

## **South Asia Regional Integration**

### **Bangladesh Country Note**

Promoting Regional Integration in South Asia:  
A Private Sector Perspective



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Promoting Regional Integration in South Asia:  
A Bangladesh Private Sector Perspective

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**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 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 & lower value realization although due to quota system in RMG, and preferential market access due to bilateral treaties, the lesser-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 being increasingly linked to the promotion of trade objectives of the donor countries. This has triggered an intense competition for 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 before South Asian Countries in this new regime is how to raise efficiency and international competitiveness of their economies and implement "pro-poor" growth strategy to tackle pervasive poverty. One of the ways of meeting this challenge is to overcome regional apprehensions and constraints and move towards 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 direct increase in intra regional trade as a direct result of liberalization will be limited in South Asia, the indirect effects of intra regional trade liberalization are likely to be significant. Lower intra regional transport and transaction costs; more favourable terms of trade, economies of scale in investment, production and distribution, higher efficiency and technical competence from increased intra regional competition and cooperation, more active investment from outside the region due to expanded market, liberalization of capital and human resources movement are likely to have substantial impact on the economies of South Asia. Sustained regional integration can transform South Asia into a major economic growth zone of the world by the mid 21st century as the region has the largest concentration of population in the world with huge opportunities for economic growth because of the unsatisfied needs of the large number of poor people in the region.

### **Opportunities for Enhanced Regional Integration**

There are divergent opinions among economists and business leaders about the benefits of economic integration of South Asian countries. Many believe that most preconditions needed to enhance the probability of successful 'Free Trade Area' are not present and South Asian Countries would be better off liberalizing unilaterally and trying to tie up with established blocs such as NAFTA or the EU. Another argument put forward in favor of moving to FTA is about the cost of non-cooperation, i.e. lost opportunities. There is also a wide difference of opinion on the distribution of gains among the member countries. However, most experts believe that although unilateral liberalization offers greater benefit nevertheless regional cooperation are also 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 which spills 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 while the main source of raw material is a limestone quarry in Meghalaya, North-East of India, connected by 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 problem which can only be resolved through regional cooperation. For example, most of Nepal's rivers flow into Uttar Pradesh and Bihar in India. Indeed the tributaries in Nepal which 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 while any program of water management by Bangladesh whether for flood control or irrigation will not be feasible at all without the ultimate collaboration of the upper riparian states of India and Nepal. On the other hand 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. There also is a large reserve of natural gas 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 which traverse each country are unable to service the region as they stop at national borders. 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 was once a major highway linking mainland India with both North Bengal and North-East India. The development of the land alignments, which would provide the North East of 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 land locked South West China. The Chittagong port could be built up as the nodal point for handling the trade of the region.

There are several sectors where Bangladesh and India can move from a competitive relationship towards a search for rediscovering lost complementarity. Jute is one example while RMG of Bangladesh and the textile industry of India is another. The phasing out of the textile quota system in 2005 will leave the South Asian countries' exports more vulnerable to competition from other developing countries. EU has allowed Bangladesh special market access if raw material is sourced regionally under regional accumulation system. In the case of Bangladesh, only 65percent of total exports to the EU can access GSP because of non compliance with rules of origin. With regional accumulation, it can increase to 90percent. If Bangladesh accepts regional accumulation there could be a significant increase in intra regional trade. Unfortunately, up to now the powerful textile manufacturing lobby in Bangladesh has prevailed upon the government not to accept regional accumulation.

The Rakhine state of western Myanmar bordering Bangladesh has a single patch of bamboo forest stretching over 7000 sq km producing 2.2 million tons of single specie of bamboo equivalent to 800,000 MT of pulp which could support the paper industries 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 Rakhine state can provide raw materials for joint venture cement clinkers factory in Myanmar with a ready market in Bangladesh.

