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# **ECONOMIC REGIONALISM IN THE RCD COUNTRIES**

**A Study in the Political Economy of  
the Region during 1964-71**

**Pervez Tahir**



**PAKISTAN INSTITUTE OF DEVELOPMENT ECONOMICS**

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(Pakistan)

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## Preface

The world trade statistics for the last two decades reveal a mounting trend towards economic regionalism. The intra-trade of the developed market economies and centrally planned economies has risen at an extremely faster rate than the inter-trade. In contradistinction, the relative insignificance of the intra-trade of LDCs is well-known. The 19th Century strait-jacket of international specialisation, based on the classical theory of comparative advantage, with industrialised West as the centre and the primary producers as its periphery, has been allowed to spill over to the 20th century in the vain hope that the growth in the "workshop" will be adequately transmitted to the "granary". In point of fact, the low income and price elasticity of demand for primary products, increasing low material-intensity made possible by technological advancement, growth of competition with cheap synthetics, direct competition from industrial countries themselves lead one to conclude that further production for agricultural exports will only contribute to the deterioration of terms of trade. International action for commodity stabilisation and compensation may at best freeze exchange earnings at present levels. In the field of manufacturers, exports from LDCs face high tariff walls and a mix of insuperable non-tariff barriers. Indeed, the degree of protection is directly correlated with the degree of processing.

Under these circumstances, the course left to LDCs is no different from that adopted by the Germany of Friedrich List and the United States of Alexander Hamilton against British trade

hegemony. The LDCs have endeavoured to raise the ratio of domestic production to total supply through consistent import substitution. However, import substitution is limited by the extent of the market. Most of the LDCs have limited domestic demand. This is precisely the point where regional "infants" may have to be nurtured in the context of an integration plan. The UNCTAD has also recommended that regional groupings "be promoted among developing countries as a means of expanding their intra-regional and extra-regional trade and encouraging their economic growth".

Regional Cooperation for Development (RCD) amongst Turkey, Iran and Pakistan is one such regional grouping. The present study concerns itself with the promise and performance of RCD during 1964-1971, and a critical appraisal of the methods of cooperation followed and suggested improvements to move towards an integrated framework.

It goes without saying that the responsibility for the views expressed in this study is entirely author's.

P.T.

## Chapter One

THE GENESISA Variety of Approaches

Any search for the elements in the genesis of RCD brings out two extreme views. One is symptomatic of the usual optimism of an overly politicised and propagandist approach and the other indicates the pessimism that must stem from an over-emphasis of economic realism. Both are misleading. According to the first approach, RCD grew spontaneously out of the age-old links in the history, geography, faith and culture of "the three". It was even wondered why RCD has not been earlier than 1964! Its birth was viewed as a real first step towards the ultimate goal of Afghani's Pan-Islamism. As such, the organization manifested the natural and deep-going process of historical continuity.

While the non-economic factors are undeniably important, the major issue that could be taken with this approach is its implication that economic forces would automatically and necessarily follow any political institutionalization of the obtaining harmonies - social, cultural and historical. Such a view might satisfy some ignorant enthusiasts found mostly in Pakistan, but it is evidently false in the scale of realism. In the first place, fundamental political changes are not easy in these day of secular nationalism. Secondly, the removal of economic bottlenecks is a function, not of political praxeology, but of the economic capacity to grow together and the socio-political will to initiate and sustain such collective growth.

The second approach, with its origins in Turkey, was that the case for any collaboration among the three countries must rest mainly on the maximization of economic gains. Since the existing economic structures failed to point towards such a possibility, the prospects for a meaningful grouping were meagre. The flaw in this approach is that it ignores the dynamic considerations of economic integration which are specially relevant to LDCs.

The mid-position in views, as in geography, was held by Iran. She was prepared for a comprehensive regional grouping. But she would want sufficient safeguards to prevent any tendency towards the draining away of its balance of payments surpluses.

Here, the task is not to align blindly with any of these approaches, but to sort out the grain of truth in each and discover their inter-relationships, so as to be conclusive to the possible extent in regard to the strength (or weakness) of various elements in the formation of a regional grouping amongst Turkey, Iran and Pakistan.

#### Historico-Cultural Backlog

The ties between Iran and Pakistan can be traced back to the sixth century B.C. when Trans-Indus areas of Pakistan constituted an economically advanced tributary to the Persian Empire. Alexander's invasion in the fourth century B.C. brought the culmination of the Iranian hold. It left the sub-continent wide open to penetration, political and cultural, from West Asia including Turkistan. The use of Persian Wheel in the Indus Valley

bears testimony to the fact that the increased interaction between the three peoples led to this advance in methods of irrigation. The Islamic dawn fostered a new and stronger element of cohesiveness. After the Arabs, the Iranians, Turks and Afghans became the torch-bearers of Islam. They were responsible for the creation of Delhi Sultanate and the spread of their faith as far as Bengal.

Most of the rulers of the subcontinent ever since Lahore fell to Mahmud of Ghazna in 1020 A.D. to the last Mughal King in 1857 were Persian-speaking and of Turkish origin. Urdu is a product of this socio-political milieu. The comparable instinctive responses of the peoples of Turkey and Iran have stemmed from the cultural intercourses over centuries between the historic Ghazna and Konya. The quality of a culture is, more often than not, a reflection of the state of the economy. Beneath the process of cultural transmission lay a continuous trade flow between Iran and Ottoman Empire which not only initiated it, but also caused its sustained acceleration.

The struggle for independence of Turkey as well as Muslim India is replete with memorable instances of esprit de corps. Sultan Tipu's endeavours to conclude a military pact with Turkey, the secret movement of the Shaykh-ul-Hind of Deoband, the episode of Ghazi Osman Pasha, the Khilafat Movement, the influence on Sir Sayyid of Turkish reform movement, Hijaz Railway, the expression of renascent passion for Muslim solidarity during the wars of Tripoli and Balkans are successive links in the chain of Pak-Turkish amity.



### Pre-CENTO Entente

The establishment of Pakistan gave a new vent to the Pak-Turkish relations as the cordiality existing between the two peoples was for the first time reflected in State policy. These relations were concretised on July 26, 1951 when the Treaty of Friendship was signed with a view to broadening the scope of cooperation in the fields of politics, economics, society and culture. The two countries reciprocated each other's stands on Kashmir and Cyprus. The all-embracing Agreement for Friendly Cooperation was concluded on April 2, 1954 which inter alia, included Defence. It is this Agreement that prepared to ground for a more comprehensive military pact later.

The relations between Pakistan and Iran - the land of the Lion and the Sun - have right from the beginning been a perfect example of good-neighbourly diplomacy. The first formal step in this direction was the conclusion of a Treaty of Friendship on February 19, 1950 to accord most-favoured nation treatment to each other. It further provided for the subsequent negotiations of agreements on trade and commerce. Pakistan staunchly supported the nationalization of oil industry by Iran in early fifties<sup>1</sup>.

The community of approach between Iran and Turkey in regard to relations with each other as well as the policy vis-a-vis rest of the world dates back to 1937, when the Saadabad Pact was signed. According to this pact, the contracting parties - Turkey,

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<sup>1</sup> Pakistan, Ministry of Information, Twenty Years of Pakistan, see also, Iran, Ministry of Information, Iran-Pakistan Ties of Brotherhood, pp. 7-12; Abbas Khaleeli, "Some Aspects of Iran's Foreign Relations", Pakistan Horizon, First Quarter, 1968.

Iran, Iraq and Afghanistan - had agreed on collective security of the region<sup>2</sup>. Since 1943, there also existed a Trade Agreement between Turkey and Iran.

Anachronism of CENTO

The strategic importance of the Middle East due to geographical proximity to USSR has always invited a clash of interests between Big Powers. United States, by exploiting Turkey's "traditional suspicion of Russia", and external vulnerability of Iran and by keeping out Israel to attract the Arabs, always sought to juxtapose the countries of this area into a "Northern Tier" of her plans for the military development of Russia. Consonantly she, in league with Britain, France and Turkey, placed the proposal of a Middle Eastern Command before Egypt on October 13, 1951. It did not materialise, and obviously so, since the latter could never think of it unless Britain evacuated the Canal Zone. The idea was abandoned for the time being, though not the hope. The Americans studies the developments in the area carefully and introduced a strategic shift in their policy: they now planned to build up a chain of alliances between the non-neutral countries<sup>4</sup>.

In 1954, as already noted, the Agreement of Friendly Cooperation was sponsored between Turkey and Pakistan. One can't fail to notice the significance of the Article 6 of the Agreement which stated:

Any state, whose participation is considered by the contracting parties useful for achieving the purpose of the present agreement, may accede to the present agreement under the same conditions, and with the same obligations, as the contracting parties.

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2 Donald N. Wilber, Contemporary Iran, p.202.  
3 Firouz Bahrapour, Turkey: Political and Social Transformation, p.79.  
4 Geoffrey Lewis, Turkey, p.161-68.

Another treaty of cooperation was arranged between Turkey and Iraq on February 24, 1955 which developed into Baghdad Pact in less than an year. Britain joined on 4 April, with Pakistan (23 September) and Iran (3 November) following suit. United States herself chose to stay in as an observer. Iraq quit after the coup d'etat of July, 1958 and the organization had to be renamed as Central Treaty Organisation (CENTO).

For the most part, CENTO failed to come up to the expectations of the regional members. Their disillusionment continued to increase as the divergence between their interests and those of the Big Powers became more and more conspicuous. Iran has always been skeptical about the adequacy of the organization as a defence mechanism unless United States joined as a full member. Since the later deemed expedient not to do so, Iran tried to find out the possible alternative courses. The most important plank of this policy was to "return" to the region. On September 27, 1958, the Shah suggested an "Aryan Confederation"<sup>5</sup>, including Afghanistan. In spite of the fact that the then Prime Ministers of Turkey and Pakistan were quite enthusiastic about it, there were real obstacles to its formation. The foremost was that Afghanistan was not prepared to compromise her nonalignment. Further, the Pakhtunistan stunt prevented any cordiality in the Pak-Afghan relations. Thus, it took the Shah a good two years before his mediatory efforts could restore the diplomatic relations between Pakistan and Afghanistan on May 28, 1963. Further still, there existed a water dispute between Iran and Afghanistan. Then the foreign policies of Turkey, Iran and Pakistan

<sup>5</sup> Wilber, op. cit.

were by no means identical. President of Pakistan, though approved of the proposal in 1962 and again in 1965, visualised these impediments and warned against any hasty decision. Nevertheless, the immediate unworkability of the confederation idea only served to intensify Iran's orientation towards the region. The approach of necessity was cautious: a next-best arrangement had to be thrashed out before, as the Shah put it, "we can assist even verbally in the funeral of CENTO<sup>6</sup>". A major development in this direction was the opening up of Iran's "window to the east", a great setback to the very raison d'etre of CENTO.

At the same time, opinion in Turkey had also been mounting, of course not on the same scale as in Iran, that a more rational way of conflict resolution vis-a-vis Russia would be to promote amity, and not enmity through alliances with cold-war origins.

The Turks' craze for "Europeanization" began to be eroded after NATO let them down over Cyprus. The consciousness that they were individually prostrate to the European giants was not hard to observe. To top it all, the irreconcilability in an oriental environment of many a concomitant of secular modernisation lent great strength to the proponents of pan-Islamism. The slogan of "Come back, Turkey" now fell on increasingly receptive ears.

The bitterest opposition to CENTO came from Pakistan. "Indian Challenge", if that is the correct phrase, caused in Pakistan an urge to exit, as it did to enter, military alliances. With the Indian Democles' sword not only still over head, but also sharpened by a country to whom she was the most "allied ally",

<sup>6</sup> Quoted in Economist Intelligence Unit, Quarterly Economic Review of Iran, No.2, 1967, p.2.

Pakistan paid an extra price in the form of Russian misgivings and Arab apprehensions. And this

More than nullified whatever economic and military advantages we gained from the pact<sup>7</sup>.

It was in Pakistan that the inconsistency between the objectives of Global Powers and smaller countries proved to be the greatest. India, along with Japan, had always figured most prominently in the plans of American strategists in South-East Asia. Nehru's neutralism, however, thwarted these plans and Pakistan was accepted as an unhappy substitute for the time being. The unilateral efforts in the form of higher allocations of economic aid and technical assistance to India than Pakistan continued until it had to lean towards United States after the defeat at the hands of the Chinese in Ladakh and NEFA in October 1962. India was now a recipient of massive military aid without any obligation for an awkward reciprocity. In response to Pakistan's repeated protests came only a warning from Mr. George Ball, the U.S. Under-Secretary of State, in March 1964, that Pakistan

will not carry relations with Red China to a point where it impairs a relationship which we have.

All this was, of course, in line with the change in American attitude towards alliances, caused by a highly dynamic military technology, and adopted by President Kennedy who regarded Baghdad Pact an unhappy monument to Mr. Dulles<sup>8</sup>.

As a consequence, the need for a bilateral approach to foreign policy, diversification of sources of aid and partners in trade and, what was more significant from our standpoint, some

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<sup>7</sup> Mohammad Ayub Khan, Friends Not Masters, p.156

<sup>8</sup> Z.A. Bhutto, The Myth of Independence, chapter 5.

multilateral arrangement among the neighbouring Muslim countries had begun to dawn.

This rather extensive analysis of the political and military developments in the region brings to the fore certain similar trends in the three countries. For one thing, growing disappointment with the West suggested the need for a reapproach-  
ment with USSR, of course with a varying degree and without a major realignment. For another, it had begun to be understood that an association directed against none and without any extra regional control, might be a better deal for the region<sup>9</sup>.

Negatively, therefore, the formation of RCD was the direct result of the failure of CENTO. Positively, it was the CENTO framework which made possible a high degree of rapport and understanding among "the three" that led to RCD.

It is undeniable that the idea of such an association emerged directly out of the high level of rapport and understanding made possible by the CENTO framework, said Ayub Khan:

But for the Baghdad Pact we would not have had the necessary experience of each other which helped us to evolve the RCD pattern of association.<sup>10</sup>

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<sup>9</sup> It is well to note here that "U.S.S.R. and other socialist countries favourably regard the idea of developing countries setting up their own economic associations". See, G. Seleznyov, Trade: A Key to Peace and Progress, p.55.

<sup>10</sup> Ayub Khan, op.cit., p.157.

In this regard, Mr. Z.A. Bhutto's remarks were more candid.

He wrote:

Relations between Pakistan, Iran and Turkey have remained cordial since independence, but the RCD did not come into being until 1964. It came into existence only when CENTO weakened. Had CENTO remained active, its shadow would have prevented the growth of a natural development like the RCD. Once the large shadow of CENTO was removed, a more harmonious arrangement was found between Pakistan, Iran and Turkey.<sup>11</sup>

To the extent that CENTO furnished the requisite spadework in the form of road, rail, air and telecommunications links, it is the most important precursor of RCD. By the time it became a mere anachronism, the three lost no time in agreeing in principle to work out an alternative pattern consistent with the changed circumstances. In practice, however, the nature and scope of such a pattern of association could not have been determined without taking cognizance of obtaining economic realities.

#### Economic Realities

Cultural homogeneity and absence of severe political conflict are important but not sufficient conditions to form a comprehensively defined regional grouping unless the net economic benefit is greater than maintaining the status quo. This section purports to dwell at some length on the prevalent trading arrangements and problems arising thereby at the time of establishing RCD with a view to assessing the extent to which they bore upon the definition of the concept of RCD.

#### I. Impact of EEC.

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<sup>11</sup> Z.A. Bhutto, Pakistan and the Alliances, p.63.

With the inception of EEC, the three countries were seriously exposed to the danger of a sizeable export recession. Three types of effects can be distinguished:

- (i) Income effect,
- (ii) Diversion effect,
- and (iii) Terms of trade effect.

With their tongue in cheek, the protagonists of EEC maintained that there would be an income effect in the sense that integration would stimulate growth within the community and hence a rise in imports:

The pie to be shared will grow bigger and bigger every year<sup>12</sup>.

This argument is highly untenable. First, given that income levels rise, the rise in import capacity is most likely to induce a greater inflow of primary products which are already subject to zero Common External Tariff. Secondly, even these primaries would be imported preferentially from "associated" countries to the detriment of other LDCs. Finally, no matter how large the income effect, its general impact is undesirable insofar as it results into a continuation of the Third World as the "world's village".

Of greater concern to the LDCs is the diversion effect, implying a tendency to domestically produce that was imported in the pre-EEC period. The RCD products seriously prone to this effect

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<sup>12</sup>Walter Hallstein, The European Economic Community, pp.48-9.



included cotton and jute textiles from Pakistan, carpets from Iran and tobacco from Turkey, the later as a consequence of Common Agricultural Policy. In addition to closure of EEC market, these countries also faced discrimination in the associated territories.

It was held that income effect will substantially offset the diversion effect.<sup>13</sup> The facts prove the contrary. According to OECD figures, the growth rate in EEC fell from 6 per cent in 1950s to 4.6 per cent in 1960s. The reason was the insignificantly realised economies of scale and specialization.

The terms of trade of the products that could successfully jump over the tariff barriers would deteriorate because the increased community demand would tend to raise the relative price of exports and lower the price of falling imports. Besides this primary deterioration the consequent balance of payments pressures would cause a secondary deterioration.<sup>14</sup> The tremendously increased bargaining power after integration enabled EEC countries to dictate terms of trade.

## 2. Implications of Enlarged EEC

Pakistan was doubly threatened by EEC. Her manufactured exports, appreciably rising as the process of development accelerated, were, on the one hand, subject to EEC Common External Tariff; on the other hand, the possibility of Britain's entry posed a real danger. Pakistan depended for one-third of her exports on the enlarged EEC. The second British application for membership after the unsuccessful Heath negotiations of 1963 confirmed that the later

<sup>13</sup> Emile Benoit, Europe at Sixes and Sevens, p.175.

<sup>14</sup> Isiah Frank, The European Common Market, pp.151-6.

market the beginning, and not the end, of efforts to "return" to Europe. In Britain, the Labour Government went back on its own "five principles", which incorporated guarantees for Commonwealth trade - most important from Pakistan's standpoint. Her role as the "American Trojan Horse in Europe" was on the wane. In EEC, the principal hurdle had been removed with the exit of de Gaulle. Economically, a clear balance of advantage was envisaged for British industry. Kitzinger truly voiced the prevailing British sentiment when he stated:

A stronger Commonwealth looks a poor bet, when British trade with Overseas Sterling Area has been stagnant for eight years while our trade with the Six, in spite of our remaining outside EEC, has more than doubled.<sup>15</sup>

As a consequence of the enlargement of EEC, Pakistan would lose Imperial Preferences enjoyed under the Ottawa Agreement of 1932 and face Common External Tariff of 18-32 per cent, import-discouraging taxation and reverse preferences.

The economic repercussions of EEC thus clearly suggested the need for some action on the part of Turkey, Iran and Pakistan in economic self-defence.

### 3. Asian Common Market - An Illusion

The immediate solution that came to the mind without thought was to pay the EEC back in its own coin, i.e., by uniting into Asian Common Market (ACM). It was believed that formation of ACM will compensate for the loss in exports to EEC. But the stigma of economic

<sup>15</sup>Uwe Kitzinger's Introduction to Anthony Moncrieff (ed.), Britain and Common Market, 1967, p° 5«

and politico-cultural forces in Asia is that they are centrifugal rather than centripetal. The ECAFE, which pioneered the idea of a regional economic grouping in Asia, found it hopelessly infeasible. This was explained in more ways than one. First, Asia is a scene of some of the most irreconcilable political pathos and jealousies which, combined with an unusually dispersed geography and diverse culture, preclude any sense of regional togetherness. Consequently, Asians have failed to accumulate a fund of experience that could adequately furnish the basis for a common economic superstructure. Postwar reconstruction, necessitating cooperation, was an exclusively European phenomenon. Secondly, the sacrifice of sovereignty required by a supranational body like ACM is not possible among the nationalistic and independence-conscious modern states. The logical outcome of nationalism is the pursuance of autarkic economic policies - the very antithesis of integration. Thirdly, the comparability of levels of development - a very important precondition to integration - is conspicuous by its absence. "The big brother takes it all" lesson from East African experiment in integration seems to have been well-learned by smaller countries in Asia. Moreover, a uniformly protected region with widely disproportionate growth is likely to lead to a wasteful allocation of resources.<sup>16</sup> It should be remembered that this disproportionality is in no way a reflection of economic complementarity. Fourthly, the emergence of a large economic bloc like ACM might induce a series of retaliatory moves the world over, conflicting in this way

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<sup>16</sup>Sir Roy Harrod, "Economic Development and Asian Regional Cooperation", Pakistan Development Review, Spring 1962, p. 69.

with the long-run interests of Asians whose extra-regional trade is more important than intra-regional trade. This is in spite of high income elasticity of demand for Asian goods and the tendency to prefer cheaper consumer goods and simpler capital goods.<sup>17</sup> Fifthly, trade-diverting effects will outweigh the trade-creating effects since not only the industrialization is in early stages, but also the natural resources exert a determining influence on productive activity. Finally, freeing of factor movements will become a political "hot potato" as most countries are overpopulated and capital-hungry.

On the whole, conditions in Asia are not ripe for a comprehensive economic grouping, though it is not suggested that it should not be retained as a long-term goal. In the meantime, the need for smaller groupings among geographically contiguous countries, showing greater sense of sub-regional solidarity and with objectives that are not overambitious, can hardly be exaggerated. The grouping suggested for South Asia comprised of Iran, Afghanistan, Pakistan, India, Sri Lanka and Nepal.<sup>18</sup> The suggestion went unheeded, and for obvious reasons: The entente that such a grouping pre-requires between the two largest members, Pakistan and India, did not exist. Any economic arrangement without India would not be of much benefit to Nepal. Afghanistan also falls in the Indian sphere of influence.

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<sup>17</sup> D.T. Lakdawala, "Trade Cooperation within the ECAFE Region", Pakistan Development Review, Winter 1962 p.516.

<sup>18</sup> Lim Tay Boh, "Regional Trade Cooperation among Asian countries", Pakistan Development Review, Spring 1962.

It was only between Iran and Pakistan that a good community of interests existed. Together with Turkey, they joined under the banner of RCD. A Sri Lanka daily, The Sun, once reported about Sri Lanka's intentions to join RCD, but it could not be confirmed.

In the sum, the immediate impracticability of the ACM idea was an important event in the process of evolution of the concept of RCD.

#### 4. Turkish Model of Association

Turkey had negotiated the Agreement of Association with EEC when the idea of RCD was put before her. Before the extent of the bearing of this Agreement on the scope of RCD can be scertained, it is necessary to throw some light on its contents.

