

# THE CEYLON JOURNAL OF HISTORICAL AND SOCIAL STUDIES

Vol. 5

1962

Nos. 1 & 2

## SPECIAL ISSUE ON ASIAN ECONOMIC CO-OPERATION

### PART ONE: WORKING PAPERS

- H.A. DE S. GUNASEKERA The need for economic co-operation amongst Asian countries.  
M. ALDONS Ceylon and regional co-operation in Asia: a consideration of some of the project possibilities and their implications.  
RALPH PIERIS The cultural matrix of development.  
A.J. WILSON The political prospects of regionalism in Asia.  
M.P. PERERA Economic co-operation in Asia: its scope, area and machinery in the background of developments in economic co-operation in Western Europe and Latin America.  
P. WIGNARAJA Some aspects of the economics of Asian regional co-operation.

### PART TWO: PROCEEDINGS OF A SEMINAR ON ASIAN ECONOMIC CO-OPERATION

- SESSION I: The rationale of Asian economic co-operation.  
SESSION II: Ceylon's need for regional co-operation.  
SESSION III: Political and social aspects of regional co-operation.  
SESSION IV: Scope, area and machinery of co-operation.

DISCUSSANTS: Gāmani Corea (*Chairman*); Hector Abhayavardhana; M. Aldons; H.A. de S. Gunasekera; Mrs. Theja Gunawardena; C.R. Hensmea; T. Jeevaratnam; W.L. Jeyasingham; S. Mahendra; M.P. Perera; Ralph Pieris; M. Rajanayagam; M.R.P. Salgado; Ediriweera Sarathchandra; A.J. Wilson.

### PART THREE: CONCLUDING STATEMENT ON CEYLON AND ASIAN ECONOMIC CO-OPERATION

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## EDITORIAL NOTE

This issue of the journal is devoted to the subject of Asian Economic Co-operation, which was discussed at a non-official Seminar organised by a group consisting primarily of economists from the University of Ceylon, the Central Bank, and the Planning Department. The seminar, held in Nuwara Eliya during the Vesak week-end this year (18-20 May 1962) consisted of five sessions, the last of which was devoted to drafting the Statement which comprises Part Three of this issue. The working papers formed the basis of the discussion at each session. They have been revised by the authors for the present publication.

The seminar proceedings were tape-recorded. Part Two, which contains an edited version of the discussions, is not a verbatim record of the proceedings. In editing the transcript for publication, irrelevant and repetitious statements were excluded, and remarks on the same subject made by a discussant at different places were sometimes joined. Certain obscure statements were clarified, and colloquialisms re-worded, in consultation with the discussants. No new matter has been introduced. This minimal editing leaves the bulk of the discussion in its original form.

The Ceylon Historical and Social Studies Publications Board has been reluctantly compelled to issue the present double number in order to bring the Journal up to date. A quinquennial index of the contents of Volumes 1 to 5 (1958-1962) is included in this special issue. The Board is now in a position to bring out the Journal regularly, twice a year, normally in June and December. The first number of Volume 6 will be published early in 1963. Subscribers are advised to renew their subscriptions.

RALPH PIERIS,  
*Editor.*



# **SEMINAR ON ASIAN ECONOMIC CO-OPERATION**

## **PART ONE; WORKING PAPERS**





# THE NEED FOR ECONOMIC CO-OPERATION AMONGST ASIAN COUNTRIES

H.A. DE S. GUNASEKERA

Western European Economic Union is fast becoming a reality. The impending entry of the United Kingdom and the probable entry of the other countries of the European Free Trade Association into the European Common Market will soon create an economic unit embracing the whole of non-communist Europe. The formation of regional economic blocs, however, is not entirely a European phenomenon. Partly as defensive reaction against European integration and partly as a result of the realisation of its obvious economic benefits, the countries of Latin America have formed themselves into the Latin American Common Market. More recently, the so-called Casablanca group of countries has started exploratory talks with a view to the formation of a Common Market. More recently still, the governments of certain African countries held discussions on the question of Economic Co-operation. There was the recent conference in New Delhi at which businessmen from a number of Afro-Asian countries accepted the necessity for such co-operation. The Parliament of Ceylon has accepted a private member's motion urging economic co-operation amongst certain Asian countries.

The proximate cause of this quickening of interest in regional co-operation amongst backward underdeveloped countries has been the proposed entry of the United Kingdom into the European Common Market. While the economic development of the underdeveloped areas confronts the European countries with a threat to their traditional markets, the formation of the ECM in its turn threatens the export markets of the Asian countries. It has been estimated that in 1959, 47.4 per cent of India's exports of manufactured goods went to the 'industrial areas' (Western Europe and North America). The figure for Hong Kong was 60.6 per cent.<sup>1</sup> Similarly, 40.4 per cent of Ceylon's exports went to the ECM area.

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1. United Nations: Economic Bulletin for Asia and the Far East; Dec. 1961, p. 62.

The United Kingdom alone accounted for 28.4 per cent of the total exports from Ceylon. The United Kingdom's entry into ECM affects the Asian export industries mainly in two ways:—

- (a) It reduces the competitive power of these industries in U.K. markets through the removal of the preferential tariffs hitherto enjoyed by the Commonwealth countries and the imposition of the Common Market tariff.
- (b) The products of the Associated Territories of the ECM receive preferential treatment over the products of these countries. This is particularly important in the case of the primary products.

The instability of export markets has always been a major problem with primary producing countries. A decline in demand from the advanced countries imposes severe burdens on them. The terms of trade become adverse and there is a severe deflation of incomes and employment. It has been estimated that a 5 per cent drop in the prices of exports of the underdeveloped countries could wipe out the proceeds of all the foreign capital (foreign aid and foreign investment) received during a year.<sup>2</sup>

The problems created by Western European economic union therefore constitute a further threat to the economic stability and living standards in these areas. This alone would be enough reason for the Asian countries to re-examine the feasibility of their traditional trading relationships. Even if one ignores the impact of the changing trade patterns that are the direct result of European integration, the outlook for the Asian countries has been none too promising in the post-war period. Professor Ragnar Nurkse has drawn attention to the fact that since the war trade between the developed and underdeveloped countries has constituted a steady decline in the proportion of world trade; whereas the proportion of trade between the developed countries themselves has shown a spectacular increase.<sup>3</sup>

The UN World Economic Survey, 1958 notes that between 1928 and 1957 world trade in manufactures more than doubled while trade in raw materials increased approximately by one-third. The same Report shows that in 1958 the underdeveloped countries could buy with their export receipts 20.25 per cent less manufactured goods than 10 years previously, and that these countries will have to treble their exports in the next 20 years

2. UN: World Economic Survey 1958.

3. R. Nurkse: Patterns of Trade and Development (1959).

to balance the growth of their export requirements. This trend has been the inevitable result of the developments in modern technology — the discovery of material-economising techniques, the discovery of plastics and synthetic substitutes for the raw materials of the primary producing countries. It is an empirical fact that the rising income-levels of the industrial countries are not correlated with a proportionate increase in the demand for food and raw materials. European integration and the economies of mass production thereby achieved can only hasten this trend.

Rubber which is produced by several countries in the Asian region is perhaps the commodity which is most affected by these technological developments. The synthetic rubber industry has advanced to such an extent that natural rubber is no longer considered an essential raw material of industry or of war. The mass production of synthetic rubber in Europe and America threatens the natural rubber industry with extinction. Already there have been grim warnings that rubber-producing countries must take immediate action to step up productivity if they are to hold their own in competition with the synthetic product. What is true of rubber is true of many other raw materials such as jute and coconut products.

Trade statistics indicate that there has not been a significant increase in the exports of these countries over the period 1954-60. Indeed, the rate of increase has been such that it could easily be affected by an adverse movement in the terms of trade.

Both the rate of growth of exports and the terms of trade are important for underdeveloped areas because, together, these two factors determine a country's capacity to import. The capacity to import influences not only the standard of living of a country but also its rate of growth.

The prospect of a stagnant demand for the exports of the Asian countries becomes all the more alarming in the context of planned economic growth. Nearly every important country in the South and South-East Asian region is committed to planned economic development. And the rate of growth of their economies is governed by the availability of foreign exchange. Thus, barring foreign assistance, the rates of growth are limited by the rate of expansion of their export industries. This is true whether we are thinking of the countries without a significant industrial sector, such as Ceylon, Burma and Malaya, or those which have made some headway in industrialization such as India and Hong Kong. For none of these countries possess a developed capital-goods sector capable of meeting

the demand for machinery and equipment generated by a process of rapid industrialization. India through two Five-Year Plans has taken but the initial steps in this direction. In the early stages of planning, therefore, the expansion of the export industries is vital.

While European countries are dismantling the impediments to the free flow of trade between them, the underdeveloped countries are engaged in doing just the opposite. This is particularly true of countries in the Asian region. Quantitative restrictions or prohibitive tariff barriers have been imposed by these countries not only on imports from the industrial countries but also on one another's exports. In many cases imports of a large number of commodities have been totally banned. The reasons which compel such action are twofold. In the first place, instability of the export markets and adverse movements in the terms of trade, coupled with increasing budget deficits, have created balance-of-payments problems for these countries leading to a loss of their external reserves. At the same time, their national development plans required the conservation of foreign exchange for developmental purposes.

#### IMPORT SUBSTITUTION VERSUS REGIONAL CO-OPERATION

More important as an explanation of the growth of import restrictions, however, is the emphasis on industrialisation in the economic planning of underdeveloped areas. For a country embarking on industrialisation the obvious and, indeed, inevitable choice is to attempt to make at home those commodities which were being hitherto imported. These countries cannot hope to find export markets in the advanced industrial countries. Nor can they hope for sizable export markets in the underdeveloped areas since most of them have their own plans for industrialisation. Thus inevitably they are thrown back on producing for a domestic market which they seek to protect with import barriers. Since it is not within their power to establish capital goods industries on any significant scale, import substitution implies a restriction of the import of consumer goods and the attempt to set up consumer-goods industries.

The economic development plans of nearly all countries in South and South-East Asia aim at industrialisation through import substitution. The only countries of which this will not be true are India, Hong Kong and, of course, Japan. In the case of India she has for some time past been an exporter of textiles and light manufactures, besides supplying her domestic market. However, her domestic market is so large that her

present export efforts are motivated primarily by the need to earn foreign exchange to finance the import of capital goods. The path along which Asian economic development is moving can only result in an autarchical structure of economy with each country building industries limited by the size of its domestic market.

The disadvantages of autarchy are well known. It deprives countries of the advantages of international specialisation and the economies of large scale production. Costs become unnecessarily high and living standards and real incomes are lower than what could be achieved under a regime of international specialisation. The case for international specialisation, eloquently argued by the English classical economists, does not have to be argued afresh in its application to underdeveloped areas. That, in conditions of unbridled capitalism, it gave rise to the monstrosity of the underdeveloped world does not destroy its relevance or its validity in other circumstances.

This is not to say that there does not exist a whole range of industries in which plants of optimum size might profitably be set up with a purely domestic market in view. A large number of light consumer goods industries will probably fall into this category. Even so, the advantages of some degree of specialisation cannot be gainsaid. For apart from the internal economies of scale which depend on the size of plant there are innumerable external economies which accrue from specialisation, such as the cheap production of raw materials, components, ancillary services, repair and service facilities etc. It must also be remembered that the profitability of an industry often depends on the availability of markets for its by-products. It may well be that while the main product can be established on the basis of a domestic market, the domestic market for the by-product is so small that it rules out the establishment of the industry. There are economies to be gained also from the specialisation of labour. The acquisition of technical skills of all grades, and the training of personnel necessary for industrial production becomes considerably easier if a country is called upon to train persons not for a number of small industries utilising a varied range of technical equipment, but for a small number of industries using similar types of equipment and requiring a similar type of skill. This is one explanation of the tendency for whole countries or regions to specialize in particular fields of industrial production, which one sees in the economically developed countries.

There are a number of considerations which make imperative some degree of intra-regional specialisation amongst backward countries. In the first place, the shortage of capital and the need to achieve a high rate of capital-formation imposes on the economic planners of the underdeveloped countries the necessity to restrict, if not the absolute level of consumption, at least its rate of increase. Thus the process of import substitution takes place in a context unfavourable to the natural growth of consumption goods industries. On the other hand, if these industries have also large foreign markets available to them they will not only achieve economies in production costs but also be stimulated by a rapidly expanding market.

Secondly, the need to achieve a rapid rate of economic growth makes it essential to maximise the productivity of labour. Import substitution is the path of least resistance. It is conveniently and speedily implemented. Nevertheless in so far as it is autarchical it must necessarily slow down the rate of growth by reducing the productivity of labour and hence the size of the economic surplus available for capital-formation.

Thirdly, it must be recognised that, as far as small countries are concerned, a programme of industrialisation based mainly on import substitution cannot hope to achieve either a rapid rate of growth or a reasonable improvement in the levels of unemployment and underemployment within the foreseeable future. This is evident, for instance, in Ceylon's Ten Year Plan which does not promise to reduce the level of unemployment and underemployment that exists today but merely holds out the prospect of absorbing the increases in the work-force over the ten-year period. Similarly, in spite of two Five-year plans the volume of unemployment in India continues to increase. Nor has the rise in per capita incomes been any the more encouraging. Programmes of industrialisation based on a policy of exporting to one another through some form of regional co-operation will make for a faster rate of growth.

Apart from increasing labour productivity, such a policy will make possible the development of many industries which would be ruled out on the basis of production for a restricted domestic market. Such industries are those which necessarily require large production units or those in which substantial economies of scale are available. These include not only capital goods industry and heavy industry but also such industries as motor car and bicycle manufacture, cement and fertilisers. For example, a recent ECAFE study has shown that the total production costs per ton of cement is almost halved when the plant capacity is raised from 100,000 tons to



1.8 million tons per year. Similarly the cost of production of newsprint can be reduced by 70 per ton when the capacity of the plant is increased from 50 to 500 tons per day.<sup>4</sup> According to these figures, no single country will be able to have a newsprint plant on the basis of a national market alone, while several could be established in South and South-East Asia on the basis of regional co-operation. The understandable reluctance of countries to establish newsprint plants in the region will compel them to utilise their scarce foreign exchange to import this commodity from outside the region. Then again Ceylon's Ten-Year Plan has drawn attention to the high cost of producing fertiliser for a purely domestic market. These are but a few examples of the possibilities of a planned expansion of intra-regional trade.

The need for regional co-operation becomes all the more urgent when one considers the problem of capital development. No country barring India and Japan in the ECAFE region has a developed capital goods industry. India too relies to a considerable extent on the import of capital goods. The question arises whether the countries of the region can earn enough foreign exchange which together with a meagre measure of foreign aid can enable the import of capital goods on a sufficiently large scale. Even the comparatively slow rate of growth envisaged in the second Five-Year Plan of India came up against the problem of foreign exchange.

The import of capital goods requires an expansion of exports, but it is becoming increasingly clear that the prospects of a significant growth of exports to the advanced countries is very remote. Thus capital goods industries must be developed within the region itself. Such industries cannot, however, be established on the basis of national markets alone. An increase in the intra-regional exchange of goods thus becomes essential for rapid economic growth. Such an expansion requires a co-operative effort on the part of the countries of the region.

We have concerned ourselves mainly with industrial development only because economic planning in under-developed areas must necessarily be based on industrialisation. The scope for regional co-operation, however, is not limited to industrial planning. There exists considerable scope for specialisation in agricultural production. A rational allocation of resources, for instance, will require some countries of the region to place less emphasis on self-sufficiency in rice. If a country expends a part of its

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4. Economic Bulletin for Asia and the Far East: Dec. 1961, p. 69.

meagre capital resources on the development of high-cost agriculture, it clearly stands to gain if it becomes possible to arrange for some degree of specialisation between countries whose cost conditions are different.

Similarly, there exists scope for more intra-regional trade in the staple exports. Regional co-operation, by providing markets for these commodities within the region itself on a planned basis, will be able to impart some measure of stability to the prices of these products. By adopting a unified export policy to countries outside the region they can modify price-fluctuations. They can also co-operate to establish price-stabilisation schemes which will introduce a greater degree of certainty into the economic development programmes of these countries.

The precise scope for specialisation and co-operation between Asian countries is a matter which will require much technical analysis and consultation at government level. What is necessary to emphasise here is the urgency of economic co-operation in the interests of rapid economic growth. It is sometimes argued that regional co-operation to any significant extent is only possible when the economies of the countries concerned are complementary rather than competitive. This argument is in any case irrelevant where countries are in the process of development or are striving to develop. Regional co-operation is necessary in order that their unco-ordinated development will not result in the emergence of 'competitive economies'. The European countries did build up such a structure and the trend towards integration is at bottom an attempt to overcome its limitations. Underdeveloped countries have escaped this phase of industrial development. Thus they are spared the costs and dislocation which the European countries have to go through in order to achieve integration of their economies.

The form and extent of economic co-operation is also a question to be settled by consultation on the basis of a technical analysis of its possibilities whether it should take the form of a Common Market or a Free Trade Area or a system of tariff concessions. Similarly, the question as to what countries should constitute a regional bloc is also a matter for investigation and consultation. Considerations of culture, location, foreign policy and the forms of government are relevant here. In one sense, since the case for regional co-operation is the advantage of specialisation, it would be desirable to have as large a grouping as possible. On the other hand, a large grouping would tend to minimise the area of agreement and co-operation in matters of economic policy.

What is most important, however, is a co-ordination of planning, both in order to achieve the economies of specialisation and of large-scale production and to avoid duplication of effort and wasteful competition and over-production. Many schemes become economical in the context of a large regional market and many projects cease to be worthwhile when viewed against the possibility of regional specialisation. If production for a planned regional market becomes a possibility, it would entail the revision of our national plans to make for a more rapid expansion of incomes and employment than at present contemplated.

Any scheme of regional co-operation is faced with the problem of the unequal levels of industrial development of the different countries. While a country like Ceylon will need protection for her nascent industries, India might chafe at any restrictions on her manufactured exports. Thus it would be necessary to concede at the outset the principle of protection for nascent industry in so far as such industries are a part of an agreed plan of economic development for the region. Hitherto there have been many meetings of Asian planners. But their discussions have been mainly concerned with the techniques and the methodology of planning. Perhaps the time is ripe for exploratory discussions on the possibilities of the co-ordination of national economic plans. One should not underestimate the political problems of regional co-operation. Nor must we overlook the fact that in countries with a substantial capitalist sector, it might not always be possible to reconcile the interests of competing capitalist economies. It is the threat of Soviet supremacy that has at last compelled the capitalist countries of the West to think in terms of a unified Europe.

If Asian countries are able to overcome such divisive tendencies, it might be possible eventually to replace our present notions of national planning with the concept of regional planning. The latter is a much more rational concept, both in the context of modern technology and in our present conditions of arrested development. Whether or not such regional planning is capable of yielding a growth rate sufficiently high to make a palpable impression on our problems of unemployment and poverty is a separate question. It will, however, enable a rate of growth higher than would be possible with unco-ordinated national planning. Thus the idea of regional co-operation should be acceptable to most shades of political opinion.

# CEYLON AND REGIONAL CO-OPERATION IN SOUTH ASIA — A CONSIDERATION OF PROJECT POSSIBILITIES AND THEIR IMPLICATIONS

MALCOLM E. ALDONS,  
*Department of National Planning\*.*

The third session of the Seminar on 'Ceylon and Regional Co-operation in S. Asia' will be devoted to an examination of some of the specific projects that closer regional co-operation will make possible. This paper is intended to serve as background material for this examination. However, before this detailed investigation is undertaken two preliminary tasks have to be completed. The first is to outline the method of participation in closer regional co-operation between the countries of the region while the second is to indicate the way in which specific types of projects were selected.

In choosing the particular form of regional co-operation I shall assume that Ceylon, for the time being, should endeavour to conclude bilateral agreements for the production of specific industrial commodities with all or any of the countries of the region however that term may be defined. This type of agreement would necessitate the sharing of the markets for specific commodities among the countries concerned. I say this because I feel that any discussion on the scope and area of regional co-operation at this stage will tend to be indeterminate. This is also a practical alternative for Ceylon to adopt. But there is another reason for this particular approach. Even if it is possible to find an acceptable definition of the region and to work out the area and scope of regional co-operation in S. Asia, the question of practical possibilities would require a complete techno-economic survey for each of the proposed industries. This is clearly a task too difficult for this paper. Hence the consideration of project possibilities will be limited to Ceylon and any one other country.

If the project possibilities are to be limited between two countries the question may be asked as to why this particular type of agreement should be confined to the S. Asian region. It should be regional in character

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\*The views expressed in this paper are personal and do not necessarily reflect the views of the Department of National Planning.

for at least three reasons. Firstly, it should be remembered that the world is already being divided into economic regions. It will, therefore, be very difficult to obtain any sort of preferential treatment anywhere else. Secondly, Ceylon cannot expect preferential treatment from any of the industrialized countries of the West. Any attempt to base production for export on comparative advantage will lead to the perpetuation of our agricultural economy. Thirdly, and most important of all, this type of agreement will keep the door open for the implementation of the larger idea of regional co-operation in S. Asia.

Given the method of regional participation (since this paper is concerned with the examination of project possibilities regional co-operation is synonymous with regional economic co-operation) it is next necessary to choose the type of project which is suitable for this exercise. These projects lie mainly in the sectors of industry and agriculture though closer regional collaboration is also possible in shipping and the commercial air lines. To avoid wastage of freight capacity and also to spread the heavy overhead expenses, the joint operation of a gradually expanding merchant fleet by the countries of the region might appear to be a highly productive undertaking. While the possibility of such an undertaking may be considered by the Seminar I wonder whether such an undertaking will materialize in the near future. Present indications show that Asian regional co-operation is not on the cards yet and the creation of an Asian shipping line and an Asian air line will, perhaps, have to be preceded by a more definite step towards regional co-operation.

In the field of agriculture a better allocation of resources can be obtained if the countries of the region abandon, or at least modify, their policies of national self-sufficiency and cultivate commodities in which they possess a comparative advantage. There are, however, factors of an economic, sociological and political nature which will limit the area and extent of agricultural co-operation in S. Asia. It is a well-known fact that the price mechanism is not a good indicator for agriculture. This is especially so in the underdeveloped areas. It is, therefore, all the more doubtful whether the cultivator will cultivate the commodity in which his country has a comparative advantage. In countries like Ceylon cultivation of rice has been the main occupation of the agricultural community for several centuries. Any attempt to induce the peasantry to produce less rice and more of some commodity in which Ceylon has a comparative advantage will most probably meet with resistance from the peasantry. The problem here is one of changing the ingrained habits of the rural population. This will take many years of diligent effort.

Another factor which has to be borne in mind is the social importance of the peasantry in this region. The subsistence agriculture sector, though its contribution to national income is small, supports a large percentage of the population. Hence, any attempt at regional specialization which adversely affects the peasantry's interests may have far-reaching consequences. It can therefore be concluded that any attempt to secure greater regional economic co-operation in agriculture will be limited by these factors.

The projects which lend themselves to this idea of regional economic co-operation lie mainly in the field of industry. This is a sector which is just being developed in the region. There are possibilities of new industries, which can cater for a market broader than the domestic market, and, what is more, the sector is not circumscribed by tradition. Hence, the examples which are given in the succeeding paragraphs are confined to industry though it must be admitted that the choice of particular industries is more or less arbitrary.

One of the projects for which some sort of regional assistance may be needed is our tyre and tube factory. This factory will be designed to produce, at maximum capacity, 360,000 tyres per annum with a corresponding quantity of inner tubes and flaps. It can be shown that the domestic market cannot absorb this quantity of tyres.

The project will be completed in two stages. The production plans are as follows:

	<i>Passenger car tyres</i>	<i>Truck tyres</i>
Stage I — 250,000 tyres ..	162,500	87,500
Stage II — 360,000 tyres ..	216,000	144,000

*Source:* Industrial Bulletin 1, Series 2 (State Industries), Development Division, Ministry of Industries.

The factory will be producing 162,500 passenger car tyres in the first stage of production. This amount is clearly above the average imports of passenger car tyres for the last five years (1957—1961). It is also above the largest amount of motor car tyres imported for any single year, viz. 138,254 in 1959. In the face of import bans and quotas for motor cars it appears that the demand for tyres for motor cars will grow very slowly, if not shrink, over the next few years. The conclusion that can be drawn is that even in Stage I the factory may have a surplus of tyres if an export market does not materialize. With the commissioning of the second stage of the project this surplus will continue to grow if the factory is run at full capacity.



The fact that domestic demand will not be able to absorb the capacity of this factory can be shown in another way. The number of motor cars and cabs in Ceylon as on 31st December, 1960, was 82,576.<sup>1</sup> Let us assume that when production commences the number of motor cars and cabs would have increased to 100,000. This means that in the first stage of production each motor car and cab, on the average, will have to replace 1.62 tyres a year for the products of this factory to sell, assuming that there is no building up of imported stocks before the factory starts production. When at full production the replacement rate will have to rise to 2.16 per annum. I seriously doubt whether each car will have to replace so many tyres per annum. This again shows that the domestic market will not be able to absorb the entire output of passenger car tyres of the tyre and tube factory.

Similarly, it can be shown that the domestic market will not be able to absorb the quantity of truck tyres that the factory will produce. It therefore appears that a certain quantity of tyres will have to be exported if the factory is run at optimum capacity. There are no estimates of costs of production available to the public and it is hence difficult to state how competitive in terms of price our product will be. However, our ability to compete in Western markets will be severely limited not only by the growth of arrangements in regional economic co-operation there but also by transportation costs and the great advantage that more than half a century's experience has given them. Our nearest markets are those of the Asian region and they should be the logical ones in which to sell our industrial products. But here too we will have to compete with the products of the more advanced countries. One of the ways to avoid running this plant at less than optimum capacity is to make an arrangement with another country of the region. This country could give us preferential treatment in rubber tyres or accept a certain specified number of tyres per annum and we could do likewise for industrial commodity.

In similar fashion we may be able to supply India or Pakistan with nitrogenous fertilizer. The possibility of Ceylon supplying India or Pakistan with a part of their fertilizer requirements has been examined elsewhere.<sup>2</sup> Suffice to say here, that any agreement whereby Ceylon undertakes to supply India or Pakistan with a part of fertilizer requirements will enable her to produce on a larger scale. This will reduce unit

1. Administration Report for 1960 of the Commissioner for Motor Traffic.

2. For further elaboration see, M.E. Aldons, "A consideration of the prospects for regional economic co-operation in S. Asia with special reference to Ceylon." *The Ceylon Journal of Historical and Social Studies*, Vol. 4, No. 1.

costs and also stimulate a greater level of economic activity than would otherwise have been possible.

If Ceylon is to secure preferential treatment in specific commodities from the countries of the S. Asian region she will have to, in return, offer them similar concessions. This type of concession would be most advantageous to a country like India. India is in the process of implementing her third five-year plan and some of her economists feel that the question of foreign exchange will once again be a determining factor for the realization of the plan. The foreign exchange component of the third plan is somewhat high and in the crucial sector of heavy industry it is as high as 51.3 per cent.<sup>3</sup> In fact, it is felt that, due to the tentative manner in which certain estimates have been drawn up, the total foreign exchange requirements have been understated. While a vigorous policy of export promotion has been recommended the circumstances are not very favourable for a successful export drive. India is facing increasing competition in her traditional exports of cotton textiles, jute and tea. What is more, the creation of the European Common Market and the likelihood of Great Britain becoming a member does not brighten the prospects for an expansion of exports. India may therefore welcome a scheme which gives her commodities preferential treatment in any part of the S. Asian market. Of course this does not mean that this type of agreement between India and Ceylon will solve India's foreign exchange difficulties. But if the agreement were to become general in character it may go a long way in lessening the foreign exchange burden of her implementation programmes.

It should however be emphasized at this juncture that bilateral agreement in industrial production is intended to serve only as a short-term or interim measure, until such time as it will be feasible to work out a scheme which will embrace the entire region. For it is only a regional scheme that will go far enough in solving some of the economic problems of the region, especially the problems peculiar to the smaller countries like Ceylon.

Closer regional co-operation will be very useful for small countries like Ceylon for a number of reasons. For such countries the narrowness of the domestic market makes the unit cost of domestically produced industrial commodities prohibitively high because the economies of scale cannot be fully exploited. This fact was brought out in a paper prepared

3. The industries from which the percentage was derived are iron and steel, fertilizers, heavy machine building, heavy electrical equipment, rayon and staple fibre, aluminium, soft coke and electrical goods.

by the ECAFE Secretariat.<sup>4</sup> Here it was shown how in several industries production costs decline steadily as production increases. The tables for steel and cement are as follows.<sup>5</sup>

ECONOMIES OF SCALE IN STEEL PRODUCTION: COST PER TON IN 1948 US\$

*Annual capacity of plant in 1,000 tons of finished steel*

		50	250	500	1,000
Raw Materials .. ..		33.84	31.26	31.26	25.68
Maintenance and Misc. ..		20.59	11.11	10.57	9.83
Capital Charges .. ..		122.93	101.20	87.10	85.05
Labour Cost .. ..		32.00	15.20	8.57	6.60
Total Cost .. ..		209.36	158.77	137.50	127.16

ECONOMIES OF SCALE IN CEMENT PRODUCTION: COSTS PER TON IN US\$

*Capacity of plant in 1,000 tons*

		35	50	100	230	450	900	1,800
Operating costs ..		16.2	15.5	15.2	14.7	11.0	9.4	8.4
Capital charges ..		12.5	11.5	10.8	10.8	8.8	7.0	5.5
Total cost ..		28.7	27.0	26.0	25.5	19.8	16.4	13.9

*Source:* United Nations, *Formulating Industrial Development Programmes with Special Reference to Asia and the Far East*, Report of the Second Group of Experts on Programming Techniques organized by the ECAFE Secretariat.

These tables show that the unit costs of production fall as the scale of plant is increased. It would therefore be beneficial if the countries of this region could produce at a capacity which gives them the advantage of large-scale production. But with the exception of countries like India, Japan, etc. the ability of the smaller countries to reap the advantages of scale is limited by the narrowness of the national market. It would appear that, especially for the smaller countries like Ceylon, a regional market arrangement would enable them to benefit from the economies of scale. This would in turn result in the more efficient use of scarce resources like capital, generate a higher level of economic activity from the same amount of capital, and thus lead to a higher rate of economic growth.

There is another advantage in large-scale production which a comprehensive scheme of regional co-operation will bring. The ECAFE report points out that economies of scale can be obtained not only for finished goods but also for the intermediate goods that a particular industry needs.

4. 'The Scope for Regional Economic Co-operation in Asia and the Far East', *Economic Bulletin for Asia and the Far East*, XII/3, December, 1961, pp. 52-75.

5. Ibid, Table 11, p. 69 and Table 12, p. 70.

The report cites the example of the motor-car industry.

A country's market may be large enough to absorb the capacity output of an optimum-scale automobile plant, but it may still be too small to establish efficient production of steel and all other parts in its own territory. Yet, in order to bring down the costs of motor vehicles to an internationally competitive level, it may be very important to assure the supply of intermediate products at a low cost. In these circumstances a programme of integrated industrial development on the basis of co-operation between neighbouring countries may be indicated, for the country in question could offer preferential treatment to imports of certain parts and other intermediate goods from other countries in return for similar treatment granted by other countries to the finished vehicles. Given the need for industrial integration, industry can be thus organized on an economically sounder basis, instead of being developed in a single country at high costs. The technological optimum size of an economy is therefore very much larger than purely technological considerations limited to one single industry might at first suggest. . . .<sup>6</sup>

A programme of integrated industrial development may also enhance the chances of cumulative industrial growth among the countries concerned. This is because production for a larger market will bring forth more industries and this may make the process of industrial growth cumulative in character.

When industry A is first set up, its satellites will soon follow; but when industry B is subsequently established, this may help to bring into existence not only its own satellites but some firms which neither A or B in isolation could have called forth. And with C coming into play some firms will follow the combined stimuli not only of B and C but of A, B, and C. This mechanism may go far towards explaining the *acceleration* of industrial growth which is so conspicuous during the first stages of a country's development.<sup>7</sup>

This partial explanation of how industrial growth becomes cumulative, and the awareness that it cannot be achieved within the confines of a narrow national market, has an important bearing on the long-term strategy of economic development in a country like Ceylon. In outlining this strategy it was argued, in the Ten Year Plan, that an expansion of agriculture alone is incapable of meeting the problem of an expanding workforce. The Plan thus offered a policy of industrialization, based initially on import substitution. However, production for an export market was also part of the strategy of long-term economic development for it was felt that countries like Ceylon could sustain a very large proportion of the workforce by producing for export. But to think in terms of the export market in general today, is inaccurate. New economic groupings have emerged in Western Europe and Latin America and there is the distinct possibility of similar groupings taking shape in the African continent and the Middle East. In these circumstances it would appear

6. Ibid, pp. 68 and 69.

7. Albert O. Hirschman, *The Strategy of Economic Development*, p. 104, Yale University Press, paperbound edition.

that production for export will become a possibility only through a system of regional economic co-operation. In short, regional economic co-operation is an essential part of the strategy of long-term economic development.

The consideration of project possibilities shows the advantages of any scheme of regional co-operation. These advantages can be initially obtained through a system of bilateral arrangements in industrial production with any country of the region. However, the endeavour should be, in the long run, to secure a full measure of regional economic co-operation which would thereby permit an integrated programme of industrial development. It is only in this way that the economies of scale can be obtained over a wide range of commodities. But before this is done a certain amount of preparatory work is necessary. This will entail further and more detailed analysis. Greater regional economic co-operation will also require, as a pre-condition, the gearing of the economies of the region to economic development. It should be noted that this has not taken place yet in all the countries of the region.

# THE CULTURAL MATRIX OF DEVELOPMENT

RALPH PIERIS

The nation states of the modern world were not created before the minds of men were capable of abandoning traditional social forms. Theorists contributed to the intellectual climate which convinced people that the restrictive social structures of antiquity contained worn-out tissues and were obstacles to progress. Machiavelli, for instance, urged his Prince to liberate Italy by unifying its warring principalities. The 'liberation' he advocated was one which eventually freed European man from the hermetically sealed enclosures of feudal society within which he had so long been cramped both spatially and mentally. It has been suggested that there were three stages in the evolution of the nation state: first, one of fusion of hitherto distinct peoples in a political and moral unity; second, a stage of consolidation in which peoples outside the geographically defined state are regarded as strangers or even as enemies, and finally a period of full consolidation, when national unity takes precedence over fissiparous trends.<sup>1</sup>

It is an artificial creation, this nation state. For the various small groups which coalesced to form it resolved to expand their restricted frontiers on account of certain 'external' compulsions, particularly in the economic sphere, which made such fusion indispensable for progress. Faced with the need to evolve an effective form of collective life, these people could find no direction from the past, and had to discover their own destiny. The result was the artefact of the nation state. It was an artefact because there was no previous community of race or tongue amongst the people who came to be known as Italians, Frenchman, Germans or Spaniards. The diverse people who were unified as a state spoke different languages. But some 'external' compulsion made people feel cramped by feudal bonds and eventually territories, instead of being fragmented, were welded into a single nation. Scotland, Wales and England thus came to be known as Great Britain by a deliberate Act of Union, although some Welshmen still cherish their local dialect, and many Scotsmen cling to their characteristic dress.

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1. Ortega Y. Gasset: *The revolt of the masses* (London: Unwin Books, 1961), p. 135.



That the new type of political unit which was to replace the clearly defined city state of antiquity was an inchoate conception is indicated in the ambiguous Latin terminology for these incipient political structures — *civitas*, *gens*, *natio*. In fact they were none of these — neither cities, nor ethnic groups (*gentes*, *nationes*). Yet, gropingly, a solution was found in the modern conception of the nation state which was flexible enough to embrace many racial, religious and linguistic sub-groups, but sufficiently viable to enable its citizens to organise themselves for military enterprises against outsiders, with singular devotion to the fatherland. It does not surprise us that the patriot gave his life without question for the preservation of this fictional entity, for social forms, in their youth, like individuals, are buttressed not by reason, but by myth. 'Youth does not require reasons for living', says Ortega Y Gasset, 'it only needs pretexts'. The nation state became petrified. The myth created a reality in terms of power and acquired an irresistible force of expansion — geographical, economic and intellectual.

Many a great civilization has perished, or its socio-political embodiment rendered moribund, because it failed to discover a substitute for its archaic and dysfunctional social forms. In the Orient there was no congenial mental climate for the germination of the idea of the nation state. The typical base of Asian society was the atomized village community which, at least in its 'ideal' form, was a hermetically sealed unit. Its inhabitants were immobilized both spatially and mentally by what Marx characterised as 'that barbarian egotism which, concentrating on some miserable patch of land, had quietly witnessed the ruin of empires'. They did not feel the urge to look beyond themselves. In India the apparatus of power superimposed by successive rulers — Mahrata, Sikh, Moghul and even British — affected their lives but little. The village may have been the economic basis of the authority of the ruler, but the horizon of consciousness of the villager stopped short of conceiving himself as belonging to a larger national unit. In short, these village communities, as Marx said, 'restrained the human mind within the smallest possible compass, making it the unresisting tool of superstition, enslaving it beneath traditional rules, depriving it of all grandeur and historical energies'.<sup>2</sup>

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2. Karl Marx: 'The British rule in India' (*New York Daily Tribune*, 25 June 1853).

Meanwhile the expansive polities of Europe, released from feudal stasis, were engaged in political and economic ventures on an international scale, beginning with the voyages of discovery, through trade and commerce stimulated by their industrial revolutions, to colonial domination. In the segmented communities of the Orient, no Machiavelli arose to exhort his rulers to deliver his country from alien conquerors. The literati themselves could not escape from the parochial categories of caste and local community. Patriotic revolt was not uncommon even in Ceylon, but it was not founded on any articulate political philosophy, and merely reflected the 'barbarian egotism' of those in power who made use of people under their authority to prevent the disruption of their traditional social order. Confronted with the economic, political and cultural challenge of the west, these societies of the Eternal East had no answer. For they were deficient in the strategic faculty which Europe had acquired, namely that of giving attention to events 'external' to themselves. Accustomed to look to some golden age for inspiration and direction, the wisdom of their forefathers provided them no guide to action. Nor had they acquired the faculty of discovering their destiny anew, of deciding on an effective form of collective endeavour from a horizon of possibilities. Outclassed by the technology of the west, particularly in the military sphere, all that was left was the example and model of their conquerors.

The impact of the dynamic states of the West on the great civilizations of Asia had a dual aspect. Those who have bemoaned the obliteration of our traditional cultures and the desecration of our values often ignore the other side of the coin. The idyllic village communities of the Orient were, in a sense, anthropomorphic vegetations, enslaving the peasant in a web of tradition and superstition, constricting his desires, aspirations and mental outlook. It is inconceivable that, in their pristine form, these village communities could have sustained the apparatus of a modern nation state.

Indeed in the early decades of British rule the upkeep of the colony of Ceylon was a heavy economic liability. An indigent peasantry, frequently experiencing partial or even total failures of his crops, could not even bear the burden of a fixed land tax. Recurring budgetary deficits were a feature of the colony's administration. It was not without reason then that an early British civil servant, reporting in 1813, ruefully concluded that 'we must acknowledge the inferiority of this delightful, but comparatively unproductive island, to those emporiums of the commerce of the East'

(i.e., Madras and Bengal).<sup>3</sup> Even as late as 1848 Governor Torrington found it impossible to recommend government financial support to set up a medical school on account of the state of the finances.<sup>4</sup>

No way out of the impasse was even proposed by the native intelligentsia. The British solution was to encourage speculators to invest in coffee, and later tea, plantations, for which purpose a steady stream of Indian labourers was imported. The 'sea of woes' into which the peasantry was tossed, as a result of the 'enclosure movement' of the nineteenth century which parcelled out tracts of village land for sale to the pioneer planters is too well known to be recounted here. The sociological impact of western dominance in Asia was shrewdly assessed by Marx over a century ago: 'Can mankind fulfill its destiny without a fundamental revolution in the social state of Asia? If not, whatever may have been the crimes of England, she was the unconscious tool of history in bringing about that revolution'.<sup>5</sup>

In Ceylon, at the cost of uprooting the peasantry and causing the disintegration of the traditional village, some economic base for a modern state was created in the British period, which still remains our mainstay. But instead of canalizing the sentiments and energies of the people to a programme of economic development and building on the plantation-based economy of colonial times, governments elected by popular franchise solicit mass support for short-term political advantages through communalistic policies which exploit racial and religious antipathies. We are still at the stage of an incipient nation-state; the term *jatika*, used to mean 'national', has strong overtones of 'race', and even 'caste'.

At signal points in a people's history a choice of possibilities presents itself, and their political and social destiny depends on the wisdom of their choice. To those rooted in past traditions and accustomed only to interpret the present in terms of archaic categories, there is no choice but a return to some golden age, real or imaginary. This hypertrophy of the historic past rendered their mental horizon singularly ill-adapted to meet the challenge of the west, and consequently atrophied their conception of the future. In fact there was no future conceivable in the context of the geo-botanic cosmos of the village community. By insulating themselves from external forces and rejecting the social transformations of their own time as inherently evil, the peoples of Asia were blissfully stewing in their respective juices.

3. Report of Robert Boyd, Commissioner of Revenue, 1813 (C.O. 416/2).

4. Torrington to Goderich 7 April 1848 (CGA 5/35).

5. Karl Marx: 'The British rule in India' (*New York Daily Tribune*, 25 June 1853).

In fact the plantation-based economy of Ceylon evolved in colonial times proved propitious to the traditionalist gyrations of the intelligentsia, who did not hesitate to nurture, and draw inspiration, from the mystical proclivities of the masses. The socio-political movements which appeared sporadically in late British times, and in profusion after Independence, bear the unmistakeable stamp of what anthropologists designate as 'nativistic movements'. They appeared in Melanesia, Africa and other dependent territories — wherever, in fact, people were faced with western dominance and were unable to reconcile themselves to the resultant social changes. In colonial situations such movements involve a rejection of the ideology of the rulers, their dominant values, their political and economic domination. In its primitive form social protest takes the form of mystic revelations that the millennium is to be achieved through the intervention of ancestors. The Juka cult which appeared in Fiji in 1885 is an example. Its leaders claimed miraculous powers and announced that the order of the world was very shortly to be reversed, whites serving natives and chiefs subservient to commoners. Followers of the Melanesian cargo cults suspended all economic activity in the belief that cargoes of goods would arrive and there would be abundance and eternal life for all. These movements, according to a recent authority, 'are the product of the ambivalent attitudes and feelings of men torn between hatred of the White people who had destroyed the old way of life and who now dominated them by force, and the desire to obtain for themselves the possessions of these very Whites'.<sup>6</sup>

In Ceylon militant revolt against British domination ended over a century ago, but the intent of most, if not all rebellions, was revivalistic. In 1834, on the eve of a plot to overthrow the British government, the First Adikar and Loku Banda Dunuvila made a mysterious and solemn pilgrimage to Anuradhapura, prior to which Loku Banda had declared to the Governor's Secretary 'I had rather have one of the old pillars of Anuradhapura than the Kandy Pavilion'.<sup>7</sup> Since then 'nativistic movements' of various sorts came to the fore. In 1882 for instance, there appeared in Kegalla District what was officially described as 'a curious social movement . . . a revival, partly religious, partly seditious' based on the conviction that a Prince of Righteousness would shortly arise, that he would be guarded by the gods and would restore Buddhism to its pristine purity, and that at his coming all foreigners and heretics would vanish.<sup>8</sup>

6. P. Worsley: *The trumpet shall sound* (London 1957), p. 44.

7. Secret and confidential despatch of Governor Horton, 2 May 1835 (CO. 537/146).

8. Report by Ievers, Kegalla District (*Administration Reports*, 1882).

This movement was an aspect of the Buddhist revivalism of the time. In the Western Province monks of the new Ramayana and Amarapura sects were preaching against the sloth and worldliness of the Siamese Sect. Their asceticism and more strict adherence to the tenets of Hinayana Buddhism earned them popular support. On occasion the manifestations of the nativistic mentality took bizarre forms. Some years ago the elders of a Rural Development Society in Nalanda advocated a revival of the shoulder-long hair style traditionally worn by males, and in their zeal for reform organized a solemn procession of devotees wearing that cherished coiffure.