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

### **Obstacles to Regional Integration**

Despite the opportunities, progress in achieving regional cooperation in South Asia has been at the best very modest due to a host of economic and political factors. Although there is substantial informal trading, official trade among South Asian countries accounts for only 5percent of their total trade volume and intra regional investment is only 1percent of the total investment. In comparison intra-trade in NAFTA is 54.6 percent, EU is 63.4 percent and ASEAN 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 GDP in the South Asian region compared to 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 the 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 also perhaps not taken off because, until the late eighties, all the countries in the region had been pursuing import substitution policies aimed at promoting domestic industries which bred privilege and rent seeking, fostered rampant corruption and growth of unofficial cross border trade. In addition, low growth and demand within the region itself, reliance on developed countries for capital finance and purchase credits, and inherited mutual suspicion have resulted in an extra-regional pattern of trade. The poor state of infrastructure, low savings rate, endemic balance of payments problems, rapidly growing labor force, inefficient state owned enterprises, shallow financial markets, poor governance, low labor productivity, poor network of complementary industries and services, complex and opaque regulatory, fiscal and legal conditions, para-tariff and non-tariff barriers, regulated investment regimes, slow implementation of trade and economic reforms lack of information and business contacts, and technological backwardness have further impeded efforts for integration. The other reasons for low intra regional trade and investment are widely varying FDI policies and absence of any cross border investment move from within the region, absence of any bilateral and multilateral investment guarantees for intra-SAARC investment, limitation in foreign ownership, absence of support from financial institutions for intra-SAARC investment and transit problem to the land locked areas of the region.

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 dictates of so called security, and to a less degree distrust of India, by her smaller neighbors and their chronic and huge trade imbalance with India, have created an atmosphere which is not very

conducive to regional cooperation. Bias against regional partners is perhaps inborn in the government machineries of the region which have to far monopolized the decision making 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 equitably. India's economic preponderance and comparative advantage in a wide range of products has resulted in asymmetric trade relations with her neighbors hindering regional integration. India accounts for more than 80percent of South Asia's combined GDP, population and trade. Therefore, as the predominant economic force, India must respond through pro-active leadership and demonstrate early harvest and goodwill to encourage the smaller partners and to dispel historical suspicions. If, for example, we examine Indo-Bangladesh relationship we can readily identify several economic issues which are hindering closer cooperation.

India accounts for almost half of Bangladesh's trade deficit. Yet Bangladeshi exports have very often faced various types of non tariff and para tariff barriers in India. In the famous case of lead battery exports Bangladesh has gone to the Dispute Settlement Board of WTO against imposition of anti-dumping measures by India. India allowed non-reciprocal duty free access to goods manufactured in Nepal and Bhutan but it has pursued restrictive trade policy relation with Bangladesh with various barriers to trade.

The North East of India has 84 percent of its common border with Bangladesh. Bangladesh is the natural hinterland. Yet Bangladeshi products, particularly agro-processed items come under about 60 percent customs duty, additional customs duty and surcharge. In addition there are many non-tariff barriers. Also there is 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 south-east 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 stop due to river linking project, seawater will gradually fill southern rivers, increase salinity and reduce fertility.

India has so far been inflexible to relax the value addition criteria of the rules of origin issue. 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.

### **Progress of Regional Cooperation**

The global trend towards free trade and the formation of intra-regional blocs spurred South Asia into action and in 1985, the South Asian Association for Regional Cooperation (SAARC) was formed by seven South Asian countries-Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka, as a forum for the discussion of intra regional issues, particularly the improvement of relations between the very large India and her smaller neighbors. In 1995 SAARC preferential Trading Agreement (SAPTA) was inaugurated for bilateral reductions in tariffs and non-tariff barriers on specified commodities on a reciprocal basis, but with special treatment given to the least developed countries (LDC). The eventual objective was for SAPTA to become, by 2001, a South Asian Free Trade Area (SAFTA) based on multilateral tariff reductions. But SAARC had been brought to a standstill due to the 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 the members, particularly the LDCs, due to the following reasons:

