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OECD POLICIES TOWARDS DEVELOPMENT OF DEVELOPING COUNTRIES:
LEARNING FROM EAST ASIA, LESSONS FOR SOUTH ASIA

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South Asia in the Current Context

The South Asian region constitutes a large economic zone with a larger still population – the combined GDP of the region was about $605.3 billion in 2002, with a population of about 1365 million (Table-1 presents some stylised facts about the region). The countries in the South Asian region have a common history, and heritage, but live under diverse economic and political realities. Its seven countries include, by far, the larger economy of India with a population of 1050 million (about 75% of regional total) and a GDP of 480 billion (about four-fifth of regional total), and two moderately large economies, Pakistan with a population of 147 million and a GDP of $58.7 billion, and Bangladesh with a population of 141 million and a GDP of $46.7 billion; by contrast the combined population of rest of the four countries, i.e. Sri Lanka, Nepal, Maldives and Bhutan, is 45.5 million with a corresponding GDP of only $22.6 billion (2002). The system of governance in the region covers the entire spectrum, from absolute monarchy to functioning parliamentary democracy. Three of the SA countries (India, Pakistan and Sri Lanka) are developing countries whilst the rest four (Bangladesh, Nepal, Bhutan and Maldives) belong to the sub-strata of least developed countries (LDCs).

Contemporary South Asian region is passing through a period of unprecedented changes and challenges. Over the past decade all the major South Asian countries have experienced crucial policy changes, moving away from pursuing a policy of import substitution strategy towards export orientation and promotion, underwritten by liberalisation of trade, privatisation of State Owned Enterprises (SOEs) and deregulation of the financial sector. Although Sri Lanka was an early liberaliser, for most of the other countries it was the 1990s which saw an accelerated pace of liberalisation – in India after the Balance of Payment (BoP) shocks of early 1990s, and in Bangladesh and Pakistan under the structural adjustment programmes pursued in late 1980s and early 1990s. South Asia is now connected with the global economy as never before – at present the degree of openness of the region (export and import of goods and services as percentage of regional GDP), as a whole stands at about 0.31. South Asia’s average GDP growth rate has been a moderately impressive five plus percent per annum in recent years (current year’s projections show a eight plus percent growth rate for India).
### TABLE 1: BANGLADESH ECONOMY IN THE REGIONAL CONTEXT

