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PROBLEMS AND PROSPECTS OF REGIONAL ECONOMIC COOPERATION IN SOUTH ASIA

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There is an increasing trend towards regional economic cooperation. It has been estimated that about 30 to 40 per cent of world trade is now carried among regional trading groups. The most successful example of regional trading arrangements is, of course, the European Economic Community. Due to protectionist tendencies in the developed countries, a thinking has developed in developing countries to evolve suitable strategy of economic cooperation among themselves or, in other words, to increase south-south trade. To begin with it will be desirable to explore the possibilities of cooperation among groups of contiguous countries like those belonging to South Asia. This paper examines the possibilities of economic cooperation among South Asian countries.

South Asia consists of nine countries, viz., Bangladesh, Burma, India, Nepal, Pakistan, Sri Lanka, Bhutan, Maldives and Afghanistan. These countries of different geographical and population sizes, have different endowments of economic resources, levels of industrialization and economic infrastructures and politico-socio-complexions. As a group, it is a formidable bloc with a vast developmental potential. It has a combined population of about one billion, almost all the industrial raw materials required for any development process with people keen to transform the national resources for the national benefit.¹

¹ An excellent survey of South Asian resources has been made by Prof. M. I. Qureshi in Survey of Economy, Resources and Prospects of South Asia, published by Marga institute, Colombo, Sri Lanka.
Trade relations among the South Asian countries have continued to be at a low level and the bulk of their imports and exports comes from or moves to the countries of the developed world.

Causes of the low share of intra-regional trade

(a) South Asian economies are basically competitive rather than complementary. India and Bangladesh compete for the world market for jute goods. India, Bangladesh and Sri Lanka compete in respect of tea. India and Pakistan compete for rice. India, Pakistan and Sri Lanka compete in respect of ready-made garments. India, Bangladesh and Sri Lanka compete in respect of shrimp and other marine products. Almost all countries compete in respect of manpower exports.

(b) Old historical trade links with Britain—In fact, the infrastructure in these countries was built and developed by the Britishers for facilitating their trade with Britain. And these countries continue to trade with Britain though to a much less extent because of the well developed and enduring trade ties.

(c) The attempts of some countries to develop trade only on a Government to Government basis also restricts trade. It is the profit motive of businessmen which generates substantial volume of trade even from inconceivable sources. And unfortunately at present, there is not much contact between businessmen of the various South Asian countries.

(d) When a country wants to import, it would tend to import from the cheapest source consistent with the quality of the goods. In this respect, there is a certain amount of prejudice against goods manufactured in developing countries. Again, the cost of production also tends to be high in developing countries. When developing countries want to import plant and equipment, they may like to have the most up to date and technologically the best available plant. In all these respects, developed countries are in a better position to supply the required technology.

(e) For most developing countries short of resources, availability of credit is an important determinant of the source of import. While providing foreign aid and/or credits, developed countries require the recipients to purchase their own capital goods, machinery etc. Because of their balance of payments problems, developing countries are obliged to accept whatever aid is available irrespective of the conditions attached to it.
Attempts at import substitution

In addition to the above factors, South Asian countries have deliberately adopted a restrictive import policy to promote import substitution as it is easier to restrict imports than promote exports. There are many valid reasons for this approach:

(a) Chronic foreign exchange shortage in these countries—Imports have to be paid for in free foreign exchange. Due to acute shortage of foreign exchange, these countries have no alternative but to restrict their imports through exchange control/import licensing.

(b) The demand for the type of goods exported and imported is rather inelastic. This implies that while there is not much scope for voluntary restriction of imports, exports tend to stagnate.

(c) South Asian countries have a very low rate of growth. There is therefore a conscious effort to develop local industries by adopting protectionist tendencies specially through the use of quantitative restrictions. Serious unemployment situation also tends to promote this attitude. It may not be out of place to mention here that developing countries are allowed by the GATT to use quantitative restrictions for protecting domestic industries.

(d) Restriction of imports combined with high import duties results in some accrual of revenue. All these countries are in dire need of resources and can hardly afford to lose the revenues thus gained by them.

