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Creating Opportunities for Investors

Promoting Intra-regional Investments through South Asia Regional Integration

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Structure of Presentation

- Introduction
- A liberalized South Asian economy
- Conceptualizing of regional integration
- State of regional integration in South Asia
- Intraregional investment scenarios
- Need and potentials of intraregional investments
- Challenges of intraregional investments
- Recommendations for promoting intraregional investments in South Asia

Key Questions

- How is regional integration linked with intraregional investments?
- To what extent has regional integration facilitated intraregional investments in South Asia?
- What are the mechanisms for promoting intraregional investments in South Asia?

A Liberalized South Asian Economy?

- A region of paradoxes!
- The degree of openness index
- From inward orientation to open market economy

Concept of regional integration

- Functionalism, neo-functionalism
- UN Charter, Cold War, 1945-1991
- Regional integration is understood in terms of the degree of social cohesiveness (ethnicity, language, religion, history, culture, consciousness of a common heritage); economic cohesiveness (trade patterns, ideology), and organizational cohesiveness (existence of formal regional institutions).
- Regional interdependence and regionness
- RI defined as a process of regionalization with heterogeneous character, encompassing a wide range of issues, actors and institutions involved with a view to establish the highest goal of regional integration through building a regional community or a supranational authority in order to contribute to the endeavors of development and security at every level.

Regional integration as a strategy to enhance intra-regional investments and trade

- Turning the region from “battlegrounds to market places”
- Increase in intraregional trade volume
- Trade creation and diversion through reduction/removal of tariff and non-tariff barriers
- Cross-border investments and building joint initiatives to expand external market access
- Reduce trade conflicts
- Technology transfers
- The exchange of information
- Opportunities to realize economies of scale
- Opening sectors to investment and aligning policies for the treatment of investors
- Preference of nations such as Japan
- Reduction of risks

State of regional integration in South Asia

- Regional initiatives (SAARC, SAFTA, SAARC Agreement on Trade in Services)
- Inter-regional cooperation process (BIMSTEC, BIMSTEC FTA, BCIM-EC)
- Sub-regional entities (SAGQ, SASEC, BBIN)
- Bilateral free trade agreements (India, Pakistan)

Contd.

“South Asia is at the verge of a new regime of regional integration, which involves four integration processes, namely: i) market integration: integration in trade in goods and services; ii) growth integration: integration in economic growth processes of South Asian countries; iii) investment integration: promotion of regional investment and trade nexus; and iv) policy integration: harmonization of economic and trade policies.”



Impact of regional integration on South Asia

- Institutionalization of cooperation
- Peace and security
- Solidarity and community building
- Increasing realization about the benefits of regional economic integration
- Intraregional trade
- Intraregional investments

Intraregional investment scenarios: A paradox

- Total volume of FDI inflows (extra-regional and intraregional): US \$41 billion in 2014
- Bangladesh (Pakistan, India and Sri Lanka)
- India (Sri Lanka, Maldives, Nepal, Bangladesh and Sri Lanka)
- Nepal (India, Bangladesh, Pakistan, Sri Lanka, Bhutan and Afghanistan)
- Pakistan (Bangladesh)
- Sri Lanka (India, Maldives, Pakistan and Bangladesh)

Need and Potentials

- Poverty alleviation
- Sustaining current rate of economic growth
- Connectivity
- Reducing transaction costs
- Facing the challenge of global competition
- Enhancing South-South cooperation

Contd.

- Shared geography
- Presence of huge domestic and regional markets
- Complimentary competitive advantages
- Industrial restructuring
- Economies of scale
- Supply of human resources
- Growing domestic demand
- Favorable policy environment
- Strong base of domestic savings and investment
- Liberalization of investments in particular industries
- Substantial increase in FDI through regional and bilateral FTAs
- Spurring third country investments



Contd.

“...Sri Lanka may emerge as the region's shipping hub and also the hub for rubber-based industries, Bangladesh will emerge as the hub for energy-based industries, Bhutan, forest-based industries, India as the hub for IT and textile industries, Maldives for fisheries industries, and so on.”

Bangladesh as a destination for intraregional and extra-regional investments

Strengths/advantages

- Location with geo-political and geo-economic importance
- Liberal policy environment
- Strong economic performance
- Domestic market and demand
- Supply of human resources

Traditional sectors for FDI

- Textile and wearing
- Banking
- Telecommunication
- Energy and Power
- Chemicals and Pharmaceuticals

Contd.

- Agriculture and fishing
- Food
- Leather and leather products

New sectors

- Construction
- Automobile industry
- Ports
- Computer software and hardware
- Hotel and tourism
- Education

FDI centric policy framework in Bangladesh

- Tax holiday for several years
- Duty free facility for importing capital machinery
- 100% foreign ownership
- 100% profit repatriation facility
- Reinvestment of profit or dividend as FDI
- Multiple visa
- Work permit to foreign executives
- Permanent resident or even citizenship for investing a specific amount
- Export Processing Zone (EPZ) facility, and
- Easy hassle free exit facility

Obstacles/Challenges

- Long years of inward orientation
- Regional political and security concerns
- Trust deficit
- Absence of investment related regional initiatives
- Administrative hazards
- Visionary leadership
- Failure of multilateral FTA initiatives
- Capacity deficit
- “Spaghetti bowl” effects
- New bilateralism

Recommendations

- Strengthening regional economic integration
- Implementing regional economic cooperation initiatives
- Harmonization of domestic regulatory frameworks with the regional investment framework
- Trade generating capacity
- Revising or abolishing the negative list
- Supply capabilities
- Opportunities for industrial restructuring
- Transport facilitation
- Removing non-tariff barriers
- Enhancing people's mobility

Contd.

- Strengthening banking and finance Links
- Incentives for investments in SAARC countries
- Opportunities for investments in regional stock markets
- Widening the scope of SAFTA to cover investment issues

Need for a new institutional setting

- South Asian Investment Facility (SAIF)
- South Asian Investment Bank
- South Asian Regional Development Bank
- SAARC Industrial Cooperation
- SAARC Investment Cooperation
- Regional Investment Promotion and Protection Agreement

Conclusion

- Critical role of regional integration in promoting intraregional investments and attracting extra-regional investments
- Strong and positive relations between intraregional investments and regional integration
- Further consolidation of regional integration process in South Asia
- Bangladesh's commitment to multilateral processes in South Asia
- Opportunities for investments in Bangladesh