<table>
<thead>
<tr>
<th>Indicators</th>
<th>BD</th>
<th>Bhutan</th>
<th>India</th>
<th>Maldives</th>
<th>Nepal</th>
<th>Pakistan</th>
<th>Sri Lanka</th>
<th>South Asia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (million)</td>
<td>140.9</td>
<td>2.1</td>
<td>1033.4</td>
<td>0.3</td>
<td>24.1</td>
<td>146.3</td>
<td>18.8</td>
<td>RT=1365.9</td>
</tr>
<tr>
<td>GDP in US $ billions</td>
<td>46.7</td>
<td>0.5</td>
<td>477.3</td>
<td>0.6</td>
<td>5.6</td>
<td>58.7</td>
<td>15.9</td>
<td>RT=605.3</td>
</tr>
<tr>
<td>GDP per capita (US $)</td>
<td>350</td>
<td>644</td>
<td>462</td>
<td>2082</td>
<td>236</td>
<td>415</td>
<td>849</td>
<td>RWA=447.0</td>
</tr>
<tr>
<td>GDP per capita (PPP $)</td>
<td>1610</td>
<td>1833</td>
<td>2840</td>
<td>4798</td>
<td>1310</td>
<td>1890</td>
<td>3180</td>
<td>RWA=2588.0</td>
</tr>
<tr>
<td>Life expectancy at birth (years)</td>
<td>60.5</td>
<td>62.5</td>
<td>63.3</td>
<td>66.8</td>
<td>59.1</td>
<td>60.4</td>
<td>72.3</td>
<td>RWA=62.7</td>
</tr>
<tr>
<td>Adult literacy rate (%)</td>
<td>40.6</td>
<td>47.0</td>
<td>58.0</td>
<td>97.0</td>
<td>42.9</td>
<td>44.0</td>
<td>91.9</td>
<td>RWA=54.9</td>
</tr>
<tr>
<td>HDI value</td>
<td>0.5</td>
<td>0.5</td>
<td>0.6</td>
<td>0.8</td>
<td>0.5</td>
<td>0.5</td>
<td>0.7</td>
<td></td>
</tr>
<tr>
<td>GDP rank</td>
<td>146</td>
<td>141</td>
<td>115</td>
<td>93</td>
<td>151</td>
<td>137</td>
<td>112</td>
<td></td>
</tr>
<tr>
<td>HDI rank</td>
<td>139</td>
<td>136</td>
<td>127</td>
<td>86</td>
<td>143</td>
<td>144</td>
<td>99</td>
<td></td>
</tr>
<tr>
<td>Population below National Poverty Line 1990-2001 (%)</td>
<td>33.7</td>
<td>28.6</td>
<td>42.0</td>
<td>32.6</td>
<td>25.0</td>
<td>RWA=29.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ration of income: richest 20% to poorest 20%</td>
<td>4.6</td>
<td>5.7</td>
<td>5.9</td>
<td>4.8</td>
<td>5.3</td>
<td>RWA=5.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ODA disbursements (US $ millions)</td>
<td>1023.9</td>
<td>59.2</td>
<td>1705.4</td>
<td>25.0</td>
<td>388.1</td>
<td>1938.2</td>
<td>330.2</td>
<td>RT=5470.0</td>
</tr>
<tr>
<td>Exports of goods &amp; services (as % of GDP)</td>
<td>15.0</td>
<td>30.0</td>
<td>14.0</td>
<td>93.0</td>
<td>22.0</td>
<td>18.0</td>
<td>37.0</td>
<td>RWA=15.2</td>
</tr>
<tr>
<td>Degree of Openness (%)</td>
<td>37.0</td>
<td>90.0</td>
<td>29.0</td>
<td>159.0</td>
<td>54.0</td>
<td>37.0</td>
<td>81.0</td>
<td>RWA=31.0</td>
</tr>
<tr>
<td>Export of Goods &amp; Services (as % of ODA)</td>
<td>684.1</td>
<td>253.4</td>
<td>3918.2</td>
<td>2232.0</td>
<td>317.4</td>
<td>545.1</td>
<td>1781.6</td>
<td>RWA=1685.8</td>
</tr>
<tr>
<td>Debt services as % of exports of goods &amp; services</td>
<td>9.0</td>
<td>3.3</td>
<td>12.6</td>
<td>4.3</td>
<td>6.2</td>
<td>21.3</td>
<td>9.2</td>
<td>RWA=12.9</td>
</tr>
<tr>
<td>Population below $1 a day (1990-2001)</td>
<td>36.0</td>
<td>34.7</td>
<td>37.7</td>
<td>13.4</td>
<td>6.6</td>
<td>32.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FDI Inflow</td>
<td>114.0</td>
<td>3449.0</td>
<td>12.0</td>
<td>10.0</td>
<td>823.0</td>
<td>242.0</td>
<td></td>
<td>RT=4650.0</td>
</tr>
</tbody>
</table>

RT = Regional Trade; RWA = Regional Weighted Average
As Rick Barichello’s paper rightly points out, as a region, South Asia’s growth in recent years had been one of the highest amongst the developing world. The region has also achieved commendable success in terms of some human development indicators. However, at the same time the countries of the region suffer from acute poverty, both absolute and relative. The share of population living below the poverty line in the region is about 30% (more than a staggering 400 million people), and the income of the richest 20% of the population is 5.5 times that of the poorest 20%; gini-coefficient of income inequalities is on the rise in most of the countries.

Policies pursued by the Organisation of Economic Cooperation and Development (OECD) countries are both relevant and important for South Asian countries: major South Asian countries are closely connected to OECD members through the triad nexus of aid, trade and Foreign Direct Investment (FDI); OECD countries are the major sources of earnings of the tourism sector for Nepal, Bhutan and Maldives where the industry is an important source of foreign exchange. Most of the $5470 million in Overseas Development Assistance (ODA) that South Asian countries received in 2002 came from the OECD countries either through bilateral channels or multilateral organisations where OECD countries were the key players. OECD countries are the major destinations of South Asian exports which was equivalent to $100 billion in 2002 (for Bangladesh it was more than four-fifth and for India about two-thirds). OECD countries also account for the larger part of the $4650 million worth of investment that came to the region in 2002.

