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অনুষ্ঠিত আন্তর্জাতিক সম্মেলনে উপস্থাপিত প্রবন্ধাবলী

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This volume contains speeches and articles presented at the International Conference on South Asian Regional Economic Cooperation, held at Dhaka, January 21, 1985.

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EDITOR'S NOTE

The theme of South Asian Regional Economic Cooperation has been an important element in the collective concerns of the economists of South Asia for a long period of time. As far back as 1969, when political relations between India and Pakistan were frozen and economic interaction in the region minimal, some of the leading economists of South Asia assembled in Kandy, in Sri Lanka under the aegis of the International Economic Association to review the development experiences of the South Asian countries. Before and since that unique conclave South Asian economists have professionally interacted together in various international fora where the problems of South Asian development and the prospects for cooperation were frequently discussed.

It was thus fitting that the initial move to explore the prospects of South Asian Regional Economic Cooperation should originate amongst an institutional grouping of South Asian development specialists who constituted as far back as 1978 the Committee for Studies on Cooperation and Development (CSCD) in South Asia. The CSCD brought together the Indian Council of World Affairs, Pakistan Institute of Development Economics, The Bangladesh Institute of Development Studies, The Centre for Development Administration in Nepal and The Marga Institute of Sri Lanka which became the Secretariat of the committee. This initiative anticipated by two years the SARC initiative taken by the President of Bangladesh. The CSCD has since become an important forum for initiating studies on South Asian development and providing a framework for bringing in scholars from various disciplines and institutions, throughout South Asia to share their knowledge and perceptions of their respective economies and the scope for cooperative endeavour within the countries of the region.

This valuable infrastructure of knowledge accumulated through these studies and the frequent opportunities for travel and discussion provided by the conclaves convened by the CSCD to plan and discuss their research findings set the scene for a full dress conference on South Asian Economic Cooperation which in spite of the CSCD initiative had yet to be convened. It was again in the fitness of things that this unique privilege should be visited upon the Bangladesh Economic Association to bring together in an international conference in Dhaka from 21-23 January, 1985, some of the leading economists of South Asia either directly associated with the CSCD project or persons of some eminence in the

profession. The value of the CSCD initiative was indicated by the substantive contribution made in the sessions on trade and monetary policy from CSCD projects and the substantial representation of CSCD participants in the conclave.

The conference was fortunate in securing the presence of His Excellency A.S.M.A. Kibria, Executive Secretary of ESCAP who specially came over from Bangkok to inaugurate the conference. Through his presence he emphasised that South Asian Cooperation is itself part of a global vision amongst Third World countries to come together in collective endeavours to seek a realignment in the prevailing structure of international economic relations. This wider perspective to our exchange was indeed accentuated by the presence of Dr. Jagdish Saigal on behalf of UNCTAD and Dr. Francisco Valeda on behalf of ESCAP who presented papers on regional integration experience in Africa, Latin America and ASEAN.

The presence of Dr. Prakash Loahani, Finance Minister of Nepal, the Finance Adviser to the Government of Bangladesh, Mr. M. Syeduzzaman, and Mr. Humayun Rasheed Chowdhury, Secretary Ministry of Foreign Affairs, indicated that our academic deliberations were of some importance to policy-making circles in our countries.

The papers presented in the Dhaka Conference and the discussion inspired by the papers have now been assembled together in this publication by the BEA. These will provide an insight into South Asian Economic Cooperation, as it presents a sober and objective assessment of both the prospects and problems involved in giving expression to the aspiration of creating a South Asian community. The publication will thus be of value to those seeking an introduction to the issue of South Asian Economic Cooperation, to scholars working on this theme and to policymakers from the region seeking to define the path ahead for the SARC initiative. These have not lost value even after five years of its presentation.

In conclusion it would be appropriate to thank all those distinguished scholars from outside Bangladesh as well as from the Bangladesh Economic Association who contributed to the success of this endeavour. Not only did they present papers of value but they contributed towards reinforcing an environment where the vital issue of South Asian cooperation can be discussed without inherited prejudice and in scholarly detachment. It is hoped that the deliberations and this publication will stimulate further research and encourage other South Asian countries to convene such conferences where the theme of South Asian Regional Economic Cooperation can receive wider dissemination.

The BEA would like to gratefully acknowledge the financial support of the Ministry of Foreign Affairs, of the Government of Bangladesh and the International Development Research Centre, Ottawa in making this conference possible. The invaluable contribution of the representatives of the BEA and the student volunteers is also gratefully recognised in the organisation of the conference. Finally, assistance of Debapriya Bhattacharya and S.M. Hashemi is greatly appreciated in bringing out this volume.

ADDRESS OF WELCOME

REHMAN SOBHAN^{*}

In January 1985, this is the second conclave of scholars of international distinction who have come together in Dhaka to review the concept of and prospects for South Asian Regional Cooperation (SARC). Whilst the first gathering convened by the Bangladesh Institute of Strategic Studies reflected on the issues of peace and security in the region we are gathered here to discuss South Asian Regional Economic Cooperation. Before these meetings a variety of meetings specific to South Asian cooperation have been hosted in Bangladesh either under the aegis of SARC or within academic P-1 forums. This enthusiasm within Bangladesh to pursue the goals of SARC suggests that the theme of regional cooperation is not just a passing fancy but is anchored in the aspirations of a wider community of people than those who happen to be the policy-makers of the moment.

This particular gathering has in no small measure been facilitated by the fact that a body of pioneering scholars, inspired and driven by the dedication and unlimited energies of Dr. Tarlok Singh, have been collaborating together over a period of seven years in the Committee for Studies for Cooperation in Development in South Asia (CSCD) to build an infrastructure of knowledge to sustain more operational programmes of regional economic cooperation. Over the last seven years this group, anchored in the Marga Institute in Sri Lanka, the Centre for Development Administration in Nepal, The Pakistan Institute of Development Economics, The Indian Council of World Affairs and The Bangladesh Institute of Development Studies, in turn collaborating with a much larger number of institutions, scholars, experts and policymakers in their respective countries, has produced a wealth of information on the South Asian economies.

A series of meetings convened under the aegis of CSCD over these seven years has provided opportunities for the intercourse of ideas and the irreplaceable gain of personal exchanges. The chasm of ignorance and the attendant fears and mistrust which arise from lack of contact have as a

^{*} President, Bangladesh Economic Association

Sobhan: Address of welcome

result been largely dissolved. Meeting each other as scholars and human beings, periodically exposed to the people, culture and lifestyles of each others' countries has been a unique exercise in regional cooperation. As a result of these exchanges most of those assembled here come not as strangers but as colleagues and even as friends who can now draw upon a large and growing volume of work on the South Asian economies to underwrite their interaction and provide a fuller awareness of the prospects for regional cooperation. In his keynote address to this meeting Dr. Tarlok Singh will perhaps have more to say on the subject of CSCD and its contribution to bridging the knowledge gap in South Asia.

To the extent that the scholars and within this community, the economists, have already played a pioneering role in building the edifice of knowledge around which the governments can agree or even disagree to cooperate, our efforts predate the SARC initiative. Indeed P-2 my memories go back to 1969 when a distinguished gathering of South Asian economists came together in Kandy, Sri Lanka at a time when Pakistan and India were barely on speaking terms. This was possible because the economists of South Asia have traditionally been iconoclastic, not infrequently speaking with discordant voices amongst themselves, but at odds with the conventional wisdom of officialdom in their countries. This has given us a certain latitude in our exchanges, which has enabled us to shed some if not all the cobwebs of prejudice and parochialism which have constrained efforts at cooperation not just in South Asia but in many such regional entities. Economists whether in Africa, Latin America or the Arab world have tended to be ahead of their governments in forging links and contributing to the basis for promoting cooperation. To this extent, the economists of South Asia follow in a venerated tradition in our profession, albeit rather tardily but not with any less commitment or enthusiasm.

The Bangladesh Economic Association felt that the time was appropriate to take stock of the body of research and of ideas which has been accumulated in recent years on the theme of South Asian cooperation. It was time to see where we stand, what are the outstanding problems and prospects for cooperation and where we might move ahead. Such an exchange would itself provide guidance to researchers and policymakers whilst providing an opportunity for the community of economists in Bangladesh to understand the nature of the issues associated with the concept of South Asian Regional Economic Cooperation.

To this end we have assembled this distinguished pantheon of economists from our neighbouring countries to interact with the economists of Bangladesh to intensively discuss the issue of regional

economic cooperation. We meet over the next three days as independent scholars and professional economists, gathered here to look at the problems and prospects of South Asian Regional Economic Cooperation, hopefully without any predetermined commitment to fixed official postures. Whilst each will carry with them their accumulated ideas and even inherited misgivings on this subject this need not constrain us from discussing the myriad problems relating to South Asian Economic Cooperation on its merits, with frankness and objectivity. We do not expect our deliberations to culminate in some historic statement or even an anodyne communique P-3 which reflects the lowest common denominator of our exchanges. But we do hope to generate a body of ideas and knowledge which will encourage policymakers to take a second look at their negotiating briefs and to reassess some of their preconceptions. If indeed the CSCD and hopefully other such academic groupings continue to research together, the policymakers of South Asia will be able to draw upon a wealth of facts, ideas and policy prescriptions, which may inspire them to closer cooperation or will at least compel them to compute the costs of their incapacity or willingness to cooperate.

We are indeed grateful to all our distinguished foreign guests for making the effort to join us in Dhaka to lend distinction to our deliberations. It is a unique privilege for the Bangladesh Economic Association to be able to host such a conference where so many distinguished economists have been assembled together from home and abroad to participate in our collective deliberations.

On behalf of the Bangladesh Economic Association I welcome all of you to Dhaka to contribute to the ferment of ideas which will leave its impact on us here and reverberate beyond these chambers to the peoples and policymakers of South Asia. We hope that the papers presented before you will be the catalyst for discussions which need not stop when the sessions and indeed the conference concludes. Such conferences after all achieve as much in the informal exchanges of scholars as in the official proceedings.

INAUGURAL REMARKS

HUMAYUN RASHEED CHOUDHURY*

I feel privileged to have this opportunity of addressing the inaugural session of the International Conference of South Asian Regional Economic Cooperation. I am gratified to note increasing awareness of the importance of regional cooperation geared to the economic well-being of the people of this region. Only recently Bangladesh Institute of International and Strategic Studies organised an important international conference mainly focusing on the sociopolitical dynamics of the South Asian Regional Cooperation. It is heartening that economic experts and strategic planners of your distinction and repute have again assembled in Dhaka to focus attention on the economic aspects of the South Asian Regional Cooperation. Lord Maynard Keynes was right in saying that every political philosophy needs an economic underpinning. The present deliberations on the economic component of SARC only go to stress that.

May I at the outset extend to the participants a warm and hearty welcome. I wish you all a pleasant and comfortable stay in Dhaka. I am confident that your deliberations on various aspects of the Conference such as the prospects and problems of regional cooperation in South Asia, particularly in trade, investment and monetary fields in the light of the experience of other regional cooperations will immensely help us in identifying critical areas for effective cooperation for the improvement of the quality of life of the peoples of the region—one quarter of humanity.

People inhabiting our area have diverse ways of life—in culture, religion, language and economy. These factors contribute to a great extent in shaping varying perceptions to our national problems. To these are added the external factors necessitated by our dependence on assistance in the sphere of our national developmental efforts. In the midst of this diversity runs a single thread: the national commitment to improve the quality of life of the common people.

In our bid for development through national efforts or through collective self-reliance we may examine the experiences of regional cooperations in other parts of the world. We would, no doubt, find many interesting facets in the other models for development: what we need is to

* Advisor to the President of Bangladesh, in-charge of Ministry of Foreign Affairs

learn from these lessons and calibrate those experiences to our benefit. We may not find any model ideally suited to our needs conforming to the pattern of the problems that we face. We have to devise our own growth and cooperation model in the making of which your deliberations will play a significant role—the role of a catalyst to give a definitive impulse in the concretization of the model best suited to the genius of the peoples of the South Asian Region.

Since the early dawn of history man has sought economic security and protection through the creation of good-will and friendship within his own tribe, his community and his neighbourhood. The transformation from nomadic existence to settled life marks an important change in man's approach to his fellow man. It required gradual development of a whole body of rules and principles governing his individual and corporate conduct and the creation of an atmosphere within which economic and social progress could be pursued in peace and security. Nonetheless, the supremacy of the strong over the weak continued to be the main feature of the system. Imperialism and colonialism which characterised international relations of the 18th and 19th centuries are but global manifestations of the same phenomenon. Thus the fact and well-being of the vast majority of the peoples of Asia, Africa and Latin America, under colonial rule, hung on the thin margin of good-will on the part of the dominant colonial powers.

The outbreak of the First World War and the formation of the League of Nations is a turning point in the history of international relations. In spite of the many well-known drawbacks which were inherent in the situation at that time the League of Nations for the first time sought to put international relations within a multilateral framework.

The emergence of Non-Aligned Movement in the early 1960's has its rationale in these circumstances. The five principles on which this great movement is founded provide a comprehensive framework for the conduct of international relations on the basis of equal rights and opportunities for each nation whether small or big, strong or weak. The Non-Aligned Movement is an independent third force in contemporary world and it has contributed substantially to the process of democratisation of international relations. Side by side the formation of the Group of 77 and the subsequent initiation of a process of discussions between the North and the South for the launching of the Global Negotiations are yet other developments bearing on the new dimension of international relations. Finally, the Charter of the United Nations and the Universal Declaration of Human Rights paved the path leading towards equal opportunity for entire humanity. Thus the Charter of the UN. Article I,

Choudhury: Inaugural Remarks

enjoined upon us to develop friendly relations among nations based on respect for the principle of equal rights and self-determinations of the people, but also international cooperation in solving international problems—economic, social, cultural and humanitarian, without distinction as to race, sex, language or region. The idea conceived at the Bandung conference in 1955 was concretized through the convening of the first Non-Aligned Summit in Belgrade in 1961. The message of the founding fathers of the Movement was not lost. In a short period of 15 years as many as 100 sovereign independent countries broke out of the shackles of colonialism and joined the United Nations as sovereign independent states.

The connection between the process on decolonisation, evolution of Non-Alignment and emergence of the concept of New International Economic Order as per Resolution No. 3201 (S-VI) and 3202 (S-VI) adopted during the 6th Special Session in April 1974, is therefore evident. This process which started with the decolonisation in the aftermath of Second World War went beyond the UN Declaration of December 1960 on the granting of independence to colonial countries and peoples and reiterated that economic emancipation was an essential ingredient and logical outcome of political decolonisation. The magnitude of divergence among the developing countries may have partly clouded the issue but have failed to stifle the main thrust on the part of the third world countries to strive for their common goal in seeking economic development. South-South cooperation must be seen from that context.

"Magnanimity in politics is not seldom the truest wisdom and a great Empire and little minds go ill together." Many of you may recall that Edmund Burke, the great British historian, wrote in 1775 in his *Treatise on Conciliation with America*. Without reversing the character role, it makes interesting reading today when we are engaged in the interminable debate on how to bring about economic justice to the developing countries. All the North-South contacts including the 11th Special Session of the UNGA on International Economic Cooperation and Development and last but not the least the Cancun Economic Summit of the 22 developing countries are still viewed generally as non-success. One major achievement however out of these exchange of views has been the moving to a dialogue away from the marginal issues to the substantive issues. One event of potentially vast implication took place; the unanimous agreement produced by the 7th Special Session of the General Assembly on the measures to improve the economic conditions of mankind. We affirmed in that session our common destiny because of our recognition of global interdependence. There is no realistic alternative

to share responsibility in dealing with the international agenda of peace, security and economic well-being and justice.

It is our firm conviction that irrespective of all the spheres of co-operation, ECDC programme will eventually have to be translated and implemented basically at regional and subregional level which would thereby become links in a wider framework of inter-related inter-regional cooperation. Bangladesh is fully committed to the development and promotion of ECDC and TCDC and played an active part in the UN conference on TCDC held in Buenos Aires in September 1978, the Caracas conference on ECDC in May 1981 and other regional conferences on ECDC.

Bangladesh had launched an initiative for setting up of a forum for Regional Cooperation among the South Asian Countries in May 1980. It is gratifying to note that a considerable progress has already been made in this direction. Regional meetings both at official and technical level, were held in Colombo, Kathmandu, Islamabad and Dhaka. As a result, an Integrated Programme of Action in 9 identified areas—agriculture, meteorology, rural development, tele-communications, health and population control, transport, postal services, scientific and technological cooperation and sports, arts, and culture was drawn up. The first ever meeting of the Foreign Ministers of the region which was held in New Delhi in August, 1983 launched this Integrated Programme of Action which is currently under implementation. Our common goal is to fully exploit the vast potential for regional cooperation that exists in South Asia. The success of cooperation in these areas will depend largely on the continuing unity of purpose among the regional countries.

The world economic issues have been the subject of extensive review and intensive deliberations in the past years in all the intergovernmental and international fora. We believe that a conference as this one can serve useful purpose for identifying solutions and harmonise our position with a view to overcoming the temporary impediment we may face in the short run. We must always bear in view that we now stand at a critical threshold in our collective endeavour to a tangible process of regional cooperations which is building and reinforcing itself in a time continuum.

We do not have to look to the distant future to see a milestone in the history of the development of South Asian Regional Cooperation. It has been decided that the first ever summit of the Heads of State Government of South Asia will be held in Dhaka by the end of this year. Bangladesh has been given the privilege of hosting this summit conference—a task that we will fulfil with due pride as well as humility. We are convinced that an affirmation of the commitment of the South Asian Nations at the highest

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level will surely generate the necessary political will and galvanise imagination and efforts of this region for further development of the cause of the South Asian Regional Cooperation.

I sincerely hope that the deliberations of this conference will reinforce the unity and solidarity and our common resolve and commitment to the shared ideals and objectives of giving an acceptable quality of life to the people of our region.

Beyond peace, security and prosperity lie deeper universal aspirations to dignity and equal opportunity. Humanity will not be spared all the tragedies inherent in the cycle of life and death; but we do have it in our power to eliminate and ease the burden of social tragedy and of organised economic injustice.

Syeduzzaman: Economic Cooperation

- (b) There is wide disparity in military and economic strengths between the member countries of the region.

The SARC has, therefore, been rightly called "a socio-economic approach to peace and stability". No wonders or miracles should be expected out of this over-night. In retrospect, one could say that the idea behind sponsoring the SARC movement, was that if political differences continued to hamper development of smooth bilateral relationships, other avenues of understanding could be sought for mutual benefit through economic, scientific, technological and cultural cooperation. Necessarily, therefore, movements and developments under the umbrella of SARC will have to be structured and carefully managed. But eventually and institutional arrangement will have to be evolved for recording the gains from cooperative efforts.

Experience shows that economic cooperation between countries at different levels of economic development requires more adjustments and it raises the problem of distribution of benefits and costs. The maldistribution of benefits and costs appears to be the single most important reason for the limited success of regional cooperation or integration efforts in many parts of the world.

The South Asia region has countries at different levels of development. Some are relatively less developed than others. Any proposal for economic cooperation must consequently be formulated with great care in order to ensure that the weak are not put to a disadvantage and the strong do not dominate. Areas to be selected should be those in which cooperation will be mutually beneficial to all the countries, irrespective of existing economic disparities, so as to take regional cooperation meaningful, to strengthen the spirit of mutual trust and understanding, and to bridge the development gaps existing among the countries to the region.

One redeeming feature is that despite different external links and diverse nature of international relationship of the South Asian countries, the impetus for regional cooperation came from within the region and not from without. We all can derive satisfaction from the fact that it came at a time when economic and technical cooperation on regional basis has been accepted by all developing countries as a desirable and necessary strategy within the framework of ECDC and TCDC.

The Ministerial Meeting held in August, 1983, and the declaration adopted in that meeting in my view clearly identified that basic objectives of SARC, such as:

Syeduzzaman: Economic Cooperation

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The Ministerial Meeting held in August, 1983, and the declaration adopted in that meeting in my view clearly identified that basic objectives of SARC, such as:

- (a) to promote the welfare of the people of South Asia and to improve their quality of life;
- (b) to accelerate economic growth, social progress and cultural development in the region and to provide all individuals the opportunity to live in dignity and to realise their full potential;
- (c) to promote and strengthen collective self-reliance among the countries of South Asia;
- (d) to strengthen cooperation among themselves in international forums on matters of common interest; and
- (e) to cooperate with international and regional organisations with similar aims and purposes.

I believe that all cooperation efforts under the umbrella of SARC should be designed carefully around the five aspects of this declaration.

A key issue is assigning the right priorities in determining the scope of activities in the selected areas, so that regional cooperation can manifest itself in quantitative and qualitative terms. After indicating the general areas such as economic, technical, scientific, social and cultural fields, five specific areas were identified and Study Groups set up under defined terms of reference to explore the possibility of cooperation. The coordinating countries were as follows:

Agriculture	Bangladesh
Rural Development	Sri Lanka
Meteorology	India
Tele-communication	Pakistan
Health and Population Activities	Nepal

Subsequently some more areas of cooperation were identified and Study Groups established to progress cooperative activities. These were Transport (coordinating country: Maldives), Postal Services (coordinating country: Bhutan), Scientific and Technological cooperation (coordinating country: Pakistan). The last item to be identified as an area of cooperation was Sports, Arts and Culture.

The Integrated Programme of Action for implementation of cooperation arrangements in these nine areas through Working Groups and Technical Committees is a pragmatic approach.

One thing is common for all the South Asian countries. The need and urgency for better economic management is being felt unmistakably by all the Govts. In its latest Annual Report, the World Bank has made a

Syeduzzaman: Economic Cooperation

direct reference to the underlying economic strength of the region, and I quote:

While economic performance this past year (1983-84) reflected an increasing ability of governments to manage their economies in response to short-run changes in circumstances, it also gave testimony to their cumulative progress in recent years in strengthening their underlying development capacity through more effective planning and policy formulation, and through prudent public investments. As a result, South Asian economies were well positioned to respond to the improving world environment in fiscal 1984. Unquote.

It is also noticeable that in most of these countries rigid approach towards the relative roles of the public and private sectors, is giving place to pragmatic considerations. More and more, directly productive activities are being handed over to the private sector. To encourage increased investment and efficiency by the private sector, Governments are also embarking on programmes of phased deregulation of investment activities and rationalisation of commercial and financial policies.

The idea of regional cooperation in South Asia is not new. The countries of the region have cooperated with one another both bilaterally and multilaterally under the umbrella of such fora as Colombo Plan, the ESCAP, the Non-aligned Movement and the Commonwealth. But the SARC is different. While the other forms of cooperation were externally generated, this one is internally generated.

Regional cooperation in South Asia as elsewhere in the world should in no way affect the existing bilateral and multilateral activities of the countries of the region. ESCAP has organised consultative procedures in a wide range of fields in which South Asian countries are closely involved. Every effort should, however, be made to avoid duplication which is wasteful of time, energy and resources.

I want to emphasize the point that the South Asia Regional Cooperation should supplement and reinforce the activities of the international organisations in this area. I believe that we should take advantage of the facilities offered by organisations such as the UNIDO, UNDP and ESCAP for strengthening projects of regional cooperation.

But I believe that considering the overall economic realities of the region, maximum coordination should be sought in three key areas such as increasing agricultural production and increasing exports and employment opportunities. These will benefit the largest number of our peoples.

We can borrow and learn from each other's experience. I can only mention the Grameen Bank project developed in Bangladesh, the Employment Guarantee Scheme developed in India, the social measures taken for developing PQLI in Sri Lanka, tourism in the Maldives, and so on.

There is also the possibility of joint-venture projects, some of which have been discussed for several years. We should look for exploiting larger market opportunities wherever possible, within the framework of ECDC. The countries of this region enjoy significant positions for a number of commodities such as tea, jute and cotton. Most of the countries have separately undertaken marketing and promotional efforts for these commodities. The IJO will certainly help in strengthening cooperation in the case of at least one commodity.

The international climate became inhospitable for the developing countries after 1972-73, and in fact, became worse after 79-80. Although the effect on the developing countries of slow down of growth in industrial countries was not the same for all, in absolute terms the damage was significant.

In such a situation the rationale for cooperation among developing countries, particularly on a regional basis, whenever there is a possibility, should be taken advantage of. In fact, international cooperation made a significant difference in the extent of damage to the world economy and world trade in the recession of 80's, compared to the depression of 30's. There are similarities between the 30's and the 80's as many have pointed out - recession, a decline in world trade, increasing debt burden, reverse flow of capital from borrowers to the creditor countries. But the magnitude of the event in the recent years bears no resemblance to what happened in the 1930's. There has not been a similar breakdown of the trading system that was reconstructed after the War, though weaknesses were frequently revealed. One can say that international cooperation through institutional arrangements as well as among governments provided a more effective cushion against much larger harm that could result from the recession of the 80's compared to the depression of the 30's.

With some exceptions the South Asian countries, in the context of the changing international environment, have relied less on basic adjustments in meeting their external payment obligations than on import restrictions and concessional development assistance. The reduced availability and the likely prospects of less concessional development assistance in the future call for a re-thinking of the approach adopted in most of the countries of the region. Though adjustment measures taken

were different, almost invariably there was need for austere budgets, credit and import restrictions, and exchange rate adjustment. The narrow range of exports, vulnerability of agriculture to weather conditions also added to the adjustment problem. It is obvious that for all countries of this region, maintenance of competitiveness and further diversification of exports will be crucial to raise the rate of economic growth.

Measures that help growth of trade, therefore, will call for priority attention. This applies not only to intraregional trade, but combined exports of the region to the rest of the world. Against restriction and protectionism, a much stronger case can be made out by the combined efforts of the SARC countries than individually. We must not, however, lose sight of the fact that within the region also it is possible to take deliberate policy decisions for increasing trade flows. The relatively stronger economies of the region have potential for tariff reforms which can help exports of the neighbouring weaker economies. One need not forget that trade benefit can sometimes result from the least suspected quarters. For example, restriction on export of CTC tea by India did help to increase export of tea by other countries of the region.

In the latest World Development Report (1984) the World Bank has given a 10 Year perspective for the world economy. Two possible scenarios have been exposed - a 'Low Case' and a 'High Case'. Under the most optimistic assumption i.e. the High case, the Asian low income countries are expected to have as per capita income growth of 3.7%. Under the 'Low Case' scenario it may go down to 3%, and under a different variant of the Low Case, to as low as 2.6%. Of course these figures include major economies like that of China and India, and for the least developed countries, there is no guarantee that even these rates could be achieved. There is, therefore, an urgent need for the countries of the region to coordinate policies, particularly in respect of exchange and contact with the rest of the world.

A major weakness of the South in its dialogue with the North is its lack of effective organisation. Both in the area of economic cooperation between developing countries and that of collective negotiations with the North, there is now an urgent need for an immense amount of technical support for the South. The UN system, in particular, UNCTAD and the Regional Economic Commissions, have important roles to play and should be strengthened for this purpose. But, beyond them, there is an urgent need for a South-South coordination facility. What the Third World needs, is a comprehensive system of organisational and technical support for its negotiation with the North and for coordination with the South. I strongly believe that the SARC can serve as an extremely useful

forum from this point of view. I think, the South Asian countries have a unique opportunity for coordinating their views on the coming extended meeting of the Development and Interim committees in Washington next April. While these meetings were not arranged with strong and explicit consent of the developing countries, we are fortunate that there are at least three members out of seven, who will be sitting on those committees. We would expect that there would be close coordination of our views for this occasion and a beginning could be made here. I would look forward to the exchange of views on the subject in this forum.

KEYNOTE ADDRESS

S. A. M. S. KIBRIA^{*}

I am grateful to the Bangladesh Economic Association and its President, Professor Rehman Sobhan, for inviting me to speak to this assembly of outstanding economists on a subject that interests me deeply. I have an abiding interest in South Asian co-operation not merely because the organization that I represent, the United Nations Economic and Social Commission for Asia and the Pacific, or ESCAP, is mandated to promote regional co-operation, but also because of my own close involvement in the early official initiatives. These efforts led to the institutional arrangement popularly known as SARC, in which, as you know, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka are the member countries. I recall with some satisfaction representing Bangladesh at the first meeting of the Foreign Secretaries of South Asia in Colombo in April 1981. I am sure that your deliberations will be watched with keen interest by the Governments in this region as well as by academicians, many of whom collaborated in forming the Committee on Studies for Co-operation in Development, with the aims of clarifying issues and exploring areas for co-operation in South Asia.

Mr. Chairman, we live at a critical juncture in international economic relationships, when various aspects of global and regional economic policies are being subjected to searching re-examination. Yet we cannot be oblivious of the fact that interdependence has emerged as an inescapable reality of modern economic life. The postwar process of decolonization paved the way for the revolution of rising expectations, but unfortunately, such popular aspirations in the new nations have remained largely unfulfilled. A major reason is that, even though colonialism in the political sense was dismantled, international economic relations have remained fundamentally geared to serve the interests of the metropolitan countries. Against this background, the developing nations of the third world realized that co-operation among themselves in trade, technology transfer and capital flows was essential if they were to make any significant change in the existing global economic system. This gave rise to the birth of the Group of 77, and a mechanism for negotiations between.

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different groups of nations was developed within the framework of UNCTAD. However, as efforts were intensified to deal with different economic issues, the relative weakness of the developing countries became increasingly evident. As the years passed they came to realize that their hopes of establishing an equitable international economic order would never materialize unless the countries of the South are able to redress the fundamental economic imbalance by consolidating their own economic strength. The drive for South-South co-operation, TCDC and ECDC grew out of this realization. While such ideas and policies were crystallizing in developing countries, the international community also came to realize—though rather slowly that the world economic fabric is an integral whole and that interdependence is not just an esoteric concept but a fact of life. Indeed, one can gauge the increasing extent of interdependence from the facts that between 1970 and 1980 there was a nearly nine-fold increase in developing countries' exports to the world, a seven-fold rise in their imports from the world and a quintupling of their outstanding external debt, apart from debts with maturities of less than a year. The recent prolonged recession also demonstrated that no nation or group of nations can continue to prosper while others stagnate or go downhill.

Lately, there has been greater international acceptance of the fact that the pattern of interdependence that has emerged through a constellation of historical, political and economic forces has not been unambiguously, beneficial to developing countries. While retreat into isolationism is neither feasible nor desirable, the need to restructure international economic relationships can hardly be over-emphasized. It was in recognition of this need that in 1974 the United Nations adopted the Declaration and the Programme of Action of the Establishment of a New International Economic Order. In these, co-operation among developing countries at the sub-regional, regional and interregional levels was viewed as a means of strengthening their role in the world economic order. Echoing that Declaration, the International Development Strategy for the current Third United Nations Development Decade considered economic and technical co-operation among developing countries, based on the principle of collective self-reliance, as a dynamic and vital component of an effective restructuring of international economic relations.

The international community would certainly have to redouble its efforts if reforms are to be brought about in such areas as the international monetary system, mechanisms for transferring capital and technology, the regulatory framework of international trade and so on, reforms that would

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correct the inequities of the present pattern of interdependence. But economic co-operation among developing countries, of which regional co-operation is an important dimension, depends largely on these countries themselves. In part, the rationale for strengthening such co-operation stems from the likelihood that the buoyant expansion of world trade in the 1960s and much of 1970s may not be sustained, with prospects for slower growth in the developed countries. There is also concern that marginal import propensities in the industrial nations are likely to be affected by significant shifts in their demand patterns towards kinds of goods that they can most readily supply to each other. In other words, not only is the locomotive expected to move slower in the future but the couplings are also expected to become weaker. A further impetus is the impact of the recent recession, which severely affected developing countries in many ways. Sharply reduced growth rates, falling commodity prices, proliferating barriers against manufactured exports and mounting debt burdens have been some of the major problems. This region generally fared better than others during the recession, but it is more than coincidence that the Asia-Pacific countries with larger shares of trade with other developing countries were those that succeeded in moderating its impact more effectively.

To my mind, though, the logic of regional co-operation is much more fundamental than the consideration of moderating the impact of a recession. There are many areas where regional co-operation can yield enormous benefits, one of the most obvious of which is trade. Countries around the world engaged in international trade and commerce long before theorists neatly demonstrated its mutual gains in mathematical terms. In the broad context of expanding world trade, regional co-operation occupies a special place. Transport costs, for example, may not be adequately treated in textbooks, but they can substantially reduce or even eliminate the gains of international trade. Co-operation among nearby countries can significantly reduce such costs. On the demand side, all traders know that even things produced at relatively cheap cost cannot be automatically sold in the international market and involve considerable expenditure on promotion. Given a broad similarity in consumer tastes and preferences among regional countries, such costs can be sharply reduced. Regional co-operation can also modify an important, largely historical aspect of the current pattern of global interdependence, in that trade flows tend to gravitate between Western metropolitan countries and their former colonies. In addition, regional trade co-operation, being essentially open-ended, can potentially reap the benefits of trade creation and avoid or much reduce the trade-diversion consequences of a

customs-union type of arrangement. The ensuing expansion in market size could yield tremendous factor efficiency benefits not only in terms of exploitation of static economies of scale but also by way of dynamic shifts in production functions.

In the South Asian context, one may ask how relevant these benefits are in view of the countries' similar factor endowments. It is my firm conviction that broad similarities in the relative scarcity of capital and abundance of labour do not negate their differing comparative advantages in various product lines. A precise identification of such differences in comparative advantage could provide a solid foundation for mutually beneficial regional co-operation in trade.

A second area with much potential for important regional co-operation is technology. Developing countries often voice concern about the appropriateness of Western technologies, which tend to make heavy demands on capital and skilled manpower both in short supply in developing countries. These days one can discern various degrees of technological progress and differentiation among the South Asian countries. Thus, it would be advantageous for these countries to adapt certain technologies from each other than importing them from others with vastly different factor endowments. Another dimension of regional co-operation in this field concerns the adaptation and application of modern technologies. Amid rapid advances in such esoteric fields as micro-electronics, lasers, fibre optics, biotechnology and genetic engineering, the door is open to a certain amount of technological leap-frogging. Regional co-operation could do much to help these countries meet the challenge posed by today's explosive advances in technology.

A third area with vast scope for South Asian Regional Co-operation is the development of infrastructure, especially transport and communications. Everyone here is well aware of the problems and constraints in moving men and materials among South Asian countries. Similar bottlenecks also cause unwarranted delays in telecommunications and mail services. It would not require a great deal of adjustments and co-ordination between national plans and policies to resolve many such impediments. These could also be large benefits in terms of saving time and money, supporting the growth of intraregional trade, and promoting closer understanding among the peoples of South Asia.

Finally, I should like to mention the unexploited possibilities of co-operation in research. Its output could be vastly expanded through the pooling of financial resources and through the pooling of financial resources and trained personnel, or even simpler co-operative

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arrangements among related institutions. In many fields, South Asia suffers from a chronic inadequacy of empirical research to facilitate objective policy making. At the same time, the paucity of basic research on agriculture, industry, technology, the environment and so on could be greatly alleviated through co-operative efforts.

Mr. Chairman, these are some of the broad areas in which regional co-operation promises substantial benefits, especially in the South Asian context, but there may be many more possibilities. All of you are of course aware that the concept of regional economic co-operation is hardly a new one, nor is the general recognition of its potential benefits. That is why we see so many regional co-operative arrangements, serving many different purposes all over the world. A few of these are ASEAN, the European Economic Community, the Central American Common Market, the Economic Community of West African States and the Council of Mutual Economic Assistance. In South Asia, the establishment of SARC, with its standing committee and various technical committees implementing an integrated action programme in nine areas, is a historic beginning of concerted efforts to promote South Asian regional co-operation. As I mentioned, perceptions of the benefits of regional co-operation have been sharpened by the global economy's recent problems, and this new momentum needs to be not only sustained but also strengthened. To my mind, this would require, on the one hand, greater recognition by national leaders that economic co-operation can be pursued beneficially in spite of ideological or political differences. Indeed, bilateral or multilateral co-operation is already taking place between many countries with such differences. On the other hand, a clear identification needs to be made of specific areas and activities where there is scope for mutual gains through regional co-operation. In this regard, the deliberations of a conference such as this one can be of great value.

Mr. Chairman, let me now turn to ESCAP's role in promoting regional co-operation. The United Nations General Assembly, in its Resolution 32/197, designated ESCAP and the other four regional commissions—quote as the main general economic and social development centres within the United Nations system for their respective regions unquote. The resolution added that the regional commissions should also exercise team leadership and responsibility for co-ordination and co-operation at the regional level. Even before this resolution was passed in 1977, ESCAP, being the only region-wide intergovernmental forum for more than three decades, had been playing an important catalytic role in sponsoring and supporting many initiatives in regional co-operation. Among the ventures thus launched have been the Asian

Development Bank, the Mekong Project, the Asian Clearing Union, the Asian Highway, the Trans-Asian Railway Project, the Asia-Pacific Telecommunity and the Bangkok Agreement, which fosters intraregional trade. ESCAP recently established the Asian and Pacific Development Centre in Kuala Lumpur as the region's main development research and training centre, with member countries giving it a wide-ranging mandate. In addition, ESCAP has established and supported a number of regional institutions, such as the Statistical Institute for Asia and the Pacific in Tokyo, the Regional Centre for Technology Transfer in Bangalore, the Regional Mineral Resources Development Centre in Bandung, the Coarse Grains, Pulses, Roots and Tuber Crops Centre in Bogor, and the Regional Network for Agricultural Machinery in Los Banos. ESCAP is also implementing a number of projects to help develop energy resources and offshore mineral deposits and to improve the countries' technical capacities in remote sensing. Two of ESCAP's major thrust areas these days, as the region prepares itself for the twenty-first century, focus on efforts to help the countries modernize their vital transport and communications infrastructure and upgrade their capacities to employ technology as a tool for development. At the subregional level, the secretariat participated in the United Nations Study Team whose 1972 report served as the basis for launching ASEAN's major economic programmes four years later. ESCAP continues to provide technical assistance to ASEAN on request. Recently we set up the ESCAP Pacific Operations Centre in Vanuatu, and one of its objectives is to promote sub-regional co-operation among the Pacific island countries. With its sizeable pool of development experience and technical expertise, ESCAP is in a position to assist and facilitate co-operative activities in South Asia as and when agreed requests are made by the Governments concerned. Indeed, the Commission specifically noted in 1982 that ESCAP should act in support of South Asian Regional Co-operation "if a joint request was received from the countries concerned". A year later, the Commission took note of the progress made by the South Asian countries in the field of regional co-operation and said—quote international support measures for South Asian Regional Co-operation were expected to be in response to felt, identified and agreed needs of the concerned member States unquote. Needless to say, ESCAP, to the extent that our financial and other resources permit, stands ready to extend our fullest support to promote co-operation in South Asia, if and when the member countries desire such assistance.

In conclusion, Mr. Chairman, I should like to express my confidence that the ideas, concepts and proposals emerging from this conference will

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provide a substantial stimulus to the process of regional co-operation in South Asia. I wish you every success in your deliberations, and thank you once again, Professor Sobhan, for the opportunity to share some thoughts with this distinguished gathering.

THE POLITICAL ECONOMY OF SOUTH ASIAN ECONOMIC COOPERATION

REHMAN SOBHAN*

THE THEME OF THE PAPER

There is no doubt that South Asian Regional Cooperation (SARC) has by the standards of the last three decades made spectacular advances in the 1980s. The SARC initiative, launched significantly enough by Bangladesh, has made considerable headway over the last four years. It has developed an institutional persona, though without a secretariat or permanent organisation and has played host to a wide range of meetings of foreign secretaries, foreign ministers and specialised working groups. A summit meeting appears on the cards which is scheduled to be hosted by Bangladesh towards the end of the year.

Whilst these exchanges have yielded little in the way of substantive cooperation, so that after four years of SARC activity it is still not possible to have an STD link between Bangladesh and all SARC countries except Pakistan, the advances made in bridging the chasm of ignorance which had divided these countries has been appreciably narrowed. Today officials and experts who have been participating in these exchanges not only know a great deal more about the state of affairs, concerns and practises of their South Asian counterparts but find that they are dealing with people who inhabit a shared cultural and ethnic ethos and face common problems. Visiting each other's countries they learn about the significant developments in the local economies, acquire familiarity with the products, professional capabilities and technical resources. To the extent that these official exchanges are only part of a much wider exchange of peoples who are travelling across the borders of South Asia to an extent which was unimaginable even a decade ago, South Asia and its people are becoming real and not part of the extension of our dark subconscious.

It is however significant that whilst this very considerable escalation in exchanges of knowledge and people has been taking place there has been no corresponding development in the level of economic interaction.

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There has been no flowering of trade or significant transfer of technology. The SARC initiative has very deliberately imposed a self denying ordinance on itself to avoid discussion of such economic issues as trade, investment and monetary cooperation, which normally form the substance of programmes of cooperation in other regional groupings. There appears to be a built in apprehension that such exchanges will precipitate controversy and should be avoided as part of a conscious strategy to concentrate only on non-contentious issues.

It is the burden of this paper that such a strategy may well be inimical to the goals of SARC and may lead to unforeseen consequences which may become counter-productive to the objective of building harmonious economic relationships within the region. It is argued that unless SARC is very consciously used to plan and promote economic exchanges within the region the impact of SARC will be asymmetrical to the detriment of the less developed South Asian economies (LDSAEs).

It is argued that the development and structural changes in the larger South Asian economies, and particularly, India over the last 15 years, has made it possible for them to bank on the working of market forces to develop linkages within South Asia. This follows from the fact that international economic transactions do not need to wait upon the plans of officials but are constantly taking place in the market place. South Asian importers and manufacturers with access to convertible currency will buy goods and equipment from sources which are competitive and accessible. Their only constraint in doing so will be unfamiliarity with the products and business environment of a country, the lack of convertible currency to exercise free choice and the introduction of discriminatory restrictions against the products of particular countries. Once familiarity is established and local importers begin shedding their prejudice against the products of other developing countries (DCs) including those of their neighbours, the pull of the market will take over.

In the market place of the South Asian countries those who have the structural diversity and productive capacity to meet the market determined needs of their neighbours will be able to take full advantage of the opportunities offered by proximity in the way of low transport costs, access to spares and expertise and a shared socio-cultural milieu to promote their exports of goods, capital and technology within the region. The significant contribution made by SARC in bridging the chasm of ignorance about each other's economies will thus let the forces of the market take over from politically restricted economic relations. In these circumstances it is the stronger economies of South Asia who will prosper.

The paper goes on to argue that such a development will resurrect

precisely the same set of apprehensions which led to the fracturing of the integrated economies of South Asia. Thus SARC could become its own worst enemy unless a very conscious effort was made within the framework of SARC to make a planned intervention in the market place to provide a more balanced pattern and structure of economic relationships designed to improve the circumstances of the LDSAEs within the South Asian region. The rest of the paper will trace the logic of this argument in relation to the history of South Asia, the structural changes within the South Asian economies and its implication for the strategy of regional economic cooperation.

THE CONFLICT OF NATIONALISMS

South Asia's special problem in regional co-operation has its genesis in the emergence of three nation states out of the geo-political entity which was once British India. Just thirty-seven years ago South Asia was a single entity unified under British colonial rule. It encompassed a single economy, a unified communications network, a common set of external relations, and certain centralized institutions such as the armed forces and the civil services. In August 1947 these elements of nationhood were bifurcated into India and Pakistan. Then in March 1971 Pakistan was itself divided and Bangladesh emerged to constitute the third component nation state of pre 1947 India.

The collision of nationalisms in 1947 and 1971 drew the masses directly into the nationalist movement. In both cases the political conflicts of aspirant elite groups penetrated deep into the public consciousness, causing the final stages of national struggle to be characterized by intense political bitterness and mass violence. The partition of India in 1947 was accompanied by large-scale, bloody riots in which minorities on either side of the new borders were comprehensively massacred, leading to large migrations of population. Similarly, the emergence of Bangladesh was accompanied by a genocidal onslaught on the Bengalis, ten million refugees seeking shelter in India, and a nine month armed insurgency by Bengali Guerillas culminating in a war between India and Pakistan which left 90,000 Pakistani prisoners of war.

THE CONSEQUENCES OF ECONOMIC SEPARATISM IN SOUTH ASIA

The process of disarticulation of economic relations in South Asia generated alternative sets of linkages. In each of the newly emergent countries ties were forged outside South Asia to substitute those which prevailed. This was a logical development for newly emergent bourgeoisies seeking the path of import substituting industrialisation. However for all LDSAEs including Pakistan this alternative development

path meant a high degree of external dependence on the advanced industrial countries (AICs) for aid to supply capital and technology for their development effort. In the process vertical ties of dependency and domination in the domestic policies of these countries became the alternative path to development.

Pakistan which went through a phase of protracted external dependence, where it found itself enmeshed in the geopolitical power play of a superpower, has to some extent reached a level of development where some structural diversification in the once agrarian economy has been realised. Since 1973 new linkages have been developed with West Asia for capital and markets but more particularly for the export of labour which is today its principal foreign exchange earner. Notwithstanding this development, Pakistan still has a sizeable resource gap on its external account which has to be filled by foreign aid.

For the other LDSAEs, such as Bangladesh, Nepal and Sri Lanka their economic structures, whilst being marginally changed from dependence on agriculture, still remain massively dependent on aid to finance a large and rising external resource gap. This has led to a high profile presence of the principal AIC donors, led by the World Bank and IMF, who appear to exercise considerable influence over the direction of policies in these countries.

This prolonged phase of politically segregated development within South Asia was sustained by the structural constraints of the respective South Asian economies in their initial stage of industrialisation. As long as the pattern of development followed the traditional path from agricultural dependence to import substituting consumer industry there was no immediate gains in economic cooperation. The newly emergent industrialists of the LDSAEs naturally played upon the inherited apprehensions of Indian domination to seek exclusion of Indian goods from the domestic market which might have threatened their domestic monopolies. This was specifically applicable in Pakistan's monopoly over the market in East Pakistan, now Bangladesh. This response was the perfectly natural response of a newly emergent bourgeoisie seeking to consolidate itself through the path of industrialisation. Whilst this strategy imposed distortions in the domestic economy and was far from cost less for other social groups, it constitutes an important stage in the development process for developing economies seeking to transform their agricultural economies.

THE CHANGING PATTERN OF ECONOMIC RELATIONS IN SOUTH ASIA

This coincidence of interests between an aspirant bourgeoisie's need

to consolidate its domestic base and the policy of political separatism in South Asia appears now to have been overtaken by the changing structure of the regional economies. The emergence of India as the eleventh largest industrial power and the extensive diversification of the Indian economy is fast changing the perspective of the local business classes who had hitherto seen India as a predatory competitor to their fledgling industries. To understand this process we may briefly analyse the changes taking place in the Indian economy.

THE AUTONOMY OF THE INDIAN STATE

India, is to some extent distinctive within South Asia insofar as its ruling elites appear to have required a degree of autonomy within the world system. Whilst India has been through the historical process of aid dependent development its economy has now moved towards a much reduced level of external dependence to sustain its development. Whilst there remain significant elements of external dependence which constrain the self-reliance of the Indian economy, in the area of technology, capital and markets, the national bourgeoisie of India is hardly dependent on any external force for its legitimacy or survival. In its global perspectives it is now in potential if not actual contradiction to the interests of the AICs.

The commitment of successive Indian regimes towards realising a new international economic order (NIEO) is designed to seek wider pastures for the Indian bourgeoisie who now feel constrained by the limits of their home market. The incapacity of the Indian economy to realise its full market potential by restructuring the society and economy to provide a significant advancement in the economic circumstances of the Indian masses has made the external sector appear as a more viable option for the growth of the Indian economy and within this of the aspirations of the Indian bourgeoisie. It is worth discussing the hypothesis that whilst the export-led growth strategies which had sustained the East Asian economies may be ruled out for a large continental economy such as India in the recession prone world economy of the 1980s, a strategy of export-led growth for the Indian bourgeoisie, provides a more modest political and economic target. It remains to be seen whether the newly elected regime in India may not become the apotheosis of this strategy.

THE LOGIC OF NIEO

If the Indian bourgeoisie is poised to take a leading position in the ranks of the newly industrialised countries (NICs) it is imperative that it widen its options in the South. Whilst a part of the search for NIEO is tied to seeking access to the markets of the AICs, this is going to be an uphill task for the NICs. Within a climate of sluggish economic growth and

structural rigidities in the AICs, political resistance to the free play of market forces is likely to perpetuate a regime of import restrictions, quotas and domestic subsidies.

THE NICs AND SOUTH-SOUTH COOPERATION

The real prospect for growth in the export markets of the NICs thus lies in the South. It is here that they can challenge the AIC's hegemony on more equal terms. The capacity of the NICs such as South Korea, Taiwan, Singapore, Hong Kong, Brazil, Mexico and now with increasing visibility, India and China, to provide a wide range of manufactures and appropriate technology on highly competitive terms, is likely to provide extensive opportunities for promoting South-South economic cooperation. The full manifestation of these possibilities still remains inhibited by traditional vertical linkages with the North, which for many DCs is sustained by tied bilateral aid and the presence and dominance of multinationals which seek to reinforce the traditional linkages. Inadequacy of funding for promoting South-South cooperation continues to drive DCs to the AICs. However the play of market forces is creating extra-territorial interests for these multinationals who are quite willing to enter into collaborative arrangements with NIC export houses to retain their hold on

Obviously the degree of autonomy and capacity to challenge the traditional hegemony of the North is not just a function of economics and depends on the configuration of social forces in particular countries and the variety and complexity of their non-market linkages with the North. To this extent India is particularly well placed to take a more independent position in the global polity to the point where they even come into conflict with the strategic interests of particular superpowers.

THE EMERGENCE OF THE INDIAN INDUSTRIAL STATE

The emergence of India as a major industrial power with a highly diversified export capability which permits it to challenge the AICs in Third World markets is a matter of profound importance to the thrust towards South Asian economic cooperation. Today within South Asia, India accounts for 76% of the population, 59% of the import market, 62% of the export earnings, 41% of the external reserves, 79% of manufacturing value added and 68% of manufacturing exports. These bald statistics however conceal the full potential of the Indian economy. India has by now acquired the capability to compete with AICs in the Third World markets in the export of engineering and metallurgical goods, including supply of heavy equipment in both transport and machinery. India has been winning export orders under open tender for supplying power equipment, transport equipment, machinery and technology, in various

developing countries. In recent years it has set up some 145 projects in 22 developing countries where it has supplied technology, equipment, management and even equity capital in 125 projects, from both the private and public sector.

India has acquired both the experience and capability to export a whole range of services which include the capability to manufacture and install plants on a turnkey basis in such areas as cotton and woollen textiles, cement, sugar, electrical power systems, blast furnaces, thermal power plants, fertiliser plants, general purpose machine tools, steel mills, railway systems and railway equipment. In the range of intermediate technology it has developed technology to produce plants for rice husking, extracting edible oils from rice husk, small sugar plants, canning processes, and a wide range of farm implements including irrigation pumps and diesel engines. It is moving into the micro-chip age as a growing exporter of computer software and inputs into the micro-electronic revolution.

THE IMPLICATIONS FOR SOUTH ASIAN COOPERATION

This projection of the potential of the Indian economy is designed to demonstrate that the smaller economies of South Asia have to cope with an altogether different phenomenon when they assess the implications of regional economic cooperation from that which is manifest in the experience of other regional groupings. In no other regional entity is any one country so dominant in the weight of its economic power, and diversity of its economic capacity. In Latin America, Brazil, Mexico and Argentina are large economic entities but they counterbalance each other. In ASEAN, Indonesia's, population and oil wealth is matched by the export strength and economic diversity of Singapore, and indeed the natural wealth of Thailand, Malaysia and Philippines. In the Arab world the wealth of Saudi Arabia is matched by the larger industrial base and more diversified economic structure of Egypt.

Within South Asia, during the years of infant industrialisation in Pakistan and even Sri Lanka and Bangladesh the apprehension was that Indian exports of textiles and light manufactures would outcompete their domestic industries. There was thus a natural apprehension about exposing their domestic economy to any sort of competition from more advanced economies, such as India. This apprehension has however been overtaken by changes in the regional economic structures. Today a wide variety of intermediate and capital goods which had traditionally been supplied by AIC sources are available at competitive prices in India and in some cases, in Pakistan. Many of the industries, being set up in Bangladesh today, as well as many of the development projects in the agricultural, power, transport, telecommunications and health sector could

be met from South Asian sources and particularly from India. This trend is already manifest in Bangladesh in tenders in the railway, power, irrigation and road transport sector.

