**South Asia’s greater integration in Asia: A non-Indian perspective**

**Selim Raihan**

The author dedicates this article to Late Dr. Saman Kelegama who inspired us to dream for an integrated South Asia.

Regional integration and cooperation initiative in South Asia started with the formation of the South Asian Association for Regional Cooperation (SAARC) in 1985. SAARC includes Afghanistan, Bangladesh, Bhutan, India, Nepal, the Maldives, Pakistan and Sri Lanka. SAARC countries signed the SAFTA (SAARC Preferential Trading Arrangement) in April 1993 which came into force in December 1995, with the aim of promoting intra-regional trade and economic cooperation within the SAARC region through the exchange of concessions. SAFTA was replaced by the South Asian Free Trade Area (SAFTA) in January 2006, designed to more proactively promote and facilitate intraregional trade among the SAARC members. Besides SAFTA there are three bilateral free trade agreements (FTAs) in South Asia, which are India-Sri Lanka bilateral FTA, India-Bhutan bilateral FTA, and Pakistan-Sri Lanka bilateral FTA. Furthermore, the Bangladesh-Bhutan-India-Nepal (BBIN) is an initiative for a sub-regional cooperation. Despite these, South Asia is one of the least integrated regions in the world. The proportion of within-South Asia trade in the region’s global trade hovers around 5% mark.

There are a number of challenges and tasks ahead for greater integration in South Asia. The presence of the long ‘sensitive lists’, non-tariff barriers (NTBs), lack of trade facilitation and political relations between countries appear to be major barriers to intra-regional trade in South Asia. Furthermore, though liberalization of the services trade is a critical economic agenda, there has not been much progress on the South Asian Agreement on Trade in Services (SATIS) after it was signed in 2010. Also, South Asia remains one of the lowest recipients of Foreign Direct Investment (FDI) among the developing regions, with around 90% of the FDI inflow in South Asia is destined to India. Like trade, intra-regional FDI in South Asia comprises of only less than 5% of the total FDI flow and India is the dominant investor within the region. From a non-Indian and political economy perspective, there are concerns that a clear and visible leadership from India is yet to be seen to move the regional integration agenda forward in South Asia.

Despite the aforementioned ‘pessimistic’ scenarios, there are aspirations for greater regional integration in South Asia. Also, countries in South Asia aim for expanding integration with the rest of Asia, especially with the East and Southeast Asian countries. The initiative which created the opportunity for the majority of the South Asian countries (Bangladesh, Bhutan, India, Nepal, and Sri Lanka) to integrate with two Southeast Asian countries (Thailand and Myanmar) is the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) which was initiated in June 1997. However, even after 20 years of existence, the achievements under the BIMSTEC has been rather minimal.

India also has bilateral FTA with the ten member states of the Association of Southeast Asian Nations (ASEAN), which came into effect in January 2010. Furthermore, under China’s Belt and Road Initiative (BRI), the Bangladesh-China-India-Myanmar economic corridor (BCI-MEC) paves the opportunity for greater economic and trade integration between two economic giants in Asia, namely China and India. BCI-MEC also provides an opportunity for Bangladesh to exploit huge potential benefits from such economic and trade integration. However, BCI-MEC has not yet been launched due to the political tension between India and China. The China-Pakistan economic corridor (CPEC) has however been at the most advanced stage among all the BRI initiatives. Yet, being a bilateral economic corridor, CPEC, has not been able to draw interest from other neighboring countries.

The most comprehensive regional integration initiative in Asia so far has been the Regional Comprehensive Economic Partnership (RCEP) which is a proposed FTA between the ten member states of the ASEAN and the six states with which ASEAN has existing FTAs (Australia, China, India, Japan, South Korea and New Zealand). RCEP is one of the proposed mega trading blocs of recent time. RCEP negotiations were formally launched in November 2012 and until now 18 rounds of negotiations have taken place. RCEP represents 45% of the world’s population, accounts for about 40% of the world’s GDP, and makes up around 30% of world trade. As the sole party from South Asia, RCEP has created significant opportunities for India to integrate with the advanced economies in Asia and the Pacific and to participate further with the global value chains. There are views that RCEP can help reduce the overlaps among Asian FTAs, rationalize rules of origin, and promote FDI flows and technology transfers by multinational corporations. However, being the non-members, RCEP has led to some important implications for the other South Asian countries.

