CHAPTER III

SUB-REGIONAL COOPERATION
SUB-REGIONAL GROWTH MECHANISMS: SAGQ AND IMS-GT IN COMPARATIVE PERSPECTIVE

Abul Kalam

Introduction

International relations in the postwar years have witnessed momentous changes in intra and inter-state relations with significant systemic ramifications. Some of these changes affected system structure from above, some from below. Analytical interest has correspondingly transcended into the shifting pattern of relations both within and beyond the nation state actors involving these systemic changes. An area of intense academic interest has focused on sub-regional co-operation, a developmental phenomenon that has been in operation in East and Southeast Asia. Often viewed as a tool for interdependent development—called 'borderless economy' or 'natural economic territories' (NET), sub-regional cooperation is also perceived as a mechanism for dynamic growth within and beyond nation-state entities. An impression prevails that the countries of eastern South Asia sought to replicate similar sub-regional growth, an attempt that actually provoked substantial debate in the entire region, though there seems little progress towards realization of such growth objectives.

Sub-regionalism found real momentum in Southeast Asia when parts of Indonesia and Malaysia joined Singapore in a bond of 'borderless' economy or NET during the year 1989-90 to create what in Southeast Asia is popularly known as 'Growth Triangles' (GTs). First and most successful of these GTs is known as IMS-GT, alternately also called the Southern Growth Triangle or SIJORI, Singapore joining Johor and Riu, respectively parts of Malaysia and Indonesia. It was predated
since the 1980s by quite successful growth effort involving the sub-regions of the South China Sea, popularly known as Southern China Growth Triangle (SCGT, 1980s) (see Kalam, 99).

Both the GTs have generated an intense interest towards co-operative development. Consequently, the notion of GT was spreading like a "wild-fire," as if the Asia’s geo-economic map was being redrawn. Southeast Asia created three more GTs between 1991-94: Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT), Brunei-Indonesia-Malaysia-Philippines-East ASEAN Growth Area (BIMP-EAGA) and the Greater Mekong Subregion (GMS). Northeast Asia created three such economic zones, and Central Asia proposed one. Even Africa was planning similar growth zones.

There has been an equal amount of scholarly interest and proliferation of literature. Groups and individual scholars from other ASEAN and other Asia-Pacific countries, with multidisciplinary interests have written extensively on this unique phenomenon of experiences in sub-regional cooperation and growth zones. International and regional funding agencies, in particular the Asian Development Bank made extensive technical and feasibility studies on the issue (ADB, 92-98).

Viewed as a dynamic growth mechanism within and beyond nation-state entities sub-regionalism experiences of the IMS-GT indeed convey the effectiveness of such mechanism to ensure growth. The last quarter of 1996 saw a coordinated campaign in South Asia at the official level in favor of sub-regional scheme, culminating in the floating of South Asian Growth Quadrangle (SAGQ), presumably as a growth mechanism. The idea was to involve countries or parts thereof i.e., Bangladesh, Bhutan, Nepal and the northeastern states of India as a 'dynamic area of growth'. A number of meetings were subsequently held to give organizational shape
to the growth entity and a number of sectors were identified for cooperative growth. In reality, the efforts made in eastern South Asia seem different from the Southeast Asian endeavor. The paper offers comparative perspectives of the two sub-regional entities, IMS-GT and the SAGQ, touching on their evolution and growth, with specific references to the comparative nature of model, conceptualization process, inputs, developmental efforts, the organizational manifestations and the concrete measure of success that followed.

Conceptual Perspectives

It is essential, first of all, that the developments in the field should be analyzed and placed in their proper conceptual perspective so that the comparative nature of change globally as well as in South and Southeast Asia are adequately appreciated. Secondly, the study of the evolution of sub-regionalism in the ASEAN is necessarily taken up as a priority, as it developed earlier, maturing and fully being developed in the last decade.

Both regionalism and sub-regionalism are innovative concepts of international relations that found expression in recent years. Research and analysis done in the area suggest global nature of the phenomenological approach involving both these concepts. Both scholarly community and the nation-state policymakers are vying with each other towards the assimilation and empirical adoption of the concepts. Postwar international system has been constantly changing, with a concurrent shift in conceptual thrust. Older theoretical approaches in the area of regional and/or sub-regional cooperation include "functionalism" and/or "new-functionalist" thought. Both these schools seek to develop a regionally based cooperative framework aiming to transform "exclusive expectations of benefits from the nation-state to some larger
It is questioned whether sub-regionalism has developed in a conceptual vacuum, with no "distinctive theoretical construct," (Linda Low, 97b: 1) and hence is in a state of "conceptual irregularity" (Ganesan, 93:1). Indeed, conceptualizing economic co-operation has not been an easy task, given the dynamics of politico-economics at work in Europe and Asia. It seems baffling, on the one hand, by the sharply driven empirical evidence of a conflicting nature of systemic evolution at all different levels in which there seems a growing tension between state sovereignty and new nationalism. There is operation of market forces and trans-border entrepreneurial activity of different nature, on the other. While functionalism of the old order either pleaded supranationalism or a shared interest in transnational co-operation, the structuralists of more recent order place a great deal of importance on non-state entities or interest groups for functional growth at a lower level of subnationalism. The theoretical debate also descends to another level, extending to the on-going security debate. While the structural-realists had placed emphasis on state-centric power, the neo-realists favor multilevel security concerns of individuals and social groups within and beyond the state (see Feld and Boyd: 80; Keohane, 86; Ganesan, 93: 1-8).

The GTs in Asia are viewed as "unique Asian solution to the operational problems of regional integration among countries at different stages of economic development and with different social and economic systems" (Sato, 95: xi). Their economic rationale is simple: "...geographically proximate areas with different factor endowments and comparative advantages are linked to form an economically dynamic region" (Kumar, 95: 175). The objectives are to encourage "specific and limited linkages of complementary economic
activities across borders." The GTs "need not involve entire countries, but simply adjacent areas within countries that have complementary capabilities and resources" (Abonyi, 94: quoted in, ASEAN Secretariat, 97: 138). The experiment seems different from the prevailing federalist-structural experiences of the EU-type, as often justified by structural theories.

Structural theory perceives states as unitary actors concerned with survival and/or projection of power in an international system preoccupied with positional advantage (Waltz, 79; Walt, 85: 3-43; Mearsheimer, 90: 5-56). At their best the states form EU-type of federalist/structural politico-economic and/or North Atlantic Treaty Organization (NATO)-type of military blocs. The purpose is self-preservation and/or promotion of collective interests. As in EU, the structure includes an executive commission, led by a president, a parliament with a headquarters, a court of appeal and so on.

Such a theoretical-empirical construct seems unreal in the context of transition underway in Asia during the last decade. It appears that no international and/or regional structure can currently dictate a fixed course of action in Asia; rather the Asian transition indicates a range of options or hedges at lower levels, including pursuit of mutual interest, coupled with increasing economic interaction, affecting systemic change (Alagappa, 98: 5-6, 654). Both trade and transnational production, with their spillover effects on political power, seem to emerge as key constituents of a changing international system and even pose a challenge to the sovereignty of modern state (Rosecrance, 86; Cox, 88; Scalapino, 94). Similarly, multilateral funding agencies and trans-national production units have developed an increasing interest in sub-regional evolution. Thus, the old federalist/structural approach may not be of much relevance in Asian context, giving way to an evolution of some modified structure
with no large structural entity for co-ordination and no overt effort to superimpose decisions on either the trans-national production units or on their local support base.

At the conceptual level, therefore, this paper bases its analyses and arguments on the notion of "modified structuralism," as is articulated by Stephen Krasner (83: 7). It envisages the functional alliance of a structural framework in operation in a modified manner with the emerging multilevel security concerns of the state and those of its components, implying an application of system/structure evolution at a lower level. The notion thus covers the transcending "individualistic calculations of interest" of nation-states and/or other group entities and their effort to "maximize their interest and power". Kanti Bajpai (98: 157-197) uses such a framework for an appraisal of India's security practices domestically as well as in its neighborhood. The paper uses the concept of "modified structuralism" of understanding the comparative nature of sub-regional scheme in the ASEAN and SAARC regions. In doing so it takes a positivist view of system/structure evolution but goes beyond an individual actor perspective, and considers the empirical reality of Southeast Asian experiences in both regional and sub-regional growth endeavors. However, it looks at the ASEAN experience in growth triangles as an experiment in 'modified structuralism'—a lower level mechanism designed to foster economic integration (for similar view see, Curry, Jr., 98). The paper argues that for the sake of sustained implementation and replication the structural effort for growth at the sub-regional level has to be kept operational with a vision, coupled with appropriate strategy and policy measures, so that such a modified structure can have durable systemic impact.

Bangladesh and other countries of South Asia no doubt have vital stakes in the development of both regional cooperation and sub-regional growth, with wide-ranging
concerns in systemic evolution. In both cases there are significant ramifications for relations between the individual nation-state actor and the regional entity of SAARC as well as of ASEAN and their member states. The questions that are critical in this context include what was the nature of model and conceptualization—prompting decision making, how did the interested parties take their steps, and what kind of policy inputs were offered and structures placed to make growth efforts operational? And, finally, what precisely were the results in terms of systemic change or sub-systemic evolution? For the purpose of the paper these questions need to be addressed in the light of the two sub-regional entities that are being appraised.

Sub-regional growth in Southeast Asia is now over a decade old but the attempts to replicate them in eastern South Asia is more recent. Regional cooperation and cooperation at sub-regional level have their roots to efforts in Europe since the late 1940s. The conceptual framework has since been chosen for similar articulation by many analysts and experimented in many regions and sub-regions of the international system. Analysis indicates that in Asia it is in the ASEAN region that a tremendous stride has been made towards conceptual innovation and building up its strength towards building a collective destiny for the betterment of the lot of its people.

The notion of sub-regional growth has been in existence and operation as SCGT in Southern China where it had its root for over a decade and a half. The success of the SCGT led to a mounting interest both among the policy makers and the analysts in the innovative effort for economic cooperation. Being in proximity, the ASEAN countries sought to replicate similar efforts in their region and made tremendous strides since, both in the arena of regionalism as well as in sub-regional growth. Its cooperative endeavor has taken multiple
forms. Externally, it has innovated the notion of "partnership" of varied order so as to channel its relations with the outside world. At the regional level it has also mechanisms for problem solving, without being overly involved in each other's internal affair. As already mentioned, more significant of its cooperative effort concerns what is known as sub-regional cooperation, as exemplified by the GTs, uniting three or perhaps more geographically close regions of member-countries to derive economic benefits through complementarity.

Despite the setback suffered by the ASEAN members in the financial market and consequent economic meltdown in the late 1990s, their recovery is underway and their overall success in growth is a matter of envy and inspiration. South Asia also wishes to prosper by replicating the ASEAN experiences of growth. The launching of SAGQ in 1996 is often attributed to ASEAN successes in growth. In June 1997, BIMSTEC (Bangladesh, India, Myanmar, Sri Lanka, Thailand Economic Cooperation) was also launched as a new trans-national structure of cooperation encompassing states of both South Asia and/or Southeast Asia. A Trilateral Business Summit has also been on involving Bangladesh, India and Pakistan.

It seemed that the new growth entities have become part of international life, percolating across the ASEAN shores, steeping into the SAARC region as a replicable model. Some donor agencies offered expertise and resources. The private sectors were projected as major players in the new growth drive. Thus, a converging vision of wider regional development seems in the horizon. However, the successes contemplated seem more apparent than real.

A. The IMS-GT and ASEAN Sub-regional Cooperation

An attempt is now made to examine the comparative nature of the initiatives and motivations, model and the
processes, as evidenced in the experiences of the two sub-regional entities in the two neighboring regions. The IMS-GT finds analytical focus, as it preceded the SAGQ in conceptualization and in shaping the model.

In 1989, Goh Chok Tong, Singapore's current Prime Minister (and the then Deputy Prime Minister) stated that Singapore, Johor, and Batam (in Riau) could form a "triangle of growth" or SIJORI, as it was then called (Kumar, 95: 179-80). A new structural entity, a modified form of the old functional federalism, a sort of "growth triangle logic" then seemed on train. The new entity, already driven by market forces, including private sector, local government participation, and support of the developmental financial institutions (DFIs) came into being. Indeed, strongest commitment to the concept came from Singapore (Kamil et al., 91: 69; Pangestu, 91: 106). It played a catalytic role in the formation of the IMS-GT. Its economy, once thought of as quintessentially urban center or city-state, must by now be viewed as part of larger regional production and distribution complex, an extended metropolitan region involving sub-regions of Malaysia and Indonesia (Macloid and McGee, 96: 417). Its interest in the GT was part of its economic, security, regional and international strategies (Kumar, 95: 184).

A global city-state that tops the world in terms of shipping tonnage and bunker handling, with a foreign exchange reserve of S$78 billion even at a time when the "Asian miracle" was on the wane, for Singapore it was, first of all, a question of retaining entrepreneurial excellence. The issue was one of its competitiveness and productive use of its liquid assets in the face of tough politico-economic conditions in its neighborhood (Choong, 99:76). Singapore's particular interest in the formation of the IMS-GT was a reflection of this new realism. Projected itself as a "business architect," Singapore plugged into the regional economies, attracting "investment funds and
direct them to the labor and land surplus areas in Riau as well as in Johor" (Naidu, 95: 227-28).

Second was Singapore's security consideration. A trading state, Singapore's conception of security is very much in the realist tradition. Being located "in an uncertain and hostile environment", its strategy is one of self-help and power balancing so as to preserve and enhance its security. Part of the Malay world it enhances Singapore's vital economic security importance, but it suffers from strategic depth and lack of natural resources. Singapore seeks, together with similar desires from its neighbors, to enhance economic interdependence and render the environment more benign and stable through cooperative growth zones (Ganesan, 98: 579-80, 606).

Related and third point is the regional consideration of building an increasingly interdependent ASEAN that contributes to the mutuality of interests to the economic prosperity and well-being of Singapore and neighbors and vice versa. With its companies being offered the possibility of relocating their labor-intensive production operations nearby instead of other alternative locations further away Singapore wanted to enhance its attractiveness as a location for corporate headquarter activity, such as administration, logistics and procurement, marketing, photocopying and research and development (R & D). It would also gain dynamic comparative advantage and the movement up the value-added chain and help relieve the pressure on limited labor and land in Singapore (Lee Yuan, 97: 111).

Related also is the final point of international dimension, sometimes placed as "pull and push" factors. Proximity, the old trade routes, historical links, cultural and ethnic ties and language affinities all pulled Singapore and its neighbors together. The push factors included the vertical maneuvers or
the protectionist tendencies in the OECD countries and the phenomenon of globalization of production by the MNCs. Both resulted in the unprofitability of exports of undifferentiated products of Singapore, with pressures on Singapore firms to relocate some of their activities to other lower-cost locations in order to stay competitive, to have greater forward linkages and to gain control over key activities to retain its competitive advantage. Soon the Singapore government and its linked companies (GLCs) began investing heavily in the developing countries and Hong Kong so as to develop horizontal linkages in and around Singapore. In the process the IMS-GT came into being. As sub-regional cooperation expands, Singapore thus has the potential to emerge as business service center for a "Maritime Southeast Asia Economic Zone." The market forces have already driven the link between Singapore and Johor, but the Singapore-Riau link was created by the government-led initiatives. Thus, both economic imperatives and the political will contributed to the birth of the IMS-GT (Kumar, 95: 179-180).

It appears that an idea of "enlightened self-interest" colored by an intricate mix of security, politics and economics motivated Singapore to the IMS-GT. There was, however, an element of sensitiveness towards the fears of its neighbors and sympathy towards their ambitions (Kamil et al., 91: 71, 73; Pangestu, 91: 106). Emphasis was placed on the mutuality of benefits to all, with incentives to both Malaysia and Indonesia to remain on "friendly" terms with Singapore. Co-operation was to be based on the concept of partnership rather than the division of labor. Neighbors were offered positive help to upgrade their human skills, to "scramble up the technology ladder" as quickly as they can (Sandhu and Tommy Koh, 91: x).
Thus, concept of IMS-GT is, in essence, Singaporean and it is Singapore that has been playing a leading role by providing the infrastructure and management know-how, as well other supporting services. Investors optimized factor utilization by setting up their regional headquarters in Singapore and locating different manufacturing processes in the three areas according to their land and labor requirements. However, the notion of Singapore’s ‘enlightened self-interest’ seems linked to wider vision.

The Model

The IMS-GT seems an integral part of a 3-tier model. At the wider regional level, the Asia-Pacific Economic Cooperation (APEC) has emerged as the dominant force of economic cooperation affecting both trade and investment, with members from both sides of the Pacific since its early journey in 1989. Since the Bogor summit (Indonesia, November 1994) a two-track consensus on liberalization is already in shape i.e., 2010 for the advanced member countries and 2020 for the developing member countries (DMCs), thus propelling the concept of ‘open regionalism’ into global prominence (Kwan, 97: 175). This is, however, the first tier of the vision of a new structure of cooperative relationships, also inclusive of ASEAN-EU Meeting (ASEM), best highlighted in a scheme of concentric circles, that the ASEAN has envisaged (Figure 1).

The second but the most reckoning part of the new structure of cooperative relationship is symbolized by the ASEAN, the EU-type federal structure established in 1967 with five nations but by now expanded into ten with the inclusion of all the Southeast Asian countries as members. An expansion program has also been underway in terms of sphere of activity. By 2003, Southeast Asia is set to establish an ASEAN Free Trade Area (AFTA), with a commitment effort
to promote trade liberalization as well as to encourage a horizontal division of labor both in building production networks and attracting investment (Kwan, 97: 175-76) (Figure 1).

The third or new structure at a lower level is the GT of the IMS type that is projected as modified structuralism but does in a way combines some elements of the federalist model with the new geo-economic model of growth. It is also known as 'growth zones' or a regional 'geo-economic mind-set'—or "the third wave," (Toffler cit. in Johari and Kiob, 97: 51), "a living experiment in sub-regional integration" (Lee Yuan, 91: 1; Kumar and Lee Yuan, 91: 29). Indeed closer interaction and closer GT level of benefits would have spillover effects, leading to greater intra-ASEAN co-operation, giving rise "to more and perhaps even more effective forms of economic co-operation between the ASEAN members" (Kamil et al., 91: 71).

Thus, emergence of the IMS-GT has to be seen in the way the ASEAN think and operate, building "a tighter web of economic interdependence," with an outward growth structure of APEC being built from below, "a building bloc" of ASEAN and AFTA (Siddique, 98: 71; ASEAN Secretariat, 97: 155). Basically, the idea is to promote cooperation moving towards a common economic regime and drawing the region closer together (Akrasanee and Stifel, 94: 1: 13; Zainuddin, 97b: 9).

**Factor Endowments**

As for factor endowments i.e., comparative advantages in terms of factors of production i.e., availability of land, labor and capital for any growth of sub-regional cooperation, it seemed critical for Singapore to overcome the constraints to its growth owing to the smallness of its size. A core issue was also one of functional complementarity, with the aim to combine the various advantages of each member. Singapore has to enjoy the economic benefits of having Johor and Riau
function as its "hinterland" (King-Akerele, 98: 1; Macleod and McGee, 96: 443; Pangestu, 91: 106). There are combination of reinforcing influences, such as vertical metropolitan spillover into the hinterland, as well as horizontal interests such as joint development of infrastructure and natural resources, and geographical proximity and geo-political interests (Than, 97: 41; S. Chia and Lee, 93). Singapore owns sophisticated financial, marketing, and service industries, and excellent infrastructure; Johor's has land, skilled and semi-skilled labor, and physical infrastructure; and Batam's advantage is in low cost land and labor (Kamil et al., 91: 39). With such combination, the IMS-GT offers a distribution and redistribution of production processes in accordance with the comparative advantages of the sub-region, offering an "exploitation of economies of scale and agglomeration economies" (Naidu, 95: 228). This, again, is a departure from the conventional system of production and distribution under the prevailing structure, and hence, appears as a reflection of new structural change in systemic evolution, not noticeable in this scale in the earlier era.