The traditional prejudice in favour of AIC equipment is being fast eroded by not just Indian supplies, but also South Koreans, Chinese, Singaporean in clandestine ways, by Taiwanese sources of supply and even on a smaller scale, by Pakistan. As familiarity with Third World equipment grows, and local intermediaries establish linkages with suppliers from India and Pakistan, the ready access to spare parts, replacement and technological backup from Indian and to a lesser extent Pakistani sources grows, the current and growing price advantage of regional sources of supply which have considerable transport costs advantage will become manifest. Here again India is particularly well placed to meet South Asian needs, including those of Pakistan because of its proximity, command of appropriate technology, knowledge of administrative environment and familiarity with the socio-cultural mores of the local business communities.

As further contact within South Asia improves, particularly through the import of SARC, those very business interests in such countries as Pakistan, Sri Lanka and Bangladesh who in an earlier generation were strong opponents of economic linkages with India are likely to emerge as the most eloquent advocates of economic cooperation. They will find it commercially advantageous to market Indian capital and technology and eventually to collaborate with Indian business community in investments in their own country. Particularly in the economically weaker countries of South Asia where the bourgeoisie is underdeveloped, heavily dependent on state patronage for its growth and survival, the search for linkages with external capital to widen their resource base and economic power will drive them to the more mature bourgeoisie of India as their partners and patrons.

REGIONAL ECONOMIC COOPERATION THROUGH THE MARKET MECHANISM

For those who believe in the efficacy of the market mechanism and the need to promote the private sector, regional economic cooperation within South Asia will thus emerge as a logical consequence of the evolution in the economies of the region. The Indian bourgeoisie will become the dynamo for the growth of capitalism in South Asia, as the source of capital, technology and social strength to the aspirant bourgeoisie of the regions. The votaries of the market economy will argue that the national bourgeoisies of the weaker South Asian economies will benefit from this intercourse without prejudice to their own aspirations for lower levels of

industrial development. Where there is a potential clash, as between the more mature Pakistani bourgeoisie, collaborative agreements to share markets and even to penetrate markets outside South Asia are likely to be to the mutual interest of both parties.

THE POLITICAL CONSEQUENCES OF MARKET ECONOMICS

The market determined development of regional economic cooperation may however not be without its hazards. Part of the problem lies in the historical inheritance. We have seen how Pakistan emerged out of the body politic of British India because of the apprehensions of the less developed bourgeoisie at being reduced to secondary importance in a more integrated South Asian economic grouping. These apprehensions have deep roots in the consciousness of the socially dominant forces in these countries. This inherited apprehensions in the less developed economies of South Asia of domination by a powerful Indian bourgeoisie has led to a variety of artificial barriers to trade, which have sought to interfere with the free play of market forces. It is generally conceded that trade between India and Pakistan would expand exponentially had not the Government of Pakistan imposed both visible and clandestine restrictions of imports from India. Similar interventions of a less publicised nature may be traced in other LDSAEs. The decision to keep trade out of SARC may owe to these concerns.

In all these countries there is however a growing contradiction between the inherited political apprehension at Indian economic domination: with the market determined interests of segments of the local bourgeoisie. As these economies, under the sponsorship of the World Bank and IMF, liberalise themselves, this conflict will need to be resolved unless serious distortions in the external economies of the country, brought about by politically determined intervention to restrict market determined economic linkages with India are not to surface.

MARKET INDUCED IMBALANCES IN SOUTH ASIAN TRADE

To the extent that market forces are permitted to play themselves out the problem may be aggravated. Given the present imbalance in the economic structures of India and the LDSAEs, market forces are likely to lead to the emergence of large trading deficits for the smaller countries. This has already become manifest in the bilateral deficits on the trade account with India in Bangladesh, Nepal and Sri Lanka. Pakistan has managed to avoid a deficit by the simple expedient of restricting imports from India through administrative fiat.

Whilst Indian exports will have competitive access to the smaller economies vis a vis traditional sources of AIC exports, the structural

limitations of these economies will provide limited export prospects of India. The prevailing structure of trade provides a limited market for raw material exports to India, such as raw cotton from Pakistan, jute, fish and hides from Bangladesh. The scope for diversification of exports to India is particularly constrained by the undiversified character of the LDSAEs South Asian economies. Such items as fertiliser and newsprint which are currently offered by Bangladesh in trade agreements with India are not really in surplus in Bangladesh. It is only short term demand deficiency within Bangladesh which makes them available in the short run for export. Even where export alternatives do emerge the tendency towards import substitution in the Indian economy, sustained by the large size of the Indian market, and the long established, large and diversified industrial base of India provides a built-in tendency to exclude the less sophisticated manufactured exports of the smaller South Asian countries.

The trend for the future therefore points towards a market determined growth in the volume of trade between South Asian countries and India, rather than between the remainder of the South Asian countries. This tendency is reinforced by the fact that geography divides all the other countries who each have continuity only with India. These trends for the less developed South Asians will lead to large and growing bilateral trading imbalances with India, paid for in convertible currencies, possibly provided under various multilateral aid programmes. The structure of trade will also tend to atrophy with the smaller countries exporting traditional primary products in exchange for the import of manufactured intermediate and capital goods from India. Under the circumstances a policy of *laissez faire* is likely to be largely beneficial to India who can afford to take an essentially passive attitude towards regional cooperation by placing their faith in the efficacy of the market mechanism to promote the growth of regional economic cooperation.

THE IMPORTANCE OF SARC FOR THE LESS DEVELOPED COUNTRIES

Within this framework of analysis regional economic cooperation in South Asia becomes a paramount necessity for those of the smaller economies seeking both growth and structural change for their economies. Pakistan is likely to be less afflicted by this tendency because it is already at a higher level of development than the other LDSAEs, it has a more diversified economy and more developed economic linkages with West Asia. Even if politics was to be subordinated to economics in Pakistan's relations with India it could aspire to a more structurally balanced pattern of trade.

The smaller countries of the region, namely Bangladesh, Nepal and Sri

Lanka will have to very consciously seek to not only plan their external linkages with India but to use it to bring about greater diversification in their domestic economies. They will have to use the framework of SARC to seek markets within the surplus countries of the region, which particularly means India, but may also apply in small measure to Pakistan. This will imply that India will have to create economic space within their domestic economies to accommodate for example Bangladesh fertiliser or other potential manufacturing exports from other South Asian countries. Where in fact export capacity does not exist in the smaller countries it will have to be consciously created within the framework of SARC through planned new investments, specifically designed to serve a guaranteed regional market. Part of the investments in these projects may come as joint venture equity investments from trading surpluses created within a possible South Asian payments system to finance trade. The short term credits built into these systems could in part be converted into equities in regional multilaterally owned or directed projects.

Within such a process a variety of projects, mostly designed to add value to the labour and raw materials of the LDSAEs could be developed to generate exports to pay for the growing imbalance in trade with India. Earlier exercises developed by the Bangladesh Planning Commission in the pre-1975 period sought to develop an export capacity, of upto a million tons of urea fertiliser and sponge iron, based on processing Indian iron ore with Bangladesh natural gas for export to India and even to Nepal and Sri Lanka. Cement plants in the Chhatak region based on imported Indian limestone from Meghalaya could not only cater to domestic markets in Bangladesh but also to North Eastern Indian markets. Similarly the development of power dams in Nepal have vast potential for exporting power to India and augmenting the dry season flows in the Ganges, which would be beneficial to both India and Bangladesh.

Such SARC based projects designed to improve the balance of trade with India would have the added advantage of realising a structurally more balanced pattern of trade which moves away from the traditional pattern where the less developed economies exchange their raw materials for the manufactures of the more developed region. Here markets for manufactures from the less developed economies would have to be created in India in part through import of raw materials such as limestone, iron ore and bauxite from India.

THE POLITICAL ECONOMY OF SARC

The problem of course lies in the fact that it is always easier to let the market forces play themselves out than to plan for structural exchange in the exports of small countries. Such projects directed to an external

multilateral market need to resolve complicated and politically sensitive issues of ownership rights, market access and the response of vested interests in the importing country. Such negotiations demand a climate of political goodwill, a spirit of accommodation and a degree of magnanimity on the part of the more powerful of the South Asian economies.

This act of statesmanship on the part of the more powerful economy should not be seen as a mere act of Samaritanism. In the longer run important mutual benefits are to be derived from such gestures. The creation of markets for the smaller economies within the Indian and to a lesser extent the Pakistan economy, provides a reciprocal market for their exporters. The notion that bilateral surpluses, financed by drawing down of reserves, or use of multilateral aid, will indefinitely finance the deficits of the smaller countries appears fanciful. Political pressure to impose restrictions on imports from India and/or to substitute it with greater dependence on AICs who are willing to provide more aid to finance their exports to DCs is likely to grow with the accumulation of surplus/deficits. The limited ability of India to provide export credits on acceptable terms is thus likely to impose its own financial ceiling on this process. The creation of trading distortions to keep down these deficits is thus likely to end in political tensions and contracting South Asian trade.

Demonstrations of statesmanship in the area of economic negotiations must however be related to the prevailing socio-political dialectics in the respective South Asian countries and its impact on the barometer of inter-state relations. As of now economic domination of the smaller economies of South Asia, with perhaps the exception of the landlocked economies, is hypothetical and remains part of the scenario of the future. The current realities indicate that economic relations are at a much lower ebb than would appear to be justified by the interplay of market forces. The political antagonisms which sundered the integrated economy of British India are far from being eradicated in spite of the public bonhomie demonstrated at official SARC gatherings. There is a very tangible apprehension within the smaller countries about the threat of dominance by India. Whilst some of these concerns are part of the race-memory of once dominated nationalities or at least their elites, a variety of ongoing bilateral disputes between the smaller countries and the previously dominant country survive. These may range from apprehensions of interference in the domestic affairs of smaller countries to the survival of outstanding bilateral disputes as in the case of the sharing of the Ganges waters and the demarcation of maritime boundaries between India and Bangladesh, or the matter of repatriation of Pakintani nationals from Bangladesh to Pakistan and a willingness of Pakistan to hand over Bangladesh's

legitimate share of common assets of the erstwhile Pakistan.

To the extent that these disputes, and misgivings keep alive older apprehensions, the climate of accommodation remains exacerbated. The compulsions of some AICs to integrate one or another of the smaller South Asian countries, into its strategic planning for the region injects yet another uncontrolled variable into the South Asian equation.

The perpetuation of these tensions tends to loosen the bonds of rationality which can sustain meaningful dialogue between these countries. Within the smaller countries, policy makers, exercising tenuous political authority, remain inhibited from discussing outstanding issues within a wider framework of cooperation for fear of being criticised for being capitulationist. They themselves may make capital out of confrontationist postures in order to justify their existence or to put their political opponents on the defensive and then find that they have reduced their own flexibility in negotiating a viable relationship with their larger neighbours. In turn the larger neighbour, distances itself from regional concerns, leaving the initiative to the smaller countries whilst placing its faith in the logic of the market place and in the awareness that South Asia is but a small part of its global linkages or even its linkages with the rest of the Third World.

As a result of this assymetry of perspective to both bilateral and multilateral concerns, dialogues tend to be deadlocked and to seek refuge in anodyne communiques of no productive purpose. On most key issues, Indo-Bangladesh, Indo-Pakistan, Pakistan-Bangladesh have been deadlocked for a decade. The tendency to treat each dispute separately means that there has to be a loser and a gainer in the short run, a recipe for deadlock. This requires statesmanship to negotiate issues on a wider front so that gains in one sector are compensated by concessions in another. The incorporation of negotiations in a longer time-frame so that concessions today will be compensated by gains in the years ahead have all constrained the emergence of a climate of political goodwill needed to underwrite regional economic cooperation.

Whilst Pakistan, because of its West Asian linkages may enjoy a degree of flexibility in its external options, the smaller countries of South Asia have much fewer options except to perpetuate their aid dependant status and to remain at the mercy of their principal AIC donors. It is therefore imperative for them to use the SARC forum as a positive instrument to plan both structural change and consequential enhancement of their exports within the South Asian region. Whilst much of these negotiations will relate to relations with India and will thus have a bilateral dimension to it, SARC provides a convenient mechanism to give

strength to the negotiating options of the weaker members.

THE NEED FOR STATESMANSHIP

India in turn will have to decide whether it wants to define its economic relations with its neighbours on the basis of its economic power manifested through the market mechanism and to use its political and military power to ensure that the laws of the market are not undone by the political concerns of the smaller countries' ruling elites. This dependence on the market place will need to preserve a policy environment of open markets and free access of foreign capital to the local economy. To the extent that these policies encourage domestic tension, generated through the polarising directions of these policies and the resentment at external domination of the economy, the pattern of relationships would be unstable and would require even more manipulation to control the eroding domestic environment.

In contrast a policy of genuine accommodation built in the short run around a series of concessions by the dominant economy would create the basis for a more durable programme of accommodation. To the extent that no other South Asian power is a threat either to the security or the coherence of the Indian state, it is in India's interest to make concrete political gestures and economic concessions which persuade the smaller countries of the mutuality of gains within a South Asian grouping and discourages them from developing linkages of dependence outside the region. Such gestures as the provision of unilateral duty free access of all South Asian exports to the Indian market on a non-reciprocal basis would lead to a stimulus of exports from these countries without serious damage to the Indian economy and indeed some gain if the enhanced earnings of the smaller countries encouraged reciprocal increase in their imports from India.

Accommodation through the provision of guaranteed markets and gestures in the areas of bilateral disputes would all constitute significant advances. These gestures would however still not erode the fundamental threat posed by a more powerful bourgeoisie seeking to impose its authority over naturally weaker elites. There appears to be no durable solution to this beyond greater state mediation to manage the relationship through more extended use of state institutions. This would ensure that politics could moderate the overexposure of weaker economies to more dominant elites. This prospect however carries its own costs which include more rigidity and caution in the development of the relationships and much greater sensitivity to the ebb and flow of the political relationships.

In the final analysis all the countries of South Asia are today dominated by narrow elites who have in varying degrees denied the due share of the fruits of development and participation in the political process to the masses. To the extent that elite interests manifested within a bourgeois state dominate respective politics of South Asia it will remain difficult to constrain the play of market forces. Indeed the current direction of policy throughout South Asia appears today to encourage such forces. To this extent the prospect of genuine cooperation of the peoples of South Asia on the basis of a mutual accommodation and a genuine urge to enhance the capabilities of the weaker members remains elusive. The tendency for SARC to become a talking shop or a carousel of meetings whose communiques are designed to conceal any genuine attempt to tackle contentious issues and build programmes of cooperation remains high.

The price of such inactivity within SARC to come to grips with the needs of the LDSAEs to expand and diversify their exports will in the final analysis be paid by those who can least afford it. Their inherited apprehension at planning economic relations within SARC will find that it is the market place which will become the arbiter of South Asian Regional Economic Cooperation. The inexorable laws of the market will favour the strong and sow the seeds of a new generation of political tension induced by the apprehensions of dependence and domination of the weaker by the stronger within the South Asian region.

There is unfortunately no escape for at least the LDSAEs from their South Asian inheritance except through perpetuating their subservience to the AICs. The search for linkages in West Asia or other Third World groupings is only a second-order expedient. The West and East Asians have their own clearly defined groupings and treat linkages beyond this as of peripheral interest. The South Asian community will therefore have to press forward to build a framework of cooperation whether by planned effort or let the less equitable market mechanism take its course.

COMPATIBILITY OF SOUTH ASIAN ECONOMIES

M. L. QURESHI^{*}

SCOPE FOR REGIONAL COOPERATION

The compatibility of the economies of South Asian countries comprising Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka, is dependent on the scope for economic cooperation amongst them. Even a cursory examination of the economies of these countries would show that the scope for such cooperation is very great, although the actual level of cooperation at present is very limited.

Countries of the region have common problems in the field of international trade. India and Bangladesh have common problems for the export of jute and jute goods due to competition from substitutes. Although they compete with each other in the world markets, there is scope for cooperation in market research to expand the market and in technical research for reducing production costs, for finding new uses for jute and jute goods and for arrangements for the stabilization of jute prices. India, Bangladesh, Sri Lanka and Pakistan are all interested in the export of shrimps while the first three are interested in the exports of tea. They can cooperate in international arrangements for the stabilisation of prices as well as the maintenance of minimum prices which are compatible with the costs of production. All the countries of the region have common problems in exporting their manufactured goods to the industrialised countries due to the import restrictions of the latter. They have also common problems in connection with their terms of trade. They can have greater leverage in their negotiations with the market economy countries and the socialist countries, if they act together rather than separately. This will be true of negotiations with the multi-national corporations for the transfer of technology and with the shipping conference lines. This will also be true of the North South negotiations for the New International Economic Order and the international monetary system. There is almost a complete identity of interest amongst the South Asian countries in all these matters. So it is possible to chalk out of common line of action which safeguards the interests of all the countries of the region.

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The region is relatively poor in natural resources. It has 20 per cent of the population of the world but only 3.3 per cent of the world's land area. The region's endowment of other natural resources is even worse. It has less than one per cent of the world's brown coal and lignite, crude petroleum, natural gas, antimony, copper, gold, lead, magnesite, magnesium, silver, tungsten, Zinc, asbestos and diamonds. However, the region is very rich in respect of the resources of the Himalayas and the seas. These resources, if properly developed, can partly make up for the deficiency in other natural resources. These potential resources can be developed best on the basis of regional cooperation by the countries of the region acting together. The investment requirements for their development would be so large as to be beyond the means of any single country. All of them will have to pool their resources together. Even then these resources will have to be supplemented substantially by the international community. The chances of securing the necessary external assistances would be much greater, if these countries act together. Besides, Some of the commodities produced as a result of the development of these resources would need the whole region as a market. For example the power potential of the Himalayas is so large that its development may require an international grid covering practically the entire sub continent for its proper utilization.

The countries of the region have a comparative cost advantage in trading amongst themselves over countries outside the region, because of the lower transport costs due to their geographical proximity. In view of the rising energy costs, the transport costs are likely to rise, so the transport cost advantage is likely to increase in the future. This can further increase the potential for economic cooperation amongst them.

There are possibilities of establishing common shipping and insurance services for the benefit of all the participating countries. There may also be scope for the establishment of common facilities for scientific and technical research for evolving technology appropriate to the resources endowment of the countries of the region. They can also study the scope for cooperation with the Middle East countries involving the use of surplus manpower of South Asia and the investment of surplus financial resources of the Middle East.

The countries of the region have common problems of high rates of population growth, of heavy incidence of poverty and of rural under development. These are areas in which they can benefit one another through technical cooperation and exchange of experience.

PROBLEMS IN REGIONAL COOPERATION

There is a strong case for cooperation in the common interests of all the countries of the region. However, there are serious obstacles to such cooperation which cannot be ignored. In this connection the political climate is very important. Promotion of cooperation on the basis of mutual advantage amongst countries, may be relatively easy, when the political relations are cordial. As a minimum, absence of political hostility is essential. There should be no possibility of a war between the cooperating countries.

Political relations amongst the South Asian countries have not always been cordial. From time to time there have been problems amongst them which have resulted in conflict.

At present there are strains between India and Pakistan on the issues of Jammu and Kashmir, and on armaments. There are strains between India and Sri Lanka on the issues of Tamil population in Sri Lanka. There are also strains between India and Bangladesh on the distribution of Ganges waters. However, there are hopeful signs in that all the countries concerned have expressed strong desires for resolving these problems in a friendly and good neighbourly manner.

The political problems that exist or might arise in the future have to be recognised frankly as a factor influencing the form and the extent of cooperation amongst them. On the other hand such problems are themselves a major consideration for building greater regional cooperation and understanding as an essential means for finding early and just solutions.

Another problem in regional cooperation is the size of the Indian economy, relatively to the size of the economies of other countries of the region. According to the World Development Report 1984, India had in 1982, 78 per cent of the area, 73 per cent of the population and 77 per cent of the Gross Domestic Product of the region. Thus the Indian economy is more than three times as large as the economies of all the other countries of the region but together. The relative sizes of the economies of the countries concerned are an important factor in matters of cooperation amongst them. Under the operation of normal economic forces, cooperation between India and the other countries cannot be on an equal footing, unless special arrangements are made to ensure equality in the terms of cooperation.

Another problem in economic cooperation is that these countries are at different stages of economic development. In such cases, the relatively more developed countries stand to gain more from cooperation than the

less developed countries. In South Asia, India has reached a higher stage of development than the other countries, and under the operation of normal economic forces, is likely to gain more from cooperation than the other countries. However it is possible to make special arrangements to ensure equitable distribution of costs and benefits of cooperation amongst the cooperating countries.

CRUCIAL ROLE OF INDIA

As has been stated earlier, the size of the Indian economy is more than three quarters of the size of the economy of South Asia as a whole. So there can be no regional cooperation without India's full participation. In this connection the role of the Indian development strategy is crucial. The Indian policy of self reliance, or self sufficiency in consumer goods, if fully implemented, closes the Indian market for the consumer goods which the other countries of the region can export to India. As a result of its relatively higher stage of industrial development, India produces certain types of capital goods for which there is a market in other countries of South Asia. If these countries allow unrestricted imports of these goods, their balance of trade with India tends to become unfavourable, because they cannot export their consumer goods to India to pay for their imports of capital goods from India. The essence of economic cooperation is balanced inter-dependence, and not economic independence of one trading partner and dependence of the other. The dependence has to be mutual, so that both parties stand to lose by the termination of the cooperative relationship which would act as deterrent to such termination. Besides, economic cooperation amongst countries involves costs as well as benefits. If cooperation results in highly unbalanced trade, the country having an unfavourable balance may be sharing more of the costs than the benefits and may not find it in its interests to enter into such cooperative relationships.

Indian industrial capacity for the production of certain types of capital goods remains under utilized for lack of sufficient demand. Thus the Indian policy of self sufficiency in consumer goods acts as an obstacle to greater trade between India and its neighbours and to the under utilization of the Indian industrial capacity for the production of capital goods. This policy needs re-consideration.

A change in the Indian policy of self-sufficiency for consumer goods, need not necessarily have an adverse impact on the existing industrial units for the production of consumer goods. The demand for consumer goods in India is bound to increase due to the improvement in economic conditions and the increase in population. The consumer goods industries in India would have to be expanded greatly to meet this

demand. Some expansion may be allowed but the rate of expansion may be slowed down, so that the local industries do not meet the domestic demand in full but leave some room for imports. This would provide a market in India for the products of the consumer goods industries of the other countries of the region. What is required is a modification of the Indian industrial development policy in the direction of a less rapid expansion of consumer goods industries and a more rapid expansion of the capital goods industries to cater to the needs of the neighbouring countries for capital goods, on the basis of market studies for capital goods in these countries.

The economies of India and the other countries of the region are complimentary in the sense that India has a comparative cost advantage in the production of certain types of capital goods and the other countries in the production of certain types of consumer goods. This complementarity may be fully utilized in the interests of all the countries concerned.

The larger imports by India from the other countries of the region would not adversely affect the balance of payments of India, if they are offset by larger exports of capital goods from India to these countries. In short, if India plans to increase its imports from the other countries of the region, its exports to these countries would take care of themselves. This change in the development strategy of India can result in an increase in both the exports of India and its trading partners in the region to the common advantage of all.

A shift in emphasis in favour of the objective of the eradication of poverty in India can result in very substantial increase in regional cooperation. Removal of poverty has been a very important objective in the Development Plans of India in the past. But it seems that this policy has not been fully implemented, for there is no evidence to show that the total number of the poor in India has declined. The latest estimates show that about half the population of India lives below the poverty line. It is heartening to find that the new leadership in India is assigning a very high priority to the eradication of poverty. It is, therefore, hoped that it would take effective steps for the achievement of this objective. Future successes in the reduction of poverty would result in a very large increase in the demand for consumer goods. It may not be possible for the domestic industry in India, in spite of some expansion, to meet this demand in full, so that substantial imports of consumer goods may be inevitable. Thus a market would be created for export to India of consumer goods manufactured in the other countries of the region.

Considering the magnitude of poverty in India, the programmes for the reduction of poverty would require enormous resources. These resources

would have to come from some where and would call for a re-ordering of priorities and a diversion of resources from some other sectors, possibly including defence, to the anti-poverty programmes. A reduction in defence expenditure would have a multiplier effect. It would re-inforce Indian leaderships urge for peace and would tend to remove the fears entertained by some of the neighbouring countries about the possible military domination of the region by India. This should result in a reduction in other countries expenditure on defence and diversion of the resources so saved to developments. Thus a shift in favour of the eradication of poverty in the Indian development strategy can lead to a more rapid development of the Indian economy, to the industrialization and more rapid rate of growth of the economies of the other countries of the region and to much greater regional cooperation.

ESTABLISHMENT OF SARC

The countries of the region have established an organization, namely South Asian Regional Cooperation (SARC), the initiative for which was taken by the late President Zia Ur Rahman of Bangladesh. SARC has held several meetings at the level of foreign secretaries and one at the level of foreign ministers. A summit meeting has also been planned. SARC has been moving forward gradually, cautiously feeling its way. However, it has made considerable progress and has established a number of expert groups to study the scope for regional cooperation in various fields, including agriculture, health and population activities, meteorology, postal services, arts and culture, telecommunications, and transport. Some concrete proposals for regional cooperation are already emerging. It is hoped that SARC will make more rapid progress in the future.

The idea of South Asian Regional Cooperation was first conceived by a small group of scholars from the various countries of the region who decided to establish a non-governmental organization, namely, Committee for Studies in Cooperation and Development (CSCD) in South Asia with the Marga Institute of Colombo as its Secretariat. CSCD has undertaken a large number of studies which have made a valuable contribution to an understanding of the problem of South Asian Regional Cooperation. More studies are under way and would hopefully be of use to the governments of the countries of the region in deciding about their future course of action in the field of regional cooperation. CSCD can play an important role in promoting regional cooperation.

NEED FOR A SECRETARIAT

SARC has not yet established a permanent common secretariat. One is urgently needed. The lack of an efficient secretariat is a serious handicap.

In final analysis, the strength of an organization is dependent on the strength of its secretariat for carrying out the tasks assigned to it by political leadership. The developing countries generally suffer from this handicap in their negotiations with developed countries which are well supported by their secretariats. Even the group of 77 does not have the support of a secretariat of its own.

An organization like SARC which is intended to do constructive work in identifying suitable areas of regional cooperation and in promoting such cooperation does need the support of a secretariat. However, the problems in the establishment of a secretariat such as decisions about location, control, leadership, financing, staffing, etc have to be fully recognised. It would take quite some time for the countries of the region to arrive at a consensus on these matters. However, a beginning can be made by establishing a common research organisation to undertake studies required for economic cooperation, to keep under constant review world developments which have an impact on South Asian economies and to serve as an advisory body to the countries of the region. It might be controlled by a body in which all participating countries are equally represented to prevent it's being dominated by any single country. Its cost should be small and should be met by the participating Governments on the basis of some fixed formula acceptable to them. Its scope may be expanded as and when required on the basis of the work assigned to it by the controlling body.

CONCLUSION

One may conclude that there is no question about the compatibility of the South Asian economies, for there is very great scope for economic cooperation to the common advantage of all the South Asian countries. There are no doubt some problems in cooperation but these are not intractable and can be resolved with mutual good will and understanding. It is very gratifying that the countries of the region have decided to cooperate and have established an organization, namely SARC for the purpose.

The role of India is crucial in South Asian cooperations because of its size and the stage of development. Indian development strategies and industrial policies can have a great impact on the promotion of regional cooperation.

Research requirements for regional cooperation are very large. Studies in depth are required for evolving forms of regional cooperation and for an analysis of the implications of cooperation in the various fields for the economies of individual countries. It is desirable that SARC should

have a common secretariat for the purpose. But the problems in the establishment of such a secretariat in the near future are understandable. In the mean- while, individual scholars and non-official research organizations, both national and international can play an important role in undertaking the desired research.

DEVELOPMENT OF NEPALESE HIMALAYAN RESOURCES IN THE REGIONAL CONTEXT

GOVIND R. AGARWAL^{*}

INTRODUCTION

Nepal is a small land-locked and least developed Himalayan Kingdom. In its entirety it falls within the Himalayan Region. The development of Himalayan resources such as land, forest, minerals, and water, etc., present the areas of utmost priority not only from the national perspective but also from the South Asian Regional Cooperation perspective. Because of the inter-relatedness existing among all the Himalayan resources, their development needs a systems prospective. This paper first surveys the land, water, forest and mineral resources of the Nepal Himalayas and then proposes avenues for regional cooperation for their development.

LAND USE SCENARIO

Nepal is bordered on the North by the People's Republic of China and on the South by the Republic of India. Its total area is 147, 181 square kilometers. It is a small country in terms of area. However, it presents a vast degree of geographical diversity.

Nepal had a total population of a little over 15 million in 1981, with a population density of about 102 persons per square kilometer. Of the total population, 8.7 per cent was in high Himalayas, 47.7 per cent in hills and 43.6 per cent in Terai plains. The Himalayan region had the lowest density of 25.1 persons per square kilometer, with western Himalayan region having only 3.4 persons per square kilometer. In the Terai plains the population density was 192.7 persons per square kilometer. The literacy rate of the country was 23.2 per cent in 1981, with 14.9 per cent for the Himalayan region.

In terms of ecological belt, 35 per cent of Nepal's total area is in high Himalayas, 44 per cent is in the hills and 21 per cent is in the Terai plains.

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About 79 per cent of the country's total area is dominated by slopes which is a vital factor for land use.

There has been a drastic change in Nepal's land use pattern over the past few years. Forest area has decreased from 34.2 per cent in 1975 to 29 per cent in 1980. Cultivated area has increased from 16.49 per cent to 20.42 per cent and pasture from 12.66 per cent to 16.60 per cent over the same period. About 18 per cent of the land is waste land and 15 per cent is covered by perpetual snow. Signs of desertification appear to be increasing. Water bodies remain static at 2.83 per cent. The increase in cultivated land appears to have reached its limit. Most major forests have been cleared for cultivation in the Terai while serious environmental destabilisation in the hills has been causing the abandonment of cultivated land. Though cultivated land area has increased, production has remained stagnant or even declined due to serious deterioration in soil conditions. [16; 35].

The average land-holding in Nepal is 1.1 hectare per family and it continues to be fragmented. The breakdown of land holdings by ecological zones is 0.56 hectares in Himalayas, 0.74 hectares in hills and 1.63 hectares in Terai per household—the per capita land holding being 0.089 hectares in Himalayas, 0.119 hectares per household for the country as a whole. In 1972, the owner-cultivated land holdings were 55 per cent (21 per cent owner cum tenant cultivated) and 11 per cent tenant-cultivated whereas 13 per cent were unclassified.

The population pressure is present in the mountains and hills, yet 96.9 per cent of land-holdings in mountains and hills and 72.2 per cent in the Terai are less than 0.51 hectares in size [6;6-97]. The bulk of the agricultural production, however, comes from the Terai plains.

Most than 91 per cent of Nepal's adult labourforce is engaged in agriculture. However, the total land area only 16 per cent (2.23 million hectares) is under cultivation of which only about 11 per cent is under irrigation. More over about 157,000 hectares of land is under traditional irrigation from small streams and springs. The density of population per square kilometer of cultivated land has been estimated at 1,493 for hills and 379 for Terai plains [6].

Rice, maize, millet, barley are the main cereal crops. Cash crops include sugarcane, tobacco, cotton, jute, oil seeds and tropical fruits.

The hill/mountain ecosystem of Nepal seems to have been heavily destabilised. This is having serious repercussion on the Terai agriculture and if the present trend continues, Nepal's food surpluses may turn into permanent deficits.

In Nepal, the type, kind and use of livestock raised depends on altitudinal location and the ethnicity and culture of the population. They vary from cows, buffaloes, goats, pigs, yaks and naks. The nak is a cross between a yak and a cow. Statistics of livestock are not reliable. Apart from the positive role that livestock plays in the economy, the pressure that excess livestock exerts on the fragile eco-system, has to be given serious consideration since the short-term economic gains could lead to serious national disasters in the foreseeable future.

The land use scenario of High Himalayas in Nepal, therefore, presents 35 per cent of the country's total area, 8.7 per cent of total population, population density of 25.1 persons per square kilometer (3.4 persons per square kilometer in western Himalayas), land holding of 0.56 hectares per household (per capita land holding of 0.089 hectares) and heavily destabilized ecosystem with increasing signs of desertification.

WATER RESOURCES

The water of the Himalayan rivers accounts for all of Nepal's water resources and forms part of the Ganges river system. Some 14 per cent of Nepal is perpetually covered with a mantle of snow—the renewable water resource. This, combined with the river systems and the ground-water aquifers which is adequately recharged, gives Nepal a virtually unutilised water resource considered one of the richest in the world. The entire territorial area of Nepal forms about 19 per cent of the catchment area of the Ganges river system whereas about 27 per cent of the catchment areas of the main rivers of Nepal is located in the Tibetan region of the People's Republic of China [6;131-186].

The total surface run-off of water in Nepal is estimated at 195 million acre feet of which 143 million acre feet contributed by the three major tributaries (Koshi, Gandaki, Karnali of Nepal) of the Ganges river system. However, the total run-off from the territory of Nepal is about 148 million acre feet.

Nepal's ground-water potential has not been fully assessed but it appears to be very high in the Terai and mountain valleys. Static water table lies normally between three and ten meters from the ground surface. Annual participation acts as a recharge.

Including streams and rivulets, there are more than 6000 rivers in Nepal. Gandaki in the west, Karnali in the far west and Koshi in the east constitute the most important river systems. More than 1000 rivers are longer than 11 kilometers and about 100 of them longer than 160 kilometer. The total length of all the rivers, streams and rivulets is more than 45000 kilometers [6;132].

Hydrologically, those rivers having their head water sources in the snow and glaciers of the Himalayas can be classified as First Grade Rivers, e.g. Mahakali, Karnali, Sapta Gandaki, and Sapta Koshi rivers. They carry significant flows during the dry season as well and hence are important for power and irrigation purposes.

The Second Grade River originate from Mahabharat range and inner mountain ranges below the snow line and are fed by rain, springs and ground water. They are perennial and hence important for power generation and irrigation. Mechi, Kankai, Kamla, Bagmati, Rapti, West Rapti, Babai rivers, etc., are the major rivers under this grade. The Third Grade rivers originate mainly from the Siwalik range and are rainfed. They generally dry-up during the dry season and hence have very limited hydropower and irrigation potential [18].

Nepal consists of three major river basins – Sapta Koshi, Gandaki, Karnali. The Sapta Koshi basin lies in between Kanchanjunga and Gosaithan ranges in eastern part of the country. Its total drainage area is 60,400 square kilometers of which 28,140 square kilometers (46.6 per cent) lies in Nepal. Its estimated annual mean run-off is about 1566 cubic meters per second. It contains seven major rivers-Indrawati, Tamakoshi, Lakhua Khola, Budhkoshi, Sunkoshi, Arun and Tamar.

The Gandaki river basin lies between Gosaithan and Dhaulagiri ranges in Central Nepal. It has a total catchment area of 34,960 square kilometers of which more than 87 per cent lies in Nepal. The estimated yearly mean run-off is 1967 cubic meters per second.

The Karnali river basin lies between Dhaulagiri and Nandadevi ranges of Himalayas in Western Nepal. Its total drainage area is about 44,000 square kilometers of which 41,550 square kilometers (94.4 per cent) lies in Nepal. Seti, Bheri and Tila rivers are the main tributaries. The catchment Area of Seti and Bheri is 7500 and 12400 square kilometers respectively. The estimated annual mean run off is about 1368 cubic meters for second for Karnali river, 317 cubic meters per second for Seti river and 432 cubic meters per second for Bheri river.

The three river basins of Nepal (Sapta Koshi, Gandaki, Karnali) have a total drainage area of about 139360 square kilometers, total annual surface run-off of about 148,900 million cubic meters, total annual mean run-off of more than 4800 cubic meters per second. More than 74 per cent of the total drainage area lies in Nepal.

The ground water potential of Nepal has not yet been fully assessed various surveys and studies, however, indicates enormous prospects in the Terai, inner Terai and mountain valleys. The Terai region, with its

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porous impervious strata and thick alluvium (1500-1800 meters), is a major reservoir of ground water. The heavy annual precipitation provides a good recharge to the ground water aquifer. It is not only the main source of water for domestic and industrial consumption but also for irrigation purposes.

The traditional uses of water in Nepal have been for irrigation, water power milling, drinking water and fisheries, etc. It has been estimated that about 150,000 hectares of land is irrigated by traditional "kulo" system developed by farmers indigenously and there are about 10,000 water mills (Ghattas) in the country. People of Himalayas and hills obtain drinking water from springs, streams and rivers.

The national efforts in the utilization of water has been concentrated on irrigation including flood control, hydro-electric power and drinking water supply. The efforts for large scale irrigation development, duly infused by foreign aid, seem to have remain minimal in view of the fact that about 11 per cent of the cultivated land only is irrigated. Efforts are, however, being enhanced at water shed management.

Hydropower potential presents Nepal's greatest resource that can be harnessed from water. Preliminary estimates of theoretical power potential based upon the average flow of water is about 83 million kilowatts. However, less than 0.1 per cent of this potential has been utilized so far. The technical power potential has also been estimated at more than 22 million kilowatts [15]. The rivers of Nepal originate in Nepal, but flow from India and Bangladesh as well. Hence, there is great scope for South Asian Regional Cooperation in the development of water resources.

The problems associated with the development of Nepal's water resources are also complex. Generally, the water available for irrigation and power generation is highly seasonal which presents difficulties for its year round utilization. Moreover, due to rising population pressures, reckless deforestation, massive soil erosion and poor watershed management, the ecosystem has been gradually deteriorating. The heavy rainfall and high river flows during the monsoon season leads to soil erosion and damage to the mountain and hill ecology.

The individual large storage projects generally suffer from silt loads which reduce the potential operative life of reservoirs. Moreover, due to the difficult nature of the terrain, it is costly and complex to construct hydropower and irrigation structures and to develop effective delivery system. Also, there is inadequate knowledge of geology, hydro-meteorology and river ecology which is vital for development and utilization of resources. The unavailability of seismological data and trained technical manpower also poses serious problems.

The water resources of Himalayas, therefore, present one of the most important avenues for regional cooperation. However serious problems pose as challenges for their development.

FOREST RESOURCE

The role of forestry in the Himalayan ecosystem is important in conservation of soil and water, protection of agricultural and pastoral land, preservation of landscape, and provision of fuel, fodder and timber and other raw materials. They present one of the most important renewable resources.

In 1964, according to the forest resources survey, forests covered about 45.5 per cent of the total land area. In 1975, the Fifth Plan (1975-80) gives the figure of 34.20 per cent. But the Energy Research group's estimate was only 29.90 per cent for 1975. The figure given by the Sixth Plan (1980-85) shows about 29 per cent of country's area being categorised as to rest land [6; 98-130]. The land under forest cover, therefore, has been decreasing-only 22 per cent in the mountains.

The major types of forests in Nepal are:

a. Closed Broad Leaved Forest

The sal forest is the predominant species which grows on moist well drained deep sandy soil with good drainage. It constitutes the most important type of forest in Nepal. These forests occur throughout the Terai and valley of Churia hills. The Khair-Sisoo forests occur primarily at riverline sites.

b. Open Broad Leaved Forests

They represent high Savanna forests which are commonly in the southern parts of the terai. The Birch forest occurs above 3000 meters.

c. Coniferous Forests

They consist of lower level chirpine, and high level blue pine, fir, spruce, and hemlock forests. The chirpine-mainly occurs on the Churia hills and on the lower slopes of Mahabharat range.

d. Scrub Forests

Sub-tropical evergreen and dry alpine scrub forests are distributed on Bhabar, the Churia and foothills of the western Mahabharat range.

Problems affecting the forests in Nepal are various. Traditional and non-commercial energy constitute by far the bulk of energy consumption in Nepal. Approximately more than 95 per cent of domestic fuel energy requirements are fulfilled by fuelwood. Due to this fact, there is an increasing pressure on the forests which has led to serious deforestation.

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Grazing has further aggravated this problem. At the same time human population growth has also been reducing the existing forest areas.

Afforestation is necessary to increase the vegetation coverage and forest land area. To achieve this, massive afforestation and reforestation need to be taken up. The community forest programme presents hope in this regard.

Management and protection of high altitudes is necessary for the preservation and maintenance of the fragile Himalayan ecology. If the present trends of forest destruction continue, the Himalayan ecosystem may be severely damaged and disturbed.

MINERAL RESOURCES

Mining history in Nepal is extremely limited. Mining and quarrying has as far contributed less than one per cent of the Gross Domestic Product (GDP).

Very little information existed about Nepal's mineral resources till 1951. Since a 1970's, however, substantial knowledge has been gained about the geology of the country which may provide great potential for exploring its valuable mineral resources. However, practically all the geological mapping and studies in Nepal have been carried out under foreign aid.

Based on available information from the geological surveys and mineral exploration efforts in Nepal Himalayas, [6; 154-187] the mineral potential can be summarized as follows:

a. The Sub Himalayan Region

This region is mainly composed of Siwalik hills and located at the north of the Terai plain. Known minerals in this zone are minor coal along with the potential area for sand stone type uranium anadium as cell as the possibility of petroleum and natural gas.

b. The lower Himalayas

This region is north of the sub-Himalaya consisting of the Mahabharat range. Possible mineral resources are copper, lead, zinc, antimony, gold, chemical grade limestone. uranium, thorium, lithium tin, beryllium etc., associated with the rocks.

c. The Higher Himalayas

This region lies between the lower and higher Himalayas. Observed minerals are the gemstones, copper, zinc, lead, uranium tin, lithium, phosphorite, granite, gypsum, tungsten, etc.

Due to the lack of sufficient knowledge about the geological conditions of the country and shortage of technical manpower, mineral exploration has remained limited.

The mineral resources of Himalayas, therefore, has largely remained unknown and unexploited. Regional cooperation in the form of joint ventures can be effective in their proper exploitation and use for the well-being of the region. This may also spur the process of industrialization.

AVENUES FOR SOUTH ASIAN REGIONAL COOPERATION

Himalayan resources present great potential for South Asian Regional Cooperation. The following seem to be main avenues [16:70-76, 2] for such regional cooperation:

1. Coordinated policy formulation and implementation at the highest level regarding river control, watershed management, etc.
2. Establishment of inter-regional monitoring and a valuation agency to alert governments of impending disasters.
3. Research on Himalayan eco-system and the causes and consequences of resource and environmental degradation.
4. Cooperation in forest products development and on forest conservation and development.
5. Regional water resource development. This presents the most effective scope for regional cooperation.
6. Construction of large reservoirs in Nepal to regulate and increase water flows with attendant potential and benefits to irrigated agriculture, flood control hydropower development, etc., for Nepal, Bangladesh and India.
7. Development of inland navigation system in the Ganges river.
8. Cooperation in identification and exploitation of minerals and the transfer of mineral commodities within the region for industrial development.
9. Collection and maintenance of water resources data the common planning of river discharges and gauges and exchange of information. Also, regional feasibility studies for the development of hydropower.
10. Sharing of the unique experience technical knowledge gained by expertise in India in the exploration of minerals in the Himalayas with other countries in the region. Regional joint ventures can be effective in the proper exploitation and use of these resources.
11. Determination of the amount of water flowing into the sea unused and the salinity patterns.

12. A joint benefit cost analysis on the proper husbanding of water resources and environmental protection in the integrated development of all resources in the Himalayas and beyond.

13. Regional cooperation in agricultural development, such as overall production of cereals, introduction of tree crops especially temperate fruits, development of sericulture under existing vegetation, apiculture, and animal husbandry, etc.

14. Encouragement of social forestry and social agroforestry projects as a support to rural economy coupled with environmental stabilisation.

15. In-depth research studies on a regional basis on:

a. Proper resource use and management strategies.

b. Preservation of environmental stability.

c. Area or sub-basin studies or resource development along with socio-economic development of the people, initially separately in each country and subsequently in shared catchments.

d. Specific regional problems such as soil, water and land management, preservation and development of forests, development of hydrol power, flood prevention, flood warning, floodways, and river navigation.

e. Appropriate institutional arrangements that may need to be set-up necessitated by development and management of Himalayan resources in regional context.

CONCLUSIONS

The Himalayas are the storehouse of a large variety of renewable as well as non-renewable resources. However, the Himalayan eco-system is getting fragile as well as damaged. If the rivers in Nepal, Himalayas dry-up, there is great danger of vast stretches of land turning into deserts not only in Nepal but also in India and Bangladesh. Hence, effective development of Himalayan resources require regional thrust for the well-being of the people of the entire South Asian region as a whole. However, there must be a system approach to the development of Himalayan resources in an integrated approach.

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ON THE ROLE OF COLLABORATIVE RESEARCH IN ECONOMIC CO-OPERATION IN SOUTH ASIA

TARLOK SINGH

If South Asian Regional Co-operation has come to be an idea on the move, this is due specially to the wise and farseeing initiative of the late President Ziaur Rahman of Bangladesh. Therefore, it is altogether fitting that the first international conference on regional economic co-operation in South Asia should be convened in Bangladesh and should meet at the instance of the Bangladesh Economic Association and its distinguished President and his associates. The Conference comes at a point of time when it is possible to look to the future with a degree of knowledge and understanding of the significance and possibilities of mutual co-operation derived from contacts and exchange over several years both among the Governments and among the research scholars and institutions of the region. This conference offers thus an exceptional opportunity to bring the two streams into a common compass. We are now in a position to profit both from the practical insights and experience of Governments as expressed in the deliberations of Foreign Ministers and Foreign Secretaries of SARC and the Technical Committees established by them and the fruits of the first series of collaborative studies carried out jointly by the scholars of the region under the aegis of the Committee for Studies in Co-operation and Development (CSCD) in South Asia.

Both at the level of Governments and as between scholars and research institutions, the efforts thus far have been of the nature of preparation. Practical action on any significant scale has yet to come. Both streams of efforts have the same purpose. It is but natural that the inter-governmental Technical Committees should look for proposals that could become speedily operational. Therefore, they would wish to advance step by step by way of action. Equally, academic studies would seek a broader canvas and try to survey any area of development, noting the problems and experiences of different countries, before attempting to formulate specific recommendations. Since all policy and programme decisions are the prerogative of Governments and Governments need both early action and long-range surveys and perspective, the two streams of effort are essentially complimentary and mutually supportive. Greater mutual influence between research and action, while each goes forward on its own terms, should prove helpful in moving towards the larger objectives of SARC.

The need for such interaction between objective studies and governmental policies arises from the nature of problems of development in South Asia. Of the seven countries joined together in SARC, Bhutan and Maldives together account for 0.4 per cent of the population of South Asia. The other five countries- Bangladesh, India, Nepal, Pakistan and Sri Lanka had in 1982 a total population of 928 million which is projected to rise to 1107 million by 1990 and to 1,336 million in the year 2000. Within range, even allowing for the size and population of India, there are significant similarities between them. All of them are poor, coming close together at the lower end of the 1981 per capita GNP scale of the World Bank-Bangladesh at 141, Bhutan at 144, India at 130, Nepal at 140, Pakistan at 115, and Sri Lanka at 126. In some measure, all the countries are in need of inflows of external resources. Except for Sri Lanka, none of the other countries has yet reached the stage of demographic transition. None of the countries is yet able to absorb increases in population and labour force in productive and gainful work generated within its own economy. To achieve a more balanced distribution of the labour force between agricultural and non-agricultural activities is a common and imperative need. Except to an extent in Sri Lanka, social development and development of human resources have greatly lagged behind even such economic growth and development as have been achieved over the past two or three decades. Growth by itself has made only meagre impact on the basic problems of poverty, unemployment and underemployment and ensuring of the basic needs of the population as a whole. The gaps in achieving the essential conditions of wellbeing for all are still so large that everywhere national planning is under serious challenge. In all countries Governments are being called upon to accept new goals and priorities and to devise new strategies and mechanism for finding answers to the deep rooted problems of the mass of the people.

Against such an economic background, the critical challenges have to be met first and foremost by each country with its given resource endowments, institutions and understanding of its own needs, and problems. Regional co-operation is seen best as a means to enable each country, according to its circumstances and priorities and choices, to realize its own development in the most effective ways possible. In South Asia, co-operation among countries is and will remain basically an instrument for their own advance. Its primary aim is to seek to provide a setting of peace and mutual concern in which each country, according to its own judgement, can move into the future, in this process strengthening both itself and its neighbours. Secondly, regional co-operation will clearly imply special efforts on the part of the region as a whole and specially its

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relatively larger and stronger economies in support of the weaker and the smaller economies in particular the land-locked and least developed countries. At the same time, it is well understood that no country should wish to get into a situation of excessive dependence on one or two other countries of the region and that diversification in trade, aid and other economic relationships should be in fact as much in the interest of each country as of the region as a whole.

In choosing areas of development in which they could co-operate most effectively in the first stage of SARC, the Governments of the region have been understandably pragmatic. In all fields of development Governments have a critical role in facilitating and encouraging co-operation, in integrating a regional dimension into national planning. But in at least four out of the nine areas of co-operation adopted by SARC Governments alone have the requisite knowledge and resources for co-operation. These are: Meteorology, Postal Services, Telecommunications, and several components of Transport. In other areas, there is ample scope for direct inter-government co-operation as well as for mere broadly conceived collaboration, involving also other groups and organizations. These include, for instance, Agriculture, Health and Population Activities, Rural Development, Scientific and Technological Co-operation, and Sports, Arts and Culture.

There is considerable common ground between areas of co-operation entrusted to SARC Technical Committees and those adopted in CSCD's scheme of studies. These studies have covered eight broad areas, namely Development Strategies, Organization of Regional and Environment; Infrastructural Development; Food, Agricultural and Rural Development. In all nineteen themes have been studied so far under these heads including country studies and regional formulations.¹ Naturally, some studies explore the ground more fully than others. There are important areas which have been barely touched so far in CSCD's work, for instance, Education, Tourism, and Improvement and Comparability in Statistics. Significant beginnings have been only recently made in co-operative studies in Industrial Development, Development of Energy Resources and Scientific and Technological Development. The first phase of studies is now drawing to a close and several draft reports of regional synthesis based on country studies are presently under consideration. Even more important than covering new areas, it is necessary now for the concerned scholars to reflect more deeply on the

1. These are listed in the Annexe to this paper.

inferences to be drawn from the studies which have been undertaken side by side with those implicit in the work of the Technical Committees of SARC. These inferences have to be translated into working propositions in a form which Government can utilize for practical development and implementation through their own agencies.

It is expected that several of the country studies and regional synthesis reports prepared under the auspices of the CSCD will be published in the course of this year. Similarly, it is to be hoped that all SARC documents, hitherto limited in circulation of small numbers of Government officials in each country, will also become more generally available for public perusal and consideration. Even though Governments may limit the areas in which schemes for co-operation are being pursued at each given stage; by definition, regional co-operation is an ever-expanding concept. Those outside the machinery of Governments, and specially scholars, professional persons and those associated with trade and industry and the media have an obligation to open up new areas and help prepare the ground for future action by Governments. Indeed, it will be as much in the interest of research as of action towards South-Asian Co-operation that, over as wide an area as possible, through systematic exchange within countries and in regional conferences and seminars, which will permit of free and informal exchanges between Government officials and academic scholars, research and study should continually give greater range and perspective to action, and action should give greater relevance and purpose to research. It is hoped that ways will be found, both within countries and in relation to the Technical Committees and the Standing Committee of SARC, to make available in systematic form the findings of CSCD and other relevant studies and, at the same time, to render greater service in line with SARC's own needs. How best such a two-way continuing exchange could be achieved is a matter calling for early consideration. Perhaps, the forthcoming meeting in Male of the SARC Standing Committee could give some attention to this matter in terms of SARC's own needs and plans for the future.

At this point, some general reflections may be offered for consideration. The community of economists and other social scientists in the various countries of South Asia are sensitive enough to appreciate the doubts and perceptions which may slow down the development of meaningful regional co-operation. They know the historical factors some positive, other negative-which have been or may be at work. They understand how concerns over national security, national unity and national development could interact at different stages and influences relations between countries. Quite naturally, growth of regional co-operation in South Asia

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will continue to depend to a crucial degree on the sense of confidence that each country feels in respect to its national unity and national security. The non-economic factors which govern regional co-operation are an important part of the reality. Scholars can bring to their understanding a degree of dispassionate analysis and search for what is true and just and thereby make it somewhat easier for statesmen and men of public affairs to find more acceptable answers.