There are concerns that the RCEP will lead to the escalation of bars in standards and trade governance which might work as significant non-tariff barriers for the South Asian countries, especially for the LDCs, while exporting to the RCEP countries. Therefore, there is a need for strong efforts to improve the quality of trade infrastructures, capacities, and institutions in these countries. There are also risks of other South Asian countries with respect to the potential loss of market access from the erosion of trade preferences. Simulations using the global general equilibrium model (the GTAP model) suggest that the RCEP FTA would lead to gains, in terms of the rise in real GDP, for all RCEP member countries, and for India, it would be 0.73%. In contrast, all other South Asian countries would experience fall in real GDP, and the major affected countries would be Nepal and Bangladesh as these two countries enjoy the largest trade preferences both in India and China. A hypothetical ‘extended RCEP’ scenario, where all other South Asian countries could join the RCEP FTA, would lead to gains for all South Asian countries, and India’s gain would become larger than what would be observed under the RCEP. Therefore, other South Asian countries should negotiate for their participation in the RCEP. The ‘extended RCEP’ scenario would certainly lead to the meaningful integration of South Asia, East Asia, Southeast Asia and the Pacific.

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The Demon is not as black as people think: Challenges and prospects of ETCA

Ravi Ratnayake

The author dedicates this article to Late Dr. Saman Kelegma who played a key role in connecting Sri Lanka with the rest of the world including the ETCA negotiation.

Probably, “ETCA” or Economic and Technology Cooperation Agreement was one of the top most debated economic issues which received the highest level of media attention in Sri Lanka during the last two years. People from all walks of life, farmers, three wheel drivers, factory workers, doctors, architects, monks, politicians without any knowledge about ETCA consider it as the cause for any crisis, any failure or any disaster in the country. Those behind this unsubstantiated propaganda claim that it would destroy local jobs, industries, services and is beneficial only to India much like the case of current India-Sri Lanka Free Trade Agreement (ISFTA). Interestingly, this blame game is taking place even though ETCA is still at a very early stage of drafting and negotiation. Whatever the motives behind this misinformation and misinterpretation of facts/figures, one has to make rational judgment of the advantages of ETCA to their own country only on the basis of a proper study of costs and benefits. Contradicting most negative claims labeled against ETCA, available empirical research point to the evidence of potential benefits from it. According to a forthcoming study by the Commonwealth Secretariat (“Supporting Sri Lanka’s FTAs”, Trade Competitiveness Report), a deeper FTA with India will result in 74% increase in Sri Lankan exports to India. The study also identified 10 export products which could increase Sri Lanka’s exports from US$ 35 million to US$ 655 million. Another forthcoming study shows that a comprehensive deal covering all areas of cooperation including services, investment, and technology, could bring in more gains than from an agreement focusing only on one sector such as trade in goods. However, these benefits would highly depend on finding effective solutions to the outstanding issues of ISFTA, which were shown to be the major reasons for the poor performance in terms of utilization of preferences granted under the FTA. Equally important is to prepare the local business sector to capture the huge market opportunities that would be created under ETCA and to put in place appropriate safeguards to protect the interests of consumers and producers, in particular, the SME sector to face import competition effectively.

Amongst the major challenges, first, it is imperative to address implementation issues of ISFTA including non-tariff barriers of Sri Lanka exports as well as issues of rules of origin and commencing as a parallel process along with the negotiations on ETCA to remove quotas on major exports of Sri Lanka to India. While Mutual Recognition Agreements (MRAs) could play a powerful role in minimizing or eliminating NTBs, to be more effective, such MRAs have to be backed by strong institutional and compliance mechanisms on the side of Sri Lanka.

Second, Sri Lanka needs to ensure that the scope of the ETCA is adequately deepened, in particular, in terms of trade facilitation and widened to cover trade in services, investment, various aspects of technology cooperation, in addition to trade in goods. In respect of services, it is important to strategically select service sectors for liberalization keeping politically sensitive elements of Mode 4 of trade in services, in particular, movement of independent persons, outside ETCA until appropriate legal and regulatory structure are put in place. In this context, the “positive list” approach is preferred as it gives a substantial policy space to liberalize services gradually. However, such a preference should not prevent the government from entering into a “negative list” system under which a limited number of services are kept out of liberalization if it is beneficial to the country.

Third, in view of outstanding economic asymmetry between two countries, Sri Lanka should seek a special and differential treatment in terms of a larger negative list, favorable rules of origin and a longer period of phasing out of tariffs as was in the case of ISFTA.

Fourth, on the domestic side, it is important to educate and raise awareness of customs officials on concessions available under FTAs, facilitate testing, inspection and certification, create awareness of standards and regulatory requirements in importing countries including India among Sri Lankan exporters, and establish Help/Information Desks at borders that can address trade facilitation issues in a timely manner.

