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SUB-REGIONAL COOPERATION IN SOUTH ASIA

1. Introduction

Having been caught up in the web of the all-pervasive globalization process as well as due to ever-deepening regionalism in Western Europe and North America, the countries of the rest of the world seem to have come under increasing compulsion to consolidate their own regional organizations, to take other measures in order to remain competitive in the world market and to develop their respective regions at a faster pace. One of the recent features in the political economy of some parts of Asia has been the emergence of localised, subregional level ventures and initiatives for economic cooperation, linking parts of three or more countries. Such cooperation areas, which have assumed various names, are generically called "growth triangles", although a more appropriate nomenclature would be "sub-regional economic zone" (SREZ).

There have been several sub-regional cooperation arrangements and initiatives since the 1980s, particularly in East and Southeast Asia. There are three sub-regional economic zones in the ASEAN (Association of Southeast Asian Nations) region, the first of them

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having been launched in 1989. These are the Indonesia-Malaysia-Singapore Growth Triangle (IMS-GT) - popularly known as the Southern Growth Triangle, the Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT) - also known as the Northern Growth Triangle, and the East Asean Growth Area (EAGA), better known as the Eastern Growth Triangle, connecting together the geographically proximate areas of Indonesia, Malaysia and the Philippines, and Brunei.

In Southeast Asia, there are two other growth triangles that include some of the non-ASEAN countries. These are the Golden Quadrangle or the Baht Economic Zone (linking Thailand, Laos, Myanmar and the Yunan province of China) and the Greater Mekong Sub-Regional Cooperation (GMS) among the six riparian countries - China, Vietnam, Laos, Cambodia, Thailand and Myanmar. Apart from these six SREZs, there are also four other sub-regional growth areas in East and Northeast Asia, namely, the Southern China Economic Zone or the Pearl River Delta, the Tumen River Area Development Programme, the Japan Sea Rim Economic Zone and the Yellow Sea Rim Economic Zone.

The novelty of the idea of sub-regional economic zone with its promise of benefits for the participants has caught the imagination of many around the world, including in South Asia. An idea for sub-regional co-operation, called the South Asian Growth Quadrangle (SAGQ), had been broached in December 1996 by the governments of Bangladesh, Bhutan, Nepal and India, linking the first three sovereign independent nation-states with the north-eastern federating states of the latter. The initiative, which is expected to bring immense benefits to the participants, is still at the conceptual level.

However, with the mooted idea for sub-regional cooperation in South Asia, there have been streams of strong criticism of it in Bangladesh and in some of the non-participating regional

neighbours. It has indeed spawned intense academic debate and serious political controversy in Bangladesh. However, the views about the new concept have, more often than not, been essentially partisan and even perfunctory in tenor and texture, resulting in virtual polarization of the attitudes and opinions along the political party lines in the country. As such, the situation calls for an in-depth study of the various issues relating to the SAGQ. This is particularly relevant to the scholars and practitioners in Bangladesh, which is an important partner in the proposed SREZ and where the opposition to it appears to be most vehement indeed.

The paper traces from a Bangladeshi perspective the evolution of the concept of SAGQ, examines the potentials for growth in the sub-region, identifies the sources of complementarity and the areas of cooperation, and highlights the problems and prospects for cooperation within the framework of the proposed sub-regional economic zone. But at the outset, dealing with some of the relevant conceptual issues is in order.

II. Towards Understanding Sub-regional Cooperation

There is no standard definition of the growth triangle. Scholars have attempted to define the concept differently. Mohamed Ariff, for example, defines a growth triangle as a "production bloc within which labour, capital and technology move freely. The main purpose is to minimise costs and maximise returns, to render the triangle an attractive centre for investments and its products competitive internationally".¹ Another scholar is of the view that the "concept refers to the exploitation of complementarities among participating geographically contiguous countries to help them gain a greater