Considerations such as these are relevant both to problems inherited from the past and to prospects for the future.

At first sight, the small volume of intra-regional co-operation would appear to run into difficulties. Some improvement could no doubt be secured by removing unnecessary administrative impediments and through the adoption of more liberal import policies in relation to the countries of the region, specially on the part of India. There is need here to recognize a clear difference between rich countries and poor countries. Among the former, trade exchanges are invariably at high levels. Among the poorer countries, expansion of trade follows rather than precedes co-operation in the development of natural and human resources and of infrastructures and industrial capacities. Therefore, the existing low levels of trade within the region are in themselves an argument for priority being given to co-operation in development through longer-term complimentary developmental planning. They also point to the fact that India is in a position to exert a considerable initiative in the expansion of intra-regional trade.

The fact that India accounts for as much as 77 per cent of the population and 78 per cent of the gross domestic product of South Asia is often seen as an obstacle to regional co-operation. This has two aspects. Looking at India as an entity, one may easily overestimate her wealth of resources, and technology and the economic advance she has achieved. In truth, India has large regions which are as poor and under-developed as any in the countries around her. The more important aspects, however, is that size and population constitute an obligation for a country, placed as India is in relation to the rest of South Asia, to take a long-term view to identify herself fully with the goals of structural and economic change of all its neighbours in the region, and to share with them without reserve its industrial, technical and research know-how and manpower training facilities, and to endeavour to become an expanding market for their products.

Within the South Asian region, there is need to develop conventions for transfer to technology and enlargement of markets along lines sought by the less developed from the more developed countries. A working model

for economic relationship within the region of South Asia based on the principles of equity and mutual support in development could become an enormous and pervasive influence not only in other regions but also in moving towards a new international economic order. Both internationally and within the region, effective progress in co-operation lies in enlarging the area of mutual interests.

Within their limitations, all countries in South Asia are engaged in serious efforts to eradicate the conditions of mass poverty, to create wider opportunities within their social and economic systems, and to develop greater economic and technological self-reliance. Their efforts have been only partially successful. The experiments and innovations being tried out in each country have value for other countries in the region and all have much to learn from one another's success and failures.

The total design of development co-operation for South Asia will be, necessarily, a summing up of responses from the region as a whole to the needs of each of the member-countries. The regional design and strategy will not emerge all at once. They will be a product, on the one hand, of planning undertaken in each country and, on the other, of collective consideration and understanding of national priorities and concerns and of a collective determination to put the resources, capacities and manpower of the region to the maximum advantage. Thus, study, analysis and exchange become critical ingredients in the constructive growth of regional co-operation. The initiatives taken through SARC are exceedingly valuable and should be helped to grow and broaden in scope and implementation. But while giving to these initiatives all possible support, the community of social scientists and other scholars should be constantly striving beyond them.

Finally, eager as we may be to advance the goal of regional co-operation in South Asia, we shall be often face to face with problems which can be traced to relationships to the more developed economies, to the interests and preoccupations of super-powers, to the impact of domestic limitations and pressures, and to shadows cast from time to time by unresolved bilateral problems. Therefore, we need not only to identify and expand areas of mutual interest but also, within each country and across South Asia, to build up a body of essential knowledge and of informed public opinion which understands and values the role of each country in relation to the region, the role of the region in relation to other regions within Asia and, equally, in relation to the rest of the world. The present conference thus becomes a vital step in building a common future for the peoples of all our countries.

Annex

CSCD STUDIES ON CO-OPERATION FOR DEVELOPMENT IN SOUTH ASIA

Areas of Co-operation	Studies
I. Development Strategies	1. National Development Strategies and Complementaries. 2. Economic Management and Regional Co-operation. 3. Regional Co-operation and Development Needs in South Asia.
II. Organization of Regional Co-operation	4. Inter-governmental Consultation Systems for Regional Co-operation.
III. Trade and Finance	5. Import-export Structure and Trade Expansion. 6. Trade Channels, Systems and Procedures. 7. Payments Arrangements and Monetary Co-operation.
IV. Development of Natural Resources and Environment	8. Development of Himalayan Resources. 9. Development of Sea Resources. 10. Impact of Human Settlements and Development Activities in the Ganga River System.
V. Infrastructural Development	11. Transport Linkage. 12. Communication Linkage.
VI. Food, Agriculture and Rural Development	13. Agricultural Development and Regional Co-operation. 14. Agrarian Reform and Institutional Change in Agriculture.

15. Application of Science and Technology in Agriculture.
16. Food Security and the Agricultural Base.
- VII. Human Resources Development and Social Services
17. Development of Primary Health Care.
18. Development of Human Resources, Population Policies, and Manpower and Employment Policies.
- VIII. Industry
19. Rural Industrialisation.

TRADING SYSTEMS AND EXPANSION OF TRADE AMONG SOUTH ASIAN NATIONS

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Slow but perceptible progress towards the goal of trade and economic cooperation among the South Asian nations augurs well for the economic and social welfare of the people of the region and for world peace and harmony. Where political leadership has lagged behind in searching viable avenues for bringing the nations closer, the economists and professionals in liberal sciences undauntedly have gone ahead in locating specific areas of cooperation. In this connection, the pioneering role of the Committee for studies for Cooperation in Development in South Asia is commendable. A series of Studies have been completed and extensive deliberations organised to create an awareness among interested and concerned parties about the vast potential for cooperation. Since its initiation at the close of the last decade, a mass of information on diverse subjects including trade has been collected and collated which has once again underlined the urgency to take early steps towards creating a system of economic integration based on equality and friendship. That such a system is viable has been recognised, though a number of impediments need to be removed. In the area of trade, a uniformity in trading systems in all countries accompanied by alike attitudes and procedures in government and semi-government institutions and departments offer a hospitable framework for implementing any scheme of trade cooperation.

It is perhaps necessary to reiterate at every juncture the need and compulsion of economic cooperation among developing countries in general, and neighbouring countries in particular. Obviously, it would trim duplication of effort in economic endeavour and help in optimum use of resources. The advantage among neighbouring countries is minimal transport costs and consequently readily accessible markets. Over-dependence on developed countries is also brought down and the developing countries' bargaining strength improved. Though economic inter-dependence among South Asian countries still appears somewhat a distant goal-- a Pole Star--nevertheless cohesion among them is a must,

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for in it lies their salvation. No doubt, diversity in social and economic systems, political outlook and economic problems marks the South Asian region. Besides general problems of economic growth common to all nations in varying degree, there are peculiar problems of land-locked countries, which reinforces the need for joint effort in solving their problems. With differing perceptions of the growth process, economic cooperation has become a very sensitive issue. However, potential for such cooperation is enormous, which can be exploited without touching the apparently sensitive issues.

COMMONALITY AND UNIFORMITY

The problems of increasing trade flows among the countries of the region are largely the outcome of governmental trade policies which readily reflect the apprehensions and lack of faith in one another's real intentions. It is the 'Real Politik' that is the major culprit. It is not far off the mark to mention that once suitable policy changes are effected, the trading systems and procedures in all countries being almost uniform in nature. Trade cooperation scheme may be implemented without much disturbance. The existing systems may, at the most, be re-adjusted marginally. It applies equally to customs systems and procedures, banking and credit formalities, legal requirements for sale and agency contracts, insurance laws and procedures, government procurement systems, etc.

The commonality and uniformity in the trading systems in the countries of the region is the outcome of the historical past. A common colonial history, contiguity and geographical proximity, a common culture and religious faiths, could not but have produced similar outlook and personal habits of the people. Similar government and non-governmental institutions concerned with economic and business activity and more or less similar perceptions of the consumers about the standards and quality of the products. The foundations for sound trading systems have roots in the colonial past. There have, of course, been changes effected in the post-independence era. But such changes are more in the nature of refinements rather than structural.

In certain ways, history has also come in the way of closer trade relations in the region. The trade links established with the once colonial power are difficult to snap, even where there is an economic justification. Though the countries have broadbased their trade links, the beneficiaries are the developed countries which provide growing markets for products of the region and are the suppliers mainly of industrial inputs required by these developing countries. The trend is re-inforced through aid programmes and commercial credit facilities. No country in the region can

match resources and clout of the developed countries. The vicious circle of poverty leading to continued dependence on developed countries requires extra-ordinary resolve to trade among themselves. Yes, historical past is a curse and yet it is a blessing paving the way for the onset of a bright future.

SPECIFIC COMMON AREAS

A CSCD Synthesis Study on Trade Channels: Systems and Procedures presented at the Colombo Workshop in November 1984 brings into sharp focus the similarities in business set-up and governmental and other trade controlling authorities in the six South Asian countries, namely Bangladesh, Sri Lanka, Pakistan, India, Nepal and Maldives. Being developing countries, imports far exceed exports in varying degrees, with Bangladesh topping the list, followed closely by Nepal. India and Sri Lanka are almost at the same level at the lower end, while Pakistan stands in mid-way. Among different categories of imports, crude materials, mineral fuels, lubricants and related materials and machinery and transport equipment, account for the bulk of imports. Dependence on food and consumer item imports has been steadily declining.

To effect imports, the primary import channels have similar structure. Government imports for use by various departments and directorates are largely channelised through a specialised government department/directorate. In Bangladesh it is the Directorate of Supplies and Inspection, in India the Director General of Supplies & Disposals, in Pakistan Director General, Department of Supplies and in Sri Lanka Department of Government Supplies. Only in Nepal and Maldives, Government departmental requirements are met through the State trading organisation.

Though direct governmental imports for use of departments/directorates are not significant, a large quantum of imports for self use by the autonomous public sector agencies and other government departments such as railways, national airlines, telephone and telegraph department etc. is effected directly by these agencies in Bangladesh, India, Pakistan and Sri Lanka. The pattern is for imports by the public sector project implementing authorities, industrial units and service organisations.

Departmental imports are generally undertaken on the basis of long-term contracts-usually for one year for items of regular use. Sometimes spot purchases may become necessary. The government purchasing is

normally assisted either by the purchasing missions, as in case of India and Sri Lanka, or by the country's diplomatic missions.

Invitation to participate in global tenders is very common in government purchasing. For this purpose, registration of suppliers is a pre-requisite in Bangladesh, Pakistan, India and Nepal. Besides being a legal requirement, registration facilitates procurement of or placement of orders, where urgent supplies are needed, in which case trade enquires are circulated among registered suppliers. For governmental imports, direct allocation of foreign exchange is made and there is no need for obtaining an import licence. Similar procedure is generally applied for imports by the state trading organisations.

State trading organisations are playing a critical role in all countries of South Asia. They are engaged in bulk imports for commercial distribution as well as imports of essential food and other requirements for public distribution. Specific corporations have been established to handle different categories of imports. Except for Maldives, such corporations in some countries have canalizing rights for specified products, while in case of others they supplement the efforts of the private sector. In most of the countries, state trading accounts for a very large proportion of total imports. The maximum share in imports is that of India, followed by Bangladesh, Nepal and Pakistan.

The procedure for imports by the State Trading Organisations in the South Asian countries is almost similar—bulk imports through global tenders and small quantity and immediate requirements through local agents or registered foreign suppliers.

The internal distribution set-up for imports of essential goods for public distribution as well as for imports of industrial supplies has grown in recent years in the countries of the region. The set-up in each country reflects the types of products imported by the public sector importing agency. For example, in Bangladesh and Nepal, where the bulk of public sector imports for general distribution comprise of essential goods and consumer products, internal distribution is effected through a large number of sales centres and warehouses scattered all over the country. In case of industrial raw materials, intermediates and parts, sales are directly made to the actual users by the importing agencies on the basis of either the surrender of import licence or registration of the essential requirements with the importing agencies. This pattern is more or less followed in all countries. It goes without saying that the public sector distribution is directly controlled by the government in respect of price to the consumer/user.

More than anything else, the import policies of the individual countries are the stumbling block in the endeavour towards trade cooperation in the region. Though the public sector imports are not directly influenced by the periodic import policies, such imports are guided by a host of factors including availability of foreign exchange and aid quantum and political considerations. Imports by the private sector are directly controlled by the import policy and tariff system, which differ among countries. However, in the area of customs procedures for clearance of imported cargo, there appears to be a uniformity, thanks largely to the historical past. By their nature, customs systems and procedures do not have the tendency of being drastically changed even over a long period of time. The intervening period after independence has scarcely changed the system. Not only are the customs clearance procedures similar, customs valuation methods for levying import duty and the requirements of clearance documents have similarity. In fact, the principal document for clearance of imported goods is similarly known in Bangladesh, Pakistan, India and Sri Lanka as Bill of Entry.

The banking systems and procedures in all countries of the region as applied to import trade are uniform. Foreign exchange is the centrally controlled subject while import business is transacted through authorised dealers in foreign exchange. The medium for payment of imports normally is the irrevocable letter of credit, though in exceptional cases payment on DP/DA terms may be allowed, provided prior permission is obtained from the Central Bank. Allocation of foreign exchange is made on the basis of an Import Licence/Permit through the authorised foreign exchange dealers. The authorised dealers also have the authority to open a letter of credit or to remit the requisite foreign exchange without an authorisation from the licensing authorities, in case of permissible items under the import policy which do not require Import Licence/Permit. Another common feature of import financing is the absence of any policy of financing at concessional rates, except in Nepal where concessional interest rates are applicable to certain categories of products.

Even in the legal framework of business relations, the countries in the region have close similarities. The essentially British legal system continues to operate, leaving less ground for trade disputes. In Bangladesh, Pakistan and India, the framework of commercial relationship is provided by the Indian Sale of Goods Act, 1930 and the Contract Act, 1872. In Sri Lanka, the Sale of Goods Ordinance of 1890 governs the international commercial relationship. Similarly, cargo marine insurance is effected on the basis of the national statutes which are based upon the English Marine Insurance Law as enshrined in the Act of 1906.

Except for Maldives, insurance facilities are fairly well-developed in other countries. Further, insurance business including marine insurance, has either been brought directly under state control or operates under governmental guidelines. In India, Bangladesh and Sri Lanka, general insurance has been nationalised and is being offered through public sector corporations. Although, general insurance business in Pakistan is undertaken by both public and private sector corporations, it is obligatory for the private corporations to get 40 per cent reinsurance from the state-owned Pakistan National Insurance Corporation. In Nepal, government enterprises engaged in imports are required to get insurance only from the public sector Rashtriya Beema Sangsthan. As for insurance premium, minimum rates for standard policies are fixed by the public sector corporations.

Given positive trade policy orientation and similarities to business approach, trade flows among nations determine and are in turn determined by the level of private trade links. Among South Asian countries, this level is highly inadequate at present. All countries give encouragement in numerous ways to their traders for increasing exports. This encouragement is provided by liberal foreign exchange allocation for travel abroad as well as for promoting exports. However, this encouragement has yet to be translated into meaningful reality, partly because of lack of knowledge of business opportunities and partly because of problems of grant of entry permits. While facilitating grant of entry permits needs bilateral agreements, steps have already been taken to develop business links at the chambers of commerce level. Agreements and understandings have already been arrived at among different chambers. Sponsoring and receiving trade delegations as well as exchange of business information among them have been of great assistance in smoothing rough edges on way to trade cooperation.

WHAT NEXT ?

Where does the trading set-up similarities in the region leave us? Notwithstanding this positive disposition, trade among South Asian countries continues to be at a low level. Pending trade policy changes and imbibing mutual faith, a number of concrete steps can be taken at various levels to create healthy atmosphere which may enable the adoption of a scheme for coordination of trade policies among the regional countries. In this connection, The following suggestions merit consideration:

1. *Import Promotion Infrastructure:* There is almost a complete absence of infrastructural facilities for encouraging imports from within the region. Lack of information on product availability, prices, trade policies and the

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like can be removed through the creation of an appropriate institutional framework either at the chamber level or as a separate agency to be variously known as the South Asian Import Management Bureau or Import Management Centre. The unified agency at the regional level may be supported by similar agencies in each country.

2. *Cooperation Among STO's*: Though production and marketing tie-ups among STO's in the region should be the long-term objective of cooperation, initial steps in the following areas can be taken:

- (i) Establishment of a regional unit for training and consultancy services;
- (ii) Provision of advisory and consultancy services to individual STO's in the field of international marketing and procurement;
- (iii) Formulation and implementation of a programme of research. As a first step, a comprehensive research study may be undertaken to identify areas of cooperation among STO's and formulate a strategic plan for cooperation;
- (iv) At the operational level, the practice of submission of bond and performance guarantees to STO's for participating in the tender business within the region may be eliminated.

3. *Government Purchasing*: Within the given import policy framework, a system of price preferential treatment to imports from the South Asian Countries by government purchasing agencies may be worked out. Similarly, suppliers' credit at concessional rates may be extended to such imports.

4. *Easy Credit Facilities*: In developing intra-regional trade, commercial banks and other financial institutions can play an important role. Provision of finance on liberal terms for imports from the region deserves consideration by individual countries. In addition, there is a need to hold periodic meetings among banking and financial organisations of the regional countries for exchange of experience and information.

5. *Standardisation of Documents*: Though procedural formalities and documentary requirements in the countries of the region have great similarities, there is a case for harmonisation and simplification of international trade documents. Meaningful but isolated steps have been taken in some of the countries, notably Sri Lanka and India. It is time now for coordinating these efforts by establishing a Regional Trade Facilitation Centre supported by national trade facilitation centres.

6. *Trade Fairs and Exhibitions*: Increased participation in regional trade fairs and exhibitions undoubtedly will help in trade cooperation. In addition to organising such fairs and exhibitions at the regional level once

a year in different countries, it may be helpful if participation in such fairs and exhibitions is subsidised by the host country. At the same time better facilities and favourable terms for disposal of exhibits at the conclusion of the fair should be provided.

7. *Training in Marketing Management:* This is another area of cooperation, which does not need any fundamental policy change. Training facilities in different aspects of international marketing management developed by such agencies as the Indian Institute of Foreign Trade may be fruitfully used for developing a professionally trained and capable management cadre. Cooperation in this area may include organising joint training programmes, exchange of faculty and training material.

8. *Transport and Communications:* Upgrading roads and railways and introduction of inland waterways primarily in the Ganges and its tributaries will go a long way in improving trade flows and assuaging feelings of a landlocked country like Nepal, making for an easy and efficient access to sea ports. Similarly, inter-modal traffic linked to the dry port services should be extended in the region. There is also a need for improving and modernising communications facilities by making available direct telephone dialing and telex services in the region.

SOME THOUGHTS ON REGIONAL INVESTMENT COOPERATION IN SOUTH ASIA

W.D. LAKSHMAN

INTRODUCTORY

The world economy today is comprised of some 160 sovereign nations which are of immense diversity in terms of geographical and population size, resource endowments, socio-political-economic structures, size of national product, levels of development and the extent of their economic and political power. The period since the World War II witnessed the emergence of two super-powers among these nation states with overwhelming concentration of economic, military and other resources. Regionalism emerged as a countervailing force among the European nations in response to the above power concentration in the hands of the two super-powers.

Developments after the Second World War also gradually brought into sharp focus the extreme inequality in the distribution of world's resources as between its developed and under-developed parts. It is quite well-known how, the previously colonial territories emerged as sovereign nation states after the War with the collapse of the imperial structures under the pressure of world-wide anti-imperialist struggle. With their enrolment as members in various international organizations, these new states have come to numerically dominate these organizations although they remained clearly in a subordinate position in terms of the distribution of actual decision-making power. Certain common problems faced by these under-developed nations, which have now come to be popularly called the Third World, produced a certain degree of unity in thinking and action among them. Their disillusion with the existing inequitable world order came to be forcefully expressed in various world bodies giving rise to the call for a "New International Economic Order" (NIEO) at the United Nations level in the mid-seventies.

Co-operation among developing countries has been interpreted as a major element in, as well as a major instrument for the achievement of this NIEO. This co-operation among developing countries has been viewed as comprised of various elements like economic co-operation and technological co-operation (ECDC and TCDC). Regional co-operation among developing countries (RCDC) is the aspect of Third World co-operation which this paper and the conference to which it is a contribution are concerned with.

Strictly speaking, RCDC can be considered distinct from ECDC and TCDC since the latter types of co-operation can be pursued with or without the former type. Yet within the existing power structure of the world economy, the extent to which ECDC and TCDC can be pursued by the large number of heterogeneous nation states in the Third World through negotiation is quite obviously limited. Thus RCDC is of as of equal importance as ECDC and TCDC and is a necessary complement to the latter, "... especially in the 1980's in order to relaunch adequate growth and development in the Third World and create higher levels of collective self-reliance for its economies" so that a new world economic order characterised by tolerable degrees of equity and justice can be created.

Some areas of reform required in the building up of a new equitable world order can be more effectively pursued at a regional level than at a global level-South-South trade, joint production and marketing ventures, joint development finance facilities, investment codes for businesses, joint agricultural policies, testing and adaptation of technology appropriate for conditions prevailing in developing countries etc. North-South negotiations have gone on for a considerable length of time in respect of reforms needed to bring about a new international economic order with only very little concrete achievements. In this situation, the achievement of Third World demands requires building up regional blocs to wield countervailing power in the negotiations with the advanced countries. Hence the increasingly felt need for ECDC.

It has been argued that in the 1980's, RCDC "can and must be a main engine progress in the world economy" for a number of reasons:

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the likelihood of shower growth in industrialized world and the resulting inability of the Third World to continue its dependence on the former to provide growing markets for its agricultural, mineral and industrial products.

- inadequacy of just the globally common negotiating fronts of developing countries vis-a-vis the developed, to bring about the necessary reforms in the structural characteristics of the world economy.
- relative ease of pursuing South-South Co-operation at regional level due to common interests, complementarities, shared perceptions and historical solidarity.
- growing impracticability for oil-importing Third World countries to use transnational corporations, international banks and advanced country aid packages to achieve their objectives, owing to worsening conditions pertaining to indebtedness, energy prices, terms of trade, food availability etc.

The kind of interdependence we see today among the countries in the world economy originated and got firmly established as a result of the growth of capitalism into its monopolist phase. Along with the growing heterogeneity and differentiation of the world economy, there has also developed a strong interconnection, interaction and interdependence. The combination of these two contradictory tendencies, however, means today that this strong interdependence among nations happens to prevail among unequals. The consequent relationships are those of dependence and domination-dependence of the under developed and domination of the developed countries rather than those of a respectable interdependence among peers. Both at national and global levels, intensive efforts have been made within the existing nation state structure to find effective solutions to the vicious cycles of the South's commercial, financial and technological dependence on the North and its adverse socio-economic repercussions. The concrete achievements of these national and global efforts have so far been, in respect of the bulk of the Third World, rather insignificant. Increasing emphasis placed at present on ECDC, TCDC and RCDC can thus be easily understood in the light of the

above rather bleak global picture of the position of the underdeveloped countries.

From the viewpoint of the dependent underdeveloped countries what seems to be required for success in global negotiation and for self-reliant progress is a blend of the advantages of the historical nation state model and those of a regional and inter-regional posture. For a more balanced distribution of world economic power a group of cohesive and self-reliant regionally integrated units appears clearly more promising than the 160 unequal nation states.

There are varying models of regional integration among countries, which can accommodate a wide range of differences in the levels of industrialization and socio-economic development found in different Third World regions, RCDC "... is built on the constructive exploitation of differences a long-term complementarities and on the pooling of markets, labour forces, capital, resource and energy access and scientific and technological capabilities in the achievement of the necessary levels of competitive self-reliance in the world economy".

Regional integration among developing countries is an accepted fact of life in the world economy today. Various forms of regional entities are in operation in various parts of the Third World, with quite a number of years' experience behind them [3, 4]. Following the well-trodden path, the countries of South Asia are known to have been involved in discussions to form a union among themselves quite early in the post-war era although no concrete results flowed from these early discussions. Commencing from around the beginning of the present decade a fresh initiative, which appears to be more serious in intention than the earlier ones, is being taken to build up an institutional structure to achieve South Asian Regional Co-operation (SARC).

A brief review of the progress achieved in this direction to date is given in the following section. There are obviously a number of areas in which South Asian Co-operation is being pursued. The present study is concerned with only one of these different pursued areas of regional co-operation, namely that of promoting investment activity in the South Asian region.

SARC: PROGRESS TOWARDS THE CURRENT POSITION

The current initiatives at South Asian Regional Co-operation are generally traced to the State visit of the late President of Bangladesh, Zia-ur-Rahman to Sri Lanka in 1979. When he threw up the idea of Regional Co-operation in South Asia, the response to the idea from the nations involved was quite expectedly rather unenthusiastic at the beginning, obviously owing to various knotty bilateral problems affecting them and the consequent mutual distrust among them at least at the political level. It thus took sixteen months of diplomatic effort to give some shape to the idea of collective self-reliance in the South Asian region. The first meeting of Foreign Secretaries of the region held in Colombo in April 1981 is thus considered the first step in the move towards SARC. Seven countries - "Seven Sisters" of South Asia in the words of a Sri Lankan journalist, were involved in this exercise and continue to work towards concretisation of the SARC objective, namely Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka.

During its existence over a period of a little less than four years, i.e. taking April 1981 as the time of launching, SARC had gone through a number of meetings at bureaucratic and political levels:

1. Seven meetings of the Foreign Secretaries of the seven countries in Colombo (April 1981), Kathmandu (November 1981), Islamabad (August 1982), Dhaka (March, 1983), New Delhi (July 1983), New Delhi (February 1984) and Male (July 1984). After the Ministerial Declaration on South Asian Regional Co-operation of New Delhi (August, 1983), the Foreign Secretaries have come to constitute the Standing Committee of the SARC.
2. Two meetings of the Foreign Ministers of the seven countries, one in New Delhi (August 1983) and the other in Male (July 1984).

According to the joint communique issued after the second Ministerial meeting, the next Ministerial meeting is expected to be held in Thimpu, Bhutan in May 1985, to be followed by a Summit

meeting of South Asian Heads of State/Government in the last quarter of 1985 in Dhaka, Bangladesh.

The Ministerial Declaration on SARC (New Delhi, August 1983) has laid down the objectives, principles, modes of operation and financial arrangements in respect of SARC, providing initial agreement at political level concerning what could be done and how. The objectives of SARC given in the form of a list of eight items can be summarised as that of achieving socio-economic development in the region through collective self-reliance among the countries in the grouping and mutual co-operation between SARC and the rest of the Third World.

The main principles on which SARC activities are guided are (a) mutual respect for one another's sovereign equality, territorial integrity and political independence (b) non-interference in internal affairs of other states and (c) the principle of mutual benefit. Due to extreme complexity of the political scene in the region, politics has become taboo for SARC deliberations. The agenda for action, focusing essentially on economic and technological issues of mutual interest, has so far been composed of non-political, non-controversial elements. By the Ministerial Declaration itself, the bilateral and contentious issues have been excluded from deliberations. Decisions at all levels, were, moreover, made possible only on the basis of unanimity, thus giving even the smallest member within the group a veto power, so that fears of hegemony by one nation or a few over the group could be dispelled.

Sticking to the idea of a non-contentious agenda, SARC has identified nine areas of co-operation among member countries:

- agriculture
- postal services
- meteorology
- transport
- health and population activities
- telecommunications
- science and technology
- rural development
- sports, art and culture.

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Technical Committees appointed on some of these subject areas are known to have prepared programmes of co-operative action in those areas of activity. Information is not at hand about the content of these recommended programmes or the concrete results which have emanated from the work of these technical committees.

REGIONAL CO-OPERATION IN INVESTMENT: A CONCEPTUALIZATION

Regional co-operation in investment may mean different things to different people in different contexts. Broadly speaking, this would cover co-operation to achieve three related objectives:

- expansion in the volume of investment
- financing of these larger investments
- adjustments in the structure and composition of investments in terms of activities, ownership, country-wise location etc. for greater productivity.

Regional co-operation among a group of nation states may help achieve these objectives either directly (e.g. through undertaking of investment projects jointly by the group in an activity area of mutual benefit, like telecommunications or energy provision) or indirectly (e.g. through promotion of private investments by creating a large regional market).

Depending on the nature of regional integration achieved, investments in some areas of activity in a given integrating country might expand while investments in some other areas might contract. Thus integration may lead to changes in the patterns of country level specialization in production. In the long run, the net effect on overall investments in all integrating countries together is generally expected to be positive. Otherwise regional integration may appear to be a meaningless exercise. But if some countries involved fail to receive an equitable share of benefits due to the so called "polarization effects" caused by new enterprise gravitations to countries with already developed industrial infrastructures, then, the economic position, in general, and investment levels in particular, of those countries may deteriorate either in relative or in absolute terms. It is nevertheless unlikely that a group of sovereign states would go into integration without the necessary checks and balances for an

equitable share of benefits to everyone of them. Should polarization effects, unknown and unexpected at the time of integration, surface subsequently the very existence of the integration scheme would depend on a suitable renegotiation of the original conditions of integration involving the sharing of benefits. Thus it would be correct to assume that investment impacts of integration, both direct and indirect, in the long run, would be beneficial in net terms to individual countries as well as to the group taken as a whole.

Of the two types of effects of any regional integration- static and dynamic- the static effects are viewed to be of generally minor significance. The dynamic effects over time, on the other hand, are considered to be of immense significance. It is the growth impacts emanating from integration which are usually called its dynamic effects. Regional integration produces positive growth impacts, among other things, through stimulation of investment expenditures and improving the productivity of those investments.

Reasons as to why economic integration among a group of countries should stimulate the overall level of investment and improve the efficiency of utilisation of investment funds are quite well-known:

- Benefits of a large market: Economic activities formerly considered to be uneconomical to undertake within the isolated national set-ups may be commenced and also existing economic activities may be expanded as a result of the larger market created by regional integration. Here economies of scale would become a catalyst for increased production, investment and employment. In so far as the initiation of some and the expansion of other economic activities have important linkage effects, integration is likely to create additional stimuli for further accumulation and faster growth.

Integration brings about important psychological benefits through a perceived reduction of "dependence" which might lead to stimulation of investment and growth.

- In the existing world order, important infrastructural facilities like shipping and other transport systems and

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telecommunications, finance, insurance and marketing systems are geared to cater for North-North and North-South relationships. These create serious bottlenecks in respect of South-South relationships and co-operation. Any action taken to redesign and improve these infrastructural facilities to cater for the needs of a regional grouping would directly and indirectly promote investment in the region.

Various institutional changes that may result from the formation of a regional common market also are likely to have salutary effects on investor behaviour.

There is a particular aspect concerning industrialization worth special mention here. Export oriented industrialization (EOI) which is currently in vogue in this connection, whether by active choice of LDCs or as a consequence of its being imposed on them by the IMF and the World Bank, seems to be running into trouble due to restricted market access, radical labour-saving electronics-based technology, the nature of the Structural Adjustment Programmes enforced by the IMF and the World Bank and increased military expenditures in the Third World [6; 75-96].

These developments create problems in respect of the viability of outward-looking development strategies in the Third World in the 1980's in so far as these strategies are formulated and implemented with the continued excessive dependence on advanced country markets and multinational investors also from those countries. In the circumstances, regional integration among developing countries, intended to promote intra-trade and intra-investment flows would provide some means to counteract the effects of the above anti-EOI developments to some extent and provide room for continued pursuance of outward-looking strategies for growth and development. The argument that "the essence of the case for economic integration in the developing areas is the need to take advantage of economies of scale in industries" [5; 144] is quite well-known. A EOI is the currently fashionable strategy allowing for these scale economies and insofar as it is running into difficulties in its present form the above rationale for RCDC gets further strengthened.

Regional integration is likely not only to provide conditions for an increased level of investment but also to provide better

conditions to finance such an increased level of investment. Sources of such investment finance will include:

- integrating country governments
- public enterprises
- private firms whose operations are restricted to national markets
- multinational investors including those from Third World countries
- banks and other financial institutions, both national and multinational, which would receive a fillip through integration
- possibly also increased flows of "foreign aid" as a result of the probable improvements in balances of payments of member countries.

Economic integration among a group of countries influences the structure and composition of investment in a number of ways. More important ones among these are changes in country-wise composition and activity-wise structure of total investments in the countries concerned. Rationalization and complementation of industrial and other economic activities is likely to be a major objective in integration as it is the case with ASEAN [1; 53-72]. Changes in the patterns of specialization within the countries of the group, some spontaneous through the working of market forces and some deliberately introduced by group action, are thus unavoidable as a consequence of integration. These changes are likely to be favourable to the relatively more developed members of the group since there is a tendency for industries and other economic activities to be attracted into locations with more developed infrastructural and other facilities. Provided conscious effective measures are taken to ensure equity in the countrywise distribution of the new investments created through integration, the unfavourable effects the above tendencies will generate in respect of the less developed partners in the integration exercise could be minimised. The changes in the distribution of investments resulting from integration are expected to be more efficient and productive than their distribution among integrating countries in the absence of such integration. This greater

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efficiency in the use of investment funds would be considered a major factor contributing to the favourable dynamic growth effects of integration.

SARC: PROSPECTS FOR REGIONAL INVESTMENT CO-OPERATION

Given the very short notice at which this discussion paper is prepared, and adequately intensive discussion, able to do justice to the title of this section, is not feasible at this stage. Only a few points are briefly taken up, with some scrappy statistical data to elaborate on those points. The discussion here is nothing but an attempt to indicate, in broad outline the approach the author would wish to take in dealing with this subject.

All the countries joining hands in SARC belong to the category of "low-income countries" in the World Bank's three-fold classification of the developing world. On the basis of the data pertaining to a period about five years ago, the per capita GNP of these countries can be seen to have ranged, in terms of US dollars, from 80 to 260 (Table-1). The group of countries had a total population of over 858 million among them in 1979 and produced a combined GDP of over \$ 143 billion in that year. Obviously these figures represent a very large market for tradeable goods but this total market is unfortunately divided among the constituent countries in an extremely unequal manner. Of the combine GDP, over 90 per cent is produced, for example, in India and Pakistan. This undoubtedly raises immense problems in respect of the distribution of the costs and benefits of any regional co-operation among these countries. Provided, however, that this distribution problem is sorted out reasonably equitably, and suitable economic activities are located/relocated within them, the small partner countries also would clearly benefit tremendously through large scale economies made possible through integration. If, even under such equitable distribution patterns, the large countries continue to be benefited from integration in a relative sense, there is no reason why small countries should not benefit at least in an absolute sense.

In terms of the composition of output, agriculture seems to contribute as much as 58 per cent in Nepal and 56 per cent in

Bangladesh, with the agriculture's contribution the lowest in Sri Lanka at 27 per cent.

The share of manufacturing in GDP is shown at its highest in Sri Lanka for the entire group (21 per cent) but because of the dominatingly large absolute size of GDP in India and Pakistan, their respective manufacturing shares of 18 and 16 per cent, when converted to absolute terms would clearly dwarf the Sri Lankan manufacturing sector. (The source for the above Statistics are also the one used for Table -1). There might be large room for rational redistribution and complementation of agricultural, industrial and also, may be, service activities leading to greater productivity, higher investments more rapid technological advancement and faster growth but the consideration of the concrete lines along which this would happen requires more research findings than what the author has access to at the moment.

Table-1: Some Indicators of the Size and Level of Development of SARC Countries.

Country	Population (Millions)	GDP (Millions of US \$)	GDP Growth Rate (Annual %) 1970- 1979	Per Capita GNP US \$)	Value Added in Manufacturing (Millions of US \$)
	1979	1979	1979	1979	1978
Bangladesh	88.9	7,670	3.3	90	874
Bhutan	1.3	-	-	80	-
India	659.2	112,000	3.4	190	15,068
Maldives	-	-	-	-	-
Nepal	14.0	1,760	2.7	130	-
Pakistan	79.7	17,940	4.5	260	1,966
Sri Lanka	14.5	3,160	3.8	230	644

- Not available in source.

Source: World Development, 1981.

Foreign trade, as usual contributes more to economic activity in small countries than in large ones also in South Asia. Over the recent past all these countries have shown adverse balance of

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trade conditions. Except in India, export growth (decline) in the countries of the region has been, in the recent past, lower (higher) than import growth (decline). Current account on the balance of payments, again excepting India, appears to have been in deficit in these countries in the last few years. Whether they have been following open (IMF) policies or closed (control) policies, external bottleneck to growth and development has been of crucial significance everywhere in the South Asian region. Some of the investment and growth effects of SARC are therefore likely to be based on the impact of regional integration on the balances of payments of the member countries. Any such SARC-promoted improvements in their payments situations are likely to enhance investments supported by both domestic savings and foreign capital. All this would obviously depend, however, on what kind of balance of payments impact SARC would produce in member countries- another area requiring further research in order to be able to come out with firm predictions.

It is worth noting here that, as is the case in the Third World in general, more than 50 per cent of exports of SARC countries also are being sent to industrial market economies, this proportion generally higher for manufactured exports than for total exports. Intra-developing-country trade of these countries in 1979 ranged from 20 per cent for India to 40 per cent in Nepal in respect of their total exports and from 20 per cent for Sri Lanka to 43 per cent for Bangladesh in respect of manufactured exports. Of this intra-developing-country trade of the South Asian countries concerned too, intra-regional trade has been predominant.

There is quite a substantial room for promoting intraregional trade through SARC with probably beneficial terms of trade effects as well. The absolute necessity of promoting such trade, particularly in manufacturing, if the EOI strategies are to succeed in the current global setting, has already been referred to in the foregoing section. All the above comments do clearly have significant implications for the subject at issue, namely investment co-operation through SARC.

It has been noted above that seven subject areas are now identified for co-operative action within the SARC framework. The basis of selection of these subject areas may no doubt have

been their innocuous and non-contentious nature. Yet in some of these areas one can see certain very significant obstacles to the promotion of intra-regional economic transactions. Existing networks of transport, postal services, telecommunication and other infrastructural facilities in the countries of the region are clearly geared to sustain their transactions with the metropolitan centres and not among themselves. Co-operative action directed towards easing such infrastructural bottlenecks will help increasing intra-regional trade and financial flows, investment and growth.

Concluding this section, we might refer to a phenomenon of increasing significance which has a very close bearing on the subject under consideration, namely the consistent growth of Third World multinationals and technology exporters [7,8]. A number of hypotheses have been formulated about the nature, characteristics and origins of this phenomenon and examined in the light of the rather rudimentary data that are available on the subject. It is quite widely believed that these multinationals from LDCs have come to stay as a permanent and expanding element in the global scene because of a number of reasons [8; 626].

- certain unique, technological advantages they enjoy.
- their ability to remain competitive in sectors where technological growth and innovation are not very rapid.
- the fact of being the first to establish in a market.
- the opportunity, always available for them to replenish their technological stock when necessary through licensing arrangements.

A number of South Asian countries do have their business firms operating in other country markets. But this multinationalization of business in the South Asian region has prevailed for the longest time period and has risen to the highest level in India. The phenomenon of the multinationals from the Third World, on the one hand, would be a major vehicle through which SARC could aim to achieve investment co-operation objectives. On the other hand, SARC would itself provide conditions and facilities for further multinationalisation (or at least regionalisation) of business firms in the participating countries.

SOME PROBLEM AREAS

The thorniest and probably the most intractable problem in using SARC for investment promotion in South Asia concerns the distribution of the costs and gains among participants—a problem which has been referred to in a number of places on the preceding pages. The problem takes its extreme complexity in the South Asian set-up by the overwhelming size of India as a world industrial giant. From the point of view of the value judgement that regional co-operation in South Asia is an absolute must for self-reliant development, it is, however, heartening to see even the progress achieved up to date in the move towards SARC. Further diplomatic, administrative and political initiatives are obviously required to concretise what has so far been achieved, in which distributional issues are likely to receive major emphasis.

As shown by the experience of ASEAN, this type of regional co-operation among a diverse group of developing countries is bound to take a long time to evolve into an effective form of integration [1]. Some of the major elements one would find within such an effective integrated structure are not still incorporated into the seven-fold programme of action of SARC noted above:

- intra-trade liberalisation
- intra-flows in labour and other factor resources
- industrial complementation and relocation

More difficult problems of integration are likely to crop up in future in respect of some of these so far ignored areas of co-operation. As shown in the experience of other regional unions, the difficulties to be encountered even in these areas of co-operation are not impossible to surmount, provided the countries do have and continue to maintain an adequate level of political will, co-operative spirit and commitment to joint action. Given the sheer necessity of building up a regional front for rapid and self-reliant development in this world region where there is concentration of poverty and the fact that some time has elapsed during which initial spade work for integration has not stumbled against insurmountable road blocks in spite of perennial bilateral political conflict among the countries concerned, the future of SARC does not appear to be as certain as, may be, a decade ago.

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REGIONAL MONETARY COOPERATION IN SOUTH ASIA: ASIAN CLEARING UNION AND PROSPECTS FOR FORMING A PAYMENTS UNION

-A. B. M. MAHBUBUL AMIN KHAN

Over the last two decades a number of multilateral clearing and payments arrangements have been established by the developing countries of South America, Africa and Asia for achieving collective self-reliance through concerted move for regional and sub-regional monetary and economic cooperation. A list of such clearing and payments arrangements can be seen in Appendix-1. The different types of payment arrangements range from simple clearing systems to fulfilled monetary union. Mr. B. K. Madan in his paper on Monetary Cooperation in South Asia has dealt with the rationale and forces behind the movement for trade and economic cooperation and integration among developing countries. He has also reviewed the various forms of monetary cooperation which are being practiced by the different regional and sub-regional groups of developed and developing countries. Therefore, this paper will concentrate mainly on the South Asian experience of monetary cooperation and consider the prospects of formation of a South Asian 'Payments Union' that would integrate the clearing mechanism of the Asian Clearing Union (ACU) with an arrangement for short to medium term balance of payments credit.

The Asian Clearing Union (ACU) was established as a simple clearing arrangement in September, 1974 with the signing of an Agreement by the central banks of Iran, Sri Lanka, India, Pakistan and Nepal in pursuance of the decisions of the Kabul Declaration (December, 1970). Bangladesh signed the Agreement in November, 1974 and Burma joined the Union in 1977.

The ACU Agreement is a monetary arrangement open for participation of the central banks and monetary authorities of the ESCAP region. Participation in other clearing groups or arrangements is not a bar to participation in the The Asian Clearing Union.

The major objectives of the ACU are: first, to provide a clearing mechanism for the multilateral settlement of payments among the participating countries; secondly, to promote the use of the currencies of the participating countries in regional transactions as well as close relations between their banking systems, thirdly, to effect economies in the

use of the foreign exchange reserves of the participating countries; and fourthly, to facilitate the expansion of trade and promote monetary and economic cooperation in the ESCAP region.

The use of the clearing facility in the countries of the participants was initially kept optional. But the intention was that all the participating countries should make the system compulsory as early as possible. Sri Lanka routed all her transactions compulsorily through the Union almost from the inception of the Union. The second country to make the system mandatory was Nepal. Bangladesh and Pakistan made the system compulsory for all eligible transactions with effect from December 1, 1980. Iran, India and Burma have also agreed to make the system compulsory for their eligible transactions including oil and gas products. The following payments, however, are not eligible to be made through the clearing facility:

- I) payments between Nepal and India;
- II) payments between Pakistan and Iran;
- III) payments between the Governments of the participants except to the extent mutually agreed upon as being eligible to be effected through the clearing facility; and payments which are not current international transactions as defined by the Articles of Agreement of the International Monetary Fund, except to the extent mutually agreed upon between two or more participants.

The account of the ACU is kept in a common unit of account which is called the "Asian Monetary Unit" (AMU) the value of which is equivalent to one SDR. The Board of Directors is authorised to change the value of the AMU at any time by unanimous vote. Invoicing of transactions under the clearing arrangement is done in local currency or in AMUs; in cases where fluctuating or multiple rates exist invoicing has to be done in AMUs.

To provide an incentive to use the clearing mechanism the participating countries agree to deal in each other's currencies either at par or within a spread narrower than the spread used for dealings outside the Union. The exporters/ importers of Bangladesh receive/pay face value of the instruments if these are drawn in Bangladesh Taka. They are safeguarded against any fluctuation in exchange rates as no foreign exchange is involved for the transactions. For transactions under documents drawn in AMU or in the currencies of other participating countries, the exchange rates are comparatively stable since the exchange rates of the currencies are calculated thrice a month at 10 day intervals in terms of the SDR. The exchange rates are calculated in the following manner:

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- (a) exchange rates are worked out by the Asian Clearing Union Office in Tehran at 10 day intervals;
- (b) exchange rates are adjusted within the 10 day accounting periods if there is any variation in the average rate by one and one eighth per cent or more.

~ Until September 30, 1980, transactions under the clearing arrangements were being cleared by the designated commercial banks through the central banks of the member countries. But this arrangement was found to be inconvenient for the central banks. Therefore, the arrangements were revised with effect from October 1, 1980. The commercial banks are now required to maintain accounts with their correspondents in other member countries in their respective currencies for settling the transactions. Each commercial bank is eligible to dispose of its surpluses in its accounts with the correspondent bank or to get such accounts replaced by sales to or purchase from its own central banks as and when necessary. There is no restriction with regard to the types of instruments eligible for settlement through the clearing arrangements. Transactions between the central banks are carried out by debit/credit to their accounts maintained with the Asian Clearing Union Office at Tehran. Settlements of balances take place every two months. Net claims are fully settled within four business days after notification in convertible currencies; at present settlement is being made in U. S. dollar. The amounts to be settled include interest computed on the daily balances outstanding between settlement dates at the rates announced by the Bank for International Settlements (BIS).

There has been a significant increase in the volume of transactions routed through the Asian Clearing Union. Payments channelled through the Union increased from AMUs 22.3 million in 1976 to AMUs 466 million in 1983. As will be seen from Table-1 of Appendix-ii the value of total trade including oil and gas products among ACU members in 1982 was \$ 1155 million. Although the relevant data for 1983 and 1984 are not readily available, it can be assumed that with the general economic recovery of the member countries these were significantly higher than the level recorded in 1982. This implies that due to optionality provision for keeping certain items non-eligible for settlement through the Union the payments channelled through the Union remained restricted to only a part of the total intra ACU country trade transactions. However, with the agreement of India, Iran and Burma to route all their intra-transactions including oil and gas products through the Union, it is expected that payments channelled through the ACU will record substantial increase during 1984 and 1985, Table-2 of Appendix-ii shows that Bangladesh was a net creditor country

but with the inclusion of POL Bangladesh is expected to become a net debtor country and as such she would derive considerable benefit from her participation in the ACU.

Another important ignorance to the expansion in transactions through the Union is the ineligibility provision under which, transactions in certain items between members of the Union have been declared ineligible. There is scope for reducing the number of such ineligible items. For example, a substantial part of transactions under Special Arrangement between some members of the Union which are treated as ineligible can be channelled through the Union under the mutual agreement between these member countries. Similarly, payments between the Government of the participants which are now eligible only to the extent mutually agreed upon should in its entirety be compulsorily channelled through the Union.

The clearing arrangements multilateralize trade and payments but the scope of multilateralizing debts under these arrangements is rather limited. Credit extended under these arrangements is for a very short period and for relatively small amount. Although the accounting and settlement periods under the ACU arrangements have been improved from a fortnight and a month to 10 days and two months respectively this does not mean much when viewed against the magnitude of the payments difficulties which some of the members of the Union are experiencing. The present settlement period of two months may be extended to four or 6 months to make the clearing facilities more useful and convenient to the participants. The extension of the settlement period could also make the payment arrangements attractive to other countries of the region who are not at present members of the Union. Moreover, such extension would not be disadvantageous to the creditor countries since they would be receiving compensation for the credit by way of interest at reasonably attractive rates. In a number of other regional payment arrangements and clearing unions like the Central American Clearing House, LAFTA/ LAIA and PCD, the settlement periods range from six months to one year.

The main advantage of the clearing arrangements lies in economising working balances. It is not the limited savings in foreign exchange through this mechanism but extension of credit for a larger amount and for a longer period which is essential for bringing about an increase in trade between the member countries is the long term objective of the Asian Clearing Union is to have closer and broader monetary co-operation in the ESCAP region and to facilitate intra-regional trade expansion the members of the Union may consider convert in the clearing arrangements into a 'Payments Union'. Matin has indeed shown that there is considerable potential for forming a 'Payments Union'[1] through the

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expansion of Membership and strengthening of the facilities of the Asian Clearing Union. He has also shown that an expanded Asian Clearing Union comprising of member countries of South and South-East Asian countries could spare settlement in convertible currencies of more than 80% of the region's cumulative trade flow over 1974-80. The average figure obscures considerable variation among member countries. But according to Mr. Matin's calculation even for the worst case nearly half of the total intra-regional trade would not need to be transacted in convertible currency. The ACU Study [2] also indicate that their could be sizeable compensatable trade even in a modestly expanded Asian Clearing Union with the ASEAN countries and Republic of Korea and China as Member. (Table-7 Appendix-ii).

The Asian Clearing Union is already canvassing for augmenting its membership. The ASEAN countries, Republic of Korea and China are being persued in this regard. Mr Mahbub Matin's suggestion for establishing a 'Payments Union' which will not only have clearing facility covering only current transaction but also capital accounts appears to be rather too ambitious at the present stage of trade and monetary co-operation and economic integration among the existing members not to speak of the prospective members of the ACU. There are substantial disparities in size, resource endowment and level of socio-economic development among the countries of South and South-East Asia. Although recent developments through the activities of the ACU, ESCAP and the SARC has create an enviornment for promoting greater realization of the need and exploration of the scope for co-operation among the South Asian countries for improving the existing as also devising new arrangements for mobilising and pulling their limited resources for achieving collective self-reliance in their efforts for economic development. It seems that at the moment it would be pragmatic to make efforts for expanding the Asian Clearing Union into a 'Payments Union' in a modest form. There can be three sources of capital or credit available to such a Payments Union. These are mutual or reciprocal credit, non-mutual collective credit and gifts or loans coming from within or outside the Payments Union.

The first type may be obtained from all creditor countries within the Union by requiring them to lend the whole of their surpluses to the Union. The accumulated surplus so lent to the Union can be re-lent to the deficit countries. The second type of credit which is non-reciprocal but collective may be provided by the creditor and debtor nations alike through the payment of subscriptions to the working fund/capital of the Union. The last mentioned source of credit (or working capital) of the payments Union

may also be in the form of donation or grant. The European Payments Union received such a donation from the U. S. A. As the U. S. A. was very much interested in European recovery it did not prove difficult for the members of European Payments Union to obtain support of the above type from the U. S. A. It would, however, be difficult for the payments Union that may be formed in South Asia to have grant from external sources, but it might be possible to arrange some credit from external sources. So far as the other two sources of funds are concerned, the creditor countries may not be willing to lend a substantial part of their surplus to the Union, let alone the whole of their surplus. At the same time the deficit countries are not in a position to make substantial capital subscription to the Union in foreign exchange. It would, therefore, be more pragmatic to initially form a Payments Union, the working capital of which will be met partly from a part of the surpluses lent by the creditor countries to the Union and partly from modest capital subscriptions by the member countries. The Asian Clearing Union member countries may study the Santo Domingo agreement which is not a formal fund but provides for a net work of bilateral credit line. 3 (three) types of assistance are available under the arrangements of the Santo Domingo arrangements, (I) to help the countries participating in the ALADI clearing arrangement by financing their debit balance for a period of 4 to 12 months; (II) help can be extended for 2 to 3 years for overall balance of payment deficits; (III) financial resources can be extended for a period of 2 to 5 years in the event of any natural disaster.

If the credit needs of the proposed payments Union comprising the ACU countries appear to be larger than the available working capital, efforts may be made to cover the gap by arranging credit from outside the Union.

If the formation of a payments Union even in a modest form is deferred for some time more, the members of the Union may consider at least the broadening of the multilateralization of debts by gradually extending the settlement period to at least six months. At the end of the settlement period the deficit could be settled either entirely in convertible currency or on an instalment basis if agreed upon by the concerned debtor and creditor countries or through a combination of them.

The enlargement of the credit facility should also be accompanied by an adequate programme for trade expansion among the members of Asian Clearing Union.

There is considerable scope for expanding trade among the member countries by setting up trade-creating joint ventures through co-ordinated efforts by the member countries. The member countries may also identify

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areas where long-term contracts for procurement may be conducive to stabilisation, trade expansion and economic growth. So long as private traders remain hesitant to route their trade through the Union, efforts may also be made to expand transactions by undertaking increased bulk-trading at the Government level or at the level of the State Corporations. The member countries may attempt to identify the areas where there is scope for it. With a view to having some sort of agreed specialisation at least on a modest scale, if not on a large scale, the member countries may endeavour to identify the areas where they have complementarities.