Turkey has to depend on EEC for one-third of her exports.<sup>19</sup> She had been trying to secure her position right from October 31, 1959 when she first applied for association. The Agreement, however, could not be signed before September 12, 1963, entering de jure and de facto into force on December 1, 1964.<sup>20</sup>

The scope of the association was limited, though an eventual membership through three crucial stages was envisaged.

<sup>19</sup> Tevfik Can, "Economic Relations of Turkey with the Common Market", Turkish Economic Review, May-June 1966.

<sup>20</sup> Turkey, State Planning Organization, Second Five Year Development Plan p.136.

The first stage was a "Preparatory Period" of five years in which Turkey was required to strengthen her economy and commerce to the extent necessary for entering the "Transitory Period". For this purpose, preferential tariff quotas on dried figs, hazelnuts, raisins and tobacco - constituting 37 per cent of Turkey's exports - were granted. Again, European Investment Bank was to extend a credit of \$ 175 million to help raise productivity in consistency with the objectives of association as well as Turkish Planning. In case of failure to achieve the much needed economic maturity, the "Preparatory Period" could be extended for another six years. A customs union was contemplated to be gradually developed over the "Transitory Period" of up to maximum of twelve years. As a result, Turkey would adopt the EEC Common Customs Tariff and harmonize its policies for transport, competition and labour movements. As the full customs union crystallised with more and more policy coordination and adoption of Common External Tariff, the so-called "Definitive Stage" would be reached whereby she could apply for full membership of EEC.<sup>21</sup>

The great Turkish interest in EEC simply reflected her attempt to stick to economic rationality. While she turned eastwards to seek military allies, her economic advantage clearly lay in the West - a trading partner of considerably more weight than Iran and Pakistan.

On the one hand were Turkey's long-term economic interests. On the other, two friendliest nations were applying great pressure for a broad-based regional grouping with no extraregional influences.

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<sup>21</sup> A.E. Walsh and John Paxton, The Structure and the Development of the Common Market, pp.175-7.

The modus vivendi worked out as a result fell far short of the expectations of Iran and Pakistan.<sup>22</sup> Turkey succeeded in keeping the arrangement loose and any cooperation under its auspices could be carried out notwithstanding her association with EEC.

As the Istanbul Summit Conference noted:

This new collaboration should be carried out in a spirit of regional cooperation notwithstanding their (Turkey, Iran and Pakistan) activities as members of other organisations of a regional character.

It is on record that:

One member at least ..... was unwilling to discuss in any great detail, proposal for a more formal organizational structure .....<sup>23</sup>.

The point that needs emphasis is that Turkey had great stakes in associated status and eventual membership of EEC. Anything that became incompatible with this objective in a fundamental sense in the course of time would not have been acceptable to her. The impact of this attitude is reflected in the limited objectives of RCD.

##### 5. Trade Agreements

During British negotiations for an enlarged EEC in 1963, certain provisions were made to safeguard the trading interests of the countries of "category one", including Pakistan, India and Sri Lanka. In the first place, a transitional period was allowed

<sup>22</sup>Iran, Imperial Ministry of Foreign Affairs, Tripartite Summit Conference, Istanbul, Documents and Communiqués on RCD.

<sup>23</sup>RCD Secretariat, Monthly Bulletin, November 1965, p. 18.

till 1966 with a view to (1) staggering the dismantling of Commonwealth preferences and their replacement by Common External Tariff and (2) providing reciprocal tariff reduction on some products. In the second place, a comprehensive Trade Agreement for the long run was contemplated, covering tariff policy, quantitative restrictions, voluntary limitation agreements, etc. In case the parties failed to reach any agreement till 1966, the transitional period was proposed to be extended until 1970 when the Treaty of Rome would be operative in its entirety.<sup>24</sup>

Pakistan, on its part, demanded adequate compensation for the expected worsening of balance of payments under the GATT rules. Reciprocity in tariff reductions, to quote Gunnar Myrdal, is nothing but a "false principle of equality among the unequal". Mutual tariff reductions between the EEC and Pakistan would be suicidal for later's industrial development. Pakistan pressed for a non-reciprocal reduction of tariffs on her manufactures, total abolition of quantitative restrictions and tariffs on products whose importance for Pakistan was substantial and for EEC infinitesimal, and postponement of Common External Tariff until the conclusion of Comprehensive Trade Agreement.

The EEC retorted with the usual tactics by delaying to declare the intents of the Comprehensive Trade Agreement. The European Economic Commission probably wanted to retain this weapon in its

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<sup>24</sup> Pakistan, Ministry of Finance, Pakistan Economic Survey, 1962-63 and 1963-64, pp.80-4 and 84-5.



armoury to use as a press button, not only during any subsequent negotiations with Britain, but also when bargaining directly with "category one" countries. In January 1964, Pakistan sent a delegation to Brussels. These discussions with the European Commission offered no way out of the uncertainty prevailing about the future trade prospects.

Iran safeguarded her interests by entering into a trade agreement with EEC on October 14, 1963, providing for temporary tariff concessions for carpets (Persian rugs), carpeting and knotted rugs, dried grapes, dried apricots and caviar. Also provided were the nondiscriminatory tariff quotas for raisins. The agreement was renewed in June 1967 after protracted deliberations between the European Economic Commission and the Iranian Ministry of Economy.

#### RCD Comes into Being

The discussion thus far has brought to fore the complex of developments that had been taking place before the advent of RCD. The initiative came from Pakistan who had been hard hit by these developments. Iran, though only marginally affected, supported Pakistan in the hope that a larger market might help accelerate her industrial transformation. It was, however, the inadequate flexibility demonstrated by Turkey on "firm economic grounds" that defined the actual scope of RCD. But for the tremendous cordiality in non-economic relations, Turkey would not have agreed to any such arrangement at all. Moreover, Turkey was not willing to make a hasty decision about the future of CENTO.

The Tripartite Summit Conference, held in Istanbul during 20-21 July, 1964 reviewed the Report of the Ministerial Pre-Summit Meeting (Ankara: July 18-19, 1964) on Economic and Cultural Collaboration between Pakistan, Iran and Turkey and agreed in principle to form what came to be known as Regional Cooperation for Development (RCD) amongst Turkey, Iran and Pakistan. The objectives were irritatingly limited. The requisite organizational structure was not clearly defined. Indeed, the choice of a cumbersome name like Regional Cooperation for Development itself was indicative of the marginal economic significance of the organisation.

## Chapter Two

THEORY AND FACTS

Defining economic integration is a pretty elusive proposition due mainly to the enormity of its degrees and forms. As a point of departure, it is conceivable as a conscious attempt to devise a framework for the rationalization or creation of economic inter-connection between two or more countries with a view to maximizing economic gains.

A Summary View of Existing Theory

The received theory of economic integration<sup>1</sup> has centred round the proposition that a geographically discriminatory disturbance of existing obstacles to trade affords a second-best arrangement for the improvement of static efficiency. The welfare of the partners in a union will, it is maintained, increase as a result of economies of scale and specialization, greater competition, higher productivity and improved terms of trade. Whether this will actually happen depends upon the relative strength of the opposing forces of trade-creation and trade-diversion, the former being defined as displacement of an expensive home source of supply by a cheaper source from the partner and the latter as the displacement by an expensive partner of a cheaper foreign source. Formation of a union is said to be beneficial if the trade-creating effect outweighs the trade-diverting effect. Figures 1 and 2 help explain the two effects.

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<sup>1</sup> Jacob Viner, The Customs Union Issue, Chap. 4, pp.41-78; J.E. Meade, The Theory of Customs Union, pp.34-41; R.G. Lipsey, "The Theory of Customs Union, A General Survey", Economic Journal, September 1960, pp. 496-513; Harry G. Johnson, "The Economic Theory of Customs Union", in Money, Trade and Economic Growth, chap. III, pp.46-62.

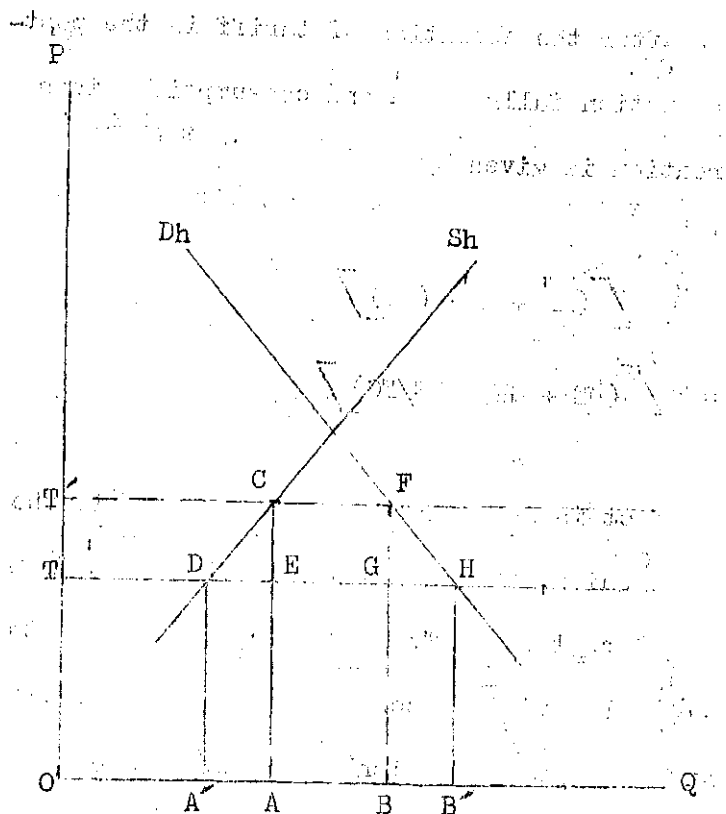


Fig. 1

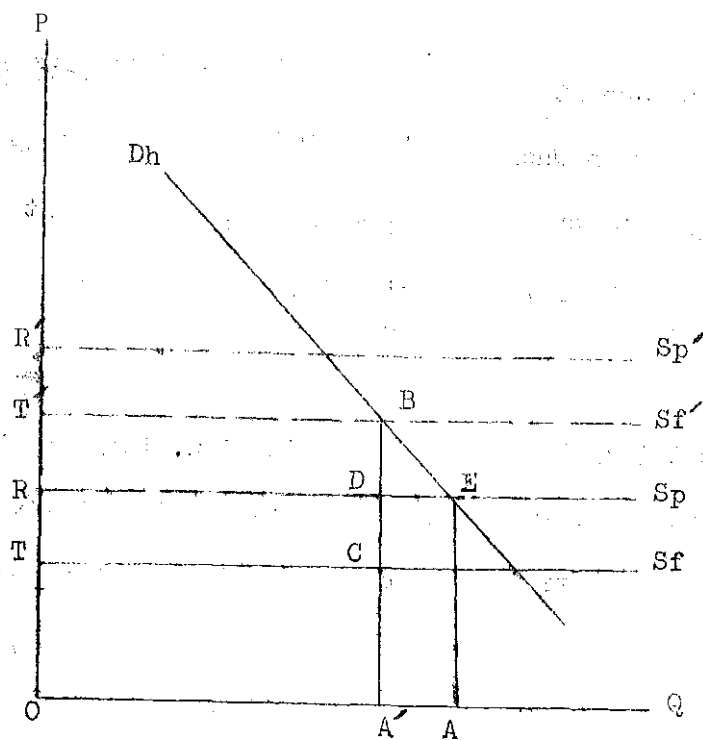


Fig. 2

In figure 1,  $D_h$  and  $S_h$  are respectively the home demand and supply curves.  $S_p$  is the partner supply curve without tariff and  $S_p$  is the same curve with tariff in Figure 2. In the pre-union period, the home country demands  $OB$ , of which  $OA$  is supplied by the home producers and  $AB$  is imported. After the abolition of tariff in the post-union period, the home production falls to  $OA'$  and consumption rises to  $OB'$ . The total trade creation is given by

$$\begin{aligned} CDE + FGH &= \frac{1}{2} \int (AA' + BB') (TT') \\ &= \frac{1}{2} \int (DE + GH) (CE/FG) \end{aligned}$$

Trade diversion effect is shown in Figure 2 where  $S_f$  is the foreign supply curve. Before union, the home country imports  $OA'$  from the foreign source at a total cost of  $OA'CT$ . After union, she imports  $OA$  from the partner country. The original consumption of  $OA'$ , however, now costs  $OADR$ . The loss from trade diversion is thus given by

$$OA'DR - OA'CT = TCDR$$

It is this loss that has to be balanced against trade creating effect as the criterion of uniting into an integrated economic bloc.

Besides this inter-country substitution, there could also be an inter-commodity substitution whereby a change in relative prices causes consumers to substitute one commodity for another, at least at the margin.

### The Need for a Dynamic Interpretation

Such a theory of economic integration, with its objective function as welfare, fails to offer any satisfactory explanation of the regional groupings among LDCs like the RCD members. The problem in the later is economic sufficiency, and not economic efficiency in the sense that the emphasis is on creating useful employment opportunities for their ever-multiplying numbers on the basis of whatever capacity can be built up in the sphere of production. What is required in such countries is not economic integration per se, but as a means to accelerating their structural transformation. Economic integration is desirable to the extent it helps achieve this objective. As such, the theory needs to be elaborated to include dynamic considerations of sustained economic growth.

The criteria for judgement in RCD countries, therefore, is not the balance between trade creation and trade diversion, but growth creation and a net expansion of intra regional trade. Thus if the effect of integration is to substitute a high-cost partner country for a low-cost third country, it will be negotiation-worthy insofar as it implies the utilization of idle capacity and a transaction involving no use of scarce foreign exchange. It might even result in some increase in efficiency as the scope for realizing economies of scale becomes greater. Again, this inter-country substitution should be viewed together with a special type of inter-commodity substitution the post-union increase in the consumption of a commodity in a country imported from the partner, making way for more investment in that commodity as a result of enlarged market, will (1) after consumption

pattern tending towards greater welfare and (2) induce new investment in the production of a commodity in which she is relatively less inefficient. In a static sense, therefore, economic integration among RCD countries fails, at least in initial phases, to bring about a general optimization of prices of domestically and internationally traded goods. But in a more important sense, i.e. in a dynamic sense, it is a second-best solution in that intra-regional specialization initiates a tendency towards optimum by altering production patterns and relative prices. It must, however be remembered that an incompatibility between intra-regional trade expansion and capacity to import capital goods should be carefully guarded against<sup>2</sup>.

The discussion so far boils down to this fundamental hypothesis of the dynamic theory of economic integration : the growth prospects for LDCs joining an enlarged market are greater than the sum of their separate growth prospects, ceteris paribus. In other words, it deals with the complex of interacting links between structural flexibility, size and extent of the market and degree of its liberalization and technological possibilities.

The relationship between economic integration and economic growth unfolds itself in a more perceptive manner when viewed with particular reference to the choice of strategy.

Balanced growth strategy, defined as the synchronous development of mutually consistent and organically unified industrial structure, is limited by the deficiencies on supply side. Obviously,

<sup>2</sup>Hiroshi Kitamura, "Economic Theory and Regional Economic Integration of Asia", Pakistan Development Review, Winter 1962, p. 496.

the possibilities of making up these deficiencies are likely to be more when the resources of a region are pooled than within the national frontiers. But it is under an unbalanced growth strategy that market limitations play a greater role. The development of a few leading sectors with strong backward and forward linkages and based on the creation of pressures, tensions, incentives and challenges involves an imbalance in supply and demand which could be adequately corrected through integration. Hence, regional groupings, by enlargement of market and greater specialization, are greatly responsible for accelerating the rate of economic growth, whatever the strategy of economic growth.

An interesting case can be made for combining the virtues, and minimizing the ill-effects, of both balanced and unbalanced growth strategies in an integrated market. The essence of such a strategy is to create certain highly dynamic growth points on the basis of the economies of scale and technological possibilities available in a regional market and in accordance with some agreed pattern of specialization. The growth points, and the radiation of growth from them, are brought into balance by coordinated planning. Economic integration thus leads to a mutually supporting and complementary industrial structure.

#### The RCD Economy : Initial Conditions

The structure of the RCD economy at the time of its formation needs to be investigated before assessing the dynamic possibilities of economic integration in the region. In countries lacking a long-standing tradition of an appreciable level of mutual economic cooperation,



the dearth of comparable data itself is a bottleneck in the way of working out a practicable integration scheme. Although the data used in the following analysis leaves much to be desired, it does serve the useful function of giving an idea of the broad orders of magnitude.

The RCD countries embarked on the road to development by pushing up industrialization as the leading sector. By providing internal concessions and external protection, "the three" have pursued a vigorous and consistent policy of import substitution. Import substitution enjoys the natural protection of distance and transport costs, makes fewer demands on standards of efficiency, service and quality. Again, it is facilitated by familiarity with the formerly imported products. Thus, immediately before the RCD came into being, the industrial output (excluding petroleum and minerals) constituted 18 per cent of the total in Iran, 15 per cent in Turkey, and 11 per cent in Pakistan. All the three countries had become more or less self-sufficient in most of the essential consumer goods. Though the rates of industrial growth were slightly disproportionate, the pattern of industrialization had much in common.

Table 1 indicates this fact.

TABLE 1  
COMPOSITION OF INDUSTRIAL OUTPUT\*  
(% distribution)

Industry	Iran 1962	Turkey 1962	Pakistan 1963-64
Food	21.9	19.0	8.0
Beverages	2.1	3.5	0.4
Tobacco	12.3	10.0	8.8
Textile	24.6	29.6	37.4

Industry	Iran 1962	Turkey 1962	Pakistan 1963-64
Footwear and Wearing Apparel	3.4	-	1.4
Wood products	1.7	1.2	-
Furniture and Fixtures	0.7	-	0.5
Paper and Paper Products	0.7	<u>3.1</u>	2.4
Printing and Publishing, etc.	0.6	1.0	<u>2.4</u>
Leather and Leather Products	1.5	-	1.7
Rubber Products	0.8	1.2	0.7
Chemicals	4.2	5.1	<u>8.3</u>
Non-metallic Minerals	1.8	3.7	<u>5.5</u>
Basic Metal Industries	0.3	<u>8.6</u>	6.2
Metallic Products	<u>7.3</u>	<u>6.7</u>	5.1
Machinery (Non-electrical)	0.2	1.7	<u>2.8</u>
Electrical Equipment and Machinery	0.7	1.5	<u>3.3</u>
Transport Equipment	<u>14.4</u>	2.1	2.3
Miscellaneous Manufacturing Industries	0.8	2.0	2.8

\* Excluding petroleum and coal.

Source : ECAFE Secretariat, "Sub-regional Plan Harmonization: A Case Study of the Regional Cooperation for Development", Economic Bulletin for Asia and the Far East, June 1967, p. 33.

It would be seen that more than 60 per cent of the industrial output was contributed by food, beverages, tobacco and textile industries. As is typical of most LDCs the greatest advance had been made in market-oriented industries like textiles, sugar, edible oils, canned food, beverages, cigarettes and footwear. Not only import substitution of these light manufactures was complete, but Turkish sugar and Pakistani textiles came to be regarded as sufficiently competitive exports.

The large extent of import substitution in light manufactures was also verified by the pattern of imports of RCD countries, as shown in Table 2.

TABLE 2  
PATTERN OF IMPORTS  
(% distribution)

Imports	Pakistan 1963	Turkey 1964	Iran 1964
Food	16.9	1.7	13.9
Beverages and Tobacco	0.3	-	-
Crude Materials	4.0	6.5	5.8
Mineral Fuels	7.0	12.5	0.4
Animal and Vegetable Oils	4.7	5.1	2.2
Chemicals	8.6	11.2	12.7
Basic manufactures	21.3	18.9	28.3
Machines and Transport Equipment	34.6	40.0	33.1
Miscellaneous Manufactures	2.5	2.8	3.5

Source : United Nations, Commodity Trade Statistics, 1963, 1964.

The pattern of imports clearly shows that light manufactures figured less prominently in the three countries. There existed, however, a considerable scope for import substitution in food in Pakistan and Iran. Pakistan was endeavouring to achieve food autarky by 1970 and plans were also afoot in Iran to boost up the production of refined sugar, constituting 8.5% of her imports. More import substitution was required in the production of vegetable oils in all the three countries.

The point of the argument hitherto is that while the ratio of domestic production to total supply of final goods had risen appreciably, the progress in the fields of intermediate and capital goods had not at all been satisfactory. A glance at table 1 reveals that the later's contribution to the total manufacturing output was less than 40 per cent in the three countries. The region heavily depended on imports to satisfy its needs of basic metals, fertilizers, chemicals, machinery

and transport equipment. Moreover, these input imports were more likely to increase rather than decrease as more was invested for greater output. This had suggested the need to accord highest priority to intermediate and capital goods. Table 3 is indicative of this bias.

TABLE 3

PATTERN OF INDUSTRIAL INVESTMENT  
(% distribution)

Industry	Pakistan	Turkey
Food, Beverages and Tobacco	7.2	10.2
Wood and Cork Products	1.2	1.0
Textiles	20.6	9.0
Paper and Paper Products	5.3	5.5
Rubber Products	0.4	2.5
Chemicals	12.3	27.1
Non-metallic Products (Gas, Petrochemicals and Cement)	16.7	3.0
Basic Metal Industry	12.9	21.1
Metallic Products	3.8	2.3
Machinery (excluding electric machinery)	5.1	10.6
Electric Machinery	3.3	2.4
Transport Equipment	5.8	4.2
Other Industries	6.0	0.9

Source : Turkey, State Planning Organization, First Five Year Development Plan, 1963-67.

Pakistan, Planning Commission, The Third Five Year Plan, 1965-70.

The pattern of future industrial investment in Pakistan and Turkey showed a marked bias towards intermediate and capital goods, accounting for 60 and 70 per cent respectively of the total in the two countries. The data on the pattern of industrial investment in Iran was not available according to the above descriptions. But it

was not hard to discern a major shift of emphasis in planning industrial development. The most significant plans of the industrial development strategy in Iran's Third Plan (September 1962-March 1968) was the

introduction of new products suitable to Iran's needs and resources.

For this purpose, 64 per cent of the total allocations for industry and mining was earmarked. Table 4 portrays the pattern of investment in these "new industries".

TABLE 4

## PATTERN OF NEW INDUSTRIAL INVESTMENT IN IRAN

Industry	% allocation
Steel	35.7
Southern Fishery	7.1
Sugar	7.1
Petrochemicals	35.7
Others (Fertilizer, Foundry, etc.)	14.3

Source: Iran, Plan Organization, Outline of the Third Plan, 1962-68.