Fifth, in order to benefit from the market access opportunities of ETCA, Sri Lanka should produce what trading partners demand. It has been pointed out by Indian counterparts that Sri Lanka has utilized only around 50% of quotas given under ISFTA. While the size as well as certain conditions of quotas could easily be trade-restrictive leading to under-utilization, this could also be due to supply side constraints in Sri Lanka, and hence, there is an urgent need to enhance supply-side capacity of Sri Lankan exporters.

Finally, one cannot overemphasize the importance of securing the cooperation of civil society including business sector through consultation since it is people who will utilize ETCA and gain from it. At the same time, business sector should work with the government to correct the misinformation and misinterpretations about the impact of ETCA on the economy and the society. In this regard, the study by Saman Kelegama (2017) (“India-Sri Lanka Free Trade Agreement: Sri Lanka reaping the benefits from preferential trade”, ARNET, Policy no 50, July 2017, Bangkok) provided detailed explanations with a view to correcting various misunderstandings and misconceptions about ETCA. For instance, it was shown that current trade deficit with India was not due to ISFTA but due to imports outside the FTA as only 6% of Indian imports to Sri Lanka falls under the FTA.

To conclude, ETCA can bring substantial benefits to Sri Lanka if negotiated properly along with adequate preparation of the domestic economy and effective implementation of the policies.

Dr. Ravi Ratnayake, Former Chief Economist and Director of Trade and Investment of United Nations ESCAP

20 Years of BIMSTEC

Prabir De

The author dedicates this article to Late Dr. Saman Kelegma who had not only played a pivotal role in BIMSTEC integration process but also encouraged the author to work on BIMSTEC.

The year 2017 marks 20 years of BIMSTEC (Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation) establishment. In 1997, India, Thailand, Bangladesh and Sri Lanka established BIMSTEC. Later, Myanmar, Bhutan and Nepal joined the group, thereby making it a Bay of Bengal Economic Zone.

BIMSTEC is a unique regional cooperation initiative in terms of geographical contiguity and access to the ocean. It is home to around 1.6 billion people which constitute around 23% of the world population with a combined GDP of about US$ 3 trillion (2016).

BIMSTEC has fourteen priority sectors, and each country has been given responsibility to lead a sectoral cooperation, among which India leads the transport and communication sector. Today, there are several dialogue mechanisms in BIMSTEC, including a summit and few ministerial meetings in a wide range of sectors. In October 2016, the first ever BRICS-BIMSTEC Outreach Summit took place at Goa, India, which has provided much needed political direction.

Trade is at the forefront of BIMSTEC. At present, BIMSTEC countries constitute 3.8% of share in the world trade. The intra-regional trade among BIMSTEC countries was about US$ 40.5 billion in year 2016 (about 6%). Currently, India’s export share in BIMSTEC is about 50% (US$ 21 billion), followed by Thailand 30% (US$ 12.2 billion) and Myanmar 14% (US$ 6.1 billion). BIMSTEC is the only regional integration initiative that is yet to witness a operational free trade agreement (FTA) even after signing of the framework agreement almost a decade back. The last round of BIMSTEC trade negotiation was held in 2015, but remained unsuccessful.

Better transport linkages enable investment and human capital to flow more freely across borders, deepening the integration. Trilateral Highway is an important connectivity project that has the potential to facilitate trade and investment across BIMSTEC. BIMSTEC countries may consider signing a regional coastal agreement. India and Bangladesh and Bangladesh and Myanmar have bilateral agreements on coastal cargo shipment. It is easier to have a regional agreement drawing upon bilateral agreements. This coastal agreement would facilitate movement of cargoes as well as passengers in the region.

Inland Water Transport (IWT) is another area which holds high potential in cost effective transportation of goods in the region. To start with, Ganga–Brahmaputra–Meghna–Irrawaddy river basin can be connected through cargo and passenger transportation.

BIMSTEC should give high priority to the digital connectivity in the region, particularly for bandwidth export and network sharing, etc., which would make ICT more accessible, affordable, inclusive, sustainable, and useful to remote and rural communities, entrepreneurs, and research and training institutes in all BIMSTEC countries.

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Prospects and challenges of Nepal’s enhanced trade with South Asian countries

Posh Raj Pandey

The article is dedicated to a very good friend, Late Dr. Saman Kelegama, an untrracting track-two leader for deeper South Asian integration, whose vision and views have shaped official mechanisms in some of the areas of current South Asian cooperation. He was my source of inspiration for delving into the issues of south Asian economic cooperation.