1 Mohamed Ariff, "Growth Triangles, a New Competitive Force", *The Star*, 16 September 1993, p. 20.

competitive edge in export promotion."² Some other scholars give a similar understanding when they say that "in their most basic form, growth triangles exploit complementarities between geographically contiguous areas of different countries to gain a competitive edge in export promotion".³ Another good definition is that a "growth triangle... [is] a cross-border arrangement between three or more areas of different nation-states, bound by proximity, to promote direct investment and trade so as to take advantage of different factor endowments in each area."⁴

However, a more substantive conceptual formulation is given by Chia Siow Yue. She writes that the sub-regional economic zone "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."⁵

Indeed, a growth triangle is not only an extended manufacturing and export platform, it may also include the service sector like tourism and labour exports as well as the exploitation of common natural

2 Mya Than, "The Golden Quadrangle of Mainland Southeast Asia: A Myanmar Perspective", *ISEAS Working Papers*, Economics and Finance No. 5(96), Institute of Southeast Asian Studies, Singapore, July 1996.

3 See Min Tang and Myo Thant, *Growth Triangles: Conceptual Issues and Operational Problems*, Economic Staff Paper, No. 54, Economics and Development Resource Center, The Asian Development Bank, Manila, 1994.

4 Toh Tian Ser, "Regionalism, Sub-Regionalism and Regionalization", in Lim Chong Yah (ed.), *Economic Policy Management in Singapore*, Addison-Wesley Publishing Company, Singapore, 1996, p. 420.

5 Chia Siow Yue, "Motivating Forces in Subregional Economic Zones", Paper presented at the Pacific Forum/CSIS Conference on "Economic Interdependence and Challenges to the Nation State: The Emergence of Natural Economic Territories in the Asia-Pacific", Honolulu, 30 November - 2 December 1993.

resources of the territorially defined proximate areas of three or more countries. All in all, a growth triangle, which is not necessarily a triangular configuration but may also be a polygon of growth, is an innovative approach to synergise the diverse resource endowments and their economic complementarities for faster economic growth as well as to jointly develop the natural resources and infrastructure for the overall development of the participating countries and areas.

While 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, growth triangles are a localised version of regionalism with less formalised arrangements and procedures and with limited objectives to achieve. Indeed a growth triangle may be termed as a controlled experiment in regional cooperation, representing a new approach to regional development strategy. The idea of such an experiment has just been broached in South Asia, where an organization linking all the seven countries of the region called the South Asian Association for Regional Cooperation (SAARC) has been in operation since 1985.

III. South Asian Growth Quadrangle (SAGQ): Birth of a Significant Idea

There is no gainsaying the fact that the pace of cooperation among the SAARC member states has been painfully slow. The top political leaderships in some of the South Asian countries seem to have realised that one of the effective ways of putting regional cooperation onto a faster track is to forge cooperation at a subregional level. The second reason prompting them for such localised ties seems to be the fact that the least developed areas in South Asia have been crying out to be taken on board for development. And the third reason, which follows from the second, could be that these least developed countries just

wanted to be empowered through accelerated growth in order to be able to derive benefits under the upcoming regime of SAFTA (South Asian Free Trade Area scheduled to enter into force by 2001). Such least developed areas in South Asia include Bangladesh, Bhutan, Nepal and the northeastern states of India. And Bangladesh and Nepal proposed at the Seventeenth Session of the SAARC Council of Ministers Meeting held in New Delhi in December 1996 for sub-regional cooperation among Bangladesh, Bhutan, Nepal and the northeastern states of India.

As a follow-up, the First Meeting of the Foreign Secretaries of the four countries was held in Kathmandu where Bangladesh's Concept Paper and Nepal's Approach Paper were considered and deliberated upon. The Foreign Secretaries reaffirmed the commitment of their governments to pursue sub-regional economic cooperation for accelerating economic growth, overcoming infrastructural constraints, and developing and making optimal use of complementarities. The basic objective of the growth quadrangle has been to create an enabling environment for rapid economic development. The Meeting decided that the growth quadrangle would be pursued independently of the member states' cooperation within the framework of SAARC.⁶

The Foreign Secretaries in their Report identified the core sectors for sub-regional cooperation—multi-modal transportation and communication, energy, trade promotion, investment promotion, tourism, and optimal and sustainable utilization of natural resource endowments. A three-phased Plan of Action was decided upon for rapid progress in the cooperation process.⁷ The first is the consultative and conceptual

6 *Report of the First Meeting of the Foreign Secretaries of Bangladesh, Bhutan, India and Nepal on Sub-Regional Economic Cooperation*, Kathmandu, 2 April 1997, pp. 1-2.