The excrescence of such movements at certain historical periods cannot be attributed to chance. They require a fertile climate of disillusionment and despair. Hinayana Buddhism comes to its own in the wake of social and economic decline. Thus in the twelfth century the *sangha* was purged of the Mahayana heresies which had been in the ascendant ever since the fourth century. This long phase of Mahayana heresy — extending over eight centuries from Mahasena to Parakrama Bahu the Great — is, paradoxically, the golden age of Ceylon. It was an era of substantial achievement in art and architecture and, through irrigation engineering, of agricultural development, resulting in a sound economy and a strong central government.

The acceptance of pure Buddhism which came in the wake of decadence, reflected in the quality of architectural monuments and irrigation works, the debasement of the coinage (the gold coins which were formerly in circulation were melted and alloyed) and the decline of agriculture, are all masked by the grandiloquence of the inscriptions and chronicles. Archaizing tendencies, particularly in art and architecture are symptomatic of decline, as is religious intolerance. The minds of men were prepared to accept a philosophy of escape from what was now considered to be a futile existence. Hocart sums up this mental climate thus: 'Buddhism is pessimism: existence, it says, is evil, it means pain and sorrow; escape from it lies only in extinction. Those are not the sentiments of a people with the future before them, but of a nation that has lived. Pessimists there always are in every age, but it is only in periods of decline that they found a ready ear with the majority'.<sup>9</sup>

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9. Hocart: 'Decadence in India' (in *Essays presented to C.G. Seligman*, London, 1934).

If the traditional reaction to decadence is essentially religious, the current response, even if religious, has its secular aspects, at least in intolerant puritanical outbursts against alcohol, racing, gambling, and all forms of recreation which savour of hedonism. Enjoyment of life is sinful. But what is most symptomatic of the malaise of our society is the intellectual expression of revivalism. It is noteworthy that the social philosophy of Ananda Coomaraswamy, which had few adherents in his own time, has received increasing attention even in official circles recently. Coomaraswamy was appalled by the superficiality, vulgarity and bad taste of the westernized Ceylonese of his day. 'Evidence of shallow thought is everywhere to be seen in an exaltation of the present age at the expense of the past'.<sup>10</sup> Hence, everything traditional, even illiteracy, was right and had to be defended.<sup>11</sup> But it is often forgotten that Ananda Coomaraswamy was no parochial publicist harping on the niceties of the little traditions of the Sinhalese. He saw Ceylon as a reflection of the Great Tradition of India. The people could be re-inspired only by love of India:

There is scarcely any part of Sinhalese life, or religion or art, which is quite comprehensible without reference to India; the Sinhalese themselves are Indians; the greatness of their civilization dates from the wave of Indian influences that reach Ceylon through Asoka's missionaries; the air and soil in which the nation has grown and borne fruit are Indian; how should another soil and atmosphere be suited to it now? India without Ceylon is incomplete, for in many ways, Ceylon is a more perfect window through which to gaze on India's past than any that can be found in India herself. Much more in Ceylon incomplete if alienated from the Motherland. The most remarkable and significant of the awakenings to national self-consciousness which have taken place in modern times, is the recognition by the people of India of their fundamental unity. Of this unity Ceylon is economically, mentally and spiritually, a part; and with its culture and its life, must her own survive or perish.<sup>12</sup>

We have described one form of reaction to the challenge of the West, namely traditionalism. In its most imaginative expression it visualised a cultural resurgence through renewal of our cultural links with the great Indian civilization, of which Ceylon was an integral part. Many a student of the interwar years sought inspiration in Shantiniketan, and to their influence is due the present revival of the Sinhalese theatre, and the current interest in Indian dance and music. The cruder expression of traditionalism was the populist communalism of mushroom bodies like the *Sinhala Maha Sabha* and the Tamil Congress and, after Independence, the *Tri Sinhala Peramuna*, the Federal Party, and the *Jatika Vimukti Peramuna*. The diametrically opposite reaction was the uncritically imitative process of westernisation with which the elite was preoccupied. These diverse

10. *Mediaeval Sinhalese Art* (1908).

11. *The Bugbear of literacy* (London: Dobson 1949).

12. *Mediaeval Sinhalese Art*, p. 18.

reactions, though apparently poles apart, are not necessarily irreconcilable. Indeed, they co-exist even today. In the absence of national unity, populist communalism is often an unconscious expiation of the guilt attendant on xenophilia.<sup>13</sup>

The pernicious back-to-the-people movement gained momentum after Independence, each community soliciting the electoral blessings of the masses by whipping up their basest sentiments. The psychological basis of populist communalism — that importunate desire on the part of both intelligentsia and political leaders to achieve a oneness with the masses — has been explained as a throwback of atavistic religious sentiments. The religious ideal of liquidating one's individuality, of losing one's identity in the oneness of the universe is common to both Hinduism and Buddhism. Only by withdrawal from the world of craving and desire can the devotee be absorbed into Brahma, or attain *nirvana*. Where such withdrawal is not feasible, in view of worldly preoccupations, the unconscious alternative is the transference of that 'oceanic' religious feeling to a terrestrial substitute.<sup>14</sup> Hence the impassioned mystique of populist movements, the gnawing sense of guilt on the part of those who feel alienated from the masses. Vicarious gratification takes the form of savage attacks on those who are alleged to be insufficiently in tune with the sentiments of the people. The pathological emphasis on the 'national' dress and *swabasha*, the ritual enactment of 'national' games during Independence and New Year celebrations, are all attempts to achieve rapport with the people.

As stated earlier, regressive ideological movements were never challenged because of favourable economic conditions. The plantation-based economy was seriously threatened during the inter-war depression, but wartime prosperity created an undue optimism as to the solidity of our economic substructure, and the post-war Korean boom dispelled any lurking doubts of politicians in power who were quick to implement social welfare programmes which advanced industrial countries evolved only recently. And once an economic benefit was offered to the masses, any withdrawal of that benefit might have led to the demise of a political party. If prior to an election the economic concessions offered appeared to be insufficient, attention was focussed on communal issues. The economy was from time to time buttressed by foreign loans and successive injections of foreign aid. The very foreigners who were the scapegoats of nativistic

13. Shils: *Role of the intellectual in a developing community* (Calcutta, 1958) p. 8.

14. Shils: *The intellectual between tradition and modernity: the Indian situation* (The Hague: Mouton & Co., 1961) 69.

movements, were bolstering up a shattered economy. In this political context, the extreme left-wing parties, so long the prophets of economic doom, turned their attention to populist programmes, and focussed electoral campaigns on minor issues such as the withdrawal of the rice subsidy, or the midday bun for school-children.<sup>15</sup>

Thus, successive governments staked everything on populist communalism ignoring the vulnerability of an agrarian economy depending on exports such as tea (with its limited market) and rubber (with the threat of competition from the synthetic product). The population explosion which was making increasing demands on our economic resources, made little impact on political leaders. The late Mr. D.S. Senanayake, faced with this problem, was confident that the country could support a much larger population than in his time. His plans for peasant re-settlement in Minneriya, Gal Oya, and elsewhere, as a panacea for our economic problems, were founded on romantic visions of a golden age of a densely populated and prosperous Dry Zone. Recent research proves that the colonization schemes can absorb only a fraction of our increasing population.<sup>16</sup>

Meanwhile economic realities have awakened European nations to the inadequacy of nationally-bonded economies, particularly after the dissolution of their colonial empires. Here again, such devices as ECM require at least the acquiescence of people in participating countries. In Western Europe a common cultural tradition has evolved: Christianity, a common script, democratic institutions, a standard dress, and a common scientific tradition, on the one hand, and a community of interest through mutual borrowing in the fine arts, on the other. Ballet originated in Russia but is part of the western tradition. Opera (often known as 'Italian', just as ballet was 'Russian', due to pioneers like Diaghilev and Fokine) described in Johnson's Dictionary as an 'exotic and irrational entertainment', came to be an integral part of the European tradition. Likewise in music, the more 'national' the flavour of a composer's work (e.g. Dvorak, Grieg, Tchaikovsky) the more universal their appeal. In view of the European experience can we foresee a similar development of an Asian tradition? Marx, it may be recalled, contended that the industrially advanced countries showed the less developed countries the image of the latter's future: 'one nation can, and should, learn from others'.

15. These issues were highlighted in the anti-U.N.P. Hartal of 1953, and the general election of 1956.

16. cf. Farmer: *Pioneer peasant colonization in Ceylon* (London 1957).



It has often been argued that Asian solidarity can come through rediscovery of common values of the past. In the process of this discovery, unrealistic and naive dichotomies have been made, particularly the so-called spirituality of the East versus the alleged materialism of the West. More specifically the cultural traditions of our countries are too local to be universalized. From the standpoint of religion India alone is Hindu; her neighbour Pakistan is Muslim, and the Burmese are Buddhist. The old links between Hinayana Buddhist countries — Ceylon, Burma and Thailand — remain, but would exclude India, Pakistan and Indonesia. Unity through a common language is inconceivable; the scripts and languages of India alone present a problem. Above all, the attempt to 'develop' parochial cultures inhibits any universalism. Each country has its strong local traditions. The classical Indian dance forms are not widely appreciated outside the sub-continent. Balinese dancing, though much admired, has never been transplanted elsewhere, while Kandyan dancing remains indigenous to Ceylon. Likewise the Japanese Kabuki theatre and Noh plays, and the Peking Opera are exclusively national entertainments. We must conclude that there is no cultural basis for an Asian community except a sentimental anti-European xenophobia which has been responsible for a 'development' of particularistic cultural traditions.

The fact to be faced squarely is that an outlook and mentality appropriate to a colonial agrarian economy, ill-adapted to solving current economic problems, is paralysing economic development. The paradox is that we have whole-heartedly accepted the end-products of western technology in the shape of luxury consumer goods (the motor car is *the* modern symbol of prestige and affluence) while emphatically rejecting the cultural matrix of that technology particularly a tradition of pure science and a rational attitude to social and economic problems. Our educational system, with its disproportionate literary emphasis, has still to be adapted to the needs of technological and economic progress. The products of that educational system, seeking white-collar jobs, are ready to enjoy the end-results of a scientific tradition to which they are foreign. Deprived of these luxuries, and even of a prospect of employment, they are consigned to what an early British educationist described as the 'loaferdom and hangeronism' characteristic of the educated youth of his day. Their aspirations thwarted, they are willing instruments of the communalistic intolerance of political leaders.

The solution for Ceylon, and for Asian countries generally, is to look more to the future and less to the past. Marx's observations in relation to European society of a century ago, are certainly apposite for us today.

The social revolution of his time, he maintained, could not begin its work until it had rid itself of ancient superstition; unlike earlier revolutions it needed no reminiscences of historical pageantry to discover its true meaning. We must likewise discover our own destiny, as Japan did in the Charter Oath of 1868, which presaged her entry into the international community of science and technology: its final clause urged that knowledge be sought from all over the world.

The Japanese had a full appreciation of their own political and military weakness. Also they analysed early the causes of that weakness as backwardness in scientific skill and ineffectiveness of political organization. These two they set themselves to remedy, and for that purpose they welcomed Western assistance and whole-heartedly devoted themselves not merely to the acquisition of Western technique but to an understanding of the scientific background necessary for material advance.<sup>17</sup>

It is in this recognition that the peoples of Asia can meet on common ground. They require a pooling of resources and skills, so as to solve their immediate economic problems.

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17. Panikkar: *Asia and Western Dominance* (London, 1953), p. 157.

# THE POLITICAL PROSPECTS OF REGIONALISM IN ASIA

A.J. WILSON

It cannot be said with any degree of optimism that a pattern of Asian integration, on the lines of the European Common Market can be evolved so readily out of the national units that are prevalent in South Asia today. The European example is after all the outcome of bitter experience and centuries of strife. Besides there were many other compelling factors. For one thing there was a genuine fear that Russian Communism, in its expansionist phase at that time, would envelop all Europe. It was felt that a fall in economic standards resulting from economic depression would facilitate this trend. This fear tended to act as a motivating force in promoting closer union. For another, there was the attractive proposition of American aid which was forthcoming in a rather generous way to help Western Europe in its programme of recovery from the ravages of war. The Convention on European Economic Co-operation signed in Paris on April 16, 1948, the Brussels Treaty of March 17, 1948 which was mainly a military alliance but also providing for collaboration at the economic, cultural and social levels, the North Atlantic Treaty of April 4, 1949, the signing of the statute of the Council of Europe on May 5, 1949 and the Treaty instituting the European Coal and Steel Community signed on April 18, 1951 were perhaps the first steps in the direction of promoting closer union especially at the military and economic levels. At the economic level, it was realised that duplication and unplanned over-production would result in a fall in trade and a consequent fall in West European living standards. Hence the European Coal and Steel Community was an attempt on the part of six European countries — Belgium, Holland, Luxemburg, Italy, France and the West German Republic — to pool production under what came to be called a supranational authority. What was more, Robert Schuman who was its main architect expressed the view that this community contained 'potentialities that cannot yet be fully measured, but which will rapidly lead us on towards the complete economic and political unification of Europe'.

The question to be considered is whether similar conditions and a similar situation prevail in the South Asian region today. The motivating factors that egged West European statesmen to hammer away at the need for integration are almost totally absent in our situation. There is no dread of communism, at any rate such fear has not assumed the same proportions as among West Europeans. There is no danger of industrial over-production which might result in gluts, a fall in prices, unemployment and general trade depression. The question of economic recovery too does not assume the same character as it assumed in industrialised West Europe. So that in South Asia, there are not prevalent the same compelling factors which promoted the movements towards co-operation, integration and unification in Western Europe.

On the contrary there are factors which might actually hinder any movement towards Asian integration. Nationalism has strong roots in South Asian countries. This might make cooperation extremely difficult. In particular, there are the differences between India and Pakistan which may in fact dissuade the latter from entering any regional scheme in which India has a place. Besides, most of the countries in this South Asian region are striving for economic self-sufficiency both at the agricultural as well as at the industrial level. The objective is to cut down imports to the minimum. This type of competitive economic nationalism might discourage any move towards integration.

Added to these considerations are the complications caused by the military and regional alliances sponsored by the United States. Neutralism and the feeling of Afro-Asian solidarity that it has promoted may help greatly in fostering Asian integration but military alliances like the South-East Asian Treaty Organisation and the Baghdad Pact may result in certain countries being reluctant to participate in any Asian scheme of integration for fear of displeasing their western patrons. Pakistan, the Philippines and to a lesser extent the Federation of Malaya are cases in point. An Asian system as such may have to steer clear of the power blocs so as to enable it to gain the maximum economic benefit from, as well as the best possible markets in, both sectors. It will however be difficult for the countries mentioned to enter a system which is committed to being non-committed vis-a-vis the power blocs.

Dissimilarity in regard to political institutions too might discourage integration. Fortunately, quite a few of the countries which may be concerned in such a scheme have varying types of democratic systems —

India, Ceylon, the Federation of Malaya and the Philippines. There are however other countries equally important which have adopted authoritarian systems with or without modifications. Pakistan with its basic democracy, Indonesia with its guided democracy, Burma alternating between constitutionalism and military rule, and Thailand may find it difficult to become members of an Asian system. European schemes of integration and unification have always been based on the principles of democratic government, respect for the rule of law, free speech and so on. The question for us to decide is whether these are indispensable for Asian integration. The existence of authoritarian systems in South Asia need not in themselves prove insurmountable obstacles. The Afro-Asian bloc for instance has members with differing and even diametrically opposed political systems. Some measure of institutional uniformity in the democratic direction might be helpful but this should not become an end in itself.

The absence of a common language of communication at an Asian level may also prove a hindrance. But this again need not be an insurmountable obstacle. English can very conveniently fill the role for the time being.

Despite these difficulties, there are on the credit side factors which might encourage the growth of regionalism. The emergence of the Afro-Asian bloc with its principles of dynamic neutralism has to a fair extent promoted thinking and action on regional lines. This might therefore indeed be a convenient base to work from though a warning note might be added here that the Afro-Asian group as such constitutes an amorphous whole with very little signs of any positive approach to problems. There is also the English heritage which will prove helpful at the present stage, in particular the English language. The latter can serve as a common link between the intelligentsia of ex-colonial countries like India, Pakistan, Burma, Malaya, Ceylon and the Philippines. The western tradition of democratic government can also be a common factor.

Above all perhaps the most compelling argument that might be advanced for Asian integration is the need to safeguard Asia from any evil effects that might result from West European co-operation. Just as the Afro-Asian bloc was the reaction of the under-developed countries to Western attempts to dominate the United Nations, so, it must be argued that an Asian economic and political system is indispensable in the face of West European efforts at integration and unification.

It is therefore necessary that an Asian Movement should take a positive and in its own way an aggressive form in order that people might realise the urgent need for an Asian system. Emphasis must be laid on the need for economic stability. It should be stressed that such stability can only come from regional co-operation both at the economic and political levels. Western attempts at providing aid have, it must be explained, generally been a failure. Besides they have never been aimed at helping Asian countries to industrialise by developing their own potentialities. Such development can only come from regional co-operation and a pooling of efforts. Narrow emphasis on national self-sufficiency should be abandoned for a wider regionalism where production would be organised so as to make individual national efforts complementary as far as is possible. Thus waste, duplication and over-production can be avoided. Efforts may also be made to develop markets within the region for the produce or products of the countries that come within the scheme. It is therefore at the economic level that propaganda should be organised to persuade the countries of Asia to enter a scheme of regional co-operation. It is suggested that the economic factor should be stressed more than the political. Economic co-operation will therefore have to take precedence. Political integration at a federal or confederal level can afford to wait.

The question arises as to how such a movement towards integration can be promoted. It might to begin with be necessary to think in terms of a United Asia Movement similar to the United Europe Movement which was advocated at various times by people like Briand, Herriot, Sir Winston Churchill and others. Such a Movement might at first be confined to a small group of countries - possibly the countries that belong to the Asian Commonwealth with Burma as an additional member. Such a Movement might seek to remove as far as is possible the trade and travel barriers between these countries. Efforts might also be made to study the economic problems of the region as a whole. It might be even useful to think in terms of common armed forces and common defence with a view to utilising the funds saved on these items for development purposes. In the first instance therefore it might be necessary to adopt the procedure that the British and French Governments adopted when they took the preliminary steps to promote European integration.

Firstly, invite the countries interested to participate in a conference either at an official or unofficial level for the purpose of preparing a joint statement in which mention would be made of the East Asian

region's needs in regard to technical skills, capital development goods, machinery etc. and in which mention would also be made of the regions resources and the quantum of foreign aid it would require for certain stated objectives.

In the second place, it might be useful after this initial statement has been prepared for the conference to organise itself on the lines of the European Conference which met in Paris on July 12, 1947 for similar purposes. A Committee on Economic Co-operation might be set up comprising representatives of each state taking part. Technical Committees to deal with specific subjects like Power, Transport, Food, Agriculture, Industry etc. may be established for the purpose of preparing comprehensive reports on these matters. The participating countries must undertake to furnish the Committees with all the information they call for. A joint organisation will have to be established to implement and supervise a regional plan of economic development that will be drawn up on the basis of information gathered by the Technical Committees. This joint organisation will be a kind of supranational authority. It will have to be vested with wide powers and will have control over finance and if necessary even trade. It will have a body of civil servants and also a technical staff to aid it in the task of implementation and supervision of the development programme. The states concerned therefore will have to sacrifice some measure of sovereignty to ensure the swift execution of this economic development programme.

Political integration must of necessity come later. It will in all probability come automatically especially when co-operation on the economic level yields results. Such political integration may take a confederal form to begin with. Its success will depend on the degree to which propaganda is organised for the purpose and the extent to which support can be mobilised from the English-educated class in particular in the region. A federation on the lines suggested by Mr. R.W.G. Mackay M.P. in a motion he moved in the House of Commons on March 18, 1948 might serve as a model in the Asian region. Mr. Mackay urged the creation of a "democratic federation of Europe, with a constitution based on the principles of common citizenship, political freedom, and representative government, including a charter of human rights" and he went on to suggest the need for summoning "a constituent assembly composed of representatives chosen by the parliaments of the participating states, to frame a constitution for such a federation". It will not be difficult for the Asian region to think in terms of a similar scheme of political integration. The necessary

ingredients are already there. Three of the countries that belong to this region — India, Ceylon and Malaya — have governments based on democratic patterns. Burma will in all probability revert to constitutionalism after a time. Pakistan may also eventually evolve some form of constitutional government. There is therefore the likelihood of there being some degree of uniformity in regard to institutions and methods of government.

Further, except as between India and Pakistan, there has been no long record of enmity or rivalry between the nations which constitute this region. This too should help in the movement towards integration. Besides there is no evidence of any of the countries of this region having any aggressive intentions against one another nor has there developed any bitter and sharp trade rivalries between them. All these augur well for any movement which seeks to promote Asian integration. There must however be incentives for such integration. Unlike as in Western Europe, there is no common dread of Soviet Communism. The only fear of a related nature may perhaps be the possible evils that might follow West European unification. This in itself cannot however accelerate the process. The incentives will therefore have to come from the economic side. Once the good results of economic co-operation begin to be felt, there might develop a desire for political unification in order that the economic gains might be stabilised. Political unification will therefore be a long term project and will have to await the results of economic co-operation.



# ECONOMIC CO-OPERATION IN ASIA: ITS SCOPE, AREA AND MACHINERY IN THE BACKGROUND OF DEVELOPMENTS IN ECONOMIC CO-OPERATION IN WESTERN EUROPE AND LATIN AMERICA

M.P. PERERA

## I — THE SCOPE OF ECONOMIC CO-OPERATION

### A. ECONOMIC CO-OPERATION IN EUROPE

#### *International Co-operation after World War II*

The problems of World War II and its aftermath gave a great impetus to international co-operation in general. This co-operation assumed various forms and manifested itself in numerous fields of activity, including the economic field. The basic urge for co-operation was the realisation of the increasing inter-dependence of nations in a rapidly shrinking world. In the economic field this meant the growing inter-dependence of national economies, an inter-dependence which placed important limitations on action which individual countries, and particularly the major economic powers, could permit themselves to take without regard to the international repercussions of such action. This inter-dependence also restricted the usefulness or efficacy of action that individual countries might take in isolation.

#### *The Movement for European Co-operation*

The conclusion of World War II saw the re-surgence of the European idea. There was a growing realization that the fragmentation of Europe was a source of political instability, and that lasting peace and prosperity could be achieved only on the basis of a united Europe. This European movement, however, manifested itself in various forms. It reflected divergences of opinion that proved to be far too powerful to permit of concrete action on a common front. There was, for example, no common ground between the protagonists of laissez-faire and the protagonists of economic planning; between those who believed in parliamentary democracy and

those who did not; between those who, like the British, favoured inter-governmental co-operation at the political and diplomatic level, without loss of sovereignty, and those whose goal was a United States or Federation of Europe. The Council of Europe established in 1949, with a membership of fifteen European states, and its Consultative Assembly at Strasbourg reflected these divergent trends of thought.

The failure to establish a political community on a pan-European basis led some of the leaders of the European movement to concentrate on less ambitious efforts. They began to think in terms of a more restricted and technical programme, of a 'little Europe' comprising the geographically contiguous six countries that were eventually to form the European Economic Community. Although the basic motivations of the movement continued to be political, the economic problems loomed large in the picture, inasmuch as they offered the most immediate and promising possibilities of hastening the movement towards unity. The progressive freeing of intra-European trade from quantitative restrictions under the regime of the O.E.E.C. Code of Liberalization focussed attention on the urgent problem of tariffs, which constituted an important barrier to effective competition in intra-European trade. The machinery of the O.E.E.C. did not seem particularly adapted to the solution of this problem. What was required was a far-reaching solution involving a fusion or integration of individual markets, so that the forces of competition, by ensuring that men and materials were put to their most efficient use, would contribute to increased production and trade and higher standards of living. The initial projects conceived were, however, cautious and were restricted to the integration of particular sectors.

The most important example of partial or sectoral integration was the Schuman Plan for a European Coal and Steel Community (E.C.S.C.), the Treaty establishing which came into force on 18th April 1951. It was, however, realized that sectoral integration, apart from being inherently unstable from a purely economic standpoint, could but produce limited results as it left large areas of economic activity unaffected. Indeed, Schuman and the other architects of the E.C.S.C. conceived this project as a pragmatic first step, leading eventually to full economic and political integration. The movement for complete integration, therefore, continued unabated, finding expression first in the Beyen Plan and thereafter in the Spaak Report, which provided the blue print for the Rome Treaty and its European Economic Community.

The following paragraphs deal with the various institutions of European co-operation in greater detail.

*Organisation for European Economic Co-operation and Organisation for Economic Co-operation and Development.*

Perhaps, nowhere was the urge for co-operation and the will to give it concrete shape more keenly in evidence at the end of the last War than in war-ravaged Western Europe. The sense of crisis and urgency created by the problems of reconstruction and recovery impelled the nations of Western Europe to co-operate in the solution of their common and inter-related problems. The situation was critical enough for every country to realize the danger of setting by itself. It was in this context that the Organisation for European Economic Co-operation (O.E.E.C.) was born in 1948, and evolved in the course of its twelve years of existence a variety of mechanisms and instruments adequate to the tasks it had to perform. Members of the Organisation also endowed it with a full range of powers, including the power to adopt decisions for implementation by members.

The O.E.E.C. has been described as 'a permanent economic conference of the member states, a continuous international negotiation in a multi-lateral framework'.<sup>1</sup> The process of continuing consultation and discussion on the part of its members, meeting at Ministerial or high official level, was in itself a great force for international co-operation. But this process, in order to be effective, had to be translated into action, and for this purpose the Organization devised the following tools:

- (i) *resolutions* relating to the work of the Organization and its subsidiary bodies;
- (ii) *recommendations* that members should take a certain course of action;
- (iii) *decisions* for implementation by members; and
- (iv) *formal agreements* subject to signature, ratification or other action by member governments.

The Convention establishing the O.E.E.C. provided only for a Council (the supreme authority of the Organization), an Executive Committee and a Secretariat, but the Organization developed in a pragmatic way and in

1. 'A Remodelled Economic Organization' — Paris. April, 1960 — p. 42.

course of time established many subordinate bodies, each designed to meet a specific need. The Council met periodically at Ministerial level, but a large proportion of business was transacted by the Council meeting at high official level. The function of the Executive Committee, which was a smaller body and was attended by the Secretary-General, was the preparation of work for consideration by the Council. The subordinate bodies of the Organization ranged from working parties of the Council to the Steering Board for Trade, a restricted body of experts appointed in their personal capacity and, therefore, enjoying a certain liberty of action. Between these extremes there were various combinations of officials and expert representation at varying levels and in varying relationship with the Council.

The major achievements of the O.E.E.C. were the role it played in the allocation of American aid to Europe, the establishment of the European Payments Union in September 1950 and the liberalisation of intra-European trade on the basis of a Code of Liberalisation adopted on August 18, 1950.

Important events occurred in 1958 and thereafter, which led to the re-constitution of the O.E.E.C. into the Organization for Economic Co-operation and Development (O.E.C.D.), the latter coming into being in September 1961. In a very real sense European economic recovery was complete, and this fact deprived many of the important activities of the O.E.E.C. of their *raison d'être*. The establishment of non-resident convertibility of the leading European currencies made inevitable the replacement of the European Payments Union (E.P.U.), with its system of automatic credits, by the European Monetary Agreement (E.M.A.), and there was no longer warrant for the continuation of the Code of Liberalisation and its techniques of discriminatory expansion of intra-European trade. Of even more far-reaching importance were the establishment of the European trade. Of even more far-reaching importance were the establishment of the European Economic Community on January 1, 1958 and the failure, towards the close of that year, of the efforts made under the aegis of the O.E.E.C. to form a European Free Trade Area, embracing the six countries of the European Economic Community and the remaining members of the Organization. The failure to establish the European Free Trade Area led directly to the formation on 3rd May, 1960 of a rival trading bloc, viz., the European Free Trade Association, by the United Kingdom, Sweden, Norway, Denmark, Portugal, Austria and Switzerland. Broadly speaking, the function of the O.E.C.D. was to promote economic co-operation in

the context of these developments in European integration, and also to co-ordinate on a broader international basis the provision of economic aid to the less developed countries. One of its major tasks would be 'to continue and push forward with consultations and agreement on recommendations to improve the co-ordination of economic policies of member countries as an aid to achieving the highest sustainable rate of economic growth under conditions of stability'.<sup>1</sup>

### *The European Coal and Steel Community*

The Treaty establishing the E.C.S.C. came into force in 1952. It provides for the creation of a common market in coal and steel products within the territories of its members, viz., France, Germany, Italy and the Benelux countries. Its specific provisions ensure the elimination of import and export duties, quantitative restrictions, discriminatory practices among both producers and consumers, subsidies and other state assistance, and certain other restrictive practices.

The most fundamental departure of the Treaty from any previous approaches to integration was the supra-national character of its executive body, the High Authority. From a purely economic point of view, sectoral integration is inherently unstable inasmuch as national states can through their monetary and fiscal policies affect prices, costs and conditions of competition in the integrated industries.

The General Agreement on Tariffs and Trade (G.A.T.T.), which provides for the formation of customs unions and free-trade areas, does not specifically provide for partial integration. Members of the E.C.S.C. (who are also members of the G.A.T.T.) had, therefore, to obtain a waiver of obligations under section 5(a) of Article XXV of the General Agreement in order to implement the Treaty.

### *The European Economic Community*

The Rome Treaty establishing the European Economic Community provides not only for a customs union but also for an economic union, and is expected to lead eventually to a political union. The Treaty, therefore, contains, in addition to provisions for the free movement of goods, provisions relating to a common agricultural policy, the free movement of labour, services and capital, a common transport policy, common

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1. Ibid — p. 21.

rules concerning competition, co-ordination of economic policies, a common commercial policy and harmonization of social policies within the Community. It also provides for the association of the overseas territories of the member states with the Community in a free-trade area. The customs union is to be established over a transitional period of twelve years. The principal institutions of the Community consist of an Assembly composed of parliamentary representatives from the member states, a Council of Ministers, the European Economic Commission which is the principal executive body of the Community, and a Court of Justice. The economic union envisaged in the Rome Treaty thus connotes a high degree of integration, imposing as it does limitations on the right to independent action on the part of member states in matters coming within the strict purview of the institutions of the Community.

From the standpoint of the economic interests of third countries, the important institution of the Community is its customs union, with its common external tariff. Inasmuch as a customs union is essentially a preferential trading arrangement which derogates from the principle of most-favoured-nation treatment in international trade, its formation by countries which are contracting parties to the General Agreement on Tariffs and Trade (and all member states of the Community are such parties) requires the specific approval of the G.A.T.T. in terms of Articles XXIV of that Agreement. Paragraph 8(a) of the Article defines a customs union as —

‘the substitution of a single customs territory for two or more customs territories, so that —

- (i) duties and other restrictive regulations of commerce . . . . are eliminated with respect to substantially all the trade between the constituent territories of the union or at least with respect to substantially all the trade in products originating in such territories, and
- (ii) subject to the provisions of paragraph 9, substantially the same duties and other regulations of commerce are applied by each of the members of the union to the trade of territories not included in the union’.

The G.A.T.T. has no objection to the formation of a customs union, provided its purpose is ‘to facilitate trade between the constituent territories and not to raise barriers to the trade of other contracting parties

with such territories'.<sup>1</sup> It is also a necessary condition of G.A.T.T. approval that the incidence of the common external tariff of a customs union should not on the whole be higher than the general incidence of duties that obtained in the constituent territories prior to its formation. In other words, from the G.A.T.T. standpoint, it is necessary that a customs union should be essentially trade-creating and not trade-diverting in character.

The Rome Treaty provides for the accession of new European members and for associate membership on special terms. Association is meant for less developed countries which cannot participate on equal terms in a full-pledged customs or economic union. The association agreement with Greece, for example, provides for a longer transitional period for the elimination of tariffs, and for the imposition under special conditions of protective duties for the promotion of industries. There is also provision for the grant of financial assistance to accelerate economic development. The provisions relating to the Association of Overseas territories recognise the right of these territories to impose tariffs for fiscal as well as development purposes. The Development Fund provides for the financing of economic and social projects in these territories, and similar assistance for the development of backward areas in the European countries of the Community is provided by the European Investment Bank.

#### *The European Free Trade Association*

The Stockholm Convention establishing the European Free Trade Association (E.F.T.A.) provides for the creation of a free-trade area in industrial products over a transitional period of ten years. There is no free trade in agricultural and fisheries products, but reciprocal trade in these products is promoted by means of bilateral agreements arranged between individual member countries. A free-trade area, like a customs union, provides for free-trade within its constituent territories, but each constituent territory has its own tariff against the outside world. Each territory, therefore, can pursue its own trade policy in relation to third countries. The formation of a free-trade area also comes within the purview of Article XXIV of the General Agreement on Tariffs and Trade. The E.F.T.A. does not aim at political unification, and its institutions do not possess the supra-national elements of those of the European Economic Community. It, therefore, connotes a less intensive form of integration. Nevertheless, Article 30 of the Stockholm Convention recognises that the economic and financial policies of each member state affect the economies

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1. Paragraph 4 of Article XXIV of the General Agreement.

of other member states, and that therefore it is necessary to pursue those policies in a manner which serves to promote the objectives of E.F.T.A.

The Stockholm Convention also contains provisions for the accession of new members and for associate membership for countries which, either because of their less advanced stage of economic development or their special problems and difficulties, are unable to accept the obligations of full membership. The Association Agreement with Finland, for example, recognizes the special position of that country and, although a longer transitional period is not provided for, permits it to reduce its tariffs at a slower rate than other members.

The supreme organ of the E.F.T.A. is the Council composed of representatives from all the member countries. It meets at official as well as Ministerial level, the meetings at the former level being more frequent. Preparing the meetings of the Council and assisting it generally is a permanent working group of Deputies, consisting of officials belonging to the permanent E.F.T.A. Delegations in Geneva. The Council is also assisted by a number of specialist committees, viz., The Customs Committee, the Committee of Trade Experts, and the Budget Committee. Another important institution is the Consultative Committee, which provides a link between the executive organs of the E.F.T.A. and representatives of the main sectors of economic life, including labour, in the member countries. Finally, there is a small permanent secretariat headed by a Secretary-General.

## B. ECONOMIC CO-OPERATION IN LATIN AMERICA

### *The Latin American Common Market*

In Latin America pioneer thinking on problems of regional economic integration derived largely from the activities of the Economic Commission for Latin America (E.C.L.A.). Under the stimulus of the efforts made by E.C.L.A., and particularly its Committee on Trade, a Working Group was set up to study the possibilities of creating a regional market and a multi-lateral payments regime in Latin America. This Group held its first session in Santiago from 3 to 11 February, 1958 and, in collaboration with the E.C.L.A. Secretariat, produced a report entitled 'Bases for the Formation of the Latin American Regional Market'.<sup>1</sup> The Working Group held a second session in Mexico City from 16 to 27 February 1959 and, again

1. The Latin American Common Market — United Nations, 1959 — pp. 28-38.



in close collaboration with the E.C.L.A. Secretariat, produced a second report<sup>1</sup> in which it made recommendations concerning the basis for a possible agreement setting up a Latin American common market. It is useful to review briefly the basic thinking on this subject as disclosed in these documents.

The logical case for the establishment of a regional market is the need to accelerate economic growth. Latin America witnessed a rate of growth of per capita product of 2.7 per cent during the decade 1945-55 due largely to favourable developments in its terms of trade, but this rate has since declined considerably. A rate of growth of this order cannot be sustained in the future on the basis of the prospective slow rate of expansion of primary exports, even if the most optimistic assumptions are made in regard to the availability of foreign capital, the capacity to absorb which depends in the final analysis on export earnings. Economic development can, therefore, be accelerated only through industrialisation based on a policy of import substitution. But import substitution within narrow national markets deprives a country of the advantages of specialization, reduces productivity, and in extreme conditions may lead to a situation where the resultant saving in foreign exchange is more than offset by a loss of exports. Indeed, in certain countries in Latin America substitution policy has introduced a new element of vulnerability into these economies, whereby the emergence of balance of payments difficulties often involves a reduction of essential imports with serious consequences for employment and economic activity. Hence the need for import substitution on a broader regional basis. This can be achieved only within the framework of a common market on the basis of specialised production and expanding reciprocal trade.

The regional market envisaged in the above proposals provides for an experimental first phase of ten years, during which non-tariff restrictions will be superseded by a system of credits and multilateral payments and the average level of tariffs substantially reduced, while many of the tariffs may be abolished altogether. The objective of this phase is the liberalization of intra-regional trade. The second phase will be the establishment of a customs union with a common external tariff. No scheme or formula has been spelled out for this phase, which will be based essentially on the experience of the first. Nevertheless, a fundamental consideration will be the establishment of a common tariff that ensures a margin of preference

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1. Ibid — pp. 38-50.

wide enough to promote the industrialization of Latin America and the region's gradual progress towards increasingly complex lines of production. Such a tariff must be administered with sufficient flexibility to permit of periodical readjustments in response to the requirements of protection, as the substitution process is extended to new branches of industrial activity.

The commitment to reduce tariffs to agreed average levels is of fundamental importance. It is a specific and clearly defined commitment which obliges all countries in the same stage of economic development to reduce their protection to specific levels, whatever the point of departure. These reductions are made on the basis of negotiations, but the negotiations themselves can only influence the choice of products for this purpose, and cannot compromise in any way the obligation to reach these specific average levels. The goal is the same for every country, viz., a single level of tariff incidence for every category of goods. This procedure also facilitates the accession of new members, whose only qualification for membership need be the ability to accept this commitment.

All goods are divided into three categories for this purpose, viz.—

- A. Primary commodities. For most of these, duties and restrictions could be eliminated over a period of time.
- B. All those industrial goods for which the potential demand is high, and in respect of which there is a wide margin for import substitution. In the case of goods which are not yet produced in Latin America, there are no serious obstacles to the immediate abolition of duties. In other instances where there is some production taking place, duties could be eliminated or reduced within a reasonable period; and where there is large-scale production, readjustment of duties may provide a margin for specialization. A moderate level of duties is recommended as the target for the end of the first stage, in order to provide the maximum incentive to trade in such goods.
- C. Those industrial goods for which demand is slow-growing, and in respect of which a high degree of import substitution already exists in the advanced Latin American countries. Here the difficulties in the way of readjustment and specialization are greater than in Category B, and a higher level of duties is, therefore, recommended for these goods.

The Working Group also envisaged three groups of countries, viz., Group I — the advanced countries; Group II — the intermediate countries which, although they have made some progress in the field of consumer industries, have not established those producing capital or intermediate goods; Group III — countries in the initial stages of development.

Although the Working Group emphasised the importance of eliminating or reducing barriers to intra-regional trade on the basis of the most-favoured-nation principle, it made the following realistic exceptions to the operation of this principle —

- (a) a system of special concessions to promote the industrialisation of countries in the initial stages of development; and
- (b) temporary exceptions applicable in the case of industrial complementarity and specialization agreements and certain discriminatory practices, which required gradual elimination in order to avoid abrupt distortions of trade.

While countries in the initial stages of development were to open their markets to the industrial exports of the more advanced countries of the region, these latter countries were in turn to offer special concessions in the form of a reduction or elimination of duties, in order to promote the establishment of particular industries in these less-developed countries. These concessions were not to be extended to other Latin American countries. In this way, countries in the initial stages of development, instead of attempting to establish import substitution industries of every kind, could concentrate on the production of particular products, capital as well as consumer goods, for which there were sound potential opportunities of expansion both in their own countries and in the advanced countries of the region. The system of special concessions is thus intended to promote a degree of specialisation and reciprocal trade, which would not arise in the absence of such a system.

The exceptions provided in the case of complementarity and specialization agreements are also calculated to promote rather than impede the ultimate objectives of the common market. These agreements enable the integrated development of industries, particularly in countries linked by geographical proximity, permitting one country to specialize, for example, in the manufacture of the final product while others do so in the manufacture of components, as in the case of the motor car industry.

Since the *modus operandi* of these agreements is the application of reciprocal preferential tariff treatment between the countries concerned, these agreements should clearly be permitted only for a specific period. Indeed, they can have no justification once the industries in question are soundly established.

Finally, the Working Group emphasizes the essential principle of reciprocity that must prevail if the common market is to function efficiently. Countries, which open their markets to industrial imports from the region, must be able to finance such imports by additional exports to the region. Ability to finance imports in this manner is thus a decisive factor in the operation of the common market. Where a country is in a weak competitive position, as for example when its price and cost levels are out of alignment with those of the rest of the countries of the region, the progressive reduction of duties and restrictions may only lead to a rapid expansion of imports at the expense of its own industrial growth. In such circumstances, there must be sufficient flexibility in the common market arrangements for such a country to reduce the pace of removal of trade barriers.

#### *Latin American Free Trade Association*

The above proposals and recommendations made by the Working Group, and subsequently endorsed by the Commission of E.C.L.A. and its Committee on Trade, did not, however, lead to the establishment of a single Latin American regional market. Instead there emerged two distinct sub-regional movements, viz., a Latin American free trade area and a Central American Economic Integration Programme. The Montevideo Treaty establishing the Latin American Free Trade Association was signed on 18th February 1960, and entered into force on 2 June, 1961. Its seven signatory members were Argentina, Brazil, Chile, Mexico, Paraguay, Peru and Uruguay. This Treaty is open to all Latin American countries. Two countries have since acceded to it, viz., Colombia and Ecuador, and the latter country has been declared as qualifying for the special treatment contemplated in the Treaty for countries at a less advanced stage of economic development.

Article III of the Treaty provides for the gradual elimination over a transitional period of twelve years, duties, charges and restrictions on imports 'in respect of substantially all their reciprocal trade'. Article V provides that the annual tariff reductions should not be less than 8 per cent, but member states have freedom of choice of products on which

negotiations are to be undertaken for this purpose each year. Escape clauses have been written into the Treaty, which take into account the special situation of the less developed countries and balance of payments difficulties that member states may experience. There are also special provisions with regard to trade in agricultural products. Although the Treaty has important limitations, and in many respects falls short of the general proposals referred to above for the formation of a regional market, it is generally recognised as an important first step in the direction of a Latin American Common Market.

The principal organs of the Latin American Free Trade Association (LAFTA) are the Conference of the Contracting Parties and the Standing Executive Committee. The former is the supreme organ of the Association, while the latter is its permanent organ responsible for supervising the implementation of the provisions of the Montevideo Treaty. The Standing Executive Committee, which is composed of Permanent Representatives of each Contracting Party, is assisted by a Secretariat headed by an Executive Secretary.

#### *Central American Economic Integration*

In the meanwhile the movement for Central American economic integration was gaining considerable momentum under the stimulus of activities of the Central American Economic Co-operation Committee. These activities culminated in the conclusion in December 1960 of the General Treaty on Central American Economic Integration, the Protocol to the Central American Agreement on the Equalization of Import Duties and Charges, and the Agreement constituting the Central American Bank for Economic Integration. By virtue of these instruments the countries concerned (viz., El Salvador, Guatemala, Honduras, Nicaragua and Costa Rica) intend to promote the integration of their economies, including the establishment of a free-trade area within a period of five years.

The E.C.L.A. Secretariat is now continuing its efforts towards the establishment of a Latin American Common Market on the basis of the existing instruments for integration, viz., the Montevideo Treaty and the General Treaty on Central American Economic Integration.

### C. ECONOMIC CO-OPERATION IN ASIA

#### *Progress made in Regional Economic Co-operation in Asia*

The progress made in regional economic co-operation in Asia has been by no means spectacular compared to that made in this field in Western Europe and other parts of the world. There are many reasons for

this, not the least important of which are historical. Most countries of South and South-East Asia were until very recent times the colonial possessions of European metropolitan countries. They were, therefore, linked by close political and economic ties to these European powers. Political independence did not mean the severance of economic relationships, the re-orientation of which inevitably involved time and depended in some measure on developments in the international as well as the national economy.

In the progress hitherto achieved in regional economic co-operation the United Nations' agencies, and particularly the ECAFE, have played the leading part. Indeed, these agencies have provided the forums in which the habits of consultation and discussion have been developed and the various mechanisms of co-operation, viz., conferences, committees, working parties, expert groups, seminars, etc., have been evolved. But the role of these institutions, undoubtedly important though it is, has been largely an advisory and consultative one. It has led to the sharing and dissemination of knowledge, to joint deliberations leading to clear formulation of issues and even, perhaps, to agreed conclusions. It has also fostered a regional spirit or consciousness. But these institutions, by virtue of their very constitutions, have lacked the power of independent action and binding decision.

