

## PROSPECTS AND CHALLENGES OF INTEGRATING SOUTH AND SOUTHEAST ASIA

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Integrating the Southeast Asia with South Asia through trade and economic; integration and physical and soft connectivity can contribute to peace, prosperity and stability of these two regions. This paper examines the prospects, challenges and benefits of enhancing trade, investment, production and infrastructure connectivity cooperation and integration between these two regions for catalyzing their socio-economic transformation, including the important role of Myanmar. It also examines the trends, achievement drivers, and prospects of economic growth and developments of these regions until 2030. The paper also provides policy recommendations for enhancing regional cooperation and integration. In view of global financial crisis of 2008 and ongoing European debt crisis, advance economies that are principal export markets of South and Southeast Asia economies may witness slow growth and even in recession in short term. Further integration of these two regions will generate increased intraregional trade and reduce their dependence on advanced economies.

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### 1. Introduction

Over the past 25 years, Southeast Asian economies have prospered through an outward-oriented strategy and through economic integration under the Association of the Southeast Asian Nations (ASEAN) initiative.<sup>1</sup> The major drivers of this region's strategy have been market-driven trade, foreign direct investment (FDI) and finance; and joining East Asia's production network linked to the international supply chains through the liberalization of trade and FDI regimes and the development of infrastructure connectivity.

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<sup>1</sup> Established in 1967, ASEAN is a regionally-based international organization with headquarter in Jakarta, Indonesia. At present it has ten members: Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam. For more information, see: [www.aseansec.org](http://www.aseansec.org)

In the 1970–80's, South Asia stagnated due to its inward-oriented growth strategy, lack of market liberalization, and lack of infrastructure connectivity - resulting in low trade integration and regional connectivity within the region and with Southeast and East Asia. However, in 1991, India adopted a “Look East” policy and opened its market raising huge potential for economic integration between South and Southeast Asia.

This paper examines the prospects and challenges of enhancing trade, investment, production and infrastructure cooperation and integration between these two dynamic regions for catalyzing the socio-economic transformation. In particular, the paper examines the trends, achievement, drivers, and prospects of economic growth and developments for these regions until 2030. It also discusses various programs and initiatives for enhancing physical connectivity (hard and soft infrastructure) for increased integration, and role of regional production network and trade facilitation for further integration and growth. Finally, the paper provides policy recommendations for enhancing regional cooperation and integration.

## **2. Historical Linkages**

South and Southeast Asia have had intensive historical, political, economic, social and cultural interfaces and relations from ancient times. Goods, ideas, religions and cultures moved across nations in Asia, and India has had strong cultural influence upon Southeast Asia. Indeed, prior to the popularization of the term “Southeast Asia”, the region was often referred to as “Greater India”, reflecting the close ties between these two regions. The long and deep historical relations can be traced in:

- Large-scale migrant people from the Indian subcontinent settled down in Southeast Asia such as Singapore, Malaysia, and Indonesia;
- Geographical proximity between the two regions facilitated the spread of Indian culture and religion;
- Certain Indian elements, such as Sanskrit language, the Hindu-Buddhist cults, and Indian-style royalty were essential features of early states of Southeast Asia;
- Historic and cultural exchanges over several centuries have shaped a distinct identity in Asia;
  - In the 13th century, the Silk Road facilitated vibrant flows of goods, services, people, capital, information and knowledge across Asia; and
  - In the 19th century, western powers introduced new industrial technologies and helped expand Asia's trade opportunities<sup>2</sup>.

Coastal communities in South and Southeast Asia facilitated networks of linkages through maritime spice trade in the pre-European colonial era. During the period of colonization, these two regions witnessed increased linkages due to large migration and settlements from South Asia leading their presence in various professional activities and

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<sup>2</sup> See [www.hinduwisdom.info](http://www.hinduwisdom.info)

services in Southeast Asia. During the second half of the 20<sup>th</sup> Century, these two regions however have witnessed limited economic and political interaction and cooperation due to the adoption of different economic development models. India followed inward-looking policies of import substitution for achieving economic self-sufficiency whereas Singapore and other major economies of Southeast Asia adopted outward-oriented economic policies (Keat 2011).

### 3. Economic Growth and Development: Achievements and Drivers

ASEAN economies and India have been the some of the most dynamic emerging economies in the recent decades with high growth rates, which have generally been higher than the rates of other regions of the world:

Asia's growth performance has significantly increased its economic development in terms of per capita GDP:

- From 1980 to 2010, India's per capita income (in current US\$) increased more than 5 times, while for the PRC it increased 23 times. All the ASEAN economies have shown varying degrees of progress in their per capita incomes. However, South and Southeast Asian economies are very diverse in terms of stages of development as measured in per capita income.
- Comparable figures from the advanced economies (Japan and Republic of Korea, European economies, and the United States) make it clear that despite recent achievements, the South and Southeast Asian countries still have a long way to go to reach global standards (Table 1).

**Table 1:** Trends in Economic Growth of Selected Asian Economies: 1998–2009

	Average GDP Growth Rate			GDP/ World GDP (2010) 2009 prices	GDP/ World GDP (2010) 2005 PPP
	1981–90	1991–00	2001–10		
ASEAN	5.9	5.26	5.08	2.64%	4.15%
Brunei Darussalam	-2.32	2.26	1.54	0.02%	0.03%
Cambodia	4.67	7	7.85	0.02%	0.04%
Indonesia	5.98	4.16	5.21	0.96%	1.40%
Lao PDR	6.78	6.07	7.1	0.01%	0.02%
Malaysia	6.26	7.2	4.63	0.34%	0.56%
Myanmar	2.61	7.14	10.34	0.03%	0.11%
Philippines	1.88	3.07	4.7	0.29%	0.47%
Singapore	7.73	7.24	5.69	0.32%	0.37%
Thailand	7.45	4.59	4.36	0.47%	0.78%
Vietnam	5.29	7.58	7.26	0.17%	0.39%
China, People's Rep.	8.98	10.45	10.48	9.22%	13.65%
India	5.54	5.59	7.57	2.54%	5.70%
Bangladesh	1.03	2.6	4.4	0.32%	0.33%

	Average GDP Growth Rate			GDP/ World GDP (2010) 2009 prices	GDP/ World GDP (2010) 2005 PPP
	1981–90 (1982–90)	1991–00 (1996–2000)	2001–10		
Bhutan	6.89	5.0	6.0	0.01%	0.01%
Maldives	-	6.2	4.2	0.00%	0.00%
Nepal	2.7	2.6	1.7	0.05%	0.05%
Pakistan	2.8	1.2	2.7	0.61%	0.62%
Sri Lanka	2.8	4.1	4.2	0.14%	0.14%
Japan	4.56	1.21	0.73	8.63	5.77
Republic of Korea	8.34	6.63	4.15	1.47	1.96
United States	2.92	3.42	1.69	24.32	19.76
<b>World</b>	<b>3.14</b>	<b>3.22</b>	<b>3.63</b>		

Source: World Bank (2011b); ADB (2011b).

#### 4. Asia's Emerging Giants

East Asia and South Asia contain economic giants – China (PRC), ASEAN economies as a whole, and India - that are creating a huge market for goods and services for themselves and also for other countries.

- PRC already accounts for around 14% of world GDP (2010 data, measured in 2005 US\$ PPP). Its GDP is expected to exceed that of US in the next 2 decades (ADB / ADBI 2012a);
- SAARC member countries (excluding Afghanistan) account for almost 7% of the world's PPP GDP in 2010;
- India alone accounts for around 5.7% of world GDP. India's GDP may exceed that of PRC over time, given its favorable demographic factors (70% of India's 1.2 billion population is under 35 years old); and
- ASEAN member countries' combined share of world PPP GDP was over 4% in 2010. As these countries move toward establishing the ASEAN Economic Community, they are expected to grow even more.

