Problems of economic integration have occupied a prominent place in the economic policy discussions both in the developed and in the developing countries throughout the last two decades. But the conditions prevailing in developing countries - e.g. inelastic demand for their traditional commodities - makes economic integration even more urgent than in the industrially developed countries.

The imperative need for a South Asian Common Market is also felt because these countries have their trade dependence on the developed world. Obtaining better terms and conditions and lessening the one-sided dependence of these countries on the developed world are the chief objectives of the South Asian Common Market. An intensification and diversion of trade among the countries of the group is a direct means of lessening this dependence.

The developing countries experienced adverse terms of trade throughout the First Development Decade.
And their rates of growth also trailed far behind their stipulated targets, while during the same period, the developed countries continued to expand their economies at high rates.

The yawning gap between the developed and the developing countries finds another expression in their export performance. While the developed countries steadily expanded their exports by 3.6 per cent per annum between 1950-66, the exports of the developing countries only increased by an average of 4.3 per cent per annum during the same period. The importance of the developing countries as trading partners of the developed countries has also declined steadily, while the trade flow among the industrial countries has become steadily more dominant.

In terms of world exports, the share of the developed areas increased from 60 per cent in 1950 to 72 per cent in 1973, whereas the share of the developing countries declined from 32 per cent to 18 per cent during the same period. The decelerating trend of the developing countries' capacity to import from the developed world is likely to continue leading to deeper international tensions.

If capital inflows are to close the gap, the gross flows of aid will have to increase massively. As such import substitution as part of the strategy of
development has been advocated. But it has its own snags. Considerations of paucity of resources and absence of competition suggest that import substitution leads to inefficient investment allocations when it is resorted to by a single country on a large scale.

But the alternative is not to resign the determination of investment pattern in a country to world market forces. Import substitution ceases to be a poor strategy as soon as the problem is shifted from the plane of an individual developing country to that of the region as a whole. As a corollary, import substitution would mean the opening or intensification of trade among the developing countries in the commodities partly or wholly eliminated from the flows of goods from the developed world.

The policy of import substitution on the regional basis, it is alleged, would be trade diverting. It would entail a relative decline in imports from the third countries. This may not be true because the policy of import substitution has a two-fold purpose: firstly, it aims to bring about employment and income; beyond this however, it releases foreign exchange previously needed for the import of consumer goods, raw material and intermediate products for the import of additional capital goods. This will not normally have immediate effects on
the level of total imports and may, via the acceleration in growth which the common market sparks off, even lead to increased imports.

Another problem that the developing countries are faced with is the growing need of foreign aid in order to meet their chronic deficits. The export of primary commodities, on which lies their main dependence, are subject to frequent imbalances in production and consumption, price fluctuations and strong competition in the world market both from the natural and the synthetic substitutes.

One very promising way of making their products more competitive in the third countries is through plan harmonization and regional grouping of their industries. Small countries can attain the economies of scale and the needed level of industrialisation only through regional integration. Larger market enables larger production units to be selected which may in turn lead to appreciable cost reductions. In some cases, expansion of the market may be the pre-requisite for creating new product lines because the minimum capacity necessary for profitable running of a firm exceeds the demand of each individual member country.

A larger zone enables industries to be established where the best natural conditions exist (raw materials, communication, electric power, appropriate labour resources, proximity to market, etc.). When an industrial centre has
sprung up, it can be of advantage for other enterprises to settle in the same location due to the benefits offered by local facilities (availability of qualified labour, by-products of other industries, direct connections with banks, etc.). External economies are evidently a secondary consequence of primary location advantages - the fact that external economies do not arise naturally but are conditioned by industrialisation itself is of supreme importance for the problems of development within common markets.

Economies are also obtained in the small countries in the joint operation of railways, airlines, research stations, etc. So is the case for intra-regional industrial specialisation. This is a form of economies of scale at the macroeconomic level, for only the increase in sales enables the production process or production programme to be broken down into several specialised production units. Regional integration among countries no doubt would result in enlarged production and in advantages normally accruing from a larger integrated market; but these may possibly be partly outweighed by likely tendency among larger scale enterprises culminating into an oligopolistic or monopolistic structures.
Large-scale production may also be accompanied by greater technological progress. Given a fairly long life of a capital asset, production can be more rapidly tuned to the latest technical developments when there is a need for capital expenditure to increase production capacities. For the reasons given, total demand is likely to grow at a greater pace in a larger market with the result that a further plant of optimum size can be set up and fitted out with the most modern technological know-how earlier than otherwise.

