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## India and its Eastern Neighbours: Prospects for Sub-Regional Cooperation

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### Introduction

South Asia is the fastest growing region in the world. The combined economy of the South Asian Association for Regional Cooperation (SAARC) is the third largest in the world in terms of GDP (PPP), with US and China ahead. SAARC countries make up around 21 percent of the total world population with around 1.7 billion people. India makes up for the majority of this region's area and population.

According to the South Asia Economic Focus report brought out by World Bank, regional growth is projected to increase from 7 percent in 2015 to 7.6 percent by 2017 with the increase in investments and steady rise in consumption patterns.<sup>1</sup>

However, South Asia still remains one of the least integrated regions in the world: Intra-Regional Trade is dismally low compared to other regional trade blocs that are seeing fast growing trade (See Table 1). The South Asian Free Trade Area (SAFTA) was envisaged as the first step towards a Free Trade Area which would eventually lead towards a Customs Union, Common Market and Economic Union.

Membership of SAARC has not made any significant difference to the lives of people in the region over the years, a fact even acknowledged by the leaders of the member countries. This has been primarily due to bilateral differences between members of the group. Consequently, sub-regional

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cooperation among some of the SAARC countries is on the rise. One sub-grouping that has gained prominence and traction in recent times is Bangladesh-Bhutan-India-Nepal (BBIN). These countries have decided to move ahead, improve connectivity and boost intra-regional trade.

**Table 1: Intra-Regional Trade of Various Regions as of 2014**

Region	Intra-Regional Trade
SAARC	5.00%
EU	66.00%
ASEAN	27.00%
NAFTA	46.00%

Source: UN Commodity Trade Statistics Database

Sub-regional cooperation among BBIN countries, particularly in the area of transport infrastructure, is crucial for providing impetus to trade and other economic activities. The SAARC Charter promotes the idea of sub-regionalism in Article VII which states, “The Standing Committee may set up Action Committees comprising Member States concerned with implementation of projects involving more than two but not all Member States”.<sup>2</sup> Article I (h) of the Charter, emphasising trans-regional cooperation, states that member countries can “cooperate with international and regional organisations with similar aims and purposes”.<sup>3</sup>

At the 18th SAARC summit in Kathmandu, Indian Prime Minister Narendra Modi stated that regional integration in South Asia would go ahead “through SAARC or outside it, among all of us or some of us.” Thus, India has now embarked on a strategy to build seamless sub-regional transit corridors of which BBIN is a crucial component.

This Issue Brief focuses on the reasons for the need to have sub-regional integration and cooperation between the four South Asian countries—Bangladesh, Bhutan, India and Nepal. It also looks at previous attempts made at sub-regional cooperation by countries in the region and the areas of potential cooperation.

### **Need for Sub-Regional Cooperation**

In the 20th century, the world of international relations shifted more towards regionalism: the idea was to promote peace and economic progress through multilateral partnerships. One of the major reasons for this was that many countries realised that in a changing world order and newer challenges like terrorism, economic crises and other complex issues could not be solved bilaterally but required support and coordination among nations. As a result, some of the regional groupings that came into existence included the European Union (EU), Gulf Cooperation Council (GCC) and the Association of South East Asian Nations (ASEAN).

Over the past few years, there has been a shift towards sub-regional groupings within these larger multilateral regional groupings. For instance, among ASEAN member countries, Indonesia-Malaysia-Singapore makes up an important grouping of sub-regional cooperation and so does the group of Brunei-Indonesia-Malaysia-Philippines (BIMP). These sub-regional groupings help to boost trade relations and thereby contribute to tangible progress in the respective nations.

In a globalised world, economic prosperity of a nation lies in its ability to integrate with other economies; the South Asian economies are no exception to this rule. As far as India is concerned, greater connectivity and maintaining harmonious relations with its smaller neighbours may be the only option available in a world largely dominated by regional blocs; as for the smaller neighbouring States, economic cooperation may be the only solution available for survival.

SAARC, till now, has been unable to promote regional cooperation. Disagreements at the Kathmandu Summit only bear testimony to this fact. On top of the agenda were three proposals on road, rail and energy connectivity but consensus emerged only on energy connectivity. The remaining two did not go through as Pakistan had not completed its internal processes to endorse them. As a result, the Motor Vehicles and Regional Railways Agreement proposed by New Delhi at the summit was blocked by Pakistan. The proposal, initially outlined by India in 2008, intended to connect South Asia with South-East Asia and other parts of Asia by strengthening the railway networks.<sup>4</sup> This ambitious plan to improve regional growth has now been stalled.<sup>5</sup> Ironically, the theme of the Kathmandu Summit was “Deeper Integration for Peace and Prosperity”.