Asia has an increasing middle class population<sup>3</sup>, a large portion of which live in PRC, India and ASEAN - an attractive market opportunity for Asian producers. In 2010, the shares of middle class in the PRC, ASEAN and Indian populations were 16%, 24% and 5% respectively. By 2030, these shares are projected to increase to become 83%, 65% and 68% respectively (ADB/ADBI 2012a). This shows the tremendous potential for production and trade catering to the huge middle class markets of developing Asia.

With a combined population of more than 1.7 billion in ASEAN and South Asia, integrating ASEAN and South Asia can have profound implications for Asia as well as

<sup>3</sup> Middle class is defined here to include those living in household spending between \$10 and \$100 a day per capita, in PPP terms.

the world as a whole. The countries of these two regions are very diverse in all aspects. In terms of demographic size, countries vary from highly populous such as India (nearly 1.2 billion in 2009) and Indonesia (nearly 238 million) to very small ones such as the Maldives (0.31 million) and Brunei Darussalam (0.39 million). Total GDP (market prices) ranges from 1.4 trillion in India to 1.3 billion in Bhutan, both in 2009 (Table 2). Per capita GDP (in PPP terms) is observed to be as high as over \$50,000 in Singapore to as low as about \$1150 in Nepal. The different stages of development of these countries are also reflected in their performances in trade in goods and services, FDI inflows and outflows as well as annual consumer price inflation rates. This diversity could be a great opportunity for growth and development if proper cooperation and integration can be achieved among these economies.

**Table 2:** Key Economic Indicators of South and Southeast Asian Countries, 2009

	Population, total million	GDP (current US\$ billion)	GDP per capita, PPP (current international \$)	GDP per capita growth (annual %)	Trade (% of GDP)	Trade in services (% of GDP)	Foreign direct investment, net inflows (% of GDP)	Foreign direct investment, net outflows (% of GDP)	Inflation, consumer prices (annual %)
<b>South Asia</b>									
Bangladesh	147.03	89.4	1555	4.63	45.98	6.01	0.80	0	5.42
Bhutan	0.71	1.3	4960	4.89	107.34		1.40		4.36
India	1155.35	1380.6	3281	7.65	43.61	12.61	2.58	1.15	10.88
Maldives	0.31	1.3	5444	-3.59	149.11	71.74	8.52	0	3.98
Nepal	29.43	12.9	1147	2.54	51.61	11.99	0.30		11.61
Pakistan	170.49	161.9	2584	1.78	33.22	6.50	1.44	0.04	13.65
Sri Lanka	20.67	42.1	4665	2.56	49.13	10.49	0.96	0.05	3.42
<b>Southeast Asia</b>									
Brunei	0.39	10.7	49494	-3.56		21.89	3.03		1.04
Cambodia	13.98	10.5	2019	-2.96	122.27	25.31	5.07	0.18	-0.66
Indonesia	237.41	539.4	4049	3.49	45.53	6.68	0.90	0.42	2.78
Lao PDR	6.11	609.5	2357	5.83	70.79	8.39	5.23	0	0.04
Malaysia	27.95	193.1	13706	-3.29	171.29	29.13	0.72	4.15	0.58
Myanmar	47.60								1.47
Philippines	91.70	168.3	3687	-0.54	65.59	11.83	1.17	0.21	3.23
Singapore	4.99	183.3	50650	-3.72	376.20	94.50	8.33	10.07	0.60
Thailand	68.71	263.7	7848	-2.95	126.16	25.67	1.89	1.56	-0.85
Vietnam	86.02	97.1	2982	4.22	146.95	14.36	7.82	0.72	7.05

Source: ADB (2011d).

An ongoing ADB/ADBI (2012) study projects that India and ASEAN economies will witness remarkable growth and transformation if they can address critical challenges and handle important risks. The study projections suggest that ASEAN as a whole will experience an average growth rate of 5.6% from 2010–2030, while for India it will be 7.6% (Table 3). Other South Asian economies will also grow at rapid pace. By 2030, ASEAN and India, together with the PRC, will become the center of global economic activities. They are poised to turn into the world's leading consumers, producers, investors, and financiers. The overall effect will be that these economies will make dramatic progress in improving

the quality of life of their citizens and eradicating extreme poverty. However, they will also face a plethora of risks and challenges including managing resources, security, and the environment; reducing economic and social inequality and exclusion; enhancing productivity, technology development and innovation; strengthening and reforming the financial sector; strengthening governance, accountability, and institutional effectiveness; and enhancing regional and global cooperation and integration. In view of the possibility of slowdown or recession in advanced economies, it is the right time to integrate ASEAN and South Asia through India as a gateway. This is crucial to sustain growth as well to re-balance growth away from high extra-regional export dependence and towards increased regional demand and intra-regional trade.

**Table 3:** Projections of Output and Population of South and South-East Asian Economies: 2010–2030

	2010				2030			2010–30	
	Population	GDP	World Share	GDP/capita	Population	GDP	World Share	GDP/capita	GDP growth
<b>ASEAN</b>	593.4	1,566	2.64	2,639	706.0	4,634	3.86	6,564	5.6
Brunei	0.4	11	0.02	27,277	0.5	23	0.02	43,587	3.8
Cambodia	14.1	12	0.02	826	17.4	56	0.05	3,244	8.2
Indonesia	239.9	571	0.96	2,380	279.7	1,700	1.42	6,080	5.6
Lao	6.2	6	0.01	989	7.8	28	0.02	3,575	7.8
Malaysia	28.4	204	0.34	7,166	37.3	593	0.49	15,912	5.5
Myanmar	48.0	21	0.03	431	54.3	117	0.10	2,149	9.0
Philippines	93.3	170	0.29	1,828	126.3	660	0.55	5,224	7.0
Thailand	69.1	277	0.47	4,008	73.3	711	0.59	9,702	4.8
Singapore	5.1	193	0.32	37,849	6.0	324	0.27	54,206	2.6
Vietnam	87.8	102	0.17	1,160	101.5	420	0.35	4,136	7.3
<b>South Asia</b>									
India	1,224.6	1,504	2.54	1,229	1,523.5	6,570	5.47	4,312	7.6
Bangladesh	148.69	97	0.32	650	181.86	432	0.36	2,373	7.8
Bhutan	0.72	1	0.01	1,903	0.89	5	0.004	4,995	6.2
Maldives	0.31	1	0.00	4,403	0.38	4	0.003	10,530	5.6
Nepal	29.95	14	0.05	455	39.94	71	0.06	4,349	8.6
Pakistan	173.59	175	0.61	1,005	234.43	865	0.72	3,690	8.3
Sri Lanka	20.85	44	0.14	2,126	23.09	122	0.10	5,286	5.2

Note: 1. Population: millions; GDP: billions of 2009 U.S. dollars; GDP/capita: 2009 U.S. dollars.

2. ASEAN aggregate includes Timor Leste, a prospective member.

Source: ADB (2011b).

## 5. Trends in Asia's Integration

As Asia is populous, amorphous and diverse, inter-country cooperation and integration in this region tends to occur more at the bilateral and sub-regional levels rather than at the pan-Asian level. For Asia in general and for ASEAN and South Asia in particular, Europe and the United States continue to be important destination for their exports. Additionally, western countries still are the major sources of foreign direct investment (FDI) for these economies.

One of the major factors behind the development success of East Asia has been market-led, cross-border integration. Several Asian countries benefited from joining the East Asian regional production networks connected to the international supply chains. This phenomenon, however, has not been that significant for the South Asian economies, although trade has played an important role in their recent economic performances in terms of competition, productivity and growth. With the exception of a few instances in India, other South Asian economies do not participate in the production networks that have become such a distinctive feature of East Asia.