The above table bears out that capital goods and intermediates had been adequately stressed and that Iran was beginning to move on the road to sophisticated economic development. According to table 4, more than 70 per cent of new investment was to be made in steel-making and petrochemicals.

Thus the most important conclusion from the study of patterns of industrial output, imports and investment at the time of establishing RCD is that the three countries had reached the

stage where what are known as "process industries" needed to be developed. The slow movement towards this end, though with varying degrees, was explicable in terms of limited national markets. It is at this point that the need for a regional grouping arose.

#### Post-RCD Economic Structure

The RCD was set up in 1964. By 1966, no dramatic changes could be expected. However, this year is being studied because comparable figures are available for all three of the members.

TABLE 5

#### ECONOMIC STRUCTURE OF RCD COUNTRIES, 1966

	Pakistan	Turkey	Iran	RCD
1. Population (millions)	118.6	32.2	25.8	176.6
2. Gross National Product (Million US \$)	12,674.0	9,379.0	6,345.0	28,398.0
3. Per Capita Product (US \$)	107.3	292.2	248.0	-
4. Relative contribution to GDP (%)				
a. Agriculture	44.8	32.0	20.8	-
b. Industry	12.1	15.8	33.2	-
of which manufacturing	(11.9)	(14.2)	(13.2)	-
c. Construction	3.9	5.2	6.3	-
d. Services	39.2	32.0	39.7	-
5. Fixed capital formation as percent of GNP	15.2	18.0	19.8	-
6. Foreign Trade (million US \$)				
a. Exports	752.0	490.5	1,456.1	2,698.6
b. Imports	1,366.0	718.0	954.9	3,038.9
c. Total	2,118.0	1,208.5	2,411.0	5,737.5
7. Foreign Trade as percent of GDP				
a. Exports	7.1	5.2	21.1	-
b. Imports	12.9	7.6	13.8	-
c. Total	20.0	12.8	34.9	-

As is evident from Table 5 above, Pakistan was the most populous of the three RCD countries. In fact her population, estimated at 118.6 million was double the combined population of Iran and Turkey, i.e. 58 million. Although Iran was the least populated, the per capita product of Turkey at \$ 292.2 was the highest in the region. However, Pakistan had the largest absolute size of GNP, indicating the extent of the market possibilities if offered.

Structurally, while there were wide variations in the GNP contributed by agriculture, the differences in the contribution of manufacturing were only marginal. Manufacturing being the most dynamic area of regional cooperation, the comparable levels of development in this sector fulfilled a necessary condition for an equitable regional investment policy. The 15-20 per cent of fixed capital formation generally refer to a stage in development when industrial climate starts creating pressures for greater sophistication. This fulfilled yet another precondition for regionally based investment.

Due to its oil revenues, Iran had the biggest foreign trade sector. Its exports, given at \$ 1,456, million were the largest in the region. With the smallest level of imports, it had a balance of trade surplus the value of which was higher than the aggregate value of the Turkish exports. Turkey and Pakistan both suffered a deficit in the balance of Trade. However, the situation of Pakistan was worse than that of Turkey, with an import level twice that of exports.

Overall, the RCD region enjoyed a surplus in the balance of trade. Such a global surplus, contributed by one member (in this case Iran), generally makes the surplus country averse to entering a comprehensive trading arrangement with deficit countries.

Table 5 also shows the foreign sector and its components in terms of their percentual GDP shares. With the percentages of foreign trade in the range of 13-35, despite the fact that Iranian figure considerably depends on oil alone, allows a considerable area of negotiated cooperation.

It may be noted that the three countries had started planning their national development well before the RCD was established. In July 1964, Pakistan was in the last year of its Second Five Year Plan. During the period under study (1964-71), it completed the Third Five Year Plan, and attempted abortively the inauguration of the Fourth Five Year Plan. At the time of the formation of RCD, Iran was in its Third Plan (1962-68). She started her Fourth Plan from 21st March, 1968. Turkey had started five-year planning about the time RCD was constituted. 1964 was the second year of her First Five Year Development Plan (1963-67). Her Second Five Year Development Plan was to extend over 1968-72.

#### Gains from Integration

As is evident from the above statement of the initial economic conditions, the RCD countries were ready in the mid-1960s to enter the stage of regional import substitution. Generally, the gains from regionally integrated development involve the exploitation



of the economies of scale, economies of location and specialisation, intensification of competition, reduced external vulnerability and a boost to the bargaining power. It is now proposed to discuss these advantages separately in the context of the RCD region.

#### 1. Economies of Scale

Economies of scale or mass production arise when efficiency can be increased and unit cost decreased only at a very large output.

As Lord Frank put it:

The plain fact is that world is too big and the industrial nation is too small. Regional groupings are natural occurrence.<sup>3</sup>

With the approaching of the stage of "process industries", the chain of industrial production is lengthened and the question of an optimum size of the market assumes real significance. Modern productive techniques require a minimum of output before a sophisticated industry can be economically set up. For example, the Latin Americans have estimated that in a regional rather than national market, their demand for steel production would be satisfied with a saving of \$ 3.7 billion of investment capital and a direct annual reduction in cost of more than \$ 400 million. Similar capital and cost savings would accrue in RCD countries as they are attributable to production. A large market also provides outlet for substantial excess capacity that exists even in products characteristic of earlier stages of growth.

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<sup>3</sup> Quoted by Sindney Dell, op.cit., p.46  
See also U.N. A Contribution to Economic Integration Policy in Latin America, (E/CN, 12/728), p.99 ff.

So the market has to be large enough to support a number of optimum plants. The "large enough" market is said to exist when an area has a relatively high-income population of 50 million.

Table 6 gives an idea of the size of the RCD market.

TABLE 6 THE SIZE OF RCD MARKET, 1963

	Pakistan	Turkey	Iran	RCD
Population (Millions)	98.7	30.3	22.2	151.2
Gross Domestic Products (Million Dollars)	8,297	6,950	4,968	20,215
Per Capita Product (\$)	84	230	224	179.3

Source: Same as of Table 1.

The population of RCD region, it will be seen, though three times that of 50 million limit, could by no means be grouped as "high-income". This size of population is comparable to USA and USSR, higher than European Free Trade Association and Central American Common Market, but GDP is lower than the combined figure for Netherlands and Belgium. The estimates of these magnitudes, however, do not appear to be mean by the LDCs standards: they are considerably higher when compared with the corresponding estimates for Association of South East Asia (ASA), with a regional product of \$ 10,000 million and a population of a little over 70 million. And since the purpose is the diversification of economic structures, the sum of the separate abilities of the RCD countries to do so would in any case be considerably less than the overall regional ability.

4 Bela Balassa, "The Dynamic Effects of Economic Integration with Special Reference to the ECAFE Region", in The Asian Development Bank and Trade Liberalization; E.A.G. Robinson (ed.), Economic Consequences of the Size of Nations, p. xviii.

## 2. Economies of Location and Specialization

Modern integrated heavy industry unit is a congerie of related processes, viz. steel furnaces, cooking plants and chemical works, containing a complex of joint demand and supply relations. Thus the final producer would purchase the various components, accessories and parts of his product from firms concentrating on their production rather than producing every thing all by itself.

In a regional market, the possibilities of realizing the unrealized economies of specialization increase substantially. The "going it alone" approach to industrialization is fraught with wasteful duplication, which the LDCs with scarce resources can ill-afford to adopt. Specialization here implies that production in each member of a regional grouping is based on a consistency between factor endowments and factor intensities. In the RCD region, there existed immense scope for horizontal specialization in the production of steel, petrochemicals, aluminium, paper and cement.

## 3. Greater Competition

The process of import substitution in RCD countries led to monopolistic distortions in their economies. In many cases, the pains of "infanticide" have been inflicted on the consumers beyond limit.

A regional arrangement may provide a competitive spur to the multiplying high-cost producers so as to improve their productive efficiency. The competition is necessary to keep the producers on their toes, and stimulate the spirit of initiative. Again, it checks balance of payments pressures that might result from monopoly gains by foreign capital.

It is not clear whether the effect of the economic Darwinism, i.e., elimination of inefficient firms by efficient ones, would not be once and for all. Moreover, the argument applies, if at all it does, only to the already established industries, viz. textiles in RCD region.

But the problem in this region is to increase production and employment rather than productivity. The social costs of inefficient production offering some employment are lower than the alternative of no production and no employment. Intensification of competition may well disturb the investment priorities by inducing additional investment towards the modernization of existing industries rather than setting up new industries.

One cannot agree to the argument<sup>5</sup> for allowing a marginal competition in case of sophisticated industries requiring a regional rather than national market for optimal investment. These types of industries are the principal motivation for regionalization among LDCs and letting the impersonal competitive forces loose, even on a smaller scale, will hinder, and not help, their optimal development because

- (a) the length of the construction period invalidates the market-oriented decisions;
- (b) the huge capital investment necessary for investment will never be forthcoming except when a planned balance between supply and demand is contemplated;
- (c) the market mechanism is unable to optimally locate heavy industry.<sup>6</sup>

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<sup>5</sup> Jan Tinbergen, "Heavy Industry in the Latin American Common Market", Economic Bulletin for Latin America, March, 1960, pp.1-5

<sup>6</sup> A.H.M.N. Chowdhury, Regional Cooperation for Development: Its Nature and Significance, (PIDE Mimeograph), p.18.

#### 4. Reduction in External Vulnerability

The pattern of exports of any region furnishes a fairly dependable index of the extent to which it is externally vulnerable. Table 7 provides such an index for RCD region.

TABLE 7  
PATTERN OF EXPORTS  
(% distribution)

Items	Pakistan 1963	Turkey 1964	Iran 1964
Food and Live Animals	11.8	37.1	2.7
Beverages and Tobacco	1.0	22.0	-
Crude Materials	62.1	32.7	5.7
Crude Petroleum	-	2.2	20.0
Chemicals	0.3	0.5	0.7
Miscellaneous Manufactured Goods	3.0	0.1	0.1

Source : Same as of table 1.

The table discloses the heavy dependence of RCD countries on primary products. Pakistan and Turkey preponderantly rely on agricultural exports. The fluctuations in the earnings from these exports render them extremely vulnerable externally. There is a dire need to diversify the structure and direction of exports. Regionalization could provide a framework whereby industrialization for export to less developed partners was made possible. The greater such industrialization, the lower the vulnerability to the vicissitudes characteristic of international economic relations.

The situation in case of Iran is different. She too predominantly depends on petroleum exports, but it finds regular export outlets leading to a stable external sector.

##### 5. Enhanced Bargaining Power

J.E. Meade has stated :

The larger the trading area which is negotiating as a single unit, the better the commercial policy treatment which it can hope to extract in its bargains from other countries, and the better, therefore, its terms of trade with the rest of the world are likely to be<sup>7</sup>.

In a world where every thing has to be manoeuvred, the trading interests cannot be safeguarded unless tremendous bargaining power could be mobilized in an organized manner. This is all the more necessary for LDCs who have to bargain with strong economic blocs like EEC. On the import side, the economic bloc may be able to reap the usual advantages of bulk buying. On the export side, it is possible to exploit exclusive position as supplier.

Certain quarters<sup>8</sup> are skeptical about the terms of trade benefits as a result of regional grouping among LDCs. The argument particularly applies to RCD region. As seller the RCD offers no advantage at all. There is no product for which Turkey, Iran and Pakistan could together throw into balance their position as a single supplier. Pakistan's duopoly in jute and Turkey's virtual monopoly in hazelnuts was, in spite of RCD, not because of it. In the capacity of a compound demander, the major imports of the region included food, intermediate

<sup>7</sup>Op.cit., p.96.

<sup>8</sup>C.A. Cooper and B.F. Massell, Toward a General Theory of Customs Union for Developing Countries, p.2.

and capital goods. A significant portion of these imports came under tied aid. Furthermore, highly favourable commercial policy treatment is meted out to the input imports. The import potential would no doubt increase as economic development proceeded on, but its size would be an infinitesimal portion of DCs total exports, ruling thereby out any gain in bargaining power. On the whole, the disparities in bargaining power are connected in a significant way with the general problem of disproportionate growth in the world economy; in as much as this tendency persisted, the bargaining power of LDCs would continue to be weak.

To sum up, the intensification of competition and improved bargaining power are altogether irrelevant to the RCD region. The principal ingredients of a dynamic case for integration are the economies of scale and reduced external vulnerability and, to some extent, the economies of location and specialization.

### Barriers to Integration

Economic integration among LDCs. Some of them are real, others imaginary and their identification becomes imperative in view of the limitations placed by them on the concept of RCD.

#### 1. Balance of Payments Difficulties

Turkey and Pakistan suffer from chronic balance of payments difficulties. Any attempt at trade liberalization is unlikely to be well-received unless it strictly ensures the equalization of accounts. Although Iran maintains a regular and sizeable surplus, due mainly to oil exports, it can not be made available to correct any regional disequilibrium.

TABLE 8  
RCD TRADE WITH REST OF THE WORLD  
(% of total)

Year	Exports to R.W.	Imports from R.W.
1958	99.02	98.75
1959	98.32	97.95
1960	98.44	97.65
1961	98.77	98.05
1962	97.65	97.57

Source : A.H.M.N. Chowdhary, Regional Cooperation for Development: Its Nature and Significance.

The figures in Table 8 show that RCD region as a whole enjoyed consistent balance of payments surpluses vis-a-vis rest of the world. This of course mystified the fact that Pakistan and Turkey generally run deficits.

## 2. Low Intra-regional Trade

Benefits of economic integration are said to be greater, the higher the proportion of intraregional trade to total trade in competitive goods, as the potentialities of creating complementarities would be greater.

TABLE 9  
INTRA - RCD TRADE  
(% of total)

Country	Exports					Imports				
	1958	1959	1960	1961	1962	1958	1959	1960	1961	1962
Pakistan	1.04	0.57	0.49	0.25	1.13	2.75	6.35	5.19	3.96	3.52
Iran	1.24	2.71	1.87	1.46	3.60	0.75	0.34	0.99	1.01	0.96
Turkey	-	-	1.13	1.47	-	0.03	0.68	0.09	1.52	2.24

Source : Same as of table 8.



Table 9 shows the relative insignificance of intraregional trade at the time of constituting RCD. The average comes out to be less than 2 per cent of the total<sup>9</sup>. This low flow is the result of the colonial pattern of international division of labour whereby trade flourished only between the centre and peripheries and not between the peripheries. Capital goods are imported from DCs and there is little surplus of primary sector. Nothing, however, would be more illogical than taking low intraregional trade as an argument against integration in LDCs. For one thing, the wide differences between intra-trade of DCs and LDCs are merely a reflection of the differences in their economic development levels<sup>10</sup>. For another, the alternative to greater intra-regional trade is the suffering from the pangs of "infanticide" and not low extra-regional trade. Moreover, the region could be made potentially complementary, even if it was not competitive initially, through an intelligent regional investment policy.

### 3. Equitable Distribution of Benefits

Comparability of the levels of development of integrating countries is an essential prerequisite for liberalization of trade. Otherwise, the benefits of integration will accrue mostly to the advanced partner where return on capital is highest due to the

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9 For a detailed analysis of low intra-regional trade, see Nurul Islam, "Pakistan and Free Trade Area among Baghdad Pact Countries", Pakistan Economic Journal, September 1958.

10 R.F. Mikesell, "The Theory of Common Markets as Applied to Regional Arrangements among Developing Countries", in Roy Harrod (ed.), International Trade Theory in a Developing World p. 212.

existence of infrastructure, social, economic and financial.

Not only does it attract scarce factors, but it gets additional tax revenue from the increased production.

The integration experiment in East Africa failed because development concentrated in Kenya, the most developed partner. Fortunately, the RCD countries were in a more or less similar stage of economic development.

TABLE 10  
SECTORAL COMPOSITION OF GDP, 1963  
(% of total)

	Pakistan	Turkey	Iran
1. Agriculture	49	38	25
2. Industry, of which manufacturing	12 11	17 15	30 18
3. Services	39	45	45

Source : Same as of table 1.

Notice that whereas agriculture's contribution to GDP indicates wide variations, they are less important in case of services. From the point of view of stage of development, the relevant factor is the contribution of manufacturing in the three countries. It can be seen that the differences were not significantly varying. Again, the patterns and rates of growth had been quite comparable.

The real problem in the context of RCD region was that similarity of levels of development would not necessarily lead to

equitably diffused benefits of integration. The fear of potentially lop-sided growth could not be entirely ruled out. As a result, the partners would seek a balance of industrialization and a visible quid pro quo before any scheme of economic integration was politically negotiable.

#### 4. Higher Proportion of Customs Revenue

Customs duties generally represent a substantial portion of state revenue in LDCs owing to the administrative and political complications involved in alternative sources. Trade liberalization means customs disarmament which explains the commonly experienced reluctance of Finance Ministers in regard to integration proposals.

In RCD region, the role of customs revenue is exaggerated. The tariff structures in Turkey, Iran and Pakistan were designed to protect the local industries against the competition from DCs. In most cases, the impact of tariffs among themselves was nil as they did not even produce the goods involved. The question that deserved attention was to devise a mutually acceptable mechanism of distributing the revenue from common external tariff.

5. Prevalence of Underemployed population. Anything that might worsen the problem by increasing unemployment without providing for necessary adjustments would naturally be not well-received.

#### 6. Fear of Domination by Foreign Capital

A large protected area, with immense scope for realizing economies of scale and specialization, might become "the signal of huge take-over bids from the developed countries" since they are

better equipped than the local enterprises to exploit the new investment opportunities. The experience of many LDCs shows that legislation is not enough to check the widespread tax evasions and unmeticulous exploitation by foreign enterprises. Moreover, the decisionmaking in international corporations is on the basis of their own worldwide interests and not necessarily in the interest of the host countries.

Economic integration among RCD countries, therefore, would have to ensure that the ultimate aim of promoting local initiative was adequately attended to and that only that foreign capital which helped achieve this objective by providing technical know-how was welcome.

#### 7. Rules of International Economic Game

GATT rules were formulated by the DCs for themselves, with almost no regard for the special requirements of LDCs. In the first place, the unconditional most-favoured nation clause can be escaped under article xxiv, only if the degree of preference is 100 per cent, as in case of a customs union, free trade area or an interim agreement which includes "a plan or schedule for the formation of such a customs union or free trade area within a reasonable length of time". For the third countries, the restrictions shall not on the whole be higher or more restrictive than the general incidence" in the preintegration period. Practically, an "all-or-nothing" rationale is provided in regard to the degree of discrimination in international trade. The common external tariff is generally taken as the arithmetic average of the separate pre-existing tariffs.

The operation of the principle of "equality of treatment is equitable only among equals" like DCs. In LDCs like RCD members, a total abolition of intraregional trade barriers may be an economic superfluity as well as a political inexpediency. Lacking a tradition of significant economic cooperation, a partial or sectoral integration is likely to be a more realistic way of breeding regional "infants". Again, the incidence of the arithmetically averaged common external tariff is insufficient to insulate regional infants.

The tariffs of capital and intermediate imports are generally very low and their production to exploit regional economies of scale and specialization needs protection, which should be high enough, since imports from DCs may still be more attractive due to better transport facilities, generous export credits, preferential treatment and tied-aid arrangements. The argument that the average could be maintained by some major tariff realignment could not be entertained as it would cripple the hard established base of light manufactures.

In the second place, the principle of nondiscriminatory application of quantitative restrictions (article xiii) can be waived temporarily for balance of payments reasons or developmental requirements. But this is not permitted under article xxiv, implying that in an RCD customs union, Turkey, Iran and Pakistan would continue to maintain quantitative restrictions against each other.

### Methods and Forms of Integration

Heretofore, an attempt has been made to clearly outline the theoretical underpinnings, possible benefits and the difficulties that an economic integration proposal was likely to come by in the RCD region. The problem to be discussed now is the actual form that economic integration can assume as a result of balancing these forces and, more importantly, the choice of the methods for its concretisation.

The case for an integrated development in the RCD region rests mainly on economies of scale, reduced external vulnerability and economies of location and specialization. It was also established that most of the difficulties in realising these gains of integration turn out to be imaginary when viewed in the dynamic context of economic growth. More correctly, balance of payments difficulties, low intra-regional trade and widespread under-employment present themselves, not as hurdles in the way of economic integration, but as economic ailments to be healed through integrated development. The problems of an equitably balanced regional development and heavy reliance on customs revenue were not insurmountable in view of the political solidarity and general goodwill prevailing in the RCD countries. There is a pressing need to change GATT rules, or at least a differential treatment be accorded to LDCs.<sup>11</sup> Nevertheless, the concern in this regard need not be serious. If GATT could accommodate a clear violation of article xxiv by European Coal and Steel Community, the

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<sup>11</sup> Lincoln Gordon, "Economic Regionalism Reconsidered", World Politics, vol. xiii, p.249. For a detailed and lucid discussion of the question of adapting GATT rules, see, U.N. Trade Expansion and Economic Integration among Development Countries, chap. xi., pp. 90-99.

automobile area between USA and Canada, Yaounde Convention, Turkish agreement of association with EEC and Latin American Free Trade Area (LAFTA), it should in principle have no objection to any such attempt by RCD countries. And in case of article xiii, the waiver clause holds for Turkey and Pakistan as both suffer from a chronic balance of payments problem. The foreign investment would not have been grudging<sup>12</sup> against insofar as it helped close (1) the trade gap resulting from importsensitivity of the development process (2) savings gap caused partly by unprecedented rate of growth of population and demonstration effect (3) technological gap between DCs and LDCs. Its ill-effects could be minimized by endeavouring

to establish or gradually to evolve a modus vivendi between the legitimate political and economic objectives of the developing countries concerned and the conditions under which foreign capital could be mobilized to serve development.

On balance, integrated development is an objective which could be desirably pursued to make, not only for the lost time, but also, and more significantly, to raise the sights of future in RCD region.

Given that the objective of development through integration is desirable, the problem to be discussed next is the form that economic integration COULD assume, with particular reference to the choice of methods for its concretisation, and then compare it to the one that DID emerge at Istanbul so as to ascertain the extent to which the concept of RCD deviated from economic rationality for extraeconomic reasons.

<sup>12</sup> United Nations, Trade Expansion and Economic Integration among Developing Countries. p.43.

In formal terms, economic integration is a process whereby a region moves from lower to higher forms through a progressive functional or institutional development of existing economic structure. Or it is a state of affairs when a particular form is chosen once and for all. Generally, the range of the spectrum is very wide, taking notably these forms :

### 1. Preferential Area

It provides for a margin of preference among the contracting parties with no obligation for their further reduction or harmonization of tariff rates. Imperial Preference System of 1932 is one such area. It clearly violates GATT rules as the degree of preference is not 100 per cent.