7 For details see *ibid.* pp. 3-4.

phase, which will take about one year. In this phase, Working Groups consisting of officials and experts from the participating countries in the identified core economic sector(s) will be set up to examine and recommend specific projects. They will follow the needs assessment, maximum synergy and building-block approach in identifying these proposals. Each Working Group will be coordinated by one of the participating countries. Nepal will act as the overall coordinator for activities during the first phase.

In the second phase, a Steering Committee consisting of Foreign Secretaries of the participating countries will examine the reports of the Working Groups and identify high priority projects. Detailed feasibility studies of these projects and financial estimates will then be prepared. This phase will take 1-2 years. In the final phase, the Steering Committee will recommend projects for approval to the meeting of the concerned Ministers of the participating countries, who will then launch the implementation phase of projects and schemes for sub-regional cooperation as and when ready. The policy framework, institutional linkages, coordination and financial arrangements as well as project execution will characterise this phase. This phase is expected to last between 5-10 years.

Even in the face of Pakistan's objection⁸ and the lukewarm attitudes of Sri Lanka and the Maldives, the four concerned countries displayed strong determination, move ahead with the sub-regional cooperation venture even outside the framework of SAARC. Then the other three saw the wisdom in keeping the subregional initiative within the fold of SAARC, and this mood was reflected in the Declaration of the Ninth SAARC Summit held in Male, Maldives, in May 1997. The

8 This was disclosed by Bangladesh Foreign Minister, Abdus Samad Azad, in Bangladesh Parliament during a debate on the South Asian Growth Quadrangle initiative on 15 May 1997.

Declaration says, *inter alia*,: "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 of specific projects relevant to the special individual needs of three or more Member States." It maintains that "they 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".⁹

This has virtually been the middle ground struck, since the proponents of sub-regional cooperation have been kept within the ambit of SAARC and the process is likely to struggle in the labyrinth of bureaucracy in the Kathmandu-based SAARC Secretariat, while the idea of sub-regional cooperation has been endorsed nevertheless and the opportunities for sub-regional growth recognised.

IV. Potentials for Growth and Cooperation in SAGQ

The subregion of eastern South Asia, which includes Bangladesh, the two land-locked Himalayan kingdoms of Bhutan and Nepal, and the northeastern states of India (Assam, Meghalaya, Arunachal Pradesh, Nagaland, Manipur, Mizoram, Tripura; the seven states also known as 'seven sisters'), is the most backward area in the region. There is a huge concentration of the world's poor here. In this area, the economy is predominantly agrarian, savings rate and investment flows are low, population growth rate is high, infrastructure is dismally inadequate, natural disasters are frequent, institutional capabilities to promote sustained socio-economic development are limited, and

9 Declaration of the Ninth SAARC Summit, Male (Maldives), 12-14 May 1997, p. 2.

human resources development is pitiful scanty.¹⁰ Yet the region possesses, as the Bangladesh Prime Minister Sheikh Hasina aptly says, "a vast reservoir of human talent, enormous natural resources and a wealth of scientific and technical knowledge. Their prudent and optimal utilization through regional mechanisms, including growth triangles, which provides for collaboration on specific projects, can usher in a new era of sustained economic growth, peace and prosperity for the peoples of the region."¹¹ The subregion is also rich in cement, ceramics, gas-based fertilizer, etc. The subregion also has strong linkages in language, culture and ethnic affiliation.

