**Political economy of regional integration: Where do we stand in South Asia?**

Selim Raihan

The aspiration for deeper regional integration is high on the political agenda of most of the leaders in South Asia. Since the early 1980s, SAARC has been working as an economic and geopolitical organization for South Asian countries with the aim of deeper regional integration and cooperation in areas of economic, trade and other common regional issues. Until now, there have been some achievements. Still, frustration prevails, as actual implementation of agreements often does not match the declared ambitions. The resulting implementation gap is most commonly attributed to the lack of political will and leadership, institutional weaknesses and capacity and resources constraints.

The dominant literature has looked primarily at the narrow economic factors influencing regional integration. However, to have a better and systematic assessment of the factors driving and constraining regional integration, it is important to explore the political economy dimensions. While policy makers and stakeholders are often aware of such political economy dimensions, they are generally discussed only informally or in ad hoc manner. A systematic discussion of the political economy factors around the regional integration agenda can generate a broader awareness among stakeholders that may ultimately lead to more realistic and effective regional policy design and processes.

From a political economy perspective, there could be three interconnected drivers for a deeper regional integration. These are economic drivers, political economy drivers and extra-regional drivers.

The economic drivers include four integration processes: market integration, investment integration, growth integration and policy integration. ‘Market integration’ emphasizes on the integration in trade in goods and services through the removal of tariff and non-tariff restrictions. ‘Growth integration’ is the integration of economic growth processes of the respective countries in a way that growth in one country benefits growth processes in other member countries. The ‘investment integration’ calls for promotion of regional investment and trade nexus.

Finally, the ‘policy integration’ is the harmonization of economic and trade policies of the countries for a deeper regional integration.

However, the aforementioned four integration processes need favorable political economy (PE) drivers. The political-economy perspective considers how various players influence the national and regional decision-making context, and what impact their actions (or lack of action) have on the integration agenda. The first PE driver is the ‘primary institution’ which are the official institutions at the regional level and in respective countries entrusted to carry out the agenda of regional integration. In South Asia, the SAARC Secretariat and relevant ministries in the member countries are such institutions. The second PE driver is the ‘secondary institution’ which are the private sector associations, civil society organizations and media. The third PE driver is the ‘regional public good’ which includes regional infrastructure and the status of regional trade facilitation. In South Asia, status of such ‘regional public good’ is very weak.

‘Structural factor’ is the fourth PE driver which includes historical processes and geographic factors that shape the types of political, economic and socio-cultural institutions. In South Asia, landlockedness of Nepal, Bhutan and Afghanistan, political rivalry between India and Pakistan, and huge differences in the sizes of the countries where India accounts for around 80% of the regional GDP, are such structural factors. The final PE driver is the role of the ‘political elite’. Strong and visionary leaderships are needed from the political elites to eliminate any ‘trust deficit’, which can emerge as a result of a variety of the ‘structural factors’ mentioned above. In South Asia, such ‘trust deficit’ is often highlighted as one of the major barriers for a deeper regional integration.

Finally, the extra-regional drivers include a wide range of global economic and political factors that can have influence over the region. In South Asia, countries are at different levels and with different patterns of integration with the extra-regional drivers. There are now convincing evidences that a deeper regional integration is needed for generating and sustaining economic growth and reducing poverty in South Asia. Intra-regional trade in South Asia has been low, but there are signs of huge potentials. For a deeper market integration in goods, full implementation of SAFTA is needed with emphasis on reduction in the sensitive list and establishing effective mechanisms to deal with the NTMs/NTBs.

Intra-regional services trade and intra-regional investment are also low in South Asia. Promotion of intra-regional investments and attracting extra-regional FDIs in goods and services sectors in general, and energy and infrastructural sectors in particular will be very crucial for South Asia to integrate further. There is a continued need for a greater integration in trade, macro, financial and industrial policies in the region.