### ***5.1 Southeast Asia's Trade Integration***

The ASEAN region's economy has been driven by market-driven trade, FDI and finance; and joining East Asia's production network linked to the international supply chains through the liberalization of trade and FDI regimes and the development of infrastructure connectivity. Although ASEAN was created to address political and security issues, over time economic cooperation became the central focus of ASEAN. It has already established the ASEAN Free Trade Area (AFTA) and now aims to create an ASEAN Economic Community (AEC) by 2015. Expansion of intraregional trade has been remarkable, with ASEAN's intraregional trade rising from 19% in 1990 to more than 26% in 2010. Intraregional trade for ASEAN+3 increased from about 30% to close to 40% during the same period (Table 4).

### ***5.2 South Asia's Limited Trade Integration***

South Asia is the least integrated subregion in the world. Share of intra-regional trade among the members of the South Asian Association for Regional Cooperation (SAARC)<sup>4</sup> has persistently been low, comprising only 4.3% in 2010, whereas the share was 26.4% for ASEAN and 31.2% for ASEAN+3 economies (Table 4). South Asia needs to enhance its integration through bilateral FTAs and SAARC processes to become competitive and get the full benefits of the integration with ASEAN. This will require political commitments from the top leaders of South Asian economies. On the other hand, ASEAN needs to successfully achieve the AEC by 2015 for competitiveness and utilizing the full potential to integrate with South Asia, particularly with the Asian giant India. This integration will also allow ASEAN to diversify its export markets from heavy dependence on advanced western economies and PRC.

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<sup>4</sup> Established in 1985, SAARC is the most important subregional institution among the South Asian economies. At present it has eight member countries: Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka. In the area of economy and trade, SAARC promotes cooperation in the field of trade, economy and finance, among others. The South Asian Free Trade Area (SAFTA) became operational in 2006 to bolster trade cooperation and integration among the SAARC members, and is expected to lead subsequently towards a Customs Union, Common Market and Economic Union. For more information, see [www.saarc-sec.org](http://www.saarc-sec.org)

**Table 4** Intra-regional Trade Share SAARC, ASEAN and ASEAN+3 countries: 1990–2010 (in percentage)

Year	SAARC	ASEAN	ASEAN+3
1990	2.91	18.84	29.41
1991	3.31	19.89	31.23
1992	3.72	20.20	31.22
1993	3.26	21.33	33.69
1994	3.51	24.27	35.71
1995	3.98	23.95	37.52
1996	3.93	23.98	37.78
1997	3.85	23.71	36.52
1998	4.58	23.29	33.13
1999	3.82	23.75	35.36
2000	4.28	24.69	37.32
2001	5.37	24.05	37.05
2002	5.24	24.40	37.87
2003	6.20	26.62	38.92
2004	5.80	26.70	39.22
2005	6.02	27.18	38.82
2006	5.13	27.08	37.91
2007	5.21	26.95	37.68
2008	4.33	26.74	37.86
2009	4.20	25.90	38.45
2010	4.31	26.37	39.56

*Note:* Intra-regional trade share is the percentage of intra-regional trade of total trade of the region, calculated using exports data. A higher share indicates a higher degree of dependency on regional trade.

*Source:* ADB (2011a).

### 5.3 Southeast Asia-South Asia Trade Integration

Trade between South and Southeast Asia increased about 15 times from 1990–2010 (Table 5). The two region's trade momentum continued despite the global financial crisis with an increase in 2008. Intra regional FDI is limited but showing an increasing trend.

**Table 5: Southeast Asia–South Asia Total Trade, 1990–2010 (in million US\$)**

Year	ASEAN to SAARC	SAARC to ASEAN
1990	5548.65	4668.97
1991	6008.19	4198.79
1992	5997	5363.25
1993	6719.04	5319.46
1994	8176.15	6461.18
1995	10583.97	8572.04
1996	12752.1	9189.73
1997	12229.75	9789.45
1998	12099.8	10019.15
1999	12599.53	11037.33

(Contd.)



Year	ASEAN to SAARC	SAARC to ASEAN
2000	14851.29	11646.94
2001	14228.41	14450.77
2002	15357.37	13997.5
2003	18494.86	17971.79
2004	24514.67	22041.41
2005	30997.1	27492.45
2006	38875.3	37178.62
2007	48529.19	47219.34
2008	64215.53	56302.97
2009	52297.52	52396.68
2010	71876.96	73684.16

*Note:* Total trade is the sum of the value of exports and imports.

*Source:* ADB (2011a).

Integrating India, and through India other major South Asian economies such as Bangladesh, Pakistan, and Sri Lanka to the South East Asian production network will create win-win situations for both regions. Low wage and low value chain production activities will move or be outsourced from China to developing Asia, particularly major South Asian economies and low income ASEAN economies (Lin 2011). Further, trade integration through ASEAN + India FTA and bilateral FTAs such India-Singapore, India-Malaysia, Pakistan-Malaysia will include the service sector and eventually the agricultural sector. Free movement of goods, services, labor, knowledge and capital within ASEAN and South Asia will pave the way for an Asian common market. These economies need to remove border barriers to realize the full impact of integration.

## 6. Intraregional FDI Inflows in South and Southeast Asia

Foreign direct investment (FDI) inflows are foreign capital reported as balance-of-payments net inflows. A higher volume of FDI indicates higher capital mobility and integration in the region. All the regions of interest (ASEAN, ASEAN+3 and SAARC) experienced increased FDI over the last two decades. ASEAN and ASEAN+3 regions show stronger FDI integration, but despite increases, South Asia still lags behind both in terms of intra-SAARC FDI flows and in terms of attracting FDI from other regions (Table 6).

**Table 6.** Intraregional FDI Inflows in ASEAN, ASEAN+3 and SAARC, in million US\$

<b>Reporting Region: ASEAN</b>				
Partner	1990	1995	2000	2005
ASEAN	267.37	2007.18	1313.91	2461.63
ASEAN+3	1965.92	5457.39	3822.53	6382.09
SAARC	N/A	7.34	60.91	36.90
<b>Reporting Region: ASEAN+3</b>				
Partner	1990	1995	2000	2005
ASEAN	327.83	4848.11	4892.39	6259.29
ASEAN+3	2887.86	12843.80	12910.75	23370.86
SAARC	N/A	8.60	79.62	54.38

**Reporting Region: SAARC**

<b>Partner</b>	<b>1990</b>	<b>1995</b>	<b>2000</b>	<b>2005</b>
ASEAN	N/A	18.20	59.60	324.42
ASEAN+3	11.17	127.63	253.56	597.93
SAARC	0.87	1.50	9.20	32.80

Source: ADB (2011a).

However, cross-border investments between India and major ASEAN Economies witnessed a rising trend in recent years with India and Singapore becoming important investment destinations for each other. In 2011, Singapore became the second largest source of incoming FDI into India as well as the top destination for India's outward investments. The Indian corporate sector has a strong presence in Singapore with more than 5,000 companies incorporated, especially in IT and software industries. Malaysia and Thailand have also invested significantly in India. Major sectors for Indian investments in Southeast Asia include IT, software, chemicals, pharmaceuticals and metal products. On the other hand, Southeast Asian companies invested in various industries India namely telecommunications, construction, roadways and financial services. Southeast Asian economies are also investing in other major South Asian economies (Keat 2011).