The relative importance of aid and trade in South Asian economies has undergone drastic changes over the recent past. Even countries which were predominantly dependent on aid have come to rely more on trade and exports in recent years. Average tariff rate in countries such as Bangladesh has come down from 85% to 17% between early 1990s and present times. India, which pursued a protectionist regime for a long time, has also brought down her tariffs quite substantively to around 21%. Sri Lanka, which started to liberalise its economy back in 1970s, has an effective protection rate of under 10%. Although Bangladesh’s export of goods and services in early 1990s was almost the same as aid received during that period, at present she exports six times more than what she receives as aid. Export of goods and services have become increasingly important for all countries of South Asia in recent times. At present South Asia, as a whole, exports seventeen times more than what it receives as aid. This increasing dependence on trade, and the increasingly more global integration of its
economy are new realities under which South Asian economies are functioning now. On the other hand, flow of FDI to South Asia, particularly trade enhancing FDI, had been rather at low levels. In South Asia poverty is pervasive and income inequality is widespread. Whatever growth had been achieved, a large of that had not been translated into equitable distribution. As for the pace of poverty reduction, it has been disturbingly slow – in countries such as Bangladesh it was about one percent per year over the past decade the *gini coefficient* of income inequality is rising nationally, and in both urban and rural areas.

One of the most important developments of recent times which is to be noted in this context is that South Asia is, at present, taking a number of important initiatives in the area of regional cooperation. A *South Asia Free Trade Area* (SAFTA) is going to be established as of January, 2006. An agreement to establish a BIMSTEC Free Trade area has already been signed. There are talks of creating a Customs Union in South Asia and the Indian Prime Minister has recently floated the idea of a common currency. All the South Asian countries are members of the WTO, barring Bhutan, which is an observer. There is a general recognition that South Asia stands at a critical threshold of enormous opportunities and challenges.

Many East Asian countries, which are developed today, had passed through the stage where South Asia currently stands today in terms of level of development, per capita income, income distribution, and the structure of GDP. The interface between OECD policies and East Asian development practice could thus provide very useful insights into policies that could benefit South Asian countries as they seek to develop their economies and raise the standard of living of their people. The purpose of this brief note is two fold: *firstly*, to identify some key OECD policies which contributed most to the East Asian economic success and examine their relevance in the context of South Asia; *secondly*, to articulate some of the distinctive features of the current global, regional and domestic scenarios that inform the context in which South Asia’s present development is taking place, and in the context of this emerging reality try to identify the new OECD policies that could be helpful in promoting economic development of the South Asian countries. It is in this sense that the attempt here is to learn from East Asia’s experience, and also to look beyond.

The excellent overview paper titled *Miracle, Crisis and Beyond* by Ki Fukasaku and the seven exceptionally rich background papers which have been prepared as part of the current
research project provide fascinating and valuable insights into how the various OECD policies have impacted on East Asian development praxis over the past years and why particular policies were successful. This is not to say that there is a consensus as regards sources of the miracle, but the intention here is not to go into the debate but to try to identify those OECD policies which have contributed to the success of East Asian countries and the lessons that South Asia could draw from this. Based on these excellent papers an attempt has been made here to read the papers with a South Asian Lens, and identify the rewarding lessons that would be relevant and useful to South Asia in its interface with its OECD development partners.

- OECD Policies in East Asia: Lessons for South Asia

OECD development policies in East Asia which would be of interest to South Asia may be categorised in three interrelated broad groups:

- OECD policies that stimulated growth and equity in the domestic economies of East Asia.
- OECD policies that promoted regional integration of East Asian countries.
- OECD policies that helped strengthen global integration of East Asian economies.