A deeper regional integration in South Asia requires clear and visible leadership from the political elites in this region, especially from India, in taking the agenda forward. The political elites have to be convinced and act accordingly to reduce the ‘trust deficit’. Regional institutions, like SAARC Secretariat, have to be institutionally reformed and restructured with much stronger engagements from the respective ministries and relevant organizations of the member countries. Business associations, civil society organizations and media have to pursue the regional integration agenda in South Asia more pro-actively than ever.

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Why should Bangladesh integrate more with East and Southeast Asia?  

Selim Riahan and Sunera Saba Khan

The Bangladesh economy over the past two and half decades has been experiencing steady rise in economic growth rate which has been accompanied by country’s increasing trade-GDP ratio. The economy has become more and more trade-oriented. However, when it comes to integrating with its neighboring countries, there are still large untapped potentials for Bangladesh to gain from such integration. Effective regional integration, through enhanced scope for larger economies of scale and pathway for integration with global and regional value chains, can be a critical tool for Bangladesh to boost its economic growth process. Over the past three decades, regional integration agenda for Bangladesh has focused primarily on integrating with its South Asian neighboring countries. However, there are reasons to believe that Bangladesh can also gain significantly by integrating more with the East Asian countries (China, Japan and South Korea) and Southeast Asian countries (10 ASEAN countries. i.e. Brunei, Myanmar, Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand and Vietnam). Bangladesh government also wants to pursue the “Look East Policy”, and for this it is high time for Bangladesh to begin the quest for expanded trade and investment opportunities with these countries.

The Bangladesh economy is now at a cross-road. Further growth acceleration is essential to make a transition to a higher growth path in order to obtain the upper-middle income country status. The country needs to promote economic diversification, with a simultaneous diversification of the export basket, in order to boost its growth rate. When it comes to export diversification, in terms of both product and destination, integration with East and Southeast Asian countries is very important for Bangladesh. A major reason why integration with East and Southeast Asia will prove to be beneficial for Bangladesh is because East and Southeast Asia are essentially integrated with the Global Value Chains (GVCs) in a number of manufacturing products. Thus, such integration will pave the way for linking Bangladesh with wider GVCs and in diversifying its export basket. In addition, flows of Foreign Direct Investment (FDI) from these countries to Bangladesh will be beneficial for the economy. Among the Southeast Asian countries, Indonesia, Malaysia and Vietnam are large exporters of electronics, machinery and leather goods, primarily driven by the leading multinational companies in the world. Therefore, integration will lead to a number of multinational companies specialized in electronics, machinery and leather goods investing in Bangladesh, thus generating large spill-over benefits to the domestic economy.

<table>
<thead>
<tr>
<th>Country</th>
<th>Import (million US$)</th>
<th>% of total import</th>
<th>Export (million US$)</th>
<th>% of total export</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>11,783.10</td>
<td>29.82</td>
<td>760.85</td>
<td>2.26</td>
</tr>
<tr>
<td>Indonesia</td>
<td>1,377.62</td>
<td>3.49</td>
<td>75.30</td>
<td>0.24</td>
</tr>
<tr>
<td>Japan</td>
<td>1,164.49</td>
<td>2.95</td>
<td>937.26</td>
<td>2.78</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1,229.34</td>
<td>3.11</td>
<td>114.94</td>
<td>0.34</td>
</tr>
<tr>
<td>Philippines</td>
<td>10.14</td>
<td>0.03</td>
<td>21.37</td>
<td>0.06</td>
</tr>
<tr>
<td>Singapore</td>
<td>3,273.44</td>
<td>8.28</td>
<td>132.45</td>
<td>0.39</td>
</tr>
<tr>
<td>South Korea</td>
<td>1,266.21</td>
<td>3.13</td>
<td>345.29</td>
<td>1.02</td>
</tr>
<tr>
<td>Thailand</td>
<td>863.37</td>
<td>2.19</td>
<td>43.52</td>
<td>0.13</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>709.89</td>
<td>1.80</td>
<td>56.01</td>
<td>0.17</td>
</tr>
</tbody>
</table>

Source: IFC trade MAP

Bangladesh is part of BIMSTEC, where two of the Southeast Asian countries (Thailand and Myanmar) are members. However, the BIMSTEC FTA is yet to be implemented.