Besides bilateral differences, there are deeper structural reasons for the lack of cooperation among SAARC countries. Geographical, ethnic, political and historical factors have grid locked SAARC; a major concern among the smaller SAARC countries is that India, with huge resources and political power, is larger than all the other members put together.<sup>6</sup> Given this hurdle, the sub-regional approach to improve regional integration has been adopted. To start with, the BBIN countries are set to sign an agreement in June 2015 which would allow movement of vehicles through their borders.<sup>7</sup>

### **Attempts at Sub-Regional Cooperation**

The only previous attempt to have sub-regional cooperation within SAARC was when the idea of the South Asia Growth Quadrangle (SAGQ) was mooted. During the meeting of SAARC Council of Ministers in 1996 in New Delhi, the idea of forming a growth triangle comprising the northeastern parts of India, Bangladesh, Nepal and Bhutan was endorsed for the first time. The example of other growth triangles, like the Johor State of Malaysia, Singapore and the Riau islands of Indonesia (JSRGT), the South China Growth Triangle, comprising of Hong Kong, Guangdong and Fujian provinces of China and Taiwan, reinforced the motive for sub-regional cooperation

among some SAARC member countries. It was believed this type of cooperation would be both geographically meaningful and economically beneficial.<sup>8</sup>

The SAGQ was seen as a feasible and practical solution to the socio-economic problems of the sub-region which would not compel member countries to change their macroeconomic policies and institutional approach to wider issues of governance.<sup>9</sup> It was also seen as a way of bypassing the political tensions between India and Pakistan. The aim of SAGQ was to integrate the local economies for efficient utilisation of manpower, infrastructure, trade opportunities and economic resource endowments. Moreover, the geographical proximity to South East Asia and other Asian countries provided further impetus for cooperation.

In 2001, Maldives and Sri Lanka were welcomed into the group after the initial four countries requested the Asian Development Bank (ADB) for assistance to promote economic cooperation in the sub-region, leading to the creation of the South Asia Sub-Regional Economic Cooperation (SASEC). Constituted initially as SAGQ, SASEC was a development plan mooted by the ADB to promote sub-regional economic cooperation among the four countries. Sub-regional cooperation under this framework was targeted towards priority sectors such as Transportation, Energy and Power, Tourism, Environment, Trade, Investment and Private Sector Cooperation.

The ADB initiative of SASEC with emphasis on private-public partnership with a more project-driven approach was a step in the right direction. However, poor infrastructure facilities have delayed and hindered progress in the region.

## **BBIN Cooperation**

The creation of BBIN was conceptualised in 2013 by the Manmohan Singh Government and is now being aggressively promoted by the Narendra Modi-led Government. The first Bangladesh-Bhutan-India trilateral meeting on connectivity and transit was held on 19 April 2013 in Dhaka. The delegation noted that this trilateral meeting on Connectivity and Transit was the first initiative of its kind and would pave the way for future comprehensive cooperation in the sub-regional context. The meeting was considered a significant step forward towards materialising the understanding reached at the highest political level in the three countries with regard to concerted efforts towards attainment of common aspirations of economic development in the region for mutual benefit. It was agreed that road, rail and waterways were the building blocks to an interdependent and mutually beneficial relationship.

Prime Minister Modi's desire to integrate the South Asian economy is clearly reflected in his push for the BBIN initiative with a clear message that if there are impediments on the SAARC route, India will not hesitate to encourage sub-regionalism.<sup>10</sup>

The meeting of the Joint Working Group (JWG) on Sub-Regional Cooperation, attended by delegates from Bangladesh, Bhutan, India and Nepal, in New Delhi in January 2015 reviewed the scope of power trade and inter-grid connectivity between the four countries and discussed the potential for closer cooperation in future power projects.<sup>11</sup>

### *Need for greater transport connectivity*

To boost economic activity, one of the best ways is to promote regional integration by facilitating freer movement of goods, services and investment; this, in turn, would help achieve regional development objectives by creating jobs.<sup>12</sup> In light of this, a meeting on the Sub-Regional Motor Vehicles Agreement (MVA) that would link Bangladesh, Bhutan, India and Nepal (BBIN) took place between the transport secretaries of the four member countries of SASEC recently in New Delhi. The agreement will help in creating transport corridors linking the four countries into economic corridors as well as enable transit of passengers and goods along designated key routes in the four SAARC countries without need for trans-shipment at border crossing points, thereby reducing the time-consuming exercise of disembarking of passengers and unloading and loading of cargo.

The Joint Working Group of BBIN on Connectivity and Transit reviewed existing agreements during its meeting in New Delhi, agreeing on the significance of BBIN agreements to enable movement of motor vehicles and railways. During the meeting there was also an exchange of ideas on potential cargo (road and railways) and bus routes, involving at least three countries in addition to the existing bilateral routes. They agreed to share suggestions in this regard.<sup>13</sup> There was also a decision to explore the possibility of using multi-modal transport to meet commercial as well as tourist needs.