Events, however, in other parts of the world, and particularly the formation of regional economic groupings in Western Europe and elsewhere, have not been without their impact on countries of the ECAFE region. These have focussed attention on the need for greater regional economic co-operation, and for exploring possibilities of solving urgent problems of economic development and trade through forms of co-operation or integration of varying intensity and scope. Indeed, the ECAFE at its Sixteenth Session held in March 1960 passed a resolution on this subject, in which it requested the Executive Secretary to continue to explore the scope and practical measures for promoting intra-regional co-operation for economic and social development, particularly in the fields of agriculture, industry, transport and trade. In pursuance of this recommendation the Executive Secretary appointed an Expert Group on Regional Trade Co-operation, headed by Mr. K.B. Lall, Special Secretary, Ministry of Finance, Government of India. This Group visited countries of the Region, and, after consultations with leading officials and members of

governments, prepared its report and recommendations in December 1961. This Report is at present receiving the confidential attention of member governments.

Apart from measures taken under the auspices of the ECAFE, significant steps in the field of economic co-operation have been taken by some of the countries of the Region. The Association of South-East Asia (ASA), comprising Malaya, the Philippines and Thailand, held its first meeting in Bangkok in July 1961. At this meeting the aims and purposes of the Association were set forth and plans for economic co-operation were outlined. These plans included a multilateral agreement on trade and navigation, a study of the possibilities of joint ventures in industry, exchange of experts and co-ordination of research plans, joint participation in trade fairs and exhibitions, co-ordination of tourist publicity programmes, and consultations on price stabilization, standardization, market research etc., in regard to primary commodities. The ASA has no Central Secretariat, but has a Standing Committee which is to be assisted by ad hoc or permanent committees of exports. Each country is to create a national secretariat of its own to assist the Standing Committee and to undertake specific assignments.

Other important sub-regional developments are the Federation of Malaya-Singapore merger, the proposed Federation of Malaysia (embracing Brunei, the Federation of Malaya, North Borneo and Sarawak, and Singapore) and the establishment of the North Borneo-Sarawak Free Trade Area.

#### *The Rationale and Scope of Economic Co-operation in Asia*

International trade in the 19th century was characterized by an increasing share of interchanges between primary products and manufactured goods. The 20th century has witnessed a change in this pattern, in which the emphasis has been on exchanges between industrialized countries at the expense of trade flows between these countries and the primary producing countries. Indeed, due to structural changes and technological developments leading to the emergence of synthetic substitutes, the growth of primary exports has lagged behind not only the growth of world trade but also of world income. Even more disconcerting is the fact that primary exports of the ECAFE Region have in the recent period tended to expand at a less rapid rate than exports from other primary producing areas.

This situation poses serious problems for the economic development of countries of the ECAFE region. It places important limitations on the ability of these countries to promote economic development solely on the basis of the present and prospective growth trends of their primary exports, even if foreign capital were available for development on the most generous scale. For the capacity to absorb foreign capital depends in the final analysis on export earnings. As the financial burden of servicing and amortizing such capital increases, it reduces the foreign exchange earnings available for capital goods and other essential imports.

In such circumstances, industrialization through a policy of import substitution offers the only effective means of accelerating the rate of economic growth. However, import substitution pursued on narrow autarchic lines, regardless of the advantages of international specialization, can prove to be costly and wasteful of resources and may introduce new elements of vulnerability into the economy, as indeed has been borne out by the experience of some Latin American countries. Hence the need for a rational policy of import substitution, based on specialization on a regional or sub-regional basis, so that each individual country can concentrate on those products best suited to its resources, the skills of its population and the potentialities of its own market. Such a policy, pursued within the framework of a regional trade liberalization programme, could contribute to a significant expansion of reciprocal trade, which in turn would improve further the potentialities of regional specialization. This, in brief, is the case for regional economic co-operation.

The scope for such co-operation exists in Asia, notwithstanding the present low level of complementarity of a good many of its economies. Indeed, in many of these countries the low level of complementarity only signifies the potentialities of complementarity, for this is a quality which, in the existing stage of development of these economies, must be viewed essentially in a dynamic context. As industrialization proceeds and gains momentum, new complementarities will be discovered providing further opportunities for specialization and reciprocal trade. The selection of industries for location in a particular country will depend, of course, on such factors as technological considerations which determine the optimum size of plant, the size of the local market, and the availability of raw materials. In many instances, joint industrial ventures may provide one of the most fruitful means of co-operation. Specialization in the production of the final product by one country, while others concentrate on the



production of components (as, for example, in the case of the manufacture of automobiles) may be another avenue of co-operation.

Expansion of intra-regional trade need not rule out, or be at the expense of, trade with the rest of the world. Indeed, to the extent that industrial exports could be expanded to the rest of the world, and particularly the industrially advanced countries, the need for import substitution on a regional or sub-regional basis would be reduced, and this is as it should be. However, the prospects of such expansion, at least in the short-term, are by no means promising. Already accusations of 'market disruption' have been directed against such exports, and arrangements have been set on foot last year, under the auspices of the GATT, for regulating the international trade in cotton textiles.

Co-operation connotes reciprocity of benefits, and this essential principle must operate in any scheme of regional or sub-regional specialization and liberalization of trade. In other words, a country must be in a position to finance increased imports from participating countries by additional exports of its own products to those countries; otherwise it will be only increasing imports at the expense of its own economic growth.

Finally, the pursuit of import substitution policies, based on regional or sub-regional specialization and reciprocal trade, may necessitate the institution of appropriate multi-lateral payments and credits arrangements, if the distortions of purely bilateral techniques are to be avoided. The acceleration of the development process on a regional basis will make such arrangements inevitable, as some countries begin to develop deficits and others surpluses within the region. However, such deficits and surpluses are likely to disappear in the long-term, since reciprocity of benefits in the arrangements made must lead eventually to a balanced expansion of trade. Special provisions to deal with persistent deficits and surpluses may, nevertheless, be necessary. Here the experience of the European Payments Union, which functioned under the aegis of the O.E.E.C., will provide valuable guidance. A system of automatic credits and multilateral compensation of balances may provide the means of solving these problems, and even contribute towards re-directing an increasing flow of the trade of these countries into intra-regional channels.

## II — THE AREA OF ECONOMIC CO-OPERATION

The ECAFE Region is a vast area, comprising 22 countries with a population of 1,500 million or over one half of the total population of the world. It is difficult to visualize at the present an integrated economic

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unit embracing this vast area. There is, however, considerable scope for the formation of sub-regional groupings or arrangements, although from a conceptual standpoint, and for purposes of broad regional co-operation, the ECAFE region can still be of very considerable value. In fact, such a concept should militate against any unhealthy tendency to multiplication of sub-regional groupings.

Countries linked by geographical proximity and by cultural, linguistic and historical affinities, whose economies are characterized by a high degree of potential complementarity, will provide the most satisfactory basis for sub-regional groupings. Such groupings, however, should not constitute exclusive blocs, and should provide facilities for easy accession on the part of non-member countries. Expanding membership will facilitate their eventual assimilation into wider groupings. The initiative for the formation of sub-groupings must, of course, come from the interested countries themselves. Recent examples of these groupings are the Association of South-East Asia (A.S.A.), comprising Malaya, the Philippines and Thailand, the proposed Federation of Malaysia, and the North Borneo-Sarawak Free-Trade Area.

### III — MACHINERY OF ECONOMIC CO-OPERATION

Economic Co-operation may take the form of any of the following arrangements —

- (i) An economic union;
- (ii) Customs union;
- (iii) Free-Trade area;
- (iv) 'A single product customs union' or sectoral integration;
- (v) The integrated development of industries, whereby, for example, one country specializes in the production of the final product while others do so in the production of components, and joint industrial ventures;
- (vi) Programme of trade and tariff liberalization on a preferential basis;
- (vii) Long-term trade contracts or arrangements;
- (viii) Co-ordination of activities in such fields as national development planning, stabilization of commodity prices, and provision of research and training facilities; and
- (ix) Credits and multi-lateral payments arrangements.

It is not proposed to describe these arrangements, since they have already been dwelt upon in the preceding sections of this paper. The extent to which economic co-operation or integration is pursued will determine the choice of any particular arrangement. It is clear that the first three arrangements connote a high degree of economic integration. The scope for their widespread use in the E.C.A.F.E. Region is therefore, perhaps, much less than in the case of the other arrangements referred to above. It may also be pointed out that a programme of trade and tariff liberalization on a discriminatory basis involves difficulties for those countries of the Region which are contracting parties to the General Agreement on Tariffs and Trade. Such a programme violates the most-favoured-nation obligations of the General Agreement, but it may be possible to obtain from the G.A.T.T. a waiver of these obligations for a limited period.

The immediate need of the Region appears to be an institution that will provide a focal point for effective economic co-operation on the part of all or most countries of the Region. It should be a wholly Asian institution that is capable of making independent decisions and implementing them. It is suggested that the constitution of the Organization for European Economic Co-operation (O.E.E.C.), the predecessor of the recently established Organization for Economic Co-operation and Development (O.E.C.D.), provides the prototype for such an institution. It must possess the necessary mechanisms that will enable the processes of consultation and discussion on economic problems to be pursued to the stage of effective action. The E.C.A.F.E. is lacking in such mechanisms and is, perhaps, constitutionally incapable of acquiring them. Moreover, the E.C.A.F.E. has a European or non-regional membership, and is a subordinate body of the Economic and Social Council of the United Nations, factors which cannot be considered particularly conducive to the development of peculiarly Asian interests. Nevertheless, the new institution must work in very close collaboration with the E.C.A.F.E. and should preferably be located in Bangkok.

## SOME ASPECTS OF THE ECONOMICS OF ASIAN REGIONAL CO-OPERATION

P. WIGNARAJA

The discussion on the above subject has generally tended to focus on the prospects for an Asian Common Market, the difficulties inherent in coming together for such an objective and the limits within which Ceylon can participate at present in such an arrangement with advantage. This paper, however, attempts to treat the subject of regional economic co-operation more generally, rather than discuss the possibility of an Asian Common Market as such. At this stage in our thinking it may be somewhat premature to identify ourselves with a particular form of institutional arrangement to promote closer economic co-operation in the Asian region. Further, it may not be possible to be conclusive in the sense that some indication can be given of the lines on which closer economic co-operation is possible. This can only come from further study and careful analysis of the present and prospective spheres of economic activity in the region, i.e. possibilities of agricultural and industrial specialisation, the regional trade pattern and the requirements for financing trade and development. This paper therefore attempts only to raise some of the economic issues that would need to be clarified in our minds when thinking about regional economic co-operation. There are several political aspects too which are closely inter-linked. These aspects are outside the scope of this paper and could best be brought out in the discussion.

The idea of regional economic co-operation itself is not new in international economic thinking, but in recent years it has gained currency and acceptance. The immediate post-World War II thinking was primarily in terms of a stable economic framework through a multi-lateral and free world-wide system of trade and payments, as envisaged in the Bretton Woods Agreement. However, even at that stage there was a realisation of

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This paper has already been presented at a meeting of the Association of the Advancement of Science (Section F). For an elaboration of the ideas reference could be made to two ECAFE documents:—(a) Report of the Consultative Group of Experts on Regional Co-operation in Asia. (b) Secretariat Working paper on 'Scope and Means of Co-operation among countries of the ECAFE Region in the field of Economic Development' presented at the First Meeting of Asian Planners,

difficulties in achieving such an ideal and various so-called 'transitional arrangements', including regional arrangements, had been suggested. Examples of regional co-operation in recent years can be seen in the experiment of the OEEC and in Latin America. One of the newest moves in this direction is the Common Market scheme of the so-called Casablanca group of African countries consisting of Ghana, Guinea, Morocco, Egypt and Syria and the provisional government of Algeria. It would be incorrect, however, to consider regionalism as a purely transitional stage towards multi-lateralism. The success of European Economic Co-operation had led to the move towards a higher form of economic integration as seen in the European Common Market. The possibility that regional arrangements in one form or another have come to stay creates a certain urgency for consideration of the implications of such an institutional framework for individual countries in Asia.

At the recent meeting of Asian Planners it was evident that the question of regional economic co-operation is today increasingly claiming the earnest attention of planners and policy makers in the countries of the Asian region in their search for solutions to pressing economic problems. But, to convert an idea into reality successfully, the idea itself must first be clarified. Current discussion of the subject is complicated with so many misconceptions and misunderstandings. Arguments are stated in extreme forms — regional co-operation is straightaway equated with complete economic and political integration. An attempt has to be made first to establish in a general way the economic rationale and the need for regional co-operation against a broad historical and theoretical background, and then perhaps to indicate that such co-operation is not only necessary, but practically feasible.

The starting point and the basis of such analysis should be the need for accelerated economic growth. Regional co-operation is not conceived as a means of perpetuating the existing pattern of production and trade in the region, but rather as a device for assisting the process of development which entails a series of structural changes in individual economies. The case for regional economic co-operation can be clearly brought out only in this dynamic context of growth.

There are several economic arguments for consideration of such regional arrangements in the Asian region. First the mere existence of other regional arrangements is an important reason for closer co-operation

in the Asian region. This is because of the discrimination that is likely to be practised against the rest by these groups. This argument in a sense leaves no choice to the Asian countries.

There are, however, more positive arguments which necessitate an urgent consideration of regional co-operation in the Asian context. In the past decade of the 1950's, the annual rate of growth of *per capita* real income actually achieved in the countries of the region, excluding the People's Republic of China and Japan, was in the neighbourhood of 2 per cent for the region as a whole. Nor are the prospects for the future entirely bright. The mere fact of population pressure could result in virtual stagnation if not a deterioration of living levels over a long period.

The long-term trade situation confronting the countries of the Asian region is also not very favourable. The rate of growth of exports of the primary exporting countries of the region has shown a tendency to fall behind, not only that of the industrial countries, but also that of the primary exporting countries of other regions. The major export commodities of these countries are also continually subject to wide fluctuation in volume and prices. This means that the surplus available for financing development is either static or at best uncertain. Even the considerable improvement in the economic growth and stability of the industrial countries since World War II has not been accompanied by a parallel in improvement in the growth and stability of the exports of the Asian region. On the other hand, the import needs of the region are rising steadily. As a result the gap between export earnings and the level of imports required to ensure a reasonable rate of economic growth is widening. In such circumstances, increased co-operation between the countries of the region could stimulate a larger volume of intra-regional trade, expand the financial resources available to countries and help to accelerate economic development.

Let us now look at the extent of co-operation that exists between countries in the Asian region today. The first fact that strikes one is that among Asian countries itself a certain measure of regional co-operation does exist—as much as in 30 per cent of the ECAFE countries trade is intraregional. Further there are continuing attempts for expanding this proportion of trade within the area. A reservation needs to be made in interpreting these figures in so far as a part of this trade is entrepot trade. In addition to trading there are a number of projects involving co-operation between countries of the region such as the Mekong project, the Asian highway project, joint aerial survey, joint technical training schemes, joint harnessing of river valley basins, etc.

While this measure of co-operation exists, however, it is also clear that this still touches only the fringe of the problem. All the countries of the region are seeking to accelerate their rate of economic growth and to raise the living standards of their people. In this process they are all confronted in varying degree by common problems such as the need to provide employment, the need for stable and reasonable prices for primary commodities, the need for larger export earnings, the need for increasing imports of capital goods, the need for larger external resources, the need for larger markets for the products of industries, etc. While these common problems exist, for most part today, development plans are being formulated with reference only to the conditions and requirements of individual countries. The existence of common problems, however, require that greater consideration be given to the bearing of these plans of individual countries on one another. As various national plans progress they might call for certain adjustments. In some measures these adjustments could be effected to mutual advantage. If the prospects of economic development in individual countries could be visualised on a regional scale over a period of years, in a sense a new dimension is introduced into planning. Instead of planning being entirely within the framework of the national economy it now includes a third dimension.

For countries like Ceylon sound theoretical arguments could also be found to justify regional co-operation. Such small countries could take advantage of the economies of the scale and possibilities of intra-regional division of labour, which might promote the growth of both individual economies as well as the economies of the region as a whole. The present national markets of several under-developed countries, particularly the smaller ones, might not be wide enough to obtain the full economies of large scale production in many branches of industry.

In the sphere of industrial development, particularly in the production of heavy industrial and capital goods, there is another limitation, largely determined by modern technology, to the diversified expansion of output for small domestic markets. Considering the low level of income, the home markets of many countries in the Asian region are far too narrow to support a minimum size of efficient plant in a greater number of industries, within the national boundaries. It is obvious that the case for diversified production for home markets cannot always be confined to the narrow national limits. Manufacturing for domestic markets in less-developed countries in the region must therefore take into consideration the possibility of an export market. But, if the mass markets

of industrialized countries are severely limited, through various arrangements of their own, production planning in the less developed countries must also include some definite arrangements to export products to each other's markets.

A further argument which has been mentioned earlier but which is a very cogent one in relation to a small country like Ceylon relates to the limitation imposed on the possible rate of economic growth by the slow growth of exports. This generally finds expression in a growing gap between export prospects and import needs. The gap may be bridged to some extent by foreign capital imports and external assistance. But, from the point of view of self-sustained growth, foreign aid should not constitute a permanent basis for economic development, and in so far as foreign loans need to be serviced and repaid eventually, the extent to which this instrument can be made use of depends ultimately upon the country's capacity to export.

This difficulty, in a sense, is but another expression of the remarkable trend in world trade, that the flow of goods between industrially developed and under-developed countries, especially the latter's exports to the former, has been relatively declining, while the relative share of the mutual trade among the industrial countries has shown spectacular increase. Moreover, recent studies have confirmed that this tendency has not only continued, but has recently been rather intensified. It is imperative for the less-developed countries to secure imports of manufactured goods, especially capital goods, in amounts sufficient to realize the level of investment necessary for accelerating economic development. But the ability of these countries to pay for increased imports of manufactured goods through primary exports is now severely limited. For the under-developed countries of the present day, the growth through exports of primary products offers only relatively limited opportunities.

Of course, a primary producing country will also have to aim at a diversified output expansion for home markets, substituting domestic production for as many lines of imports as possible. However, in so far as import substitution is organized on a limited national scale, this cannot be the desirable solution; questions of economic and technological feasibility must be considered. The only way out would be, therefore, to conceive the policy of import substitution on a broader and more rational basis. Some forms of joint industrial project planning within a group of countries may be the solution.



It is sometimes argued that the gains from economic co-operation in the Asian region are limited by lack of complementarity of economies, as many of the countries produce similar commodities. This view ignores the fact, however, that increased co-operation can come not from countries whose economies are more complementary, but from those which are less, through a planned pattern of specialisation in the future. Countries which are complementary would possibly have already established a large measure of co-operation and trading leaving very little room for further co-operation. Of course, what is suggested here is not a division of labour and pattern of specialisation as prevailed during colonial periods, where some countries produced raw materials, others manufactured goods and a third cheap foods and carried on a certain pattern of exchange. This 19th century pattern of the division of labour on the basis of comparative advantage now belongs to the past. In contrast 20th century world trading patterns themselves emphasise increasing inter-changes between advanced agricultural or industrial economies at the expense of commodity flows between industrial and other countries. Further, if an examination of the tariff structure of countries reveals that a large number of commodities are protected, then the potential gains to be derived from co-operation are greater. Actually this question of the scope for regional co-operation cannot be decided without referring to the extent of trade and pattern of production that is likely to prevail in the future. It is clear that even if the scope for co-operation is limited at present, it could grow in the future given appropriate economic policies such as reduction of tariffs. Further as industrialisation increases, further complementarities that are unexploited by the present level and pattern of production may become evident.

In giving effect to this sort of intra-regional co-operation implied in this theoretical reasoning, there would of course be obvious and numerous difficulties for which solutions would have to be found. The form and extent to which co-operation could be carried would need careful study and would depend on factors such as resource endowments, the size of the home market and the particular aptitudes and skills of the population. The decision will also be influenced to a great extent by the stage of economic development that each of the co-operating countries have reached.

The theoretical justification for regional co-operation in the Asian region and the experience in other regions should not blind one to the fact that, however desirable regional co-operation, the nature of the problems that would be faced within Asia, in relation to regional co-operation would be different from those faced by other organisations, particu-

larly the European one. For one thing the economies of the Asian region are not yet in the stage of self-sustained growth, whereas all the European countries attained this stage some time ago. This could imply that it is not intended that the co-operation take place at the present level of development but rather that there should be continued co-operation which reaches fulfilment only at the time that the structure of the economies has been altered in most countries. Otherwise there is the danger that present patterns will be crystallised. Secondly, agriculture is of prime importance in Asian countries. Here again it is the intention of all the Asian countries to industrialize and therefore regional co-operation must be to this end as well and not merely to continue co-operation among agricultural countries themselves or even between primary producers and those which within the region have achieved a measure of industrialization. The third differentiating factor is the extent of direct state control over the allocation of resources of Asian countries where such control is much wider than in Western Europe. In the latter, for most part, the role of the State is largely limited to monetary and fiscal measures to control aggregate demand and supply.

All these differences will tend to affect the problems of co-operation. In European countries, for instance, where all countries have reached a stage of self-sustained growth, economic growth for most part is taken as a matter of course and the function of union is primarily to allocate the growing resources more economically over the region as a whole. In Asian countries, however, the raising of per capita incomes is the goal that every government is attempting. As a result any proposals for regional economic co-operation will be decided by each government by the extent to which they promote the rate of growth of their national economy. The fact of Governmental direction of economies means that co-operation confined to trade alone will not have very far reaching effects unless backed up by co-operation of plans. In a free market industrial economy the relaxation of trade barriers would influence the pattern of resources allocated through the price mechanism in the direction of greater international specialisation. In under-developed countries however the effectiveness of the price mechanism is severely limited. Even if it were effective the pattern of resources allocation that results may not be that which is the best or that which is desirable. Thus to effect the kind of changes that are necessary trade liberalisation alone will not be sufficient and a conscious effort on the part of the Government to co-ordinate their national economic plans would be needed. Thus a greater and continuous degree of joint planning would be necessary. Among East European countries the recent creation

of the Council of Mutual Assistance confirms the view that the existence of government control and direction in the economy need not automatically lead to autarchic policies and does not preclude the possibility of expanding economic co-operation in the interest of accelerated economic growth.

Further, even though it begins to look, on the basis of economic arguments, as though regional co-operation could provide some answer to Asian economic problems, it must not be assumed that you can legislate such co-operation into being. A great deal of technical and economic analysis needs to be undertaken before a blue print, if at all, can be prepared. It can come only as a result of careful examination and patient negotiations on the multiplicity of details. There are no dramatic gestures which can bring about such co-operation easily. The political conditions and attitudes of the countries in the region would be of basic importance in determining the degree and means of economic co-operation which it would be possible to achieve. Indeed, it is hardly necessary to stress that political understanding and political co-operation are a basic condition.

The European experience amply bears this out. In Western Europe, in recent years both political and economic factors have strongly favoured economic integration, but progress towards this end has not been dramatic. A great many co-operative activities preceded the establishment of the European Coal and Steel Community, the European Economic Community (EEC) and the European Free Trade Association (EFTA). Earlier, under OEEC post-war rehabilitation and recovery were achieved, external assistance to Western Europe was organised, and trade liberalisation and regional payments systems worked out. A fact of basic importance is that the Western European countries have realised that, in the condition prevailing in the post-war world, integration of their economies was essential if they were to retain their political and economic status. Even with this realisation it cannot be sufficiently emphasised that the movement in Europe towards integration has been neither swift nor smooth; the difficulties of forming a Customs Union, even among a limited group of countries, were considerable. The limited measure of integration achieved, even under the Benelux scheme, the extensive preparations required for the finalisation of the Rome Treaty, the number, variety and complexity of the economic and technical problems faced in the implementation of the Treaty, the failure to form a wider Western European Free Trade area, the subsequent formulation of the EFTA by the 'Outer Seven' and the prolonged and complicated negotiations between the two groups for

reaching a unified arrangement, and the establishment of the Organization for European Co-operation and Development (OECD) and its Trade Committee which would deal with the relationship between the 'Six' and the 'Seven' — all these underline the inherent difficulties of achieving economic integration, even under propitious political circumstances. Another interesting sidelight is the refusal by the Netherlands and Belgium, despite the formation of the Common Market to consider any closer political integration unless Britain joins too.

The foregoing analysis has merely tried to establish in a general way the need for closer regional economic co-operation in the Asian region and to spell out the economic rationale for such co-operation. No attempt has been made to be conclusive either on the specific institutional arrangements, such as the Common Market, for such co-operation or on the kind of specific economic activity on which countries can co-operate. This, as has been repeated throughout the discussion, has to be the subject of much closer study primarily by the planning authorities in each country. In making such a study there are several further questions too which need to be asked. Some of these are:—

- (a) What is the scope for industrial complementarity and specialisation in promoting the industrial development of the region?
- (b) To what extent would regional or sub-regional arrangements equitably benefit the different participating countries in different stages of economic development?
- (c) What are the special problems and difficulties of the countries which are relatively less developed than others within the region, and what special measures are necessary to advance their economic development, given closer economic co-operation?
- (d) How would the long-term prospects of the intra-regional trade influence the economic development of the participating countries and how would the implementation of existing plans influence the future course of international trade?
- (e) What are the different forms of common market or preferential arrangements and to what extent and in what way would they accelerate the economic development of participating countries in the Asian region?
- (f) How would the various technical and economic problems that arose in connection with the establishment of the common market, if this is the appropriate instrument, be solved? Such

problems would relate to the different stages of its establishment, initial membership, provisions for transition periods, procedures for elimination of tariffs and quantitative restrictions, the co-ordination of economic and financial policy, differential treatment of countries according to their level of development, the various institutions in a common market arrangement and several other questions of a much more detailed and specific nature regarding the possibilities for agricultural industrial specialisation, the regional trade pattern and the requirements for financing trade and development.

As these issues are looked at, the view is inescapable that it is somewhat premature to identify thinking on this issue with a particular form of institutional arrangement for closer economic co-operation.

To summarise: the rationale for closer co-operation in the Asian region has been clearly established. It is felt that increased co-operation between countries of the region is essential if there is to be accelerated economic growth in the region, as such. Co-operation could result in the better utilisation of the available productive and financial resources and stimulate a larger volume of intra-regional trade. It is also thought that if the prospects for economic development in individual countries could be visualised on a regional scale over a period of time, in a sense a new dimension could be introduced into planning. For small countries like Ceylon this would mean that the country could take advantage of the economies of scale and explore to the fullest the possibilities of intra-regional division of labour. Further, it is generally agreed that the existence of regional economic arrangements in other parts of the world also left no choice in this matter to the Asian countries as there was the possibility of discrimination by the existing groups.

A realisation of the need for regional co-operation does not imply of course that such co-operation can be legislated into being straight away. Closer co-operation has to be established step by step. A great deal of technical and economical analysis needs to be undertaken. Further such co-operation can only result after careful examination of specific projects, and patient negotiations on the multiplicity of detail. The ground work that is to be laid is even more complicated in the case of the Asian region than in the European counterpart as all the countries of the region are seeking to accelerate their rate of economic growth and at the same time introduce a series of structural changes in the individual economies. Even in Europe where both economic and political factors have strongly favored

economic integration, the present common market arrangements were the result of a series of preliminary steps taken by small groups of countries within the region. The countries of the Asian region have still to take the first step towards establishing a framework for implementing the idea and of formulating concrete measures of co-operation in specified fields of industry, trade and economic development.

The furthering of such closer co-operation and establishing the necessary framework are a pressing challenge not only to the economists, but also to the statesmen in the countries of the Asian region.

# **SEMINAR ON ASIAN ECONOMIC CO-OPERATION**

## **PART TWO: PROCEEDINGS**





## SESSION ONE: THE RATIONALE OF ASIAN ECONOMIC CO-OPERATION

GAMANI COREA: I am sure that everyone present would agree about the importance and significance of the theme of this seminar. There is today an important move towards regionalism throughout the world as a whole. Several steps have already been taken to make a reality of the concept of the European Common Market. There is much discussion at present about the implications of this development to other countries and to the under-developed regions in particular, and various fears have been expressed about the possibility of adverse repercussions. However one of the results of the emergence of the European arrangement is the stimulus it has given to the development of similar approaches in other parts of the world. In Latin America, much progress has already been made towards the establishment of arrangements for regional co-operation. The prospects for a similar move in Africa are at present being actively explored. Although in Asia the move towards regionalism is taking place at a somewhat slower pace there is already much discussion and interest in the problem. In fact the Economic Commission for Asia and the Far East has already made some studies in this field and are pursuing the possibility of initiating some organisational steps towards this aim.

In the light of all this, it is both important and timely that we in Ceylon should give serious attention to this problem. There can be little doubt that a small country in particular would always need an outward orientation in the field of economic affairs. There are likely to be significant limits to the extent of cumulative economic growth that these countries could visualise on the basis of relatively self contained economic activity alone. At present in the quest for rapid growth many of the countries of the Asian region are obliged to pursue relatively restricted and autarchic approaches. But such a process would prove in the long run to be inimical to the objective which these countries are seeking to attain. Arrangements for economic co-operation within the region would appear to offer the only way out of the problems and difficulties which are beginning to emerge. Such arrangements would really enlarge the perspectives for future development for all countries of the region and make possible a dynamic and mutually beneficial process of accelerated growth. It is true of course

that the rationale of economic co-operation for the Asian region would be somewhat different to what it has been for advanced countries of Europe. In Europe, the scheme for a common market emerged as an end product of long historical process of growing interdependence and economic integration. In Asia, there has clearly been no similar process, on the contrary, past patterns of economic development have resulted in the development of what is sometimes described as colonial economic relationships with the countries of the West. The logic of co-operation in Asia cannot therefore be expressed in terms of a further intensification of historical processes that have already been under way. It must essentially be in terms of a transformation of existing structures and the forging of new relationships that are vital to future growth. In other words, the concept of economic regionalism in Asia must reflect the dynamic need for new instruments of economic transformation.

It should be the purpose of this seminar to examine the several aspects of relevance to the concepts of Asian regional co-operation. It is important, first, that there should be an elaboration and clarification of the fundamental principles which underlie the need for co-operation in terms of the region as a whole. Second, there must be a clear analysis of the particular stake which Ceylon has in such a scheme and the implications which would arise in respect of Ceylon's plans and policies. Third, there should be some discussion of the wider social, cultural and political aspects of co-operation within the Asian region and an understanding of the possibilities and the limitations that these factors would present. Finally, it would be necessary to spell out the significances of these and other issues to specific forms and instruments of co-operation and also to the groupings to which these concepts could best apply. This seminar cannot of course hope to come out with detailed and specific suggestions or recommendations. Many more studies and surveys would need to be done for this purpose. But it should certainly be our objective to clarify the major issues involved and to set out the specific context against which the move towards regionalism would need to be approached in Ceylon. Ceylon has already taken some initiative in the move towards closer co-operation at an international level. In 1959, Ceylon's Prime Minister took some initial steps towards convening an economic conference of the Afro-Asian countries. More recently, Ceylon's House of Representatives unanimously endorsed the proposal that Ceylon should explore the possibility of a scheme for economic co-operation with countries of the South Asian region. The time is now opportune for carrying these developments a stage further and it is necessary for this purpose that there should be further thinking and discussion in Ceylon on the subject.

H.A. DE S. GUNASEKERA: The idea of international co-operation is a very old one and dates at least from the time of the classical economists. The subject we are considering is obviously a much narrower one than the international co-operation which was the ideal of the classical economists. We are discussing, or ought to discuss, this subject in a particular setting; throughout the last three to four hundred years there have developed what are called the developed and the under-developed parts of the world, and naturally we shall be discussing the subject with reference to the latter.

I think it will ultimately emerge from the seminar itself what we actually mean by Asian co-operation. What are the countries amongst whom we envisage co-operation? It could embrace all the countries which are known as South and South-East Asia, it could embrace the ECAFE region, or it could embrace a much smaller number of countries, say what is called South Asia and so on. But in this initial session what we should discuss is really the general principle of the rationale, or need, for economic co-operation. Most of the Asian countries and some of the countries of the ECAFE region are under-developed countries producing mainly raw materials, except for Japan (whether Japan is also to be included in this region is something I hope the seminar will discuss). Apart from Japan then, most of the other countries are non-industrial and raw material producing countries. They are countries with a low per capita income and also they are countries which (I believe it is true of all the countries in this region) are in one way or another committed to economic planning. That is, they propose within a short period of time to raise substantially their per capita incomes and for this purpose all these countries have drawn up development plans. Our subject assumes grave importance, particularly in the context of development planning. We have to consider the relevance of Asian economic co-operation to economic development in these countries. In that sense of course the issues raised, and the points we discuss, will be different from the problems of economic co-operation elsewhere. The Western European countries are striving to integrate their already developed economies, to rationalise their economies and thereby achieve a higher rate of growth. When discussing the question of economic co-operation particularly between or amongst advanced countries, the question is posed in this way. To the extent that economies of the various countries are complementary, economic co-operation becomes rational and feasible. Whereas to the extent that they are competitive, economic co-operation raises many problems. Now if we look at the Asian region we find that to a large extent the economies of the countries of this region are competitive in the sense that several of them produce the same raw material.

But if we look at the question in the context of economic development—and it is here that our problems of economic co-operation differ from those of Europe—what we should strive to achieve, is to prevent the development of competitive economies. Our economies are not yet developed, but all of us have economic plans which have been formulated independently of each other. To the extent that they are formulated independently they are bound to be conflicting. It is not at all difficult to envisage, say, India setting up industries, or Burma producing rice with the Ceylon market in view. After all, Ceylon has been one of Burma's traditional markets as far as rice is concerned. In that way these various development plans would invariably and inevitably be at logger-heads. Now this point becomes even more important when we realise (this is almost universally admitted) that none of these countries can have economic growth without industrialisation, so that every plan in this region gives a great deal of emphasis to industrialisation. Now the question arises, if new industries are to be set up in the countries of this region, what are their markets? Obviously if plans are formulated independently of one another then it seems unlikely that any one of these countries could rely on an external market. That is what we are witnessing today, particularly in Ceylon. We have recently banned a whole range of imports and such an import policy is bound to affect the other countries so that even if we do not look at it from our own point of view, our economic policy is bound to affect all the other producing countries in the region. Already India is being affected. What this kind of unco-ordinated planning leads to, and what it is bound to lead to, is the setting up of industries solely or mainly on the basis of a local market. The various industries which we propose to set up which are envisaged in our Ten Year Plan, are mainly based on a local market; they are based on the idea of import substitution and that is inevitable. This leads to the question I have raised in my paper: is import substitution the best way of industrialisation? Is it the best method of achieving the most rapid rate of growth?

In some of the papers that have been submitted, Mr. Aldons's paper for instance, these questions are examined in greater detail, for example, the manufacture of tyres. Now as a producer of rubber, rather than export our rubber, would it not be more economical for us to set up a tyre factory here? Can we not make bicycle tyres for the entire Indian continent and for other parts of Asia as well? On the other hand, it has been shown both in Mr. Aldons's paper and also in the Ten Year Plan that the scope for setting up a tyre industry in Ceylon purely on the basis of a local market is very restricted. No doubt by restricting imports we shall be

able to sell the tyres here and if production is efficiently carried on I dare hope that we will be able to produce tyres, at least after some time, at an economical price. But if we set in motion a process of industrialisation which caters to a much bigger market, would not that make for a much more rapid rate of industrialisation than is possible by producing 100,000 tyres a year just for Ceylon. And of course the same argument applies in the case of every other country in the Asian region. Just as we would rely on an export market in the Asian region for setting in motion a process of industrialisation, the other Asian countries could likewise rely on markets here for some of their manufactured products. So that in the main, the rationale of economic co-operation in this region is the futility of depending on import substitution in a world which is rapidly becoming one.

As a raw material producing country we have to take notice of the trends in international trade, so that the expansion of the demand for raw material, particularly from the advanced countries, does not hold out the prospect of our earning sufficient foreign exchange to finance a rapid rate of economic growth. We in Ceylon find very often that adverse movements in the terms of trade affect the standard of living in this country, and however much we try to increase our exports or ask for foreign assistance, all that could be negatived by adverse movements in the terms of trade. In which case the question arises whether we could not rationalise even production of raw material, whether we could not co-operate and devise a unified export policy for the countries of this region. And should we not eliminate competition amongst the countries of this region, even in the question of production of raw materials. At the same time, if the demand for our raw materials (rubber and coconut products, for example) in the advanced countries is not increasing at a sufficiently rapid rate, the case for using this raw material in the region itself becomes very much stronger, and the use of this raw material in this region itself for the process of industrialisation is I feel the main basis of regional economic co-operation. We will not be able to market our traditional exports unless there is an additional demand for such exports generated by a process of co-ordinated industrialisation within the region itself.

Now the general case for economic co-operation is the advantage of large markets. In these days the arguments of the classical economists which I referred to, the advantages of specialisation and economies of large scale production which are well brought out in Mr. Aldons's paper — assume a new importance. If I may say a word about import substitution again, it is true that there are a number of industries which can be

set up even on the basis of a small market — production of biscuits for instance. But if we look at this process of industrialisation, even in regard to consumer goods, there are so many economies which are possible if we have a large market. Secondly as has been indicated in the Ten Year Plan — very often the by-products of the chemical industry cannot be marketed locally. (I believe the difficulty arose in the case of the chemical industry we are proposing to set up). At least for the by-products, we have to seek foreign markets. And unless there is a market for the by-products the production of the commodity itself becomes uneconomical. All this suggests that the advantage of large markets is not confined to heavy industry. The advantages of specialisation could very well arise even in the case of those industries which we are presently setting up, as in the case of textiles.

Then a further question which arises is in connection with our requirements of capital goods. Hitherto most of the countries of this region have had to rely on the West. But if our traditional export markets do not expand sufficiently, then the rate of economic growth in the region would be restricted by the rate of growth of exports. On the other hand, if we develop a larger volume of trade between the countries of the region and also if we plan capital goods industries on the basis of this regional market by expanding intra-regional trade, we will be able to rely at least for a part of this capital equipment on the countries of the region. This will invariably make for a more rapid rate of growth. When discussing the rationale of economic co-operation in Asia we can urge these two points purely from the economic angle. That is, that import substitution restricts the rate of economic development in any country, and secondly, that it is dangerous for the future to let competitive industries develop in this region. We can learn from the example of the West. Instead of developing industries in the various countries of the region which compete with one another, a more rational allocation of the scarce capital in this region could be achieved by economic co-operation.

M.E. ALDONS: I am wondering whether we are looking at this question of regional economic co-operation as a solution to all our problems. The impression that we have got so far is that regional co-operation is treated like the scarcity of capital was some time back — like some sort of mono-causal explanation of economic growth. I feel that the problem should be put into correct focus by mentioning that there are other conditions involving economic development in general which have to be satisfied if this region is going to develop, and I think we should be aware of these.

Otherwise I think we will cling to a straw if we expect regional economic co-operation alone to solve these problems. There are several other conditions which — shall we say — can be summarised as the creation of some sort of development-mindedness. It is only when the process of economic development is set in motion that the advantages of regional co-operation will be realised.

GUNASEKERA: I did not suggest that there are not many other conditions for economic growth; the fact that we should be development-conscious, that there should be a will to develop, and that we should have the expertise to start industries and work them — all that is implied. The point I was trying to make was that, given the will to develop, given also the machinery for development — which I admit we do not have just now — given all that, would it not be better for us to consider if we could achieve some sort of regional co-operation. After all, we need not be idealists and envisage co-operation in the entire region, but even bilateral arrangements would be much more sensible, much more rational, for carrying through our plans for economic development than merely autarchical planning, which seems to be the way we are heading just now.

RALPH PIERIS: But if you cannot generate the basic pre-requisites for a take-off to growth from within the country, isn't it unrealistic to talk in terms of economic co-operation with big countries like India? I cannot quite see how we could come to an agreement with India even over a viable industry in Ceylon like tyre-manufacture, with our limited market. It seems to me that ultimately it will depend on the concessions that India is prepared to make to us. We cannot negotiate on a basis of equality in the sense of, say, England and France, or the European Common Market countries.

COREA: I think we ought to try and identify a little more the interest which the larger countries in the Asian region would have in co-operation. My impression of the reaction shown by India and Japan to proposals for regional co-operation is that it is guarded and wary. To the extent that the scale of the market is an important factor, some countries like India and Pakistan may not really have to contend with the problem of a limited domestic market, so their interest in regional co-operation would be of a different nature, if at all. So we ought to try and ask ourselves: if the market argument is not of such great interest to them, are there any other factors which would induce them to be more responsive to this concept?

ALDONS: The difficulty that India has in getting foreign exchange is part of the explanation as to why a certain portion of the Second Five Year Plan was not implemented, and they have placed great emphasis on some sort of export drive in their Third Plan to the extent that this export drive will meet obstacles from other regional arrangements. India has therefore some stake in seeing that some form of regional co-operation is brought into being.

PIERIS: I would have thought that India would gain by focussing this export drive to the developed countries of the West rather than exporting to countries like ours, because we could give very little in exchange, probably only raw material, and that would not solve their foreign exchange problem at all.

ALDONS: But in developed countries of the West you meet with preferential tariffs as in the Common Market countries, and there is also the question of transportation costs which will reduce the competitiveness of India's industrial products in this market. So that I think the logical market for her industrial products is in this region.

W.L. JEYASINGHAM: Though we admit that countries are in different stages of development I don't think that any country has absolutely no potential for industrial development. Every country has some contribution to make, but if we think primarily in terms of our country in a region, I do not think that we can get the benefits that we are trying to get out of this. We must create a consciousness among the countries of the region that it is good to develop the region and that the benefits of such development will eventually accrue to each country. Maybe Ceylon is in a low stage of development, but I cannot agree that it has absolutely no contribution to make. There may be some contribution we can make — by way of personnel maybe — for the development of industry in another country. This is not possible until we become conscious that we are part of a region. Though it is difficult to think apart from our own interests, there are many benefits which will accrue if we think of ourselves as part of the whole region.

M.P. PERERA: I think that as relatively advanced countries like India make progress in industrialisation, the general pattern of trade between such countries and the less developed countries of the region would tend to change. In other words, the demand from advanced countries like India would be for the primary products of the less developed countries so that there are opportunities for trade in primary products between these two groups.



PIERIS: That would not help the take-off to growth in Ceylon because whether we export to India or to Europe makes very little difference from the point of view of our industrialisation. Growth will not increase by our diverting our exports from the West to Asia; it does not matter where we export so long as we get the markets.

PERERA: It is not a question of diverting, it is a question of expanding. We have got to view the problem from the point of view of total growth, not merely industrial growth.

GUNASEKERA: If you look at European economic co-operation you find that even in Europe you get countries in different stages of economic development. For example, the United States and Germany would look upon Italy as an under-developed country — the south of Italy is almost as under-developed as some other parts of the world — so that really if there is a general realisation of the advantages of economic co-operation, it is not impossible for countries at slightly different levels to make it workable. After all it cannot be claimed that the countries of this Asian region are so very different—if you compare per capita incomes, Ceylon is more developed than India and Malaya is much more developed than Ceylon — but generally speaking, all the countries of the region are under-developed (although India for example has developed industries). However, once the idea is accepted, there is still a great deal of room for economic co-operation even though countries may be at slightly different levels of economic development.

With regard to India trying to expand her export of industrial goods to Europe, that I think is one of the things which she is finding very difficult to do. I believe that it was in the ECAFE paper which dealt with regional economic co-operation that it was shown that India is facing great difficulty in exporting textiles and other products to what might be called her traditional markets in Europe. Until recently Indian towels were available in English Department Stores. But now that is becoming more difficult and European integration, this business of a common external tariff, means that India will find it more and more difficult to expand her exports to Europe. On the other hand it might be in India's interest to earn some foreign exchange in the region itself, in which case India will have a stake in this matter.

A.J. WILSON: May I ask a question? You say that it may be in India's interest to expand her markets in this region for the purpose of earning foreign exchange. But would, for example, the earning of Ceylon rupees

give any benefit to India? The purpose of exporting goods to European markets is to gain foreign exchange which would enable India to buy capital goods or machinery from Western countries. But if India were to export goods merely to Ceylon or Burma how would the foreign exchange help her for development purposes?

