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## **Regional Integration in the Asia-Pacific: Views From the South**



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in the Asia-Pacific:  
Views From the South**



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# Regional Integration in the Asia-Pacific: Views From the South

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Titos Escueta

A global trend these past few decades has been the integration of national economies into regional blocs. This regional integration is characterized by nation states coming together to talk about opening up their markets and bringing about favorable trading arrangements among themselves, logically ending in a globalized free market. Of course, there is a counter theoretical trend that would contend that this regionalization actually runs against the grain of a grand globalization project as defined by Western economic interests. It argues that these smaller regional arrangements serve to weaken homogenization into the global market by diversifying the stage while gaining leverage as significant economic blocs in a multi-centered global economy. As a “localization” effort, questions arise whether these trading blocs actually provide an alternative to globalization by “leveling the playing field” for previously “insignificant” areas such as the Borneo-Indonesia-Malaysia East Asian Growth Area (BIMP-EAGA). In a nutshell, however, both these schools of thought limited themselves to two things: the state and the market. Several questions remain intriguing. Especially in the Asia Pacific region, geographical home to the now highly criticized “miracle economies,” where there is a proliferation of both types of efforts.

What of the people? As can be gathered by its very nature, this mainstream framework leaves out a most important and integral component: people. The mainstream mega-projects such as the ASEAN Free Trade Area (AFTA) and the Asia Pacific Economic Cooperation (APEC), as well as smaller regional economic integration projects like the proliferating growth triangle initiatives, have their basis on the “trickle-down” effect. Unfortunately, the trickle-down concept has been much debunked in development circles, both in theory and reality. More importantly the question is how to make people relevant to development and vice versa. Ideally, development can only be called such if it has its roots in the participation of



its constituents from the planning, to the implementation, to the monitoring stages. As participatory initiatives, all of these mainstream efforts are severely wanting.

What of “development models?” Critiquing anything requires not only pointing out flaws but also giving solid and viable alternatives. There is an overflow of critiques of mega-regional integration projects such as APEC and AFTA, but a dearth in the development of alternatives to such. Questions such as how these regionalization/localization initiatives can actually challenge, instead of support economic globalization, of looking at areas with common natural affinities (like the Mekong region for example) towards integration and how they can serve as models for transborder cooperation and development, should receive as much, if not more attention than critiquing mainstream initiatives. Of course, a discussion of development alternatives will not be complete without mentioning the equally prolific and diverse experiences and experiments that will fall under neither the regionalization or globalization agenda. Those “micro” efforts at efficient local level planning for genuinely sustainable communities, organic livelihoods, as well as alternative trading relationships between peoples and not states, to mention a few.

It was with the goal of trying to lay the ground for some answers to these questions that ARENA, together with some partner groups, decided to initiate a series of studies to look more closely at mainstream regional integration efforts and how they affect people on the ground and what lessons may be learned from these experiences.

As early as March 1995, ARENA has been actively trying to get a research study on regional integration efforts in the region. However, it was only in August 1996 that the project got underway as a collaborative effort between ARENA, the Institute for Popular Democracy (IPD) in Manila, Focus on the Global South (Focus) in Bangkok, and the Transnational Institute (TNI) in the Netherlands. Four major components were identified and each component was to be coordinated by a responsible group. The components and division of responsibility were:

Component 1: Regionalism from Above and Below — ARENA

Component 2: Asian Audit in Democracy and Authoritarianism — Focus

Component 3: Making a New Political Culture in the Asia-Pacific — IPD and,

Component 4: Democratization and Europe's Agenda in Asia — TNI

With regard to ARENA's component, the broad objectives were to:

- \* Critically examine regional integration of economies in the Asia-Pacific region with respect to its historical background and socio-economic, political, and cultural contexts

- \* Determine the impact of trade and investment liberalization on the region's poor and disadvantaged populations

- \* Study the formation of civil alliances outside the state-market nexus as alternatives to regional integration of elite-driven market economies and critically analyze them, and

- \* Propose alternative paradigms of regional integration from below in terms of people's alliances.

Towards meeting these objectives, researches were commissioned to several groups working intensively on the issues of concern. Focus on the Global South was responsible for three studies: one on Economic Integration in ASEAN countries with a special focus on AFTA and APEC, another on Growth Triangles and Sub-Regional economic zones, and the last on NGO-PO initiatives at engaging and providing alternatives to these mainstream economic efforts. Bobbet Corral from the Asian NGO Coalition (ANGOC) was tasked with doing a full-blown research on the Mekong Subregion and Mohiuddin Ahmad, from the Community Development Library (CDL) in Bangladesh, was to head the team who would do the study on regional cooperation in South Asia, lending a critical eye on SAARC-SAPTA initiatives.

The culmination of these research studies was a workshop that was held in Hong Kong in June 1998. **"Regional Integration Efforts in the Mainstream: People at the Center"** was aimed at bringing together the individual papers and try to weave them into a common framework. The audience was composed of about 20 participants from regional NGOs based Hong Kong, as well as some representatives of groups from India, Japan and the Philippines, provided valuable feedback that was also to be integrated into the final manuscripts.

This venue also served as an opportunity to bring together people to discuss possible efforts at furthering the results of the research. The most interesting spin off would be the Civil Society Alliances project that would look into peoples alliances at regional integration as compared to this effort that looks at mainstream efforts. These people-to-people alliances would also not be limited to economic integration efforts as the previous project was. It would also not limit itself to peoples responses to issues brought forth by the mainstream economic regional integration models (APEC, AFTA,



etc) but it will also look at what issues peoples groups are actively allying with each other to promote/denounce. It is hoped that a study into the dynamics of this people-to-people process will help to better alliance work as well as approach issues with a more grassroots/regional perspective. In fact, this second phase has been integrated into ARENA's next three-year plan.

The second phase of the programme draws from the initial inputs from NGO-PO initiatives and alternatives and looks more closely at regional integration efforts from the people. These people-to-people alliances have even predated the mainstream mega-economic projects and address various issues of sustainability and equity.

This issue of Asian Exchange, the first volume in the series, features Focus' paper on economic integration in the ASEAN and the paper on SAARC-SAPTA. The first paper looks at ASEAN initiatives at integration in the light of several factors and actors, such as the financial crisis and the China "threat," and how these have to be integrated into any equation aiming to bring together the different countries and interests of the region. Their effects have been diverse, in some instances widening opportunities for cooperation, while severely limiting them in others. The SAARC-SAPTA paper takes a historical look into the rocky attempts at regional cooperation and tries to tie these efforts with the regions "givens:" the arms (recently nuclear) race, nationalistic fervor and inherent distrust among neighbors, abject poverty and inequality both between and within countries. Ahmad argues further that the present frameworks leave much to be desired in terms of how their benefits translate into the lives of the commonfolk.

In terms of framework, the preceding research has limited itself to two concepts: economics and state projects. However, the research project can be seen as a first step toward looking at how people can respond, and more importantly initiate, a re-definition of integration and alliance work, development models and peoples' roles in determining their viability. The work remains long and incomplete, but exciting and potentially fruitful at the same time.

# **Economic Integration in the ASEAN: In Need of Another Miracle**

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**Focus on the  
Global South**

**N**ineteen-ninety-seven was a significant year for the Association of Southeast Asian Nations (ASEAN). The year marked the group's 30<sup>th</sup> year, capping a string of political and strategic achievements. Three new members – Vietnam, Myanmar, Laos – were brought in. Cambodia waits in the sidelines, making the vision of an ASEAN-10 very close to reality.

But what really captured the world's attention was the crisis that rocked the region beginning the third quarter of the year. The sudden slip of the Thai baht triggered a domino effect among the other ASEAN currencies, with the Malaysian ringgit, Indonesian rupiah, and the Philippine peso tumbling in close succession. This brought to fore questions not only confined to the health of the ASEAN financial system, but more significantly on the sustainability of the phenomenal economic growth in the region.

The crisis, which required a quick response, in a way put to test the ASEAN as a regional grouping. On the surface the ASEAN response appeared quick enough, particularly the adoption of a proposed Asian Fund intended to provide a stand-by facility for the region. The mechanics and the funding for the facility, however, are far from clear. In reality many of the ASEAN countries looked to the traditional sources of financial assistance for help: the IMF stringing together finance packages. Only Malaysia put up a brave front.

Still, the financial crisis seems to have widened existing, if not opened new, routes for ASEAN economic integration. Before, the principal route

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Focus on the Global South is a program of development policy research and practice connected with Chulalongkorn University in Thailand.

being taken was through trade via the ASEAN Free Trade Area (AFTA). This is the subject of this paper's review. What is the future of ASEAN integration through trade, and how have new developments affected this?

### **The Long, Tedious Push Toward Economic Cooperation**

ASEAN has a gross domestic product of US\$632 billion, and is home to 481 million people. Half its GDP value is accounted for by exports. The region is particularly prominent at this time given its ambition of establishing a free trade area by 2003 or possibly earlier by the turn of the century.

Seen within the context of Asia's growth rally since the 1980s -- first with the so-called newly industrializing economies (NIEs) of South Korea, Hongkong and Singapore; then with the fast industrializing Southeast Asian countries of Thailand and Malaysia; and most recently, with the promising development in the so-called Southeast Asian transition economies (SEATEs) of Vietnam, Myanmar, Laos and Cambodia -- ASEAN place in economic history is nothing short of phenomenal. Yet, even with the impressive economic growth in its midst, the ASEAN was slow in realizing an integration beyond the customary strategic solidarity concerns for which it came to be known.

For twenty-five years until 1992, the ASEAN concentrated its energies on political and security issues. While attempts to introduce economic integration schemes into the ASEAN were made, these attempts have only managed to court resounding disinterest.

In 1977 the Preferential Trading Arrangement (PTA) was launched. It sought to establish preferential trade among ASEAN members on a voluntary, product-by-product basis. Even as the PTA was upgraded to apply an across-the-board approach in 1980, the PTA performed poorly covering a mere two percent of intra-ASEAN trade in 1980 to five percent in 1986. The steep 50 percent ASEAN content requirement was widely blamed for the failure of the PTA. The real reason, of course, was the long exclusion lists maintained by the members. As much as 63 percent (in the case of Thailand) of product lines, most of which heavily traded within the region, was excluded from the arrangement.<sup>1</sup>

Also in 1980, the ASEAN Industrial Projects (AIP) was launched. The initial dream of assigning large-scale capital intensive projects for development by different countries dissolved into oblivion with only two projects materializing.<sup>2</sup>

The following year, the ASEAN Industrial Complementation (AIC) and Brand-to-Brand Complementation (BBC) schemes were introduced, with the aim of distributing the different stages of production among members. The first AIC project involved the production of automotive parts and components. In 1983, it turned out that AIC/BBC was fated to be just another flash-in-the-pan scheme, having been dealt its biggest blow when Malaysia announced that it will produce its own car.<sup>3</sup> In the early 1990s, the scheme was refined to include the BBC and non-automotive products. The participation of Japan, whose MNCs found the scheme compatible with their own investment plans, accounted for the limited success of the AIC and the BBC.<sup>4</sup>

The last scheme to be introduced in the 1980s was the ASEAN Industrial Joint Ventures (AIJV). Few projects materialized under AIJV, mainly because it did not limit coverage to production activities but accommodated resource pooling and market sharing as well. Still, potential players found the 40 percent national equity requirement too restrictive. The scheme managed to produce one project that enjoyed the participation of five ASEAN countries – the Nestle ASEAN Industrial Joint Venture Project, involving food processing. The project was a showcase of how bureaucratic red tape (in all five participating countries, no less) and tedious non-tariff trade barriers (import documentation procedures and other administrative requirements) delayed the approval process and hampered effective exchange among the countries.<sup>5</sup>

By early 1990s, most of the developed world started serious work towards economic integration. Deriving impetus from threats of eroding competitiveness and Asia's economic intrusion, two big developments would emerge. First was the expansion of the European Union (EU) and the formation of the Single European Market (SEM). By 1994, Mexico joined the United States and Canada in the North American Free Trade Area (NAFTA). Two main motivations were noted in these developments: (1) to enhance the fast eroding competitiveness viz. Asia; and (2) to work out ways to open up the Asian market. While the EU was drowned in the internal dynamics of the SEM, the height of the Northern campaign to open up Asia progressed with the United States at the helm via the supposedly voluntary and non-binding Asia Pacific Economic Cooperation (APEC).

Thailand's former Prime Minister Anand Panyarachun proposed the establishment of an ASEAN Free Trade Area (AFTA) as early as 1991. With the exception of Indonesia and the Philippines, ASEAN members were

enthusiastic about the proposal. Partly in reaction to the growing regionalism in the North, the ASEAN in its Fourth Summit in January 1992 in Singapore agreed to establish the ASEAN Free Trade Area (AFTA).

AFTA was to be the most comprehensive and most ambitious economic cooperation scheme in the ASEAN thus far. Unlike the PTA, the AFTA is implemented on a sectoral basis at the Harmonized System (HS) 6-digit level. Details of the agreement were worked out in 1992, and AFTA was to become effective in January 1993. But hesitation from and jockeying by some members resulted in an original scheme that was so complicated that AFTA had to be re-launched in late 1993 to fan interest.<sup>6</sup> Only in November 1993 was the initial Products List released by the ASEAN Secretariat. Tariff reduction (covering one-fourth of the tariff lines or about 10,000 out of the initial 41,000) became effective only in January 1994.<sup>7</sup>

Encouraged by the modest gains in AFTA, the group decided to accelerate AFTA during its Fifth Summit in December 1995 in Bangkok. The 1995 Bangkok Summit accelerated AFTA from the original 15 years to ten years. Tariff rates for AFTA qualified products are expected to go down to 0-5 percent by the year 2000 and ultimately to 0 by the year 2003. The real test of AFTA was the inclusion of unprocessed agricultural products (UAPs). Members agreed in Bangkok to complete the phase-in of UAPs by 2003. Starting 1996, more than half of the UAPs originally excluded from the scheme were brought into AFTA.

### AFTA Inside-Out

The Common Effective Preferential Tariff (CEPT) Scheme is the main instrument of AFTA. It is a cooperative agreement among the ASEAN members to reduce intra-regional tariffs and remove non-tariff barriers over a ten-year period, ending in the year 2003 (for the original members), 2006 for Vietnam, and 2008 for Laos and Myanmar. All manufactured products, including capital goods, processed and unprocessed agricultural products, are covered by the CEPT Scheme.

The AFTA Council is responsible for implementing and monitoring the CEPT Agreement. To monitor AFTA matters, each member country has an AFTA Unit, while the ASEAN Secretariat serves as the AFTA Coordinating Agency.

## **Inclusion (IL), Temporary Exclusion (TEL) and General Exception Lists (GEL)**

All products subject to the CEPT Scheme are in the Inclusion List. To be included in the scheme, the following conditions must be met:

the product must be included in the IL of the exporting and importing countries and must have tariff rates of 20 percent or below;

it has to follow a programme of tariff reduction approved by the AFTA Council;

it must have an ASEAN (individual or cumulative) content of at least 40 percent.

Products under the Scheme follow two general schedules of tariff reduction as follows:

*Normal Track* where products with tariff rates above 20 percent shall have their tariffs reduced to 20 percent by 01 January 1998, and to 0-5 percent by 01 January 2003. Products with tariff rates at or below 20 percent will have their tariffs reduced to 0-5 percent by 01 January 2000.

*Fast Track* where products with tariff rates above 20 percent shall have their tariffs reduced to 0-5 percent by 01 January 2000, and those with tariff rates at or below 20 percent will have their rates to 0-5 percent by 01 January 1998. There are 15 products in the fast track schedule: vegetable oils, cement, chemicals, pharmaceuticals, fertilizers, plastics, rubber products, leather products, pulp, textiles, ceramics and glass, gems/jewelry, copper cathodes, electronics, and wooden/rattan furniture.

The TEL contains products temporarily excluded from the CEPT for a limited period. The 26<sup>th</sup> ASEAN Economic Ministers Meeting agreed in September 1994 that all products in the TEL will be phased into the CEPT in equal installments beginning 01 January 1996 until 01 January 2000. Following the principle of reciprocity, members with products in the TEL are disqualified from enjoying CEPT concessions for that product.

General exceptions include items not subject to the CEPT Scheme due to "reasons either of national security, the protection of public morals, the protection of human, animal or plant life and health, and the protection of articles of artistic, historical or archaeological value."<sup>8</sup>

In 1997 more than 42,000 tariff lines representing 91 percent of total are included in the CEPT scheme at an average tariff rate of 6.38 percent.



Thailand has the most number of tariff lines included in the CEPT (98.42%) but gives the highest average tariff rate (13.1%). Vietnam has the shortest inclusion list (53.24%) but gives generous concessions in average tariff rates (4.58% or second lowest average next to Malaysia and excluding Singapore and Brunei). Less than eight percent of tariff lines are temporarily excluded, consisting mostly of manufactured products. Vietnam has the longest TEL for manufactures (1,143 lines or 40.65%) and Malaysia has the longest TEL for unprocessed agricultural products (154 lines or 1.66%). (*See Tables 1 and 2.*)

### **Unprocessed Agricultural Products (UAP)**

All unprocessed agricultural products are included in the CEPT scheme under three lists: Immediate Inclusion List, Temporary Exclusion List, and Sensitive List (consisting of Sensitive and Highly Sensitive Lists).

UAPs in the Immediate Inclusion List were transferred to either the normal or fast track by 01 January 1996. One-thousand-three-hundred-fifty-eight (1,358) tariff lines representing 68 percent of UAP are immediately included. These products will have 0-5 percent tariff by 2003.<sup>9</sup>

UAPs in the TEL shall be transferred to the IL in equal installments to be completed by 2003. The target is to include roughly 88 percent of UAP in AFTA by the year 2003, with the remaining 12 percent subject to commitments better than those made by the members to the World Trade Organization (WTO).<sup>10</sup>

UAPs in the Sensitive List and Highly Sensitive List are treated differently from the normal tariff reduction schedule. The Ninth AFTA Council in Singapore in April 1996 agreed that the beginning year for phasing in products in the sensitive list will be 2001 and possibly until 2003. A special arrangement is being prepared whereby phase in of products will be completed by 2010 and will incorporate higher (than 5%) ending tariffs and with safeguards. However, the tariff reduction commitment under the special arrangement must be better than those made to the WTO.

During the 18<sup>th</sup> ASEAN Economic Ministers' Meeting in September 1996, members agreed to complete the phasing in of UAPs – including rice and sugar for Indonesia, rice for the Philippines, and tobacco and tobacco products for Malaysia – by 2010.

**Table 1**  
**1997 CEPT Products List**

Country	Inclusion List		Temporary Exclusion List						Sensitive List			General Exception		TOTAL
	# Tariff Lines	%	MP 1/			UAP 2/			# Tariff Lines	%	# Tariff Lines	%		
			# Tariff Lines	%		# Tariff Lines	%							
Brunei	6,060	93.19	220	3.38			14	0.22	209	3.21	6,503			
Indonesia		6,440 88.71		697	9.60	55	0.76	23	0.32	45	0.62	7,260		
Malaysia		8,580 92.33		362	3.90	154	1.66	137	1.47	60	0.65	9,293		
Philippines	4,949	85.71	668	11.57	100	1.73		29	0.50	28	0.48	5,774		
Singapore	5,730	97.81							128	2.19	5,858			
Thailand		8,996 98.42		111	1.21			7	0.08	26	0.28	9,140		
Vietnam		1,497 53.24		1,143	40.65			26	0.92	146	5.19	2,812		
ASEAN-7		42,252 90.59		3,201	6.86	309	0.66	236	0.51	642	1.38	46,640		

Source: ASEAN Secretariat

1/ manufactured products

2/ unprocessed agricultural products

**Table 2**  
**Average CEPT Rates for the 1997 Package**

COUNTRY	1996	1997	1998	1999	2000	2001	2002	2003
Brunei	1.58	1.21	1.16	0.90	0.87	0.87	0.84	
Indonesia	9.05	8.53	7.05	5.82	4.92	4.61	4.20	3.72
Malaysia	4.62	4.04	3.41	3.01	2.58	2.41	2.27	1.97
Philippines	9.22	9.20	7.71	6.79	5.45	4.96	4.68	3.72
Singapore	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Thailand	14.41	13.10	10.46	9.65	7.29	7.27	5.93	4.63
Vietnam	4.71	4.58	3.37	3.34	2.83	2.41	2.15	1.21
<b>ASEAN</b>	<b>6.86</b>	<b>6.38</b>	<b>5.19</b>	<b>4.63</b>	<b>3.69</b>	<b>3.53</b>	<b>3.11</b>	<b>2.55</b>

Source: ASEAN Secretariat

By the 11<sup>th</sup> AFTA Council Meeting in Kuala Lumpur on 15 October 1997, most of the elements of the special arrangement for sensitive UAPs have been finalized. Members, however, have yet to agree on beginning tariff rates for sensitive products or the tariff reduction schedule. Two options for beginning rates were discussed: applied rates (current rates) or WTO tariff bindings (highest allowable tariffs). Some members are of the view that the beginning rates should reflect current market access, hence, applied rates should be used. Others, however, contend that applied rates may not reflect current market access due to the presence of quantitative restrictions (QRs). They argue that since under the WTO members should convert all QRs into their tariff equivalents, the WTO bindings should be used. The matter was referred to the Senior Economic Officials for resolution, and remains unresolved as yet.<sup>11</sup>

Of the Highly Sensitive UAPs, rice is the most important and the most problematic. The Philippines has reaffirmed that it would phase-in rice into the CEPT Scheme beginning 01 January 2005 and ending on 01 January 2010 once the necessary legislation is in place. Philippines and Indonesia said that it would be very difficult to set an ending rate for highly sensitive products (rice) at this stage. Only Malaysia has confirmed that the ending rate for rice would be 20 percent.<sup>12</sup>

## **The Vision of AFTA: Economic Integration via Increasing Attractiveness for Trade, Production and Investments**

In less than five years AFTA managed to evolve, at least in principle, from a lackluster scheme to a seemingly aggressive trade liberalization tool in the region. Given the fast-tracking of AFTA, several questions arise: Is it ASEAN's aim to eventually achieve maximum regional self-sufficiency via AFTA, i.e., does it envision the shrinking of trade coming from non-members? How does ASEAN (through AFTA) plan to bring in the elements missing but necessary for regional development, e.g., some raw materials, technology, upper-end manpower, and power and financial infrastructure? How far has AFTA gone and how much has it contributed to regional economic integration?

