

Regional Cooperation in South Asia

Bangladesh Perspective¹

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1. INTRODUCTION

South Asia covers 3 percent of the world's land surface, contains 22 percent of the world's population, and shares 1 percent of the world's trade. The region is characterized by poverty, representing half of the world's poor, and frequently suffers from devastating natural calamities, border conflicts, and ethnic and religious disturbances.

South Asian countries have not been major players in the world trade. The inability of the member countries to diversify their exports structure in favor of more modern products has resulted in slower export growth and lower value realization. However, because of the quota system in the readymade garments (RMG) sector, and preferential market access resulting from bilateral treaties, the least developed countries (LDCs) have been able to maintain moderate growth.

The irreversible process of globalization has confronted the developing countries with many daunting challenges. The flow of development assistance is stagnating and is increasingly being linked to the promotion

of the donor countries' trade objectives. This has triggered an intense competition for foreign direct investment (FDI) among developing countries. Under the Uruguay Round, rules governing intellectual property rights, subsidies, countervailing duties, trade-related investment, environment, and health issues would eventually be the same for industrial and developing countries. Therefore, the basic challenge facing South Asian Countries in this new regime is raising their economies' efficiency and international competitiveness and implementing a "pro-poor" growth strategy to tackle pervasive poverty. One of the ways to meet this challenge is to overcome regional apprehensions and constraints and move toward regional trade liberalization, cooperation in investment, and economic integration, which will pave the way for the most efficient use of the region's resources through additional economies of scale, value addition, employment, and diffusion of technology.

Although it is widely believed that any increase in intraregional trade as a direct result of liberalization will be limited in South Asia, the indirect effects of intraregional trade liberalization are likely to be significant. The economies of South Asia are likely to be substantially impacted by lower intraregional transport and transaction costs; more favorable terms of trade; economies of scale in investment, production, and distribution; higher efficiency and technical competence from increased intraregional competition and cooperation; more active investment from outside the region because of an expanded market; and liberalization of capital and human resource movement. Sustained regional integration can transform South Asia into a major economic growth zone of the world by the mid-twenty-first century, as the region has the largest population concentration in the world with huge opportunities for economic growth because of the unsatisfied needs of the large number of poor people in the region.

2. OPPORTUNITIES FOR ENHANCED REGIONAL INTEGRATION

Economists and business leaders have divergent opinions about the benefits of the economic integration of South Asian countries. Many believe that most preconditions needed to enhance the probability of a successful free trade area (FTA) are not present and South Asian countries would be better off liberalizing unilaterally and trying to tie up with established blocs such as the North American Free Trade Agreement (NAFTA) or the

European Union. Another argument put forward in favor of moving to an FTA is about the cost of non-cooperation, which is, lost opportunities. Opinions vary widely regarding the distribution of gains among member countries. Most experts believe that although unilateral liberalization offers greater benefit, regional cooperation is likely to prove beneficial in a wide range of areas. Regional Integration will create exciting opportunities for exploiting synergies based on comparative advantages, investment in cross-border infrastructure projects, and coordinated programs to address challenges in governance, environment, social development, and other fields that spill over national boundaries.

A most recent example of cross-border investment is the US\$255 million Lafarge Surma Cement plant sponsored by the Lafarge Group of France. The plant, which is due to be commissioned in 2005, is located at Chatak, Sylhet, in Bangladesh; the main source of raw material is a limestone quarry in Meghalaya, north-east of India, connected by a 17 km cross-border long-belt conveyer. The project is expected to create about 400 jobs in Sylhet and about 70 jobs in Meghalaya.

The region is locked into a set of common problems that can be resolved only through regional cooperation. For example, most of Nepal's rivers flow into Uttar Pradesh and Bihar in India. Indeed the tributaries in Nepal that feed the Ganges join up in Uttar Pradesh and Bihar before entering West Bengal and Bangladesh. Therefore, in harnessing the waters of the Ganges, India needs Nepal's active participation. Similarly, any program of water management by Bangladesh, whether for flood control or irrigation, will not be feasible without the ultimate collaboration of the upper riparian states of India and Nepal. With proper planning and investment, the water resources of the region could well be used for the generation of electricity, which could meet the energy needs of the entire South Asia region.

Another important potential resource in the region comes from the huge reserve of coal in Assam, Bihar, Orissa, and West Bengal. A large reserve of natural gas is found in Bangladesh and the north-eastern part of India.