Nepal’s trade relations are defined by a multitude of bilateral and regional trade agreements, a ‘spaghetti bowl’ in economists’ terms, of overlapping trade agreements, as well as multilateral trade agreements under World Trade Organizations (WTO). At the regional level, Nepal is a signatory of South Asia Free Trade Agreement (SAFTA)- a South Asian trade block comprising of Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka to enhance intra-regional trade among the member countries through removal of tariff and non-tariff barriers. Nepal is also a member of SAARC Agreement on Trade in Services (SATIS)- a framework for liberalizing and promoting trade in services within the region to promote and enhance trade in services among the member countries. It was expected that Nepal would enjoy the gains of regional integration and at the same time become more competitive in the global market. At the bilateral level, Nepal has preferential trade agreement with India and is also in the process of initiating bilateral free agreement with Bangladesh and Pakistan.

Nepal’s trade with South Asia is substantial, 66.4% of global imports and 59.4% of global exports in 2016. However, trade is mainly concentrated with India constituting about 99% of regional exports and 96% of regional imports. Other South Asian countries have minuscule share in both exports and imports. Despite high trade intensity with India, however, Nepal has not yet invoked SAFTA agreement in its trade relation with India due to ‘spaghetti bowl’ nature of trade agreements, among others.

The available literature based on the analysis of trade structure and complementarity, country level comparative advantage, trade potentials and general equilibrium models show that there are substantial potentials for Nepal to increase exports to most of the SAARC countries. In addition, with fragmentation of production process and increasing trade in parts and tasks, development of regional supply chain network and Nepal’s participation has great potential. At the policy level, the government has implemented Trade Policy 2015 which envisages to expand Nepal’s trade by exploiting the opportunities available under the regional agreements, and also to deepen the agreements on free trade areas (FTAs). But the question remains: why has Nepal’s export been almost stagnant for about a decade and why has it failed to diversify trade with other South Asian countries? In addition to geographical and structural barriers of a landlocked country with a narrow resource base, there are domestic and regional level policy barriers that have hindered Nepal’s trade expansion at the regional level. The most crucial constraint Nepal faces is its supply-side and productive capacity, both ‘production related’- ability to generate exportable surplus, and ‘competitiveness related’— ability to supply competitively in external markets. This constraint has largely been due to deficiencies in infrastructure, human capital, trade facilitation and limited access to finance and technology owing to governance failure as well as the state’s inability to make optimal provisioning of public goods. At the regional level, there are many areas to be addressed, sometimes beyond SAFTA, which could generate shared opportunities and benefits. The pace of regional trade liberalization should be accelerated through pruning the sensitive lists and adoption of simplified, transparent and facilitative rules of origin. Trade facilitation measures including harmonization of technical as well as sanitary and phyto-sanitary standards, harmonized, streamlined and simplified customs procedures and strengthening customs infrastructure must be implemented with the simultaneous elimination of all kinds of non-tariff and para-tariff barriers. Early conclusions of the negotiation on SATIS and regional investment promotion agreement are also warranted so that trade and investment could be integrated and complementarities between manufacturing and services can be generated. Even if the market access conditions are improved, it would be diluted due to high transportation time and cost because of lack of regional transit agreement and inadequate infrastructure. For seamless connectivity and easier, faster and cheaper movement of goods, we should address both physical connectivity - linking countries and/or regions together, and software connectivity- government policies, institutions, rules regulations and procedures, capacities and systems behind, and at, borders. Promotion of selected economic corridors and adoption of modern corridor management techniques would go a long way in achieving this.

There might be political, economic, institutional, security and perceptual dimensions on taking regional cooperation forward. For all these we need political will and commitment at the highest level, we have to transform our thinking and change our behavior towards our neighbors. We must reinvent the state, balancing it well with the market system not only for national development but also for enhancing regional cooperation and interdependence.

Dr. Posh Raj Pandey, Executive Chairman of South Asia Watch on Trade, Economics and Environment (SAWTEE), Kathmandu.

"Deepening economic integration under a regional framework has been noted to be one of the most effective ways of addressing poverty".

- Dr. Saman Kelegama
SANEM remembers Dr. Saman Kelegama

A condoleance meeting to mourn the loss and to appreciate the contributions of Dr. Saman Kelegama was held on July 6, 2017 at SANEM conference room. Dr. Saman Kelegama passed away on June 23, 2017. He was the Executive Director of the Institute of Policy Studies of Sri Lanka and a Fellow at the National Academy of Sciences Sri Lanka and the former President of the Sri Lanka Economic Association. He published a number of books on Sri Lankan and South Asian economic issues and has extensive publications in both local and international journals. Dr. Kelegama had a profound connection with SANEM since its inception. He was not only a well-wisher of SANEM but provided consistent support and guidance in every phase of SANEM’s journey. Dr. Selim Raihan, Executive Director, SANEM and Professor, Department of Economics, University of Dhaka recollected the memories of Dr. Saman Kelegama in this event. Dr. Kelegama’s sudden demise is deeply shocking and his loss is irreplaceable.