Cooperation at the Indian sub-continent level

It might be more advisable and feasible due to the following reasons:

(a) All these countries have a common history and the same sort of traditions. In addition, there are ethnic, social, cultural and family links between people living in the Indian sub-continent.

(b) Personal habits of the people inhabiting the sub-continent are more or less similar.

(c) Institutions relating to Government and economic activity are more or less similar.

(d) Product standards in the sub-continent are more or less similar largely because of the commonly adopted British standards.
Contiguity and proximity of these countries give two specific advantages to the intra-regional trade: (i) a substantial freight advantage resulting in lower cost of products available from the region; and (ii) prompt availability of these goods enabling better inventory control and lower financial costs involved therein. These countries are also connected by overland routes. Rising energy costs may lead to further increase in transport costs and therefore the freight advantage is likely to increase further.

Special problems

Intra-regional trade and economic cooperation in South Asia is beset with a number of special problems which have to be resolved before any concrete results could be achieved. Some of these problems are discussed here.

The most important problem involved in intra-regional trade is the apprehension of India's possible domination over all other countries of the region. As a result, not only is there a lack of willingness to increase trade relations but there appears to be a deliberate apathy toward the issue. This is strengthened by the fact that India has a huge export surplus with all South Asian countries except occasional import surpluses with Pakistan.

In fact, the lack of political will on the part of participating countries appears to be the most serious hurdle in the promotion of intra-regional trade. This may be due to the fact that they have not felt any particular need for intra-regional cooperation. The European Economic Community was successful in achieving its objectives because the members felt a need for economic cooperation to build up their war torn economies, to face the problems created by an acute dollar shortage, to safeguard against possible threat from the communist bloc and to provide against the possible US domination. Political compulsions rather than economic imperatives have led to the formation of ASEAN.

Benefits of economic cooperation

The domestic markets of a majority of South Asian countries are too small to support plants of an economically viable size. The motivation for regional economic cooperation arises out of the realization of the limitations imposed by the national frontiers and the expected benefits of a wider market. Apart from the establishment of economic size plants and better utilization of their capacities,
regional cooperation makes it possible for individual member countries to make their investment decisions in accordance with their relative comparative advantage. As a result, the region as a whole will be economically better off due to coordinated investment planning. Opening up of the domestic economy to competition from member countries can result in increased efficiency, lower prices, increased product varieties and adoption of latest technology in production methods. A specific benefit of regional cooperation to South Asian countries would be a substantial reduction in the cost of transportation by ensuring the use of the shortest possible routes and the adoption of the most economical mode of transport.

Criteria for successful economic cooperation

The benefits of economic cooperation have to be brought to the notice of the parties concerned. It has to be impressed upon them that the benefits of cooperation will far outweigh the costs involved and disadvantages, if any, would be only of a temporary nature.

However, to be successful, regional cooperation should meet the following objective criteria:

1. Will regional cooperation increase the country's capacity for faster growth?
2. Will regional cooperation be such that it will enhance national capability?
3. Will it sustain, i.e., not adversely affect, the country's capacity to earn free foreign exchange?
4. Would it ensure that the domestic industries of the countries already developed would be provided adequate safeguards?

Collective self-reliance

The primary objective of regional trade and economic cooperation should be to attempt some sort of collective self-reliance for the region as a whole. This would involve identification of import needs of the individual countries of the region with a view (i) to determine what could be supplied from within the region itself and (ii) to obtain the rest at the lowest possible cost from outside the region. If the import requirements of the member countries are bulked together, this would increase their bargaining power vis-a-vis the supplier countries. It would also involve determination of export surpluses of individual countries to explore possibilities of joint
marketing and improving unit value realization. As regards intra-regional trade, attempts would have to be made to achieve a balanced trade to reduce the unduly heavy import surpluses faced by some countries of the region. Finally, some sort of payments union would have to be devised to take care of the unavoidable import surpluses.