While trade is the major focus of AFTA, analysts have noted that AFTA's importance goes beyond increasing intra-ASEAN trade. In fact, there is question on how much can be achieved in terms of growth in intra-ASEAN trade given the outward orientation of all the members.

In the first issue of the *AFTA Reader* in 1993, the ASEAN Secretariat proclaimed that the "ultimate objective of AFTA is to increase ASEAN's competitive edge as a production base geared for the world market."<sup>13</sup> That is, AFTA's aim is not so much to expand intra-ASEAN trade but to make it an attractive area for trade and investment.<sup>14</sup>

It is almost an implicit agreement among observers that one should not look at intra-regional trade to look for ASEAN strength, lest he face certain disappointment. Rather, the magic lies in using preferential trading arrangements to lure investors into the region, produce and trade from there, and eventually generate immense economic benefits for ASEAN. As one study puts it, "liberalization within the region would expand markets and induce better utilization of resources, creating incentives for new investments", and that the major motivation "lies in the opportunities provided for the relocation of production processes among countries in the region". According to optimistic views, the rules of origin strategy of AFTA ensures that efficiency-seeking investments will tap Indonesia's, Thailand's and the Philippines' cheap labor, and Malaysia's and Singapore's human and physical capital stock.<sup>15</sup>

In short, if official pronouncements are to be believed, ASEAN's key objective is to "boost regionally based industries by providing them with a unified market...while using foreign multinationals to upgrade regional industrial capacity, principally through the transfer of technology."<sup>16</sup>

The proof of the pudding is in the eating, or so the saying goes. How far ASEAN has gone in terms of economic integration via AFTA can be assessed using several indicators. Following are some of them:

There must be significant growth in ASEAN exports to the rest of the world. This is the first test of regional competitiveness for ASEAN: its capacity to penetrate the world market with its exports in the context of increasing global competition.

There must be significant growth in intra-ASEAN trade. While it is argued that AFTA's objective is primarily outward-oriented, no doubt an increasing intra-regional trade is crucial in making such objective happen. An increasing intra-ASEAN trade indicates a growing production integration that makes use of comparative advantages in the region in the use of raw materials. It also points to increasing production specialization, again based on comparative advantages and technology competence. These should augur well for the vision of a globally competitive ASEAN region. A growing intra-ASEAN trade also indicates that there is regional import-substitution going on.

There must be an appreciable shift in foreign direct investment towards the region. This indicates that foreign capital recognizes the locational advantages that AFTA facilitates, i.e., the scale efficiencies offered by the access to ASEAN member countries as well as the comparative advantages of ASEAN countries that may be integrated in production.

There must be increasing intra-regional capital mobility. Intra-regional capital movements indicate that capital is seeking comparative advantages in the region and that ASEAN capital is actually looking at the region as an integrated whole.

The increasing integration should give rise to new regional arrangements on technical cooperation – sharing technology, developing new markets, upgrading product standards, etc. This should follow from increased production complementation and from the evolving perspective that the ASEAN is an integrated whole rather than fierce competitors.

## Too Much Competition?

Total ASEAN trade values in 1993 amounted to \$429 billion, growing by 20 percent each year to reach \$620 billion in 1995. Intra-ASEAN trade more than doubled between 1993 and 1995, surpassing an already impressive 43 percent growth in overall ASEAN trade.<sup>17</sup>

No doubt AFTA had a lot to do with the increase in intra-ASEAN trade. Trade of commodities covered by AFTA (Common Effective Preferential Tariff trade) accounted for 80 percent of intra-ASEAN trade from 1993 to 1995. CEPT trade grew by 65 percent from \$34 billion in 1993 to \$56 billion in 1995, almost fifty percent more than the growth (44%) registered by non-CEPT trade for the same period.<sup>18</sup>

Notwithstanding the growing trade statistics, there is a big question whether the ASEAN has achieved greater economic integration via AFTA. Intra-ASEAN trade is still small relative to overall trade, both in absolute and growth terms, to be the major focus of members. The relative importance of intra-ASEAN to total ASEAN trade has remained fairly stable in the vicinity of 20 percent despite AFTA.

During the first year of AFTA's implementation total intra-ASEAN trade registered a 30 percent growth. This growth was unsustainable, however, falling to only 18 percent between 1994 and 1995. The same trend was noticeable in CEPT trade. CEPT trade surged in the first year (39% growth in 1993-94) but leveled at less than 19 percent the following year. In contrast, non-CEPT trade grew much faster at 15 percent in 1993-94 and 25 percent in 1994-95.

Another quirk that intra-ASEAN trade has to resolve is the high concentration of trade activities on a single member. The largest bilateral intra-ASEAN flows all involve Singapore, capturing on average three-fifths of exports and nearly half of imports in 1995. (See Table 3.) Singapore derives its importance from its strategic location as a trans-shipment point, and as a locus of re-export trade. In 1994 alone, Singapore retained only 61 percent of its imports of manufactured goods. Four-fifths of its manufactured goods exports consisted of re-exports.<sup>19</sup> This means that the growth in intra-ASEAN trade was brought about more by the export-orientation of individual ASEAN members, with Singapore as transshipment point, and has less to do with production or consumption integration in the region.



The implication, of course, is that unless the relative importance of intra-ASEAN trade improves, trade growth within AFTA will reach a plateau.

Table 3  
Intra-ASEAN Trade Flows  
In Percent, 1995

Country	Indonesia*		Malaysia		Philippines		Singapore		Thailand		Average	
	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.
Brunei	1.3	0.1	1.5	0.0	0.1	0.6	4.5	0.8	0.6	3.2	1.6	0.9
Indonesia			4.9	9.1	5.7	21.5			7.5	7.5	6.0	12.7
Malaysia	23.6	35.9			16.7	23.3	68.9	71.3	14.4	36.2	30.9	41.7
Philippines	10.7	3.9	3.4	3.5			5.9	4.1	3.8	6.5	6.0	4.5
Singapore	53.2	36.8	75.6	72.0	41.7	39.6			73.6	46.6	61.0	48.8
Thailand	11.3	23.4	14.6	15.4	35.8	15.0	20.8	23.8			20.6	19.4

Source: Based on IMF, *Direction of Trade Statistics Yearbook*, 1996.

\* Figures for Indonesia are for 1992 and 1994.

\*\* Details may not add up due to rounding.

Singapore  
3/5 of exports  
nearly 1/2 of imports

Bringing in new markets, specifically those contributed by the new members Vietnam, Laos, and Myanmar, partly answers the issue. However, the 121 million people-strong market the new entrants provide cannot compensate for the lack of strategic focus on intra-ASEAN trade.

Extra-ASEAN trade constitutes four-fifths of total ASEAN trade. Taken as a whole, ASEAN sells 40 percent of its exports to three traditional partners – Japan, the United States, and the European Union. These three destinations have a relatively more prominent role in the ASEAN-4 exports, accounting for an average of 60 percent in 1994. The US and the EU make up for the relative decline in importance of Japan (17% in 1985 vs. 14% in 1994, on average) as an export destination for the ASEAN<sup>20</sup>. (See Table 4.)

To outsiders, ASEAN's outward focus may seem surprising in view of the members' proximity to each other and their long history of political partnership. But economic exigencies dictate that ASEAN members internalize the limits to markets. That is, they have to recognize that their fiercest competitors are their closest neighbors. If one gets a bigger share of an export market, it is inevitably at the expense of another member.

With the exception of Brunei and Singapore, ASEAN economies produce virtually the same goods for export to virtually the same markets. And as the new and less developed members progress, they achieve competitiveness in products traditionally produced by the more established ASEAN economies. Hence, Vietnam emerges as an alternative source of food and light manufactures, banking mainly on competitiveness brought about by lower wages. This gives rise to steeper competition as new members develop and gain competitiveness in traditional exports faster than established ones can shift to higher-value products.

Without secure market niches, ASEAN members become internal and external competitors. This makes it difficult for even the most pioneering initiatives that strive for production and market sharing (as in the case of the various pre-AFTA economic cooperation schemes), for instance, to take off. Cooperation and resource pooling in this way has the effect of shrinking the market for any participating member. The potential gain of one becomes the potential loss of another. Slowing down the process of integration, then, is a natural reaction of members which get bigger shares of the market.

Although none of the ASEAN heads of state can be seen or heard saying things critical of another, not a few economic bureaucrats are dismayed by the slow progress of AFTA. The slow pace of integration in the ASEAN

Table 4  
Direction of Exports  
(Traditional Export Destinations)  
1985 and 1994 Percent Share

COUNTRY	JAPAN		US		EU	
	1985	1994	1985	1994	1985	1994
Cambodia	7.0	3.5	0.0	0.4	13.2	10.6
Indonesia	46.2	30.9	21.7	16.9	6.0	15.4
Lao, PDR	6.6	8.0	2.7	2.4	0.5	15.6
Malaysia	24.6	11.9	12.8	21.2	13.6	12.6
Myanmar	8.4	7.3	0.8	7.0	8.4	5.9
Philippines	19.0	15.0	35.9	38.5	13.8	16.4
Singapore	9.4	7.0	21.2	18.8	10.1	12.5
Thailand	13.4	17.2	19.7	21.2	17.8	13.5
Vietnam	17.4	27.3	0.0	1.1	6.2	19.9
ASEAN (Ave.)	16.9	14.2	12.8	14.2	10.0	13.6
ASEAN-4*	25.8	18.8	22.5	24.5	12.8	14.5
China	22.3	17.8	8.5	17.7	7.8	11.4

SOURCE: *Asian Development Outlook, 1996 and 1997*

\* Includes Malaysia, Thailand, Indonesia and the Philippines.

economy, despite rhetoric from the political leadership, does not go unnoticed at the ministry or department level. According to a ranking official at Thailand's Ministry of Commerce, "some countries are too short-term oriented. There is not enough economic cooperation spirit."<sup>21</sup> An economist working in the same ministry has even harsher words: "ASEAN is working too little. They talk a lot, but there is little action."<sup>22</sup>

The common focus of tirade are Malaysia and Indonesia who are perceived to be too protectionist relative to the other ASEAN members. Cooperation in the automobile industry has been particularly problematic because of the two countries. Another sticky sector is petrochemicals, with Indonesia backtracking on its commitment to lower tariffs based on its submission in the last quarter of 1997 (for tariff schedule until 2003). Indonesia's move, however, never made it to the papers, the ASEAN having decided to manage the controversy internally.<sup>23</sup> Again, although there was much frustration about the incident, nobody really acted surprised. Indonesia has always been the reluctant one, responsible for much of the delay in the establishment of AFTA. However, it could not be ignored because of its big market that was roughly equivalent to half the market accounted for by the six original members. ASEAN had to wait until Indonesia was ready.

What Indonesia's move did was to highlight ASEAN's expertise in managing conflicts, and some more. In the October 1997 Meeting of ASEAN Economic Ministers in Kuala Lumpur, a proposal (from the Philippines) on an *AFTA Notification Procedure* was taken. The procedure requires that a member country taking any action contrary to ASEAN economic agreements and/or disadvantageous to other member countries notify the group 60 days prior to the implementation of the action to give the others time to comment. The Protocol for the procedure will be finalized in April 1998.<sup>24</sup>

The Indonesia case also underscored the sorry fact that the ASEAN has no streamlined dispute settlement body. Nor does it have a mechanism to review relevant national policies affecting trade and investments. Complaints on AFTA matters are supposed to be settled bilaterally. Otherwise it is brought up to the attention of the AFTA Council, and if still unresolved, to the Economic Ministers – obviously a very tedious process. In November 1993 during the First Informal Summit in Jakarta, the Protocol on Dispute Settlement Mechanism was signed, introducing little improvement over previous dispute settlement practice.

### **Different Strokes**

Different internal constituencies account for much of the conflict between national policies and regional economic cooperation. Sticky issues on automobiles, petrochemicals and some agricultural products are almost always connected with pressure from monopolists at home.

Moreover, unique to the ASEAN is a diplomacy that puts great value in shunning open criticism. Thus, it would seem that some heads of state speak louder, and more harshly against foreigners, than others. While none of the other heads of state would openly criticize, they are nonetheless at liberty to say things that completely contradict what the others say. Hence, Mahathir could be his vicious best attacking foreign currency speculators and calling for stringent controls on portfolio flows in one forum, and Ramos his usual pro-market advocate in another, yet neither of them would propose to discuss the conflict between them.

More noticeable is the absence so far of a unified economic vision for the ASEAN. At one extreme is Malaysia, which intimates that ASEAN does not “intend to be a trading bloc. We would like to come together if there are common problems but we would want members to have independence in policy. We don't aspire for exclusiveness.”<sup>25</sup> Of course, the bigger and perhaps the truer reason for pronouncements like this is the intrinsic jealousy among

members. Being fierce competitors, ASEAN cannot flourish without the added push, for instance, from Japan, Korea and Taiwan.

At the other extreme is the Philippines which believes that the best thing to do is to go global, and skip regional integration altogether. The Philippine position is to "push ASEAN to unilaterally eliminate all preferential tariff treatment by the turn of the century irrespective of reciprocity."<sup>26</sup>

Still, certain sectors of national bureaucracies have strong commitment to AFTA. There is increasing awareness of the significant role AFTA should play, and how much faster it should go, if it were to be meaningful in the face of the other trading arrangements like the World Trade Organization and the Asia Pacific Economic Cooperation. "To be meaningful, the ASEAN via AFTA must run faster than the others. If APEC decides to fast-track, AFTA should go faster. If APEC decides to give, AFTA should give more."<sup>27</sup>

There is danger, however, that the intensity of commitment translates into non-transparency. Economic authorities are inclined to propose aggressive policies that would break entrenched interests. But because certain politicians are known to cuddle rich lobbyists and rent-seekers, it is far easier to issue an order based on technical rigor rather than on negotiated stance. As one ranking MFA official of Thailand say: "Decision has to be policy led, top down. Consultations have been mostly ineffective because other officials advocate own department interests. Some are very conservative."<sup>28</sup> At the losing end of this course, unfortunately, are small producers (mainly in agriculture) whose initial endowments beg for more proactive intervention which, again unfortunately, are overshadowed by moves to liberalize in the name of 'competitiveness'.

## **No Thanks to AFTA?**

For sure the ASEAN has been one of the fastest growing regions in the world, perhaps the fastest at the onset of the 1990s. Throughout the eighties ASEAN trailed behind the world average in terms of GDP growth, 4.8 percent versus 5.13 percent. Even as the bigger economies in the ASEAN (minus Singapore which had its growth rally a decade earlier) began the takeoff to high growth in the mid-1980s, it was in the first half of the 1990s that the ASEAN really showed exceptional growth as a region. The relative poor performance of the Philippines, which registered growth way below the world average, was more than offset by the pull factor of the SEATEs' rapid growth. The best performer was Malaysia, followed closely by Singapore and Thailand. ASEAN grew more than twice as fast as the world average, seven percent versus 3.2 percent, in the period between 1991 and 1995.<sup>29</sup> (*See Table 5.*)

An even more impressive achievement was the rapid industrialization of the ASEAN, second only to the feat achieved by the NIEs in the 1970s and early 1980s. From 1970 to 1995, industry share to GDP increased 44 percent (or almost 13 percentage points) from 29.1 percent to 41.8 percent on average in the ASEAN-4. The share of agriculture for the same period was halved from 31.1 percent to 15.6 percent. (*See Table 5.*)

Industrial expansion has been stimulated by the trade creating investments that came mostly from Japan and recently the NIEs. The shift in production radically transformed the trade structure of the ASEAN. In the 1970s, ASEAN exports were dominated by primary commodities: rice for Thailand, rubber and tin for Malaysia, and rubber and petroleum for Indonesia. Manufactures now account for at least 40 percent of merchandise exports.<sup>30</sup> In twenty years, the share of ASEAN export of manufactures grew 16 times bigger, from 0.2 percent to 3.4 percent from 1973 to 1994. (*See Table 6.*)

ASEAN exports in general grew rapidly, with value more than doubling from US\$75 billion to US\$191 billion between 1989 and 1995. In the same period ASEAN export share registered an average annual growth rate of seven percent to reach 3.8 percent of world exports in 1995, and representing on average more than half of the ASEAN's GDP.<sup>31</sup> (*See Charts 1 and 2.*)

All of these, however, started to happen before AFTA, and more precisely, despite the failed attempts of the ASEAN at regional economic



cooperation. It is even interesting to note that from the time AFTA was contemplated, the share of the ASEAN-4 exports to world exports seemed to have reached a plateau. This despite the continued rise in importance of exports in real GDP in the ASEAN, with Malaysia leading the pack where almost 98 percent of GDP is accounted for by exports in 1995.

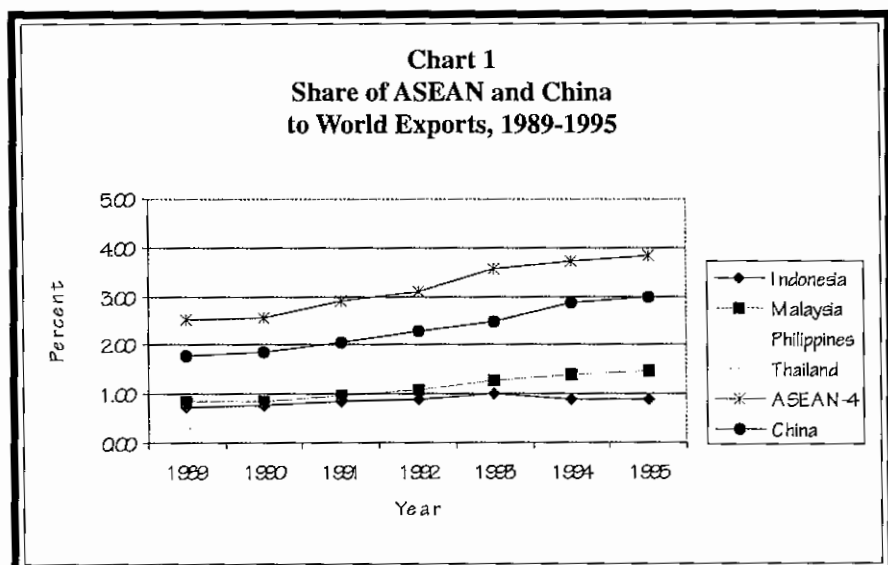
**Table 5**  
**Sectoral Share of GDP**  
**1970, 1980 and 1995**

COUNTRY	Agriculture			Industry			Services			GDP Growth	
	1970	1980	1995	1970	1980	1995	1970	1980	1995	81-90	91-95
Indonesia	35.0	24.4	15.9	28.0	41.3	42.2	37.0	34.3	41.9	6.0	7.7
Lao, PDR			56.5			18.9			24.6		6.4
Malaysia		22.9	13.9	35.8	47.1		41.3	39.0	5.2	8.6	
Myanmar	49.5	47.9	46.1	12.0	12.3	15.3	38.5	39.8	38.6	-0.1	5.9
Philippines	28.2	23.5	21.5	33.7	40.5	35.5	38.1	36.0	43.0	1.0	2.2
Singapore	2.2	1.1	0.2	36.4	38.8	42.7	61.4	60.0	57.1	6.5	8.4
Thailand	30.2	20.2	10.9	25.7	30.1	42.2	44.1	49.7	46.9	7.9	8.4
Vietnam		42.7	33.9		26.3	27.7		31.0	38.4	7.1	8.2
Average	29.0	26.1	24.9	27.2	32.2	34.0	43.8	41.7	41.2	4.8	7.0
ASEAN-4*	31.1	22.8	15.6	29.1	36.9	41.8	39.7	40.3	42.7	5.0	6.7
China	42.2	25.6	18.9	44.6	51.7	53.0	13.2	22.7	28.1	10.4	11.8

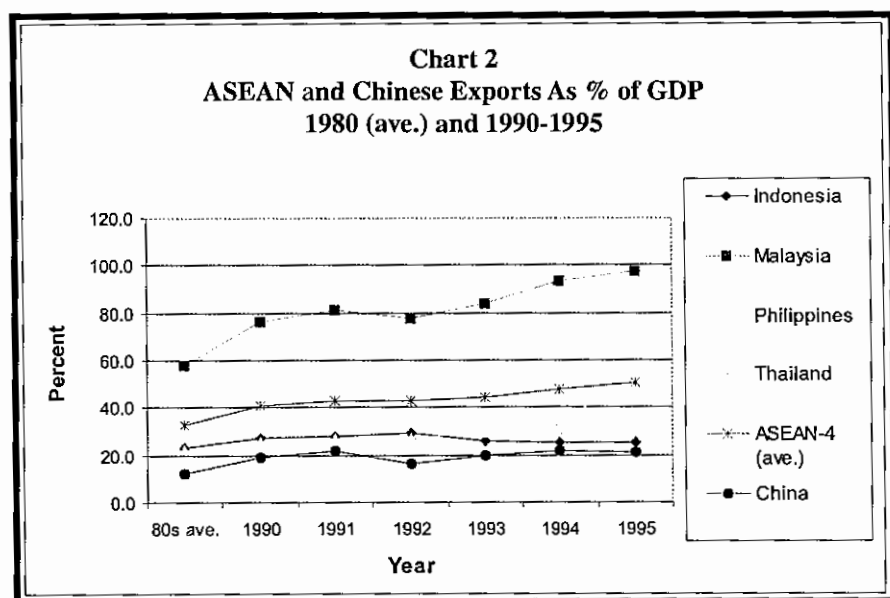
SOURCE: Asian Development Outlook, 1996 and 1997.