- a) The tariff cuts were not deep enough.
- b) The actively traded goods were not given the tariff preferences.
- c) Modalities of removal of non-tariff and para-tariff barriers were not well articulated in the agreements.
- d) 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 around India. India concluded 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 bilateral FTA with Sri Lanka & Pakistan. In 1997 BIMSTEC was formed to foster socio-economic 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 "South Asian Growth Quadrangle (SAGQ)" comprising of Bangladesh, Nepal, Bhutan and parts of India and the "Kunming initiative." In 2000 Asian Development Bank (ADB) under a technical assistance program established South Asia Business Forum under South Asia Sub-Regional Economic Cooperation (SASEC) at the request of the participating countries to support the official level SAGQ initiative in the light of the successful Greater Mekong Sub Region (GMS) cooperation. The Kunming Initiative envisages integrating resource rich areas of Yunnan province of China, Northern Myanmar, North East India, Bangladesh, Nepal and Bhutan into an Asian communication network which is interlinked with the networks of west and central Asia as well as Europe with the potential of Bangladesh emerging as a hub.

Two recent developments have enkindled hopes for acceleration of regional cooperation, however. Following improvement in relation between India and Pakistan the seven member countries of SAARC signed a Free Trade Agreement at the Islamabad summit in January 2004 to go into effect from January 1, 2006. The other development was the signing of Free Trade Agreement by the seven BIMSTEC members.

The Islamabad summit had achieved consensus on the following:

- a) Framework agreement on SAFTA
- b) Social charter on poverty reduction
- c) A common pact against terrorism
- d) Communitarity in other areas like environment, energy and telecommunications.

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

- a) Modalities of tariff reduction
- b) Rules of origin
- c) Negative list
- d) Elimination of non tariff and para tariff barriers on movement of goods.
- e) Safeguards
- f) Dispute settlement mechanism
- g) Revenue loss
- h) Special measures for LDCs.

## **Steps for Enhanced Regional Integration**

In order to move towards successful integration, sequencing of actions is crucially important. The South Asian region should develop its own short, medium and long-term strategy for economic integration. It is important that each stage is 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. The European integration evolved over four stages:

First, a preferential free trade regime where member countries reduced or eliminated tariff and non-tariff barriers amongst them.

Second, a Customs Union created a common external tariff so that import duties were the same for each member country.

Economic Union was the third stage, which further integrated the market, eventually leading to a single market.

The final step was a monetary union 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, in order to move towards successful cooperation.

### **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 where opposition parties can exploit. The governments, private sector, academia, professionals and social sector organizations have to work in unison.

### **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 to identifying the production capabilities and export promoting investment projects must be given top priority for any integrated approach to the investment regime in South Asia. Such 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 public and private sector through reallocation of resources which will pave the way for greater integration of the region into the global economy.

### **3. Trade reform and facilitations**

Trade reform and facilitations requires complementary policies such as regulatory framework, improved governance, stable law and order, reduced corruption, upgrading of infrastructure and improvement in overall investment climate. To achieve these 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 2percent of world trade. By comparison the potential gain from trade facilitation reform are

likely to be worth some 2/3 percent of world trade. In South Asia the potential gains are expected to be much more as the system is shackled by excessive paperwork, discretionary powers of the bureaucrats and various bottlenecks. The burden of such inefficiencies fall more heavily on smaller business, often 30percent to 40percent higher than larger firms. As tariff and non-tariff barriers come down efficiency in trade facilitation will become one of the key factors for determining competitiveness in future.