### 2. Free Trade Area

A free trade area requires internal tariff disarmament, but no common external tariff. An inherent contradiction crops up since a member can always accord a commercial policy treatment to third countries to a discriminating extent against partners. This was the main French argument against the British free trade proposal.

### 3. Customs Union

The customs union resolves the inherent contradiction of a free trade area by combining the dismantling of internal trade barriers with a common external tariff.

### 4. Common Market

This stage is reached when, in addition to goods, labour and capital and services also move freely. Such fundamental changes are, no doubt, unthinkable without a synchronization of all economic policies.



## 5. Economic Union

As the common market develops and consolidates, the ideal of economic union is neared whereby the political demarcations become redundant in an economic sense.

In DCs all these forms might constitute the successive stages in the process of integration, reached through a programmed establishment of a free trade regime. Not so in LDCs like the RCD members. These countries opted for a planned road to progress. Market mechanism, which is rejected as an exclusive means of resource allocation nationally, cannot be expected to fair any better on a regional level. The operation of "jungle warfare economics" would expose the region to the usual risks and uncertainties of market forces. While they would cure the deficiencies of demand, the problem of supply bottlenecks remained.<sup>13</sup> Moreover, the extension of the globally rejected comparative advantage doctrine to the region could cause serious industrial polarisation. Hence the need to wold trade liberalization with a regional investment policy in LDCs.

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<sup>13</sup> ECAFE, Report of the First Working Group of Planning Experts on Regional Harmonization of Development Plans (E/CN. II/L. 170), para 15

### Chapter Three

#### TRILATERAL POLITICAL ECONOMY

##### No Integration Plan

Where does RCD stand from the standpoint of economic integration? At the very outset, it must be made clear that any integration plan is conspicuous by its absence in the declaration of intents after the Istanbul Summit in 1964, although not a few responsible persons have expressed the hope that RCD would eventually develop into a common market. The chorus was opened by Mr. Ghulam Faruque, Pakistan's Commerce Minister, in a statement when RCD was hardly two year old:

Once the RCD nations achieve a sort of uniformity in their trade policies and succeed in creating a proper climate for joint investments across their frontiers, it should not be difficult to proceed more vigorously with the actual project of a common market.

He went on to claim, without elaboration, that

the prospects of setting up a common market of the RCD member nations and other Muslim States had brightened..... Preliminary plans were therefore formulated by the RCD partners in last December to create a common market..... To make it really effective, the scope of the RCD common market should be expanded so that it might embrace countries like Afghanistan and Indonesia.

President Aref of Iraq visited Iran in March, 1967.

Amidst speculations about Iraq's entry into RCD, Iranian Foreign Ministry contradicted the idea, describing it as "premature".

##### Muslim Common Market

Towards the end of July, 1967 the Ramsar Summit Meeting emphasized the need to strengthen RCD. What is known as Ramsar

Working Group of Planners was set up with a view to finding ways and means for economic collaboration on a wider basis. During his State visit to Turkey in December 1967, President Ayub of Pakistan hoped that RCD would grow into a common market, leading eventually to a Muslim Common Market.

A near-crisis developed when in early 1968, Mr. Khosrowshahi, President of Tehran Chamber of Commerce and Industry, held Pakistan's participation in Commonwealth Preferences and Turkish association with EEC responsible for the low intra-trade among the three countries. Pakistani businessmen, on their part, thought Iran should promise compensation out of her huge payments surpluses for dislocations resulting from a major realignment of trading relations in the region, since Pakistan and Turkey - depending heavily on foreign exchange and customs revenue - would be unable to survive them all by themselves.

The crisis was hushed up at the Eighth Session of the RCD Council of Ministers (April 14-15, 1968) which recommended a meeting of RCD Commerce Ministers

to discuss and make recommendations for removing as far as possible barriers to intraregional trade.

#### RCD Common Market

After President Ayub, another high-level endorsement of the RCD common market proposal came from Shah of Iran in August, 1968 just before the meeting of the RCD Commerce and Economy Ministers. This meeting was held in Tehran in September, 1968. Speaking at the inaugural session, Pakistan's Commerce Minister stated :

We have been greatly heartened by the statement made by His Imperial Majesty the Shahinshah of Iran in a recent Press Conference that he favours the establishment of an RCD common market. It is in that direction of regional preferences and a common market that we must ultimately move forward if our aims are to be realized in the future.

This statement, together with Shah's declaration just before the meeting, led many to believe that a comprehensive trading arrangement was in the offing. But all that happened was that Turkish and Iranian Ministers complimented Pakistan Commerce Minister for his initiative and drive in discussing the problem of intraregional trade, but shelved the common market issue by agreeing

to the carrying out of a study for identifying all barriers impeding intra-regional trade; and making recommendations for the liberalisation and expansion of such trade. This study will be entrusted to an international organisation, and its report will be considered by a group of experts composed of the representatives of the member Governments, who in turn will make their recommendations to the Commerce and Economy Ministers.

In the meantime, the RCD Chamber of Commerce and Industry was asked to make concrete recommendations for expansion of intraregional trade and removal of difficulties in respect of specific items. The Chamber, meeting at Karachi in December, 1968 agreed in principle to the common market idea, but concentrated largely on ordinary trade promotion devices.

The Report of the Ramsar Working Group was examined by the Third RCD Summit (Karachi, December 25-27, 1968). The Joint Communique issued at the end of the Conference contained no decision about the organizational changes required for a free flow of intraregional trade. The Working Group had recommended that :

- (i) A study should be undertaken on the commodities which are available in the three countries for intraregional trade, taking into account the possibility of preference to member countries;
- (ii) Another study should be undertaken for a phased programme of liberalization of trade and removal of barriers and restrictions impeding trade;
- (iii) Some administrative actions should be taken for the increase of trade which should include barter arrangements.

#### UNCTAD Study

The Summit thus did not indicate any real progress towards the launching of a common market. It merely re-emphasized what Commerce Ministers had already recommended. The proposed study was entrusted to UNCTAD, and financed by UNDP. The experts started investigation into three areas :

- (i) the present trading arrangements among "the three";
- (ii) the nature and scope of fiscal obstacles to trade;
- (iii) the structure of nontariff barriers and the extent of their commensurability with regional free trade.

Initially, four exchangeables were selected from each country. Turkey, Iran and Pakistan provided the UNCTAD experts with lists of commodities out of which four would be selected. Pakistan's list included light engineering goods and paper and paper products, Iran's included buses, air-conditioners and refrigerators and that of Turkey sanitary equipment, air-conditioners and refrigerators. It was said that the preliminary report would be available towards the end 1969. The report was to be subsequently considered at a joint meeting of Commerce Ministers and Regional Planning Council.

At the tenth session of the Ministerial Council, the Turkish Foreign Minister emphasized that the UNCTAD study should not ignore the "existing economic and commercial commitments of the members". Opening the same session, the President of Pakistan made an important observation:

Actually, cooperation under the aegis of RCD does not involve any real sacrifice on the part of any of its members, since, I am told, exchanges of all goods and services are made at internationally competitive prices and conforming to acceptable specifications. All that we do is to try and buy from one another what we would in any case purchase from abroad.

In the end of December, 1969 the UNCTAD Report was ready. At the 11th Session of the Ministerial Council, the Turkish Foreign Minister reiterated his previous stand when he said about the UNCTAD study:

If the recommendations contained in the study, which however, are not yet finalised, are implemented in harmony with the existing international commitments (italics added) of all our membership, we believe they will help promote trade in the Region.

Before making any specific recommendations, the UNCTAD report had to be discussed at the experts level, in the RCD Committee on Trade, at a Joint Session of the Commerce Ministers and Regional Planning Council and, finally, by the RCD Ministerial Council - the highest decision-making body. Until June 1970, the matter could not go beyond the committee stage.

Meantime, the Fourth RCD Summit Meeting was held in Izmir in May 1970. It gave a clear-cut directive in regard to the UNCTAD study:

The UNCTAD Report, which is currently under study identifies the barriers to, and makes useful recommendations for, the expansion and liberalisation of trade among the member countries. They instructed their Ministers concerned that at their meeting in June they should take effective decisions towards the reduction of tariff barriers and relaxation of quantitative restrictions and other non-tariff obstacles. The Ministers were further instructed to establish a programme for the early implementation of the above decision.

### Preferential Trade Regime

Mr. Qamarul Islam, Leader of Pakistan delegation at the 12th session of the Regional Planning Council, unequivocally pleaded for a PREFERENTIAL TRADE REGIME. He stated:

The analysis of the current trade flows in the region has convinced us that we will have to take decisive steps if we wish to exploit fully the trade potential of the region .... A basis (the UNCTAD report) exists for the three governments to move forward. It is our strong hope that we will soon commence negotiations and before long, establish a preferential trade regime (emphasis added) among the three countries.

It was in this background that the RCD Ministerial Council, as indicated in the Joint Communiqué issued after the conclusion of Twelfth Session in June 1970, fixed a time table for the consideration of the UNCTAD study at all stages of the RCD decision-making process. Accordingly, these rounds of discussion and processing were supposed to have been completed by the end of 1970. At this session, the leader of the Pakistan delegation supported in no uncertain terms the idea of a preferential trade regime. He was

convinced that the establishment of a mutually advantageous preferential trade regime (emphasis author's) among our three countries is an essential pre requisite to the expansion of our intraregional trade. Experience all over the world has shown that a preferential regime is the heart of any regional economic cooperative arrangement. It is the preferential regime which generates the force that propel countries towards ever-increasing economic

cooperation. It is my sincere hope that we will succeed in building an effective preferential arrangement before long.

Iranians displayed a keen interest in the UNCTAD report and its speedy examination by the three Governments so as to reach some concrete proposals on the question of dismantling barriers to intraregional trade. Mr. Ardeshir Zahedi, the Foreign Minister of Iran, expressed his disapproval of the "rather slow" progress and the obsession of experts with "too much detail". He went on to strike a note of warning:

..... We do not have all the time in the world. We can not afford too many studies of the report and reports of the studies.

The Turkish stand remained unchanged. In fact the Government of Turkey never deviated from the way it argued in 1964 at the Istanbul Summit Conference. As was explained earlier, Turkey had joined the tripartite RCD alliance on the express condition that it would not come into conflict with her associate status with the EEC. The UNCTAD report, declared Foreign Minister Caglayançil, categorically,

allows us to bear hopes for a promising future in our intraregional trade, provided proper account is also taken of the existing international economic and commercial commitments (italics added) of our members.

Such was the state of affairs in mid-1970. There were all apparent indications that a trade liberalisation proposal would emerge out of the deliberations of the experts groups, special sessions, meetings of Committee on Trade, Second Meeting of the Commerce Ministers, and at the end of the year or early next year, the 13th sessions of the RCD Ministerial Council. The only problem visualized was that the Turkish efforts to keep their association



with EEC intact would leave some loose ends in the RCD scheme of trade preferences.

Bureaucratic confrontations on the issue of trade liberalisation have invariably ended up by stating initial positions. To state positions in the beginning is perfectly in keeping with the norms of international negotiations. But movement towards an agreement requires the identification of areas where mutual accommodation is possible and the possibilities for working out a common stand exist. A common stand is not the sum of national stands, but an agreed, common approach. In the absence of such an approach, an international meeting cannot but be described as having reached a deadlock.

According to the original scheme of things, the Commerce Ministers were supposed to have met first to discuss the UNCTAD study, followed by a joint session of the Commerce Ministers and the Regional Planning Council. The recommendations of this meeting would have then gone to the RCD Ministerial Council for taking specific decisions. The proposed joint session could not be held. Instead, the Regional Planning Council met first for its 13th session in Dacca during January 24-26, 1971. This was followed by the 2nd session of the Commerce/Economy Ministers on the 27th January and the 13th session of the RCD Ministerial Council on 28th January, 1971.

The Commerce/Economy Ministers, though all praise for the UNCTAD report, could not do more than recommending further study. This was to be done by a group of senior officials and experts, who would report back to their respective Governments within six months. Thereafter, the Commerce/Economy Ministers would hold their 3rd

session to consider concrete proposals. The proposed experts group was specifically directed to go into three questions:

- (a) Structure of the current trade regimes in member countries
- (b) Nature of the present foreign exchange regulations
- (c) Collection of information to supplement UNCTAD study

At its thirteenth session, the RCD Ministerial Council- the highest decision-making body in the RCD hierarchy, described the meeting of the Commerce/Economy Ministers as "important", and decided what the later had decided to do : further study.

#### Balance of Concessions

The leader of the Turkish delegation at the 13th session of the Regional Planning Council expressed his dissatisfaction about its failure to prepare an acceptable report on "the major issues".

Coming as it did from Turkey, whose interest in the RCD trade liberalisation had so far been minimal, this pronouncement was somewhat surprising. The Turkish representative rejected "bureaucratic tools" and emphasized the need to adhere to "principles of economics".

He went on to add :

Joint purpose enterprises, harmonisation of the development plans, enlargement of the socio-cultural activities, and such other well conceived ideas or practices can only be termed as piece-meal measures in achieving our goal, but, on the other hand, the gradual elimination of the trade barriers in an intensive manner in accordance with the principles of "balance of concessions" is the single meaningful guide of operation.

Before this, Turkey had consistently stood for an intra-regional trading arrangement whereby the pre-existing international

commitments would remain un-influenced. But now she was willing to consider preferential trade and gradual abolition of barriers to it on the basis of the "principle of balance of concessions". This is perfectly justified. Non-reciprocity in matters of trade concessions can be defended only with the DCs because of the impossibility of ensuring equality between the unequals. Between LDCs themselves, a reciprocal balance of concessions is not only realisable, but also in the interest of stabilising a regional grouping.

The Foreign Minister of Turkey, in his opening statement at the 13th session of the RCD Ministerial Council, also refrained from making a mention of his country's existing international commitments.

He noted :

The fact that trade among our countries remained very low in spite of our efforts deployed during the past years with best intentions in the world, was necessitating the adoption of such a scheme of work (Decisions of RCD Commerce/Economy Ministers regarding UNCTAD study) in order to switch our trade relations from a stagnant fruitful results.

At the 14th session of Regional Planning Council held in August, 1971, the leader of the Turkish delegation further elaborated on the question of balance of concessions. He said :

Balance in concessions is a good rule, however, the desired goal must be to raise the balanced level and to increase the volume of "actual trade".

Turkey had now gone a step further in favouring trade liberalisation. Balancing out the concessions was all right, but this was no argument not to expand the commodity base of this balance. This favourable shift on the part of Turkey, if it could be so described, of emphasizing the specifics of trade liberalisation without even

mentioning the need to reconcile it with the other international arrangements of the member countries augured well for the RCD. But what was the explanation ? This was provided by the Turkish Foreign Minister in his opening statement at the 14th session of the RCD Ministerial Council. He disclosed :

The European Economic Community has declared officially that it considers favourably the promotion of Turkey's cooperation with Iran and Pakistan within the framework of RCD. This declaration has made us hopeful that the Community would not oppose the implementation of certain exceptional arrangements within the RCD context of the Association Agreement between Turkey and the EEC.

This was a most important statement for many reasons. For the first time, Turkey admitted officially, and in unequivocal terms, that it was her association with EEC which had hitherto constrained her attitude towards trade liberalisation in the RCD region. Once she had it clarified, there was nothing to stop her from considering a proposal for liberalising the intra-RCD Trade.

The inaugural message to the 14th session of the RCD Ministerial Council by the Shahinshah of Iran provided further encouragement. The Shahinshah observed:

Since the Istanbul Summit of 1964, RCD has made significant strides. A useful programme of social, cultural and economic cooperation has been developed.

It has enjoyed a large measure of success in bringing the people of the three countries closer to each other. RCD has pursued its objectives with a spirit of understanding and realism.

Indeed, it has not been disheartened when certain projects were not implemented, as rapidly as it was originally anticipated. The three countries have been conscious of the fact that, as witnessed in similar organizations in other parts of the world, successful promotion of trade and industry on a regional scale, with all its inherent complexities, require more time as well as sustained effort.

However, this should not mean that immediate gains and transient circumstances should be allowed to prevent the Council from taking hold and imaginative decisions to ensure the future success of this cooperation.

To recapitulate, the idea of an RCD common market of free trade area found popularity more in rhetoric and less in fact. Further, while Pakistani and Iranian pronouncements were clearly in favour at the highest level, Turkey was tight-lipped on the issue for quite sometime. However, a slight shift in the Turkish attitude was discernible at the advent of 1970s. But the political will of "the three" to trade among themselves preferentially was not yet getting a matching economic-institutional response at the experts level. In the words of Iranian Foreign Minister quoted above, these

experts were busy making too many studies of the report and reports of the studies.

#### Regional Plan Harmonisation

In less developed countries treading on the road to development through economic planning, an integration scheme has of necessity to be an exercise in harmonising national plans on a regional basis. At the time of the establishment of RCD in 1964, there was no mention of this aspect of regional relations. For the first time, this issue was considered by the Ramsar Working Group. The Third RCD Summit Conference at Karachi in 1968 decided that :

Industrial projects had been examined and approved by the Member Governments in the light of their respective national development programmes. It is appropriate that at the time of preparation of national programmes, adequate consideration should be given to proposing industrial projects with regional significance in addition to those which have been approved.

Nevertheless, only Pakistan announced that joint-purpose enterprises would form an integral part of her Fourth Five Year Plan. There was no such indication on the part of Turkey and Iran. The leader of the Pakistan delegation at the Tenth Session of the Regional Planning Council stated that his country would.

include in the Fourth Plan concrete proposals for regional cooperation within RCD. It is our belief that projects for cooperation should be built into the development plans of the three countries so that a greater measure of plan harmonisation is secured and projects do not have to be accommodated at a later stage on an ad hoc basis.

The President of Pakistan himself commented on the subject in his inaugural address at the 10th Session of the RCD Ministerial Council in June, 1969. He said :

I observe that a decision has been taken to harmonise future Plans of the three countries and to prepare a joint Plan in the field of RCD Transport and Communications system which would be incorporated in the Development Plans of the three countries. There are obvious difficulties in the dove-tailing of national plans, and they are not all of a technical nature. Some of them might be overcome by allowing a degree of flexibility in the national plans and by imaginative perspective planning. Others will call for a certain amount of give-and-take on the part of national planners.

As the Fourth Five Year Plan of Pakistan could never get off to a start, the question of interregional harmonisation did not arise. It is interesting to note that the 10th Session of RCD Ministerial Council, the highest decision-making body, did not even consider the question of plan harmonisation. At the 11th Session of the RCD Ministerial Council, Pakistan once again came out with support for plan harmonisation. The leader of her delegation suggested.:

We could make a beginning by inter-change of information and details in respect of our plans. This should be followed by frequent consultation amongst the planners of the Member Countries at various levels. A comparative study of the Development Plans of the three countries will also have the advantage of opening up new fields of cooperation and suggesting new projects for participation on a joint venture basis. The approved RCD projects and proposals should, as a matter of fact, be incorporated straight away with a high priority in the respective plans of the three countries.

Once again these pleadings by Pakistan to immediately start harmonising national plans could not find place in the joint-communicue issued at the end of this meeting. The idea of plan harmonisation, mooted at the Third RCD Summit in Karachi, had to wait for the Fourth RCD Summit Conference at Izmir, which directed the Members to reflect RCD activities in their national plans. It also directed the setting up of a sub-committee to investigate the issues involved in regional plan harmonisation. Consequently, the investigations began in the following directions:

- (a) As a minimal condition to initiate conceptually clear and operationally effective plan harmonisation work in the RCD context, a sufficiently comprehensive preferential trade scheme among the Member Countries which is compatible with their other international commitments must be agreed upon at an early date. Such a scheme should at least cover a medium-term perspective and include a time table for the progressive relaxation of all effective barriers to intraregional trade in the region.
- (b) Qualified international consultants with special expertise in the capital goods industries should be commissioned if possible through the World Bank Group to undertake a thorough study in 1971, aiming at producing an interim report on the regional industrial investment perspectives, preferably for the period 1973/1977 indicating the possibilities of inter and intra-industry

specialization in the RCD region. A comparative analysis of incentive mechanisms and instrumentalities employed in the Member Countries should also be covered in the study. The services of the consultant should be supported by qualified representatives nominated by the Planning Organisations of the Member Countries. Supplementary studies required to produce a broadly agreed set of guidelines for industrial investments in the region in the mid 70s should also be conducted.

- (c) The establishment of a specialized regional development agency to promote and finance regional enterprises should be strongly considered.

It is self-evident that these proposals can not be considered in isolation: their coordination with the trade liberalisation proposals is essential. As the latter were being studied separately, plan harmonization had to wait until a comprehensive intra-trading arrangement could be worked out. The argument on the subject was aptly summed up by the leader of the Turkish delegation at the 13th Session of the Regional Planning Council. He declared:

If we would like to see that the trade relations among us is increased in the spirit of Izmir Summit Conference we are under the necessity to go beyond these piece-meal approaches.

If we achieve a common understanding on this issue, which means reaping immediate benefits of expanded intra-regional trade, then the harmonization of the development plans which by nature is a process yielding benefits only in the long run, may gain a meaningful definition. Otherwise, the idea of plan harmonisation can only be interpreted as the harmonization of the investment projects which have already been a practice in RCD as the joint purpose enterprises.

#### A State-of-Affairs Cooperation .

While a decision on the results of the UNCTAD study is awaited, RCD continues to be what it was envisaged to be at the Istanbul Summit. In the absence of an integration plan, RCD has been reduced to a state of affairs, as opposed to a process. Various cooperative measures



adopted under RCD, did mark a beginning of the process of economic integration, but it was not so conceived in the Joint Communiqué of the Istanbul Summit held in 1964. The latter agreed in principle on these objectives.

1. Free or freer movement of goods through all practical means such as the conclusion of trade agreements.
2. Establishment of closer collaboration among existing chambers of commerce and eventually a joint chamber of commerce.
3. Formulation and implementation of joint-purpose projects.
4. Reduction of the postal rates between the three countries to the level of internal rates.
5. Improvement of the air transport services within the region and the eventual establishment of a strong and competitive international airline among the three countries.
6. Investigation into the possibility of securing a close cooperation in the field of shipping, including the establishment of a joint maritime line or "Conference" arrangements.
7. Undertaking necessary studies for construction and improvement of rail and road links.
8. Signing at an early date agreement with a view to promoting tourism.
9. Abolition of visa formalities among the three countries for travel purposes.
10. Provision of technical assistance to each other in the form of experts and training facilities.
11. Cultural cooperation to create mass consciousness of the common cultural heritage through the dissemination of information about the history, civilization and culture of the three peoples.