Scope of intra-regional trade

On the basis of a study of the import-export structure of India and some other countries of South Asia as well as the available indicators about the economic development plans and programmes made by the India Institute of Foreign Trade, a number of areas have been identified where India and other countries could closely cooperate with each other. These areas are given in the Appendix. A committee of experts and government officials could further examine these areas. However, a number of measures would have to be taken to make intra-regional trade and cooperation effective.

India's responsibility

But before discussing these measures, it would be necessary to emphasise that if regional trade and cooperation has to be a reality, lead has to be taken by India as the most important and the most industrialised trading partner. And India should open up the massive Indian market to the South Asian countries. Another point to be emphasised is that the main precondition to the expansion of intra-regional trade is the solution of Indo-Pakistan misunderstandings. This is the major hindrance to the development of a serious dialogue on this issue. Incidentally, if these misunderstandings are removed, it would ensure peace and security in the region and both countries would be able to save substantial resources for economic development.

Moreover, there could be a lot of flexibility in the process of economic cooperation and trade liberalization. This could be confined to areas agreed to by the members. They could proceed as much as they like, stop whenever and wherever they like. If trade liberalization and coordinated industrial development could be regulated according to the wishes of the members, none of the members, specially the weak and small ones, have anything to fear from the economically strong ones.
Specific policy measures

1. Preference Trading Arrangements—

While it would be too early to think of a free trade area or of a common market, a beginning could be made by preferential arrangements. It may be mentioned here that GATT (Article 24) permits preferential arrangements among countries contiguous to each other as is the case with South Asian countries. It would be desirable to have a round of tariff negotiations among South Asian countries on the basis of an in-depth study relating to identification of products which might benefit by such arrangements without in any way affecting the long term programmes of industrialization of individual countries. In this respect, it might be useful to recall India's willingness expressed at UNCTAD V at Manila to offer up to 50 per cent concession in tariffs on the basis of a mutual advantage. If necessary, tariff reductions could be done on a phased basis. We might thus develop a system of South Asian Preferences.

A good beginning has been made in this respect by the Bangkok agreement which provides for preferential tariff treatment by the signatory countries to 93 selected product groups. Bangladesh, India and Sri Lanka are parties to Bangkok Agreement. However, it was pointed out by Sri Lanka that trade between India and Sri Lanka did not increase in spite of the concessions offered by India. It would be desirable to study whether it is due to (i) lack of business contacts, (ii) lack of infrastructural facilities, (iii) differences in quality or (iv) lack of credit facilities.

2. Relaxation of non-tariff barriers

Quotas are the most important tariff barriers adopted by the South Asian countries for protecting their industries. While it would be difficult to plead for the wholesale removal of these non-tariff barriers, it should be possible to adopt an item by item approach to identify products for which trade among South Asian countries could be made completely free from non-tariff barriers. This would open up possibilities of additional exports to pay for imports from the region itself. It might be worthwhile to mention Brazil's experience in this connection. After Brazil allowed for free imports, Brazil's competitiveness increased and the share of manufactured goods in its exports increased from 25 per cent in 1976 to 38 per cent in 1990.² What is being pleaded here is free trade within the South Asian countries only.

3. Trade fairs and exhibitions

Lack of adequate information about the relative capability and the availability of goods in other countries is also one of the major handicaps in the task of promoting intra-regional trade. To bridge this information gap, trade fairs can be organised for informing traders/businessmen about the availability of goods in various South Asian countries. Such fairs could be organised by each country in other South Asian countries. Also, there should be an exchange of trade delegations to bridge the information gap between the South Asian countries.

4. Interchange of development experience and cooperation of export production and marketing

There is good scope for learning by the mistakes committed by others. Most South Asian countries have traversed the path of industrialization the hard way. Exchange of this development experience would definitely be beneficial to each other. Specially, the intermediate technology developed by India is basically labour intensive. Given the resource distribution in the South Asian countries, such technology would be of greater benefit to them than the more capital intensive technology that might be offered by the developed countries. India is in a position to supply plants which would work on a smaller scale, more suited to the requirements of developing countries. The geographical proximity will also help in reducing the transport cost which today accounts for a fairly substantial proportion of the total import bill. To a very large extent, the developmental strategy of the South Asian countries consists of greater exploitation of natural resources which will generate enough employment potential. The scope for fruitful collaboration in the area of resource development between India and the South Asian countries almost on the same lines as the pattern of cooperation between Japan and the South East Asian countries, can be identified.