\* Includes Indonesia, Malaysia, Philippines and Thailand.

AFTA then has had but marginal impact in stimulating regional export performance. It has been successful, though, in demonstrating the increasing pressure for export competition among the members.



SOURCE: Based on IMF, *Direction of Trade Statistics Yearbook*, 1996.



SOURCE: Based on IMF, *International Financial Statistics Yearbook*, 1997

**Table 6**  
**Share of ASEAN Exports**  
**(Manufactures and Total Merchandise)**  
**to World Exports**  
**1963, 1973, 1983, 1993, 1994 and 1995**  
**(In Percent)**

COUNTRY	Manufactures					Total Merchandise	
	1963	1973	1983	1993	1994	1994	1995
Singapore	0.4	0.5	1.0	2.2	2.6	2.3	2.4
Malaysia	0.1	0.1	0.3	1.2	1.6	1.4	1.5
Thailand	0.0	0.1	0.2	1.0	1.1	1.1	1.1
Indonesia	0.0	0.0	0.1	0.7	0.7	1.0	0.9
Philippines	0.0	0.0	0.0	0.0	0.0	0.3	0.3
ASEAN	0.5	0.7	1.6	5.1	6.0	6.1	6.2
<b>ASEAN-4*</b>	<b>0.1</b>	<b>0.2</b>	<b>0.6</b>	<b>2.9</b>	<b>3.4</b>	<b>3.8</b>	<b>3.8</b>
China	0.0	0.6	1.2	2.8	3.3	2.9	3.0

SOURCE: WTO Secretariat, International Trade, Trends and Statistics, 1995;  
WTO Information and Media Relations Division, Press Release, 22 March 1996.

While it is yet early to say with certainty whether the ace ASEAN is banking on, i.e., deepening economic integration by increasing the region's attractiveness for trade and investments, has already lost its promise, one cannot ignore the disturbing signs. Nothing could be more telling than the dwindling inflow of foreign direct investments (FDIs), the element largely responsible for the high growth achieved by the ASEAN for a decade now.

With the exception of the Philippines, ASEAN has been a favorite destination for FDIs, particularly since the mid-1980s. FDIs to the ASEAN-4 amounted to a total of US\$15 billion in 1983-1989 and grew almost threefold to US\$41 billion in 1990-1994. The biggest FDI shares have been captured by Malaysia and Thailand, sharing between them 71 percent of total flows to the ASEAN-4. (See Table 7.)

Starting 1989, however, FDI inflows have grown slower. The more decisive shift came in 1992, when all but one country in the ASEAN-4 experienced lower FDI growth rates from the year ago levels. Thailand was the sole exception, but only on account of the sharp decrease (18%) in inflows in 1991. The Philippines' share was cut by more than half. In 1993, the average growth of FDI inflows to the ASEAN-4 was a mere two percent,

**Table 7**  
**FDI Flows to ASEAN and China, 1983 to 1994**

(In Million US \$)														
	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	83-89	90-94
Indonesia	292	222	310	258	385	576	682	1093	1482	1777	2004	2109	2725	8465
Malaysia	1261	798	695	489	423	719	1668	2332	3998	5183	5006	4348	6053	20867
Philippines	105	9	12	127	307	936	563	530	544	228	763	1126	2059	3191
Thailand	350	401	163	263	352	1105	1775	2444	2014	2116	1726	640	4409	8940
ASEAN-4	2008	1430	1180	1137	1467	3336	4688	6399	8038	9304	9499	8223	15246	41463
China	636	1258	1659	1875	2314	3194	3393	3487	4366	11156	27515	33787	14329	80311
(Percent Change)														
	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	83-89	90-94	83-94
Indonesia	-24%	40%	-17%	49%	50%	18%	60%	36%	20%	13%	5%	19%	27%	23%
Malaysia	-37%	-13%	-30%	-13%	70%	132%	40%	71%	30%	-3%	-13%	18%	25%	21%
Philippines	-91%	33%	958%	142%	205%	-40%	-6%	3%	-58%	235%	48%	201%	44%	130%
Thailand	15%	-59%	61%	34%	214%	61%	38%	-18%	5%	-18%	-63%	54%	-11%	24%
ASEAN-4	-29%	-17%	-4%	29%	127%	41%	36%	26%	16%	2%	-13%	25%	13%	19%
China	98%	32%	13%	23%	38%	6%	3%	25%	156%	147%	23%	35%	71%	51%

SOURCE: Asian Development Outlook 1996 and 1997; Min Tang and James Villafuerte,  
Capital Flows to Asian and Pacific Countries: Recent Trends and Future Prospects (Manila: ADB, 1995)

and even decreased by 13 percent in 1994. The biggest slack was experienced by erstwhile favorites Malaysia and Thailand, both ticking negative growth rates for two consecutive years in 1993 and 1994. (*See Table 7.*)

Japan and the NIEs are the most important investors in the ASEAN, accounting for an average of 70 percent of total inflows in 1990. (They are most important to Thailand, bringing in four-fifths of 1990 inflows.) Japan's importance as an investor to the ASEAN has somewhat diminished starting mid-1980s, with average share decreasing from 31 percent in 1986 to 26 percent in 1990. The NIEs replaced Japan in the ASEAN FDI landscape, with inflows for the same period tripling from 15 percent to 44 percent on average. (*See Table 8.*)

The pattern of ASEAN investment has been well documented, and followed the so-called 'flying geese' model. Japanese firms facing rising production costs at home relocated many of its operations outside the country, initially in Taiwan, Korea, Hong Kong and Singapore, and much later in the ASEAN. Taiwan, Korea, Hong Kong and Singapore became NIEs and became investors themselves, turning to their immediate neighbors when costs at home started to rise. So came about the focus on the ASEAN, prompting the development of Malaysia and Thailand into the second generation NIEs. But even before the rest of the ASEAN can fully develop, it has slipped in the investors' list of competitive countries. Suddenly everybody starts looking at Asia's economies in transition (China, Vietnam, Laos, Myanmar and Cambodia) for new locations and sources of cheaper inputs.

The outcome have been decreasing shares of Japan and the NIEs in total FDI inflows to the ASEAN. Japan's share dropped 16 percent from an average of 26 percent in 1990 to 20 percent in 1993. The drop was sharper for inflows from the NIEs, from 44 percent to 29 percent for the same period, or a decrease of 34 percent. (*See Table 8.*) Seen against a backdrop of decreasing overall inflows, both in value and growth terms, the trend should be cause for concern for the ASEAN.

Even ASEAN members themselves do not invest much in the region, at least not in the ASEAN-4. (Singapore is an exception; it is counted with the NIEs in the calculation of FDI flows.) Intra-ASEAN flows find their way mainly to the new members and their immediate neighbors. For instance, Thailand is the largest foreign investor in Laos, while its investment in Yunnan province alone already hit one billion US dollars.<sup>32</sup> In 1996, Vietnam received 39 percent of all intra-ASEAN investment flows (not including inflows from

Singapore). The biggest intra-ASEAN investor is Malaysia, accounting for 49 percent of total flows (excluding flows from Singapore). Even small investor countries like the Philippines and Indonesia channel their FDIs to Vietnam, 98 percent and 69 percent of totals respectively in 1996.<sup>33</sup>

**Table 8**  
**FDI Flows to ASEAN and China, By Source**  
**1986, 1988, 1990 and 1992/93**

	US		Japan		NIEs		ASEAN*		Others
	US\$M	%	US\$M	%	US\$M	%	US\$M	%	%
Malaysia									
1986	7	3.3	23	11.1	48	23.7	4.3		61.9
1988	986	12.6	214	27.9	271	35.3			24.2
1990	69	3	657	28.5	1100	47.3			21.2
1993		28		26.4		27.2			14.1
Thailand									
1986	41	7	251	43.2	91	15.7			34.1
1988	673	10.8	3063	49	1709	27.4			12.8
1990	1091	7.7	2706	19.2	3794	62.2			10.9
1993		18.6		22.3		28.8			30.3
Indonesia									
1986	128	16	325	40.6	84	10.5	0.5		32.9
1988	731	16.6	256	5.8	1530	34.7			42.9
1990	153	1.7	2241	25.6	2598	27.7			45
1993		5.5		10.3		32.4			51.3
Philippines									
1986	22	28.7	22	28.5	3	10.2			32.6
1988	153	32.3	95	20.2	140	29.7			17.8
1990	59	6.2	308	31.8	384	39.9			22.1
China									
1986	326	14.5	263	11.7	1342	59.8	1		14
1988	236	7.4	515	16.1	2123	66.5			10
1990	284	8.4	356	10.5	2162	63.7			17.4
1992		4.6		6.6		71.3			16.5

SOURCE: Narhari Rao, "Intra-Asian Trade: Trends and Prospects", in Kiichiro Fukasaku (ed.), *Regional Co-operation and Integration in Asia* (France: OECD, 1995); Min Tang and James Villafuerte, *Capital Flows to Asian and Pacific Developing Countries: Recent Trends and Future Prospects* (Manila: ADB, 1995).

\* No breakdown available for 1986, 1988 and 1990.



## The SEATEs: Blessing in Disguise?

After Vietnam, which joined the ASEAN in 1995, it was Laos and Myanmar's turn to join the group in 1997. Both countries will participate in the CEPT Scheme beginning 1998 and complete their commitments by 2008. Laos' initial submission to the CEPT covers 533 or 15 percent of tariff lines. (See Table 9.) Nearly half (45%) of these lines are in the machinery and electrical appliances sector, and 20 percent in the optical, precision and musical instruments sector.

Myanmar's initial inclusion list contains 2,356 or 43 percent of tariff lines. (See Table 9.) Twenty percent of these are in the Base Metal and Metal articles and 14 percent are in the machinery and electrical appliances sectors. Although not yet a member, Cambodia offers 47 percent or 3,149 tariff lines for inclusion in the CEPT beginning 1998.

**Table 9**  
**1998 CEPT Package**

COUNTRY	INCLUSION*	TEMPORARY EXCLUSION**	SENSITIVE	GENERAL EXCEPTION	TOTAL
Brunei	6,060	220	14	236	6,530
Indonesia	6,597	593	23	45	7,258
Malaysia	8,690	406	137	60	9,293
Philippines	5,099	589	58	28	5,774
Singapore	5,738			120	5,858
Thailand	9,033	74	7	26	9,140
Vietnam	1,497	1,127	23	165	2,812
Laos	533	2,820	96	102	3,551
Myanmar	2,356	2,987	21	108	5,472
<b>Sub-Total</b>	<b>45,603</b>	<b>8,816</b>	<b>379</b>	<b>890</b>	<b>55,688</b>
<i>% of total tariff lines</i>	81.89%	15.83%	0.68%	1.60%	100.00%

SOURCE: ASEAN Secretariat

\*For the Inclusion List, information only reflects submissions up to 10 October 1997.

\*\* For the Temporary Exclusion List, information only reflects submissions up to 14 October 1997.

There are fears that the entrance of new members could slow down AFTA. The new members are given a longer time to adjust to AFTA targets. The optimism that everything else shall proceed according to schedule is somewhat dashed by the prospect of new members further complicating the negotiation process, and diluting the economic deepening that has so far managed to elude the ASEAN. As the Thai economist earlier mentioned say, the attitude that ASEAN should take should follow thus: "Look after yourselves first, then look after them."<sup>34</sup>

Yet to others, this is precisely what the ASEAN is trying to do. The entry of Vietnam, Laos and Myanmar into the ASEAN was no accident. The added political strength the new members bring in is enough incentive for the group. With expansion, the ASEAN gains much leverage and bargaining strength viz. its dialogue partners and other forums. This was first tested when ASEAN pushed for the membership of Vietnam in APEC. As for the SEATEs, the main benefit in joining the ASEAN is "the new image, which is extremely critical at the present stage of their development."<sup>35</sup>

Beyond the political, which is undoubtedly the biggest motivation for the group, the benefits from the economic pull factor of the SEATEs' fast growth is not lost to the ASEAN. The new members provide markets and investment opportunities, which countries like Malaysia and Thailand already started to explore. And as the new members liberalize trade via AFTA, more incentives are created for ASEAN investors. The SEATEs also offer vast energy potential, something that fast growing ASEAN economies would not want to miss out on.

Meanwhile, some concerns become even more urgent. Uncertain conditions in Myanmar may produce political tensions that could siphon ASEAN energies away from its economic agenda and back to politics. While ASEAN reached the peak of pragmatism when it chose to downplay the implication of accepting a member with a declared socialist system, it remains a question whether Vietnam is "politically and economically prepared to accept freer trade and the more fluid movement of people that (ASEAN) membership now entails."<sup>36</sup>

The transition to market economy has not been easy for the SEATEs, and much of the constraints are passed on to new investors. The optimism about the vast economic potential of the SEATEs is tempered by the huge infrastructure backlog in these countries and lower levels of human resources. Moreover, even with sweeping market reforms, the major focus of the

SEATEs has been the attraction of foreign investments rather than the improvement of domestic resource mobilization, resulting in wide resource gap and high interest rates. An added insecurity for investors is the lack of the necessary legal framework compatible with the SEATEs' liberalization effort.

The biggest concern yet pertains to the development strategy ASEAN seems to be following. The 'flying geese' model has had its time. In the case of the ASEAN, there is serious question on how far expansion can proceed and how much it can contribute to sustaining growth in the region. The Philippines and Indonesia have themselves severe infrastructure bottlenecks, and almost stagnant productivity records. While the new members may provide a respite for the small footloose capital in the region, it is only a matter of time before the real hard issues re-surface.

## **The China Factor**

For more than a decade now, China has registered growth rates comparable, if not more impressive, than those registered by the ASEAN. It has also opened its markets and expanded production in a pace unprecedented all over Asia.

Chinese production grew more rapidly than ASEAN's, 10 percent versus five percent in the 1980s, and 12 percent versus seven percent in the first half of the 1990s. (*See Table 5.*)

China has been encroaching on ASEAN's traditional markets, with Chinese exports to these markets growing by 20 percent (from 39% in 1984 to 47% in 1994) in ten years. (*See Table 4.*) And the trend is expected to continue because, as economists observe, "there is unlikely to be any large complementarity between China and Asean-Indochina for some time, and they will remain competitors."<sup>37</sup>

More significantly, while China gets bigger shares in world exports than any of the ASEAN-4 countries, it has consistently registered lower in terms of exports as a percent of GDP. (*See Charts 1 and 2.*) This underscores how much room in terms of export growth China can work on.

China has also been emerging as an important market for the ASEAN, both for its exports and as source of imports. ASEAN trade with China has

grown more rapidly than intra-ASEAN trade. In 1995, for instance, ASEAN trade with China grew by 21 percent from the 1994 levels compared with 18 percent growth in intra-ASEAN trade. During the same period, China's export to the ASEAN grew by 26 percent. The rate by which China increases in importance as an ASEAN market surpasses even overall ASEAN trade and ASEAN trade with the US (16%) and Japan (20%).<sup>38</sup> China was even more important than the Philippines and Indonesia as a trade partner for Malaysia, Thailand and Singapore; and more important than Malaysia for Indonesia and the Philippines. (*See Table 10.*)

Another immediate threat is the illegal border trade with China. Some government officials may try to dismiss the issue, arguing that border trade (smuggling) has been there for years and that it is a two-way process after all. But it cannot be denied that local producers are feeling the pinch. In Northern Thailand, farmers have to face stiff competition from cheaper fruits (lychee and longan) from China. This resulted in a local protest sometime in 1996 which, though small, managed to make it to the papers. The flow of smuggled goods from South China reaches down to Southern Thailand, a case for concern especially for products as sensitive as garlic.<sup>39</sup>

At the moment, none of the ASEAN members would say publicly that China is perceived as an economic threat. Economic officials generally welcome China's role. They acknowledge that China takes a big chunk of the ASEAN market, but stress that China is also a big market for the ASEAN. They also take comfort from the fact that China takes on the low end of the market. But what has been avoided so far is that aside from being such a big economy (in terms of market size, labor and activity), China is not looking at any particular niche in the market. It produces everything it can from the lowliest toothpick to consumer durables that have been the traditional niche of many ASEAN economies (Malaysia and Thailand, particularly). The emergence of China has also eroded much of the competitive edge of ASEAN labor markets.

As a result, China has been able attract sizeable FDI flows. In 1983-89, the ASEAN-4 attracted one billion US dollars more FDIs than did China. But in 1990-94, China got twice as much FDIs than the ASEAN-4, US\$80 billion versus US\$41 billion. China's FDI growth rates were 71 percent in 1983-89 and 51 percent in 1990-94, while the ASEAN-4 had to contend themselves with much lower growth rates of 13 percent and 19 percent for the same periods. (*See Table 7.*)

**Table 10**  
**Relative Importance of**  
**Intra-ASEAN and Trade with China**  
**As Percent of Total Trade, 1992 and 1995**

Country		Brunei		Indonesia		Malaysia		Philippines		Singapore		Thailand		ASEAN		China	
		1992	1995	1992	1995	1992	1995	1992	1995	1992	1995	1992	1995	1992	1995	1992	1995
Indonesia*	Exp. Imp.	0.1 0.0	0.1 0.0			1.4 1.9	2.1 2.2	0.5 0.2	1.0 0.2	9.8 6.1	4.8 2.3	1.0 1.3	1.0 1.5	12.8 9.5	9.1 6.2	4.1 2.8	3.7 4.0
Malaysia	Exp. Imp.	0.4 0.0	0.4 0.0	1.2 1.6	1.3 1.6			1.2 0.6	0.9 0.6	23.1 15.7	20.3 12.4	3.7 2.5	3.9 2.6	29.5 20.4	27.0 17.2	1.9 2.4	2.7 2.2
Philippines	Exp. Imp.	0.0 0.6	0.0 0.1	0.4 1.2	0.7 2.2	1.3 2.8	2.1 2.3			2.6 3.8	5.2 4.0	1.0 0.9	4.5 1.5	5.3 9.4	12.5 10.1	1.2 1.3	1.3 2.6
Singapore	Exp. Imp.	1.0 0.4	1.2 0.2			12.5 14.7	19.2 15.5	1.3 0.4	1.6 0.9			6.2 3.7	5.8 5.2	21.0 19.2	27.8 21.7	1.8 3.1	2.3 3.2
Thailand	Exp. Imp.	0.1 0.5	0.1 0.4	0.9 0.7	1.4 0.9	2.6 3.9	2.7 4.4	0.5 0.3	0.7 0.8	8.7 7.3	14.0 5.6			12.7 12.8	19.0 12.1	1.2 3.0	2.9 2.8
Average	Exp. Imp.	0.3 0.3	0.4 0.1	0.8 1.2	1.1 1.6	4.5 5.8	6.5 6.1	0.9 0.4	1.1 0.6	11.1 8.2	11.1 6.1	3.0 2.1	3.8 2.7	16.3 14.3	19.1 13.5	2.0 2.5	2.6 3.0
% Change (1992-95)	Exp. Imp.	15.9% -55.3%		36.0% 33.4%		46.6% 4.7%		20.0% 66.7%		0.2% -26.1%		27.7% 28.6%		17.3% -5.6%		26.5% 17.5%	

Source: Based on IMF, *Direction of Trade Statistics Yearbook*, 1996

\* Figures for Indonesia are for 1992 and 1994.

\*\* Details may not add up due to rounding.

Policy analysts in the ASEAN have started to take notice of China, because it is an economic threat not only in terms of FDI diversion but also in terms of luring away local investors from ASEAN countries. It has been reported, for instance, that "some of the smaller, more mobile, firms already established in Indonesia were considering shifting their operations to China."<sup>40</sup> Indeed, the loss of the ASEAN-4 had clearly been the advantage of China. By 1992, 78 percent of total FDI flows to China came from Japan and the NIEs, with the NIEs getting the bigger share of 71 percent, explaining the decline in flows to the ASEAN-4.<sup>41</sup> (*See Table 8.*)

China is also seen as crucial in regional peace and security. Observers from Malaysia note that China is "unpredictable because it will likely run into political difficulties as it attempts economic liberalization", which could be met with repression and result in growing tension with its neighbors.<sup>42</sup>

### **The Currency Crisis**

In July 2, the Thai baht lost 20 percent of its value after the Thai government announced that it would float the baht. This signaled the downward spiral of the Thai baht and marked the inevitable economic slowdown that rubbed off on the neighboring ASEAN currencies and economies. The gravity of the crisis was rendered even more ominous when the International Monetary Fund put together a US\$20 billion rescue package for Thailand in August.

For a long while, the crisis was waiting to happen. Since the 1980s, the ASEAN-4 have been running huge current account deficits, with wider gaps experienced in times of faster growth. The savings-investments gap is also wide. (*See Table 11.*) It was obvious that foreign moneys in large part financed the investment needs of the ASEAN. Yet a sizeable amount of investments were not necessarily hedged or secure from a scenario of massive currency devaluation. ASEAN embarked on an import binge never seen before, and cultivated massive interest in speculative ventures like property development.

Mostly, portfolio and therefore volatile capital financed the high importation and domestic borrowings in the ASEAN. When capital started its exodus, there was a drastic shift in the supply of foreign exchange. In addition, uncertainty now plays an important role and is responsible for large exchange rate movements. The effects of the crisis are quite pronounced: economic slowdown, unemployment and increased pressure on ASEAN trade.