Fifty years ago, the transport networks of South Asia were one of the most integrated in the developing world, but these were disrupted following the partition of the region into seven independent states. At present, highways, waterways, and rail links that traverse each country stop at national borders and thus are unable to service the region. The rebuilding of this physical infrastructure has been constrained by security-driven apprehensions, which the countries found impelling enough to sacrifice mutual economic benefits.

In this process of rebuilding the transport infrastructure of the eastern region of South Asia, Bangladesh emerges as the hub around which reconstruction of land links could take place. Bangladesh once had a major highway linking mainland India with both north Bengal and north-east India. The development of land alignments, which would provide north-east India access to the sea through the Bay of Bengal and integrate its market with Bangladesh, could establish this undeveloped region as a staging post for economic links within South Asia and with landlocked south-west China. The Chittagong port could be built up as the nodal point for handling the region's trade.

There are several sectors in which Bangladesh and India can move from a competitive relationship toward a rediscovery of lost complementarity. Jute is one example, and RMG of Bangladesh and the textile industry of India is another. The phasing out of the textile quota system in 2005 will leave South Asian exports more vulnerable to competition from other developing countries. The European Union has allowed Bangladesh special market access, if its raw material is sourced regionally under a regional accumulation system. In the case of Bangladesh, only 65 percent of total exports to the European Union can access the Generalized System of Preferences (GSP) because of noncompliance with rules of origin. With regional accumulation, it can increase to 90 percent. If Bangladesh accepts regional accumulation, there could be a significant increase in intraregional trade. Unfortunately, as of early 2009, the powerful textile manufacturing lobby in Bangladesh has prevailed on the government not to accept regional accumulation.

The Rakhine state of western Myanmar bordering Bangladesh has a single patch of bamboo forest stretching over 7,000 square kilometers and producing 2.2 million tons of a single species of bamboo equivalent to 800,000 metric tons of pulp, which could support the paper industry in Bangladesh. Marine resources on the Myanmar side of the border could be collectively developed and processed on the Bangladesh side of the border where facilities exist for fish processing. The vast limestone deposit in the Rakhine state can provide raw materials for the joint venture cement clinkers factory in Myanmar with a ready market in Bangladesh.

Tourism has remained untapped in the region, attracting less than 1 percent of the international tourist arrivals, although the cultural and natural riches of the region are beyond dispute. Whether it is ecotourism, religious tourism, or adventure tourism, the region has a spectacular variety of tourism to offer.

3. OBSTACLES TO REGIONAL INTEGRATION

Despite the opportunities, progress in achieving regional cooperation in South Asia has been at best modest because of a host of economic and political factors. Although there is substantial informal trading, official trade among South Asian countries accounts for only 5 percent of the total trade volume, and intraregional investment is only 1 percent of the total investment. In comparison, intratrade in NAFTA is 54.6 percent, in the European Union it is 63.4 percent, and in the Association of Southeast Asian Nations (ASEAN) it is 22.2 percent. In terms of trade openness, South Asian countries are not as open as their counterparts in other regions of the world such as ASEAN. On average, trade (both exports and imports) equals less than 30 percent of the gross domestic product (GDP) in the South Asian region compared with more than 75 percent for ASEAN.

On the economic side, the main inhibiting factor has been the competitive rather than complementary nature of products. The exports of South Asian countries, with the exception of India, are highly concentrated. The countries mainly export labor-intensive products, such as textiles and agricultural produce, and import petroleum and capital-intensive goods. Regional trade has not taken off perhaps because, until the late 1980s, all the countries in the region had been pursuing import substitution policies aimed at promoting domestic industries that bred privilege and rent seeking, and fostered rampant corruption and the growth of unofficial cross-border trade. In addition, low growth and demand within the region, reliance on industrial countries for capital finance and purchase credits, and inherited mutual suspicion have resulted in an extraregional pattern of trade. Efforts for integration are further impeded by the poor state of infrastructure; a low savings rate; endemic balance-of-payments problems; a rapidly growing labor force; inefficient state-owned enterprises; shallow financial markets; poor governance; low labor productivity; a poor network of complementary industries and services; complex and opaque regulatory, fiscal and legal conditions; paratariff and nontariff barriers; regulated investment regimes; the slow implementation of trade and economic reforms; a lack of information and business contacts; and technological backwardness. Other reasons for low intraregional trade and investment include widely varying FDI policies, the absence of any cross-border investment moves from within the region, the absence of any bilateral and multilateral investment guarantees for intra-SAARC (South Asian Association for Regional Cooperation) investment, the limitation in foreign

ownership, the absence of support from financial institutions for intra-SAARC investment, and transit problems to the landlocked areas of the region.