ALDONS: It would help in this way. There are possibilities within the existing framework for increasing the amount of intra-regional trade. If there are special agreements, for example, instead of Ceylon importing manufactured goods from European countries, we could import these goods from India.

HECTOR ABHAYAVARDHANA: I think we sometimes tend to minimise the difficulties that India is experiencing in building up her economy. It is useful to remember the great emphasis that India has always placed on remaining within the Commonwealth. It has been the crux of Indian international, economic and foreign policy to operate through the Commonwealth and economically speaking I think that one of the main attractions of the Commonwealth was the possibilities of the African market. India has been consistently exploring the possibilities of the African market, not merely since independence but even before independence, and she hoped that with the development of her industries, a satisfactory outlet could be found for their products in the colonies of British Africa. It is apparent today that with the emancipation of the African colonies they are repeating practically the same pattern of growth that India has been attempting to develop and to that extent they are putting up barriers against the import of Indian goods. There is no doubt that with the complete withdrawal of British power and the opening of the markets to the goods of other countries there would be greater difficulty experienced by India in this regard.

As for the expansion of India's trade with Europe, I think that has been dealt with in many of the papers that we have put out. It seems that with the consolidation of the E.C.M. particularly, it will be very difficult to put it at the least for India to expand her trade with Europe. There has been therefore in recent times what I would consider a welcome trend of interest on the part of Indian industry in the region. Particularly in the light engineering industry, India has been interested in the development of markets in the region, and already she is experiencing overproduction in many lines. Apart from this, she is experiencing competition in some of her lines of production; in respect of jute for instance, which is one of her

principal foreign exchange earners, there is competition from Pakistan which is not only menacing the immediate needs of India but which is threatening the future of her jute industry. Similarly, if Ceylon were to develop the same types of industry as India has specialised in largely at the moment, the market which Indian industry has in Ceylon is likely to be lost. Similarly in Burma and other surrounding countries. Economically speaking alone therefore, I think it is difficult for India to cut herself off from the future of her neighbours. It is necessary that she should integrate the development of the economy of her neighbours with her own development if she is to ensure stability for her economy.

But I think the weakness of this argument is that we cannot consider the need for regional co-operation on the basis of economy alone. There are other factors that also make regional co-operation necessary, for instance, the military factor. I do not think that either India or any of the surrounding countries can ignore the necessity for close co-operation between the defence organisations of the countries of this region. We are finding complications already in the matter of India's relations with Kashmir, with Nepal, with Burma, and even on a different level with Ceylon. Similarly there is the political factor of consolidating these countries against attempts on the part of powers outside to interfere with the region and no government of India can close its eyes to the fate of the governments in the surrounding countries in the matter of foreign entanglements or alignments. I would go further and say, this is a consideration that is experienced more by the smaller countries than by India, that whether it is in the development of pure knowledge or in the development of technology, it is impossible for countries to handle programmes of research by themselves. A country like Ceylon for instance cannot develop an adequate programme, say in nuclear research or even a smaller programme, alone. It is necessary therefore for these countries to plan their development in co-operation with each other because of the impossibility of handling these things in their modern context. I would say therefore that whether it is a large country in the region or a small country, there are many factors which compel them to come together to plan their development, and it is difficult for any of these countries to ignore them.

PERERA: I think there is substance in what Dr. Wilson said, as sub-regional and regional arrangements of a preferential nature begin to ramify in the context of the development problem there will be regional balance of payments problem so that the regional balances would tend to be largely inconvertible balances which will not be available for the purpose of

financing trade with the outside world. So if India exports on an excessive scale to the region and cannot get in return payment in convertible currency, then of course she is automatically limited in her trade possibilities with the outside world. This focuses attention on the fact that while we treat the regional problem in its proper perspective we cannot altogether ignore trade with the outside world. In other words, internal trade as a whole to the extent that the region itself can satisfy some of the goods India requires say from the outside world, then to that extent the problem would be less severe than would otherwise be the case.

COREA: I think it is a good thing that we have highlighted at this stage, the problem of the interest of larger countries in regional co-operation. It seems to me that the argument so far has run on these lines. Although from the market point of view the stake which a country like India might have in co-operation might appear to be limited at first sight, on a closer analysis it would appear that there are compelling reasons as to why even these larger countries in the region could not afford to keep out of some kind of system. I too would like to endorse what Mr. Abhayavardhana said about the Indian difficulties in bringing about the programme of economic development. We tend to equate the Indian market with the size of its population and thereby that she has a virtually unlimited market, but I do think in fact if one analyses the effective demand in India for various products, because of the low level of per capita income the market is not as large as might appear at first sight. I should think that even a country like India could reap the benefits of large scale production if she admits of the possibility of exports to the outside world. I think that many of the Indian industries which have been set up find that the local market alone in its present state of development is not quite enough to sustain a viable industry. Then there is also the foreign exchange reason which you mentioned — that because a country like India is in need of foreign exchange, she is under compulsion to export and to the extent that the European markets are likely to be restricted and increasingly so, then she will have to turn to these areas. Then Dr. Wilson raised the crucial point that if you do tend to export to these countries they might be stuck with inconvertible currencies for which they have no use. It seems to me that this suggests that any scheme for regional co-operation in Asia must also seek to evolve a scheme of multi-lateral payments in which accumulations of Ceylon rupees could be converted into other currencies, so that any exporter within the region would have maximum of flexibility vis a vis its export earnings and this would underlie the need for regional co-operation because it is only through regional co-operation that you can

overcome the question of single currency uses of block currencies, and so on. So I think the currency problem you raise tends to reinforce rather than to weaken the case for regional co-operation.

I think the point raised by Dr. Pieris needs an answer, that even if India needs to export, what can a small country, individually, like Ceylon, offer to India as a return for any concession she gets in the Indian market? The thought has struck me that there is this possibility that might be explored, that although a single small country like Ceylon may not be an attractive proposition, a group of small countries in combination might be able to offer to India something which is sizeable in terms of the Indian problem. In other words, if countries in close proximity to ourselves, for instance, Ceylon, Burma and Malaya, are able to come together and offer a single market for Indian products in return for an Indian concession, and these countries in turn agree to share in terms of different industries and to specialise, you might be able to solve this problem of bargaining power. On the other hand, if we feel that the Indian interest in exports itself is small, then the other alternative we should pursue is a group of smaller countries alone and we leave out the big giants on either side, India and Japan. But my own feeling is that the big countries would have a stake in export and the way to approach them perhaps is to bring them into a grouping, but there may be scope for sub-groupings of smaller countries for specific purposes, for affording markets for specific commodities for instance.

**PIERIS:** Your statement regarding the Indian market, the local market, is really a simplification of the problem because it depends largely on the commodity, itself. You know the kind of thing economists do: in India for instance I have seen a survey of the market for boot-polish — they estimate the number of fellows who wear shoes, the number of times they use boot-polish, and so on, and the estimate for the potential market is something colossal. On the other hand, in the case of things like air conditioners, the market is restricted and India has explored the Middle Eastern market. So it depends really on the nature of the commodity produced. Whereas in Ceylon, in practically every commodity, except cloth for instance, the market is, by virtue of the small population, definitely restricted.

**COREA:** That is the point I was making. If you look into certain fields of manufacture in India like air conditioners, electrical fans, lighter electrical goods, lighter engineering products, the Indian domestic market is too

small to afford large scale industries and therefore India in spite of her big population will have an interest in having access to a bigger market.

ABHAYAVARDHANA: The Middle Eastern countries have also their programme of industrialisation. Egypt for instance, is rapidly industrialising herself and I think that the Middle Eastern market can very well be catered to by Egyptian industry by the time that India is ready to do so.

COREA: All this does not imply that regional grouping would be itself autarchic. I think that point ought to be stressed, that even if there is an evolution towards regional co-operation, it does not mean a kind of autarchy within the region. There would still be doors and windows open to the outside world and to other groups. That is why I thought that we might also try and clarify our minds as to the impact of other regional arrangements on Asia. Some of the papers have taken it for granted that the evolution of the E.C.M. for instance would do distinct harm to the existing economies of many of the Asian countries, and that Asian co-operation is necessary as a defensive reaction to that. I think that this may be true in the short run, but in the long run what is likely to be the consequence of the E.C.M. and other groupings on Asian prosperity? Our view is that the E.C.M. by strengthening the European economies and generating prosperity there, would be of assistance to Asian and other under-developed countries not only because it will afford a continuing growing market for products, but also because it will mean greater surplus of capital for export for financing and so on. I think there ought to be some discussion on this. In the paper by Dr. Gunasekera I got the impression that on the whole he thought that we might suffer in the short run.

ALDONS: But the question is whether the short run disruptions will have a bad influence which will affect us in the long run as well? Our problems now are short run problems.

GUNASEKERA: No, but it is also possible to argue that the higher levels of living and the higher incomes achieved as a result of the European economic union might in certain cases also stimulate the demand for raw material products and whatever else we produce in this region. But what I suggested in my paper is that the immediate prospect is not so favourable. It is possible that a commodity like tea will have an expanding market in Europe in the future. This is quite possible.

MRS. THEJA GUNAWARDENE: For the question of tea, we can bear in mind that we already have an alternative market in Latin America because for instance, we have, last year, sold to Chile about 15 million lbs. in compari-

son with 7½ million of the year before, and there is a possibility of further Latin American markets opening up for tea. With the Common Market combination arising, we have to keep in mind that markets can be found in Latin America.

Another question I would like to raise is whether we can find any bearings on the question of large scale industries with regard to the increase of purchasing power of the rural sector which is so important in the Asian economy.

S. MAHENDRA: I think the F.A.O. Bulletin for 1960 pointed out that the only reason why mainland China did not export tea was because of natural causes, drought and things like that. They envisage that if there is a good harvest, China will be able to put on the world market a large amount of tea. I am wondering how that will affect our tea trade, especially in the context of the E.C.M. But I think China is planning to export tea. That might raise the problem of this regional co-operation and commodity stabilisation which you have put down here for discussion.

PERERA: China exports a different kind of tea altogether and she does not have a market where countries like Ceylon and India have markets already?

GUNASEKERA: China is not a large exporter of tea.

MRS. GUNAWARDENE: But they have black tea also and are speeding up the production of black tea.

WILSON: I have to ask a question regarding India's participation in any regional arrangement. Since India is in an advantageous position vis-a-vis some of the other under-developed countries of the region, how could one convince India that she would gain by agreeing to a regional arrangement when she can (as now) expand or develop at the expense of other countries around her?

One other question. Mr. Abhayavardhana mentioned the military factor. I could not quite understand what he meant, but am I right if I take it that he meant by this that any scheme of regional co-operation would involve some saving in regard to military expenditure?

ABHAYAVARDHANA: In fact any kind of adequate defence programme is impossible on the part of small countries and in the case of a larger country like India strategic and other considerations make it necessary for her to co-ordinate any defence plan she has with those of her neighbours.

WILSON: Yes, but would her neighbours stand to gain by entering into such defence agreements or are they already in advantageous positions by being part of other treaty organisations like SEATO (as Pakistan and Malaya are members of SEATO)? Ceylon for example can have some mutual arrangement with the U.K. as she had from 1947 to 1956. Such arrangements might thus make it unnecessary for any of the countries in the region to participate in any other military arrangements.

ABHAYAVARDHANA: I am not sure that even Pakistan has benefited from her arrangement with SEATO except in relation to her dispute with India. It is for purposes of bargaining with India that her alignment with SEATO has given her power and strength. But I am not sure that the advantage of linking up with foreign powers has been apparent in this region. I do not know whether we should enter into a discussion on this question at this stage. I only wished to mention that there were other considerations which made regional co-operation necessary, not only for the small countries, but also for the big countries.

The U.S. government proposed that the government of India should take the initiative in co-ordinating the use of American aid in this region and it hinted that were some kind of co-ordination brought about, it might help the U.S. to increase the volume of aid that it made available to this region. The government of India was extremely prompt in asking the governments of neighbouring countries to send their delegations to Simla for the purpose of discussing this project. At that time, Ceylon and Burma had no kind of agreement with the U.S. about aid and I think they were not represented at that conference. The other governments were not I think very enthusiastic about the proposals and ultimately the government of India itself did not show much enthusiasm. So I think the important thing to remember about the present government of India's policies is the limited purposes which they aim to serve: that as long as advantage can be seen in a particular line of action, the government is not only not averse to pursuing it but would be extremely favourably disposed to doing so. Today, with the difficulty of visualising any realisation of regional co-operation in the near future, the government of India is not anxious to pursue this project. It thinks on the other hand, it could develop its economy much more by harnessing the foreign aid that would come its way because of political advantages to the aiding governments. But as this is fading away — we see that the Senate of the U.S. has recently cut down the volume of foreign aid that it promised to the government of India and the government of India itself is finding itself compelled in the face of



Pakistan to seek more direct military aid from the Soviet Union in order to restore the balance as against Pakistan. In the face of these complications, the attitude of the government of India to the whole problem of co-operation with these countries might very well change. I think that perhaps this is one of the political factors which will emerge in our discussion subsequently, that the pressure of China on her borders has compelled her to think in terms of more active relationships with the Himalayan kingdoms. Similarly, I think changes in the internal situation are likely to change her whole orientation to countries in this region. There is no permanent stable factor in Indian policy setting its face against co-operation with the countries of this region either economically, militarily or politically. These things are bound to change with circumstances.

GUNASEKERA: Dr. Pieris and Dr. Wilson have convinced me that the path to economic co-operation is not easy! Dr. Pieris is very sceptical as to the interest India would have in the matter of regional co-operation. Apart from the political and military factors that Mr. Abhayavardhana mentioned, I am not so sceptical about India's interest in small markets like Ceylon — at the moment we are restricting our imports, and most of the import restrictions fall on Indian goods and I am sure that the Indian reaction is not at all favourable. She is quite worried about it. I agree that the impetus to regional co-operation in Latin America and also in Europe was the question of U.S. aid. As far as that is concerned I think that Mr. Abhayavardhana made the very good point that because of her strategic position both politically and otherwise she is quite sure that she will be able to get a substantial slice of American aid, and in fact the overwhelming proportion of American aid that comes to this region. But there was I believe a recent conference of Afro-Asian countries in Delhi about 1960 at which Pandit Nehru expressed himself very much in favour of Afro-Asian co-operation.

Regarding the question that Dr. Wilson raised as to what point there is in India earning Ceylon rupees, I think Dr. Corea mentioned that what we envisage is not autarchy within the region but a form of co-operation within the region which does not by any means exclude all efforts to expand trade outside. Only our fear is that the rate of expansion will not be adequate. So that something in the nature of an Asian Payments Union would enable these bilateral balances to be cleared. Actually even the European economic community has some such arrangement. By expanding our trade outside the region and also expanding intra-regional trade we could earn more foreign exchange and also achieve a rapid rate of growth.

COREA: Suppose we were not to pursue this line of Asian regional co-operation, are there other avenues open to us to solve the development and economic problems? The two possibilities are closer links with the Western countries or with the Socialist countries. Now both these groups are useful or potentially useful to us as a market for our products as well as being a source of capital goods imports, machinery and also a source of finance, of assistance for development. Now if we do not have Asian co-operation, could it be possible for us by means of links with either or both these groups to evolve an alternative path to development. And in this connection, I would like to draw notice to a point which was made facetiously but which has something of value in it, and that is, that countries like America in which in recent decades productivity has been expanding fastest not in the traditional sectors producing steel, automobiles and so on, but in agriculture and in some of the new industries—what is now called the scientific industrial revolution—the use of automation, the use of synthetic products and so on. One of the economists asked the question that whether in the long run the production of steel and automobiles and conventional manufactured goods would not really be the hall mark of the less developed country whereas the more prosperous, the more developed countries would be producing food and really proving to be the granaries of the world. This sounds a far-fetched idea, but it has a germ of truth in that as the advanced countries proceed further in the course of evolution, they may themselves go away from the production of more conventional manufactured goods including automobiles and other such commodities and concentrate on agricultural and food products and various scientific fields, and leave thereby an expanding market for the countries who are in the process of industrialising to feed them in respect of these things. Already you find Japan serving the American market in certain types of industrial products. Now she is trying to make an effort to export automobiles to the U.S. and the U.S. automobile industry is decidedly less competitive because wage rates are high and productivity in those fields is low, wage rates being determined in the U.S. by the higher centres of productivity, the services and the new scientific industries and agriculture. So there is a possibility in the broad sweep of things for a new orientation vis-a-vis the advanced countries and there may be the possibility of a beneficial kind of dependence. Then there is the alternative of links with the Commonwealth countries. What we have been discussing vis-a-vis India, as someone said, are we going to play the Puerto Rico to India, can we not play the Cuba and have our links not with India but with the East European countries or with China? Are these feasible alternatives? My own feeling is that the

opportunity which that type of alignment would have for growth by affording an outlet for our industrial products may be restricted. But it may be useful as a stabilising element to expand the market for our existing primary products and as a source of capital goods and so on.

ALDONS: There is a third possibility apart from the two you mentioned and that is with the Commonwealth, either with or without Britain.

COREA: What comprises the Commonwealth? If you leave Britain out you would have the Asian members which would be linked up with this anyway, then there would only be Ghana and Nigeria and Australia, Canada and New Zealand.

PERERA: I am inclined to look at the problem in this light. Just as much as regional co-operation in trade has got to be viewed in the context of internal trade, why not bring regional co-operation in the context of local co-operation as a whole and regard any type of arrangement either with the Western countries or Europe not as desirable alternatives but as necessary concomitants of regional co-operation. Because I think it is absolutely essential that we should develop forms of co-operation with other parts of the world as well where possible.

COREA: If Asian co-operation does not materialise due to obstacles and limitations is there scope for a country like Ceylon to pursue the other alternatives?

ALDONS: Shouldn't we confine ourselves to discussing how to make Asian co-operation feasible, instead of regarding the alternatives just now?

COREA: I agree we ought to take into account the possibility and leave it at that. The other issue which is of relevance is, should Asian co-operation proceed far, adaptation would be necessary in the content of mixed ownership patterns. Dr. Gunasekera mentioned that most of the countries are committed to planning. They are also committed to large public sector programmes in the field of industry. Now some of the conventional instruments for regional co-operation like tariffs, preferential tariffs, other tariffs, may not quite fit the institutional requests of publicly owned undertakings. It may be necessary to evolve schemes which are more in the nature of agreements than contracts to purchase and sell rather than schemes which merely provide a market and leave it to the initiative of countries to exploit these markets. This in itself raises difficulties which I think Aldons you had mentioned in your paper. If you have the kind of agreements based on the interdependence of planning, what happens

when plans fail and are badly implemented? Supposing for instance, India could be persuaded to agree to leave the fertiliser field for Ceylon, on agreement, not merely to give a preferential tariff to Ceylon fertilisers, but really to say they will not allow fertilisers from other sources or not expand their own production of fertilisers in order to accommodate Ceylon. Supposing this was the case, Ceylon may find for various reasons that her programmes get jeopardised and lag behind and are not efficient. What would happen in that situation? You might find that the whole concept breaks down because of the dislocation caused internally.

On the other hand, if one assumes a big private sector, one can proceed on the assumption that preferential tariff arrangements might suffice to provide this wider market and leave it to the initiative of private enterprise to establish itself in various countries and to exploit this market under the protection of the tariff.

We might also get the possibility that one country in the group which is more able because of its political policies to attract foreign capital sets up industries which would quickly exhaust the protected market leaving the other countries which are still schizophrenic on these things completely in the cold. In the E.C.M. for instance, there is only the Common Market and it is left to any member country to start production to satisfy that market. The country which is first off the mark will naturally be at an advantage.

JEYASINGHAM: Is there no alternative, such as creating an international agency to supervise production in each country?

COREA: This will of course bring up the political issue as to the degree of surrender of sovereignty involved. It certainly has this implication, that once you start getting into agreements you will have to submit yourself more and more to another authority. There is the other possibility which has not been discussed, and that is the scope for setting up joint ventures.

GUNASEKERA: The point that Dr. Corea raised was that we should not call this area the Asian Common Market because it is not a parallel arrangement to that in Europe where there is a substantial bulk of industry in private hands. But I think Mr. Aldons mentioned this in his paper, that in many cases where we export to foreign markets most of the arrangements will perhaps start with bi-lateral arrangements, the only thing that is essential is that before such bi-lateral arrangement is made, there should be some attempt at co-ordination of the various economic plans of that

region. As to what happens when plans fail (the only thing to do is to see that they don't fail) as it often happens, as in the case of the Rice-Rubber Agreement, we find that China for instance is not able to supply us with the stated quantity of rice, but in the interest of the continuity of such agreements, each of the countries concerned have to make allowances and concessions for each other's failings. This goes to illustrate that there should be a great deal of goodwill and the acceptance of the necessity for regional co-operation.

ALDONS: There is the other point—preferential tariffs, which might strengthen very much the private enterprise sector, and whether that would be acceptable to some countries of this region is very much open to question, because I wonder whether the state sector or the public sector is able to move as quickly as the private sector in taking advantage of preferential treatment. Public sector development is a very much slower process; private ownership can move faster because it is not restricted by Appropriation Acts or Treasury control or anything like that.

COREA: Well, most of the countries provide within their plans for the private sector. But I think this is an important issue because if one is talking of integrated plans then you would need various intra-sectoral agreements. But it may be asking too much of countries to say, well, we will not produce rubber tyres because we are leaving this to you, without their having some say or control in the proficiency and aptitude due to fulfill your part of the scheme. So although the integration of planning may be an obvious thing to do from one point of view, in practice it may be more difficult to achieve than the more flexible kind of tariff arrangement in which you can get co-operation where countries agree to provide preferential tariffs. The most you can lose if you don't take advantage of their preference is that they can still import at the non-preferential rate, but this in itself would give an opportunity assuming as you seem to do that private enterprise is more efficient.

ALDONS: I think you have misunderstood me. Private enterprise is faster and can take more advantage of the situation, I don't say it is more efficient. I don't think that can be clearly demonstrated. It is only quicker and therefore countries like Malaya for instance may be able to benefit from this arrangement to the disadvantage of countries like Ceylon. And that brings us to the point you raised that the quicker you move the quicker you can corner the market or get a foothold in the market and serve the greater quantity.

COREA: In the Latin American arrangement you might have a similar problem because in their plans too there is a certain public sector programme. In the intra-regional trade envisaged by the Latin American scheme for co-operation, are the commodities primarily in the public sector or the private sector?

PERERA: Very largely in the private sector because a very large part of industry is in private hands.

MRS. GUNAWARDENE: All the mineral resources are exploited by big monopolies. But what will happen in the future, with Cuba's lead, one cannot say.

COREA: The point was raised about the purchasing power of the rural sector being integral to the success of co-operation. The Asian countries should succeed in transforming their agriculture, because a large part of the internal market within Asia would come from the agricultural community. So although we tend to think in terms of regional co-operation as providing a platform, a springboard for industrial development, the very success of this objective may depend on the success which Asian countries have in improving their agriculture. Otherwise, despite agreement you might find that the market for industrial products is stagnant.

ABHAYAVARDHANA: I would like to raise some of the questions both you and Aldon's have posed, a little more definitely. Shouldn't we have answers to these questions? Firstly, when talking of the rationale of regional co-operation would we say that regional co-operation is an obligatory task in the present context of economic development? Secondly, does the fact of the existence of the public sector in the course of development, make increasingly obligatory the resort to regional co-operation, or does it not?

With the growth of public sector enterprise it becomes increasingly necessary for the co-ordination of industrial planning because the direction of industrial development and the particular industries that are set in motion are no longer determined by market considerations, but by other factors also. Each country in seeking to develop a certain minimum of industries is compelled to take in a number of industrial projects which perhaps would not come in on the basis of pure market considerations.

COREA: Yes, but how could you get other countries to take cognisance of these other factors? For instance, you may decide to establish certain basic industries in the state sector within a country in order to influence

the balance of social and economic power within that country, but what interest would that be to a neighbouring country which we are now asking to take the products of that public sector enterprise which may not be executed as efficiently.

ABHAYAVARDHANA: Yes, now it is not an answer to your question, but take the question of the International Airlines, take Air Ceylon. Ceylon attempted to float an international air line. She found that she could not work it by herself, so she was faced with the necessity of deciding with whom to amalgamate. The Air India International was interested in coming to an agreement with Air Ceylon for joint operation of this particular enterprise, but Air Ceylon, perhaps legitimately, felt the inadvisability of linking up with Air India International. But she sought an agreement with QANTAS and later with BOAC. Now here is an example of a kind of enterprise which because reasons of prestige or convenience compelled governments to undertake, faced them with problems of co-operation. Similarly perhaps with the fertiliser industry or with the rubber industry, or the motor car industry, as they found when they were to begin some elementary type of motor car assembling industry in Ceylon. The development of that industry will one day confront Ceylon with the problem of external markets, with regional markets. It would be impossible to proceed with the assembly of more than say a few hundred motor cars annually without deciding that problem. So the whole question of co-operation or co-ordination of the automobile industry in India with that in Ceylon would arise. Similarly, defence considerations would face Ceylon sooner or later with the problem of buying aircraft and with the development of aircraft industry in India, the question would arise whether the air force in Ceylon should depend solely on 'planes purchased from the Soviet Union, or China or the U.S. or India. Then immediately arises the problem of regionalism. So here to my mind is an example of non-economic considerations compelling economic co-operation.

WILSON: The examples you give are not very convincing — like buying aircraft or organising airlines on a joint basis — avenues which are not going to give very much by way of a return.

COREA: This ties up with the other point I raised about joint ventures. Shipping seems to be a field in which you might have some joint ownership of a shipping fleet by a group of Asian regional countries. There may be other examples where ventures are jointly owned though located in different countries.

ABHAYAVARDHANA: Take for instance the telephone industry in Ceylon or the automobile industry. I think there are very definite advantages for Ceylon to come to an agreement with the Government Telephone Factory in Bangalore. Similarly, India herself would find some kind of advantage I think if she could find a market for her automobiles which she would begin to produce sooner or later almost completely in India in another few years, in Ceylon. She will not be able to unload the entire production of her automobile plants in India itself. Similarly sewing machines. The Usha machine is attempting already to compete with the Singer and other European machines for the Ceylon market. It would be advantageous for the Indian sewing machine industry to have something more reliable in the way of market arrangements with Ceylon than that which she has today.

WILSON: What do you mean by something more reliable. A preferential tariff?

ABHAYAVARDHANA: Yes, and not merely that but she cannot for instance afford the same services that some of the European sewing machine companies offer in a place like Ceylon. I think there are numerous factors which will compel co-ordination of economic planning.

COREA: I think there is one last point which we ought to include in this session and that is the recognition of the principle which was touched on earlier, that given the existence of countries in different stages of development, apart from the problem of large and small countries, you would have to take cognisance of the fact that any kind of co-operation, any kind of common tariff, and so on, must incorporate the principle of continuing preferential protection for the less developed country. We cannot have a 100 per cent common tariff for a group of countries which include India because maybe India, having a lead in industry, would be in a better position to supply all these items than we would, so at least for our own domestic market we may have to admit of the possibility of the continuance of some kind of protective tariff. In the Latin American case they have recognised this, that although they are trying to work towards a Free Trade area internally, they have made the concession that those countries in a lower stage of development can proceed slower with the dismantling of existing tariff barriers as a protective measure. I think that principle would need to be accepted particularly by a small country like Ceylon in any overture or approach she makes to regional co-operation. Are there any other views? We have had a discussion on the general issues.



GUNASEKERA: Can I put the point you made in another way? We shouldn't look upon the problem of Asian co-operation as a matter of a common tariff. I think that is more a characteristic of the ECM, whereas here, it will be arrangements at government level basically—either bilateral or otherwise. The common tariff as such will play a smaller role in any kind of arrangement that evolves. Any country wishing to industrialise even on the basis of regional planning will have to demand a certain measure of protection, at least initially.

PERERA: In fact, the common tariff can come into play only in a Customs Union, a full-fledged Customs Union.

COREA: Yes, but the European Free Trade area also seeks to eliminate tariffs amongst themselves (they don't have an external tariff). I think even that objective is a little premature.

PERERA: The advantage of a Free Trade area is that it could help to integrate particular small countries — say for instance, in the case of Borneo-Sarawak Free Trade area. So contiguous countries linked by geographical affinity and other considerations, racial considerations, cultural affinities etc. make conveniently for a Free Trade area because an external tariff is a matter of individual constituent units, so that external trade policy is entirely a matter for the individual unit — the arrangement is more flexible than a Customs Union.

GUNASEKERA: Even in Europe it is a gradual process of elimination of tariffs. Probably it will be achieved in 10 or 12 years' time.

ALDONS: But for these countries there is a disadvantage in eliminating these tariffs which the ECAFE document pointed out, namely that customs revenue forms a large portion of governmental revenue. Hence it might not be easy to eliminate these tariffs anywhere.

PERERA: But the loss of revenue from customs duties could be offset by a system of sales taxes which could be conveniently levied on the goods themselves, and in fact in a Customs Union you do have provision for internal taxes.

COREA: We have to sum up today's discussion in these terms: there is general agreement about the basic rationale for long term Asian co-operation largely in terms of the advantages of specialisation and the benefits

of access to wider markets. That there is a special problem arising from the position of the larger countries against the smaller countries but on close examination we feel that there are other factors which make it important for the larger countries also to co-operate within this. That at the same time any scheme for Asian regional co-operation would have to recognise the problem of different degrees of development and this implies that progress towards a common tariff or even a Free Trade area would have to be slower — it must provide for a measure of internal protection. That at the same time, the drive towards Asian co-operation should not be looked upon as being conflicting with the expansion of trading relationships with both other trading regional arrangements and with countries outside these arrangements, and that in view of the development of planning in the public sector programmes, the type of forms of co-operation might have to take the form of sectoral agreements and bilateral arrangements for the collecting of products and so on rather than the more generalised forms. I think that is the conclusion that has emerged. Is there anything else?

PIERIS: Shouldn't we qualify that somewhat? This idea of regional co-operation should be a long term plan because of the difficulties of securing the machinery for co-operation and because our economic problems are much too urgent to await their solution through co-operation.

COREA: Yes, but in relation to that, there is another factor connected with the timing of this whole thing. If regional co-operation is a desirable thing, the more you postpone it the greater the chance that your economic structure will get strangled in an undesirable way. In the absence of regional co-operation we are proceeding to the establishment of a host of industries which may not be viable under a scheme of such co-operation.

PIERIS: But in an economy like ours it is a question of determination of priorities, isn't it? And whether it be economic planning or discussions about the plans shouldn't we decide what is more important? That is, plans for regional development or something different.

GUNASEKERA: Precisely. The priority would also depend on our attitude to economic co-operation.

COREA: It will have far reaching implications on the structure of development planning, but we want to stress that the time factor is important.

For instance, take the Indian third Five Year Plan. They have included in that a plant for the manufacture of synthetic rubber. Now if we had regional co-operation they may not have done so. They may have been content to allow the manufacture of rubber products in Malaya or Ceylon and make open the Indian market for that purpose. But once they have the synthetic rubber plant, then you got to proceed on a different set of postulates and the longer co-operation takes to materialise the more disadvantages there are likely to be. So I think we ought to recognise the principle that the quicker we proceed with this the better. There is an urgency about it even though in practice we know it is going to take long to come.

GUNASEKERA: Latin America didn't take very long.

COREA: No, ten years!

GUNASEKERA: If we are to draft a report I think we must make a special effort to meet the point that Dr. Pieris raised, i.e. it may not be in the interest of a country like India to come into anything like this. We should go out of our way to point the advantages that India would have.

COREA: I think Dr. Pieris' point is most important as regards the theoretical basis for this whole thing. What is the stake of the larger countries?

End of First Session.

## SESSION TWO: CEYLON'S NEED FOR REGIONAL CO-OPERATION

GAMANI COREA: Having discussed the general case for regional co-operation, this session will be devoted to Ceylon's stake in co-operation. Although it would not be possible to speak in too specific a way about actual projects and industries that Ceylon could undertake within the framework of Asian co-operation, we might at least be able to work out and indicate some of the criteria which would apply in determining the kind of opportunity Ceylon would have. Mr. Aldons, who has already prepared a paper on Ceylon's position, will lead the discussion.

ALDONS: In the paper I have prepared for this seminar I have shown that from Ceylon's point of view regional economic co-operation is a very necessary part of the strategy of long-term economic development. If we accept the need for economic development it can be shown that expansion of the traditional exports will not suffice in the long run. For this reason a policy of import substitution was suggested in the *Ten Year Plan*, but here again it was shown that substitution of agricultural commodities alone was not sufficient and that a policy of industrialisation based initially on the local market would have to be taken in hand. As part of the long term strategy, an export market was envisaged, but if we think of an export market today we will have to think of some sort of union in production due to the appearance of similar arrangements in other parts of the globe. In the last session the alternatives to regional co-operation were discussed briefly, i.e. some sort of arrangement with the Western countries, with the Commonwealth and with Socialist countries, and there appeared to be agreement that these alternatives should not be explored until it was finally decided that co-operation in the region itself was not possible. So in the strategy of long-term development regional co-operation can be considered an essential part, and Ceylon's specific need for co-operation would emanate from that fact. Further, I think it can be argued that for economic growth to become cumulative in character, a type of agreement which provides us with a larger market would be very helpful because it is doubtful whether we could set in motion a process of cumulative growth within the confines of the Ceylon market.

Coming to a more specific type of industrial integration, I suggested that some form of bilateral arrangement would be the best practical alternative for Ceylon in the immediate future. But this should be considered as an interim measure because the greater gains of regional co-operation will not be realised by this type of *ad hoc* scheme, and it has been suggested in view of the difficulties of securing a larger measure of regional co-operation at present.

I have considered one or two commodities which Ceylon is hoping to produce — tyres and tubes, and fertilisers in particular — and suggested certain arrangements by which we can export these commodities to some (in the case of fertilisers to one) countries in this region. These should serve only as examples. I am not suggesting that this type of thing can be done in the immediate future. It might be possible in the case of fertiliser to work out some sort of arrangement with India, but that would depend on how far India herself would be willing to accommodate us. But it shows the extent to which this type of agreement would help towards securing Ceylon the larger market which we all agree is very necessary if we are to escape the dangers of autarchic development. There have been various suggestions put forward as to how the markets for industrial commodities can be divided. One suggestion is for countries like Ceylon to specialise in the production of consumer goods and for the bigger countries like India to specialise in capital goods. This idea can be examined further, but I wonder whether we should restrict ourselves in this matter. It might be as easy for countries like Ceylon to come to an agreement with small countries and divide the capital goods sector between them, rather than concentrate on producing consumer goods for the Indian sub-continent. This would of course involve a fuller discussion of the advantages of regional co-operation. I think the advantage we are most aware of is the better utilisation of resources, especially capital. Since there is a scarcity of capital in the region, and in Ceylon in particular, such a scheme would enable us to generate a greater level of economic activity from a given amount of capital.

In my paper I make reference to certain reserve institutions which are necessary if we are to benefit from any scheme of regional co-operation, especially in the industrial sector, because part of the explanation for failure in the industrial sector of Ceylon can be traced to inadequacy of institutions to do the work which is necessary to set industries in motion. In the third Indian Plan there is a reference made to the slowness of investigations in industrial projects.

WILSON: I wonder whether anyone can tell us whether in some of the other areas which have resorted to this type of co-operation, certain countries have specialised in the production of certain goods. In Latin America, Europe, or the proposed African Common Market, is there any arrangement for certain countries to specialise in the production of certain goods?

PERERA: As far as I know the type of arrangement contemplated in the Montevideo treaty which is the instrument of the Latin American Free Trade area is that the countries of the area should each year reduce the tariff levels to certain agreed average minima. In the selection of particular products for this purpose, each country has got to negotiate with others on a bilateral basis. So through that process it may be that countries come into some sort of arrangement whereby one agrees to grant concessions to another country which proposes to specialise in a particular product, and that country in return makes a reciprocal concession. In ECM there is no agreement to specialise; the idea is that once internal trade barriers are removed the free play of the forces of competition would determine the establishment of different industries.

ALDONS: While the ECM tariff agreements will lead to rationalisation of existing production, the difference in our case is that we are trying, through the establishment of some system of regional co-operation, to set in motion a process of industrial production.

COREA: If we attempt to have a preferential tariff arrangement and then leave it to market forces to determine which country produces which commodity, are there any factors which would make Ceylon particularly well placed to develop a certain line of industrial activity in terms of comparative advantage, without the intervention of any planned agreements?

Supposing we have access through regional co-operation to a big market comprising for example Burma, Malaya, Indonesia and India — if within that region we could produce competitively, we could establish industries here. If we are inefficient and cannot do so, then we have no place, as some other country can do so. Now if that kind of agreement was set in motion, is there the prospect that Ceylon would be able to develop a sizeable industrial sector? Or are we suggesting that we are going to be inefficient and therefore want planning, which I think would be very difficult to get across to other participants? They are not going to agree to bilateralism because the rationale of that is that Ceylon is inefficient and therefore requires bilateralism in order to promote industry.

GUNASEKERA: I think that under-developed countries do not assign the same role to market forces as they do in Europe, where they are satisfied with an arrangement whereby tariffs are reduced and specialisation results from the play of market forces. In under-developed countries the very process of planning is not oriented that way, that is they do not rely merely on the market mechanism for development. In that context, I think this latter type of arrangement, that is, planned agreements and co-ordination of economic plans — perhaps to start with at a very general level — would be more the lines on which Ceylon and the other South Asian countries can proceed, rather than leave it to market forces. Even in Europe they do not rely merely on market forces; I think originally this European Economic Community developed as a result of the lack of faith in the price mechanism itself and I think the starting point of the Common Market was the European Coal and Steel Community, the Schuman Plan, and so on, and there the idea was to eliminate some of the undesirable features of the market mechanism which led to the initial idea of European economic co-operation. And even today, there are various bodies which plan the development of major industries like steel. But as far as we are concerned, I think it is very necessary to get agreement at the start about some of the industries, because industries have not developed and we might as well agree rather than develop them in a conflicting manner. It would be possible to make out a case for specialisation in certain industries in this region. I mentioned in the last session the tyre industry, the chemical industry and fertilisers, and we might make out a case that we are advantageously placed for the manufacture of such commodities.

Of course we don't say that in this entire region there should be only one country specialising in a certain commodity. It may be that one country will not be able to supply the demand for fertilisers throughout the Asian region. On that basis there will be more than one country — India for instance will have her own fertiliser factory, and also import fertiliser from us.

PIERIS: That means that the private sector has to be controlled.

GUNASEKERA: Definitely. I go on the basis that we cannot rely on the private sector for economic development and that in any case, even if we have mixed ownership, the dominant part will be played by the public sector.

COREA: Well, I can see your argument that it will play the dominant role in the internal economy but if you look at the type of trade that will take place as a result of this agreement, the new industries that would be established, do you think that the public sector — the national public sector — would be in a better position to take up those products than the private sector? I am quite clear about this, that the public sector in industry as we know it now would be quite incapable of entering into and expanding internal trade. If we can have a kind of dynamic public sector — you have the fact of state ownership that in all other respects it is following the principles of efficiency, new outlooks and so on, as efficient and competitive private enterprises. That is because in all other respects they run as private ventures and even their staff are constituted by people with private business experience. But that trend has not been seen here.

GUNASEKERA: Yes, I admit that public sector ownership doesn't have a very distinguished record but that is no reason why we should assume that public sector industry should be less efficient. I don't think we should in this discussion go on the basis that we cannot plan. If we start on that basis, then the need for co-operation doesn't arise. We are thinking of a situation where it is possible for us to implement the plan, as India is doing at the moment. There is some dynamism in the planning mechanism and I am beginning to think that we should envisage such a situation rather than a situation confining our Ten Year Plan merely to paper.

COREA: Well, couldn't we agree to this conclusion? That whilst there is no reason as to why public sector industry cannot participate in the growing market for industrial products, the type of public sector industry will have to be very different from what we have now and it will have to be public sector industry which is efficient, competitive, dynamic, forward-looking and flexible. But then all the trends here desire to subject public sector corporations to Parliament, to the Minister, to making its staff transferable, to cutting the salaries of its executives and technical persons, to raise wages as a social welfare measure, to increase employment — all these will go against the chances of success of public sector industry in the Asian market. So we have to have a very different type of public sector industry if this is going to work.

GUNASEKERA: I am not quite sure that even in the context of the Ten Year Plan as present formulated we can pin much faith on private enterprise developing along the lines we are envisaging — for one thing, private industry today is working under great difficulty. Apart from anything else there is the question of taxation and the incentives given



to private enterprise and today our idea of planning is that the public sector will come to play a bigger role in our development plans, whereas the private sector is treated as a step-child — that is the impression I got from the Ten Year Plan — in which case whether private industry will be able to play the dynamic role which we recognise as necessary is even more doubtful.

**MRS. GUNAWARDENA:** The question is also related to the political forces and the spirit in which regional co-operation should take place. We could try to move out from the whole structure of a non-reciprocal order and the Bandung Conference envisaged such a regional development in its resolution. Moves were made to try and convene such a conference. India has not been too keen to participate in such a conference saying that the time was not ripe enough. So we have to take into consideration that public opinion and people's movements will have to press for this new spirit of the Bandung principle of equality and mutual benefit.

**COREA:** Well, you know at the time that Mr. Bandaranaike wanted to summon a big meeting of the Bandung powers, what he had in mind, which is implicit in the choice of participants, was not so much a kind of regionalism in economic matters, but a getting together of the under-developed countries of Africa and Asia to provide a kind of forum at which they could discuss their problems and try to find means of co-operating and also to provide a front to the advanced countries in regard to such things as assistance, commercial policy, shipping and so on.

I remember raising this issue with him that from the point of view of the immediate outcome it might have been more practicable to summon a meeting of fewer neighbouring countries which could have had more specific discussions on economic problems. But in view of the wider political issues involved he thought it best to convene this big forum of the economically under-privileged, a gathering of countries convened almost for the first time, to cull all their views. We in fact drafted a brief agenda for this meeting, and the idea of regional co-operation, a common market type of thing, was not on it because it wasn't in vogue at the time. What they hoped to discuss were things like the food problem, industrialisation, population problems, shipping, instability of commodity prices — big subjects and issues to try and exchange views and experiences and then possibly to evolve some recipe for action.

**ABHAYAVARDHANA:** To return to this question of Ceylon's need for regional co-operation, I would like to pose just two questions. Firstly, what is the principal factor that compels Ceylon to think in terms of

regional co-operation? Is it the inadequacy of her market or is it a combination of several factors which include the inadequacy of her market, the absence of essential minerals and other raw materials, and also the lack of adequate capital, skills and so on. If that is so, then is it possible to conclude from this that if Ceylon does not think in terms of regional co-operation, then she is faced either with the prospect of a high-cost economy developed on a basis of import substitution and so on, with its consequence of lowering standards of living or some kind of dependence on a larger country, particularly dependence on one of the industrial countries of the West?

In other words, is not regionalism the only alternative for a small country like Ceylon, to low standards of living and economic and other dependence? Could we be so categorical in formulating the problem? The alternatives we discussed in the previous session were of co-operation either with the Western countries or with the socialist countries (the Commonwealth I think we can include with the Western category). Now in the case of co-operation with the Commonwealth countries, would it not lead to the perpetuation of the present relationship that Ceylon possesses with these countries, in the sense that she would still be an exporter of primary products and an importer of manufactured goods?

ALDONS: But here again it raises the question of countries in different stages of economic development, which occurs for instance in the question of the position Japan is to occupy. So if this question can be satisfactorily answered as regards Japan, it can be answered as regards the Commonwealth countries which are advanced economically speaking.

ABHAYAVARDHANA: But can Ceylon escape the consequences of this dependence? Because even in the case of co-operation with Socialist countries, whatever may be the good intentions on both sides, the fact is that a weak country co-operating with a more powerful country or set of countries is in a position of small advantage and will continue to depend for minerals, capital goods, or manufactures, on one set of countries or another, so long as we don't produce them ourselves or we are not members of a community that produces them. We of a small country will always be in a condition of dependence and if those supplies are withheld for some reason or another we are helpless.

COREA: But isn't it implied in what we are saying that regional co-operation itself would mean a kind of dependence?