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

- a) Standardization of basic customs nomenclature regulations, documentation and clearing procedures. 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.
- b) Customs cooperation to resolve disputes at customs entry points; simplification of import licensing and banking procedures for import financing.
- c) A sizeable amount of unofficial trade flows are taking place across national boundaries of South Asian countries despite 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 non tariff barriers and removing policy distortions and creating a positive and facilitating environment for promotion of trade.
- d) The countries should not try to monopolize trade through state owned trading organizations. Instead greater participation by the private sector to be encouraged. However, state trading companies may be employed usefully for promoting intra regional trading in specific areas.
- e) Transit facilities for promoting trade with land locked members.
- f) Setting up food testing facilities at borders and more entry points for quarantine checks.
- g) Agreement on rail link for operationalization of inland container depots.
- h) Infrastructure at L/C stations (checkpoints) through which trade takes place, such as approach, roads, bridges, telegrams facilities, electricity connection, weighbridges, customs offices and warehouses.
- i) Simplification of pre-shipment inspection system.
- j) Agreement to facilitate movement of vehicles up to transshipment points at land ports.
- k) To facilitate movement of business men for long duration, at least one year multiple visa is required.
- l) Exchange of information on products and services, market practices and intelligence.

#### **4. Transport**

For South Asia the crucial transport links to be developed would be along the alignment of Asia Highway (AH). The AH network is a component of the Asian Land Transportation Infrastructure (ALTID) project developed by ESCAP which also comprises the Trans Asian Railway (TAR) project including measures for the facilitation of land transportation. The route criteria for ALTID project include capital to capital links, connection to main industrial and agricultural centres as well as 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 5800

kilometers 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 then either into Central Asia or through West Asia into Europe. At the same time the bridge could establish 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 while 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 part at a fraction of the present costs while Bangladesh exports can penetrate deeper into the Nepalese and Indian North-Eastern as well as the mainland markets. Bangladesh could also benefit from substantial freight and port charges from Chittagong and Mongla ports providing access to Indian and Nepalese exports. India and Nepal may also 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 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 which once linked Chittagong and Akyab is now called Arakan road. Rehabilitation of this road will help reestablish the old surface link between Ghumdhum on Bangladesh side & Tumbro on the Myanmar side, the traditional trade route which could eventually be connected with the AH that links up with South East Asia. On the other hand the proposal to build a bridge over the Palk Strait stretching 27 KM between Talaimenhar in Sri Lanka and Dhanuskodi, Tamil Nadu in India, will complete the connection of the BIMSTEC region.

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

## **5. Port**

Due to 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 5 to 6 days against only 1 to 2 days in Bangkok and Singapore while the container charges are double the charges in other neighboring countries. The port now requires massive infrastructure development including deepwater facilities and 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.

## **6. Energy**

Initiatives need to be taken for formulation of plans for developing hydro, gas and coal based power generation and establishment of a regional power grid. Although tremendous potential exists for power generation most of the countries are faced with power shortage and rising demand. In Bangladesh only 20percent of the population has access to electricity and about 10percent to natural gas. Laws and regulations relating to cross border energy trade, pricing and contracts also needs to be harmonized. This will enable member countries to meet rising demand

for energy for both consumer and industrial use in a more cost effective manner. Technology is integrating the energy sector across the world. Therefore, the South Asia region should also develop its own strategy and capability to deal with energy MNCs from a position of strength.

## **7. Water Resources**

Inter-governmental task force to formulate plans for comprehensive development of water resources in Ganges- Brahmaputra- Meghna river basin for flood management, irrigation, water transport and generation of electricity.

## **8. Telecommunication**

Harmonization of telecommunication technology of the member countries for socio-economic advancement of the region through establishment of infrastructure and human resource development, reduction of intra regional telecom tariff, cellular roaming and mutual recognition arrangements. Production and consumption areas of the region to be connected by telecom network. For 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 of website. The setting up of gateway within South Asian region will save the internal traffic of the region from being routed through Singapore or other countries outside the region. The E-commerce within the region will develop the skills, expertise, logistics and solutions that would allow the goods and services of the region access to the global market.

## **9. Investment**

Despite a potentially large market, cheap labor, huge resources and considerable progress in 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 the year 2000 was only 1.5 percent, most of which went to India.