A critical look at the above list of objectives reveals that the emphasis is on trade cooperation, not trade liberalization — the basic feature of any proposal for economic integration. The movement of goods was intended to be "freer" rather than "free". Since the means to this "freer" trade are required to be "practical", the

objective indeed implies an effort to dismantle the barriers that the opening up of normal trade channels generally come up against on a non-traditional route. The barriers identified are :

- (i) Lack of Business Contact: The business community in the three countries had hitherto been interested in the traditional trade channels and there was a great information gap about the structure and volume of supply and demand for goods. The Joint Chamber of Commerce was designed to bridge this gap.
- (ii) Lack of Physical Infrastructure: The development of any business contact was precluded by inadequate means of transport and communications. The instances are not few when a distant industrial country is physically more accessible than a neighbouring under-developed country. It was, therefore, believed that the mere improvement or establishment of cheaper and efficient means of physical contact might bring in its wake a substantial expansion of intraregional trade.
- (iii) Lack of Financial Infrastructure: The availability of an easy payment mechanism and banking and insurance facilities is an unavoidable precondition to a greater flow of goods beyond the national frontiers. The significance of this fact gained recognition in the setting up of a separate Committee on Banking and Insurance.

Thus, the provision of points of contact, business and physical and financial, would catalyse the movement of goods within the confines of the bilateral or trilateral trade agreements between the member Governments. It need not be reminded here that trade agreements influence trade flows only indirectly.

The second, and doubtless the most important, area of cooperation is industry. Whereas trade cooperation embraces the promotion of intraregional movement of existing traditional items, the scope of industrial cooperation is wider in that it envisages the production of new items to be exchanged subsequently. Formulation of joint-purpose enterprises, however, should not be confused with plan harmonization. These enterprises were given an ad hoc treatment and were never quite integrated into the national plans. Their off-take had been insured through trade agreements. For all practical purposes, therefore, RCD remained in the stage of cooperation, the only difference being that it evolved an institutional machinery as well. It may well be noted here that Joint Chamber is not only of commerce, but also of industry. It is supposed to promote industrial cooperation as well as promoting the interest of private sector in joint purpose enterprises. In addition to trade and industrial cooperation, technical, cultural and touristic cooperation was also envisaged.

To join the threads of discussion, RCD can be defined as a state of affairs in contradistinction to a process, whereby an institutionalised decision-making mechanism has been worked out with a view to providing a framework for regional cooperation, but without fundamental changes in the existing and future intraregional and extra-regional trading arrangements.

## Chapter Four

### INTERNAL DYNAMICS

As a cooperative regime, the RCD has shown not inconsiderable internal dynamics, which should not be clouded by the static and state-of-affairs nature of its concept from the standpoint of models of growth through regional integration. The instrument for regional cooperation in industry under the RCD is the formulation and implementation of Joint Purpose Enterprises (JPEs), in public as well as in private sector (through the Joint Chamber of Industry) on the basis of agreements on assured off-take.

#### Economics of JPEs

Pooling of industrialization effort constitutes the strategic plank of the RCD plan. To begin with, the Committee on JPEs (now Committee on Industry) identified, in 1964, 19 areas of cooperation, with the subsequent addition of two more groups of industries. The selected areas ranged from light manufactures to intermediate and investment goods.

Then came the allocation of studies to "the three" so as to judge the fitness of the areas selected for regional cooperation.

A three-way criteria governed the allocation of studies.

- (i) Factor endowment and comparative advantage
- (ii) Share in the regional market
- (iii) Demonstrated ability to plan and implement a project.

Various difficulties and inconsistencies can be pointed out. Firstly, adherence to the globally rejected comparative advantage doctrine in regional industrialisation is not understandable. In practice, the comparative advantage turned out to be absolute advantage as the Herculean task of measuring the various comparative advantages could not possibly have been undertaken. Secondly, it is hard to reconcile (i) with (iii). In LDCs, it is not unusual to have accumulated planning expertise in precisely the fields where comparative advantage is lacking. Thirdly, the share in the regional market presumably implies the share in the capacity of supplier, ignoring thus the more important fact of the share as demander.

These objections would have lost much of their validity if the allocation of a study had not implied an ipso facto allocation of location. But that is exactly what has happened. Most of the studies, allocated mainly on the basis of a member's position as supplier, suggested allocational pattern that favoured the country of study. While the uniform and standardised proforma contained questions both about horizontal and vertical specializations, as also about optimum size, the results of the studies tended towards tying the region to an exclusive source of supply. Not only the benefits from potential complementarities were overlooked, but also there was no effort on the part of members to negotiate a balanced investment package. Even so, the production plans were not harmonious: the Turkish aluminium plant is clearly parallel to the RCD plant in Iran. Such disharmonies continued to

occur in the absence of an obligation to consult before entering an RCD area of production.

As a result of these studies, the Ministerial Council dropped certain areas of cooperation. These included agricultural machinery, basic components of tractors, sugar and cement. They were considered nationally viable. The exclusion of sugar seemed unjustified in view of the uneconomic nature of sugar industry in Pakistan. On the basis of studies circulated, the Ministerial Council approved and/or approved in principle 55 JPEs.

#### Operational Machinery

After the Ministerial Council has approved the setting up of a particular JPE in a country, the participating countries sign a Memorandum of Understanding in the light of the RCD Agreement for Promotion and Operation of JPEs signed on November 6, 1967 to devise a formal machinery. Here are its salient features:

1. The JPEs can be jointly owned by public and/or private sector of one or more countries through equity participation. They are "joint-purpose" in the sense that the raw material of one country could be utilized to create productive capacity in another on the basis of long-term off-take agreements.
2. Recipient countries will provide all the facilities to the JPEs that are normally available to domestic concerns.
3. Regional skills, spares and equipment will be preferred if available (a) at internationally competitive prices (b) are of acceptable standard and (c) compare favourably with financial arrangements from extraregional sources.

4. The employees in an RCD venture shall be allowed to transfer their savings from net income to the country of origin.
5. The investment can take place in terms of any mutually acceptable currency, kind or service, though the investing country shall not withdraw her equity capital before 5 years.
6. The recipient shall provide facilities for repatriation of capital and remittance of dividends after taxes in the currency of original investment.
7. The Agreement for avoidance of double taxation with respect to income, if signed, shall also be applicable to income derived from joint-purpose enterprises.
8. The participating Governments shall undertake to review their foreign trade regulations to ensure the implementation of the Memoranda of Understanding.

In addition, the Karachi Summit decided that the JPEs should generally conform to the following guidelines:

1. They should be internationally competitive.
2. They should be industries whose economics are viable on a regional rather than national basis.
3. They should be industries contributing to improvement in balance of payments.
4. They should be large scale industries, the products of which could feed ancillary and subsidiary industries on a national basis.

#### Sophisticated Industries

The first five years of RCD had seen the planning of exchange-saving enterprises. The programme for the next five years aimed at implementing the approved JPEs and planning an adequate portfolio of sophisticated industries. As a first step, the assistance of UNIDO (United Nations Industrial Development

Organisation) was sought in 1969 to study the possibility of setting up an RCD Heavy Engineering and Electrical Corporation and to evolve a rational and integrated approach. A preliminary report was submitted for the consideration of the member Governments before the end of 1970.

Also, UNIDO submitted a preliminary report proposing the setting up of an RCD Industrial Information and Documentation Centre.

In case of iron and steel, all of the three members were turning out output far short of demand. Self-sufficiency in steel-making was an important objective in the national plans of Turkey, Iran and Pakistan. The need for planning and implementing a JPE in this field was absolute. In 1967, the aggregate demand for iron and steel in the RCD region was estimated at less than half a million tons, the respective contributions of Turkey, Iran and Pakistan being 42 percent, 25 per cent and 31 percent. A 20 year projection into 1987 showed that the RCD demand would jump up to 32 million tons, but of which only 10 million tons would be produced within the region.

#### Petroleum and Petrochemicals

The most important project planned in this field was the construction of a 1080-mile oil pipeline from Southern Iranian oilfields to the Mediterranean or Black Sea Coast of Turkey. This strategic link would have an initial capacity of 0.8 million b/d, with possibilities of raising it to 1.2 million b/d later. Known



as Ahwaz-Iskondrun pipeline, its completion depended on the extent to which a minimum level of throughput could be achieved through mutual agreement.

Other areas of cooperation in this field included construction of filling stations in border areas, supply of natural gas and of aviation fuels and fueling in Iran. A joint-Iran-Pakistan Cooperation was agreed to in principle in February, 1971. It could not, however, immediately lead to a definitive agreement. A noteworthy project was the Izmir Oil Refinery. However, the negotiations regarding crude supplies and prices had not been concluded till August 1971 between NIOC and TPAO. Discussions were also taking place for supply of natural gas from Iran to Turkey.

#### Standardisation

Standardization defines the extent of product differentiation. Formulation of RCD standards is a prerequisite to fruitful industrial cooperation and greater intraregional trade. The unification of standards reduces costs, making the products competitive. In June 1965 proposals were made regarding common procedure for standardizing exports, certification marks and commodity inspection. A seminar was also held, making the following recommendations:

1. to study the ways and means to harmonize the methods and practices of standardization by dovetailing the prevalent procedural and organizational differences;
2. to cooperate first in selective items with progressive addition to the list of items;
3. to accord mutual recognition to the existing standards and certification marks;
4. to provide reciprocal laboratory facilities in case of certain items, if necessary;

5. to provide training facilities within the framework of RCD Programme of Technical Cooperation;
6. to regularise the exchange of information, especially the lists of certified products, between national standards institutes through RCD Secretariat;
7. to progressively adopt metric system.

Most of these recommendations were accepted and the establishment of an RCD Advisory and Design Centre recommended.

#### TRADE AND COMMERCE

Trade cooperation under RCD began on a bilateral basis. An agreement on domicile, commerce and transit trade and another trade agreement for the annual exchange of additional goods worth Rs.45 lakh between Iran and Pakistan existed even before RCD was born. Iranian petroleum exports to Pakistan were made through an international consortium. After the inception of RCD, bilateral trade agreements between Turkey and Iran (September 22, 1964) and Turkey and Pakistan (December 19, 1964) were concluded. The Pak-Turkish agreement was general goodwill type, providing for most-favoured national treatment, transit facilities, re-export restrictions and participation in fairs and exhibitions. Unlike Pak-Iran agreement, it did not specify the list of exchangeable items and their value.

#### Exchangeable Items

A list of exchangeable items was prepared in March 1965. The possibility of joint publicity and marketing policies vis-à-vis rest of the world was also being studied.

In 1969, the LDCs initiated a round of trade negotiations under GATT for the mutual grant of concessions in regard to tariff as well as nontariff barriers on a product-by-product basis. Since these concessions would be available to all negotiating LDCs, their impact on intra RCD trade was unlikely to be significant. However, the lists of items of concession submitted by RCD partners to each other for the purpose of these negotiations throw considerable light on the possibilities of intra-RCD trade. Thus, Pakistan sought concessions from Turkey on 16 items. In return, Pakistan was asked by Turkey to give concessions on 24 items and by Iran on 61 items.

#### Pak-Iran Commodity Exchange Agreement

Trading Corporation of Pakistan (TCP) and the Foreign Transaction Company (FTC) of Iran signed a commodity exchange agreement on 30 June, 1969 for a \$ 520,000 worth of commodity exchange. Later, it was extended up to March, 1972.

#### Turkish Animal and Meat Exports to Iran

Iran purchased sheep and sheep meat from Turkey valued at \$ 6.5 million during July 1968 to April 1969. Towards the end of 1971, however, the Iranian imports declined because of non-competitive prices.

#### Pak-Iran Border Trade

The proposal for expanding Pak-Iran border trade, made by Iran in 1969, had not been finalised by 1971. A number of difficulties arose in the course of negotiations. First, zعفر exports are

vitally important for the economy of the people on the Iranian side of the border. While Iran pressed for acceleration of exports of zcera by 20 per cent, Pakistan did not find it possible to oblige, there being a considerable domestic production of zcera in Pakistan as well. Second, the question of the payment mechanism also presented great difficulties. The border trade, involving Iranian zcera and Pakistani jute goods and hides and skins, was not governed by RCD Union for Multilateral Payments Arrangements. Thus, in the absence of a suitable payment mechanism, many anti-social practices flourished.

#### Iran's Transit Trade through Trabzon

The investigation of the possibilities of Iran's transit trade through the Turkish port of Trabzon had been started soon after RCD came into being. In 1971, the matter was still at the stage of preparing the necessary feasibility study.

#### Coordination between Export Promotion Agencies

In November 1970, a joint session of export promotion agencies in the member countries was held in Karachi. It recognised the need for closer collaboration between the three agencies, regional fairs and exhibitions, joint publicity, exchange of lists of importers and exporters, and market surveys. Also considered was the possibility of cooperation between Turkey and Iran in marketing of pistachio.

However, the most important decision was that each agency would carry out a study of export procedures impeding intra-RCD trade and suggest simplifying modifications. By end 1971, no significant step had been taken in this direction.

#### Fairs and Exhibitions

Pakistan and Turkey participated in the Second International Asian Fair held in Tehran during October 1969. The members set up their pavillions in the same building the commercial solidarity of the RCD. The RCD countries also participated in the Izmir International Fair during August-September 1971.

#### Iran's Participation in Sultana Agreement

Since 1969, the Iranian Dried Fruit Exporters Association was negotiating to participate in the International Sultana Agreement. By 1971, however, the agreement had not been finalised.

#### Studies on Movement of Goods and Freight Rates

The RCD Summit at Karachi had recommended the preparation of (i) a preliminary study on the movement of goods between East and West and vice versa through the region; and (ii) a comparative study of freight rates through various modes of transportation. (air, sea, roads and railways.)

It took three years before the draft terms of reference, prepared by Turkey for conducting these studies, could be circulated amongst the member governments.

### Tripartite Agreement on Domicile

The question of drawing up a tripartite agreement on domicile was taken up in the beginning, but was formally dropped in June 1969.

### Multilateral Payments Arrangement

Absence of a payments and credit mechanism severely inhibits the growth of intraregional trade of LDCs like the RCD members. What is snaggy here is the balance of payments. This problem was taken cognizance of on July 1, 1967 when the RCD Union for Multilateral Payments Arrangements started functioning. Under this system, each Central Bank maintains a disinterested and free-of-bank-charge account with its other two counterparts. The accounts are denominated in accepted convertible currencies. The mutually granted credit line is limited up to \$ 2 million. Every year on 30th June, which marks the end of accounting period, the accounts are settled according to this formula :

- (a) 50% of debts to be cleared within 30 days in terms of a convertible currency demanded by the creditors;
- (b) the remaining 50% to be debited against the credit of the country in question for the coming accounting period;
- (c) all payments beyond the fixed credit limit to be made in hard currency.

Annual transactions are reviewed at the meeting of the Technical Board, held a month before the conclusion of the accounting period. The debtor country can settle any outstanding balance by increasing its exports to the creditors within 6 months of the

date of expiry of the Agreement. Any failure of exports to grow at the required rate within the specified period will make the country liable to pay the remainder at once in hard currency.

The Agreement is not a payments union in the strict sense of the term, but it does afford an automatic clearing mechanism for RCD payments. Further, it indicates some, if not substantial, progress toward correcting intraregional imbalances. Further still, it multilateralized the pre-existing bilateral approach to payments, the later being inconsistent with the tripartite concept of RCD. Finally, and notably, the three monetary authorities have in the Agreement a regular point of contact - a hitherto ignored facet of regional cooperation. The Arrangement is limited to the balance of visible payments excluding border trade and war materials. It operates subject to the commercial policies, customs rules, exchange control and other laws and regulations of "the three."

#### Tripartite Trade Agreement

The multilateralization of payments necessitated pari passu a review of the existing bipartite trade agreements. Consequently, a Tripartite Trade Agreement was signed in September 1968 by Commerce/Economy Ministers at Tehran. The new Agreement provided for most-favoured national treatment with regard to customs rules and regulations, single-country license system, preferential treatment to RCD sources for public sector purchases when competitive with extra-RCD sources, frequent exchange of trade delegations and check on the illegal traffic of goods.

By 1971, this agreement had been ratified by Turkey and Pakistan. The Iranian instruments of ratification were still awaited.

#### Tripartite Agreement on Transit Trade

Consideration of the conclusion of a tripartite agreement on transit trade started quite early. Like the proposed agreement on trade, this agreement too turned out to be a matter of hard negotiations. There were differences amongst the member governments. There were differences amongst the member governments on tripartite character of the agreement. Iran already had a bipartite transit trade agreement with Turkey. It was finally decided towards the end of 1971 that similar agreements should be reached between Iran and Pakistan, and Turkey and Pakistan on a bi-partite basis.

#### Exchange of Surpluses

Towards the end of 1970 the need for working out special arrangements for the disposal of the surpluses of specific commodities like fertilizer, sugar and foodstuffs against the deficits had been recognised. Nevertheless, no concrete steps were taken in this regard.

#### ROLE OF PRIVATE SECTOR

Untill 1971, private sector was the major source of large scale industrial investment in the member countries. In fact in mid-sixties, the time RCD was born, the private investor in his respective country enjoyed a sizeable dose of official patronage and concessions. However, the private sector did not show much interest in regional investment, JPEs and intraregional trade.



The non-traditional nature of the regional investment portfolio, the extended scale, lack of infrastructure, relative inadequacy of the regional incentives as compared to domestic incentives and, most important, the equivocalism of the concept of integration involved in the RCD scheme are some of the reasons for the shyness of private initiative.

#### RCD Chamber of Commerce and Industry

Attempts to activate the private sector had begun as early as March 1965 when the constitution of joint RCD Chamber of Commerce and Industry (RCDCC & I) was approved. The Chamber was officially inaugurated in August 1965 in Tehran, its Head Office. It has its regional offices at Karachi and Istanbul. The Chamber was expected to perform a great feat indeed. As Dr. Alikhani, the Iranian Economy Minister, noted at its inauguration:

It will be essentially through the Joint Chamber, and the private sector it represents, that the intraregional trade and joint-purpose industrial enterprises will have to be developed for the common benefit of the Member countries.

The formation of RCD Chamber was expected to help shake of the usual shyness of the private sector in non-traditional trade and investment. Its area of operation included intraregional trade as well as joint-purpose industrial enterprises. The function assigned to the Chamber were outlined as under:

1. To establish the hitherto lacking contact in the business community of the three countries through cooperation among the national Chambers.
2. To adopt a common approach in discussions of cooperation at the international level.

3. To collect, and process the requisite data on the volume, structure and direction of trade, export surpluses and production potentials so as to promote intra-RCD trade.
4. To establish common showrooms and halls; to arrange seminars, expositions, fairs and publicity campaigns; and to exchange trade delegations.
5. To present the views of the private sector on the impact of official policies and to make concrete recommendations for the expansion of intra-regional trade and removal of difficulties in respect of specific items to the three Governments.
6. To help settle intraregional business disputes, if the disputants undertake to comply by the Chamber's decision.
7. In the field of industry, to encourage private capital by giving wide publicity to (i) the approved JPEs and (ii) to the fact that regionally suitable and viable joint ventures are permissible even at the private initiative.

Originally, the Chamber functioned through a Supreme Council. However, since June 1969, the RCD Secretary General and Coordination Committee have kept a closer watch on its working and budgeting. It was hoped that this measure will sufficiently fill the organisational and financial gaps experienced by the RCDCC & I in its infancy.

The RCDCC & I has been instrumental in the finalisation of livestock and pistachio deals, exchange of chemicals and joint film-making. Among its positive proposals for regional cooperation were a "clearing house" credit arrangement, identification of areas of fruitful trade and industrial cooperation on the basis of market and investment surveys, setting up of a Regional Trading Cooperation and Regional Investment Bank.

The First Meeting of the RCD Commerce/Economy Ministers asked the RCD Chamber of Commerce and Industry to make concrete recommendations for expansion of intraregional trade and removal of difficulties in respect of specific items.

In its meeting in Karachi in December 1968, the RCDCC & I agreed in principle to an eventual transition towards an RCD Common Market. For the present, it recommended the setting up of an Export Marketing Board to eliminate "harmful" competition, greater exchange of trade delegations, broadening the list of items for single country licensing, avoidance of double taxation and facilities for repatriation of capital and remittance of profits and dividends from one member country to another.

The Third RCD summit held in Karachi in 1968 recommended the consideration of the setting up of a Regional Bank. The Summit also recommended that

the private sector should be more closely associated with the planning and the execution of joint purpose enterprises and that projects which have been approved should be given wide publicity in Member countries with a view to inviting the private sector to take up the promotion of these enterprises. The RCD Chamber of Commerce and Industry, in collaboration with its national constituents should give wider publicity to such enterprises and to the fact that it is permissible for the private sector itself to initiate industrial ventures on a joint purpose enterprise basis provided of course that they are suitable and have regional significance.

Apart from some interest in the already low level of intraregional trade, the private sector did not come forward to take up any of the significant JPE from the approved list, much less suggest new JPEs of its own. The RCDCC & I itself lacked dynamism. For about

three years, the meeting of its Council was not held, although the terms of the office bearers had expired.

#### A Seminar on Private Investment

A full-fledged Seminar was held in Ankara from 3-5 November on "The Role of the Private Sector in Industrial Development with particular Reference to RCD Joint Purpose Enterprises". It was here that specific concessions were sought for private investment in JPEs.

The most important recommendations were as under:

1. The approval procedure of JPEs be simplified.
2. In consultation with RCDCC & I, an RCD industrial investment schedule should be prepared.
3. Feasibility of an RCD Development Bank should be seriously looked into.
4. The facilities for underwriting the capital issues and the uniformity of statutory provision governing private capital investment should be ensured.
5. Agreements should be concluded on avoidance of double taxation, repatriation of capital and remittance of profits and a multilateral investment insurance scheme to ensure the security of private investment in the host country.

However, even this incentives package would not attract the Pakistani investor, who was born with the PIDC spoon in his mouth: this corporation would go into areas where private capital dreaded to tread, perform the risk-minimisation function at public expense, and privatise the venture the moment it achieved a profit-maximising scale. And this type of suggestion did come from the joint meeting of the Industrial Development Banks of the three countries in May 1971 in Tehran. It was recommended **that:**

details of the already approved and/or approved in principle "joint purpose enterprises" should be made available to respective Development Banks. The Banks can then evaluate these projects according to their appraisal methods and when found expedient they would submit them with their recommendations to possible investors in the private sector, or, they could themselves participate in such joint ventures - with the understanding of selling their shares to the private sector in some future date.