**Table 11**  
**Telltale Signs of Vulnerability?**

Country	Current Account Balance (% of GDP)			Investments (% of GDP)			Savings (% of GDP)
	1980s	1991-94	1995	1982-89	1990-94	1995	1995
Indonesia	-3.2	-2.3	-3.5	29.7	33.7	32.4	36.0
Malaysia	-2.9	-5.2	-8.6	30.0	34.9	40.6	37.2
Philippines	-3.5	-4.1	-2.7	20.6	22.8	22.2	14.7
Thailand	-3.9	-6.5	-8.2	29.5	41.1	43.6	34.2
<b>Average ASEAN-4</b>	<b>-3.4</b>	<b>-4.5</b>	<b>-5.8</b>	<b>27.5</b>	<b>33.1</b>	<b>34.7</b>	<b>30.5</b>
Singapore	-2.2	10.8	17.7	41.2	35.3	33.1	55.6
Cambodia	-5.5	-6.3			21.5	8.3	
Lao PDR	-16.2	-12.5	-13.3				
Myanmar	-3.9	-1.0		14.6	13.4	14.3	
China	-0.6	1.7	0.2			39.5	42.2

SOURCES of Basic Data: IMF, *International Financial Statistics*, 1997; ADB, *Asian Development Outlook*, 1996 and 1997.

## Triggering Deeper Integration

The intense competition from China<sup>43</sup> and the problems brought about by the currency turmoil present threats and opportunities to ASEAN economic integration.

On the side of the threats, the China factor and the currency turmoil could unleash a new round of intense competition for existing markets among the affected ASEAN countries. With the affected ASEAN countries facing a slowdown in domestic demand, the tendency is for these countries to try to export their way out of a recession. The competition for existing markets would naturally intensify, which could transform the problem into a zero-sum game for the affected countries.

We can also expect the same level of competition in attracting the re-entry of foreign capital. Now, the tendency of each of the affected countries

is to try to disengage from the regional motion by trying to differentiate itself from the rest.

But however each country tries to start recovery alone, the following realities should compel ASEAN to look to cooperation as a reasonable option:

Foreign capital looks at ASEAN as a region. While it may distinguish among countries based on differences in economic fundamentals, the fact is individual country flows generally followed the regional flow. Capital entry was brought about initially by regional growth, and the pullout came when confidence in the region started to wane. The country distinction has only been one of degree.

Given this, an appreciable re-entry of foreign capital may require no less than a regional recovery both in terms of restarting growth and showing better fundamentals. This is especially so since a considerable amount of foreign investments actually responded to opportunities the region offered – bullish stock markets and expanding consumer demand – rather than as a base for exports outside the ASEAN region.

As each affected country face a depressed domestic demand, they should realize the importance of the region in expanding effective demand. The affected countries could help each other out of the slump. The taking in of the SEATEs should also provide short term and strategic gains. In the short term the SEATEs augment effective demand. Strategically, ASEAN can help them develop and eventually contribute to a stronger ASEAN with a bigger market and more integrated economy.<sup>44</sup> The idea is for the SEATEs to be integrated more with the ASEAN than with China.

External assistance in the form of bailout packages put together by the IMF is proving painful and unpopular in the home countries. There is also increasing sentiment that external assistance has by far failed to reverse the conditions of the availing countries. Also, Japan, a traditional source of outside help, is having problems of its own. This could compel the affected countries to look harder for ASEAN solutions to the problem.

### **Taking the Steps: AFTA-Plus**

***Making Growth in Intra-ASEAN Trade a Distinct Objective.*** One clear way of helping each other out of a slowdown, or even a recession, is to target a sizeable growth in intra-ASEAN trade. ASEAN offers a sizeable market



that could compensate for the depressed domestic demand. Better still if the proposal to trade in their own currencies instead of the dollar is pursued. This will lessen the dependence on the US dollars and ease the pressure on ASEAN currencies even as it stimulates production. The Philippines and Malaysia have expressed openness to the idea.<sup>45</sup>

Trading in the ASEAN currencies could be done by agreeing to an ASEAN basket of goods from which the value of the different ASEAN currencies shall be based. Another possibility is the simpler, albeit perhaps more temporary method suggested by the Philippine Government. The Philippines suggested the creation of an ASEAN Currency Board that will serve as the clearing and settlement mechanism. ASEAN members will be required to contribute their local currencies (in amounts equivalent to one year of intra-ASEAN exports) to the Board, which the Board will re-lend to the importing countries.<sup>46</sup>

**Industrial Cooperation.** Industrial cooperation has never been given a chance to really flourish in the ASEAN. Instead ASEAN has cultivated closer ties with Japan in this area. But with the rapid shift in locational advantages in the whole of Asia, and with Japan nursing its own troubles, ASEAN should search for ways to give its industries an added boost.

On 01 November 1996 the ASEAN Industrial Cooperation Scheme (AICO) became effective. The newest economic integration scheme that came out of the ASEAN has traces of the defunct AIC and AIJV. AICO offers ASEAN-based companies opportunity to benefit from economies of scale through resource pooling and industrial complementation. It is a vast improvement from the AIC and the AIJV because it offers more flexibility and incentives to AICO participants.

An AICO arrangement is established when at least two companies from two ASEAN countries agree to cooperate in the manufacture and marketing of a product. Upon approval of the arrangement, the AICO product immediately enjoys preferential tariff treatment of 0-5 percent. The same rate is applied to intermediate products or raw materials used for the production of an AICO intermediate product or final product.<sup>47</sup>

AICO enjoyed the support of ASEAN economic authorities. However, the scheme suffers the same problems encountered by earlier similar schemes: politics and bureaucratic red tape. The 29<sup>th</sup> ASEAN Economic Ministers Meeting in Kuala Lumpur in October 1997 noted with concern that one year

after AICO came into effect, not a single project was approved under the scheme.

Decision making in the ASEAN is done by consensus and the process for AICO is the same. AICO was supposed to benefit from the flexibility afforded by the provision that only the countries involved need to agree on the project. The ASEAN 6-X (now ASEAN 9-X) formula was "in fact invented as a way of allowing certain projects to survive in the wake of a failed consensus."<sup>48</sup> However, even this proves to be difficult for the ASEAN.

Another thing going against AICO is time. By 01 January 2000, 85 percent to 90 percent of all CEPT tariff lines will be brought down to 0-5 percent. The ASEAN only has two years left to take advantage of AICO. Procastination will have the effect of rendering AICO unnecessary.

**Macroeconomic Coordination.** To the extent that foreign capital looks at ASEAN as a region, the ASEAN should look at coordinating some of its macroeconomic policies. This may be difficult given ASEAN's long history of non-intervention in individual members' affairs but they could start by outlining a set of non-binding norms on certain macroeconomic targets such as inflation, interest rates, fiscal deficits and current account balance. The objective is to show a concerted effort to regain regional stability.

Aside from non-binding norms, the regional currency turmoil did open possibilities for concrete initiatives of cooperation. One initiative that received support among member countries was the creation of an ASEAN stand-by facility to be financed by contributions from member countries. The development of mechanisms for funding and use of such fund should be pushed.<sup>49</sup>

**Other Measures.** For its own benefit the ASEAN has to fast-track the implementation of long-delayed measures designed to facilitate increased trade within the region. This includes the ASEAN Agreement on Customs that provides for the harmonization of tariff nomenclature, customs valuation and customs procedures. There should also be more effort in streamlining the customs procedures for CEPT trade and the elimination of customs surcharges for AFTA. The elimination of these non-tariff barriers also provides trade expanding potential.

The ASEAN already agreed to the establishment of the ASEAN Investment Area which aims to extend national treatment to ASEAN investors by 2010, and approved the agreement on Trade in Services whose purpose is to have free flow of services within the ASEAN by 2020. These are bold moves, and require changes in national legislation. The signing of official Protocols will provide a legal cover for the initiatives, but none has been signed so far.

The multilateral system is moving forward towards the free flow of goods and services. ASEAN should be able to beat the WTO to the draw if it still hopes for its vision of regional economic integration to happen.

### Notes

<sup>1</sup> Department of Foreign Affairs and Trade-The East Asian Analytical Unit, *ASEAN Free Trade Area: Trading Bloc or Building Bloc?* (Canberra: Commonwealth of Australia, 1994), p. 28.

<sup>2</sup> The East Asian Analytical Unit, *ibid.*, p. 29.

<sup>3</sup> James Clad, *Behind the Myth: Business Money and Power in Southeast Asia* (London: Unwyn Hyman Ltd., 1989), p. 224.

<sup>4</sup> The East Asian Analytical Unit, *ibid.*, p. 30.

<sup>5</sup> The East Asian Analytical Unit, *ibid.*, p. 30.; Lee Tsao Yuan, "The ASEAN Free Trade Area: The Search for Common Prosperity", *Asian-Pacific Economic Literature*, Vol. 8, No. 1, May 1994, p. 4.

<sup>6</sup> *Far Eastern Economic Review, Asia 1995 Yearbook*, p. 71.

<sup>7</sup> Lee Tsao Yuan, *op cit*, p. 2.

<sup>8</sup> ASEAN, *Agreement on the Common Effective Preferential Tariff Scheme for the ASEAN Free Trade Area*, Article 9.

<sup>9</sup> ASEAN-Thailand, Commerce and Industry Division, *ibid.*

<sup>10</sup> ASEAN-Thailand, Commerce and Industry Division, *ibid.*

<sup>11</sup> ASEAN-Thailand, Commerce and Industry Division, *ibid.*

<sup>12</sup> ASEAN-Thailand, Commerce and Industry Division, *ibid.*

<sup>13</sup> Lee Tsao Yuan, *op cit*, p.4.

<sup>14</sup> Suthipat Chirathivat, "ASEAN Economic Integration with the World through AFTA", in Joseph Tan (ed.), *AFTA in the Changing International Economy* (Singapore: ISEAS, 1996), pp. 21-41.

<sup>15</sup> Prema-Chandra Athukorala and Jayant Menon, "Foreign Direct Investment in ASEAN: Can AFTA Make a Difference?" in Joseph Tan (ed.), *AFTA in the Changing International Economy* (Singapore: ISEAS, 1996), pp. 77-92.

<sup>16</sup> Walden Bello, "ASEAN and APEC: The Making of a Geoeconomic Rivalry", in Walden Bello and Jenina Joy Chavez-Malaluan (eds.), *APEC: Four Adjectives in Search of a Noun* (Manila: MPFA, 1996), pp. 29-34.

<sup>17</sup> Data from the ASEAN Secretariat

<sup>18</sup> Based on data compiled by the ASEAN Secretariat

<sup>19</sup> Based on data compiled by the WTO Secretariat in *International Trade, Trends and Statistics* (Geneva: WTO, 1995).

<sup>20</sup> The exceptions are Laos, Thailand and Vietnam for whom Japan's relative importance increased from 1985 to 1994.

<sup>21</sup> Interview with Mr. Charin, Deputy Director, Department of Business Economics, Ministry of Commerce, Thailand, 02 December 1997.

<sup>22</sup> Interview with Miss Kaewta Sasivanij, Economist, Ministry of Commerce, Thailand, 02 December 1997.

<sup>23</sup> Interview with Mr. Wasinonth, Department of ASEAN Affairs, Ministry of Foreign Affairs,

- Thailand, 02 December 1997; interview with staff of Bureau of Trade and Industrial Relations, Philippines, 19 December 1997.
- <sup>24</sup> Interview with Ms. Piapin, Department of ASEAN Affairs, Ministry of Foreign Affairs, Thailand, 02 December 1997.
- <sup>25</sup> PM Mahathir quoted in a television talk show, *Q&A (CNN)*, 02 September 1997.
- <sup>26</sup> "A Kick in the ASEAN, The Philippine Bids for Trade Leadership", *Far Eastern Economic Review*, 16 May 1996, (Editorial).
- <sup>27</sup> Interview with Miss Kaewta Sasivanij, Economist, Ministry of Commerce, Thailand, 02 December 1997.
- <sup>28</sup> Interview with Mr. Wasinonth, ASEAN Affairs, Ministry of Foreign Affairs, Thailand, 02 December 1997.
- <sup>29</sup> Data derived from IMF, *International Financial Statistics Yearbook 1997*.
- <sup>30</sup> Hal Hill, "ASEAN Economic Development: An Analytical Survey", *The Journal of Asian Studies* 53, No. 3 (August 1994), pp. 832-866.
- <sup>31</sup> Data derived from IMF, *Direction of Trade Statistics Yearbook 1996 and International Financial Statistics Yearbook 1997*.
- <sup>32</sup> Achara Ashayagachat, "No Dire Need to Enact Free Trade Area Plans", *Bangkok Post*, 18 September 1996 (internet version).
- <sup>33</sup> Data derived from "Update on ASEAN Matters", from the official homepage of Malaysia on the Internet.
- <sup>34</sup> Interview with Miss Kaewta Sasivanij, Economist, Ministry of Commerce, Thailand, 02 December 1997.
- <sup>35</sup> Mohamed Ariff, "From ASEAN-Six to ASEAN-Ten: Issues and Prospects", in Joseph Tan (ed.), *AFTA in the Changing International Economy* (Singapore: ISEAS, 1996), pp. 66-75.
- <sup>36</sup> *Far Eastern Economic Review*, *Asia 1995 Yearbook*, p. 71.
- <sup>37</sup> Emmanuel de Dios, "Regional Cooperation: Some Notes" (1994, unpublished).
- <sup>38</sup> Based on data compiled by the ASEAN Secretariat.
- <sup>39</sup> Interview with Ms. Kulachada Chaipipat, Regional News Editor, The Nation, 04 September 1997; interview with Mr. Charin, Deputy Director, Department of Business Economics, Ministry of Commerce, Thailand, 02 December 1997.
- <sup>40</sup> Gordon P. Means, "ASEAN Policy Responses to North American and European Trading Arrangements", in Amitav Acharya and Richard Stubbs (eds.), *New Challenges for ASEAN: Emerging Policy Issues* (Canada: UBC Press, 1995), pp. 147-211.
- <sup>41</sup> The NIEs themselves have been hurting, and are concerned that China has lured investments at their expense. To plug the hemorrhage in FDIs, the NIEs, particularly South Korea, have to institute more liberal investment policies. (Nomura Research Institute, Ltd., "Shift of Foreign Direct Investment to China", from the Internet.)
- <sup>42</sup> Gordon P. Means, "ASEAN Policy Responses to North American and European Trading Arrangements", *op cit*.
- <sup>43</sup> While the sharp devaluations in the affected ASEAN countries reduced the price advantage of China, the possibility of China devaluing the yuan could not be ruled out.
- <sup>44</sup> Interview with Ms. Kulachada Chaipipat, Regional News Editor, The Nation, 04 September 1997.
- <sup>45</sup> Reuters, "Southeast Asia looks for Local Solutions to Economic Crisis", *Today*, 19 December 1997.
- <sup>46</sup> Sheila Samonte, "ASEAN without US\$? Why not, says CPBO", *BusinessWorld*, 09 December 1997.
- <sup>47</sup> ASEAN Secretariat, *AICO Brochure*, 1997.
- <sup>48</sup> Djisman S. Simandjuntak, *Extended ASEAN-10 Plan and Its Perspectives*, paper delivered during the 5<sup>th</sup> Joint Research Conference on Asia-Pacific Relations ("Development of the Mekong River Basin Area and Economics Cooperation in East Asia: Perspectives on ASEAN 10"), Royal Orchid Sheraton Hotel, Bangkok, 26-28 February 1997.
- <sup>49</sup> A possible mechanism for funding the stand-by facility is to require each member country to set aside a proportion (like a reserve requirement) of its portfolio inflows for contribution to the fund.

# **A Thorny Path: Regional Cooperation in South Asia**

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Mohiuddin  
Ahmad

## **Background and Context**

South Asia forms nearly a single, uninterrupted mass of land connecting the deserts of West Asia and the rich fertile soil of the Near East, and the lower part of the mountains of Central Asia with the Pacific region of the continent -- the South East and the Far East. It is a huge land mass of about 4.5 million km<sup>2</sup> with large river basins, undulated plains, intricate water networks, of almost same topography and climate and home of some one-fifth of world's population. Richness in natural resources and abject poverty exist side by side.

In the human development index, the countries of South Asia occupy almost the same positions. Widespread illiteracy, low status of women, child malnutrition, low wages, poor health services, heavy incidence of external debt, unfinished agrarian reforms, fallout of structural adjustment programs, high military spending, discrimination against ethnic and religious minorities, communal tension, migration - all these are but some of the problems facing the region.

There are also very noticeable differences between the countries of South Asia. There are great differences in terms of size of territory, population, and natural resources endowment. There is also a wide variety of ethnic groupings in the region. Development of civic politics and of popular movement for democracy and justice also vary from country to country. These differences rule out any standard prescription of development for all the countries of South Asia. In particular, differences in economic strength remains a forbidding factor towards regional integration.

Yet, the similarities override the differences. These similarities demand that a regional perspective be adopted for people's general welfare. There is

a growing awareness that, by defining South Asia regionally, geographically, economically and ecologically, the countries and the peoples of this region belong to one entity and can have meaningful dialogue with other parts of the world as a regional bloc.

The similarities between the countries in the region raises the significance of commonalities with regard to some of the most pressing issues. Governments are becoming increasingly coercive in some respects, reflecting crises in governance. Civil rights issues are thus gaining importance in the people's agenda. The tenets of aid regimes are causing economic dislocations resulting in the destruction of grass-roots communities, more inroads for trans-national capital, shrinkage in employment opportunities, decline in the standard of living of the working masses, withdrawal of state support from the vulnerable sectors, and the lifting of controls on monopolies. Repressive policies to coerce the people to accept these changes are also being introduced.

Corruption is rampant throughout the region. Centralization of power resulting in the marginalization of autonomous voices of people can be found in all the countries. Coercive methods are being used everywhere. The state regulates social life substantially. The result is lesser responsibilities for the state but more power to exercise control. Again, throughout the region, nationalist ideologies are being used by the regimes to strengthen their existence and, thereby, add legitimacy to their positions. Thus governments talk less of the region and more of their respective nations against other nations of South Asia. This nationalism serves as a smoke-screen for vicious bilateralism.<sup>1</sup>

Again, because of a shared past, problems of communal violence, ethnic unrest, language conflicts and eviction across State boundaries have become regional problems. The issues of migration, sharing of water, harnessing of energy, combating fundamentalism, protecting minority rights, and such other concerns have to be tackled both bilaterally and multilaterally, in other words regionally. There is the imperative of sharing knowledge, skill, resources and abilities, even if at a gradual pace, in the context of adverse terms of trade with the global North.

In this age, when knowledge itself is an important component of power, such sharing of knowledge at a primary level is important. Therefore, whether for intra-regional trade or for support to economic activities, solidarity with democratic activism and upholding commonalties, the sharing of information and knowledge becomes crucial at all levels. Sharing is the first step towards

forming an agenda for regional integration in South Asia from a people's perspective.

Yet, can one rely on the governments of South Asia to steer this process of sharing? In one context, these states have brought misery, fed on rivalries, nurtured chauvinism and jingoism, supported mutual conservatism, uniformly looted natural resources and abrogated to themselves all powers while selling their own dignity to the masters abroad. The existing power structure stands in direct opposition to all the popular movements, forces and formations and the various empowering attempts of the people. The elites and the ruling oligarchy in South Asia do not have faith in the destiny of their own region. They look to the Northern powers for succor, in as much as these powers today consider South Asia a hopeless region, marginalized and damned, possibly forever.<sup>2</sup>

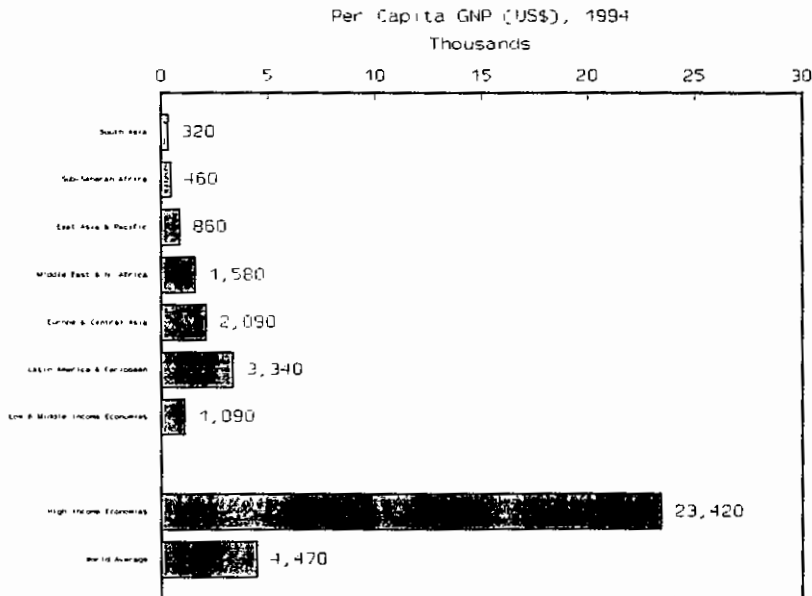
People's planning thus implies the need to oppose reactionary forces everywhere in South Asia, criticize the existing power structures, undertake plans and programs toward an alternative paradigm. This process has started in the countries of South Asia sporadically within the limit of national boundaries. In all these countries, the people are struggling for empowerment, livelihood and dignity. The task is to bring out regional imperatives in this process, and integrate regional dimensions into all future-building activities. It is a moral urge upon the peoples of South Asia to realize the identity of South Asia, as well as to reflect their inherent plurality.

### **Regional Cooperation**

While South Asia is considered to be the poorest region of the world according to conventional yardsticks (see Figure 1). Given this, regional cooperation is becoming an imperative in many respects. It possibly denotes extended interaction in the backdrop of implicit and explicit rivalry. The legacy of the past is a contributing factor, as well as a deterrent, to integration at the regional level.

Regional cooperation is increasingly becoming a doctrine used by political ideologists and practitioners. It has been discussed and analyzed by theorists with different perspectives. One dominant viewpoint is to rationalize the concept of cooperation that involves conflict resolution and increased human welfare. This is well-elaborated in the following paragraphs.<sup>3</sup>

**Figure 1**  
**Per Capita GNP in Different Regions**



#### (a) Leadership

Leadership plays a vital role in disseminating an ideology of regional cooperation, blending elements of nationalistic ideologies with those of internationalism. As the American and European regional cooperative models demonstrate, the possibility of a dissolution of regional groups is gradually minimized as the leaders acquire experience in negotiating thorny issues and difficult problems confronting member states. Besides sharing certain political and economic values, leaders have tried and often succeeded in identifying common interests (given a common ideological framework). Motivated by the positive results of cooperation, leaders of member states more often seek to achieve negotiated settlements of conflicts, utilizing basic techniques of conflict resolution.