ABHAYAVARDHANA: This is where I think regional co-operation has to be looked on as more than an economic arrangement because even in the case of the European economic community the ultimate goal of ECM is political unity, and whatever may be the reluctances of individual governments to pursue the aim of political unity, if they embark on the course that they are contemplating, they must move towards it or move away from co-operation. Similarly, in the case of countries that have co-operated, say in Eastern Europe, the condition of economic co-operation has been some kind of political unity. I think even in our case we may be beginning co-operation on a small scale or on a primary level, but ultimately we shall have to move towards some kind of political arrangement between the co-operating countries.

COREA: In economic terms, I do not think we should give too much weight to the dependence argument *per se*, because the alternative also involves a kind of dependence. It is whether by this dependence we could provide for an expanding economy. I think that is the crux of the matter. By dependence on the advanced countries in the role of suppliers of primary products would we have a basis for providing for an expanding economy? If the answer is 'yes' then we should not rule it out just because it means dependence because any small country has got to accept dependence as one of the facts of life. I would agree with you that as far as I can see, the scope for providing a basis for expansion through dependence on the advanced countries would be less than it would be through a kind of regional co-operation because in terms of the new industries we are seeking to establish, the logical markets for them would be in the region and not the advanced countries. That is why linking up with the region would give a better basis for development than linking up with the advanced countries.

ALDONS: I think what we have to find out here is whether regional co-operation is inescapable.

PERERA: I would like to pose the problem in this way, since there is a basic weakness in formulating it in terms of alternatives. When we argue that regional co-operation is necessary, it does not mean that it should be considered as an exclusive device. While we can argue that there is a fundamental need for regional co-operation, we can argue in the same strain that there is also scope for co-operation with Western countries and also with the Communist bloc.

ALDONS: Mustn't one exclude the other? After all why did negotiations break down originally between the Common Market countries and Great Britain? Because nobody is willing to allow you to have several types of regional co-operation. You have to take one. Would others allow you to get the best of both worlds?

ABHAYAVARDHANA: But aren't we thinking much more than in terms of having trade relationships with all the different countries of the world? We are thinking of integrating our economic pattern with that of a set of countries comprising the region.

PERERA: Yes, but integration can mean many things. So unless you are specific as to what type of integration or relationship you have in mind, it is difficult to answer the question in a general way. It will depend on the specific problems you have to face. For instance if the problem is actually one of co-ordination of industrial plans of contiguous countries or sub-regional countries, you cannot reformulate that specific problem in terms of co-ordination with some country in the Western or Communist bloc.

GUNASEKERA: I wonder whether the Latin American arrangement did not originally consist of three separate treaties. To start with there was a greater degree of co-ordination amongst contiguous countries. Later, they were able to expand. Similarly we should primarily think of Asian co-operation, but certainly that would not exclude trade with other countries. Whether we can achieve that extent of co-ordination with several countries — the Commonwealth or Socialist or European countries — is a question we should discuss. In the last session I tried to emphasise that the most important need today in the region seemed to be a co-ordination of economic planning. Whether we can achieve that degree of co-ordination with all and sundry is doubtful. There was the EFTA region and the Common Market. They are separate blocs. Attempts are being made to merge them into our European Economic community.

COREA: Wouldn't it be that what Ceylon needs is something like this? We require access to a wider market in order to make a reality of large scale industrialisation. I think it is quite clear that we cannot sustain a high degree of industrialisation on the basis of the domestic market alone. If we are to envisage Ceylon as a substantially industrialised country it must be on the basis of an external market as well. So we have this basic interest in co-operation, in that it enables us to plan production or initiate production on the basis of a bigger market. Now what kind of arrangement would be most beneficial to us? It seems to me that if we had a Free Trade area with a group of countries, we get access to a bigger market but it might be disadvantageous to us because any country which has a particular lead in industrialisation by virtue of its skill and existing overheads and some past experience in industry, is able to start out. It may be

that within the Free Trade Area there may be little that we can do, but other members might get the cream of the opportunity, the industrial cream. This means that what we really want is some arrangement which would give us access to a wider market and at the same time enable us to carry through a degree of protection. And the one approach really suggested is to try and come to some agreements on specific commodities or specific projects, on specific sectors, in which certain fields would be left to Ceylon and other fields left to other countries; so by agreement more or less to decide on the pattern of specialisation. But that in turn will run into the difficulty we spoke of in the last session as to whether any country would take this risk of earmarking a field for us and leave it to our own efficiency and initiative to satisfy the market.

The other possibility, a technical one, which suggests itself is that we might have a tariff arrangement whereby we get in selected commodities at a low tariff, free entry into our market as against preferential tariff against other members. Ceylon for instance can agree with Burma, in respect of, say, fertilisers, that Burma would levy no tariff on Ceylon's fertilisers but levy a tariff on fertilisers from others, even within the region, so that Ceylon then has the opportunity of specialising in fertilisers. But this would not preclude Burma setting up a fertiliser factory of her own, so if at all we would have to compete with her product. Now that type of arrangement would work well for Ceylon because we could give to India one line of production which we ourselves could take to if we wanted to, but nobody else can, or can only subject to a higher tariff. This kind of two-way tariff business — that is, no tariff between two countries only and tariff vis-a-vis the rest, worked through different commodities, might provide a formula.

Supposing we come to an agreement with Burma that fertilisers exported from Ceylon to Burma or *vice versa* would be free of tariff, so that there would be a Customs Union for that product only, it would mean that Ceylon can plan out a fertiliser plant on the basis of both its own market and the Burmese market, and the Burmese could do the same. But if they fail to do so we still have the opportunity of doing it ourselves for the Burmese market as well as our own. If the Burmese don't ever start a fertiliser plant and we have got into the market, if thereafter the Burmese decide to put up one, they will have to compete with an established industry. Even if they do, that will be the stage to consider the possibility of extending a kind of protection. I am trying to find a formula to enable a small country to specialise and at the same time

not have to get into fixed agreements which others may not be willing to agree to. There is duplication if the market is so small that only one plant is possible. But if the grouping is big enough you might be able to accommodate a certain degree of production of the same product in two countries with no sacrifice in the economy of scale. Once a certain structure of industry has been established and stratified we might think of ways and means of preventing duplication, but this will overcome the problem of either country not having to wait for the other one in order to make a start on its own.

ABHAYAVARDHANA: What about the principle of natural advantage, of comparative natural advantage? For instance why can't we agree that, say, in this region a country like India is in a most favourable natural position to produce steel, and therefore industries that are principally based on steel; but a country like Ceylon has, surely, the claim above all others to develop industries based on rubber? If Malaya and Thailand are brought within the region, then we could still decide that these two countries should have the largest scope for development of industries based on rubber. Similarly arrangements could be made for the coconut product and all the different industries based on it. On this basis I think it would be possible to draw up the principles of some kind of regional plan.

COREA: But the difficulty there is that, if you link it to natural resources, by definition a small country is likely to be more poorly provided with natural resources than a big one. Coconut and tea we will have to exclude because they don't afford a basis for further industry.

ABHAYAVARDHANA: I am not so sure. I think for instance that a huge liquor industry can be developed on coconut products.

COREA: I had an experience which is worth recounting in this connection, when I was in Sweden. When it got in the press that there were some visitors from Ceylon we had three calls from businessmen wanting to know whether Ceylon could export arrack to Sweden. This is an ingredient in Swedish punch. Prior to the War, supplies came from Indonesia. But it is against government policy to manufacture arrack in Ceylon for export, for temperance reasons.

ABHAYAVARDHANA: I think we have the capacity to produce enough for export. And I think we should go further than arrack. Why can't we refine our liquor a little more? If we honestly accept that one of the means

of improving our standard of living is to develop the liquor industry, it would mean a revision of some of the values we hold. But that only shows the outdatedness of such values. And I don't see why Ceylon can't attract tourists from the region. But all our restrictions and rules are designed to prevent people from entering the country.

COREA: The point raised earlier comes up here, that you can't offer a reciprocal market quantitatively. We can tell the Indians we won't set up a textile plant in Dompe but that is no compensation for them doing without a synthetic plant and allowing all the rubber requirements to be supplied by us. Would India give up her synthetic rubber plant in order to allow us to manufacture rubber goods?

ABHAYAVARDHANA: Today it would be hard bargaining. But if you also give preference to Indian textiles above, say, Japanese, or textiles from the West, I think that is a very great consideration for India.

ALDONS: India at present has large stocks of sugar, so you can bargain if you want to. There is over-production in certain commodities in India.

WILSON: If Ceylon were to get all her requirements from within the region without having to depend on the U.K. for any of her imports, wouldn't we run the risk of the U.K. abandoning our tea? Where would we sell our tea? There is no market within the region.

ABHAYAVARDHANA: I am not so sure. I think if you can sell a cup of tea to every Indian, the U.K. market will never approximate to the market you can get in India.

JEEVARATNAM: In this region do you envisage greater mobility of capital and labour? A number of big capitalists in, say, India would like to open out new industries in Ceylon. What happens to the local people around?

COREA: I think the mobility of labour is really out of the book. Europe envisages it but it is certainly one of the biggest difficulties we will have. Mobility of capital will again be quite difficult. There might be scope for certain joint ventures, which involves a certain mobility of capital. But certainly I don't think we can have an open door for the movement of private capital in the context of planning, public sector programmes, and so forth. Most countries have sectors in which they welcome foreign investments. You might have mobility of capital within the region. Once a regional arrangement gets going there might be mobility of skilled personnel of various kinds, not merely technicians offering their services,

but contacts between managers, business people, executives, administrators, and so on. I think a big interchange will develop in that way. Once you get the idea of a community developing, it won't be confined to industries; there will be various ramifications — more joint consultation, conferences and so on.

To us there is a challenge inherent in this idea of Asian co-operation. We are tending to think that we could have a bed of roses if we go into this, getting the best of both worlds — a big market and so on. It is unavoidable that if we enter into this arrangement we would have to pit our abilities against other participants. Otherwise they are not going to give us a place, and there is no reason for them to do so. This involves a new orientation for us. It will bring up new cultural problems.

WILSON: If Malaya and Ceylon were allowed the right to supply tyres for the Indian market, are we going to out-manoeuvre the Malaysians or would they be able to drive us out of the market? Are we going to be so self-assured that we are going to out-ride Malaya in the production of tyres? The chances are that the more prosperous and larger country may be able to do better than the smaller country.

COREA: Then that raises the question whether we should not gang up with a group of small countries. Subsidisation of exports is excluded by many Commonwealth agreements.

ALDONS: Competition involves a certain amount of wastage of resources. We are arguing that regional co-operation will lead to a better allocation of resources so that it cannot be reconciled with competitive production. If there is competition and one country's products are pushed out of the market, there will be a certain wastage of resources.

MRS. GUNAWARDENE: In view of the formation of sectoral groupings such as Malaya, Thailand and the Philippines, wouldn't there be a greater incentive for other Asian countries to co-operate?

PERERA: These countries come under what is now called ASE, a division of S.E. Asia that was first called ASS. The foreign ministers of Thailand, Malaya and the Philippines met in Bangkok last year and issued what is called the Bangkok Declaration which affirmed their intention of co-operating in many fields — the cultural field, tourism, promotion of research, stabilisation of commodity prices — a very formidable list of objectives. The ASE has no central secretariat. Each country is expected to have its national secretariat which would help the central body when it meets.



And there is an *ad hoc* standing committee to assist the council of Ministers. That is about as far as they have gone so far. Possibly other countries will follow in the wake of that effort.

ABHAYAVARDHANA: While ASE is politically motivated — these are the three countries in this region which are aligned with the United States — at the same time there are certain factors which approximate their interests. If Indonesia can be brought into this alliance, then its primarily political purpose might get watered down, and the accession of Indonesia might keep its interest in the direction of building up the economies of the countries involved on the basis of certain natural factors they have in common.

COREA: Supposing Indonesia were to join this group. Now Indonesia has been pursuing nationalistic, egalitarian and socialistic policies — not too efficiently — whereas Malaya, Thailand and the Philippines are quite uninhibited about foreign capital, foreign enterprise and so on. If these countries come to a common market, the prospects for the sort of policies Indonesia is following now might be bleak. I could see Malaya, Thailand and the Philippines setting up enormous enterprises with foreign capital, which will supply the Indonesian market. Indonesia, if she persists in her inward-looking outlook, would not stand a chance.

ABHAYAVARDHANA: We can over-estimate the economic strength of these countries. Actually the political impact of Indonesia working in a regional body embracing Thailand, Malaya and the Philippines would be much greater than any temporary economic advantage that might accrue to these countries, because I think the whole basis on which their governments stand today will be taken away from them.

COREA: That I could see for Thailand, but I'm not so sure of the Philippines and Malaya. After all they have democratically elected governments — more so than Indonesia. And the impact may be the other way round. And that is precisely the kind of problem Ceylon might have to face. If we get into a grouping and we carry out these inward-looking policies, we may be at a disadvantage. There is a price we have to pay: we may not be able to reconcile full participation in a natural regional group with the kind of policy we may want to pursue on social and egalitarian grounds; as we are doing at present. I don't think there is an inherent contradiction with socialism as such, but there is a tendency in our region for socialism to play down the economic performance as it were. This is not so in the socialist countries proper. In India, the Planning Commission itself pointed

out that the private sector over-fulfilled its plan, while the public sector fell short. There is a feeling that although India has been trying to make its public sector more and more viable, this effort has not been very successful, and they are thinking now of giving shares to private persons in their public sector projects. I have always felt that this question of ownership is not as fundamental as is sometimes thought of, that you can have public ownership combined even with private ownership, and with forms of management and organisation which are efficient. In Italy, for example, there are a number of publicly owned enterprises, commercial banks, industrial ventures and so on functioning and competing effectively with private enterprise, and more than holding their own. But these public enterprises are built in the image of private enterprise. That is precisely the sort of thing socialists don't like — they think it is too repetitive of the capitalist pattern.

The Indian Plan covers the whole economy and has a programme for the private sector which is called 'unplanned' because there is no decision to do this or that, but just a set of targets and instruments by which to achieve these. Low priority industries have thus developed. And that is going to happen in Ceylon as well because when you impose restrictions on import of luxuries and consumer goods in order to free resources to import capital goods and raw materials, you are creating a local market for the production of luxury and consumer goods. India has had a rather lop-sided pattern of industrial development based largely on consumer goods. But now it is being said in many quarters in India that the old dichotomy between the public sector and the private sector — these two in conflict — is giving way to the idea that nothing is so good for the private sector as an expanding public sector, by virtue of contracts from the public sector, and the increasing demand generated by the process. So now the Indian private sector is not as apprehensive of the expanding public sector as it used to be. What are the other compulsions? Military?

ABHAYAVARDHANA: Yes. Take the military aspect, for example. It is impossible for us to think in terms of an independent national Ceylon which has its own armed forces. There is also another type of compulsion. If you compare developments in India with the pattern of developments here, whether it is foreign policy, economic policy, or whether it is in certain developments in what you might call the cultural field, you will find a certain resemblance between what is taking place here, except that we do what has already been done several years earlier in India.

COREA: In many ways I think we are ahead of India. Besides being more advanced in our health services, free education, labour laws, there is the fundamental fact of the degree of alertness of our masses, in the fact of their political power. I don't think that India has reached that stage. That is one of the reasons why politics is here less respectable than in India, where the democratic process is not as real as it is here. I mean in India you find the political campaigns, apart from a few exceptions, carried on the basis of big issues which look respectable: planning, development, foreign policy, non-alignment, neutralism. Whereas in Ceylon you talk of issues which are of direct importance to the voter, such as cheaper rice, Buddhism, language. You have to pander to him more because he exercises his power more. In the 'thirties politics in Ceylon was respectable. Although there was universal franchise, the voter voted for the traditional leadership.

You see, when universal franchise was first introduced into Ceylon, the conservatives were fearful that this might mean a tremendous disruption, an upheaval. But the voter, given the vote for the first time, exercised it in favour of the traditional leadership, and there was a continuity of leadership. It was only after a decade or two of experience in the use of the vote that we have had changes. In India, people are still voting for the traditional leadership — not the feudal leaders — but the Congress, the Independence Movement leadership.

ABHAYAVARDHANA: I do not agree with your estimate that we are ahead of India either in the process of democratisation or in the social services. This is not a product of independence in Ceylon, but a product of the Donoughmore Constitution — before independence and before the governing classes thought in terms of independence. Similarly, in the matter of the political consciousness of the masses, perhaps it is true to say that people are more conscious today of the difference between the privileged and the non-privileged than they are in India. But if you look at the broad processes which are taking place — within the structure of the state, the policies of the government, the pattern of economic development — I think we tend to reproduce the pattern that has already developed in India, with a certain time lag. This is not confined to Ceylon. In Burma, allowing for certain unique features and variations, there is a certain pattern which has much in common with the pattern developing in India. In Pakistan because of the dictatorship, this pattern has not been reproduced, but I

don't see how eventually Pakistan can escape the same type of development. Is there no essential connection between these processes in the different countries, or is it that some compulsion has generated these trends?

The economic pattern has been one essentially of reconciling the interests of the public sector and the private sector, the process of planning adapted in some form in all these countries. India perhaps is perhaps more advanced than the other countries, but nevertheless planning is based on a certain development of the public sector, at the same time leaving room for the expansion of the private sector. There has been an attempt to come to terms with foreign capital and with traditional markets. Similarly in respect of foreign policy, the attempt has been to have relations with both power blocs, to avoid commitment, to stick together in the U.N. and to play what has been called a neutralist role. Within the state in India the reforms that have been accomplished are today being recommended in Ceylon. The reform of the civil service, the programme of community development which brought into being rural reconstruction societies, and *shramadan*. In Burma, the recent military dictatorship makes it unclear what will eventually occur, but I think under governments that preceded the dictatorship much the same type of thing was happening. And I don't see the military dictatorship essentially destroying that pattern, because unlike the Sandhurst-trained generals that we find in the army in India and Ceylon, the Burmese army developed from the national movement. They are political generals who are in charge of the Burmese army.

COREA: India has been able to carry through these policies you mention because she hasn't had the embarrassment of a live democracy, while we had to carry them through in a much less elegant fashion, with more contradictions and so on, because we have had to cater to the pressures from below which are far stronger than in India. If India had to cope with the same type of forces as we have had — the result of education, social change and population growth — her own policies may not have appeared so rational and, as I said, respectable.

ABHAYAVARDHANA: I think it is possible to under-estimate the amount of pressure that was exercised on the government of India from below. The whole solution of the language problem, such as has been adopted in India, was the result of very intensive mass agitation. Actually our language problem came later than in India. The linguistic states had already been decided on in India when the agitation for Sinhalese began in Ceylon.

The real language movement in India is not the demand for the replacement of English, but the demand for a place for the regional languages. Actually, Hindi has not displaced English. All that has happened is that Hindi has become an associate language with English in India today. What has really happened in respect of language policy is the constitution of the language-states.

COREA: Isn't it true to say that the divisive factors which have been gathering strength here have not yet developed to the same degree in India?

ABHAYAVARDHANA: I am not so sure, because after all India went through a partition and that was the real divisive factor in the body politic. I don't see language, even in Ceylon, being actually a divisive factor. The position is being exaggerated by both sides in the course of manouevering for position.

What I have been trying to point out is this. Isn't there some kind of sameness in this scene — which is also a force compelling regional co-operation? After all, if you can ask for an Indian specialist to reform your civil service, and Indian lawyers to conduct your trials and what not, surely there is something that links up the destinies of these countries? In fact there has been, since the constitution of the S.L.F.P. government, some kind of unexpressed collaboration between the governments of India and Ceylon.

COREA: This subject of regional co-operation would not have achieved the popular appeal it has achieved among classes other than economists if it was really based on the market argument, because not many people are conscious of it. It is because of a similarity of experience, if not a similarity of institutions, which makes people feel that by getting together they might solve some problems. Coming back to Ceylon's stake, is it possible for us to indicate the strategic fields in our economy in which there is scope for greater trade etc.? We can't specify industries: that requires an enormous survey of projects. But we can at least indicate certain principles which might suggest the type of industries to be selected.

ALDONS: That depends on the type of agreement arrived at. If we are to move into a sub-regional group with some of the smaller countries, as has been suggested earlier, it might be possible to develop a capital goods sector by some sort of market-sharing arrangement. But if we are going straight into a larger agreement, or a much smaller agreement, this might be very difficult because of the inherent advantages that countries like India and Japan possess.

COREA: A point which was made earlier can be generalised as a principle, namely that where you have a particular kind of raw material which affords a basis for manufacture, then that is a field in which you might seek to exploit a bigger market. It is true, however, that Ceylon's industrial development would have to be substantially on the basis of imported materials because, lacking as we do, coal, oil, and extensive deposits of iron ore, the possibility of developing industries on the basis of local materials is limited. That is one reason why in planning I have been rather averse to the kind of mineralogical survey approach to industrial planning, first carrying out a survey of the soil, and then drawing up a plan on that basis. But there is no reason why a small country cannot industrialise on the basis of imported materials. In fact, I looked at the industrial structures of almost all the small countries that have succeeded in industrialising themselves — Switzerland, the Netherlands, Belgium, Denmark, Norway, even Japan, and the tiny ones, Hongkong and Puerto Rico — all these have done so on the basis of two things: imported materials and export markets. I can't think of a single small country which has industrialised to a significant degree, on the basis of its own materials and markets.

Now if we are going to depend on imported materials for our industry then what is the kind of industry that would be suitable? You can broadly categorise those industries for which you have to import the material, but where the value added is small; in other words, the cost of the imported material is the bulk of the commodity. It would seem to me that *a priori* that would offer us less scope for export production than the type of industry in which the raw material component is a small proportion of the total value, and that the value added would be greater. That might suggest that you get a list of industries which might offer greater scope for Ceylon than for other countries which provide their own materials.

ALDONS: Then we might consider further the approach suggested in the ECAGE paper on the scope for regional economic co-operation. That is, they suggest the automobile industry where one country actually produces the automobiles and another supplies the component parts. Some such scheme might be feasible. What they say is that although a country might be able to operate an automobile factory at optimum capacity, the demand for component parts might not justify the setting up of units as you might get the advantages of scale with that internal market. So with that specific commodity it might be possible to work out an agreement with some of the countries of the region. But here again it would depend on the type of co-operation you envisage.

COREA: It is also possible (assuming some kind of agreement to make it possible) that just as our agriculture has been highly specialised and limited to two or three crops, any future industry may also be specialised in terms of a few major fields. Rather than have a very diversified industrial structure for export we may have a very specialised one in which we will concentrate on three or four lines and reap advantages through experience, trading, skills and so on, in these fields. It is characteristic of small countries that are industrialised that they tend to specialise in a few major lines rather than have a very diversified industrial structure.

The problem of more than one country competing will arise only if the market is not big enough to accommodate them all. In the ECM each of the countries producing automobiles compete in the same market because there are no tariffs between them. But now they are each hoping to fight for, and by competition obtain a share of the market. Some might drop out in the process.

ABHAYAVARDHANA: Or there might be cartelization.

PERERA: In the Common Market treaty there are special rules governing competition intended to prevent the emergence of cartels and monopolies.

COREA: In the case of some products where the optimum scale of plant is not so big you might have two or three countries producing the same commodity. There are others where the optimum scale is very big, in which case there wouldn't be room for three producers for the same market. But I think we are tending to exaggerate the economies of scale — there is a big range of industry in which production can be efficiently carried out in relatively small plants. Though it is true that the big giants like steel and cement, heavy engineering and chemicals, may require large scale production, over a wide range of products the advantages of scale may not be great — so that there is room not only for different countries to produce them, but even for several units to operate within each country.

JEEVARATNAM: We have been running a small unit for the manufacture of Parker Quink ink for three months. There is a lot of idle capacity, and if we continue at the same speed of production as we do now, we will tend to over-produce. This problem has arisen in one of the smallest units available for this purpose: nothing smaller than this is possible. And we already have about 85 to 90 per cent of the market.

ALDONS: This raises the question I raised in my paper: we are not very definite as to what industries we should concentrate on, what industries lend themselves best to this idea of regional co-operation. I wonder whether we can be informed about this. Unless there are people or institutions working on these problems, we will never know what is the best thing to do.

COREA: In view of the idle capacity and limited market, why did you decide to set up an ink factory?

JEEVARATNAM: Because we couldn't think of anything else. Our people had the money and they just don't know where to invest. They sometimes invest in the wrong thing.

COREA: The Department of Industries is faced with a serious problem. Just because someone comes and says 'we want to manufacture a product, give us a licence and stop everybody else', there is no assurance that this licensee will do it well, will not be inefficient, will not waste his capital. In the meantime they may have excluded someone else from doing it.

JEEVARATNAM: What happens in Ceylon is that when a group of individuals start a particular enterprise, others follow thinking there is a gold mine there. Take for instance Quickshaws Transport service. Once they started everybody invested in taxis. Now it is not a profitable venture at all. Colombo is full of taxis.

COREA: Shirts too. This is a process in which the less efficient individual will ultimately have to close down.

PIERIS: Isn't there some less wasteful method of securing efficiency? I think there should be. In the Soviet Union they don't resort to this sort of thing.

COREA: I was talking to one of the Soviet economists who said that they really have not yet solved the problem of measuring waste. They do know that there is a certain amount of waste taking place in the economy. They are not worried about it because they are interested in overall expansion and so optimum resource allocation is less important. But they do feel that they haven't evolved a yardstick to measure waste to replace the old capitalist process of weeding out. It is quite clear that the compulsion to avoid waste is greater in a steel plant or larger industry of that kind. When it comes to a lot of small industries where the total capital waste may not be that much, and you allow one which is inefficient and non-progressive, the compulsion is less. The Department of Industries always has this



problem that if there is an applicant and they give him a licence just because he is the first comer, and deny it to anyone else, they are not sure that industrial development is proceeding on sound lines.

ALDONS: Isn't this an admission that there is no way of judging competing claims?

PIERIS: There is surely the threat of taking over an industry. The Department should be in a position to run it efficiently.

COREA: But that has never happened. When the C.T.B. was taken over you remember they were going to run the railway out of the profits!

GUNASEKERA: That shows that there is no halfway house: you must have either socialism or capitalism.

COREA: But even under socialism you have this problem, and that is why some of the socialist countries like Yugoslavia are increasingly using the price mechanism and the profit criterion as the yardstick of what should survive and what should close down.

GUNASEKERA: In a socialist economy the profit criterion becomes the productivity criterion — it is merely a case of whether one industry is more productive than another. This the capitalist system also does, but in a round about and wasteful way. You become wise after the event, invest capital and then discover your mistake.

COREA: The point we have reached so far seems to be that Ceylon's stake in regional co-operation is particularly great, being a small country she is dependent on a wider market for her industrial process; and that an external market is in fact a condition for large scale industrialisation and that for this reason too she has got this vital interest in co-operation. Then we discussed the question of forms of co-operation that might be most suitable for Ceylon. The chief difficulty lies in the fact that in many respects we are in the initial stage of industrialisation and may not be able to compete or survive if the type of regional agreement took a very open form corresponding to a Free Trade Area and each country asked to pursue its industrialisation as best it could within that. From our point of view it may be necessary to combine access to a wider market with some degree of protection for our own industries, particularly in the initial period.

Then it was also felt that there was scope to explore further the possibility of bilateral planning in which we can come to agreements with specific countries on projects, and the possibility of co-ordinating development plans. This would to some extent remove the difficulties confronting the open type of system but it raises the other difficulty that this involves a great deal of mutual inter-dependence on performance — an issue which may stand in the way of final agreement. From that time on we devoted some time to discussing the type of industrial structure that might be developed in Ceylon on the basis of a regional market. One set of industries occurs to us as being amenable to expansion on this basis and that is that in which we have an advantage in respect of raw materials. Rubber was an obvious example, and to some extent coconut products and tea may afford opportunities for expansion on the basis of a regional market. Then there are other fields which we have been developing, which industrial development has already tended to emphasise, which may offer scope for further expansion, particularly in the field of chemical industries. For the rest, all we were able to do was to indicate general criteria or principles which might suggest the type of industries which could be set up in Ceylon for a regional market. These industries would have to be those which import raw materials, but would tend to combine two features: one where the value added in the process of manufacture is great relative to the industries in which the value added is not so great, and also those which afford economies of scale. I think that is as far as our discussion has gone. I don't know whether it would be practicable for us to push it further.

ALDONS: I think one point has been omitted and that is in discussing preferential treatment, there may be certain conflicts if we have agreements with countries which place a different emphasis on the public and private sectors. I think we admitted that the public sector is growing quite fast in Ceylon and it might be more advantageous for us to conclude these agreements or search for agreements with countries which have correspondingly large public sectors.

COREA: Yes, I think in relation to that, another idea was developed that regional co-operation will really be a two-way process, that just as much as we may find advantages in it, there would be a certain price involved and that it appeared to us that successful participation in a regional agreement would underline more than ever before the need for a viable, forward-looking, dynamic, industrial and economic structure in this country. That means also all the concomitant policies necessary to bring this about. We discussed also whether this is consistent with public sector ownership and private sector ownership, and I think the general conclusion was that there was no reason why it was inconsistent with the former, but

that it would have to conform to the requirements of efficiency and so on and in that sense represent a departure from the conventions and traditions that have sprung up in Ceylon over public sector enterprise.

It may be helpful if we could here establish in principle what grouping of countries would be favourable to us, and what would not. In purely economic terms it seemed to us that there are two alternatives: one is that we join together primarily with one of the bigger countries — India, and perhaps a grouping which includes India, or the possibility of our joining in a group which excludes India, but is made up of smaller countries. Smaller countries having a degree of co-operation would enlarge the size of their own markets and might be able to avoid the prospect of competition with the giants or with countries that are already well developed. But there may be other factors which make it unrealistic for us to get into a grouping which was, say, to exclude India. But even if we were to get into a grouping which includes India it seems that the need for some kind of machinery to take care of relatively different stages of development becomes relevant, more relevant than if we were to join up with the smaller countries.

Regarding the kind of industry we should develop, I think it is inevitable that we can't *ex cathedra* make pronouncements that this industry would be better than that. What we might highlight here is the need for the government to take the initiative in investigating this problem because the time factor is urgent. The longer we delay, the greater the likelihood of other countries starting industries that might have been possible for us. That it is urgent both to push the necessary investigations and the research must be emphasised.

Another gap occurs to me: in discussing Asian regional co-operation we are regarding Ceylon's stake entirely in respect of industry. What about the prospects for Asian co-operation in respect of our agriculture? There are two issues here. One is whether regional co-operation can strengthen the position of our plantation crops either by way of commodity policies, joint commodity stabilisation policies. The other is, what implications it would have for our policy of domestic rationing, of import substitution in our agriculture. The latter, import substitution, we are trying to do not only in industry, but also in agriculture. We are trying to meet our requirements of sugar, rice, fish, milk and meat products. Many of these may be things we ought to do ourselves because we are suited to do so. In the case of rice — because, apart from raising yields which is not in

any case a costly process, the opening of new land involves a heavy outlay — by a scheme of co-operation we may be able to obtain our supplies from participating countries and divert these resources to industry.

GUNASEKERA: For rice production, apart from the outlay of capital on irrigation and the opening up of new land, you produce the rice and then proceed to subsidise it — that is a cost additional to the production cost. So if rice production is successful you incur an additional cost which is so irrational in a capital-scarce country. In my own view, as far as possible we should try to restrict our agricultural plan and, with respect to rice, mainly to increase our yields rather than open up new land and sponsor peasant colonisation projects.

Political considerations demand that you must continue to pay the subsidised price of twelve rupees per bushel of rice. I don't think the removal of that subsidy is contemplated. But at least you can reduce the impact of that subsidy on the national budget by not producing rice.

PERERA: Although land development is capital-intensive, if you relate the total cost of land settlement, construction and irrigation works, to the value of rice produced, you should look at it also as a process of opening up an entire area for settlement. The benefits are then not confined to rice alone. By creating the Gal Oya Valley we have not only planted so many acres of rice, but have made a new community possible. In the long run industries begin to come up, power is produced, and you get a process of integrated development. The other aspect of colonisation is that today it seems to be the most effective method of providing some relief to unemployment. Industries take some time to start and are even more capital-intensive in respect of the economy than land development. In the *Ten Year Plan* we worked out that the average cost of industry, the average cost of employing a person in even medium-scale industries was Rs. 40,000, and in large-scale industries between 100,000 and 300,000. This is much higher than the average cost of Rs. 15,000 for settling a colonist family and in any case over the next ten years one can't envisage the rate of industrial development to be so large as to provide big employment opportunities. If in that period we deny ourselves the employment opportunities provided by the land settlement schemes not only in settling, but construction clearing, home construction and so on, we may really be in difficulties in regard to employment. We may have to compromise on rapid growth for the sake of short-term employment.

GUNASEKERA: Wouldn't the position be modified if regional co-operation becomes a reality? And secondly, this whole policy of colonisation is merely a perpetuation of a system which is practically becoming obsolete in all parts of the world.

COREA: Mr. Philip Gunawardene's Agricultural Plan which claims that we can be self-sufficient in rice on the existing acreage under cultivation in five years' time, probably in 1968, tends to discount population growth. By then our population would be almost increased by one million: it is growing by about 200,000 a year.

ABHAYAVARDHANA: One other aspect which we might consider here is that if it is true that the public sector is expanding in all these countries in relation to the private sector — to the extent that the forms of production that are growing are those in which ownership is in the hands of the state, does that not emphasise the necessity of bringing home to the people of Ceylon the limitations of national boundaries? I think the great lesson of the ECM to the world is that at least at this stage, Europe has recognised that an economy which is based on a form of private ownership of the means of production has grown to the point where further expansion is impossible within the limits of national boundaries. But here we are bringing about a mode of industrialisation which is taking place at least partially on the basis of state ownership. Even though therefore our level of economy may not be anywhere near that which has been reached in Europe, the constricting effects of national boundaries are bound to be felt more emphatically in our conditions, and to that extent make it imperative that we overcome these limitations. In other words, regional co-operation will become less imperative to the extent that you can rely on the private sector to accomplish the development of economy, or rely on the process of the market to accomplish it. But if we are thinking of projecting the state in that role, then we have no alternative but to recognise the limitations of national boundaries.

COREA: To sum up what we have been saying. Although there is scope for industrialisation on the basis of import substitution which may keep us occupied for ten years, if you look at the situation, the scope for this is quite clearly limited. If there is scope for regional co-operation now you might get a higher rate of growth, or a rate of growth which might approximate to the projections in the *Ten Year Plan*, which we are not getting now. But we didn't rule out import substitution all along the line.

### SESSION THREE: SOCIAL AND POLITICAL ASPECTS OF REGIONAL CO-OPERATION

COREA: In this morning's session we planned to consider the social and political aspects of regional co-operation so that in the afternoon we could get on to discuss the more specific aspects of the scope, area, and machinery for that co-operation.

PIERIS: I don't propose to touch on anything I have said in my paper, but instead to indicate the sociological approach to this kind of problem — the way in which a sociologist would deal with this controversial theme. Now one way of ascertaining the social and cultural basis for economic co-operation in Asia is to look for the objective criteria — what anthropologists look for when they attempt to determine what they call 'culture areas'. From the point of view of Ceylon the countries with obvious cultural affinities are the Hinayana Buddhist countries: although they speak different languages, they share the scholarly or religious language of Pali, and a common tradition of agriculture and rice-growing. These related countries would be Ceylon, Thailand and Burma. I have been told that in remote villages in Thailand they refer to Lanka as the place where you get the pure variety of Buddhism, and that there is some feeling of affinity through religion.

From a different point of view this kind of division is clearly unsatisfactory because if we use religion and culture as criteria, we exclude the Islamic countries which seem somehow — geographically and economically — to belong to our region; that is Pakistan, perhaps Indonesia, and certainly I think, Malaya. Since these approaches, the cultural and geographical, present so many difficulties, the other approach I thought of was that we try to elicit the significant socio-cultural trends in contemporary Ceylon, and look for affinities with neighbouring countries in terms of these social movements of our own time. In doing so the initial difficulty confronting the sociologist is that, unlike the economist who is fortunate in that the type of activity he is interested in is very easily located, non-economic actions are more elusive. If we are trying to analyse consumer choice or investment, we confine ourselves to certain rational activities. We even talk in terms of an economic man. The methodological problem

with which the sociologist is confronted is to extract or isolate from a very rich array of activities and attitudes, some which he considers to be sociologically significant, representative of the social trends of his time. This is the task I set myself in my paper.

I have abstracted on the one hand what I describe as traditional activity. It manifests itself in a number of ways, particularly in what I have described as nativism or populism. It is a type of social action which I have isolated for purposes of analysis, although I admit that this abstraction does lead to unreality in the sense that the rational man of the economist does not necessarily exist in the real world. If you examine some of the small industries in India, you will find in the smallest of them the prevalence of a number of non-rational factors. For instance they do not keep accounts: double-entry book-keeping, which is crucial for rational economic activity, is as completely neglected as by our own boutique keepers. We can contrast this non-rational (traditional) type of activity with what we call rational.

One of the features of traditional activity is that it tends to be particularistic. Even if these parochial traditions are governed by Great Traditions like Buddhism, they are qualified in practice by little traditions which make them less universal. That is why I think the Buddhist revival in Ceylon is not really part of the Great Tradition. It is too parochial for that, and should be analysed in the context of particularistic trends such as language. And it is these little traditions which differentiate the countries of this region — even apparently related countries such as India and Ceylon. Within each country these little traditions differentiate groups of people, and we have minority problems. So I have to reluctantly conclude that there is no cultural basis for co-operation if we look to the traditional mentality, which draws inspiration from the little traditions rather than from the Great Traditions. In fact I would go further and say that the traditional mentality is inimical not merely to regional co-operation, but even to economic development generally: it inhibits development.

As contrasted with that type of traditional attitude and behaviour, we can characterise something which may be described as *modern*. One of the features of this mentality is the central place occupied by rationality, particularly in economic activity. It favours a rational approach to social and economic problems, the acceptance of a measure of discipline whether it be on the part of labour or entrepreneurs. Further, it involves a suppression of expressive or spontaneous action: the kind of crime which arises from sudden uncontrolled passion, diminishes. And finally there is the

emergence of a sense of time, punctuality, a willingness to experiment in technology and agriculture. I think that this kind of conceptualisation is necessary because in contemporary Ceylon there are certain fields of social activity which are so highly charged with emotion that social scientists prefer to leave them unstudied: populist sentiment takes them for granted and will not have them questioned. In these circumstances I think it all the more important that we social scientists should make an objective assessment of the non-economic, non-rational factors in economic development.

WILSON: I have tried to examine in my paper the political obstacles as well as the favourable reactions that one will encounter in any movement for Asian economic integration. I would like to reiterate that it is necessary to convince governments that regional co-operation would yield better results than narrow autarchic policies. The dangers of Western economic integration to our countries should be pointed out.

There are complications caused by military and regional alliances sponsored by Western countries. Even if the countries involved in these Western-sponsored alliances were to enter a regional scheme they might be at an advantage *vis-a-vis* the other countries because they would be receiving assistance in the form of technical and economic aid from their patrons. One way of eliminating this difficulty is to ensure that aid is provided to the region as a whole, and channelled through a central agency. This would however raise other issues. For one thing, will the West wish to provide assistance to a region which is not going to be sympathetic to it? I think Marshall Aid was provided to Western Europe because the United States knew very well that Western Europe would be favourably disposed to her, and would provide her with nuclear bases etc. Even if some form of agreement could be arrived at whereby countries participating in a regional arrangement agree to receive aid through a central agency, the question would arise as to whether the West or any other group of countries would be agreeable to provide aid which will in the end be detrimental to itself, since the region is ultimately seeking to cut itself off from trade relations with the West.

Furthermore, there are differences in the political systems of these countries. Although some countries in this region have democratic systems, others like Burma and Pakistan have authoritarian systems. Besides it is doubtful whether Pakistan would ever enter into a scheme in which India has a place. Some degree of institutional uniformity in a



political sense might prove helpful, but the question is whether it is really indispensable. It should however be noted that European schemes of integration were mooted on the basis of democratic countries getting together.

On the credit side, *i.e.* factors which might help or promote any scheme for regional arrangements, there is the fact that some degree of regional thinking has been promoted by the emergence of the Afro-Asian bloc. It has convinced governments, or at any rate the majority of governments of this region, of the desirable results that can follow from group action.

Besides action at the governmental level, the English-educated intelligentsia in this region would have a part to play in promoting any movement for economic integration in the sense that they can create the necessary public opinion which can move governments to action. Perhaps the first thing that strikes one in this connection is that economic stability which might follow from regional co-operation would tend to promote political stability. In regard to the question of nationalism, Asian economic co-operation could stimulate a healthy form of nationalism which can integrate the various groups within the national boundaries, once economic problems are tackled successfully. The intelligentsia in these countries can create the necessary opinion to bring pressure to bear on governments to participate in a scheme of regional co-operation. The intelligentsia itself I dare say would stand to gain from any regional arrangements because regional co-operation would open out employment prospects for its members on a regional, rather than on a national scale.

In the course of the discussions so far there has been a tendency to advocate an integration of national plans. While this may be a good thing, I have in the latter part of my paper suggested that we should follow what the European conference which met in Paris in July 1947 tried to do — that is, set up a committee on economic co-operation to co-ordinate the efforts of technical committees which would have already been set up to deal with specific subjects like food, agriculture, industry, power, transport and so on. These technical committees made a study of needs in regard to these specific subjects and made their recommendations accordingly. I have suggested that if such technical committees are set up they should make similar studies as well as study the various national plans and make recommendations to the committee on economic co-operation. Such committees however can function only if they have governmental backing.

There is finally the question of political integration at either a federal or confederal level. I have not attempted to answer this question in a direct way because as I have pointed out in my paper, the question of political integration can afford to wait. But I would like to pose certain questions in this connection. Is political union desirable or essential, or can we stop at economic union? Are we confronted with the same dangers that the West European countries thought they were being confronted with when they began to think in terms of political union?

SARATHCHANDRA: I am in agreement with the view put forward that there is no cultural basis for economic co-operation between Asian countries. I am not sure that I agree however that there is no cultural unity between Asian countries. It seems to me that two separate questions are involved. If we can rediscover some kind of cultural unity, in what way will this affect, or be dependent on, economic co-operation? If we mean traditional ways of living, which is one of the aspects of culture, then clearly this can't be a basis for economic co-operation because we are thinking in terms of the products of technological development, and so on, which have no relation to traditional ways of living.

From what I understand by economic co-operation we are talking of industrial goods and things people use in urban society, and culture in this particular sense is not related to such things. People in cities are living in more or less a standardised pattern all over the world. To take the other aspect of culture — the arts and literature — we can discover some kind of unity there. I don't agree with some of the things Dr. Pieris says in his paper on this point. Despite differences, I believe there is a fundamental unity in what you call an Asian outlook on life, if not anything else, and if you take a particular art form, there are certain clear affinities. For example, you can distinguish between Asian music and Western. Now the music of the two great civilisations of Asia, China and India, have fairly similar traditions which can be taken together as distinct from the Western musical tradition. Even in drama — though there are different forms in the different countries — one can say that there is a central conception of drama which can be distinguished from the Western. But even if we admit the existence of such affinities, I do not see how they are connected with or going to influence economic co-operation. It seems to me that the only basis for economic co-operation will have to be economic! Because none of the cultural aspects I have mentioned can be said to be compulsive or necessary for economic co-operation: they may

be used as inducements. To give reasons why one country should co-operate with another one could say that both these countries belong to one tradition, say Buddhism. But I don't see how such facts could be a compelling necessity for economic co-operation.

PIERIS: I disagree with what Dr. Sarathchandra says regarding the irrelevance of cultural factors for economic development. The point I made is that there is the need for economic development (economic co-operation is a way of achieving this objective) in the sense that people recognise that certain things such as poverty or the standard of living have to be changed or improved. What I was trying to argue was that if, for instance, we invoke religion and appeal to the ascetic aspects of either Hinduism or Buddhism, the result might be inimical to economic development. If we become completely ascetic and say that we must do with a great deal of poverty and that it is in fact the means of salvation, that would be an impediment to development.