While the enormous common water resources in eastern South Asia could be utilized for power generation, flood control and irrigation purposes in the subregion, the participating countries also seem to have varying degrees of comparative advantage in certain fields. Some of these sectors are timber or logs, limestone, natural gas, fertilizer, agro-based industry, agricultural research and tourism.¹²

V. Problems Facing SAGQ Initiative

As has been indicated above, the idea of cooperation within the framework of sub-regional economic zone in South Asia has not had a smooth sailing in the region. From a Bangladesh perspective, there have been two types of problems confronting the concept, namely the general problems and the challenges specific to Bangladesh.

10 *Concept Paper on Sub-regional Cooperation in South Asia*, presented by Bangladesh at the Kathmandu meeting of the Foreign Secretaries of Bangladesh, Bhutan, India and Nepal on 2 April 1997, p. 2.

11 Address by Her Excellency Sheikh Hasina, Prime Minister of the People's Republic of Bangladesh, at the Ninth SAARC Summit, Male (Maldives), 12 May 1997, p. 3.

12 Ashraf Ibn Noor, "South Asian Growth Quadrangle Through Trade: Bangladesh Perspective", Paper presented at the seminar on South Asian Growth Quadrangle : Bangladesh Perspective, organised by the International Studies Association, Bangladesh (ISAB), Dhaka, 17 July 1997, p. 10; Muhammad Masum, "Economic Dimensions of South Asian Growth Quadrangle: Views from Bangladesh Perspective", Paper presented at the ISAB seminar, *ibid.*, pp. 8-9.

The subregion under discussion is poor in physical, communication and financial infrastructure. Infrastructure building is, of course, most essential to develop the common resources and generate other economic activities in the subregion. Cost sharing and financial resource mobilization are just another couple of related problems. Some of the other potentially vexing problems may be concerning: what is to be done by the private sector and what jointly with the public sector? Who will provide financial resources for infrastructure building - is it the governments individually or collectively, or is it the private sector, or is it all to jointly bear the financial costs of the infrastructure development? Or is it the donor agencies and/or countries? Even on the question of such resource mobilization there seem to exist some discrepancies in the national positions of the participating countries. For example, while Bangladesh welcomes foreign assistance, India seems to be loath to donor funding.¹³

Another major problem would be concerning resources mobilization for investment, either from within the subregion or from overseas. A lot would depend on the policy framework put in place and the mechanism put into operation. However, it may be cautioned right now that without foreign direct investment coming into the area it may be indeed difficult for the scheme to come to fruition at all. Indeed, there is the fourth problem, in the form of apprehension even at the conceptual phase of the subregional cooperation initiative, with regard to the distributional aspect of the benefits expected to accrue to the participating countries. In fact, the fear of potential iniquitous

13 One scholar writes that "New Delhi, the perceived regional hegemon, seems least interested in donor funding, as any international involvement, even if for expert-support and/or resource allocation, with an enhanced multilateralism and transparency may mean a diminution of her regional dominance and influence. That makes her suspicious of any multilateral funding. See Abul Kalam, "SAARC, Subregionalism and Bangladesh Foreign Policy", Paper presented at the ISAB seminar, *op. cit.*, p. 9.

distribution of gains stems from the structural asymmetry of geoeconomics in the subregion favouring India over the other three partners in cooperation individually and collectively.

There are several other constraints which also may inhibit the proposed sub-regional cooperation. These are low volume of trade among the concerned participating countries, lack of investment, lack of information about one another's opportunities/potentials for cooperation, even lack of trust and vision, and of course the ethnic problems afflicting India in the form of insurgency, and in Bhutan in the form of ethnic resentment affecting inter-state relations between the two Himalayan Kingdoms.¹⁴

Problems in Bangladesh: The government of Prime Minister Sheikh Hasina, which came to power on 23 June 1996, has displayed its political commitment to the concept of subregional cooperation in South Asia. Sheikh Hasina herself made her position clear by saying that she extended her support for "construction of regional transportation facilities network under the aegis of the Asian Highway and Asian Railway" and offered "to work together to further strengthen...avenues for having a faster track of development involving countries of our region in a subregional approach." She expressed her confidence in such cooperative venture by stating that such approach "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 subregion for economic upliftment of our people."¹⁵

However, ever since the idea of subregional cooperation in South Asia was mooted, it has been generating an intense academic debate as