#### (b) Shared perception

Regional cooperation between nations with a history of violent conflicts does not happen overnight. The establishment of a system of regional cooperation could only be the culmination of a long and arduous process of negotiation between leaders of prospective member countries. This process can be accelerated by shared perception of mutual interests by leaders within an ideology emulating the virtues of cooperative endeavors on a regional basis.



### **(c) Sub-regional cooperation**

In order to achieve the goals of regional well-being, both political ideologies and leadership have to be broad-based, recognizing sub-regional efforts of cooperation. For example, the BENELUX community continues to exist long after the European Economic Community (EEC) had reached maturity as a regional cooperative venture. For two reasons, the continuation and possible growth of sub-regional entities need to be encouraged. One is the logistical advantage of problem solving that immediate neighbors within the region may enjoy through a sub-regional cooperation scheme. The other is a common desire on the part of small countries to ensure autonomy nationally through sub-regional alignments in case of possible attempts by large and powerful countries to dominate the small countries of the regional group.

### **(d) Interaction on economic and political bases**

Regional interaction between and among nations on economic and political bases seems to help maximize their resources, developing trade and commerce not only between member states but more significantly between the regional group and the outside world. Joint economic ventures between member countries may some day bring rich dividends to the participants. Such cooperation also removes the basis for unhealthy competition among member states over international trade and the development of untapped resources.

### **(e) Economic cooperation**

Economic cooperation on a regional basis can reduce economic disparities between member countries. This is the chief attraction for Spain and Portugal, two of the most economically backward countries of Europe, to join the European Community (EC). Mutually acceptable transfer of technology and the infusion of economic inputs can very quickly lead to a significant reduction of disparities between the richest and the poorest countries of the region having corresponding political ramifications with regard to intra-regional migration and sub-regional stability. Given the scenario of successful regional cooperation in South Asia in which the exchange of economic information and technology is encouraged, there will be no need to fence people in or out of borders.

**(f) Communication**

Experience of American and Asian countries have demonstrated that the main prerequisite of successful regional cooperation is to open channels of communication between member countries, preventing and screening negative feedback on the people and problems involved in the movement. This openness tends to contribute to mutual understanding of regional leaders and elites about different ideologies, national interests and perceptions of national threats. It could, for example, pave the way for better relations between India and Pakistan, India and Bangladesh or Pakistan and Bangladesh. A system of ideals or ideology underscoring the needs and benefits of shared perceptions of mutual problems and interests can open channels of regional communication.

**(g) Stable and relaxed environment**

Regional cooperation has often led to the relaxation of regional tension, particularly when the tension was brought on by superpowers in their efforts to manipulate countries of the region to increase their respective sphere of influence. Studies have suggested that regional cooperation helps depolarization. In the international power game, a depolarized region usually has less difficulty in defining regional problems and finding solutions for them. A stable and relaxed environment is often conducive to create ventures, that is, develop new economic and political infrastructures such as a common council to oversee joint economic activities and a regional parliament where common problems facing the member states can be brought out in the open and discussed.

**(h) End of arms race**

Successful regional cooperation can end a regional arms race, causing a significant reduction on military expenditures. The resulting stability can bring about the growth of institutions in which responsive and responsible leadership can emerge. Perhaps, more than anything else, an ideology of regional cooperation can conceivably lead to the end of a regional arms race and usher in a stable and prosperous era for South Asian countries.

**(i) Ideology of cooperation**

An increased interaction between regional leaders will give them valuable problem-solving experience on an international level which they

can apply to solve complex national and sub-regional problems. A jointly developed and mutually acceptable ideology of regional cooperation can give local leaders the opportunity and challenge to transcend parochialism and to mature as regional and world leaders.

### **Formation of SAARC**

While the CACM, LAFTA, EEC, CMEA, ASEAN, COMECON and other such sub-regional groups have proved that regional cooperation can be an instrument of economic development and international understanding, South Asia remains without any concrete form of regional cooperation.

The idea of regional cooperation is not new, however. The SAARC concept was first initiated by the military ruler of Bangladesh Ziaur Rahman in 1980 in a letter to King Birendra of Nepal.<sup>4</sup> Almost identical letters were hand carried by special envoys to heads of State/Government of Bhutan, India, Maldives, Pakistan and Sri Lanka.

The notion of a regional forum gained momentum through a series of consultations at the official level. In April 1981, the first meeting of the Foreign Secretaries of seven South Asian countries, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka, was held in Colombo. It set the stage for further dialogue by planning a course of action for regional cooperation.

The Declaration of the South Asian Association of Regional Cooperation (SAARC) with eight important objectives was signed in August 1983 in a meeting of South Asian Foreign Ministers in New Delhi. It identified possible areas of cooperation. The objectives of SAARC were formulated as follows:<sup>5</sup>

(a) to promote the welfare of the people and to improve their quality of life;

(b) to accelerate economic growth, social progress and cultural development;

(c) to promote active collaboration and mutual assistance in the economic, social, cultural, technical and scientific fields;

(d) to strengthen cooperation among themselves in international forums and with other developing countries;

(e) to promote and strengthen collective self-reliance among the countries;

(f) to strengthen cooperation with other developing countries;

(g) to contribute to mutual trust, understanding and appreciation of one another's problems; and,

(h) to cooperate with international and regional organizations.

Intra-regional cooperation was the key word in all formulations. The precept of cooperation has three guiding principles. These are:

(a) Such cooperation shall be based on respect for the principles of sovereign equality, territorial integrity, political independence, non-interference in internal affairs of other states and mutual benefit.

(b) Such cooperation shall not be a substitute for bilateral and multilateral cooperation but shall complement them.

(c) Such cooperation shall not be inconsistent with bilateral and multilateral obligations.<sup>6</sup>

Within the broad parameters of the above objectives, an Integrated Program of Action (IPA) was adopted in agreed areas of cooperation. Among these are telecommunication, meteorology, transport, shipping, tourism, agriculture research, joint ventures, market promotion, scientific and technological cooperation, education and cultural cooperation. A few more areas like combating terrorism and drug trafficking, environmental protection, women in development, promotion of sports, food security and prevention of child labor, have also been agreed upon by the member countries.

The first ever summit of the heads of governments of the seven South Asian countries was held in Dhaka in December 1985. The summit formally launched the South Asian Association for Regional Cooperation (SAARC) offering the promise of a new era of understanding and cooperation among the seven countries of the region. The salient features of the charter of SAARC adopted on 8 December 1985 at Dhaka are contained in articles I to X. The basic principles and commitments of the South Asian leaders were enunciated in the preamble of the Charter (see text box).<sup>7</sup>

## SAARC Charter

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 understanding, good neighborly 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 people 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 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 and collective self-reliance;

6. Recognizing that increased cooperation, contacts and exchanges among the countries of the region will contribute to the promotion of friendship and understanding among the peoples;

7. Recalling the Declaration signed by the 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 organization to be known as *South Asian Association for Regional Cooperation*...

The summit meetings which take place once a year are the most significant events in the evolutionary process of SAARC. They provide South Asian leaders an opportunity to establish personal contacts and to exchange views on all matters of mutual concern and interest and also to pay attention to the nature, scope and direction of cooperation among the countries of the region. However, efforts in the field of economic cooperation have not been enough so far.

## **Trade Regime**

The scope for cooperation among countries in South Asia has been the subject of deliberation for quite some time. It has been discussed in a number of forums that trading relations have to be augmented as a measure for expanding cooperation. Such cooperation would naturally depend on the move for institutionalizing efforts among the partners. Trading could naturally beset on a sound footing and that as a precursor to other institutional arrangements.

Those who know the background of economic realities in the region will point out that textile mills were set up in Bombay on the premise of assured supply of cotton from Punjab in the early decades of the century. The same process continued for the jute mills in Calcutta which obtained raw jute from what is now Bangladesh.

Over the past half century, the linkage between the farm-level growers of fibre and the factory-level manufacturers of different jute and cotton products have suffered from international strains, often caused by of political reasons. The same political factors may also continue in the future. But economic realities in the countries of the region are quite different and collaborative efforts are needed to augment economic growth.

It is believed that increased economic cooperation among the South Asian countries could help to soften considerably the rigor of harsh adjustment measures imposed by a hostile international economic environment. There are, however, conflicting observations with respect to the possible scope of economic cooperation. There are proponents of collective self-reliance for South Asia. One prevailing view is that there are immense opportunities for expansion of trade based on known complementarities in structures of production and demand pattern, for cooperation in the upgrade of technology and harmonization of investment plans among developing countries. Collective self-reliance can be an important instrument for a collective regeneration of the economies. The time is now opportune for a positive forward move to exploit the vast potential offered by collective self-reliance.

It may be mentioned that all the countries in South Asia have undergone the process of so-called "policy reforms." In many respects, these countries belong to similar macro-economic regimes. However, some are late by a few years, some are at a more consolidated stage and some have caught up

at an accelerated pace. The situation of selected countries has been summarily presented in Table 1.

Although the formation of regional trade negotiation among SAARC nations originated in the First Summit in Dhaka in 1985, the initial trend in terms of cooperation for collective self-reliance, and mutual trust and understanding among the members were not encouraging. Multilateral trade liberalization programs in the region before the formation of SAARC, such as the *Bangkok Agreement*, have not worked out on account of differences in approach, interpretation and perception among the member countries.<sup>8</sup>

It is too early to infer how far intra-regional trade would grow or which members would benefit from intra-regional trade linkages. Small countries are skeptical when it comes to dealing with the big countries within the region. There is a strong case for India in particular to integrate a regional trade policy into its total economic policy framework.<sup>9</sup>

The prospect of SAARC becoming a reality and a major factor in the development of different countries depends crucially on how India prepares to take its economic role in South Asia. As in other countries in the region, India's policy of trade expansion within South Asia has never been a specific objective. On the contrary, it has been continuously influenced by the need to develop domestic industry, either through import substitution or export promotion for meeting deficits in balance of payments and without giving much heed to regional economic cooperation. Thus the countries in South Asia have been basically competitive rather than complementary to each other in promoting intra-SAARC trade as well as economic cooperation within the region. They have been largely dependent on the industrially developed countries as markets for their products. The attitude of the latter has not been helpful in getting the real price of their product.<sup>10</sup> As a result, intra-regional trade has not tended to grow optimally even after the formation of regional trade negotiation in 1985.

**Table 1**  
**Policy Reforms in South Asia**

Reform area	Bangladesh	India	Nepal	Pakistan	Sri Lanka
<b>I. Macroeconomic and Sector Reforms</b>					
<b>A. Fiscal Reforms and Public Resource Management</b>	<p>VAT introduced in July 1991.</p> <p>Personal income tax reduced in 1993-94.</p> <p>A number of procedural changes in ADP implementation introduced including the 3-year rolling plan.</p>	<p>Personal income taxation: maximum marginal rate reduced to 40%; surcharge abolished; exemption limit raised.</p> <p>Excise duties being simplified to resemble a VAT system.</p> <p>Tax administration being modernized.</p> <p>Octroi being slowly abolished.</p>	<p>VAT being introduced in phased manner.</p> <p>Octroi to be abolished.</p> <p>Introduced 3-year rolling plan.</p>	<p>Coverage of general sales tax expanded.</p> <p>Provinces initiating measures to implement agriculture income tax.</p>	<p>VAT introduced in 1994.</p> <p>Defence levy of 3% introduced in 1992.</p> <p>Introduced 5-year rolling plan in the 1980s.</p>
<b>b. Financial Sector</b>	<p>Significant deregulation of interest rates.</p> <p>Role of directed credit declined and NCBs given greater freedom.</p> <p>Securities Exchange Commission established in 1993.</p> <p>Loan provisioning system introduced.</p> <p>Several new private and</p>	<p>Gradual deregulation of interest rates and reduction of allocated credit to priority sectors.</p> <p>Prudential accounting and capital adequacy norms introduced.</p> <p>Private sector banks being allowed to expand and new private banks are</p>	<p>Open market operations have been introduced.</p> <p>Four new private banks established.</p> <p>Several new non-bank financial institutions (such as leasing and finance companies) established.</p> <p>Nepal Stock Exchange established.</p>	<p>Open market operations have been introduced.</p> <p>Of the five state-owned banks, two have been privatized and two others are earmarked for privatization.</p>	<p>Several financial institutions privatized.</p> <p>Since 1991, foreign banks allowed to establish branches outside Colombo.</p> <p>Securities Council strengthened.</p> <p>Credit Information Bureau established.</p> <p>Stock Exchange opened to</p>



Reform area	Bangladesh	India	Nepal	Pakistan	Sri Lanka
	<p>foreign banks allowed.</p> <p>NCBs have been partially recapitalized.</p> <p>One development financial institution (Bangladesh Shilpa Rin Sangstha) has initiated commercial transactions.</p> <p>One bank (Rupali Bank) to be privatized soon.</p>	<p>being established.</p> <p>Securities Exchange Board of India with regulatory and prosecuting powers established.</p> <p>A regulatory framework for insurance sector being finalized as a prelude to liberalization.</p> <p>National Stock Exchange established.</p>			<p>foreign investors beginning 1990.</p>
C. Trade	<p>System of export incentives deepened by introducing bonded warehouses, duty drawback schemes, and back-to-back letters of credit.</p> <p>Tax exemption on import of capital machinery for 100% export-oriented industries.</p> <p>Quantitative restrictions on imports liberalized considerably: 192 to 112 items in 1993.</p> <p>Level and structure of tariff</p>	<p>Except for a small list of negative items, import licensing virtually abolished.</p> <p>Quantitative restrictions replaced by tariffs.</p> <p>Tariffs reduced in stages. Maximum rate reduced from 400% in 1990-91 to 65% in 1994 and 50% in 1995, and average duty from about 50% to 27% during the same period.</p>	<p>75% of foreign exchange earnings can be sold at market-determined rates.</p> <p>System of export incentives being developed.</p> <p>Import licensing system abolished for most raw materials and imported inputs.</p> <p>Tariffs reduced in stages. Present range is from 5-100% and 8 sub-rates.</p>	<p>System of export incentives strengthened through concessional tariff treatment of imported inputs and freight subsidy.</p> <p>Import licensing system liberalized by reducing negative list.</p> <p>Tariffs reduced in stages, from 225% in 1988 to 70% in 1994.</p>	<p>The import licensing system liberalized. Only 11 reserved items require license.</p> <p>Foreign exchange surrender system lifted in March 1993.</p> <p>Import surcharge abolished in 1991.</p> <p>Since 1991, import tariffs regrouped into a new four-band structure and rates reduced progressively since 1997.</p>

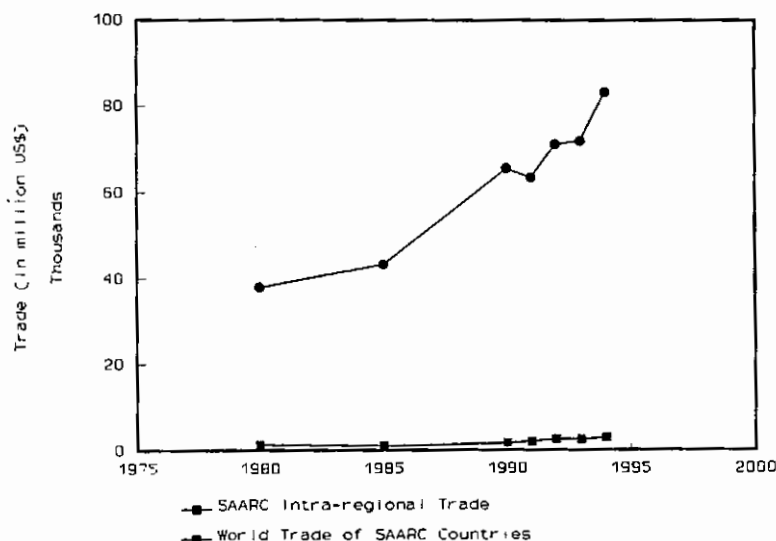
Reform area	Bangladesh	India	Nepal	Pakistan	Sri Lanka
	rates improved.				
D. Exchange Rate	Dual exchange rate system abolished in 1992.  The taka is freely convertible for current account transaction	Exchange rate of the rupee is basically market-determined.  Rupee is freely convertible for current account transactions.	Exchange rate of the rupee is basically market-determined.  Rupee is freely convertible for current account transactions.	Exchange rate of the rupee is basically market-determined.  Rupee is freely convertible for current account transactions (since July 1994).	Exchange rate of the rupee is basically market-determined.  Rupee is freely convertible for current account transactions.
<b>II. Macroeconomic Reforms</b>					
E. Agriculture Sector and Land Issues	Significant de-regulation of inputs have occurred.  Subsidies have been eliminated.  Some actions taken in land reform during the mid-1980s.	Slow: massive subsidies for water, electricity and fertilizers.	Distribution of agricultural inputs liberalized.	Slow: Awami Tractor Scheme introduced.  Farm development package introduced to encourage crop diversification.	Privatized management of tea plantations.
F. Industrial Policy and Public Enterprise	Industrial licensing system abolished.  Significantly liberalized foreign investment regulations.  Incentive scheme upgraded.  Institutional reforms including restructuring and privatization have been slow.	Industrial licenses abolished for all except those in defence, health and environment.  Restrictions on expansion of large business houses abolished.  Significantly liberalized foreign investment regulations: approvals for up to 51% foreign equity participation is automatic (January	Industrial licenses abolished for all except those in defence, health and environment.  Significantly liberalized foreign investment regulations: 100% ownership permitted in medium and large-scale industries and "one window" established.  Privatization Act is in place and several industries	Board of Investment established to reduce the multiplicity of institutions involved in investment decisions.  Significantly liberalized foreign investment for power generation.  New privatization policy approved in February 1994. Restructuring policies have been slow.	New liberal guidelines for foreign investment announced in 1991.  Third investment promotion zone established in 1991.  Over 30 state-owned enterprises have been privatized.

		1993).  Five-year tax holiday for private investors in power generation, port, airlines and telecom.  A new policy announced in 1991, but institutional reforms including restructuring and privatization of public enterprises has been slow.	including airline industry have been privatized. Restructuring policies have been slow.		
G. Public Administration	Slow: various studies and reports prepared but little action.	Slow	Slow: Several thousand civil servants retrenched.	Slow	Serious efforts being made to reduce size of bureaucracy.
H. Labour Market	Slow	Slow: Industrial Disputes Act and Companies Act are being revised.  National Renewal Fund for training and redeploying workers established.	Slow	Slow	Slow

Source: Asian Development Bank, *Asian Development Outlook* (various years).

Intra-regional trade in proportion to South Asia's total trade is quite low (see Figure 2). Any country producing consumer or intermediate goods thinks of market opportunities in far off countries in Europe or the USA rather than the neighboring countries. Technical expertise in the neighborhood is ignored and is instead taken from some advanced country at a higher cost. Capital movement for investment in joint ventures among the South Asian countries are still subject to many constraints. Despite vast potentials, horizontal and vertical integration of economic activities in South Asia has not taken place. This is clear from the disparities that exist in the growth rates and the absence of complementarities in the production and trade pattern among the economies of the region.

**Figure 2**  
**Trade in South Asia**



According to Direction of Trade Statistics 1995 of the IMF, the most important destinations for these economies in 1994 were as follows:

**Bangladesh:** USA (34.4%), UK (9.1%), Germany (6.0%), Italy (6.0%), France (6.0%);

**India:** USA (19.8%), Japan (7.4%), Germany (7.1%), UK (7.1%), Hong Kong (5.6%);

**Nepal:** Germany (42.5%), USA (33.6%), India (4.6%), Switzerland (4.0%);

**Pakistan:** USA (15.0%), Hong Kong (7.7%), UK (7.7%), Germany (7.4%), Japan (7.3%);

**Sri Lanka:** USA (74.4%), Germany (8.0%), UK (7.8%), Belgium-Luxembourg (5.9%), Japan (5.1%).

IMF statistics on the direction of trade also shows that intra-regional trade among the South Asian countries is very low, around 3-4% of their total trade. This is shown in tables 16-27 in the Appendix.

India and Pakistan have been exporting more in comparison to importing from other countries of the region. With the exception of these two countries, all other countries of the region are having trade deficits in the context of intra-regional trade of South Asia.

### **Economic Integration: A Theoretical Exercise**

What is the prospect of regional economic cooperation in general and intra-regional trade in particular? A UNDP/APDC project entitled "Econometric Modelling of Trade in South Asian Countries" was conceived with the objective of enhancing planning capacity and skill in South Asian countries through the use of a 'linked' econometric model. The purpose was to analyze the economic interdependence of the region and the impact of alternative trade regimes on the national and regional economies. Countries participating in the project were Bangladesh, India, Nepal, Pakistan and Sri Lanka for the South Asian Chapter.<sup>11</sup>

The project was planned for the period 1987-90. The econometric modelling technique was used to identify the 'links' between the five national economies to:

- 1.) Develop/upgrade country level macro-econometric models and link them into a regional econometric model for South Asia;
- 2.) Examine trade and related policies with the aid of the model; and,
- 3.) Provide policy-planners, makers and analysts with alternative choice sets for the national and regional economies.

The scope for trade expansion within South Asia has been explored for quite some time by the SAARC as one of the critical areas of regional cooperation. Even though there is a consensus that trade can play a decisive role in accelerating growth, the issues in intra-regional trade can be numerous, contentious and complex, particularly among countries with a political past that contains tragedies, bitterness and turmoil.