5. Joint Ventures

There are great possibilities for mutually beneficial joint ventures. Joint ventures could be established by the more developed countries of the region in the less-developed ones possibly with buy-back arrangements. Cement mills could be established in Nepal by India with a buy-back arrangement. Rubber products could
be manufactured by Indian joint ventures in Sri Lanka with buy-back arrangements. Pakistan and India could jointly establish a steel mill in Pakistan where Indian iron ore could be converted into steel with buy-back arrangement. Joint ventures could be established to manufacture newsprint from the resources of Bangladesh and Eastern India. Auto parts could be manufactured with Indian steel and Sri Lankan rubber.

Joint ventures could also be established for promotion of South Asian exports. India's joint ventures in Sri Lanka Export Processing Zone provide a good example to be followed by other countries. We could thus develop regionally export-oriented industries.

Trade associations in individual countries might identify the various projects which could be taken on the basis of joint collaboration.

There can be joint work on R & D programmes to determine the appropriate technology. So also there can be an understanding among these countries to share the technology obtained from the West. Technology exchange fairs could be held from time to time by rotation in different countries. The ESCAP has established a Centre for Transfer of Technology in Bangladesh. The individual South Asian countries might provide information about the technology available with them to this Centre so that a Data Bank and Clearing House could be developed there.

6. Other areas of economic cooperation

Economic cooperation among South Asian countries can be meaningful if the benefits of cooperation filter to the common man. From this point of view, South Asian countries could collaborate in a number of areas for mutual benefit. Himalayan resources could be tapped for the development of hydro-electric resources and a hydel power grid for the common benefit of India, Pakistan, Bhutan and Nepal. Coastal fisheries could be developed for the benefit of India, Pakistan, Bangladesh, Burma and Sri Lanka. The entire area could be linked by roads and railways. Even inland waterways could be developed for cheaper transport of bulk goods, if necessary, by digging some canals. Similarly, an adequate telecommunication network could be established to stimulate the flow of trade and services. Forest resources of Nepal, Bhutan and India could be developed for mutual benefit and even for production.
of export oriented goods. There could be cooperation in road building by getting stones from Nepal to India and Bangladesh.

7. **Joint marketing**

The resources available to South Asian countries for marketing their products abroad are, by internal standards, meagre. To optimise the use of the limited resources for effectively marketing their products in foreign countries, it would be advisable for these countries to pool their resources and develop generic market promotion programmes wherever feasible. This is precisely applicable in the case of agricultural and allied products. International organizations are taking active interest in promoting the cause of such joint marketing efforts among leading producer nations. South Asian countries could consider the possibility of active cooperation both among themselves and with international agencies to draw up blueprints of action for joint marketing and market promotion of identified product groups. This could go a long way in reducing the present concentration of marketing and distribution of our commodity exports in the hands of multinationals. An analysis of the resource base and production pattern of India, Sri Lanka, Nepal, Pakistan and Bangladesh indicates that cotton, jute, rice and tea lend themselves to joint marketing.

8. **Monetary cooperation and payments arrangements**

Trade among South Asian countries is still being conducted mostly in terms of dollars or sterling. Since the availability of free foreign exchange continues to be a problem for most South Asian countries, it is necessary to develop an institutional system which will reduce the use of such free foreign exchange for the settlement of accounts for trade among the regional countries. In fact, this was the basic objective behind the establishment of the Asian Clearing Union (ACU). Bangladesh, Burma, India, Nepal, Pakistan and Sri Lanka are members of the Asian Clearing Union. Transactions through the Union are increasing. Yet the ACU has not so far met with the desired success. It is, therefore, of utmost importance to carry out an in-depth review of the ACU to determine the measures for strengthening it. In the meantime, exchange controls could be removed/liberalized for intra-regional payments and intra-regional tourist traffic.
9. \textit{Import cooperation}

India is a fairly important importer for certain items in the world market, both in primary products such as non-ferrous metals and in manufacture such as steel, chemicals and equipment. India's state trading organizations (STOs) have developed adequate expertise in the techniques of import procurement in the global market. Those South Asian countries whose need for certain items is marginal and, therefore, cannot exercise adequate bargaining power may like to conclude deals with Indian STOs which will work as their purchase agents.

