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Strengthening BBIN Connectivity: Market Signals for Policymaking

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ABSTRACT The South Asian Association for Regional Cooperation (SAARC), now in its 30s, is still virtually a non-starter. While markets in the region have for long projected the need for increased integration, the policy frameworks in South Asia have failed to move in a parallel manner. Meanwhile, attempts at sub-regional connectivity are getting more attention, for example, the BBIN initiative amongst Bangladesh, Bhutan, India and Nepal. Once again, the broader agenda of strengthening connectivity in the entire region appears to have been put on the back-burner, as initiatives like BBIN take centre stage. This paper examines how markets in East South Asia are showing signs of readiness for integration, having in place significant demand and supply for goods and services from across the sub-region's borders. It proposes policy reforms aimed at instituting better border management, infrastructure development for easier movement of people and goods, and facilitating the movement of business and labour.

INTRODUCTION

There is no dearth of literature on regional integration in South Asia—the imperative for it, what has been accomplished so far, and the challenges that face such cooperation. However, the growth of the South Asian Association for Regional Cooperation (SAARC) has remained a painfully slow process. Bilateral disagreements between the two largest countries of the region

remain, creating enough impediments to progress towards regional integration. While there is no absence of media coverage of each and every SAARC summit, most of it is focused on the perceived interactions between the Indian and Pakistani leaders. A recent development is the creation of sub-regional groupings; so far, they appear to offer more hope.

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The association of Bangladesh, Bhutan, India and Nepal (BBIN), for example, received a huge boost with the signing of the Motor Vehicles Agreement (MVA) in June 2015. Analysts widely perceive the event as a mark of integration in East South Asia, a region with enormous potential which can be harnessed best through cooperative and competitive engagements amongst the member states. Following the failure of a pan-South Asian deal along the same lines, the relatively swift negotiation for the sub-regional motor vehicles pact indicates that political will for greater connectivity amongst BBIN countries is at a historic high. It is imperative that the momentum created by the BBIN-MVA is carried forward and built upon. Given these nations' geographical proximity, their similarities in culture, and parallels even in spending patterns, it makes good economic sense to strengthen connectivity in East South Asia.

It is important to note, to begin with, that the distance from Kathmandu to Guwahati is only 1,000 km, which is the same distance from Kathmandu to Delhi.¹ Guwahati is also closer to Yangon than to Delhi. As road and rail infrastructure improve, the potential increases for easier movement of people and commodities across the region. The impact will be nothing less than increased economic activity across borders; political borders will likely become less relevant. The potentials of this area are similar irrespective of the borders, be it in hydropower, agriculture, tourism, or service. This provides a lot of room for intra-regional learning and interaction, along with the opportunity for business, which have developed competencies in certain sectors, to further their footprints beyond national borders to areas which are so similar yet remain insulated from regional competition, and therefore, from better services.

HURDLES TO INTEGRATION

Across the globe, geographical borders have the potential to serve as literal gateways that open up states to trade and commerce with one another.

Such potential, however, remains farfetched. In South Asia, for example, even as Nepal shares a 1,580-km-long open border with India, the border points act more as barriers than bridges. The border is seen as “a regulated outlet that has been bestowed upon as a facility to Nepal.”²

The lack of formal framework restricts the movement of goods across the border. For instance, Nepal's handicraft—which is one of the country's main exports with a large market in North Eastern India and Bhutan—cannot be exported through the Kakarvitta/Naxalbari border in Eastern Nepal, which is geographically the closest point through which those markets can be reached. The Indian side, however, lacks the required framework to let these items pass and the border is virtually useless as a bridge. Similarly, apples from Bhutan have yet to find their market in eastern Nepal because no framework for formal trade exists and these apples are exported instead to farther off markets in India.³

Obstructions like these do not only raise the cost and make exporting cumbersome for traders willing to operate within the bounds of the law, but they also encourage the proliferation of informal trade, which does not benefit farmers but makes middlemen rich at the cost of government revenues. As Zipperer (2014) points out, valuable goods which usually are subject to significant import duties are smuggled across the India-Nepal border during the time that the border points remain closed. Estimates suggest that illegal trade along Nepal's southern border with India amounts to almost 40 percent of Nepal's foreign trade.⁴ At the same time, the closure of border points for long hours restricts the volume of trade that could take place between the two countries. If the border points are kept open, this malaise of rampant rent-seeking will be checked and the governments stand to gain in the form of increased revenues from import duties. This will, of course, require stringent and effective border patrolling through the coordinated efforts of both sides.