The enlargement of credit facility by broadening the multilateralization of debts under the existing clearing arrangements or by converting clearing arrangements into Payments Union cannot take care of the need for meeting the payments or reserves problem of emergency nature calling for immediate arrangements for credit lines. The member countries of the ACU may, therefore, explore the possibility of having some SWAP arrangements between the member countries either on a multilateral or bilateral basis. The SWAP facility will function as an extension of the normal operations of the central banks of the member countries. SWAP arrangements exist between member countries of the ASEAN. The arrangement is for purchase and sale of the currencies of the member countries against a third convertible currency. But since one of the aims of ACU is to promote use of the currencies of the member countries, the same arrangement among the members of the Clearing Union may not be applicable. However, the following arrangement can be made which would be in conforming with the aims of ACU.

1. FORM OF SWAP

(a) SWAP arrangements may exist among all the members of the Asian Clearing Union and records maintained in the Headquarters of ACU where separate accounts for the members will be maintained;

(b) In case of need a member may request another member for a SWAP arrangement. A SWAP shall be effected through a spot sale of the currency of the member to whom request is made against the domestic currency of the requesting party accompanied by a forward purchase of the same amount of domestic currency by that party against the other currency. The rates of exchange between the currencies would be worked out through AMU;

(c) If the member requested agrees, cable communications will be sent to the requesting member and also to ACU headquarters. Asian Clearing Union Headquarters will then credit the equivalent amounts in AMU to the Special Account of the member who is granted the facility and debit the

Special Account of the member granting the facility (both the accounts will be interest free). The accounts in the ACU Headquarters will be maintained in AMU as per the rates communicated by the requesting party which will also be communicated to the other party;

(d) The objective of the SWAP arrangement will be to encourage increased trade between member countries. The SWAP arrangement is expected to facilitate increased trade for capital goods and other items which are being imported under deferred payment arrangement but not covered by Asian Clearing Union Arrangement. In this way, the credit balance in the member's Special Account will be used up;

(e) At the end of the agreed period of SWAP, the member availing the facility will repay the agreed amount in any convertible foreign currency, like that of usual settlement, to the designated account of the member extending the facility. Intimation for this will also be given to ACU Headquarters who will credit the special account of the member extending the facility liquidation the debit entry made earlier;

(f) The amount of the domestic currency shall be credited to a non-interest bearing account maintained with the requesting party, and shall not be used except for the reversal of the SWAP and in the case of settlement under provision 7 hereof.

2. PERIOD OF USE OF SWAP

A SWAP transaction shall be for a period of 3, 6, 9 or 12 months which under certain circumstances may be renewed with mutual consent. The SWAP arrangement will be reviewed every year by the Board of Directors of the Asian Clearing Union and the same will continue until decided by the Board to terminate the arrangement.

3. AMOUNT OF SWAP

The maximum amount under SWAP transactions may be equivalent of AMU 10 million or as may be decided by the Board.

4. SPOT AND FORWARD RATES

For purposes of this arrangement, the spot rate of the domestic currency against the other currency shall be worked out through AMU.

The forward rate shall be derived according to the following formula:-

$$\text{Forward Rate} = \frac{\text{Spot rate}}{1 + (N.R.)360}$$

Where * * * N= Actual number of days of SWAP.

R= The rate of interest applied by the A. C. U. Headquarters for debit balances, two working days prior to the value date of SWAP arrangement.

The forward rate shall be expressed in six decimal places.

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Application of forward rate worked out on the above basis will give a return to the member extending facility under SWAP at the same rate at which its credit balance in the ACU earns.

5. OPERATIONAL PROCEDURES

A request for SWAP shall be made by telex indicating the amount of desired currency required, the period and the value date which shall be at least four working days after the date of such request.

6. RENEWAL

Renewal of a SWAP may be considered by the parties under the following circumstances:

- (a) The requesting party is still having temporary international liquidity problems;
- (b) A trade balance surplus is expected occur favouring the requesting party.

Request for renewal shall be made at least 4 working days prior to the maturity of the SWAP.

7. SETTLEMENT

Settlement will be made in the same manner of that of usual transaction under ACU. The desired currency will be paid at the forward rate and the counter value will be debited to the domestic currency account.

In case of renewal, only the difference between the amounts at spot and forward rates shall be settled by the requesting party.

In case the settlement of the SWAP transaction can not be met by the requesting party, the party extending the facility will have the right to use the domestic currency for the purchase of goods in the country of the requesting party for its own country or even for export to other countries.

CONCLUSIONS

The ACU, during its nine years of operations, has made significant progress in providing a facility to settle on a multilateral basis, payments for international transactions among the participants and promoting the use of participants currencies in current transactions among them and thereby economising on the use of their convertible exchange resources. The successful cooperation among the central banks of the ACU countries in solving the complex technical and operational problems augurs well for ensuring greater cooperation in the formation of a Payments Union, initially in a modest form, with enlarged membership of the countries of South and Sount-East Asia.

Appendix-1
Multilateral Clearing And Payments
Arrangements Of Developing Countries.

Name	Year of establishment	Members
<i>A. Clearing Arrangements</i>		
1. Central American Clearing House (CACH)	1961	Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua.
2. ALADI Payments and Reciprocal Credit System	1965	Argentina, Bolivia, Brazil, Colombia, Chile, Dominican Republic, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela.
3. Caribbean Community Multilateral Clearing Facility (CARICOM)	1977	Barbados, Belize, East Caribbean Currency Authority Guyana, Jamaica and Trinidad and Tobago.
4. West African Clearing House (WAFCH)	1975	Benin, Gambia, Ghana, Guinea, Guinea-Bissau, Ivory Coast, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Togo, Upper Volta.
5. Monetary Arrangement of 1978 the Economic Community of the Great Lakes Countries (GLEC)		Burundi, Rwanda, Zaire.
6. Central African Clearing House (CAFCH)	1979	Central African Republic, Congo, Gabon, United Republic of Cameroon, Zaire.

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Name	Year of establishment	Members
7. Regional Co-operation for Development (RCD) Union for Multilateral Payments Arrangements	1967	Iran (Islamic Republic of), Pakistan, Turkey.
8. Asian Clearing Union (ACU)	1974	Bangladesh, Burma, India, Iran (Islamic Republic of), Nepal, Pakistan, Sri Lanka.
<i>B. Credit Arrangements</i>		
1. Central American Stabilization Fund (FOCEM)	1969	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua.
2. Santo Domingo Agreement	1969 (revised 1981)	Members of ALADI (Formerly LAFTA) plus Dominican Republic (identical with A.2 above)
3. Andean Reserve Fund (FAR)	1976	Bolivia, Colombia, Ecuador, Peru, Venezuela.
4. Arab Monetary Fund (AMF)	1976	Algeria, Bahrain, Democratic Yemen, Iraq, Jordan, Kuwait, Lebanon, Libyan, Arab Jamahiraya, Mauritania, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Somalia, Sudan, Syrian Arab Republic, Tunisia, United Arab Emirates, Yemen.
5. ASEAN SWAP Arrangement	1977	Indonesia, Malaysia, Philippines, Singapore, Thailand.

Appendix-1

Table-1: Total Trade and Trade Balance of ACU members
(Millions of US Dollars)

	Exports	to ACU	Imports	from	Surplus	(+) or
	1981	1982	1981	ACU	Deficit	(-)
				1981	1981	1982
Bangladesh	114.6	87.5	131.6	97.2	-17.0	-9.7
Burma	32.4	31.1	10.7	20.2	+21.7	+10.9
India	299.0	260.0	495.0	389.0	-196.0	-129.0
Iran	426.0	390.0	339.4	229.0	+86.6	+161.0
Nepal	29.0	3.0	92.2	78.1	-63.2	-75.1
Pakistan	311.5	219.0	115.8	144.8	+195.7	+74.2
Sri Lanka	114.0	82.2	246.3	196.9	-132.3	-114.7
Total	1,326.5	1,072.8	1,413.0	1,155.2	-104.5	-82.4

Source: Direction of Trade Statistics, Year Book 1983, International Monetary Fund. As Published in the ACU Annual Report for 1983.

Note: (i) Exports (f.o.b.) (ii) Imports (c.i.f.)

(iii) Iran Exports to ACU members derived from partner country for the entire year.

Table-2: Asian Clearing Union Transaction Matrix * (1983)

Creditors Debtors	(in '000 AMUs)									
	Bangladesh	Burma	India	Iran	Nepal	Pakistan	Sri Lanka	Sub-Total		
Bangladesh	-	-	634	70,006	2,055	56,874	365	129,934		
Burma	-	-	10	10,307	-	638	9	10,964		
India	10,406	762	-	113,008	-	2,212	73,691	200,079		
Iran	1,376	1,090	22	-	-	-	553	3,041		
Nepal	38	-	-	10	-	-	53	101		
Pakistan	7,396	82	3,486	-	-	-	12,956	23,920		
Sri Lanka	1,119	-	38,756	14,607	378	41,110	-	95,970		
Sub-Total	20,335	1,934	42,908	207,938	2,433	100,834	87,627	464,009		

* Excluding interest

Source: ACU Annual Report-1983

Table-3: Asian Clearing Union Total Transaction * Credited To Participant Central Banks

	1979		1980		1981		1982		1983	
	Amount	Share (%)	Amount	Share (%)	Amount	Share (%)	Amount	Share (%)	Amount	Share (%)
Bangladesh	863	1	845	1	22 336	10	44 813	16	130 846	28
Burma	44	-	623	-	2 278	1	3 201	1	11 025	2
India	78134	62	78 957	56	75 636	33	83 075	31	201 488	43
Nepal	445	1	405	-	1 022	1	208	-	101	-
Iran	198	-	42	-	83	-	73	-	3 042	1
Pakistan	5 401	4	6 600	5	18 576	18	46 443	17	23 920	5
Sri Lanka	39 770	32	53 089	38	10 8 523	47	94 296	35	96 052	21
Total:	124 855	100	140 561	100	228 454	100	272 109	100	466 474	100

* Including interest.

Source: ACU Annual Report-1983

Table-4: Asian Clearing Union Total Transaction * Debited To Participant Central Banks

	1979		1980		1981		1982		1983	
	Amount	Share (%)	Amount	Share (%)	Amount	Share (%)	Amount	Share (%)	Amount	Share (%)
Bangladesh	96	-	148	-	16 336	7	25 410	9	20336	4
Burma	320	-	216	-	458	1	357	-	1 946	-
India	6 319	5	9 441	7	24 230	11	23 560	9	42 908	9
Iran	539	1	13 555	10	25 906	11	28 340	10	209 710	45
Nepal	199	-	437	-	288	-	350	-	2 463	1
Pakistan	40 892	33	31 551	22	84 795	37	106 007	39	101 461	22
Sri Lanka	76 490	61	85 213	61	76 441	33	88 085	33	87 650	19
Total:	124 855	100	140 561	100	228 454	100	272 109	100	466 474	100

* Including Interest.

Source: ACU Annual Report-1983

Table-5: Total Exports From Aca Countries To Asian Countries, Rerepublic Of Korea And People's Rerepublic Of China In 1980 AND 1981.

TO		All Commodities																	
		In Millions Of US\$																	
		Indonesia		Malaysia		Philippines		Singapore		Thailand		Total		Rep. of Korea		China		Total	
FROM	1980	1981	1980	1981	1980	1981	1980	1981	1980	1981	1980	1981	1980	1981	1980	1981	1980	1981	
Bangladesh	0.7	2.6	2.9	0.2	5.4	59.5	67.4	3.7	9.2	72.3	10.4	1.6	31.1	113.8	99.9				
Burma*	1980	45.2	29.5	0.0	0.0	63.3	59.4	10.1	13.4	148.8	3.10	34.6	151.9	141.0					
	1981	8.7	24.8	0.1	0.1	102.0	121.0	38.0	54.0	271.0	54.0	78.0	331.0	412.0					
India*	1980	41.0	81.0	78.0	9.0	202.0	323.0	31.0	10.0	233.0	247.0	53.0	533.0	441.0					
	1981	72.0	72.0	90.0	9.0	323.0	323.0	31.0	10.0	423.0	13.1	0.3	18.0	441.0					
Iran*	1980	-	-	10.0	-	-	3.1	-	-	-	-	-	-	-					
	1981	-	-	10.0	-	-	3.1	-	-	-	2.7	0.3	13.4	13.4					
Nepal*	1980	-	-	-	-	-	2.4	-	-	-	2.7	-	2.7	2.7					
	1981	-	-	-	-	-	2.4	-	-	-	2.7	-	2.7	2.7					
Pakistan*	1980	10.1	3.1	3.1	5.6	36.8	60.7	6.5	12.2	62.1	15.7	7.1	221.3	299.1					
	1981	20.3	20.3	3.9	2.8	11.8	22.8	0.1	0.4	20.0	47.0	0.2	50.3	378.9					
Sri Lanka*	1980	0.3	4.5	23.5	0.1	478.6	856.7	89.3	99.2	820.3	330.7	121.8	361.7	1512.7					
	1981	0.2	0.2	23.5	0.1	478.6	856.7	89.3	99.2	820.3	330.7	121.8	361.7	1512.7					
Total	1980	98.0	131.0	220.4	23.3	12.3	856.7	89.3	99.2	820.3	330.7	121.8	361.7	1512.7					
	1981	103.8	103.8	220.4	23.3	12.3	856.7	89.3	99.2	820.3	330.7	121.8	361.7	1512.7					

Notes: * Data derived from partner country for the entire year Y5 or fewer months of reported data. 7 or more months derived or extrapolated.
Source: Direction of Trade Statistics Yearbook 1983 IMF. ACU Study: by S.de S. Gunnetilleke-December, 1983.

Table-6: Total Imports Into Aca Countries From Asian Countries, Republic Of Korea And People's Republic Of China In 1980 And 1981.

FROM		All Commodities												Total			
		In Millions Of US\$															
		Indonesia		Malaysia		Philippines		Singapore		Thailand		Rep. of Korea				China	
INTO	1980-81	1980-81	1980-81	1980-81	1980-81	1980-81	1980-81	1980-81	1980-81	1980-81	1980-81	1980-81	1980-81	1980-81	1980-81	1980-81	Total
Bangladesh	1980	15.2	46.3	13.9	91.4	14.9	181.7	14.9	38.2	30.2	98.7	311.5	368.5				
	1981	59.2	58.8	2.8	82.7	38.2	221.7	38.2	221.7	30.2	98.7	311.5	368.5				
Burma*	1980	1.1	21.8	0.0	73.8	3.2	99.9	3.2	5.2	6.6	106.5	111.7	106.5				
	1981	2.6	13.2	0.1	75.9	5.2	97.0	5.2	5.2	14.7	111.7	111.7	106.5				
India*	1980	25.0	298.0	5.0	458.0	21.0	807.0	21.0	50.0	158.0	47.0	1012.0	1012.0				
	1981	25.0	331.0	36.0	624.0	50.0	1086.0	50.0	50.0	247.0	1313.0	1313.0	1012.0				
Iran*	1980	1.0	25.0	5.0	103.0	115.0	249.0	115.0	119.0	119.0	133.0	501.0	501.0				
	1981	1.0	1.0	18.0	8.0	109.0	233.0	109.0	233.0	233.0	3390.0	3390.0	501.0				
134.0		533.0															
Nepal*	1980	0.4	0.4	1.4	6.2	0.8	8.8	0.8	12.5	12.5	21.3	21.3	21.3				
	1981	2.2	2.2	0.7	9.1	2.1	14.1	2.1	20.0	20.0	34.1	34.1	34.1				
Pakistan*	1980	22.7	164.6	5.7	98.1	12.2	303.3	12.2	73.1	73.1	107.8	544.2	544.2				
	1981	36.9	166.0	5.2	70.0	21.8	299.9	21.8	107.2	107.2	130.3	567.4	567.4				
Sri Lanka*	1980	9.0	11.9	7.5	91.3	9.9	129.6	9.9	35.1	35.1	51.2	215.9	215.9				
	1981	1.6	21.8	20.3	97.1	14.5	155.3	14.5	81.7	81.7	39.2	276.2	276.2				
Total	1980	74.0	568.0	38.5	921.8	177.0	1779.3	177.0	434.5	434.5	498.7	2712.5	2712.5				
	1981	126.3	611.0	73.1	1047.8	364.8	2223.0	364.8	504.1	504.1	496.9	3224.0	3224.0				

Notes: * Data derived from partner country for the entire year D 10 months of reported data 2 months derived from partner.
Source: Direction of Trade Statistics Yearbook 1983 IMF, ACU Study by S.de S. Gunnetilleke.

Table-7: Table 5, Total And Compensatable Trade Between Acu And Asean Countries, Rep. Of Korea And Pr. Of China.

(In Millions Of US\$)

	EXPORT TO ACU		IMPORT FROM ACU		SURPLUS (+) OR DEFICIT (-)		TOTAL COMPENSATABLE SETTLEMENT	
	1980	1981	1980	1981	1980	1981	1980	1981
Indonesia	74.0	126.3	98.0	103.8	-24.0	+22.5	148.0	207.6
Malaysia	568.0	611.0	131.0	220.4	+437.0	+390.6	262.0	440.8
Philippines	38.5	73.1	23.3	12.3	+15.2	+60.8	46.6	24.6
Singapore	921.8	1047.8	478.6	656.7	+443.2	+391.1	1957.2	1313.4
Thailand	177.0	364.8	89.4	99.2	+87.6	+265.6	178.8	198.4
Total	1779.3	2223.0	820.3	1092.4	+959.0	+1130.6	1640.6	2184.8
Rep. of Korea	434.5	504.1	330.7	121.8	+103.8	+382.3	661.4	243.6
China	498.7	496.9	361.7	354.2	+137.0	+142.7	723.4	708.4
Grand Total	2712.5	3224.0	1512.7	1568.4	+1199.8	+1655.6	3025.4	3136.8

Source: ACU Study by S.de S. Gunnetilleke

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ECONOMIC COOPERATION AND INTEGRATION IN LATIN AMERICA- A REVIEW OF HISTORICAL EXPERIENCE

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INTRODUCTION

This paper attempts to provide a brief historical review of the economic co-operation and integration attempts of Latin American and Caribbean countries. It focuses on the experiences of these countries with the integration process in their efforts to industrialize and accelerate economic development. It is hoped that such a review would be of some relevance and benefit to the discussion, at this Conference, of the main issues, problems and perspective of South Asian Regional Economic Co-operation.

The idea of organizing co-operation for development among countries of South Asia is of recent origin. Co-operation within a Subregional framework, although it has made a beginning with the launching of an integrated Programme of Action for South Asian Regional Co-operation by the Foreign Ministers of seven countries¹ in New Delhi in August 1983, is still at an initial stage of its evolution. On the other hand, economic co-operation and integration movements in Latin America at the regional and subregional levels has had a history of more than two decades. Moreover, the most complex form of economic integration among developing countries has been attempted in Latin America. Hence, despite the diversity that exists between different regions of the developing world, the historical experience of the economic co-operation and integration process in Latin America should be of particular interest to scholars as well as to policy makers of South Asian countries, especially when these countries are now initiating a process of mutual co-operation within a subregional framework to accelerate economic development and strengthen self-reliance. It is with this objective in view that this paper is presented to this Conference. Moreover, for the benefit of interested participants a few copies of a three volume report prepared in 1982 has

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1. Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.

been made available to the organizers of this conference. This report provides a review of development in recent years in subregional, regional and interregional organizations and arrangements for economic co-operation and integration among developing countries in Latin America, Africa, Asia and the Pacific and the Arab States.

The first section of this paper presents a brief theoretical background to the economic integration movement in Latin America. The second section focuses on the Latin American experience with economic integration. In this context, it examines the main features of the integration process and the concepts underlying the various integration schemes. The third section reviews the economic co-operation and integration experience in the light of recent world and regional developments and examines the outlook for the future. In the fourth and final section some concluding observations relevant to economic co-operation in South Asia and other parts of the developing world are made.

1. THE INTELLECTUAL UNDERPINNING OF THE INTEGRATION MOVEMENT IN LATIN AMERICA

Although the Latin American economic integration schemes have relied heavily on the conceptual tools derived from the neo-classical theory of the Customs Union, the main thrust to regional and subregional economic integration movements came from the ideas that emerged in the region in the immediate post-World War I on the problems of, and strategies for economic development in Latin American countries. Operating from the premise (i.e. the failure of traditional exports to generate either sufficient employment and incomes or foreign exchange for developmental imports) the Economic Commission for Latin America under the leadership of Raul Prebisch challenged the assumption of the traditional theory of international trade and advocated a policy of industrialization based on import substitution for accelerating economic development in developing countries of Latin America [1]. Arthur Lewis working independently on the problems of economic development in the Caribbean countries reached the same conclusion, namely, industrialization and diversification route to development [2]. While the importance of broad-based industrialization in economic development was stressed in the Prebisch-Lewis theories, it was recognized that large markets were needed for successful import substitution based industrialization. This provided the rationale for the role of economic integration in economic development.

It should be noted that in the early stages of the evolution of economic thought in Latin America, the problems of, and prospects for industrialization in Latin America were approached mainly from the effective demand side. In this context, the limited size of potential national markets

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was considered the major constraint to the process of industrialization. Economic Integration was thus perceived in terms of integrating national markets to provide larger regional or subregional markets needed for successful industrialization through import substitution. Hence came the proposal for a "common market" from the Economic Commission for Latin America.

By the late fifties and early sixties there was widespread acceptance of these ideas among policy-makers as well as at a high political level in Latin American countries. Two factors played a role in this. Firstly, policy-makers in many Latin American countries reached the conclusion that the deterioration in the terms of trade of their primary exports, which was a central problem during the 1950s, was a long-term phenomenon. Secondly, the larger countries in the region began to realize that the development strategy based on industrialization through import substitution which had been followed in the post war period, was now severely constrained by domestic market limitations. Given the restricted potential markets, to carry the process of import substitution beyond the stage of consumption goods to that of intermediate and capital goods was found to be an impossible task. At the same time, in view of the low international competitiveness of Latin American industry, the transition from import substitution to export-led development strategy was not found to be very attractive. In these circumstances, regional economic integration appeared to be the most promising alternative. Hence the political drive towards establishing regional and subregional economic integration systems.

As attempts were being made to establish economic integration schemes, the evolution of Latin American economic thought, especially that of the structuralist school of dependency led to new approaches to the rationale for, and the role of regional economic integration. The role of integration in Latin America as providing the effective demand required for successful import substitution based industrialization was now modified by equal concern with the factors on the supply side. For example, McIntyre analysing the structural constraints to the development process in the Caribbean countries ("structural dependence") proposed "combining resources" (capital, technology and other inputs) within a subregional framework to accelerate economic development in these countries [3]. Brewster and Thomas argued that the creation of a free trade area would be an inadequate institution for dealing with the problems of economic development in the region [4]. Instead, they advocated for integrating the key sectors of production in the region and stressed in this context the regional programming of production" approach. Furthermore, Latin

American scholars added a new dimension to regional co-operation. This related to the enhancing of the bargaining power that may come from the collective regional approach to participation in the global economy, especially with the objective of reshaping economic relations of the Latin American countries with the industrialized countries.

The theoretical basis of economic integration in Latin America has thus rested in two basic premises; namely: (i) that industrialization is a central element in the development policy of the developing countries; and (ii) that the industrialization process through import substitution at the national level in these countries has been severely constrained by the limitations of the size and structure of markets on the one hand, and of the availability of resources, technology and other inputs. These constraints become more restrictive when developing countries reach advanced stages in the process of import substitution, such as production of consumer durables, intermediate and capital goods.

These two premises should however be qualified. In the first place the nature and structure of industrialization is crucial to self sustaining process of economic development, that is whether the industrialization process helps to integrate the national economy or not. In this context, it has to be accompanied by the modernization of agricultural sector, in particular the food production. Secondly, the size and structure of markets as well as the availability of resources for capital accumulation depend not only on the size of national income but also on the pattern of income and wealth distribution and social organization of the productive system. Hence regional or subregional integration of markets could, at best, be a partial solution to the constraints on industrialization, if measures are not taken simultaneously to widen domestic markets and mobilize greater internal resources for capital accumulation through re-distribution of income and wealth. In the absence of such measures at the national level, countries are likely to view economic integration simply as a means of advancing their import-substitution process in the context of regional or subregional markets, and not as a policy of instrument of furthering collective regional or subregional growth and development. In such a situation, the same limitations to the process of industrialization and economic development would appear at the regional and subregional levels. Moreover conflicts of interest are bound to arise among countries of different size and with different levels of industrial development. In fact all the integration groupings of developing countries have confronted this problem.

II. THE LATIN AMERICAN EXPERIENCE WITH ECONOMIC INTEGRATION

In the last two decades, developing countries of Latin America have attempted to establish, at the regional and subregional levels, institutional mechanisms and arrangements, to promote economic integration in the region. While initial steps to this end were already taken in the 1950s no concrete institutional framework for economic integration was set up until February 1960, when the Treaty of Montevideo (Uruguay) was signed by Argentina, Brazil, Mexico, Paraguay, Peru and Uruguay² establishing the Latin American Free Trade Association (LAFTA). Since then, while LAFTA itself has been superseded by the Latin American Integration Association (LAIA) in 1981, a somewhat looser form of integration arrangement, subregional economic, integration schemes, such as the Central American Common Market (CACM)³ the Caribbean Free Trade Association (CARIFTA)⁴ subsequently superseded by the Caribbean Community and common Market (CARICOM)⁵ the Andean Common Market or Andean Group as it is generally referred to (CNCOM)⁶ and the East Caribbean Common Market (ECCM)⁷ have been set up. At the regional level, an advisory body, the Latin American Economic System (SELA) was also set up in 1976.

A. THE MAIN APPROACHES AND MECHANISMS OF ECONOMIC INTEGRATION

The economic integration schemes in Latin America like in other developing regions have been designed essentially on the basis of the conceptual framework provided by the theory of Customs Union. In this context, the major focus of these schemes has been on eliminating barriers to intra-regional trade in order to create expanded regional markets. Within the broad framework of Customs Union, two models have been experimented in Latin America. The first is that of the Latin American

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2. Subsequently Ecuador and Colombia acceded to the Treaty in 1961, while Venezuela and Bolivia did so in 1966 and 1967 respectively
 3. Established in 1961.
 4. Established in 1965.
 5. Established in 1973, superseding CARIFTA.
 6. Established in 1969.
 7. Established in 1968.

Free Trade Association (LAFTA) based on pure "trade approach" which attempted to eliminate barriers to intra-regional trade without however establishing a common external tariff, or providing for any substantial measure of co-ordination of domestic or external economic policies of the member countries. In 1981, as mentioned above, LAFTA was reconstituted to establish a somewhat looser form of economic grouping namely the Latin American Integration Association (LAIA), which provides a framework for the negotiation of multilateral trade agreements based on initial bilateral agreements. The second model is that of creating subregional common markets, such as the Andean Group (ANCOM), the Central American Common Market (CACM), Caribbean Community (CARICOM), and the Eastern Caribbean Common Market (ECCM). This model Combined trade approach to economic integration with varying degrees of industrial programming and harmonization of domestic and external economic policies.

(a) The Pure "Trade Approach Lafata

While the treaty of Montevideo establishing LAFTA provided for the eventual creation of a Latin American Common Market, it initially envisaged only the multilateral negotiations of regional tariff reductions and removal of other trade barriers to intra-regional trade. The Treaty did not contain any provisions for the co-ordination of external commercial policies with third countries, nor any practical rules for the harmonization of the domestic economic policies of the member countries.

A transition period of 12 years was established during which the LAFTA member countries were to remove most of their trade barriers through product by product negotiations and thus establish a regional free trade area. These negotiations were to be guided by two basic principles namely, principle of reciprocity and the "most favoured nation" clause. However, member countries could grant some other members tariff reductions not extensive to the rest, provided the beneficiary was a relatively less developed country. But which were the less developed countries was never clearly established, though in practice, Bolivia, Ecuador, Paraguay and Uruguay were considered to belong to that group.

For the implementation of the scheme of intra-regional trade liberation the Treaty contained three negotiation mechanisms: the national lists of products in which member countries agreed individually to reduce their tariff levels by at least 8 per cent after each round of negotiations; the Common Lists, which were to be negotiated every three years in a multilateral forum, were to include those products for which all the member countries, collectively agreed to remove all internal trade barriers over the transition period of 12 years; the agreements for industrial

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complementation which were conceived as bilateral understanding between members of the region for the co-ordination of their industrial policies, the main objective being to promote production of products in the region not yet subject to intra-regional trade. These agreements were to be mainly bilateral, but they could be multilateralized through negotiations.

During the first few years of operation of the Treaty of Montevideo the negotiations for the adoption of the National Lists covering mainly traditional trade items did not run into any serious difficulties. The encouraging results achieved during the first two rounds were also due to the fact that a substantial proportion of the concessions granted comprised lists of products which appeared in the bilateral treaties of earlier years, concluded especially between the Southern Cone countries. However, once the traditional flows of intra-regional trade had been consolidated and increased, further advance towards the intra-regional trade liberalization required the incorporation of non traditional products which were generally manufactured. At this stage negotiations became complicated because member countries were not prepared to expose their national production of manufactured products -- such as textiles, processed foodstuffs, leather products, consumer durable, etc.-- to competition from other sources of supply within the region. Thus from the third round onwards a reluctance to grant concessions on products of this kind became apparent among the majority of the countries and the negotiations stagnated.

While in 1964 the first section of the common list comprising 174 products and covering over 25 per cent of the total value of intra-regional trade had been approved in 1968 it proved impossible to reach agreement on this second section, which ought to have included products covering 50 per cent of intra-regional trade.

Although a large number of non-extensive concessions of tariff reductions in the special list were accorded to Bolivia, Ecuador Paraguay and Uruguay, those were confined to a small number of product. Moreover, a large proportion of the concessions in the special Lists like those in the National Lists were not used. In some cases, the failure to make use of the concessions granted lies in the fact that the corresponding product was either not produced in the area or that there were no exportable surpluses in the countries of origin. In other cases, the margin of preferences was not sufficient to divert the product into intra-regional trade.

As regards, the industrial complementarity agreements, which could be applied both to the existing industries in order to promote intra-industry specialization, and to new investments, a number of such agreements were signed covering different industrial sectors such as, for example

chemicals, petrochemicals, electronics dyestuffs etc. But most of the agreements were concluded between the subsidiaries of transnational corporations which meant the country specialization achieved through this instrument was primarily intra-enterprise specialization [5;63].

During the later half of the LAFTA's life, the negotiations for the liberalization of intra-regional trade virtually stagnated. This is reflected by the trend in the share of negotiated commodity trade in total intra-regional trade. This percentage share, which reached a peak of 88.7 per cent in 1964 fell to 40 per cent by the end of 1970s [6]. In other words, intra-regional imports not subject to LAFTA concessions grew faster than those that enjoyed negotiated tariff preferences. More striking fact is that imports subject LAFTA agreement in 1979 were no more than 6 per cent of the total imports of the region from the rest of the world.

A number of reasons have been identified for the limited success of LAFTA and eventual stagnation in negotiations for the liberalization of intra-regional trade. The first concerns the distribution of costs and benefits resulting from the potential increase in intra-regional trade flows. The Treaty of Montevideo did not provide any mechanism that would ensure equitable distribution of costs and benefits among member countries resulting from intra-regional trade liberalization. Moreover, the pure "trade approach" to economic integration reflected the concept which viewed integration simply as the continuation of the process of import-substitution in the context of expanded markets, and not as a tool of furthering collective regional growth and industrialization.

Secondly, it has been argued that intra-industry specialization could play an important role in a negotiated mutual liberalization of trade. But this required some degree of centralization and industrial planning at the regional level to deal with the issues related to the development of an efficient pattern of industrial specialization as well as those arising from the creation of new industries in the context of expanded regional markets. The geographical distribution of new industries is a crucial factor in dealing with these issues. As has been pointed out above, the LAFTA scheme did not contain any mechanism to deal with such issues. The scheme relied primarily on market forces to determine the pattern of industrial specialization among member countries which favoured the larger and industrially more advanced countries.

Thirdly, the lack of provisions for the harmonization of economic policies of member countries, in particular the exchange rate and monetary policies, has been considered an additional limitation of LAFTA. The design of these policies by individual countries to serve domestic needs without any co-ordination with other members gave rise to conflict of national policies

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with the stated objectives of promoting trade co-operation within the region.

Finally, it has also been pointed out that one of the impacts of external economic environment -- in particular the world liquidity situation and the increasing interest of the transnational corporations of developed countries to invest in the manufacturing in developing countries-- was that regional economic integration assumed relatively reduced importance for those developing countries which had large internal markets and relatively more developed infra-structure and had easy access to commercial bank borrowing and could rely on foreign direct investments.

However, in 1980 the new Treaty of Montevideo replaced LAFTA by a new organizational structure, the Latin American Integration Association (LAIA). The main objective of the new organization in the first stage is to establish an economic preference area made up of regional tariff preferences and of partial (including bilateral) agreements. In the longer run its objective like that of LAFTA is to establish a Latin American Common Market.

Under the new Treaty, the regional tariff preference mechanism appears to be a more complete trade integration instrument than that of LAFTA, since it includes all products subject to tariff. However, the most favoured nation clause which was the main instrument of generalizing regional preferences has been abandoned. Instead partial agreements concerning bilateral tariff reductions contain a "convergency" clause which allows other members to negotiate their inclusion in the partial agreements. This makes the regionalization of preferences, under the new Treaty, a non-binding but a negotiated process. This shift seems to imply a weaker commitment of some countries to regional economic integration. Moreover, the new Treaty has not addressed to the limitations of the LAFTA mentioned above.

However, the reconstitution of LAFTA into LAIA has been viewed by some as reflecting a more realistic and pragmatic approach to economic co-operation at the regional level. The abandonment of the most favoured nation clause and thus permitting partial preferences which could be generalized through a negotiated process in their view could facilitate the conclusion of agreements for mutual trade liberalization between countries with some common interest that may not be shared by other countries in the region. According to this view this approach would also create an environment conducive to regional co-operation in other areas. [5].

(e) Creation of Common Markets

The integration groupings formed at the subregional level however adopted a more comprehensive approach to economic integration than that of LAFTA. Firstly, the free trade model of LAFTA was extended to the creation of common markets. Thus mutual trade liberalization within the subregion was to be combine with the gradual establishment of a common external tariff. Secondly, attempts to integrate markets through mutual trade liberalization were to be complemented by measures for the co-ordination and integration of production. Provisions were also made in these schemes for the harmonization of domestic and external economic policies of the member countries. The integration experiences of the two main subregional groupings, the Andean Group (ANCOM) and the Caribbean Community (CARICOM) are reviewed below.—

(I) THE ANDEAN GROUP (ANCOM)

The creation of the Andean Group was the product of the failure of the LAFTA to make further progress beyond the initial phase of intra-regional trade liberalization covering mainly traditional items on the one hand, and the attempts of Andean countries, which felt a stronger need to expand their markets than the larger countries in the region, to accelerate the process of economic integration on the other. The Andean countries also realized that if economic integration was to play a lead role in achieving sustained economic development, mutual trade liberalization would need to be planned at the regional level so as to ensure equitable distribution of benefits arising from the potential expansion of intra-regional trade. These countries thus decided to follow a much more ambitious pattern of economic integration than the one envisaged by LAFTA, and in 1969 they signed the Cartagena Agreement that formally created the Andean Group.⁸ It should however be noted that the Andean Common Market was established as a means of strengthening LAFTA and not as an alternative to it. Thus Andean countries continued to be members of LAFTA.

The Cartagena Agreement in fact reflected the dominant ideas on economic and social development prevailing in the 1960s in Latin America. The Agreement set out a model for integrated economic development in which joint industrial programming (not freeing of trade) is considered to be the fundamental mechanism for the advance of import substitution and for the promotion of balanced and harmonious development in the subregion. The following objectives are sought through the industrial

8. The original signatories of the Agreement were Bolivia, Chile, Colombia, Ecuador and Peru. In 1973, Venezuela joined the Agreement while in 1976 Chile decided to leave.

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programming; greater expansion, specialization and retionalization diversification of production; maximum utilization of the subregion's resources; increased productivity and effective utilization of productive factors; rational exploitation of the economies of scale; and the equitable distribution of benefits of integration.

The Andean integration activities mainly concern the programme for liberalization of intra-regional trade and the establishment of a common external tariff, joint industrial programming and co-ordination and harmonization of development plans and policies countries, including the establishment of a common regime for foreign investment and technology and a common system to govern Andean multinational enterprises. The Cartagena Agreement also provided for a special preferential treatment for Bolivia and Ecuador (the less developed countries).

The Trade Liberalization Programme

The Andean Group, besides the commitment assumed under LAFTA, established an automatic liberalization programme which covers all the products of the subregion. This automatic liberalization programme, which contrasted with the product-by-product approach of LAFTA, was stipulated in such a manner as to have achieved total elimination of tariffs and other barriers to intra-subregional trade not later than the end of 1980. Later this date was extended to the end of 1983. Bolivia and Ecuador were granted a longer period to implement the programme, i.e. to eliminate all barriers to intra-subregional trade by the end of 1989. For the implementation of the programme, however, the Agreement provided for various forms of liberalization according to five product classifications: products subject to automatic tariff reductions; products reserved for sectoral industrial programmes; products not produced in the subregion as well as those reserved for Bolivia and Ecuador to produce; and the products subject to exemption lists.

In 1970, the Andean Group began the automatic process of eliminating tariffs and other charges. Moreover, the liberalization programme progressed slowly, and its coverage was limited in practice to 60 per cent of the tariff universe, the remaining 40 per cent-mainly manufactured goods-forms the list of exemptions and of products reserved for industrial programming. On the other hand the agreements regarding products for Bolivia and Ecuador have been implemented, since Colombia, Peru and Venezuela reduced their tariffs on these products to zero by 1974.

It is to be noted however that in the Andean programme of trade liberalization, the establishment of a common external tariff is considered to be a vital element in the establishment of an expanded Andean common

market. The Cartagena Agreement provided for an intermediate step of adopting a common minimum external tariff before proceeding to establish the common external tariff. It is in this area that the Andean integration process has experienced increasing difficulties in adopting decisions on the common external tariff. Countries with relatively more advanced industrial sector and having adopted a liberal philosophy of outward looking development favour a lower common external tariff. On the other hand, industrially less advanced countries, which consider a stronger need for prolonged protection to develop their own industrial sector, favour a much higher level of common external tariff to protect subregional production.

Industrial Programming

As noted earlier, in the Andean Agreement joint industrial programming is considered to be a central instrument for the promotion of balanced and harmonious development of the subregion. There are two dimensions to the joint industrial programming in the Andean integration scheme viz (i) the sectoral industrial development programme aimed at locating new industrial plants in member countries; and (ii) the programme for the rationalization of the existing industries whose products are not covered in the sectoral programme and which are therefore subject to subregional competition. The main aim of the rationalization is to promote greater intra-industry specialization among member countries.

Of the eight sectoral industrial programmes envisaged,⁹ so far three programmes—the metalworking, the petrochemical and automotive sectors—have been approved. However, the implementation of these programmes has been constrained by technical and economic problems and changes in these programmes are currently being negotiated. The conflict between the principles of efficiency and of equity has been found to be the main reason for the difficulties that the Andean Group has experienced in the implementation of sectoral industrial programmes.

As regards the rationalization programme of the existing industries, despite the high degree of similarity among the countries as to existing types of industries and the fact that the majority of these were exempted from the trade liberalization programme to avoid intra-regional competition, a programme is yet to be drawn up in the context of Andean integration

9. On the basis of the list of products reserved for industrial programming, the technical organ of the Cartagena Agreement—the Junta—drew up eight sectoral programmes: petrochemical, metal working, automotive, iron and steel, electronics and telecommunications, chemicals, pharmaceuticals and fertilizers.

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process. The lack of progress in this area has thus been a limiting factor to fostering of intra-industry specialization and to the increase in intra-subregional trade in manufactures.

A complementary instrument to sectoral programmes in the industrial programming has been the establishment of the Andean multinational enterprises. Although very few such enterprises have been set up so far, in recent years in the Andean Group greater stress has been placed on this instrument as a means of facilitating the location of industrial projects.

Harmonization of Economic Policies

Apart from industrial programming and tariff policy (establishment of a common external tariff), establishment of a common system for the treatment of foreign capital and of a technology policy is considered to be one of the main instruments of harmonization of the economic policies of the member countries of the Andean Group. Although a common regime for the treatment of foreign capital and the rules governing transfer of technology and the industrial property were all adopted on schedule (Decisions 24, 84 and 85 respectively), there has been limited success in the implementation of these decisions mainly because of the reluctance of local entrepreneurs as well as their foreign counterparts to co-operate [7]. The Andean countries have also made efforts to foster co-operation and co-ordination of policies and plans in areas such as agriculture, energy transport, communication and health sectors.

Special Regime in Favour of Bolivia and Ecuador

To promote balanced and harmonious development of the subregion and bring about a gradual reduction in the existing differences in development among countries of the subregion, the Cartagena Agreement provided for a Special Regime for Bolivia and Ecuador (the relatively less developed countries of the subregion) to assist these countries in deriving adequate benefits from the integration process and attain a faster rate of economic development. This Regime includes provision of temporary margins of preference in their favour in order to stimulate their trade with the rest of the group; allocation of a number of products not produced in the subregion exclusively for these two countries to produce; the commitment to joint action in negotiation with the Andean Development Co-operation and other national and international organizations regarding technical assistance and financing of projects in Bolivia and Ecuador; and granting of concessions in the harmonization of policies, such as the treatment of foreign capital and rules governing Andean multinational enterprises.

Although in the area of trade, the total elimination of tariffs by Colombia, Peru and Venezuela on products of special interest to Bolivia and Ecuador and the total exemption from duties for both countries with regard to all other tariffs—except products reserved for industrial programming—has had a positive impact on both countries' exports to the subregion, it is generally recognized that the impact of the Special Regime in reducing the polarization effect has not been significant. Concentration effects of the integration process have continued to be dominant. While the inability of the relatively less developed countries to derive adequate benefits of integration is partly due to the structural weakness of their economies, the Cartagena Agreement Commission, in its document on a reorganization plan for the Andean integration process also identifies a number of other reasons for the limited application of the Special Regime: the fragmentary application of the mechanisms included in the Special Regime; ineffective implementation of the commitment made; the economic and financial difficulties of the subregion aggravated by the international economic crisis; and the limited infrastructure and transport services within the subregion [8].

(II) THE CARIBBEAN COMMUNITY (CARICOM)

The creation of the CARICOM was the product of the efforts of the Caribbean countries to broaden the framework of CARIFTA which had been designed along the lines of European Free Trade Area model. The Treaty of Chaguaramas in 1973 thus replaced CARIFTA by CARICOM which was designed to be not just a trading arrangement but rather a broader integration effort (like the Andean Group) embracing three major elements:

(i) Market integration and creation of the Caribbean Common Market through intra-trade liberalization regime, establishment of a common external tariff, joint efforts to strengthen subregional production for sale to national, regional and intra-regional markets and co-operation in external economic relations with third countries;

(ii) Functional co-operation (including common services) in a number of areas such as education, health, meteorology, transport, labour relations.

(iii) Co-ordination of foreign policies.

Economic Integration

In the area of trade, it should be noted that before CARICOM came into existence, substantial progress in the liberalization of intra-subregional trade had already taken place under CARIFTA. By 1973, over 90 per cent of intra-regional imports by relatively more developed countries of the subregion and more than 80 per cent by the relatively less developed

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countries were free of barriers to intra-trade. This trade increased substantially until 1977; when due to the emergence of balance-of-payment difficulties some countries of the subregion imposed quantitative restrictions.

As regards the establishment of a common external tariff, at the time of signing of the Treaty of Chaquaramas, the four more developed countries-Barbados, Guyana, Jamaica and Trinidad and Tobago-had signed an agreement of establishing the common external tariff. However, the Treaty had envisaged that the tariffs of other countries would be gradually harmonized so as to establish a common external tariff by 1981. While an important step forward has been the conversion of the former two-column tariffs (general and preferential) into a one-column tariff with no preferential rate of duty, it has not been found possible to achieve the objective of adopting a common external tariff or a common protective policy involving harmonization of quantitative restrictions in order to protect specific subregional industrial activities. On the other hand, new Rules of Origin, based mainly on the "Substantial transformation" criterion which largely replaces the "value added" criterion has been agreed upon and ratified. The new system of the Rules of Origin, which gives greater encouragement to the use of domestic and regional raw material and other inputs in the manufacturing process entered into force in June 1981.

It has however been noted that the increase in intra-regional trade consisting of a large number of manufactured goods has not necessarily led to much diversification and intra-subregional specialization of production in the Caribbean subregion as was intended [9]. Moreover, progress in the co-ordination and joint action in the area of production and harmonization of policies with third countries has not been significant, except the completion of some preparatory technical work on a framework for regional industrial programming and elaboration of the concept of Regional Food Corporation Plan and the establishment of the Caribbean Food Corporation (CFC).

In the evaluation of the CARICOM integration process it has also been noted that in spite of the Special Regime for the relatively less developed countries, like in other integration processes among developing countries, the polarization effects of the integration process has not been effectively continued. In this context the Report by a Group of Caribbean Experts appointed by the Caribbean Common Market Council of Ministers notes that "although their participation (the relatively less developed countries) has been of undoubted benefit to the LDCs, it is now widely accepted that they have not made as much progress as was expected [10:78]. While Thomas attributes this failure of the less developed countries to derive

adequate benefits from the integration process to the dominant role of free trade and market forces to the integration schemes [11]. Ferrel argues that the less developed countries are too poor in resources and too structurally weak to derive appreciable benefits from the level of programmes designed to discriminate in their favour [12].

Functional Co-Operation

It is in this area which relatively noncontroversial that significant progress has been achieved by the Caribbean Community. Functional co-operation in terms of establishing common services and sharing of common costs in the fields of health, shipping, higher education and technical assistance etc. has made considerable progress. Such co-operation in the supporting services is of course necessary for the evolution of well functioning economic integration.

Co-Ordination Of Foreign Policies

This aspect of the Caribbean Community represents a new departure in regional co-operation in Latin America. One rationale for the co-ordination of foreign policies of member countries is an objective to alter the basis on which the CARICOM countries participate in the world economy and to enhance their collective negotiating power in the world economic system. This objective is equally important as the structural transformation of the economy, since it is seen as one way of altering the dependent nature of the relationship of developing countries with the industrialized world. It has been pointed out by the Group of Caribbean Experts referred to earlier, that the full potential of such joint and co-ordinated action is yet to be exploited by the Caribbean States.

B. MONETARY AND FINANCIAL CO-OPERATION

The main objective of monetary and financial co-operation in economic integration schemes in Latin America has been to provide clearing facility for intra-regional trade, thereby making it possible to economize in the use of exchange reserve and in certain cases to promote the use of member countries' own currencies and to provide general balance-of-payment support to member countries. In some cases more ambitious goals such as co-ordination and harmonization of monetary policy, in particular the exchange rate and credit policies were also envisaged.

To achieve these goals and objectives a number of multilateral mechanisms linked to the integration schemes have been set up, and over the years these mechanisms have acquired increased importance in financing intra-regional trade. For example at the regional level, LAFTA/LAIA has the Reciprocal Payments and Credit Agreement and the Reciprocal Multilateral Support Agreement for assisting member countries

having over-all balance-of-payments and temporary liquidity problems. The CARICOM has a Multilateral Clearing Facility (CMCF). The Central American Common Market (CACM), in the context of the Central American Monetary Agreement has the Central American Clearing House (CCCA), the Central American Monetary Stabilization Fund (FOECM) and the Multilateral Consultation System; in addition, the five Central American countries have set up a Central American Common Fund (CACMF) and have applied to join the LAIA Reciprocal Payments and Credit Agreement. Finally the Andean Group, besides participating in the LAIA payments and clearing facilities, has established the Andean Reserve Fund (FAR) as a means of supporting member countries' balance-of-payments.

Since the mechanisms used by different integration groupings for clearing payments and financing intra-regional trade balances have acquired significant importance, a brief review of the main features of these mechanisms is given below.

(A) Clearing Arrangements

The first agreement among developing countries for monetary co-operation was concluded by the Central Banks of the CACM countries in 1961, which established the Central American Clearing House (CCCA). The Clearing House performs ordinary settlement of operations which are cleared every six months. Under the agreement, the settlement of balances at the close of the settlement period is made either in United States dollars or in other convertible currencies. Member countries' national currencies are used in day-to-day intra-subregional transaction of goods. Since 1966, most of the intra-regional trade has been channelled through the Clearing House and in 1980, the payments channelled through this facility reached over a billion of United States dollars.

The Reciprocal Credit and Payment Agreement in which LAIA countries and the Dominican Republic participate is a mechanism originally established by the Central Banks of the LAFTA countries (Mexico Agreement). It operates through agreements between pairs of Central Banks establishing lines of credit whose balances are settled multilaterally every four months. The Andean countries participate in this arrangement. In 1981, the accumulated reciprocal credits agreed between Central Bank under this system reached the total of \$ 2,050 million of United States dollars [13;19] while the payments channelled through this facility amounted to \$ 9,331 millions of United States dollars during 1981. This accounted for about 80 per cent of the intra-regional trade.

In 1977, the States members of CARICOM signed the Caribbean Community's Multilateral Clearing Agreement, which superseded the

bilateral clearing machinery existing in the old CARIFTA. The agent for clearing operations is the Central Bank of Trinidad and Tobago. Initially certain payments, e.g. those relating to the sales of petroleum or its derivatives or of fertilizers, were excluded from the CARICOM clearing system, but at present all these payments may be cleared through this system. Within the limits laid down by the governing body, participants are entirely free to decide on the transactions which may be cleared. Settlement of balances was initially made every three months, but now it is done every six months. Initially the settlement had to cover 100 per cent of the debtor balance, but with effect from February 1978, participants were required to settle a minimum of 50 per cent of their debtor balances, subsequently, by the expressed decision of the Board of Governors, participants were permitted to settle less than 50 per cent of their debtor balances. Unsettled debts are however carried forward to the next period and to that extent reduce the volume of credit available to the debtor participants during the next six-month period. The payments channelled through this mechanism have been around 90 per cent of intra-area trade.

To sum up, the clearing arrangements of the Latin American integration schemes facilitate intra-area transaction of goods, provide limited short-term credit facilities and reduce the use of hard currencies in intra-regional trade. However, the guarantee of convertibility, transferability and repayment are the main elements for the effective functioning of these clearing arrangements.

(B) Credits to Finance Intra-regional Trade Balances and Provide Support to Over-all Balance-of payments

Three specific mechanisms have been established between the Central Banks of the integration systems – e. g. LAIA, the Central American Common Market, the Andean Group– for complementing the clearing arrangement in financing the intra-regional trade balances and/or in providing support to over-all balance-of -payments. These are the Santo Domingo Agreement, the Central American Common Market Fund and the Andean Reserve Fund.

The Santo Domingo Agreement was concluded by the LAFTA members in 1969 in order to provide reciprocal support and assist member banks in coping with temporary liquidity problems. The Agreement provides for three types of financing: (i) financing for multilateral clearing of reciprocal balances and credits; (ii) financing of over-all balance-of-payments deficit; (iii) financing to provide support to countries experiencing liquidity problems caused by natural disasters. For a Central Bank to be eligible for support from this mechanism it must, among other

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things, have posted either a deficit or a reduction in its surplus in clearing transactions through the clearing arrangement.

The Central American Common Fund, was established with \$ 50 million obtained through the Latin American Export Bank (BLADDEX) and with special contributions equivalent to \$ 100 million to be paid in by the member States of the CACM in their national currencies. This Fund was established in the Central American Bank for Economic Integration (CABEI), with its own assets separated from those of the Bank. The loans and medium-term credit the Fund makes available to central banks of CACM to finance their debt balances are made in equal amounts to each bank. However, individual banks may transfer their loans to other banks whose needs are greater.

The Andean countries established in 1976 the Andean Reserve Fund, with paid-in and subsidized capital from the member States (Caracas Agreement). The main objective of this Fund is to provide balance-of-payment support to member countries. In 1982 the Fund's subscribed capital was raised from US \$ 240 in 1981 to US \$ 320 and paid-in capital for US \$ 210 million in 1981 to US \$ 295.9 million.