The first tier of the learning experience relates to domestic policies. In terms of OECD policies that stimulated domestic economic growth and led to efficiency gains and structural changes in East Asian economies, the impact of the three transmission mechanisms of aid, trade and FDI appears to have played a critical role. OECD development policies helped the East Asian economies to remove the anti-export bias through helping these countries with trade policy reforms, and by putting in place fiscal, financial and institutional incentives to promote export-orientation of domestic investors and entrepreneurs. Maintenance of a competitive exchange rate was crucial to ensuring competitive strength of domestic producers both in national as well as global markets. It is also interesting to note that the policy of trade liberalisation followed a careful sequencing and phasing with progressive liberalisation of inputs, intermediates and final goods, and selective support to strategic sectors. As the South Asian countries struggle to lock-in their reforms and further liberalise their trade and exchange rate regimes it is pertinent to keep this aspect of trade and investment policies in mind.
Management of inflation through prudent monetary policy supported by fiscal and credit policies had been the hallmark of East Asian experience and is an important lesson for South Asia. The challenge of maintaining high growth with low inflation rate continues to remain a major challenge for South Asia. Before the financial crisis, the South Asian countries had been able to sustain their growth momentum with a low level of inflation. The financial crisis that some of the East Asian countries faced in late 1990s also provides important lessons to South Asia. For South Asia the challenge in the area of financial and exchange rate management has increased manifold with floating of many of the regional currencies in recent years (Indian rupee and Bangladeshi taka in recent times, for example). East Asian experience also calls for taking a cautious approach towards capital account convertibility by the South Asian countries.

As East Asian experience shows, creation of an efficient equity market, with appropriate oversight institutions as an integral part of a professionally-run financial system, played a crucial role in mobilising domestic investible resources in East Asia. Financial sector reforms promoted by OECD countries played a key role here. Most of the South Asian countries have opened up their financial market with portfolio investors from abroad being encouraged to invest in the equity market, and foreign banks being allowed to operate in domestic financial market. Burden of bad debt, high interest rate, weak prudential management, lack of real autonomy of central banks, absence of effective bankruptcy laws and absence of professionally-run independent oversight institutions create an environment where investors’ confidence is lost, savings are difficult to mobilise and funds can not be channelised to productive investment. East Asia’s experience draws attention to the critical importance of financial sector reforms for the growth of an economy and the role that institutions play in successful implementation of the reforms.

In many of the South Asian countries, the first generation of reforms (fiscal, financial, banking liberalisation) failed to attain their objectives because the second generation reforms (institutions, oversight bodies) came with a lag. East Asian experience shows that sequencing of reforms is important.

Hadi Soesastro’s analysis points to three phases of aid relationship: the era of engineers (support for large infrastructure), the era of neo-classicals (emphasis on market liberalisation), and the era of social scientists (overriding importance of poverty alleviation).
At present, poverty alleviation is at the centre of macroeconomic policy making in all the countries of South Asia. As a matter of fact, for most of the South Asian countries, design of poverty reduction strategy paper (PRSP) is a prerequisite for receiving ODA from their development partners. Much will depend on availability of additional assistance from OECD countries to implement the targets set in the PRSP. However, for PRSP to succeed it is also crucially important to ensure that OECD support programmes do not undermine domestic ownership over the PRS agenda, a point which is stressed in the paper by Hadi Soesastro.

One of the distinctive features of East Asian experience had been that there was considerable reduction in both absolute and relative poverty. However, even in the context of East Asia, the issue of equity remains a major concern. In view of the current market-driven macroeconomic management in South Asian countries, the need for putting in place risk-reducing mechanisms can not be overemphasised. As Fukasaku points out in his paper, there is a need for more formal mechanisms for managing risks, and protecting the poor and the vulnerable. In view of the emerging disparities, and feeling of exclusion, there is a growing need for putting in place adequate social protection regimes in South Asian countries. This is particularly important in view of the slow pace of reduction in poverty levels and increase in gini index of inequality observed in most of the South Asian countries. East Asian experience shows how important it is to invest in human capital and in education and training in order to ensure growth with equity. Targetted support to Small and Medium Scale Enterprises (SMEs) is crucial in the context of South Asia, and investment in human resources could be an important initiative in this respect. For South Asia it is all the more important in view of the emergence of the services sector as the major growth driver in the new economy, a sector that requires substantive investment in human resources.

Ability to create a conducive environment to attract FDI to the region, and an ability to absorb foreign technology played a crucial role in East Asia. Shujiro Urata’s paper analyses the Trade-FDI Nexus in East Asia in a very informative manner. This was done firstly by way of attracting capital to labour-intensive industries in the initial phase of development, and later on, by way of spill-over to knowledge intensive sectors. As a region with one of the lowest levels of FDI flow (total FDI flow to South Asia was a mere $4.6 billion in 2002), it is important to understand the East Asian experience from two perspectives: from the perspective of incentives and institutions that were put in place to attract inflow of FDI, and also from the perspective of how OECD policies and incentives towards their own potential
investors have encouraged and promoted flow of FDI from the OECD countries to the East Asian countries. Promotion of regional production networks, particularly by Japan, had played an important role in terms of creating an attractive environment for flow of FDI to East Asia. Oftener than not, market access initiatives by OECD countries (for example Japan’s new revised GSP schemes of 2001, and 2003) fail to deliver the expected results because FDI, that would be able to translate potential opportunities into real results on the ground, do not automatically follow market access initiatives; domestic investible resources are also often limited. OECD policies should address this concern of South Asian countries, particularly that of the regional LDCs. It has been proven by now that creation of a conducive policy environment in South Asian countries is not enough for attracting FDI to the region. Fukumari Kimura’s paper brings out this point quite convincingly.