Finally, after in-depth complimentary studies, an attempt has to be made to harmonise economic development plans to create a new pattern of productive structure on the basis of which new lines of intra-regional trade could be created. Here again, much depends upon India to take an initiative.
APPENDIX

Areas of Possible Cooperation

India's Point of View

Bangladesh

(a) Potential export items
Coal, dyestuffs, textiles and textile yarn, steel and iron items, glassware, agricultural implements and machinery, small tools, hand tools and machine tools, leather and leather manufactures, auto parts, railway vehicles, food processing machinery and plastic products.

(b) Potential import items
Newsprint, pulp and paper and fish.

(c) Areas of industrial collaborations: Fertilisers, insecticides, pumps, agricultural implements, textiles, leather, marine products, etc.

Pakistan

(a) Potential export items
Tea, spices, coal, organic acid, organic and inorganic compounds, antibiotics and medicaments, plastic materials, chemical products and preparations, rubber tyres and tubes and belting, iron and steel plates, tubes and pipes, tractors, food machinery, construction and mining machinery, glass machinery, machinery parts and accessories electrical power machinery, telecommunication equipment, switchgears, rail locomotive parts, lorry and truck chassis, major vehicle parts, motor cycle parts, measuring and controlling instruments, pesticides, electrical fans, woollen cloth, iron, ore, construction machinery, port equipment.

(b) Potential import items
Raw cotton, residual fuel oils, gypsum, onyx, rock salts, industrial alcohol and fertilisers.

(c) Areas of industrial collaboration
Cement, fertilisers, sugar, edible oil, chemicals, iron and steel, agricultural machinery, textiles, refractories, small-scale industries and food processing.

(d) Other areas of cooperation
India can help Pakistan in the following areas:
—Rural electrification, distribution system including transmission and other communication facilities.
Water management system including construction of shallow tubewells.

Storage and warehousing.

India can greatly benefit from Pakistan's technology and experience in reclaiming saline soils and combating water logging.

Sri Lanka

(a) Potential export items
Rice, organic and inorganic chemicals, paints and varnishes, transport equipment, textiles, industrial machinery, iron and steel items, medicinal and pharmaceutical products, tobacco, fruits and vegetable, insecticides, agricultural machinery, including tractors, construction and mining machinery, pumps and centrifuges, scientific instruments.

(b) Potential import items
Graphite, cloves, hides and skins, coconut oil, molasses and furnace oil.

(c) Areas of industrial collaboration
Cement, corrugated boxes for tea, concrete transmission line poles, cutting tools, diesel for marines, electrical and electronic appliances and equipment, food processing machinery, sugar plants, paper and pulp plants, plastic equipment, power tillers, railway sleepers and coaches, ribbon laces, nylon zips and elastic webbing belts, rich milling and solvent extraction, textile machinery, woollen blanket, assembly and manufacture of bicycles, building materials, garment manufacturing fluorescent tubes and bulbs.

Nepal

(a) Potential export items
Synthetic textiles, ready-made garments, transport vehicles, transport equipment, tele-communication equipment, agricultural tractors and parts and hydro-electrical equipment.

(b) Potential import items
Goat skins, pulp, bamboo and cane products and handicrafts.

(c) Areas of economic and industrial cooperation
Improving Nepal's infrastructural facilities, harnessing water resources of Nepal for (i) irrigation, (ii) inland river navigation and (iii) generation of hydro-electric power; joint ventures for setting of industries based on local raw materials with buy-back arrangements, specially dairy products, fruit and vegetable processing, fisheries, cement and forest products.