Although CARICOM does not have a specific mechanism for financing intra-regional trade balances or for providing support to over-all balance-of-payments, the CARICOM Multilateral Clearing Facility has been performing this function to the extent of US \$ 100 million.

III. RECENT DEVELOPMENTS AND THE OUTLOOK FOR REGIONAL ECONOMIC CO-OPERATION

During the last decade, a number of adverse economic developments have taken place on the world and regional economic scene which have had a significant impact on the evolution of the economic integration process in Latin America. At the global level changes in world economic environment brought about by the emergence of the economic crisis which manifested in growing structural imbalances in international payments, dramatic change in the relative price of energy and increasing protectionist pressures in industrial countries imposed severe burden of adjustment and shifts in priorities in many developing countries. At the regional level the shift in some Latin American countries towards a liberal economic policy and accumulation of large external debts are most important developments affecting economic co-operation and integration process.

To cope with the burden of adjustment imposed by the dramatic changes in world economic environment in the 1970's, a number of Latin American countries had to adopt exchange rate and fiscal policies which

created further obstacles to the co-ordination and harmonization of economic policies required for the attainment of the regional objectives and the aims of the integration process. On the other hand, a number of Latin American countries adopted a comprehensive trade liberalization programme and opened up their economies to international competition. This policy, which was combined with the implementation of comprehensive stabilization plans, marked a shift from import-substitution towards export led growth strategy. The implementation of the liberalization policies has led to adverse consequences for the regional and subregional economic integration process. At the operational level, contradictions appeared between the liberalization policies and the contractual obligations entered into by some countries in the framework of the existing integration schemes.

However, in view of growing protectionism in the industrial countries, the liberalization attempt has not made much headway. Most of the countries which adopted such policies in the 1970's have been forced to abandon them. In the 1980's thus there has again emerged a political resolve by Latin American countries to revitalize the regional economic co-operation and integration process.

Another global development which has affected the regional economic co-operation and integration process relates to the emergence of unprecedented balance-of-payment difficulties and accumulation of large external debt by most of the developing countries of Latin America. The balance-of-payments difficulties of these countries have in recent years seriously affected the operations of some of the existing monetary co-operation institutions, in particular the clearing mechanisms. On the other hand debt service burden combined with much reduced availability of foreign financing in recent years have forced many countries to implement adjustment programmes which tend to depress economic activity and trade. In fact the contraction of intra-regional trade has been larger than that of over all trade.

It is thus evident that the recent developments on the world and regional economic scene have contributed to the slowing down of the process of economic integration. Nevertheless, there is now a growing recognition in Latin American countries how that against the background of the world economic outlook in the period ahead which is likely to be characterized by slow growth and the persistence of protectionism in the industrialized countries, intensification and widening of economic co-operation and integration is a necessary strategy for accelerating their economic development and overcoming the current economic crisis. It has also been pointed out that regional and subregional economic co-

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operation should be widened to cover the service sector whose role in trade and development of developing countries is acquiring increasing importance [5].

In this context, it may be noted that the Quito Declaration and Plan of Action adopted in January, 1984 sets out a comprehensive programme of measures across the sectors of financing, trade, food, energy and services, highlighting the crucial role of subregional and regional integration systems and specialized institutions such as Latin American Organization for the Development of Energy (OLADE) in the implementation of this Plan of Action. Subsequently, some subregional groupings in Latin America notably CARICOM and the Andean Group, have adopted decisions aimed at formulating and strengthening intergrouping trade and economic relations. In the case of CARICOM, for example, the Fifth Heads of Government Conference agreed to exploratory discussions with the Andean Group about the possibility of negotiating a broadly-based preferential trade and economic co-operation agreement between the two groupings [14]. Similar actions are also being taken involving CACM, the Andean Group and CARICOM.

IV. SOME CONCLUDING REMARKS

The Latin American integration models do not necessarily provide an ideal approach or framework for co-operation in South Asia or other regions of the developing world. However some common experience of Latin American experience with economic co-operation and integration are of direct relevance to economic co-operation among developing countries, including South Asian countries. These are:

- (i) Effective co-operation in trade and substantial expansion of intra-developing country trade requires trade liberalization to be complemented by co-operation in production, harmonization of domestic and external economic policies, monetary and financial co-operation and the development of infrastructure which provides horizontal economic linkages among developing countries;
- (ii) In view of significant differences in the levels of development and industrialization among developing countries, the issue of the distribution of costs and benefits becomes paramount in any attempt for regional or global economic co-operation, in particular intra-trade liberalization. If co-operation efforts rely largely on market forces, concentration effects become dominant and polarization takes place which leads to conflicts of interest among

countries attempting to establish mechanism to foster cooperation;

- (iii) sler to make relatively rapid progress in functional co-operation in areas such as education, health, communications and transport, mainly because these are generally politically non-controversial and create no serious problems of distrubution of benefits.

Annex

Institutional Arrangements of the main
integration system in Latin America

1. LATIN AMERICAN INTEGRATION ASSOCIATION (LAIA)
(Member States: Argentina, Bolivia, Brazil, Chile,
Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay,
Venezuela)

A. Institutes for political consultations and decisions

- (a) Council of Ministers of External Relations
(i) Conference on evaluation and convergence
(ii) Committee of Permanent Representatives
(iii) Council on Financial and Monetary matters.

B. Institutions for co-ordination and advice

- (i) Sectoral meetings
(ii) Secretary-General
(iii) Advisory Committee on financial and monetary
matters.

C. Principal instruments and mechanisms

Regional system on Tariff Preferences; Regional and Partial
Agreements;

and Agreements on Reciprocal Payments and Credits.

2. CENTRAL AMERICAN COMMON MARKET (CACM)

(Member States: Costa Rica, El Salvador, Guatemala, Honduras*
Nicaragua)

A. Institutes for political consultations and decisions

- (i) Advisory Committee
(ii) Central American Economic Council

*Honduras withdrew from the CACM in 1971.

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- (iii) Ministerial meetings
- (iv) Executive Committee

B. Institution for co-ordination and advice

Permanent Secretariat of the Treaty of Central American Economic Integration

C. Principal instruments and mechanisms

Free trade zone's common external tariff; Convention on the regime of integration industry; Convention on tariff equalization; Convention on uniform fiscal incentives; Central American Clearing House; Central American Monetary Stabilization Fund; Central American Common Market Fund.

D. Autonomous institutions:

Central American Monetary Council; Central American Bank for Economic Integration; Nutrition Institute for Central America and Panama; Central American Council for Higher Education; Central American Industrial Technology and Research Institute; Central American Corporation for Air Navigation Services; Central American Commission for Telecommunications; Central American Commission on Energy; Central American Commission for Maritime Transport.

3. CARIBBEAN COMMUNITY AND COMMON MARKET (CARICOM)

(Member States: Antigua*, Bahamas, Barbados, Belize, Dominica*, Grenada*, Guyana, Jamaica, Montserrat*, St. Kitts-Nevis-Anguilla*, St. Lucia*, St. Vincent*, Trinidad and Tobago)

A. Institution for political consultations and decisions

- (a) Heads of Government Conference for CARICOM and OECS*
- (b) Ministerial Committees; CARICOM Council of Ministers; Economic Affairs Committee, Foreign Affairs Committee, Defence Committee.

B. Institutions for co-ordination and advice

- (i) CARICOM Secretariat: ECCM SECRETARIAT; OECS Secretariat

C. Principal instruments and mechanisms

Free trade zone; Common external tariff; Agricultural marketing protocol; Regional food and nutrition plan, Regional industrial programming; Financial Co-operation; Co-ordination of foreign policies.

D. Autonomous institutions

* Members of the Organization of Eastern Caribbean States (OECS)

Caribbean Development Bank, CARICOM Multilateral Clearing Facility; Eastern Caribbean Central Bank; Caribbean Food Corporation; Caribbean Marketing Enterprise; University of the West Indies; Caribbean Agricultural Research and Development Institute; Caribbean Meteorological office; Council of Legal Education; Caribbean Tourism Research and Development Centre.

4. ANDEAN GROUP

(Member States: Bolivia, Chile^{**}, Colombia, Ecuador, Peru, Venezuela)

A. Institutions for Political consultations and decisions

- (a) Heads of Government Meeting
- (b) Commission of the Cartagena Agreement
 - (i) Andean Parliament
 - (ii) Council of Foreign Affairs

B. Institutions for Co-ordination and Advice

- (a) Advisory Council on planning, money, finance, fiscal policy, trade, tourism
- (b) Junta^{***} of the Cartagena Agreement
- (c) Economic and Social Advisory Committee

C. Principal instruments and mechanisms

Programme of trade liberalization; Common external tariff; Harmonization of policies; Industrial programming.

D. Autonomous Institutions

Andean Development Corporation; Andean Reserve Fund; Association of Andean Group State Enterprise of Telecommunications; Court of Justice of the Cartagena Agreement.

^{**} Chile withdrew from the Andean Group in 1976.

^{***} Equivalent to Technical secretariat.

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THE ASEAN EXPERIENCE WITH REGIONAL ECONOMIC COOPERATION

F.G. VALEDA

1. ASEAN BACKGROUND

Many countries have watched with growing interest how ASEAN has emerged as a dynamic regional trade agrupation in the Asia-Pacific region.

The formation of ASEAN 18 years ago in 1967 with the sign⁵ of the Bangkok Declaration was accompanied not by a small degree of skepticism. There were doubts regarding its future efficacy and this was not without reason. The economic and social framework of the five-member countries which initially comprised ASEAN then, was too diverse. It was too vast and varied to conform to a simplistic pattern based on the principle of political and enonomic like-mindedness.

This, of course, is quite understandable considering the earlier experiments in regionalism preceding ASEAN among south-east Asian countries which had either lapsed or ended in failure to satisfy the hopes of their members. For ASEAN was preceded by two earlier groupings starting first with the Association of South-east Asia (ASA) in 1960 and later by the Maphilindo Confederation consisting of Malaya, the Philippines and Indonesia in 1963. The Association of South-east Asian Nations (ASEAN) composed of Indonesia, Malaysia, the Philippines, Singapore and Thailand was organized in 1967. In 1984, Brunei joined ASEAN as its sixth member¹.

ASEAN, by its very name, is an association based on declarations by its founders. Compared, for instance, with the European Economic Community which is based on a treaty and aimed at economic integration, ASEAN on the other hand, is a loose-model-type of organization whose constituents are independent and are sovereign states with their respective national ideologies as well as socio-political systems.

1. See Annex "A" for the Declaration of the Admission of Brunei into ASEAN.

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Moreover, each of the member country retains its separate national identity.

II. ASEAN OBJECTIVES

As an economic, social and political grouping, ASEAN has four (4) basic objectives, namely:

1. to accelerate economic, social and cultural development;
2. to promote regional peace and stability;
3. to promote collaboration and mutual assistances on matters of common interest; and
4. to maintain relationships with international and regional organizations.

ASEAN as a loose-regional-type of organization among similarly situated developing countries would not alienate their individual sovereign rights even if such countries pursue common political, economic, social and cultural aspirations.

III. SOME BASIC ECONOMIC FEATURES

Against the basic objectives of ASEAN as a political, economic and social grouping, it would be prudent to look into some of the basic economic and industrial features of some of the member countries of the Association. This could provide indications as to the relative capability of some member countries as a contributing component to regional collaboration.

A. BRUNEI

Brunei formally became the sixth member of the ASEAN on January 7, 1984. It was felt that Brunei's entry would undoubtedly add to the collective strength of ASEAN and that it could also enhance the standing of ASEAN, especially since Brunei shared a common interest with its ASEAN partners in the development of a region free and safe from interference of external powers. It was also the feeling that ASEAN's enlargement with the entry of Brunei would be even more successful in promoting development and stability in South-east Asia.

Brunei's population of only a little over 200,000 is the smallest among the six-nation members of the Association but whose average per capita income is among the highest in the world.

Among others, Brunei most significant export item is petroleum oils. The focal location of Brunei right in the heart of the ASEAN augurs well for

the other ASEAN partners who are non-oil producers in the sourcing of their oil needs and deficiencies.

B. INDONESIA

Indonesia, with a population of around 150 million is an archipelago of over 13,000 islands, with over 200 distinct dialects spoken by its people with diverse ethnic and cultural background. Its area is placed at 1,904,569 square kilometers. The country's huge population is concentrated in six main islands; in some of which, a population density of about 650 persons per square kilometer exists. About 65% of the population are concentrated in Java and Madura. Over 90% of Indonesians are Muslims.

Government's economic programmes aimed initially at socio-cultural development, emphasizing particularly agricultural development, later moving on to industries that could support agriculture and later to stepping up the industrial sector but moving away from large scale capital-intensive industries to small labour-intensive industries.

Tax incentives and financing are among the measures taken to encourage both domestic and foreign investors. Petroleum products are among Indonesia's top exports. Timber, rubber, tin, vegetable products, tea, copper, pepper, palm products and fishery items are also among top exports. There are instances where the foregoing products account for over 90% of Indonesia's exports. Tin has historically been Indonesia's main export item but crude oil is now the leading foreign exchange earner.

C. THAILAND

Thailand with an area of about 518,000 square kilometers, about the size of France, is a multi-faceted economy with industries employing modern and sophisticated technology.

It is the world's largest exporter of tapioca and leading exporter of rice. It is also a major producer of pineapple, maize, natural rubber, sugar, and sea foods, particularly tuna which finds extensive market both in the EEC as well as in the United States. Thailand is also rich in minerals and has significant quantities of tin and vast deposits of rock, salt and natural gas.

Thailand's economic policy stresses the establishment of industries which are agro-based, export-oriented and labour-intensive. Its large expanse of fertile land and ideal growing conditions have buoyed up agricultural output, including fruits that find their way in foreign markets.

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Thailand boast of over 2 million tourist every year that visit the country's many tourist attractions and which provides substantial foreign exchange earnings for the country, making tourism as among Thailand's top foreign exchange earner.

Main export markets are Japan, the U. S. A., Netherlands, Singapore, Hong Kong, Indonesia and West Geramany. Principal imports consist principally of petroleum fuels and lubricants machinery, chemicals and other manufactured goods, the main suppliers being also the United States, Japan and West Germany as well as U. K., Saudi Arabia and Singapore.

It can thus be seen, that the ASEAN member countries have a diversity not only of people, religion, culture and languages but also of a variety of resources which when fully utilized and harnessed could indeed provide a strong base for dynamism in the collaborative efforts of ASEAN in the Asia-Pacific region.

IV. INTRA ASEAN TRADE

A. Total Trade

The magnitude of intra ASEAN trade for the 5-year period 1978-1982 may be gleaned from Table-1 hereunder:

Table-1: Total Intra Asean Trade in Million US Dollars (1978-1982)

	TOTAL						BALANCE
	TRADE	G. R.	EXPORTS	G. R.	IMPORTS	G. R.	OF TRADE
1978	9,853	51.89	5,455	58.68	4,398	43.37	1,057 +
1979	14,966	35.96	8,656	32.14	6,310	41.20	2,346 +
1980	20,348	8.02	11,438	5.02	8,910	11.86	2,528 +
1981	21,979	1.07	12,012	(4.34)	9,967	7.58	2,045 +
1982	22,214	-	11,491	-	10,723	-	768 +
Average G. R.		24.23	-	22.88	-	26.03	-

SOURCE: Direction of Trade, Yearbook 1983.

It will be noted that total intra ASEAN trade stood at only US \$ 9,853 million in 1978; it increased continuously to US \$ 22,214 million in 1982 with an average growth rate of 24.23 per cent during the 5-year period.

In 1978, export was only US \$ 5,455 million; in 1982, it was US \$ 11,491 million. Imports in 1978, on the other hand, was US \$ 4,398; in 1982, this grew to US \$ 10,723 million.

Exports, during the 5-year period exhibited an average growth rate of 22.88%. Imports, on the other hand, had an average growth rate of 26.03 per cent.

On the whole, intra ASEAN exports during the 5-year period 1978-1982, have always exceeded intra ASEAN imports every year.

B. Pattern and Growth Trends

An indication of the export destination as well as the origin of imports of each individual ASEAN country for the 5-year period 1978-1982 is shown in Annex "B".

Taking the case of Singapore as an example, its exports to ASEAN member countries stood at US \$ 1,958 million in 1978; it was US \$ 2,886 million in 1979, US \$ 4,025 million in 1980; US \$ 4,749 million in 1981; and US \$ 5,150 million in 1982.

Its imports from ASEAN countries, on the other hand, stood at US \$ 2,099 million in 1978; US \$ 3,056 million in 1979; US \$ 3,873 million in 1980; US \$ 4,321 million in 1981; and US \$ 4,633 million in 1982.

Of the ASEAN member countries, Malaysia and Singapore exhibited consistent export gains during the 5-year period 1978-1982. The Philippines, Indonesia and Thailand showed mixed trends in export levels during the 5-year period.

C. Country Trade Pattern: Philippines Experience

While ASEAN member countries endeavour to expand trade among them, they nevertheless necessarily trade also with various countries of the world. The Philippines is a case in point. Table-II shows the Philippines' leading 33 trading partners in 1983 and the position of its ASEAN partners as a destination of its exports and as sources of imports.

Among the 33 countries with whom the Philippines trades, it appears that of its ASEAN partners, Singapore ranks sixth; Malaysia is eight; Indonesia is ranked fifteenth; Thailand is twenty-third; and Brunei is twenty-eight. The pace and pattern of Philippines trade for 1979-1983 is shown in Table III. It provides an overview of the commodity composition of exports and imports of an individual ASEAN country.

The commodity composition of Philippines trade with Brunei is reflected in Annex "C"; that with Indonesia in Annex "D"; that with Malaysia in Annex "E"; with Singapore is in Annex "F"; and that with Thailand is in Annex "G".

The Philippines pace and pattern of its trade with its ASEAN partners, together with the growing commodity composition of its trade with such countries reflects the growth as well as magnitude, including the potential

Table-II : PHILIPPINE TRADE: 1983 (US \$ 000 F.O.B.) (Showing position of ASEAN trading partners)

Rank	Country of Destination/Origin	Total Trade	%	Exports	%	Imports	%	Balance of Trade+or-
	GRAND TOTAL	12,491,917	100.0	5,005,291	100.0	7,486,626	100.0	2,481,335
1.	United States	3,522,039	28.2	1,784,457	35.7	1,737,582	23.2	46,875+
2.	Japan	2,281,036	18.3	1,015,036	20.3	1,266,000	16.9	250,964-
3.	Saudi Arabia	854,476	6.9	41,931	0.8	812,545	10.9	770,614-
4.	Germany, Federal (West)	554,035	4.4	199,170	4.0	354,865	4.7	155,695-
5.	Hong Kong	427,406	3.4	170,711	3.4	256,695	3.4	85,984-
6.	Singapore	420,705	3.4	140,254	2.8	280,451	3.8	140,197-
7.	United Kingdom	415,744	3.3	234,669	4.7	181,075	2.4	53,594+
8.	Malaya (Malaysia)	314,059	2.5	161,415	3.2	152,644	2.0	8,771+
9.	Korea, Republic (South)	306,271	2.5	148,192	3.0	158,079	2.1	9,887-
10.	Netherlands	301,428	2.4	225,587	4.5	75,841	1.0	149,746+
11.	Kuwait	293,522	2.4	7,051	-0.2	286,471	3.8	279,420-
12.	China (now Taiwan)	288,128	2.3	74,886	1.5	213,242	2.9	138,356-
13.	United Arab Emirates (also Abu Dhabi includes Arabia)							
	Peninsular States (n.e.s.)	267,264	2.1	14,824	0.3	252,440	3.4	237,616-
14.	Australia	247,652	2.0	76,179	1.5	171,473	2.3	95,294-
15.	Indonesia	201,568	1.6	30,147	0.6	171,421	2.3	141,274-
16.	France	180,042	1.5	91,496	1.8	88,546	1.2	2,950+
17.	China, People's	151,543	1.2	29,392	0.6	122,151	1.6	92,759-
18.	Canada	124,002	1.0	69,829	1.4	54,173	0.7	15,656+
19.	Mexico	107,674	0.9	31,231	0.6	76,443	1.0	45,212-
20.	The Union of Soviet Socialist Republics (USSR)	102,804	0.8	86,994	1.7	15,810	0.2	71,184+
21.	Italy	90,899	0.7	37,357	0.8	53,542	0.7	16,185-
22.	Brazil	88,361	0.7	3,736	0.1	84,625	1.1	80,889-
23.	Thailand	84,421	0.7	19,865	0.4	64,556	0.9	44,691-
24.	Netherlands and West Germany (optional port combinations for Rotterdam and Hamburg)	76,933	0.6	76,933	1.5	...	...	76,933+
25.	Denmark	69,942	0.6	9,580	0.2	60,362	0.8	50,782-
26.	New Zealand	69,082	0.6	6,659	0.1	62,423	0.8	55,764-
27.	Belgium	66,139	0.5	13,153	0.3	52,986	0.7	39,833-
28.	Brunei	64,859	0.5	7,236	0.2	57,623	0.8	50,387-
29.	Switzerland	53,537	0.4	9,134	0.2	44,403	0.6	35,269-
30.	Sweden	47,233	0.4	15,331	0.3	31,902	0.4	16,571-
31.	Spain	44,800	0.4	20,150	0.4	24,650	0.3	4,500-
32.	Qatar	36,059	0.3	398	0.0	35,661	0.5	35,263-
33.	Iran	33,243	0.3	...	...	33,243	0.5	33,243-

Table-III: PACE AND PATTERN OF PHILIPPINES TRADE 1979-1983

Total trade fob US '000	(In million US Dollars)					
	Total Five-year	1983	1982	1981	1980	1979
Exports	63,087,423	12,474,455	12,687,511	13,667,836	13,514,700	10,742,921
Imports	26,137,019	5,005,291	5,020,593	5,722,157	5,787,788	4,601,190
Trade Balance	36,950,404	7,469,164	7,666,918	7,945,679	7,726,912	6,141,731
Top twenty Exports, fob US '000	10,813,385	2,463,873	2,646,325	2,223,522	1,939,124	1,540,541
Semi-conductor devices (eg. integrated circuits, transistor watch modules, intermediate frequency transformers) manufactured from materials/ imported on consignment basis						
Coconut oil, crude	2,912,174	747,454	742,225	633,966	499,506	289,023
Centrifugal Sugar	2,570,572	474,833	373,756	501,935	536,835	683,213
Copper concentrates	1,820,403	264,626	370,803	416,147	557,274	211,553
Gold from copper ores and Copper Concentrates	1,976,638	249,481	312,447	429,376	544,974	440,360
Electronic microcircuits	879,926	153,594	168,720	215,183	239,149	103,280
Bananas fresh	260,800	112,782	57,571	58,786	31,661	
Desiccated coconut	585,726	104,725	146,108	124,024	114,184	96,685
Pineapples in Syrup in airtight containers	480,972	87,909	68,283	101,788	115,991	107,001
Plywood, ordinary (Lauan and tangile)	405,417	73,627	87,550	88,386	82,098	73,756
Oil cake and other residues of coconut (copra)	430,471	73,305	64,596	103,524	103,843	85,203
"Lauan", white (lumber)	39,798	72,014	72,116	80,758	81,391	85,519
Finished electrical and electronic Machinery equipment and parts,	267,069	68,492	64,002	48,873	62,047	23,655

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manufactured from materials imported on consignment basis	326,530	64,877	72,904	53,446	68,907	66,396
"Lauan" White in the rough	350,252	64,276	64,506	66,963	81,458	73,049
"Lauan" red (lumber)	323,553	60,690	41,521	65,038	98,133	58,171
Petroleum naptha	145,401	53,310	9,826	7,958	3,213	-
Tuna, Prepared or preserved in air tight containers	187,338	52,774	46,461	52,113	29,486	6,504
Furniture nes of rattan	202,002	49,086	38,997	44,741	40,676	28,502
Nickel and nickel alloys, unwrought	253,089	45,967	26,511	88,156	113,419	79,036
<u>Twenty Imports, job US '000</u>						
Petroleum oils, crude other than those of item 333.01	8,586,783	1,750,065	1,784,080	2,081,402	1,856,695	1,114,541
Dice of any material as part of semi-conductor devices	1,236,349	480,863	418,748	336,738	-	-
Gas oil (bunker fuel)	1,194,554	302,837	198,954	276,194	274,465	142,104
Other materials and accessories imported on consignment basis for the manufacture of semi-conductor devices	519,339	194,057	143,915	181,274	-	153
Other wheat (incl. spelt) and meslin unmilled	697,498	134,579	157,678	150,775	148,554	105,912
Other parts nes of the electronic components falling within group 776	247,285	111,060	59,166	50,280	22,366	4,413
Machines and mechanical appliances, parts	152,355	104,393	--	15,739	14,768	4,124
Blooms, slabs and billets and pieces roughly shaped by forging of iron or steel, other than high carbon or alloy steel	422,134	99,780	96,239	66,474	69,006	91,135
Fabrics imported on consignment basis for the embroidery or manufacture of outer garments	430,593	70,804	91,255	122,336	82,407	63,791
Maize (corn) unmilled	194,274	70,744	42,641	41,992	35,117	3,880
Polyethylene in primary forms (eg. in						

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powder, flakes, lumps blocks, granules or liquid and similar bulk forms.	243,034	60,989	52,566	46,039	38,861	44,579
Oil cake and other residues of soya-beans	275,728	59,887	78,621	62,375	52,364	22,481
Other fabricated structural materials, nes of iron or steel	197,142	55,851	59,660	38,837	16,845	26,549
Iron or steel coils for re-rolling, of other than high carbon or alloy steel	259,628	55,271	56,400	24,875	58,180	64,902
Frames of any material as part of						
Semi-conductor devices iron ore and Concentrates, not agglomerated, imported	141,129	53,951	47,967	39,211		
on consignment basis	183,242	48,696	74,272	60,074		
Skim milk, powdered in bulk containers (barrels, drums tanks etc.)	256,184	46,379	66,444	46,758	53,531	43,072
Urea, whether or not pure	301,160	45,061	59,271	56,660	88,995	51,473
Polypropylene in primary forms (eg. in powder, flakes, lumps, blocks, granules or liquid and similar bulk forms)	160,553	44,603	31,445	29,047	25,718	29,740
Skim milk, powdered in consumer containers	160,959	35,263	48,777	36,600	21,771	18,548

Source : National Census and Statistics Office, Navila

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for trade expansion by one member country to the ASEAN as a whole and the prospects for greater regional collaboration that lies ahead.

V. BASIC ASEAN INSTRUMENTS/DOCUMENTS

ASEAN was formally established in 8 August 1967 through a declaration of objectives by its founders. Five (5) fundamental documents have been signed by the five original members. These documents are (1) the Bangkok Declaration in 1967; (2) the Declaration of a Zone of Peace, Freedom and Neutrality in 1971 (3) the Treaty of Amity and Friendship in South-East Asia in 1970; (4) the ASEAN Concord in 1976; and (5) the Secretariat Agreement in 1976.

None of the foregoing documents may be considered as an ASEAN charter but all of them as well as those issued after 1976 are considered to serve as constitutional foundations. As announced by the member countries, however, such basic documents are deemed adequate as basis for ASEAN existence.

Compared to EEC which is comprised of highly industrialized countries, ASEAN, on the other hand, consists of countries that are in the developing stage and whose economies are still largely dependent on few primary commodities. Some of the ASEAN member countries are viewed as having economies not complimentary but in competition with one another in their quest for economic development.

Critics of ASEAN particularly during the early years of its inception pointed out that economic progress have been devoid in the Association and that it is only in the field of foreign policy where some evidence of co-operation could be traced.

But ASEAN has survived strongly to this day. Progress has been developed in various spheres including trade and industry, science and technology. Stronger solidarity and more effective co-operation have characterized ASEAN's strategies and courses of actions. Despite some difficult political and economic circumstances it has faced, ASEAN has been able to grow and has gained international respect and recognition from developed and developing countries. It has worked hard to resolve problems, pursue common interests, and bring rapid progress to a region rich in natural and human resources. Despite differences in culture, religions and historical traditions, ASEAN have indeed found cause in a common aspiration for a better life for ASEAN people, and for peace and collaboration in their region.

VI. ASEAN STRUCTURE/ORGANIZATION

The Bangkok Declaration of 1967, in effect, established a flexible, loose nature of the Association because of several reasons, one of which

being that ASEAN is an instrument of co-operation and not, like the EEC, of integration. Another reason is that formal structures would be costly and the member countries have little or no resources to maintain them. Moreover, legal structure/or treaties would have imposed rather prematurely upon the ASEAN member countries which were just beginning to relate to one another under an umbrella of co-operation after centuries of separation and subjected, with the exception of Thailand, to prolonged colonial documentation. By and large, the architects of ASEAN believe that the easier way of doing things, as they have discovered, would be in such ways as friendly consultations, mutual help, mutual and self restraint and within the context of their common desire to promote peace, progress and security in the region.

Aside from the secretariat, there are no structures established in pursuance with constitutional documents and the committees and groups are all intergovernmentally constituted.

ASEAN has institutionalized meetings of ministers representing each country on various levels, for instance in trade, industry and foreign affairs. The frequency of the meetings of the economic ministers of ASEAN are evidences to the increasing emphasis given to various areas of economic co-operation. For instance the first meeting of the Economic Ministers was held in Kuala Lumpur in February 1976; its sixteenth meeting was held in Jakarta in May 1984. The ASEAN Ministers themselves had their seventeenth Ministerial meeting also in Jakarta in July 1984, with the attendance of Brunei for the first time as the sixth member of the 18-year old Association.

The bulk of co-operation and consultation in areas of major co-operation is carried out through standing and Ad Hoc Committees. The Economic Ministers supervise the Standing Committees on Trade and Tourism (COTT); on Industry, Minerals and Energy (COIME); on Finance and Banking (COFAB); on Food, Agriculture and Forestry (COFAF); and on Transportation and Communication (COTAC). The Foreign Ministers Council through its Standing Committee in turn works through four (4) committees. These are those on Social Development (COSD); Culture and Information (COCI); Science and Technology (COST); and Budget and Audit (COBA).

Unlike in other economic groupings, there are in ASEAN no institutions that perform law-making, law-implementing or interpreting functions. However, the Treaty of Amity and Co-operation promulgated in February 1976 contains the basic law on the pacific settlement of disputes, through some agreed mechanism in cases of failure to arrive at a solution through direct negotiations.

While ASEAN has established committees at government level, a pattern of working groups corresponding to such government committees have been established in the ASEAN private sector under the umbrella of an ASEAN Chamber of Commerce and Industry (ASEAN-CCI) which coordinates the activities of the working groups and of the six national chambers of commerce of the member countries. It is the main channel through which the private sector can comment on and/or recommend policy and programmes for ASEAN.

Thus, in both the government and the business sectors, ASEAN under its organizational structure has been able to reach out deeply to feel the pulse of events and interests in both the public and private sectors of all the member countries of the Association.

ASEAN has a secretariat established in Jakarta in 1976 with a Secretary General approved for a two-year term by ASEAN Foreign Ministers and the Secretariat has a staff of directors for each of the main functional areas of ASEAN. In each ASEAN capital, day-to-day work is coordinated by national secretariats within the six foreign ministries of each of the six individual member countries.

Through this foregoing organizational network, ASEAN has been able to develop a community of bureaucrats, professionals and businessmen as well as academics in its struggle to achieve regional targets and development objectives.

VII. STRATEGIES IN TRADE COLLABORATION AND DEVELOPMENT

A. PROJECTS AT GOVERNMENT LEVEL

Since its inception, ASEAN has launched a number of concrete projects, the most significant of which are the (a) Preferential Trading Arrangements (PTA); (b) the ASEAN Industrial Projects (AIPs); (c) the Industrial Complimentation Scheme (AIC); and (d) the ASEAN Industrial Joint Venture Project (AIJV).

1. Preferential Trading Arrangements (PTA)

Shortly after the first meeting of the ASEAN Heads of state in Bali in early 1976, the first ASEAN Economic Ministers meeting was convened in Kuala Lumpur in April of the same year. Subsequently, a scheme on a Preferential Trading Arrangements (PTA) came into being with some 70 articles initially identified by the member states of ASEAN as exportable by one country to the other with payment of decreased tariff duties. An across-the-board tariff cut initially by 10% was carried out. The 70 or so articles was expanded to over 700 articles in 1977 and PTA has grown quite impressively to cover over 18,000 tariff concessions as of

September 1984 with a margin of tariff preference (MPO) ranging from 10% to 50%.

The agreement covering the ASEAN PTA was signed on February 24, 1977 and was, in effect, the first commitment of ASEAN member countries to conduct on a Joint-Endeavour basis a common strategy in the expansion of intra-ASEAN trade. Under the ASEAN PTA, products traded within ASEAN are given preferential treatment in the form of tariff reduction.

The PTA provides for a variety of instruments for trade liberalization which include long-term quantity contracts, purchase finance support at preferential interest rates; liberalization of non-tariff measures on a preferential basis; preference in government procurement; extension of tariff preferences and other measures as may be agreed upon. Among the foregoing instruments mentioned, only tariff preferences account for a vast majority of concessions exchanged. The other instruments, have been very infrequently used and are only in the early stages of negotiations.

With respect to the 18,000 or so items covered by tariff concessions under PTA, these represent preferences that have either been negotiated bilaterally or under the more recent approach of automatic inclusion, wherein products within a specified import value ceiling are automatically granted a 20-25% margin of preference, subject to an exclusion list of sensitive items determined by each ASEAN country.

At the 15th COTT Meeting, guidelines for the preparation of exclusion lists were formulated with the objective of limiting the oftentimes extensive exclusion lists of some ASEAN member countries under the value-ceiling approach. The said guidelines have already approved by the ASEAN Economic Ministers.

Thus far, import of ASEAN countries from one another valued up to \$10 million CIF as of 1978 have been included in the PTA.

For 1982, actual trade conducted under PTA, as gathered from certificates of origin issued and admitted amounted to \$ 37.11 million consisting of \$ 11.24 million for imports and \$ 25.87 million for exports. In the case of the Philippines, for instance, total PTA exports in 1982 amounted to \$ 1.1 million while imports reached \$ 1.5 million. From January to May 1983, imports reached \$ 2.4 million and exports at only \$.714 million.

To speed up the liberalization of INTRA ASEAN Trade, ASEAN member countries have reached on an agreement to adopt the following measures:

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(a) Deepen the tariff cuts on food and non-food items under PTA and on future exchanges to a maximum of 50%.

(b) Explore possible areas in which the sectoral approach may be applicable. (A special meeting of the Trade Preference Negotiating Group will be held in Jakarta in January 1985 to discuss the possibility of sectoral approach on the food and tire sectors).

(c) Commence negotiations on non-tariff measures.

(d) Undertake a comprehensive review of the PTA to ascertain actions to be taken to make the agreement more effective.

(e) To apply a 20-25% across the board margin of preference (MOP) to all items with import values above US \$ 10 million with Exclusion List.

2. ASEAN Industrial Projects (AIP)

The ASEAN Industrial Projects envision the establishment of large scale industrial plants, particularly to meet regional requirements of essential commodities. The move to establish government-sponsored industrial projects whose products would enjoy tariff preference within ASEAN was agreed upon by the original 5-ASEAN member countries in 1978.

The implementation of ASEAN Industrial Projects is governed by the basic agreement on ASEAN Industrial Projects which was ratified in March 1980. Development of projects in member countries of the Association are as follows:

A. INDONESIA

The first ASEAN Industrial Project to go on stream is the ASEAN Urea Project in Indonesia. Construction was completed in October 1983 and contracts with ASEAN Urea buyers have been started shortly thereafter. This project is called the P.T. ASEAN ACEH Fertilizer costing US \$ 410 million. It is located in North Sumatra and inaugurated by Indonesian President Suharto on January 1984. The ACEH Plant has an estimated capacity of 570,000 metric tons of urea and 330,000 metric tons of amonia per year. The project was 70% financed by a loan from Japan and the remaining equity participation financed by the original 5-ASEAN member countries. While the estimated capacity for urea is 570,000 tons per year, production in 1984 was placed at only 75% or 427,000 tons of the targeted annual capacity of 570,000 tons. Of the 1984 output, it is expected that a total of 240,000 tons will be purchased by Indonesia, 90,000 tons by Malaysia, 50,000 tons by the Philippines and 30,000 tons by Thailand with the rest for other world markets, including Japan.

B. MALAYSIA

Malaysia's project is also a urea plant which is in the process of construction in Sarawak. It has an estimated capacity of 570,000 metric tons of urea and 330,000 metric tons of ammonia.

C. PHILIPPINES

The Philippines' original proposals of a superphosphate plant and a paper and pulp mill were abandoned. Instead, a copper fabrication plant has been decided upon. Preliminary soil investigation survey of the site was completed in September 1983, and the results together with the invitation to bid documents were released to 18 approved bidders. The Philippine copper plant has a projected capacity of a total of 100,000 metric tons a year broken down as follows: 20,000 metric tons/year of wire rods, 19,000 metric tons/year of tubes; 28,700 metric tons/year of rods, bars and sections and 32,300 metric tons/year of plates, sheets and strips.

D. SINGAPORE

Singapore's original proposal for a diesel engine for a diesel engine project was scrapped as the engine size that other ASEAN countries would have agreed to would have made the project not viable. Singapore, has since been considering other projects. However, lately, the ASEAN Ministers approved the proposed Hepatitis B vaccine project by Singapore expected to cost US \$ 8 million.

By and large, agreement has been reached to grant a 50% margin of preference to products of ASEAN Industrial Projects without prejudice to the desire of any of the ASEAN country to grant a deeper margin of preference.

Arrangements for other ASEAN Industrial Projects will enable the economic and development activities of ASEAN member countries complementing and strengthening each other so that ASEAN could become a common force in industrial growth in the Asia-Pacific region.

E. THAILAND

Thailand's project is rock salt soda which is estimated to cost around a \$ 380 million. An annual production of 400,000 ammonium chloride, 400,000 tons of soda ash and 1.8 million tons of rock salt a year is expected. The Thai government is also expected to proceed with loan negotiations with the Japanese government after completion of a consultancy report on the project has been submitted to the Thai government.

3. ASEAN Industrial Complementation Scheme (AIC)

The Basic Agreement of ASEAN Industrial Complementation was formally adopted by the ASEAN Foreign Ministers on June 17, 1981. Under the AIC, member countries produce complementary products in specific industrial sectors for preferential exchange among themselves. Unlike the AIP which are government-owned, the AIC is the responsibility of the private sector, specifically the promotion of AIC products.

So far, only the automotive sector has come under the AIC Scheme which include the following products:

A. INDONESIA

Diesel engines (80-135 RP) motorcycle axles, wheel rims for motorcycles.

B. MALAYSIA

Spokes and nipples; drive chains and timing chains; crown wheels and pinions; seat belts.

C. PHILIPPINES

Body panels for passenger cars, transmissions/transaxles (for front wheel drive); rear axles (LCV and below).

D. SINGAPORE

Universal joints oil seals V-belts.

E. THAILAND

Body panels for commercial vehicles of one ton and above; brake drums for trucks; bumpers and trunnion brackets; heavy duty shock absorbers; stabilizers.

These products have been granted a 50% MOP in the importing member countries as well as local content accreditation in the local content programmes of importing ASEAN countries.

4. Basic Agreement of ASEAN Industrial Joint Ventures (BAIJV)

The concept of ASEAN Industrial Joint Venture is intended to cover products of an ASEAN Joint Venture entity with equity participation from at least two ASEAN countries. It aims to effectively pool the markets of the ASEAN member countries by granting to AIJV products tariff preferences that would be enjoyed exclusively by AIJV entities in the participating member countries for a period of 4 years. In cases of new products where there is only one approved entity, ASEAN countries may not put up new production facilities for the same product for 3 years unless 75% of its production is for export outside ASEAN.

AIJV products shall enjoy, per the Basic AIJV agreement a margin of preference of 50% in the importing member countries.

Lately, the ASEAN members supported Indonesia's offer to host the headquarters of the International Tropical Timber Organization (ITTO) in Jakarta. The Ministers also approved the first list of ASEAN Industrial Joint Venture products covering the following:

- (a) Constant Velocity Joints (Fixed and Plunging types) and/or finished, semi-finished parts and sub-assemblies thereof;
- (b) Mechanical and Power Rack and Penion Steerings including tierods, ball Joints and linkages and/or finished, semi-finished parts and sub-assemblies thereof; and
- (c) Motorcycle Electric Parts (Composed of main switch assy. speedometer assembly, tachnometer assy, pilot lamp assy, stop switch, headlight assy, flasher relay assy, audio pilot assy; recutier, regulator assy. condenser discharge ignition unit, lever holder assy, switch handle assy).

There was strong hope among the Ministers that with this First List of AIJV products, the ASEAN private sector would be encouraged to establish more industrial joint venture projects among themselves.

Thus, it can be observed that ASEAN has built up a strong mechanism for co-operation and consultation. At the same time it has been concerned to make progress on practical economic matters as well. Progress in implementing its initiatives through the foregoing projects have been generally gradual but the strength of ASEAN economic co-operation gains greater momentum as more and more projects go on stream.

B. PROJECTS AT PRIVATE SECTOR LEVEL

ASEAN--CCII: WORKING GROUPS

As mentioned earlier, a pattern of working group corresponding to the ASEAN Committees at government level has been established in the ASEAN private sector.

An ASEAN Chamber of Commerce and Industry (ASEANCCI) was established in Jakarta in 1972 and it coordinates the activities of the working group of the national chamber of commerce of the ASEAN member countries. In the case of the Philippines, for instance, the national chamber organization is the Philippine Chamber of Commerce and Industry (PCCI); it is the Indonesian Chamber of Commerce and Industry (KADIN) in Indonesia; the National Chamber of Commerce and Industry (NCCI) in Malaysia; the Joint Standing Committee of Commerce and Industry (JSCCI)

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in Thailand; and the Singapore Federation of Chamber of Commerce and industry (SFCCI) in Singapore.

Under the working group on industrial complementation, for instance, various industry clubs have been formed. These clubs identified prospects for industrial complementation within the automotive, electrical and electronic, food processing, iron and steel, pulp and paper and other industries.

Other ASEAN non-governmental organizations have been formed like the ASEAN Tourist and Travel Association (ASEAN TTA); the ASEAN Port Authorities Association (APAA); and, the ASEAN Shippers Council FASC.

C. DIALOGUES WITH TRADING PARTNERS AND THE WORLD

Aside from the projects pursued by the ASEAN member countries to enhance intra-ASEAN trade in both government and private sector levels, the association has also carried out dialogues relationships with its trading partners and has thus strengthened its international relations.

The number of ASEAN's Dialogue partners has expanded to include Japan, Australia, the United States, Canada, New Zealand, EEC, UNDP and ESCAP. To a lesser extent, dialogues have also been carried out with other trading blocs. A system of joint approaches and of taking collective action on matters of mutual concern has characterised ASEAN's international dialogues with other countries and trade agrupations. For instance, there were joint approaches to commodity issues involving, among others the setting up of a Commodity Fund and a stabilizing export type arrangement within the framework of the Integrated Programme of Commodities. The same is true with its joint actions of the matter of the liberalization and improvement of the IMF Compensatory financing facility as well as to commodity policies on items of interest to ASEAN like natural rubber, timber products, vegetable oils & oilseeds, tin, copper, sugar & hard fibers.

1. AUSTRALIA

With Australia, in its recent dialogues, a review of development with ASEAN has been carried out, marking more than a decade of mutually beneficial relationships. Australia's total contribution to ASEAN for funding of ongoing and new projects has reached to-date around A\$ 90 million. Major funding has gone to food-related projects, the largest of which is the Food Handling project designed to minimize food losses through improved transportation, distribution and storage programmes. ASEAN wishes greater access to the Australian market and has also expressed keen interest on the Australian government's review of the Australian System of Tariffs Preference (ASTP) as well as the continuation of the

Trade and Investment Promotion Programmes. It may be mentioned, in this connection, that Australia in 1980 played host to the ASEAN Trade Fair held in Melbourne where all Ministers of Trade of the original 5 ASEAN member countries were present. Coinciding with the Fair celebration therein was the holding of the Philippine-Australia Business Council Conference where trade issues as they affect Philippine-Australian trade issues like Australia's early warning system on imports, its export overwatch, tariff levels on textile, leather and footwear, including meat and dairy procurements procedures and practices.

2. CANADA

Canada, as a dialogue partner of ASEAN, actively supports ASEAN in several projects following an economic co-operation agreement signed between Canada and ASEAN in 1981. Among others, Canada has contributed Canadian \$ 50,000 to ASEAN Secretariat to develop its library. In the Second ASEAN-Canada Joint Co-operation Committee that met in Manila in late September 1984, new measures/proposals were considered. Areas covered were those on investment promotion, development of an ASEAN Regional Rubber Information Centre, training in certain aspects of telecommunication, computerization in tax administration, youth training for vocational courses, small & medium scale business management and courses for women in development and preventive drug education. ASEAN proposals for improvement in market access was also among the areas of discussion.

3. JAPAN

With Japan, ASEAN has stressed at the ASEAN-Japan forum held in October 1984 in Bali, Indonesia, that ASEAN is not satisfied over trade issues. It called for strengthening of ASEAN-Japan co-operation in such matters like rubber and tin. While Japan extended its GSP for another 10 years, the market-opening measures taken by Japan like reduction in tariff rates and import restrictions as well as improvement of the standards and certification system as seen by ASEAN, did not meet the specific interest of ASEAN countries. It was the ASEAN view that in the latest round of tariff reductions of affected items, the ASEAN share of total Japanese imports was minimal while developed countries enjoyed a dominant share. ASEAN also noted that improvements in market measures by Japan covered largely industrial products but minimally on agricultural and processed products. ASEAN also requested Japan to lower import tariffs on tropical timber and plywood. On other trade issues, ASEAN sought the reduction of MFN rates on bananas during off-season and fruit season as well as

increased quota for canned pineapple and tapioca as well as the entry of solo papaya into Japan.

4. NEW ZEALAND

With New Zealand, co-operation has largely been in the agro_based sector, where substantial degree of progress has taken place. These include those of animal husbandry covering livestock development and administration projects as well as an afforestation (pine) project_which have all been described as an effective co-operative (venture between ASEAN and New Zealand. Increased co-operation) on various aspects of trade practices and trade promotion activities characterizes the spirit of trade relationships between New Zealand and ASEAN. A one time, a team of New Zealand's trade experts mounted a continuing mission to all the ASEAN capitals to explain in detail various aspects of New Zealand's GSP to drum up greater understanding of its GSP schemes and eventually result in greater trade between ASEAN and New Zealand.

5. UNITED STATES

With the US, ASEAN has urged strongly for the renewal of the Generalized system of preferences (GSP) under which the developing countries could export more at lower or duty free rates. The removal of protectionism as also practised by other advanced countries and the attraction of investments into the region are matters that have also been raised. Bilateral issues of interest to ASEAN have also been discussed and included the US view on the GATT code as well as US textile policy, including increased tariffs against import of canned tuna by the United States.

6. EEC

With EEC, ASEAN, for instance, proposed that continuous collaboration between producers and consumers on consultation/negotiations on individual commodities be maintained with the objective of ensuring that mutually beneficial and viable agreements to both parties are established for commodities, ASEAN countries as a group, in this connection, are the predominant producers and exporters of tin in the world and the functioning of the International Tin Agreement augurs well for ASEAN. In the case of natural rubber, the mechanism for price stabilization at a level remunerative to meet producers needs are essential to support the industry on a continuous state of development. ASEAN has also sought the support of EEC for the development of an internationally co-ordinated research programme for vegetable oils and oilseeds particularly coconut oil and oilseeds which are products of special interest to ASEAN.

7. UNCTAD

On UNCTAD matters, ASEAN views with interest, the approaches on the matter of complementary price measures with appropriate compensatory financing of export earnings and that ASEAN considers a global extension of a STABEX type mechanism to be highly desirable, as a means to handle those problems associated with stabilization of earnings. UNCTAD VI gave emphasis to the issues of earnings stabilization and the importance of this measure to the stability of developing countries was recognized. ASEAN has urged EEC to give priority to the implementation of STABEX on a global basis and for EEC's participation in the work of an expert group on compensatory financing under UNCTAD.

8. ESCAP

In their relationship with ESCAP, ASEAN maintain closed linkages in their policies.

At the first Ministerial Meeting held in New Delhi, India, on August 1978, the Ministers of Trade adopted a Blueprint for Trade-Co-Operation and Expansion in the Asia-Pacific region which gave rise to a project known as the Trade Co-Operation Group (TCG) wherein 21 countries opted for membership.

The ASEAN member countries took a unified stand in the deliberations, making their joint statement embodying their common views and concerns. Among them there was consultation as to which member country may opt to participate, later, in the different Subgroups that were set up under the TCG, particularly where national priorities and economic interest of member countries of the Association are affected.

In the various meetings of ESCAP, ASEAN almost always present such approaches that have traces of common linkages in their policies.

ASEAN has directed substantial efforts on trade issues through dialogues largely with its developed trade partners and even has shown a strong political will on Kampuchea with a proposal for a comprehensive political settlements.

The dialogue partners have responded by paying increased attention to ASEAN. They have, in general, modified their trade, investment and even their aid policies taking into account the representations of ASEAN as far as could be possible within the context of their global obligations.

In international forums, like the United Nations and the Group of 77, ASEAN has gained increasing recognition, for the unity, strength and moderation of its members on their joint and common stand on matters

affection commodity trade and regional security which are all indicative of a growing tendency in the linkage and co-ordination of their policies.

Thus, in both the field of trade and political issues, ASEAN has displayed firmness and resiliency as nations watched and ponder.

VIII. ASEAN AS AN INSTRUMENT FOR TRADE COLLABORATION AND DEVELOPMENT IN THE ASIA- PACIFIC REGION WITH OTHER MARKETS

In the foregoing discussion, it would be noted that ASEAN has pursued programmes and projects among the member countries themselves as a strategy to their orderly economic growth. In the case of the Preferential Trading Arrangements (PTA) the array of commodities that cross ASEAN frontiers that started from a mere 70 or so articles in 1976 have grown to over 18,000 at present signifying a greater leap in the volume of goods that have come under the umbrella of preferential treatment. The inauguration of PTA generally dismantled protective tariffs and heralded a new era in trading relationships in ASEAN. As more goods traded among the ASEAN countries expand, the assumption is strong that more production for such goods traded under preferential treatment has equally grown as well. The assumption is also valid that had preferential treatment not been inaugurated, trading and consequently production to support trade for such products could equally be weak. The beneficial effects on employment, money income and purchasing power on the labour force involved in such activities could well be reflected in better living standards and welfare for the ASEAN people.

The selection of national industries under the ASEAN industrial Project Scheme, for individual ASEAN member country, also has outstanding merits. Priority industry or industries where a particular ASEAN member country has comparative advantage is pinpointed for such particular country to pursue.

Since each ASEAN member country has an assigned industry in which to concentrate on, the maximized use in resources is developed. Duplication and its wasteful consequences, moreover is avoided. As specialization is developed and the economies of scale realized, the products of the national industries of each ASEAN member country could be made available at cheaper price to consumers of the ASEAN member countries.

In the case of the ASEAN Industrial Complementation Scheme, the resulting finished products out of components produced by the different member countries of ASEAN, as agreed upon between them, could also

be cheaper than if parts or components of a particular finished product are produced by more than one manufacturing country.

In the long run, ASEAN therefore will be the source of finished or semi-processed products at comparatively cheaper cost and therefore at comparatively lower price with other non-ASEAN markets as ultimate destination. This is particularly beneficial to other developing countries in the Asia-Pacific region that are not in trade agrupations and/or arrangements with one another as are the member countries of ASEAN.

In the case of the ASEAN Joint Venture Programmes, it is clear to see that there now appears readily indentified projects under ASEAN where ASEAN investments could be directed and to which projects other ingredients for joint ventures like equity capital and technolgy could be put into use. ASEAN, moreover, also needs loan capital, expertise and the technology of the developed countries. The identification of JV projects to be pursued by ASEAN augurs well for other developed countries as future sources of ASEAN's needs in the developmental activities they have envisioned in an atmosphere of utmost co-operation in the judicious use of scarce resources.