The lack of political will is considered to be the major hindrance to the success of regional integration. The tension between India and Pakistan, distorted perception of national interest and dictations of so-called security, and to a lesser degree, distrust of India by her smaller neighbors, and the chronic and huge trade imbalance with India have created an atmosphere that is not conducive to regional cooperation. Bias against regional partners is perhaps inborn in the government machineries of the region that have thus far monopolized the decision-making process and literally kept the public sector alienated from mainstream economic participation. Another important missing ingredient is a shared perception of common benefit—all the members must feel they are sharing the costs and benefits of the cooperation equally. India's economic preponderance and comparative advantage in a wide range of products has resulted in asymmetric trade relations with her neighbors, further hindering regional integration. India accounts for more than 80 percent of South Asia's combined GDP, population, and trade. Therefore, as the predominant economic force, India must respond through proactive leadership and demonstrate early harvest and goodwill to encourage the smaller partners and dispel historic suspicions. If, for example, we examine the Indo-Bangladesh relationship, we can readily identify several economic issues that are hindering cooperation.

India accounts for almost half of Bangladesh's trade deficit. Yet Bangladeshi exports have often faced various types of nontariff and paratariff barriers in India. In the famous case of lead battery exports, Bangladesh has gone to the Dispute Settlement Board of the World Trade Organization (WTO) to argue against India's imposition of antidumping measures. India allowed nonreciprocal duty-free access to goods manufactured in Nepal and Bhutan, but it has pursued restrictive trade policy relations with Bangladesh with various barriers to trade.

North-east India shares 84 percent of its common border with Bangladesh. Bangladesh is the natural hinterland. Yet Bangladeshi products, particularly agro processed items are subject to about 60 percent customs duty, an additional customs duty, and a surcharge. In addition, there are many nontariff barriers and limited letter of credit-opening facilities in the north-east. This has frustrated Bangladeshi exporters who argue that, if India is allowed transit facilities, this market may be lost completely by Bangladesh. Bangladesh, on the other hand, has imposed

restrictions on certain importable items from India in terms of specified entry points.

India's recent proposed project to link 37 major rivers, including the Ganges and the Brahmaputra, and divert their flow from north-east India to its water-deficit southeast area has caused great concern in Bangladesh. If implemented, this scheme will deprive Bangladesh of its fair share of water. Bangladesh depends on the Ganges and Brahmaputra for 85 percent of its dry-season surface water. If the flow of these rivers stops because of the river-linking project, seawater will gradually fill southern rivers, increasing salinity and reducing fertility.

India has been inflexible thus far in relaxing the value-addition criteria of its rules of origin. It fears that in a free trade regime, Chinese and Thai products will enter Bangladesh, Nepal, and Bhutan and be re-exported to India at zero tariff.

4. PROGRESS OF REGIONAL COOPERATION

The global trend toward free trade and the formation of intraregional blocs spurred South Asia into action and, in 1985, SAARC was formed by seven South Asian countries—Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka—as a forum for the discussion of intraregional issues, particularly the improvement of relations between the very large India and her smaller neighbors. In 1995, the SAARC Preferential Trading Agreement (SAPTA) was inaugurated for bilateral reductions in tariffs and nontariff barriers on specified commodities on a reciprocal basis, but with special treatment given to the LDCs. The eventual objective was for SAPTA to become, by 2001, a South Asian Free Trade Agreement (SAFTA) based on multilateral tariff reductions. But SAARC had been brought to a standstill because of worsening relations between India and Pakistan, caused by the nuclear tests conducted in 1998 and the Kashmir dispute in 1999. In the meantime, SAPTA failed to yield the desired benefits to its members, particularly the LDCs, for the following reasons:

- The tariff cuts were not deep enough.
- The actively traded goods were not given the tariff preferences.
- Modalities of the removal of nontariff and paratariff barriers were not well articulated in the agreements.
- The rules of origin criteria acted as an impediment.