**Perceived Benefits**

There are also perceived benefits. As a new cooperative structural set-up it serves as trans-border free economic and trade entity, without changing the national economy by either and/or both national and local governments to promote economic development in selected parts or areas. It is suitable for facilitating rapid economic growth and higher income that rely on large inflows of FDI for growth, but face rising labor costs. At the core of each triangle is the idea that diverse factor endowments among contiguous areas enhance the individual members' competitiveness in export promotion (Min Tang and Myo Thant, 95: 16-18). Such entities can be export-oriented and attract foreign capital, and hence, new approaches of development can be tested relatively safely.
The IMS-GT offers benefit the neighboring countries to practice cooperation and alleviate political suspicions. They allow the development of special areas where conditions are right for cross-border economic integration on a local scale. It is more export-oriented than the regional parent body or any trading bloc and it maintains competitiveness in exports and has been established at relatively low cost within a short period of time. It has also localized the impacts of liberalization. Successful cooperation can be extended while negative consequences can be contained in the immediate GT area. In all these traits, sub-regional cooperation seems significantly different from the prevailing structures of cooperation within ASEAN.

To sum-up, the IMS-GT represent a unique geo-economic model, offering a modified growth of economic integration at a lower level of political geography of nation-states. It is somewhat different from the old structure of trading blocs involving the nation-states in their totality, in terms of conceptualization process, factor inputs and perceived benefits. It combines horizontal influences and vertical spillover process, exploits comparative advantages of cost differentials and export promotion, entails an alliance of economic logic of complementarity, vision and political will for augmenting transborder free economic and trade activity.

Type and Distinguishing Feature

Southeast Asia saw three types of growth entities: metropolitan spillover and market force operation; government-driven effort; and the outcome of joint effort of the multilateral bodies, the governments of member states and the private sectors. The first category includes the SCGT and the IMS-GT; the second concerns the IMT-GT and the EAGA, while the GMS represents the last category.
Not all the GTs, however, had the same type of beginnings. Each of them has its unique context and each its own manifestations. Only following the formation of the IMS-GT by Singapore with Malaysia’s Johor and Indonesia’s Riau province that the momentum to ward the formation of GTs elsewhere in Southeast Asia has been gathering steam (Lee Yuan, 97: 97: 89; Fukagawa, 97: 59). The IMS-GT is suggested as "a growth spillover phenomenon" (Lee Yuan, 97: 92), an extended metropolis (McGee and MacLeod, 92)—led and promoted by Singapore; the latter forms the nexus of the IMS-GT, with a vibrant and developed economy (Kumar and Lee Yuan, 91: 4).

In all this, both the IMT-GT and EAGA-BIMP seem different than the IMS-GT. For in either case, political motivations, personal preferences of the concerned policy makers and/or local conditions influenced their decisions to advance the new sub-regional groupings. While spurred by the success of the IMS-GT and backed by the ADB, the initiatives in each case came directly from the governments of the concerned member states, with little considerations of factor inputs and economic complementarities. The common feature that binds them all together is their unique geo-economic nature, part of the same model (ASEAN Secretariat, 97: 156).

Role Perception of the Member States

The perspective on GTs is its economic-orientation, akin to forces of nature; yet, as the IMS-GT experiences would tell, the concerned member states can facilitate the formation of GTs.

I. Political Commitment

It is true that the IMS-GT was largely based on Singapore’s decision to ‘regionalise’ its economy (Naseem, 96:
yet other members joined with a shared sense of reciprocity. The entity was set in motion by a meeting between Indonesia's erstwhile President Suharto and Singapore's then Prime Minister (now Senior Minister) Lee Kuan Yew in October 1989. Jakarta had some suspicion about Singapore becoming "the commanding center" (Pangestu, 91: 108). Yet, it was aware that Singapore, though competitive, was non-threatening and in the process of proactive framework of rapid growth, Batam could be built up "as a stepping stone to further growth" (Pangestu, 91: 106) so that Indonesia is not left out of the growth process. They signed accords and created mechanisms for promoting sub-regional cooperation between the two countries towards development and investment promotion.

Malaysia was less non-committal, despite the endorsement by Mahathir Mohammed in June 1990, and less formal in adhering to the GT; yet it adhered to it knowing how Malaysia itself was going to be benefited by the spillover effects of growth of Johor. Subsequent accords on sharing water, gas and overall business co-operation gave a further momentum to the GT (Kumar, 95: 209-210). There was, thus, a symmetrical convergence of political perception and vision, but the motivations were largely economic, transforming the IMS-GT into economic powerhouses. The success of the IMS-GT is thus attributed to political will on all sides to make the vision a reality. Credibility is also enhanced by a clear articulation of the vision and the strategies to achieve it from all the three nodes added to the credibility of the GT and drew both the public and private sectors (Kumar and Lee Yuan, 91: 30).

II. 'Hardware' - 'Software' Proposition

The role of the governments is also best described "both as a participant (e.g. a source of key investment for 'hardware'),
and in defining the institutional frameworks, the ('software') legal, regulatory and policy frameworks required to anchor and sustain regional co-operation (Abonyi, 94: 6). The IMS-GT provides an example how to attract investors through public sector investments in basic infrastructure such as industrial estate development, housing, transportation, electricity, water, and telecommunications. In many instances, both the federal and state governments under 5-year plans have set up new industrial estates, developed new sea ports and airports, technical training institute and a business park, tourist destinations and the basic infrastructure. 'Software' issues, such as transborder agreements on customs, immigration, repatriation of capital, and investment guarantees etc. also received equally greater attention. Care was also taken of tariff and non-tariff issues, including pricing policies, foreign exchange controls, procurement policies, and the role of state enterprises trading monopolies streamlining customs procedures to allow faster processing time at the wharves. To facilitate the movement of goods and workers across national borders immigration and customs clearance facilities expanded, 'smart cards' system have been introduced to facilitate travel or movement of the commuters between Singapore and Johor, and Singapore and Batam.

III. Consensus-building

Sub-regionalism in the form of the IMS-GT reflected the two key concepts, musyawarah dan muafakat of the ASEAN's operating principle of consensus, which requires that a given decision is arrived at only after consensus, affording the member states an opportunity to air views and be heard. Consensus is often reached following much discussion, involving an internal processes i.e., both at the central and local levels, and an external process as well as the concerned nation-state entities (Kurus, 97: 25-26). Consensus is also needed to implement appropriate policies, both 'hardware' and
‘software,’ relating to tariffs, employment regulation, real estate, finance, foreign investment, and foreign exchange (Min Tang and Myo Thant, 95: 12-13).

**IV. Policy Coordination**

The GTs require institutional framework, or more specifically need supportive measures from the member governments concerned through policy coordination. The need for sovereign responsibility over national issues may preclude the possibility of a centralized body to oversee overall developments within the triangle. Yet, a workable track of some sort involving the relevant government ministries and departments seem pertinent to provide the necessary leadership through joint consultations and co-ordination of joint policy measures (Kumar, 95: 214).

Indeed, apart from strengthening ‘hardware’ and ‘software’ measures, the governments of the member states of the IMS-GT have taken measures through policy coordination for rapid economic growth and development so as to encourage participation of private sector investors. These included joint venture development projects undertaken by the governments within the triangle. Such joint efforts have generated investors’ confidence about national commitments to the GTs and willingness to resolve any operational problems that might arise. For both marketing and problem solving policy coordination is also required from the concerned partners of the IMS-GT (Kumar, 95: 210; Jokinen, 98: 16). Policy co-ordinating of the member states though plays a positive role, it is not a precondition, either for their formation and/or effective operation. However, bilateral cooperation has been the hallmark of development of the IMS-GT. The best example of this is the joint development of the Bintan Industrial Estate and Batam Industrial Park (BIP) and other industrial parks and estates built by Singapore and Indonesia as well as by other interested investors.
The IMS-GT is primarily an economic, and not political, concept: without economic complementarities "politically motivated GTs simply will not fly" (Yuan, 97: 92-93). Both Singapore and Indonesia signed the Agreement on the Economic Cooperation in the Framework of the Development of Batam as early as in 1979-80. Yet, not until 1989, has there been any significant steps forward were taken with regard to joint development of Batam, simply because the economic complementarities were not favorable (Lee Yuan, 97: 92-96). Indeed, the IMS-GT still remains the best-known "success" story of a GTs in Southeast Asia with forward and backward linkages as well as transfer of technology. A conscious effort was also made of possible negative environmental and social impacts stemming from the interactions resulting from formation of the IMS-GT and necessary policy inputs also followed (Naseem, 96: 66).

Political commitment is a congenial tool for ensuring reciprocity and consensus building, policy co-ordination and problem solving, promote 'hardware' and 'software' development, but it requires less political commitment from the member states than does the traditional trading blocs. Indeed, the GTs are unlikely to fly even with political commitments in the absence of economic complementarities.

**Role of the Private Sectors**

The GTs are popularly viewed either as 'production bloc' or is called lower level 'market-driven regionalism' (Acharya, 95: 174-176), not the EU-type federalist/bureaucracy-led 'regional integration'. The private sectors form 'key to the dynamism' as engine of growth, sometimes in alliance with the public sector, draw capital, providing complementary inputs in production
and development and ensures various forms of investments (see, for details, Kalam, 99).

I. Engine of Growth

The private sectors', as experienced in the IMS-GT, serve as engine of growth, acting as market force determinant exploit complementarities between geographically contiguous areas of different countries so as to gain a competitive edge in export promotion (Nasim, 96: 32). It may help avoid the political conflicts that are likely to impede its progress. The GT concept is thus presented as a policy-biased doctrine of economic liberalism, an example of market-driven integration, which seems more efficient than the state-centered integration structure represented by the EU (Acharya, 96: 28).

II. Public and Private Sector Alliance

Sub-regional cooperation of the IMS-GT type requires an alliance between the public and private sector, in both conceptualization and in development process. Though largely private sector-driven, both the public and private sectors played co-operative role and their functions need not be mutually exclusive. Rather the governments and government-linked companies are also seen as catalysts, and the importance of this catalytic role can hardly be overlooked. The governments' efforts are intended to bring about co-operation and arouse private sector interests (Naidu, 95: 228). The engine of growth--investment--is best generated by the private sector, so is the true entrepreneurial functions of spotting market opportunities, organizing factors and taking the risks. However, the public sector or the GLCs, it is suggested, equally propelled growth and industrialization, having operated like private sector companies, and operated according to market principles (Kumar and Lee Yuan, 91: 30-31).
III. International Mobility of Capital

In theory, GTs exploit the international mobility of capital and combine it with existing labor resources to produce traded goods which are then exported elsewhere. Financial mechanisms such as ‘build, own, operate and transfer’ (BOOT) and ‘build, operate and transfer’ (BOT) are now familiar features with prospective foreign investors. The GTs do attract capital of either types (Min Tang and Myo Thant, 95: 16). In fact, each GT has a group of investing countries and a group of receiving countries. The countries in the investing group provide capital, technology, and management skills to the receiving group. In the IMS-GT Singapore served as a key investor, but it also served as corporate Headquarter of about 4000 MNCs as well as destinations such as from Hong Kong, Republic of Korea, Japan, and Taipei, China which all serve as investors in the GT. Similarly, Malaysia receives investment as a participant in the IMS-GT, but is likely to be an investor in the IMT-GT (Min Tang and Myo Thant, 95: 6).

IV. Complementarities of Production and Development

The complementarities of production and development are related to capital and investment, both manifest in two forms of verticalities i.e., ‘complementarity in production’ and of ‘complementarity in development’. The first strengthen the relationships between firms, further reducing transaction costs and enhancing cooperation, with continuous movement of comparative advantage in products or production processes. In the second, due to the changes in international comparative advantage over time, industries tend to be phased out as a country becomes more developed. Operations in these industries are often shifted to less-developed areas, and then to even less-developed areas—a process that has been referred to as the ‘flying geese’ phenomenon (Pochin
Chen, 95: 74-75; Chen, 95: 74-75). Both these complementarities may contribute to “twinning” of sub-regional level of economies. In the IMS-GT both economic complementarities worked in almost natural fashion.

Thus, in terms of spillover effects of ‘twinning’ all three IMS-GT partners benefited. Nationally, Malaysia and Indonesia gained from the development of their respective territory of Johor and Riau; at the bilateral level Johor-Riau relations and Johor-Singapore relations; and multilaterally the ASEAN economic co-operation has also been enhanced (Lee Yuan, 97: 117).

V. Forms of Investment

Experiences vary from one sub-region to another in the form of investment by the private sector. In the IMS-GT Batam in Riau required greater investment in institutional and infrastructure development, transport and communication projects, or projects such as hydropower, airport construction, road and railway, telecommunication etc. In all this, it is the private sector that may provide capital, technology, training, and marketing channels. Both Singapore and Johor served more as magnets for new industrial production units or as places for relocation.

Unlike the old structure of trading blocs, thus the private sector in the GTs has a major role to play as an engine of growth. It finds its way through the complementarities of production and development, resulting in international mobility of capital. But the private sector on its own can scarcely contribute to growth, unless there is an alliance with the public sector which can facilitate the desired forms of investment by initiating both ‘hardware’ and ‘software’ development. However, both the public and private sectors must have the transparent objectives and ‘social software’ needs (ensuring education, scientific-technological skills,
Role of the Multilateral Funding Agencies

The ADB, that came into being in 1966 as a joint US-Japanese tutelage in order to speed up economic development through cooperative endeavors, is destined to play a leading role in common 'hardware' and 'software' measures for sub-regional growth schemes once the member states agree on common measures. The inspiration for this work was derived from both the IMS-GT and the SCGT. (Dutt, 97; Yasumoto, 83: 9-11). Naturally, once the IMS-GT took shape after driving efforts made by Singapore to regionalize its economy, it adopted a two-track development strategy so as to strengthen regional economic cooperation: one was to render support to the GTs as transborder production zones. The ADB's role in each case has been one of a 'third party facilitator' or 'honest broker' to bring about closer cross-border interaction and help facilitate BOOT/BOT schemes.

B. Sub-regionalism in South Asia: Initiatives, Process and Distinguishing Features

In an evolving system where market economy is a major magnet, there is an obvious striving towards economic and industrial growth, with an infusion of private sector capital and technology, a desire to replicate the growth experiences seem natural. Sub-regionalism as experienced in IMS-GT involved a shared vision for development, mutuality in cooperation and coordination of interests, an exploitation of the prevailing factor inputs and economic complementarities between and among the member states and propped up by major private sector investment. Institutionally, its growth effort witnessed modified structuralism, representing a manufacturing-export platform aimed at external market. It
includes service sector and labor mobility for the most
efficient exploitation of common natural resources and to
ensure a faster track of development serving the economic
advantage of all the component players.

The effort to replicate sub-regionalism in South Asia is
more recent. Eastern South Asia, in particular, saw an
intellectual upsurge initiated by some development NGOs,
patronized by donor agencies, in promoting the sub-regional
agenda. Official moves from the concerned governments
followed thereafter, with promises of support from the
multilateral funding agencies like the World Bank and the
ADB. Such moves were more visible in the media, workshops
and conference/dinner tables, or at best manifested in official
launching. While the SAGG remains trapped in the political
folders, Southeast Asia already has witnessed a decade of
sub-regional growth, driven by factor inputs, economic
complementarities, twinning of market forces and the private
sectors serving as engine of growth.

Indeed, sub-regional initiative in South Asia raised more
questions, concerns and political passion than providing
answers or creating growth mechanisms and cooperative
understanding. By adopting a notion of 'interdependent
development', the ASEAN mobilized its collective strength and
has already developed itself as a truly 'merchandise trade-
oriented society' (Hassan and Shams, 93: 21), creating a
momentum towards modified structure for sub-regional
growth. The SAARC nations had always exhibited higher
profiles though remained very low in performance even in
regionalism. Hence, a credible modified structure for sub-
regional growth remains beyond imagination, as they remain
simply trapped in utter poverty, being prisoners of their
political trappings.
Conceptualization Process of SAGQ: Diplomacy at Different Track Levels

Moves towards sub-regional co-operation in South Asia came at three different levels. First was the official level of diplomacy or track I. Second was the non-official level of communication and exchange or track II. Third or final was track III or the supportive role at the transnational level towards both official and non-official levels diplomacy and/or communication over sub-regional co-operation.

I. The Track II or Non-official Diplomacy

Sub-regional growth initiatives in South Asia came from the track II or non-official level with donor funding, the first ever sustained cooperative initiative that brought together experts of the three concerned countries from interdisciplinary fields, serving and retired practitioners, policy makers and public opinion builders. The NGOs involved the Dhaka-based Bangladesh Unnayan Parishad (BUP) and the Centre for Policy Dialogue (CPD), New Delhi's Centre for Policy Research, and Nepal's The Institute for Integrated Development Studies (IIDS) who have been working "to promote mutual understanding among the three countries." They carried out active intellectual campaign in favor of their notions for developmental co-operation in the sub-region, with an idealistic belief that the countries of the sub-region, despite plentiful of water and natural resource base, continue to suffer from grinding poverty, hunger and malnutrition. Through conferences, seminars and studies in Dhaka, New Delhi and Katmandu before and after the agreement on floating the SAGQ they sought to mobilize support for environmental management and water resource development in the region, having perceived regional water-streams as sources of 'hope' and of 'life' (Verghese, 93; Verghese and Iyer, 93; Ahmad, Verghese, Iyer, Pradhan, Malla, 94; Ahmad, Ahmad, and Rasheed, 94). A common thrust was water resources development projects and water sharing under
the rubric of harnessing and converting the water resources into wealth like renewable renewal energy generation. Analysis also covered a host of other areas of interest. They include integration of common effort in dam and barrage-building, common energy grid for the transmission of electricity and gas, flood-forecasting, control and irrigation, erosion and land degradation, seismic monitoring, warning and disaster management, environmental degradation and, soil etc. (Ahmed, Dixit, and Nandy, 97). The major lapses in the track II initiatives include a failure to offer formula for perceptual convergence and/or harmonization of interest of the concerned nation-states.

II. The Track III or Transnational Initiatives

The track III or transnational initiatives came from the donor agencies, like the World Bank, the ADB, the Ford Foundation and the Japanese agencies such as the Global Infrastructure Fund (GIF) and the Japan International Cooperation Agency (JICA). Their support came in the form of grant and fellowships for dialogues, studies, workshops and perhaps also for publicity. They are known to be behind much of the track II initiatives of the NGOs as well as of their sustained intellectual campaign. A Ford-funded study prescribed decentralization of water management, denationalizing it and offered an alternative vision of management system in which the communities and social groups who use it would have upper hand (Ahmed, Dixit, and Nandy, 97). It also suggested waters and water resources as a priority area for cooperation at the sub-regional level. The GIF has funneled aid to some of the NGOs, mentioned above, for studies under its comprehensive program for analysis and evaluation of different transborder infrastructure related projects, including those in the water sector.

The WB, the ADB, the JICA had their own blueprints for sub-regional co-operation. A JICA study has come up with a
specific concept of a 'Bay of Bengal growth triangle' to promote trans-border infrastructure project (Verghese cit. in Khan, Abdur Rob, 98: 10; Kalam, 96: 523-25). The WB has indeed unveiled a basin-wise scheme to promote what it projected as 'South Asia Development Triangle' (SADT), with a program of trans-boundary development co-operation encompassing most of the Ganges-Brahmaputra-Meghna basin and covering the eastern and north-eastern parts of India, Bangladesh, Nepal and Bhutan. WB plan also called for a pragmatic approach. Pointing to lack of infrastructures, policy and institutional bottlenecks it recommended appraisals of both "hardware and software options in a systematic and integrated manner" (original emphasis). Its major plan for SADT seems to be biased towards water resource development, with an in-built generation of hydroelectric power. (The World Bank, 97: 1). The WB initiative was aimed at drawing on expertise in the countries of the region, especially exploiting the trans-boundary agreements for water and energy between Bangladesh and India on the Ganges, between India and Nepal over the Mahakali, India and Bhutan over power and water collaboration. The WB plan was, however, conditional upon political understanding among the co-riparian states.