ODA from OECD countries played an important role in implementing the development plans in East Asian countries. What is important for South Asia is that ODA induced investment in East Asia did not crowd-out private sector investment; rather, through its role in infrastructure development and soft areas such as education and skill upgradation and training, it played an important role in mobilising domestic investment and creating opportunities for income generating and employ creating activities. In South Asia, where there is more and more emphasis on private sector’s role, the ability of ODA to be allocated in a manner that attracts more private sector investment has become a crucial factor in economic development.

The second tier of the learning relates to OECD policies to stimulate regional integration in East Asia. One of the major successes of OECD policies in East Asia was to promote policies that encouraged closer economic cooperation amongst countries of the region. It was understood earlier on that (i) there was a need to stimulate intra-regional flow of trade and (ii) that this could be enhanced by promoting both intra-regional as well as extra-regional flow of FDI and (iii) that trade and investment policies must be geared towards strengthened intraregional cooperation. In their analysis Fukasaku and Masahiro Kawai rightly note that initially East Asian exports were mainly destined for OECD markets, and that the issue of greater regional integration received importance only at a later stage. In the context of the newly emerging interest in South Asia to establish bilateral and regional FTAs, it is very necessary that OECD’s policies towards South Asia support greater regional integration. This
is particularly important since it is widely perceived in the region that greater regional integration will enable strengthened global integration of South Asian countries.

It is to be noted that intra-regional flow of trade in South Asia, at 4%, is one of the lowest in the world; intra-regional flow of FDI in South Asia, barring some Indian investment in Nepal, is also almost non-existent. As was mentioned, extra-regional FDI flow to South Asia is low by any standard. In this context, from South Asian perspective it is important that developed countries, through their policies, incentives and institutional support promote flow of investment to the region, and provide incentives to their own investors to go to regions such as South Asia. Japan’s investment policy vis-à-vis East Asia is a case in point. Mention may be made here, for example, of the $30 million euro credit from the European Investment Bank to establish the Lafarge Cement factory in Bangladesh, by using clinker from the Meghalaya state of India. OECD policies will need to address these important concerns of South Asian countries that relate to flow of FDI to the region. Encouraging production and distribution network in East Asia was an important aspect of OECD policies, as is noted in Kimura’s paper.

The third tier of the learning experience relates to OECD policies that were pursued at the global level. Flow of resources to East Asia through multilateral agencies where OECD countries were major players played an important role in East Asia’s economic ascendancy. OECD countries also stimulated exports from East Asia through providing of preferential market access to East Asian goods and services through the various GSP schemes run by OECD members. Cleverly crafted rules of origin (RoO) and preferential access stimulated intra-regional cooperation in East Asia and created locational advantages, and these provided competitive edge to East Asian goods in OECD markets. The role of preferential market access initiatives are becoming increasingly important for South Asia, particularly for the four LDCs. For example, such initiatives as everything but arms (EBA) initiative of the EU are crucial in terms of providing South Asian LDCs a competitive edge in developed country markets; this type of initiatives need to be further extended. For example, after Canada had provided zero-tariff access to Bangladesh in 2002, for exports of Bangladesh’s apparels to the Canadian markets, exports of her apparels shot up by 54% in 2003. For the developing countries it is important what role the developed countries play at the global level, in global institutions such as the WTO, UNCTAD and in the multilateral organisations such as the World Bank and IMF.
East Asia’s experience shows that developing countries stand to benefit most when developed countries’ policies work in tandem at all these levels.