Thus, while ASEAN develops and expands under the umbrella of projects and programmes they carry, its neighbours in the Asia-Pacific region similarly can profit from the vision and foresight of ASEAN whose critics at the outset are not all too sure whether as a free trade area or as a common market, ASEAN would at all succeed.

The dialogues it has pursued with its most formidable trading partners like the United States, Japan, Canada, Australia and the EEC, among others, are strong evidences not only to its unity and strength of common approaches to issues, particularly in trade and industry, but also to the respect and international recognition and understanding that ASEAN has gained from countries far and near.

Of course, ASEAN too has its share of the impact of world events. Despite the economic recovery in some major industrialized countries, many of the developing countries as some of those in ASEAN have not emerged from the prolonged global recession. Satisfactory response to the redress of commodity issues through multilateral producer consumer co-operation is desired and much awaited. The Association feels that rising interest rates, if unchecked, could continue to aggravate debt problems and retard the reactivation of the development process of developing countries, ASEAN included. The Philippines, in this connection, is a case in point.

In keeping with the reality of growing economic inter-dependence among nations, ASEAN is one beautiful example of a potent instrument in

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the development of regional co-operation and harmony in the Asia-Pacific region.

Let me, in closing, congratulate all the participants to this international conference. It is my hope that as we come here to discuss and see for ourselves problems and issues that affect the international trading community, we shall also be able to firm up in our minds that we have in the Asia-Pacific region all the potentials that require the building up of a strong base for greater intraregional trade and collaboration. We have multitude of resources, manpower and even ready markets. And in this context, ASEAN could stand out as a good model in regionalism for emulation and a tribute to the vision and foresight of its founders to build ASEAN with the dynamism that it has today.

INTRA-ASEAN TRADE, 1978-1982, INDIVIDUAL
COUNTRY TRADE BY DESTINATION AND ORIGIN

Value in Million US Dollars

1978

	Exports To	% Share To Total ASEAN Exports	Imports From	% Share to Total ASEAN Imports
<u>INDONESIA</u>				
Malaysia	21	1.42	22	3.43
Philippines	198	13.40	76	11.84
Singapore	1241	83.96	443	69.00
Thailand	18	1.22	101	15.73
<u>TOTAL ASEAN</u>	1478	100.00	642	100.00
<u>MALAYSIA</u>				
Indonesia	19	1.38	47	5.54
Philippines	59	4.29	45	5.31
Singapore	1197	87.05	506	59.67
Thailand	100	7.27	250	29.48
<u>TOTAL ASEAN</u>	1375	100.00	848	100.00
<u>PHILIPPINES</u>				
Indonesia	89.7	42.25	152.2	53.35
Malaysia	41.4	19.50	58.6	20.54
Singapore	71.2	33.54	52.6	18.44
Thailand	10.0	4.71	21.9	7.68
<u>TOTAL ASEAN</u>	212.3	100.00	285.3	100.00
<u>SINGAPORE</u>				
Indonesia	7	0.36	1	0.05
Malaysia	1408	71.91	1673	79.70
Philippines	148	7.56	65	3.10
Thailand	395	20.17	360	17.15
<u>TOTAL ASEAN</u>	1958	100.00	2099	100.00
<u>THAILAND</u>				
Indonesia	68.5	10.86	24.8	7.82
Malaysia	211.2	33.47	67.2	21.18
Philippines	20.5	3.25	7.8	2.46
Singapore	330.9	52.44	217.5	68.55
<u>TOTAL ASEAN</u>	631	100.00	317.3	100.00

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<u>1979</u>				
	Exports To	% Share To Total ASEAN Exports	Imports From	% Share To Total ASEAN Imports
<u>INDONESIA</u>				
Malaysia	66	2.97	35	4.18
Philippines	165	7.44	49	5.85
Singapore	1951	87.92	535	63.84
Thailand	37	1.67	219	26.13
<u>TOTAL ASEAN</u>	2219	100.00	838	100.00
<u>MALAYSIA</u>				
Indonesia	21	0.94	68	5.96
Philippines	118	5.31	68	5.96
Singapore	1933	87.03	723	63.36
Thailand	149	6.71	282	24.72
<u>TOTAL ASEAN</u>	2221	100.00	1141	100.00
<u>PHILIPPINES</u>				
Indonesia	44.8	24.12	189.8	50.01
Malaysia	57.2	30.80	93.1	24.53
Singapore	64.9	34.95	85.6	22.56
Thailand	18.8	10.12	11.0	2.90
<u>TOTAL ASEAN</u>	185.7	100.00	379.5	100.00
<u>SINGAPORE</u>				
Indonesia	-	-	-	-
Malaysia	2039	70.65	2481	81.18
Philippines	237	8.21	74	2.42
Thailand	610	21.14	501	16.39
<u>TOTAL ASEAN</u>	2886	100.00	3056	100.00
<u>THAILAND</u>				
Indonesia	189.2	21.35	56.0	10.38
Malaysia	233.6	26.36	122.0	22.61
Philippines	11.6	1.31	26.2	4.86
Singapore	451.6	50.97	335.4	62.16
<u>TOTAL ASEAN</u>	886.0	100.00	539.6	100.00

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1980

	Exports To	% Share To Total ASEAN Exports	Imports From	% Share To Total ASEAN Imports
<u>INDONESIA*</u>				
Malaysia	76	2.52	42	3.31
Philippines	192	6.37	116	9.16
Singapore	2708	89.82	674	53.20
Thailand	39	1.29	435	34.33
<u>TOTAL ASEAN</u>	3015	100.00	1267	100.00
<u>MALAYSIA</u>				
Indonesia	34	1.17	80	4.50
Philippines	196	6.77	114	6.42
Singapore	2477	85.56	1263	71.07
Thailand	188	6.49	320	18.01
<u>TOTAL ASEAN</u>	2895	100.00	1777	100.00
<u>PHILIPPINES</u>				
Indonesia	106.6	28.80	187.0	37.92
Malaysia	89.5	24.18	152.5	30.92
Singapore	111.6	30.14	131.9	26.74
Thailand	62.5	16.88	21.8	4.42
<u>TOTAL ASEAN</u>	370.2	100.00	493.2	100.00
<u>SINGAPORE*</u>				
Indonesia	-	-	-	-
Malaysia	2908	72.25	3323	85.80
Philippines	273	6.78	75	1.94
Thailand	844	20.97	475	12.26
<u>TOTAL ASEAN</u>	4025	100.00	3873	100.00
<u>THAILAND</u>				
Indonesia	317.1	28.83	52.9	5.39
Malaysia	279.7	25.43	182.4	18.58
Philippines	20.9	1.90	63.7	6.49
Singapore	482.2	43.84	682.7	69.54
<u>TOTAL ASEAN</u>	1099.9	100.00	981.7	100.00

* Figures may be understated

Source : IMF Direction of Trade Yearbook 1981

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1981				
	Exports To	% Share To Total ASEAN Exports	Imports From	% Share To Total ASEAN Imports
<u>INDONESIA</u>				
Brunei	-	-	-	-
Philippines	411	15.32	253	14.86
Malaysia	60	2.24	60	3.53
Singapore	2,177	81.14	1,243	73.03
Thailand	35	1.30	146	8.58
<u>TOTAL ASEAN</u>	2,683	100.00	1,702	100.00
<u>MALAYSIA</u>				
Brunei	29	0.93	2	0.10
Philippines	179	5.76	96	4.63
Indonesia	58	1.86	69	3.32
Singapore	2,652	85.27	1,513	72.91
Thailand	192	6.17	395	19.04
<u>TOTAL ASEAN</u>	3,110	100.00	2,075	100.00
<u>PHILIPPINES</u>				
Brunei	3	0.72	123	18.14
Indonesia	154	37.20	232	34.22
Singapore	128	30.92	113	16.67
Thailand	25	6.04	28	4.13
Malaysia	104	25.12	182	26.84
<u>TOTAL ASEAN</u>	414	100.00	678	100.00
<u>SINGAPORE</u>				
Brunei	323	6.80	329	7.61
Indonesia	-	-	-	-
Thailand	883	18.59	473	10.95
Malaysia	3,269	68.84	3,412	78.96
Philippines	274	5.77	107	2.48
<u>TOTAL ASEAN</u>	4,749	100.00	4,321	100.00
<u>THAILAND</u>				
Brunei	11	1.06	158	13.55
Indonesia	135	13.03	24	2.06
Malaysia	319	30.79	269	23.07
Philippines	20	1.93	20	1.72
Singapore	551	53.19	695	59.60
<u>TOTAL ASEAN</u>	1,036	100.00	1,166	100.00
<u>BRUNEI</u>				
Indonesia	1	5.00	7	25.00
Malaysia	2	10.00	4	14.29
Philippines	2	10.00	1	3.57
Singapore	4	20.00	16	57.14
Thailand	11	55.00	-	-
<u>TOTAL ASEAN</u>	20	100.00	28	100.00

1982

	Exports To	% Share To Total ASEAN Exports	Import From	% Share To Total ASEAN Imports
<u>INDONESIA</u>				
Brunei	-	-	-	-
Philippines	207	15.33	145	9.83
Malaysia	61	4.52	46	3.12
Singapore	1,050	77.78	1,100	74.58
Thailand	32	2.37	184	12.47
<u>TOTAL ASEAN</u>	1,350	100.00	1,475	100.00
<u>MALAYSIA</u>				
Brunei	32	0.90	1	0.04
Philippines	117	3.28	157	5.89
Indonesia	39	1.09	69	2.59
Singapore	3,033	84.98	1,993	74.78
Thailand	348	9.75	445	16.70
<u>TOTAL ASEAN</u>	3,569	100.00	2,665	100.00
<u>PHILIPPINES</u>				
Brunei	5	1.37	79	12.82
Indonesia	55	15.11	153	24.84
Singapore	111	30.49	229	37.18
Thailand	15	4.12	33	5.36
Malaysia	178	48.90	122	19.80
<u>TOTAL ASEAN</u>	364	100.00	616	100.00
<u>SINGAPORE</u>				
Brunei	359	6.97	223	4.81
Indonesia	-	-	-	-
Thailand	799	15.51	530	11.44
Malaysia	3,669	71.24	3,778	81.55
Philippines	323	6.27	102	2.20
<u>TOTAL ASEAN</u>	5,150	100.00	4,633	100.00
<u>THAILAND</u>				
Brunei	9	0.87	91	6.99
Indonesia	142	13.65	24	1.84
Malaysia	379	36.44	409	31.41
Philippines	33	3.17	20	1.54
Singapore	477	45.87	758	58.22
<u>TOTAL ASEAN</u>	1,040	100.00	1,302	100.00
<u>BRUNEI</u>				
Indonesia	.1	5.56	8	25.00
Malaysia	.1	5.56	5	15.62
Philippines	3	16.66	7	21.88
Singapore	4	22.22	.2	37.50
Thailand	9	50.00	-	-
<u>TOTAL ASEAN</u>	18	100.00	32	100.00

PATTERN OF PHILIPPINE TRADE WITH ASEAN COUNTRIES

BRUNEI

(1979-1983; January-March 1984)

	Five-Year	1983	Total 1982	1981	1980	1979
Total trade FOB US'000	368,422	64,859	82,198	424,414	57,940	39,011
Exports	19,999	7,236	4,498	3,289	3,220	1,756
Imports	348,423	57,623	77,700	121,125	54,720	37,255
Trade Balance	328,424	50,387	73,202	117,836	51,500	35,499
<u>Top Twenty Exports, FOB US'000</u>						
Aluminum structures & fabricated parts	1,025	853	172	-	-	-
Parts & accessories of air conditioning machine	920	848	72	-	-	-
Other articles of unhardened vulcanized rubber (excl. erasers, sub-item 6289807)	617	617	-	-	-	-
Insulated electric wire, cable bars, strip & the like, nes	986	616	370	-	-	-
Other builders woodwork, nes	564	499	-	65	-	-
Plywood, ordinary (lauan & tangile)	1,105	471	364	270	-	-
Other paints & enamels & plastics in solution	467	431	36	-	-	-
Rubberized fabrics other than cotton, not knitted or crocheted	362	362	-	-	-	-
Other chemical products & preparations of the chemicals or allied industries, nes	289	287	1	1	-	-
Carpets, carpeting, rugs, mats mattings, of wool or fine animal hair tufted	238	237	1	-	-	-
Natural barium sulphate (barytes) natural barium carbonate (witherite), whether or not calcined (other than barium oxides)	659	172	487	-	-	-
Other articles of iron or steel, nes (excl. castings & forgings in the rough state)	190	159	31	-	-	-

	Total Five-Year	1983	1982	1981	1982	1979
Articles of aluminum, nes (e.g. castings & forgings)	138	138	-	-	-	-
Switchgear, switchboard & control panels	137	137	-	-	-	-
Cordage, cables, ropes and twine of abaca & true hemp	392 /	136	79	103	74	-
"Apitong"	131	131	-	-	-	-
Fiberglass blankets, boards (incl. acoustical board), mats slabs & preformed shapes for insulation.	175	123	52	-	-	-
Galvanized seamless iron or steel pipes & tubes	53	47	-	6	-	-
Escalators (moving stairs & moving pavements)	46	46	-	-	-	-
Cementing preparations for repairing, sealing & adhesive use (incl. acid-proof cement)	144	45	99	-	-	-
Portland cement	5,234	-	247	1,361	2,367	1,259
or Imports Tob US,000						
Petroleum oils, crude other than those of item 333.01	347,967	57,580	77,347	121,111	54,700	37,229
Horses, live	53	37	16	-	-	-
Tube & pipe fittings, incl. blanks, nes	3	3	-	-	-	-
Electrical insulators of other materials	1	1	-	-	-	-
Taps, cocks, valves & similar appliances	0.656	0.656	-	-	-	-
Gate valves	0.623	0.623	-	-	-	-
Iron or steel tubes & pipes, nes	0.357	0.357	-	-	-	-

Source: National Census and Statistics Office, Manila

Pace and Pattern of Philippines-Brunei Trade Jan-March 1984

Valea: Regional Economic Cooperation

Total trade, fob US\$'000	14,620	
Exports	221	
Imports	14,399	
Trade balance	14,178-	
<u>Top Twenty Exports FOB US\$'000</u>		
Carpets, carpeting, rugs mats & matting of wool or fine animal hairs tufted	28	
Cordage, cables, ropes & twine of abaca & true hemp	27	
Grinding balls & grinding rods, of iron or steel	26	
Lampshades, chimneys, globes & other lighting fittings, of shell	20	
Aluminum structure & fabricated parts	19	
Cocks or any male chicken belonging to any of the breeds to be used for breeding purposes, as certified by the Dept. of Agriculture thru the Bu. of Animal Industry	19	
Tarpaulines, sails, awnings sunblinds, tents and camping goods, of textile materials other than cotton	18	
Other articles of unhardened vulcanized rubber (excl. erasers, Sub-item 628-98.07)	18	
Parts & accessories of air conditioning mach. nes.	17	
Oil or air circuit breakers rated 600 volts & below	10	
Wooden doors	7	
Mangoes, fresh	3	
Other chemical products & preparations of the chemicals or allied industries, nes	1	
Other builders' woodwork, nes	1	
Other furniture, nes of wood	1	
Hoopwood; split poles; piles pickets & stakes, pointed out not sawn lengthwise, chipwood; shavings of or kind, used in the mlture of vinegar, etc.	1	
Cuttings, slips, runners and shoots, live trees & other plants (e.g. banana Suckers) "Calamansi" fresh	1	
Cast or rolled glass (incl. flashed or wired glass), unworked, whether figured or not, in rectangles	0.171	
Loudspeakers, nes	0.060	
<u>Major Imports, fob US\$'000</u>		
Petroleum oils, crude other those of item 333.01	14,388	

Note: Special transactions valued at 11

Source: National Census and Statistics Office, Manila

PATTERN OF PHILIPPINE TRADE WITH ASEAN COUNTRIES
INDONESIA
 (1979-1983)

	Total				
	Five-Year	1983	1982	1981	1980
Total trade, fob US\$'000	1,291,107	201,568	197,864	377,984	285,187
Exports	391,914	30,147	54,984	153,624	107,152
Imports	899,193	171,421	142,880	224,360	178,035
Trade Balance	507,279-	141,274-	87,896-	70,736-	70,883-
<u>Top Twenty Exports, fob US'000</u>					
Non-glutinous rice, semi-milled or wholly milled, whether or not polished or glazed	74,476	5,637	-	20,416	26,900
Plates, sheets & strip nes, of aluminum	13,112	3,260	6,829	2,806	109
Portland cement	19,113	3,224	7,827	5,805	2,257
Fatty alcohols	4,208	1,608	827	804	969
Ferro-silicon	4,145	1,470	839	951	-
Urea and phenol formaldehyde moulding compounds & adhesive	3,235	888	1,433	712	28
Refined sugar & other products of refining beet & cane sugar, solid	199,925	827	27,274	112,848	58,976
Garlic, fresh or chilled	804	804	-	-	-
Other balls for sports & outdoor games, nes	1,031	378	653	-	-
Evaporated filled milk	1,052	374	366	138	120
Calcium carbide	1,030	325	177	506	-
Dynamite & industrial explosives	262	262	-	-	-
					228,504
					46,007
					182,497
					136,490-
					21,523
					108
					-
					885
					174
					-
					-
					54
					22
					-

Continued

Fabrics imported on consignment basis for the embroidery of manufacture of outer garments	1,149	352	42	-	-	755
Bulldozers, angledozers and levelers, self-propelled	302	302	-	-	-	-
Cocoa beans for the manufacture of cocoa butter for export	1,751	263	429	1,022	-	37
Leaf tobacco wrapper, not stripped other than Virginia type flue-cured	234	170	-	12	39	13
Bags of synthetic materials (incl. cellophane bags)	151	151	-	-	-	-
Other medicinal & pharmaceutical products, nes	460	151	138	65	31	75
Penicillin	209	115	94	-	-	-
Natural rubber (other than latex)	754	56	-	-	-	698
Sulphonated, nitrated or nitrosated derivatives of hydrocarbons	47	47	-	-	-	-
Halogenated, sulphonated, nitrated or nitrosated derivatives of phenols or phenol alcohols	82	47	28	7	-	-
Bottles & vials for antibiotics, sera & other injectables, of glass	88	32	19	28	9	-
Pepper, other than white pepper and pimiento, unground (in bulk containers)	165	30	59	12	-	64
Float glass	28	28	-	-	-	-

Source: National Census and Statistics Office, Manila

PATTERN OF PHILIPPINE TRADE WITH ASEAN COUNTRIES
MALAYSIA
(1979-1983)

	Total Five-Year	1983	1982	1981	1980	1979
Total trade, fob US'000	1,294,386	317,145	296,447	281,661	262,078	147,055
Exports	595,928	162,495	177,767	104,073	94,290	57,303
Imports	698,458	154,650	118,680	177,588	157,788	89,752
Trade Balance	102,530-	7,845+	59,087+	73,515-	63,498-	32,449-
Top Twenty Exports, fob US'000						
Semi-conductor devices manufactured from materials imported on consignment basis	440,833	139,096	146,958	75,855	52,613	26,311
Electronic microcircuits	7,535	7,205	13	6	311	-
Centrifugal sugar	23,780	2,352	7,112	7,679	4,781	1,856
Grinding balls & Grinding rods of iron or steel	10,384	1,292	1,223	2,452	3,401	1,986
Soybean oil, crude	1,042	1,042	-	-	-	-
Cleansing tissue paper stock, in rolls or sheets	1,196	747	449	-	-	-
Other parts, nes of the electronic components falling within group 776	8,504	700	1,200	879	2,189	3,536
Brassieres	1,136	443	420	134	130	9
Phthalic anhydrides	1,759	425	348	418	473	95
Bars, rods & slabs, neither polished nor coated, unworked of copper	423	423	-	-	-	-
Trousers, breeches & the like, men's & boys of cotton other than knitted or crocheted	910	349	199	197	154	11
"Improvers" baker's (consisting of one or more chemicals & foodstuffs such as flour, fat, sugar, milk powder etc.)	1,186	342	264	309	243	28
Tableware & household utensils (incl. hotel & restaurant) or decorative articles, of						

Continued

plastic	2,397	297	707	570	540	283
Fruit purees & fruits pastes	1,406	292	205	386	391	132
Cordage, cables, ropes & twine of abaca & true hemp	1,542	291	363	218	384	286
Chewing gum	827	285	79	413	50	-
Vitamins (dosage)	1,187	271	312	227	244	133
Detergents & emulsifiers, put up in packages for retail sale	307	263	44	-	-	-
Finished electrical & electronic machinery, equipment & parts manufactured from materials imported on consignment basis	3,567	223	785	182	1,329	1,048
Parts of machinery for crushing or grinding solid mineral materials	916	219	158	87	105	347
<u>Top Twenty Imports, fob US \$'000</u>						
Petroleum oils crude, other than those of item 333.01	484,573	98,583	69,991	137,686	119,895	58,418
Other materials & accessories imported on consignment basis for the manufacture of semi-conductor devices	25,056	13,054	8,142	3,860	-	-
Palm oil, refined (incl. USP & other refined grades)	18,031	10,272	3,663	2,785	1,221	90
Dice of any material as part of semi-conductor devices	9,137	4,406	3,644	1,087	-	-
Cocoa beans for the manufacture of cocoa butter for export	30,351	4,094	12,860	11,232	1,449	716
Frames of any material as part of semi-conductor devices	7,044	2,580	2,740	1,724	-	-
Fabrics imported on consignment basis for the embroidery or manufacture of outer garments	11,184	2,115	1,772	2,894	2,657	1,746
Fabrics of discontinuous (or waste) synthetic fibers with less than 85% by wt. of such fibers (other than pile, etc.) mixed mainly or solely with cotton, nes	8,237	1,823	1,295	2,215	1,823	1,081

Continued

Other parts, nes of the electronic components falling within group 776	2,165	1,262	267	213	291	132
Steam & other vapor generating boilers	1,122	1,122	-	-	-	-
Fabrics imported on consignment basis for the embroidery or manufacture of undergarments	5,688	1,068	979	1,567	1,276	798
Other machinery & mechanical appliances, nes	1,666	760	353	142	228	183
Ingot, slabs & pigs, of tin	10,460	694	1,292	2,482	2,544	3,448
Moulding compounds (aminoplasts & phenoplasts)	1,131	646	355	130	-	-
Other electrical (non-electronic) measuring, checking, analyzing or automatically controlling instruments & apparatus, nes	711	630	20	0,150	35	26
Channel selectors or tuners	3,056	372	506	1,167	882	128
Other woven cotton fabrics with less than 85% by wt. of cotton, bleached, mercerized or otherwise finished (incl. flannelette cotton fabrics, etc.)	494	307	41	-	70	76
Volcanized rubber thread & cord, whether or not textile covered & textile thread covered or impregnated with volcanized rubber	2,754	289	492	703	713	557
Animal or veg. oils & fats, wholly or partly hydrogenated, or hardened by other process, refined or not, but not further prepared	1,443	278	40	153	511	461
Other materials, articles, accessories & supplies imported on consignment basis for embroidery & manufacture of handkerchiefs, outer & undergarments, gloves & mittens	959	228	151	209	233	138

PATTERN OF PHILIPPINE TRADE WITH ASEAN COUNTRIES

SINGAPORE
(1979-1983)

	Total Five-Year	1983	1982	1981	1980	1979
Total trade, fob US'000	1,375,817	420,705	329,929	238,942	239,485	146,756
Exports	559,203	140,254	111,553	129,223	112,613	65,560
Imports	816,614	280,451	218,376	109,719	126,872	81,196
Trade Balance	257,411-	140,197-	106,823-	19,504+	14,259-	15,636-
<u>Top Twenty Exports, Top US'000</u>						
Semi-conductor devices manufactured from materials imported on consignment basis	216,173	53,065	52,378	44,598	42,117	24,015
Finished electrical & electronic machinery, equipment & parts manufactured from materials imported on consignment basis	33,250	31,902	340	560	363	85
Azad ceramic sets, flags, & paving, hearth & wall tiles, nes	10,504	5,476	849	2,108	1,414	657
Coffee, raw or green, not roasted	23,179	4,455	4,656	2,645	2,237	9,186
Electronic micro circuits	13,790	2,895	3,318	4,487	3,090	-
Other parts, nes of the electronic components falling within group 776	6,500	2,643	1,153	1,255	1,392	57
Robusta coffee, raw or green not roasted	4,107	2,101	1,806	200	-	-
Cocoa powder, incl. instant unsweetened	9,328	1,550	4,417	1,967	1,298	96
Cocoa butter (fat or oil)	2,380	1,492	395	493	-	-
Coconut oil, refined	9,669	1,393	-	7,681	595	-
Mangoes, fresh	3,370	1,184	1,051	663	359	113
Lubricating oil base stock when imported with prior joint author- ization by the BOI, TC and the OIC	900	900	-	-	-	-
Chewing gum	2,314	873	476	675	149	141

Valea: Regional Economic Cooperation

	Continued						
Petroleum naphtha	822	822	-	-	-	-	-
Natural rubber (other than latex)	5,429	802	2,272	2,182	173	-	-
Brassiers	3,557	780	621	643	1,202	311	-
Fiber glass blankets, boards (incl. acoustical board) mats, slabs & preformed shapes for insulation	2,565	750	453	527	444	391	-
Soybean oil, crude	736	736	-	-	-	-	-
Parts of machinery for crushing or grinding solid mineral materials	1,910	683	558	339	232	98	-
Lubricating greases	2,100	629	475	497	349	150	-
<u>Top Twenty Imports, Job U.S. \$'000</u>							
Gas oil (bunker fuel)	282,404	262,072	87,221	9,445	17,717	5,949	-
Diesel oil	105,613	17,657	32,049	26,099	21,824	7,984	-
Other materials & accessories imported on consignment basis for the manufacture of semi-conductor devices	24,076	10,045	7,090	6,941	-	-	-
Dice, of any material as part of semi-conductor devices	14,830	5,842	6,717	2,271	-	-	-
Cocoa paste (in bulk or in block), whether or not defatted	22,552	3,589	7,282	408	11,273	-	-
Frames of any material as part of semi-conductor devices	9,451	3,004	3,337	3,110	-	-	-
Vinyl chloride (chloroethylene) viscosity improvers, anti-knock preparations, oxidation inhibitors, gum inhibitors, viscosity improvers, anti-corrosive prep. & similar prepared additives for mineral oils	6,802	2,710	4,092	-	-	-	-
Parts, nes of aircraft, heavier than air (not incl. rubber tires, engines & electrical parts)	4,418	2,533	447	924	485	29	-
	5,836	2,331	1,010	1,102	741	652	-

Continued

Aluminium foil & leaf, mounted on both sides of paper, paper-board, artificial plastic or other reinforcing materials	2,625	2,321	304	0,243	-
Seamless iron or steel pipes & tubes, uncoated	8,394	2,065	3,691	2,049	461
Ingots, slabs & pigs of tin	4,748	1,973	1,219	129	630
Malt extract	3,418	1,679	1,561	178	-
Other acyclic hydrocarbons, nes	13,130	1,589	3,080	4,458	2,692
Aluminium foil, unmounted without paper backing (excl. 6842304); interleaved; back with paper & other reinforcing materials, e.g. candy wrapping foil	2,219	1,510	707	-	1
Well drilling machinery, parts	12,819	1,458	9,947	1,373	17
Other parts, nes of the electronic components falling within group 776	6,777	1,400	1,645	1,792	1,498
Manganese ores	4,539	1,374	855	610	1,583
Liquefied petroleum gas (LPG)	3,818	1,148	-	-	482
Ball bearings	4,14	1,083	614	445	955
					1,043
					437
					117
					2,188
					0,609
					24

Source: National Census and Statistics Office, Manila

PATTERN OF PHILIPPINE TRADE WITH ASEAN COUNTRIES

THAILAND

(1979-1983)

	Total Five-Year	1983	1982	1981	1980	1979
Total trade, fob US'000	275,754	66,958	44,177	51,977	83,371	29,271
Exports	141,417	19,865	14,434	25,323	62,911	18,884
Imports	134,337	47,093	29,743	26,654	20,460	10,387
Trade Balance	7,080+	27,228-	15,309	1,331-	42,451+	8,497=
<u>Top Twenty Exports, fob US'000</u>						
Chassis, frames & other parts for automobiles, nes	2,973	2,561	279	15	44	74
Semi-conductor devices manu- factured from materials imported on consignment basis	1,965	1,101	595	199	70	
Printed circuits & parts thereof nes	906	900	6	-	-	
Insulated electric wire, cable bars, strip and the like	685	685	-	-	-	
Other parts, nes of the electronic components falling within group 776	4,661	513	2,600	1,068	480	
Other machine tools for working metal or metal carbides, nes	473	473	-	-	-	
Tableware & household utensils (incl. hotel & restaurant) or decorative articles, of plastic	2,254	385	393	486	548	442
Other balls for sports & outdoor games, nes Chromium ores	368	368	-	-	-	
Lubricating greases	781	356	64	136	225	
Escalators (moving stairs) and moving pavements	1,845	337	248	452	480	328
Other electronic measuring checking, analyzing or automatically controlling instruments	415	288	-	50	47	30

Continued

& apparatus, nes	270	270	-	-	-	-	-	-
Antibiotics for veterinary use	796	213	217	163	125	78	-	-
Copper bars & rods (other than round), neither polished nor coated	196	196	-	-	-	-	-	-
Other medicinal & pharmaceutical products, nes	1,351	190	259	287	321	294	-	-
Synthetic flavor materials and concentrates, enflourage greases, and mixtures of alcohol and essential oils, suitable for use in the pharmaceutical, food, drink and other industries (except perfumery)	221	178	18	15	10	-	-	-
Oil or air circuit breakers rated 600 volts and below	256	154	102	-	-	-	-	-
Sporting ammunition including hunting and target shooting ammunition (cartridges, shooting gun shells, etc.)	458	135	323	-	-	-	-	-
Ferro-silicon	530	133	-	25	-	372	-	-
Elastic fabrics, not knitted or crocheted, consisting of textile materials combined with rubber thread	268	131	88	49	-	-	-	-
Top Twenty Imports, Job US\$'000								
Maize (corn) unmilled	60,470	27,232	17,700	7,191	7,187	1,160	-	-
Insulated electric wire, cables, bars & strips and the like, nes	9,781	6,639	525	605	2,008	4	-	-
Ingots, slabs & pigs of tin	6,841	3,101	1,182	-	2,558	-	-	-
Leaf tobacco fillers & binders not stripped, Virginia type flue-cured	2,260	1,839	204	217	-	-	-	-
Casks, cans & boxes & similar containers of iron or steel	1,541	1,054	373	83	-	31	-	-
Other medicinal & pharmaceutical products, nes	2,491	747	444	446	498	356	-	-
Fabrics imported on consignment								

Valea: Regional Economic Cooperation

	Continued						
basis for the embroidery or manufacture of outer garments	2,452	722	209	62	419	1,040	
Flours & meals of fish, crustaceans or mollusks unfit for human consumption	9,117	579	690	2,484	2,436	2,928	
Electrical carbons, nes	589	589	302	-	-	-	
Electrical carbons, nes	848	546					
Gypsum							
Cuttlefish & squid ("pusit") prepared or preserved whether or not in airtight containers	1,964	438	1,135	391	-	-	
Fabrics of discontinuous (or waste) synthetic Fibers with less than 85% by wt. of such fibers (other than pile etc.) mixed mainly or solely with cotton, nes	1,755	302	153	202	28	1,070	
Aircraft tires, new	650	272	196	167	15		
Chemical wood pulp, soda or sulphate, bleached or semi-bleached (other than dissolving grades), long fibered	196	196					
Glass tubes for electric lamp manufactures	455	162	293				
Flexible tubular containers (collapsible tubes) suitable for packing colors or other products of aluminium	367	147	46	37	82	55	
Aluminium & aluminium alloys, unwrought	487	136	73	57	198	23	
Bars & rods of aluminium	852	135	264	63	308	82	
Fire bricks (alumina bricks)	659	102	47	150	89	271	
Vegetable saps, juices, extracts incl. pectin & hop extract (except)Soybean extracts or juices, classified in item 423.211							
	367	97	66	51	102	51	

Source: National Census and Statistics Office, Manila

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INTRA-REGIONAL TRADE COOPERATION IN SOUTH ASIA: PROBLEMS AND POTENTIAL

A.R. BHUYAN

1. INTRODUCTION:

Regional economic cooperation now-a-days is considered as a potent development strategy of the economically poorer regions that strive to achieve collective self-reliance by accelerating the mobilization of their own resources and by hastening the process of structural transformation of their economies. The need for cooperation has also received strong emphasis in the programme of Action for the Establishment of a New International Economic Order (General Assembly Resolution 3202) that stressed collective self-reliance and growing cooperation among the developing countries as a key element in strengthening their role in establishing the new international economic order. The formation of a number of integration schemes in recent years in various parts of the world is a clear manifestation of the developing countries' desire to achieve collective self-reliance. Prominent among these schemes are the Latin American Free Trade Association (now the Latin American Integration Association), The Central American Common Market, the Andean Group, the Caribbean Free Trade Association (later the Caribbean Community), the East African Community, the Central African Customs and Economic Union, the Economic Community of West African states, the Association of South-East Asian Nations and the Arab Common Market. Of late, keen interest has been shown at the official level in the scheme of South Asian Regional Cooperation (SARC) on which several rounds of talks have taken place among the governments of the seven countries concerned, viz., Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri-Lanka. Some of the areas for cooperation have already been identified and work is currently going on to include more areas on the agenda of cooperation.

In a scheme of regional economic cooperation, inter regional trade among members is usually the foremost objective even though it will require close cooperation in many other areas of activity in the region. The purpose of this paper is to examine the prospects of trade expansion in South Asia under some kind of regional arrangement, identify possible obstacles to the expansion of trade and suggest measures whereby these impediments could be removed. The remainder of this section digresses

on the rationale for trade expansion among developing countries. Section II presents a brief profile of the South Asian economies. Section III discusses the pattern of the region's external and intra-regional trade. Section IV discusses the obstacles to and mechanisms for expansion of intra-regional trade in South Asia. Concluding observations are presented in the final section.

THE RATIONALE FOR TRADE EXPANSION AMONG DEVELOPING COUNTRIES.

The need for expansion of trade among developing countries on a regional, sub-regional or intra-regional basis arises out of the disadvantaged position of these countries in the international economy as compared with that of the industrialized countries. The present system of world trade is characterised by the predominance of the latter group of countries and illustrates the extreme dependence of the former on the latter for both exports and imports. Around the close of the decade of the seventies, 71 per cent of the developing countries' total exports were to the developed countries, and 60 per cent of the developing countries' requirements of non-fuel primary commodities and more than 81 per cent of their requirements of manufactures were met by the developed countries. In contrast, trade among developing countries accounted for roughly quarter of their total exports and imports [11;11]

This dependency has resulted from historical centre periphery relationships between the developing and the developed countries in which the former were essentially suppliers of raw materials to the latter in exchange for investment capital, technology and manufactured products. Despite some industrialization that has taken place in the developing countries in recent years, this vertical division of labour and bipolar relationships continue to remain the dominant features of international trade today. The shaping of the pattern of world trade along these traditional lines made the developing countries lag far behind the developed countries and prevented them from sharing in the expansion of world trade (to the same extent as the developed countries) that registered an unprecedented growth during the decades of 1950s and 1960s.

While the main impetus for the expansion of world trade during the past two decades came from the continued growth of world income and investment especially in the industrialized countries, the rate of their economic growth stagnated in the 1970s. This has badly damaged the trade prospects of developing countries by reducing the demand for their exports. Moreover, persistent slow growth and the emergence of substantial unemployment and trade deficits have led almost all developed countries to strengthen existing protectionist measures or to introduce

new ones against low-cost exports of developing countries. The 1970s thus saw a very large drop in the rate of growth of the developed countries imports compared with the previous decades [11 77-8].

The existing international trading arrangement thus seems to be incapable of providing adequate support to the development process of developing countries. It is therefore being increasingly felt that developing countries should progressively reduce their dependence on developed countries and look more to each other for markets for their exports on which their development largely depends. This is the rationale behind the intensification of attempts in various developing regions to expand their mutual trade and it is no less pertinent for the region of South Asia.

II. A PROFILE OF THE SOUTH-ASIAN ECONOMIES

The basic economic data of the countries are given in Table 1. The region accounts for over a fifth of the World's population even though it occupies only 2.7 per cent of the World's land surface. As against the massive size of its population, the region's economic size as measured by GDP is very small. Within the region, again, significant variation exists in both population and GDP. Four of the seven countries of the region, viz., Bangladesh, Bhutan, Maldives and Nepal, fall in the group of "least developed countries". While per capita GDP in the region is on average only 259 US dollars, Bhutan, Bangladesh and Nepal have still lower per capita incomes of only \$ 118, 140 and 170 respectively. Maldives, Bhutan, Nepal and Sri-Lanka can easily be called small economies, their markets (in terms of total GDP and Population) being much smaller than the other countries of the region. India's market size is undoubtedly large while Pakistan and Bangladesh can be called medium-sized economies.

Agriculture is the dominant sector in all these countries with the exception of Maldives¹. In Bangladesh, Bhutan and Nepal, agriculture accounts for 43, 63 and 57 per cent of GDP. In India, Pakistan and Sri Lanka its contribution is about a third. The manufacturing sector is small in all these countries, its contribution to GDP ranging from 15-17 per cent in India, Pakistan and Sri Lanka, to 7 per cent in Bangladesh, and to 3-4 per cent in Bhutan and Nepal.

PATTERN OF PRODUCTION

One characteristic of the pattern of production in South Asian countries that has important implication for expansion of intra-regional trade is the similarity of their production structure with a narrow specialization in both agriculture and manufacturing sectors. In agriculture, each country

1. Agriculture (excluding fisheries) accounts for only 10-12 per cent of Maldives' GDP. Fishing and tourism provide for a quarter each and nearly the whole of the rest comes from shipping. See UNCTAD "Reports of the Review Meetings for the Least Developed Countries of Asia and the Pacific", A/Conf. 104/3, 18 May 1981.

specializes in a few major crops which primarily govern the entire process of income and employment generation in these countries and hence the pattern of trade. Thus, Bangladesh grows mainly rice, jute and tea of which rice is entirely consumed within the country while nearly the whole of the output of jute is exported in raw or processed form. Tea also is a major export crop of Bangladesh. India's major crops are rice, wheat, cotton, jute, tea and groundnuts. She has a fairly large export trade in jute goods and tea, and to a small extent in cotton and oil seeds. Nepal's agriculture production is concentrated on a very few crops like rice, other cereals and jute. Rice and nearly the whole of jute production of Nepal are exported. Pakistan's major crops are wheat, rice and raw cotton while Sri Lanka produces tea, coconut and rice, the first two mainly for export markets. Bhutan produces small quantities of a few agricultural and forestry products for export, such as potatoes, cardamon, orange, chillies, soyabean and timber. For Maldives, there is no prospect of developing agricultural export (except copra from coconut) because of the extremely limited cultivable area (estimated at 0.02 hectares per inhabitant) and the poor alkaline quality of the soil. Fishing, shipping and tourism are precisely the three activities on which her economy is based and provide the main foreign exchange earnings [5;6].

With the exception of India the region is poorly endowed with mineral resources, and there is a wide disparity in the endowment of known mineral resources among different countries. Sri Lanka and Maldives have virtually not known mineral resources. Similar is the case with Bhutan and Nepal. Although substantial deposits of some minerals are believed to exist in these two countries, there has been little investigation in ascertaining the actual presence of these deposits. These two countries have, of course, enormous hydro-electric potential, but its exploitation will require substantial multilateral financial and technical assistance and bilateral cooperation with neighbouring India. India, in contrast with other countries of the region, has substantial reserves of coal, iron, manganese, mica, limestone and bauxite. Pakistan has sizeable deposits of natural gas, coal, rock salt and limestone while Bangladesh has only natural gas worth the name.

Industrialization in South Asia has been based mainly on the specialization of processing of indigenous raw materials. The major industries are cotton and jute textiles, cement, sugar, fertilizer, cigarettes, paper and newsprint and safety matches. As in primary production, considerable difference exists among the various countries of the region in respect of the stage of their development in manufacturing, although some progress has been made in all these countries in import substituting

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industries mainly of consumer goods. Industrial development has been more for domestic market in India and Pakistan where certain degree of import substitution has taken place in intermediate and capital goods as well. The industrial sector in all other countries is characterised by the presence of some traditional manufactures such as food processing, tobacco manufactures, cotton and jute textiles, and some other light consumer goods industries. Maldives has, however, little manufacturing activity and, with only two export-oriented garment factories, lies far behind others in this regard.

III. PATTERN OF TRADE IN SOUTH ASIA

The relative importance of foreign trade in a country's economy can be judged by its openness, i.e. by the ratio of its foreign trade to GDP. This dependence on foreign trade varies widely among the different South Asian countries (Table-1). It is highest in the case of Maldives followed by Sri Lanka, Bhutan, Pakistan, Bangladesh and Nepal in that order. At the bottom of the Table is India, her foreign trade (export plus import) accounting for less than 15 per cent of the country's GDP. A small country is generally found to be more trade-dependent as the cases of Maldives, Bhutan and Sri Lanka would suggest (Nepal being an exception), and thus more vulnerable to external influences. Examples abound of this type of countries which have highly unstable export earnings and also suffer from low growth of exports [11; 51].

One prominent feature of the region's external trade is the declining share of its exports in world trade (Table-3). South Asia's exports as percentage of world trade declined from 0.783 in 1976 to 0.707 in 1979 and to a further low of 0.661 in 1982. The corresponding percentages for imports were, however, 0.927, 1.033 and 1.23 respectively indicating that the region has been importing more from the rest of the world than it was exporting to them. This accounts for the growing trade imbalance of the countries of the region which bears an important implication for expanding trade among themselves.

The region's overall export and import and trade balance are shown in Table 2. Since the ratio of import to GDP was higher than that of export and since imports were rising faster than export as mentioned in the previous paragraph, the balance of trade of all South Asian countries which was always in deficit deteriorated further. For the region as a whole, the trade deficit more than doubled between 1979 and 1982. More or less, all the countries shared in this deficit. This rising trade deficit has been putting a heavy strain on the country's external accounts. Exports in 1982 could pay for only about a third of Bangladesh's, Maldives; and Nepal's ;46 per cent of Bhutan's, 44 per cent of Pakistan's, 57 per cent of Sri Lanka's and 60

per cent of India's imports (Table-1). As can be seen in Table 4, the favourable balance on services and unrequited transfers could to some extent ease the current account balance of India, Nepal, Pakistan and Maldives, but, for Bhutan, Bangladesh and Sri Lanka, their current account receipt fell short of as much as 60 per cent, 56 per cent and 33 per cent of their import payments respectively. In considering the need for trade expansion within the South Asian region this point has to be borne in mind since intra-regional trade would to some extent ease the constraints imposed by the limited availability of hard currency for purpose of imports.

COMPOSITION OF TRADE : EXPORT

The structure and commodity composition of export of the region shows a heavy reliance of these countries on primary products (Table 5 & 6). Export dependence on primary products is highest for Maldives (99%), followed by Sri Lanka (78%), and Nepal (69%), while in the remaining four countries primary products account for 35-50 per cent of their total exports. Manufactured exports of these four countries although relatively large are mainly composed of a few traditional products processed from raw cotton, jute and other locally available raw materials.

Apart from the predominance of traditional products in the region's exports, most of these countries specialize in a narrow range of products (Table 6). Fish accounts for virtually the whole of Maldives export, Raw jute and jute goods, hides and skin and fresh vegetables constitute the bulk of Nepal's exports. Raw jute, jute goods, leather, fish and tea are the major exports of Bangladesh. Seventy per cent of Bhutan's exports are covered by cement, orange, orange juice, cardamon, potato, rasin and beauty powder. As regards Pakistan, more than 80 per cent of her primary exports are accounted for by rice and raw cotton, while her manufactured exports are mainly cotton textiles, floor coverings, leather and leather manufactures. India's exports are relatively well diversified, but even in her case a few items such as jute and cotton textile, leather, tea, fish, iron ore concentrates, precious stone, sugar and spices account for about 50 per cent of her total exports.

The heavy concentration of exports of these countries makes them vulnerable to fluctuations in the world market. A recent UNCTAD study ranks Bangladesh and Nepal in the category of countries that suffered serious export earnings instability during the decade of the 1970s [11; 47].

IMPORT

There is a wide variation in the composition of imports of South Asian countries. Food items account for about a half of Maldives', a quarter of

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Bangladesh's and a fifth of Sri Lanka's total imports. Intermediate goods form a quarter of Bangladesh's and Nepal's, a third of Sri Lanka's, two-fifths of Pakistan's, and more than a half of India's imports. This reflects increasing requirement of inputs for these countries import substitution industries and mineral fuels. Import of mineral fuels alone accounts for a third of India's and about a quarter of Pakistan's and Sri Lanka's total imports.

Manufactured products form about a half of Bangladesh's and Sri Lanka's, 45 per cent of Pakistan's and 39 per cent of India's total imports, while for Bhutan and Nepal such imports constitute respectively 83 per cent and 70 per cent of their total import, reflecting a relatively early stage of industrialization of these countries.

DIRECTION OF TRADE

The direction of South Asian countries' exports and imports in most recent years for which data is available is shown in Table 8. The share of developed countries in Bangladesh's exports declined but increased for India, Nepal and Maldives. For Pakistan and Sri Lanka the share of the developed country group fell only slightly. The developing countries' share in the region's exports increased for only Bangladesh and Sri Lanka, and declined for the other countries. The decline has been more pronounced for Nepal (from 84 per cent in 1976 to 38 per cent in 1980) where a deliberate policy of trade diversification away from India led to a shrinking of export to that country which had historically been Nepal's largest trade partner. The share of the centrally planned economies increased in the export of Bangladesh, Pakistan and Nepal as the result of a number of recently concluded bilateral agreements, but fell in the export of India and Sri Lanka.

As a source of supply, the share of the developed countries increased in the import of Maldives, Nepal and Sri Lanka but fell for Bangladesh, India and Pakistan. Despite this decrease, the developed countries today supply about 50 per cent or more of Bangladesh's, Pakistan's, Sri Lanka's and India's imports.

In the most recent years, however, Bangladesh's exports to the centrally planned economies have tended to decline, e.g. from 15.1 per cent of total export in 1981-82 to 8.9 per cent in 1983-84. (See Bangladesh Bank, Export Receipts, 1982-83 and 1983-84.)

The share of the centrally planned economies in the imports of India and Bangladesh has shown some increase in the recent years. More prominent has been the increase in Nepal's imports from these countries. At the same time, Pakistan's imports from this country group as percentage of total

imports registered some decrease, while no significant change is marked in Sri Lanka's imports from these countries.

The share of the developing country group in the region's imports increased for all countries except Nepal, Maldives and Sri Lanka, most of the increase having been due to increased oil prices. In the case of Maldives and Sri Lanka, the decline in the developing countries' share is accompanied by a concomitant rise in the share of the development countries. For Nepal, as noted earlier, the decline in the developing countries' share in her total imports is due to a shrinkage of imports from India. Note that the decline of Nepal's imports from the developing countries has not been as great as the decline of her exports to these countries. This implies that while Nepal's policy of trade diversification has resulted in a fall in exports to India, it has not been able to reduce its dependence on India as a source of supply. This reflects Nepal's peculiar problem of landlockedness which, in view of high transportation costs involved in importing from distant sources, reinforces the logic for expanding trade within the region.

INTRA-REGIONAL TRADE IN SOUTH ASIA.

The pattern of Intra-regional exports and imports is detailed in Tables 9 and 10. The extent of intra-regional trade in the region's total trade is very small, only 4 per cent in the case of export and 2 per cent in the case of import. There is also a wide variation in the size of the different countries' intra-regional trade and in the extent of their inter-dependence. Bangladesh's exports to the region rose from 4.6 per cent of her total exports in 1976 to 8.2 per cent in 1982, but her intra-regional imports fell from 7.8 per cent to 3.1 per cent of total imports during the same period. India and Pakistan are her major trade partners in the region.

Pakistan's intra-regional exports constitute 5-6 per cent of her total exports and her intra-regional imports ranged between 2-3 per cent of her total imports in the recent years. Pakistan's main trading partners are Bangladesh and India in that order of importance. Sri Lanka's intra-regional exports and imports have both fallen in recent years but they still account for 8 per cent and 5 per cent respectively in her total exports and imports. India, Pakistan, Bangladesh and Maldives are her main trading partners in the region.

India's intra-regional exports constitute 2.7-4.0 per cent of her total exports and less than one per cent of her imports. India's main trading partners in the region are Nepal, Sri Lanka and Bangladesh.

The exports from Bangladesh to the region constitute about 4-8% of total and her imports account for about 3-8% of total.

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Bhutan's exports have been largely to India (96.5%) and her imports also come through from India (90.0%). Maldives exports to the region dwindled from about 30% to 13% of exports and 41% to 20% of imports. India, Pakistan and Sri Lanka were the natural trade partners.

Nepal's export to region (mainly India) dwindled from about a third to one-sixth of her exports and in case of imports it has also reduced from 38.6% to 19.5% of total.

The principal commodities of inter-regional trade is given in Chart I. below:

Chart I: List of current exports of South Asian countries to the region

A. Bangladesh's exports to South Asian countries

India: Crude materials (rayon), raw jute, newsprint and paper, fresh fish (hilsa).

Nepal: Hides and skin, raw jute, newsprint and paper.

Pakistan: Tea, tamarind, ginger, betel leaves, bamboo, raw jute and cuttings, cellophane, pharmaceuticals, hardboard, newsprint, paper, cables and wires.

Sri Lanka: Raw jute, hides and skin, jute goods, newsprint.

B. India's exports to South Asian countries

Bangladesh: Fruits and nuts, coal, coke and briquettes, dyes and paints, textile yarn, glassware, pig iron and ferro alloys, ingots and other primary forms of iron and steel, universal plates & sheets of iron and steel, M.S. tubes and pipes, other metal manufactures, textile and leather machines, parts and accessories of motor vehicles, motor cycles, scooters, railway vehicles.

Maldives: Cane sugar, spices, medicine and pharmaceutical products, cotton fabrics, crude fertilizer, and different types of stone.

Nepal: Spices, crude vegetable materials, petroleum products, paper and paper board, textile yarn, cotton fabrics, cement and construction materials, metallic manufactures, electrical machinery, spare parts, medicine and pharmaceuticals.

Pakistan: Wheat and meslin, tea, crude vegetable materials, rubber tyres and tubes, glassware, hard wood, mineral manufactures, metal manufactures, parts and accessories of motor vehicle.

Sri Lanka: Fish dried, salted or smoke, vegetables fresh or frozen, cane sugar refined, spices, rice, cereal preparations, medicine and pharmaceuticals, textile yarn, cotton fabrics, iron and steel sheets, metal manufactures, internal combustion and piston engines, textile and leather machinery, machine tools and spares, heating and cooling equipment, electrical apparatus, transport equipment, motor vehicles, scooters, electrical machinery, etc.

Bhutan: Diesel, petroleum, kerosene, coal, cooking gas, bitumen, rice, wheat flour, dairy products, meat products, pulses, sugar, molasses, edible oil, salt, tea, vegetables, oil seeds, fabrics, yarn, garments, jute, footwear, plastic goods, wood manufactures, medicine, cement, cigarettes, pharmaceuticals, bricks, iron and steel pipes, sheets etc. hardwares, metal manufactures, agricultural equipment, refrigerator, metal working machinery, machinery appliances, fertilizer, wires, electric goods, toiletries, telecommunication apparatus, sewing machines, sanitary fittings, cosmetics, paints and varnishes, glasswares, sport goods, chemicals, etc.

C. Bhutan's exports to South Asian Countries

Bhutan's trade is almost exclusively with India. The main export items to India are cardamon, potato, chillies, orange, apple, lemon, pineapple, pear, ginger, tomato, pepper, catechu, betel nut, rice, millet, pulses, soyabeans, mustard oil and oilseeds, rosin, menthol oil, turpentine, beauty powder, cold drinks, orange juice, jam mixed fruits, candles, katha, liquors, cow skin, cane, bamboo, broom, boulder, lime powder, cement, sawn timber, tea chest panels core veneers sands and pebbles, dolomite chips, firewoods, etc.