Besides, there are greater chances of increased inflow of foreign capital. International institutions promote cooperation among member countries. A new integration zone may be allocated more capital. It may also attract private capital inflows. Diversion of trade through import substitution within the common market will also lead to saving of foreign exchange.

Low level of productivity and low degree of complementarity between the production structures of the South Asian countries do not offer appreciable prospect of trade creation. As such, the theory of economic integration as it has developed to date with reference to developed countries, answers the problems of these countries rather inadequately. In order to find out the
Theoretical justification for South Asian Common Market in its setting of a group, the existing conceptual framework of the common market will not be enough.

In the particular context of the less developed countries of Asia, trade creation and trade diversion welfare effects of the regional integration are not of much concern; but what is indeed of greater interest is the fundamental problems of development in these countries such as, increasing opportunities for profitable foreign and domestic investment, broadening the export base, achieving the balance of payments equilibrium, mobilising unemployed resources and avoiding and overcoming economic dualism.

Before Viner, it was thought that the customs union was a step towards a greater free trade and hence more conducive to welfare. Viner introduced the concept of trade creation and trade diversion to demonstrate the invalidity of the existing argument. Trade creation is a shift in trade from the high-cost to the low-cost producer and trade diversion implies a shift in the opposite direction. From the point of view of the world welfare, trade creation is useful and trade diversion harmful. The net result, however, is dependent on which of the forces is stronger.
While Viner's analysis has been the major landmark in the theory of customs union, yet it does not make it possible to have an overall analysis of an integration scheme. Three basic shortcomings in Viner's analysis may be identified: (a) It did not include the dynamic elements; (b) it did not take into consideration the world-wide income distribution; and (c) the obvious inevitability of trade diversion in the developing countries.

As such, although the analysis of conditions prevailing in developing countries, does not completely refute the theory of economic integration, yet it has led to a significant shift of emphasis and to certain amendments of this section of economic theory. Greater weight now has to be attached to the dynamic aspects of the theory of economic integration. Besides, the traditional theoretical approach based on full employment of production factors is supplemented by an analysis of the effects of integration, given underemployment of production factors.

The relevance of the orthodox evaluation for the developing countries is narrowed down because both the initial factor proportion and the comparative advantages are changed by the development process per se and by the development process set in motion by the formation of a common market, via capital accumulation and the concomitant formation of new comparative advantages.
While traditional analysis assumes full employment of resources, in reality many resources are often unemployed and underemployed in developing countries. If the common market makes it possible for additional factors to be employed within the framework of the policy of import substitution, the negative effects of trade diversion may be offset by the creation of additional income.

Thus, with the incorporation of these refinements, the theory of economic integration finds greater applicability in respect of its concern for industrialisation and the saving of scarce foreign exchange by import substitution. Or it can be said that with the familiar constraints/characteristics of the developing countries, the allocation aspects of integration - resulting in increased investment and accelerated technical progress - are the outstanding effects in markets of developed nations but these recede in importance compared with the opportunities that open up for the employment of idle production factors induced by the common market.

Thus, the economic effects of common market are supposed to originate from two aspects: (a) trade and tariff effects and (b) production and employment effects. The traditional analysis laid emphasis only on the former. In the present study, an attempt has been made to theoretically conceive the measurement of economic effects from the standpoint of long run economic growth. Such a measurement is of special importance to the South Asian region under study.
The countries chosen to constitute the South Asian regional group for the present study are Bangladesh, Burma, India, Nepal and Sri Lanka. These countries represent a more or less similar level of economic development as measured by the indicators of per capita output, dependence on agriculture, economic activities and cultural level. Economic integration would not only be advantageous in trade but also help in promoting industrialisation and accelerated growth and long-run peace and stability in the continent.

Besides, the factors that led to the success of regional groupings among developing countries elsewhere are present here too. The countries of this region constitute a geographically compact unit with a common history and common culture. These countries also have a great potential of complementarity.