Table 2 presents the results from simulations using the GTAP model, where we have explored hypothetical scenarios of FTAs between Bangladesh and East and Southeast Asian countries. Under certain assumptions, Bangladesh stands to gain from these FTAs. The largest gain seems to appear from the FTA with both East and Southeast Asian countries.

As far as Bangladesh’s imports from these countries are concerned a major chunk of the imports are used as raw materials and capital machineries in the export industry as well as in the domestic industrial sector. Being the dominant export sector, until now the benefits from such imports have largely been enjoyed by the RMG industry.

The current scenario clearly portrays that Bangladesh exports to East and Southeast Asia are significantly low and immediate initiatives need to be adopted in order to raise export levels. Product diversification followed by market and need assessments in those countries will help Bangladesh accelerate the desired integration process. Bangladesh’s exports to these countries can be improved if Bangladesh engages in exports of non-traditional goods. Bangladesh should actively pursue the agenda of free trade agreements (FTAs) with these countries, either bilaterally or with the region as a whole (i.e. with ASEAN). In this context, it is important to mention that four Southeast Asian countries (Brunei Darussalam, Malaysia, Singapore and Vietnam) are part of the recently signed Trans-Pacific Partnership Agreement (TPP), which is a free trade agreement among nine countries. The other countries are the United States, Australia, Chile, New Zealand and Peru. Furthermore, all 10 ASEAN countries are part of the proposed Regional Comprehensive Economic Partnership (RCEP), which is a free trade agreement (FTA) between these ten countries and the six states with which ASEAN has existing FTAs (Australia, China, India, Japan, South Korea and New Zealand). With the emergence of these mega FTAs, where a large number of East and Southeast Asian countries are involved, there are risks of negative impacts on Bangladesh as Bangladesh is not part of these FTAs. Therefore, it is imperative for Bangladesh to proactively take up the FTA agenda with the East and Southeast Asian countries.

Table 2: Impact on Bangladesh economy due to FTAs with East and Southeast Asian countries

<table>
<thead>
<tr>
<th>Country</th>
<th>FTA with Southeast Asia</th>
<th>FTA with East Asia</th>
<th>FTA with East and Southeast Asia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Welfare (EU in million US$)</td>
<td>224.68</td>
<td>722.91</td>
<td>1245.5</td>
</tr>
<tr>
<td>% change in real GDP</td>
<td>0.33</td>
<td>1.12</td>
<td>3.58</td>
</tr>
<tr>
<td>% change in total exports</td>
<td>3.42</td>
<td>15.06</td>
<td>16.74</td>
</tr>
<tr>
<td>% change in total imports</td>
<td>4.66</td>
<td>16.44</td>
<td>19.36</td>
</tr>
</tbody>
</table>

Source: GTAP simulation results

However, Bangladesh’s level of integration with East and Southeast Asian countries is mixed. Table 1 clearly depicts that Bangladesh’s imports from East and Southeast Asia are significantly higher compared to exports to these regions. With a share of around 30% of total import, China in 2014 was the major source of import for Bangladesh. Singapore also had more than 8% share. Except Philippines, Thailand and Vietnam, all other countries accounted for more than 1 billion US import for Bangladesh. In contrast, Bangladesh’s exports to most of these countries were very low. The largest export was to Japan, which was close to 1 billion US$, followed by export to China by 760 million US$. The lowest export was to Philippines with an amount of only 21.4 million US$.