D. Pakistan's exports to South Asian Countries

Bangladesh: Fruits and vegetables, coffee, cocoa, spices, sugar and honey, cereals, crude fertilizer, oilseeds, raw cotton, vegetable oils and fats, chemical elements and compounds, dyeing, tanning and colouring materials, medicine, rubber manufactures, textile yarn and fabrics, metal manufactures,

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non-metallic mineral manufactures, machinery, clothing, scientific instruments.

India: Raw cotton.

Sri Lanka: Rice, dried sprats, sugar, cigarettes, cotton yarn, jute bags.

Pakistan's exports to other South Asian Countries is negligible.

E. Sri Lanka's exports to South Asian Countries

Bangladesh: Chanks (conch-shell), arecanut, coconut oil, natural graphite, tyres for bicycles.

IV. OBSTACLES TO AND MECHANISMS FOR TRADE EXPANSION IN THE REGION

It has been seen that the volume of intra-regional trade in South Asia is very small. Before going to recommend appropriate policies and mechanisms for trade expansion in the region, it will be worth-while to examine the causes behind this limited intra-regional trade.

REASONS BEHIND THE LIMITED INTRA-REGIONAL TRADE IN SOUTH ASIA.

First, this limited trade is ascribed to the overwhelming dominance of some agricultural commodities and industrial raw materials in the region's exports. Production of these commodities is geared mainly to international demand organising outside the region, and only a very minor proportion of these commodities is traded within the area. The manufacturing industries in the region which could absorb raw materials produced within the region are very few and hence the demand for these raw materials is low. In some cases, production of these commodities overlaps between countries (such as jute, tea, cotton and rubber) for which there is little or no intra-regional demand for these commodities.

Secondly, some of these commodities are the main earners of foreign exchange for one or the other country, and hence even if intra-regional trade in these commodities could be expanded, it would be only at the expense of the region's exports to external markets and thus aggravate its already poor foreign exchange position.

Thirdly, there are certain items which are in great demand in the region but which the region does not have adequate capacity to supply. Examples are various types of capital goods, transport equipment and intermediate goods in which the volume of trade is small because of the bottlenecks on the side of supply.

Fourth, all countries of South Asia have been facing persistent trade deficits, and in order to reduce their deficit they impose comprehensive

quantitative restrictions and foreign exchange control on imports which apply with equal rigour to imports from intra-regional and external sources. Moreover, all these countries have been pursuing import substitution policies for development, and in order to protect local industry they impose heavy import barriers to maintain a strict control over imports. There is also the revenue objective of import control which is no less important for these countries. In all these countries customs account for a significant proportion of the Government's revenue, and in the absence of other readily available fiscal sources, they are reluctant to liberalize trade by reducing trade barriers.

Fifth, these countries have generally been using production techniques based largely on the technology developed in the industrialized countries and as such have become dependent on them for import of appropriate capital goods and spare parts which cannot be available elsewhere. Consumer tastes too are often found to be oriented to the goods produced in the developed countries. Difference in quality standards and often price advantage provide additional reasons for purchases from the developed country sources.

Sixth, producers in developing countries are at a disadvantage for, even if their products are price-competitive, the competing developed country producers are capable of offering their products at more favourable terms. They are in a position to provide generous facilities with respect to supplier's credit and also offer various goods under tied aid arrangements.

Finally, the traditional and historical relations with the developed countries, the pattern of transport link, availability and flow of market information, the role of transnational corporations, the endemic balance of payments problem of the countries of the region and their reliance for capital finance on developed country donors and international financial institutions controlled by them provide (through tied aid and other forms of pressure) an additional underpinning in favour of trade with the developed countries and against trade within the region.

MECHANISM FOR TRADE EXPANSION IN SOUTH ASIA,

(I) TRADE LIBERALISATION:

A conventional method of trade promotion among a group of countries is liberalisation of trade brought about through integration of their markets. The term integration is understood to mean the elimination of inter-country barriers to trade and factor movements with the retention of barriers against third countries. It may take various form of which the three principal forms are more well-known. A "Free trade area" involves freeing of intra-area trade while external tariffs and trade restrictions are maintained. A "customs

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union" adds a common external tariff to the free trade among members. A "common market" involves free internal trade, common external tariff and free factor movements. At the extreme, there may be an "economic union", as envisaged in Europe, which adds to the characteristics of the 'common market' harmonization of all economic policies of member countries²

There are strong and persuasive arguments in support of economic integration among developing countries which are well-known and hence need not be detailed here. Briefly, as opposed to integration among developed countries in which the criterion of desirability of integration rests on the static welfare effects of the re-allocation of existing resources, the arguments for integration among developing countries rest principally on the hypothesis that it will accelerate economic growth and structural change of the economies. In other words, the gains from integration are measured in terms of changes in income and industrial production. The static short-run welfare effects of integration among developing countries will be very small since the existing level of trade among them is very small. The case for integration among them is based essentially on its dynamic effects which are associated with and brought about by an enlargement of the market. These include (i) economies of scale, (ii) external economies, (ii) availability of investment and (iv) generation of economic efficiency brought about through changes in the degree of competition.

In the absence of integration, countries would produce in isolation for the home market behind heavy national tariff walls, forego benefits of scale economies and breed inefficiency in production. There will be parallel growth of similar industries within the region thus giving rise to huge wastages of the region's scarce resources, Enlargement of the market through integration would prevent this wastage of parallelism and duplication of effort and bring about industrial specialization and

2. Lesser forms of integration are (a) a "trade arrangement" of UAR-India-Yugoslavia type which provides for tariff reduction over a range of specified products, (b) "preferential application of tariff and non-tariff restriction-like the Commonwealth Preference Area, (c) "Sectoral integration" which involves special arrangements between a group of countries in a particular sector like the European Coal and Steel Community, and (d) harmonization and coordination of national development plans. This classification is not however mutually exclusive but often complementary. Actual regional arrangements are unlikely to fit exactly into these categories. In many cases it may be necessary to combine two or more types together depending upon the priorities and objectives of the countries concerned.

complementarity among countries of the region thereby creating large intra-regional trade in the future. Economic integration has thus a positive relationship with growth and structural change, and works its way through expansion of export on the basic supposition that the growth of exports is a necessary factor for accelerated growth of income and structural change, and that in the existing framework of international trade this necessary export growth cannot be realized.

These advantages notwithstanding, there are many economic factors which may go to prevent the full impact of integration from being realized in South Asia. One important consideration is that at low levels of economic development, the benefits of "conventional" integration, i.e. integration based on the removal of trade barriers, are limited, mainly because the existing volume of trade between the countries concerned is very small. Moreover with trade liberalization, the presently low-duty partner countries will be forced to divert imports from low cost third countries to high cost partner sources. This substitution would adversely affect consumer welfare of the countries concerned.

Secondly, as has been stated earlier, all these countries are highly dependent on customs duties for revenue, and reduction of external imports will put these countries to a serious disadvantage. Moreover, because of the growing concern of these countries for balance of payments difficulties, they may hesitate to reduce trade barriers unless they can be sure that the additional imports resulting from integration would at least be matched by an equal amount of additional export.

Thirdly, most of the South Asian countries are infant economies and their existing industries have to be protected against imports of similar products. The import substitution strategy adopted by all these countries made their production structure highly similar and competitive. In such a situation, they will be reluctant to reduce trade barriers which they fear would lead to a contraction of their infant industries and hence loss of employment. That such losses of output and employment could be compensated by expansion in other lines of production is unlikely to carry much weight with their governments. The problem of unemployment and under employment is so acute in these countries that their governments might be reluctant to adopt trade liberalization methods that involved the slightest risk in this regard.

Fourthly, the wide variation in the size of the prospective member countries, their relative level of development, the relative structure and competitiveness of their industrial sectors might well deter the relatively less advanced and smaller countries to enter into an integration arrangement. There is an apprehension that in a union of unequal partners

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the weaker partners will suffer a net economic loss as the more advanced members will dominate the trade patterns and industrial development of the region. The poorer members with their fragile industrial structure may fail to compete even in their own market let alone in the markets of their partners. Moreover, the fact that the more developed partners have already a greater range of industries may mean that new industries in the less advanced partners are unlikely to develop.³ If this pattern becomes strong enough, adverse factor movement from the less to the more advanced member may occur, thus compounding the economic difficulties of the less advanced countries.

It is thus not enough to show that integration is potentially beneficial for the development of the region. National self-interest is the ultimate goal of each sovereign country. No country will be willing to enter into any regional agreement and surrender some of its economic powers if it does not fore see a net gain for it from cooperation. The loss of opportunities of growth of certain industries would have to be more than compensated by the advantages of development of some other industries for a wider market. Otherwise it is likely that it would buy higher cost manufacturers from the partner countries, rather than from the world market, without adequate compensation [4]. Incorporation of various clauses in the treaty of integration by providing greater tariff concessions to less developed partners (as in LAFTA), distribution of revenues based on the comparative levels of development (as in the Central African Customs Union), special treatment of depressed areas for investment (as in the EEC), and various other compensatory devices may be instituted to accommodate the needs of the less developed partners, but the experience of the existing integration schemes in this regard has been limited so far.

For these reasons, the adoption of conventional methods of trade liberalization by removal of trade barriers alone may not be very effective in expanding intra-regional trade. This is not to rule out the prospect of regional cooperation altogether. What it suggests is that for expansion of trade in the region a combination of approaches bearing at the same time on trade barriers, investment and other financial aspects will be needed. Some of these approaches are discussed in the following.

³ One should not press this point too far, for product differentiation is seldom perfect; and trade expansion that may take place following integration is not likely to lead to a complete elimination or supplanting of the less developed country products. What may happen is that there will be an increase in the share of the more efficient producers relative to that of the less efficient ones.

(II) HARMONIZATION AND COORDINATION OF PLANNING

Trade liberalization measures (relaxation of tariff and non-tariff barriers) are intended to influence the pattern of intra-regional specialization and trade through the operation of market forces. In most of the South Asian countries where the private sector is very weak, the effectiveness of market mechanism is, however, likely to be very limited, and hence specialization and intra-regional trade cannot be expected to grow without special attention from the government concerned. Additional measures will therefore be needed in South Asia to bring about the desired result.

The existing pattern of production and trade in this region is such that a mere lifting of trade barriers will not necessarily increase the flow of intra-regional trade. The countries of South Asia lack complementarity in their economic structure. In such a situation, the removal of trade barriers will create intra-regional trade along traditional lines. The main policy of these countries should, therefore, be to deliberately create a new pattern of complementarity in their production structure on the basis of which new lines of trade will be created. Economic development means structural change but trade liberalization alone will not bring about this structural change in the South Asian economies. In order to achieve this, cooperation will have to be extended beyond the purely negative action of removing the existing trade barriers; something positive will have to be done in the sphere of production with a view to changing the composition and magnitude of investment. In other words, trade liberalization measures will have to be accompanied by the coordination of economic plans and the adoption of a policy of agreed specialization through inter-governmental negotiations in the region.

(III) MARKET SHARING AGREEMENTS

When fully free trade in the region is not immediately feasible, an alternative of limited cooperation through agreements to share the expansion of markets in a package of specified products may be attempted [4]. This involves specialization in specific lines of production and mutual trade liberalization in agreed products. Under this arrangement, each country will concentrate on some products and enjoy the expansion of market without being encroached upon by others. This will require some countries to hold over development of some existing or new products so that expansion could be made in other countries. It can be seen that a large country in such a framework will gain proportionately less by the increase of the market for each individual product, whereas the expansion of market will be very large for a small partner's product. In order to have a rough balance in intra-regional trade in a package of agreed products, therefore, a

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relatively larger number of products will have to be awarded to the bigger partners.

Market sharing agreements would have enormous prospects in various intermediate and capital goods and consumer durables which, because of the extensive possibility of import substitution, offer immediate possibility of specialization. A problem may arise as to which country would develop which products, but considerations of specific resource endowment, of locational advantages, or of long run viability can easily determine the location of plants by economic feasibility studies.

(IV) TRADE ARRANGEMENTS

A simple but very practical approach towards liberalization within the region is to enter into trade agreements (bilateral or multi-lateral) which will provide a broad framework for expansion of trade both in the short-run and in the long-run. These agreements generally involve commitments to make specified purchases of listed commodities over a stipulated period. A bilateral agreement may, however, become unnecessarily restrictive since such agreements may discriminate against the trade of other developing countries. A bilateral agreement has also an additional disadvantage, because in it the level of trade tends to be determined by the export capacity of the weaker partner. A multi-lateral trading arrangement is therefore preferable to a bilateral agreement.

In a multilateral framework, each country will be required to draw a list of commodities which would be completely free from trade restrictions in respect of intra-regional trade. On this basis, each country would establish its own list which would include as many of the proposed items as possible. These preliminary offers of free list would form the basis of a multilateral negotiation. In conducting negotiations each country would try to find a reasonable balance between the export possibilities which it expected from the list of other countries for its own products, and the additional imports it would allow of the goods on its own list. The final list would thus be a result of negotiations between the participating countries [9; 85-6].

(V) SELECTIVE TRADE LIBERALIZATION

If total elimination of trade barriers, however desirable, is not possible, a selective trade liberalization strategy may stand a better chance of acceptance. This strategy involves an across the board "approach whereby participating countries will institute tariff cuts on all items or major groups of products. Alternatively, selective trade liberalization may involve an item by item approach whereby a common list will be prepared to include major tradeables on which duties will be eliminated.

A useful device in this direction is to fix as intermediate target the carrying out, perhaps in annual stages, of a linear reduction of duties in terms of a certain percentage of their most favoured nation tariffs. Roughly equivalent measures may be provided for non-tariff barriers as well. A preferential zone would then emerge. Because of the many obstacles to intra-trade and depending on the percentage reduction of tariffs. This preferential zone may not be sufficient to stimulate trade in all products, but a few rounds of across the board reductions would get the countries used to this type of procedure and demonstrate that no unmanageable consequences arise in practice.

(VI) JOINT VENTURES FOR TRADE EXPANSION

There are great opportunities for joint ventures and production cooperation among countries of the region. There are currently a number of joint venture projects between India and Nepal, and India and Bhutan. Opportunities exist for similar agreements with Pakistan and Bangladesh as well. The natural gas and forest resources of Bangladesh and the Eastern Indian State of Assam may be utilized as input for the manufacture of chemicals and fertilizer, paper and newsprint which may enter into intra-regional trade. Likewise, opportunities exist for setting up industries in Sri Lanka in the exploitation of the latter's natural resources for the benefit of both countries. The areas that offer scope for cooperation between India and Sri Lanka are among others, cement, paper and pulp based on soft wood, railway slippers and coaches, paints and dyes, rubber-based industries, salt-based industries, wood-based industries, coconut products and leather products. Likewise, India may help Nepal and Bhutan set up industries based on local materials with buy back arrangements to meet part of India's requirements. The industries include dairy products, fruit and vegetable processing, fishery industry, cement and forest products. The greatest scope for India-Nepal and India-Bhutan cooperation lies in effectively harnessing these two countries' huge potential of water resources for generation of electric power which can meet the growing demand for electricity in both these countries and in India. Opportunities for collaboration with Maldives exist in fisheries for export and in the development of tourism and shipping which are most important in Maldives' economy. Promotion of Indian and Sri Lankan tourist traffic to the Maldives and the potential for Maldivian Shipping Line to provide carriage for the region's cargoes are instances in point [5; 54].

(VII) PAYMENTS ARRANGEMENTS

Trade liberalization measures of whatever type is bound to give rise to some imbalance in intra-regional trade. Persistent trade imbalance of a

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country may strain economic relations and, therefore trade liberalization commitments should accompany a simultaneous establishment of payments arrangements whereby any possible trade imbalance in intra-regional trade can be promptly removed. For this to happen the country or countries running into deficit in trade with others should have ready access to a credit line for financing their deficits. Funds for such credit may be provided by members having surplus in intra-area trade. Some sort of a clearing arrangement like the Asian Clearing Union may be devised and arrangement reached to effect payments for transactions within the region in the currency of either partner and settle the net balance in hard currencies. This will lessen the balance of payments burden of the deficit countries in the region and thus stimulate intra-regional trade.

(VIII) OTHER INTERNATIONAL MEASURES

For promotion of intra-regional specialization and trade, cooperation in other spheres will be needed too. There is need for cooperation in research and exchange of market information, joint market promotion, and development of transport and shipping for easy movement of freight within the region. For purpose of trade information and market promotion there should be regular and closer contact between exporters, importers and state trading agencies of various countries of the region. The ASEAN example of a Regional Chamber of Commerce and Industry may be followed in this regard. In shipping, a regional shipping line may be contemplated that will help facilitate not only intra-regional trade but the region's external trade as well. There is need for a regional development bank that will provide investment finance especially for the benefit of the relatively poorer economies.

(IX) DOMESTIC POLICIES

Assuming that external constraints to intra-regional trade expansion are removed and suitable environment for trade expansion is created, everything will depend upon the individual country's ability to generate adequate supplies.

Again as noted earlier, the South Asian countries have similar resource endowments, and hence unco-ordinated development efforts may result in the establishment of similar types of industry leading to a wasteful employment of the regions' scarce resources. This duplication of efforts will also lead to uneconomic, small-sized undertakings in which the scale of economies are bound to be foregone. The coordination of development plans in such a situation would prevent the wastes of parallelism and loss of economies of scale that would result if national plans were implemented as they were. It would create from the very beginning a pattern of industrial

complementarity and specialization among member countries while progress towards regional free trade is made. It would also prevent the cluster effect of industrialization, ensure satisfactory inter-country distribution of industrial projects and thus an equitable distribution of income and employment generated by integration [8].

Notwithstanding its importance, harmonization of national plans may be difficult to achieve because of political and psychological reasons, but it has to be understood that harmonization of planning does not mean replacement of national plans by an integrated plan for the region. The later is politically most unrealistic nor does it appear necessary. What is needed is only some kind of consultation among the respective planning authorities at the time of preparing their national plans and coming to an agreement in matters of drawing up and adjusting targets of investment and production in important industries in each of the countries, this will enable intra-regional specialization by consensus based on resource endowments in each country without any thorough re-casting of the national plans. It is true that for purpose of reaching such an agreement certain amount of mutual friendliness is essential, but if the potential advantages of coordinated development are recognized, a reasonable compromise should not be difficult to achieve. It may be practical to start with a limited range of activities or only one or a few industrial projects on the basis of feasibility studies. Even a modest start as this would have a considerable value in demonstrating the advantages of regional cooperation and create opportunities for identifying more sectors for purpose of intra-regional specialization.

V. CONCLUDING REMARKS

The seven South Asian countries under study constitute one of the poorest regions in the world. It is suggested that these countries could significantly improve the prospects of their economic development through specialization and trade among themselves in the framework of a regional arrangement.

The ratio of foreign trade of the region to its GDP is not very high, but as a major earner of foreign exchange and in view of its income and employment generating effects growth of exports is of great importance to all these countries.

In the present conditions of world trade, however, the necessary export growth cannot be realized. Hence the need for greater reliance on expansion of intra-regional trade. The intra-regional trade in South Asia as proportion of total trade is very small and various measures for its expansion have been suggested in this paper. These measures are,

however, not substitutes but complementary. For various reasons it has been seen that the prospect of "classical" integration in the region is not very bright. While there definitely exists a rational for integration in the region, a slow and step by step approach to that end is likely to have a better chance of success. Policies of selective trade liberalization and market sharing agreement may be effective in creating conditons for eventual formation of an integration scheme. It has also been seen that mere lifting of trade barriers would not have much significant effect on trade expansion. In view of the similarity in the nature of the individual economies, coordinated planning will be needed to avoid duplication of effort among countries of the region.

In promoting cooperation it has to be remembered that even though all countries of the region are basically poor, some of them are relatively more handicapped with very fragile and backward manufacturing sectors. Four of these seven countries are least developed of which two are land-locked and another an island country far off the mainlands and away from the major ocean routes. In devising any trade policy encompassing the whole region the interest of these countries will have to be carefully considered and preferential treatment meted out to them. Much work will also be needed to work out agreements in respect of trade classification, quality control and standards, and simplification of procedural formalities to facilitate intra-regional trade.

I want to conclude my paper with this final piece of observation. The idea of South Asian Regional Cooperation in trade and other matters was until recently a subject of mere academic discussion, but of late it has generated a good deal of interest among governments as well as in the general public of the countries concerned. The formation of the South Asian Forum reflects this growing interest and over the past few years deliberations have been going on at verious official levels on which some progress is learnt to have been made. The momemtum thus gained should not in any circumstances be allowed to be lost. It should be noted, however, that most national level contacts among the South Asian countries thus far have tended to be at the official level. To avoid bureaucratization of the relationships being developed, more contacts between the private sectors-chambers of commerce, financiers, industrialists, technocrats, academics and researchers should be promoted. These contacts may be in respect of individual business deals, in respect of educational or cultural exchanges, or may be only related to intra-regional tourism. But these contacts would contribute, directly or indirectly, to advancing the cause of economic cooperation and creating a climate for the further development of such cooperation among the countries and the peoples of South Asia [5: 54, 7; 221]

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Table 1: Basic Indicators of South Asian Countries

	Bangla- desh	Bhutan	India	Maldives	Nepal	Pakistan	Sri- lanka	South Asia
1. (a) Population (mn) Mid 1982	92.9	1.2	717.0	0.15@	15.4	87.1	15.2	929
(b) Average annual growth rate (1970-80)	2.7	2.2	2.3	2.5	2.2	3.2	1.7	-
2. (a) Area ('000 Km ²)	144	47	3288	0.300	141	804	66	4490.3
(b) Density per Km ²	616	28	211	493	101	103	227	207
3. GDP per capita (1982 US \$)	140	118@	260	331@	170	380	320	259
Average Annual growth rate % (1960-82)	0.3	n.a.	1.3	n.a.	-0.1	2.8	2.6	-
4. Distribution of GP by origin % (1982)								
a) Agriculture	47	63	33	n.a.	57*	31	27	-
b) Industry	14	5	26	n.a.	13*	25	27	-
(Manufacturing)	(7)	(3)	(16)	n.a.	(3.6)*	(17)	(15)	-
c) Services	39	32	41	n.a.	29*	44	46	-
5. Foreign Trade (1982)								
a) Export as % of GDP	7.0	18.3	5.6	26.7**	5.3*	9.7	23.	1
b) Import as % of GDP		21.0	39.6	9.3	70.6**	16.1*	21.9	40.2
c) Export/ Import ratio	0.33	0.46	0.60	0.38**	0.31*	0.44	0.57	-
d) Terms of trade (1980 = 100)	98	n.a.	96	n.a.	n.a.	93	85	-

Source: IBRD, World Development Report 1984; UNCTAD, Handbook of International Trade and Development Statistics, 1983; Central Statistical Organization, Planning Commission, Royal Govt. of Bhutan, Statistics at a Glance, Thimphu, 1982.

Note: @ Relates to 1980

* Obtained from an UNCTAD Country Study on Nepal, Geneva, April 1984 [3].

** Relates to 1981. Computed from an UNCTAD Working Paper [5].

Table -2: South Asia's Foreign Trade: Export, Import and Trade Balance (million US \$)

		1976	1979	1982
Bangladesh	Export (X)	400	656	768
	Import (M)	940	1928	2334
	Balance(B)	-540	-1272	-1566
Bhutan	X	n.a.	n.a.	20
	M	n.a.	n.a.	49
	B	n.a.	n.a.	-29
India	X	5020	7679	8559
	M	5102	9899	16131
	B	-82	-2220	-7571
Maldives	X	4.1	6.9	12.3
	M	6.6	11.2	113.3
	B	-2.5	-4.3	-101.0
Nepal	X	98	109	87
	M	163	254	400
	B	-65	-145	-313
Pakistan	X	1162	2056	2374
	M	2133	4061	5231
	B	-971	-2005	-2857
Sri Lanka	X	569	978	1033
	M	549	1449	1813
	B	+20	-471	-780
South Asia	X	7254	11485	12853
	M	8893	17602	26071
	B	-1639	-6117	-13218

(Minus signs indicate deficit)

Source: IMF, Direction of Trade Statistics, 1983. Data on Bhutan obtained from Central Statistical Organization, Planning Commission, Royal Government of Bhutan, Statistics at a Glance, Thimphu, 1982.

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Table 3: Share of Export and Import of South Asian Countries in World Trade (Percentage)

	Export			Import		
	1976	1979	1982	1976	1979	1982
Bangladesh	0.043	0.039	0.040	0.077	0.088	0.103
Bhutan	...	...	...	...	...	...
India	0.556	0.475	0.404	0.561	0.577	0.597
Maldives	...	...	...	...	...	...
Nepal	0.009	0.009	0.007	0.021	0.022	0.018
Pakistan	0.177	0.124	0.144	0.214	0.251	0.211
Sri Lanka	0.057	0.059	0.052	0.054	0.085	0.088
South Asia Total	0.783	0.707	0.661	0.927	1.033	1.236
World	100	100	100	100	100	100

Note : '...' denotes negligible.

Source : As of Table 2.

Table-4 : Balance of Payments in Current Account (Million US \$),
South Asian countries

	Bangladesh (1980-81)	Bhutan (1981-82)	India (1979-80)	Maldivs (1981)	Nepal (1981-82)	Pakistan (1979-)	SriLanka (197980)
1. (a) Exports	711	22.5	8145	13.1	122.0	2341	897
(b) Import	2524	55.0	11377	34.6	373.5	4857	2034
(c) Trade balance	-1813	-32.5	-3232	-21.5	-251.5	-2516	-1137
2. Balance of service and unrequested transfer	388	-0.4	2286	13.1	225.3	1644	473
3. Total current Account Balance	-1425	-32.9	-946	-8.4	-26.2	-872	-664
4. Current account balance as ratio of import	-0.56	-0.60	-0.08	-0.24	-0.07	-0.18	-0.36

Source: Compiled from country studies for the CSCD project. Data on Bangladesh, Bhutan, Maldives and Nepal obtained from [5].

Table-5 : Export Structure of Individual Countries of South Asia by Major Groups (Percentages)

SITC groups & major items	Bangladesh (1979)	Bhutan (1982)	India (1979)	Maldivs (1979)	Nepal (1980)	Pakistan (1981)	SriLanka (1981)
1. All food items (0+1+22+4)	12.72	37.90	30.80	91.98	21.40	26.75	47.51
2. Agricultural Raw materials (2 less 22+27+28)	21.18	11.34	3.68	7.97	48.02	13.58	17.14
3. Fuels (3)	0.00	0.0	0.28	0.00	0.00	6.55	12.88
4. Ores & metals (27+ 28+ 67+ 68)	0.10	0.0	8.87	0.00	0.09	0.54	0.82
5. Manufactures (5 to 8 less 67+ 68)	64.53	50.76	56.12	0.05	30.50	51.10	21.54
6. Others	1.48	0.0	0.24	0.00	0.00	1.48	0.12
7. Total value (Mn US \$)	661.6	20.0	6,995.7	2.3	93.7	2,737.7	1,007.5

Source : UNCTAD, Handbook of International Trade and Development Statistics, 1983, Table 4.1.
Bhutan's figures calculated from Royal Government of Bhutan, Statistics at a Glance, op. cit.

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Table 6 : Commodity Export Structure of Individual South Asian Countries by Commodities, 1980 (ranked in order of values)

	% of country total	% of World total
Bangladesh		
Jute goods	48.10	5.12
Raw Jute	20.43	75.48
Leather	13.01	2.40
Fish	6.53	0.43
Tea and mate	4.93	2.13
Special transactions	1.48	0.03
Paper and Board	1.45	0.05
Remainder	4.10	
India		
Clothing, not of fur	7.66	1.53
Leather	7.44	14.49
Pearl, precious stones	7.41	2.86
Cotton fabrics	4.84	4.77
Tea and mate	4.48	22.19
Iron ore concentrates	4.77	4.57
Fish	4.54	3.18
Jute textiles	3.26	1.44
Animal feedstuff	3.19	2.15
Spices	2.81	22.45
Sugar & honey	2.74	1.22
Coffee	2.63	1.47
Fruit, fresh and dried	2.33	1.73
Remainder	41.53	
Bhutan		
Cement	26.00	
Orange	9.19	
Swan timber	9.15	
Cardamon	8.74	
Potato	8.35	
Beauty powder	5.80	
Rosin	4.25	
Orange juice	2.25	
Remainder	26.28	
Maldives		
Fish, fresh	91.98	0.02
Crude Animal malter	7.97	0.02
Veneers, plywood etc.	0.04	
Remainder	0.00	
Nepal		
Hides, skin	27.11	0.97
Jute textiles	15.59	0.09
Jute	15.32	8.02
Vegetables, fresh	10.49	0.13
Floor cover, tapastry	7.09	0.16
Work of art	5.66	0.15
Wood rough	5.32	0.07
Rice	5.05	0.11
Suger & honey	2.48	0.01
Spices	2.31	0.25
Remainder	3.57	
Pakistan		
Raw cotton	18.05	5.71
Rice	16.77	9.92
Cotton Fabrics	9.20	3.35
Floor cover	9.05	5.47
Textile yarn & thread	8.23	1.62
Petroleum Products	5.02	0.14
Textile Products	4.80	3.59
Clothing not fur	3.99	0.30
Leather	3.63	2.61
Woven Textiles non-cotton	2.50	0.41
Crude petroleum	2.11	0.02
Fish	1.72	0.44
Remainder	14.94	
Sri Lanka		
Tea & mate	35.68	24.38
Petroleum Products	15.40	0.17
Rubber, crude, synthetic	14.98	1.74
Clothing not fur	10.45	0.31
Fruit, fresh & dry	4.64	0.51
Spices	2.93	3.49
Precious stones	2.70	0.15
Coal, petroleum etc. chem	2.51	0.89
Remainder	2.64	

Source: As of Table 5.

Table-7: Import Structure of Individual Countries of South Asia by Major Groups (Percentages)

SITC groups & major items	Bangladesh (1979)	Bhutan (1982)	India (1979)	Maldives (1979)	Nepal (1980)	Pakistan (1981)	Sri Lanka (1981)
1. All food items (0+1+22+4)	25.31	4.74	8.92	47.78	4.33	14.05	19.36
2. Agricultural Raw materials (2 less 22+27+28)	5.27	0.03	3.49	0.00	0.59	4.36	1.55
3. Fuels (3)	11.47	12.13	33.17	10.92	17.71	27.83	24.98
4. Ores & metals (27+ 28+ 67+ 68)	9.45	...	15.25	0.26	4.17	8.75	4.77
5. Manufactures (5 to 8 less 67+ 68)	48.30	83.10	38.81	4.12	70.12	44.96	48.93
6. Others	0.20	...	0.36	36.92	3.07	0.05	0.41
7. Total value (Mn US \$)	1537.1	48.9	9114.0	11.2	226.3	5412.7	1803.8

Source : As of Table 5.

Table-8: Direction of Trade of South Asian Countries (percentages of total trade)

	Export to :						Import from :					
	Developed countries		Centrally planned countries		Developing countries		Developed countries		Centrally planned economies		Developing economies	
	1976	1980	1976	1980	1976	1980	1976	1980	1976	1980	1976	1980
Bangladesh	51	45	9	14	40	41	56	50	6	7	38	43
Bhutan	n.a.	4 ¹	n.a.		n.a.	96	n.a.	10 ¹	n.a.		n.a.	90 ¹
India	51	58	14	10	34	32	6 ¹	49	8	9	31	4 ¹
Maldives	71	87 ¹				29	13 ¹	68	80 ¹			32
	20 ¹											
Nepal	12	46	4	16	84	38	15	27	8	11	77	62
Pakistan	40	39	7	10	53	51	61	54	8	7	31	39
Sri Lanka	42	41 ²	6	4 ²	52	55 ²	48	56 ²	3	3 ²	49	41 ²

Note : ¹1982; ²1978

Sources : For Bangladesh, Bangladesh Bank, Export Receipts, Import Payments, 1982-83; For Bhutan, as of Table 1; For Maldives, IMF, Direction of Trade Statistics, 1983; for Nepal, Nepal Rastra Bank, Quarterly Economic Bulletin, and Trade Promotion Centre, Overseas Trade Statistics; for Sri Lanka, Marga Institute [7]; For India and Pakistan, A.R. Kemal, "Import-Export Structure and Trade Expansion in South Asia: A Synthesis Study", November 1984 (mimeo), table 10.

Table-9: Intra-regional Exports of South Asia (Mn US \$), Percentages Shown in Parentheses

	Banqladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka	South Asia	World
Banqladesh									
1976	-	0.0	7.1	0.1	0.1	10.7	0.6	18.6 (4.6)	400 (100)
1979	-	0.0	12.1	0.0	0.1	37.4	2.0	51.6 (7.9)	656 (100)
1982	-	0.0	20.3	0.0	0.1	42.1	0.5	63.0 (8.2)	768 (100)
Bhutan									
1982	0.0	-	19.3	0.0	0.0	0.0	0.0	19.3 (96.5)	20.0 (100)
India									
1976	59	n.a.	-	0.0	57	5	32	153 (3.0)	5020 (100)
1979	98	n.a.	-	2	77	11	121	309 (4.0)	7679 (100)
1982	40	45.6	-	3	72	2	66	229 (2.7)	8559 (100)
Maldives									
1976	0.0	0.0	0.0	-	0.0	0.2	1	1.2 (29.3)	4.1 (100)
1979	0.0	0.0	0.0	-	0.0	0.6	0.9	1.5 (21.7)	6.9 (100)
1982	0.0	0.0	0.0	-	0.0	0.0	1.6	1.6 (13.0)	12.3 (100)
Nepal									
1976	0.0	0.0	35.1	0.0	-	0.5	0.0	35.6 (36.2)	98.3 (100)
1979	7.9	0.0	17.3	0.0	-	2.8	0.0	28.0 (25.7)	109 (100)
1982	0.5	0.0	12.3	0.0	-	0.7	0.0	13.5 (15.5)	87 (100)
Pakistan									
1976	10.9	0.0	-	0.8	0.1	-	50.1	61.9 (5.3)	1162 (100)
1979	48.3	0.0	36.4	0.8	0.1	-	41.3	126.9 (6.2)	2056 (100)
1982	75.2	0.0	29.8	0.1	0.1	-	16.2	121.4 (5.1)	2374 (100)
Sri-Lanka									
1976	2.4	0.0	0.2	0.8	0.0	42.9	-	46.3 (8.1)	569 (100)
1979	4.1	0.0	12.5	1.2	0.0	44.1	-	61.9 (6.3)	978 (100)
1982	3.5	0.0	21.2	17.8	0.1	38.2	-	80.8 (7.8)	1033 (100)
South Asia									
1976								316.6 (4.4)	7254 (100)
1979								578.9 (5.0)	11485 (100)
1982								528.6 (4.1)	12853 (100)

Source : As of Table 2.

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Table-10 : Intra-regional Imports of South Asia (Mn US \$), Percentages Shown in Parentheses

	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka	South Asia	World
Bangladesh									
1976	-	0.0	62.7	0.0	0.0	9.0	1.4	73.1 (7.8)	940 (100)
1979	-	0.0	40.0	0.0	8.6	22.0	4.1	74.7 (3.9)	1928 (100)
1982	-	0.0	43.6	0.0	0.5	25.6	3.0	72.7 (3.1)	2334 (100)
Bhutan									
1982	0.0	-	44.0	0.0	0.0	0.0	0.0	44.0 (90.0)	48.9 (100)
India									
1976	10	n.a.	-	0.0	39	5	0.0	54 (1.1)	5102 (100)
1979	5	n.a.	-	0.0	19	30	11	65 (0.7)	9899 (100)
1982	22	19	-	0.0	20	33	23	117 (0.7)	16131 (100)
Maldives									
1976	0.0	0.0	0.3	-	0.0	0.9	0.9	2.1 (31.8)	6.6 (100)
1979	0.0	0.0	2.5	-	0.0	0.8	1.3	4.6 (41.1)	11.2 (100)
1982	0.0	0.0	2.9	-	0.0	0.0	19.8	22.7 (20.0)	113.3 (100)
Nepal									
1976	0.1	0.0	62.6	0.0	-	0.1	0.0	62.8 (38.6)	162.8 (100)
1979	0.0	0.0	84.7	0.0	-	0.2	0.0	84.9 (33.4)	254.3 (100)
1982	0.1	0.0	78.0	0.0	-	0.0	0.0	78.1 (19.5)	400 (100)
Pakistan									
1976	11.9	-	4.9	0.3	0.8	-	43.3	61.2 (2.9)	2133 (100)
1979	36.2	-	26.5	0.7	3.2	-	48.7	115.3 (2.8)	4061 (100)
1982	66.2	-	2.2	0.0	1.0	-	33.8	103.2 (2.0)	5231 (100)
Sri-Lanka									
1976	0.0	-	21.4	1.1	0.0	32.3	-	54.8 (10.0)	549 (100)
1979	1.6	-	149.9	0.9	0.1	31.7	-	184.2 (12.7)	1449 (100)
182	0.2	-	72.9	1.7	0.0	17.6	-	92.4 (5.1)	1813 (100)
South Asia									
1976								308 (3.5)	8893 (100)
1979								529 (3.0)	17602 (100)
1982								530 (2.0)	26071 (100)

Source : As of Table 2.

Table-11: Overall and Intra-regional Trade Balance in South Asia (Mn US \$),

	1976		1979		1982	
	Region	World	Region	World	Region	World
Bangladesh	-54.5	-540	-23.1	-1272	-9.7	-1566
Bhutan	n.a	n.a.	n.a.	n.a.	-26.3	-28.9
India	99	-82	244	-2220	112	-7571
Maldives	-0.9	-2.5	-3.1	-4.3	-21.1	-101.0
Nepal	-27.2	-64.5	-56.9	-145.3	-64.6	-313
Pakistan	-0.9	-971	11.6	-2005	18.2	-2857
Sri Lanka	-8.5	20	-53.4	-471	-11.6	-780

Note : Minus Signs indicate trade deficit.

Source : Computed from Tables 9 and 10

SAARC IN PERSPECTIVE

MUZAFFER AHMAD*

ALIMUR RAHMAN*

SOUTH ASIA'S ROAD TO REGIONALISM

The idea of regional cooperation in South Asia was first mooted in May 1980 by Bangladesh and it was formally launched in Dhaka on 8 December 1985 upon the signing of the Dhaka Declaration by the heads of State of the seven independent countries, namely, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka, to achieve socio-economic development in this region through collective self-reliance and mutual understanding and cooperation. The countries of the South Asian Association for Regional Cooperation (SAARC) occupy a land area of about 4.5 million square kilometers, extending from north to south, and from east to east.

The total land area of 4,490,000 square kilometers makes the SAARC area 1.4654 times the Asean region, 11.72 times Japan, 18.32 times the United Kingdom, 8.6 times France, and about one-half of the United States. Within the SAARC, the land area is distributed unevenly among the seven countries. India is the largest country in the region both in terms of land mass and population occupying 3,288,000 square kilometers or 73.23% of the total land area and 733.2 million population in mid 1983 or 77.11% of the total population in the area. After India in terms of area, Pakistan, Bangladesh, Nepal, Sri Lanka, Bhutan and Maldives can be arranged in descending order and in terms of population Bangladesh, Pakistan, Nepal, Sri Lanka, Bhutan and Maldives can be placed.

Thus Maldives comes out to be the smallest partner in the group both in terms of area and population.

The SAARC area constitutes 20% of World population but has only 3.31% of World's total land area. Land under permanent pasture, in here, is less than one per cent and under forest in less than two per cent of the world's total. One square kilometer of land in South Asia has to support an average of more than six times the people on an average square kilometer

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of land in the world as a whole. The land-man ratio in the region is much less favourable than for the Asean. There are some common features of

Table-1.1 Basic Facts about the Partners in SAARC and ASEAN

	Area (thousand of Square Kilometers)	Population (millions) mid- 1983	Population per Sq. Km.	Av. Annual population percentage 1965-73/ 1973-83		GNP per capita in Dollars 1983		Av. Annual growth rate % 1965-1983	Life Expectancy at birth (year) 1983
Bangladesh	144	95.5	663.19	2.6	2.4	130	0.5	50	
Bhutan	47	1.2	25.53	1.3	1.9	..	..	43
India	3,288	733.2	22.30	2.3	2.3	260	1.5	55	
Maldives	(.)	0.118	..	..	..	..	....	47
Nepal	141	15.7	11.13	2.0	2.6	160	0.1	46	
Pakistan	804	89.7	111.57	3.1	3.0	390	2.5	50	
Sri Lanka	66	15.4	233.33	2.0	1.7	330	2.9	69	
	4490	950.868	211.78						
Indonesia	1919	155.7	8.11	2.1	2.3	560	5.0	54	
Malaysia	330	14.9	45.15	2.6	2.4	1860	4.5	67	
Philippines	300	52.1	173.67	2.9	2.7	760	2.9	64	
Singapore	1	2.5	25.00	1.8	1.3	6620	7.8	73	
Thailand	514	49.2	95.72	2.9	2.3	820	4.3	63	
	3064	274.4	89.556						

Source: World Development Report, 1985

the SAARC countries, i.e. those being lack of natural resources (with the possible exception of India), high birth rate, population booms, high rate of illiteracy (with the exception of Sri Lanka), low per capita income, unequal income distribution, and predominance of undeveloped agrarian economy along with high level of expanding process of poverty.

In order to achieve high living standard for the people of this region nine areas were identified for mutual cooperation, those being: agriculture, rural development, meteorology, telecommunication, science and technology, health and population, transport, postal services, sports,

Table 1.2 : Relative Economic Position of the SAARC and the ASEAN Partners

	1970	1974	1983	1982	1981-83	1965	1983
(millions)	5427	2130	6545	1252	101	83	36
Value added in Agriculture of 1980 dollars)	45793	5981	5981	5981	108	93	182
Cereal Imports (000 metric tons)	5005	0	1274	396	105	99	136
Food aid in cereals (000 metric tons)	5005	0	1274	396	105	99	136
Average Index of (1974-76 = 100) Food production per capita	1102	0	1255	44	91	86	6
Daily Caloric Total 1982	2047	2047	2047	2047	2047	2047	2047
Supply per capita As % per of requirement 1982	2018	2018	2018	2018	2018	2018	2018
Commercial Energy	86	86	86	86	86	86	86
Consumption per capita (Kilogram of oil equivalent)	13	13	13	13	13	13	13
Source: World Development Report, 1985							

arts and culture. These are areas where formal or informal bilateral relations already existed but these were chosen for integrated action programme.

It is interesting to note that Industry, Energy and Water Resources have been kept outside the list of cooperations. More recently there was some talk about the establishment of a SAARC Parliament like that of EEC but there is certainly no plan of a common defence, common foreign policy and common currency.

GEOGRAPHICAL SETTING:

SAARC constitutes a near-contiguous land mass stretching from Bangladesh and eastern India in the east to Pakistan and Maldives in the west and from Nepal and Bhutan in the north to Sri Lanka and Maldives in the South. Nepal and Bhutan are land locked mountainous kingdoms while Maldives and Sri Lanka are islands in the Indian ocean. Lying entirely in the northern hemisphere, the region is roughly made up of the former Indian subcontinent excluding Burma. Burma is flanked on the east and southeast by the Asean in the west and south-west by SAARC and is sandwiched between them. The tropic of cancer roughly divides India and Bangladesh into two, passes through the south of Pakistan, Nepal and Bhutan and is in the north of Sri Lanka and Maldives which are in the tropical humid climate.

The main land comprises of six well-defined regions, namely, (i) the great mountain zone in the north; (ii) the Indus basin in the west; (iii) the Ganges basin of central India; (iv) the Ganges-Brahmaputra basin in the east; (v) the desert region in the North-west; and (vi) the southern peninsula.

The Himalayas comprise of three almost parallel ranges interspersed with large plateaus and valleys, some of which like the Kashmir and Kulu Valleys are fertile, extensive and of great scenic beauty. Some of the highest peaks in the world are found in these ranges: Mt. Everest (29,028 ft) in China (Tibet) -Nepal; Mt. Godwin Austen (K2, 28,250 ft) in China -Pakistan (Kashmir) Karakoram Range; Kanchenjunga (28,208 ft.) in Nepal-India; Makalu (27,824 ft.) in China (Tibet) -Nepal; Dhaulagiri (26,810 ft.) in Nepal; Nanga Parbet (26,650 ft.) in Pakistan (Kashmir); Annapurna (26,504 ft.) in Nepal etc. The mountain wall extends over a distance of about 2,400 Km. with a varying depth of 240 to 320 Km. But for these mountains the climate here would have been very different as the ranges stop the cold Siberian wind from blowing into the plains and cause rainfall when the depression from the Bay of Bengal and the Arabian sea collides with the mountains, not to speak of keeping perennial water flow in mighty rivers throughout the year.

In the east between India and Burma and India and Bangladesh the hill-ranges are much lower where the Garo, Khasi, Jaintia and Naga hills running almost east-west join the Mizo and Arakan hills running north-south.

The plains of the Indus-Ganges-Brahmaputra basin are about 2,400 Km. long and 240 to 320 Km. broad forming one of the worlds greatest stretches of flat alluvium and also one of the most fertile and densely populated areas on earth.

The desert regions are the 'great desert' extending from the edge of the Rann of Kachch beyond the Luni river northward, the whole of Rajasthan. Sind frontier and the 'little desert' extending from the Luni river between Jaisalmer and Jodhpur upto northern wastes. Between the great and little desert lies a zone of less fertile country consisting of rocky land cut up by limestone edges.

The peninsular plateau is marked off from the plains of the Ganges and the Indus by a mass of mountain and hill ranges varying from 460 to 1,220 meters in height where the prominent hills are the Aravalli, Vindhya, Satpura, Maikala and Ajanta. The peninsula is flanked on one side by the Eastern Ghats, where the average elevation is about 610 metres, and on the other by the Western Ghats, where it is generally from 915 to 1,220 metres, rising sometimes to over 2,440 metres. Between the western ghats and the Arabian Sea lies a narrow coastal strip while between the Eastern Ghats and the Bay of Bengal there is a broader coastal area. The southern point of the plateau is formed by the Nilgiri Hills where the Eastern and Western Ghats meet. The Cardamom Hills lying beyond may be regarded as a continuation of the Western Ghats.

In the western border of Pakistan the Himalayan ranges taper off to form hills separating the deserts of Baluchistan from Iran. These hills span from the north to south-western direction.

Sri Lanka is situated some 30 miles off the southern tip of India and may be regarded as the continuation of the western ghat. Situated between 5°55' north and 9°50' north it is an island with an area of 25,332 square miles, its length north-south being 270 miles and its width east-west being 140 miles. In this pearshaped island Pidurutalagala mountain is the highest with a peak of 8,282 ft. The whole coastal rim, and the northern and eastern interior form a flat low land. In the south centre is the high mass ifrises.

Maldives are made of coral reefs and consist of 200 inhabited and 990 uninhabited islands and 20 atolls.

ECONOMIC SITUATION

All the countries of South Asia belong to the category of low income economies whereas those in Asean belong to middle-income economies. Within the SAARC countries the variation in per capita income is considerable. Bangladesh is in the bottom of the scale with per capita income of US \$ 130 in 1983. Nepal with per capita income of US \$ 160 has 23% more income per head than Bangladesh. India's per capita income is exactly two times and that of Pakistan three times that of Bangladesh. Sri Lanka's per capita income is two-and-a-half times that of Bangladesh. Per capita income, however, is not a good measure of the wellbeing of nation. For example India has the third largest pool of scientists, engineers and technicians in the world. Similarly it is often said that if a peasant is given a choice of a country in the Indian subcontinent, he could be better off being a peasant in Sri Lanka. Other economic indicators, therefore, need to be used in order to bring the relative socio-economic condition of the South Asian countries in sharp focus.

It can be seen from table 1.1 that the average annual population growth is greater than the average annual growth of per capita income in all the SAARC countries except Sri Lanka so that the net effective growth rate in per capita income is negative. In Sri Lanka average annual population growth rate is 1.7% while average annual growth rate of per capita income is 2.9%. Among the Asean partners, it is interesting to note, the average annual growth rate of per capita income is higher for all the five countries than the average annual growth rate of population. In the case of Indonesia, Malaysia, Singapore and Thailand the net difference is respectable.

Life expectancy at birth in 1983 came to 50 years for Bangladesh, 43 for Bhutan, 55 for India, 47 for Maldives, 46 for Nepal, 50 for Pakistan and 69 for Sri Lanka. Among Asean partners it was consistently higher than the SAARC partners. For the same year it came to 54 years for Indonesia, 67 for Malaysia, 64 years for the Philippines, 73 years for Singapore and 63 years for Thailand.

Adult literacy ratio shows wide divergence within the SAARC and ASEAN regions and also between them. Adult literacy ratio in 1982 came to 29% for Bangladesh, 36% for India, 19% for Nepal, 24% for Pakistan and 85% for Sri Lanka. In the Asean region adult literacy ratio was 28% for Indonesia, 60% for Malaysia, 63% for the Philippines and 29% for Thailand. As it turns out there is no correlation between the level of development of a country and its adult literacy ratio.

All the countries of South Asia and South-east Asia who have combined in regional cooperation are food deficit areas meeting their internal demand by imports or procuring them as food aid. Average index of food production per capita on the base of 1974-76 increased to 101 in 1981-83 in Bangladesh, it stood at 104 in Bhutan, 108 in India, 91 in Nepal, 105 in

Pakistan and 127 in Sri Lanka for the same year. For the Asean the comparable data come to 121 for Indonesia, 113 in Malaysia, 113 in the Philippines, 107 in Singapore and 112 in Thailand. Thus apart from Nepal the index of food production per capita increased in all other SAARC countries while in the Asean the growth in the food production index was not only positive in all the countries, it was substantially greater than in the SAARC.

Average daily calorie supply per capita in 1982 as percentage of requirement came to 83 in Bangladesh, 93 in India, 86 in Nepal, 99 in Pakistan and 107 in Sri Lanka. Among the Asean the record was much better as it came to 111 per cent for Indonesia in 1982, for Malaysia the comparable figure was 120 per cent, for the Philippines it came to 106, for Singapore 128 and for Thailand it was 103.

Consumption of commercial energy per capita in 1983 (in Kilograms of oil equivalent) came to 36 in Bangladesh, 182 in India, 13 in Nepal, 197 in Pakistan and 143 in Sri Lanka. In comparison to the SAARC nations the countries of the Asean region have a much higher per capita consumption of commercial energy both because of their larger and more modern industrial base as well as of their better natural endowment with regard to commercial energy. Per capita consumption of commercial energy in Kilograms of oil equivalent in 1983 came to 204 in Indonesia 702 in Malaysia, 252 in the Philippines, 4,757 in Singapore and 269 in Thailand. This variation perhaps depicts the relative economic and technological position much better than the variation in per capita income.

Table 1.3: Income Distribution in the SAARC and the ASEAN.

Countries	Year	Lowest 20%	Second Quintile	Third Quintile	Fourth Quintile	Highest 20%	Highest 10%
Bangladesh	1976-77	6.2	10.9	15.0	21.0	46.9	32.0
Bhutan	N.A.	-	-	-	-	-	-
India	1975-76	7.0	9.2	13.9	20.5	49.4	33.6
Maldives	N.A.	-	-	-	-	-	-
Nepal	1976-77	4.6	8.0	11.7	16.5	59.2	46.5
Pakistan	N.A.	-	-	-	-	-	-
Sri Lanka	1969-70	7.5	11.7	15.7	21.7	43.4	28.2
Indonesia	1976	6.6	7.8	12.6	23.6	49.4	34.0
Malaysia	1973	3.5	7.7	12.4	20.3	56.1	39.8
Philippines	1970-71	5.2	9.0	12.8	19.0	54.0	38.5
Singapore	N.A.	-	-	-	-	-	-
Thailand	1975-76	5.6	9.6	13.9	21.1	49.8	34.1

Source: World Development Report, 1985

The SAARC and the ASEAN have chosen the capitalist road to development and therefore have not achieved a good record in income distribution. In Table 1.3 income distribution in the countries of SAARC and ASEAN has been shown. It is found that the record of Sri Lanka is the

best on this score while that of Nepal is the worst. Among the Asean Malaysia's record is the worst. In Bangladesh in 1976-77 the lowest 20% enjoyed 6.2% of the total income while the highest 20% enjoyed 46.9% of the total income. In India in 1975-76, lowest 20% enjoyed 7% of the total income and the highest 20% enjoyed 49.4% of the total income. In Nepal in 1976-77 income distribution was more inequitable so that the lowest 20% of the income group enjoyed 4.6% of the total income and the highest 20% of the income group enjoyed 59.2% of the total income. In Sri Lanka in 1969-70 the lowest 20% of the income group enjoyed 7.5% of total income and the highest 20% of the income group enjoyed 43.4% of the total income. We are aware of the fact that the year of calculation is not the same for all the countries and therefore the data are not strictly comparable but it should be agreed that a general trend can be seen and broad conclusions can be derived for a meaningful assessment of the prevailing situation.