Another proposal was to collaborate with Multinational Corporations in projects divisible into various units to be located in the member countries so as to develop regional complementarities.

Till late 1971, however, the private sector and the foreign investor had not begun to enter the RCD market in any significant manner.

#### PROGRESS IN INDUSTRY AND COMMERCE

By August 1971, 15 out of the 55 approved JPEs had gone into production. On this basis, the implementation figure works out at 27 per cent, or an average of 2 units per year. Three JPEs were found infeasible and, therefore, dropped. At least 10 feasibility studies on JPEs were far from being completed. The following table gives details in this regard.

TABLE 1

<u>JPEs : STUDIES NOT COMPLETED</u>	
<u>Joint Purpose Enterprise</u>	<u>Country</u>
1. Carrier Telephone and Telegraph Equipment.	Pakistan
2. Fabrication of Stainless Steel & Non-ferrous Chemical Equipment.	Pakistan
3. Pumps for Chemical Industry	Pakistan
4. Special Valves	Iran

Joint Purpose Enterprise	Country
5. Zinc Plant	Iran & Turkey
6. Coal	Turkey
7. Wheels	Turkey
8. Brakes	Turkey
9. Special Type of Dry Cells	Turkey
10. Ship-building	Turkey

By the end of 1972, another 6 JPEs were expected to start commercial operations. Rest of the JPEs were in various stage of development. On the whole, the progress in the field of JPEs had not been very encouraging.

In the period under study (1964-71), intraregional trade remained uninfluenced by the formation of RCD. It continued to be roughly 2 per cent of the aggregate foreign trade of the region. The same percentage held true for the weight of the trade with RCD partners in the overall trade of each member separately. Table 2 and 3 throw some light on the progress in the field of trade.

TABLE 2  
PAK-RCD TRADE

	(Rs. thousand)							
	1963-64	1964-65	1965-66	1966-67	1967-68	1968-69	1969-70	1970-71
Imports from Iran	167779	66899	28883	124272	157281	150450	120588	181068
Imports from Turkey	956	142	743	10229	1692	1573	1373	2678
Imports from RCD	168735	67041	29626	134501	158973	152023	121961	183746
Exports to Iran	9732	12118	13637	15597	21105	24139	25672	22109
Exports to Turkey	2920	6835	16290	33147	48963	12651	19850	16772
Exports to RCD	12652	18953	29927	48744	70068	36790	45522	38881

Source : CSO, 25 Years of Pakistan in Statistics

It will be seen from Table 2 that the pre-RCD level of imports from Iran (1963-64) could not be exceeded before 1970-71. In fact, imports declined sharply in the year RCD was inaugurated, i.e., 1964-65, continuing well into 1965-66. This was, however, the period of the September War between Pakistan and India. As for Turkey, imports inched from an insignificant level to a little less insignificant level. Overall imports from RCD to Pakistan set a pattern similar to that with Iran alone. Exports to RCD depict a brighter picture, with a steady rise between 1963-64 to 1967-68. But there was a levelling off after 1967-68, though the absolute quantities were higher than the pre-RCD year. Exports to Iran rose steadily between 1963-64 to 1969-70.

During 1964-71, the Iran-Turkey trade displayed an erratic pattern. This is evident from Table 3.

TABLE 3

TRADE BETWEEN IRAN AND TURKEY

Year	(Rs. thousand)	
	Iran's Exports to Turkey	Turkey's Exports to Iran
1964	55759	27579
1965	2399	24462
1966	1704	281
1967	700	543
1968	5236	1347
1969	14	17212
1970	24	18897
1971	524	25276

Source : U.N., Year Book of Foreign Trade Statistics

It will be seen that Iranian exports to Turkey slumped from Rs.5,57,59,000 in 1964 to a paltry amount of Rs.5,24,000. Although the decline is not as sharp in case of Turkish exports to Iran, the level achieved in 1971 was still lower than that in 1964.

### FINANCIAL INFRASTRUCTURE

The flow of intraregional trade is determined in a significant way by the size of the financial infrastructure available in the form of integrated and organised money and capital markets for financing investment, payments arrangements and banking facilities for commercial financing and insurance facilities to cover any risks thereof. While payments arrangement has been discussed in the previous section, a resume of banking and insurance in the context of RCD follows.

#### Banking Facilities

The measures in the field of banking include a reciprocal opening of branches of national banks with facilities for capital repatriation and profit remittance; the use of local banks as correspondents to the possible extent and according to them a preferential treatment in the form of concessional rates and charges; and a programme for the exchange of banking know-how, especially the expertise accumulated in the formation of specialised credit institutions.

The State Bank of Pakistan has printed the RCD Manual on Banking. It contains a comprehensive account of the laws, practices and statistics of RCD banking.



A subject of continuous study has been the question of establishing an RCD Commercial Bank and an RCD Development Bank, or a single institution with both commercial and developmental functions. A concrete proposal could only emerge after a joint meeting of the three central banks. This had not been held till 1971.

### Insurance and Reinsurance

Insurance by its very character is a multilateral affair: greater the number of policies, the greater the spread of probable risk and hence lower the rates of premium, since actuarial computations form the basis of ascertaining risk. As such, insurance and reinsurance are ideal spheres of regional cooperation.

The RCD insurance objectives are three-fold:

- (a) to progressively diminish the outflow of scarce foreign exchange on insurance and reinsurance account;
- (b) to make steady progress towards the achievement of internationally competitive standards of the RCD insurance services;
- (c) to pool the technical experience gained by "the three".

Reinsurance Pools: To achieve the first objective, three RCD Re-insurance Pools, namely, Accident, Marine (Hull and Cargo) and Fire were established in 1966 in Iran, Pakistan and Turkey respectively. The actual functioning started on January 1, 1967. Consequently, an Aviation Pool in Pakistan started operations in 1968. An Engineering pool, proposed to be set up in Iran immediately after the establishment of the Aviation Pool, was at length launched into operation in January 1971. A marine foreign currency pool is being planned. The Pools are designed to create additional underwriting capacity on the

basis of the regional market to (1) preserve the new reinsurances within the region (2) divert the existing RCD reinsurances with the extraregional concerns to the region and (3) secure reinsurance from extra-RCD sources. Thus the Pools are geared, not only to preserve and save foreign exchange, but also to earn it. The technical and managerial affairs are looked after by a Technical Committee and Management Board, each consisting of two members from each country. Initially, the contributions to Fire, Marine and Accident Pools from the three national reinsurance corporations were fixed at \$ 75,000, which left in the business pipeline of each pool a minimum of \$ 225,000 with additions of voluntary cessions from private national concerns. The business was divided among the members in consonance with a predetermined formula. Table 4 gives membership-wise progress. These figures reveal satisfactory, if not spectacular, improvement.

TABLE 4  
MEMBERSHIP OF RCD REINSURANCE POOLS

	1967	1968	1969	1970	1971
Fire Pool	25	30	39	42	47
Marine Pool	25	31	36	41	47
Accident Pool	13	17	18	19	20
Aviation Pool	-	19	19	25	24

Table 5 portrays the business-wise progress of the RCD Pools

TABLE 5

GROSS PREMIUM EARNED

	(US \$)			
	1967	1968	1969	1970
Fire Pool	576,566	540,360	678,803	781,333
Marine Pool	377,478	466,912	517,795	578,750
Accident Pool	395,728	493,452	548,000	600,000
Aviation Pool	-	21,996	45,703	45,000
Total	1,349,772	1,552,720	1,791,189	2,005,080

It is clear from Table 5 that the business doubled during the period under report.

RCD Insurance Centre: To translate the objectives (b) and (c) into practice, RCD Insurance Centre was instituted at Karachi on July, 5, 1965. One has only to glance at its functions to know the pivotal position that the Centre occupies in the RCD scheme of insurance.

The functions are as under:

1. to furnish a brain-trust for the conception of improved ways and means of regional cooperation in insurance;
2. to serve as an instrument through which national concerns exchange business;
3. to compile an RCD Insurance Manual;
4. to provide a point of contact for the RCD insurance men and companies;
5. to coordinate the technical cooperation in the field of insurance and to organise joint projects, seminars and short, intermediate courses.

The RCD Insurance Manual began to be published regularly. Insurance became an important part of the RCD Technical Exchange Programme. The first RCD Insurance Seminar was held on April 15-20, 1968 in Karachi. The following recommendations of the Seminar gained the approval of the RCD decision-makers.

- (i) The seminars should be organized once a year only for the present.
- (ii) The RCD Insurance Manual be published twice a year and the regular supply of information be made obligatory for the original insurance agencies.
- (iii) Bimoh Iran should study the feasibility of an RCD Insurance Training Institute.
- (iv) Pakistan Insurance Corporation should study the desirability of creating a subsidiary pool within the RCD Marine Pool to transact marine foreign currency business.
- (v) Turkish Motor Bureau should prepare a feasibility study on introducing the Green Card System in RCD countries.
- (vi) Legislative cover be given to the retention of loss reserve at 100% of the outstanding claims in addition to the usual premium reserves.

#### PHYSICAL INFRASTRUCTURE

Historically, the traditional flow of trade between DCs and LDCs developed due to the availability of highly efficient means of transport and communications. A reversal of the trend, implying greater intra-trade between LDCs, therefore, presumes an improved physical infrastructure. Due to the indiscriminate policy of external insulation for industrial development and for balance of payments reasons, there is a substantial disproportionality between the economic distance and geographic distance. In the RCD region many projects have been started to minimize this disproportionality.

### Post and Telecommunications

The broad objectives laid down by the Istanbul Summit in the field of communications can be enumerated as under:

1. Immediate reduction of postal rates to internal level
2. Studies into the possibility of reducing telegraphic and tele-communicative rates
3. Opening of P & T offices in broader areas
4. Improvement of the services provided

A "postal area" has come into being for non-air postage.

Its trade-promoting effect can be judged from the fact that uniform postal rates on parcels in certain cases are even lower than the present inland rates. In case of air postage, the frequency has gone up as a result of the maximal use of national airlines for the purpose. The ultimate aim is to establish a restricted Postal Union within the framework of Universal Postage had been dropped.

The telephonic rates were reduced to the level of Iran, implying 51% reduction on Pak-Iranian and 81% on Pak-Turkish traffic. The telephonic rates were also reduced by 71% between Turkey and Pakistan. Since 1968, Turkey reduced the transit charges for manually operated calls from Gold Francs 5.30 to Gold Francs 4.50. Pakistan followed suit shortly. In the meanwhile, Turkey and Pakistan finalized an agreement for "Sender Keep All" arrangement for telephonic traffic.

Iran has opened five P & T offices near Pakistan border. The proposed Office at Kapikoy on Turco-Iran border will have to wait for

the completion of the rail link between the two countries. Progress on Pakistan side has by no means been satisfactory.

The directions that the communications development in RCD region would broadly follow are indicated by the following plans and actions :

1. The three Postal Administrations are studying the possibility of cooperation in planning and phasing the mechanisation of postal operations. No concrete steps had, however, been taken in this regard by 1971.
2. Ankara, Tehran and Karachi have been linked by operator trunk dialling system.
3. Studies are afoot to investigate the utilisation of satellite communications facilities in the region. Iran has set up an International Control Centre in Tehran to improve the efficiency and scope of the regional microwave system. This system, it may be pointed out, keeps developing serious defects.
4. The member countries are providing transit facilities to each other's tele-traffic.
5. To encourage the renting of leased circuits in the region, "the three" agreed to a considerable rent reduction.
6. Earth stations have been set up in Assadabad (Iran) and Karachi, Turkey is likely to follow suit.
7. Turkey is considering to establish a tele-link with Afghanistan through Pakistan.
8. The three countries have agreed to cooperate at INTELSAT.
9. The question of cooperation in research and development of telecommunication is also under study.

#### Road and Rail Links

Regional cooperation in the field of transportation embraces roads, railways, shipping and air transportation. In view of the tremendous role that these RCD links can play in removing the intra-regional immobilities, a separate discussion of planning and progress in each field is fully justified.

The major burden of intra-regional traffic has to be borne by roads and railways. For one thing, the sea route is longer, the length having further increased after the closure of Suez Canal, and the air route costlier. For another, the land route would promote not only intraregional mobility, but may well remove the greatest missing link in the East-West transit. Special significance attaches to the latter in view of the vagaries that have generally come to conjoin the Suez route and time-consuming and uneconomical plying round the cape of Good Hope.

The RCD objectives in the area of land-route transportation are stated as under :

1. Expeditious completion of road and rail links according to uniform standards and specifications.
2. Provision of additional links, if necessary.
3. Uniform system of road signs and signals.
4. Preparation of a study on the movement of goods between East and West and vice-versa through the region.

The pace of progress towards the achievement of these objectives has been much below the expectations, delaying thereby the exploitation of potentialities involved. The 75 per cent of 5,400 kms RCD Highway, linking Ankara and Tehran with Karachi, required the completion of missing links and improvement of sub-standard portions. Originally, this work was scheduled to have been completed by 1968. Later, the target was advanced to 1972. This, too, appears to be an ambitious target.

In regard to a uniform system of road signs and signals, the three countries are speedily moving towards the adoption of Vienna Conventions with suitable modifications. The question of establishing a Joint Road Transport Company is also being considered.

The target of completing the rail links by 1968 has also proved unrealistic. By 1971, the Iran-Turkey link had neared completion. However, the progress on the Iran-Pakistan section is extremely slow. While the existing Quetta-Zahedan section is in operation, through RCD traffic will have to wait until the construction of Yazd-Kerman-Zahedan section.

### Shipping

An ECAPF document submitted to the UNCTAD-I states:

The developing countries in the region have pointed out that by reason of the virtual monopolistic control exercised by the conferences, and the tying arrangements entered into by them with the shippers, ECAPF countries and their shippers have little say in the determination of the freight rates.<sup>1</sup>

This leads to certain far-reaching results. In the first place, much of the foreign exchange earned by the LDCs like RCD members is eaten up by high invisible charges. Secondly, it serves a death-blow to the efforts for regional cooperation among LDCs since the freight rates for the intra-LDCs routes are unbelievably higher than those for the equivalent distances on the traditional routes.<sup>2</sup> Therefore, it becomes necessary for LDCs to work out some

<sup>1</sup> ECAPF, Problems of Shipping and Ocean Freight Rates in the ECAPF Region (Geneva, January 14, 1964; E/Conf.46/26) p.48

<sup>2</sup> For instance, the freightage on cargo carried from Liberia to other West African ports is almost equal to that charged on European and U.S. routes.



countervailing mechanism by expanding their own merchant marines, preferably in a regional framework<sup>3</sup>. The Istanbul Summit took due notice of these problems and agreed in principle to the formation of a joint maritime line or "conference" arrangements. Initially, a conference known as RCD Shipping Services, has been established which, given sufficient experience, will eventually be converted into a joint maritime line. To begin with, the conference was composed of 3 Turkish and 3 Pakistani companies and one Iranian company. The Arya National Shipping Lines took some time before formally joining RCD Shipping Services to give it a multilateral character. The driving force for cooperation in shipping is the need to evolve a common approach to tonnage, freightage and route-determination, and the requisite managerial and operational policies. The two declared objectives of RCD shipping are :

1. To promote and foster the shipping industry of the member countries.
2. To provide a dependable and cheap transportation for the movement of cargo.

In point of fact, the two objectives combine the saving and earning of foreign exchange. At present, the emphasis assured cargoes. Any additional capacity results from the very fact of expansion: new demand is satisfied only in the situation where it is sufficiently accompanied by new earnings. A permanent arrangement is unlikely before the preparation of the Turkish study to collect and collate information on the present and potential long-term requirements of

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<sup>3</sup> Economist Intelligence Unit, Improvement of the Invisible Trade of Developing Countries, Document prepared for UNCTAD-I (Geneva January 28, 1964; E/Conf.46/27), p.80.

"the three", as also their present and planned ship-building capacity and to make specific recommendations on the development of ship-building industry on a regional basis. To begin with, the RCD ships ply on US-RCD and intraregional routes. In the extra-regional operations, the RCD shipping is assured of these cargoes from USA:

1. 50% of US-AID cargo. The condition is inapplicable to Iran as she is no longer an AID recipient.
2. All project cargoes subject to any tying by the donor agency.
3. All military cargoes, aid as well as own purchases, subject to any mutually agreed condition between the USA and the recipient.
4. Private sector is obliged to prefer RCD Shipping Service if space is available.
5. Iran is making necessary arrangements to direct its public and, where possible, private sector cargoes from USA through the RCD Shipping Services.

The intra-regional services started towards the end of May, 1966 when M/V Padma arrived in Istanbul from East Pakistan with 400 bales of jute. The assurance of regional cargoes in intra-regional operations is almost 100%. In addition to being dependable in normalcy as well as emergency, the tariff rate of RCD Shipping is 10% lower than the Conference Lines rates. The benefit-sharing is proportionate to the relative share of the members in total trade, as depicted by Table 6. The participation percentages were determined on the basis of 1964 figures. This anachronism must now be removed as soon as possible. Difficulties have also arisen in regard to tariff policy. The RCD shipping tariffs automatically rose after the recent increases in Conference Lines rates to keep the 10% difference. But shippers in certain member countries insist to maintain the tariff at least at the level prevailing before RCD Shipping Services was established. The 10% difference will

have to be altered to accommodate overall interests of the member companies and shippers. There is also a need to revise cargo tax in the general framework of avoidance of double taxation.

TABLE 6  
PARTICIPATION PERCENTAGES OF RCD SHIPPING SERVICES

RCD Trade	Total Percentage of Traffic of Joint Services	Percentage of Trade to be carried by		
		Turkish flag carrier	Iranian flag Carrier	Pak flag Carrier
Turkish Trade	35	80	2	18
Iranian Trade	15	5	80	15
Pak Trade	50	12.5	4.5	83

TABLE 7  
PROGRESS OF RCD SHIPPING SERVICES

Year	Extraregional sailings	Intraregional sailings
1967 (May 1966-Dec.67)	70	22
1968	54	5
1969	50	3
1970	49	6
1971(Jan.-March)	18	1
Total :	241	37

Table 7 serves to verify the fact that extraregional trade of RCD is more important than the intra-trade. The sea-borne trade between Iran and Turkey is practically non-existent as the sea-route is four times longer than the overland route. The Turkey-Pakistan services have seriously been crippled after the closure of Suez Canal. The economic operation of a few vessels that do ply is not possible unless RCD cargo is supplemented by Bulgarian and Romanian cargoes

from their Black Sea ports. The recent commencement of a regular Bulgarian service is a serious threat to the already tiny intra-regional services. An Iran-Pakistan service will lack commercial viability. It is, therefore, self-evident that the life of RCD Shipping Services preponderantly depends upon regional cooperation in extraregional shipping. Even these services are not fully coordinated and integrated as provided by the Basic Shipping Agreement. The joining of the Iranian fleet for freight pooling arrangements will not go much far. The real snag is the closure of Suez, something beyond the control of RCD Shipping Services.

The transportation of Iranian sophisticated cargoes from West European ports through Trabzon, a Turkish port on Black Sea, and overland to Tehran, is being studied. The plan is proposed to be made commercially viable by a 30% cut in tariff. If implemented, the inconvenience caused by the closure of Suez will be relaxed to some extent.

#### Air Transportation

The Istanbul Summit set the following objectives for regional cooperation in the field of air transportation :

1. To improve the transport services within the region so that quick and frequent movement of passengers and freight is facilitated within the region.
2. To establish a strong and competitive international airline among the three countries.
3. To foster cooperation among the civil and commercial aviation authorities of the three countries and develop common approach at international forums.

The first objective was proposed to be realized through establishing air links between the main cities of the region. Measures actually undertaken fall far short of the pronouncements. Karachi and Tehran were already linked through the PIA and IRANAIR jet services, via Istanbul. TIF has failed to introduce an RCD flight. Moreover, PIA's flight has become uneconomical as Turkey has not renewed certain traffic privileges since April 1968. The structure of the marginal intraregional trade in the RCD region is such as to limit the role of air freight. The demand for air transportation in the region is mainly for passenger traffic, particularly the business delegations, tourists and those visiting holy places.

The idea of establishing a joint airlines has run into serious difficulties. The idea was dropped in 1967 in favour of forming a new airline in addition to the existing national airlines to be based exclusively on supersonic aircrafts. In 1971, the matter was still being studied. One can't question the need to introduce supersonic planes. In the next few years, the national airlines shall have to face severe competition from the international lines introducing Jumbo and other supersonic jets. The economies of entering the supersonic age are truly regional. What needs to be emphasized is that the unrealized economies in the existing airlines are by no means mean.

As for the cooperation among the aviation authorities, an agreement on the reciprocal general sales agency services has been concluded, though the question of division of spoils between the selling airlines and transporting airlines is presenting some

difficulties. No doubt the national airlines have agreed on an obligation to consult each other before taking a stand at international forums, the interesting fact is that Turkey and Iran are not among the signatories to international conventions. The subject of RCD air code is still under study. Another proposal is to exchange the following technical data on a yearly basis:

- (i) International traffic data
- (ii) Establishment of new facilities
- (iii) Purchase of new equipment
- (iv) Training facilities
- (v) Future plans

#### TECHNICAL COOPERATION

The function of technical cooperation is to apprise each member of a regional grouping of what is being done by other members in the field of research and development so as to (a) avoid duplication (b) fill the gaps by the exchange of information, trainees and experts and (c) establish new, regional or national, facilities wherever necessary. The clearance and the promotion of technical know-how is a necessary cooperant of industrial collaboration.

The RCD Agreement on Technical Cooperation is being executed since 1965. Every year, a Technical Exchange Programme, including the exchange of trainees and experts and organization of seminars, is prepared. The subjects encompassed by the Programme have a wide range: public administration, health, and social welfare, family planning, agriculture, water resources development, peaceful uses of atomic energy, education, vocational training, banking and

insurance and rural affairs, industries and mines, public works, national and regional planning, housing and resettlement, labour communication and transportation, tourism and information.

The programme for the exchange of trainees is not proceeding satisfactorily and carry-over from the previous years has been sizeable. It is becoming increasingly difficult to absorb this backlog with all its frustrating influence on the current and future efforts. Table 8 brings out the surplus capacity piled up by the exchange programme during 1965-70.