The slow progress of the SAARC forum prompted the members to pursue bilateral and other regional and sub-regional groupings centered primarily on India. India concluded a bilateral FTA with Nepal, Bhutan, and Sri Lanka. Discussions are in progress for similar agreements with Maldives and Bangladesh. At the same time, Bangladesh is also discussing a bilateral FTA with Sri Lanka and Pakistan. In 1997, the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) was formed to foster socioeconomic cooperation among Bangladesh, India, Sri Lanka, and Thailand. The principles are contained in the “Bangkok Declaration.” In 1997, Myanmar was admitted into BIMSTEC and earlier this year Nepal and Bhutan also joined the bloc. There were two other initiatives known as the South Asian Growth Quadrangle (SAGQ), comprising Bangladesh, Nepal, Bhutan, and parts of India, and the Kunming Initiative. In 2000, the Asian Development Bank (ADB) under a technical assistance program established the South Asia Business Forum under the South Asia Sub-Regional Economic Cooperation (SASEC) at the request of the participating countries to support the official-level SAGQ initiative in light of the successful Greater Mekong Sub-region (GMS) cooperation. The Kunming Initiative envisages integrating resource-rich areas of the Yunan province of China, northern Myanmar, north-east India, Bangladesh, Nepal, and Bhutan into an Asian communication network. The areas would be interlinked with the networks of west and Central Asia as well as Europe, with the potential for Bangladesh to emerge as a hub.

Two recent developments have rekindled hopes for the acceleration of regional cooperation. Following improvement in the relationship between India and Pakistan, the seven member countries of SAARC signed an FTA at the Islamabad Summit in January 2004 to go into effect from 1 January 2006. The second development was the signing of an FTA by the seven BIMSTEC members.

The Islamabad summit had achieved consensus on the following:

- Framework agreement on SAFTA.
- Social charter on poverty reduction.
- A common pact against terrorism.
- Communalities in other areas like environment, energy, and telecommunications.

The SAFTA agreement will be implemented on the basis of the following principles and mechanisms:

- Modalities of tariff reduction.
- Rules of origin.
- Negative list.
- Elimination of nontariff and paratariff barriers on the movement of goods.
- Safeguards.
- Dispute settlement mechanism.
- Revenue loss.
- Special measures for LDCs.

5. STEPS FOR ENHANCED REGIONAL INTEGRATION

To move toward successful integration, the sequencing of actions is crucially important. The South Asian region should develop its own short-, medium-, and long-term strategies for economic integration. Each stage should be implemented effectively before moving on to the next in order to build a sound foundation for progress. In this context, the development of the European Union may be studied, which is considered to be the most advanced model for regional grouping. European integration evolved over four stages:

1. First, a preferential free trade regime was developed in which member countries reduced or eliminated tariff and nontariff barriers among them.
2. Second, a Customs Union created a common external tariff so that import duties were the same for each member country.
3. Third, the Economic Union was formed, which further integrated the market, eventually leading to a single market.
4. Fourth, a monetary union was established in which the national currencies of the member countries were replaced by a single currency.

South Asian countries need to address the following key issues, however, to move toward successful cooperation.

5.1 Political Environment

The political environment needs to be improved by the regional governments and political leaders. Political fragility makes it difficult for governments to take initiative, which opposition parties can exploit. The

governments, private sector, academia, professionals, and social sector organizations have to work in unison.

5.2 Complementarities

A careful identification of areas in which South Asian countries have comparative advantage and greater potential for growth based on sound economic ground is required, along with a strategy for cooperation focusing on intra-SAARC trade, joint ventures, and third country exports. A comprehensive investment survey with a view toward identifying the production capabilities and export-promoting investment projects must be given priority for any integrated approach to the investment regime in South Asia. Such a survey should examine the capacities, production and supply constraints, price competitiveness, problems of specification, and design and level of technology in the selected areas. Thus, the creation of a single market in the region through cooperation in investment and trade liberalization would function as the driving forces for sectoral and structural adjustments in agriculture and industry and between the public and private sector through a reallocation of resources, which would pave the way for greater integration of the region into the global economy.

5.3 Trade Reform and Facilitations

Trade reform and facilitations require complementary policies such as a regulatory framework, improved governance, stable law and order, reduced corruption, upgraded infrastructure, and an improved overall investment climate. To achieve these reforms, the South Asian government and the private sectors have to work together. According to a Canadian government research tariff, reductions from the WTO Uruguay Round of trade negotiations are likely to be worth around 2 percent of world trade. By comparison, the potential gains from trade facilitation reform are likely to be worth some 0.66 percent of world trade. In South Asia, the potential gains are expected to be much greater, as the system is shackled by excessive paperwork, discretionary powers of the bureaucrats, and various bottlenecks. The burden of such inefficiencies falls more heavily on smaller businesses, often 30 percent to 40 percent higher than larger firms. As tariff and nontariff barriers come down, efficiency in trade facilitation will become one of the key factors for determining competitiveness.

