

Trade Among Developing Countries: The Case of South Asian Regional Co-operation

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Though world affairs naturally revolve around the four directions, they can generally be viewed in two different axes. One is East-West relations describing the 'power competition' between the Soviet Bloc and the US-West European-Japanese Bloc. The other is, North-South relations describing the 'dependency competition' between the industrialized countries and the developing countries. During the last few years, however, a number of factors have given a new thought to the concept of economic co-operation among developing countries, i.e. South-South relations. It is being believed that South-South co-operation has become central to the success of North-South negotiations. Unless the developing countries are willing to co-operate to help themselves at the regional and at the international level, it is argued that the South would be left far behind the North in economic development (Lim). The central thesis that Lewis has recently developed on the South-South relations is that the developing countries should increasingly look to themselves and to each other to sustain their momentum of development, as the North is entering a period of structural readjustment to lower levels of growth. The key question now arises as to whether there is any economic basis for promoting trade among developing countries.

This paper attempts to empirically examine this question in

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Fund for collective financing of buffer stocks of primary commodities.

Regarding technology procurement by the South, it is noted that the North use discrimination in dealing among economic unequals, so that it becomes difficult for the South to build its own indigenous technological capacity. Developing countries, therefore, demand better regulation of the international technology market in order to strengthen their present unequal position vis-a-vis transnational companies which are only interested in world-wide profit maximization.⁴

With respect to monetary and financial issues, the South, recognizes that it is compelled to depend on the private international credit market. Consequently poorer and weaker countries have no significant access to non-project finance. Developing countries, therefore, have called for additional allocation of Special Drawing Rights (SDR) in the International Monetary Fund (IMF), and the linking of SDR's to additional development financing, provided by the North.

Other specific demands put forward by the South include the adoption of UNCTAD's Integrated Programme for Commodities, energy conservation, debt relief and debt reorganization, adoption of an 0.7% official development assistance (ODA) target by the North, infrastructural development, increased food production in the South, together with food security and food aid, and full implementation of the Lima Declaration and Plan of Action, which calls for an increase of the South's share to at least of 25% of total world industrial production by the year 2000.

II. Outcome of the Negotiations

Recognition of preferential tariff treatment (PTT) for manufactures of developing countries was a substantial outcome of UNCTAD-II in 1968. The Conference on International Economic Co-operation (CIEC) held in Paris between 1975 and 1977, helped to focus world attention on the increasing gap be-

⁴ A brief but comprehensive summary of UNCTAD technology transfer proposals are given by Pang.

A number of negotiations took place between the North and the South after the Paris Conference, but the dialogue became one-sided, the South presenting its case for change and the North rejecting or diluting each specific proposal. Also the North failed to offer any creative proposals of its own to meet the demands of the South.

On the whole, direction of the South's trade is marked by a predominant pattern to the North. At present, more than 80% of the trade of middle income developing economies is with the North, and for low income developing countries the proportion is more than 50%. For the last ten years or so, however, there have been growing constraints on expansion of this trade, because increasing protectionism severely limits exports of the South, particularly semifinished and manufactured goods. Though the North has given tariff preferences on a number of specific goods, many imports from the South, such as textiles and certain types of manufactures are subject to relatively high tariffs. Besides, when a developing country's exports of a preferential commodity reach a certain level, it loses the preference for that commodity.

A recent survey by the IMF reveals the extent of protectionist measures by the North in 1976-77. Paradoxically, both France and Britain, which took a more constructive attitude towards the South during the Paris Conference, have now adopted more restrictionism. The report indicates that these developments are particularly harmful to those developing countries that have sought to sustain the growth of their economies, in part through growth of non-traditional exports.⁷ This aspect becomes more important in the context of discussion about the future of NIEO (Brandt).

Brandt, at the same time, has argued that financial issues should be given top priority as the indebtedness of many developing countries has deteriorated since the North-South report was prepared. On the other hand, the relative ODA-GNP contributions of the North have decreased. Japan's ODA contribution, for

⁷ A quantification of the adverse effects on the South of the rise in protectionism cannot be easily done. But, the loss of export revenues due to North's protectionism has been estimated to be between 5% and 8% of total South's exports (Amuzegar).

port for negotiations with the North, nor for co-ordination within the South⁸ (Haq). In the present world situation, the real question could be, not what the North could do for the South, but first, what the South could do for itself, and then what the North and South could do together. Collective self-reliance in the sense of doing desirable things for themselves and for one another, whether on an individual or group country basis, or the Third World as a whole, could be the answer (Streeten). What the South can do for itself is neither a substitute for North-South relations nor a confrontational approach to North-South dialogue. It is, rather, a matter of operating on margins so as to make things slightly better (Ramphal). To give one example, transfer of technology and material goods may be more appropriate within the South than between the South and North, and such co-operation need not be mistaken as a counter to the North (Haq).

That has long been recognized, but since then, some would argue that no progress has been made in South-South co-operation (Brauer). UNCTAD, Streeten and others would say that a number of initiatives are beginning to give hope for collective self-reliance and interdependence within the South.⁹ One such recent initiative is the formation of the South Asian Regional Corporation (SARC). This paper examines the possibilities of improving such co-operations in the light of empirical evidences. Though there are several possible fields for SARC, trade is generally considered to be important because more diversification in trade insulates an economy against adverse developments in major products, and further they lead to greater mutual cohesion and economic interaction.¹⁰

⁸ The resolution on development and international economic co-operation adopted at the seventh special session urged "developed countries and UN system... to provide, as and when requested, support and assistance to developing countries in strengthening and enlarging their mutual co-operation at sub-regional, regional and inter-regional levels," (UNCTAD).