The ADB also has shown sustained interest in promoting what it conceptualized as the Ganges-Brahmaputra-Meghna Basin or the GBM Triangle sources. The proposed triangle is to include the entire basin stretching across Tibet (China), the north and northeastern states of India, Bhutan, Nepal and Bangladesh. Specifically, it suggested that Nepal and India's northeastern state of Meghalaya had the potential to produce 50,000 megawatts of hydro-electricity and to support a regional power grid could cut costs by swapping power and saving energy for better alternative uses. While offering expertise and funding for hardware projects saw the "dividend
of an effective cooperation in this sub-region is beyond imagination”, offering the prospect to Bangladesh as a financial hub of the sub-region (The Independent, 7 July 97; also, Khan, Abdur Rahman, 96: 1,8).

III. The Track I: Official Track of Diplomacy

At the official level the idea of sub-regionalism has been coterminous with the political changes in India in 1996, which followed in quick succession in Bangladesh (Khan, Abdur Rob, 98: 6). Soon after it came to power, the Awami League (AL) government proceeded, first, towards reversing the ‘adverse international situation’ i.e., drawing closer to India. To this end, it is perceived that it swiftly moved towards embracing the idea of sub-regionalism, tacitly promoted by New Delhi, to replace the 25-year treaty of friendship. It is believed to be a political move than as an economic one that has been the case of the IMS-GT. There was a great deal of euphoria and even a political upbeat in Dhaka and New Delhi concerning the changing attitudes in both the capitals to “catch up fast as a region” (Kalam, 96: 531). Hence, there was in relations in the sentiments expressed on both bilateral aspects of relations and on sub-regional growth involving both Bhutan and Nepal as a follow-up of bilateral water accords with these two countries. The AL regime’s political and diplomatic programs seemed fraught with hazards, as it had built up its popular strength in Bangladesh on an anti-Indian platform by fuelling anti-Indian sentiment, while it actually sought to strengthen its political credibility with India’s support and understanding. Secondly, on the issue of growth politics, the regime committed to establish “an environment where a dynamic private sector can thrive and play a key role” (The Fifth Five Year Plan, 98: 18). However, the country’s private sector is so poorly equipped both in capital and technology to fulfill even to aspirations for national
development, not to speak to have the resources to assume the larger responsibilities of sub-regional growth.

In reality bilateral relations, however, did not improve along a national consensus. While signing the 30-year Ganges accord with Bangladesh in 1996, India as a “larger country with a larger economy and larger resources” failed to demonstrate its largesse in meeting the national expectations in Bangladesh. There was neither a guarantee clause nor a scope for third party mediation nor even guaranteed accord over augmentation of flow to the lower riparian Bangladesh. Naturally, while the AL government was highly eulogistic and self-laudatory about the accord, political opposition in the country condemned it in the strongest possible terms. Yet, it seemed obvious that India was bent on using its asymmetrical power position in order to bargain and get maximum out of the bilateral water accord.

Indeed, the growth idea to many seemed more as a political ploy, than conceivably as a growth mechanism, to keep Bangladesh and other eastern Himalayan countries under Indian arms length. For the countries of the sub-region have had very little factor inputs or economic complementarities to exploit towards sub-regional growth. Indeed, the political initiatives have been allowed to precede the economic reasoning.

There was little realization among the concerned leadership that in the absence of necessary economic complementarities, sheer political will, geographic proximity and even historical bond of relations and cultural homogeneity put together are unlikely to contribute to the evolution of any kind of growth zone in the eastern Himalayan sub-region. However, policymakers in all the concerned capitals seemed undaunted, even euphoric about the presumable prospects of sub-regional co-operation, and proceeded speedily to launch what was deemed as a growth instrument, evidently unconcerned about the eventual outcome.
Worse still, sub-regional cooperative entity that the concerned governments were leaned towards, with their priorities, projects and mechanisms would seem so different from what its proponents in the NGOs, the GIF/JICA, the World Bank or the ADB have been advocating since the beginning of the 1990s. It needs little re-emphasizing that the NGOs have been advocating an emphasis on water resource development and power generation, a vision largely shared by the international funding agencies. There were of course varying degrees of differences among them over nomenclatures and emphasis placed on wider regional (Asia-Pacific) trans-boundary infrastructure linkages and transnational investment plans, both being major contributory factors to growth dynamism at the sub-regional level.

**SAGQ: Politicization of Growth Process and Controversies**

As the official co-ordinated campaign in Dhaka was underway in favor of sub-regional scheme a controversy was also raised as to whom the credit for floating of SAGQ goes-I.K Gujral or Abdus Samad Azad? A campaign for a 'dynamic area of growth' was already underway initiated by Gujral (Quoted in Kalam, 96: 535). Yet, perhaps for political reasons Bangladesh claimed credit for floating the idea, as the Bangladesh Foreign Minister moved it in December 1996 at the SAARC Foreign Ministers Conference held in New Delhi.

Moreover, while floating the SAGQ the political environment was made still cloudy by the concerned leaderships. The proposal "to work together" in a "sub-regional approach" between and among "friendliest neighboring countries" came in the high profile of public speeches and press conference of the leaderships of both Bangladesh and India. The sub-region, it was suggested, "could very fruitfully and meaningfully enter into immediate cooperation in vitally important areas like trade and
commerce, production and transmission of power and harnessing and better managing the vast natural resources of this sub-region for economic upliftment of our people." All this, it was believed, was permissible under Article (7) of the SAARC Charter (Staff Correspondent, 11 January 1997: 1, 12; The Daily Star, 9 January 1997: 1, 12; 30 January 1997: 1; 11 January 1997). Apparently, a political blueprint was already in the making. Meanwhile, the Foreign Secretaries of Bangladesh and Nepal were assigned the task of operationalizing the multi-sectoral blueprint of sub-regional co-operation. Both Bangladesh and Nepal were obliged respectively by the task of delivering a Concept paper and an Approach paper at the Standing Committee meet, occasioned by the SAARC summit. Bhutan and India also came up with theme papers on the rationale, admissibility of sub-regional scheme under SAARC, identifying possible areas of co-operation and modalities (Government of Bangladesh, 97). The Katmandu meeting of the concerned Foreign Secretaries (31 March-2 April 1997) endorsed the multi-sectoral program, approved a 3-phase action plan, with a definitive time frame of 10 years and formally launched SAGQ. Appropriate mechanisms consisting of Committee of Experts, the Steering Committee of the Foreign Secretaries and the Committee of Foreign Ministers have also been recommended, putting a cap on the conceptualization phase. Nepal was made co-ordinator of phase one of the action plan, but a meeting at the level of the Committee of Experts was already scheduled in July 1997 to consider the reports on the projects. It was made clear at that stage that the SAGQ was to be pursued independent of SAARC in deference to the strong reservations of Pakistan on sub-regionalism in eastern South Asia (Khan, Abdur Rob, 98: 7; Kabir, BIJSS Journal, 98: 12). Indeed, the summary of conclusions of the SAARC Foreign Ministers, held earlier, did not finally include the SAGQ concept due to the objection of Pakistan at that time (Haq, February 97: 12).
Meanwhile, in Bangladesh itself the political fallout of the highly publicized was extremely negative. The public utterances of Bangladesh Prime Minister on sub-regional cooperation had sharp reaction from the country's opposition. The sub-regional move with four states was seen as a design to make the SAARC ineffective and "establish Indian expansionism", a "conspiracy ... to destroy the spirit of the SAARC" and to dismantle it altogether. The proposal on multimodal transportation was seen as part of a plan to give corridor to India, enabling New Delhi "to use the planned corridor for movement of its troops" (Staff Correspondent, 8 January 97: 1, 12). Therefore, there was a determined call to 'resist the move' and to "undo the 'evil design' to turn Bangladesh into an Indian province" (Staff Correspondent, The Daily Star, 9 January 97: 1, 12). A lot of political heat was thus generated in Bangladesh between the government and the mainstream political opposition in the Jatiya Sangsad over an issue that requires co-operation and understanding of all segments of society. That did not augur well for the projected sub-regional grouping, signaling a failure in managing relationships to the end of growth politics i.e., peace and harmony, coupled with development.

It thus appears that conceptualization of sub-regional in South Asia has had an inauspicious beginning. It may be perceived as a high profile state-sponsored scheme, an extension of federalist approach, calculated merely to serve the particular political and/or strategic interest of a perceived regional hegemon. It thus appears more as a geopolitical model, rather than proposed as a geo-economic model. Secondly, unlike IMT-GT the SAGQ proposed a sub-regional division of labor, not quite consistent with growth endeavor. Thirdly, whether ill worded or deliberately planned, multimodal transportation and communication have the highest priority in the ordering of the identified core sectors for sub-regional cooperation. But sectors such as water, whether in terms of augmentation of supplies and/or development of
hydropower, which for a long time had been on the agenda for sub-regionalism of the NGOs and the transnational bodies, has not even found specific mentioning. Fourthly, unlike the IMS-GT, the private sectors were not enabled to take advantage of the synergies that may be available, to become a partner in the presumed growth, to exploit the economic complementarities or to contribute to the economic dynamism that would help growth in the sub-region. Fifthly, priority has been placed for mobilization of internal resources, though many hardware projects may require major donor funding. Sixthly, conceptualization of SAGQ began as a high profile political process, without the much-required vision as lower level integrative building blocks towards cooperative efforts within the region and beyond.

Seventhly, as SAGQ was being launched, with only four members, in exclusion of the other three members noting contrasting signals about relevance of the SAARC framework, there appeared a growing apprehension about the redundancy and duplication of SAARC vis-à-vis the more recent intra-regional scheme. Finally, in proposing the SADT, the GBM Triangle or the Bay of Bengal Triangle, the WB, the ADB and the JICA seemed inclined towards a replication of the East Asian and ASEAN experiences, whereas the South Asian proponents have decided to put a different cap on it.

Not that there are no potential for ‘fast-track’ of sub-regional growth in the area of the SAGQ. Indeed, seen from historical vantage point and geographical proximity, affinity in culture and language, ethnic stock and identity, there is quite a strong case for sub-regionalism in the water and mineral rich eastern South Asia. It carries common legacies and historical linkages of economic activity, even being part of a single economy under the British, with free movement of people and transport triggering a variety of investments with backward and forward linkages. Since 1947 partition,
misconceived politics triumphed over economics, and politics continues to rein in different fashion under varying degrees of domestic compulsion of each of the newly created entities.

If the sub-regional idea is to gain momentum what seems critical is to exploit the existing factor inputs and economic complementarities. But that must antecede healing the existing wounds, create an atmosphere of trust through mutual confidence-building at every level. Policymakers in each of the countries concerned should deliberate at national level, resolve the issues that seriously constrain bilateral relations, harmonize regional sentiments and thus facilitate the building of a common vision and sense of destiny.

To add substance to meaningful sub-regional cooperation involving the foregoing sectors, what perhaps seemed natural to follow was the economic logic that made sub-regional growth in Southeast Asia so much possible, rather than pursuing an overtly politically move to serve the perceived strategic needs of a particular power. Regrettably, the course of sub-regional cooperation in the eastern Himalayan region chosen by the concerned policymakers seemed destined to be different than what it should have pursued from the very beginning.

Sub-regional cooperation is thus viewed as modified structuralism, representing the manifestation of ‘market driven regionalism’ at lower level (Acharya, 95: 174-76) or more appropriately as a ‘production bloc’. The South Asian initiative has been primarily driven by official sponsorship, with very little private sector participation in the process so as to exploit the economic complementarities. The political overtone of the initiative, rather than economic logic, has inevitably led to a politicization of the process, with the result of a political acrimony and contentions both at the national and regional levels in the countries concerned.
Private Sector and the SAGG

One may suggest that there have been some private sector moves in South Asia in the form of exploratory tours, exchange of visits by the chambers. "The business community of Bangladesh has started looking at the neighboring northeastern states with great interest as a prospective area to increase co-operation in trade and investment" holding of exhibition and trade fairs, undertaking of trade and industrial missions, leading to joint ventures. Tripura Chamber of Commerce and Industry (TCCI) also visited Bangladesh in mid-August 1996. There has been some accord for joint ventures in the field of cement production between the Bangladeshi firms and the entrepreneurs from the Meghalaya. Memoranda of Understandings (MoUs) covered wide ranging areas like trade, market information, local assistance to representatives of each other for trade development. The process was reinforced when a MoU was signed between the Bangladesh Chamber of Industries (BCI) and the Federation of Industries of North eastern region (FINER) in June 1997 to expand trade cooperation with the seven Indian states. The mutual exploratory tours in each other's territory between the Chambers of Bangladesh and the neighboring Indian states of the northeast had begun in mid-1996. A number of joint venture projects had also been initiated, coupled with some business initiatives. Northeast reportedly imported 100 MT of Hilsa fish, raw jute, Jamdani sari and some other items from Bangladesh. Bangladesh, in its turn, imports coal, timber, rubber, cultured fish and agricultural products like onion, garlic and potato etc.

However, these economic transactions were so insignificant that they deserve very little mentioning as elements projected as growth zones. Indeed, the follow-up actions towards fruition of growth schemes leading to co-operative momentum at the sub-regional level have been very
few and far between. It may also be mentioned that official public sector and/or the private sector linkages between Bangladesh and the northeastern states of India have been dormant for a very long time. Infrastructure links that Bangladesh has had with these states are now part of history and the remnants that may have been left are too dismal and dated to be of any use for the requirements of modern growth.

While the recent initiatives for closer cooperation between Bangladesh and India may be seen as welcome development (Khan, Abdur Rob, 98: 12), but much of the initiatives are only in the area of exploring trade and not in sectors for growth. There has been very little economic activity involving cross-border investment either in the development of ‘borderless’ economic zones exploiting the economic complementarities or towards strengthening those hardware/software links that would further growth activity. The few MoUs signed between the Chambers or the individual entrepreneurs did not lead to any substantial development in the field of sub-regional co-operation. The governments concerned so far initiated measures, such as official launching of SAGQ, meant only putting the cart before the horse and had the simple effect of politicizing the process, creating greater hurdle for private sector co-operation towards cross-border growth enterprises. What seems to have been ignored was the economic logic that may have facilitated growth activity, contributing to the building of an economic momentum and promoting synergies so that complementarities were created which would have helped growth of ‘borderless’ economy in the sub-region.

**Transnational Initiatives and SAGQ**

The transnational initiatives at the conceptualization stage of SAGQ from the WB, ADB, JICA and GIF might have been influenced by a goodwill to contribute to the concretization of the growth process in South Asia, a process which appeared
to have won success elsewhere in Asia. The WB placed an emphasis on promoting "integrated systems approaches, in areas such as river basins (as part of the Bank's water policy)" and on energy, environment, trade and transport (Quoted in Khan, Abdur Rob, 98: 17). However, the WB seems to have lost its interest in being drawn to sub-regional projects in South Asia. This may partly be attributed to reservations of non-SAGQ members of the SAARC, and perhaps more importantly because India, the leading stakeholder in the SAGQ, was not keen about donor funding.

The GIF or the JICA, consistent with the pattern of Japanese foreign policy, have never taken any strongly biased articulative position on politics of sub-regionalism in South Asia (Khan, Abdur Rob, 98: 17). As a trans-national body, the ADB also offered to associate itself institutionally in feasibility studies of the SAGQ projects. It was only the ADB, as is represented by its Director of Program, who attended the Foreign Secretary Level meeting of the SAGQ countries, held in Katmandu in 1997 (Haq, 2 April 97: 1, 16). However, given the known Indian opposition to donor involvement in the SAGQ, one may wonder how else the ADB may offer its service to the promotion of the growth entity.

**Bangladesh's Simultaneous Sub-regional Initiatives**

Meanwhile, Bangladesh also pursued 'simultaneous initiatives' to strengthen regional and sub-regional co-operation in the fields of trade, commerce, investment, transit and tourism, which presumably "will accelerate the process of economic growth" of the country. As a result, Bangladesh joined BIMSTEC and D-8. Dhaka also pursued its interest to join the Indian Ocean Rim Association for Regional Cooperation (IORARC), and with friendlier regimes in both New Delhi and Dhaka, Bangladesh has indeed been enabled
to joint the IORARC, while Pakistan, another major Indian Ocean country remained excluded from it.

Thus, the fate of sub-regional cooperation in South Asia, officially floated, remains hanging in balance. The private sector, which in situations such as this serves as engine of growth, remained in sidelines, least interested to the presumed objective of the creation of production bloc nor is there any public and private sector alliance in sight moving towards cooperative understanding or promoting sub-regional growth. The trans-national actors such as the GIF, JICA, the World Bank or the ADB seemed virtually withdrawn by now from the scheme officially launched so different from what they wished to promote.

There are so many inter-regional/sub-regional initiatives already floated in which both Bangladesh and India are participants, without a sense of destiny or knowing fully well which one is to get priority over the other. Naturally, the analytical perspectives that saw the great divide, the floating of the sub-regional initiatives continue to allure the interested observers as well as scholars in a state of wonder and bewilderment as to the destiny and vision the concerned policymakers have chosen to fix for their people. The fate and predicament of the sub-regional entity in South Asia continue to raise persistent questions.

The 'India Factor'—Role of a Catalyst?

A basic question emerges rightaway, who is to play the role of a catalyst? Singapore played the role of a catalyst towards the success of the IMS-GT. In the process it emerged as the most dynamic player in sub-regional evolution. In the SAGQ the only player that could play an equivalent role is India, the region's most powerful economy, currently acclaimed as an IT superpower. With its substantial scientific-
technological lead and a strong private sector, India may indeed play its due part in the creation of growth zone in the sub-region by exploiting the factor inputs, synergies and economic complementarities that may exist. Yet, India seemed unwilling to play that part Singapore had played in the fruition of the IMS-GT. Rather, as in geopolitics, the 'India factor' seems to complicate any growth initiatives. Diplomacy, like politics itself, is the art of management, and diplomacy of growth is no exception. The questions of interest or motivation of the bigger as much of the smaller combines in such a growth endeavor need to be articulated to the satisfaction of all the participants. Public opinion as well as the political decision-makers in all the entities must be won over to champion the cause. This has been part of the tool of diplomacy in all the cooperative entities, whether in Europe or in the Asian neighborhood.

To many, the motivation of the neighboring colossus appears highly questionable, given the record of its performance in pursuing its relations with Bangladesh. Strong suspicion prevails in Bangladesh about India's interest in Bangladesh's gas as well as in securing transit/transshipment through Bangladesh territory to its rebellious northeastern states in the guise of sub-regional growth. Even if India was to be quite honest and forthcoming about sub-regionalism, how could one ensure a sustained effort towards that end, given an intensified scale of insurgency as well as counter-insurgency operations in India's northeastern states?

**Regional Response**

There is also the issue of regional response, in particular the responses from those countries not proposed as member-beneficiaries of the growth mechanism of SAGQ. Pakistan has already expressed its deep reservations about it. Islamabad has a perception that SAGQ is created with the ulterior
motive, a kind of new military-strategic line involving Bangladesh, the north-eastern part of India, Nepal and Bhutan, a mere "ploy by New Delhi to destroy SAARC and firm up its grip over the region" (Amanullah, 9 May 97: 8). The Maldives is also opposed to SAGQ. Colombo, though has 'excellent relations' with India, concurs with both Pakistan and the Maldives that the sub-regional group would undermine SAARC (Senadhira, 13 May 1997: 5). Even Nepal, an early convert offering the initial 'approach paper', has raised questions about transparency in the sub-regional forum (Amanullah, 9 May 1997: 8). As a Himalayan neighbor China is not unmindful about it, as the Chinese ambassador in Dhaka is quoted saying about the sub-regional grouping: "We are closely watching the developments. We do not truly understand it" (Amanullah, 9 May 97: 8).

**Summing-up and Conclusions**

The paper offered perspectives on the IMS-GT and the SAGQ, the two sub-regional entities of Southeast and South Asia, touching on their conceptualization process, growth model and functioning. The IMST-GT growth endeavors conceptually represent an experiment in 'modified structuralism', a geo-economic unit of integration at a lower level. Sub-regional cooperation in South Asia remains stymied, to say the least, and even stalled, despite the launching of the SAGQ. Both the NGOs and the donor agencies contributed to the conceptualization process mostly at the non-official levels. The latter also offered expertise and resources. At the level of official policy, however, there has been very little movement in South Asia, except for an overt politicized maneuver to project some entities with no credible or practical tools for co-operation for growth at the sub-regional level. Since April 1997, SAGQ has not seen any change in its developmental voyage. Hence one might, as well,
suggest that sub-regionalism in South Asia faces an uncertain journey, though at the conceptual level there is a blueprint with a caption already in place and there have been official commitments from the concerned actors to pursue the presumed growth objectives.