The following areas of reform and facilitation are necessary for the integration of the economies:

- Standardize basic customs nomenclature regulations, documentation, and clearing procedures. Implement the progressive harmonization of product safety and technical standards, reciprocal recognition to tests and accreditation of testing laboratories of member countries, and certifications of products. Divergent national or regional standards can create technical barriers to trade even when there is political agreement to do away with trade restrictions. Therefore, international standards can create a level playing field for all competitors.
- Create customs cooperation to resolve disputes at customs entry points, simplification of import licensing, and banking procedures for import financing.
- Prevent the sizeable amount of unofficial trade flows from taking place across national boundaries of South Asian countries despite the liberalization of their respective trade regimes. To bring the unofficial trade into the official channel, policy interventions are required both in terms of bringing down tariff and nontariff barriers, removing policy distortions, and creating a positive and facilitating environment for the promotion of trade.
- Discourage countries from monopolizing trade through state-owned trading organizations. Instead, greater participation by the private sector should be encouraged. However, state trading companies may be employed usefully for promoting intraregional trading in specific areas.
- Create transit facilities to promote trade with landlocked members.
- Set up food-testing facilities at borders and create more entry points for quarantine checks.
- Pursue agreement on rail links to operate inland container depots.
- Develop infrastructure at load crossing stations (checkpoints) through which trade takes place, such as approach, roads, bridges, telegram facilities, electricity connections, weighbridges, customs offices, and warehouses.
- Simplify the preshipment inspection system.
- Obtain agreement to facilitate the movement of vehicles up to transshipment points at land ports.
- Facilitate the movement of business professionals for a long duration, with the creation of at least a 1-year multiple visa.
- Exchange information on products and services, market practices, and intelligence.

5.4 Transport

For South Asia, the crucial transport links to be industrial would be along the alignment of Asia Highway (AH). The AH network is a component of the Asian Land Transportation Infrastructure Development (ALTID) project developed by the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), which also includes the Trans-Asian Railway (TAR) project, including measures for the facilitation of land transportation. The route criteria for ALTID projects include capital-to-capital links, connection to main industrial and agricultural centers and growth zones, connection to major sea and river ports, and connection to major inland container terminals and depots.

In recent years, China has upgraded the old Burma road between Kunming and Myanmar as part of its association with the AH. The link between Kunming and the Bay of Bengal is 5,800 kms shorter than Yunan's link with the nearest Chinese port at Shanghai or China's pacific coast. The Jamuna bridge in Bangladesh would make it possible for the AH to provide uninterrupted travel between Bangladesh and Calais routed through India, Pakistan, and either into Central Asia or through West Asia into Europe. At the same time, the bridge could establish a link between Nepal and Bhutan through an unbroken land route to the port of Chittagong, which may emerge as a far cheaper alternate route to Kolkata–Haldia in India for Nepal and Bhutan. For a long time, India has denied transit facilities to Nepal and Bhutan for sending their goods overseas through Bangladesh, and Bangladesh has denied India transit for the movement of its goods to and from north-east India. If these barriers are removed, it would enable India to send goods to its north-eastern region at a fraction of the present costs, while Bangladesh exports could penetrate deeper into the Nepalese and Indian north-eastern areas as well as to the mainland markets. Bangladesh could benefit from substantial freight and port charges from Chittagong and Mongla ports providing access to Indian and Nepalese exports. India and Nepal may participate in the capacity and infrastructure development of Chittagong and Mongla ports. It is estimated that this integration of the transport network alone would increase intra-SAARC trade by three times.

Western Myanmar, bordering Bangladesh, is separated from the rest of Myanmar by the Arakan Mountain range. The hinterland of the Chittagong port, therefore, could well be stretched up to the foot of the Arakan Yoma. The road that once linked Chittagong and Akyab is now called Arakan road. The rehabilitation of this road will help reestablish the

old surface link between Ghumdhum on the Bangladesh side and Tumbro on the Myanmar side, the traditional trade route that could eventually be connected with the AH that links up with Southeast Asia. The proposal to build a bridge over the Palk Strait stretching 27 kms between Talaimenhar in Sri Lanka and Dhanuskodi, Tamil Nadu, in India, will complete the connection of the BIMSTEC region.