As I see it, there are two ways by which traditional attitudes get eroded and are replaced by modern, or rational, attitudes. One is the process of urbanisation. It is in urban centres that you get completely new traditions which you do not get in the village. In a recent study by Daniel Lerner on *the Passing of Traditional Society* it is suggested that for the self-generation of this process of modernisation any country must have at least 10 per cent of its population living in towns with over 50,000 people. The reason is that the break from tradition is greater in towns than in villages. The other process to which I referred is, of course, industrialisation which introduces a form of discipline and work-habits and a way of living which is completely different from the traditional village life. It is these forces which I think will break up tradition and create a new pattern of life. I have mentioned in my paper that Japan has successfully reconciled the traditional and the modern by having a very rich urban culture which has accepted western technology while at the same time preserving certain aspects of culture which are distinctively Japanese. In short, the basis for economic co-operation is rather the modern urbanistic rational culture rather than anything traditional. The urban way of life does influence the village — after all the newspapers originate in the towns, and radio programmes are usually broadcast from urban centres. But this percolation of ideas into the village will not necessarily impinge sufficiently on the activities of village people to make their outlook change completely. In so far as the traditional attitudes give way to the modern in urban centres, there is a kind of general cultural levelling which makes the whole world one.

**SARATHCHANDRA:** Well anyway, urbanisation of the village leads to common patterns of living, and in these patterns there is nothing particularly Asian. When urbanisation spreads what is common in Asia, as distinguished from the West, will vanish.

**JEYASINGHAM:** But looking at the aspirations of our people — take the village folk for instance: they are very conscious of their rights; they are abandoning other-worldly attitudes, although the influence of religion is still strong; they think that life is lived here, and that one should have material comforts. These are real aspirations.

**PIERIS:** But such attitudes involve a certain sense of guilt. When you say that people are abandoning belief in the after-life and so on, while yet professing religions in which other-worldly ideas are central, there arises a kind of double-standard — you profess one thing and do something else.

**COREA:** How do you explain this resurgence of traditionalism? With the progress of economic development you would expect a gradual receding of the traditional and the increase of the rational component. But in many Asian societies you find a new assertion of traditionalism. What is the cause of that?

**PIERIS:** Well, it is a matter of choice, isn't it? If you say that you would prefer the traditional pattern to what you have experienced of the modern, I think there is nothing that can be done about it, except that we can point out that the process of rationalisation is necessary for effective economic development.

**SARATHCHANDRA:** But there is also a satisfying of the emotional life of the people. I think we want traditionalism for that purpose. Ultimately many of these forms of traditionalism will vanish, but those that are necessary for sustaining the emotions will remain, and that will probably be in the sphere of the fine arts. People are looking for expression in their own language, in their own literary forms, in their own music, and so on, out of which they will derive greater satisfaction than from arts which belong to a different tradition. That is the only reason I can see for the revival of traditionalism.

**COREA:** Can we assume that the process of development can go on because the aspects of traditionalism inimical to it would disappear anyway?

PIERIS: That doesn't follow at all: you could have a very parochially oriented national programme which would completely flout the process of development.

SARATHCHANDRA: These are decided by the preferences of people, but world events also can influence them to some extent. Take the case of Japan: they have integrated as many of the traditional forms of living and the arts as is possible within the framework of modern life.

PIERIS: That was a conscious, planned, development — it didn't evolve automatically in Japan. It was accepted by a sufficient number of people to make it part of their lives — the whole process of technological development. Implementation of development plans will be slowed down unless you have the intellectual and psychological willingness on the part of a sufficient number of people to adjust their ways of life.

COREA: As you and Dr. Wilson pointed out, the existence of an English-educated intelligentsia is one of the factors which would make economic co-operation in the region possible. But the process of social change, in some of these countries at any rate, seems to lead to a weakening of the position of the English-educated intelligentsia. How can this be explained? After all social changes taking place are to some extent the result of economic forces such as education and the upliftment of groups which were hitherto backward and inarticulate. This has not led to a kind of universalism or cosmopolitanism, but rather to a more violent assertion of the values that were characteristic of these traditional groups. And isn't it true that many countries of this region are not creating a group which would be able to reach out to similar groups in the region, on account of their educational systems?

SARATHCHANDRA: But isn't a new type of English-educated person emerging? When you speak of English-educated people, they do not fall into a single category: some of them know nothing of conditions in their own countries. On the other hand there is a class of Western-educated people who have absorbed western ideas in the broad sense, and were unlike the old English-educated class of ex-colonial countries who understood the West, but not their own countries.

PIERIS: The Japanese provided the kind of educational facilities which enabled the rise of a class of technologically-trained people . . . .

SARATHCHANDRA: . . . who were not divorced from their country.

PIERIS: The trouble is that we are falling between two stools in this matter. We are trying to exclude our technological development by emphasising the kind of traditionalism typified by the creation of institutions like Vidyodaya and Vidyalandara universities. I don't say it is a bad thing at all, but the fact that these new universities have neglected medicine, science and technology is a reflection of the trend of thinking dominant in this country today. From the point of view of priorities, I think quite a different type of university should have been created.

ABHAYAVARDHANA: When we generalise that the cultural pattern is being standardised on the scale of the world, and that with the development of economy it is likely that the differentiation which has existed between cultures in the past is likely to disappear, and some kind of universal culture come into being, we are thinking in the very long term. We cannot forget the emotional factor which plays such a powerful role in the formation of national and other attitudes. In India for instance it is a fact that the government, since Independence, has been attempting to promote a modern outlook on the part of its planners, its intelligentsia, and others. But at the same time it has been compelled to make an appeal to the confidence which people felt in their past, the respectability that comes from a contemplation of that past, and sometimes the idealisation of that past which has enabled some people at least to think of themselves as vastly superior to all other peoples of the world.

Similarly here in Ceylon, the appeal to the past is an attempt to compensate for a certain lack that the individual in Ceylon feels, or perhaps the nation as a whole feels, when it contemplates its present in relation to the present of others. There is a gap between the achievements of the Ceylonese nation and those of, say, the United States, Europe, the Soviet Union, Japan, or even India. So the turning back to the past is an attempt to compensate for this lack. So long as these differences exist between the levels on which nations exist, I think it is inescapable that people will tend to cling to some way which will enable them to exaggerate their significance in the world in which they live. Now if we understand that cultural process, then I think we should not be alarmed at this exaggeration of the significance of the past. It is true that it stands in the way of economic development, but to the extent that we can promote ideas which correspond to the needs of the time, to the extent that we can take people's attention away from these things of the past and attract them even temporarily to the need for building up an economy, to that extent these values that do not help to meet modern needs are bound to disappear.

**JEYASINGHAM:** Economic co-operation can help us to eliminate group conflicts. In a larger regional context each of the minority groups will have more confidence because similar groups exist elsewhere — the fear, say, that Buddhism might have from Hinduism can be overcome because there are other Buddhist countries. The fear that one language has of the other can likewise be overcome. Amity can be brought about between Muslims and Hindus because, if Malaya were included, it shares a Muslim culture.

**SARATHCHANDRA:** It seems to me that culture and economic development must go hand in hand — one must have some connection with the other. That is people must feel that even economic development is part of some continuity, belongs to some common tradition. Take the example of so-called Western medicine and the recent recrudescence of Ayurveda. People don't believe that western medicine is the heritage of civilisation, that it is the result of international research and is the heritage of humanity. There is no such thing as English medicine and Sinhalese medicine. The common man's prejudice towards what he calls English medicine is partly due to the fact that the class of western-educated physicians were so isolated, were only intent on making money and couldn't even talk the language of their patients — who would only dig a man in his stomach and write something on a piece of paper, and his patient wouldn't know whether it is poison or not: he just has to take it. He has no confidence in the doctor. The ayurvedic physician on the other hand will treat him in such a manner as to gain his patients' confidence, and the latter feels that the system belongs to us and is not something brought from outside — a part of foreign domination, and all that type of thing. A balance has to be restored so that over-emphasis on the cultural side will gradually cease. As a matter of fact Vidyodaya and Vidyalandara universities are going to have science and medical faculties very soon; they have Departments of Modern Sinhalese which we don't have at Peradeniya.

**COREA:** What worries me about what you are saying is whether in fact it is possible to create the type of person you have in mind, who is national in so far as some aspects of his living go, but modern in respect of others. Is it likely that we could evolve a group of people who are modern in their intellectual activity, who in their commercial activity keep books and accounts and use electronic computers and all that, and yet expect them not to be modern in their ways of living, their recreations and their habits of thinking?

PIERIS: There are too many people who are prepared to enjoy the products of science and technology — the motor-car, electricity, radio and so on — without feeling that they belong to the tradition that makes these things possible.

COREA: Of course part of this problem has arisen by using the term 'western' for what is essentially 'modern'. Are we expecting to get a class of people who are modern in their technical competence but who don't like ballroom dancing because it is 'western', who don't go to clubs, who don't drive around in cars, and so on? I am wondering whether we would succeed in doing this because all these things are becoming part of the universal culture of modernism. It is not western any more — whether it is Tokyo or Istanbul or the cities of Latin America, you will find the same kind of cultural behaviour.

SARATHCHANDRA: But it need not produce a cultural schizophrenia. I have seen Japanese groups performing kabuki in New York, and after their performance I followed them to a private party at which they sang 'happy birthday to you', cut a birthday cake, and indulged in ballroom dancing. They don't appear to suffer from any kind of cultural schizophrenia. But I know a Japanese writer who says that the Japanese character is a sort of split personality — he would wear western dress in the office and sit on a chair, and then go home, forget all that, get into his kimono and eat with chop-sticks. But these two things could be complementary if people see that there is no essential conflict between them.

ABHAYAVARDHANA: I think it is necessary to remember that what we call western culture and traditional culture are also functions of the standard of living: that it is not possible for the amenities of western culture to be enjoyed except on the basis of a high standard of living, and to the extent that the westernised person insists on the full enjoyment of all the available amenities, to that extent he is asking for something more than the national context in which he lives and functions can provide for or afford. Now here comes the real alienation from the people because you are demanding that these amenities be supplied to you at the expense of the people. In other words, you are also forcing on the people a certain traditional pattern of culture since they cannot over-step that limit and go into the motor-car or the urban flat-culture, and so on. You are forcing them back into a traditional way of life. So I think that it is here that what I call the westernised individual has to recognise that the enjoyment of



some of these amenities has to be postponed in the interests of the modernisation of the social context in which he lives and functions. But when he is not willing to do that, then comes the compartmentalisation of culture. In the case of Japan it is the development of the economy which enabled the reconciliation of the two cultures; without that development of economy it would not have been possible.

SARATHCHANDRA: Your remarks are very interesting in the light of certain features of the national movement in Ceylon, in the early part of this century. It is reflected in the Sinhalese literature, and consisted of an attack on the westernised class for enjoying a pattern of living which was denied to other people. You may call it a 'national movement' or not, but there was a great deal of vigour and emotional force behind it. The essence of it consisted in attacking and abusing people who were enjoying a higher standard of living. So basically it was economic.

Even in the two new universities I am sure bhikkus wanted to be placed in the same status as professors in the Peradeniya University, economically and socially. Of course other good results may come from these universities, but envy was definitely one of the motives.

PERERA: I think in the approach to traditionalism it is important to distinguish between mere traditionalism and the basic fundamental values on which tradition has been based. Those values have a relevance even today. What is necessary is a re-statement and re-vitalisation of those ancient values in the modern context. If you try to perpetuate tradition it creates problems, but if the basic values underlying tradition are revitalised and re-stated in the modern context, they still have a part to play. Fundamentally, therefore, there is no sort of antagonism between what is ancient and what is modern. I don't think we should compartmentalise the two in a rigid fashion. Tradition, as Dr. Pieris was saying, is a sort of excrescence based on fundamental values. I personally think that the Buddhist concept of *karma* — which, after all, means action — is a very dynamic concept. If it is applied to problems of economic development, if the problems of economic development were explained to the masses in the light of that concept, there can be no better way of re-orienting the minds of the Buddhist masses to problems of economic growth.

PIERIS: It is not a question of explaining to the masses. As I see it, economic development gives rise to an increase in those things which Buddhism tries to avoid — craving, lust, greed, and so on,

PERERA: Surely, craving, lust and malice have their relevance today? The discipline that you can have in any modern society must be based on values, on the importance of restraint, discipline. It means restraint of craving, malice and all those evils which are denounced by practically all religions.

COREA: Of course, if we restrain all our desires no economic problems would arise at all!

SARATHCHANDRA: That's the best solution! But I think the kind of mistake commonly made by Buddhist leaders today is that they are trying to interpret Buddhism from a text-book point of view; they are reading the old Pali texts and saying that that is Buddhism. We have to take Buddhism as it is practised in the villages. Nowadays the English-educated try to draw their Buddhism from text-book sources rather than from its actual practice. In fact the recent revival of Buddhism is coming from the western interpretation of Buddhist texts. If you define your terms as Mr. Perera suggests, even re-interpreting terms like *karma*, it makes no difference as long as these interpretations are accepted in practice, are conducive to growth and progress, and have the same emotional aura which enables people to accept them with reverence. We are concerned with the effect religion has on social organisation and living.

COREA: On the significance of this cultural issue to regional co-operation would it be correct to put our discussion in these terms: first, as Dr. Pieris pointed out, that kind of cultural uniformity you get in Europe is itself the product of the process of industrial development, and has led to a certain standardisation of cultural patterns, and since the Asian region has yet to experience this kind of economic transformation, one cannot by definition expect a basis of cultural uniformity for economic co-operation. The whole point of economic co-operation is to set in motion economic development, and through this process you can expect some kind of cultural uniformity. It is our view that the existence of cultural differentiation in the Asian region is a serious obstacle to economic co-operation, if that differentiation took the form of hostility between two cultures, and prevented the meeting of peoples. But I don't think that such a situation exists in Asia, and the existence of an English-educated middle class, which is itself the product of a degree of economic development, might provide at least an initial link and provide a common cultural background for development. But does the cultural factor give us any clue as to the possible grouping of countries for economic co-operation?

That is something we should explore. Mr. Abhayavardhana once mentioned to me that one possible grouping would be India, Pakistan, Ceylon, Indonesia, Burma, and perhaps Malaya, because they are to some extent part of the Indian cultural tradition. Is that classification helpful?

PIERIS: I think it would be much more helpful from our own point of view to go a little further and include Japan, a country which has proved how tradition and modernity can be combined.

COREA: What is it that brought Malaya, the Philippines and Thailand into an attempt to collaborate? Not religion, because one is Muslim, the other Christian, and the third Buddhist. It is the political influence. This leads on to the next part of the discussion, namely that what is probably more significant, both from the point of view of being obstacles to, and providing a basis for collaboration, would be the political affinities, or lack of affinities, within the region. If that is the general conclusion that has come out of our discussion of the cultural factors, we may proceed to the political.

ABHAYAVARDHANA: Is it not possible for us to divide the Asian region into two main cultural areas? Dr. Sarathchandra referred to the two great civilizations of Asia, the Indian and the Chinese. Now here are two areas which have been more or less completely influenced by these two civilisations; an area in which the Indian civilisation has been dominant, and the other an area in which the Chinese civilisation has been a formative factor. If we go a little further and locate between these two civilisations — perhaps as a result of the interaction of these two civilisations — a third area which has been influenced by both of them. If translated in terms of countries, we have India and the neighbouring countries, Afghanistan, Nepal and the Himalayan kingdoms, Burma, Ceylon and Pakistan, constituting one group. Then the countries neighbouring China — the Indo-Chinas, Japan, Korea and so on constituting a second group. A third group will consist of Malaya, Indonesia, the Philippines and perhaps Thailand, though I grant that you will find borderline cases such as Thailand which could be classified in both groups.

PERERA: If you take Asia as a whole, Pakistan is more oriented to the Middle East than to Asia.

ABHAYAVARDHANA: I am not so sure. The Arab countries have refused to have anything to do with Pakistan. All her attempts to provide the basis for the organisation of CENTO, for instance, have failed.

**PERERA:** The important part played by the Islamic civilisation in the Indian sub-continent should be taken into account.

**ABHAYAVARDHANA:** Yes, but so has Christian civilisation, which also played an important part in the region.

**COREA:** To take this argument further. Even if we accept that on the basis of civilisations and cultures this demarcation into three groups can be made, does each group provide a plausible unit for co-operation from the economic and political points of view?

**ABHAYAVARDHANA:** Yes, I think so. It is no accident that the Philippines, Malaya and Thailand have come together. The immediate causative factor was perhaps their alliance with the West, but if Indonesia could be brought in here, a natural grouping could be formed of the Malaysian region.

**WILSON:** Need that problem bother us if we can persuade whatever governments that are in power to participate in any regional scheme that will benefit the participants? Need we worry about the political consequences?

**COREA:** Yes, you can extend this same argument to development itself. You can ask the question as to whether various governments are pushing planning and development because it strengthens their own positions, and the answer is 'yes'. But it is a fact that in Ceylon all political parties managed to agree that regional co-operation was desirable, and this suggests that each of them thinks that the development that ensues would be beneficial if they happen to be in power.

**HENSMAN:** Actually we are a negligible factor. What happens in Ceylon is of comparatively minor importance in the Asian context. You may think that one need not bother about the political implications, but you are beginning to create a new type of political unit through economic co-operation.

**ABHAYAVARDHANA:** This a very important point. Unless there is a certain uniformity of political approach between these countries it is unlikely that you can lay the basis for substantial economic co-operation, because after all it is possible for governments in different countries to see temporary advantages in co-operation on collaboration with countries outside the region and to the extent that there is no governing outlook which elevates co-operation within the region above all other arrangements for

co-operation, the structure of co-operation which we are attempting to build is likely to be extremely fragile. So I think it is imperative that we should develop a regional approach not only in the governments, but in our political parties, and help them to see the imperativeness of regional co-operation as the foundation of their politics.

WILSON: My suggestion was that it was more urgent to persuade governments of individual countries to interest themselves in a scheme of regional co-operation rather than to take action at the political level.

ABHAYAVARDHANA: Yes, but take Pakistan. Would it not be possible to persuade its government to abandon the present basis of its entire outlook, namely antagonism to India?

WILSON: But won't these political problems be there whether you have a dictatorship or a democratically constituted government in Pakistan?

ABHAYAVARDHANA: I agree, but that raises the whole issue of Pakistan itself, regardless of political parties. Similarly, today the government of Nepal is attempting to ride mid-way between India and China.

WILSON: I think you are trying to make an extreme case into a general rule. But if you take other units like India, Burma, Malaya and Ceylon, do you see any political obstacles?

ABHAYAVARDHANA: Even in Ceylon anti-Indianism was an important plank of many political parties, and I am not sure of the extent to which we have overcome it.

THEJA GUNAWARDENE: I don't think we can divorce regionalism and neo-colonialism when considering the possibility of initiating economic co-operation in Asia. If you study the European Common Market you will see that basically it is politically oriented. The United Nations is trying to bridge the gap between the West-European Common Market and the East-European Mutual Assistance Committee, without success so far. Austria's Foreign Minister himself said that the Common Market presented one of the most formidable obstacles to international trade today and Nkrumah stated that the Common Market is another form of collective imperialism of the Western powers. After the second World War we had a balance of forces with the revolution in China, revolutionary movements sweeping the European countries, the Afro-Asian national movements and finally the Cuban revolution in Latin America. We have to take into consideration the change in the balance of forces, and at the

same time we have to bear in mind the contradictions within the Common Market itself. At first there was an alignment of France and Germany. Now it is Germany and U.K., but in spite of all these contradictions, in order to present a formidable front to the socialist forms of economy, this new form of an united Western Europe has come into being. But behind the scenes there is still a struggle for raw materials and the expansion of markets going on hand in hand with a frantic armaments race which has brought about a network of military bases mainly in Asian countries, and these military expenditures have brought a great deal of influence to bear on our Asian economies. Neo-colonialism has taken new forms, for example in the United Nations we found the NATO powers aligning themselves in presenting an united front against the struggle of the Congo for its independence, but the struggle was really for markets and there are again the internal contradictions of the Western powers came into force, and now one group is more or less in control of the Congo's mineral resources. This new colonialism has taken another form in India. Firstly, it exploited the nationalist tendencies for partitioning the sub-continent and in the recent elections Nehru had occasion to say that there were foreign powers at work behind certain groups. Now if we take the question of foreign capital, private investment in India in 1948 was 256 crores of rupees and in 1959 this had increased to 570. This presents a dangerous position because the private sector is more or less in a position to dictate terms to the public sector on certain issues. And in this connection, the Vice-President of the United States, Mr. Lyndon Johnson said not long ago 'The United States pins a lot of hope in preserving Asia from Communist domination' and he hailed India's leadership in this field. Behind this political ideology is really the dominant struggle for the control of the Asian market in another form. Now we have to take into account that the cold war is already at work against freedom of co-operation in Asia. Already Asia is divided, already Africa is divided, we have the Casablanca powers the Brazzaville powers. We can expect a similar, more clearly demarcated, division in Asia. The first step is the creation of economic compacts and counter-compacts inspired by non-Asian powers. So in a way the Common Market is an economic arm of NATO and if we think of ASA we have to think that it is an economic arm of SEATO, and in this way we will have to face the problems of international economic entente which are really against national economic progress where Asia is concerned.

Now we come to the question of how the Common Market come to control the raw material sources in Africa. When the Treaty of Rome was signed France and other countries managed to get certain concessions for their associated territories. But today the position is that with the Development Fund investing so much, particularly West German capital, in the associated countries, these associated territories from being French colonies have become the Common Market colonies. In the case of Japan too, these military link ups, for example the Japan-U.S. Military Treaty, have created many economic problems and forced Japan to invest billions of yen on military expenditure. Political reasons have also prevented Japan from entering into trade relations with China, costing her millions. For example, she could have imported her soya beans and other commodities from China, North Korea, North Vietnam, but for political reasons she is prevented and there is almost an embargo where trade is concerned between Japan and North-east Asian countries. So we have to bear in mind that the resistances are formidable against regional co-operation, and that is the very reason why it is absolutely essential for our survival. The cold war is at work in many forms and in the final analysis the solution of our economic problems is political. We may have gained political independence, but as long as we do not have our economic independence we really cannot say that we are nationally independent, and this is one reason why we should, both on a people's level and on a governmental level, strive to bring about regional co-operation. If we find certain countries unwilling to co-operate we have to understand the forces that are at work to prevent such co-operation.

COREA: Any comments on this? Your main theme is that the basic rationale for co-operation is a defensive one: to insulate ourselves against the encroachments of the cold war.

THEJA GUNAWARDENE: Also that it is necessary for our economic survival.

HENSMAN: Then in terms of what you say would it be correct to imply that say, if there is an arrangement for economic co-operation which includes India, Pakistan, Ceylon, Burma, Afghanistan and so on, that a government like that of Pakistan would resist entering this group not mainly because of the Indo-Pakistan dispute, but because already the commitments it has in terms of the cold war and ideological terms?

THEJA GUNAWARDENE: I think Dr. Wilson had spoken briefly about this point of economic propaganda, bearing in mind the political implications and not stressing them too much. Just as the Common Market came

into being in that way, we also have to create this consciousness, mainly through exchange of delegations, planners, economists. Delegations, conferences and seminars will finally create the beginning — that's why I said we have to work on two levels, governmental as well as popular. Sometimes governments won't necessarily reflect the desires of the people. For example in Japan there was such as mass movement in 1956 not only among the people but even in trade circles that the Diet was forced to pass a resolution about trade with China. A certain amount of trade started, but very soon after that some incident was created on the question of the national flag of China and once again the old embargo came into being, but that is an example of how even in an economy such as that of Japan which is dominated by foreign military and other pressures, public opinion prevailed up to a point.

ABHAYAVARDHANA: A very important problem that arises is the level on which we should operate, or one should operate, to create this type of consciousness. Do you think it possible in existing conditions in the region, to attempt to form popular opinion on the problem of regional co-operation? Now say in the context of conditions that obtain in the region — because as we were discussing earlier, the trend is towards local outlooks and particularistic attitudes and so on — now in that condition, is it feasible that the idea of regional co-operation is likely to appeal to the imagination of the vast masses of people in these countries? On the other hand would it not be a more realistic attempt to confine the formation of opinion on this question of regional co-operation to what Dr. Wilson called the intelligentsia? I think he referred to the western-educated intelligentsia — but I think we might include also other sections of the intelligentsia, people who could be educated into perceiving the advantages of regional co-operation — and in that sense to form the opinion of even the political leaders in these parts of the world, rather than to develop a movement of pressure from below in order to advance the regional idea because it is unlikely that the mass of the people in today's conditions are likely to be fired, or their imaginations are likely to be fired with enthusiasm for this idea.

COREA: But wouldn't a drive for regional co-operation be a manifestation of the wider drive for development? And to the extent that that is a force which is gathering momentum then it cuts across the development of particularistic factors. The same kind of conflicts exists in regard to development internally. You fire the people for development and that comes up against the forces of traditionalism and so on. I feel that the pressure



of problems, the growth of unemployment and the pressure of standards and costs of living will ultimately determine the issue in favour of the forces pushing for development, and regional co-operation and the attraction it would have would then be a further manifestation of this push towards development. Once there is public acceptance and popular enthusiasm for rapid economic development, then it would be more easy to make regional co-operation a necessary part of this. So we are missing a step if we try to educate the public towards regional co-operation. What we really need to do is to educate the public towards development and the importance of that, and then the attraction of regional co-operation should follow more easily.

ABHAYAVARDHANA: Yes, so that the regional idea or the discussion of the regional idea will largely be confined to the leaders of public opinion, to the intelligentsia, rather than to the mass of the people.

WILSON: I don't agree with you that there is no regional thinking at present. I think the growth of the Afro-Asian bloc has promoted a degree of regional thinking and action at a governmental level. Western-sponsored alliances like SEATO and ASA have already promoted some degree of regional co-operation, so that I wouldn't agree with you that there is no desire for any form of regional co-operation.

COREA: I think that this concept of economic development is really beginning to fire the imagination of people. The very fact that we are discussing co-operation and our parliament is discussing it and ECAFE is doing it, is not because of a sense of regional community or Asian nationalism so much, as an awareness of the vital importance of economic development, the desire to transform standards of living and if you look at it in that context there is hope that the political obstacles and the cultural difficulties and so on are being get over.

RAJANAYAGAM: ECAFE has been suggesting economic co-operation from its inception but nothing has come of it. On the other hand when we talk of mass movement, are we thinking of a mass movement in Ceylon alone or over the region? As I see it there is a considerable volume of opinion in other countries which is against regional co-operation at the present moment, even though every one of the countries is for rapid economic development, so are we not going to first start with the education of the people? I know of lots of Indian economists and public thinkers who don't think economic co-operation is necessary at this juncture. Now how are you going to proceed?

COREA: The larger countries, particularly India, may not find the need for regional co-operation to be compelling from the point of view of their economic development, as the smaller countries. In the case of the smaller countries, the need for an extended market as a condition for industrialisation makes it easier to persuade them to grant it.

RAJANAYAGAM: That assumes that economic considerations over-ride political considerations? Is that true?

MAHENDRA: The example of India and Pakistan was cited, and it was expressed that those two countries can never be brought together. Now for very good economic reasons they decided to co-operate on the development of the Indus basin. That was one point, and the other was in 1958 soon after the revolution in Pakistan, Ayub Khan suggested a defence treaty with India. Politically, it may have been unwise for him to do so, but for other reasons he did so.

WILSON: Yes, I think Dr. Corea pointed out that in any regional arrangement of this sort, although India may not find it advantageous to participate, the fact that she will not like to be left out might serve as some sort of inducement for her to enter such a scheme. I think the same argument would apply to Pakistan also.

COREA: In any case all governments have conflicting objectives and the end result is a kind of compromise. It is wrong to say that the government just pushes aside the economic in favour of the political. It tries to accept the political as far as it is compelled to do so. I mean if it is giving a peasant 12 rupees for his paddy, it might get more votes if it gave him 24 rupees. So there has to be some kind of compromise, you can't say that governments are not interested in economic affairs.

PERERA: The essential problem from our point of view is that we should always explore the possibilities for economic co-operation in a given context. What we are trying to achieve is the economic co-operation that is possible, not the economic co-operation that is impossible. If we keep on recounting the various difficulties that we are going to encounter, there will be no end to those difficulties.

COREA: India and Pakistan have come together in the Commonwealth, they have come together in the United Nations and I do not see why they can't come together in a regional arrangement provided it does not make too deep inroads into their relationships with each other,

ABHAYAVARDHANA: There is something that Dr. Wilson said about the incipient popular consciousness as expressed through the formation of the Afro-Asian bloc. I think that there is an element of xenophobia in all these groupings. To the extent that one is able to form an identity of one's own by contrasting it with an external identity or differentiating it from an external or extraneous identity. It is only to that extent, or considerably to that extent that one succeeds also in forging the consciousness of one's identity. It has to proceed both ways. On the one hand, there has to be the positive factor uniting the region. On the other hand the negative factor is also important, namely what differentiates you from other regions? So I think this is what we might consider when contemplating the possibility of making this idea appeal to popular sentiment. Can we also give them something that will enable them to differentiate themselves from other regions or from non-regional countries? I don't know whether this would be possible. Do you think we can forge a new identity, that of being South Asian in addition to being Ceylonese, Indian, Burman, Pakistani and so on?

HENSMAN: Now Dr. Wilson mentioned the fact of — the possibility of what he called anti-westernism, and Mrs. Gunawardene has been referring to the need to get together in the face of neo-colonialism and other threats. If people can be persuaded that only through co-operation that one can resist what is threatened, this will of course not mark out the South-eastern region but at least it will mark us out as anti-western, not culturally but economically and in terms of interests. And this safe-guarding of our own interests *vis-a-vis* well organised forces, is achievable only through economic co-operation.

COREA: That is what I would like to discuss further. Mrs. Gunawardene has suggested that there is a very strong political motivation possible for regional co-operation in terms of the resistance to neo-colonialism and that involves an interpretation that all the factors at work in the West, the Common Market and so on, are of a character that would be exploitative and inimical to the Asian region. If that stands up to analysis, then it can be a very strong factor which can induce this kind of movement. But yesterday in our discussion, we seemed to think that it is not necessarily the case that the E.C.M. in the long run would damage Asian prosperity, and if that is so, then this thing that you say may be weakened and you may not be able to rally round a group of Asian countries under the banner of anti-westernism.

The basic argument for co-operation, is that these countries have to industrialise, that they can't be dependent on the export of raw materials. In order to industrialise they have got to seek markets amongst themselves and enter into an arrangement of collaboration. That is the fundamental economic argument for co-operation. But could it be strengthened by other political motivations which might help to cut across the political differentiation that exists between different governments?

GUNASEKERA: I think we could find sufficient political motivation for the formation of an Asian economic region by an amalgam of what Dr. Wilson has said and what Mrs. Gunawardene has said, that is both anti-westernism and also this idea of completing our national independence. Now most of the countries of this region have won political independence but have not completed their economic emancipation — they are still subject to foreign capital. In that sense there is a certain amount of unity amongst all these countries and by pursuing both these aspects, both at governmental level and by educating the masses, I think we will be able to make this idea popularly acceptable. In any case I think the Afro-Asian bloc is based on more or less the same two ideas, that is, anti-westernism and completing our national independence, forming a neutral bloc remaining apart from the two major blocs.

ABHAYAVARDHANA: Regarding this question of the westernised intelligentsia being a common factor in this region and providing a basis for the development of a regional consciousness, I think it might be useful to examine the problems which this intelligentsia confronts in this region. Whether we take India or Ceylon or Pakistan (I'm not so sure about the position in Burma but I imagine there is a certain similarity even there) we do find that one of the problems which the intelligentsia experiences in this region is one of integration, of integrating itself in the community. I think that this has rather an important bearing on this problem of regionalism, because when I look at India I find that whereas before independence the intelligentsia in India liked to think of itself as being Indian, today fifteen years after independence the tendency is in the other direction. The tendency is to emphasise the identity of being Gujerati or Bengali or Punjabi or whatever it is. Because before independence it was an advantage to belong to the category of being Indian. It opened the gate or the door to jobs, to advancement in the professions, to political advancement and so on. Today on the other hand, it is not an advantage to think of oneself as being Indian, as being different from being Gujerati and Marashtrian and so on. To the extent that one can identify oneself more

with the local grouping rather than with the national grouping it is to that extent that advantage comes one's way. Similarly in Ceylon there was a Ceylonese intelligentsia, but after independence and particularly after 1956 the tendency is to think of oneself as being primarily Sinhalese or Tamil or Burgher or Muslim or whatever it is, because that is the reality of mass thinking. Now here is a problem that can be called a problem of nationalism. Is it incumbent on these developing nations to go through the same experience as the nations in the West went through? There the consciousness of being Scotch or Welsh or whatever it was, was quickly submerged in the consciousness of being British because the direction of economic development was that of the erection of barriers, of protection and so on, round the national economy. Now in the context in which we exist, we have on the one hand to forge the unity of nationhood, and at the same time to do so in conditions where it is not possible to ring our national economies with protective barriers, such that we can develop our economy behind them. So it seems to me that there is a different task facing leadership of emerging nations and I think that the main leadership is in the intelligentsia of each nation.

This accounts for a certain commonness of experience which we are passing through in this region. There is really an attitude of temporizing, of tinkering with structures, with institutions which we have inherited from our previous rulers. We are reluctant to abandon them completely, and to replace them with new institutions, because in a very vital way, the rulers that have departed for the first time brought some kind of national unity into our countries. Whether it was in Ceylon or whether it was in India or whether it was in Burma or anywhere else, it was British rule that for the first time unified the nation. It did it on a superficial level it did it from above, it did it without the acquiescence or the support of the people, but it was the British who brought about for the first time, national unity or unification. The institutions therefore which the British established, had this value, in that they preserved some kind of national unification. I think one factor that explains this commonness or similarity of experience is the importance of retaining institutions which preserve national unification or national unity, while at the same time realising their limitations, the inability of utilising these institutions to develop our economies and to bring about the equalitarian atmosphere in which alone mass yearnings can find expression. Now if this is so, is it not possible for us to promote some kind of regional thinking? Can we not bring together the intelligentsia of these countries to examine what is a common problem?

COREA: Is the process of education that is going on in these countries, likely to result in the continuance of the trend towards producing an intelligentsia in the western image?

ABHAYAVARDHANA: Actually I think here again the Indian experience can be illuminating. In the first years of independence the attempt was made to do away with English as much as possible in the process of education. Today the tendency is in the other direction. It is being recognised that the fact that we have arrived late on the world scene as nations, makes it inevitable that we should be bilingual. And bilingual not in the sense of using two indigenous languages but in the sense of using our mother-tongues in addition to some kind of universal language. And though perhaps the pressure for the replacement of English has been as great in India as it has been in Ceylon, a certain amount of enlightenment in the national leadership such as has been brought by Mr. Nehru has also enabled the putting up of a certain resistance to this pressure, and to that extent I think Mr. Nehru has succeeded in retaining English for all practical purposes as the language of communication with the world, for communication even between the different nationalities in India.

In Ceylon we have tended to adopt what has already been adopted in India after a certain time-lag. Our pressure for the displacement or replacement of English is more recent than that in India. Therefore we are still in the midst of a campaign to do away with English completely, but I don't think it will succeed. Ultimately we shall have to recognise that English has to be an associate language with the mother-tongue. So I don't think that this bond which existed between the intelligentsia of these countries in the past is likely to be completely broken. In India English journalism developed considerably during the Independence period.

HENSMAN: And creative writing. India has a considerable volume of writing in English.

WILSON: I don't share your optimism about the future of English, because I think we are tending to compare ourselves with a large country like India which desires to have English and make an impact on the world. I think we should compare ourselves with a country like Burma or Malaya. The University of Malaya is going to introduce Malay as its language.

PERERA: There are forces which are pressing the adoption of Malay as the official language.

**RAJANAYAGAM:** To make it the official language together with English.

**WILSON:** And in Rangoon University, Burmese is the medium of instruction. So I think a small country like Ceylon must be compared with other countries of its size, rather than with a big country like India.

**SARATHCHANDRA:** The place of English will change. I mean in the sense that the educated elite will not be using English in the way they do now.

**ABHAYAVARDHANA:** But the change took place in India also.

**PERERA:** But India of course has its special problem of not having an indigenous language which is shared by all the masses 435 million people. That problem is not present in Ceylon to the same extent.

**ABHAYAVARDHANA:** Why not? Unless our minorities are Sinhalese speaking. Our minorities are not Sinhalese speaking.

**PIERIS:** Where there are two sharply divided and opposed languages, the problem is greater than when you have a large number of languages.

**RAJANAYAGAM:** In India, the teaching of languages is undertaken in every school. English, Hindi and the language of the region are taught to every pupil.

**SARATHCHANDRA:** The Education Commission has recommended that English should not be compulsory.

**COREA:** But if we think of not what is likely to happen, but what is necessary in terms of Ceylon's need for regional co-operation, isn't the implication that we would have to foster English?

**ABHAYAVARDHANA:** I believe that ultimately no people would like to disappear from this earth, not even the Sinhalese race which I think suffers from very neurotic fears about its future, and has been menaced by this fear throughout its history. I think there is a very good explanation for it, but the Sinhalese I am sure will not allow their ultimate interests to suffer. They will recover a sense of proportion and adjust themselves to the times. I have that much confidence in the Sinhalese race.

**COREA:** Yes, it would seem as regional co-operation becomes a reality, the forces which are in favour of a more open outlook in linguistic matters would be strengthened.

GUNASEKERA: But I wouldn't emphasis that too much in our report because it will be characterised by politicians as being the product of a reactionary group of English-educated people, that we are interested in the dominance of English and the submergence of the Sinhalese race!

COREA: As Dr. Sarathchandra said earlier, what is valuable and virile in our culture will survive the inroads which modernism is making, but our attempt at the same time to create a hybrid type of intelligentsia seems to me to be doomed to failure. To say 'let's have an intelligentsia but one which is not aping western ways' is meaningless. Our intelligentsia itself is half-baked but to the extent that it matures it would respond to our cultural values so long as those values are virile and valid.

SARATHCHANDRA: So long as you are prepared to accept the fact that you can wear a coat and speak Sinhalese, or the fact that if you speak Sinhalese you can still smoke a cigarette, and that if you wear national dress you need not ride in a bullock cart, it is very easy to create the proper mental outlook.

COREA: Then why not carry it further and also accept English.

SARATHCHANDRA: As far as it is possible and necessary.

ABHAYAVARDHANA: I think we are exaggerating the universal content of western culture. I think it is a mistake to identify westernism with universalism. I would distinguish between them. There is a greater content of universalism in western culture than in our traditional culture particularly in the technological component because we developed in much more limited and restrictive conditions. But to think that western culture would eliminate everything of value in the other cultures and replace them completely is I think an over-simplification.

HENSMAN: And even the "western" we have got here is not truly representative of the whole west, of the Spanish element and so on. There are so many other elements even in Europe which never came to us.

COREA: What I had in mind was this. All the countries in the world, whether it be Latin America, the Middle East, Turkey, Western Europe, Eastern Europe, even Russia, you have an intelligentsia which is becoming more and more akin to each other, in their cultural approach, their values and their way of living. It is only these ex-colonial countries which are trying to create a new specimen.



GUNASEKERA: I think we are going through a transitional stage and culturally we are suffering from an inferiority complex. Countries like Japan and China, are quite ready to accept and assimilate what they consider valuable in other cultures, and I am quite sure that we will also very soon reach that stage.

SARATHCHANDRA: The Indian scientist may accept the entire technology of the West, but he does not accept all the western ways of living and thinking.

COREA: These scientists have also come from a traditionalist background. India is still largely dominated by traditionalist influence. But an economically transformed India, highly industrialised, modernised, urbanised, may produce scientists who are more like the western scientists.

SARATHCHANDRA: They will be like the Japanese in that case. Can't we, when we get rid of our inferiority complex, do the same? It doesn't matter as long as it is a question, as Dr. Pieris said at the beginning, of what we want and what we don't want. We can always take what we want and reject what we don't want, and we don't need to feel that there is a contradiction or conflict in doing so.

MAHENDRA: There is the other extreme of Turkey which very consciously gave up all that was traditional and took everything that was western.

COREA: Well, I think we should conclude this session. We've touched on all sorts of things, so I don't know whether it is easy to sum up the discussion at all. I think we succeeded in clarifying the cultural issues as presented by Dr. Pieris in his paper. As for the political aspects of regional co-operation, Dr. Wilson mentioned the obstacles that do exist due to differences in political institutions, political conflicts between countries, and so on. But I think he also pointed out certain factors which are operating on the credit side which are the ones we would have to stress and develop and which will provide a basis for regional co-operation. I think that our general thinking here is that notwithstanding these political difficulties, the importance of regional co-operation would be such as to provide a basis on which they might be modified and over-ridden to some extent.

In addition Mrs. Gunawardene brought out some aspects which might give a political motivation for regional co-operation. The idea of protecting ourselves from inimical forces that might develop. We did not I think succeed in using the political factor to indicate or demarcate

countries which might get together. I don't think the comparability of political institutions or outlooks affords a basis on which we could suggest a grouping. We have been thinking of a grouping which includes India and Pakistan and Ceylon despite the fact that Pakistan has a different kind of political regime. It need not be an obstacle, but there is not the possibility here of suggesting a grouping of countries on the basis of common democratic or parliamentary institutions. So we would have to accept the facts of political differentiation just as we accept the facts of cultural differentiation and still try to provide for a programme of economic co-operation. I think the differences which exist would be of relevance to the forms of co-operation. Obviously the reasons why we preclude integration like in Western Europe or the common market is closely related to the fact that political obstacles and other institutional obstacles stand in the way.

Even if we were to think of regional co-operation as far-reaching as the European, the immediate conclusion we come to is that this is not possible because of various obstacles which exist in Asia which are absent in Europe now, including that of political differences, institutional differences, cultural differences, different degrees of development and so on. So the differentiation that exists is of consequence to the technical forms of co-operation which we will have to evolve. We may have to rule out common markets, we may have to rule out wider forms of integration and so on, and choose instruments of co-operation which would fit in better to the realities of the existing differences. And this may lead us to suggest a less comprehensive form of co-operation, but that is what we will have to discuss in the next session.

## SESSION FOUR: SCOPE, AREA AND MACHINERY FOR REGIONAL CO-OPERATION

**COREA:** In the three previous sessions we discussed more or less general principles and that discussion was in a sense intended to provide a background to lead up to a discussion on the more concrete aspects of this subject of Asian regional co-operation. Having analysed the rationale of such co-operation, having discussed Ceylon's particular interest in it, having also tried to comment on the wider political and social aspects of the problem, we are now left with the task of seeing whether we could arrive at any consensus of opinion on what might be the most feasible arrangement which such co-operation might take. We have to try and see in somewhat more specific terms than previously, what the appropriate area could be for an agreement on Asian regional co-operation, what its scope would be, to what extent it would have to fall short of arrangements in other parts of the world, and also what machinery could be set in motion at a governmental level and possibly also at a non-governmental level. Now, I think we felt it would be useful for the purpose of this discussion to have a little more specific information on the actual forms which co-operation has taken in other parts of the world, so that this may in itself provide a background to discussing our own problems. Mr. M.P. Perera will lead the discussion by speaking to us on this problem of the forms and machinery of economic co-operation.

**PERERA:** In dealing with this problem of the area, scope and machinery of Asian regional co-operation, I will touch on actual developments in economic co-operation in other parts of the world so that we will have before us the machinery actually employed elsewhere for purposes of promoting economic co-operation on a regional scale. The problems of World War II and its aftermath gave a great impetus to economic co-operation. At the conclusion of the last war the urge for this co-operation was nowhere more in evidence than in Western Europe. The sense of crisis and emergency created by the ravages of the war, and the problems of reconstruction and recovery thrown up as a result, impelled the nations of western Europe to co-operate in the solution of their common and inter-related problems. The situation was so critical that every country

realised the danger of acting by itself. It was in this context that the Organisation for European Economic Co-operation was born in 1948 and evolved in the course of its 12 years of existence a variety of mechanisms and instruments of co-operation adequate to the task it had to perform. Now these mechanisms came into existence over the course of this period, in response to actual needs. They were therefore developed in a pragmatic way. What was necessary really was for the process of consultation and discussion to be carried to a point where effective action was possible and for this purpose the O.E.E.C. evolved four instruments to deal with the emerging problems. They were resolutions relating to the work of the organisation in general; recommendations that members should take certain specific courses of action; decisions which had to be implemented by the members; and also formal agreements which in some instances had to be ratified by the parliaments of the constituent countries. The principal executive organ of the O.E.E.C. was its Council of Ministers which met either at the ministerial level or at official level. The meetings at ministerial level were of course less frequent than those at official level, so that the vast volume of business was actually put through at official level.