14 Ashraf Ibn Noor, *op. cit.*, pp. 4-6.

15 "Hasina-Gowda joint press conference: Teesta next focus, JEC takes up transit issue in March", *The Daily Star*, Dhaka, 8 January 1997.

well as acrimonious political controversy in Bangladesh with regard not so much to the economic logic for such cooperation as to the politico-security issues perceived to be related to or even underlying it. The polemics has been mostly partisan in tenor and texture, essentially betraying bias along party lines and political-ideological predilections of the individuals or professional groups. In other words, the entire nation appears to be split right down the middle of the political spectrum over the issue of SAGQ.¹⁶

16 This is clear from the sum and substance of the parliamentary debate on the issue in Bangladesh *Jatiya Sangsad* (National Parliament) on 15 May 1997. Seminars and discussion meetings on subregional cooperation have been held quite frequently, while features and opinions have appeared in the print media almost every alternate day. For some of the views supportive of the government position see M. Shahiduzzaman, "South Asia Growth Quadrangle: Security and Transit Aspects", Paper presented at the Panel Discussion on South Asian Growth Quadrangle, organised by the Bangladesh Institute of International and Strategic Studies, Dhaka, on 18 August 1997; Md. Nuruzzaman, "Subregional Cooperation and Political Dynamism in Bangladesh", Paper presented at the ISAB seminar, *op. cit.*; Syed Badruddin Hussain, "Sub-regional Bloc", *Sangbad* (Bengali Daily), 19 January 1997; Shahed Latif, "Why we must have sub-regional cooperation?" and "South Asian Growth Quadrangle and Misplaced Nationalism", *The Daily Star*, Dhaka, respectively of 8 and 24 April 1997; and Munim Kumar Barai, "Cooperation through Regional Arrangement: SAGQ and Answers to Some Questions", *The Daily Star*, 10 June 1997. For some of the opposing views see Ataur Rahman, (untitled paper on the security and transit aspect of the SAGQ) Panel Discussion on South Asian Growth Quadrangle, *op. cit.*; Abul Kalam, "SAARC, Subregionalism and Bangladesh Foreign Policy", Paper presented at the ISAB seminar, *op. cit.*; M.M. Rezaul Karim, "Sub-regional Grouping in Eastern South Asia: Principles, Practice and Prognosis", *The Daily Star*, 30 January 1997 and "South Asian Growth Quadrangle: Ties of a Gordian Knot" in *ibid.*, 10 April 1997; Editorial--"Sub-regional grouping and relevance of Saarc", *Holiday*, Dhaka, 4 April 1997; Sadeq Khan, "After a charade: SAGQ", *Holiday*, 11 April 1997; Abul Kalam, "Facts belie claims", *Holiday*, 4 and 11 July 1997; and Amanullah, "Controversies dog regional grouping idea", *Holiday*, 9 May 1997.

The whole controversy essentially seems to boil down to **two major sets of concerns in Bangladesh**. The first concern is the perceived **negative impact of SAGQ on the SAARC process**, while the second is the **'India factor'** which has always been the largest single preoccupation in Bangladesh's foreign policy pursuit. These issues relate to the healthy functioning of SAARC, Bangladesh's sovereignty and national security, and India's purported design to exercise dominance over Bangladesh by way of exacting transit/corridor facilities linking West Bengal to the northeastern seven sisters and isolating Dhaka from the remaining three South Asian countries - Pakistan, Sri Lanka and the Maldives.