Trade and FDI openness in most of the South Asian countries tend to be relatively low - 33%, 38% and 43% for India, Bangladesh and Sri Lanka respectively in 2009. However, openness of South Asian economies witnessed significant increase between 2005 and 2009. Southeast Asian countries, particularly Singapore, Malaysia, Lao PDR, Cambodia, Thailand, Vietnam and Brunei are more open to trade and investment, with trade and FDI openness figures ranging from 82% to 282% (Table 7).

**Table 7:** Trade and FDI Openness in Selected Asian Countries

<b>Country</b>	<b>Trade Openness 2009 (Total Trade as % of GDP)</b>	<b>FDI Openness 2005 (Total FDI as % of GDP)</b>
Afghanistan	57.26	8.56
Bangladesh	38.19	5.72
Bhutan	N/A	2.57
Brunei Darussalam	83.88	98.91
Cambodia	81.69	39.89
PRC	44.23	11.92
India	33.33	5.50
Indonesia	39.65	14.78
Japan	22.52	2.23
Korea	83.64	13.32
Lao PDR	78.84	23.29
Malaysia	145.77	34.00
Maldives	66.49	24.02
Myanmar	36.90	40.86
Nepal	26.28	1.70
Pakistan	30.35	7.88
Philippines	52.99	14.80
Singapore	282.01	168.39

(Contd.)

Country	Trade Openness 2009 (Total Trade as % of GDP)	FDI Openness 2005 (Total FDI as % of GDP)
Sri Lanka	43.49	10.21
Thailand	108.77	34.28
Vietnam	136.47	58.93

Notes: 1. Trade openness is measured by total trade of a country expressed as a percentage of nominal GDP in US dollars. A higher value indicates a more open economy.

2. FDI openness is measured by the inward FDI stock of a country expressed as a percentage of nominal GDP in dollars. A higher value indicates a more open economy.

Source: ADB (2011a)

## **7. Prospects and Challenges of Economic Cooperation and Integration between Southeast and South Asia**

This section examines the prospects and challenges of economic cooperation and integration, especially in trade, investment, finance, and infrastructure.

### **7.1 Prospects and Benefits**

The prospects and benefits of increased cooperation and integration are many. The major prospects and benefits include:

1. Trade integration will enhance domestic demand through improved trade policy, hard and soft connectivity, rules and regulations among others.
2. Large income gains can be achieved due to existing and expanding large domestic markets consisting of primarily young population, particularly large middle class population;
3. ASEAN-South Asia integration will be a building block for the pan-Asia integration;
4. ASEAN can re-balance and diversify its growth, especially export away from high dependence on export to advanced economies towards regional demand and trade and from PRC to India.
5. ASEAN economic dynamism and high growth and FDI can contribute to South Asia's prosperity and India's outward investment in ASEAN. This integration, therefore, will enhance South Asian growth and thus reduce poverty and increase standard of living and to reduce their export dependence on advanced economies.
6. India offers a large market for ASEAN, particularly for some economies such as Malaysia, Thailand and Singapore which require re-balancing and diversification and do not have much opportunity to enhance domestic demand.
7. In Southeast Asia, ASEAN (consisting of 10 Southeast Asian countries) is the integration hub. The proven model of ASEAN can facilitate increased integration of South Asia through SAARC and other processes.

### **7.2 Trends in Bilateral and Regional Cooperation**

In addition to the ambitious goal of establishing a common market of ASEAN Economic Community in 2015, ASEAN aims to integrate with the rest of Asia and other regions. ASEAN has already formed a series of ASEAN+ 1 FTAs with major Asian countries

including with India. By August 2011, India, Singapore, Malaysia, Thailand, Vietnam, Brunei, Indonesia, Philippines and Myanmar have implemented ASEAN-India Trade in Goods Agreement, covering tariff elimination & reduction, commitments in trade in goods, rules of origin, and customs documentation issues. ASEAN and India also concluded Trade in Services and Investment Agreements, which are expected to come into effect in 2012. India also undertook FTAs with India-Singapore, Malaysia, Thailand and is negotiating with Indonesia as well as Pakistan-Malaysia FTA.

ASEAN and South Asia integration can be enhanced through a CEPEA (among ASEAN+6 countries) - through India as the gateway to other South Asian economies such as Bangladesh and Nepal. Enhancing the implementation of BIMSTEC initiatives can lead to the integration between these two subregions.

There are already several subregional and regional initiatives including Southeast and South Asia. They cover a wide range of areas such as trade and economic integration, security issues, infrastructure connectivity and socio-economic issues (Table 8).

**Table 8:** Existing Trade, Investment and Infrastructure Cooperation Initiatives in Southeast and South Asia

Name	Year Established	Members	Functions				
			Integra- tion	Security	Trade	Infra- structure	Socio- economic
Association of Southeast Asian Nations (ASEAN)	1967	Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam	✓	✓	✓	✓	✓
Greater Mekong Subregion (GMS) drop	1992	Cambodia, Lao PDR, Myanmar, Thailand, Vietnam, plus Guangxi and Yunnan provinces of the PRC	✓		✓	✓	✓
Mekong River Commission (MRC)	1995	Cambodia, Lao PDR, Thailand, Vietnam	✓	✓		✓	✓
Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT)	1993	Provinces in Indonesia, Malaysia, and Thailand	✓		✓	✓	✓
Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA)	1994	Brunei Darussalam, Indonesia, Malaysia, Philippines	✓		✓	✓	✓
Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC)	1997	Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka, Thailand	✓		✓	✓	✓
South Asian Association for Regional Cooperation (SAARC)	1985	Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka	✓		✓	✓	✓
South Asia Subregional Economic Cooperation (SASEC)	2001	Bangladesh, Bhutan, India, Nepal	✓		✓	✓	✓

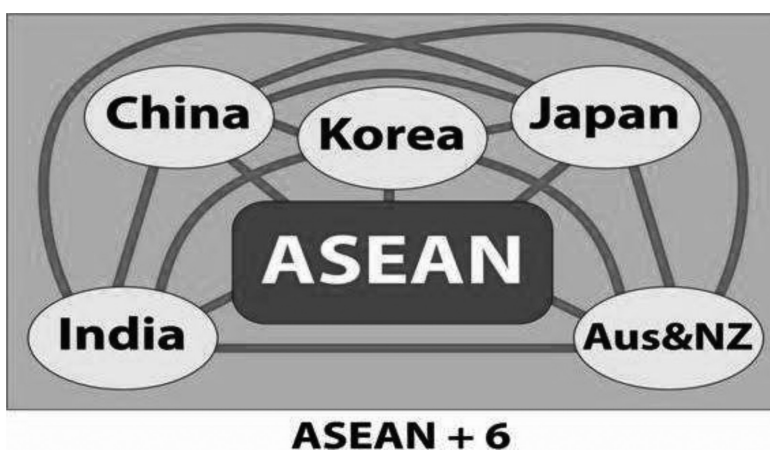
Source: ADB / ADBI (2009).

### 7.3 Role of ASEAN +3 and ASEAN + 6 Cooperation

The East Asia Summit - often referred to as ASEAN+6 (Figure 1) as well as expanded ASEAN +3 cooperation, particularly financial sector cooperation, can play an important role in enhancing South-east and South Asian cooperation and integration. Figure 1 shows that ASEAN have already established bilateral trade with PRC, India, Korea, Japan and Australia and New Zealand. An ASEAN + 6 trade integration through a FTA is, therefore, quite feasible and will generate immense benefits. At the same time, ASEAN +3 financial and monetary cooperation needs to be extended to India and other major South Asian economies in view of their increasing share in Asia's economic growth and markets. Forming ASEAN + 3 integration through a FTA is a complex and time consuming process and, therefore, it will be worth establishing an ASEAN +6 FTA for much larger benefits. The benefits of ASEAN + 6 include:

- Cooperation and integration will facilitate these economies to more efficiently address their risks and challenges. For example, the rising middle class population will offer a huge market, which will enable these economies to re-balance their growth toward Asia and thus minimize risks of external shocks.
- Financial and monetary cooperation Initiatives such as CMIM, ABMI and AMRO will create a more resilient and stable Asia through the expansion of membership to India, Bangladesh, Pakistan and Sri Lanka.
- India can become the gateway for other South Asian countries in connecting to the other ASEAN+6 members and thus creating a very large markets.
- Republic of Korea, Japan, Taiwan, Singapore as well as the PRC can facilitate the deepening and strengthening link of India, and other South Asian economies as well as low income South-east Asian economies to the East Asian production networks.