Then in addition to the Council there was an Executive Committee to assist the Council in its work. The subordinate bodies of the O.E.E.C. range from working parties of the Council to specialist and technical bodies like the steering board of 12, and within this range, there was a variety of instruments representing various combinations of official and expert representatives. The O.E.E.C. itself gave way to the O.E.C.D., the Organisation for Economic Co-operation and Development. By 1960 some of the functions of O.E.E.C. had become obsolete because European recovery was complete and many of the activities of the O.E.E.C. ceased to be effective. The introduction of convertibility for example led to the dissolution of the European Payments Union, and the improvement of intra-regional trade no longer provided any warrant for the Discriminatory Court of import restrictions which the O.E.E.C. had evolved. The O.E.E.C. itself had the important objectives to foster European co-operation in the wider context of the international obligations of these European members, and also in the context of developments in regional economic co-operation in Europe, that is the European Economic Community and the European Free Trade Association, and also it had another important objective, namely to co-ordinate on a broader international basis the provision of financial aid to the less developed countries.

In the course of this period, there were other movements towards various forms of integration, a general European movement towards a political and economic federation. Within this wider movement, there were others with more modest objectives. For instance it was widely felt that a customs union was necessary for the whole of western Europe, but before that could be established it was felt that partial integration or sectoral integration on the basis of the single-product customs union approach could be established. This led to the establishment of the European Coal and Steel Community in 1952. In fact before the E.C.S.C. came into existence, there was another important union in 1947, namely the Benelux which was a complete customs union of Belgium, the Netherlands and Luxembourg. The E.C.S.C. provided for a common market in coal and steel and it provided for the elimination of all internal restrictions which obstructed the flow of trade in this commodity among the countries of this region, including export and import duties, quantitative restrictions, subsidies, restrictive practices and various other discriminatory practices. Now all the six members of E.C.S.C. are also members of GATT, General Agreement on Tariffs and Trade. GATT does not provide specifically for partial or sectoral integration, therefore these countries have to approach the contracting parties to GATT and obtain a favour for the establishment of the E.C.S.C. The objective of the principal architects of the E.C.S.C., that is Schuman and other European leaders, was that it was the first step in the direction of a complete economic and political union of the six countries.

Not long after, the six countries met together and then evolved the machinery for the establishment of the E.C.M., the European Economic Community as it was called in the Treaty of Rome establishing the community. The Treaty of Rome provides for a complete economic unity which is much more than a Customs Union. Now from the standpoint of international trade and GATT, economic union as such is not the important thing. The important thing is the customs union which directly affects international trade. The GATT general agreement provides for the formation of customs unions and also free trade areas under certain conditions. Essentially customs unions and free trade areas are preferential agreements in as much as they derogate from the principle of most-favoured nation treatment in international trade, which is one of the most fundamental objectives of GATT—in other words, the promotion of international trade on a non-discriminatory, non-preferential basis. GATT provides for the formation of customs unions and free trade areas if GATT is satisfied generally that the objective of these instruments is the facilitation of trade.

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among the constituent territories and not the raising of barriers to trade with the outside world. In other words, the object of a customs union or a free trade area should be trade-creative and not trade-diverting in character. In the case of a customs union there is a single customs territory with a common external tariff. It is also an important condition for GATT approval that the new common tariff on the whole is not more restrictive, both in the field of tariff as well as non-tariff than the restrictions that prevailed in the constituent countries of the union, prior to the formation of the union. The object being that the new union, preferential as it is, will not be restrictive of trade with the outside world. Now, the principal organs of the European Economic Community are the Assembly which consists of parliamentary representatives from member countries, a Council of Ministers which is the supreme body of the community, a European Economic Commission which is the principal executive body and a Court of Justice. Of course, there are other institutions like the European Investment Bank which provides financial assistance to the backward countries of the community and a European Development Fund which provides finance for the development of the overseas territories of member states of the community. The E.C.S.C. treaty was important in one particular respect compared to all the previous approaches to regional co-operation, namely, that the treaty incorporated elements of a supra-national character by establishing its principal organ, the higher authority. Now this supra-national element is present even in a more intensive form in the European Economic Community. These supra-national elements impose considerable limitations on the right to independent action on the part of member countries, in regard to actions and policies coming within the purview of the community. Now the establishment of the European Economic Community in a sense, in a very important sense, led to a division in the ranks of the O.E.E.C., in other words, the O.E.E.C. became divided into two blocs—six members constituting the Community and the other thirteen members, the O.E.E.C. Anticipating this break, the O.E.E.C. started negotiations for the formation of a wider European Free Trade Area embracing the six of the community on the one hand, and the remaining members of the O.E.E.C. on the other. These negotiations were rather prolonged and long drawn out but eventually they failed, and the failure threatened the future functioning of the O.E.E.C. itself. So the other alternative opened to the remaining members.

The EFTA is a free trade area as compared to the European Economic Community which is a customs union. A free trade area, like a customs union in providing for a single internal market, but differs from a customs union in the sense that each country can have its own independent tariff

against the outside world. In other words each country can pursue to the extent that it is possible an independent commercial and foreign trade policy in relation to the outside world. Therefore the Free Trade Area connotes a less intensive form of integration than a customs union. The Stockholm Convention is the instrument or treaty which established the European Free Trade Association and the important thing here is that in this Stockholm Convention there is no machinery which involves any sort of supra-national control or the part of the Association as such. Nevertheless the functioning of a Free Trade Area implies a certain amount of co-ordination of economic and financial policies of the constituent countries. This is recognised in Article 30 of the Convention which states that the financial and economic policies of member states can affect one another, and for that reason places an obligation of a general nature, that member countries should, in pursuing these policies, see to it that they do not — that they pursue them in a manner which does not prejudice the implementation of the objectives of the Stockholm Convention. The Stockholm Convention too, provides for a Council of Ministers as the supreme executive instrument of the Association and the other usual bodies, the secretariat and other executive bodies. These are the principal developments in European Economic integration.

On the other side of the Atlantic we get developments in Latin America. In Latin America, the pioneer work, the pioneer thinking on problems of economic co-operation derived largely from the activities of ECLA or the Economic Commission for Latin America which is a regional body of the United Nations itself. With the assistance of outside experts, the ECLA, and principally its Committee on Trade, established an expert working group to formulate proposals for a regional common market embracing the whole of Latin America including the southern countries, Brazil, Argentina, Uruguay and also countries of the north, the Central American countries. This working group met once in Santiago, the headquarters of ECLA, and again in Mexico and drew up two important reports which provide the blue-prints for regional economic co-operation in Latin America. The blue-prints provided for two stages in economic integration. The first stage was to consist of a transitional period of ten years during which the member countries were expected to lower their levels of protection, lower their tariff and non-tariff barriers to certain agreed average levels. The aim being to reduce obstacles to international trade as much as possible, the objective of this stage was really the promotion of intra-regional trade. No customs union or free trade area was contemplated during the initial ten years. The tariff reductions were

to take place according to agreed schedules and the method of reduction involved a specific commitment. In other words, for purposes of tariff reduction, various goods were divided into various categories, and the average level of the tariffs from these categories had to be reduced to specific limits. Now this was a specific commitment and although the enforcement of this commitment pre-supposed negotiations, the negotiations themselves in no way affected the inevitable enforcement of this commitment. Negotiations could only affect the particular choice of products. In other words, to negotiate you could select products of importance to you and then negotiate concessions from other countries in return for which you yourself gave concessions to the other countries. So on this basis of reciprocity the tariff levels were to be brought down to agreed levels. So while negotiations affected the particular choice of subjects, the commitment to reduce the average levels applicable to the particular category remain unaffected. That was the fundamental feature of the proposals. This feature also facilitated the accession of new members at any time because accession of a new member to the arrangement would not involve complicated negotiations. The mere acceptance of this commitment was sufficient qualification to participate in the arrangements at whatever late stage countries may choose to join. Now the general application of these reductions was to be on the basis of the application of the principle of most-favoured nation treatment. In other words, if by negotiating with a particular country you agreed to reduce your duties on a particular category of products to a certain level, that concession was automatically extended to every other constituent member of the arrangement whether or not that member participated in the negotiations. That is the principle of most-favoured nation treatment. In other words, there is non-discrimination in the grant of concessions, notwithstanding the various stages of development, the different stages of development of the countries of Latin America. The group realised that any doctrinaire application of this principle would not be realistic, so they made very important exceptions to the operation of the principle of most-favoured nation treatment. One was in the case of countries in a less advanced state of development. In the case of these countries the proposals provided for a system of special concessions to promote industrialisation. In fact the whole emphasis in the Latin American arrangements is the need for industrialisation, the recognition that it is only through industrialisation that the pace of economic growth could be speeded up. So for that reason, running through the report is this emphasis on industrialisation. The object of the special concession is related almost exclusively to industrial



products. It was found that if the common market arrangements were to work efficiently the principle of reciprocity must operate at all levels and at all times. Otherwise some countries might be left behind in the race. So for that reason the less developed countries that participated in the arrangements by dismantling trade barriers and thereby permitting the more advanced countries to export products in return for special concessions which enable these countries to establish industries on a selective basis, having regard to the possibilities of establishing them in those countries. This would not be possible if the less developed country started industrialisation on its own. If the less-developed country started industrialisation on its own it would have had to resort to import substitution affecting the whole range of goods and that would have been wasteful of resources. So the idea of the system of special concession was to set in motion the process of industrialisation in these countries, which otherwise would have been extremely difficult.

The other exception was related to special types of agreements which have been referred to as industrial complementarity and specialisation agreements, where for instance it was advantageous to establish a particular industry on an integrated basis. For example in the case of the motor-car industry where one country didn't have the resources, or where resources were available but their exploitation did not constitute their most efficient use, a single country specialised in the final product, and a group of countries specialised in the production of components. Now the *modus operandi* of this type of agreement was the provision of preferential tariff benefits on a reciprocal basis. The country producing motor cars, the final product, got preferential tariff treatment in the other countries, and the other countries in turn extended reciprocal treatment as far as the component products were concerned. Now this is in brief outline the broad scheme for a regional Latin-American market, but the movements that actually emerged proved to be different. Instead of a single regional movement, there emerged two distinct sub-regional movements. One was the Latin American Free Trade Association of LAFTA which was confined to the southern zone and which initially consisted of 7 countries, Brazil, Argentina, Chile, Mexico, Paraguay, Peru and Uruguay. The northern countries, that is the 5 countries of Central America, pursued integration programmes of their own and these activities led to the conclusion of a general treaty on Central American economic integration. Now both groups have affirmed their conviction that these two distinct separa-

tist movements, will eventually merge and form into one single movement, and that it is not the intention of either to form an exclusive economic bloc. The ECLA is pursuing its efforts to bring about this possibility. That in brief is the situation in Latin America.

Now coming to Asia it is evident that progress in economic co-operation here has been much less spectacular. In fact it is true to say that any progress hitherto achieved in regional economic co-operation in Asia has been through the organs of the United Nations or the specialised agencies of the United Nations, of which the principal agency is ECAFE, the Economic Commission for Asia and the Far East. Now ECAFE has done good work, but this work has not extended beyond the point of consultation and discussion of problems which of course led to an elucidation of issues and sometimes agreed conclusions. But constitutionally ECAFE lacks the mechanism to formulate decisions and implement them. In the meantime, regional developments in other parts of the world have their impact on the region and these problems received the serious consideration of the ECAFE, principally its committee on trade. Ever since the establishment of the ECM and EFTA, ECAFE has been pursuing studies on the implications of these regional movements in Europe to the trade of countries in the ECAFE region. In pursuance of this work, the Executive Secretary of the ECAFE appointed a group of experts on regional trade co-operation in order to explore possibilities of more effective and practical forms of economic co-operation, particularly in the field of trade in the region. The export group was headed by Mr. Lal, Special Secretary, Ministry of Finance, Government of India, and issued its report in December last year. The report has been sent under confidential cover to Prime Ministers of the various countries, and it is now receiving the attention of these countries. Beyond that it is not possible for us to say anything about the actual proposals because they are confidential.

I think I should also refer to some practical steps taken by ECAFE for the promotion of intra-regional trade. In 1959 for the first time, ECAFE established a mechanism for the discussion of intra-regional trade. The first of these intra-regional trade promotion talks was held in Bangkok in January 1959, and since then there have been similar rounds of talks on this problem each year in January. These talks have had a limited usefulness. It would not be correct to say that they have achieved very concrete results so far. Countries on their own, too, took some initiative. Last year ASA was formed comprising, Thailand, Malaya and the Philippines, and it is of course difficult to say at present what the

achievement of this body is likely to be because it has barely established itself. But the objectives of the declaration issued in Bangkok by the Foreign Ministers of these countries indicated that co-operation could be extended to the spheres of trade and industry, for instance the declaration envisaged co-operation in the following fields. Plans were included for a multi-lateral agreement on trade and navigation, a study of the possibility of joint ventures in industry, exchange of experts and co-ordination of research plans, joint participation in trade fairs and exhibitions, joint tourist publicity programmes, and consultations on private commodities with regard to price stabilisation, standardisation, market research and similar problems. Other forms of regional groupings are the Federation of Malaya-Singapore merger and also the proposed Federation of Malaysia which is to consist of Brunei, Federation of Malaya, North Borneo, Sarawak and Singapore. Now the Federation of Malaysia as far as one could judge would constitute a complete customs union — there will be one customs territory replacing the several territories that are there at present. This, I think is an important development, and points to the direction in which this type of integration involving a single internal market and a single customs territory can take place.

Then we come to South Asia in the future. Now the ECAFE region itself is very vast, comprising 22 countries, with a population of over 1,500,000,000 or over one-half the total population of the world. So I do not think it is realistic to conceive of any integrated economic single unit embracing this vast area. Therefore there is scope for the formation of sub-regional groupings, although from a conceptual standpoint and also for purposes of broad regional co-operation the concept of the ECAFE region still has considerable value. For instance there is considerable danger if sub-regional groupings tend to multiply and form into exclusive blocs. As regards the various factors that would determine the establishment of these regional groupings — in other words, the regional groupings should always be open to the accession of new members, so that in the course of time, as economic co-operation on a regional scale expands, these regional groupings expanding in membership will facilitate the assimilation of these sub-groupings into wider groupings. I think the objective should not be the perpetuation of a large number of sub-groupings.

Now coming to the machinery of economic co-operation, from what I have already said, the following arrangements are available for purposes of regional co-operation. They of course connote various degrees of integration. In the first instance you get the Economic Union which is the

highest possible form of integration and which will generally be accompanied by also political union. Then we have the Customs Union, then the Free Trade Area which is a less intensive form of union than the customs union. Then we have partial integration or sectoral integration, or customs unions affecting single products. Then we could contemplate programmes of tariff liberalisation on a preferential basis, reinforced also by systems of quantitative restrictions again applied on a discriminatory or preferential basis. Joint industrial ventures between countries of the region, involving two or more countries, is another possibility. Then long-term trade contracts or arrangements is yet another possibility and finally, on the financial side, financial arrangements may also be necessary depending on the other forms of economic co-operation that will actually be used. It would appear that the scope for the first three forms, the economic union, customs union and free trade area is very much less than the scope for other arrangements. It appears to me that the most promising form and the most practical form would be programmes of trade and tariff utilisation including arrangements for joint industrial ventures. Programmes of tariff liberalisation on a preferential basis and also liberalisation of quantitative restrictions on a preferential basis would involve difficulties for member countries of GATT because the principle of GATT is non-discrimination in international trade on a local basis, that is of course as far as GATT members are concerned. For this reason, a number of countries in the region, who are also members of GATT, India, Ceylon, Pakistan, Burma, Malaya, Japan, Indonesia — and in the recent period Cambodia, Laos, Vietnam have also joined GATT. But the GATT is a flexible instrument, and if for instance countries of the region could formulate serious proposals with the ultimate objective of promoting economic development, of accelerating the rate of economic development in the region, then it should be possible for these particular members of the GATT to apply for a waiver of the obligations from the GATT for a specific period.

As regards machinery, I would like to touch on the need for a single central institution to which all countries of this region or nearly all countries of the region can join without in any way prejudicing the possibilities or the prospects for forming sub-regional groupings. I think it is extremely important that there should be a central institution which would provide a focus for effective co-operation among member countries of the region. ECAFE is already there, but it has certain drawbacks. Constitutionally it is not capable of formulating decisions and also implementing these. Another important drawback of ECAFE is the fact that it has a

non-regional membership. Most countries of Europe, countries which had colonial possessions in the area particularly, are members of ECAFE, the United States is also a member and of course countries on the periphery of the region, the Pacific countries, New Zealand and Australia are also members. Also the ECAFE is a subordinate body of the United Nations Economic and Social Council. These are factors which cannot be considered altogether conducive to the development of interests that are peculiarly Asian. But my own suggestion is that we need in the immediate future, an institution for which the constitution of the O.E.E.C. will provide a suitable proto-type. In other words, we must have an institution which could possess the necessary mechanisms that would carry the processes of discussion and consultation to the point of effective action; a body which would possess powers to formulate decisions and implement them. That I think is a problem to which all countries of the region should address their minds.

COREA: Thank you very much for a very comprehensive and useful review. You have indicated to us several of the possible instruments which we could consider in connection with forms which co-operation could take. For the purpose of the discussion, I was wondering whether it would be useful to take each of the aspects developed in the course of Mr. Perera's talk, in turn. First, the area, then the question of the forms, by which is meant whether customs union or free trade area, partial preferential area or whether sectoral arrangements would be appropriate, and then the question of machinery in the sense of organisations which might carry this concept of co-operation a stage further. On the area, in the light of what we discussed this morning, it seemed to me that it is going to be difficult for us to come out with a categorical suggestion that a given group would necessarily be the most suitable for co-operation in so far as it concerns Ceylon. We may indicate various possible groupings that are likely to be relevant to us. But it did seem to follow from what we've heard just now that the primary need may well be for a kind of area grouping or organisation which is not so much a grouping to implement arrangements for co-operation, but one which would facilitate further probing of possibilities amongst members to permit thereafter of regional groupings or groupings which cut across each other in different ways, that seems to be one possibility.

RAJANAYAGAM: The group until now considered the problem that was faced by the United Nations and the specialised agencies which when they attempted to create regional divisions found that no two organisa-

tions could agree on the same type of division. Now the ECAFE which is a regional section of the United Nations is different from WHO, ILO and FAO. So that ultimately we have got to name a series of nations and say we have got to select from them a group which will come together. We have then got to come up against the fundamental problem of Communist China. Some countries will then walk out so we will have to then take sides, one side or the other. The region will be automatically divided into two, because Philippines will be out, so will Thailand and probably Pakistan (Pakistan in one other instance was prepared to come in with Communist China). So if such a difficulty arises, how are we going to face it?

ABHAYAVARDHANA : Don't you think we should draw a distinction between the governments of these countries and the countries themselves? It is likely that the policies of the governments of particular countries today will not endure, at least they will not be permanent. In the present context where the cold war is perhaps the decisive conflict on the world arena we are faced with the difficulty that some countries are on one side of the cold war, other countries are on the other side of the cold war and still others are on no side. That being so it is possible that any attempt to form a particular grouping of countries will alienate other countries. But I think the answer to that difficulty is that even if tomorrow or the day after a particular country may hesitate because of political reasons to come into a particular grouping there is no guarantee that that decision cannot be changed. On the other hand if the grouping proves viable and effective and promotes the development of the countries belonging to it, then despite political hesitations it will be very difficult for countries that may vacillate tomorrow and day after to resist coming in a little later. Moreover I think the basis on which we should constitute these groupings, sub-groupings, regions or sub-regions or whatever you call them should not be exclusively one factor or another, but a combination of factors. In this combination perhaps one particular factor would be decisive or have a larger influence than the others but nevertheless it might be useful to try to see the consequences of all forces operating in the region, before we constitute or divide these countries into regions and sub-regions.

So I think in our discussions until now we have considered really three sets of factors, the economic, the political and the social including the cultural. I think we did come to some measure of agreement that the dominant factor among these would be the economic. But we shall

have to consider also the political and social factors operating. Now, I don't know whether we can on the basis of a combination of all these three factors say that the region or the sub-region shall consist of the following countries and no other countries. It might be not only difficult to make such a division, but it might be dangerous to do so. It would be better I think if we could see the outlines of the regions or sub-regions that can emerge, that is, generally speaking or broadly speaking, we might be able to say that the following countries might be grouped together, the following countries grouped separately and so on. Tentatively therefore, considering for instance the case of Ceylon, I would reason in the following way, in trying to approach this problem of what particular countries she should co-operate with, more than with others.

The biggest factor in the case of Ceylon is her proximity to India. There is no getting away from that fact, that India is our most close neighbour. Any regional grouping to which Ceylon can belong must therefore consist of or include India. We cannot think of a regional grouping that does not include India. Now if that is so, then the next step in our thinking should be to consider with what other countries the destinies of India are also intertwined, the economic development of India, her political relations, the social set-up that is evolving in this part of the world and so on. Speaking very generally one might say that the fate of India cannot be separated from the fate of her most immediate neighbours, and I think that in the development of the Indian economy as well as the development of India's relationships both with her immediate neighbours and with other countries you will find a very important place assumed by the problems of India in relation to countries like Pakistan, Nepal, Burma, Bhutan, Sikkim and, one might even say, Afghanistan. That being so I wonder whether we might not tentatively consider these countries of India and the neighbouring countries as a region or sub-region and if they are a large enough grouping.

**RAJANAYAGAM :** Quite frankly, if I may say so with the utmost respect we are like a man wanting to get married and making the decisions without asking the girl what she has got to say on the subject! But the other countries are also involved in this, whom we should consult first? Aren't we going to take their views into consideration?

**ABHAYAVARDHANA :** This really touches on the first problem that you raised, namely, the attitudes of governments. Now I do not believe that the attitude of the present government of India to regional co-operation is either necessarily good for India, or bound to reflect the attitudes

of future governments. There is no doubt that at the moment the Government of India is apathetic to regional co-operation. But I think that this is because of a certain self-centredness in the outlook that India has had or has developed during the post-independence period. She has attempted to reproduce the evolution of Japan as being the best pattern an emergent country can seek to adopt.

**RAJANAYAGAM :** To some extent, India is thoroughly unpopular today among the countries of the region because she has tried to push her interests a little too far and too fast. That might not subsist for any length of time but if we are going to co-operate or work with some of the countries, all we can do at this juncture is to discuss various possibilities and leave it at that and find out what the other countries have to say on the subject.

**ABHAYAVARDHANA :** No, that is a question of practical steps or a practical attitude. But in delimiting the region itself would it not be necessary for us to be guided by somewhat abstract considerations?

**HENSMAN :** If you leave out any of these countries listed by Mr. Abhayavardhana, then if you are concerned with regional planning, you raise the question of what groups are they going to join? Supposing you leave out Afghanistan or Pakistan.

**RAJANAYAGAM :** Afghanistan is part of the ECAFE and part of the Middle East region.

**HENSMAN :** It is not part of the Middle East region?

**RAJANAYAGAM :** It is part of the South-east Asian, but part of the Middle East region for the WHO and ECAFE region. So the question is, Afghanistan is a border country which is a very nice case in point.

**HENSMAN :** Yes, I think that is an answer. But for any country which you leave out then you must have an answer.

**RAJANAYAGAM :** Malaya and Singapore?

**HENSMAN :** No, not necessarily, because they are outside the region he has defined so far. I mean geographically.

**ABHAYAVARDHANA :** That is why I suggested that if we can sketch only the outlines of a region, it may be for instance that Thailand will be in this region rather than in some other region. I don't know.



COREA : Are we compelled to think in terms of a group. Is it not possible to evolve a system of cross-cutting forms of co-operation where Ceylon has a co-operative agreement in respect of a specific commodity. With one country, say, Japan, she might have an agreement to export salt, another agreement in respect of another commodity with India, and so on, an agreement on rice with Burma. Can't you have a series of cross-cutting interim agreements? We also conceded that regional consciousness can only flow out of development. And also I should think if we really meant what we said that the economic factor is to be the most important, then the choice of countries can only come through a thorough examination of the specific possibilities in respect of co-operation in sectors of industry, and until that is done, I don't think it would be very realistic in demarcating groups. This in turn suggests that what we will need as a first stage is a kind of bigger forum in which all kinds of candidates are there which will then provide the machinery in which the possibilities could be explored in respect of different products and so forth.

RAJANAYAGAM : Might I make an alternative suggestion? Now take this question of trade, economic expansion. Can't somebody in the Central Bank work out in what way we can improve our trade with some of the countries in the region?

COREA : The difficulty about that is that the type of development of trade we envisage is not so much in respect of the existing things we produce but in terms of the new products which industrialisation would make possible. You can't get very far with tea, rubber and coconut in the Asian region. What we really need is access to a wider market in the Asian region so that we can plan out bigger scale industries which would otherwise have not been possible. So it's very difficult for an economist to identify what these industries are. It requires what someone called a techno-economic survey, you've got to bring in the technicians who can discuss the technical possibilities and people who are aware of market requirements.

HENSMAN : Actually the examples which Mr. Perera's paper produced — referring to those centering round Malaya — I think are rather misleading because they seem to be proposals which are advanced (I'm not thinking of ASA but Malaya, Singapore and the proposed Federation of Malaysia). They are hardly a guide to our thinking on this subject. In any case Malaysia seems to be very much the result of Tunku Abdul Rahman's ambition. I don't think it has very much of an economic basis,

It is more like the absorption of very much less developed territories, Brunei and so on. This is a part of ASA. The Malaya-Singapore thing has in any case been working in British times before it was a single economic unit.

PERERA: What I emphasised was that the scope for the more intensive forms of co-operation, namely, a customs union, a political union, or a free trade area exists only in the instances that I quoted. My point is that the region being so large and the countries, most of the countries, not being contiguous, the scope for Free Trade Areas and Customs Unions is much less than would otherwise be the case, as in Europe. So if we look in the direction of the establishment of customs unions and free trade areas perhaps the possibilities are along the lines of Malaysia, contiguous and close regions linked by cultural political affinities, geographical proximity — for instance the contemplation of a customs union between Malaya and Ceylon or countries like Afghanistan and Ceylon is beyond the realm of possibility.

JAYASINGHAM: Then I think we must grant the viewpoint that the South Asian region you are thinking of consists of just India and a few territories.

PERERA: That is why the possibility lies mostly in the direction of arrangements in regard to specific products than arrangements in regard to specific groupings of countries.

COREA: And you know the impact of collaboration with other countries would tend to depend on the degree of dynamism in those countries. If we link up with relatively stagnant economies it is probably not going to do us much good. Sometimes it serves a better purpose to join up with a country which is growing faster than you and can take advantage of your weakness, because that might serve us at least to get going. But if you link up with some of these countries you mentioned our economic progress might not proceed so fast.

ABHAYAVARDHANA: Looking at this whole problem not so much from point of view of some kind of immediate union between these countries, as from the point of view of projecting an optimum line of development, I don't see how, through the consolidation of their separate economies, it is possible for them to meet the challenge of modern technology. Now one might think that because India is a large country in comparison to these smaller neighbours, that India is absolved from the compulsions of regional thinking. I don't think so. On the other hand if one looks at

the fate of India today, the tremendous burden of her military budget for instance, the tremendous pre-occupation with problems on her border, whether it is Pakistan, whether it is the fate of Nepal in relation to Tibet and China, whether it is what is happening in Burma with its implications for the problem of her North-East frontier territory, or whether it is Ceylon there is no doubt that the type of development which took place in Europe where a large nation could think only of its own development and not of the fate of surrounding nations is no longer possible in our epoch. The alternative to regionalism is one of competition between these nations, of rivalry, and in the rivalry between the small nations and the big nations, the small nations are at a disadvantage. To rectify this disadvantage, they must look for extra-regional link-ups. If, therefore, India is to pursue her present line of self-centred development, she must expect foreign link-ups or extra-regional link-ups on the part of the surrounding nations. The orientation of those nations will be, not towards the region, but away from it. Now these are compulsions which even a big nation like India cannot escape, apart from the problems of building her own national unity. I consider, therefore, that that it is not a question of whether the consolidation of this particular grouping is immediately feasible or not, but viewed over a rather long-term perspective it does not become more or less obligatory or inevitable. What is the alternative to co-operation between countries in this region?

**HENSMAN :** What would you say to the agreements on specific products made, perhaps with not too much regard for a region but more as a way of building up support for closer integration, and at the same time trying to promote the regional idea, that there should be some kind of consolidation within the region. From what has been said it does look as though it is a big leap from the present situation to the one you envisage. As a matter of strategy how will this series of arrangements which perhaps in a way, partly dissipates the regional idea, since they involve countries outside the region — how will they help?

**ABHAYAVARDHANA :** No, I think we must have both a long-term approach and an immediate approach — there must be certain steps which are feasible immediately, but I think the determination of those measures or steps must be in the light of the long-term trend.

**PERERA :** I think if we don't have our eyes set firmly on what is possible in the foreseeable future, you tend to build up a doctrine or dogma of co-operation and not an education for co-operation. What we need is to deal with the practical problems of the immediate future, not something

that is visionary. It may be that in a hundred years or two hundred years the world will be a different place when for instance, Afghanistan would be as intimate with Ceylon as Ceylon is with India and Burma. Wouldn't it be far more profitable to consider the entire problem more realistically by limiting it.

GUNASEKERA : Yesterday, when I talked of the rationale of economic co-operation I suggested that there was a certain element of urgency about it because of the fact that most of these countries are committed to economic planning. Not only these countries that Mr. Abhayavardhana mentioned but even the wider region that you are conceiving of. If we merely confine ourselves to the kind of arrangement that you envisage, more or less on the lines of the ECM or the Latin American common market, trade liberalisation and so on, our difficulty you see is that we have not much trade to liberalise. The point is that we are trying to build up our economies and build our industry and there is always the danger that I pointed out that if we do not come to some closer arrangement, a co-ordination of economic development, you will find each of these countries setting up industries by themselves so that to that extent some of the benefits of regional co-operation that we envisage, may be lost to us. On the other hand if we, from the beginning, envisage this as a developmental effort on the part of a whole region, it will be possible to avoid duplication of effort, and to the extent that we postpone this idea of regional co-operation you will find it more and more difficult to achieve it when we want it. Now Europe has been competing for so long, for so many decades, before she decided to co-operate. In the same way, if we allow the development of industries independently of one another and forego the possibility that exists today of a co-ordination and integration of our economies, then it may be a long time before we actually reach the point of co-operation. On the other hand if we aim at co-operation now itself, a co-ordinated development in this region, it might be in our own interests.

Trade liberalisation as an immediate objective is not so significant or important in this region as it was in the Latin American region. In the Latin American region you see they had considerable tariff barriers and so on.

COREA : It is quite true that if one looks at the existing volume of trade and the obstacles to that, they are probably very little and trade is not flowing for other reasons. But it is still true that there are considerable tariff barriers in force in these countries against products which are not

yet being produced in the region, but which may potentially be produced under development. I think that is the kind of liberalisation you had in mind. Today we have no trade in industrial exports with countries of the region from Ceylon but if we were to try to produce industrial goods for export then we would find that there are considerable barriers in the form of protective tariffs levied in almost all the countries around us.

GUNASEKERA : But it would be foolish to attempt to produce commodities for export when we are aware that there is a restriction on our exports.

COREA : That is why there is room for the preferential lowering of these barriers to exports from countries within the region. If by negotiation we can persuade countries which are likely to offer markets to us to give us preferential treatment in tariffs, then we have a basis on which to plan our production to take account of these markets.

GUNASEKERA : Yes, but the countries which are likely to offer markets to us will be those who are prepared to forego import substitution and allow our commodity into their country. The prior question is one as to the co-ordination of development because we have no industrial products to export.

PERERA : It is not a question of foregoing import substitution but of enforcing import substitution on a rational selective basis.

GUNASEKERA : Yes, the whole rationale was that we were going to replace import substitution on a national scale, by regional import substitution.

COREA : But a concomitant of that may well be the reduction of obstacles to intra-regional trade. What you are saying is that there is little scope in following trade discrimination as a general principle out of context of individual plans, schemes and projects.

RAJANAYAGAM : In the context of expanding the type of goods we can either buy or sell, I may mention that when in 1959 ECAFE opened trade stalls, Mr. Perera got a telegram from the Ceylon government to negotiate for the sale of our goods. There was only tea, rubber and coconut. Other countries came to it armed with about 20 industries each, ready to put his product on the market.

PERERA : I was the only delegate from Ceylon. There must have been about 13 members on the Japanese delegation.

**SALGADO :** Shouldn't there be exploratory discussions with a number of countries on what can be done about regional co-operation? Now isn't the immediate problem that of deciding which countries we should select for these exploratory discussions, so that from that point of view I wonder whether selection of countries like Japan would be very useful for a starting point. Now you mentioned the possibility of selling salt to Japan in return for some other commodity, but would the Japanese be particularly interested in our salt? If we find that there is a particular country not only Japan, but Germany or Poland or any other country, which is interested in any of our commodities we would be justified in trying to sell to them. But apart from that as an immediate measure with wider objectives — that of co-ordination of economic plans and so on — should we not think of a smaller grouping to begin with?

**COREA :** My own thinking on this is a kind of reconciliation of these two aims. I quite agree with Mr. Abhayavardhana that eventually you will find sub-regional groupings developing, particularly of countries in close proximity to each other, which have a greater degree of inter-dependence and we must keep an eye on that possibility. But at the present stage as a practical step are we to proceed by trying to demarcate these groupings and to sponsor schemes of co-operation in respect of these, or would it not be better at this stage to try and work towards the creation, initially, of a somewhat wider forum of the Asian countries under whose auspices one could explore possibilities of closer co-operation between the different members? It may well happen that the type of possibilities which keep emerging would be more for a certain group. We may have an odd possibility with Japan as against three or four possibilities with countries in proximity to us. But the advantage of having this wide forum, as I see it, is threefold: one is that it takes account of the possibility that there may be alternative arrangements which might be beneficial; secondly, if this exercise was conducted under the auspices of a wide forum, each country would be able to have its interests represented if some other grouping is in the offing which might damage it. It may well be that Malaya, Indonesia, the Philippines and Thailand get together and do something which is going to be tremendously harmful for our tea and rubber. But if all these explorations and negotiations are done under one forum at which all these countries were represented, there would be some machinery to see that all interests are represented and that they could be made known. The third factor is this, that in respect of some of our problems, commodity stabilisation for instance, we may have to have close collaborative links

with Malaya and Indonesia, rather than with India, Afghanistan, Bhutan, Nepal, and so on, and possibly African and Latin American countries. But even if we are thinking of commodity stabilisation from an Asian point of view, our need for negotiation and common action may be with these groupings. So it would be useful to have some kind of big forum which would not be a decision-making forum or an implementing forum, but one which really provides, makes it possible for these countries, within a set of general rules they may frame, to proceed further with probing the possibilities for closer collaboration amongst themselves. I should think that that would also consolidate the vague groupings going on now amongst all countries in the region as to collaboration. Everywhere there is this uncertainty as to what the grouping would be that is most favourable. If you suggest one particular group it is going to lead to a certain amount of resistance from others. Thailand may well resist a grouping which includes Burma and leaves her out. She may have compelling reasons as to why she would like to collaborate with Burma. So it is really a question of tactics as to the approach one adopts in regard to machinery.

PERERA : But doesn't ECAFE provide such a forum ?

COREA : Yes, except for the presence of the non-regional members there, and also China probably.

RAJANAYAGAM : ECAFE also has two distinct disadvantages. Firstly, most of the important decisions are made in New York, not in any of the Asian countries, and secondly, ECAFE gives far too much prominence to the bigger countries as against the smaller countries. And that is totally damaging as far as we are concerned. I was going to suggest when the second part of the discussion was taken up that whatever we do must be completely independent of any organisation connected with either the United Nations or any of its specialised agencies. Mr. Perera did not refer to the organisation of Latin American states which is distinct and independent of ECLA.

COREA : And OEEC as far as I know is independent of ECE.

RAJANAYAGAM : Yes, and an organisation run by the countries themselves. Asian self-respect demands that we have some similar organisation completely divorced from either the UN or any other agency.

ABHAYAVARDHANA : My criticism of Dr. Corea's statement is that it is based on an exclusively economic approach. If for instance, all we were thinking of was paving the way for the liberalisation of trade, the

possibilities of industry and so on, then we might approach it in this way, feeling our way forward step by step. But I say that there are other complicating factors, there are the political factors which are in a sense more urgent and more immediate than even the problems of development. Take our own experience in Ceylon. Could we for instance contemplate any programme of development that does not take account of our relationships with India?

COREA : We are doing so.

ABHAYAVARDHANA : Yes, and what is the result? We are being tied up more and more in our own internal difficulties. The whole future of our economy, I think, depends on how we are going to solve the problem of immigrant labour in Ceylon. At the moment we assume that there is absolutely no threat from that direction, but there is. Here is a vast middle-class living on a working force without rights of any kind, in virtual conditions of serfdom. How long is that going to be the basis of any kind of stable society? This is not limited to Ceylon. It is so with India. India cannot consider any future for herself independent of the future of Pakistan.

COREA : Yes, but what I am saying does not really go against this. I am only trying to avoid setting up fences prematurely.

ABHAYAVARDHANA : I am not suggesting that we should set up any fences but can't we, even while groping forward, discern on the horizon this outline of an emerging region?

COREA : Will it not also be in our interests to diversify our dependence? Why shouldn't we conceive of our future development as one which will have to be in terms of dependence, with collaboration with India no doubt, but which is to some extent tempered by links and dependence on other countries?

ABHAYAVARDHANA : Actually, I will not call this dependence because it is here that the form of co-operation would come in. I think it is inescapable that we seek to reconcile the demands of national existence or national sovereignty with the demands also of regional co-operation, of belonging to a larger grouping. And that is a political problem in itself.

SALGADO : About the membership of the grouping I would agree that there is a case for including countries like Malaya and Indonesia and so on, particularly because of problems of price stabilisation. But is there



a case for including a country like Japan? A country like Japan is already well developed. The countries must also have a need for reciprocal concessions from us in the development of their own industry. Now a country like Japan is surely not interested in obtaining some concession from us.

GUNASEKERA : But she would like our markets.

COREA : Japan has an interest potentially as a source of investment finance. Already Japanese capital is beginning to flow into countries including Ceylon. Japan is one of the members of the Colombo Plan, one of the donor countries, providing technical assistance and so on.

SALGADO : Yes, so there is a case for having separate bilateral agreements with Japan as well as with other countries. But in addition we are trying to look forward a bit further aren't we?

GUNASEKERA : But wouldn't your problem be met if we left the door open as you suggested for more and more countries to join?

COREA : No, my idea is really the opposite, to start off with a big exploratory group and then get people to team up together, as they discover closer possibilities for co-operation, rather than to start off with a small group. It might be difficult with too large a group especially if there isn't the convergence of interests. I wasn't thinking of all countries sitting round a table and discussing each problem and coming to an agreed solution. What I meant was to have a membership of a large group, but within that countries which find scope for co-operation to get together and thrash out plans and come to agreements which are then made known to the rest of the membership, and if people have representations to make on this with regard to organisation they would be free to do so. It is something like GATT in a way.

HENSMAN : But in what terms would the setting up of a body like this be proposed? If we are starting from scratch and are proposing this co-ordinating or planning body you will have to convince people that there is a need for an alternative—apart from the fact that we need an Asian body, there is much more to it than that because you are going to call for a lot of time and trouble setting up what is virtually a parallel organisation to at least ECAFE, in which all these countries participate. Now in what terms are you going to propose this?

PERERA : Basically the argument is that ECAFE as it is constituted at present is incapable of developing the mechanisms which make for effective action. The ECAFE forum is to discuss problems, to consult on problems and that is about all. Discussion and consultation is not brought to the point where it is translated into effective action. In other words, you must have a body like the Council of OEEC, of Ministers who come from their countries backed by specific mandates, come to agreed conclusions and then start implementing them. That is how an organisation starts. Then you have to develop your various mechanisms and the development of the mechanisms would depend on the work that it undertakes. Now in the case of the OEEC, it did a lot of essential technical work, it had technical bodies like the committees on food and agriculture, on oil, on coal and steel, the committee on various aspects of engineering. All sorts of problems affecting the collective interest of the European members came up for discussion and there was very effective co-operation. Now if we have a body like that, even initially, for the co-ordination of national development, plans could be pushed through such a medium.

COREA : OEEC did not preclude the formation of the Common market into a smaller group and a Free Trade Area.

ABHAYAVARDHANA : But the OEEC was prompted by two factors wasn't it? One, the distribution of American aid and two, the whole problem of the reconstruction of Europe. Now there was a powerful impetus for the formation of an organisation limited by these purposes. But here, what is it that can lead us to the constitution of an Asian body separate from ECAFE?

PERERA : The urgency of the problem of economic growth and the need to co-operate for that purpose. The urgency must be provided by the need to develop the region on a planned basis as the Bandung grouping, whatever it is, savours very strongly of a particular political derivation. We are interested in the region as such, not in particular ideologies so that we should have a non-partisan quality based on the region, on as broad a concept of the region as possible, in the interests of rational and efficient use of the resources of the region. After all the Bandung group was a partisan group.

HENSMAN : Why do you say that, in what sense? What would the Bandung group exclude which is of significance?

PERERA : Wasn't the Bandung group particularly occupied with political problems? In any case the Bandung group never went very far, as far as I know.

ABHAYAVARDHANA : All I am saying is, there was a powerful impulse which brought into being a group of nations, including Communist China. But what is it that is going to bring this grouping into being? You need a powerful impulse, and I do not think that the mere need for economic development can bring this grouping into being.

PERERA : Didn't the Bandung group itself show differences based on ideologies? That is what led to its disintegration. So if we are preoccupied with the problem of economic growth and the development of the region, we should try to evolve an objective body which savours less of political affiliation, and proceed on that basis. And I think the ECAFE region provides that basis for co-operation. What I pointed out is that ECAFE, a consultative body, constitutionally is incapable of action. We should have a body co-extensive with the countries of the region which can evolve a mechanism on the lines of the OEEC, but an exclusively Asian organisation which could actually practice co-operation not merely preach it and discuss it. The prototype is the constitution of OEEC which I had in mind.

COREA : Isn't it a difficulty that we can't find an impulse? There does not seem today an overriding impulse which would govern or propel these countries he mentioned to get together. May be in terms of the long sweep of future history this appears rational. I should think that development, weak as it is, is a much stronger motivating force. Wouldn't Burma and Nepal be very hesitant in casting their lot with this group with the Chinese on the other side? They might like to keep clear of relationships which provide a closer tie-up with India so as to keep the doors open for collaboration both ways?

ABHAYAVARDHANA : There are certain dangers in that prospect. Already one can see the nervousness of the government of Nepal about Indian intentions in Nepal. It is very simple for the Government of India to allow elements to operate from Indian soil which would bring about a change in Nepal's foreign policy. And these things have happened in the past and will continue to happen in the future. The nearest parallel I can see to this region, is the development of the idea of Arab Federation. I think that there you found a very uneven development of the idea of federation itself. The beginnings of the movement for Arab Federation were in Syria,

and it was in Syria that the movement developed which not only spread the idea throughout the region but also took over the government in Syria and paved the way for an act of self-immolation whereby Syria joined the United Arab Republic. Now certain mistakes were made, there was a certain precipitateness about the act of sacrifice that the Syrian intelligentsia committed and they have retracted from that and attempted to correct the errors that they made. But one can see the fruits of that action in the Egyptian Government of today which is the most powerful base of the idea of Arab unity. Now I think that the development towards Arab unity indicates the kind of power of a regional movement.

Similarly, I think that if we look at this region today, you will find that in many countries of this region there aren't even incipient ideas about the possibilities of regional co-operation. Perhaps in a country like India they have not even begun to think about the necessity of it. In terms of government policy and so on they have not gone very far. So I do not think that the difficulties of bringing about regional co-operation should deter us from embarking on it. It may be that we will have to work on this idea more in Ceylon than in India. It may not be so. But should it be so, let us not hesitate to take on the burden of doing so.