TABLE 8  
PERCENTAGE OF UNUTILISED FACILITIES

Year	Trainees	Exports
1965-67	77	81
1968	68	70
1969	45	65
1970	47	64
1965-70	61	73

It will be seen that the surplus facilities were as high as 77% in the case of trainees and 81% in the case of exports. For the period as a whole, the respective figures stood at 61% and 73%. However, a progressive decline was registered on an annual basis.

The slow progress of technical exchange is attributable to many a thing. For one thing, considerable parallelism exists between the traditional sources of technical exchange and the RCD sources. Some thought should be given to make them complementary as the stage of "regional technical import substitution" is not yet. For another,

language barrier, unfamiliar environment, poor publicity and lack of recognition of qualifications obtained are no less important. Finally, the availability of technical expertise in the form of "grants" from extraregional sources put the real "sand in the oil" of RCD Technical Exchange Programme.

Seminars furnish "clearing houses" for technical information. So far 32 seminars on a wide range of subjects have been arranged under the auspices of RCD Technical Programme. Also held were joint courses on public administration and insurance.

The establishment of an RCD Research Endowment, backed up by public as well as private sector, and possibilities of cooperation for peaceful uses of nuclear energy are being studied. Health and family planning has also become an RCD activity.

#### Cooperation in Agriculture

The RCD region is predominantly agricultural and the arrangement to cooperate in this field under the RCD Programme of Technical Cooperation serves only to de-emphasize this fact. It is necessary to note that the success of any regional scheme presumes some sort of parallel in agricultural and industrial cooperation: regional industrial development is likely to fail unless something is simultaneously done about easing the inelastic agricultural supplies and thus to avoid the consequent price, income and balance of payments pressures.

In the initial stages, the best form that agricultural cooperation can take is that of exchange of agricultural surpluses. The objective is to substitute a regional source for an extraregional source so as



to save scarce foreign exchange and promote regional agricultural production. The problem of disposal of agricultural surpluses in the RCD region was not considered until the Karachi Summit recommended the initiation of studies on the subject. Perhaps the PL-480 is too hard to get rid of. It has already torpedoed Turco-Pak barter deal to exchange Pak wheat for Turkish sugar.

#### TOURISTIC COOPERATION

Tourism has fast become an industry with a great development potential. It now claims not a small chunk of global consumer expenditure. Most importantly, it is the ideal instrument, and in certain cases the chief motivation, for regional economic-cultural cooperation. In a less developed grouping like RCD, the role of tourism is manifest: it brings in scarce foreign exchange, improves the chronically deficit balance of payments and promotes understanding and direct contact among the three peoples.

Touristic development is a function of touristic potentialities which in turn depend on the availability of tourist spots, historical and natural and others, and facilities provided for travel and entertainment. It will not be true to maintain that RCD countries, with the possible exception of Turkey, have great tourist attractions. As in other areas of cooperation, the need is to pool the regional effort to develop them to be so. This is all the more necessary in view of the fact that international tourism is beginning to deflect towards "off-track" spots and viewing of "unspoiled nature".

## Objectives of RCD Tourism

The aims and objectives of touristic development of RCD region are as under:<sup>4</sup>

1. To increase international, intraregional and youth tourist traffic;
2. To dismantle all possible official hurdles in the way of touristic development.
3. To work in a "joint-venture spirit" to compete in the international tourist markets;
4. To collaborate in planning and implementation of touristic projects and infrastructure by taking special steps;
5. To fully exploit the economic-socio-cultural benefits that ensue in the wake of rapidly growing tourism.

## The Policy Instruments

An agreement on Tourism was concluded on October 18, 1964. September bipartite agreements were concluded for the abolition of visas for a stay of up to three months. In June 1965, the introduction of RCD Tourist Card to replace the International Passport, with all the exchange, custom, driving licence and other facilities was proposed. The RCD brochure-cum-road map has been printed. Again, RCD Chamber of Commerce has recommended the elimination of the need for currency conversion. It also keeps a close liaison among the travel agents and hoteliers of RCD region.

In addition, international, intraregional and youth tourism is being planned in the following directions:

### (a) International Tourism

- (i) Infrastructural projects for touristic development should form an integral part of the development plans.

<sup>4</sup> Tunay Alsoglu, "Development of Tourism", RCD Secretariat, Fourth Anniversary Publication, pp. 107-8.

- (ii) The three National Tourist Organizations should mutually exchange the fund of knowledge and experience accumulated and the facilities available. After that, a Reconnaissance Experts Group, if necessary, could be appointed to undertake a comprehensive study of facilities and possible improvements.
- (iii) The three National Tourist Organizations should arrange periodic meetings among the IATA-approved tour operators of the region to promote business contacts.
- (iv) An elaborate publicity programme be organized including joint invitation to travel writers and agents in the tourist-supplying countries.
- (v) An attractive and cost-competitive package tour of the region should be introduced through active cooperation of Governments, travel industries, hotel associations, travel associations, and national airlines of "the three".

(b) Intraregional Tourism

- (i) The National Tourist Organizations should approach the institutions whose cooperation is necessary to make the intraregional tourism more attractive, especially for the potential extraregional tourists.
- (ii) The three Organizations should also furnish, on demand, all the requisite information about costs, infrastructure, existing and planned accommodation and tourist services.

(c) Youth Tourism

Since common discounts and rebates, as proposed earlier, have been found difficult to agree to, it has been decided that the Members should try to take the following steps as far as possible to streamline youth (practically it means student) tourism.:

- (i) Accommodation in hostels during vacations.
- (ii) Building up of youth hostelling projects into national plans.
- (iii) Free access to places of touristic interest.
- (iv) A Family Guest Exchange Programme.

Group tours, chartered flight, a joint travelogue film, a joint tourism booklet and a joint brochure are also being considered. In 1971, it was decided to commission a U.N. study on the potential of international tourism in the RCD region. As is evident, touristic cooperation under RCD has not yet gone beyond the stage of studies.

#### CULTURAL COOPERATION

To say that the strongest pillar of RCD is a sense of cultural togetherness is by no means an exercise in overemphasis.

The cultural side of the cooperation under RCD assumes a special significance. As the common root of civilization, culture and faith was a basic element in the genesis, so is the objective of creating a mass consciousness of the common cultural heritage through regional cooperation a strategic factor in the sustenance of RCD.

#### RCD Cultural Institute

An important event in this area of cooperation is the establishment of the RCD Cultural Institute in June, 1966 at Tehran, with branches at Istanbul and Lahore. The Article 2 of the constitution of the Institute describes following aims and objects. :

1. to carry out systematic research in the common cultural heritage of the countries of the region for the purpose of strengthening the awareness of their indivisible unity;
2. to initiate studies and research for clearly bringing out those traditions which bind the people of the region together;
3. to publish the results of these studies in the form of books, bulletins and periodicals in the languages of the member countries;

4. to arrange and encourage contacts among non-resident students and scholars from the RCD countries at the Headquarters of the Cultural Institute and at its branches. By 1971, the Institute had published 28 books and started a journal of its own.

#### RCD Cultural Exchange Programme

This annual Programme has been instituted to exchange intellectuals, artists, students, boy scouts and girl guides; to hold art and cultural exhibitions, sports tournaments and to establish chairs in the universities and grant scholarships. The Programme provides a regular channel for the improvement of the "intangible links" amongst the persons hailing from various walks of life in the region.

#### RCD College of Economics and Political Science

In 1969 it was approved the most important project in the field of cultural cooperation; the establishment of RCD College of Economics and Political Science at Islamabad. It was claimed:

it is the shortage of qualified Economists with higher professional ability which creates serious difficulties in the promotion of a variety of economic organizations that are essential for maintaining the pace of economic and social development of Iran, Pakistan and Turkey.....It is of great importance.....in their nascent stage of development that there should be an adequate number of better qualified Economists capable of collecting, collating and analysing economic data and applying their minds to it.<sup>5</sup>

It was stated that the College would function on the pattern of London School of Economics and Political Science. Till 1971, no concrete step had been taken in this direction. Some other facets of cultural cooperation include development of information media, women's cooperation and the establishment of many professional associations at the regional level.

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<sup>5</sup> Report of the Working Group on RCD College of Economics and Political Science.

Chapter FiveTAKING OF DECISIONS

Economic collaboration among LDCs requires a degree of institutionalisation considerably higher than similar efforts among DCs owing to imperfections of market and the absence of a tradition of regularised economic rapport. A hierarchy of institutions to study the new obligations, process their implications and for taking of decisions is the foremost condition to a potent cooperative effort.<sup>1</sup>

The Decision-making Process

The RCD provides for a three-tier decision-making process, based on a Ministerial Council composed of foreign ministers, Regional Planning Council composed of heads of the plan organisations and permanent committees on specialised subjects. Originally seventeen, the number was reduced in 1967 to seven. They are :

- (1) Committee on Industry
- (2) Committee on Petroleum and Petrochemicals
- (3) Committee on Trade
- (4) Committee on Transport and Communications
- (5) Committee on Technical Cooperation and Public Administration
- (6) Committee on Social Affairs
- (7) Coordination Committee.

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<sup>1</sup> ECAFE, "Organisational Forms of the Machinery for Plan Harmonisation", Economic Bulletin for Asia and for East, June 1967, pp. 37-38.

Lying at the bottom, these Permanent Committees are the "operational components"<sup>2</sup> of RCD hierarchy. The role of each of them, excepting Coordination Committee, is functional in the sense that it is the basic thinking and confrontation cell for formulating proposals for further collaboration in a specified area. The task of Coordination Committee is to resolve the inconsistencies and organic disunities that might arise in regard to a proposal by functional Committees to develop an overall pattern.

The budgetary and other organisational matters of the RCD Secretariat also fall in the purview of Coordination Committee. Originally, each member was appointed to chair two Committees, the Chairman of Coordination Committee being the host country. The term of chairmanship extended for three years. In January 1971, however, it was decided that all the Committees were to be chaired by the host country.

The coordinated proposals are referred to RPC, which has the Heads of three Plan organizations as its constituent members. It considers the proposals in the perspective of the varied realities of the planned national efforts for sustained economic growth. The RPC is also authorised to appoint ad hoc sub-committees and experts or working groups in specialized fields. In the end, the proposals cleared by RPC are placed before the Ministerial Council for final approval. Composed of the Foreign Ministers, it is the highest executive body in the RCD decision-making process. To ensure the

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<sup>2</sup> Lawrence Ziring, "The Establishment of the RCD Secretariat", Pakistan Administrative Staff College Quarterly, September-December, 1965, p.41.

strongest national support for regional cooperation, the decision-making conforms to the principle of unanimity.

The frequency of the RCD decision-making is twice a year. At the Ramsar Summit, the Heads of State and Government decided to meet at least once a year, upgrading thereby the level of official contact. However, there is no overlap between the Ministerial Council meetings and Summits, the distinction between the two being the usual distinction between economics and politics. A new point of rapport has emerged out of the RCD Commerce and Economy Minister's decision at their September 1969 meeting to regularise their meetings. Chart 1 depicts the taking of decisions under RCD.

#### Role of Secretariat

The Istanbul Summit did not provide for any formal Secretariat. It observed that the Plan Organization of the host country would provide secretarial facilities and that Secretariat would rotate among the three countries from year to year. However, it was realized within a year that this type of a rolling Secretariat would be subordinate to the Government concerned and hence without a regional orientation. Moreover, the yearly rotation of the Secretariat would introduce a discontinuity in its function to keep a liaison in the three tiers of the decision-making process. On the whole, a kind of institutional imbalance would tend to hinder the progress of RCD. So, a permanent Secretariat was established at Tehran, with a Secretary General appointed for a three year term. The Secretary General participates in the meetings of Ministerial



RCD DECISION- MAKING

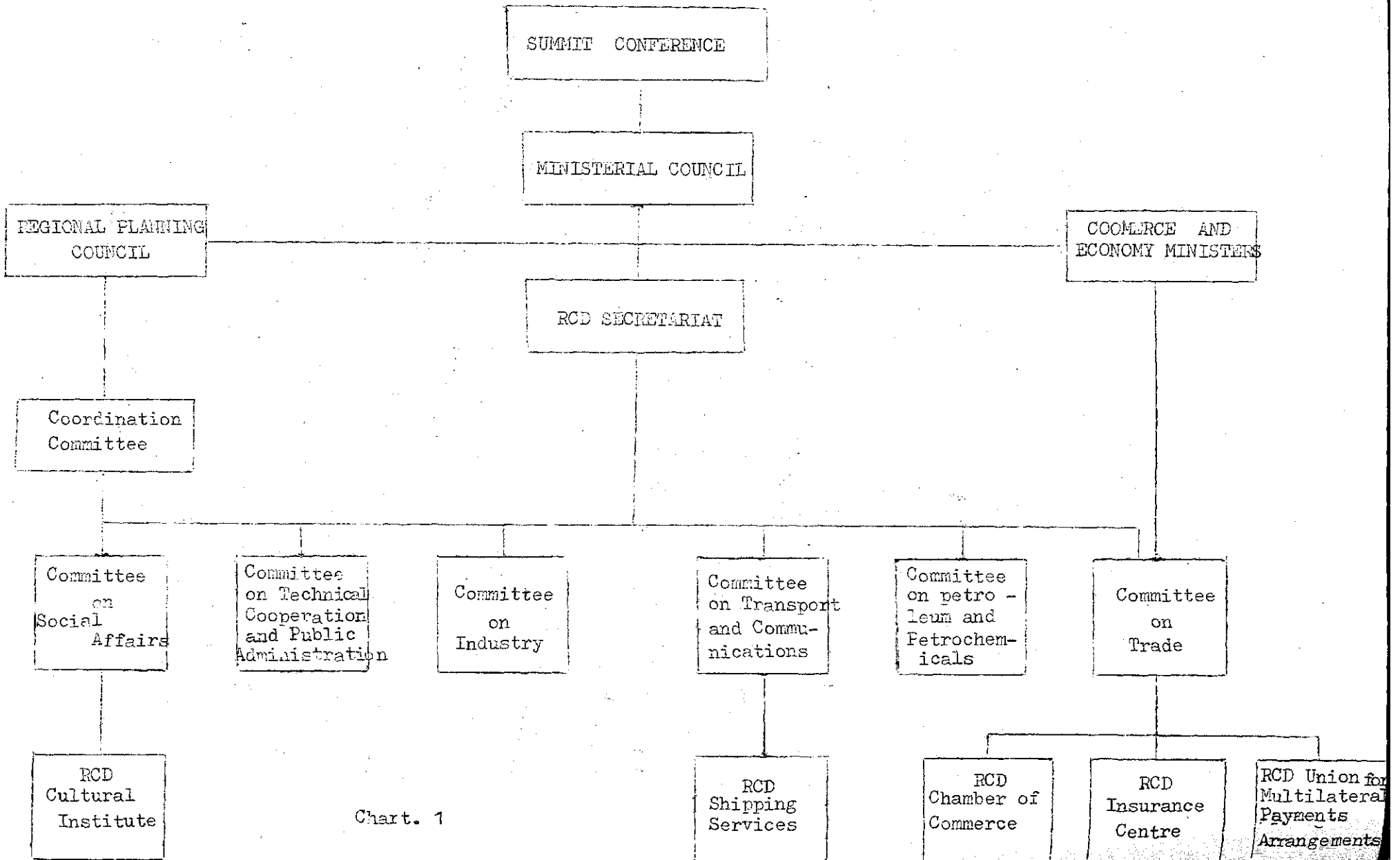


Chart. 1

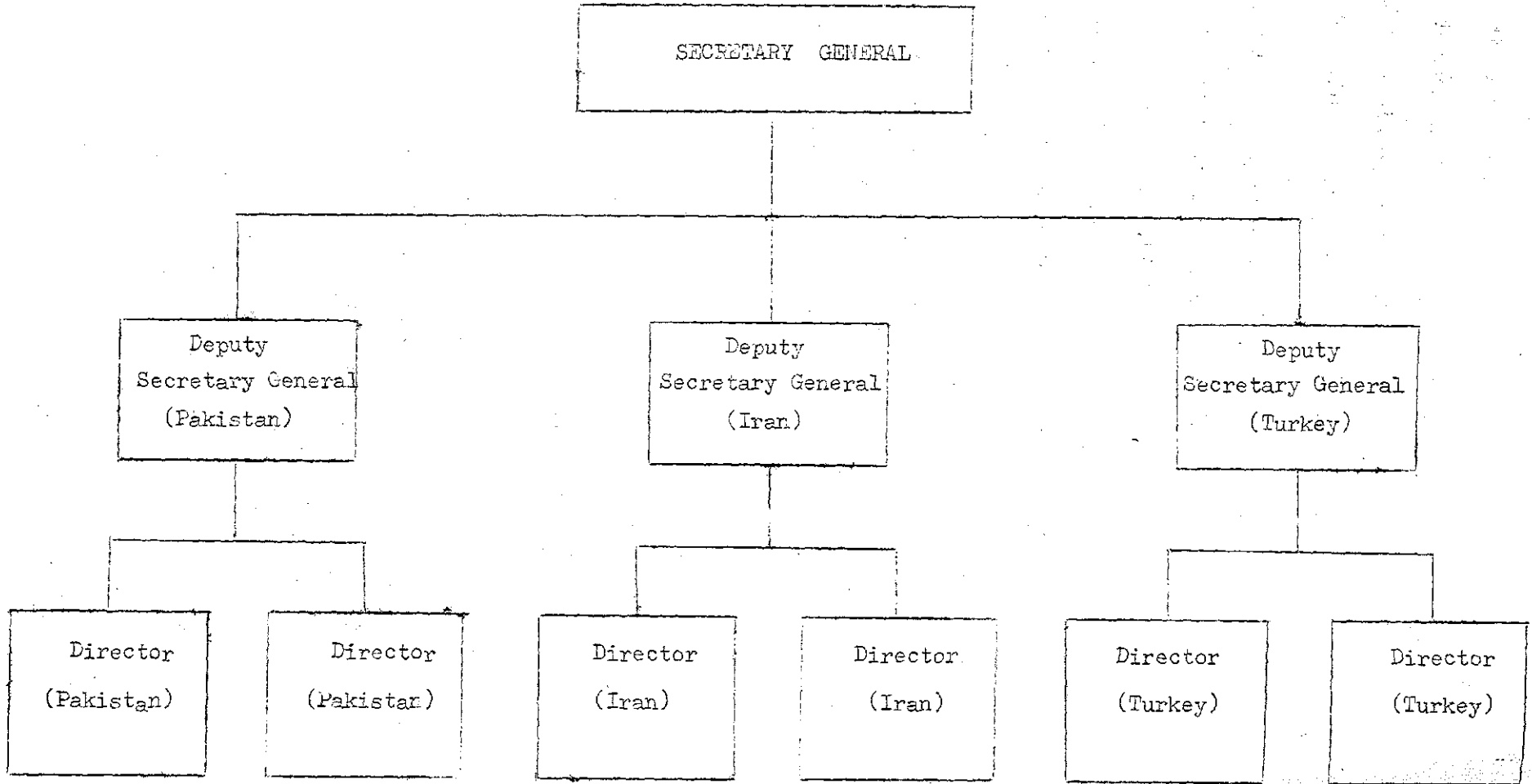
Council and RPC and sends his representatives to the other meetings. He is responsible for the preparation of the budget and internal working of the Secretariat. It is through him that the member Governments the relevant RCD agencies send and receive proposals.

In the beginning, the Secretary General was helped in the discharge of his functions by two directors and one assistant director from each member country. In 1971, the posts of assistant directors were abolished and three senior posts of Deputy Secretaries General, one each from the member countries, created. Chart 2 displays the internal organisation of the Secretariat.

While the Secretariat itself was now to be permanent, its location in Tehran was not. The first session of the Ministerial Council in October 1964 had recommended the setting up of the headquarters of the Secretariat in Tehran for a period of three years. In 1970, the life of the Tehran headquarters was extended up to February 1974.

A regional secretariat is generally supposed to collect, organise, integrate and coordinate the plans, suggestions and recommendations of member governments. It has to keep a liaison between the various regional agencies, provides secretarial facilities such as drafting, documentation and its timely circulation. It is in a better position to adopt a regional standpoint in the form of specific formulas, rather than the uninteresting sum total of national standpoints. In short, the function of a regional secretariat is to assume the role of what Myrdal describes as the effective "technical

INTERNAL ORGANISATION OF RCD SECRETARIAT



representative of common interest". The role of the RCD Secretariat was defined by its first Secretary General in these words:

The role of the RCD Secretariat is to provide all the necessary services and ensure all proper coordination in respect of the work of the technical experts from the three countries who will be brought together to put into execution the projects which shall have been approved. Thus on the proper organization of the RCD Secretariat will depend the implementation of measures for pooling the resources of the three countries and reaping the benefits of joint economic undertakings.<sup>3</sup>

More specifically, the first meeting of the RCD Ministerial Council assigned the following functions to the Secretariat:

1. To follow up the implementation by the RCD Committees and Sub-Committees of the decisions of the Regional Planning Council, and to report in this regard to RPC.
2. To prepare once a year report of RCD activities for submission to the Ministerial Council through the Regional Planning Council.
3. To act as Information Agency for the RCD.
4. To function as custodian for documents, studies and reports of the RCD.
5. To make secretarial arrangements including the preparation of provisional agenda for the meetings of the Ministerial Council, the Regional Planning Council, and its subsidiary Committees and bodies.

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<sup>3</sup> Fouad Rouhani, "RCD-The Role of the Secretariat", RCD Anniversary Publication, 1965, p.41.

Chapter SixEPILOGUE

The future prospects of a regional grouping among LDCs are, more often than not, determined on the basis of a dynamic projection of its inherent capability to grapple with the problems that arise in the course of time. Unfortunately, it is not so in the context of RCD. In the process of its evolution, the grouping is more susceptible to extraregional considerations as compared to the regional obstacles, though the role of the latter is not to be denied. Specifically, the future of ECD hinges on four principal factors.

- The performance and promise of RCD itself
- Future of CENTO
- The problem of Turkish Association with EEC
- The Russian Plan for Regional Economic Cooperation in South Asia.

A Critical Overview of RCD

The progress towards the realization of the limited objectives of cooperation under RCD has by no means been satisfactory. In an attempt to take a stance in every possible area, the net of RCD activity has been spread to an unmanageable extent. In the situation where the concept of cooperation is limited right from the beginning, a better approach is concerted action in some selected areas to produce visible results which, in turn, should signal the possibilities of further expansion.