To ensure productive and sustainable cooperation in the transport sector, the member countries have to ensure appropriate institutional arrangement for customs clearance, border crossing, documentation, payment mechanism, financial services, cost-sharing arrangements, pricing, traffic discipline, and safety and dispute settlement procedures.

5.5 Port

Because of the lack of investment and modernization, and unhealthy trade unionism, the Chittagong port has become costly, inefficient, and technologically outdated. For example, a containership turnaround time in Chittagong is five to six days against only one to two days in Bangkok and Singapore, and the container charges are double the charges in other neighboring countries. The port now requires massive infrastructure development, including deepwater facilities and an enhanced capacity to handle growing containerized traffic and complete automation of its services. As the region integrates, the throughput at Chittagong port is estimated to increase at least four times over the next two decades.

5.6 Energy

Initiatives need to be taken for the formulation of plans to develop hydro, gas, and coal-based power generation, and to establish a regional power grid. Although tremendous potential exists for power generation, most of the countries are faced with power shortages and rising demand. In Bangladesh, only 20 percent of the population has access to electricity and about 10 percent to natural gas. Laws and regulations relating to cross-border energy trade, pricing, and contracts needs to be harmonized. This would enable member countries to meet rising demands for energy for both consumer and industrial use in a more cost-effective manner. Technology is integrating the energy sector around the world. Therefore, the South Asia region should develop its own strategy and capability to deal with multinational energy corporations from a position of strength.

5.7 Water Resources

An intergovernmental task force should formulate plans for the comprehensive development of water resources in the Ganges–Brahmaputra–Meghna river basin for flood management, irrigation, water transport, and electricity generation.

5.8 Telecommunication

The telecommunication technology of the member countries could be harmonized for the socioeconomic advancement of the region through the establishment of infrastructure and human resource development, and the reduction of intraregional telecom tariffs, cellular roaming, and mutual recognition arrangements. Production and consumption areas of the region should be connected by telecom network. For the rapid development of the telecom sector, a level playing field has to be created between basic infrastructure and service companies, and between wholesale and retail Internet providers. A regional Internet exchange should be created to facilitate more efficient traffic flows in the region and provide faster access to Web sites. Establishing a gateway within the South Asian region will save the internal traffic of the region from being routed through Singapore or other countries outside the region. The region's e-commerce will develop the skills, expertise, logistics, and solutions that would open access to the goods and services of the region in the global market.

5.9 Investment

Despite a potentially large market, cheap labor, huge resources, and considerable progress in the liberalization of the economies, the SAARC countries have not been able to attract significant foreign investment. The SAARC members' share of total inward FDI into developing countries in 2000 was only 1.5 percent, most of which went to India.

According to balance-of-payment accounts, the FDI-to-GDP ratio of Bangladesh was around 0.5 percent in the fiscal year (FY) 1999, the highest FDI receiving year. Bangladesh has poor political ratings and ranked 34th in Asian countries in term of country risk profile. The level of intra-SAARC investment is also dismal.

Investment cooperation is an essential companion to the liberalization of trade because it is with the intraregional investment that the economies

of South Asia can achieve true industrial and market integration. The following steps may be taken to promote FDI into South Asia and to encourage intra-SAARC investment:

- Set up a center to gather information and analytical work, and to monitor investment activities and potential.
- Monitor and evaluate the present status of FDI and its impact on the region's economy and sociopolitical development.
- Identify different categories of investment, including infrastructure, labor, and capital-intensive sectors, state-owned enterprises, and agro-based industries, and at the same time, examine factors underpinning the mismatch between potential and revealed performance of member countries in the area of FDI relating to these sectors.
- Pool experience across member countries and its comparison with other regions to reach a consensus on the best policy practices.
- Analyze multilateral agreements on foreign investment and competition policy and its impact on the member countries to evolve a regional position.
- Synchronize an economic reforms program of the member countries to ensure policy predictability and consistency of their investment policies.
- Harmonize investment policy practices and incentives to stop a "race to the bottom" when competing for incentives.
- Finalize regional investment and protection agreements as well as avoid a double taxation agreement.
- Enhance effectiveness of FDI institutions, such as Investment Promotion Boards, with coordination between regional and international institutions.
- Identify mechanisms and best practices to enhance efforts for strategic partnerships between the government and private sector.
- Strengthen local technology acquisition capability.
- Adopt a legally binding code of conduct for a regional joint venture to ensure rights of the host country and investors, as well as to establish a standard of accepted practice to generate confidence in regional cooperation in investment, including a dispute settlement mechanism.
- Simplify entry and exit for investment, which will act as an important incentive, especially for portfolio investors financing regional projects.
- Grant fast track approval for regional projects.