Some prognosis will now be offered for reflection by scholars as well as for reckoning of the issues by the policymakers keen to promote cooperation at the sub-regional level. The issues touched upon include some major growth constraints, some aspects of systemic change, the sustainability of modified structuralism in the form of the GTs, and its replication in South Asia for fruition of schemes like the SAGQ. The sub-regional efforts may contribute to a more convergent international system that will be peaceable and prosperous, should the member states and others concerned such as the private sector entrepreneurs and the funding agencies project their role perception and initiate growth endeavors accordingly. In a world that is engulfed swiftly in schemes of regionalization and globalization, it would be foolish for any South Asian country to have a 'go alone' policy or to keep its door shut for movement of goods and/or people. Looked at it from the conceptual vantagepoint, no prudent South Asian having sense of history and faith in a common destiny can oppose both regionalism and sub-regionalism. However, the benefit should be fair as well as perceived to be fair to all the participants.

As it appears, harnessing of water resources though a crucial area and so much advocated by the interested NGOs may take a back seat at the sub-regional concept. The concept paper is known to have placed a priority to problems of illegal trafficking of women and children, cross-border trade and smuggling, and issues of common concerns like environmental degradation and river management, combating
insurgency and terrorism in the region (Haq, 6 February 97: 1, 12). Some of these have political overtone, and hence may provoke political controversies.

The logic of cooperation in South Asia whether at the regional or sub-regional level depends on diplomacy in its right earnest and calls for statesmanship. It also requires a climate of steady good will and sustained confidence internally and that, too, needs to be pursued simultaneously with all the countries in the region and sub-region--something which very often not taken into account. Regrettably, impulsive pattern of politics and amblyopic decisions by the concerned leadership continue to shatter the hope of cooperation.

Given the political responses at the national, sub-regional and regional levels, it is felt that a growth entity such as the SAGQ needs to be de-linked from political contentions/motivations as far as possible. A mechanism projected as growth entity should be based to the fullest magnitude on economic rationale so that its full potential can be obtained to the advantage of all the participants.

As compared to Southeast Asia, South Asia suffers from conceptual lacunae. A critical failure lies in correct envisioning. It is essential that cooperation and growth at all different levels be linked in a coherent framework. Indeed, the SAGQ did not get through the necessary conceptualization process nor was it preceded by a ‘grooming’ stage, allowing the economic complementarities to develop, as happened in the IMS-GT. It is true that elements such as geographical proximity, traditions of history and commonalties of culture are very much present, but the critical elements required for turning the region as a ‘dynamic growth zone’ are missing. These include the much-needed factor inputs, economic complementarities and the synergies, without which sub-regionalism can only be a convenient or an empty political
slogan. Even as a political tactic, an essential element is public opinion mobilization and hence consensus-building in favor of developmental cooperation so that a momentum would have been built towards an evolving sub-regionalism and its possible replication in South Asia. The potentials for developing a dynamic sub-regional growth zone are there, but they need to be fully exploited and political efforts can be marshaled to gain from other factor inputs.

To make any collective growth structure effectively work, nationalistic sentiments have to take a back seat. Unfortunately, while regionally nationalism in Asia is on the wane, it has been on the rise in India, the largest stakeholder in SAGQ, featuring the number two most nationalistic country in the continent, next to South Korea (Leon, 99: 1). This has its counterbalancing effects. It does not augur well for the future of sub-regional cooperation involving India in any of these ‘growth’ entities.

The IMS-GT is mainly driven by the private sector initiatives (Edward Chen and C. H. Kwan, 97: 1), but the private sectors in the SAGQ countries, are drawn in each other’s territory eyeing greater interest in marketing their products than making investments in any export-oriented growth endeavors. FDI is a major growth vehicle that enhances both intra-regional trade and investment (Pangestu, 91: 180-182). But the SAGQ countries are among the lowest in attracting FDI.

Sub-regional growth mechanism of the IMS-GT is linked to two ‘virtuous circles of economic growth’; a domestic virtuous circle and a regional virtuous circle. The former entails policy reforms attracting inflow of FDI, technology and managerial skills, which, with its knock-off growth effects increase the competitiveness of domestic production, ensure openness, giving rise to increasing FDI-trade nexus on the basis of the
networking of firms and industries in particular (Edward Chen, 97: 179-80). The regional virtuous circle explains "the diffusion of economic growth from one group of economies to another" following an export-oriented 'flying geese' model of industrialization. It links the IMS-GT to the Asian Pacific region, a process that began in Japan, rippling out to the Asian NIEs and later to the ASEAN economies and China (Edward Chen, 97: 179-80).

Most SAGQ countries have no virtuous circle in function. Rather most of them are internally bleeding with politics of confrontation and lawlessness. Regionally, they carry 'the baggage of history', experiencing 'vicious circles' of mutual rigidity and politically practicing the strategies of indirection, 'minimum nuclear deterrence' and limited war. There is little mental mold to replicate sub-regional growth mechanism and the regional cooperative entity itself remains deadly trapped in the garbage heap of politics.

Southeast Asian nations, once viewed as 'Balkans of Asia' (Alagappa, 98: 658) promoted a new geo-economic model of modified structural growth, with vision of a growth dynamism. The ASEAN nations are currently eyeing on a common East Asian currency, a common market and eventually an East Asian community (The Japan Times, 99:1). Overcoming the problems of the past the ASEAN leadership looks forward to 'higher and sustainable growth' in the future, thus eyeing to reclaim ASEAN's rightful place on the international stage (ASEAN's confidence, 99: 20). In all this, South Asia seems so very different from their nearest neighbors in the East.

It is now for South Asia how to emulate or replicate the ASEAN to suit their particular situation or circumstances. In case of IMS-GT, Singapore is more identified than other countries of the sub-region for its dynamism and success. Singapore is "a unique city-state with its unique insecurity
syndrome" that moved as a highly vulnerable state from a search for survival "through sub-regional co-operation, regionalism through ASEAN, globalization, adroit diplomacy with neighbors and friendly powers beyond, and defense networking" (Singh, 99: 272, 307-308). As a 'market state' its vision includes not only 'security hardware' and 'security software' (representing a combination of traditional concept of total defense strategy and comprehensive security) but also 'heartware' (meeting intellectual, socio-cultural and psychological needs of the Singaporeans). Beyond sub-regional co-operation, Singapore's focus has been since 1990s on "'5A's: ASEAN, AFTA and regionalization, APEC, ARF, and ASEM [ASEAN-European Meeting]" (Singh, 99: 282; Chin Wah, 99: 290-306). Are the SAGQ nations, India—the leading stakeholder—individually prepared to confront similar challenges, equipped with similar focus or perspectives? Similarly, the IMS-GT fundamentally rides on bilateralism, rather than trilateralism.

The experiences of the IMS-GT offer a challenge for the SAGQ partners and for the rest of the region. The policy makers in the sub-region/region must have a vision and the vision must include, as in the case of IMS-GT/ASEAN, to create and/or enhance complementarities, to contribute to socio-political cohesion, to allay or minimize the insecurity concerns. Lastly, the vision must contribute to wider regional integration (Than, 97: 53-54), enabling them to get away from the historical baggage, and to test the political will and commitment to a greater transnational economic zone. To get off the ground and to ensure longer-term possibilities they require many political consensuses at national and bilateral level as well as sub-regional and regional levels. The GTs can only be replicated if complementarity in factor endowments exists, and certain basic parameters such as political stability, coordinated planning, and joint investment promotion are set
in place (for similar view see, Kumar and Lee Yuan, 91: 24-25). All this requires commitment, adjustment of interests, hard work and planning with vision. Like the ASEAN structural model of growth, there is a critically missing link of a comparable SAARC structural model of growth from the bottom-up to the outer circle linking the SAGQ to the IORARC-APEC and to the rest of the international community.

From the conceptual point of view, the idea of the GT is appealing to South Asia, as it was for Southeast Asia, as there are potential economic gains, "both of a static and dynamic nature, to be captured by all ... participating countries" (Kamil et al., 91: 62). However, in experimenting with such structure, the objectives must be quite transparent. As a process it is "...better to be practical and start small", as in the IMS-GT, "rather than conceive multisectoral and mega-projects and then fail. Obviously once successful, conceptual and spatial extension to "other adjacent areas is entirely possible, even constituting the natural course of events." (Lee Yuan, 97: 118). In South Asia, the very objectives of sub-regional co-operation, not being quite transparent, are subject to question, and the scope of activity is proposed to be multi-sectoral, that proved to be unrealizable.

Singapore is generally perceived as the largest beneficiary from the IMS-GT (Naidu, 95: 238), and it has been its own sustained drive that has kept its pace. Even though IMS-GT was largely the result of market forces, particularly those arising from the Singapore-Johor link, its success has also depended on massive public investments in infrastructure in Riau. Singapore and other countries have underwritten a significant portion of these investments, which has led to massive inflows of capital into Riau and more rapid industrialization and development of tourism and other service-based exports there. The fact that IMS-GT rests on
just one dynamic partner has caused its economic relationships to assume a distinctly bilateral nature compared to those that take place under the SCGT (Naseem, 96: 33-34).

Coming to specifics, once the accord such as the SAGQ is reached, comes the issue of giving practical shape to it or implementation of the concept in a region such as South Asia, requiring full harmonization, whereby there would be freedom of movement of goods, services and people. That is always a very difficult proposition in South Asia, given IMS-GT experiences involving Indonesia or prevalence of similar fear of influx in the other GTs. None of the South Asian countries seem yet prepared for free movement of goods, services and people. India, the largest stakeholder in the sub-region, bases its strategy not on co-operative security but on expediency, with a strong reliance on indirect tactical means so as to fend off free movement of people (Bajpai, 98: 158, 168). To be more precise, in the SAGQ, there is a prevailing fear especially in New Delhi that there would be a potential influx of Bangladeshi or Nepalese labor, posing a tremendous problem of harmonization of interests of the concerned member states.

The experiences of the IMS-GT should not be lost. A GT is likely to be successful if it does not entail the sharing of markets; rather, "it is a pooling of resources to attract investors who intend to market their products outside the region" (Pangestu, 91: 110). Some goods may indeed enter the local market, but that should not be the primary target. In other words, a GT to be successful, should be export-linked, and not target each other as market—a point may be of critical importance in the context of asymmetrical nature of SAGQ economies.

Thus, there has to be a stimuli-response linkage between the government policy and the private sector involvement. A quick response in terms of policy changes and the clear lead
taken by the private sector may be seen as indicative of a strong political commitment to start the development quickly and vice versa (Pangestu, 91: 106). The private sectors in South Asia still lack the kind of dynamism needed for seizing upon the opportunities offered for cross-border investments.

Nationally, Bangladesh can and must learn from the IMS-GT experiences how to maximize the benefits from the SAGQ. This entails multidisciplinary appraisals, careful policy reappraisals and eventually formulating policies, keeping in perspective three broad areas of national/regional interest: economic, sociopolitical and security concerns.

As for Bangladesh, through 'simultaneous initiatives' for regional and sub-regional cooperation Dhaka in quick succession has committed itself to many cooperative entities, raising questions about costs and ends. While eager to pursue sub-regional cooperation, the government must also ensure that it carries the public opinion with the proposition. It is not an easy task, given the deep distrust of the neighboring giant. Rather with an increasing fence-building and watch-towers, chicken and hen-like game of 'push-in' and 'push-back' of alleged migrants from Bangladesh, and an endless border skirmishes all along the common borders give the Indo-Bangladesh relationship an image of extended Kashmir frontier between the Indian-Pakistani sides over the disputed territory.

Obviously, such an enemy image has to change radically if the SAGQ has to have a credible or meaningful beginning. If Dhaka feels indeed convinced about the utility and relevance of the sub-regional cooperation scheme, then it should use whatever diplomatic leverage it has with New Delhi to bring about tranquility in the common borders and to make appear as more business-friendly. This is the minimum. The second is to get India engage in a pattern of relationship that is
consistent with the principle of mutuality in both political and business matters. It means that India must be willing to give concessions to the proportion of its ability vis-à-vis Bangladesh, and not the other way around.

Therefore, sub-regional growth model involving Bangladesh and others in the SAGQ does deserve more serious policy pursuits from New Delhi. One persistent problem is the ongoing insurgency in India's northeastern states, the presumed partners to growth dynamism. Obviously, the intensity and scale of insurgency and counter-insurgency operations there have to be to a level so that investors may feel attracted to the benefits of borderless economy. Similarly, to attain the sub-regional end India should allow the Northeastern states not only to seek a renewal of the historical communication links with Bangladesh but the latter should also be allowed to develop the economic complementarities. All this would include hardware/infrastructure development in northeastern territories connecting.

In the foregoing backdrop, India's current policy of more cross-border openings with Bangladesh may be seen as being in the right direction, including reopening of road and rail communication. Its credit support for infrastructure development in Bangladesh also does have positive potential for an improvement of both economic and political climate. However, infrastructure development in the entire sub-region would need not only contribution from the concerned national governments but also from the multilateral funding agencies. India is known to be allergic about any kind of international involvement in sub-regional development. This has to change.

In order to create economic complementarity, Bangladesh must also take a proactive view with accelerated measures to attract the most beneficial type of investments, and maximize the benefits from foreign investors such as by creating
backward linkages, transfer of technology, and so on. There may be accord on joint development of 'hardware' projects, infrastructure/service sector development or development of water/energy resources; in each case proper appraisals and studies be made so that the benefits be maximized and 'best deal' is agreed upon. Bangladesh cannot hope to become a Singapore, given the current state of its economy and technology, but it can work towards a role assumed by Johor or Batam.

The country also needs to carefully appraise the negative spillover effects at the socio-political level. It may perhaps be true that "negativism is often based on perception than on fact" (Pangestu, 91: 113), but perception itself remains critically important until it is irrevocably proved to be a case of misperception. Thus, it seems crucial to get the facts first in right earnest and then evaluate policy measures to minimize, offset, and even eliminate any perceptible negative consequences.

To be more specific, it is important that the country's overall security concerns are also identified and be placed in their proper perspective. Security concerns again involve national psychological fear, often based on misperception, but given the asymmetry, history and geopolitics of the region, does deserve critical appraisal and consensus-building nationally and how the promised growth pole must eliminate long-held psychological anxieties.

At the national level, there are political challenges such as harmonization of national sovereignty and developmental aspirations of the nation as a whole. In case of IMS-GT, there was that constitutional problem. Singapore is a sovereign country, while both Batam and Johor are parts of sovereign states. For obvious reasons of gaining from economic benefits, the state governments naturally inclined towards the advantages arising from a spillover of Singaporean growth
activity. Hence, they accorded priority to the GT, but this has been source of difference, if not tension, between the federal and state governments, especially in Malaysia over allocation and management of resources, distribution of benefits and potential socioeconomic problems. However, it was the positive spillover effects that were taken into account while accommodating the federal government sensitivities (Kamil et al, 91: 62-67). In the SAGQ, there are potential problems of similar nature between the Indian federal and state governments, especially because the latter have strong insurgencies to cope with, and then have poor infrastructure facilities. On both counts they would require both federal attention and allocation. But in a democracy like India that itself is undergoing a transitional phase of modified structuralism (Bajpai, 98), tension may easily crop up involving issues of fund allocation, autonomy and distribution of benefits country-wide, issues that are likely to hinder any effort towards modified structuralism at the sub-regional level. All such challenges need careful consideration.¹

The reopening of the old roads and rail routes between Bangladesh and India are in the right direction, so is the desire for a functional and effective transit system linking the smaller landlocked countries of Bhutan and Nepal through Indian and Bangladesh territories to the sea-ports. Seven northeastern states of the Indian Union should also have access to the nearby Bangladesh ports. Priority must be placed on new, modern infrastructures that would facilitate cross-border business and investment, enhance tourism, fully exploit the existing complementarities, and create new synergies that would contribute greater level of economic interaction. To the above ends, the governments of the sub-region should act largely as facilitators, but, as in IMS-GT, the private sectors should be encouraged to play the pivotal role as engine of growth. Similarly, the interested international
players and/or funding agencies as well as the MNCs should also be encouraged to combine with the regional/national private sector players so that the people of the sub-region may truly benefit from enhanced cooperation and economic interaction. Of course, there should not be any growth initiative at the expense of the ecology and environment of the sub-region. To all such ends, political decision-makers of the sub-region should act as 'software' or regulatory guardians, ensuring that no 'hardware' or infrastructure project or growth enterprise can and should affect the 'heartware' involving the people and balance of nature.

The SAARC members, like their ASEAN counterparts, should also have perceptible efforts toward development of 'security software,' 'social software' and 'heartware' involving people who are drawn into the process, taking into account the micro-level aspirations of individuals and societies at large.

Bangladesh must be prepared by creating a 'window of opportunity' for itself as well as for others. Yet, Bangladesh alone cannot shape the destiny of the entire region or sub-region for that matter. It is too small a country to be able to shape the destiny of the region or sub-region, though it can play its due part to play a role assumed by Johor and/or Batam. The country's geo-economic location and geopolitical status in the sub-region confer her such a favorable position, placing itself in a wider image of a 'space-economy'. It does have its internal political as well as resource constraints. The lessons of dynamism and success of IMS-GT should not be lost: the vision must be one of South Asian togetherness. A politicized approach to overcome the historical baggage must be avoided.

Evidently, the core players in the process are both Bangladesh and India so that sub-regionalism becomes a
replicable model in South Asia itself. Both have to play a key role, because of the geopolitical fate and predicament facing their entities, the political-emotional bond linking them both since the days of the Bangladesh Liberation War as well as the strong cultural bond existing between them. Both must try to harmonize interest and avoid steps that might provoke misperceptions.

Evidently, mutuality should serve as the guiding principle in bringing the four sub-regional players together in graduating their current relations to one of mature economic partners. The onus is on India as the region’s largest power to show its largesse in accommodating the needs and aspirations of the smaller neighbors. For India the best bet in its South Asian policy is to try to consolidate its relations in the eastern Himalayan region before it considers workable harmony in the western front. The vision of regionalism and cooperative security must not be lost. Existing strategic priorities based asymmetric mold must be recast. Successful development partnership in the eastern Himalayan sub-region would promote regional integration from a lower level, serving as a magnet to draw others in replicating the process in the rest of the region. Indeed, if the SAGQ were to prove as a successful growth entity at least two similar GTs may be envisioned with (i) Southern India, Sri Lanka and the Maldives; (ii) Western India, including the contentious Jam and Kashmir Valley, Pakistan and Afghanistan. South Asia may then look for a virtuous model of development to replace the current vicious model of conflict.

Succinctly, there is a need for a pragmatic approach, consisting of (i) consensus-building, (ii) functional and/or sectoral approach towards sub-regional co-operation, (iii) priority being placed on an agreed growth agenda, (vi) promotion of market forces, (vii) exploitation of the existing
synergies or strengthening economic complementarities. All these mean an avoidance of state-sponsored multi-sectoral approach and a fashioning of a grand political design, and that of politically sensitive areas for sub-regional co-operation, at least for the moment. Are the SAGQ leaderships prepared to replicate the IMS-GT as a model and catch up the fast track of sub-regional growth of the eastward neighbors so that their polities can meet the challenges of the new millennium?

References


Aggarwal, Narendra, "Asia in Need of Social Software," The Straits Times, 10 March 1999.


Edward K. Y. Chen and Anna Ho, "Southern China Growth Triangle: An Overview", in Myo Thant, Min Tang, and Hirishi Kakazu (eds.), Growth
Sub-regional Growth Mechanisms


Staff Correspondent (11 January 1997), "Prime Minister Warns: Bye-elections if BNP MPs Fail to Return to JS in 90 days", *The Daily Star*. 

Staff Correspondent (8 January 1997), "Sub-regional grouping a move to destroy SAARC: Khaleda", The Daily Star.