⁹ The bilateral and multilateral financial support given by OPEC to other developing countries, the organization of producers' associations and marketing schemes for certain commodities, a number of joint ventures among a few developing countries are the example.

¹⁰ Several possible fields for South-South Corporation were mentioned in the Tanzanian Conference in 1978: Strengthening of producers' associations, organization of multinational enterprises in selected commodities, establishment of joint shipping lines, organization of buyers' associations in major commodity markets, unilateral adoption of codes of conduct for transfer of technology and for regulation of transnational and establishment of a Third World Endowment Fund with largely various objectives.

changes in per capita income differences, which serve as a proxy to taste similarities. Linder's own test involved examining total trade intensities of the countries ranked according to per capita income. Kohlhagen and Fortune used income overlap as the measure of taste similarity which also had an effect of correcting the income distribution differences. Due to data constraints, the present study uses indirect measures to test Linder's hypothesis. Calculating the trade intensities along with intra-industry and trade reciprocity indexes, the conclusion is arrived.

To gauge the intensity of bilateral trade relationships among the SARC countries, the following trade intensity indices (Kojima) were calculated. The import intensity index (m_{ij}) is defined as

$$(1) \quad m_{ij} = \frac{M_{ij}}{M_i} \bigg/ \frac{X_j}{X_w - X_i}$$

where M_{ij} is imports of country i from country j
 M_i is total imports of country i
 X_w is total world exports
 X_i and X_j are total exports of country i and j respectively.

The export intensity index is written as

$$(2) \quad x_{ij} = \frac{X_{ij}}{X_i} \bigg/ \frac{M_i}{M_w - M_j}$$

where X_{ij} is exports of country i to country j
 X_i is total exports of country i
 M_w is total world imports
 M_i and M_j are total imports of country i and j respectively.

Table 1 and 2 give the import and export intensity indices for trade among the SARC countries for the periods 1972 and 1978.

Trade intensity of Bangladesh has increased vis-a-vis other SARC countries between 1972 and 1978. The value of India's export intensity has been higher than unity showing more represen-

either there was no trade at all or there was inter-industry trade only. The results showed that there were hardly any intra-industry trade relations among the sampled countries, and so, they provide absolutely no support for the Linder's hypothesis. This means they are reaping the advantages of complete specialization in trade in these products.

Given the fact now that there are mostly inter-industry trade among the sampled countries in Asia, it then becomes necessary to measure the degree of reciprocity in trade relations among these countries. The following index of trade reciprocity was calculated:

$$r = 1 - \frac{\sum_j \left[\frac{|a_{ij} + a_{ji}|}{a_{ij} + a_{ji}} \right] \sum_i a_{ij}}{(n-1) \sum_i \sum_j a_{ij}}$$

where a_{ij} is i^{th} country's export to j^{th} country, a_{ji} j^{th} country's export to i^{th} country and n total number of countries involved in the grouping.

The value of the index will be zero if there is only one-way trade. This measure can be calculated at bilateral as well as multilateral levels for a group of countries. Quantification of this measure is quite useful to gauge any schemes of regional trade cooperation among countries facing balance of trade difficulties. If the degree of multilateral trade reciprocity increases on the whole for the trading countries, any schemes for further mutual trade among the concerned countries would be profitable. The mutual trade relations will further be strengthened with the aid of multilateral schemes of payments arrangements which would reduce the balance of payments difficulties.

The value of the index between Bangladesh and other sampled countries as a grouping was 0.32 in 1974 and it remained fairly unchanged in 1978. The value of the reciprocity index between India on the one side and the other sampled countries on the other side was calculated to be 0.58 in 1974 and in 1978 the value was 0.72 which showed a considerable increase. The calculated value for the reciprocity index between Pakistan and Bangladesh, India and Sri Lanka, taken together was 0.49 in 1974 which rose

Table 1

INTENSITY OF BILATERAL TRADE AMONG BANGLADESH,
INDIA, PAKISTAN AND SRI LANKA, 1972.

Countries	Bangladesh	India	Pakistan	Sri Lanka
		<u>Import intensity index</u>		
Bangladesh	—	13.20	0	0.890
India	0.910	—	0	3.210
Pakistan	0	0	—	1.118
Sri Lanka	0.920	4.365	6.251	—
		<u>Export intensity index</u>		
Bangladesh	—	0.510	—	14.820
India	0.890	—	0	4.320
Pakistan	0	0	—	3.116
Sri Lanka	0.763	4.260	3.213	—

Note: The table is read by rows.

Table 2

INTENSITY OF BILATERAL TRADE AMONG BANGLADESH,
INDIA, PAKISTAN AND SRI LANKA, 1978

Countries	Bangladesh	India	Pakistan	Sri Lanka
		<u>Import intensity index</u>		
Bangladesh	—	10.440	22.88	3.740
India	2.820	—	0.67	4.210
Pakistan	1.762	0.891	—	6.320
Sri Lanka	2.116	7.321	8.250	—
		<u>Export intensity index</u>		
Bangladesh	—	0.53	39.73	10.54
India	3.210	—	0.780	7.320
Pakistan	3.112	0.782	—	6.890
Sri Lanka	3.016	5.310	6.673	—

Note: The table is read by rows

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