Bangladesh should also invite much larger FDIs from East and Southeast Asian countries. The current level of total FDI in Bangladesh is very low, and Table 3 shows that FDI inflows from East and Southeast Asia are also low. Bangladesh can immensely benefit from higher FDI inflows from these countries in terms of export diversification and large employment generation. The government’s initiative of setting up special economic zones should give priorities to the leading investors from East and Southeast Asian countries targeting electronics, leather and different processing industries. Finally, enhanced connectivity with China and other Southeast Asian countries through BCIM, Asian highway and Trans-Asian Railway network should be accentuated.

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BIMSTEC is a linkage and an essential platform for stimulating sub-regional cooperation. Sanem interviews first secretary general of BIMSTEC, Ambassador Sunita Nakandala on the prospects of BIMSTEC. Ambassador Nakandala joined the Sri Lankan foreign services in 1988. He was the Ambassador of Sri Lanka to Nepal and Iraq. He also served as the deputy high commissioner at ambassadorial level in chennai and London. Along with his South Asian bilateral experience for more than 20 years, ambassador Nakandala also dealt extensively with regional organizations such as SAARC, BIMSTEC, IORA, ACD, G-15, ESCAP, AMED, WIPO during his career.

Sanem: How would you describe the context of BIMSTEC in comparison to other regional cooperations?

SN: BIMSTEC should be seen as an intermediary. For South Asia, regional cooperation and integration came a bit late. Regional cooperation in South Asia started in 1985, whereas in Southeast Asia, it came into operation in 1965. If you see the formation of ASEAN as a regional entity, there were certain push factors that made the countries collaborate with each other. However, the idea of regional cooperation in Asia goes back to 1950s when Colombo plan was initiated which incorporated South-South cooperation as well as North-South cooperation. With that context, I would say, BIMSTEC is a linkage between South Asia and Southeast Asia and an essential platform for stimulating sub-regional cooperation as well as widening both regions together.

Sanem: How is BIMSTEC different from other regional integration agreements? How can South Asia and Southeast Asia benefit from regional cooperations like BIMSTEC?

SN: If you analyze the founding documents of BIMSTEC, you will see certain differences. In BIMSTEC, we have 14 specific sectors of cooperation. Moreover, you need to understand the historical underpinnings on which the organization was established. The issue of trade liberalization in both SAARC and ASEAN started much later. However, the situation in Asia and the pacific saw a rapid change in trade and investment dynamics over the decades. Within one year of BIMSTEC’s establishment, the organization focused on trade liberalization and decided to go for an FTA. Since 2004, we have been trying to finalize the BIMSTEC FTA. Although we have certain difficulties at the official level, at the political level there is a clear mandate to implement the BIMSTEC FTA as early as possible. In the 3rd BIMSTEC summit held in myanmar in March 2014, all the leaders subscribed to an urgent need to implement the BIMSTEC FTA.

BIMSTEC is different from other regional cooperations in this region due to its unique nature; it is a connecting bridge of cooperation between South Asia and Southeast Asia. Therefore, if we can successfully implement the FTA between BIMSTEC countries, it will lead towards market expansion and rapid regional development. Subsequently, SAARC, BIMSTEC, ASEAN and other regional organizations will act as important building blocks for larger Asia-Pacific market and economic integration process.

Sanem: Tell us about the performance of different sectors. Which sectors are currently receiving priority and which sectors deserve priority?

SN: Trade liberalization is a sensitive issue as you have to protect your domestic producers up to a certain point to help them grow while thinking of integration process. Unfortunately, even the less controversial areas like agriculture, fisheries, culture or environment are lagging behind. Hence, there is an on-going thought to prioritize some of the sectors. There are few areas where we are doing well. For example, we have achieved much progress in counter terrorism and transnational crime. In 2009, the members signed the BIMSTEC convention on suppression of terrorism. In addition, we are ready to sign BIMSTEC convention on mutual legal assistance in criminal matters. We are going to have another meeting in Colombo very soon on combating the financing of terrorism. We have already finalized the transnational grid connectivity MoU which is ready for signature. Recently, ADB has finalized the BIMSTEC Transport Infrastructure Study (BTIS). Now we are looking forward to the working group meeting on transport activity. Last year we had an agriculture expert group meeting to identify scopes of common projects in the region.