South Asian countries have pursued trade policies with implied bias against imports from within the region and exports to neighbors that the obvious consequence has been very low trade links amongst them. There is a view that acceleration in the growth of South Asian economies as a result of economic cooperation will lead to an increase in the demand for imports of all countries within the region. On the other hand, there is widespread skepticism about the feasibility of expansion of intra-regional trade and greater economic cooperation largely because of the region's rather checkered past. Inappropriate policies and their inept implementation have confounded the problems further.<sup>12</sup>

Against the above background, the need for a rigorous, in-depth analysis of inter-country linkages highlighting the impacts of economic policies of member countries on each other and gains from mutually beneficial trade is almost self-defined. Towards this end, a pioneering work using econometric techniques was carried out in the early 1980s by the Pakistan Institute of Development Economics (PIDE). The Committee on Studies for Cooperation in Development (CSCD) in South Asia recommended further work along this line in 1985. The PIDE published the results of the modelling exercise in its journal, the *Pakistan Development Review*, in 1987. A regional link model was thought appropriate because it would provide a basis for an analysis of interdependencies and the extent to which harmonization of domestic and trade policies was feasible. The global model, developed by the Wharton School, University of Pennsylvania, USA, does not provide for an analysis of explicit regional linkages within blocs such as SAARC. The present work was therefore conceptualized to fill this void and capture intra-SAARC linkages precisely. It was assumed that the participating countries would be better harnessed in coordinating their policies pursuant to the validation and calibration of the model.

A model is an abstract representation of perceived reality which brings out what is relevant to a particular question and is free to ignore all other questions or inquiries. Econometric models are usually articulated in terms of well-defined functional relationships and estimation of the parameters that govern them. Therefore, they lend to easy mathematical formulations. There is nothing sacrosanct about a model and not too much therefore should be read into or from the results of any modelling exercise.

Linking the five country models through a trade sub-system was considered appropriate as a basis for an analysis of the interdependence of

the countries. It was assumed that the countries of the region would observe and better comprehend the advantages to be derived from better coordination of trade and other relevant policies. For the purpose of linking, each country model was reduced to a 19-equation stylized system, incorporating three distinct parts or sub-sets, viz., (a) demand/expenditure, (b) foreign trade, and (c) monetary bloc. The link contains a simultaneous run of these equations for all the five countries, with a trade bloc providing the link.

The ultimate test of any econometric model is whether it is capable of predicting future events with reasonable accuracy. To this end, some of the forecasts of major macroeconomic variables of the countries of South Asia region have been presented. These forecasts show that, in terms of growth prospects, Pakistan and Nepal are expected to grow at an average rate of more than 6.0 per cent per annum until the year 2000. The Indian GNP is expected to grow at an average rate of 4.9 per cent, while Bangladesh and Sri Lanka are expected to perform relatively poorly. Their GDPs are projected to grow at an average rate of 3.2 and 3.4 per cent per annum respectively over the forecast period.

It is thus clear that by themselves and with regional trade as small as it is now, the national economies will not be able to achieve growth rates very different from the ones they have had in the past. The question is: is it possible to accelerate sectoral growth by greater economic collaboration, including harmonization of trade and domestic policies?

It was to answer such a question that the SAARC Link Model was simulated, with a view to analyzing the impact of various economic policies on the key endogenous variables included in the model. To this end, several simulation experiments were performed. A set of fiscal, monetary, trade and other policies have been examined for each country in terms of their impact on the macro variables of that country and those of other SAARC member countries.

Some of the relevant results are brought together in Table 2 and Table 3 in a more revealing form. In general, the budgetary (fiscal) policy appears to stimulate the economy more than the monetary policy in every country of the region - a typically Keynesian result. Even more significant, public sector investment has had a greater stimulating effect on the economy than public consumption and disposable income, with the exception of Pakistan and Sri Lanka. On the other hand, monetary policy has been relatively ineffective in stimulating the economies of the South Asian region. This is

consistent with the fact that large segments of the economies of the region are still non-monetized and can only have narrow limits of operability. Furthermore, the money markets of these countries are still thin and less developed and there is ample evidence of repressed and shallow finance.

A particularly interesting aspect of the simulation results pertains to trade policy. Results show that if a country in the region were allowed to increase her exports to other countries in the region, this would not only increase economic activity in the concerned country, but also benefit other countries of the region in terms of an increase in their GDPs/GNPs. On the other hand, the results of the study show that if the regional trade deficit for each country is brought down to zero (for example, Pakistan's imports from each country of the region set as equal to her exports to these countries), such a policy measure would not necessarily stimulate economic activity in Pakistan or in other countries of the region. This is understandable because, depending on the initial values of the exports and imports of each country, an uncompromising insistence on a bilateral balancing of trade is likely to reduce total regional trade below what it would be if only a multilateral balancing were sought.

An increase in foreign economic assistance is found to be generally growth raising. But in the case of India, foreign direct investment turned out to be a substitute for private investment. Hence an increase in foreign direct investment would not only reduce private investment, total imports and the GNP of India, but also reduce the GDPs/GNPs of other countries of the region. In the case of Bangladesh, if the share of Project Aid in total aid were increased, the GDP, public investment and total imports of Bangladesh would increase considerably. The other countries of the region would also benefit from this policy measure.

All these show that there are some real possibilities of economic cooperation or, more accurately, economic integration in the region. This collaborative/supportive effort should have an expansionary effect both on the national GNPs and on their regional trade ratios. For instance, as Table 2 and Table 3 show, a suitable budgetary policy has a positive effect on both the GDPs/GNPs of the member countries and on regional trade. Another interesting example is the case of regional trade being expanded. The impact, with one exception, is an acceleration in the growth rate of GDP and at the same time expanded regional trade. Similarly, an increase in foreign borrowing would not only raise the growth rate of GDP/GNP in the region, but would also lead to an expansion of regional trade, except for India.



These results are crucial, pointing to the fact that the really untapped potentiality of the region is an increase in the level of economic activity in each country of the region through collaborative action. Expanded regional trade would follow in the long run. This is a task which the countries of the South Asian region can accomplish better together, rather than singly.

**Table 2**  
**Effects of Various Shocks on GDP/GNP**

Type of shock	GDP/GNP				
	Pakistan	India	Bangladesh	Sri Lanka	Nepal
<b>Budgetary<sup>a</sup></b>					
Pakistan	+	+	+	+	+
India	+	+	+	+	+
Bangladesh	+	+	+	+	+
Sri Lanka	+	+	+	+	?
Nepal	+	+	+	+	+
<b>Monetary<sup>b</sup></b>					
Pakistan	-	-	-	-	-
India	-	-	-	-	-
Bangladesh	?	?	?	?	?
Sri Lanka	?	-	?	-	?
Nepal	+	+	+	+	+
<b>Bilateral trade<sup>c</sup></b>					
Pakistan	+	+	+	-	+
India	+	+	+	-	+
Bangladesh	+	-	+	+	+
Sri Lanka	+	+	+	+	+
Nepal	+	+	+	+	+
<b>Regional trade<sup>d</sup></b>					
Pakistan	-	+	-	-	+
India	-	-	+	+	+
Bangladesh	+	-	+	-	+
Sri Lanka	+	-	+	-	+
Nepal					
<b>Others</b>					
Pakistan <sup>*</sup>	+	+	+	+	+
India <sup>**</sup>	-	-	-	-	-
Bangladesh <sup>***</sup>	+	+	+	+	+
Sri Lanka <sup>*</sup>	+	+	+	+	+
Nepal <sup>*</sup>	+	+	+	+	+

Notes: a) Increase in public investment; b) Increase in bank credit; c) Increase in bilateral trade; d) Regional trade equal to zero

\* Increase in foreign borrowing

\*\* Increase in foreign direct investment

\*\*\* Increase in ratio of project aid to total aid

? Negligible impact

**Table 3**  
**Effects of Various Shocks on Regional Trade**

Type of shock	Regional trade (exports of)				
	Pakistan	India	Bangladesh	Sri Lanka	Nepal
<b>Budgetary<sup>a</sup></b>					
Pakistan	+	+	+		
India	+		+	+	+
Bangladesh	+	+		+	+
Sri Lanka	+	+	+		
Nepal	+				
<b>Monetary<sup>b</sup></b>					
Pakistan	-	-	-		
India	-		-	-	-
Bangladesh	?	?		?	?
Sri Lanka	-	-	-		
Nepal	+				
<b>Bilateral trade<sup>c</sup></b>					
Pakistan	+	+	-		
India	+		+	-	+
Bangladesh	+	-		+	+
Sri Lanka	+	+	+		
Nepal	+				
<b>Regional trade<sup>d</sup></b>					
Pakistan	+	-	-		
India	-		+	+	+
Bangladesh	+	-		-	+
Sri Lanka	+	-	+		
Nepal					
<b>Others</b>					
Pakistan*	+	+	+		
India**	-		-	-	-
Bangladesh***	+	+	+	+	
Sri Lanka*	+	+	+		
Nepal*	+				

Notes: a) Increase in public investment; b) Increase in bank credit; c) Increase in bilateral trade; d) Regional trade equal to zero

\* Increase in foreign borrowing

\*\* Increase in foreign direct investment

\*\*\* Increase in ratio of project aid to total aid

? Negligible impact

## SAPTA

The Sixth SAARC Summit in Colombo in 1991 decided to establish a SAARC Preferential Trading Arrangement (SAPTA) which laid the foundation for cooperation in the vital area of trade. SAPTA was finalized by the Committee on Economic Cooperation (CEC) based on a draft prepared by the Inter-Governmental Group (IGG) on Trade Liberalization. The Foreign Ministers of all the SAARC member countries signed the Agreement on 11 April 1993 during the Seventh SAARC Summit in Dhaka. The Contracting States seem to have reached agreement on some common principles as embodied in the Preamble of the Agreement.<sup>13</sup>

The member states of the South Asian region agreed to the principles of SAPTA as follows:

(a) SAPTA shall be based and applied on the principles of overall reciprocity and mutuality of advantages in such a way as to benefit equitably all Contracting States, taking into account their respective levels of economic and industrial development, the pattern of their external trade, trade and tariff policies and systems.

(b) SAPTA shall be negotiated step by step, improved and extended in successive stages with periodic reviews.

(c) SAPTA shall include all products, manufactures and commodities, in their raw, semi-processed and processed forms.

(d) SAPTA includes special and favorable treatment to least developed countries (Bangladesh, Bhutan, Maldives and Nepal) which includes allowance of favorable percentage points, application of relaxed rules of origin, favorable terms of technical assistance, duty-free access, deeper tariff preferences, removal of non-tariff and para-tariff barriers, negotiation of long-term contracts to support sustainable exports and provision of special facilities with regard to shipping and identification, preparation and establishment of industrial and agricultural projects, training facilities and support to export marketing, etc., possibly linked to corporate financing and buy back arrangement.<sup>14</sup>

The SAPTA also provides for certain additional measures. These include the adoption of trade facilitation and other measures to support and complement SAPTA to mutual benefit. It has a provision of technical assistance and cooperation arrangements designed to assist least developed

countries within the region in expanding their trade with other Contracting States and in taking advantage of the potential benefits of SAPTA.

The SAPTA provides an umbrella framework of rules providing for step-by-step liberalization of intra-regional trade and envisages periodic rounds of trade negotiations for exchange of trade concessions. SAPTA also contains provisions giving special and favorable treatment to the least developed members of the region. Provisions for safeguard action and balance of payments measures are also incorporated in the agreement to protect the interest of member states during critical economic circumstances. The first consolidated schedules of concessions to be agreed upon under the Agreement have been finalized and approved, thus completing the first phase of trade negotiations among the member countries. The parallel process of ratifying the Agreement has been completed and the Agreement came into effect on 7 December 1995.

A total of 226 items were covered by concessions exchanged by SAPTA members in 1993. Among these, 100 items were targeted exclusively in favor of least developed countries. The maximum number of concessions was made by India, nearly half of the total number of items, with 62 items offered in favor of least developed countries. All the other SAPTA members together offered concessions with respect to 120 items, of which 38 were in favor of those countries. Under SAPTA, tariff concessions are expressed as a percentage of MFN (most favored nation) rates, they must bring down their preferential rates accordingly so as to maintain the margin of preference.

The list of concessions offered by Pakistan is drawn from the same list of 578 products which the country permits to be imported from India. As is well known, Pakistan does not maintain MFN status in trade relations with India. SAPTA, however, stipulates the MFN principle, which implies that any concession given by one member to another has to be extended unconditionally to all other members (except those preferences extended to least developed countries). In order to meet both conditions, Pakistan chose to offer concessions in respect of mainly those products listed for import from India.

In 1994, trade covered by SAPTA amounted to \$72.5 million, or only about 6 per cent of intra-regional trade. This proportion would be even less if accounts of common products covered by concessions offered under other arrangements were taken into account.

In 1996, the SAPTA members undertook a second round of trade negotiations. These negotiations, which were completed in December 1996, have resulted in a significantly larger number of concessions under two modalities: bilateral exchanges of tariff concessions among member countries of SAARC, and concessions applicable to all member countries.

In a meeting held in December 1996 in Kathmandu, more than 1500 items were added to the original list of 226 items agreed at the first round of SAPTA. In the Ninth SAARC Summit held in Male in May 1997, the full-scale implementation of SAPTA by year 2001 was agreed upon.

In the bilateral exchanges, which in total affect 1972 HS tariff lines, the largest number of concessions were made by India to Bangladesh (513), followed by India to Pakistan (375), Pakistan to India (230) and Bangladesh to India (204). Most overall concessions are equivalent to 10 per cent of existing MFN rates, whereas those for the least developed countries are 15 per cent or more. All concessions were to enter into force by 1 March 1997 at the latest.<sup>15</sup>

It is too early to assess the impact of the second round of SAARC intra-regional trade talks. The fact that it has shown little progress to date has been attributed to the product-by-product approach being used, which is cumbersome to negotiate. Nevertheless, progress is being made and the governments have agreed that the ultimate aim is to permit duty free trade in all tradable products and to convert SAPTA into a South Asian Free Trade Area by the next decade.

A regional trading bloc is said to be particularly helpful to countries in those regions where consumer markets are limited and which should, in theory, favor the country which has a comparative advantage over others. But it can also trigger off strained relations, particularly between poor countries producing similar products. Ultimately SAPTA will have to decide which country will produce what and how much. But as most countries are anxious today to break into the hi-tech up-market which has large global demand, this may turn into yet another stumbling block to achieving regional cooperation in trade.

For the member countries who have been able to come this far in pursuit of concerted action this program can be seen as positive. But small countries of the region may still be harboring doubts with regard to India which, as the largest country, can easily use its position of dominance to maintain present

trade imbalances. For example, given the nature of trade crossing borders, particularly along the Indian border, regional trade may not work in favor of a country like Bangladesh.

The governments of the SAARC countries firmly believe that regional trade needs a boost. Of course, tariff reductions always seem attractive to the importing nations. But it should also be remembered that they contribute little to a country's export potential. Governments should be aware that the limited nature of the people's purchasing power has the effect of restricting inter-state distribution of goods. This remains the biggest threat to the common well-being of the people of the region.

## **SAFTA**

The notion of the South Asian Free Trade Area (SAFTA) opens the door of trade. The seven countries have exchanged limited lists of goods on which they will offer some duty cut. In this regime, every country retains sovereignty over its tariff and non-tariff regime. There is no need to harmonize of different countries. But a free trade area implies that all customs barriers will be removed, so that countries surrender sovereignty to a harmonized import regime.

A number of economists both within and outside the region have expressed apprehensions about journeying from SAPTA to SAFTA. These apprehensions are based on their perceptions about economic and political constraints facing the member countries of SAARC region. The historical experience relating to regional economic cooperation in many parts of the world shows that preferential trading arrangements among a group of nations generally become the first step towards the establishment of free trade areas which subsequently lead to higher levels of economic cooperation. In the light of this experience, it is expected that SAPTA would also pave the way for the creation of SAFTA.

It may be pertinent to mention here that there are some economic and political constraints that the member countries may face in the formation of a free trade area. It is often argued that the nations with large differences in terms of size, population, levels of development and natural resource endowment find it difficult to come together to establish a free trade area, particularly because the smaller countries are expected to share the burden of adjustments to a greater extent than the bigger nations. However, the experience of regional trading blocs shows that such apprehensions are not

always valid. It may be worthwhile to quote the example of the EU where a small country like Luxembourg with a population of just 392,000, enjoys perhaps more sovereignty than in the earlier times because of its equal status in the trading bloc with all other big member countries.

Differences in size and income levels do not matter if there is a perception of common economic interest. In fact, two important parameters in this regard are:

(a) Every member state should be accepted and treated as a full member of the free trade area with the same rights and obligations as all other members regardless of its geographical size, population, GNP, etc.; and'

(b) Representatives of small nations should have the same decision-making and voting rights as those from the big nations.

Optimists argue that small beginnings can lead to great events in due course.

The SAARC Foreign Ministers' Conference in New Delhi held in early December 1996 declared that the South Asian Free Trade Area (SAFTA) will be a reality by the year 2000. It is a lofty goal full of complexities. On one hand, trade, both among countries outside the region and at the inter-regional level, has been going through rapid changes. The latest impetus to such development was the Singapore meeting of the WTO which made a 22-point Declaration.

On the other hand, there continue to be serious concerns which may be understood from the point of view of a particular country possessing a 'weak' economy. To be more particular for example, what would SAFTA have to offer to countries like Bangladesh? The trade circle is happy with its prospects. But the industrial sector is perceptibly skeptical. Caught in uneven competition with imported products, most of the industries are in a moribund state.<sup>16</sup>

The Bangladesh government seems to have been caught in two economic pulls, one is the emerging global market in the twenty first century and the other is the regional trade within the framework of SAPTA, SAFTA and the *Development Quadrangle* among Bangladesh, Bhutan, India and Nepal. Bangladesh is visibly taking some crucial steps on, or almost rushing

towards, SAFTA and the *Development Quadrangle*. There is a need for thorough cost-benefit analysis of these before they could be persuaded. For example, Bangladesh's trade with India may be analyzed which may have some lessons for all concerned.

Bangladesh has three levels of trade with India. Official trade, unofficial cross-border trade at ground level including smuggling, and the invisible services from India like Bangladesh's demand for education, health and other services. Unless a careful study is done on this latter item, one would not be on a sure ground to present any figure of trade balance on these items. There is hardly any Indian demand for similar services from Bangladesh. It goes without saying that it is a unidirectional flow. The huge trade deficit with India is manifested in official trade statistics (see table 28 in the Appendix). But actual deficit in respect of total transactions including invisible services would be much more.

Taking an annual average over the period, Bangladesh's annual imports from India are about 17 times higher than its exports to India. The pattern of trade deficits has become chronic. However, among the SAARC countries, India's share of exports to Bangladesh, or Bangladesh's imports from India, has increased from 55% in 1987-88 to 83% in 1995-95. Given the type and limited number of goods that Bangladesh offers to India, one does not see much prospects of increasing the number of items in the near future.

In a recent World Bank study, it has been shown that the total value of smuggled export to India comes to about US\$ 106 million, whereas the value of smuggled imports from India comes to US\$ 525 million.<sup>17</sup> Among the imports, livestock, poultry, fish and related products come to about 40%, live animals (cattle) to about 34.2%, processed food and tobacco to 18.1%, textiles to 1.1%, sugar to 5.6% and other consumer goods to 13.2%.

On the other hand, the main items of exports from Bangladesh are: copper, brass and other metals (58 per cent), fish (33 per cent), synthetic textiles (4.3 per cent) and electronics and spare parts (4.8 per cent). The latter are Bangladeshi items smuggled to India.

By and large, the total deficit in both the official and the cross-border trade of Bangladesh with India comes to about US\$ 1 billion per year. Can a country live with such a situation for long? Realizing this miserable situation of trade balance, Bangladesh leaders and protagonists of SAPTA and SAFTA



have appealed to the government of India for opening the market for Bangladesh's products by reducing tariffs. In the first round of negotiation on SAPTA, India granted tariff concessions to Bangladesh on 106 items from an existing level of 44 per cent to 21 per cent. In the second round, which is very recent, India has granted another tariff concession on 513 items.

In spite of concessionary tariffs, Bangladesh exports have not increased significantly. Although nominal tariffs have been reduced, there are many non-tariff barriers and direct measures like regulations and VAT. Another difficulty is that an item will qualify for export to India under SAPTA if it has at least 40 per cent of domestic input. This is very difficult to satisfy as Bangladesh is largely dependent on imported raw materials.

The request of Bangladesh to India now, therefore, is to reduce this local input content from 40 per cent to 30 per cent. One has to wait and see whether India accepts this proposal and, if it does, then what effect it will have on Bangladesh's exports.

Over the last few years from 1992 to 1996, Bangladesh has drastically reduced its tariffs leading to an unweighted average tariff rate of about 25 per cent, while India has come down to only 41 per cent. On the other hand, India's import-weighted average rate has come down to 19 per cent, but the corresponding Bangladesh's rate has come down to 21 per cent, marginally higher. If analyzed carefully, it is found that import-weighted average tariff rate is not very meaningful if non-tariff barriers are high which is what prevails in India. Bangladesh provides more favorable tariff environment for trade.<sup>18</sup>

It is interesting to see that these non-tariff barriers are providing incentives to Bangladesh's smuggled exports. Instead of crossing the hurdles of tariff, regulation, VAT and other things, a trader would rather have the Bangladeshi goods cheaply across the border by paying a small bribe to the border police. Bangladesh does not have many non-tariff barriers on goods like live animals and processed food. This is the government's lost revenue, but the consumers are getting benefits. There is an asymmetry here which needs further exploration.

It would be very difficult for Bangladesh to find a profitable export market in India. A dominant perception is that it should continue to take advantage of export markets abroad. Its exports to the world as a whole has increased by 38.4% over last ten years (1984/85-1994/95), but its total exports

to SAARC countries has declined from 9.7% to 2.4% in the corresponding period. On the other hand, its exports to North America, Europe, East Asia and the Middle East has grown by 87.5%, 67.6%, 27.5% and 6.1% respectively in the same period. It would not be good for Bangladesh to try to divert its export trade to South Asia withdrawing from the world market, because the total of trade diverting and trade creation effect will be far less than Bangladesh is now enjoying in this world market since South Asia is a slow-growing and non-tariff barrier-ridden region.