OPEN BORDERS, INTERDEPENDENT LIVELIHOODS

The open border between Nepal and India has allowed for the movement of people across; this movement has helped shape the people's way of life along the area. The open border provides a variety of opportunities to people on both sides who travel across to work, attend school, or access medical facilities. In a single day, an estimated 20,000 people cross the border through the Kakarvitta crossing alone.⁵ Such movement of Indians and Nepalis across the border—either for day-to-day activities or for longer-term employment—goes far back in the two countries' bilateral relations. What is probably less known, however, is that in Nepal, there are also a significant number of workers from Bangladesh, employed mainly as manual labour in Kathmandu's construction sector. Brick factories in Eastern Nepal also employ Bangladeshi workers, with these factories in Jhapa, Morang and Sunsari employing more than 1,000 Bangladeshi families.

These examples show that although labour mobility through formal channels remains low, the demand exists, and is significant enough to warrant the creation of more formal mechanisms. The free movement of labour across borders is a key component of any integration process. The establishment of formal channels ensures that these workers will be protected from exploitation by abusive agents. At the same time, the governments can keep a database of these movements and they are able to keep a tab on criminal activities that might take place through this channel. After all, encouraging mobility does not mean being lackadaisical about security; proper documentation and regulation should ensure that the security of any of the sovereign states is not compromised by the movements of labour. Easier mobility through formal channels will incentivise more citizens to move across borders and seek employments that are most suited to their skills-sets. The result is, at least potentially, higher productivity for the region

and increased socioeconomic benefits for the citizens.

There is also the matter of access to services such as health, from which people from both sides of the border benefit mutually. For example, patients from across the border in India travel to the town of Lahan in southeast Nepal for eye treatment. The well-known Sagarmatha Choudhary Eye Hospital (SCEH) in Lahan is quite easily accessible from Bihar; almost 90 percent of the patients who come to the hospital are Indian. Medical tourism to SCEH has become so popular among the people of Bihar that travel agents and other organisations offer 'treatment package tours' for Indian patients willing to travel to Lahan. In 2008 alone, more than 10,000 patients were brought to the hospital from different parts of North India by organisations operating package tours for procedures like cataract surgery.⁶

TV AND INTERNET: CONNECTING PEOPLE THROUGH OLD AND NEW MEDIA

One of the things that easily connect the people of East South Asia—and perhaps even the entire South Asia—is Indian television: Indian soap operas, in particular, enjoy huge popularity across the region. Access to Indian satellite TV has provided opportunity for companies to advertise their products and services in these channels and reach out to their target markets throughout the region.

Further, the rapid expansion of Information and Communication Technology (ICT) has meant greater people-to-people interconnections in the region—which remains one of the most crucial prerequisites to stronger connectivity and effective regional integration. The percentage of population connected to the internet in different parts of the region has increased tremendously, with penetration between 2000 and 2014 jumping from 0.1 percent to 9.6 percent in Bangladesh, 0.4 percent to 34.4 percent in Bhutan, 0.5 percent to 18 percent in India, and 0.2 percent to 15.4 percent in Nepal.⁷ The increase

in cellular subscription figures in this region in the last decade has been even more remarkable.

As a result, more and more information that was previously inaccessible to people of one country about the other is now easily within reach. For example, a student in Northeast India wanting to pursue medical education outside the country would earlier have had a tough time figuring out their options and getting information about institutions in countries like Nepal and Bangladesh, which are today well-known as medical education destinations amongst Indian students. Access to communication technologies, which continue to improve over the years, has made it easier to explore opportunities. The proliferation of mobile phones and the widening reach of the internet have thus given rise to a large number of youth in the region who, in their pursuit of opportunities whether in education or livelihood across borders, are better equipped with information.

Further, new technologies and innovations have spelled progress for newer ways of trading, namely, e-commerce. In South Asia, closely tied to the rapid increase in internet access is the emergence of e-commerce and internet marketing. With mobile devices and internet access, people from across the region can access e-commerce companies and purchase goods and services which would have otherwise been hard to obtain. Nepal, for one, in the past few years has witnessed a sharp increase in e-commerce business with a number of these traders. However, these e-commerce companies in Nepal cannot compete with those based in India, for sheer variety of products and price competitiveness. Exploiting this gap between the e-commerce industries in the two countries, the e-commerce company, herethere.co, launched its services in Nepal to provide customers with the opportunity to shop for products available in Indian e-commerce markets while paying a premium price for getting access to products which are otherwise either not easily available or completely unavailable in Nepal.