Staff Correspondent (9 January 1997), "Vow to resist `evil design': Delhi to turn 3 countries into its provinces: BNP", The Daily Star.


Figure 1. A Schematic Representation of ASEAN’s Structural Model of Growth

Source: Modified schematic representation by the author of a multilateral economic co-operation figure in C H Kwan, 97: 175 on the basis of information in ASEAN Secretariat, 97: 137-156. The three-tier ASEAN model, as is currently viewed operational, represents a combination of bottom-up approach as well as the top-down approach of EU-type of federalist integration. The GTs at the inner circle are viewed in the schematic order as modified structuralism of the federalist structural effort of integration at the level of the international system. While the ASEAN and AFTA lie in between the inner circle and the outer circle, both provide the necessary inputs for growth dynamism at the level of the GTs as well as the driving initiatives for exchange and interaction at the wider regional level of the Asia-Pacific and the international system.
Source: The three-tier schematic model proposed for South Asia symbolizes a replication of the ASEAN approach of modified structuralism toward lower level of integration. But it does envision a South Asia cooperating both from below as well as from above. While the SACQ at the inner circle is a quadrangular cooperative entity, there may also be cooperative triangles both in western South Asia (involving western states of India, Pakistan and perhaps Afghanistan) and southern part of South Asia (involving South India, Sri Lanka and the Maldives). The SAARC may be made more dynamic and an actively functional body, with reinvigorated efforts towards SAPTA and SAFTA, while at the outer circle level efforts should be driven towards setting up South Asia’s links with ASEAN, the APEC, the ARF and the IORARC.
SOUTH ASIA GROWTH QUADRANGLE: OPPORTUNITIES, POLICY INTERVENTIONS AND GROWTH PROSPECTS

Mahendra P Lama

Introduction

The sub-region in the eastern fringe of South Asia consisting of Bangladesh, Bhutan, Nepal and North-East India (NEI) also known as South Asia Growth Quadrangle (SAGQ) have several critical and strategic advantages in jointly participating in the development process of the region. These advantages emanate from geographical proximity, socio-cultural cohesiveness, economic complementarity and scope for opening towards further east to the members of the ASEAN. This economic exchange becomes easier due to similar language, culture, life style and lower transaction costs. On the other hand, economic complementarity is the result of various factors, both nature-based and also largely evolutionary in character. The widespread economic malaise in this sub-region can be tackled effectively by both sharing the development resources and experience.

Despite much talked about growth potentials in the sub-region, it has been characterized by low economic growth, poverty-stricken social structure and utterly inadequate provisions of basic needs. The entire SAGQ region with a total population of over 183 million, has been ranked low in human development indices and is considered as low-income region. This region also has one of the largest concentrations of people living below the poverty line. (Tables 1 & 2)
Table 1. South Asia Growth Quadrangle: Macro Data

<table>
<thead>
<tr>
<th></th>
<th>Bangladesh</th>
<th>Bhutan</th>
<th>Nepal</th>
<th>Sikkim</th>
<th>North East</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area (000 Sq Km)</td>
<td>143.9</td>
<td>46.5</td>
<td>147.1</td>
<td>7.1</td>
<td>255.1</td>
<td>688.6</td>
</tr>
<tr>
<td>Population (million)</td>
<td>134.6</td>
<td>2.0</td>
<td>22.5</td>
<td>0.54</td>
<td>38.49</td>
<td>183.03</td>
</tr>
<tr>
<td>Literacy (%)</td>
<td>40.8</td>
<td>42</td>
<td>40.4</td>
<td>SM</td>
<td>SM</td>
<td>SM</td>
</tr>
<tr>
<td>Per Capita GNP (US$)</td>
<td>369</td>
<td>400</td>
<td>200</td>
<td>SM</td>
<td>SM</td>
<td>SM</td>
</tr>
<tr>
<td>Urban Population (%)</td>
<td>23.9</td>
<td>6.9</td>
<td>11.6</td>
<td>9</td>
<td>14</td>
<td></td>
</tr>
<tr>
<td>Human Development</td>
<td>132</td>
<td>130</td>
<td>129</td>
<td>115 (India)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Population and literacy figures of the Indian States are of 2001 Census. For other countries, it is based on 1999 census. Separately Mentioned (SM).


Table 2. Per Capita Income and Literacy rate of The NEI States

<table>
<thead>
<tr>
<th></th>
<th>Per Capita (*) Literacy Population</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Income (US$)</td>
</tr>
<tr>
<td>Arunachal Pradesh</td>
<td>259</td>
</tr>
<tr>
<td>Assam</td>
<td>158</td>
</tr>
<tr>
<td>Manipur</td>
<td>164</td>
</tr>
<tr>
<td>Meghalaya</td>
<td>201</td>
</tr>
<tr>
<td>Mizoram</td>
<td>228</td>
</tr>
<tr>
<td>Nagaland</td>
<td>232</td>
</tr>
<tr>
<td>Sikkim</td>
<td>225</td>
</tr>
<tr>
<td>Tripura</td>
<td>129</td>
</tr>
</tbody>
</table>

Source: (*) Computed from Per capita Income (Rs) ($1 = Rs 42) Ministry of Finance, Economic Survey, 1998-99, Government of India

The estimated number of people below poverty line in Bangladesh was 47.5 percent in 1995-96. Though the rural poverty remained stable, there was a sharp increase in urban poverty from 13 percent to 18 percent of the total poor population during 1986-96. This also indicated the spilling over of rural poverty in the urban areas. This was accompanied by a
noticeable increase in inequality as indicated by Gini Coefficient, which rose from 0.36 in 1983-84 to 0.432 in 1995-96.¹

In Bhutan, though there has been no authentic and independent study done on poverty and income distribution, it is estimated to have a majority of the people below the poverty line. In Nepal, the size of population living below the poverty line has been found to be 42 percent in 1996. Within this also 24.9 percent is considered to be the poor and 17.1 percent is estimated to be ultra poor.²

Despite so much of pumping of resources, the state of poverty in the Northeast India continues to remain dismal. Though the percentage of population below poverty line has steadily gone down in most of the Northeast states during the twenty years period of 1973-74 to 1993-94, the figures in absolute terms have in fact sharply increased. For example, in a small state like Arunachal Pradesh and Meghalaya also though the percentage of people living below poverty line have come down steadily from 51.93 to 39.35 percent and from 50.2 to 37.92 respectively during the period 1973-74 to 1993-94, the actual number of people below poverty line have increased from 2.66 lakh to 3.73 lakh and from 5.52 lakh to 7.73 lakh respectively during the same period. In other words, the total number of persons below poverty line in the entire Northeast States including Sikkim has increased from 10.9 million in 1973-74 to 13.49 million in 1993-94. This means 4.2 percent (3.39 percent in 1973-74) of the people below poverty line of India is concentrated in a land area of 7.97 percent of the country.³

More alarmingly the extreme concentration of the people below poverty line in the rural areas go to show that the rural development programs particularly the poverty alleviation measures have not really benefited the rural poor. This does not augur well for the States, which have put in so much of
resources under the planned development process. All these have very adversely affected the growth prospects in the region.

**Rationale for Regionalism in SAGQ**

Unlike cooperation and economic exchange at the national level, in the SAGQ region level cooperation, political risks are likely to be localized and traditional constraints are frozen. Failures too can be localized without damaging national interest in a big way. In such a level of cooperation it will not be necessary for a participant to change its macro policies, ideological profile and long term objectives of socio-economic development.

The SAGQ cooperation is seen as a practical solution to this sub-region's socio-economic problems. The expected economic restructuring and greater specialization in production and human resource development will lead to a higher level of economic activity and will allow this sub-region to acquire competitive edge in the world market.

This region has highly contrasting topographical features ranging from the high mountainous and hilly regions to the hot terai belts. This agro-climatic variation provides one of the most attractive and richest bio-diversity in this region. This region is endowed with a rich variety and massive deposits of natural and mineral resources. This region also possesses vast stores of clean and renewable energy, perennial rivers and high rainfall. However, a very small proportion of this great potential has been exploited so far. On the other hand, this region has been facing serious shortfall in energy supply both because of the multi-fold increase in demand as well as high cost of energy from sources other than hydel power.

The transport infrastructure developed during the British period provided a coordinated network of road, rail, inland
water transport (IWT) and coastal and port navigation, with Calcutta and Chittagong serving as outlets with the rest of the world. The Second World War requirements in the region further focused on the strengthening of the overall transport infrastructure in the region. However, the partition of the subcontinent dealt a cruel and severe blow to the States that emerged out of it. Emergence of the then East Pakistan separated the Northeast from the rest of India, joined only by the narrow Siliguri corridor. The transport channels and arteries-sea, road and rail all lay truncated and disheveled.

For example, before partition while Agartala to Calcutta, through Bangladesh was only 350 kms away, now through Siliguri corridor it is 1645 kms distant, and through more difficult terrain and routes at that. Bangladesh was left with the major portion of this region’s transport network but without the lucrative centers of trade and commerce that fed the freight and passenger traffic through her transport arteries. The substantial volume of unofficial/underground border trade is directly related to these destructions of well built channels of trade. This has had a deleterious impact on the production and consumption choices of the people in the region, sub-optimal use of the resource base and disintegration of market.

The permanent disruption of the freight services between West Bengal and Tripura which served also Manipur, Mizoram and other areas of the North East as well as Bhutan and Nepal and non availability of Chittagong port to these areas have very adversely affected the coastal traffic and freight flows between West Bengal on the one hand and Tripura, Mizoram and Manipur areas on the other hand. In the absence of coastal route and meager air services, the only route to Tripura, Manipur and Mizoram is through Siliguri Corridor or through IWT route involving delays and modal splits.
For the above reasons, this region as a whole and all its units have been subjected to substantial economic and social costs. Assam has been draining its wealth in terms of higher transport costs for procurement of food articles to the extent of Rs. 3500 crores during the 8th Plan period.

Lack of transport and transit facilities have shrunk the extent of market in this region as most of the primary production - food articles, vegetables, fruits and other farm produce remain tied up with local demands and consumption. Most of the units in this region suffer substantial on-farm and transit loss in bulk of produce, high price differential at farm gate and urban centres of consumption, and diseconomies of scale in production, marketing etc.

The proposed SAGQ region offers immense investment opportunities in hitherto unexploited areas like natural gas, port facilities, forest, water, tourism mineral resources, health, education and human resource development and major traditional commodities and products like tea, jute, leather, fishery and horticulture. An important area for cooperation in the region will be bio-technology and genetic engineering. This is mainly because of the rich bio-diversity of the region. This provides a good scope for joint investment in the technological fields.

One of the most critical factors that hindered the growth in this region has been the poor level of infrastructure facilities. This is directly a result of scarcity of resources for development. This resource crunch is likely to continue for long unless there is a drastic improvement in the domestic saving rates of this region.

However, the prospects that these infrastructural projects will open a wide variety of gainful investment opportunities have started attracting the minds of some of the well-known private investors at both domestic and international level.
The on-going economic reforms could lead to a more focussed regional integration. In the run for private investment, these member countries have widely varying foreign direct investment (FDI) policies which could ultimately lead to fierce competition among these countries for the regional market. A relevant aspect of all these investment related activities is the presence of a large number of trans-national and other foreign companies in the region and the conspicuous absence of any cross border investments from within the region.\(^4\)

It is not that the opportunities do not exist and hence the economics will fail. It is something more than this. The bias against the regional partners are in-born in the governmental machineries which so far monopolized the decision making process and literally kept the private sector alienated from the mainstream economic participation.

This region is the gateway to the fast growing and lucrative markets in Southeast Asia, Far East and Australasia. The large-scale illegal border trade in a wide range of products across the borders of all the partner countries in the SAGQ region demonstrates the availability of market and the need to bring these markets under proper economic management. This will be greatly facilitated by both the revival of the traditional border routes and the easy accessibility to sea routes.

SAARC Regional Project Fund has been under operation and has identified a number of regional projects for implementation. Feasibility studies of over 14 projects have already been done. However, no identified project has been implemented so far mainly because of the lack of political will and financial resources. The main reason for lack of political will is that not all the countries of the region are interested in these projects. The political will is likely to be forthcoming if these projects are confined to a few states having interest in them and having distinct advantage in carrying them out as
cooperative joint ventures. This is where the SAGQ regional projects stand to gain.

Therefore, what the SAGQ region lacks is political commitment to convert the huge geography and population into a thriving market, serious policy coordination to maximize the complementarity gains, infrastructure facilities to exploit the latent potentials and make use of socio-cultural similarities for collective enhancement in the quality of life.

**Broad Objectives**

The strategic intent of the SAGQ region should be to optimally utilize its natural, physical, economic resources and social capital and sustain on its core competence.

i) To initiate harmonization of broad policies particularly at the local level.

ii) To generate investment for the development of infrastructure and human resources.

iii) To work towards creation of exports capacities.

iv) To help maximizing trade complementarities through production complementarities.

v) To help in maintaining and strengthening the competitiveness by integrating the local economies for the efficient utilization of manpower, infrastructure, trade opportunities and economic resource endowments.

vi) To transfer skill and technology from the more developed to less developed partners and the upgrading of the skills of the local labor force.

vii) To involve the masses in the programs and projects both to avoid causing their alienation and to harness the natural and human resources of the area in a coordinated and complementary manner.
viii) To supplement a major objective of SAARC i.e., to promote regional investment projects in areas of mutual interest and advantage.

ix) To strengthen the development capabilities so as to provide economic opportunities to retain floating population and prevent their cross border migration.

x) To finally attain SAGQ market integration through emphasis on project based co-operation at a more local and disaggregated level.

Investment Opportunities

The SAGQ region is one of the richest regions in the world for plantation crops like tea and jute. There have been multi-dimensional challenges to these plantation crops that include price instability, synthetic substitutes and increasing number of competitors with a distinct product differentiation. Despite all these, SAGQ region has maintained its position as one of the largest tea and jute growing regions in the world giving income and employment opportunities to a large number of people. These crops offer tremendous opportunities to investors, as the demand for these crops are likely to grow because of both economic and socio-environmental factors.

The SAGQ region is a major tea producing area constituting about 40 percent of the South Asia’s total tea production (1050 million kg). Competition to South Asia in the international tea market comes from both traditional and non-traditional producers. However, it is the later, which has increasingly proved to be formidable for South Asia. The emerging new markets of tea and their future potentials are largely indicated by the changing destinations of exports of the major tea producers, the rate at which import demands have grown in these countries and the existing levels of apparent consumption. The new markets are Poland, CIS and the Middle-east nations.
Potential Areas for Investment

**Tea Blending:** The blending and value added have become the most flourishing business and have all the potentialities to outpace the traditional bulk marketing. The SAGQ region with a variety of tea (both orthodox of Darjeeling and Nepal and CTC of Bangladesh and Northeast India) at its command can work together in the entire blending business.

**New Auction Centres**

There are definite trends of the emergence of new markets, which have a lot of potential demands. The SAGQ region tea conglomerates must chalk out a regional strategy to take advantage of these markets. A new auction centre in Karachi exclusively for the SAGQ region tea would go a long way in both diverting Pakistan's import from outside the region as well as in creating a distinct market niche for the regional producers.

**Value Added Items**

There has been a marked increase in the exports of value added items (packet, tea bags and instant tea) of tea from South Asia. The shares of value added tea in the total exports have increased from 15 percent (33.68 million kg) in 1980-81 to 40.82 percent (85.86 million kg) in 1998 for India. Within this value-added category, packet tea also constituted as high as 95 percent of India's exports.

Packet teas are sold most in the world followed by bags. This is only indicative of the huge untapped opportunities particularly in the arena of what is known as New Age beverages like herbal tea and flavored teas. This also indicates specific potential areas of cooperation wherein the value-added tea would be playing an increasingly decisive role in the entire future export direction of South Asian tea. The
SAGQ countries therefore, should together prioritize their specific export contents that will match the changing composition of demand for tea in the international market.⁷

**Tata-Tetley Deal**

The recent taking over of 144 year old Tetley - the largest global tea brand by India's tea major Rs. 901-crore Tata Tea could bring about a large scale change in the tea market. In the course of this reverse globalization, Tata Tea will acquire an unparallel synergy through a global brand acquisition accompanied by its core competence like plantations and processing unit management and Teltey's established expertise in blending, branding, and R & D and sourcing tea from auction houses spread all over the world. Now the market reach will be both lower end of the market segment, covered by Tata Tea and decaffeinated, herbal, lemon tea, and tea bag segments specialized by Tetley.⁸

Since Tata Tea has a large stake in the Northeast India, its implications on the SAGQ region are likely to be much larger than expected. As the sourcing of tea from its 26,000 hectares of gardens will fall far short of the market demand, Tata Tea will acquire more tea gardens and greatly step up auction purchases. This is where Tata Tea's participation in the tea growing areas of South Asia including Nepal and Bangladesh will come about in much more crystallized form. This may trigger off a whole lot of activities aimed at vertical integration of the competing firms.⁹

In fact, Tata Tea has been constantly scouting for acquisition opportunities of overseas tea estates, manufacturing facilities or marketing rights to well known brands.¹⁰

**Yield and Cost of Production**

A large part of land that is suitable for tea plantation remains virtually fallow in Bangladesh, Bhutan and Nepal.
The average yield per hectare has always remained very low in Bangladesh with 1076 kg per hectares as against Assam’s 1807 kg per hectare. NEI with so much of historical experience in all fronts of tea plantation can extend its expertise in the areas of tea production, yield, management and technology. Some of the Indian private industrial houses have shown their interests in initiating tea plantation.

There is a good scope for investment, with a clear strategy that will largely encompass replantation, filling in vacancies where the density of tea cultivation is low, consistent and continuous replanting of old seedling tea with vegetative propagated tea, increasing adoption of proper cultural practices such as fertilization, weeding and adherence to the correct pruning cycle.

**Indigenous Technology**

There should be no two opinions on the need to co-operate in new technologies in the tea industry in SAGQ region. Biotechnology is being now inducted into various tea research institutions particularly in India at Tocklai in Assam and UPASI in Tamil Nadu. There is considerable scope of co-operation in this area.

**Policy Options**

Firstly, a comprehensive study on the investment policies of the constituents of this region has to be done in order to provide a basis for taking up some sound investment ventures.

Secondly, without adequately addressing to key service sector areas like education, health, and banking and insurance, this study would remain incomplete.

Thirdly, no study of development of natural resources can be complete without dealing with the question of the sustainability of such development. It is therefore, necessary
to go into the basic issues that impinge upon the environmental sustainability of the region.

Fourthly, a study of the political and practical factors that are likely to influence and determine the evolution of this region should also be done on an urgent basis. This section should essentially incorporate in it issues related to security considerations, political will of the governments, bilateral relations and of popular support for activities.

And finally, the future study should:

- Seek to provide a more comprehensive database for the sector;
- Depict the exact status of the sector;
- Outline the scope and technicalities of investment cooperation;
- Identify the varied and institutional approaches to investment co-operation; and
- Put forward concrete proposals regarding investment cooperation.

The governments need to make massive investments in infrastructure, delegate far-reaching authorities to the local institutions and deregulate movements of factors of production and goods and services at that level.

**Cross Border Power Trade**

The SAGQ region possesses vast stores of clean and renewable energy. This region has a rich endowment of water resources, forest, coal and gas, which are the principal sources of energy. The per capita energy consumption in the region continues to be quite low and its persistent shortage has been a major factor in keeping the region at low growth equilibrium. A significant portion of the society still does not have access to modern sources of energy on grounds of both physical inaccessibility and affordability.
The traditional sources of energy in rural SAGQ region viz., firewood, animal dung, crop residues etc. are still the only or major energy sources to the larger populace. The biomass has been a vital part of the national energy scenario. The environmental degradations arising out of persistent over-dependence on the bio-mass and contribution of fossil fuels to carbon-dioxide emissions are increasingly reflected in the strains on energy cycle.

