important weapon for accelerated development and industrialisation in the

As such, the rationale of the departure from the traditional approaches to economic integration is quite obvious. The purpose of regional economic integration schemes among developing countries is to achieve economic diversification and to accelerate industrialisation through the liberalisation of the largely non-existing intra-regional trade, inducing economic development in a round-about way. Thus, industrial complementarity or cooperative industrialisation has to be given as high a priority as trade liberalisation itself.

For example, the General Treaty on Central American Economic Integration addresses itself directly to the issues of industrial integration by endorsing the agreement on regional integration of industries concluded prior to the Treaty itself. The Central African Economic and

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1. Taking note of the General Assembly resolution entitled International Development Strategy for the Second United Nations Development Decade, unanimously adopted at its twenty-fifty session, which inter alia, endorses the determination of the developing and the developed countries to continue their efforts to institute such schemes for trade expansion, economic cooperation and regional integration among developing countries as will foster rational and outward-looking expansion of production and trade, regarding those efforts as a significant contribution towards attaining the target set for the second United Nations Development Decade, U.N., Regional Economic Cooperation in Asia and the Far East, Regional Economic Cooperation Series, No. 8, 1971, p. 4.

Customs Union Treaty commits the contracting parties to harmonise their industrialisation policies, development plans and transport policies with a view to promoting balanced development and diversification of the economies of member countries. Coordination of economic development and industrialisation policies is also provided for in the agreement for economic unity among Arab League States signed in 1962, which offered a basis for the subsequent agreement on the Arab Common Market. Thus, it appears that economic integration must precede or go side by side with intraregional trade.

However, in addition to purely national efforts, countries of the region should attempt to strengthen the basis of their economic development by forming wider markets through programmes of mutual trade liberalisation, coordinated industrial development and cooperative measures in other fields. At its second and third sessions, the United Nations Conference on Trade and Development gave particular attention to this subject adopting a concerted declaration (declaration 23(11)) and resolution (48(11)) which provide a framework for action by the international community in support of developing

2. Ibid., pp. 284-86.
countries' initiatives for mutual trade expansion, economic cooperation and regional integration.

According to the Final Act of the First United Nations Conference on Trade and Development (UNCTAD) held in Geneva in 1964, "Regional economic groupings, integration and other forms of economic cooperation should be promoted among the developing countries as a means of expanding their intra-regional and extra-regional trade and encouraging their economic growth and their industrial and agricultural diversification with due regard to the special features of the development of various countries concerned as well as their economic and social systems."¹

The developing countries of South Asia have largely experienced fluctuating and declining world prices for their traditional exports. For the countries that are heavily dependent upon the export of a single crop (e.g. tea for Sri Lanka and rice for Burma), this problem has been particularly onerous. Moreover, there is little likelihood that the market forces of the 1970's will make for a better economic environment for the majority of the traditional exports of the region.²

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Again, apart from the internal structural and institutional impediments to growth, all countries of the region have had their export prospects considerably frustrated by the unwillingness of the developed countries to abandon the protection of their domestic agricultural and light consumer goods industries.

The likely continuation, and in some cases exacerbation of these problems, suggests that the developing countries of the region will need to make even greater efforts to promote economic efficiency and even greater endeavour in self-help. In most cases, the major problem is not merely to achieve a sustained expansion of their traditional exports but also to explore and develop new exports. Export diversification, however, is inhibited by inflexibility in the structure of production. The development strategy to produce new exports will, therefore, generally require specific incentives to encourage investment and channel it into export-oriented activities.

Moreover, the pattern of international trade has undergone significant changes during the last three quarters of the century. Trade in manufactured goods among the advanced countries has increased rapidly, whilst trade in primary commodities between advanced
industrial countries and developing non-industrial countries has been relatively stagnant. The emphasis in world trade has shifted away from the vertical trade between primary producing and manufacturing economies towards horizontal trade in manufactures among industrial producers.

These structural changes in the world trade have brought with them considerable difficulties for primary-producing countries, many of which are faced with low or declining income elasticities of demand for their principal exports. In this sense, it is undoubtedly true that exports of primary commodities have not served as an 'engine of growth' for most developing countries. There is need to search for 'new engines of growth' in the international economy and to push the development of export-oriented industrial activity appropriate to the economic circumstances, resource endowments and the demand structure of particular developing economies. A new international division of labour must be established through the planned transfer of manufacturing activity from the developed to the less-developed countries.

But there remains an important need to create an international environment in which the primary-producing exporters are given atleast an equal opportunity to
realise the gains from trade and growth and the encouragement to increase the competitive power of their primary export sectors. For many developing countries, primary production must remain the principal source of trade and income growth in the coming decades.