With greater connectivity and lesser restrictions, if larger players in the industry could get access to the entire region, businesses would stand to gain by getting access to new markets and customers would gain by taking advantage of the fierce competition among different suppliers.

POLICY RESPONSE TO MARKET SIGNALS

The market is, without doubt, already projecting clear signals that strengthening connectivity and increasing integration in East South Asia has become a necessity. These signals need to be read properly by policymakers in the region as nothing less than opportunities to foster greater economic ties against the backdrop of close cultural and people-to-people bonds. The increasing frequency of interactions between people from different countries in the region on cyberspace—whether for e-commerce transactions, purchasing IT solutions, webinars, and other activities—necessitate a recalibration in the policymaking processes related to greater connectivity. Moreover, such increase in virtual interactions should be complemented and reinforced by a strong brick-and-mortar regimen which would further facilitate such engagements across the borders.

This paper suggests three key areas that need to be accorded focus to bolster sub-regional connectivity: better border management; investments in infrastructure to facilitate easier flow of people and goods; and creating policies that allow business and labour to move across borders to tap markets so far insulated from outside competition and thus better services.

Transforming Borders

The entire region can gain tremendously through enhanced connectivity and effective sub-regional integration policies. Increasing cooperation in different sectors of shared interest and fewer barriers for goods and services as well as labour within the region can enable these countries to leverage the potential which thus far remains latent or otherwise, constrained.

Border points between countries in the region should be more welcoming to trade and commerce serving as a bridge rather than a barrier to meaningful engagement. Rather than becoming points of control and harassment, borders should be points of facilitation. It is rather ironic that the movement of people, goods, and services in today's connected world is much more constrained than in the pre-20th-century. The hardening of concepts of borders, visas, passports, tighter regulations, are early-20th-century and post-World War I, and are becoming increasingly archaic in today's globalised world. There is thus a need for a major paradigm shift among BBIN countries about what borders mean and what they should signify.

Countries in the region need to proactively work towards equipping border points with all the required framework, infrastructure and equipment needed for the easy passage of tradable items. The large volume of informal trade that currently takes place across the borders needs to be turned into formal trade, and the key to this lies in shifting focus away from national and provincial capitals to the border economies. After all, border economies form the bedrock of bilateral relationships as the livelihoods of millions of people along the border depends on them.

To strengthen connectivity, border points need to be open 24 hours, unlike current norms. As discussed earlier, the long hours during which the border points remain closed provide an opportunity for large-scale, informal and illicit trade to take place along the border. The porous borders in the region are also being used for criminal activities, ranging from transporting counterfeit currency to human trafficking. Through close cooperation between authorities on both sides, the movement of people and goods needs to be closely monitored. The use of technology to create and maintain details of movements between the borders and sharing this information between authorities on both sides can help identify suspicious movements and can go a long way in preventing cross-border criminal activities.

The time required for the passage of goods through the border points is probably one of the most important barriers to increasing trade volumes in the region. The lengthy and complicated processes that need to be completed on both sides of the border make trading through these points seem more like a hassle than avenues for growth. Opening the border points round the clock, having integrated custom checkpoints, and streamlining the process for clearance, can have added advantages in boosting trade volumes between countries. Examples of this are already present and are worth emulating. Integrated customs points in East Africa which open 24 hours a day have increased the volume of bilateral trade in that region. Similar arrangements are also in place among member states of the Association of South East Asian Nations (ASEAN).⁸ Implementing these practices along the many border points in the BBIN region are prerequisites to greater connectivity and effective integration.

The Two Fs of Trade

Border trade among nations in the region should be governed by the principle of two Fs: it should be formal and free of fear (of corrupt officials and other such undue hurdles). At present, even traders who operate within the bounds of law view the border as an impediment or a hurdle, where they are liable to incur additional costs in order to bribe officials to expedite the passage of their goods. This is one of the reasons why traders resort to informal means of transporting goods. By significantly improving the infrastructures at such border economies and checkpoints; by having all the necessary frameworks in place to facilitate imports and exports, and by rationalising and streamlining the procedures and processes to be cleared for seamless transit—can the connectivity in the region be strengthened. Governments have much to gain from investing in making these arrangements at the border points, as fearless and formal trade can significantly add to government revenues. For a country like Nepal, where customs duty alone contributes 20 percent of the total tax

revenue, it makes great economic sense to facilitate smooth and seamless trade and transit.⁹