The region also offers good prospects for essentially trade-creating liberalization. The countries of the region would find trade among themselves more profitable than economically inferior but politically motivated trade elsewhere. They can have joint exercise of monopoly or oligopoly power in world markets so far as jute, tea, rice and a few other exports are concerned. There are also possibilities of joint exploitation of irrigation, flood control and transport and communication system. Such schemes can even precede the establishment of South Asian Common Market.
The developed countries can contribute to the finances of such a market, but the market should resist any external pressures and the influence of multinationals. On the other hand, it can look to the Asian Development Bank, the Asian Clearing Union and other international agencies for help.

The countries of South Asia can start with trade liberalisation of a self-balancing nature. In fact, Bangladesh and India have already signed such an agreement. Trade liberalisation may not be across the board; instead selective trade liberalisation may be attempted in the region.

Trade agreements, bulk purchases by governments and state trading corporations have also their own limitations. As such, trade liberalisation scheme has to be a loose package embracing partial reduction of not only tariffs but also non-tariff restrictions.

Besides, trade expansion should not be based on the existing capacities of the countries concerned; it has severe limitations. It is the deliberate creation of new pattern of production among the South Asian countries that will result not only in a new pattern of trade but also in expanded trade. Trade-cum-Investment approach should dictate the selection of industries for regional development.
which need a larger market than the national market. It will usher in economies of scale and avoid duplication of investments. As such, selective trade liberalisation on a regional basis supported by trade-cum-investment approach might prove most appropriate to economic integration of South Asian countries, in the initial stages at any rate.

In order successfully to implement such a strategy, plan harmonisation of the countries at the regional level is an essential prerequisite. Economic growth can be accelerated through plan harmonisation strategy, because it permits a more efficient utilization of a region's resources by introducing a high level of division of labour and widening of markets and deliberate creation of new productive capacity and complementary production patterns in the participating countries. Harmonisation strategy will also eliminate wasteful duplication of investments and production efforts, augment the pool of real resources, exploit the economies of scale, permit foreign exchange savings through successful import substitution and lead to an increase in the region's export potential. Its advantages will also be particularly noticeable in the production of capital goods and durable consumer goods.
However, comprehensive harmonisation of plans may not be achieved at one stroke. In the initial stages, partial harmonisation can be introduced to overcome the difficulties of complete harmonisation. A commodity-by-commodity approach to plan harmonisation appears administratively and technically more feasible.

It may be advisable that intra-regional trade expansion should take place in a balanced way so that no payments problems emerge; yet there may be short-term lags and imperfect synchronization. The transitional payments problems are bound to arise. The mutual extension of credit is thus considered an integral part of the measure of trade liberalisation and expansion. Thus, a clearing mechanism would facilitate such an expansion by reducing the servicing costs and dependence on hard currency. There is however the problem of taking initiative in this regard; countries of the proposed region may call upon India to take the lead in respect of the operational aspects of these arrangements.

While the need for regional economic integration in South Asia can hardly be over-emphasized, it will be wrong to underestimate the formidable challenges that will have to be faced in carrying out such a scheme. There may even be early signs of tendencies towards
disintegration, which may slow down further progress if not lead to direct dissolution of the common market. Whatever contribution non-economic factors peculiar to individual member countries may also make towards weakening the process of integration, the experiences are sufficiently numerous and general to justify the hypothesis that, in the developing countries, the process of integration itself touches off such disintegration tendencies. The countries of the region fear that the process of integration might bestow unequal benefits among them. The unequal developments of the group members might ask for more escape clauses and special provisions.

As such, in spite of the numerous and undoubted potential advantages of integration, the proposed South Asian Common Market is likely to face certain additional problems arising from its structure. These arise because of the fact that the benefits of such a market may be evaluated less positively from the standpoint of individual member countries, in particular the economically weaker ones. These disadvantages for the smaller and relatively less developed countries are the outcome of the two advantages generally associated with common markets, namely the exploitation of the locational advantages and the external economies in the existing industrial centres. These would accentuate the disparities in development among
the members of the common market, once trade barriers among them are dismantled. Domestic and foreign capital will also both gravitate to member countries which are already industrially ahead of others and thus widen the gap in the existing levels of development.