In the commercial energy front the region's dependence on import of petroleum has been steadily increasing thereby putting a staggering stress on foreign currency reserves and balance of trade front. In some countries however, the pattern and composition of energy availability and consumption are likely to undergo significant changes mainly because of the increasing exploitation of hitherto unharvested and untraced natural resources. This could be true of Bangladesh where large deposits of natural gas have been found recently and Bhutan and Nepal where the exploitation of hydel resources in a comprehensive and planned manner are in the offing. This opens up a promising scope in the arena of regional cooperation and integration.\textsuperscript{12}

The investments in energy supply require large inputs of scarce physical, human and financial resources for which there are competing demands from other sectors. SAGQ countries are capital-scarce. They cannot do without private participation, as there has been an intense pressure on public investment. The restructuring of power sector is therefore, necessary.

**Demand-Supply Gap**

The SAGQ countries are largely energy importers. Most of these countries have increasingly faced a serious power shortfall because of the excess industrial and residential demand over their power-generating capacities. The inability
to cater to the increasing industrial and other commercial needs have adversely affected their productive activities, social development and investment climate. This is exacerbated by structural, institutional and financial problems.

It is estimated that every unit of electricity cut results in an economic loss of five to ten times the cost of the electrical energy generated, due to wastage in man power, material and equipment as well as the loss of production hours. The power deficit is likely to deepen further both because of region wide economic-liberalization-led industrial activities and rise in income level-led steady switching over of the rural and urban families from bio-fuels to more efficient and convenient modern fuels.

In Bangladesh, the average electricity demand is 1700 MW, but the peak load demand is 1900 MW which is estimated to be increasing at the rate of nearly 11 percent per year. The Fifth Five-Year Plan of Bangladesh envisages the future electricity high demand of 4051 MW by the year 2002. This would entail adding up of a further 3319 MW of total generating capacity and raising the total generating capacity to 5739 MW. This will need an investment of $2.17 billion, which can only be possible if the private sector power investors participate in power generation. In other words, capacity addition in the public sector during the plan period will be 1389 MW only. The capacity gap of 1930 MW is expected to be filled by private sector/joint venture investments. The projection made in the National Energy Policy of Bangladesh indicates that the deficit level will go upto 43698 GWh (low scenario) and 74102 GWh (reference scenario) by 2020.

In India, the Union Power Ministry's own estimates peg peak demand power shortfall at an alarming 20-21 percent, which was expected to climb to 30 percent in 1997. The
Northern region of India remained most affected with almost 38.5 percent peak demand shortfall, followed by South (25.3 percent) the West (23 percent) and the East (20.8 percent). In the capital city of Delhi alone as against the estimated demand of 3500 MW by 2002, the total estimated availability is likely to be 2600 MW leading to a 'major catastrophe'.

In India, the northern and the eastern regions are the potential markets. The northern region, one of the largest electricity consuming industrial areas, comprises the most populous states of Uttar Pradesh, Punjab, Haryana and Delhi. In the eastern states like Bihar, West Bengal, Assam and Orissa there is a large number of industries in operation which are having continual capacity deficits to the extent of 20 to 30 percent. The demand forecast for these two regions as published in the 14th Electric Power Survey is presented in Tables 3 and 4.

### Table 3. India: Demand Forecasts (MW) in Potential Markets

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Northern</td>
<td>20580</td>
<td>24243</td>
<td>34934</td>
<td>48597</td>
<td>58170</td>
</tr>
<tr>
<td>Eastern</td>
<td>9300</td>
<td>10254</td>
<td>15111</td>
<td>21374</td>
<td>22900</td>
</tr>
</tbody>
</table>


### Table 4. India: Capacity Deficits (MW)

<table>
<thead>
<tr>
<th>Region</th>
<th>1997</th>
<th>2002</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northern</td>
<td>4800</td>
<td>7000</td>
<td>9700</td>
</tr>
<tr>
<td>Eastern</td>
<td>2500</td>
<td>3800</td>
<td>5300</td>
</tr>
</tbody>
</table>

The projected peak demand of 1999-2000 poses a serious challenge to the power sector in the eastern India as it may far overshoot the likely availability of power (Tables 5 & 6).

**Table 5. Projected Energy Scenario in Indian States Bordering Nepal, Bhutan and Bangladesh**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>North Eastern Region</td>
<td>840</td>
<td>220</td>
<td>1867</td>
</tr>
<tr>
<td>Uttar Pradesh</td>
<td>6550</td>
<td>1508</td>
<td>10214</td>
</tr>
<tr>
<td>West Bengal</td>
<td>2670</td>
<td>357</td>
<td>3949</td>
</tr>
<tr>
<td>Bihar</td>
<td>1675</td>
<td>647</td>
<td>3178</td>
</tr>
<tr>
<td>Sikkim</td>
<td>NA</td>
<td>NA</td>
<td>43</td>
</tr>
<tr>
<td>Total</td>
<td>11735</td>
<td>2732</td>
<td>19251</td>
</tr>
<tr>
<td>All India</td>
<td>57530</td>
<td>9464</td>
<td>91190</td>
</tr>
</tbody>
</table>


**Table 6. Actual Generation and Utilization of Power in North East India (in MW)**

<table>
<thead>
<tr>
<th>State</th>
<th>Net Generation</th>
<th>Net Import</th>
<th>Net Consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arunachal Pradesh</td>
<td>44.22</td>
<td>875.1</td>
<td>2044.95</td>
</tr>
<tr>
<td>Assam</td>
<td>1169.85</td>
<td>275.78</td>
<td>298.66</td>
</tr>
<tr>
<td>Manipur</td>
<td>278.44</td>
<td>90.12</td>
<td>124.7</td>
</tr>
<tr>
<td>Meghalaya</td>
<td>278.44</td>
<td>142.11</td>
<td>244.56</td>
</tr>
<tr>
<td>Tripura</td>
<td>3083.21</td>
<td>92.97</td>
<td>3176.18</td>
</tr>
</tbody>
</table>

*Source: Basic Statistics of Northeastern Region 1995, Northeastern Council, Ministry of Home Affairs, Govt. of India, Shillong, p. 111*

In Nepal, in the absence of abandoned Arun III project, the shortage would be 278 MW of capacity (51% of peak load) and 1460 GWh (60 percent of system energy) by 2001/02 (Table 7).
Table 7. Nepal: Mid-Term Capacity Shortages (Assuming all capacity available)

<table>
<thead>
<tr>
<th>Year</th>
<th>Capacity MW</th>
<th>Energy GWh</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994-95</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Demand</td>
<td>288</td>
<td>1249</td>
</tr>
<tr>
<td>Available (firm)</td>
<td>269</td>
<td>983</td>
</tr>
<tr>
<td>Shortage</td>
<td>19 (7%)</td>
<td>266 (21%)</td>
</tr>
<tr>
<td>1997-98</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Demand</td>
<td>379</td>
<td>1668</td>
</tr>
<tr>
<td>Available (firm)</td>
<td>269</td>
<td>983</td>
</tr>
<tr>
<td>Shortage</td>
<td>110 (29%)</td>
<td>685 (41%)</td>
</tr>
<tr>
<td>2001-02</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Demand</td>
<td>547</td>
<td>2445</td>
</tr>
<tr>
<td>Available (firm)</td>
<td>269</td>
<td>983</td>
</tr>
<tr>
<td>Shortage</td>
<td>278 (51%)</td>
<td>1460 (60%)</td>
</tr>
</tbody>
</table>

Source: USAID, Nepal Hydro-Power Strategy and Options, Katmandu, 1992

This projection requires that the total capacity of the power system should be more than 800 MW by the turn of this century to meet the domestic demand whereas the existing capacity is hardly 283 MW. This projected domestic demand could be satisfied only, if projects like Marsyangdi (69 MW) and other planned projects like Arun III (402 MW), Sapta Gandaki (225 MW) and Karnali (3600 MW) were developed and completed in time. So far only Marsyangdi has been commissioned. The Arun III was shelved after actually initiating the work on environmental grounds. This has made the harnessing of other identified projects more urgent.

Installed Capacities

There are quite revealing variations in the installed capacities of power utilities in SAGQ countries. These variations also reflect the potentialities as per their natural endowments. The hydropower has been the most vital source of total installed capacity in Bhutan (100%) and Nepal (90%) whereas the thermal
power dominates in Bangladesh (92% mainly gas based) and India (73% mainly steam based). (Table 8)

Table 8. Installed Generating Capacities in Power Utilities in SAGQ (MW)

<table>
<thead>
<tr>
<th></th>
<th>B'desh</th>
<th>Bhutan</th>
<th>India</th>
<th>Nepal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thermal</td>
<td>2678</td>
<td>-</td>
<td>65000</td>
<td>38.33</td>
</tr>
<tr>
<td>Share</td>
<td>(92)</td>
<td>-</td>
<td>(73)</td>
<td>(11)</td>
</tr>
<tr>
<td>Nuclear</td>
<td>-</td>
<td>-</td>
<td>2200</td>
<td>-</td>
</tr>
<tr>
<td>% Share</td>
<td>(2.5)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Hydro</td>
<td>230</td>
<td>355</td>
<td>21900</td>
<td>322.7</td>
</tr>
<tr>
<td>% Share</td>
<td>(8)</td>
<td>(100)</td>
<td>(25)</td>
<td>(89)</td>
</tr>
<tr>
<td>Total</td>
<td>2908</td>
<td>355</td>
<td>89100</td>
<td>361.0</td>
</tr>
</tbody>
</table>


The SAGQ countries have introduced massive changes in their policies on private sector participation in the power sector. The private power corporators are however, not very satisfied with the pace of reforms in this sector.

In Bangladesh, a large number of IPPs have shown interests. The likely projects are 360 MW and 450 MW combined cycle power plants at Haripur and Meghna Ghat respectively.

By 1997, interests had been expressed in putting up more than 124 power projects in India for a total capacity of 67281 MW and involving an investment of about Rs. 246472 crore. By 1995, 3544 MW (around 4.4%) of India's installed capacity was in the private sector. The IPPs generally sell power to State Electricity Boards (SEBs) which distribute power.

In Nepal among the 'operating ventures', the installed capacity by the private sector has increased to 118 MW which is almost 37 percent of the total hydel power installed
capacity in the country. The major private players in the power sector are Butwal power Company, Bhotekoshi power company and Himal Power Limited.²¹

**Potential Areas of Cooperation**

There could be two primary hypotheses in the possibility of cross border power trade and its likely impact in the region.²² They are i) cross border power trade with a comprehensive regional grid network will act as a major confidence-building project in making the process of economic integration in SAGQ a reality and ii) cross border power trade could ultimately be a panacea for many of the development ills in this region particularly for the Least Developed Countries.

The likely impact of better power availability on economic growth and quality of life in the region could be tremendously significant and far reaching. The aspects like revenue generation, foreign exchange savings, transformation in the contents of export basket thereby improving the much high lighted balance of trade deficit, impact on health and education standards, opportunities for income and employment generation and cross border and internal migration including from rural to urban migration will be positively affected by the power generation and trade.

Equally vital is the likely generation of stakeholders as the forward and backward linkages of power development and cross border trade. These could be new and sturdy agents of confidence building process in the region. There will be a variety of stakeholders with significantly varying nature, extent and depth of stakeholding. They could be in the arena of power producers, distributors, traders, transmission and grid formation, credit donors, technology exporters, managerial and professional wherewithals and users like industries, households and agriculture. All of them together will have
tremendous absorbing capacity of shocks emanating from any major bilateral political apprehensions and dislocations. In fact, the sustainability parameters in the power sector cooperation will be so diverse and entrenched that it will be very difficult to ignore and demolish them by mere political actions.23

i) Hydro-Power Potentials

The SAGQ region has one of the richest sources of hydel power in the world. Out of the broadly estimated hydro-power potentials of 182400 MW of the region as a whole, very small proportion (hardly 13 percent) has been harnessed so far. (Table 9)

Table 9. Hydroelectric Potentials in SAGQ

<table>
<thead>
<tr>
<th>Country</th>
<th>Hydroelectric Potential [MW]</th>
<th>Total Installed Capacity [MW]</th>
<th>% Harnessed of the Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>3000(*)</td>
<td>230</td>
<td>0.44</td>
</tr>
<tr>
<td>Bhutan</td>
<td>21000</td>
<td>355</td>
<td>1.70</td>
</tr>
<tr>
<td>India</td>
<td>75400</td>
<td>21900</td>
<td>29.04</td>
</tr>
<tr>
<td>Nepal</td>
<td>83000</td>
<td>322.7</td>
<td>0.38</td>
</tr>
</tbody>
</table>

(*) There is no firm estimate for Bangladesh. There are estimates, which are much lower than this.
Sources: Same as table above

ii) Mini and Micro Projects

The mini and micro hydel projects (MMHP) are the other areas where there could be a lot of both intra-regional and extra-regional investment. This is particularly so in the high altitude areas. There has been a protracted history of MMHP in SAGQ with first such plant built in Darjeeling in 1897 and in Katmandu valley in 1911. Bhutan has 19 MMHP with a total capacity of 3.4 MW, many of which have been handed
over to the user communities for operation, maintenance, and
distribution of electricity. The communities also fix tariffs and collect revenues. In India, there are over 160 MMHP majority of which are in Arunachal Pradesh and in the hills of Uttar Pradesh with a capacity of over 200 MW. Nepal has over 700 MMHP spread over 59 districts and most of them are owned and managed privately by individual entrepreneurs.24

i) Sizeable potential exists in all the higher ranges of SAGQ;

ii) The plants are comparatively more viable for the remote and inaccessible areas than other commercial fuel systems;

iii) Easier to design and manufacture locally;

iv) Sophisticated and expensive instrumentation and control system can mostly be avoided;

v) The operation and maintenance costs of privately owned and operated plants are much lower;

vi) Indigenous design and manufacture of such plants contributes towards development of local industrial base including technical expertise, which is useful for other development work;

vii) The surplus power can be supplied to the national grid;

viii) The local people can build, operate and own.

**iii) Natural Gas Exploitation**

The recoverable reserves of natural gas in Bangladesh (13.6 TCF) and India (707 BCM) and Pakistan (17.39 TCF) if systematically harnessed may change the entire energy map of SAGQ. According to some slightly older estimates, the recoverable natural gas deposits in Bangladesh are considered to be 13.728 TCF. However, of late there has been a lot of very successful survey work according to which the proven gas
reserve is estimated at 22.9 trillion cubic feet (TCF). About 2.72 TCF has already been consumed by 1996. Some estimates put potential gas reserves at 80 TCF whereas some put them as high as 125 TCF.

According to an estimate, by the year 2005, the demand-supply gap in gas in India will be roughly 20.8 billion cubic meter per annum (BCM), 16.1 BCM in China, and 10.6 BCM in Thailand. Such gaps will also appear in countries like Nepal, Bhutan and some of the other Southeast Asian countries such as Singapore and Malaysia. In fact, the latest plan document of Bangladesh states that "the corner stone of a medium to long run strategy of the government may be an internationalization of gas trade to make the sector economically viable and harness the resources needed for its development".25

As per the slightly long-term projection, a sizable gas shortfall is expected in both India and Pakistan unless some major exploration and drilling operations are undertaken. This shortfall (supply-demand gap) is likely to be 7 billion cubic feet (BCF) per day in Pakistan and 9 BCF per day for India by 2010. That is why the option of importing natural gas from neighboring countries (Qatar, Oman, Iran, Bangladesh and Turkmenistan) is being seriously pursued. There are well-established and time-tested operating pipelines in many parts of the world including between America and Europe, Russia and Germany.26

Though the SAGQ countries particularly India and Bangladesh have been envisaging both on-shore and off-shore pipelines, nothing concrete has emerged because of the i) the financial implications, ii) geo-political considerations, iii) confirmation of reserves of natural gas, iv) pricing of supplied gas, v) third country approval of transits and vi) environmental fall outs.
Cross-border gas trade is a highly promising option for Bangladesh. The resulting development multiplier may transform the entire economy of Bangladesh into a middle income country. Even at the present low prices of petroleum, export of 500 million cubic feet of gas a day -- about 3.6 trillion cubic feet over 20 years - would fetch Bangladesh a hefty $450 million per annum.

There are proposals to set up gas projects by IPPs for selling power to India. In the long run there could be 400 kV scheme for importing 1000-15000 MW power from gas projects to Bangladesh. If the generation unit is located at Ishurdi in Bangladesh, it could be sold to India through Ishurdi-Krishna Nagar (India) to Jamshedpur and Rourkela.

One of the major attractions for the foreign investors in this sector has also been the export market as they expect a quick return from their "high risk investment". Bangladesh government has been trying to extensively spread the transmission and distribution of gas at the domestic level. This may ultimately help in extending the same to areas across the border particularly in the Northeast states and West Bengal in India.

The initiative taken by the Gas Authority of India Limited (GAIL) to negotiate with two Bangladeshi (Mohona Holdings and Banmco energy) and two transnational companies (Unocal of USA and Crain Energy of UK) for a transnational pipeline taking gas from Myanmar and Bangladesh to energy starved eastern states and Andhra Pradesh is worth noting here.

Similarly, the Unocal Corporation has hinted at the possibility of executing $2 billion integrated pipeline connecting Myanmar to the gas fields of southern Bangladesh en route to Haldia in West Bengal (India).
iv) **Possibility of Power Trade**

Cross border power trade already takes place widely between India and Bhutan and India and Nepal. Cross border power trade will lead to i) effective utilization of natural resources, ii) increase in reliability of power supply, iii) economy in operation and mutual support during contingencies. There are proposals to establish synchronous national grid by inter-connecting the regions through a ring of 765 KV lines to transfer large block of power from the generating units in Bhutan, Nepal and Bangladesh. India with a vast EHV network having capability to wheel a large amount of power and due to its central location can provide inter-connection opportunities between other countries via India.31

The possibility of power purchase has opened new vistas of cooperation. However, the key issues to be settled before the cross border flow is concretized, are the cost of transmission line and its sharing mechanism; the determination of power tariff; the payment mechanism including the currency to be used and the channel like Asian Clearing Union and most importantly the power supply sustainability and its geo-political immunization. It is very crucial to maintain a fair balance in the energy security equation in order to avert the risk of 'trade and fade'.

v) **New Instruments**

The following are some other suggestions for facilitating cooperation in energy particularly power sector in the SAGQ region.32

i. India can take lead in forming a regional consortium of the members of the SAGQ to help in attracting regional and sub-regional investment partners. This should in turn work towards creating a Regional Power Development Fund (RPDF) with the help of international financial institutions.
ii. India can also initiate a SAGQ-wide information network to facilitate regular exchange of data on demand-supply gaps in various forms of energy, policy changes, price and market conditions, technological innovations and inputs, investors and investment opportunities, energy expertise, seismic and other geological and environmental data.

iii. India should reach an umbrella agreement with other countries, which spells out the procedural and legal aspects of regional co-operation in this field. This should include harmonization of macro-policies in the energy sector among the SAARC member countries.

iv. A power trade agreement on the lines of that signed between India and Nepal should be concluded among the member states. This should be done with a view to maximize the potential export earnings. Besides, the critical question of transmission and distribution, this should take into consideration the whole gamut of trading including tariff covenants (such as rates of return on asset base, debt service ratios and self-financing ratios) and efficiency covenants (such as those relating to least cost planning, efficient O&M, system loss reduction and billing and collection improvement) and the issues of internal cross subsidies and costs of supply.

v. A regional grid system should be created to facilitate the transmission of power from one part of the region to the other. Bangladesh, which straddles between Bengal, Bihar and the North Eastern states of India, can be used as a power transmission linking both the wings of India. This will both facilitate a quick disposal of surplus power at times created by seasonal variations and also create economies of scale for the plants across the region.

vi. India should share its experience in the arena of determination of power tariff and its acceptability to the consumers; issue of loss to the state exchequer caused by
protracted subsidies given by the state to various categories of activities and groups; energy wastage management mainly to curb extravagant uses, rationalise fuel choices, conserve energy and promote productive uses of energy as against increasing consumption for non-productive uses and the procedural questions in dealing with the private investors in the power sector.

**Unrecorded Trans-border Trade (UTT)**

The cooperation in trade areas would lead to:

i. Enormous cut down in the cost of freight and insurance;

ii. More expeditious liberalization of things not yet covered or covered only poorly and

iii. More efficient allocation of resources.

This could also be an adjunct to a number of joint industrial ventures in the region that can harness indigenous resources such as strong pool of technical and scientific manpower resources, vast deposits of mineral and natural resources including water in a both efficient and sustainable way.