Investing in Infrastructure

Policies to increase and strengthen connectivity will not automatically translate to the easing of cross-border transport of people and goods. Such policies need to be reinforced by investing in infrastructure so that increased connectivity does not get confined to mere rhetoric on paper but reaches the realm of a rise in volume of goods and services traded, reduction in travel time, and decreased transport fares. These infrastructure investments should not be limited to increasing road connectivity, either. Rather, BBIN countries must aim for increased connectivity in the areas of railway, waterway and air travel, too. A BBIN air network with fifth freedom rights—where an airline from one country, can fly passengers to a destination in another country, drop them and pick up passengers from there before flying to another country—should be instituted to foster better air connectivity in the region which no doubt makes good business sense for commercial airliners operating in the region.

Further, infrastructure development projects such as road, rail and waterways within a country, should also consider how best such can be developed so that regional connectivity can be strengthened. For instance, the proposed Second International Airport in Nepal's Nijgadh should be viewed as an international airport which can potentially be accessed by a sizeable population of Northern India within a few hours' drive and can connect it to a large number of international destinations. In other words, infrastructure development should be based on a regional view rather than on a constrained border-enclosed vision.


Market and Labour Access

The examples described earlier—of e-commerce companies in Nepal exploiting the unavailability of large players, leaving consumers with little choice

but to pay premium prices for products, and of Bangladeshi migrant workers seeking construction-sector jobs in Nepal through informal channels—are only some of the illustrations of the fact that there exists a substantial demand for goods and services from across the BBIN borders. But because the markets in these countries are not integrated, consumers stand to lose as they are unable to access better services and goods at competitive prices.

At the sub-regional level, therefore, there should be greater cooperation amongst countries to formally allow labour to move across the borders and make it easier for businesses from the region to enter newer markets and provide quality services at competitive prices.

CONCLUSION: BUILDING UP ON THE PROGRESS

Improving the effectiveness of sub-regional connectivity policies would not only contribute towards inducing growth in the East South Asian region but would also serve as a starting point for increasing regional connectivity at a larger and, quite possibly, a pan-South Asian level. Strong political will and mutual trust among member countries are some of the most crucial keys that would determine whether or not efforts at increasing connectivity and promoting integration will gain a positive momentum. At the same time, it is equally important for think-tanks and research institutions throughout the region to collaborate and continue to come up with innovative policy suggestions which can build upon the impetus generated by the BBIN MVA to further push the project of boosting connectivity and increasing cooperation amongst member states. In the longer term, the collaborative efforts of such think-tanks and research institutions can give rise to an institutional set up dedicated towards doing research and making intelligent and sensible recommendations towards achieving better connectivity. This connectivity, in turn, holds plenty of promise to improving the lives of millions of people across the region. 

Box 1: Summarising Policy Suggestions

Some of the key policy reforms for strengthening connectivity and integration in BBIN in accordance to the signals projected by markets in East South Asia are briefly summarised under three headings:

- **Transforming Borders**

Rather than becoming points of control and harassment, border points should be points of facilitation. Border points between countries in the region should be more welcoming to trade and commerce serving as a bridge rather than a barrier to meaningful engagement. For this to happen, policies for having integrated customs points and border points open round the clock with all required frameworks should be in place.

- **Better and well connected Infrastructure**

Infrastructure development should be based on a regional view of things rather than a constrained border-enclosed vision. BBIN countries should work towards building and improving physical infrastructure so that connectivity increases not just on paper but in terms of the increase in volume of goods and services traded, reduction in travel time, and lowering of transport fares. A BBIN air-network with fifth freedom rights should be instituted so as to foster better air connectivity in the region.

- **Freer movement of people, goods and services**

Easier movement of labour between borders with proper documentation can prevent undue exploitation of workers by agents, help in curbing cross-border criminal activities, and can bring these workers within the tax net. Proper documentation and regulation should ensure that there is no compromise on the security of any of the sovereign states due to such movements of labour. Easier market access for labour, goods, and services will increase competition for local labour and businesses thereby incentivising productivity boost; consumers stand to gain from greater competition among service providers.

Policies that formally allow people, goods, and services to move across the borders freely, form the foundation for better connectivity and integration and should, therefore, mark the starting point for strengthening connectivity among BBIN countries.

ABOUT THE AUTHOR

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ENDNOTES:

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