Intra-regional competition will also be a handicap to the weaker partners; while price increases for consumer goods resulting from import substitution will be shared by the weaker partners, the income effect benefits will go only to the industrialised partner. In a similar fashion, loss in custom receipts will be shared evenly, but only the stronger partners enjoy the advantages from trade creation as well as trade diversion, while the weaker partners suffer from the drawbacks of both.

The weaker members of such a market, however, will generally try to pursue a protectionist and dirigistic policy towards both the developed nations and her stronger partners by attempting substantially to curtail and substitute the spontaneous effects of the market forces with government controlled measures. If a weaker member country is unable to provide such protection against the spontaneous effects of the common market, it may better decide to forego regional integration in favour of an attempt to integrate in the world market as best as it can and at least obtain its imports at lower prices.
And if the developing countries have rightly begun to emphasize that the comparative advantages should not be considered statically but as producibles, the weaker members of the market might argue on these lines against their dominant partners and demand time to form their own growth poles with their own spread effects and external economies before having to face competition again in the developing integrated area.

Again, it is sometimes argued that the countries of the region are in dissimilar stages of economic development with non-complementary nature of their economies producing, by and large, traditional products. There is no keenness on the part of these countries to come to terms with each other, perhaps because of the fear that integration among an arbitrary group of developing countries might perhaps distribute benefits unequally among the different member countries. Besides, the planning of industrial ventures on the regional basis has thus far been completely missing in South Asian countries; their industries have been planned at the national level.

While plan harmonization appears to be a necessary support for carrying forward the whole idea of the South Asian common market, such harmonization among these countries bristles with problems of its own. The potential conflict between the planned development and trade
liberalisation can be avoided if it is accepted that
the two approaches of enlarging the demand (through
plan harmonization) and giving them fuller play (through
regional integration) will not be competing alternatives
for the same industries at the same time.

Another reason for the disintegrating forces is
that the industrial development in developing countries
is largely sustained by foreign capital, owing to the
limited scope of domestic capital formation and the
lack of technical know-how. It is advisable that these
countries should resolve their financial difficulties
through the assistance of international agencies and more
so through the ADE and the Asian Clearing Union (ACU).
Given the dualistic nature of their economies, these
countries cannot pursue regional integration with reliance
on private foreign investments, there is the danger
that only small modern sectors of the joining countries
are integrated while the rest remains in isolated poverty.
UNCTAD IV in its recent session at Nairobi resolved that
economic cooperation among the developing countries should
be given preference in matters of granting financial
assistance.

However, the South Asian countries can possibly
adopt the following main measures to counteract the
disintegrating tendencies: (a) Concrete agreements on
the location of new industries; (b) Common Development
Planning Authority; (c) Supranational development banks equitably sustained by the partner countries with investment activity focussed mainly on weaker member countries; (d) Temporary unilateral elimination of import duties to enable the weaker members to catch up with their more industrialised partners.

Since the member countries of the proposed group are characterized by a considerable measure of government control and state trading, that should facilitate the adoption of common industrial and commercial policies. State trading corporations of the member countries can play a useful role in establishing adequate financial and commercial links and can lead to trade creation by fulfilling better the trade targets, and if there is indeed a genuine commitment to the idea of regional integration and the will to make it work, the chances of integration and plan harmonization are greatly brightened.

South Asian countries, in general, face a very high degree of commodity concentration of exports and imports. The exports and imports also have a very high geographical concentration though its precise proportion may vary from country to country. The few major export products are destined to a few major markets and the imports are purchased from a few major sources, which generally coincide with the
major markets. All these countries have a predominant and underdeveloped agricultural sector and manufacturing also not generally well-developed. The countries of the region are faced with declining export markets for their goods with persistent need for imports.

Although there has been a vigorous and sustained drive so far as India's export efforts are concerned, yet her share of world exports has been declining. India's share of the global exports, which was 1.2 per cent in 1963 declined to 0.7 per cent in 1970 and further to 0.5 per cent in 1975.

Some diversification took place in India's exports during recent years, but traditional commodities still constitute a sizeable proportion of such exports. Some far-reaching structural changes have also been witnessed in the direction of her exports, with the greatest share of it going to the ESCAP region. Her exports to the South Asian countries, especially Bangladesh, Sri Lanka and Nepal, have also been on the increase.