Some analysts say that Bangladesh should stay with SAPTA as far as it has gone and should not waste its energy and effort in promoting SAFTA. Bangladesh has to import cotton yarn and fabrics from India for its export items and pay for whatever deficits it incurs by hard currencies. As long as its export industries can exploit cheap labor and raw materials, and can efficiently produce quality goods, it will have no problem in finding markets abroad. It should look for its future to the outside world than to South Asia.

### **Conclusion**

SAARC has certain special features. First, its activities are largely confined to the holding of seminars, workshops and short training courses, and exchange of information in specific fields. Secondly, core areas such as trade, industry, finance and labor which provide the basic rationale for similar organizations elsewhere are yet to be mainstream activities of SAARC.

In these circumstances, it is sometimes felt that the SAARC activities are being spread too thinly over a large number of what are seen as marginal issues without any impact on the basic socio-economic problems of South Asia.<sup>19</sup>

Frustrations and disappointments are high. This has been reflected in the following editorial comment of a Dhaka weekly:

There is a proverb which states, "things can never be so bad that it can't get worse." This will however prove to be cold comfort to millions who because of bad neighbor policies are rushing into insecurity and disasters right across the map of South Asia. And one wonders if that would be the precise prescription the people, now almost torn apart by the claws of impoverishment and hopelessness, would need. It would almost seem that the deeper the people sink into the mire of misery and need more meaningful cooperation, the more arms fly with greater anger at each other.

Politicians and policy makers of South Asia should now start reading the recordbooks of their performance and match them with their own pious pronouncements. The gap should remind them of the space between what should be and what was the promised land of the regional body.

If all these sound unreasonably pessimistic, the reason is the uncharitable fear that the ruling elite are not taking SAARC as seriously as it deserves to be taken.

One can read very little real benefit reaped from the sowing of hostile seeds in any country. The encouragement of terrorist activities in different countries, the ruinous extraction of commonly shared natural resources, military interventions, and the cheering on of communal forces may in the short run benefit some politicians. But how much can any country claim for itself in the long-haul audit? If facts were any evidence, the dislike of each other has made all worse off despite the fact that they still merrily go on doing exactly that.<sup>20</sup>

The people do want friendship and peace if only because they ultimately get translated into prosperity. But some people find prosperity in the opposite and it is these people who decide. The question is how to turn the balance upside down, or would this be mere wishful thinking?

While the need for regional co-operation in South Asia becomes ever more urgent, and the recognition of this fact grows at the people's level, the States of South Asia continue to persist in their anachronistic conflicts and animosities. The SAARC has not yet been successful in bringing about any meaningful co-operation between seven States of South Asia, and has so far not been able to address the real concerns and aspirations of the people of the region.

In the recently held Male Summit of SAARC in May 1997, the leaders of India and Pakistan agreed to mend their disputes. A political understanding of sorts is considered a prerequisite for cooperation and collective action. This could not be achieved in the SAARC process. Besides, rapprochement at the government level may bring only temporary results. A more enduring process requires participation of the people for their common benefits.

Although there are a number of sporadic attempts to conceptualize regional cooperation from a more 'humane' standpoint, these could not transcend beyond national boundaries. In recent years, a few initiatives have been observed to facilitate trans-border interaction of activists representing various popular movements and social formations. *People's Plan for Twentyfirst Century* (PP21) is one such initiative.

Within the framework of the PP21, several consultations took place to form a broader alliance of social activists and popular movements. One outcome of this process was the People's SAARC. The founding consultation entitled "Towards People's SAARC," took place in Kathmandu in May 1994. An attempt was made to define a common perspective. This was followed by a more rigorous consultation on "People's SAARC" in New Delhi in July 1995. The participants of the New Delhi consultation tried to sharpen their perspective into a sort of Declaration which reflects common concerns of the people of the region and their wishes (see text box).<sup>21</sup>

### **Declaration of the People's SAARC** **Preamble**

We, the representatives of people's movements, mass organizations, citizens' groups and concerned individuals, affirm yet again the urgent need for regional co-operation. The process towards a people's SAARC had been going on for the past few years. The last meeting was held in Kathmandu in May 1994, and adopted the Kathmandu Declaration expressing the concerns of the people. We endorse the Kathmandu Declaration and express our disappointment with the fact that practically no steps have been taken to address the concerns, and realize the objectives expressed in that Declaration.

Indeed, if anything, our States have in the mean time further relinquished their responsibility to their people, and become even more co-opted by the process of recolonization that is presently underway. The interests of international financial institutions, the IMF and the World Bank, and trans-national corporations, have become ever more entrenched. The result has been that unprecedented levels of poverty, inequality and social and ecological disruption now hold sway over the Southern countries in general, and South Asia in particular.

Responding to the urgency of the need for pooling our resources to meet the challenge posed to the people of South Asia by this hostile inter- and intra-national order, there has been a spurt of people's initiatives in recent years. South Asia Initiative of PP 21, Pakistan-India People's Forum for Peace and Democracy, Bangladesh-West Bengal People's Dialogue and India-Bhutan People's Dialogue are only some examples. We welcome and endorse all these initiatives and seek to build up their efforts.

The People's SAARC affirms the need for an alternate agenda that will address the concerns and aspirations of our people, rather than those of a microscopic elite. Such an agenda must reflect the struggle for empowerment, livelihood and dignity of the South Asian People as a whole (issued in New Delhi on 24 July 1995 by the Coordination Committee of the People's SAARC).

Participants from across the region identified fourteen areas of concern and vowed to work together for their autonomy. This attempt may be viewed as a sort of reaction to the official agenda of the SAARC. Neither the official SAARC, nor its member governments are yet ready, physically and conceptually, to accommodate many of these concerns in their agenda. Although they do not rule out the long term possibility of a radical change in the politics of the South Asian States personified by their ruling elites, they convey genuine apprehensions of the people. These are as follows:

1. At present there exist in South Asia severe restrictions on the movement of people and information. These restrictions must end. As a first step, all States in South Asia must ensure that the people of South Asia are granted visa-on-arrival facility.

2. Violent means of resolving inter-State conflict must be renounced. Growing nuclearization and militarization in the region poses the greatest threat to the security of the South Asian people. We demand that our States commit themselves to a nuclear-free South Asia, and must denuclearize immediately. Steps towards radical demilitarization must also be taken now, and scarce and precious resources presently wasted on so-called defense expenditure be redirected towards social development.

3. Inter-State relations must be based on respect and equality, and all unequal treaties should be annulled. Above all, States must respect each others' sovereignty. Military intervention and espionage operations on each others' territories are the most glaring violation of this sovereignty. Also, the principle of sovereignty cannot be used to legitimize the violation of human rights.

4. South Asia used to be a region known for its unity in diversity. In the colonial and post-colonial period, however, there has been an unprecedented increase in communal and ethnicity-based politics. Such trends of inter-community strife, tension and conflict must be reversed, and State repression of ethnic and religious minorities must stop.

5. The South Asian region constitutes an integrated eco-system. The management of natural resources which the States of South Asia share must be a co-operative effort. The eco-system and the livelihood of communities tied to it must not be disrupted by unilateral intervention by any State. In this context, we call for a moratorium on all State-sponsored

projects that cause displacement of people and degradation of the environment.

6. Patriarchal structures existing at present in the region must be dismantled, and all forms of discrimination and exploitation of women must end. Women must be recognized as equal partners in the life and development of society.

7. The rights of indigenous and tribal people must be recognized sacrosanct, and all forms of discrimination and forcible assimilation of their communities must stop.

8. Bonded and slave labor, the trafficking in women and children and the repression of workers' movements are some of the most dehumanizing practices that now exist in the region. All such exploitative practices must end.

9. Even those States of the region that have democratic structures in place can hardly claim to be truly representative and democratic. All States must commit themselves to democratic decentralization. The criminalization of politics that has badly damaged representative democracy in the region must end.

10. The States of South Asia must resist encroachment by international and regional economic powers, financial institutions and trans-national corporations, and protect the interests of the people against these neo-colonial powers. To counter these powers, trade barriers and discriminatory trade policies must be removed to facilitate the creation of a South Asian common market.

11. The people's rights to self-determination must be recognized as inviolable.

12. The convention and agreements on land-locked countries must be implemented, and transit routes opened up.

13. The South Asian States must show their commitment to the Universal Declaration of Human Rights, and a joint people's tribunal for adjudication of human rights violations must be set up.

14. The SAARC Charter must be revised to allow the discussion of the bilateral issues and reflect the aspirations of the people.<sup>22</sup>

The SAARC completed 11 years of existence in December 1996. The formation of SAARC is seen as a manifestation of aspiration of the peoples of South Asia, to cooperate with each other in search of solutions to their common problems. South Asia is considered as the poorest region of the world. Poverty alleviation has now become the priority agenda across the region, at least in words. There are areas where concerted actions are needed to overcome problems. "People first" should be the common slogan.

While the dominant perception of regional cooperation is limited to mainly enhancement of trade and mobility of capital, free flow of labor and information is also considered a priority from another point of view. "One region, one people" may sound a utopia under existing circumstances. But the countries are already set in motion in the era of 'globalization'. This 'globalization' is capital-dictated, fragmentary and contorted. This needs to be fixed in a proper and humane perspective. A *People's SAARC* is a dream. It has to be translated into a reality through collective action and wisdom of the South Asian people.

### Postscript

The political and diplomatic fabric of the region got a tempestuous jolt when India conducted an underground nuclear test at Pokhran, not far from the border of Pakistan, on 11 May 1998. Pakistan retaliated by exploding in the desert of Baluchistan on 28 May. As soon as the news of nuclear tests broke out, there was spontaneous jubilation from people of different walks of life from both countries. This is indicative of how the minds of the common people have been framed by the state-sponsored media and other forces of chauvinism.

The forces of peace and harmony across the border were caught by surprise. There were risks in instantaneously expressing a different opinion that goes against the "popular mood", as proponents of an anti-nuclear stance would have been branded as agents of the enemy country.

In India, the Marxist Communist Party was the lone exception among the major political parties which condemned nuclear tests. In one protest march in Delhi in the first week following the nuclear test, fifty odd NGOs and groups could mobilize not more than three hundred and fifty participants. After the Pakistani test, many came to their senses. Similarly in Pakistan, there are commoners who also started questioning, thinking that nobody is going to win in this race. But no major political party with representation in

the parliament has condemned the tests yet. The government of Pakistan also declared a "state of emergency" and suspended relevant clauses in the constitution regarding the exercise of fundamental human rights.

On 2 June 1998, representatives of the Pakistan-India People's Forum for Peace and Democracy (PIPFPD) were prevented from holding a press conference in Karachi and were savagely assaulted by activists from Shabab-e-Milli (commonly known as a front organization of Jamaat-i-Islami, a muslim fundamentalist political party). The PIPFPD wanted to express its concern over the Indian and Pakistani nuclear tests. At the same time, a group of Indian scientists, expressing their concern over the emerging South Asian nuclear arms race, were attacked by activists of the Rashtriya Swayamsevak Sangh (widely known as a front organization of RSS, a hindu fundamentalist party) in Bangalore.

Both the countries did not sign the CTBT, though others in the region did. The major argument of India for not signing CTBT is that she is for total disarmament and that nuclear capability should not be monopolized by a few. India is very much critical of the "double standard" played by the USA and its allies. Pakistan's case is simple: if India signs CTBT, we will also sign.

In a series of meetings held in Karachi and attended by representatives of several political parties and citizens' groups, an attempt has been made to formulate an "alternative opinion." A Committee was formed to chalk out a programme to mobilize public opinion against the nuclearisation of the sub-continent. It was named the Action Committee Against Arms Race (ACAAR). In a statement, the participants expressed that all kinds of arms race be they conventional or nuclear, are immoral as they not only rob the people of their right to health, education, housing, employment and other basic needs, but put their and future generations' existence as human beings in peril. The Committee took stock of the new situation and expressed its concern about a South Asian nuclear race between two under-developed countries whose people are these days fighting street battles for drinking water and electricity, leave alone schools, hospitals, roads, housing and jobs. Among the signatories were representatives from PNP, PILER, Progressive Writers Association, Tehrik-e-Ishteklal, Social Democratic Movement, Pakistan Workers Confederation, Jeaye Sindh Mahaz, Railway Mehnatkash Union and Tehrik-e-Niswan. Exerpts of the statement are as follows:



The nuclear tests carried out by the BJP-led government in India had exposed the true designs of that fascist, religious fundamentalist party of the upper castes. The BJP which had polled hardly 30% of the votes cast in the recent Indian general elections had no mandate from the people of India to indulge in such a criminal exercise which has taken the India-Pakistan cold war and arms race to a new stage of nuclearisation of the subcontinent with all its alarming consequences. Similarly, in the 1997 elections, the people of Pakistan had not given the Pakistan Muslim League or Nawaz Sharif any mandate to conduct nuclear tests or make nuclear weapons.

We do not wish to quote figures because they are too frightening to look at. The worst victims of this war-mongering, arrogant and competitive nationalism (fraudulently rationalized in the name of "security") are ordinary people. The social and economic costs of development, foregone thanks to military posturing, have already proved onerous. For all the official bluster about pursuing "national greatness," India and Pakistan both feature, by all accepted indices, at the bottom of the human development ladder.

As for Pakistan (which is also applicable to India) an economically stable Pakistan with strong democratic institutions and without nuclear bombs will be many times more secure than an economically shattered Pakistan with a few nuclear weapons in its arsenal but with a population robbed of their basic human rights to a decent existence. This is a lesson one should have learnt from the fate of the mighty Soviet Union which collapsed and disappeared, not because it had no nuclear weapons and delivery systems but in spite of having so many of them. The Soviet economy fell victim to the armaments race, the nuclear race and crashed under its weight, and with it went the Soviet State.

The already entrenched international Nuclear Club has already demonstrated its inability to stop any country from going nuclear. If the countries of this exclusive club are sincere about every country signing what they call the Comprehensive Test Ban Treaty (CTBT) and Non-Proliferation Treaty (NPT), they should set an example by starting to dismantle their own nuclear arsenals first.

In the face of the ongoing jingoistic rhetoric of the nuclear lobbies of the two countries, followed by the suspension of people's fundamental rights under a state of emergency in Pakistan, there is an urgent need to take a bold initiative towards developing a people's peace movement in the subcontinent, and also globally, that aims at people-to-people reconciliation and maximal economic, political and social progress for all the peoples of South Asia through close regional cooperation. To promote peace is the most urgent task of all the people of goodwill and liberal outlook. It is high time the peoples of South Asia took a bold initiative and forced their governments to publicly announce the renunciation of nuclear tests and production of nuclear weapons and missiles.

The response of SAARC leaders other than India and Pakistan was too cautious and protective. There were statements from spokesperson of respective governments that "we" are for peace and they (India or Pakistan) may have genuine security concerns. There was no condemnation. The SAARC summit meeting scheduled to be held on 11-12 July have been postponed until the end of July.

Where there is a war cry by the war-mongers, sensible people for peace, progress and grass-roots democracy also cry for a different world. This has been formulated in emotion-packed words by poet Sahir Ludhianwi:

Dear Civilized People  
Be this blood ours or theirs  
Humanity is bloodied  
Be this war in East or west  
A peaceful earth is bloodied.

Whether the bombs fall on homes or borders  
The spirit of construction is wounded  
Whether it is our fields that burn or theirs  
Life is wrecked by starvation.

It matters not that tanks advance or retreat  
The womb of the earth becomes barren  
Be it a celebration of victory or loss' lament  
The living must mourn the corpses.

That is why, o civilized people  
It is better that war remains postponed  
In your homes, and in ours  
It is better that lamps continue to flicker.

## Notes

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## Appendix

### Chronology of Events

- |               |   |
|---------------|---|
| 268 B.C.      | <i>Murya</i> emperor Ashoka's accession to the throne who subsequently established a vast empire that included most parts of the South Asia region as we know today.  |
| 1498          | Portuguese sailor Vasco da Gama landed in Calicut in the west coast of India.   |
| 23 June 1757  | British East India Company established political authority in a part of the South Asia Region defeating the local ruler in the Battle of Plassey.   |
| 2 August 1858 | The British Parliament passed an Act for the Better Government of India under which state power in India was transferred to the British Crown and the colonial administration placed under the direct control of the British Parliament and government. |

14-15 August 1947	India was partitioned and Pakistan was created. India and Pakistan became independent.
1948	Sri Lanka gained independence from Britain.
1966	Maldives gained independence from Britain.
16 December 1971	Bangladesh emerged as an independent state from Pakistan following a bloody war.
1977-80	President Ziaur Rahman of Bangladesh discussed the idea with regional leaders.
May 1980	Zia wrote letters to regional leaders urging institutional arrangement.
25 November 1980	Bangladesh circulates a Working Paper suggesting among other things a "step by step" strategy culminating in a summit conference.
21-24 April 1981	Colombo Meeting of Foreign Secretaries. Wide differences were noticed among countries, particularly between India and Pakistan over institutional set-up. It was agreed that no "bilateral" or "contentious" issues would be discussed. Five Study groups with coordinators were appointed: (1) Agriculture (Bangladesh), (2) Rural development (Sri Lanka), (3) Telecommunications (Pakistan), (4) Meteorology (India) and (5) Health and Population (Nepal).
2-5 November 1981	Kathmandu Meeting of Foreign Secretaries. Recommendations of Study Groups were endorsed. Study Groups converted into Working Groups with the system of a rotating chair. Three additional studies were initiated: (Transport (Maldives), (Postal Services (Bhutan) and Scientific and Technical Cooperation (Pakistan).
28-30 March 1983	Dhaka Meeting of Foreign Secretaries. Integrated Program of Action was approved.
1-3 August 1983	New Delhi Foreign Ministers' Conference. South Asian Regional Cooperation (SARC) declaration was adopted.
7-8 December 1985	Summit meeting at Dhaka. South Asian Association for Regional Cooperation (SAARC) was formally launched. The Summit decided in favor of a Council of Ministers and a Secretariat.

16 February 1987	SAARC Secretariat inaugurated in Kathmandu. The post of the Secretary General was to rotate every two years among SAARC members in the Roman alphabetical order. Accordingly, the first Secretary General was nominated from Bangladesh.
2-4 November 1987	Third SAARC Summit at Kathmandu. The leaders forged a regional convention on suppression of terrorism, agreed to set up a regional food security reserve and decided to commission a study on the causes and consequences of natural disasters and the preservation of the environment. In response to the Afghan application for membership, the Summit directed the Standing Committee to draw up the criteria for membership.
12 August 1988	The regional food security reserve came into force at the meeting of Fifth SAARC Council of Ministers in Kathmandu. Any member country could draw from the reserve of 220,900 tonnes in case of deficit.
21 December 1991	Sixth SAARC Summit in Colombo. Initiative was taken to establish South Asian Preferential Trading Arrangement (SAPTA) for increasing intra-regional trade.
10-11 April 1993	Seventh SAARC Summit in Dhaka. Agreement on SAPTA was signed by Foreign Ministers to implement SAPTA by 1997.
February 1994	SAARC Chamber of Commerce and Industry was inaugurated in Dhaka.
7 December 1995	SAARC member countries ratified the SAPTA Agreement and it came into force two years ahead of the time schedule envisaged earlier.
12-13 May 1997	Ninth SAARC Summit in Male. Agreement on full-scale implementation of SAPTA by year 2001.