HISTORICAL AND POLITICAL BACKGROUND

The countries of South Asia forming the SAARC are the members of the non-aligned movement (NAM) but their political similarity perhaps ends here. The Maldives and Sri Lanka have democratic form of government where the elected president is the chief executive. India is the largest democracy of the world where the rein of the government is held by the Prime Minister. In Pakistan and Bangladesh, except for a brief interregnum immediately after 1971, there has been a long period of military dictatorship imposed in 1957 and continuing to recent days. Recently Martial Law has been withdrawn in Pakistan. In Nepal and Bhutan there is monarchy, Nepal is the only Hindu kingdom in the world.

Pakistan, India and Bangladesh share a common heritage of religion, culture and history, of course with some variation in experience and impact, and their common colonial experience has also been an extremely important factor in etching out a unity in diversity.

Pakistan and India (and Bangladesh then as a part of Pakistan) achieved their independence from the British rule in mid-August 1947. Bangladesh broke away from Pakistan in December 1971 and emerged as a new independent country. Sri Lanka got her independence from the British in 1948.

The Indus Valley civilisation of roughly 2800 BC discovered in Mohenjo Daro and Harappa (three cities on top of the other from BC 3300 to BC 2700) is regarded as the common heritage of Pakistan, India and Bangladesh. The Dravidians were decimated and pushed to south India and eastern India and the Vedas were written in the early days by the Aryan,

followed long afterwards by the epics. Buddhism and Jainism, the two great religions of the world, were born in the immediate periphery of Bangladesh before the birth of Christ. Islam made its first appearance in the horizon of the sub-continent in 711 AD when Mohammad-bin-Qasim invaded and conquered Sind. But his immediate recall to Arabia and the loss of Sind to the Hindu rulers made the impact of Islam very transitory. In 1192 AD Shahabuddin defeated Prithvi Raj and established Muslim rule in India which continued for a long period and left its permanent marks on India. In Bengal the first Muslim rule was established in 1200 AD by Ikhtiaruddin Mohammad-bin-Bakhtiar-uddin Khilji. Without going into the details of the intervening period and a discussion of the Moghul period which had a permanent impact on the religion, culture, food, dress and language of the people of India at large, it is sufficient to mention that with the defeat of Nawab Sirajuddowla in the Battle of Plassey in 1757, the Diwani of Bengal was taken over by the East India Company in 1765. This ushered in the British rule in India which gradually expanded to cover the whole of India, Burma and Ceylon.

A sizeable proportion of the SAARC population is Muslim. In Table 1.4 below estimates of Muslim population the SAARC region is given for 1982. It is found that Bangladesh, Pakistan and Maldives are countries of Muslim majority. As a whole 27.96% of the SAARC population is Muslim.

Table 1.4: Estimate of Muslim Population in SAARC and ASEAN in 1982

Countries	Total Population (in Million)	Muslim Population (in Million)	Muslim Population to Total Population
Bangladesh	92.6	80.6	87%
Bhutan	1.2	-	-
India	717.0	93.2	13%
Maldives	0.2	0.2	100%
Nepal	15.4	0.41	2.7%
Pakistan	87.1	84.4	97%
Sri Lanka	15.2	1.1	7%
	927.7	259.91	27.96%
Indonesia	152.6	137.3	90%
Malaysia	14.5	7.3	50%
Philippines	50.7	2.5	5%
Singapore	-	-	-
Thailand	48.5	1.9	4%
	266.3	149.0	55.95%

Source: Statistical Pocket Book of Bangladesh

Muslim population in the Asean region constitutes 55.95% of the total population. Among them Indonesia and Malaysia are muslim majority countries. Among the SAARC region Bhutan and Sri Lanka are countries of Bhuddhist majority and India and Nepal are of hindu majority countries.

As mentioned before the colonial experience of the countries of this region has been common in some sense and varied in some other. It was a frightening experience when millions of lives were sacrificed on the way and then again it opened up the gate to western liberalism, culture education and philosophy.

Both Nepal and Bhutan (where monarchy was established in 1907) remained independent states but their administration, finance and army was controlled and overseen by the British Resident Representative.

Ceylon (or what is named Sri Lanka since April 1972) underwent a longer historical experience of colonization of first the Portuguse for 150 years since it was invaded in 1505 and then the Dutch occupation in 1658 and finally the British occupation for another 150 years from 1795 onwards. The brutality of the colonial rule left its mark on the economy by turning everything into plantation farming in the nineteenth century: coffee plantation substituted by tea plantation from 1880, coconut plantation and rubber plantation. Another effect was the large scale import of trained labourers in the 1840s and 1850s to work in the plantation. Thus the seed of todays ethnic voilence and insurgency was sown by the British more than hundred years ago. The last 150 years of British colonial rule was a common experience for Pakistan, India, Bangladesh and Sri Lanka and its effect can broadly be summarized as follows:

(a) . Evolution of the Local Bourgeoisie:

The colonial rule gave rise to a new class of elite who resembled their masters in education, dress and culture. These were the people who were alienated to their own society and people and the Gentoos of Calcutta or the Bhadroloks of Bengal are the typical example of these elite.

(b) . Destruction of the pre-capitalist economy:

This took place in two phases: First was the 'drain of wealth' which continued throughout the colonial period but was particularly important in the late 18th century. The second, starting after the Napoleonic war was the destruction of the local handicrafts, particularly first the urban handloom industry and then the rural weaving sector. The British followed a 'discriminatory intervention' to protect the interests of British capital.

(c). *The rise of State Capitalism:*

State capitalism rose with the coalition of three elements: The monopoly bourgeoisie whose members control business empires spread across a number of spheres and a number of states; the small urban bourgeoisie like the businessmen, professionals and the upper bureaucracy; and finally the class of landlords and rich peasants. Together they exploited the masses and hierarchy of interests was formed.

(d). *Rising Trend in Political Violence:*

There has been a clear and unmistakable rising trend in political violence in South-Asian region. Many of the causes of the internal conflict, dissention and discontent can be traced to the policies undertaken during the colonial period, for example lack of clearcut boundaries of the emerging nations and migration and settlement of population ethnically different from the local population etc.

Population and Population Trend:

The distinctive feature of the SAARC region is its acute demographic problem. The mounting development crisis in this region along with the population explosion has produced a despair and gloom in certain quarters leading to the rise of the doomsday life boat thesis, which implies that any effort to pull the stricken regions or peoples out of their present economic predicament is futile. Then there is also the "triage doctrine" which is derived from the battlefield situation and argues that when time and medical facilities are limited help should be rendered to only those who can be saved by minimum effort leaving the critically wounded unattended because their condition is perhaps irreversible. Thus the countries of South Asia which suffer from acute and widespread poverty and already beyond any help and should therefore be written off. Whatever the merit of these arguments, the population and population trend of these countries present a very grim picture.

Absolute level of population and the growth rate of population for the individual countries of the SAARC and ASEAN are shown in Table 1.1. In Table 1.5 demographic and fertility related indicators are shown.

It can be seen that both the crude birth rate and the crude death rate has fallen but the fall in crude death rate has been faster than the fall in crude birth rate so that the net effect has been to swell the population. The fall in crude death rate has been sharp due to the adoption of modern health technology and sanitation. Similarly in fact mortality rate for infants under age one and child mortality rate for children between aged 1-4 have registered a sharp fall due to better health facilities and immunization

Table-1.5 Demographic and fertility related indicators

Countries	Crude birth rate per thousand population		Crude death rate per thousand population		% change in rate 1965-83		Total fertility rate		% of married women of child bearing age using contraceptives	
	1965	1983	1965	1983	Crude birth rate 1965-83	Crude death rate 1965-83	1983	2000	1970	1982
Bangladesh	47	42	22	16	-11.9	-27.0	6.0	3.7	...	25
Bhutan	43	43	32	21	-0.2	-34.6	6.2	5.3	...	...
India	45	34	21	13	-25.0	-39.6	4.8	2.9	12	32
Maldives	-	-	-	-	-	-	-	-	-	-
Nepal	46	42	24	18	-9.0	-25.5	6.3	5.4	...	7
Pakistan	48	42	21	15	-12.7	-29.4	5.8	4.2	6	14
Sri Lanka	33	27	8	6	-20.2	-26.8	3.4	2.3	...	55
Indonesia	43	34	20	13	-20.9	-37.3	4.3	2.8	...	58
Malaysia	41	29	12	6	-29.4	-46.8	3.7	2.4	33	42
Philippines	46	31	12	7	-32.6	-43.7	4.2	2.7	15	48
Singapore	31	17	6	5	-44.6	-9.1	1.7	1.9	60	71
Thailand	43	27	12	8	-37.2	-35.5	3.4	2.2	15	59

programme, increasing the size of younger age group in the total population. The fall in the crude birth rate has reduced total fertility rate which has been achieved mainly through adoption of family planning devices. It can be seen from the table that the percentage of married women of child bearing age using contraceptives is lower in the South-Asian countries compared to the countries of the South-east Asia region. The percentage of married women of child bearing age using contraceptives-in 1982 came to 25 for Bangladesh, 32 for India, 7 for Nepal, 14 for Pakistan and 55 for Sri Lanka whereas the comparable figure came to 58 per cent for Indonesia, 42 per cent for Malaysia, 48 per cent for Philippines, 71 per cent for Singapore and 59 per cent for Thailand. Since the use of contraceptives is found to be highly correlated with the government effort, efficacy of the mass media, the level of education of the clients and the extent of urbanization, the variation in the performance of the different countries is somewhat predictable and not surprising.

In table 1.6 population growth and projections are shown for the SAARC and the ASEAN. It shows the average annual growth of population between 1965-73 and 1973-85 and projects it for 1980-2000. Absolute population for 1983 is shown with projections for 1990 and 2000. Hypothetical size of stationary population, assumed for year of reaching Net Reproduction Rate (NRR) of one, and population momentum in 1985 are also shown. The picture that emerges for the SAARC as a whole is not very encouraging but then the ASEAN also have reason for concern. The problem has no short-term solution and it will continue to haunt the demographers well into the Twenty-first century. The prophesy of the 'Limits to Growth' may not, after all, be well off the mark.

LABOUR FORCE

The supply of labour is inextricably linked with the population growth of the country. Any effort to curb the population growth can have its effect felt in reducing the growth of labour force only in the long-run, that is, after a lag. The vast reserve army of labour force is usually a drag on the economy and it can be turned into a resource only through vast investment in training and skill acquisition and this requires concerted effort of long term time dimension.

In Table 1.7 data on labour force characteristics are given for the SAARC and ASEAN. The percentage of population of working age, that is, persons within the age group 15 to 64 years is given for 1965 and 1983. With the rising trend in population, it is quite understandable that the population of working age has gone up both in absolute and in percentage terms between 1965 and 1983. The table also shows the projections in the average annual growth of labour force between 1980 and 2000. It is

Table 1.6 Population Growth and Projections

Countries	Average Annual Growth of Population (%)		Population (Millions)		Hypothetical Size of Stationery Population (Millions)	Assumed year of reaching Net reproduction rate of 1	Population Momentum 1985
	1965-73	1973-83	1983	2000			
Bangladesh	2.6	2.4	95	114	310	2025	1.9
Bhutan	1.3	1.9	1	1		4	2035
India	1.8	2.3	733	844	1,700	2010	1.8
Maldives	2.3	1.8		994			2040
Nepal	2.0	2.6	16	19	74		
Pakistan	1.8	3.0	90	106	330	2035	1.9
Sri Lanka	3.1	2.4	15	18	3	2	2005
1.7	1.7	1.8		21			
Indonesia	2.1	2.3	156	179	368	2010	1.8
Malaysia	2.6	2.4	15	17	9	3	2005
Philippines	1.8	2.7	52	61	128	2010	1.9
Singapore	2.9	2.1	3	3		3	2010
Thailand	1.8	1.3	3	3			
	1.4	2.3	49	56	100	2000	1.8
	2.9	1.7		65			

Source: World Development Report, 1985

Table-1.7 Labour force Characteristics

Countries	% of Population of working age (15-64 yrs)		% of Labour force in		Services		Average annual growth of Labour force (%)	
	1965	1983	Agriculture	Industry	1965	1981	1965-73	1973-83
Bangladesh	51	54	87	3	10	15	2.3	2.8
Bhutan	56	56	95	2	3	5	1.0	1.9
India	54	57	74	11	15	16	1.8	2.1
Maldives	-	-	-	-	-	-	-	-
Nepal	56	54	95	2	3	5	1.6	2.3
Pakistan	50	53	60	19	21	23	2.3	3.2
Sri Lanka	55	60	56	14	30	32	2.0	2.1
Indonesia	54	56	71	9	20	30	1.9	2.3
Malaysia	50	58	60	13	27	34	2.9	2.7
Philippines	52	56	57	16	27	37	2.1	3.0
Singapore	54	67	6	26	68	59	3.4	2.3
Thailand	51	59	82	5	13	15	2.4	3.1

Source: World Development Report, 1985

found that average annual growth of labour force is projected at 2.3% for Bangladesh in 1965-73, increasing to 2.8% in 1973-83 and 2.9% in 1980-2000. The comparable figure for Bhutan is 1.0%, 1.9% and 2.9%, and for India it is 1.8, 2.1 and 2.1 per cent respectively. For Nepal it is 1.6, 2.5 and 2.5 respectively, for Pakistan 2.3, 3.2 and 2.7 per cent and for Sri Lanka 2.0, 2.1 and 2.2 per cent respectively.

The table also shows percentage distribution of labour force in the different sectors of the economy for 1965 and 1981. It can be seen from the table that a vast majority of the labour force is engaged in agricultural occupation of the economy. Percentage of labour force engaged in industry is not very significant in all the countries of SAARC and ASEAN (except for Singapore).

URBANIZATION

Urbanization is often equated with modernization and development. Data on urbanization is presented in table 1.8. It can be seen that apart from Singapore which is a city state and totally urban, all the other countries of the SAARC and the ASEAN are basically rural with a majority of population living in the rural areas. There are some other common interesting features which may be brought together and mentioned. First, the average annual growth rate of urban population has registered a much higher increase than the average annual growth rate of population in the country. This can be explained by the fact that the increase in urban population has been both due to natural increase of urban population and the rural-urban immigration of population which has swelled the urban population. This migration is caused by both the pull of the 'bright light' of the city and the push of the rural areas. Second, it is found that each country has only a few urban centres. Thus if they are to serve as the growth centres for the country their exceedingly few numbers failed to provide the growth momentum. In some countries the capital city was the only urban centre. In 1980 there were only three cities in Bangladesh with a population of over 5,00,000 persons. In Bhutan and Nepal there was not a single city in 1980 with a population of over 500 thousand. In India there were 36 cities with a population of over 500 thousand, Pakistan has 7 such cities and Sri Lanka had only one such city in 1980. Third important feature of urbanization has been the concentration of urban population in a few city. In 1980 in Bangladesh 30% of the urban population was concentrated in the largest city, in India 6% of urban population lived in the largest city, in Nepal the percentage came to 27, in Pakistan 21 and in Sri Lanka 16. In cities of over 500 thousand people 51% of urban population lived in Bangladesh in 1980, for India it came to 39%, in Pakistan 51% and 16% in Sri Lanka. The level of

urbanization and the pattern of concentration of urban population reveal a good deal about the socio-economic conditions of a country.

ECONOMIC STRUCTURE

Within the apparent similarity in the economic systems of the SAARC countries one can see great differences between them. The economic systems of the South-Asian countries have evolved over the centuries in response to the needs of the colonial masters, the geographical environment, reaction of the local bourgeoisie, and the aspirations of the people after independence. All these countries adopted five year national development plans and laid down their strategy for intensified efforts to diversify and strengthen their economies through the establishment of new industries and the modernization of the traditional food (rice and wheat) and other agricultural sectors (like raw jute, raw cotton, tea, tobacco etc.). From the very beginning, that is, the Second Five Year Plan of India (1955-1960) to be exact, India followed what came to be known as Preobrazhensky-Mahalanobis model of emphasis to the development of heavy capital goods industries. Though criticised severely at that time because of the nature of long-term return from such investment and its bad record on employment absorption, it paid heavy dividends to the nation for its long-term development. Pakistan, on the other hand, and Bangladesh (which was then a part of Pakistan) went for export substitution (i.e., exporting industrially processed goods instead of exporting raw material, for example, jute goods, cotton goods etc.) and import substituting consumer goods industries. The pattern was more or less repeated in Sri Lanka and Nepal.

For a better understanding of the structure of the economies of the South-Asian countries it would be useful to look at the breakdown of the GDP by industrial origin shown in table 1.9. The figure underline the dominance of the agricultural sector in the SAARC region. In Bangladesh agriculture accounted for 53% of the total GDP in 1965 which came down to 47% in 1983. Industry accounted for 11% of the GDP in the country in 1965 which came to 13% in 1983. The service or tertiary sector contributed 36% in 1965 and 40% in 1983 to the GDP of the country. In India, agriculture accounted for 47% in 1965 and 36% of GDP in 1983. Contribution of industry to national income increased from 22% in 1965 to 26% in 1983, of which manufacturing alone contributed 15% in 1965 and 15% in 1983. The service sector contributed 31% to GDP in 1965 and 38% in 1983. In Nepal agriculture alone accounted for 65% of GDP in 1965 and 59% in 1983. Industrial contribution came to 11% in 1965 and 14% in 1983 of which manufacturing sector's contribution to GDP stood at 3% in 1965 and 4% in 1983. The service sector contributed 23% in 1965 and

Table 1.8 : Urbanization

Countries	As % of total Population		Average Annual Growth rate (%)			Percentage of Urban Population				Number Of cities over 500,000 persons	
	1965	1983	1965-73	1973-83	1980	In largest city		In cities of over 500,000 persons		1960	1980
						1960	1980	1960	1980		
Bangladesh	6	17	6.6	7.6	20	30	20	51	1	3	
Bhutan	4	4	-2.1	4.6	0	0	0	0	0	0	
India	18	24	4.0	4.2	7	6	26	39	11	36	
Maldives	-	-	-	-	-	-	-	-	-	-	
Nepal	4	7	4.3	8.2	41	27	0	0	0	0	
Pakistan	24	29	4.3	4.3	20	21	33	51	2	7	
Sri Lanka	20	26	3.4	2.9	28	16	0	16	0	1	
Indonesia	16	24	4.1	4.8	20	23	34	50	3	9	
Malaysia	26	31	3.3	3.5	19	27	0	27	0	1	
Philippines	32	39	4.0	3.8	27	30	27	34	1	2	
Singapore	100	100	1.8	1.3	100	100	100	100	1	1	
Thailand	13	18	4.8	3.6	65	69	65	69	1	1	

Source: World Development Report, 1985.

Table 1.9 Structure of Production

Countries	GDP		Distribution of Gross Domestic Product (%)							
	Million of Dollars		Agriculture		Industry		Manufacturing		Services	
	1965	1983	1965	1983	1965	1983	1965	1983	1965	1983
Bangladesh	4,380	10,640	53	47	11	13	..	..	36	40
Bhutan	..	..	..	..	..	..	..	..	..	..
India	46,260	168,170	47	36	22	26	15	15	31	38
Maldives	-	-	-	-	-	-	-	-	-	-
Nepal	730	2,180	65	59	11	14	3	4	23	27
Pakistan	5,450	25,880	40	27	20	27	14	19	40	46
Sri Lanka	1,770	4,770	28	27	21	26	17	14	51	47
Indonesia	3,630	78,320	59	26	12	39	8	13	29	35
Malaysia	3,000	29,280	30	21	24	35	10	19	45	44
Philippines	6,010	34,640	26	22	28	36	20	25	46	42
Singapore	970	16,640	3	1	24	37	15	24	73	62
Thailand	4,050	40,430	35	23	23	27	14	19	42	50

Source: World Development Report, 1985.

Table-1.10: Growth of Production

Countries	Average Annual growth rate (per cent)											
	GDP			Agriculture			Industry			Services		
	1965-73	1973-83	1965-73	1973-83	1965-73	1973-83	1965-73	1973-83	1965-73	1973-83	1965-73	1973-83
Bangladesh	(.)	5.2	0.4	3.2	-6.1	8.1	..	..	1.5	7.4		
Bhutan	..	..	..	..	..	..	..	..	..	..	..	..
India	3.9	4.0	3.7	2.2	3.7	4.3	4.0	4.2	4.2	6.1		
Maldives	-	-	-	-	-	-	-	-	-	-	-	-
Nepal	1.7	3.0	1.5	1.0	..	..	..	..	2.1	6.9		
Pakistan	5.4	5.6	4.7	3.4	6.6	7.2	6.2	7.0	5.4	6.3		
Sri Lanka	4.2	5.2	2.7	4.1	7.3	4.8	5.5	3.4	3.8	6.0		
Indonesia	8.1	7.0	4.8	3.7	13.4	8.6	9.0	12.6	9.6	9.0		
Malaysia	6.7	7.3	..	4.4	..	8.7	..	..	..	8.2		
Philippines	5.4	5.4	4.1	4.3	7.4	6.4	8.5	5.0	4.8	5.2		
Singapore	13.0	8.2	5.7	1.5	17.6	8.5	19.5	7.9	11.5	8.1		
Thailand	7.8	6.9	5.2	3.8	9.0	9.0	11.4	8.9	9.1	7.6		

Source: World Development Report, 1985.

27% in 1983. In Pakistan GDP breakdown by industrial origin showed agriculture's contribution to be 40% in 1965 and 27% in 1983, industrial contribution to be 20% in 1965 and 27% in 1983, manufacturing contribution to be 14% in 1965 and 19% in 1983, and finally the service sector making up the remaining 40% in 1965 and 46% in 1983. The structure of production in Sri Lanka showed agricultural contribution to be 28% in 1965 and 27% in 1983, industrial contribution to be 27% in 1965 and 26% in 1983, the manufacturing sector came to 26% in 1965 and 17% in 1983 and the service sector 51% in 1965 and 47% in 1983. Apart from the predominance of agriculture in the region the analysis of the production structure of the SAARC countries shows a general lack of a manufacturing base.

In table 1.10, annual growth rate of GDP and its various components are shown. It can be seen that, on the whole, the performance of the ASEAN region in GDP growth rate has been much better than that of the SAARC region. In sectoral terms also, that is, in the growth rate of agriculture, industry, manufacturing and service the average annual growth rate attained in the ASEAN was much higher than the SAARC countries. Among all the countries shown in the table, the performance of Bangladesh has been the worse. Average annual growth rate of GDP in Bangladesh during 1965-73 came to less than one half of a percentage point compared to 3.9% in India for the same period, 1.7% for Nepal, 5.4% for Pakistan and 4.2% for Sri Lanka. Average annual growth rate of agriculture during 1965-73 came to 0.4% for Bangladesh, 3.7% for India, 1.5% for Nepal, 4.7% for Pakistan and 2.7% for Sri Lanka. Bangladesh is the only country which recorded a negative growth rate in industry in 1965-73 period when India had a 3.7% of growth rate Pakistan 6.6% and Sri Lanka 7.3%. In the next period i.e., 1973-83 Bangladesh had a better performance by registering an annual growth rate of GDP of 5.2%, in agriculture the growth rate in the same period was 3.2%, in industry 8.1% and 7.4% in the service sector.

In table 1.11 the structure of industry is shown for the SAARC and ASEAN by recording the distribution of manufacturing value added in percentage terms and in 1975 constant prices. In Bangladesh, of the total manufacturing value added in 1982, 30% was in the food and agriculture, 37% in textile and clothing, 4% in machinery and transport equipment, 17% in the chemicals and 12% in the other manufacturing sectors. In India the distribution was: 15% in food and agriculture, 16% in textile and clothing, 20% in machinery and transport equipment, 14% in chemicals and 35% in other manufacturing. For Pakistan the comparable figure in 1982 was 46% in food and agriculture, 14% in textile and clothing, 7% in

machinery and transport equipment, 16% in chemicals and the remaining 17% in other manufacturing. In Sri Lanka, food and agriculture contributed 45% of the total manufacturing value added in 1982, textile and clothing 13% and the remaining 42% was in the other manufacturing sector. A number of important points emerge. First consumer goods and simple processing dominate the manufacturing sector. Second, food and agriculture make up a substantial proportion of the total manufacturing sector. Third and finally, the capital goods sector namely machinery and transport equipment is an insignificant part of the total manufacturing and it is likely that a considerable proportion of this sector comprises of simple assembly plants.

EDUCATION

Education is the backbone of a society and a means through which the vast human masses can be converted into productive asset for the country. In no other area is there such a wide divergence as in the performance in the education sector among the various countries of the SAARC region. In table 1.12 data on education is provided for comparison in the primary school level, secondary school level and in the higher education level in terms of percentage enrolled in the respective age group. At the primary school level in 1982 Bangladesh shows the enrolment of 60% in the age group, Bhutan 23%, India 79%, Nepal 73%, Pakistan 44% and Sri Lanka 103%. Between 1965 and 1982 increase in the number enrolled in primary school as percentage of age group was most impressive for Nepal which increased it from 20% in 1965 to 73% in 1982. An interesting feature which has been found common for all the countries is that female enrolment at the primary school age group has been consistently lower than the males in all the countries of SAARC and ASEAN both in 1965 and 1982. This is perhaps the result of the oriental culture. At the secondary level number enrolled as percentage of age group in 1982 came to 15% for Bangladesh, 3% in Bhutan, 30% in India, 21% in Nepal, 14% in Pakistan and 54% in Sri Lanka. Higher education is restricted in all the countries of South-Asia and number enrolled as percentage of population in the age group 20-24 came to 4% in Bangladesh in 1982, negligible in Bhutan, 9% in India, 3% in Nepal, 2% in Pakistan and 4% in Sri Lanka.

HEALTH

Health also, like education, is a privilege rather than a right in the South-Asian countries and the problem seems to be supply-oriented. Whatever meagre supply of health facilities are there, these are mostly concentrated in the urban countries so that a vast majority of the rural populace is outside

the reach of modern medicine and health care. In table 1.13 health related indicators are shown for the countries of SAARC and ASEAN. Daily supply of calorie per capita is less than the requirement in all the SAARC countries except Sri Lanka but in ASEAN in 1982 all the countries on average had a higher supply of calorie per capita than the requirement. In 1980, population per physician came to 7,810 in Bangladesh, 18,160 in Bhutan, 3,690 in India, 30,060 in Nepal, 3,480 in Pakistan and 7,170 in Sri Lanka. Population per nursing person in 1980 came to 22,570 in Bangladesh, 7,960 in Bhutan, 5,460 in India, 33,420 in Nepal, 5,820 in Pakistan and 1,340 in Sri Lanka. This shows not only an inadequacy in the number of physicians and nurses but also a mismatch in the ratio between the physicians and nurses.

In table 1.14 indicators related to life expectancy are shown for the SAARC and the ASEAN. Life expectancy at birth for male is consistently higher than female both in 1965 and 1983 for the SAARC nations except in Sri Lanka where female life expectancy at birth is higher. Infant mortality and child death rate has decreased between 1965 and 1983 due to better health facilities. Ironically this has led to greater population pressure in the SAARC countries.

FOREIGN TRADE

The foreign trade pattern is shaped by the structure and gain of the economy, it also leaves its mark on the structure of the economy. The foreign trade pattern is also influenced by the colonial and historical linkages of the past, the factor endowment of the country, its geographical location, its political linkages and her economic diversification strategies pursued in her national plans in recent years.

Table-1.11 : Structure of Industry

Countries	Distribution of Manufacturing Value Added (% 1975 prices)					Value Added in Manufacturing (Million of 1975 dollars)	
	Food and Agriculture	Textile and Clothing 1982	Machinery & Transport Eqpt. 1982	Chemicals 1982	Other Manufacturing 1982	1982	1970
Bangladesh	30	37	4	17	12	647	1,294
Bhutan	**	**	**	**	**	**	**
India	15	16	20	14	35	10,232	16,210
Maldives	-	-	-	-	-	-	-
Nepal	**	**	**	**	**	**	**
Pakistan	46	14	7	16	17	1,492	2,967
Sri Lanka	45	13	**	**	42	556	748
Indonesia	29	7	7	12	45	1,517	6,072
Malaysia	20	7	22	5	46	1,022	3,287
Philippines	39	13	9	9	30	2,659	5,510
Singapore	5	3	53	5	34	827	2,431
Thailand	**	**	**	**	**	1,675	4,837

Source : World Development Report 1985.

Table 1.12: Education Number enrolled in Primary School as

Percentage of age group	Total						Male			Female			Number enrolled in higher education as percentage of population 20-24	
	1965		1982		1982		1965		1982		1965		1982	
	1965	1982	1965	1982	1965	1982	1965	1982	1965	1982	1965	1982	1965	1982
Bangladesh	49	60	67	68	31	51	13	15	1	4				
Bhutan	7	23	13	30	1	16	..	3	..	(.)				
India	74	79	89	93	57	64	27	30	5	9				
Maldives	-	-	-	-	-	-	-	-	-	-				
Nepal	20	73	36	102	4	42	5	21	1	3				
Pakistan	40	44	59	57	20	31	12	14	2	2				
Sri Lanka	93	103	98	106	86	101	35	54	2	4				
Indonesia	72	120	79	124	65	116	12	33	1	4				
Malaysia	90	92	96	93	84	91	28	49	2	5				
Philippines	113	106	115	107	111	105	41	64	19	27				
Singapore	105	108	110	111	100	105	45	66	10	11				
Thailand	78	96	82	98	74	94	14	29	2	22				

Source: World Development Report, 1985

Table 1.13: Health-related Indicators

Countries	Population per:				Nursing Person	Total	Daily Calorie Supply percentage	
	Physician		Nursing Person					As % of requirement
	1965	1980	1965	1980					1982	1982
Bangladesh	..	7,810	..	22,570	1,922	83		
Bhutan	3,310	18,160	..	7,960	..	..
India	4,860	3,690	6,500	5,460	2,047	93		
Maldives	-	-	-	-	-	-		
Nepal	46,180	30,060	..	33,420	2,018	86		
Pakistan	3,160	3,480	9,900	5,820	2,277	99		
Sri Lanka	5,750	7,170	3,210	1,340	2,393	107		
Indonesia	31,820	11,530	..	9,500	2,300	2,393		
Malaysia	6,220	..	111	1,320	940	2,688		
Philippines	1,310	7,970	120	1,130	6,000	2,393		
Singapore	1,910	1,150	106	600	320	2,954		
Thailand	7,230	7,100	5,020	2,400	2,296	103		

Source: World Development Report, 1985

Table 1.14 Indicators related to life expectancy

Countries	Life expectancy at birth (years)						Infant mortality		Child death rate	
	Male			Female			rate (aged under1)		(aged 1-4)	
	1965	1983	1983	1965	1983	1983	1965	1983	1965	1983
Bangladesh	45	49	50	44	44	50	153	132	24	19
Bhutan	34	44	42	32	32	42	184	162	30	26
India	46	56	54	44	44	54	151	93	23	11
Maldives	-	-	-	-	-	-	-	-	-	-
Nepal	40	47	45	39	39	45	184	143	30	21
Pakistan	46	51	49	44	44	49	150	119	23	16
Sri Lanka	63	67	71	64	64	71	63	37	6	2
Indonesia	43	52	55	45	45	55	138	101	20	13
Malaysia	56	65	69	59	59	69	57	29	5	2
Philippines	55	63	66	58	58	66	90	49	11	4
Singapore	63	70	75	68	68	75	26	11	1	..
Thailand	53	61	65	58	58	65	90	50	11	4

Source: World Development Report, 1985

Table-1.15: Growth of Merchandise Trade

Merchandise Trade Average annual growth rate

	(Millions of dollars)		(Percent)				Terms of trade (1980=100)	
	Export	Imports	Export		Import		1981	1983
	1983	1983	1965-73	73-83	65-73	73-83		
Bangladesh	789	1502	-6.5	1.7	-8.2	4.1	102	102
Bhutan	391	798	5.9	6.8	-0.6	4.7	102	105
India	9705	13562	2.3	4.9	-5.7	2.8	91	96
Maldives	-	-	-	-	-	-	-	-
Nepal	94	464	-	-	-	-	-	-
Pakistan	3075	5341	3.7	8.1	-2.9	5.7	99	101
Sri Lanka	1066	1788	-4.7	2.6	-3.2	4.7	95	104
Indonesia	21145	16346	11.1	1.4	13.9	9.8	110	102
Malaysia	14130	13234	8.0	4.9	4.4	7.3	91	87
Philippines	4932	7980	4.2	7.5	3.1	1.3	88	92
Singapore	21833	28158	11.0	-	9.8	-	-	-
Thailand	6368	10279	6.9	9.0	4.4	3.3	96	89

Table-1.16 : Importance of Exports and Imports, 1983

	Exports as % of GDP	Imports as % of GDP	Trade Defici mil. \$t	Exports as % of Imports
Bangladesh	7.64	14.12	(713.0)	52.53
Bhutan	-	-	(407)	49.0
India	5.77	8.06	(3857)	39.74
Maldives	-	-	-	-
Nepal	4.31	21.28	(370)	20.26
Pakistan	11.88	20.64	(2266)	57.57
Sri Lanka	22.35	37.48	(722)	59.62
Indonesia	27.00	20.87	4799	129.36
Malaysia	48.26	45.20	896	106.77
Philippines	14.24	23.04	(3048)	61.80
Singapore	131.21	169.22	(6325)	77.54
Thailand	15.75	25.42	(3911)	61.95

Source : Calculated from table 1.9 and table 1.15

In table 1.15 merchandise trade and growth of merchandise trade for South Asian and South-East Asian regions is shown. It can be seen that exports registered a negative growth in 1965-73 in Bangladesh and Sri Lanka and imports also registered a decline in 1965-73 period in Bangladesh, Bhutan, India, Pakistan and Sri Lanka. Both exports and imports had a positive growth rate in 1973-83 period. In the Asean region growth of exports was impressive both in 1965-73 and 1973-84 period.

Imports also increased but its annual growth rate was always lower than the annual growth rate of exports except in Malaysia. The ASEAN took up the export oriented growth strategy earlier than the South-Asian region. Both Indonesia and Malaysia profitted considerably from the price hike of the petroleum. In table 1.16 importance of exports and imports for the countries of the ASEAN and SAARC is shown. It can be seen that exports as a percentage of GDP came to 7.64% in Bangladesh in 1983, compared to 5.77% in India, 4.31% in Nepal, 11.88% in Pakistan, and 22.35% in Sri Lanka. Imports as a percentage of GDP in the same year was 14.12 for Bangladesh, 8.06 for India, 21.28 for Nepal, 20.64 for Pakistan and 37.48 for Sri Lanka. Exports as a percentage of imports came to 52.53 in Bangladesh 49.0 in Bhutan, 39.74 in India, 20.26 in Nepal, 57.57 in Pakistan and 59.62 in Sri Lanka. A comparison of South Asian and South-east Asian countries reveals two important points; trade plays a more important role in South East Asia than South Asia and South Asia has more chronic problem of balance of trade deficit than South-East Asia. In all the countries of SAARC and in the ASEAN except Indonesia and Malaysia the export is not adequate to meet the import demand. The data of exports and imports of Singapore is confusing because it includes goods on transit for re-export.

The structure of merchandise exports and the structure of merchandise imports are shown in Table 1.17 and table 1.18 respectively. It is found that merchandise exports of Bangladesh in 1982 comprised of textiles and clothings which contributed 47% of total merchandise exports, 36% of other primary commodities, 11% other manufactures, 4% machinery and transport equipment and 2% of fuels, minerals and metals. For India in 1982, 33% was the share of other primary commodities, 24% textiles and clothing, 29% other manufactures, 7% machinery and transport equipment and 7% of fuels, minerals and metals. In Pakistan the share of merchandise exports came to 46% for textile and clothing, 34% for other primary commodities, 12% for other manufactures, 6% for fuels, minerals, and metals and 2% for machinery and transport equipment. In Nepal 72% of merchandise exports comprised of other primary commodities followed by 17% of other manufactures and 10% of textiles and clothings. In Sri Lanka in 1982 its distribution was 59% for other primary commodities, 17% for textiles and clothings, 14% for fuels, minerals and metals, 8% for other manufacturers, and 2% for machinery and transport equipment. Two characteristic features come out clearly. First, in these countries textiles and clothings comprise a greater part of their industrial exports. Second, export of other primary commodities is a substantial proportion of total merchandise exports in the SAARC. These primary commodities are raw

Table-1.17 : Structure of Merchandise Exports Percentage share of Merchandise Exports

	Fuels, minerals and metals		Other primary commodities		Textiles and clothing	Machinery & trnsn.equip.	Other Manf.
	1965	1982	1965	1982			
Bangladesh		2		36	47	4	11
Bhutan	-	-	-	-	-	-	-
India	10	7	41	33	36	1	12
Maldives	-	-	-	-	-	-	-
Nepal	-	-	-	72	10	-	17
Pakistan	2	6	62	34	29	1	6
Sri Lanka	2	14	97	59	17	2	1
Indonesia	43	85	53	11	1	3	1
Malaysia	35	35	59	42	3	2	15
Philippines	11	12	84	38	1	7	3
Singapore	21	30	44	13	6	4	10
Thailand	11	7	84	64	10	26	18
						6	4
							13

Source : World Development Report, 1985.

Table-1.18: Structure of Merchandise Imports Percentage share of Merchandise Imports

	Food		Fuels		Other primary Commodities		Machinery and transport equip		Other manufactures	
	1965-82	1965-82	1965-82	1965-82	1965-82	1965-82	1965-82	1965-82	1965-82	1965-82
Bangladesh	-	26	-	12	-	8	-22	-	-	32
Bhutan	-	-	-	-	-	-	-	-	-	-
India	22	9	5	35	14	10	37	18	22	28
Maldives	-	-	-	-	-	-	-	-	-	-
Nepal	-	16	-	13	-	3	-	18	-	50
Pakistan	20	14	3	31	5	7	38	23	34	26
Sri Lanka	41	13	8	31	4	3	12	24	34	30
Indonesia	6	7	3	21	2	5	39	38	50	29
Malaysia	27	12	12	15	7	5	22	40	32	29
Philippines	20	10	10	26	7	4	33	22	30	38
Singapore	24	8	13	34	18	4	14	28	30	26
Thailand	7	5	9	31	5	7	31	24	49	33

Source: World Development Report, 1985.

jute, raw cotton, tea and tobacco. In other words, agricultural exports are important source of foreign exchange earnings. The most important factor which distinguishes the structure of merchandise exports of the SAARC countries from the ASEAN region is the preponderance of the export of extractive industries in the latter compared to the South-Asian countries.

The structure of merchandise imports shown in table 1.18 reveal that the countries of South-Asia in 1982 imported substantial amount of food and fuel, other manufactures (mostly consumer durables) and machinery and transport equipment. The ASEAN as a whole had less dependence on food imports than the SAARC and both being economies in transition had large share of imports of machinery and transport equipment in the total merchandise imports.

In table 1.19 origin and destination of merchandise exports is given and table 1.20 shows the origin and destination of manufactured exports. One notable feature of the export pattern of the SAARC and ASEAN region is the high dependence upon the industrial market economies (namely United States, United Kingdom and Japan). In recent years these industrialised countries have provided the main markets for not only the merchandise exports but

Table 1.19: Origin and Destination of Merchandise Exports Destination of Merchandise Exports (% of total)

	Industrial Market economies		East European nonmarket economies		High income oil exporters		Developing economies	
	1965	1983	1965	83	1965	83	1965	83
Bangladesh	-	43	-	8	-	1	-	47
Bhutan	-	-	-	-	-	-	-	-
India	58	55	17	12	2	7	23	26
Maldives	-	-	-	-	-	-	-	-
Nepal	-	42	-	-	-	-	-	58
Pakistan	48	35	3	4	4	22	45	39
Sri Lanka	56	46	9	5	3	6	33	44
Indonesia	72	73	5	1	-	1	23	26
Malaysia	56	50	7	3	-	1	36	47
Philippines	95	77	0	2	-	1	5	20
Singapore	28	42	6	1	2	5	64	52
Thailand	44	56	1	2	2	5	53	37

Source: World Development Report, 1985.

Table-1.20: Origin and Destination of Manufactured Exports Destination of Manufactured Exports (percentage of total)

	Industrial Market economies		East European non market		High income oil exporters		Developing economies		Mfg. exports (mil. of dollars) economies	
	1965	82	1965	82	1965	82	1965	82	1965	82
Bangladesh	-	39	-	9	-	1	-	-	52	417
Bhutan	-	-	-	-	-	-	-	-	-	-
India	55	-	12	-	2	-	31	-	828	4476
Maldives	-	-	-	-	-	-	-	-	-	-
Nepal	-	50	-	-	-	-	50	-	-	39
Pakistan	40	49	1	6	3	17	57	28	190	1417
Sri Lanka	59	84	7	-	-	1	34	16	5	277
Indonesia	25	42	1	-	-	7	74	51	27	868
Malaysia	17	67	-	-	2	2	81	31	75	2781
Philippines	93	75	-	-	-	1	7	23	43	2492
Singapore	9	49	-	1	3	6	88	44	338	11834
Thailand	39	56	-	-	-	7	61	36	30	2014

Source: World Development Report, 1985.

also for manufactured exports, that is, goods produced as a result of the more recent industrialisation programmes. On the whole, the export link of the SAARC region (and among them more particularly India) with the East European non-market economies has been stronger compared to ASEAN region both for merchandise and manufactured exports. Among the SAARC nations Pakistan has been able to forge a link with high income oil exporters and successfully increased her merchandise exports to these

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countries. Another important feature of the SAARC region is the high volume of merchandise exports to developing countries and a high volume, but to a lesser extent, of manufactured exports among the South-South countries. It is likely that strong trading links with countries outside the region would result in a low volume of trade among the SAARC countries themselves. If the experience of ASEAN region can be taken as any indication of the immediate future then it is more likely that the trade volume among the SAARC countries may not increase evenfall immediately for a while before it finally picks up after a lag of 4 to 5 years. The value of intra-Asean trade showed a declining trend between 1970 and 1975 and then it improved progressively. The economic structure of the ASEAN region as a whole still exhibits the characteristics of an open dualistic economy with considerable dependence on foreign investment and aid. If the SAARC also opens up the economy more for foreign access than for regional cooperations, the result here would also be the same.

For the developing economies in transition without sufficient resource base the pressure on the balance of payments is likely to be acute and with the process of development would increase. The balance of payments and gross international reserves for the countries of the SAARC and the ASEAN are shown in table 1.21. A deficit in current account balance is found in all the countries of South Asian and South-East Asian region.

Several factors indicate that accelerated industrial growth in the SAARC area cannot be achieved purely on the basis of domestic market or enlarged market through regional cooperation and due to the limited purchasing power of the vast majority of her population, the opportunities for efficient import substitution are beginning to recede, there is an urgent need in these countries to accelerate export growth based on a more diversified pattern of exportables and a more outward looking efficient industrial strategy. Regional cooperations may be a good way of accelerating export at a time when the western developed economies are restricting the imports through increased tariff and impositions of quota.

Table 1.21: Balance of Payments and Reserves

	Current Account balance (Mill. of dollars)		Receipts of workers (mil. of dollars)		Not direct Private investment (mil. of dollars)		Gross international reserves Mills. of dollars		In month of import coverage
	'70	'83	'70	'83	'70	'83	'70	'83	
Bangladesh	-	-77	-	629	-	-	-	546	1983 2.6
Bhutan	-	-	-	-	-	-	-	-	-
India	-394	-2780	113	2617	6	-	1023	8242	5.4
Maldives	-	-	-	-	-	-	-	-	-
Nepal	-	-143	-	-	-	-	94	191	4.1
Pakistan	-667	21	86	2925	23	31	194	2683	4.5
Sri Lanka	-59	-472	3	294	0	38	43	321	1.7
Indonesia	-310	-6249	-	-	83	289	160	4902	2.2
Malaysia	8	-3350	-	-	94	1370	667	4673	2.9
Philippines	-48	2760	-180	-29	104	255	896	0.9	-
Singapore	-572	-956	-	-	93	1389	1012	9264	3.5
Thailand	-250	-2886	-	847	43	348	912	2556	2.5

Source: World Development Report, 1985.

DHAKA DECLARATION ADOPTED

(Staff Reporter)

National and Collective Self-reliance Emphasised

The seven South Asian leaders concluded their two day summit expressing their confidence that with effective cooperation, they could make optimum use of the region's substantial human and natural resources for the benefit of their peoples and accelerate the pace of development enhancing national and collective self-reliance.

In a declaration, the leaders of Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan and Sri Lanka constituting the South Asian Association for Regional Cooperation (SAARC) acknowledged that "they were conscious of their individual and regional strengths, their potential as a huge market, their substantial human and natural resources and the complementarities of their economies."

The declaration called 'Dhaka Declaration' reaffirmed the regional cooperation for the peace and stability and development in the region.

The five-page Dhaka Declaration marking the formal launching of SAARC, acknowledged that the countries of South Asia were faced with formidable challenges posed by poverty, underdevelopment, low levels of production, unemployment and pressure of population compounded by exploitation of the past and other adverse legacies.

They felt that bound by many common values rooted in their social, ethnic, cultural and historical traditions the regional cooperation provided a logical response to these problems.

The seven leaders reaffirmed their commitment to the UN Charter and the principles governing sovereign equality of states, peaceful settlement of disputes, non-interference in internal affairs and non-use of threat of use of force against the territorial integrity and political independence of other states.

They reiterated that the UN constitutes the most important forum for the resolution of all issues affecting international peace and security. They also reaffirmed their support to the Non-Aligned Movement.

The heads of state and the government of the seven nations emphasised that strengthening of regional cooperation in South Asia required greater involvement of their peoples. They agreed to increase interaction and further promote people to people contacts at various levels among their countries. They also decided to take steps to create awareness and public opinion in the region.

They also welcomed the progress already made in the implementation of the integrated programme of action in the nine mutually agreed areas expressing their desire to consolidate and further expand cooperative efforts within and appropriate institutional framework in a spirit of partnership and equality.

Annexure-A

The Charter of the South Asian Association for Regional Cooperation:

We, the Heads of State or Government of Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.

1. Desirous of promoting peace, stability, amity and progress in the region through strict adherence to the principles of the United Nations Charter and Non-alignment, particularly respect for the principles of sovereign equality, territorial integrity, national independence, non-use of force and non-interference in the internal affairs of other states and peaceful settlement of all disputes.
2. Conscious that in an increasingly interdependent world the objectives of peace, freedom social justice and economic prosperity are best achieved in the South Asian Region by fostering mutual understandings, good neighbourly relations and meaningful cooperation among the member states which are bound by ties of history and culture.
3. Aware of the common problems, interests and aspirations of the peoples of South Asia and the need for joint action and enhanced cooperation within their respective political and economic systems and cultural traditions.
4. Convinced that regional cooperation among the countries of South Asia is mutually beneficial, desirable and necessary for promoting the welfare and necessary for promoting the welfare and improving the quality of life of the peoples of the region.
5. Convinced further that economic, social and technical cooperation among the countries of South Asia would contribute significantly to national collective self-reliance.
6. Recognising that increased cooperation, contacts and exchanges among the countries of the region will contribute to the promotion of friendship and understanding among their peoples.
7. Recalling the Declaration signed by their foreign ministers in New Delhi on August 2, 1983 and noting the progress achieved in regional cooperation.
8. Reaffirming their determination to promote such cooperation within an institutional framework—

Do hereby-agree to establish an organisation to be known as South Asian Association for Regional Cooperation hereinafter referred to as the association, with the following objectives, principles, institutional and financial arrangements.

ARTICLE-1

Objectives: 1. The objectives of the association shall be: A) To promote the welfare of the peoples of South Asia and to improve their quality of life, B) To accelerate economic growth, social progress and cultural development in the region and to provide all individuals the opportunity to live in dignity and to realise their full potentials, C) To promote and strengthen collective self-reliance among the countries of South Asia. D) To contribute to mutual trust, understanding and appreciation of one another's problems, E) To promote active collaboration and mutual assistance in the economic, social, cultural, technical and scientific fields, F) To strengthen cooperation with other developing countries, G) To strengthen, cooperation among themselves in international forums on matters of common interests, and H) To cooperate with international and regional organisations with similar aims and purposes.

ARTICLE-II

Principles: 1. Cooperation within the framework of the association shall be based on respect for the principles of sovereign equality, territorial integrity, political independence, non-interference in the internal affairs of other states and mutual benefit.

2. Such cooperation shall not be a substitute for bilateral and be a substitutes for bilateral and multilateral cooperation but shall complementation.

3. Such cooperation shall not be inconsistent with bilateral and multilateral obligations.

ARTICLE- III

Meetings of the heads of state or government: 1. The Heads of State or Government shall meet once a year or more often as and when considered necessary by the member states.

SAARC Charter

Following is the remaing part of the Charter adopted at the conclusion of Dhaka SAARC Summit.

ARTICLE-IV

Council of Ministers: A Council of Ministers consisting of the foreign ministers of the member states shall be established with following functions: A) Formulation of the policies of the association, B) Review of the progress of cooperation under the association, C) Decision on new areas of cooperation, D) Establishment of additional mechanism under the association as deemed necessary, E) the Council of Ministers shall meet twice a year, extraordinary session of the council may be held by agreement among the member states.

ARTICLE-V

Standing Committee: 1. The Standing Committee comprising the foreign secretaries shall have the following functions:

A) Overall monitoring and coordination of programmes of cooperation, B) Approval of projects and programmes, and the modalities of their financing, C) Determination of inter-sectoral priorities, D) Mobilisation of regional and external resources, E) Identification of new areas of cooperation based on appropriate studies.

2) The Standing Committee shall meet as often as deemed necessary.

3) The Standing Committee shall submit periodic reports to the Council of Ministers and make reference to it as and when necessary for decisions on policy matters.

ARTICLE-VI

Technical Committees: 1. Technical committees comprising representatives of member states shall be responsible for the implementation, coordination and monitoring of the programmes in their respective areas of cooperation.

2. They shall have the following terms of reference:

A) Determination of the potential and the scope of regional cooperation in agreed areas, B) Formulation of programmes and preparation of projects, C) Determination of financial implications of sectoral programmes, D) Formulation of recommendations regarding apportionment of costs. E) Implementation and Coordination of sectoral programmes, F) Monitoring of progress in implementation.

3. The technical committees shall submit periodic reports to the Standing Committee.

4. The chairmanship of the technical committees shall normally rotate among member states in alphabetical order every two years.

5. The technical committees may, inter-alia, use the following mechanisms and modalities, if and when considered necessary:

- A) Meetings of heads of national technical agencies,
- B) Meetings of experts in specific-fields,
- C) Contact amongst recognised centres of excellence in the region.

ARTICLE-VII

Action Committees: 1. The Standing Committee may set up action committees comprising of member states concerned with implementation of projects involving more than two but not all member states.

ARTICLE-VIII

Secretariat: There shall be a Secretariat of the Association.

ARTICLE-IX

Financial Arrangements:

1. The contribution of each member state towards financing of the activities of the association shall be voluntary.
2. Each technical committee shall make recommendations for the apportionment of costs of implementing the programmes proposed by it.
3. In case sufficient financial resources cannot be mobilised within the region for funding activities of the association, external financing from appropriate sources may be mobilised with the approval of or by the standing committee.

ARTICLE-X

General Provisions:

1. Decisions at all levels shall be taken on the basis of unanimity.

বাংলাদেশে অর্থনীতি শিক্ষা, প্রশিক্ষণ ও গবেষণায় গত চার
যুগ ধরে নিরলস কাজ করে যাচ্ছে

বাংলাদেশ অর্থনীতি সমিতি

বাংলাদেশ অর্থনীতি নির্মাণে তথা এদেশের আপামর
জনসাধারণের ভাগ্য উন্নয়নে সদা নিবেদিত

অগ্রণী ব্যাংক

আমাদের যৌথ প্রচেষ্টায় বাংলাদেশের
অর্থনৈতিক উন্নয়ন ত্বরান্বিত হোক, ভবিষ্যত
হোক সমৃদ্ধিশালী ও গতিশীল