Sanem: What is the way forward for BIMSTEC face?

SN: I think the most pressing challenge is accelerating the integration process. If the sectoral cooperation becomes the disciple outcome then it will also trigger the internal dynamics which will further mobilize the integration process. Now, whether we should embrace customs union or move step by step from Preferential Trade Arrangement to Economic and Monetary Union depends on further studies on the issue. We need to take the approach that suits our regional benefit most. We need to bring the members together and discuss the ways and means of enhanced regional cooperation, exchange of ideas, views, technologies, transfer, and methodologies so that sectoral cooperation can proceed. Thereafter, we can see what kind of sectoral cooperation we need in terms of trade creation, trade diversion and enhancement of investment. Therefore, one major challenge for BIMSTEC is whether it should concentrate on FTA or other regional arrangement as most of the countries are having bilateral FTA. In addition, if trade is not attractive enough, interregional investment will not rise.

Sanem: What is the way forward for BIMSTEC?

SN: In terms of way forward, the secretariat cannot provide the blue print as it should be the vision of the member states. Therefore, it is up to the member states to comprehend how they would like to see BIMSTEC in 2030. We are trying to prepare a vision document for the member states. As we are living in 21st century, we need to consider models of integration provided by Viner or Balassa carefully. Markets have changed; growth rates and other macroeconomic variables are now more routinely observed; uncertainty has increased. It is now evident that growth is important for integration process. If growth does not increase, markets will not expand which will further slow down the rise of trade and investment. However, in my opinion, BIMSTEC has a great future; may be not in recent times, but in the long run.

Sanem: Thank you so much for your time.

SN: My pleasure.
Indian Council for Research on International Economic Relations (ICRIER) organized a conference on “Sub Regional Cooperation Between India, Myanmar and Bangladesh” on 30th March 2016 at India Habitat Centre, New Delhi, India. The welcoming remarks were provided by Dr. Rajat Kathuria (Director and CEO, ICRIER) and the keynote address was provided by Dr. Jitendra Singh (Minister of State (IC), Ministry of Development of North Eastern Region). The conference consisted of four sessions including “Economic Cooperation in the Sub Region – India, Bangladesh and Myanmar”, “Trends and Patterns on Trade between India, Myanmar and Bangladesh”, “Economic Cooperation through Connectivity: India, Myanmar and Bangladesh” and “FDI: India, Myanmar and Bangladesh”. From SANEM, Dr. Selim Raihan (Executive Director) and Dr. Farazi Binti Ferdous (Fellow) made presentations on “Issues and Prospects of Bangladesh-India-Myanmar Trade-Investment” during the session titled “Economic Cooperation through Connectivity: India, Myanmar and Bangladesh”.

Copenhagen Consensus Sector Expert Roundtable held in Dhaka

On 16th March 2016, the Copenhagen Consensus Sector Expert Roundtable on “Smart Ways to Accelerate Economic Growth” was held in BRAC Centre Inn, Dhaka. Dr. Selim Raihan (Executive Director, SANEM) and Dr. Farazi Binti Ferdous (Research Fellow, SANEM) presented on “Benefit-Cost Analysis of Trade Liberalization and Trade Facilitation Interventions in Bangladesh”. Dr. Baziul H. Khondker (Chairman, SANEM) also made presentation on “Cost-Benefit Analysis: Strengthening to Tax Base in Bangladesh” and “Cost-Benefit Analysis of Padma Bridge”.