The JWG deliberated on the need for trade facilitation at land border stations for improving sub-regional connectivity and also exchanged views on usefulness of sharing trade infrastructure at land border stations along with harmonisation of customs procedures.<sup>14</sup>

During the BBIN meeting, potential institutional structures for implementation and a monitoring MVA were also discussed. One of the proposals included setting up a National Land Transport Facilitation Committee in each country and a Joint Land Transport Facilitation Committee. India, on its part, has now decided to focus on sub-regional transit corridors which the SAARC nations have completely failed to agree on. In the eventuality of future SAARC conclaves failing to reach any consensus, the BBIN countries would have already worked on a draft framework agreement on cooperation on roads and transportation.

Both Bhutan and Nepal are dependent on India for external trade as they are landlocked countries and use the Indian ports of Kolkata and Haldia for their trade purposes. In 1999, a World Bank study

revealed that median landlocked countries experience 42 percent higher transport costs than median coastal economies.<sup>15</sup>

A number of challenges still lie ahead. To begin with, the existing state of infrastructure and lack of connectivity delays the transit and travel time between key points. For instance, it is estimated that a container takes around 20 to 25 days to reach Dhaka from New Delhi as the maritime route is via Mumbai, then to Colombo or Singapore before reaching Chittagong, and then by rail to Dhaka; if there was a direct rail connectivity between New Delhi and Dhaka, it would not take more than four days .

The Chittagong port in Bangladesh is only around 75 kilometres from the southern border of the north-eastern Indian state of Tripura, but the goods have to travel from the Capital Agartala to Kolkata port which is more than 1600 kilometres and from there through the Siliguri Corridor, better known as the 'Chicken's neck'.<sup>16</sup> Lack of railway links to the Mongla port is making it difficult for third country containerised movement through the port; the fact that most of Nepal's imports are in containerised form is a major hindrance to its trade with other countries.

There is no doubt that an urgent upgrade is needed for transport connectivity to revitalise regional trade and decrease costs. But there is more to trade connectivity than usually thought in South Asia where an improvement in transport connectivity alone may not be enough to spur a rise in trade volumes.<sup>17</sup> Some studies in recent times have shown gaps in the maintenance and construction of South Asia's transport infrastructure, in particular infrastructure along the cargo traffic corridors which are used for intra-regional trade.<sup>18</sup> One of the studies talks about not only revamping the physical infrastructure of cargo transport but also non-physical soft infrastructure such as cross-border transit facilitation measures, customs clearances and other facilitating regulations.<sup>19</sup>

The solutions to many of these problems are known, such as expanding port capacity at Chittagong and Haldia and provision of transit and trans-shipment facilities to India, Bhutan and Nepal by Bangladesh. The question then arises as to why the situation is not improving despite studies suggesting inefficiency in the current system? The answer: Flawed perspectives existing in the region have proved stronger than empirical studies.

### ***Power Trade and Grid Connectivity***

Nepal and India signed the “Electric Power Trade, Cross–Border Transmission Interconnection and Grid Connectivity” agreement in October 2014. It provides a framework for power trade between the two countries, import by Nepal from India until it is power surplus and subsequently imports by Indian entities from Nepal, on mutually acceptable terms and conditions.<sup>20</sup>



During the recent BBIN meeting of the JWG held in New Delhi, the four countries discussed the scope for power trade and inter-grid connectivity. The JWG agreed that joint efforts would be made to explore harnessing of water resources, including hydropower and power from other sources available in the sub-region. It was also agreed to exchange lists of potential future hydropower and power projects to be undertaken jointly involving at least three countries on an equitable basis.

Nepal is a country which has huge potential for hydropower generation and upto 43,000 MW, yet there is not sufficient power to meet even the domestic needs of Nepal due to an installed power capacity of just 762 MW, thereby making it dependent to import power from India. In the case of Bhutan, hydropower is one of the main pillars of its cooperation with India. India has agreed to develop 10,000 MW of hydropower in Bhutan for export of surplus power to India by 2020 under the agreement on cooperation in hydropower signed in 2009.

While the Government of India is cooperating with the Governments of Nepal and Bhutan for hydropower generation, cross-border transmission infrastructure at the bilateral level, the SAARC countries are still waiting to establish proper coordination at the regional or sub-regional levels despite the signing of the Framework of Agreement on Energy Cooperation during the 18th SAARC summit at Kathmandu.<sup>21</sup>

## Conclusion

Sub-regional cooperation in South Asia would give impetus to India's international trade and also make South Asia a stronger regional trade hub. India would significantly stand to gain in trade, investment, assistance, cooperation within the region, people-to-people contact and connectivity. The BBIN initiatives clearly reflect India's desire to integrate the South Asian economy. But, for the sub-regional grouping to succeed, a focused agenda along with more political will is needed.

BBIN also needs to work and coordinate with other sub-regional groupings such as Bangladesh, China, India, Myanmar Economic Corridor (BCIM-EC) and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) that exists beyond South Asia. By improving its reach and having a better regional integration through sub-regionalism, it would catapult South Asia into one of the most prosperous economic regions of the world along with making it one of the most integrated regions in the world. For this big progress to happen, it is inevitable that the most powerful country in the region, India, should take the lead in activating the sub-regional cooperation projects and contribute to more international trade.

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