Begum Khaleda Zia's explicit views sum it up all. She tends to contend that SAGQ is a conspiracy hatched to undermine the spirit of SAARC and to ultimately destroy it and "establish Indian expansionism" in South Asia, that the fact that three SAARC countries have been left out of the sub-regional scheme suggests that India would ultimately turn the three other members of SAGQ into her provinces. She maintains that "the proposal to include part of India in the planned group amounts to denial of sovereignty of the three other countries as Indian states. Our government is helping India materialize its evil design". She goes on to suggest that "the Awami League government is planning to give corridor to India in the name of Asian Highway, allowing New Delhi to use the planned corridor for movement of its troops". She, therefore, called to "resist the move" and vowed to "undo the 'evil design' to turn Bangladesh into an Indian province."¹⁷

The first concern, that SAGQ was aimed at scuttling the SAARC process, seems to have been addressed by the SAARC summiters in

17 For Begum Khaleda Zia's views on the proposed SAGQ see "Vow to resist 'evil design': Delhi to turn 3 countries into its provinces: BNP", *The Daily Star*, Dhaka, 9 January 1997; "Plan for subregional grouping: Worse than 25-year slavery treaty, says Khaleda", *The Daily Star*, Dhaka, 10 January 1997.

May 1997 in Male by putting the efforts at subregional cooperation within the framework of the regional organisation. To what extent the transit/corridor issue is politically controversial in Bangladesh is clear from the fact that while the mainstream opposition in the country has vehemently opposed SAGQ, it has not done so when another agreement for subregional cooperation, called BISTEC (Bangladesh-India-Sri Lanka-Thailand Economic Cooperation), was signed in June 1997 by Bangladesh, India, Sri Lanka and Thailand, which is not likely to raise any question of corridor for one part of India to another through Bangladesh territory. While cross-border economic cooperation within a sub-regional economic zone as such is not likely to involve loss of sovereignty of the participating states, India's unstated strategic calculations tend to feed into the suspecting Bangladeshi mind with an uneasy feeling that India could thus get itself 'compensated' for the lapse in March 1997 of the 25-year Friendship Treaty between the two countries.

VI. Outlook for the Future

The basic objective of sub-regional cooperation is to accelerate the pace of collaboration and growth. Such cooperation is indeed an innovative, unique solution to some of the problems of regional cooperation with the benefits of easily conceiving, and of better manageability and implementability of the projects within smaller and closer geographical proximity. The merits of such type of cooperation seem to far outweigh the demerits. Some of the merits are that it quickens the pace of economic integration at lower costs and shorter time, that it involves less economic and political risks, and that all in all it is a cheaper development strategy.

It is clear from the above exposition that subregional cooperation is not without its problems. And therefore, certain preconditions are to be met for a proximate growth area to succeed in mutually beneficial

cooperation. Some of the most essential ones are the consistent and strong political commitments at the highest level in the cooperating units for subregional cooperation, the economic complementarities between and among these partners, a developed infrastructure, and a stable political and security environment at the regional as well as national levels.

In the sub-regional economic zone called the SAGQ, there are critical problems to overcome but the potentials for benefits are certainly beyond doubt. Economic complementarities, in the strict sense, between partners may be largely offset by the expected gains to be realised from exploitation of the natural resources common to the concerned four. If cooperation on specific projects in the identified areas is carefully undertaken within the greater SAARC framework and without affecting the interests of the other three SAARC member states as well as the regional organisation itself, the outlook for the future of SAGQ may be said to be good indeed.

With regard to Bangladesh's security concerns, she can perhaps obviate them by adopting several strategic policy measures. Bangladesh's Chittagong and Mongla ports, particularly the former, may be developed into major sea ports for the whole of the subregion. They could thrive on various allied service industries, while Chittagong itself could turn itself into the commercial capital of the proposed subregional economic zone. Bangladesh, having further developed these two and established another couple of new sea ports, is indeed in a position to use the rest of the subregion as its hinterland. Dhaka, the capital city of Bangladesh, has the potential to become the financial and air transportation hub in the entire area. Benefits for Bangladesh, financial and otherwise, may be considered to be truly substantive.

However, since so much to gain economically from SAGQ and, at the same time, so much else is feared to be lost due to it, it seems to be

in the greater interest of Bangladesh to take a strategic view of all the issues involved in the apparently innocent-looking sub-regional cooperation initiative, which has come to be known as the South Asian Growth Quadrangle. One of the best ways to go about it for the government of Bangladesh is to cushion its particular policy about SAGQ on a national consensus and to haste slowly in order to be able to properly assess the pros and cons involved in each and every related issue, including its domestic and foreign policy implications.