India's imports have also grown over the years in spite of her efforts to restrict them. Mineral fuels, foodgrains and fertilizers are the main unavoidable items of imports resulting in a continuous adverse balance of trade.
Over-population and extreme poverty are overwhelming problems in the Bangladesh economy. With 75 million people, the present density of population is 1300 per sq. mile and the rate of population growth is 3 per cent per annum. Per capita income is only 60 to 70 US dollars a year. Limited natural resources and frequent natural calamities are also handahe in economic development.

Agriculture is the mainstay of the economy, accounting for 60 per cent of the GDP. Rice and jute are the main crops. But due to traditional agricultural techniques, the country has become deficit in food-grains. Foreign exchange earnings will continue to depend heavily on the exports of raw jute and jute goods. Newly emerged Bangladesh will pursue her commercial policy in the best interest of her economy and as such the structure of her foreign trade will have to be reorganised and shaped accordingly.

India has come out as the largest trading partner of Bangladesh. This may be partly due to the restoration of the trade pattern that existed before the imposition of trade embargo in 1965. In 1964-65, (i.e. before the embargo), India accounted for nearly 15 per cent of East Pakistan's (Bangladesh's) exports and 7 per cent of her imports. Now many items of imports from West Pakistan
may also be substituted by imports from India particularly those of engineering goods, light machinery, chemicals, drugs, cement, limestone, cotton textiles, etc. Bangladesh can get these products more economically from India till of course it starts producing many of these domestically.

Bangladesh is to launch its programme of industrialisation, which again would reshape its trade pattern from its present import of consumer goods to more imports of industrial raw materials, capital goods and essential commodities like fuel, coal and fertilizers, which will be required for industrialisation. It would be great problem to balance Bangladesh's heavy imports of food, industrial raw materials and capital goods with its foreign exchange earnings, accruing largely from the export of traditional commodities, notably jute. The future pattern of Bangladesh's trade will depend on how far Bangladesh is able to earn foreign exchange for its large and varied imports.

Nepal's economic development has been seriously handicapped by its geography. Nepal is a land-locked country. Nearest sea port is Calcutta (in India) 400 miles away from its capital. Parts of Nepal are isolated even within the country itself. Nepal has three parallel regions, viz. the southern region (extending from India's Gangetic plain) known as the Terai, the central part called the Hills, and the northern region including the main Himalayan peaks.
The Hill region covers half of the country and is inhabited by 60 per cent of the population of 11 million.

Because of its land-locked nature and its virtually open borders with India, Nepal finds it difficult to diversify its external trade. At present nearly 60 per cent of Nepal's trade is with India. Exports consist of agricultural commodities, mainly rice, and imports consist of manufactures and consumer goods, mainly textiles and industrial material such as cement, iron and steel. In order to trade with overseas countries, Nepal has to transport all its imports and exports to Calcutta. Because of long delays in shipment, transloading and rail shipments at the border and pilferage and damage during shipment, the cost of Nepal's overseas trade is substantially increased. The New Trade Transit Treaty with India provided road transport facilities and expanded bonded warehouse space in Calcutta and port facilities at Haldia.

Data of Nepal's trade with India is very incomplete because of virtually open borders between the two countries. However, an increase in the earnings from exports to India is generally claimed. Part of this has been due to the exports to India of the manufactured goods imported from the third countries. The other part has been due largely to what has been the transitory improvement in Nepal's terms of trade with India. The prospects are that Nepal's
export earnings from trade with India may continue to be sustained because of uncertain weather conditions in India and her dependence on food from abroad.

Burma became independent in June, 1948 and underwent a major political upheaval in March 1962. Burma, with a population of 29 million in 1972 is relatively rich in agriculture, fisheries, timber and mineral resources. Rice which is the main crop was also at one time a major item of Burmese exports. But in recent years Burma has been short of rice for its own domestic consumption.

Burma's foreign trade has been showing a declining trend since 1964. Burma's exports which reached $271 million in 1964 began shrinking steadily thereafter and came down to less than half to $122 million in 1972. Share of rice and rice products in the total exports came down steeply from 67 per cent in 1960 to 37 per cent in 1972 while the share of teak shot up from bare 8 per cent to 28 per cent during the same period.

In the sphere of imports, about 60 per cent of the country's imports are accounted for by machinery and transport equipment, base metals and manufactures, cotton yarn and fabrics. ECAFE countries which absorbed 70 per cent of Burma's exports in 1960 accounted for 59 per cent in 1970. West Europe's share, on the other hand, rose from
In recent years, imports from China have gone up.