3rd BIMSTEC roundtable meeting held at Dhaka

The 3rd BIMSTEC Roundtable Meeting on “Regional Integration in Asia: Perspectives from China” was held on 21st March, 2016 at BIMSTEC Secretariat, Dhaka. Ambassador Sumith Nakandala (Secretary General of BIMSTEC) provided the introductory remarks. It was followed by a presentation by Dr. Guanghua Wan (Director of Research, Asian Development Bank Institute, Tokyo). The roundtable meeting came to an end with an interactive Question and Answer session. Dr. Farazi Binti Ferdous (Fellow, SANEM) and Ms. Sunera Saba Khan (Research Associate, SANEM) attended the roundtable meeting.

BIMSTEC organized workshop at Dhaka

The BIMSTEC Secretariat and the Ministry of Foreign Affairs co-hosted a workshop on “Trade and Sustainable Development goals” along with the Asian Development Bank Institute during 22-23 March, 2016 at the BIMSTEC Secretariat, Dhaka. Opening remarks was provided by Ambassador Sumith Nakandala (Secretary General, BIMSTEC). The workshop was carried out in four consecutive sessions including Agriculture and Gender, IP Rights and Inclusive Growth, Environment and Health and Other Linkages. All the sessions were followed by a question and answer round. Closing remarks was provided by Ambassador Sumith Nakandala. The workshop came to an end with a visit to the RMG plant in Dhaka. From SANEM, Dr. Farazi Binti Ferdous (Fellow), Md. Wahid Ferdous Ibon (Research Associate) and Md. Jililur Rahman (Research Associate) participated in the workshop.

Consultative meeting held at New Delhi, India

Organized by the Confederation of Indian Industry (CII) and the Commonwealth Secretariat London, a Consultative Meeting of Commonwealth Expert Group on Trade on “Revitalising Global Trade and Multilateralism” was held during 30-31 March, 2016 at Le Meridien Hotel, New Delhi, India. Welcoming remarks were provided by Mr. Chandrajit Banerjee (Director-General, Confederation of Indian Industry (CII)). The meeting consisted of six working sessions and each session was followed by open discussion and Q & A session. Dr. Selim Raihan (Executive Director, SANEM) was a distinguished panelist for the fifth session on “Re-energising Trade Multilateralism: What Role for the Private Sector?”. The other working sessions included “The Slowdown in Global Trade: Implications for Developing Countries”, “Trade Multilateralism Post-Nairobi”, “New Issues in Multilateral Trade Agreements”, “The Paris Climate Deal: What Implications for Trade?” and “Trade and Investment between Commonwealth Members: Leveraging the ‘Commonwealth Effect’”.

Report Launching ceremony held in Dhaka

Asian Centre of Development organized a report launching ceremony on “Garments Workers in Bangladesh: Social Impact of the Garment Industry” on 7th March, 2016 at BRAC Centre Inn, Dhaka. Welcoming address was provided by Dr. Minhaj Mahmud (Senior Asian Fellow). Dr. A.K. Enamul Haque (Director, Asian Centre of Development) provided the keynote presentation. Dr. Selim Raihan (Executive Director, SANEM), Dr. Atonu Rabbani (Director, Economic Research Group), Dr. Khondaker Golam Moazzem (Additional Director, CPD) and Dr. Sayema Haque Bidisha (Associate Professor of Economics, University of Dhaka) were the discussants of the session. From SANEM, Mr. Muhammad Moshiur Rahman (Senior Research Associate) and two Research Associates Ms. Andilip Afroz and Mr. Md. Mahedi Hassan attended the event.

Lecture session held at SANEM

SANEM organized a lecture on “The Economics of Japan’s Stagnation and Liquidity Trap” on 6th March, 2016 at SANEM office, Dhaka. Dr. Tanweer Akram (Director, Global Public Policy and Economics, Corporate Affairs, Thrivent Financial, U.S.A.) conducted this lecture. In his lecture, he discussed about the key features of Japanese economy, Bank of Japan’s recent actions, how can Japan overcome its economic stagnation and liquidity trap, unfavorable demographics of Japan and implications of these demographics etc. SANEM associates, Economics students from University of Dhaka and few young researchers from other organizations attended this lecture session.

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