A sustainable trading interaction in a liberalized trade regime can act as a catalyst to mitigate the age long mutual misapprehension, mistrust and suspicion among the member countries. Further, this can be a stepping stone towards objectively identifying, understanding and resolving more complex politico-strategic issues.

The seven South Asian countries under South Asian Association for Regional Cooperation (SAARC) have taken some serious trade liberalization measures and tariff rationalization reforms beginning in the late 1980s. Currently, maximum tariff rates in the SAARC region range between 35 percent to 45 percent, whilst the average import-weighted tariff rates range between 15 percent and 25 percent. This has resulted into substantial increase in the degree of openness of
these economies particularly in the mid-1990s and has also facilitated easier access of imported finished goods to the member countries and led to export promotion by substantially easing access to cheaper raw materials and intermediate inputs by the export oriented industries.  

The most striking feature of the direction of trade of the South Asian countries has been a steady rise in their exports to and imports from the industrial market economies. The huge deficit in the intra-regional balance of trade of South Asian countries particularly vis-a-vis India has been the most pervasive phenomenon. Though a genuine concern of the smaller neighbors, this issue has increasingly become politically very sensitive. However, although contagiously situated, not all the SAARC countries had been able to substantially gain from the opening up of the economies of their neighbors.

In order to give a boost to the poor level of intra-SAARC trade (roughly 4.2 percent of SAARC countries' global trade), a consistent effort has been made in the past couple of years by introducing measures like SAPTA and advocating a SAARC Free Trade Area (SAFTA) by 2002. However, many of us are still disillusioned about the possibility of attaining the avowed objective. The SAPTA, which so far has been based on product by product approach however, could hardly be termed as any effective means to enhance the level of intra-regional trade as it has a serious limitation both in terms of weight of the scheduled products in the tradable and the depth of tariff cut. The non-deployment of other agreed arrangements like para-tariffs, non-tariff measures and direct trade measures has made it more ineffective.

However, in laying the above approach the policy makers are guided by two rather very strong presumptions. Firstly, the tariff and the non-tariff barriers are the only stumbling
blocks in the existing level of poor intra-regional trade and secondly, the vast proportion of the historically existent informal trade can also be brought under the ambit of liberalized trade regime.

In the process, the policy makers are ignoring a reinforcing reality that a significant portion of their informal trade is not illegal but based on practical conveniences arising out of topographical proximity, historical biases, cultural intercourse and informal business institutions, which if disturbed may open newer avenues of hostilities.

**Unrecorded Trans-border Trade (UTT)**

The UTT is known by its various acronyms in this region. Given a particular context and depending upon who is using this term, the UTT is invariably referred to as informal trade. In many cases it is referred as illegal trade. However, all the UTT is not illegal. It can at most be unregulated.

There are varying estimates of the volume of intra-regional unrecorded trans-border trade in South Asia. Studies done by Chaudhuri (1995), IIFT (1996- Dattatreyulu, 1999), RIS (1997) and Akash (1997) have given estimates particularly with regard to India-Bangladesh border trade which are far more than the recorded trade.  

Table 10 shows that India's unofficial exports of goods were worth $ 299 million and imports $ 14 million to and from Bangladesh in 1992-93. This was more or less similar to official trade, which was $ 353 million of exports and $ 10 million of imports during the same period. Another estimate shows that the ratio of illegal imports ($1622 million) from India to illegal exports to India ($126 million) is about 5:1, in absolute terms the figure was about 6 times higher than legal exports to India.
Table 10. India’s Unofficial Trade with SAGQ Countries ($million)

<table>
<thead>
<tr>
<th>Countries</th>
<th>Exports (X)</th>
<th>Imports (M)</th>
<th>Trade Balance (X-M)</th>
<th>Total Trade (X+M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992-93 Bangladesh</td>
<td>299.0</td>
<td>14.0</td>
<td>285.0</td>
<td>313.0</td>
</tr>
<tr>
<td>1993-94 Bhutan</td>
<td>31.3</td>
<td>1.2</td>
<td>30.1</td>
<td>32.6</td>
</tr>
<tr>
<td>1989 Nepal</td>
<td>N.A</td>
<td>N.A</td>
<td>Negative</td>
<td>626</td>
</tr>
</tbody>
</table>


This also indicates a huge balance of trade deficit of Bangladesh vis-à-vis India on both official and unofficial trade fronts. In the total border length of 4812 km between India and Bangladesh, the districts or towns Krishnanagar, Balurghat, Islampur in West Bengal, Silchar and Karimnagar in Assam and in Tripura, Agartala and Battala Tura and Nongstion in Meghalaya, Demagiri and Lungsen in Mizoram are adjoiningly located.

The major items of exports from India to Bangladesh in the unofficial trade has been timber, bamboo, medicines and kerosene (consumer goods, in that order of importance) and bicycle, parts of bicycles and machinery and equipment (manufactured commodities, in that order of importance). These items are mainly traded through Tripura and Assam borders. On the other hand, the unofficial imports from Bangladesh through the Northeast states mostly constitute synthetic fabrics (used RMG, shirting-suiting long cloth, cut pieces), VCPs/VCRs and other electronic goods and hilsa fish.37

However, it is found that 96 percent of the unofficial exports to Bangladesh is done through West Bengal in which the most vital items are food and live animals -mainly cattle-(45-65%), industrial raw materials (15%) and textile manufactures (14%). In contrast, illegal trade flows from Bangladesh to India is confined to a narrow band of commodities. It is interesting to note that the nature of official
and unofficial trade via West Bengal is quite different and appears to be non-competitive.

The structure of cross-border trade suffers from the limitation that it reflects only a static situation, whilst as a matter of fact, new trade flows are bound to emerge through trade creation and trade diversions originating from the formation of a growth quadrangle in this region.

Most of these UTI has been largely attributed to i) large variation in prices of essential and other consumer items across the border, ii) long and unscientifically determined porous border, iii) traditionally and historically established interactive and exchange processes, iv) both tariff and non-tariff barriers, v) easy accessibility of both goods and services, and vi) well organized but to a large extent clandestine trading machineries.

Some of these studies have also cursorily mentioned about the illegal trade, particularly in electronics and other consumer items. Since India is the only country, which shares its border with almost all the South Asian countries and at the same time no country shares its border with countries other than India within South Asia, the central actor in the UTI has again been India.

However, these studies [Chaudhuri (1995), IIFT (1996), RIS (1997) and Akash (1997)] have also been of limited scope. Firstly, all these four studies have mostly concentrated on the India-Bangladesh border front and have focussed on illegal aspects of the UTI. Except a few references by RIS study, these studies do not take into account the huge volume of UTI that takes place between India-Pakistan, India-Nepal, India-Bhutan, India-Sri Lanka and India-Myanmar. Even within India-Bangladesh UTI, the UTI between Northeast parts of India and Bangladesh has not been adequately
studied. So there is a strong need to carry out a study which will cover the entire region and present a view in totality.

Secondly, these studies have not at all looked into the trade in other sensitive security related items like narcotics and small arms. This is a major omission as it is widely believed that within the UTT also the share and value of both narcotics and small arms far out place the other traded items.

Thirdly, these studies are not based on extensive field studies and hence have drawn material mostly from secondary sources. This in a way has hindered them to make a correct assessment of the border trade. Therefore, there is again a strong need to undertake a study that should essentially be based on extensive surveys to be conducted by knowledgeable persons and agencies from across the border.

Fourthly, these studies have not really identified the institutions, agents and other machineries involved in the UTT. Their nexus with the regular government machineries which have been observed very often in fact, will give us a fair idea about the legal, fiscal and physical lacunas and constraints that encourage UTT.

Fifthly, these studies do not look into the trade routes, transit and transport, payment mechanism and other infrastructural facilities that are available to and used by the agencies involved in the UTT. In other words, it is worth examining the issues related to seasonality of trade, pricing, hidden costs and existing tariff rates, mode of payment, sourcing of the goods, marketing channels, mode of payment).

Sixthly, these studies have not assessed the likely impact of the reform measures (including fiscal, trade, industry, services) undertaken by the South Asian countries on the UTT. In other words, to what extent these measures will help bringing the UTT to a regular channel of official trade. These
studies have not addressed to the measures like SAPTA and SAFTA and their impact on the UTT and its ability to enhance the intra-regional trade.

Seventhly, it is worth testing the hypothesis that cross border illegal trade can be a proxy to the revealed comparative advantages existing between tradables of two geographically contagious countries.

And finally, it is also worth assessing the issue of how cross-border trade provides a direction in terms of the potential areas of cooperation within the South Asia region particularly in the areas of joint ventures, transit facilities and other infrastructural facilities including ports and new highways.

**Policy Suggestions**

A UTT related study has severe limitations because of the:

i) Very nature of trade which is to a large extent clandestine;

ii) Unavailability of and inaccessibility to data and information;

iii) Sensitiveness and risks involved; and

iv) Least discussed nature of this theme and existence of poor knowledge.

Further, the very nature of border of India with Bangladesh (4096 km), Bhutan (699 Km), Myanmar (1643 km) and Nepal (1751 km) make it very difficult to distinguish between these three practices of formal, informal and illegal trade. In other words, there is a strong need to examine the possibility of regulating and legalizing UTT and its likely impact and implications on:

i) The smuggling and other illegal activities;

ii) The narcotics and illicit arms and security perspectives of the region;
iii) The price/wage differential, other rental and productivity differential, mode of financing, marketing arrangements;

iv) Employment generation in both sides of the border;

v) Revelation of new complementarities in the economies of the two countries;

vi) Boosting the economic activities including small industries along the border based on the assured supplies;

vii) Trade transaction and expansion; and

eviii) Customs revenue generation and mobilization.

This study first should have a very comprehensive analysis of the nature and functioning of border. This should take into consideration:

i) The varieties of border regimes

ii) The quality of border management

iii) The official transit/customs point

iv) Agencies/institutions involved in border management.

All these will facilitate in giving a distinct entity status to the entire spectrum of informal trade.

Then we need to have a very clear distinction between formal and informal exchange.

i) Does informal trade imply only deflection of the customs authorized transit points?

ii) Do they take place only through designated custom points, because they have the facilities of roads and transport infrastructure?

iii) How do they avoid regular channels and what are the other routes?

iv) Could there be any correlation between the customs revenues and the informal trade?
It should take into consideration all the active border points. This study has not done that. For example, one of the vital conclusions drawn in ICRIER study (Pohit & Taneja, 2000) is that at the unofficial/informal trade level also Bangladesh has a huge BOT deficit with India. This would have to a large extent been different, if the study had taken the entire India-Bangladesh border. This study took only West Bengal-Bangladesh border, which is half of the total border. The other significant half constituting the entire northeastern region of India is just not considered. This region is expected to be more active in the informal trade both because of topographical compulsions and market constraints. This is one reason as to why the entire discussion/debate on the proposed transit/transshipment facility through Bangladesh to Northeast India is quite crucial.

The three basic attributes of border trade price/quality, accessibility and payments arrangement need to be dealt with in a much more analytical and focussed manner.

The macro-economic policies of the countries concerned directly impinge upon border trade. For example, the large-scale present/diversion of Chinese goods in and from Nepal to India had its origin in the Chinese foreign aid policy to Nepal in the 1950s and 1960s. Under this local costs of Chinese aid, projects were by agreement met through sale of Chinese goods in the Nepalese market (through contracts done by respective State Trading Corporations). Since, Nepal had a low regime of absorptive capacity most of these goods found their ways into India.

A compact analysis of institutions involved in border trade is very vital. This should include institutions like:

i) Traditional

ii) Governmental agencies

iii) Fly by night
iv) Cross-border stakeholders many a times with trans-border nationality.

v) Narcotics-small arms wheeler-dealers.

However, if we fiddle with these institutions, there is a risk of opening newer areas of conflicts also.

It would be very interesting to know, for example whether the traders in their entrepreneurial attributes are individuals or represent some institutions/agencies. This is vital to understand the linkage between informal traders and ethnic/traditional ties and to arrive at some policy measures. For example, a recent study (Pohit & Taneja, 2000) mentions, that 54% of firms in Bangladesh and 46% of firms in India involved in border trade were found to be engaged in informal trade for 5-9 years. This to a large extent means, the entry and exit of the traders vary with demand and supply. Therefore, it would be very helpful if we had drawn a pattern in the traded product list. Similarly, it is found that many traders engaged in formal trade are also engaged in informal trade and vice-versa.  

Endnotes.


2. In Nepal, per capita consumption level has been treated as the criterion. The Living Standard Survey launched by Central Statistical Organisation in 1996 determined 2124 calorie as per capita per day necessity. On this basis, the per capita annual expense to purchase this determined calorie equivalent of food worked out to be Rs. 2637. If the expenditure on non-food items is added to it, the per capita annual expenditure is estimated to stand at Rs. 4404. His Majesty's Government, The Ninth Plan, 1997-2002, National Planning Commission, Nepal, 1998, pp. 196-207.


7. Lama, Mahendra P, Lama, "Repositioning South Asian: A Case for Tea Sector Integration", *South Asian Survey*, Delhi. (Forthcoming)


9. Tata Tea is the largest integrated tea company in the world. It owns 54 tea estates – (21 in Assam, 4 in West Bengal, 24 in Kerala and 5 in Tamil Nadu), spanning over 25714 hectares of land and have an average yield of about 2422 kg per hectare. It inherited a large production base from Finlay. The company's gardens produced 62 mn kg of tea in 1999 of which 75 percent was sold in packed forms (balance in loose through auctions) with the brand names like Kanan Devan (polypacks), Chakra Gold and Gemini Dust tea in the south and Brahmaputra in northern and western India. Two new brands Agni and Lucky Cup have been launched in 1999. It exported Rs 1340 million worth tea in 1990.


12. Energy is mainly used for four distinctive purposes, i) industrial and agricultural uses, ii) domestic and commercial uses, iii) transportation and iv) electricity generation.


15. Outlook, New Delhi, June 19, 1996.


22. There is a whole range of efforts going on primarily to examine the issues related to cross border power trade in the region. i) The SAARC Secretariat has set up an exclusive Technical Committee on Energy. ii) There were two rounds of meetings of the stakeholders in the power sector development and trade in South Asia under the aegis of USAID in Katmandu and iii) A full fledged field based research project has been launched under the aegis of South Asia Network of Economic Research Institutes (SANI) on the Economic Reforms in Energy Sector and Cross Border Power Trade in South Asia covering Bangladesh, Bhutan, India and Nepal. This study is being conducted by Institute for Integrated Development Studies (Katmandu), Bangladesh Unnayan Parishad (Dhaka) and this author from India.

23. Lama, Mahendra P. "Designing Economic Confidence Building Measures: Role of India in South Asia" in India's Pivotal Role in South Asia, CASAC, New Delhi, September, 2000.


34. Lama, Mahendra P, " Trade will Bring us Together: Lets Trade", *Himal South Asian*, Katmandu, September, 2000

Trade with Select Neighbouring Countries, Research and Information System for Non-aligned and Other Developing Countries, New Delhi, 1997


39. Ibid.
SUB-REGIONAL COOPERATION IN SOUTH ASIA: 
INTERFACING REGIONALISM AND
GLOBALIZATION

Mohammad Humayun Kabir

Introduction

Since the 1950s, we have witnessed the emergence of a good number of organizations in various parts of the world formed not only for politico-security reasons but also with a view to deriving economic benefits. Two of the examples of more successful cases of regional cooperation that are often referred to are the European Economic Community (EEC) and the Association of Southeast Asian Nations (ASEAN) founded in 1957 and 1967 respectively. Having reached the pinnacle of economic integration, the six-member EEC is now an economic union called European Union (EU) with fifteen member nations in its fold. And the 6-member ASEAN, that now embraces all the ten countries of Southeast Asia, has grown in clout and stature over the years. In the 1990s, we observed another trend concerning international organizations – the formation of mega-grouping. The Asia-Pacific Economic Cooperation (APEC) forum and the Indian Ocean Rim Association for Regional Cooperation (IORARC) are two bright examples.

However, over the last two decades, particularly in the 1990s, we observed another mode of economic cooperation. This is sub-regional economic zone (SREZ), popularly known as growth triangle (GT), formed among three or more countries or territories. Although such localized version of economic cooperation is not altogether unknown in the developed world, the cooperation arrangement among the
Benelux countries being an example, such cooperative mechanisms in East and Southeast Asia have been quite novel. Several sub-regional economic zones have emerged in that part of the world. The two that are more successful than others are the Southern China Growth Triangle (SCG'T) and the Indonesia-Malaysia-Singapore Growth Triangle (IMS-GT).

As a demonstration effect, South Asia has also been caught up with the idea of sub-regional cooperation. The proposal for South Asian Growth Quadrangle (SAGQ) was made at the SAARC Council of Ministers in December 1996. The objective was to develop a growth area involving Bangladesh, Bhutan, Nepal and the northeastern states of India. The Foreign Secretaries of the four countries discussed the Concept Paper of Bangladesh and the Approach Paper of Nepal in Katmandu in April 1997. According to the Report of the Foreign Secretaries Meeting, it was decided that the SAGQ would be pursued independently of the SAARC. However, following strong opposition from the three 'left out' SAARC member nations (Maldives, Pakistan and Sri Lanka) as well as some of the SAGQ four, the Male SAARC summit decided in May 1997 that the proposed four-party cooperation would be forged within the framework of SAARC. However, barring a subsequent Foreign Secretary level meeting in Katmandu, nothing substantive about its progress has been reported ever since.

The question, therefore, is what the outlook is for the SAGQ. But before that there are several other pertinent questions that need to be addressed. For example, what is a sub-regional economic zone, what causes its emergence, what are its advantages and how many types of such growth areas are there? The second set of questions relates to the linkages of sub-regional economic zones with regional cooperation and globalization.
It is argued in the paper that a sub-regional economic zone that is aimed at joint development of natural resources is observed to make slow progress, in contrast to the one that is manufacturing-based and export-oriented. The paper argues on that although sub-regional cooperation may be in step with the processes of regional cooperation and globalization due to economic logic and imperatives, the former may not make any meaningful headway owing to the 'primacy of the political' and certain peculiarities of a particular geographic region.

The paper is split into six sections, including the present one. The second section deals with the definition, advantages and typology of sub-regional growth zones, while the third one analyses the interfacing between sub-regional cooperation, on the one hand, and regional cooperation and globalization, on the other. The fourth section contextualizes the preceding theoretical exposition in the case of the South Asian Growth Quadrangle. The fifth section identifies the problems of sub-regionalism, while the sixth and final section of the paper explores the prospects for sub-regional cooperation in South Asia within the framework of SAGQ.

**Conceptualizing Sub-Regional Economic Zone**

Since, there is no universally accepted definition of sub-regional economic zone due to varying nature and scope of cooperation, and since this cooperation model is variously called, depending on the number of participating territories and its geographic location in any given region, this author is inclined to accept the definition given by Chia Siow Yue as more realistic. According to her, sub-regional growth area "encompasses geographically contiguous areas of different countries in an economic integration process involving flows of goods, investment, and people. The rationale is the economic complementarity of these contiguous areas, to be exploited for efficient development of a common natural resource and/or
production of goods targeted mainly at the global market. Since, all sub-regional cooperation schemes are not ‘triangle of growth’ and do not bear alphabetic acronyms, she appropriately calls them ‘sub-regional economic zones’ (SREZs).

What are the advantages of such a form of cooperation? According to Nepal’s Approach Paper for Sub-Regional Cooperation in South Asia, a number of advantages may be derived from cooperation under a SREZ. (i) SREZ can be established at a faster pace than a regional organization; (ii) It does not restrict access to either investment or trade to any country or bloc; (iii) It avoids the creation of a trade bloc by supporting trade with all countries; (iv) The fear of asymmetry among smaller neighbors is minimized; (v) Political risks are localized; (vi) The risks of failure can be localized without much harm done nationally; (vii) It is easier to manage; and (viii) It “liberates” the landlocked countries and the remote hinterland from their geographic handicaps to access to world markets.