Foreign trade is most crucial for the economy of Sri Lanka. Two of her major products, tea and rubber, are produced almost wholly for export, while half of her other important product, coconut is also exported. Equally important is Sri Lanka's dependence on imports in the absence of a sizeable industrial sector and chronic shortage of foodgrains.

In a situation like this, prices fetched by Sri Lanka's exports and the prices she has to pay for imports - terms of trade - are of greater significance. Unfortunately export prices have not shown any marked rise, while, on the other hand, import prices have shown a steep rise. Thus, a large part of the increase in the real gross national product has been eroded by the adverse movement in the terms of trade.

A trend towards diversification in Sri Lanka's exports is noticeable, although foreign trade has acted as a barrier to her economic growth. External resource gap has increased over the years and financing of this gap has proved to be difficult.

India is the foremost industrialized country in this region. It is the 8th industrialised nation in the
A massive experiment of blending centuries old heritage with modernity is under way in this vast sub-continent. Over the last 30 years, India has built a sizeable infrastructure, imbued appropriate modern technology, diversified industrial and export sectors and offered turnkey projects and consultancy services overseas.

There are bright prospects of promoting India's trade and economic cooperation within the South Asian region owing to geographical proximity, friendly political relations and traditional commercial links. With rising standards of living, growing industrialisation, comparative cost advantage and potential complementarity in the production of primary commodities and manufactures, there is immense scope for larger commodity exchanges and supply of services. Besides, there are new opportunities for India to enter into long-term arrangements for the supply of capital equipment, machinery and technical know-how for projects.

Vast scope exists for Indo-Bangla trade and economic cooperation in the fields of industry, agriculture and infrastructure, for example, Bangladesh can establish modern steel plant and import cheap iron ore from India. The forests of Sikkim, Assam and Nagaland can also feed the paper making projects in Bangladesh which, in turn, may choose a product pattern that meets the market
requirements of India. Bangladesh is rich in natural gas, acknowledged to be the cheapest feedstock for producing an important agricultural input. Indo-Bangladesh jute consortium and Indo-Bangladesh-Sri Lanka tea consortium are the other possibilities.

Although Indo-Burma trade relations have witnessed a declining trend, there exists a vast scope for mutual collaboration or joint ventures in manufacturing and trade expansion. India’s machinery and chemicals can be bartered for Burma’s jute of finer variety. Mineral surpluses of Burma can be exported to India in exchange for India’s consultancy services.

Nepal is endowed with natural resources, particularly suitable for rapid expansion of agro-based industries. Agricultural and industrial development schemes in Nepal will generate demand for chemicals, fertilizers, agricultural tools and implements including tractors, industrial raw materials like yarn, chemicals, tools and machinery.

Many Indo-Sri Lanka joint ventures are in the offing for processing local raw materials like rubber, graphite and silicate sand for export to India and third countries. Such tie-up arrangements for promoting Sri Lanka’s export to India are very much desired in view of the former’s growing trade deficit with the latter. There are quite a few other possibilities as well for joint ventures, e.g. in industries like graphite, sheet glass, ophthalmic glass, electric spare parts and buses.
As such in the setting of South Asian countries, it is not difficult to conceive of a common market which will not only help expand the intra-regional trade but also go a step further with plan harmonisation of these countries. The establishment of closer economic scientific and technological relations with India as the pivot of the South Asian Common Market is of outstanding importance for further raising the economic efficiency and potential of these countries. Long-run coordination and harmonisation of their long term and annual plans with India should be initiated and specialisation in production and research expanded.

The common agricultural policy has to be an integral part of such a common market. Burma and Nepal are rice surplus states, while Bangladesh and Sri Lanka have to depend upon imports of food. All these countries are exporters of common agricultural products like jute, tea, rice and rubber and a common export programme for the aforesaid commodities can be conceived.

These countries are geographically very closely knit so as to follow the same policy on energy, transport, on capital and labour movement, although progress in this line of integration would be slow and painful due to the conflicting interests of the member countries. The countries of the region can as well have same fiscal and monetary policies. They will not only thus be able to fight out persistent balance of payments problems but also come to have convertible currencies.