The Need for A New Generation of OECD Policies for South Asia: Beyond the East Asian Experience

It was mentioned at the beginning that global, regional and domestic contexts in which South Asia’s development is taking place today are significantly different from the 1970s and 1980s when East Asia started to undergo the rapid changes that made these countries what they are now. The future OECD policies will have to take into cognisance, and to be built on today’s realities. Whilst there is no doubt that East Asia’s experience of partnership with developed countries remain relevant and educative for South Asia, newly emerging realities are demanding new emphasis, renewed effort in particular areas, and different approaches to this partnership. In some instance this will also require a new generation of policies, particularly in terms of helping South Asian countries in general, and LDCs in particular, towards strengthened global integration of their economies and ensuring that the gains from reforms reach the broad masses, particularly in the rural areas (this is all the more important, as is evidenced by some of the recent election results in the region).

As was mentioned at the outset, this reality is informed by an increasing degree of openness of South Asian economies, an unprecedented pace of globalisation with its attendant challenges and opportunities in the context of which South Asian economies have to exist and compete, a move towards greater regional integration, rising importance of trade in terms of employment, investment and macroeconomic performance, a growing felt need for a greater role of the private sector, the civil society and non-governmental actors in economic governance, increasing role of non-economic factors such as rule of law, independence of judiciary, reduction of corruption and overall good governance and efficient functioning of institutions. The relative importance of the various factors that inform South Asia’s current development practice have changed over time, and the new generation of developed country policies have to be sensitive to the emerging new demands, and tailor their policies to address the attendant interests and concerns of South Asian countries.

In view of the above, the followings appear to be important in terms of making OECD support more effective for the South Asian countries in the current context.
South Asia has the largest concentration of poor people in the world. OECD policies need to be more focused, and the priorities need to be redesigned accordingly in view of the overriding importance of attaining the PRSP targets and MDG goals in South Asia in particular and developing world in general. Developed countries, as a community, have pledged their support towards these two objectives and OECD policies must be informed by this pledge. It is important that OECD countries give positive response to the call for devoting 0.7% of their GNP to aid to the developing nations.

In view of the growing importance of trade in South Asian economies, OECD support package needs to give more emphasis on trade related technical assistance. This need to cover such areas as enhancement of human resource capacities through skill upgradation, technology transfer, WTO compliance assurance (standardisation and quality control compliance with SPS-TBT measures, trade facilitation), enhancement of trade related negotiating capacities, trade related knowledge management, strengthening of trade related institutions, and development of trade-related infrastructure.

In the context of the need for sound macroeconomic fundamentals to be translated into higher growth rates, the role of non-economic factors for economic growth is attaining critical importance for countries of South Asia. OECD support in the area of good governance, strengthening of local governments, and improving trade and investment climate are becoming crucial to realising the potentials of higher macroeconomic growth that could ensure distributional justice.

Non-government organisations and civil society groups are playing an important role in the economies of South Asian countries today. They are also likely to play an important role in achieving the goals set by national PRSPs and the MDG, and also ensuring good governance to deliver the outputs. The new generation of OECD policies must support, promote and strengthen these new actors. This message strongly comes out in Hadi Saesatro’s paper. In this context Fukasaku rightly points out the need for greater government-Civil Society Organisation (CSO) partnership to oversee and monitor social protection policies. OECD policies must promote these partnerships, particularly in view of the fact that in South Asia some of the governments are rather reluctant to tolerate greater role of CSOs as service-deliverers.
Policy Support for Regional Integration in South Asia

As was mentioned, South Asia continues to remain one of the least integrated regions in terms of trade exchange, transport and communication connectivity and in the world investment flow. On the other hand we see a renewed realisation, and also effort, towards closer economic cooperation in the region. OECD policies towards South Asia should service the growing needs in the area of enhancement of trade, transport and investment cooperation in the region, exploitation of common natural resources and greater coordination of economic policies. OECD policies should also promote and support greater economic cooperation between East Asia and South Asia through support of such initiatives as the Bangladesh, India, Myanmar, Sri Lanka, Thailand Economic Cooperation (BIMSTEC), and through common exploitation of regional resources such as water, natural gas and energy.