According to balance of payment accounts FDI/GDP ratio of Bangladesh was around 0.5 percent in the FY 1999, the highest FDI receiving year. Bangladesh has poor political rating and ranked 34 in Asian countries in term of country risk profile. On the other hand, the level of intra-SAARC investment is also dismal.

Investment cooperation is an essential companion to liberalization of trade because it is with the intra regional 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 also to encourage intra SAARC investment:

- a) Set up a centre for gathering information, analytical work and monitoring of investment activities and potential.
- b) Monitor and evaluate the present status of FDI and its impact on the region's economy and socio-political development.
- c) Identify different categories of investment: Infrastructure, labor and capital intensive sectors, state-owned enterprises and agro-based industries and at the same time examine factors underpinning mismatch between potential and revealed performance of member countries in the area of FDI relating to these sectors.

- d) Pool experience across member countries and its comparison with other regions to reach a consensus on the best policy practices.
- e) Analyze multilateral agreements on foreign investment and competition policy and its impact on the member countries in order to evolve a regional position.
- f) Synchronize economic reforms program of the member countries to ensure policy predictability and consistency of their investment policies.
- g) Harmonize investment policy practices and incentives in order to stop 'race to bottom' in competing on incentives.
- h) Finalize regional investment and protection agreement as well as avoidance of double taxation agreement.
- i) Enhance effectiveness of FDI institutions such as Investment Promotion Boards with coordination between regional and international institutions.
- j) Identify mechanism and best practices to enhance efforts for strategic partnerships between government and private sector.
- k) Strengthen local technology acquisition capability.
- l) Adopt legally binding code of conduct for regional joint venture to ensure rights of host country/investors as well as to establish standard of accepted practice to generate confidence in regional cooperation in investment including dispute settlement mechanism.
- m) Simplify entry and exit for investment which will act as an important incentive specially for portfolio investors financing regional projects.
- n) Grant fast track approval for regional projects.
- o) Form a Regional Development Bank which could draw on the resources of the regions' existing development finance institutions to promote regional joint ventures.
- p) In the longer term, abolish all barriers to intra-regional investment by allowing free flow of capital throughout the region including repatriation of profits; this will greatly facilitate regional investment.

## **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 have been formed. Coordinated steps are required to be taken in following areas:

- a) To facilitate cross border security trading a harmonized network is required for trading, clearing and settlement system
- b) To mobilize and diversify SAARC investors and market base
- c) To attract increased foreign institutional investors.
- d) To harmonize listing rules and best business practices in capital markets to allow free investment among stock members in the region and for setting up a common stock exchange within the region.
- e) Coordination of accounting bodies and harmonization of accounting standards in line with international standards including financial disclosures and statements.
- f) Establishment of South Asian Security Exchange Commission and codification of securities laws.
- g) To ensure that banking systems in member countries are interconnected and exchange rates are harmonized.
- h) Harmonization of corporate governance practices, ethics, concern for environment and commitment to regional and social responsibilities.
- i) Move towards unified currency systems and establishment of 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 BOO/BOT basis. Bangladesh financial market is small and dominated by the banking system. The capital market is underdeveloped. The combined market capitalization of the two stock exchange in Dhaka and Chittagong is only about 2.4 percent of GDP. The setting up of a regional financial centre at an appropriate location in the region will facilitate banking & insurance, other financial services & shipping for intra regional investment as well as identification of lucrative investment opportunities for both FDI and portfolio investment.

## **11. Tourism**

Development of tourism can yield substantial benefit through a multiplier effect. In order to promote South Asia as a common tourist destination joint efforts are required in areas such as upgrading of infrastructure, improving air linkages, simplification and harmonization of administrative procedures, human resources development and joint marketing. To promote Intra SAARC tourism following steps may be taken:

- a) Opening of dedicated immigration counters for SAARC nationals at all airports in the region.
- b) Rationalization of airport tax for SAARC nationals.
- c) Uniformity in the visa regime among SAARC countries including reduction of visa fees to a reasonable rate.
- d) Special airfares and hotel rates for SAARC nationals.