- Form a Regional Development Bank that could draw on the resources of the regions' existing development finance institutions to promote regional joint ventures.
- Abolish, in the long term, all barriers to intraregional investment by allowing free flow of capital throughout the region, including the repatriation of profits; this will greatly facilitate regional investment.

5.10 Capital Market

Without a strong and supportive capital market in the region, the industrial and trading development cannot be sustained. To this end, the South Asian Federation of Exchanges has been formed. Coordinated steps are required to be taken in following areas:

- Facilitate cross-border security trading; a harmonized network is required for trading, clearing, and a settlement system.
- Mobilize and diversify SAARC investors and the market base.
- Attract increased foreign institutional investors.
- Harmonize listing rules and best business practices in capital markets to allow free investment among stock members in the region and to set up a common stock exchange within the region.
- Coordinate accounting bodies and harmonize accounting standards in line with international standards, including financial disclosures and statements.
- Establish a South Asian Security Exchange Commission and codification of securities laws.
- Ensure that banking systems in member countries are interconnected and exchange rates are harmonized.
- Harmonize corporate governance practices, ethics, concern for the environment, and commitment to regional and social responsibilities.
- Move toward unified currency systems and establish a regional apex bank.

Urgent reforms are necessary to facilitate the deepening of capital markets in the member countries so that they can play a role in financing private sector participation in infrastructure projects on a build–own–operate (BOO) or build–operate–transfer (BOT) basis. The Bangladesh financial market is small and dominated by the banking system. The

capital market is underdeveloped. The combined market capitalization of the two stock exchanges in Dhaka and Chittagong is only about 2.4 percent of GDP. The setting up of a regional financial center at an appropriate location in the region will facilitate banking and insurance, other financial services, and shipping for intraregional investment as well as identification of lucrative investment opportunities for both FDI and portfolio investment.

5.11 Tourism

The development of tourism can yield substantial benefit through a multiplier effect. To promote South Asia as a common tourist destination, joint efforts are required in areas such as upgrading infrastructure, improving air linkages, simplifying and harmonizing administrative procedures, and developing human resources and joint marketing. To promote intra-SAARC tourism, the following steps may be taken:

- Open dedicated immigration counters for SAARC nationals at all airports in the region.
- Rationalize airport tax for SAARC nationals.
- Establish uniformity in the visa regime among SAARC countries, including the reduction of visa fees to a reasonable rate.
- Create special airfares and hotel rates for SAARC nationals.

5.12 Human Resource Development

South Asia is characterized by high population growth, which is dependent upon mainly agriculture for their income and employment. A significant effect of rapid population growth is the subsequent explosion in labor force, leading to lower private savings and lower domestic resource mobilization. Poorly developed human resources in the region have led to the scarcity of managerial, entrepreneurial, and technical skills, and the ability to conduct adaptive research is severely constrained.

Therefore, improvement in the quality of human resources through education and vocational training is the key to move toward a knowledge-based economy. It is clear that South Asian economies need to improve their competitiveness by moving away from traditional low-value exports to high-tech products. To achieve this, the region will need to make concerted effort to improve investment in human capital, research, and development. At the same time, they need to enact legislation and set

up institutions to promote innovation and protect intellectual property rights (IPR).

5.13 Environment

Environmentally sound technologies are keys to the long-term sustainability of economic growth. The environmental problems in South Asia are enormous and interrelated. Effective cooperation among the countries is urgently needed to address issues of deforestation and biodiversity loss, cleaner production, waste, and pollution management; to preserve rare species of wildlife and plants; and to avoid fragmentation of the ecosystem that spans national borders. Cooperation can be strengthened by improving the environmental information systems and management capacities.

5.14 Private Sector

The role of the private sector is crucial for the successful economic integration of the region. Through close government and private sector partnerships, the intergovernmental policy framework for the expansion of trade and investment can be implemented. Trade reform and facilitation, market development, infrastructure development, the enforcement of IPR, and conservation of the environment, all require the direct support and participation of the private sector. The private sector has a critical role to play under SAFTA in several areas:

- Certification and management of rules of origin.
- Identification of nontariff and paratariff barriers.
- Preparation of a negative list.
- Monitoring of the FTA.
- Imposition of antidumping, safeguarding, and countervailing duties.
- Dispute settlement procedures.

