

UNIT 198 – UPSC - Regional Economic Cooperation

The emergence of regional trading arrangements in different parts of world shows that such arrangement are now perceived as an effective mechanism to overcome political constraints It has been observed that most important developments in the world trade system in the 1990s has been the development of regional cooperation. The end of the Cold War reduced political strains between nations in Asia as well as globalizing production processes and increasing vertical integration. Advent of Information technology has improved relationships between economies and put remote regions in contact with the world. The private sector provides capital for investment; the public sector provides infrastructure, fiscal incentives, and the administrative framework to attract industry. It has been revealed that Regional economic cooperation in the Asian and Pacific region is a relatively recent phenomenon. Despite the formation of the Non-Aligned Movement and the Group of 77 in the 1960s, Asia Pacific countries make less efforts to cooperate at the regional level. When regional groups started to form in the 1970s, political factors were the driving force.



The term Regional economic cooperation is an evolutionary process consisting of several stages. India is a significant discourse partner of the ASEAN-10. The projections for a new two-way wave of investment cooperation between the SAARC and the ASEAN would certainly improve in future, with the expansion of ASEAN-6 to ASEAN-9 by the inclusion of Lao PDR, Myanmar, Vietnam and Cambodia. India has past relationship with countries in the Greater Mekong Sub-region. This requires that SAARC countries achieve speedy economic growth, with greater orientation towards external trade and foreign direct investment. Hence, the prerequisite for developing successful inter-regional economic linkages between the SAARC and other regions would be predicted on the success of regional economic cooperation within the SAARC itself. Regional Economic Cooperation among developing countries is generally considered as to make an important contribution toward their economic development. The rationale for Regional Economic Cooperation is based on numerous factors (Raghavan, 1995). First, it enables the participating countries to overcome small size of their domestic market which is particularly important for small economies that faced with the problem of achieving threshold in many economic and technological activities. Regional Economic Cooperation help the member countries

in achieving larger economies of scale in production and attain specialization. Second, Regional Economic Cooperation enables participating countries to make much fuller use of underutilized economic potential in terms of human, natural and technological resources. Regional Economic Cooperation provides scope for participating countries to expand existing industrial activities and also to start new ones. This helps in industrial diversification and in reducing economic dependence. Third, Regional Economic Cooperation enables participating countries to exploit the potential of complementarities and also to establish strategic alliance between enterprises with a view to improve their competitiveness in global market. Fourth, Regional Economic Cooperation produces spill over effects in other areas in terms of increased level of cooperation among service enterprises, academic and research institutes, professional and technical experts and the common people. In this way, Regional Economic Cooperation gives cooperation for in areas such as art, culture, sports and education which enhance quality of human life in participating counties. Finally, Regional Economic Cooperation increase trade. Regional cooperation is now reflected the way to augment economic development and providing economic security within the regions. Trade among ASEAN members accounted for more than 23% of all trade by member nations in 1994, topping that of any of the group's major trading associates. Regional cooperation provides a competitive model to invite investment and technology. Such growth areas will have to be flexible to change where necessary, innovative, and always attentive to the needs of the investors and the businessmen. They also have to be aware that they are competing with much larger countries such as China and India, whose capacities for attracting investors are much greater than their own" (Kruger 1996, 17). Asian capital markets are now observing the global economy, and big companies recognize their need to be involved in this fastest growing region in the world. There are certain guidelines for promoting Regional Economic Cooperation (Raghavan, 1995).

1. Cooperation should be based on equality, equity and mutual benefit taking fully into account the economic social disparity as well as the differences in the level of development among countries in the region.
2. Cooperation should involve commitment towards the common goals on the part of all participating countries with equal respect for each other.
3. Cooperation should be based on consultation, deliberation, and consensus on all economic and other related issues.
4. Cooperation should complement and build upon existing bilateral and other kind of arrangements among member countries.
5. Cooperation should be based on modalities of economic openness and interdependence and should be consistent with principles of multilateral trading system established by GATT.

When describing relationship among India and Japans in trade system, it is established that Japan and India are working together to advance regional economic cooperation in order to strengthen growth and quicken development across the region. In order to maximize the effects of cooperation, Japan and India will establish a working group / working groups so as to effectively manage regional economic cooperation projects. Japan and India will review ways for cooperation in developing overland cross-border infrastructure facilities with the aim of enhancing regional connectivity. Both countries explore ways for cooperation in improving sea route connectivity between South Asia and Southeast Asia. Japan and India will increase the level of cooperation in

energy sector in South Asia.

The probable benefits of economic cooperation among nations are extensively acknowledged. Regional cooperation integration can create new trade, transport, and investment opportunities. Regional Economic Cooperation enables participating countries to overcome the small size of their domestic markets and accomplish economies of scale and greater specialization in production, thus increasing the competitiveness of their products. It can also lead to new supply and value chains, enhance the competitiveness of firms, and lead to resource sharing such as common offshore areas. Consequently, there are many reasons for countries to develop cooperative measures. Other benefit is that access to a broad market enables developing countries both to expand existing industries and to establish new export industries, diversifying exports and reducing their vulnerability to setbacks in a specific product market. Regional cooperation can augment the capacity of developing countries to face emerging challenges that include the application of new technologies. It is progressively clear that regional trade facilitation measures offer major benefits by decreasing the costs of transactions across international borders and eliminating non-border difficulties.

In spite of advantages, there are many obstacles in regional economic cooperation. Political tensions or mistrust thwarts cooperation and many countries may be unwilling or unable to meet high coordination costs or to accept asymmetric distribution of costs and benefits. Regional cooperation agreements may also have difficult to achieve or may fail to deliver the expected results because of weak institutions and a lack of proper enforcement mechanisms to ensure that countries live up to their promises. To summarize, Regional cooperation has been observed as an instrument for promoting economic growth and political stability at international level. Regional cooperation is needed in the case of primary product exports, which would result in greater value addition.