This will promote growth and development of developing Asian economies and narrow the development gap across countries.



**Figure 1:** East Asia Summit (ASEAN+6) Cooperation

*Source: Kawai (2010)*

### 7.3 Potential Income Gains

ASEAN and South Asia integration can produce significant win-win benefits for all countries. Going beyond Southeast Asia, deeper integration between East Asia and South Asia offers large income gains to regional economies as well as to the world, creating a large market and economic potential for all countries. A consolidated FTA for ASEAN+3+South Asia will bring large income benefits of \$261 billion over an ASEAN +3 FTA (Francois and Wignaraja 2008).

**Table 9:** Potential Gains in World Income from Asian Integration

<b>FTA Scenarios (includes goods, services, trade cost via infrastructure and trade facilitation)</b>	<b>Change in world income relative to 2017 baseline: GTAP Model (US\$ billion in constant 2001 prices)</b>
ASEAN+China	82
ASEAN+3	214
ASEAN+3+India	251
ASEAN+3+South Asia	261

*Note:* Covers all world trade and production

*Source:* Francois and Wignaraja (2008).

### 7.4 Challenges and Risks

There are many challenges of integration between members of ASEAN and SAARC, especially in terms of FTAs in goods, services and investment as well as physical connectivity. They include:

- Large diversity of countries in terms of stage of economic development, demography, size of the economy and landmass, and language;
- Competition in production, and exports among these economies;
- Lack of formal commitments of member countries to agendas for cooperation under various sub-regional and regional cooperation programs and initiatives;
- Lack of proper and effective implementation of ASEAN and SAARC goals on time as well as of ASEAN-India FTA;
- Lack of adequate “hard” and “soft” infrastructure connectivity within and between economies;
- Lack of opening up of markets, particularly the service sector;
- Need to deepen, expand and strengthen industrial production network and supply chains involving India and low income economies;
- Narrow the development gap;
- Lack of green industries and connectivity or environmentally sustainable infrastructure connectivity;
- Develop, integrate and link financial markets for financing industries, particularly SMEs as well as infrastructure across South and Southeast Asia;

- Cater to large middle class demand in a cost-effective manner through developing appropriate regional production network and supply chain;

In order to achieve effective integration, individual economies need to address their major challenges and risks. These economies also face major common challenges (except for Singapore and Brunei) and risks (particularly for low income countries):

- Achieving the Millennium Development Goals (MDGs), especially poverty reeducation goals, proper level of quality of life and removing social exclusion;
- Lack of adequate domestic infrastructure and connectivity;
- Inadequate skill and education for labor force;
- Managing natural and man-made disaster risks;
- Developing an efficient and more sophisticated financial sectors;
- Catering to the rising needs of middle class and urbanization;
- Addressing environmental degradation and deteriorating climate;
- Enhancing investment in R & D, technology and innovation, education and skill, and health;
- Achieving food, water and energy security;
- Enhancing governance, rule of law, institutional effectiveness and accountability; and
- Addressing geo-political tensions and conflict and domestic social instability and conflicts.

Regional cooperation among these economies can help addressing common challenges from learning and sharing expenses of good practices from each other. A major drawback of Asia is that the region tends to be “institution-light” - i.e. characterized by very limited formal commitments from member countries to an agenda for cooperation (ADB 2011c). Although many of the Asian economies are growing fast and getting engaged in the global economic activities, their engagement has been buttressed by comparatively-weak support from sub-regional and regional institutions, even though the number of such institutions has been growing (ADB / ADBI 2012). There is an urgent need to strengthen existing sub-regional and regional institutions with more formal commitments like European Union and create new institutions for addressing common challenges and enhancing integration and cooperation.

## **8. Importance of Trade Facilitation**

Administrative, bureaucratic, and physical bottlenecks along their export and import supply chains make it difficult for countries to maximize the benefits from trade openness. The significance of non-trade barriers in raising total trade costs is particularly high for South and Southeast Asia. Thailand performed poorly compared to the PRC except for internal logistics cost and timeliness in the World Bank’s logistics performance index (LPI) whereas India performed worse than Thailand (Table 10). Additionally, selected



Asian countries typically show differing levels of openness and market orientation, and India and Pakistan perform very poorly compared to Singapore (Table 11).

**Table 10:** Variable Logistics Efficiency in Selected South and Southeast Asian Countries

	PRC	Thailand	India	Pakistan	Bangladesh
Overall LPI Score	30	31	39	69	87
Customs	35	32	47	70	124
Infrastructure	30	31	40	71	81
Ease of shipment	29	32	39	64	95
Logistics services	26	29	31	61	100
Ease of tracking	31	36	42	74	87
Internal logistics cost	75	27	49	92	44
Timeliness	35	28	45	90	54

LPI = Logistics performance index, with lower score meaning more efficient trade logistics

Source: World Bank (2011a).

**Table 11:** Differing Levels of Openness and Market Orientation of Selected Asian Countries (MFN rate in 2005)

	Ave. Import Tariff Rates* (Manufactures, in %)	Documents for Export (number)	Time to Start a Business (Days)
<b>Japan</b>	3.4	4	23
<b>Singapore</b>	0.0	4	6
<b>PRC</b>	10.1	7	35
<b>India</b>	15.6	8	33
<b>Pakistan</b>	14.5	9	24

Source: World Bank (2008)

Globalization and liberalization are also important preconditions for facilitating trade. For South and Southeast Asian economies, trade policy reforms and tariff reductions have to be supported by adequate ICT infrastructure and better logistics. Furthermore, improving the investment climate - infrastructure, reducing impediments to business and trade, FDI, and labor market reforms - is important for both South and Southeast Asian economies.

## 9. Trade complementarities between South and Southeast Asia

In order to achieve win-win benefits for all economies, South and South-east Asia need to focus on their complementarities and ensure healthy completion. The revealed comparative advantage (RCA) of South and Southeast Asia suggests that there are some complementarities between the two regions. South Asia has low cost labor and other low input costs for production, and the region's comparative advantages in goods lie in processed and paddy rice, manufactures nec and mineral nec, textiles and wearing apparel, plant-based fiber and petroleum and coal products (World Bank 2010a, 27–43). On the other hand, Southeast Asia's comparative advantages in goods are in electronic equipment nec, metal products, chemical, rubber and plastic products, coal and gas, processed rice (Table 12).