The event was attended by SANEM staffs, young researchers, academicians, and students.

Forthcoming Volume in Honor of Dr. Saman Kelegama

To pay homage to Dr. Saman Kelegama a volume is being planned. This edited volume may be a small but no less than a perfect tribute to Dr. Kelegama who devoted his life to the cause of South Asian integration. The volume will be edited by Dr. Selim Raihan and Dr. Prabir De. With contribution of articles from many noted economists from all over the world, the volume will be a tribute to the leadership of Dr. Saman Kelegama, who was the Executive Director of the Institute of Policy Studies (IPS), Sri Lanka. He played a critical role in designing several regional integration initiatives such as SAARC, SAPTA and SAFTA, India-Sri Lanka FTA (and later ETCA), BIMSTEC, etc. In particular, he played an important role in Sri Lanka’s trade negotiations with India, China, and Singapore, and contributed to the formulation of a new national trade policy strategy. The volume aims to present essays on various dimensions of regional cooperation and integration. The volume will review the progress made in terms of regional economics, connectivity and development cooperation in South Asia, and suggest ways towards further strengthening of regional integration in the region.

e-version: http://sanemnet.org/thinking-aloud/

3rd SANEM Annual Economists’ Conference (SAEC) 2018 “Leave no one behind in South Asia” February 17-18, 2018, BRAC Centre Inn, Mohakhali, Dhaka

SANEM invites its competitive call for papers and participation for the 3rd SANEM Annual Economists’ Conference (SAEC) 2018 on “Leave no one behind in South Asia”. SANEM aims to promote quality economic research among academicians, researchers, policy advocates, students and young aspiring economists. SANEM proudly announces the success of the 1st SAEC 2016 on “Bangladesh: Way towards a Middle Income Country” held on February 20, 2016, and the 2nd SAEC 2017 on “Managing Growth for Social Inclusion” held on February 18-19, 2017. The 1st and 2nd conferences were graced with the presence by renowned economists, policy makers and participants from home and abroad. A substantial number of well-thought-out ideas were presented through quality research papers.

The 3rd SAEC 2018 will be dedicated to the memory of late Dr. Saman Kelegama. Dr. Kelegama served as the Executive Director of Institute of Policy Studies (IPS), Sri Lanka. His ideas and vision were assets to the South Asian policy networks.

Themes:

Papers should be relevant to any of the following categories:
• No Poverty, Zero Hunger, and Reduced Inequalities (SDG 1, SDG 2 & SDG 10)
• Good Health and Well-being (SDG 3)
• Quality Education (SDG 4)
• Gender Equality (SDG 5)
• Clean Water and Sanitation (SDG 6)
• Affordable and Clean Energy (SDG 7)
• Decent Work and Economic Growth (SDG 8)
• Industry, Innovation and Infrastructure (SDG 9)
• Sustainable Cities and Communities (SDG 11)
• Climate Action, Life below Water and Life on Land (SDG 13, SDG 14 & SDG 15)
• Peace, Justice and Strong Institutions (SDG 16)

It is expected that the paper will have some relevance with South Asia and/or Bangladesh. The paper should be submitted following the format provided below. Any reproduction/extension of previous study is eligible for submission. However, in case of pre-published papers, consent of the publishers should be provided.

Important Dates:
• Last date of abstract submission : 31 August, 2017
• Selection of abstracts : 30 September, 2017
• Last date of first draft submission : 30 November, 2017
• Feedback by SANEM : 31 December, 2017
• Revised/final paper submission : 31 January, 2018
• Power-point presentation submission : 10 February, 2018
• Conference : 17-18 February, 2018

Submission of the abstract:

The abstract should be an extended one which should include the following:
• Objectives and research questions
• A brief description of the methodology
• An outline of the paper

The abstract should be in Calibri 12 font with single spacing and must not exceed 4 pages. Abstract and updated CV should be sent to sanem.conference@gmail.com

SANEM encourages young researchers and students to submit their papers. There will be a separate session for the students/young researchers in this conference.

Application for registration for conference participation:

Interested participants are requested to apply for registration. The application form can be downloaded from http://sanemnet.org or by emailing at sanem.conference@gmail.com.

The last date to register: 31 January, 2018

No Registration fee is required for the conference participation.

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