## **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 scarcity of managerial, entrepreneurial and technical skills and ability to conduct adaptive research is severely constrained.

Therefore, improvement in quality of human resources through education and vocational training is the key to move towards 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 hi-tech products. To attain this, the region will need to make concerted effort to improve investment in human capital and research and development. At the same time we have to enact legislation and set up institutions to promote innovation and protect intellectual property rights (IPR).

## **13. Environment**

Environmentally sound technologies are key to long term sustainability of economic growth. The environmental problems in South Asia are enormous and inter-related. Effective cooperation among the countries are urgently needed to address issues of deforestation and bio-diversity loss, cleaner production and waste and pollution management, preservation of rare species of wildlife and plants and to avoid fragmentation of the eco-system which span national borders. The cooperation can be strengthened by improving the environmental information systems and management capacities.

#### **14. Private sector**

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

- a) Certification and management of rules of origin
- b) Identification of non tariff and para tariff barriers
- c) Preparation of negative list.
- d) Monitoring of the FTA.
- e) Imposition of anti-dumping, safeguard and countervailing duties.
- f) Dispute settlement procedures.

The national chambers of South Asian countries have already formed SAARC chamber of Commerce and industry (SCCI). It has drawn up a regional framework for arbitration and prepared a draft agreement on movement of good and people. It has been trying to bring the South Asian states together on WTO issues through regular programs. It has also been working on harmonization of standards and promotion of investments. Through 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 strong case for collective strategy.

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

#### **15. Multilateral organizations**

The role of the multilateral organizations in South Asian regional cooperation has been very limited and tentative. One of the reasons could be the unstable relationships between India and Pakistan which have been hindering and threatening the process. Asian Development Bank 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 very wide area including SME development, regional infrastructure development, skill upgradation and human resources development.

Our knowledge and understanding of trade issues are limited. We need to build capacity and specialization on trade policy and multilateral trade issues & laws both in government and private sector. At present mechanism for consultation in trade policy among government and the stakeholder in most member countries are very weak. We lack capacity to implement 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, to monitor and assess impact of policies and agreements. At the industry and agriculture level almost 90percent of the entrepreneurs in the region fall into the category of SME. Today they require new support and new institutions. For example, the farmer today wants soil tests for field specific fertilizer. The agro processor wants advise on packaging, longer shelf life, international product standards, cold chain support, vitamin fortification. In case of Bangladesh, the road network linking Dhaka with the countryside failed to have the multiplier effect on the rural economy. We need to develop regional market based growth centers. All these demand innovative alliances between government, private sector and the NGOs. The multilateral organizations can select their own programs in this vast arena to support national and regional efforts for building capacity.

## **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 to 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 proliferation of RTA if not coordinated may result in 'spaghetti bowl' phenomenon hindering regional integration. BIMSTEC-FTA, India-Sri Lanka FTA, India-Nepal FTA, India-Bhutan FTA, Bangladesh-Pakistan FTA, India-Bangladesh FTA can potentially create a chaotic situation if not properly coordinated by the member countries. We must bear in mind that 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 US with 12 percent. Already 400 of the fortune 500 companies have presence in China. It is expected that China's share of FDI to developing countries will continue to rise posing significant challenge to other developing economies. This would definitely have a profound impact on our region if we fail to bring about significant structural transformation in terms of both production capacity and competitive strength through regional integration at an accelerated pace. As for Bangladesh, we must remember that regional integration, sub-regional cooperation or bilateral FTA are no panacea to our problems, they can only create opportunities. For us to take advantage, we must press ahead with our own agenda of unilateral trade liberalization, institution building, economic reforms and improvement in governance.

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