There are as many as six growth triangles in East Asia and mainland Southeast Asia. These are (i) The Southern China Economic Zone (SCEZ) or the Southern China Growth Triangle (SCGT). It consists of Hong Kong, Taiwan and the four Special Economic Zones (SEZs) in coastal South China. (ii) The Tumen River Area Development Programme involving Russia, China, North Korea, South Korea and Mongolia. (iii) The Japan Sea Rim Economic Zone involving Russia, China, Japan, and the two Koreas. (iv) The Yellow Sea Rim Economic Zone including China, Japan, North Korea and South Korea. (v) The Golden Quadrangle of Mainland Southeast Asia, or the “Baht Zone”. This SREZ includes Thailand, Laos, Myanmar and the Yunan province of China. And (vi) the Greater Mekong Sub-Regional Cooperation (GMS). This consists of Thailand, Cambodia, Laos, Vietnam, Myanmar and China.
There are three sub-regional economic zones in the original ASEAN area. They are the Indonesia-Malaysia-Singapore Growth Triangle (IMS-GT) or the Southern Growth Triangle, the Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT) or the Northern Growth Triangle, and the East Asean Growth Area (EAGA) that connects the proximate areas of Indonesia, Malaysia and the Philippines, and Brunei.

Judging by the nature of cooperation and the actors involved in the above sub-regional economic zones, they may be typologized into six different categories. A SREZ can be (i) market-driven or government-led mechanism. The Southern China Economic Zone is a former type, while the EAGA is of the latter. (ii) Manufacturing-based or resource-based growth areas like the IMS-GT, or the GMS initiative to develop common natural resources. (iii) 'Hub-Spoke' model like the IMS-GT or sub-regional scheme for joint development such as the TRADP. (iv) Institutionalized or less formalized sub-regional growth areas, such as the IMS-GT or the SCEZ respectively. (v) Local capital-based or externally dependent SREZs like SCEZ and IMS-GT or GMS respectively. And (vi) SREZs based on economic complementarities/comparative advantages or meant for poverty alleviation and overcoming underdevelopment and backwardness. While the IMS-GT and SCEZ are of the former type, the proposed SAGQ belongs to the latter.

Now, how does this sub-regional mode of economic cooperation relate to the cooperation under the framework of regional organization and the wind of globalization that has been blowing across the world since the late 1980s? A discussion on this is in order.

Sub-Regional Cooperation: Linkages with Regionalism and Globalization

Two processes/trends, apparently contradictory, have been observed in the world political economy over the last
decade. While one is of economic globalization, the other is of the deepening of cooperation in some of the existing regional organizations and in the proliferation of such organizations in several other parts of the world. Let us now try and situate sub-regional cooperation, which is the third type of multilateral economic cooperation, in the context of such obtaining realities.

i. Economic Globalization and Sub-Regional Cooperation

Economic globalization, in its elementary sense, means globalization of goods, market, production processes, and information. It also means free flow of goods, services and communication technology. This process calls for economic liberalization and brings down trade barriers, creating in its train a level playing field in global trade. Such a trade regime augurs well for those countries and institutions that live on global markets and production and poses challenges to those that are exposed to unfair competition and are vulnerable to bigger and stronger economies. However, economic globalization also offers opportunities. It helps create trade and may bring foreign investment. It may also cause technology transfer. And while it is a 'free for all' regime, it also grants certain privileges to the Least Developed Countries (LDCs).

Regional cooperation is a mechanism to reduce the vulnerability of individual economies and enhance their competitiveness in an environment of increasing economic globalization. Sub-regional development strategy is also a response to the onslaught of such global economy, as it is also a means of enhancing the competitive edges and bargaining power of the participating units of co-operation and promoting their exports in the global marketplace. One analyst contends that "cooperation on a sub-regional basis...is the latest Asian response to emerging trends in the world economy. Growth
triangles are all about the intensification of economic cooperation on a limited geographical scale to attract foreign investments and thus boost export promotion."

An ESCAP Report states that "in the emergent global environment dominated by the European Union and North American Free Trade Area, developing economies in the Asian and Pacific region can only strive to increase their competitive advantage by drawing on the synergy generated through regional cooperation. Sub-regional growth zones represent an innovative form of such expression." Globalization and sub-regionalism, which are essentially competitive trends, could at times be mutually supportive.

**ii. Regionalism and Sub-Regional Cooperation**

Regionalism is based on the political concept of geographically proximate nation states coming together with the objective of forging cooperation in jointly identified areas for their mutual benefits. The traditional criteria of regionalism are considered to be increased trade and investment, and industrial cooperation among the member nations. Sub-regional cooperation is a localized version of regionalism, with less formalized arrangements and procedures and with limited objectives to achieve. A SREZ may be viewed as a controlled experiment in regional cooperation, representing a new approach to regional development strategy.

Sub-regional mechanisms can be considered as a subset of Preferential Trade Arrangement (PTA), which is an emerging trend in sub-regional cooperation. A SREZ that may eventually lead to regional Free Trade Area is both a mechanism and a process in the broad spectrum of regional economic cooperation/integration.

A sub-regional economic zone, which is not to compete with the regional cooperation organization, is a parallel as well as a
supportive mechanism to the latter. One analyst observes that “a sub-group is an additional measure rather than a substitute for bilateral, regional and multilateral cooperation”. Another observer is of the view that “... what we do at the sub-regional level would be a fast track for what we try to achieve at the regional level.” Sub-regional economic zones are to complement and supplement regional co-operation and accelerate the pace of such cooperation at lower costs and shorter time. A SREZ is expected to contribute to problem-shooting in regional cooperation with the benefits of easily conceiving and better manageability and implementability of projects within smaller and closer geographical proximity.

In view of the above exposition, it may be stated that sub-regional cooperation may gain from economic globalization by way of attracting investments and taking advantage of market opportunities. One needs to hasten to add that export-oriented SREZs would be better placed to do so. It may be also said here that sub-regional efforts are intended to deepen and expand into wider, regional level cooperation. Let us examine what has happened in the case of SAGQ within the greater framework of SAARC.

### iii. The South Asian Growth Quadrangle: Imperatives and Potentials

Here the interfacing between regional and sub-regional cooperation will be demonstrated both at the theoretical and institutional levels. Let us first highlight the imperatives for the proposed growth quadrangle in South Asia as theoretical justification for it.

### The South Asian Growth Quadrangle: Imperatives and Mechanisms

It seems that there are at least two broad categories of compulsions for sub-regional co-operation in the SAGQ area. In South Asia, may be in the whole world, this area is the
poorest and least developed. This area spreads over a territory of little less than 7 hundred thousand square kilometers where a staggering number of people – about 250 million – just manage to live. Infrastructure here is at the bottom level, institutional capacities to promote sustained socio-economic development are in short supply, human resources development is just pitiable, the economy is predominantly agrarian, investment flows are low, and natural disasters are rather frequent. This means that the area deserves urgent and special attention of all the SAARC countries, particularly of those that are directly affected. The compelling logic of such a scenario led to a sub-regional cooperation initiative, with a view to creating maximum synergy for pulling the zone out of the morass of underdevelopment and backwardness. By implication the SAGQ would contribute to cooperation under SAARC as a building bloc.

The other set of reasons for the SAGQ initiative relates to the degree of SAARC's performance that is admittedly much below the popular expectations and the region's potentials. South Asia remains almost there where it used to be 16 years ago. The region is home to about 1.3 billion people, but it contributes only 1 percent of world trade, 1.2 percent of world GDP, and draws towards it only a meager share of 0.5 percent of world investment. This pales into ignominious insignificance when compared with other regions of the world. Just a glimpse of that is perhaps in order here. The European Union's share in the global market of 25 trillion US dollars is $ 7.5 trillion, NAFTA's is $ 7 trillion and East Asia's $ 6 trillion. Among other things, regionalism leads to intra-regional economic development, promotes confidence-building measures and ensures peace and conflict management. SAARC's primary mandate was the first one, and that then would functionally lead to the other two. However, despite SAARC's
achievements in certain institutionalization and programmatic aspects, regionalism in South Asia remains shallow. The limitations of the SAARC process, as highlighted in the Report of the SAARC Group of Eminent Persons (GEP) established by the Ninth SAARC Summit in Male in May 1997, are rather glaring. Some of them are given here in short point form: i. SAARC lacks collective leverage. ii. Many core areas of cooperation are left out. iii. Adhoc selection of activities is done under the Integrated Programme of Action (IPA). iv. Low level representation that often cannot take decisions. v. No follow-up and implementation measures taken under IPA. vi. No regional programs developed under IPA for harnessing complementarities. vii. Paucity of resources comes in the way of implementing programs. viii. Conventions signed have not been activated, etc. What is significant to note here is that no programs/activities have been taken for cooperation involving all seven member nations of the regional organization. The other crucial point is that the problem lies with implementation. In this connection, just a few words of Khosla sum it up all. He says, “implementation of regional cooperation in South Asia is still in the learning stage”. And a more complicating factor is reflected in the tensions between the economics of SAARC and the politics of SAARC. Clearly, the SAARC process is not only slow but also not substantive in areas of cooperation and delivery.

A spatially limited and faster pace cooperation mechanism is perhaps an obvious way out to contribute to the expansion and deepening of regional cooperation under SAARC. In this connection, three prominent South Asian scholars could perhaps be liberally quoted. They write, “The proposed South Asian Growth Quadrangle is seen as a practical solution to this sub-region’s socio-economic problems without forcing the participants to change their macroeconomic policies and institutional approach to wider issues of governance. The
SAGQ will aim at the integration of the local economies for the efficient utilization of manpower, infrastructure, trade opportunities and economic resource endowments. In due course, the expected economic restructuring and greater specialization in production and human resource development will lead to a higher level of economic activity through the 'virtuous circle' of regional cooperation and will allow this sub-region to acquire competitive edge in the world market.\textsuperscript{14}

Sub-regional cooperation is permissible under Article VII of the SAARC Charter. The Article stipulates: "The Standing Committee [of Foreign Secretaries] may set up Action Committees comprising Member States concerned with implementation of projects involving more than two but not all Member States". The position that sub-regional cooperation would be envisaged within the framework of SAARC and that this was to become complementary to the existing regional cooperation in South Asia was reflected in the views expressed by Prime Minister Sheikh Hasina of Bangladesh.\textsuperscript{15}

Bangladesh's Concept Paper on Sub-regional Co-operation in South Asia, mentioned earlier, also carried the same position. It contained in no uncertain terms that "the proposed sub-regional cooperation is not suggesting creation of any new grouping or institutionalized forum. Since these countries have shared natural resources and are close neighbors they can identify specific areas of cooperation which will significantly contribute to the uplift of the lot of the common people. It will help intensify cooperation within SAARC in core economic areas. Other Member States of SAARC can also initiate similar cooperation among themselves".\textsuperscript{16}

Notably, the Report of the aforementioned Meeting of the Foreign Secretaries of the four countries in Katmandu did not uphold that position. Instead, the Meeting decided in favor of
an independent grouping comprising four member countries/territories. However, following strong opposition to the idea of sub-regional grouping from the three non-participating SAARC member states as well as from within Bangladesh, the Ninth SAARC Summit, held in Male of Maldives in May 1997, reversed the decision. In the Summit Declaration, the seven member nations “agreed that a climate of mutual accommodation and purposeful cooperation was needed to impart further impetus to the SAARC process during the second decade of SAARC in order to address the developmental challenges facing the region”. More significantly, the Declaration mentioned: “The Heads of State or Government reiterated their determination to reinforce the unity and cohesion of SAARC. With the objective of enhancing regional solidarity and promoting overall development within SAARC, the Heads of State or Government encourage, under the provisions of Articles VII and X of the Charter, the development needs of three or more Member States”.17

In the light of the preceding analysis, it may be safely said that sub-regional growth model is theoretically in step with regional cooperation. And, as such, the South Asian Heads of State or Government have institutionalized sub-regional cooperation within the framework of SAARC. But, in practice, is it really so easy? It is not. Let us now look into the details of the problems facing the SAGQ within SAARC framework.

iv. The South Asian Growth Quadrangle: The Problems

The problems confronting sub-regionalism under discussion are of three categories: political, financial and institutional.

Political Problems

The SAGQ proposal has faced vehement political opposition from many quarters in Pakistan, Sri Lanka, Maldives as well as
from Bangladesh, and some dissenting voice in Nepal and India. While some political problems facing the sub-regional initiative emanate from the perceptions that it will have negative impact on the SAARC process, some others are security related. The security concerns seem to arise from the 'India factor' implying India's political domination in the SAGQ area, India's attempts to isolate Pakistan in the regional as well as global context, and the fear that Indian goods will flood the non-Indian area of the SAGQ.

Sharp reaction came from Pakistan. A Pakistan Foreign Ministry official warned that the SAGQ "move will isolate its [SAARC's] three other important members – Sri Lanka, Pakistan and the Maldives - and the over-all interest of SAARC will be damaged". A top Pakistani diplomat gave his reaction in the following words: "In principle, Pakistan has no objection to cooperation between any SAARC member states, whether bilaterally, trilaterally or quadrilaterally. However, as far as the idea of sub-regionalism as contained in the Nepalese draft is concerned, Pakistan does not see merit in loading that upon SAARC itself as it holds that such a concept rather than being helpful could in fact hurt SAARC". A Pakistan view is also reported in an Indian newspaper, which is that "Islamabad, as usual, alleged that New Delhi was using dirty tricks to isolate it in order to dominate the region".

A senior Sri Lanka Foreign Ministry official echoed his country's President, Chandrika Bandaranaike Kumaratunga, by saying, "We believe that the sub-regional grouping could be a hurdle to SAARC because the member nations of sub-regional group may give top priority to implementation of the programmes of that group, thus pushing SAARC programmes to the back seat". A perceptive young scholar from Bangladesh gives two considerations that led Pakistan and Sri Lanka to view the SAGQ initiative with reservations. "The first is the prospect of economic and, by implication, political
isolation from mainstream regional interactions if the sub-regional grouping is launched. Secondly, the forging of a closer identity between Dhaka, Thimpu, Katmandu and New Delhi also might eventually produce a common strategic view, or even a strategic consensus... that might create unavoidable foreign policy complications for Sri Lanka and Pakistan...”.

The Maldives also felt uncomfortable with the idea of sub-regional cooperation in South Asia. Fatullah Jameel, Maldives Foreign Minister, gave his reaction thus: “I personally don’t think it is necessary. We would like to maintain the concept of seven countries as a whole in all our activities”.

The non-official reactions in Nepal were adverse. For example, Ramesh Nath Pandey, former Foreign Minister of Nepal, expressed the view that he did not understand why a concept of sub-regional cooperation was broached when there was SAARC around. He maintains that Pakistan, Sri Lanka and Maldives too should have been taken into confidence for such initiative. Dissenting views came also from within India. While Kanti Bajpai contends that what sub-regional grouping was intended to do could be done bilaterally, Shoban Saxena and Partha Ghosh express concerns for the future of SAARC.

Opposition in Bangladesh to the initiative for sub-regional cooperation in South Asia is indeed very strong. This opposition may be summed up as this: that the proposed grouping is designed to undermine SAARC and establish Indian ‘expansionism’ and that India, having the sub-regional scheme formalized, would demand transit/corridor facilities through Bangladesh territory to her northeastern states that would endanger the sovereignty and independence of Bangladesh. Indeed, Bangladesh’s worst fear was lent credence to by a report published in the Calcutta-based The Anand Bazar Patrika with regard to India’s interest in the initiative for sub-regional cooperation in northeastern South
Asia. The paper reported that achieving transit facilities through Bangladesh and the crushing of the alleged ISI (Pakistan's intelligence outfit) nexus with India's northeast insurgents had contributed towards the softening of New Delhi's mind to go for signing the Indo-Bangladesh Treaty on the Ganges in 1996. The views in Bangladesh opposing SAGQ seem to smell a connecting Indian design in such a scheme of things.

Financial Problems

Resource mobilization is a critical problem, particularly for those that are not manufacturing-based or export-oriented SREZs. SAGQ is essentially a joint endeavor to develop common resources. Funding is required not only for infrastructure building and project activities but also for feasibility studies. Despite some initial overtures by the World Bank and ADB, not much is heard about them now. The concerned governments, that are expected to invest in infrastructure development, are also not very much forthcoming with funds. Local private sector investment is insignificant, and so is the case with the multinational corporations (MNCs).

Institutional Problems

While the perception that SAGQ is a parallel organization competing with SAARC has dissipated with the inclusion of sub-regionalism in the SAARC process, progress on sub-regional co-operation has come to a halt. First of all, it is no more sub-regional cooperation across the board; now it is only the development of specific projects relevant to the special individual needs of three or more Member States. According to Article VII of the SAARC Charter, the Standing Committee will set up Action Committees for identifying 'specific projects'. Now, how can the Standing Committee, that comprises
Foreign Secretaries of all the seven SAARC member states some of which had opposed SAGQ, be expected to set up any Action Committees, and that too on the basis of unanimity, according to Article X of the Charter. Even if Action Committees are formed and projects approved by the Standing Committee, there is no guarantee that they will get through the barriers at the political level in the form of Council of Ministers meetings.

Remarkably, the matters of three or four member nations have now become those of all the seven. Ironically, the fate of sub-regionalism in South Asia now rests on the good will of those three countries that were left out of the proposed scheme in the first place, namely Pakistan, Sri Lanka and the Maldives. As a matter of fact, it is not clear whether the SAGQ initiative is still called so and whether the process of sub-regional cooperation is still underway. This brings us to the question of sub-regionalism's outlook for the future in South Asia.

**Prospects for Sub-Regional Cooperation in South Asia**

There are essential factors and facilitating factors for proper functioning of a sub-regional growth zone. The essential factors are the unequivocal political commitment of all the participating countries/territories, their geographical proximity, economic complementarities among them, and a stable political and security environment at the national and regional levels. These are, of course, more relevant to the manufacturing-based and reasonably developed growth areas. And the facilitating factors are ethno-cultural commonality, common historical ties, visionary leadership, an enterprising private sector, and a reasonably developed public sector-private sector partnership. Some of the preconditions are not exactly met in South Asian context.  

Forecasting on the prospects for sub-regional cooperation is clearly a difficult proposition, but the propositions made by
Weatherbee\textsuperscript{29} could be a guide. The more relevant propositions are the following:

i. The more the asymmetries between the partners, the more zero-sum will be the decisions of the 'weaker' members.

ii. Sub-regional cooperation will be facilitated in cases where the partner-territories have experiences of earlier cooperation.

iii. The question of national integrity and security will take precedence over all other issues.

iv. A well-functioning regional cooperation organization will facilitate sub-regionalism.\textsuperscript{30}

Although sub-regionalism is theoretically consistent with regionalism, as successes in some regions have shown, their interfacing is not always positive. While cooperation among the Benelux countries has strengthened economic integration within EU, SAGQ has the potential to weaken SAARC. Strategic interests are often seen to overrule economic benefits. In the light of the above discussion, one cannot be blamed for lack of optimism about the prospects for sub-regional cooperation in South Asia under the present dispensation.

\textbf{Endnotes}


9. For a fuller description of the backwardness of SAGQ area, see *Concept Paper on Sub-regional Cooperation in South Asia*, presented by Bangladesh at the Katmandu Meeting of the Foreign Secretaries of Bangladesh, Bhutan, India and Nepal on 2 April 1997, p. 2.


16. See Bangladesh's *Concept Paper on Sub-regional Cooperation in South Asia*, op. cit., p. 3.


25. Shoban Saxena says that "this [SAGQ] move has all the menacing capacity to further weaken the already fragile SAARC...". See Shoban Saxena, *op. cit.*; Partha Ghosh holds the view that sub-regional cooperation excluding Pakistan and Sri Lanka is an unfeasible idea and that the marginalization of the former would lead to further dilution of SAARC image. For Ghosh's and Bajpai's views see Md. Nuruzzaman, *op. cit.* P. 319.


One may also come across similar views in South Asia. As a reaction to the proposal for SAGG, an eminent scholar from Nepal, Professor Madhab Khadka of Tribhuvan University in Katmandu, said: "At a time when SAARC itself has not been showing effect for overall development of one billion plus people of the region, I do not think any subregional concept will work". Reported in *The Daily Star*, Dhaka, 6 January 1998.