OECD Support for Strengthened Global Integration of South Asia

In view of the evolving global trading regime, OECD policies are important for South Asian countries in several areas:

- There is a realisation amongst the vast majority of people in South Asia that the existing multilateral trading regime has led to, barring a few exceptions, growing marginalisation of the developing countries. In view of this, a renewed effort is required on the part of the OECD countries to take concrete actions in the WTO as regards S&D provisions and implementation related issues. OECD support through autonomous initiatives in the area of market access is of vital interest in terms of ensuring competitive edge of South Asian goods in OECD markets. What is required is global initiatives by the OECD in the WTO. Zero-tariff access for all LDC products to markets of all OECD countries could be an important initiative in this regard. A more developing country-friendly stance in such areas of ongoing negotiations in the WTO on Agreement on Agriculture, Singapore Issues, services, investment and other areas would allow South Asian countries, as also other developing countries, to better exploit their comparative advantages and safeguard their interests in the global trading system. Such an initiative is also critically important in the context of the phase-out of MFA in January, 2005 and its potentially negative consequence for the RMG sector of some of the South Asian countries such as Bangladesh and Nepal. Developed
countries should also help these countries to draw up contingency plans to address the attendant concerns.

An important issue for south Asian countries relates to the opening of the labour market in the developed countries (GATS Mode-4: Temporary Movement of Natural Persons). Flow of remittance remains a vital component of foreign exchange earnings for almost all the countries of South Asia, contributing significantly towards absorption of new entrants to the labour market, poverty alleviation, replenishment of forex reserves, and import payment capacity. In countries such as Bangladesh, about 10 per cent of annual entrants to labour market travel abroad for jobs. Their contribution is equivalent to annual net export of RMG, and twice that of the ODA disbursed annually. Till now, most of this labour had been absorbed by the Middle-East countries, and share of developed countries had not been very significant. In view of interests of the developing countries, renewed attention needs to be given to the issue of opening up larger segment of the OECD labour market for allowing movement of labour from these countries under GATS Mode-4. In this context, OECD support for raising quality of education and skill upgradation is all the more important, since as Yongyuth Chalamwong’s paper points out, a large part of the potential openings in the OECD job market will be for highly skilled labour and professionals.

OECD support should also be particularly targeted in helping South Asian countries build the required supply side capacities towards strengthened global integration of the regional countries. Future OECD policies should also ensure a more proactive support to global initiatives such as Integrated Framework Initiative and JITAP in the WTO, and in helping South Asian LDCs to participate effectively in the Dispute Settlement Mechanisms in the WTO through support in the area of legal aid.

- There is a need for OECD countries to demonstrate more sensitivity as regards the implications of their policies towards other developing countries which work against some of the other developing countries and LDCs. At the level of regional policies pursued by developed countries: RTAs and trade initiatives such as NAFTA, US-Vietnam FTA, AGOA, Middle-East Trade and Engagement Act and CBI have excluded a number of developing countries and LDCs, many of which are in South
Asia. Preferential Market Access provided under these initiatives have tended to undermine the trade interest of South Asian countries. Whilst, it is the prerogative of developed countries to undertake such measures, there is a need on the part of OECD countries to be sensitive to the growing concerns of these countries in this regard and take additional compensatory measures to mitigate the adverse effects. A case in point here is the US initiative to provide zero-tariff access to apparels exported by African and Caribbean countries which include most of the LDCs but exclude Asia-Pacific LDCs such as Bangladesh and Nepal. Some of the countries which had been successful in the area of debt servicing such as Bangladesh had been ‘penalised’ for their success by being excluded from debt unburdening initiatives such as the HIPC. In some instances conflicting signals from developed countries also confuse South Asian countries. For example, in Bangladesh, USA is asking the government to allow Trade Union rights to workers in the EPZ and threatening to withdraw GSP facilities if this is not done; on the other hand Japan and South Korea are not happy with this, fearing disruption of production in their factories and are threatening to withdraw investment if this is done. Such conflicting signals are perceived in the region as lack of coherence in OECD policies towards South Asia. As Hadi Soesastro rightly points out, it is important that a coherent OECD policy must be informed by a holistic approach that views aid, trade and FDI as an integral part of any strategic assistance package designed for the developing countries. South Asia can only benefit from such an approach.

**Concluding Remarks**

Each of the background papers prepared for presentation at the *Expert’s Seminar* organised by the OECD brings a wealth of analyses and information as regards OECD development policies in East Asia. The upshot of the above discussion was to highlight, based on the discourse presented in these papers, the lessons that South Asia could learn from East Asia’s developmental experience. The intention was also to stress that contemporary South Asia is facing many new problems and challenges which call for a new focus and a renewed effort on the part of their development partners in the OECD.