The national chambers of South Asian countries have already formed the SAARC Chamber of Commerce and Industry (SCCI). It has drawn up a regional framework for arbitration and prepared a draft agreement on the movement of goods and people. It has been trying to bring the South Asian states together on WTO issues through regular programs and has been working on the harmonization of standards and promotion

of investments. Through the Tourism Council, Women Entrepreneurs Council, Construction Council, Tea Council, and ICT Council, SCCI has been trying to bring the South Asian private sector together and enhance cooperation in these important areas. Given the extremely low negotiating powers of the individual member states (except India), it is clear there is a strong case for collective strategy.

In many cases, the advantages given to LDCs of preferential market access are eroded by complicated rules of origin and burdensome sanitary and phytosanitary requirements in the importing countries. National chambers can initiate studies to identify major nontariff measures on regional exports to various global markets and make an assessment of their impact for the national government's consideration. Above all, the private sector in the member countries can mobilize public opinion by removing apprehensions and misgivings with a view of empowering the governments toward accelerating the process of regional integration.

5.15 Multilateral Organizations

The role of multilateral organizations in South Asian regional cooperation has been limited and tentative. One of the reasons could be the unstable relationship between India and Pakistan, which has been hindering and threatening the process. The ADB has taken an initiative for sub-regional cooperation under SASEC.

The signing of SAFTA, however, has now opened up a whole new horizon for multilateral organizations like the World Bank to play an important role in stimulating and promoting regional cooperation over a wide area, including small and medium enterprise (SME) development, regional infrastructure development, skill upgrading, and human resources development.

The region's knowledge and understanding of trade issues are limited. South Asia needs to build capacity and specialization on trade policy, multilateral trade issues, and laws both in the government and private sector. At present, the mechanism for consultation in trade policy among governments and stakeholders in most member countries is weak. The region lacks the capacity to implement the WTO agreement, to understand the texts of agreements and their implications, to negotiate effectively in the increasingly loaded agenda items of WTO, to understand the preferences available and conditions attached thereto, to conduct trade negotiations, to formulate trade policy and strategy, and to monitor and assess the impact

of policies and agreements. At the industrial and agricultural level, almost 90 percent of the entrepreneurs in the region fall into the category of SME. Today, they require new support and new institutions. For example, farmers want soil tests for field-specific fertilizer. Agro processors want advice on packaging, longer shelf life, international product standards, cold chain support, and vitamin fortification.

In the case of Bangladesh, the road network linking Dhaka with the countryside failed to have the multiplier effect on the rural economy. The region needs to develop regional market-based growth centers. All these needs call for innovative alliances between the government, private sector, and nongovernmental organizations. Multilateral organizations can select their own programs in this vast arena to support national and regional efforts for building capacity.

6. CONCLUSION

The SAARC process has so far been “Summit based.” For it to gain momentum and continuity, the implementation process should be diffused among the various stakeholders in the member countries and supporting institutions should be set up urgently. At the same time, it is important that the current rapprochement between India and Pakistan continues to improve in order to sustain the integration process. On the other hand, the proliferation of a regional trade agreement, if not coordinated, may result in the “spaghetti bowl” phenomenon, hindering regional integration. The BIMSTEC FTA, India–Sri Lanka FTA, India–Nepal FTA, India–Bhutan FTA, Bangladesh–Pakistan FTA, and India–Bangladesh FTA can potentially create a chaotic situation if not properly coordinated by the member countries. Following its accession to WTO, China has been liberalizing fast and is expected to capture 10 percent of global trade by 2020, second only to the United States with 12 percent. Already 400 of the fortune 500 companies have a presence in China. It is expected that China’s share of FDI to developing countries will continue to rise, posing significant challenges to other developing economies. This would definitely have a profound impact on the South Asia region if it fails to bring about a significant structural transformation in terms of both production capacity and competitive strength through regional integration at an accelerated pace. As for Bangladesh, regional integration, sub-regional cooperation, or a bilateral FTA provide no panacea for its problems; they can only

create opportunities. For South Asia to take advantage of global trade, it must press ahead with its own agenda of unilateral trade liberalization, institution building, economic reforms, and improved governance.

NOTE

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