COREA : The Ceylon Government's attitude to regional co-operation is one of acceptance. Not only in theory but in practice. When the ECAFE for instance sponsored a resolution on this, we were prepared in fact to subscribe to it. Our Parliament has passed a resolution. We ought to consider that possibility too. The parliamentary resolution included the Colombo Powers comprising India, Pakistan, Ceylon, Burma and Indonesia, and the resolution added Malaya. I am not talking of the Colombo Plan. This is a group called the Colombo Powers which summoned the Bandung conference and that included India, Pakistan, Burma, Ceylon and Indonesia and our parliamentary resolution added Malaya to that list. That suggested that our government call a conference to explore the possibilities of co-operation amongst these countries. Now that seems to me a better arrangement than the bringing in of these Himalayan kingdoms.

GUNASEKERA : Bringing in Malaya seems quite sensible.

COREA : But I do believe still that it is very important in the interests of the Asian region to have some kind of machinery of consultation where by the repercussions of these various groupings could be explored. It may well be that some countries like Malaya and Thailand and Philippines

and Indonesia get together and link up with Japan and leave out the rest of the region, and you may have tremendously differential rates of economic growth. One disadvantage of keeping Japan out is that Japan may make available much of the assistance she can make available, to another group.

**HENSMAN :** But you see, if we go through all we have been saying earlier about the urgency, the need to consolidate, the need finally to complete our independence; the political reasons, the need to stand together against what we call neo-colonialism: there may not be exact agreement on all the formulations but we are discussing problems. Again you see, it goes back to Bandung. There was some reason that brought the Bandung Powers together—what was spoken about there was never done. Even the delegations who went to the conference broke up. Anyway, there is something that united the whole region. Even if finally there are groupings which break the region up, it'll be clear that we are not suggesting that there should be any kind of fratricidal competition between different regional groupings, if in the end there has to be more than one. It seems to me so important that the whole project, if it is to be pushed, should be based on very clear thinking which includes the political, the cultural and the economic. And then of course as a matter of strategy, if you make specific proposals or alternative proposals, they will be much more clearly understood. After all the worrying we have done in a seminar like this, and knowing how complicated this whole problem is, if we merely go and produce some concrete proposals out of context then we leave the door open for all sorts of misunderstandings about the ultimate purpose and the urgency behind it.

**COREA :** Even if it is not the intention, we must be careful not to provide for arrangements which will produce that impression. So that at the back of our minds there is a lurking fear that what we are going to create is a kind of depressed area, that the countries you mentioned will turn out to be those with the slowest rate progress. On one hand you get China, growing and expanding very fast. On the other hand you might get a grouping with Philippines, Thailand, Malaya, collaborating intimately with Japan, which is also growing very fast, and I was wondering whether we won't gain more by having access crosswise to some of these other markets—not as a group.

**HENSMAN :** The chief weakness of the group of countries which Mr. Abhayavardhana had mentioned is that it has the largest proportion of stagnant economies in the whole of Asia. That is of course because of the Himalayan kingdoms and even Pakistan relatively.

**WILSON :** Is there any objection to Malaya and Indonesia forming part of this?

**ABHAYAVARDHANA :** Actually Indonesia is a vast region in itself which can provide the basis for considerable structural changes in this concept of Malaysia.

**COREA :** I know when we had a meeting of the officials of the Colombo powers which included Burma to discuss an agenda for an economic Bandung, Burma did not send a representative, and at the time the Burmese government was in the hands of the present General, and the reason given is that he did not think very much of the idea of an economic Bandung.

**WILSON :** Supposing a group like this came into existence and Burma found herself cut off from this group, wouldn't she be forced to come in?

**ABHAYAVARDHANA :** Can we have a formulation like this then, and leave it vague. Say that the region should be a contiguous area and should have at its core the neighbouring countries of Ceylon.

**SALGADO :** I think if you want anything to come of this, as a matter of tactics we should not leave it vague. If we leave it vague probably nothing will come of it.

**WILSON :** Whom are you going to invite in any event to exploratory talks with us?

**HENSMAN :** Well in that case you can invite more, a fairly large number.

**RAJANAYAGAM :** As a preliminary step we should discuss it with India or one or two countries to find out what they think before you send the invitation.

**COREA :** The parliamentary resolution was that the Ceylon Government should take the initiative.

**RAJANAYAGAM :** My impression is that they are not interested in anything outside Ceylon, except when it comes to a question of attending some of these conferences, and sending the whole of parliament out—which is good in one way because they come back educated.

**SALGADO :** I thought our intention is to organise an unofficial conference from the countries thought to be suitable for this grouping. So why not select some countries from that point of view? I think it is better to select some set of countries rather than leave it vague.

COREA : I don't know whether the rest of the participants here feel as I do that there is some advantage in the initial stage of having a wider grouping. If they do agree, the way we could put it is that regionalism offers opportunities for co-operation amongst Asian countries, all Asian countries to different degrees. That there is need, at least for a start, of exploration of these possibilities and for an organisation which can make that exploration possible. But in the meantime it would also be useful if countries, which have immediate possibilities of co-operation before them, could get together and proceed to explore these. And for that purpose countries which are in close proximity to Ceylon, from Ceylon's point of view, would be—then we can refer to the resolution of Parliament which already indicated that a conference will be called, and stop at that.

ABHAYAVARDHANA : Yes, I have no objection to that formulation for the time being.

COREA : I don't see that we can go further than that. I mean supposing ECAFE, as it has been intending to do, manages to convince its member countries to set up a council of Ministers of all the member states and a secretariat on regional co-operation, obviously we can't keep out of it. So we must not adopt a formulation which suggests that we would be against any attempts at collaboration on a wider scale. But we might push that in the meantime while these arrangements mature. So that countries which have a closer relationship to each other and have a more immediate prospect of making a reality of this co-operation could get together and explore this and anything that emerges could be within the framework of a wider pattern of co-operation. Well, I don't know whether we intend to discuss some of the other more or less technical problems that Mr. Perera raised in his paper and that is on the various instruments of co-operation. We all seem to be agreed that common market arrangements are a little too ambitious, and that to some extent even free trade areas may be in advance of the time. Then we had vaguely suggested the linking of plans by comparison, sectoral arrangements, projects, a system of preferential tariffs. Are we going to develop on these? Are we making any specific recommendations on machinery? That is these councils of Ministers and technical committees attached to it and secretariats. The only thing is that our statement may not really take our thinking very much further than what it was before we met if we don't have something more concrete. If we are vague on the membership of the area we can't go very far on the machinery.

GUNASEKERA : Well, you are suggesting that the exploratory discussions should be initiated—isn't that so?—amongst a certain group of countries, and then as a suggestion wouldn't we say that they should discuss the problem of setting up a secretariat or some kind of organisation to work out the possibilities and details. Can't we formulate it that way?

SALGADO : Except that if we have a blue-print, it may be a basis for discussion at that stage.

PERERA : Could we put it in these general terms that as regards the mechanism necessary, these would have to be developed in a pragmatic way?

COREA : Our purpose is not entirely to suggest something very specific. Our purpose is partly to educate and to bring to the focus of public attention and discussion, the significance of this problem. It's a bit too much to expect us to come out with a complete blue-print for Asian regional co-operation.

HENSMAN : But surely we are suggesting at least the first steps, the first steps in institutional implementation of the idea, to go forward, how these countries are to come together, what they are to do. We might surely refer to the need for some kind of consultative machinery on a regular basis.

GUNASEKERA : An economic co-operation council?

WILSON : Are we making our submissions to various governments if at all?

HENSMAN : No, to other like-minded people.

COREA : Our seminar statement will be for our public. The main contribution we could make is to highlight Ceylon's interest in this rather than to make prescriptions for Asia as a whole.

ABHAYAVARDHANA : The thing is to impart a sense of urgency.

HENSMAN : Only this is a conference of technicians. Your concluding statement should be something that is substantial, then perhaps the enthusiasm and urgency could be created. I am only asking that the statement be a little more specific.

COREA : I'd like to make it specific, but how will we do it? It seems to me that we haven't considered a question that we are in a position to consider, the question of machinery. We could vaguely suggest that some kind of



machinery is needed. It can take the form of a council of representatives of the countries backed up by technical working groups and secretariats and so on on the lines developed in other parts of the world.

HENSMAN : They will also have to consider the possibilities suggested in the papers.

RAJANAYAGAM : If we make any specific recommendations we are automatically assuming that we have found all the answers. We should put the various alternatives.

COREA : Now on exchange control grounds, all these countries have imposed restrictions on travel. But if more Indians come to Ceylon and more Ceylonese come to India there need be no loss of exchange. But that kind of thing is precluded on the present approach. Can't we have some kind of clearing arrangement on travel, intra-regional travel, which would remove restrictions?

HENSMAN : What about transport? Part of the money goes on transport unless we have our own communications. Between India and Ceylon it is not so difficult.

ABHAYAVARDHANA : But then we can go one step further and ask for the setting up of some kind of regional transport authority.

HENSMAN : If for the next ten years we are all locked up within the country, I don't think there will be any Asian regional co-operation.

COREA : If all countries expand their tourism *pro rata* there is no balance of payments problem except for the important one you mentioned of carriers. As regards expenditure of tourists . . .

PERERA : You see there is still an exchange control problem an exchange in reserves problem.

COREA : Why? Isn't there a compensation arrangement all round?

SALGADO : And carriers are an excellent joint industrial venture.

PERERA : But the snag is, could you receive the balance of compensation?

COREA : Yes, then you have got to have some arrangement for financing gaps.

PERERA : But you can't expect the expenditure on travel on the Indian side to equate the expenditure on travel on the Ceylon side. That is a difficult problem.

COREA : I'm not so sure. What India collects by tourism may be quite big. After all travel depends also on the ability of the people to afford travel.

PERERA : You know that in India there is no basic travel ration. Under exchange control regulation there is no basic ration.

ABHAYAVARDHANA : Can't we also consider the principle of some of the trade treaties that have been concluded between Ceylon and countries like Czechoslovakia where the principle of balancing trade between the parties to the treaty has been adopted?

PERERA : But there is no definite bilateral quota to equate this. What happens is that each country at most will endeavour to balance transactions either way, but if notwithstanding that balances do emerge they have got to be settled at a point in time by remittances of foreign exchange.

ABHAYAVARDHANA : Yes, can't we urge as a principle that should be adopted in this region that the countries belonging to it should attempt to balance their trade with other countries in the region?

PERERA : That type of bilateral balancing is disadvantageous because it can lead to distortions of trade. Bilateralism is a bad thing.

ABHAYAVARDHANA : But can you suggest any alternative principle on which you could attempt to stimulate intra-regional trade?

PERERA : Why pick out trade of all things. After all we are formulating a general statement.

ABHAYAVARDHANA : My difficulty about the problem of machinery is that the setting up of machinery would be contingent on the readiness of the governments in the region to participate in any programme of regional co-operation. Now at the moment it is a fact that we do have different types of government in these regions, and it is rather unlikely that except in the case of certain minimal steps or marginal steps, whatever institutions we propose setting up will really not be set up in the region.

**HENSMAN :** Yes, but then that is the next target really isn't it. If we are convinced that this is necessary, isn't it desirable to get the creation of like-minded unofficial groups within these neighbouring countries, and then work towards a political decision. We can influence the decisions of other governments only through our own and also through similar groups in the other countries.

**ABHAYAVARDHANA :** Yes, if we are thinking of setting up any body, I think the most logical thing to do would be to constitute a Ceylon committee for South Asian regional co-operation. A committee which will undertake the work of further investigation of this idea, and which will attempt to mould public opinion in Ceylon towards prosecution of the idea, and at the same time to influence the formation of opinion in the countries of the region. If we are thinking in terms of organisational steps wouldn't that be more logical than the setting up of institutions for the region as such.

**HENSMAN :** Suppose we say that in order to implement this regional co-operation, you need a body of some kind, an institution to manage the whole thing, and that it cannot be done through the existing organisation? What is the next step as far as we are concerned—we in Ceylon?—To set up a committee which will keep on pressing for this.

**ABHAYAVARDHANA :** Yes, and to form opinion and to take all the necessary steps that can help it forward.

**HENSMAN :** What about the creation of similar groups in other countries? How do you propose that that should be done?

**ABHAYAVARDHANA :** Well that can follow a bigger seminar. I presume that if people come from these countries and discuss and agree on the idea, they would be willing to take the logical steps in their own countries. But apart from that do you think it possible that we could think of the shape of the machinery, the institutions that must be set up for regional co-operation, to execute the task of co-operation?

**GUNASEKERA :** Can we not say that we should study the precise arrangements made by some of the other countries who have already achieved this kind of co-operation with each other?

**PERERA :** I would suggest that we refer in broad terms to the need for a central organisation and then suggest that the constitution of the OEEC provides a prototype for such an organisation.

COREA : Yes, even the Latin American OEEC experience was that you start with a big group then you break up. We were going to state that there is greater scope for immediate collaboration between neighbouring countries and explore that. But are we going to be specific and, say, have a council of Ministers for this group? What is the machinery for exploratory discussions?

PERERA : I think the specific suggestion should be the need for a central organisation. Then the other suggestion should be the need, the immediate need, to explore avenues of co-operation among this specific group of countries, and leave it at that. We certainly shouldn't think of machinery because while we are clear with regard to the formation of the first wider group, we are by no means clear as to the second because we are not sure which countries will participate.

COREA : Should we bring in the thought in our statement that Ceylon, being a small country, is in a position to take the initiative?

SALGADO : And we should not miss the opportunity this time of having the secretariat organisation located in Ceylon, rather than trying to promote Bangkok.

RAJANAYAGAM : But the Government might not favour that because recently when the Productivity Organisation wanted to explore the possibility of establishing it here with the 100% support of India, the Government didn't give a decision, it still hasn't, with the result that it has now been established in Tokyo. So the probability is that either the Government will be against it or it won't make up its mind in sufficient time for it to function. The three countries which originated the idea were Japan, Philippines and India and the question arose as to where the headquarters of this organisation were to be situated. India was particularly anxious it should not be Japan so she was willing to support Ceylon's case, but Ceylon didn't give a decision. I think there is competition in the industrial field, because Tokyo advanced very rapidly and has made very rapid strides and increases in productivity. The figures are staggering. And India has also now established a central organisation with all these regional councils and a lot of work thrown in in this field. Probably she wanted the thing established in this part of the world. But that affords an example of the kind of hurdle you come across which you don't anticipate when you start off. So in the way we are going to proceed we must be prepared for unexpected obstacles.

SALGADO : But anyway, that is no reason for writing it off right at the beginning.

RAJANAYAGAM : Now shall we allow the drafting committee to get to work?

COREA : Yes, I think the best thing is to try and get something on paper. Most of the discussion in this session was on the question of the area of Asian co-operation. Mr. M. P. Perera gave us an excellent background of the type of machinery and the forms which co-operation to take in the light of development in other parts. With the background of the earlier discussion on the general principles of co-operation, Ceylon's need, and political and social factors, we went into this discussion on area. I think here we reflect all the difficulties that were gathering in previous discussions in demarcating at this stage a specific group of countries. I think there were two general points that come out of this: one is that in a broader sense there is scope for exploring the possibilities for co-operation within all the countries in the Asian region. But that as co-operation becomes a reality, it is inevitable that you tend to get groupings of countries which have closer relationships with each other, not only from an economic point of view, but from a wider political, social, cultural point of view. In the light of that we tried to visualise the type of regional sub-grouping which might appear appropriate to Ceylon, to which Ceylon could easily fit in. It then emerged that the type of group which would come out in the long run would be one which inevitably would involve India, and through India some of her proximate neighbours, and that one possible grouping would be one which involves the so-called Indian group. I think the seminar however pointed to the difficulties that lie in the way of making a reality of a grouping on these lines at the present juncture. For one thing the scope for concrete collaboration on economic issues between the countries of this group has still to be explored, and it may well be that what emerges might suggest modifications to this. Then there was the possibility of other groupings which included the Colombo Powers on the lines suggested by the Ceylon Parliament. But I think what came out of all this discussion is that we are not yet in a state of preparedness from an economic point of view to say categorically that this is the type of grouping which will afford the best economic basis for expansion. Although on the grounds of political affinities and cultural affinities certain possibilities suggest themselves. The economic argument has not yet been explored sufficiently to enable us to reach a conclusion. So following from that it seemed to be logical for us to consider steps which would be in

the direction of making possible this wider economic exploration. One general possibility which suggested itself was to set out or to give support to any move to establish an organisation for co-operation on a fairly wide basis on the lines of the Organisation of European Economic Co-operation, or the Latin American project, which would set up and provide machinery for exploring the prospects of closer co-operation within the region. It might be a forum at which the different countries could get together, establish their contacts, carry out studies and come to agreements. But we are still uncertain as to whether even this kind of possibility could be a reality, how long it would take and so on. In the meantime, there is also the alternative that we may be able to proceed with exploring possibilities on a smaller more regional scale. So I think our feeling was that we should really try and give our support to both these and suggest to our government and to the next seminar that we should not wait for a generalised Asian attempt at collaboration but we should also take the initiative to explore the possibility of closer collaboration with countries closer to us with which we are likely to have links in the future. And this again brings us back to the possibility of smaller study groups at governmental level possibly, to probe the question of collaboration within a select and specified group of countries as suggested in our parliamentary resolution or by the Colombo Powers..

Then it is also evident to us that these studies would be of relevance to the type of instruments of collaboration that are evolved. Mr. Perera listed the several instruments which have come into use in other regional arrangements ranging from economic integration to common markets, preferential tariff areas and so on. I think our general view is that we would have to select instruments for co-operation which would possibly not be as ambitious as the far-reaching instruments adopted in some of these other regions in view of the stage in which collaboration is in at present, and in our statement I think we would indicate the various possibilities and their implications and their relevance including the possibility of joint ventures, the possibility of liberalisation of tariffs, the possibility of comparison and co-ordination of plans in respect of certain sectors, the possibility of arrangements on certain items like commodity stabilisation or broadening the basis for the movement of persons and so on and leave it at that. Is there anything else that came out of it?

Now am I supposed to draft this statement?

ABHAYAVARDHANA : I am proposing that you do that since you have been summing up!

# **SEMINAR ON ASIAN ECONOMIC CO-OPERATION**

## **PART THREE: CONCLUDING STATEMENT ON CEYLON AND ASIAN ECONOMIC CO-OPERATION**





## CEYLON AND ASIAN REGIONAL CO-OPERATION

The trend towards regionalism is one of the striking developments in the world today. In Western and Eastern Europe and in Latin America individual states have forged closer relationships with each other on the basis of arrangements for regional collaboration. In Africa the possibility of similar groupings is being actively explored. And in Asia too there is a marked awakening of interest in the creation of a new framework of co-operation and interdependence. A whole complex of forces underlies this trend. Political and strategic motives, social and cultural bonds, the very logic of long historical processes—all these and other factors have prompted this development. Yet, it is primarily in the economic field that there has been the strongest manifestation of the move toward regionalism. It is essentially in these terms, therefore, that the true rationale of co-operation can best be expressed.

It must be recognised that, in the industrially developed countries of Western Europe, the trend towards economic co-operation has emerged in the context of a degree of interdependence that is already well advanced. In the underdeveloped regions, on the other hand, and in Asia in particular, the rationale of co-operation must necessarily be different. Although the extent of intra-regional economic relationships in Asia is not insignificant—nearly 30 per cent of the trade of the Asian countries is within the region—the countries of the region remain economically backward or have evolved patterns of dependence based on the sale of primary products to the advanced countries. The progress of co-operation in Asia, therefore, cannot be in terms of the further development of existing patterns. It must reflect the logic of a new process of economic growth which seeks to transform old relationships.

### **Economic Development and Regional Co-operation**

Economic development is the common objective of all the countries of the Asian region. Virtually everywhere governments are engaged in formulating and implementing plans of economic development which seek to raise standards of living and to bring about a process of cumulative growth. In most cases these plans aim at an alteration of patterns of economic activity in the colonial era and at a new transformation

of the economic structure of individual countries. There is a sense of urgency to these tasks. Despite their best efforts, the gap in living standards between the underdeveloped and the advanced countries continues to widen from year to year. At the same time the underdeveloped countries are experiencing mounting pressures from within, associated with new expectations and a new awareness amongst their growing populations. In this context, there is indeed no question of a leisurely pace of growth. On the contrary, the overriding need is not merely that economic growth should take place but that it occurs at a rapid and adequate rate.

In their endeavour to increase the pace of economic development, the countries of the region are faced with formidable problems. The very process of development involves the generation of continuous pressures on imports. As development programmes get under way there arises an increasing need for various requirements from the outside world—requirements of machinery, raw materials and consumer goods. Whilst foreign capital and aid could make some contribution, it is essentially the exports of the countries themselves that provide the means of paying for these imports. However, the prospects for increasing the traditional exports of these countries is severely limited. These exports largely comprise primary products—food and raw materials—which do not enjoy a rapidly rising demand in the countries of the West. The demand for food from the advanced countries, for instance, rises only slowly and less than in proportion to the rise in incomes. At the same time, the market for traditional raw materials is threatened by new technological developments which have resulted in the evolution of synthetic materials and other substitutes capable of being produced within the industrial countries. In fact, the traditional markets for the exports of the Asian countries are undergoing far-reaching structural changes which could impart a new and severe form of instability and uncertainty. Already, in the post-war period, primary products have had to suffer a decline in their share of world trade as a whole.

Faced with this situation of a rising need for imports and a limited ability to expand exports, the countries of the Asian region have been obliged to husband their earnings of foreign exchange in every possible way. In particular, these countries have had to erect restrictive barriers against the import of a wide range of goods and to promote, within these protective walls, the domestic production of import substitutes. In the result, the countries of the region have denied themselves access to each other's markets and are rapidly creating an autarchic pattern of development in respect of the new and emergent sectors of their economies.

This process, however, is clearly inimical to the fundamental objective of rapid growth itself. There are, in most cases, severe limits to the extent of import substitution that is possible on the basis of national markets alone. Often, the domestic market is too restricted to provide an adequate basis for efficient production; in addition, the attempt to produce a wide and varied range of goods on a relatively small scale leads to a wastage of resources. In the pursuit of autarchy, the countries of the region, both individually and collectively, forego the advantages of specialisation and of the economies of scale. The overall rate of economic expansion is thereby slowed down and the scarce resources of individual countries are deployed into uneconomic and unproductive channels. The objective of rapid and cumulative growth is in this way frustrated.

It is in this context that the need of arrangements for closer economic co-operation amongst the Asian countries becomes apparent. Such arrangements would provide for an extension of national markets and create a wider basis for economic growth for all the participant countries. Through regional co-operation it would be possible for individual countries to reap the advantages of specialisation and of the economies of scale in the formulation and implementation of development plans. Such co-operation would, in fact, extend the boundaries of import substitution from the national to the regional area. This would enable, in each case, a larger volume of production at lower cost in terms of comparative advantage and better serve the objective of economising on earnings from traditional products for the purchase of essentials from the outside world. Regional economic co-operation would, in fact, make possible a progressive expansion in the volume of intra-regional trade. In place of unequal relationships involving the exchange of primary products for manufactures there would arise a new and beneficial interdependence consistent with the needs of rapid economic growth.

In the pursuit of regional economic co-operation in Asia there is scope for the development of closer economic links between sub-groups of countries, preferably within the framework of a broad co-operative relationship extending over the region as a whole. But whatever be the groupings that emerge, all countries of the region whether large or small, whether more or less developed, will benefit from regional co-operation. The larger countries, being in need of export earnings to strengthen their balance of payments positions, are severely handicapped by the existence of restrictive trade barriers in the rest of the region. Despite large populations, they often suffer the limitations of a lack of effective

internal demand for a wide variety of products on account of low standards of living and are thereby prevented from making the fullest use of the economies of large-scale production. The smaller countries are handicapped not merely by the narrowness of domestic markets but also by the paucity of domestic raw materials. For these countries there is no practicable alternative to a pattern of development based on an expanding volume of external trade. It is essentially through regional co-operation that these countries can secure an avenue for such an expansion of trade.

While regional co-operation would make possible an acceleration in the pace of development, its absence could have harmful effects on the countries of Asia. In the first place, the emergence of regional groupings in other parts of the world implies that Asian countries will not enjoy the preferential treatment which members of these groupings afford each other. Even if adequate provision is made for markets for the primary products of Asian countries, there is likely to remain an element of discrimination in regard to the products of the new industrial sectors. Moreover, in the absence of a collective regional grouping, the countries of Asia would be placed in a position of relative isolation and would be forced to deal individually with large and powerful economic blocs. They would thus suffer the limitations of unequal bargaining power in their relations with the outside world.

A second factor is equally significant. In pursuit of the goal of development the countries of Asia are formulating and implementing plans which bear no degree of co-ordination with each other. In the result, the plans of some countries are likely to exert harmful effects on the economies and plans of other countries. In this process even the existing level of intra-regional trade is endangered. Of this there are already manifestations. Most countries, for example, are aiming at self-sufficiency in foodstuffs despite the plans of the food surplus countries to increase their exports further; again, some countries are planning the expansion and development of synthetic materials despite the existence of ample supplies of natural materials within the region. It is only through arrangements for co-operation that these and other problems could be overcome. Without such co-operation, Asia faces the prospect of a retarded pace of development and an intensification of present difficulties.

It should be emphasised, however, that arrangements for Asian economic co-operation do not in any sense imply the establishment of a closed system. Even within the framework of co-operative arrangements, the countries of the region would have need, both individually and

collectively, of increasing their trade and other relationships with the outside world. Economic development results in an expansion, rather than in a contraction, of world trade. To the extent that regionalism, both in Asia and elsewhere, results in rising prosperity it would strengthen the world economy and accelerate the international flow of goods to mutual benefit. Moreover, the growth of regionalism in Asia would not eliminate the need for capital and assistance from the advanced countries. On the contrary, it would provide a stronger base for the more effective utilization of external resources.

The essential logic of regional co-operation in Asia is in terms of the framework it will provide for economic development. In this sense there is no exact parallel with the rationale of co-operation in the advanced countries. In these latter countries the process of development has been already far advanced. A large degree of intra-regional trade and complementarity has already developed and economic relationships have been cemented by the growth of transport and communications as well as by other factors. Closer co-operation in these economically advanced areas represents the culmination of a historical process of economic integration and a rationalisation of relationships that are already well developed. For Asia and other under-developed regions, on the other hand, economic co-operation is an instrument for promoting and accelerating the process of development, which alone can lead to a growth in intra-regional trade and communications and the emergence of new complementarities. It is, in other words, a dynamic concept of relevance to a fundamental transformation of the economies of these countries.

### **Ceylon's need for Regional Co-operation**

The general principles which underlie the need for economic co-operation are applicable to all countries of the region. Nevertheless it would be relevant to outline the significance of regional co-operation for Ceylon in particular. Ceylon has hitherto enjoyed a high standard of living relative to many of the countries of the region. Her favoured position has been largely due to the existence of a modern plantation sector which plays a dominant role in the economy as a whole. Today, however, Ceylon is faced with a threat to this position, largely on account of an extremely rapid rate of growth in population amounting to nearly 3 per cent per year. This implies that Ceylon has need, not merely to raise national income at a rapid rate, but also to find avenues of employment for a rapidly

rising workforce. Although there is still some scope for further expansion in the traditional agricultural sectors of the Ceylon economy, there are at the same time physical limits to the possibilities on this score. The extent of new land available for development in the Dry Zone is determined at present by the limits of irrigable capacity; similarly, the raising of yields in the plantation sector and in rice cultivation is subject to physical and technical limitations and is unlikely to provide substantial opportunities for new employment. In this background Ceylon has no alternative but to pursue the path of industrialisation so as to create additional avenues of employment and to establish a basis for sustained and cumulative growth. There can be no question, in other words, that industrialisation must constitute an integral element of a strategy of development for Ceylon.

Although the need for industrialisation is inescapable, Ceylon has to meet and overcome several problems in the pursuit of this objective. Of these, the question of an adequate market for the products of industry is perhaps the most fundamental. There does exist at present a domestic market for manufactures in Ceylon which is not insignificant and which affords a point of commencement for a process of industrial development. Nevertheless, it should be recognised that the domestic market alone does not provide a basis for sustained and extensive industrial growth in Ceylon. The range and extent of industrial development possible is limited by considerations of scale, since in many fields the size of the domestic market is too restricted to permit of efficient production in terms of the technological requirements of scale. The technical limits to expansion in agriculture are an additional factor which further restrains the scope of the domestic market for industry. The total of consumer demand for industrial goods depends not only on the extent of income generation in the industrial sector but also on the growth in incomes and purchasing power in agriculture. Where the latter is likely to be limited by physical factors, the scope for cumulative growth in the field of industry is itself limited.

For all these reasons it will be clear that Ceylon can not envisage large-scale industrial development other than in terms of production for export markets. The most likely markets for the products of Ceylon's industry should, of course, lie within the Asian region. Yet, the process of autarchic growth pursued by the countries of the region is resulting in the denial of access to these markets for a country like Ceylon. In the result, Ceylon has to pursue a programme of industrial

development which is limited to the restrictive confines of the domestic market and to forego the advantages of specialisation and of large-scale production. Both the scale and the efficiency of industrial development in Ceylon are in this way hindered.

It is in this context that the concept of regional economic co-operation becomes of relevance to Ceylon. Such an arrangement will enable Ceylon to base her programme of industrialisation on a foundation wider than that of the domestic market alone. It will make possible the establishment and expansion of industries that may not otherwise be feasible; it will also enable production to be planned on a large scale and thereby improve the structure of productivity and costs over the economy as a whole. Such an arrangement will, in fact, revolutionise the prospects for Ceylon economy. It will result not only in a large degree of industrial development but also in an acceleration of the rate of growth of other sectors of the economy as well. In Ceylon, as elsewhere, a rapid rate of industrial development will provide a stimulus to economic activity in general and result in a transformation of the infra-structure, besides raising of the level of productivity and skills over the entire economy.

The particular industries and precise sectors of economic growth which can be established in Ceylon on the basis of an expanded regional market can only be determined through detailed techno-economic surveys and studies. It is outside the scope of this statement to list specific ventures. It should, however, be emphasised that although industries based on Ceylon's domestic raw materials and agricultural products are likely to enjoy a specially favoured position, the type of industry that can be established need not be confined to this category. Like most other small countries which have succeeded in bringing about a large degree of industrial development, Ceylon can also establish industrial ventures on the basis of the importation of raw materials and their transformation into finished products within domestic boundaries. Such a process is, in fact, inevitable for small countries seeking industrialisation, since the range and volume of domestically available materials is invariably limited. Once the types of industries appropriate for Ceylon have been explored—on the basis of techno-economic surveys—it should be possible to determine both the forms of co-operation most suitable for Ceylon and the countries, or group of countries, with which Ceylon can establish co-operative relationships. There are a number of possibilities in this respect. In some instances and in some industries, for example, preferential tariff arrangements with certain countries may prove beneficial to Ceylon; in

others, there may be scope for the co-ordination of development programmes which would permit Ceylon to specialise in specific fields of production on the basis of exports to participant countries. Ceylon may also be able to participate in joint ventures with certain countries of the region. Ceylon's participation in a scheme of regional economic co-operation would have far-reaching implications for industrial planning and policy in this country. It would require an extension of the horizons of industrial planning. To take account of the wider perspective it would necessitate the creation of an efficient, flexible and dynamic industrial system that can serve external markets; it would imply, in other words, the adoption of new and efficient methods of organisation, whether in the public or the private sectors, and involve far-reaching changes in the present system. All these and other factors underline the importance of an early approach towards a new orientation in industrial planning in Ceylon. It is important that industrial planning today should begin to explore markets and carry out surveys in anticipation of actual arrangements for regional co-operation. Such assessments would inevitably be needed in advance, if Ceylon is to develop an informed approach in the discussions and negotiations that will arise in the course of the movement towards regional economic co-operation.

### **The Social and Political Factors**

The economic basis for regional co-operation, as explained above, is readily apparent in terms of the common interests of both Ceylon and other countries of the region. Nevertheless, it must be recognised that the objective of co-operation has to be realised in the context of the wider social and political realities of the Asian region. These factors would inevitably influence the scope of arrangements for co-operation as well as the forms that they could ultimately assume. It is of some relevance, therefore, to examine their significance for the prospects of economic co-operation.

It is sometimes suggested that, since the move towards closer economic co-operation in Europe was facilitated by the existence of close social, cultural and political affinities within the region, the scope for co-operation in Asia will be handicapped by the absence of a similar background. Such a view, however, fails to take account of several factors which are, in fact, favourable to the prospect of Asian co-operation. In the first place, it is possible to over-state the degree of social and cultural differentiation that prevails in the Asian context. Whilst it is true that the prevalence of a relatively large number of traditionalist societies implies the existence of



such social and cultural differentiation on the scale of the Asian continent as a whole, there still exist, even within the traditionalist framework, close affinities amongst groups of countries within the region. These affinities undoubtedly serve to reinforce the economic factors which make co-operation possible amongst these countries. Already, the prospects are being actively explored of such co-operative arrangements among certain groups of countries within the Asian region.

In the second place, insistence on social and cultural affinities as a precondition for economic co-operation ignores, to some extent, the dynamic purpose which governs the move towards closer Asian economic co-operation. The social, cultural and political affinities that have developed in Western Europe, like the economic inter-relationships, have been largely the product of economic development itself. The very process of industrial development and the spread of modern technology results in the diffusion of common cultural and social elements. In Asia, as mentioned, the prevalence of traditionalist societies and the existence of social and cultural differentiation is to a large extent a consequence of a retarded pace of economic growth. To the extent that economic co-operation in Asia succeeds in creating a framework for economic development, it must serve as an instrument for forging closer social and cultural affinities in the future.

In fact, a process of rapid economic and social change is already taking place within the countries of Asia. Almost everywhere there is an effort to establish a new balance between national traditions and modern requirements. This process of change has given rise to a leadership stratum in the different Asian countries with common links and a certain universality of outlook. It has already provided a basis for an increasing degree of communication and understanding between the various countries of the region. The spread of modern science and technology and of concepts of organisation and administration result in a common language of communication and provides a means for the extension of economic and other forms of co-operation.

Third, it is important to recognise the basis for co-operation that has been provided by the common experience of the countries of the region. Most of these countries have emerged from a similar colonial past and have a common background in respect of their struggles for independence. They are faced with a similarity of economic and other problems. A study

of the development plans of the Asian countries will alone suffice to indicate this similarity of experience and the common element that exists even in respect of the policies and solutions that are being adopted.

Differentiation also exists in the political field. There are undoubtedly marked differences throughout the region in political institutions and in regimes. There are also political conflicts between individual countries. These differences and conflicts are a factor which will influence the scope and pattern of co-operation that would be possible in Asia. At the same time, it would be erroneous to conclude that these differences will preclude co-operation altogether. Despite such differences the countries of the region have already been able to collaborate closely in the United Nations on a variety of issues and participate successfully in such organisations as the Colombo Plan and the Commonwealth. In the last analysis, all the countries of the region, whatever their differences, have a common overriding stake in the objective of economic development. The ability of these countries to attain national goals is itself dependent on the achievement of economic progress. No country can, therefore, afford to permit political and other factors to stand in the way of rapid economic growth. It is this consideration more than any other that will eventually provide the strongest motive force for regional co-operation.

### **The Area and Forms of Co-operation**

Whilst the social, cultural and political background in Asia does not preclude economic co-operation, it does, as already mentioned, influence the forms which such co-operation should take. There are many possible forms of regional co-operation. At the one extreme there is the full Economic Union which involves complete economic integration covering the free movement of goods, of labour, capital and other factors of production, and also the co-ordination of economic and social policies; there is also the Customs Union with free internal trade and a common external tariff; the Free Trade Area, with no barriers to internal trade but with member countries pursuing independent commercial policies *vis-a-vis* the rest of the world, is a further arrangement of this kind. However, it should be apparent that forms of co-operation which involve far-reaching measures of integration will not be practicable for the Asian region as a whole, or even for sizeable groupings within the region. Apart from the social and political issues, the unequal degree of economic development amongst the countries of the region suggests that far-reaching forms of integration would be premature, although there may be scope for closer forms of union within smaller groupings.

All the same, there do exist other forms and instruments of co-operation which are less far-reaching and which may well prove practicable in Asia. There is, for instance, scope for the gradual liberalisation of tariffs and quantitative restrictions on a preferential basis in respect of intra-regional trade and in a manner consistent with the development programmes of individual countries. There is also scope for the co-ordination of development plans in respect of specific sectors on a mutually advantageous basis. In the case of individual products or groups of like products, there is the possibility of "a Single-product Customs Union" which provides for sectoral integration in terms of a common market for a specified product or group of products. There is also likely to be a significant field over which there is room for the establishment of joint industrial ventures amongst countries, particularly where the size of national markets or the scale of investment presents difficulties to individual countries. The integrated development of industries is still another possibility where, for example, a single country will specialise in the final product and others in the production of components.

There are, in addition numerous other fields which offer scope for co-operation. The countries of the region, for instance, could collaborate in schemes designed to stabilise fluctuations in commodity prices. They could co-operate in programmes for the co-ordination and improvement of research and training facilities. They could also participate in the establishment of multi-lateral credit and payments arrangements. A system of automatic credits and multilateral compensation arrangements will for instance, help overcome temporary payments problems within the region and eliminate the need for restrictive measures. The countries of Asia could also co-operate in arrangements which facilitate wider travel within the region and overcome the existing restrictions which impede such travel. Such an arrangement could well be linked to a wider scheme relating to payments problems as a whole, and would undoubtedly serve the useful purpose of improving contacts and of further strengthening the basis for regionalism.

It is outside the scope of the present statement to analyse in detail the various instruments and forms of co-operation outlined above. There are, however, two general considerations which should guide the nature of the arrangements that ultimately emerge. First, the forms and instruments of co-operation that are evolved must take account of the existence of different degrees of development among participating countries. They should enable the continuance of a measure of protection for the less

developed countries and thereby enable these countries to overcome the limitations which handicap the establishment of new industries. Second, the forms of co-operation that are evolved must recognise the fact that most of the countries of the region are pursuing the objective of development through the medium of conscious planning. This implies that allocations of resources within the region will take place to a large extent through the medium of development plans. The establishment of machinery for the co-ordination of such plans is, therefore, likely to be of particular importance in any scheme of regional co-operation.

The several factors indicated above are also of direct relevance to the area of co-operation. The present statement does not attempt to determine specific groupings. To a large extent this will depend on the possibilities that are revealed through detailed and comprehensive studies and techno-economic surveys. However, it does appear useful to pursue simultaneously two broad approaches. On the one hand, it is desirable to promote the establishment, in the first instance, of a relatively wide and representative forum of the Asian countries as a framework within which the scope for sub-groupings can be further explored in terms of a scientific and technical analysis of problems and possibilities. This will enable consideration to be given to various alternatives and help each country to be fully informed of the best opportunities available to it. This approach has also the advantage of providing opportunities for countries, whose interests may be adversely affected by specific arrangements on the part of others, to make representations and to have their interests safeguarded. The Economic Commission for Asia and the Far East has itself been exploring the possibilities of Asian regional co-operation and its efforts in this direction merit support. However, in view of the limitations which attend ECAFE in the making and implementing of decisions, it may be desirable to establish a separate organisation that is widely representative of the Asian countries, on the lines, for example, of O.E.E.C. which functioned in Europe from 1948 to 1961.

The second approach is equally important. There is no reason why selected groups of countries should not at the same time examine the possibility of arrangements for closer economic co-operation amongst themselves. Countries in close proximity to one another can, for example, initiate steps in this direction. Malaya, Thailand and Philippines have already taken some preliminary measures for co-operation amongst themselves. In addition a federation of Malaya, Singapore, Brunei, North

Borneo and Sarawak has been proposed. Ceylon's House of Representatives recently passed a resolution, supported by all political parties, urging that the prospects be explored for closer economic co-operation among a group of countries comprising Ceylon, India, Pakistan, Burma, Indonesia and Malaya. The possibilities of an alternative grouping comprising Ceylon, India, Pakistan and the countries more closely adjacent to India may also be investigated. Once there is a clear indication of the willingness of individual countries to participate in arrangements for economic co-operation, suitable machinery will have to be established. This usually necessitates setting up a representative body such as an Executive Council, assisted by a permanent secretariat which in turn commands a wide range of technical committees, study groups and so on.

It should be recognised that Ceylon, in view of her size and location, is in a position of advantage to take the initiative in this field and to play a positive role. As mentioned, her own interest in regional economic co-operation is itself significant. Moreover, she has already played an important part in the past in supporting and organising forums of international and regional co-operation. The time factor, however, is of considerable importance. On the one hand, as arrangements for closer co-operation in other regions get under way, the countries of Asia will become increasingly vulnerable to the adverse effects of these developments. On the other, the longer arrangements for co-operation are delayed, the greater the danger that individual countries will commit themselves to conflicting plans and to investment patterns that cannot subsequently be varied. Stratification of industries in individual countries on autarchic and uneconomic lines will serve only to narrow the scope for specialisation in the future. As a result, potential benefits from regional co-operation will be reduced. The time is not too early, therefore, for Ceylon to take the initiative in this field and to play a leading part in the clarification and attainment of the objective of regional co-operation.



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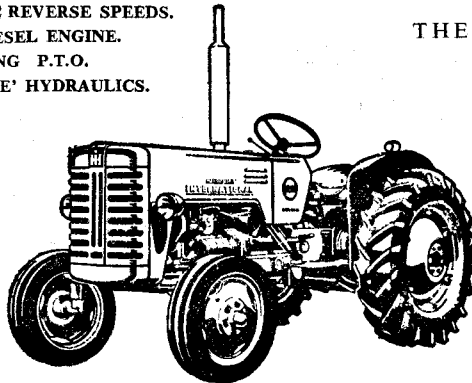
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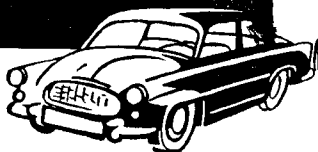
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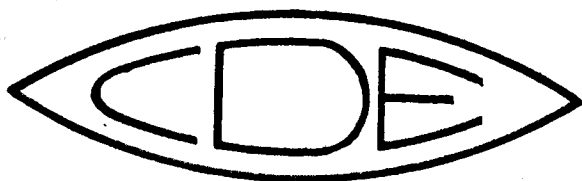
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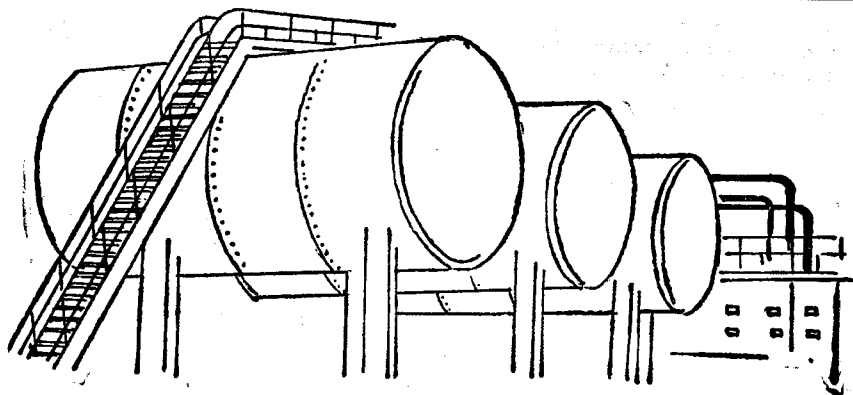
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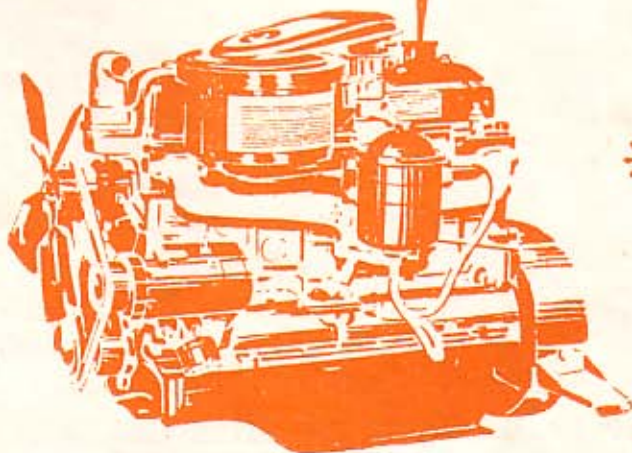
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