**Table 12:** RCA for South Asia and ASEAN

Series name	1990		2009	
	South	ASEAN	South	ASEAN
Paddy rice	8.13	1.25	12.61	1.41
Wheat	0.12	0.00	0.06	0.02
Cereal grains nec	0.01	0.33	1.32	0.18
Vegetables, fruit, nuts	1.69	1.27	1.17	0.82
Oil seeds	2.07	0.25	0.72	0.04
Sugar cane and beet	0.63	1.38	0.12	0.05
Plant-based fibers	21.52	0.09	9.00	0.12
Crops nec	3.90	1.55	1.89	1.41
Bovines, sheep, horses	0.17	0.02	0.26	0.09
Animal products nec	0.78	0.74	0.42	0.68
Wool, silk-worm cocoons	0.33	0.03	0.05	0.00
Forestry	0.62	6.22	0.45	1.21
Fishing	0.28	1.47	0.53	0.95
Coal	0.04	0.27	0.03	3.39
Oil	0.06	1.43	0.00	0.46
Gas	0.00	7.39	0.00	2.00
Minerals nec	2.19	0.83	2.70	0.92
Bovine meat products	0.50	0.01	1.76	0.01
Meat products nec	0.01	0.52	0.02	0.48
Vegetable oils and fats	3.30	4.47	1.48	5.08
Dairy products	0.01	0.11	0.24	0.16
Processed rice	24.14	10.16	20.08	7.17
Sugar	2.58	3.18	0.97	1.62
Food products nec	1.60	1.74	0.78	1.35
Beverages and tobacco pr.	0.29	0.30	0.30	0.29
T extiles	6.56	0.80	6.09	0.96
Wearing apparel	6.01	1.95	5.23	1.36
Leather products	4.35	1.10	1.72	1.54
Wood products	0.12	2.71	0.18	1.44
Paper products, publishing	0.05	0.25	0.18	0.57
Petroleum, coal products	1.06	3.07	2.14	1.89
Chemical, rubber, plastic pr.	0.46	0.68	0.78	0.70
Mineral products nec	0.30	0.43	1.13	0.63
Ferrous metals	0.31	0.22	1.04	0.30
Metals nec	0.20	0.58	0.64	0.88
Metal products	0.68	0.38	0.79	0.56
Motor vehicles and parts	0.08	0.03	0.32	0.31
Transport equipment nec	0.19	0.17	0.38	0.43
Electronic equipment	0.09	2.52	0.23	2.82
Machinery and equipment nec	0.21	0.37	0.39	0.56
Manufactures nec	4.29	1.12	6.78	0.83
Electricity	0.00	0.00	0.00	0.10
Gas manufacture, distribution	0.02	0.01	0.29	0.04
N.e.s. products	0.24	0.28	0.80	0.19

*Source:* Authors' calculations based on various sources, World Bank 2010a, World Bank 2010b.

## 10. Role of Physical Connectivity

The lack of adequate physical and soft connectivity within and between two regions is the key stumbling block to increase trade and investment. ASEAN has formulated a Connectivity Master Plan (ASEAN 2010), which argues that connectivity can enhance competitiveness and resilience of a region through bringing peoples, goods, services, ideas, innovation, knowledge, technology and capital closer together on an efficient manner. SAARC, the umbrella regional organization in South Asia, however, lacks similar arrangements.

The ASEAN Connectivity Master Plan provides the broad concept of connectivity, and identifies that the components of connectivity include: (i) Physical connectivity, (ii) Soft Connectivity (iii) People-to-people, Institutions-to-institutions and knowledge connectivity. Connectivity can enhance competitiveness and resilience of a region – bringing peoples, goods, services, ideas, innovation, knowledge, technology and capital closer together on an efficient manner. Economic integration through seamless physical connectivity - transport, energy distribution, fiber-optic cables, and IT systems - is essential for realizing gains from integration for enhancing intraregional trade and investment and enhance regional demand,

Connecting low income and archipelagic/landlocked countries e.g. Nepal, Bhutan, Bangladesh, Cambodia, and Lao PDR, to large countries like India and Indonesia can narrow the development gap. In addition, they need to connect to each other through Myanmar (which is opening up rapidly) and Bangladesh through cross-border transport-cum economic, energy and telecommunications corridors. Indian national connectivity, particularly for North-east region depends on its connectivity with Bangladesh (chicken neck syndrome).

Mobilizing financing for infrastructure projects is one of the most daunting challenges for both regions. South and Southeast Asia together will need to invest \$3.65 trillion in infrastructure (both national and regional) during 2010-2020 (ADB / ADBI 2009). India, Indonesia, Malaysia, Pakistan, Thailand and Bangladesh are the major countries with very high national infrastructure investment needs (Table 13). ASEAN has established the ASEAN Infrastructure Fund for financing infrastructure projects within the region. SAARC needs to initiate similar plans too. In this context, intra-forum arrangements between ASEAN and SAARC would facilitate infrastructure connectivity.

**Table 13:** National Infrastructure Investment Needs in Selected South and Southeast Asian Economies: 2010–2020

Country / Sub region	Estimated Investment	
	Needs (US\$ millions)	Investment as % of Estimated GDP, Total
<b>Southeast Asia</b>		
Cambodia	13,364	8.71%
Indonesia	450,304	6.18%
Lao PDR	11,375	13.61%
Malaysia	188,084	6.68%
Mongolia	10,069	13.45%
Myanmar	21,698	6.04%

(Contd.)

Country / Sub region	Estimated Investment	
	Needs (US\$ millions)	Investment as % of Estimated GDP, Total
Philippines	127,122	6.04%
Thailand	172,907	4.91%
Vietnam	109,761	8.12%
<b>South Asia</b>		
Bangladesh	144,903	11.56%
Bhutan	886	4.07%
India	2,172,469	11.12%
Nepal	14,330	8.48%
Pakistan	178,558	8.27%
Sri Lanka	37,908	6.85%
<b>Total Asia</b>	<b>8,222,503</b>	<b>6.52%</b>

Source: Bhattacharyay (2010)

### ***10.1 Role of the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) and Mekong-Ganga Cooperation***

BIMSTEC is a cross-regional cooperation involving several South Asian countries like Bangladesh, Bhutan, India, Nepal and Sri Lanka, and two Southeast Asian countries Myanmar and Thailand. BIMSTEC's priority sectors of cooperation include, among others, trade and investment; transport and communication; energy; and people to people contact. Infrastructure receives special attention. Major infrastructure-related projects of BIMSTEC include

- Energy Infrastructure Development Project (Natural Gas)
- Feasibility Study in Short-Sea Shipping Development (Thai Proposal)
- Preparation of BIMSTEC Framework Agreement on Multimodal Transport (Thai Proposal)
- Detailed Design of Kanchanaburi–Three pagoda Pass Railway line

ADB has recently provided technical assistance in BIMSTEC's Transport Infrastructure and Logistics Study (BTILS). Expected outcomes will be to enhance transport infrastructure, improve logistics, reduce transport time, and lower transport costs.

In addition, the Mekong-Ganga Cooperation (MGC) - which was launched in November 2000 through the Vientiane Declaration - is quickly becoming another important cross-regional forum which aims to enhance physical connectivity and economic linkages between the two regions through expanding "solidarity, harmony and cooperation in the fields of tourism, culture and education" (Mazumdar n.d.). The MGC consists of India from South Asia and Cambodia, Lao PDR, Myanmar, Thailand and Vietnam from Southeast Asia. The MGC holds immense potential for creating and developing linkages between the two regions. One particular aspect of MGC is that by connecting with the Mekong countries, India can benefit from actively participating in the ASEAN connectivity and joining the East Asian production networks. Participating in the ASEAN connectivity will

further benefit India and Southeast Asia in “advancing further India’s cooperation with ASEAN in the areas of education, energy, agriculture and forestry, science and technology, information communication technology, tourism, small and medium enterprises, and others” (Pushpanathan 2011).

### ***10.2 Importance of Myanmar, Bangladesh, Northeast and India***

ASEAN-South Asia cooperation is contingent upon ASEAN-India connectivity, especially overland connectivity between India’s Northeast, Bangladesh and Myanmar. New environment in Myanmar and stronger India-Bangladesh relations are very encouraging. In recent years, Myanmar has witnessed dramatic reforms under a new quasi-civilian regime, including the opposition leader Suu Kyi’s election to parliament in the April 2012 by-elections.