In the field of JPEs an overemphasis on planning, without a respectable record of simultaneous implementation, has led to a

credibility gap. An important reason for the delay in implementation is the official hope that private sector would come forward to take a good chunk. This is a misconception. What is perhaps required is a Regional Industrial Development Corporation on the pattern of PIDC in Pakistan. The private capital is especially shy in the regionally based investment because the risk involved is very large. The Regional Corporation will establish these joint-ventures with a view to disinvesting them subsequently. Such a policy of disinvestment cannot, however, be extended to sophisticated industries. Regional industrial development is unthinkable without a Regional Investment Bank, designed to give priority to the regionally significant projects. The Bank would be responsible for the feasibility studies and thus help avoid the "national bias" that has been experienced in the studies conducted by RCD members. Furthermore, lending policies of the Bank could be geared to promote balanced regional development. A suggestion being studied currently is that the proposed Regional Bank should perform commercial as well as developmental functions. It is difficult to entertain this suggestion. Bank orthodoxy, which forces the establishment of specialized credit institutions within a country, is more deep-rooted on the regional level. The marriage of orthodoxy and progressivity is certainly going to be unhappy.

The Memoranda of Understanding signed for ventures that have at length reached the stage of implementation points up to many practices that are against the spirit of regional cooperation. First, the joint-purposiveness of the enterprises has been expressed in

words, but not in deed since (1) no agreement provides for vertical specialization and (2) the short-term nature of the off-take agreements, i.e., 5 years, is a shaky basis for horizontal specialisation. In fact, the later amounts to accumulating surplus capacity for the future. The pessimism about a complementary industrial structure is reinforced by the setting up in Turkey of an aluminium plant which is clearly parallel to the Iran-Pakistan venture in the same field. Similarly both Iran and Turkey are setting up parallel carbon black units. In practice, even the limited five year off-take agreements take too much time to conclude. Once concluded, there is the problem of delayed honouring of commitments. Secondly, the bipartite nature of the most enterprises goes against the tripartite spirit of RCD. Thirdly, the insistence on internationally competitive prices will hinder the growth of regional infants. Fourthly, equity participation has been provided without attempting an equitable investment package to avoid net capital exports and the resulting balance of payments problem. Finally, no measures have been taken to harmonize tax policies to even out artificial cost differentials. The agreement on avoidance of double taxation is being "committed" for a considerable length of time. On the whole, the policy towards joint ventures needs an overhaul if they are not to meet the fate of Pak-Turkish jute venture in the not too distant past.<sup>1</sup> Moreover, the sophisticated industries, possessed of truly regional economies, have been painfully absent in the first five years of RCD. It is only recently that an RCD Heavy Engineering and Mechanical Cooperation has been proposed.

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<sup>1</sup> Reported in Pakistan, Ministry of Finance, The Economic Situation, September 1964.

JIEs were proposed and identified with great enthusiasm as the main RCD activity. An unwieldy portfolio was prepared, without coherent planning and a systematic monitoring machinery. No wonder, there are now traces of lack of enthusiasm in regard to many a project.

There has been a sad neglect of the JIEs in the field of petroleum and petrochemicals. The Committee on Petroleum and Petrochemicals has been the least busy of the RCD Committees. The Iran-Turkey oil pipeline plan is extremely important because it will provide an alternative to the Suez route which is not only costlier, but also unsuitable for huge tankers. Its implementation, however, hinges on the guarantee by the International Consortium for an annual flow of 50 million tons of oil. This the Consortium is unlikely to do for two reasons: (1) the capacity is much higher than the actual exports (32.1 million tons) to Western Europe (2) the fear that surplus may be exported to Eastern Europe.

The intraregional trade has almost remained stagnant less than two per cent of the total, four-fifths of which is petroleum. The hope that JIEs will provide goods for intraregional exchange has not come true because of the continued existence of obstacles to trade. In fact the RCD ball bearings, designed to provide for the whole of the RCD region, is facing a crisis due to the absence of a preferential tariff. A joint export and marketing policy in the extraregional trade is unlikely in the foreseeable future. RCD Chamber of Commerce is there, poorly budgeted and less than semi-autonomous making suggestions that often go unheeded. Even the



Multilateral Payments Arrangement did not go much far in promoting intraregional trade. The automatic credit line provided has proved to be lower than total settlements. It has failed to correct regional trade imbalance, in spite of the fact that it is based on intraregional positions rather than overall balance of payments. The 100% hard currency payment beyond the credit limit is too restrictive. In a word, the Agreement is far away from furnishing

a very important institutional focal point for starting.... the mutual review, confrontation and ultimately coordination of the member's monetary policies.<sup>2</sup>

Insurance is perhaps the only cooperative activity where the progress is not too unimpressive. Yet, it will not be before long that an efficient system of export and industrial credit insurance can be developed. There seem to be no chances for the formation of a Regional Reinsurance Company.

Completion of the infrastructural links has proceeded at a lamentably low pace. Construction of road and rail links should be hurried since the transit is certainly more economical than sea- or air-borne trade in the RCD region. The present state of the RCD Highway is not satisfactory for heavy transits. In road transport, not much attention has been paid to establish a Joint Road Transport Corporation. While the Iran-Turkey rail link has been completed, though not under RCD aegis, Iran-Pakistan link remains un-made. The Shipping "conference" is currently facing a two-prong crisis: the

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<sup>2</sup> U.N., Trade Expansion and Economic Integration among Developing Countries, Foot note, p.64.

question of tariff realignment and the threat of Bulgarian competition on the intraregional route, the traffic on which is already limited ever since the closure of Suez. An eventual transition to a Joint Shipping Company is pulled further apart in future for want of the operational coordination and freight pooling. The progress towards the Joint Shipping Company may be quickened in case an RCD Shipowners Association is formed to promote, through the RCD Chamber of Commerce and Industry, a regular contact with the shippers in general. What happened in shipping was repeated in air transportation. National considerations pervaded regional advantage when, instead of a Joint International Airline, agreement was reached to limit regional cooperation to the operation of Supersonic aircrafts only. At a time when even the biggest of the airlines are forced to form coalitions, the attitude of the RCD decision-makers in this regard is hard to acquiesce.

The main purpose of Technical Corporation under RCD should have been to establish some Regional R & D (Research and Development) Agency to fill in the technological aspect of industrial cooperation, rather than overemphasizing seminars. A new regional arrangement is immensely necessary in view of the fact the pressing local needs ineffectuate the little technological complementarity that does exist in the parallel RCD economies. Of late, an RCD Research Endowment has been proposed which, despite a limited scope, is a good beginning towards the formation of a technological pool. One only hopes that the supply of requisite inputs does not become an obstacle on the way of an agreement in this connection.

The step-motherly attitude towards agriculture needs to be abandoned by setting up a separate permanent Committee on Agriculture, dealing with the possibilities of specialization, disposal of agricultural surpluses, joint-production of agricultural inputs and coordination of research.

Tourism also needs to be allocated to a separate permanent Committee to avoid the overlap between the Committees on Trade and Social Affairs, tourism being an economic-cultural category. The only real advance in international tourism is the suggestion for a package tour. However, it involves questions like uniform hotel rates, provision of travel discounts, joint publicity abroad, etc, which could be best done by a Regional Tourist Corporation. Intraregional tourism on a self-balancing basis too needs some such framework. Agreement on a Regional Tourist Corporation, nevertheless, has not been entertained even in principle.

In the field of cultural cooperation, one fails to understand how on earth would the exchange of dancers or translations of generally un-read books promote the promised "people-to-people relation" and "mass consciousness of common cultural heritage". Common culture is going to be the strongest element in the perpetuation of RCD and cooperation in this area should have been taken a bit more seriously. The constitution of the RCD Cultural Institute binds it totally with the past, ignoring, thus the need to build up cultural bridges at intellectual and mass levels in a scientific manner.

The performance of RCD over the seven years under study fails to point up the way towards the full realization of even the limited

promise that RCD offers. This, however, proves nothing against the concept of cooperation as such. In point of fact, it is reflective of the confusion about the future of RCD which, in turn, depends to a significant degree on extraregional factors.

#### Future of CENTO

Though there is not much truth in the jest that RCD is an "office copy" of CENTRO, the fact remains that the side by side existence of the two has something to do with the loose concept of cooperation under RCD. RCD is primarily an economic organization. But CENTO does not ignore economics either. As is evident from the statement by British Minister of State for Foreign Affairs, made at the London meeting:

CENTO in its military aspect has achieved its objective and the regional countries have achieved a satisfactory degree of detente with their adjacent neighbours. It was, therefore, considered desirable and natural to increase the emphasis on economic aspects and industrial cooperation.<sup>3</sup>

The programme of the Economic Committee of CENTO covers multimillion dollar communication projects designed to link the three regional members by road, rail, air and telecommunications; agricultural extension; health; scientific cooperation and technical assistance and industrial cooperation. It is a wide coverage, different from RCD only in one, though very important, respect-- the JPEs. While the military-oriented CENTO has been easily "economicised",

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<sup>3</sup> The Pakistan Times, April 26, 1968.

the economic-oriented RCD could not be militarised.<sup>4</sup> All that it implies is that Turkey wants to retain the CENTO framework to obtain aid, military as well as economic. In the process of making it more "agreeable", the jurisdiction of RCD is being encroached upon. The result is the ridiculous phenomenon of some countries cooperating in same areas under two different frameworks, unleashing forces of mutual weakening.

#### The Problem of Turkish Association

Turkey is now in the probation of the "preparatory period" for association with EEC. The conclusion of an agreement will make her membership of RCD incompatible with the EEC association. For, in economic integration, "polygamy" is impracticable. Turkish ambassador to EEC underlined his country's interest in an agreement of association when he stated:

Turkey is hopefully preparing for a transitional period, which will afford a real contact with the Common Market economy.

The hope is based on the extensive studies that were carried in Turkey throughout 1967. A mention-worthy development during the same year was the grant of marketing opportunities within the framework of the Article 6 of Provisional Protocol. On April 1, 1967 the Association Council permitted the increase of marketable goods from four to thirteen.<sup>6</sup> While the pattern of trade with EEC will take time to alter,

<sup>4</sup> Economist Intelligence Unit, Quarterly Economic Review of Iran No.2, 1967, p.2.

<sup>5</sup> Zia Muezzinoglu, "Turkey's Relations with EEC", Common Market Bulletin, February 1968, p.51.

<sup>6</sup> Ibid., pp.52-3.

the immediate Turkish interest lies in the huge amount of \$ 175 million in aid from the European Investment Bank. The notable features of Turkish terms for negotiations that began in Brussels on February 24, 1969 were :

1. Grouping of imports into two categories to gradually liberalize trade, the first requiring 12 years and the second 22 years for a 100% abolition of duties.
2. Turkey shall be free to determine the items falling in each category.
3. The goods entering category 2 shall not be more than 50% of 1967 imports.
4. Trade liberalization should promote and not hinder economic progress.
5. Harmonization of Turkish Agricultural Policy with Common Agricultural Policy.
6. Preference should be given to Turkish labour over nonmembers and equal status with EEC workers.
7. Signing of a Financial Protocol.<sup>7</sup>

On the EEC side, while considerable financial and technical aid for the \$ 185 million Baspurus project will be available,<sup>8</sup> views diverge on many points, notably, Common Agricultural Policy and trade liberalisation whose depth is unlikely to be more than 5 to 10 per cent. During his visit to Brussels in September 1969, Turkish Foreign Minister, however, insisted that discussions should be over and Turkey should definitely enter the second period on December 1. He argued that Ankara Agreement between Turkey and EEC should be implemented in its entirety to enable her to leave the period on schedule.<sup>9</sup>

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7 Daily News, Ankara, March 28, 1969.

8 Dawn, August 11, 1969.

9 The Pakistan Times, October 14, 1969.

All this shows great Turkish interest in EEC, adding an element of uncertainty about the future prospects of RCD.<sup>10</sup>

### The Russian Plan

In June 1969, Soviet leader Mr. Brezhnev suggested a Regional Cooperation Arrangement among Pakistan, India, Iran, Turkey and Afghanistan. That the Russian Plan can seriously tell upon the future of RCD can be judged by the fact that Turkey and Iran have not opposed the idea. Opinion in Pakistan is determined by the attitude towards India. On the one hand are "confrontationists", who believe in a policy of friendship with China and confrontation with India. According to the chief exponent of this school, regional economic cooperation with India is possible only if (1) it is preceded by the resolution of outstanding disputes (2) it is not a "harbinger" of or "curtain-raiser" to some collective security system against China.<sup>11</sup> This school of thought holds the dominant position in the matter.

On the other hand are "cooperationists" who assert that by accepting the plan, Pakistan could maintain its political argument with India and still resume trade relations which, according to them, are five to six times more important to Pakistan than to India. Further,

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<sup>10</sup> A dialogue between Prime Minister Demriol and a Pakistani journalist:  
 Question: What do you prefer, ECM or RCD ?  
 Answer: The comparison is meaningless.  
 See Urdu Digest, January 1969, p.18.

<sup>11</sup> Z.A. Bhutto, Pakistan and the Alliances, pp.38-9.

friendship with China will not be impaired as Pakistan should join, not any new security system, but the transit and trade arrangement. Further still, the plan offers prospects of large scale trade and transit in South Asia, with Pakistan occupying a key position. East European, and to some extent West European, goods shall move overland through Turkey, Iran, Afghanistan and Pakistan to India and onwards. Proximity of Peshawar and Quetta to the transit to and from Asiatic Russia and the economy of 40 to 60 percent resulting from a fine heavy duty road from Urals through Afghanistan to South Asia are stated to be the significant advantages amongst many other.<sup>12</sup>

The "cooperationists" in East Pakistan, who have always stood for the opening up of the river traffic between West Bengal and Assam and parbatipur rail link, consider RCD a purely West Pakistan affair. According to them, failure of Indonesia-Pakistan Economic and Cultural Collaboration<sup>13</sup> (IPECC) to maintain an inter-wing "parity" in Regional Cooperation is a factor giving strength to their argument.

To sum up, the signs of a major realignment are not indiscernible in South Asia. As for Pakistan, the safe presumption is that she will not enter any alliance membered by India. The question is one of ideology not economics in that arguments for cooperation with India are by no means different from the arguments against partition.

Whether Pakistan keeps aloof or not in no way dispels the uncertainty

<sup>12</sup> Askar Ali Shah, "Economic Cooperation in South Asia", The Pakistan Observer, August 14, 1969.

<sup>13</sup> It is interesting to note that Indonesia too has supported the Soviet Plan.



that surrounds the RCD pattern of association, insofar as her partners have supported the idea. A major crisis can develop if India and Afghanistan join RCD to transform it into the grouping suggested by Russia.<sup>14</sup> And even if the Russian plan does not materialize, the possibility of Turkish association with EEC will continue to hang over RCD like Democleus' sword.

#### A possible Approach to an RCD Common Market

In the course of our previous discussion, an argument has been built up that the propensity to regionalize for industrialization in LDCs is a logical outcome of the present welter of aid and trade scuffles on the one hand and their inability to launch import substitution single handed in the "process" industries on the other. It was argued in the Asian context that the present political and economic conditions reduce the idea of an Asian Common Market to a long-term goal, if not to a mere "phantom"<sup>15</sup> or to "spinning fantasies."<sup>16</sup> As an immediate alternative, therefore, an RCD-sized grouping, with fewer interests to be balanced, is the natural first choice. For the integrated development of the region, a dynamic case, resting on the correlations between structural transformation, size of the market and the depth of trade liberalisation in the successive stages of cooperation, coordination and ultimately integration, can be made.

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<sup>14</sup> The Shahinshah declared in New Delhi that RCD membership is open to all.

<sup>15</sup> Gunnar Myrdal, Asian Drama, p.124.

<sup>16</sup> David Wightman, Towards Economic Cooperation in Asia, chapter 13.

Turkey's extra-regional obligations have "conditioned" RCD to the stage of cooperation. Nevertheless, this does not disprove the fact that the regional prospects of industrialisation exceed the sum of the separate prospects of the members. Assuming rationality in the approach towards other political obstacles, a good case exists for an RCD Common Market. The attitude of Turkey is governed by strict economic considerations. If it can be demonstrated that her share of the regional RCD prospects will exceed the economic benefit from Association with EEC, she is likely to be more active in RCD.

A workable way out is that Pakistan and Iran, who have, time and again, expressed their willingness for a comprehensive arrangement could form a customs union and keep the contact with Turkey through some sort of "special relationship".<sup>17</sup> Since the two countries are large enough<sup>18</sup> to exploit the dynamic potentialities of economic integration, the union is likely to demonstrate success very soon. As the union develops and consolidates, its substitution elasticity in demand values will be large relative to supply elasticity. Insofar as this happens, the neighbouring countries, viz. Turkey and Afghanistan, will tend to enter the union to share the gains, just as Britain and EFTA members can now ill-afford to keep out of the EEC. So a common market of RCD is not a mirage, but a realistic long-term goal, achievable by adopting a pragmatic approach that makes it

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<sup>17</sup> Turkey should be quite willing to have this arrangement to fall back upon in case the Association Council plays its delaying tactics excessively on her.

<sup>18</sup> The size of the market of Pakistan and Iran is larger than that of Central American Common Market (CACM).

possible to share the ultimate beliefs of the classics without sharing their faith in the methods.<sup>19</sup>

In other words, the approach will not entail a functional liberalization of trade, but a dirigistic plan for integrated development of Turkey, Iran and Pakistan.

As a first step, the three countries should sign an interim agreement, committing them to a blueprint of economic integration in the region which, though subject to alterations as practice so demands, will introduce a measure of stability and sense of direction, so badly wanting in ad hoc arrangements. Its characteristic feature should be a go-slow time table of the mechanics of transition from the lowest stage of cooperation to coordination and ultimately integration.

The need for a go-slow approach arises from the fact that, greater the product coverage and depth of trade liberalisation the greater the fear that the dangers of a free trade regime, enumerated earlier, will materialize and lesser the motivation to negotiate. The initial difficulties are usually very large, and even massive efforts yield modest results. There is, however, no room for demoralisation as the object is not to reap some immediate reward, but to maximize long-run gains through integrated development. Caution and gradualism is all the more necessary in the RCD region as any de facto integration is totally absent, although a good

<sup>19</sup> Paul Streeten, Economic Integration: Aspects and Problems, p.16.

government-to-government rapport has been maintained in the past in fields other than economy.

Economic cooperation marks the beginning of intraregional interpenetration in its most naive form. The purpose is to put an end to the hitherto water-tight relations: to break the vicious circle of lack of contact - autarkic and parallel policies - non-cooperation. The methods employed are indirect, viz. bilateral and multilateral trade agreements, for the disposal of agricultural and industrial surpluses. The agreements may be short run as well as long run, specifying the structure and/or volume of exchange and generally involving direct clearing or "swing" credits. Other forms of cooperation include exchange of business delegations, technical and cultural cooperation. When cooperation is viewed as a definitive stage in the dynamics of economic integration, the improvement of physical infrastructure by providing the missing links assumes real significance. As a habit of cooperation builds up, the existing indirect methods outline their utility and the ground is well set for direct and institutionalised methods.

Coordination or harmonization of development plans does not envisage a uni-planned region. This is neither possible nor desirable as no country will be prepared to sacrifice national priorities. All that is required is that plan formulation in one country should take into account the targets for production, exports and imports in the other countries. In the underdeveloped economies of RCD type with little traditional trade, the role of plan coordination should be manifest as the objective is to influence the structure

of new investment. The strategy is to select "regional infants" on the basis of "agreed specialization" and rear them up in a protected regional market. Plan coordination will thus lead to :

- (i) exploitation of externalities and internalities and other benefits of integration;
- (ii) removal of critical scarcities on supply side by preventing wastes of competition and unnecessary duplication through specialized ventures and that of investment through joint-purpose enterprises;
- (iii) expansion of the scope of useful exchange and stabilize the pattern resulting therefrom;
- (iv) equitable diffusion of the benefits of integration.<sup>20</sup>

Comprehensive plan coordination is likely to face various administrative and technical difficulties. Since the institution of any supernational authority is premature, the structure and locations of new investment and its "permissive circumstance" i.e., trade liberalization, have to be decided through inter-government negotiations. Such negotiations are generally time-consuming and biased towards selectivity for want of an easily agreed investment and locational criteria. Operationally, therefore, plan coordination will proceed item-or industry-wise. For fruitful integrated development, however, nothing short of a customs union is required in the item or industry so selected. A regional infant can grow into maturity only if an assured regional market is provided. In RCD region, these infants will most likely be investment and intermediate goods. Due to a policy of providing cheap capital and to the input imports to import-substituting industries, the tariffs were kept low. The result is likely to be insignificant for the well-established industries of DCs,

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<sup>20</sup> Hiroshi Kitamura and Ajit Bhagat, "Regional Harmonization of National Development Plans and Trade Cooperation", Economic Bulletin for Asia and the Far East, June 1967, p.15.

but substantial for the output of regional infants. Hence the need, not only for a substantial (about 30%) degree of preference, but also for a common external tariff whose incidence is higher than arithmetic average of the pre-existing tariffs.

A free trade area may not do the trick.<sup>21</sup> In the first place, the regional infants will be still-born as a member which does not produce the product in question might find it advantageous to import from third countries. It might be asked as to why should, say, Pakistan subsidize Turkish steel while she could always get it more cheaply from extra-RCD sources. The answer is that in the item-by-item approach suggested here, the forgone advantages will be adequately compensated as Turkey might also have to subsidize, say, petrochemicals from Pakistan. These are the sacrifices that the region will have to make for the structural transformation of its members. In the second place, locational decisions might be distorted by the differential cost structures that result from divergent commercial policies of the members towards the third countries. Finally, a free trade area among the RCD members will only lead to large-scale smuggling as customs controls are too weak to enforce any criteria of origin. (However, if an agreement on customs union is politically difficult to conclude, free trade area should be accepted as a second-best solution. For, customs union is better than free trade area, but free trade area is better than no free trade.)

A partial customs union, therefore, holds better prospects for RCD region than a partial free trade area. However, a full free trade

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<sup>21</sup> Akbar Adil has suggested a free trade area with a national value content of at least 60%, Background Paper on RCD, p.43.

area may outweigh in advantage a partial customs union. As the success of union in a particular items is established, there will be a tendency to form such a union in other items. What is more important is that

with the experience and habits of mutual cooperation implanted during the process of negotiations, the commodity or sectoral coordination at the sub-regional level might lead to a recognition of the need for over-all plan harmonization and thus pave the way for coordination of the development plans of the subregion as a whole.<sup>22</sup>

By that time, a working basis will have been laid for the eventual birth of an ECD Common Market.

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<sup>22</sup> ECATE, Report of the First Working Group of Planning Experts on Regional Harmonisation of Development Plans, para 20.

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