Concentration of exports in a few primary commodities may not necessarily be detrimental to trade and economic growth. The history of trade and economic growth of Australia, Sweden and Canada provides evidence enough of that. But when concentration in trade and economic structure is great, there are special problems for economic management, and depending upon the nature of these key activities and complementary activities and resources, the burden of affecting productive structural adjustments may be large. The diversification of exports has, therefore, become an important object of economic policy for primary-producing exporters.

The justification of policies directed at export diversification lies in the fact that the opportunities for growth of demand-oriented exports of primary producing countries appear extremely limited. An unfavourable international environment for primary commodity trade has developed because of the increased emphasis on trade expansion in manufactured goods among industrial
Moreover, with income growth, the demand for the primary produce remains relatively stagnant, whilst the demand for fuel and manufactured goods grows rapidly.

Thus the major way in which the international trade and financial policies of the countries of Asia could change is in the adoption of regional policies of self-help to foster intra-regional trade and to overcome the difficulty of achieving adequate multilateral remedies. However, the countries of Asia are too diverse politically, economically and socially to attain continent-wide cooperation. Instead sub-continental schemes may be feasible. For the present South Asian countries including Bangladesh, Burma, India, Nepal and Sri Lanka may be taken as a region affording considerable scope for regional economic integration.

There are three major fields in which wide forms of cooperation could be adopted. First, the countries could consider the possibility of establishing regional trade and/or payments system similar to those established previously in Europe and in South and Central Americas. The benefits could be more rational development of production (particularly in new lines of activity) within the area and expansion
of trade as a result of better credit facilities provided by some form of regional credit or payments system. Secondly, the developed countries of the region could cooperate in aid programmes within the area. Finally, the developing countries of the region could cooperate more fully in matters of general fiscal, monetary and balance of payments policies. For instance, they could offer uniform incentives to private foreign investors in order to avoid the situation in which each country competes with the others to attract foreign investors.

The present study attempts to highlight the relevance of the existing integration theory in the context of South Asia and tries to amend it with the help of observed considerations and data. Chapter I highlights the need for such a sub-regional economic integration. One-sided dependence of these South Asian countries on the developed countries in matters of their trade has resulted in adversely affecting their balance of payments. Import substitution at the national level has been tried and found wanting. Primary exports of the region are highly vulnerable to market fluctuations.

Chapter II seeks to set up a conceptual framework for the South Asian Common Market. It will be seen
that since the traditional theory of economic integration deals inadequately with the problems of developing South Asian countries, the theory of economic integration may be viewed not from the angle of trade creation and trade diversion but with an eye on the problems of economic growth, industrialisation, specialisation and diversification of exports and imports of the region. An attempt is made here to formulate the measurement of the growth aspect of economic integration. In Chapter III, an attempt has been made to draw up a blueprint for a South Asian Common Market and to work out a scheme of economic cooperation in the region which is not too diverse politically and not at very different stages of economic development. It has been brought out that the region in question offers significant opportunities which go beyond mere trade liberalisation and encompass regional industrialisation.

Chapter IV considers the possibilities of the success of such a market but equally important are the bottlenecks that are likely to arise in the process of such integration. How to settle the distribution of benefits and costs in such a scheme of integration? Small countries have their own fears.
Problems are bound to arise from diverse political set-up, different levels of development, shortage of funds and plan harmonization.

Trade patterns of prospective South Asian Common Market countries have been depicted in Chapter V. Though all these countries portray a different trade pattern yet there are some common features as well. All these countries have a high degree of concentration of exports and imports, mainly resulting from the predominant, neglected and under-developed agricultural sector and manufacturing also not generally developed. As such, these countries have a declining export market for their goods with persistent need for imports.

Chapter VI elaborates India's role in South Asian Common Market. India is the foremost industrialised country in the region. It has built a sound infrastructure, imbibed appropriate modern technology, diversified industrial and export sectors to some extent and is in a position to offer consultancy services to neighbouring Asian countries and to undertake projects on turnkey basis.

In the end, it has been found that a proposed South Asian Common Market would go a long-way in
undertaking joint ventures in these countries and establishing closer economic, scientific and technological relations. There appears to be greater scope of establishing not only regional industrialisation, but at the same time a common agricultural policy, infrastructural harmonisation and fiscal and monetary cooperation.

The appendix focuses attention on various attempts at Asian economic cooperation. The present groupings in Asia include the Association of South East Asian Nations (ASEAN), Asian and Pacific Council (ASPAC), Regional Cooperation for Development (RCD), New Zealand Australia Free Trade Agreement (NAFTA) and a few others. An attempt has been made to offer a critical evaluation of some of these schemes, their sustenance and future strengthening.