Cross-border projects connecting ASEAN and South Asia through Myanmar and Bangladesh include:

- Asian Highway (See Appendix 1);
- Trans-Asian Railway (See Appendix 1);
- India-Myanmar-Thailand Highway - Asian Highway No.1;
- India-Myanmar-Bangladesh gas transmission project;
- India-Myanmar Kaladan river multimodal project;
- A sea route along the Mekong India Economic Corridor;
- Various border crossing routes between Myanmar and Northeast India, Kaladan Multimodal Transit Transport Project (See Appendix 2);
- Bus service between Imphal in India and Mandalay in Myanmar.

The transport project between India and Myanmar can strengthen trade integration between two regions. Indian government plans to introduce a weekly bus service between Imphal in India and Mandalay in Myanmar (a distance of 579 km) could soon become a reality with the Cabinet expected to consider the proposal shortly. This transport facility will not only improve people-to-people contact and enhance boost trade relations between the two nations, it will strengthen India’s relational and trade integration to Southeast Asia nations through opening up trade route (Dash 2012). India and Myanmar recently signed 12 agreements in several areas that include infrastructure connectivity (e.g., transport links between the two countries), security, development of border areas, and a trade and investment pact (Htay 2012).

## **11. Role of Regional Production Networks Integration**

The “fragmentation” of production - scattering of parts of production process across different countries - is a major contributor to regional / global) economic integration because it stimulates FDI and intensification of trade in intermediate goods. In East Asia, regional production networks (RPNs) are characterized by different firms specializing in a certain production process which is located in various locations based on their comparative

advantage. Many Southeast Asian economies joined the East Asian RPNs and benefited significantly through rapid intra-regional and inter-industry trade and economic integration. Even though India is being increasingly integrated to East Asian production network in recent years, but other South Asian economies are mostly left out of the network. Integrating South Asian economies and low-income economies of ASEAN to East Asian production network will generate huge economic benefits and enhance the integration between these two regions.

In view of decreasing demand for Asia's exports from advanced economies, Asian production needs to re-balance its network to focus on catering the demand of Asia, particularly for its rising middle class of economies of South Asia and ASEAN.

The production of parts and components across countries constitutes the major components of a production network and supply chain. Table 14 shows that South Asia's share in trade in parts and components as well as final goods has improved since 2000 but still far below Southeast Asia and other sub-regions. This shows a tremendous potential in integrating South Asia to the East Asian production network.

**Table 14:** Trends in Parts and Components and Final Goods Trade by Sub-Regions

	Parts and components						Final goods					
	Total Asia	East Asia	North-east Asia	South-east Asia	Central Asia	South Asia	Total Asia	East Asia	North-east Asia	South-east Asia	Central Asia	South Asia
2000	52.8	52.3	34.0	27.5	2.4	1.4	42.0	41.8	30.4	18.5	6.2	2.5
2001	54.5	54.0	36.6	26.8	2.2	2.5	42.0	41.8	31.3	18.0	4.9	3.3
2002	57.3	57.0	40.4	27.0	1.9	1.8	43.0	42.7	32.2	18.7	4.3	3.5
2003	59.9	59.4	43.4	28.3	2.8	1.8	44.1	43.7	33.0	20.9	4.1	4.1
2004	59.9	59.3	43.9	27.2	2.0	1.9	44.4	43.9	33.2	21.7	4.1	3.8
2005	60.7	60.2	45.3	27.0	1.7	1.6	43.7	43.3	32.2	22.4	3.3	3.4
2006	60.6	59.9	45.6	25.6	1.8	1.4	43.0	42.4	31.2	22.9	3.1	3.5
2007	57.7	56.6	44.6	25.1	1.7	1.2	45.7	44.9	32.3	23.6	3.9	3.7
2008	57.7	56.3	43.9	26.0	1.2	1.3	44.3	43.4	30.5	23.4	2.9	2.8

*Note:* Figures refer to exports plus imports. The list of product codes at five digits to identify parts and components is based on the updated 2009 product lists (Athukorala 2009). The intraregional trade share of region  $i$  is defined as  $IT\ share_i = (X_{ii} + M_{ii}) / (X_i + M_i)$ , where:  $X_{ii}$  = exports of region  $i$  to region  $i$ ;  $M_{ii}$  = imports of region  $i$  from region  $i$ ;  $X_i$  = total exports of region  $i$ ; and  $M_i$  = total imports of region  $i$ .

*Source:* ADB (2011c).

The benefits in broadening and deepening production networks to South Asia and low-income ASEAN economies include:

- to narrow development gap among Asian countries moving up the value chain and through technology transfer, knowledge sharing, FDI and scale economies;
- to improve competitiveness and connectivity;
- to target the rapidly increasing middle class in emerging economies;
- to further economic integration in SAARC in order to facilitate trade and investment; and
- to improve economic integration between South Asia and Southeast Asia, and rest of the world.

PRC and India can play a role similar to MNCs of Japan, Korea, Taipei, China to develop low income economies by connecting them to Asian production network. They can have their own production network beyond manufacturing - service and agriculture - India's ITC outsourcing to Bangladesh.

A related issue is the importance of energy market integration. South and Southeast Asia comprise several energy surplus countries - Myanmar, Nepal, Bhutan, Lao PDR, Cambodia, while many other countries suffer from severe and growing energy deficits. Energy trade and energy market integration will allow energy surplus economies to supply clean energy to energy deficit economies.

## **12. Concluding Remarks and Policy Recommendations**

In view of global financial crisis of 2008 and ongoing European debt crisis, advanced economies are expected to exhibit slow growth and even be in recession in the short term. South and Southeast Asian economies need to depend more on their own markets for trade and growth through increased integration in trade, investment, production, and infrastructure. Further integration of these two regions will generate increased intraregional trade and domestic demand and reduce their high dependence of advanced economies. The existence of complementarities in production and exports between the two regions in natural and economic endowments raise the potential for win-win cooperation.

Southeast Asia - South Asia economic links are growing fast from a small base, particularly driven by India's increasing relations with ASEAN. ASEAN and South Asia do not have any political conflict like border conflict. Further integration of ASEAN and South Asia, without any geo-political conflicts and with strong cultural and economic links, the presence of large South Asia diasporas in ASEAN, and common borders through Myanmar, can produce huge benefits and a win-win situation for all economies. This calls for an ASEAN-SAARC FTA in goods, services and investment through consolidation of bilateral FTAs. The successful establishment of an ASEAN +6 CEPEA will also promote the integration between these two regions.

ASEAN and SAARC need to work closely with each other by establishing an ASEAN-SAARC forum which can meet bi-annually for promoting economic integration and discuss other important common issues and challenges. The success implementation of ASEAN-India FTA in goods and conclusion of the ongoing negotiations on an ASEAN-India Trade in Services and Investment Agreement can produce significant benefits and enhance integration of other South Asian economies with ASEAN.

Infrastructure connectivity and trade facilitation are essential in trade integration through lowering trade and logistics costs. Involvement of Northeast India, Bangladesh, and Myanmar are crucial for enhancing connectivity between these two regions. The opening up of Myanmar and increased cooperation between Bangladesh and India in recent years can pave way for the increased transport connectivity between low income ASEAN economies and South Asia as well as with the PRC. SAARC can learn from the experience ASEAN Connectivity Master Plan and formulate and implement a similar SAARC Connectivity plan.

Integration can be enhanced through deepening and expanding East Asian regional production network. In order to enhance their participation in the regional production network, South Asian and ASEAN countries (especially low-income countries) need to (i) undertake further economic, and other policy reforms to lower tariff and non-tariff barriers, (ii) enhance domestic infrastructure and connectivity (including archipelago ones such as Indonesia and Philippines), (iii) improve business climates to attract investment; (iv) development human capital, particularly skill of labor force; and (iv) strengthen governance, rule of law and institutional effectiveness.