**Table 1**  
**Basic Statistics**

Country/ region	Population (million)	Area 000 km	Density per km <sup>2</sup>	GNP million \$	GNP per capita \$	Annual growth rate % (1985-94)	External debt as % of GNP
Bangladesh	115.6	144	781	26,975	233	2.0	63
Bhutan	0.7	47	15	253	400	4.4	
India	913.6	3,288	278	278,739	310	2.9	34
Nepal	21.4	141	158	4,174	200	2.3	56
Pakistan	126.3	796	220	55,565	440	1.3	57
Maldives 0.2	-	820	234	950	7.7		
Sri Lanka 18.1	66	114	11,634	640	2.9		68
Total	1,195	4,482	267	377,574	316		42
World	5,601	133,478	42		4,470	0.9	
SA as % of world	21.4	3.4			7.1		

Reference period: 1994

Source: World Development Report 1996

**Table 2**  
**Estimates of Population**

Country/ region	Population (million)		Annual compound growth rate (%)					
	1995	2020	1960-1970	1970-1980	1980-1990	1990-2000	2000-2010	2010-2020
Bangladesh	120.4	185.2	2.6	2.8	2.1	2.2	1.9	1.3
Bhutan	1.6	2.9	1.8	2.0	2.2	1.8	2.3	2.1
India	935.7	1,327.1	2.3	2.2	2.1	1.9	1.5	1.1
Maldives	0.3	0.5	2.0	2.2	2.1	2.1	1.8	1.5
Nepal	21.9	37.7	2.0	2.6	2.6	2.6	2.3	1.9
Pakistan	130.7	261.9	2.8	2.6	3.6	2.9	2.6	2.2
Sri Lanka	18.4	24.0	2.4	1.7	1.5	1.3	1.1	1.0
Total	1,229.0	1,839.3						
ESCAP	3,507.8	4,709.9	2.2	2.0	1.8	1.5	2.0	2.2
World	5,639.0	7,888.0	2.0	1.9	1.7	1.5	1.4	1.2
SA as % of ESCAP	35	39						
SA as % of world	22	23						

Source: ESCAP

**Table 3**  
**Future Population**

Country/ region	Stationary population (million)	Ratio to 1990	Year when NRR=1
Bangladesh	263	2.4	2010
Bhutan	6	3.9	2035
India	1,888	2.2	2010
Maldives	1	4.4	2035
Nepal	65	3.5	2030
Pakistan	400	3.6	2030
Sri Lanka	29	1.7	2000
South Asia	2,652	2.4	2035
Asia	6,543	2.1	2050
World	11,473	2.2	2055

Source: World Bank, World Population Projections 1994-95

**Table 4**  
**Growth Rate of Population and Labor Force**

Country/ region	Population		Labor force			
	Total (million) 1994	Average annual growth rate 1990-94	Total (million) 1994	Average annual growth rate 1990-94	Agri- culture labor (%) 1990	Industry labor (%) 1990
Bangladesh	118	1.7	59	2.7	65	16
India	914	1.8	394	2.1	64	16
Nepal	21	2.5	10	2.5	94	0
Pakistan	126	2.9	49	3.3	52	19
Sri Lanka	18	1.3	7	2.0	48	21
South Asia	1,220	1.9	525	2.3	64	16
World	5601	1.5	2667	1.7	49	20

Source: World Development Report 1996

**Table 5**  
**Comparison of Various Human Development Indicators**

Indicator	Reference period	Bangladesh	Pakistan	India	Sri Lanka	Nepal
HDI ranking	1996	143	134	135	89	151
% adult literacy	1993	37	36	51	90	26
% enrolment ratio for all levels	1990	32	24	50	68	41
Life expectancy	1993	56	62	61	72	54
Real GDP/capita US\$	1993	1,290	2,160	1,240	3,030	1,000
% population in labor force	1992	49	35	43	40	47
% share of female earned income	1993	23	19	25	33	32
% population, access to health services	1985-95	45	55	85	93	
% population with access to sanitation	1990-95	34	33	29	61	21
% population with access to safe water	1990-95	97	79	81	53	46
% people in absolute poverty						
Urban	1990	56	20	38	15	19
Rural	1990	51	31	49	36	43

Source: UNDP, Human Development in Bangladesh, A Pro-Poor Agenda, 1996



**Table 6**  
**Distribution of Income or Consumption**

Country	Survey year	Gini index	Percentage share of income or consumption			
			Lowest 10%	Lowest 20%	Highest 20%	Highest 10%
Bangladesh	1992	28.3	4.1	9.4	37.9	23.7
India	1992	33.8	3.7	8.5	42.6	28.4
Nepal	1984/85	30.1	4.0	9.1	39.5	25.0
Pakistan	1991	31.2	3.4	8.4	39.7	25.2
Sri Lanka	1990	30.1	3.8	8.9	39.3	25.2

Source: World Development Report 1996

**Table 7**  
**Sectoral Distribution of GDP**

Country/ region	Distribution of GDP (%) 1994				
	Agriculture	Industry	(Manufacturing)	Services	Total
Bangladesh	30	18	10	52	100
India	30	28	18	42	100
Nepal	44	21	2	35	100
Pakistan	25	25	18	50	100
Sri Lanka	24	25	16	51	100
South Asia	29	26	15	43	100

Note: Share of manufacturing has been shown separately as well as within 'industry'.

Source: World Development Report 1996

**Table 8**  
**Forecast of Growth and Inflation**

Country	GDP growth			Inflation rate		
	1995	1996 (estimate)	1996-2000 (forecast)	1995	1996 (estimate)	1996-2000 (forecast)
Bangladesh	5.1	6.0	7.0	5.8	4.7	5.3
India	6.6	6.6	7.0	10.0	7.0	5.6
Nepal	2.9	6.1	6.0	7.6	8.5	..
Pakistan	4.4	6.1	6.7	13.0	10.8	8.9
Sri Lanka	5.5	3.6	5.7	7.7	9.6	9.7

**Table 9**  
**Exports and Imports of Merchandise (million US\$)**

Country/ region	Exports		Imports		GDP		Share of trade in GDP	
	1980	1994	1980	1994	1980	1994	1980	1994
Bangladesh	793	2,661	2,600	4,701	12950	26,164	26.20	28.14
India	8,590	25,000	14,900	26,846	172321	293,606	13.63	17.66
Nepal	80	363	342	1,176	1946	4,048	21.69	38.02
Pakistan	2,620	7,370	5,350	8,890	23690	52,011	33.64	31.26
Sri Lanka	1,070	3,210	2,040	4,780	4024	11,712	77.29	68.22
Total	15,133	40,598	27,212	48,387	216,911	389,535	19.52	22.84
World	2003,736	4326,096	2007,961	4391,660	10759,322	25223,462	37.29	34.56
SA as % of world	0.76	0.94	1.36	1.10	2.02	1.54		

Source: World Development Report 1996

**Table 10**  
**Exports and Imports of Goods as Percentage of GDP**

Country	Exports, f.o.b.			Imports, c.i.f.		
	1980-84	1985-89	1990-95	1980-84	1985-89	1990-95
Bangladesh	6.2	6.4	9.3	18.9	16.7	17.8
Bhutan	10.8	22.3	28.6	40.6	41.5	42.5
India	4.7	4.6	7.6	7.8	6.9	8.7
Maldives	21.7	33.1	22.3	79.5	77.0	93.7
Nepal	4.7	5.5	8.8	17.7	18.7	25.7
Pakistan	9.9	11.6	14.4	20.2	18.3	19.1
Sri Lanka	23.3	21.0	26.3	38.5	30.9	37.6

Source: ESCAP

**Table 11**  
**Rate of Change of Values of Exports**  
**and Imports of Goods (%)**

Country/region	Exports, f.o.b.			Imports, c.i.f.		
	1980-84	1985-89	1990-95	1980-84	1985-89	1990-95
Bangladesh	6.8	7.6	16.3	11.7	5.8	11.0
Bhutan	2.3	41.7	0.4	10.8	9.3	5.3
India	4.5	10.6	11.8	0.9	6.2	9.9
Maldives	23.0	20.0	3.5	17.8	20.3	15.8
Nepal	20.2	6.0	15.5	5.5	7.9	15.8
Pakistan	1.2	13.3	9.6	2.4	4.4	8.8
Sri Lanka	9.5	2.0	16.1	-2.0	3.8	15.1
Developing economies of the ESCAP region	5.9	13.7	14.6	5.2	13.5	15.0
World	-0.9	9.3	6.8	-0.7	9.4	6.5

Source: ESCAP

**Table 12**  
**Changing Export Structure**

Country	Share of primary commodities including fuels in total exports (%)			
	1980	1985	1990	1993
Bangladesh	28.6	36.7	20.7	14.1
India	39.2	44.1	28.5	25.3
Maldives	89.5	67.3	72.6	83.0
Nepal	63.2	51.2	23.6	15.1
Pakistan	45.1	30.4	20.9	17.0
Sri Lanka	81.9	72.4	41.6	18.0

Source: ESCAP

**Table 13**  
**Inter-Subregional Merchandise**  
**Trade Flow Matrix, 1995, Million US\$**

From	To						
	ASEAN	SAARC	ECO	South Pacific Forum	East Asia	Total Asia-Pacific	Total exports
ASEAN	68470	6847	2431	397	48415	182054	311489
	(22.0)	(2.2)	(0.8)	(0.1)	(15.5)	(58.4)	(100)
SAARC	2728	2020	905	5	3945	13218	45739
	(6.0)	(4.4)	(2.0)	(0.01)	(8.6)	(28.9)	(100)
ECO	1703	1241	2525	1	3682	12584	56293
	(3.0)	(2.2)	(4.5)	(0.01)	(6.5)	(22.4)	(100)
South Pacific Forum	218	9	1	12	357	2540	3494
	(6.2)	(0.3)	(0.03)	(0.34)	(10.2)	(72.7)	(100)
East Asia	50676	6692	3826	99	163473	305240	559325
	(9.1)	(1.2)	(0.7)	(0.03)	(29.2)	(54.6)	(100)

Figures in parentheses show percentages

Source: ESCAP

**Table 14**  
**Trends in Intra-regional Trade in SAARC Region**  
**(million US\$)**

Year	Intra-SAARC trade	World trade of SAARC countries	Share of intra-regional trade in world trade (%)
1980	1,264	38,009	3.33
1985	985	43,358	2.27
1990	1,587	65,490	2.42
1991	1,908	63,435	3.01
1992	2,475	71,159	3.48
1993	2,440	71,852	3.40
1994	2,818	83,110	3.39

Source: Direction of Trade Statistics, IMF

**Table 15**  
**Share of Intra-regional Trade in Total Trade**

Year	Share of intra-regional exports to total exports	Share of intra-regional imports to total imports	Share of intra-regional trade to total trade
1980	4.96	2.48	3.33
1985	3.61	1.57	2.27
1990	3.16	1.90	2.42
1991	3.57	2.55	3.01
1992	4.03	3.06	3.48
1993	3.67	3.17	3.40
1994	3.73	3.33	3.51

Source: Direction of Trade Statistics, IMF

**Table 16**  
**Bangladesh's Trade with SAARC**  
**Member Countries (%)**

Year	Bhutan	India	Maldives	Nepal	Pakistan	S.Lanka	SAARC	World
<b>Exports</b>								
1980		1.01	0.37	0.06	7	0.61	9.05	100
1985		2.96		0.51	4.15	0.02	7.65	100
1990		1.32		0.42	1.38	0.48	3.59	100
1994	0.11	0.96		0.37	0.7	0.19	2.33	100
<b>Imports</b>								
1980		2.45		0.04	1.34	0.18	4.01	100
1985		2.3			1.31	0.31	3.91	100
1990	0.19	4.65		0.05	1.91	0.22	7.03	100
1994	0.06	9.92			2.67	0.16	12.82	100
<b>Total Trade</b>								
1980		2.12	0.09	0.04	2.65	0.28	5.18	100
1985		2.48		0.14	2.08	0.23	4.92	100
1990	0.13	3.6		0.17	1.75	0.3	5.95	100
1994	0.08	6.74		0.13	1.97	0.11	9.03	100

Source: Direction of Trade Statistics

**Table 17**  
**India's Trade with SAARC Member Countries (%)**

Year	Bhutan	India	Maldives	Nepal	Pakistan	S.Lanka	SAARC	World
<b>Exports</b>								
1980	1.26		0.04	1.13	0.02	1.2	3.64	100
1985	0.57		0.01	0.79	0.14	0.69	2.21	100
1990	1.67		0.03	0.22	0.24	0.57	2.73	100
1994	2.11		0.07	0.38	0.27	1.3	4.12	100
<b>Imports</b>								
1980	0.08			0.14	0.51	0.22	0.95	100
1985					0.04	0.04	100	
1990	0.06			0.06	0.19	0.09	0.4	100
1994	0.11	0.01		0.07	0.2	0.12	0.51	100
<b>Total Trade</b>								
1980	0.51		0.01	0.5	0.34	0.57	1.93	100
1985	0.2			0.28	0.05	0.27	0.82	100
1990	0.75		0.01	0.13	0.21	0.3	1.4	100
1994	1.08	0.01	0.04	0.22	0.23	0.69	2.26	100

Source: Direction of Trade Statistics

**Table 18**  
**Maldives's Trade with SAARC**  
**Member Countries (%)**

Year	Bangladesh	Bhutan	India	Nepal	Pakistan	S.Lanka	SAARC	World
<b>Exports</b>								
1980						21.52	21.52	100
1985						17.23	17.23	100
1990						13.46	13.46	100
1994						25	25	100
<b>Imports</b>								
1980			15.92		1	6.47	23.38	100
1985	0.14		0.57		0.43	8.09	9.22	100
1990			2.9		0.72	7.25	10.87	100
1994			3.6		0.45	6.31	10.36	100
<b>Total Trade</b>								
1980			11.43		0.71	10.71	22.86	100
1985	0.11		0.42		0.32	10.39	11.24	100
1990			2.11		0.53	8.95	11.58	100
1994			2.96		0.37	9.63	12.96	100

Source: Direction of Trade Statistics



**Table 19**  
**Nepal's Trade with SAARC Member Countries (%)**

Year	Bangladesh	Bhutan	India	Maldives	Pakistan	S.Lanka	SAARC	World
<b>Exports</b>								
1980	1.42		30.06		5.7	0.16	37.34	100
1985			28.94		1.33	2.95	33.21	100
1990			6.48				6.94	100
1994	0.46		4.6				4.6	100
<b>Imports</b>								
1980	0.23		47.55		0.18		47.97	100
1985	1.96		30.19		0.03		32.18	100
1990	1.77		9.51		0.22		11.5	100
1994	1.83		16.67		0.67		19.17	100
<b>Total Trade</b>								
1980	0.5		43.63		1.42	0.04	45.58	100
1985	1.33		29.78		0.45	0.95	32.51	100
1990	1.35		8.53		0.15		10.03	100
1994	1.16		12.24		0.42		13.82	100

Source: Direction of Trade Statistics

**Table 20**  
**Pakistan's Trade with SAARC**  
**Member Countries (%)**

Year	Bangladesh	Bhutan	India	Maldives	Nepal	S.Lanka	SAARC	World
<b>Exports</b>								
1980	2.09		2.7	0.01	0.02	1.48	6.3	100
1985	2.36		1.37	0.01		1.54	5.29	100
1990	1.84		0.88	0.02	0.02	1.24	3.99	100
1994	1.62	0.01	0.63	0.01	0.04	0.95	3.27	100
<b>Imports</b>								
1980	1.42		0.07	0.01	0.07	0.75	2.32	100
1985	0.77		0.26		0.03	0.52	1.59	100
1990	0.51		0.62			0.5	1.64	100
1994	0.27	0.01	0.81			0.47	1.56	100
<b>Total Trade</b>								
1980	1.64		0.94	0.01	0.06	0.99	3.63	100
1985	1.28		0.61		0.02	0.84	2.76	100
1990	1.09		0.73	0.01	0.01	0.82	2.65	100
1994	0.88	0.01	0.73	0.01	0.02	0.69	2.34	100

Source: Direction of Trade Statistics

**Table 21**  
**Sri Lanka's Trade with SAARC**  
**Member Countries (%)**

Year	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	SAARC	World
<b>Exports</b>								
1980	0.38		3.3	0.12		3.29	7.09	100
1985	1.15		0.49	0.41	0.01	2.16	4.21	100
1990	0.53		1.06	0.37		1.69	3.64	100
1994	0.24		0.87	0.39		1.14	2.64	100
<b>Imports</b>								
1980	0.15		4.77	0.59	0.02	1.47	6.99	100
1985	0.01		4.08	1.45	0.24	1.85	7.62	100
1990	0.34		4.48	0.23		1.93	6.98	100
1994	0.1		7.38	0.26		1.52	9.26	100
<b>Total Trade</b>								
1980	0.23		4.27	0.43	0.01	2.09	7.03	100
1985	0.47		2.61	1.02	0.15	1.97	6.23	100
1990	0.42		3.05	0.29		1.83	5.58	100
1994	0.15		4.8	0.31		1.37	6.63	100

Source: Direction of Trade Statistics

**Table 22**  
**Bangladesh's Trade with SAARC**  
**Member Countries (million US\$)**

Year	Bhutan	India	Maldives	Nepal	Pakistan	S.Lanka	SAARC	World
<b>Exports</b>								
1980	8.0	2.9	0.5	55.3	4.8	71.5	790.2	
1985	29.6	0.1	5.1	41.5	0.2	76.5	998.8	
1990	22.0		7.0	23.0	18.0	70.0	1672.0	
1994	3.0	26.0		10.0	19.0	5.0	63.0	2699.0
<b>Imports</b>								
1980	64.0		1.0	34.9	4.7	104.6	2610.6	
1985	61.9			35.3	8.3	105.5	2697.1	
1990	7.0	170.0		2.0	70.0	8.0	257.0	3656.0
1994	3.0	486.0			131.0	8.0	628.0	4900.0
<b>Total Trade</b>								
1980	72.0	2.9	1.5	90.2	9.5	176.1	3400.8	
1985	91.5	0.1	5.1	76.8	8.5	182.0	3695.9	
1990	7.0	192.0		9.0	93.0	26.0	327.0	5328.0
1994	6.0	512.0		10.0	150.0	13.0	691.0	7599.0

Source: Direction of Trade Statistics

**Table 23**  
**India's Trade with SAARC**  
**Member Countries (million US\$)**

Year	Bangladesh	Bhutan	Maldives	Nepal	Pakistan	S.Lanka	SAARC	World
<b>Exports</b>								
1980	106.0		3.0	95.0	2.0	101.0	307.0	8441.0
1985	56.0		1.0	78.0	14.0	68.0	217.0	9822.0
1990	297.0		5.0	40.0	43.0	102.0	487.0	17813.0
1994	509.0		18.0	91.0	64.0	313.0	995.0	24150.0
<b>Imports</b>								
1980	12.0			21.0	76.0	32.0	141.0	14822.0
1985				7.0	7.0	17600.0		
1990	15.0			15.0	45.0	22.0	97.0	23990.0
1994	29.0	3.0		17.0	51.0	30.0	130.0	25529.0
<b>Total Trade</b>								
1980	118.0		3.0	116.0	78.0	133.0	448.0	23263.0
1985	56.0		1.0	78.0	14.0	75.0	224.0	27422.0
1990	312.0		5.0	55.0	88.0	124.0	584.0	41803.0
1994	538.0	3.0	18.0	108.0	115.0	343.0	1125.0	49679.0

Source: Direction of Trade Statistics

**Table 24**  
**Maldives's Trade with SAARC**  
**Member Countries (million US\$)**

Year	Bangladesh	Bhutan	India	Nepal	Pakistan	S.Lanka	SAARC	World
<b>Exports</b>								
1980					1.7	1.7	7.9	
1985					4.1	4.1	23.8	
1990					7.0	7.0	52.0	
1994					12.0	12.0	48.0	
<b>Imports</b>								
1980		3.2		0.2	1.3	4.7	20.1	
1985	0.1		0.4		0.3	5.7	6.5	70.5
1990		4.0		1.0	10.0	15.0	138.0	
1994		8.0		1.0	14.0	23.0	222.0	
<b>Total Trade</b>								
1980		3.2		0.2	3.0	6.4	28.0	
1985	0.1		0.4		0.3	9.8	10.6	94.3
1990		4.0		1.0	17.0	22.0	190.0	
1994		8.0		1.0	26.0	35.0	270.0	

Source: Direction of Trade Statistics

**Table 25**  
**Nepal's Trade with SAARC**  
**Member Countries (million US\$)**

Year	Bangladesh	Bhutan India	Maldives	Pakistan	S.Lanka	SAARC	World
<b>Exports</b>							
1980	0.9	19.0		3.6	0.1	23.6	63.2
1985		39.3		1.2	4.0	45.1	135.8
1990	1.0	14.0				15.0	216.0
1994		16.0				16.0	348.0
<b>Imports</b>							
1980	0.5	104.0		0.4		104.9	218.7
1985	5.6	86.3		0.1		92.0	285.9
1990	8.0	43.0		1.0		52.0	452.0
1994	11.0	100.0		4.0		115.0	600.0
<b>Total Trade</b>							
1980	1.4	123.0		4.0		128.5	281.9
1985	5.6	125.6		1.3		137.1	421.7
1990	9.0	57.0		1.0		67.0	668.0
1994	11.0	116.0		4.0		131.0	948.0

Source: Direction of Trade Statistics

**Table 26**  
**Pakistan's Trade with SAARC**  
**Member Countries (million US\$)**

Year	Bangladesh	Bhutan	India	Maldives	Nepal	S.Lanka	SAARC	World
<b>Exports</b>								
1980	54.7		70.7	0.3	0.4	38.8	164.9	2617.9
1985	64.6		37.5	0.3	0.1	42.3	144.8	2738.4
1990	103.0		49.0	1.0	1.0	69.0	223.0	5587.0
1994	119.0	1.0	46.0	1.0	3.0	70.0	240.0	7332.0
<b>Imports</b>								
1980	75.9		3.9	0.5	4.0	40.0	124.3	5349.5
1985	45.5		15.5	0.1	2.0	30.5	93.6	5888.6
1990	38.0		46.0			37.0	121.0	7383.0
1994	24.0	1.0	72.0		1.0	42.0	139.0	8884.0
<b>Total Trade</b>								
1980	130.6		74.6	0.8	4.4	78.8	289.2	7967.4
1985	110.1		53.0	0.4	2.1	72.8	238.4	8627.0
1990	141.0		95.0	1.0	1.0	106.0	344.0	12970.0
1994	143.0	2.0	118.0	1.0	4.0	112.0	379.0	16216.0

Source: Direction of Trade Statistics



**Table 27**  
**Sri Lanka's Trade with SAARC**  
**Member Countries (million US\$)**

Year	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	SAARC	World
<b>Exports</b>								
1980	4.0		34.3	1.2		34.2	73.7	1039.1
1985	14.5		6.2	5.2	0.1	27.3	53.3	1264.9
1990	10.0		20.0	7.0		32.0	69.0	1895.0
1994	8.0		29.0	13.0		38.0	88.0	3332.0
<b>Imports</b>								
1980	3.0		96.7	11.9	0.4	29.9	141.9	2028.7
1985	0.2		74.7	26.5	4.4	33.8	139.6	1831.8
1990	9.0		118.0	6.0		51.0	184.0	2636.0
1994	5.0		374.0	13.0		77.0	469.0	5066.0
<b>Total Trade</b>								
1980	7.0		131.0	13.1	0.4	64.1	215.6	3067.8
1985	14.7		80.9	31.7	4.5	61.1	192.9	3096.7
1990	19.0		138.0	13.0		83.0	253.0	4531.0
1994	13.0		403.0	26.0		115.0	557.0	8398.0

Source: Direction of Trade Statistics

**Table 28**  
**Bangladesh's Official Trade**  
**with India (million US\$)**

Year	Export	Import	Balance
1987-88	9.0	88.3	-79.3
1988-89	9.2	105.4	-96.2
1989-90	20.2	146.5	-126.3
1990-91	24.5	182.8	-158.3
1991-92	7.7	231.8	-224.1
1992-93	7.6	344.5	-336.9
1993-94	21.5	416.0	-394.5
1994-95	28.7	690.1	-661.4

Source: Bangladesh Bank



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