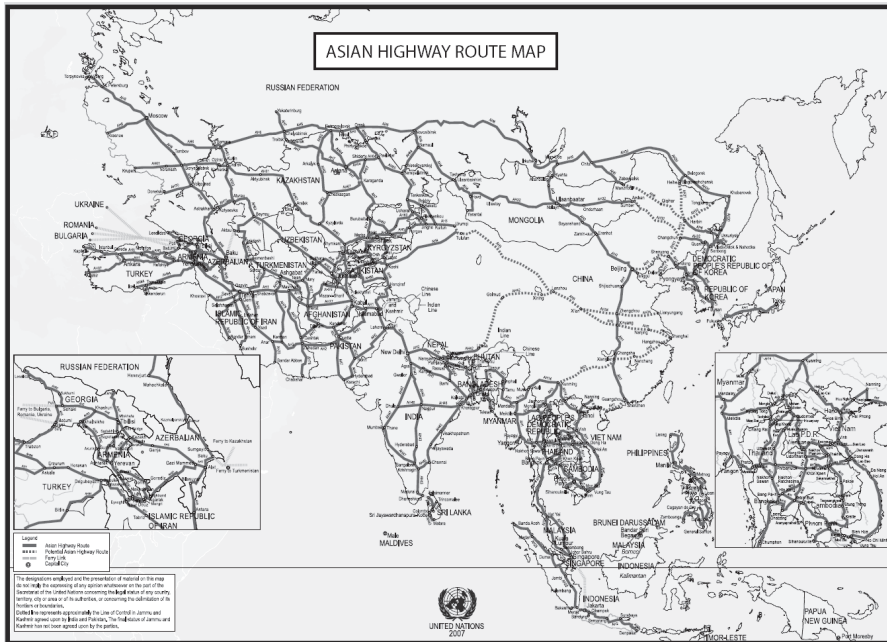
South Asian integration needs to be enhanced through strengthening SAARC for utilizing maximum benefits of the integration. The successful implementation of ASEAN Economic Community by 2015 is also essential for the intra-regional integration. This calls for strengthening the SAARC and the ASEAN Secretariat through providing greater financial and human resources and enhancing their responsibility and accountability. South Asia can learn lessons from ASEAN in terms of trade and investment interaction and cooperation and from Greater Mekong Subregion experience in terms of cross-border infrastructure connectivity.

India's role and leadership is critical in consolidating South Asian integration and carrying other South Asian economies as a gateway to markets of ASEAN and East Asia. ASEAN-South Asia cooperation should be widened from trade, investment and infrastructure to include issues like environment and climate change; energy, water and food security; and services such as R & D, education, technology, health and money and finance; and communicable disease, and natural disaster management. Sharing experiences, knowledge, technology and management know-how is crucial to address common challenges for development. Financial cooperation and integration is essential for mobilizing regional resources for industrial investment, especially for SMEs and infrastructure investment across the region.

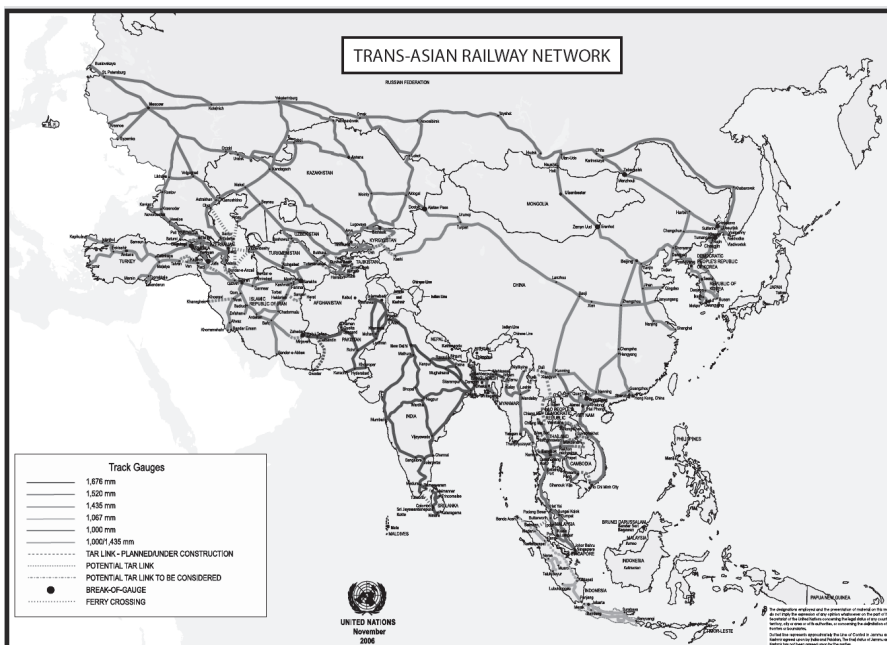
ASEAN and SAARC have to play an important role in utilizing huge potential for economic integration between South and Southeast Asia leading to peace, prosperity and stability of these two regions. Political commitment and innovative leadership to cooperation, collaboration and partnership are essential for an integrated South and Southeast Asia.



## Appendix 1. Example of Pan Asian Connectivity



AH seeks to improve economic links between Asia, Europe, and the Middle East. It is planned as a network of 141,271 km of standardized highways—including 155 cross-border roads—that crisscrosses 32 Asian countries.



TAR covering a distance of 114,000 km in 28 countries, would link pan-Asian and pan-European rail networks at various locations, connecting major ports of Asia and Europe and providing landlocked countries with better access to seaports either directly or in conjunction with highways.

Source: UNESCAP 2010a, 2010b



## **Appendix 2. India- Myanmar's Kaladan Multi-Modal Transit Transport Project**

The main objective of this regional project is to connect the landlocked area of Northeast India with the sea via Western Myanmar and open up trade routes to South-east Asia (see the map in Appendix 1).

The Kaladan Multi-modal Transit Transport Project will be able to provide an alternative route to seven north-eastern states of India. At present, these seven states have the only connectivity to the rest of the world through the Siliguri Corridor which is a narrow strip of Indian territory wedged between China and Bangladesh. This narrow corridor gives rise to considerable transportation delays and cost overheads as all cargo destined for the northeast states has to go through this corridor. In view of the above, the Kaladan project can accelerate infrastructure and economic development in the land-locked north-eastern states of India. When the project is completed, the Kolkata sea port in East India will be connected with the sea port in Rakhine capital, Sittwe which is a total distance of 539 km. In addition, this project will then link Sittwe to the landlocked area of Mizoram in north-eastern India through multi-modal transport, such as river and road transport.

As per the framework agreement, the government of the Union of Myanmar has agreed to provide the required land and security for all Indian workers for free. On the other hand, The Indian government will implement this project through the provision of US\$110 million as a grant and a loan of further US\$10 million to the government of Myanmar to cover the remaining expenses.

Upon completion of the project, the Indian government will hand over the infrastructure to the government of Myanmar on terms and conditions mutually agreed upon. The major benefits of this transport system will accrue primarily to Indian companies and it will enhance India's trade with Southeast Asian economies and to connect the landlocked area of Northeast India to the sea.

India will also complete the \$120-million Sittwe deep water port— a landmark project that will act as a trade gateway for India's northeastern states to southeast Asia— functional by June 2013 which will boost greater economic relation and bilateral ties between these two countries. The Sittwe port will accommodate cargo vessels from India's landlocked Mizoram state to navigate the Kaladan River and connect them to Myanmar and Southeast Asia.

*Source:* IANS (2013)

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