

# IT'S TIME TO DEEPEN INTEGRATION AROUND THE BAY OF BENGAL ELLEN L. FROST

Even as maritime disputes in the South China Sea rightly capture the world's attention, the Bay of Bengal is coming into focus as an emerging strategic and economic hub in the greater Indo-Pacific region. The bay once nurtured a flourishing maritime community and could do so again. The governments of the region's littoral states are committed to reintegrating the bay and have launched a number of cross-border maritime and transport-related agreements toward this end. The requisite investments in infrastructure are enormous, so private sector financing will be essential.

Attracting private funds will require substantially improving the business climate in the littoral states, implementing trade-liberalizing agreements, structuring public-private partnerships that benefit all participants, carefully managing the Chinese-Indian rivalry, and engaging constructively in regional and global integration initiatives.

#### **SEIZING THE OPPORTUNITY**

The Bay of Bengal connects Bangladesh, India, Myanmar, Sri Lanka, and Thailand. Fed by more than two dozen rivers originating in the Himalayas, it supports the livelihoods of hundreds of millions of people. It is bigger than the Gulf of Mexico, more than twice as big as the Sea of Japan, and almost as big as the Mediterranean Sea.<sup>1</sup> It connects South Asia to Southeast Asia, blending into the Andaman Sea and from there into the mouth of the Strait of Malacca. Since about one-quarter of the world's traded goods, 70–80 percent of China's energy imports, and 90 percent or more of South Korea's and Japan's energy imports all flow through the Strait of Malacca,<sup>2</sup> the southern end of the bay is strategically important for a number of countries. The colonial-era rivalry between the United Kingdom and France resulted in a de facto line down the middle of the bay. Following World War II, the combination of India's inward-looking economic policies, Cold War alignments, and Myanmar's relative isolation perpetuated this division. Meanwhile, transport links stagnated. Maritime infrastructure such as ports, rail links, and feeder roads are unable to handle today's large-scale container traffic and are often in a state of decay. Red tape, inadequate information systems, and a shortage of personnel trained in modern infrastructure management contribute to the low level of baywide economic integration.

Trade and investment connections between South Asia and Southeast Asia lag well behind what might be expected based on geography and markets. Since 1990, trade and investment between the two regions have increased substantially, but this expansion started from a very low base and is still far below its potential. Although the ten members of the Association of Southeast Asian Nations (ASEAN) are collectively India's fourth-largest trading partner, annual trade in 2015 amounted to a mere \$58.5 billion—a small

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amount by Asian standards.<sup>3</sup> Two-way investment is similarly miniscule. Although foreign direct investment (FDI) into India is growing substantially, cumulative India-ASEAN FDI has been less than \$50 billion in each direction.<sup>4</sup>

This low degree of economic integration illustrates a lost opportunity of major proportions. Numerous studies confirm that reducing trade and investment barriers leads to higher levels of economic growth.<sup>5</sup> Streamlining port procedures, rationalizing cross-border and ocean-bound river traffic, and harmonizing regulations can attract investment, create jobs, boost incomes, reduce migration, and help foster stability. Joint measures to control water pollution would improve health conditions and protect fisheries. Cross-border people-to-people and business ties would create groups with a vested interest in conflict management and peace.

South Asia itself suffers from a very low level of economic integration. Only 5 percent of its total trade and less than 1 percent of its investment take place within the region.<sup>6</sup> Tensions between India and Pakistan have stifled efforts to promote meaningful free trade agreements among the members of the South Asian Association for Regional Cooperation. By contrast, intra-ASEAN trade in 2015 amounted to 24 percent of total ASEAN trade.<sup>7</sup>

This difference mirrors South Asia's low level of globalization: although the region is home to 1.7 billion people—almost one quarter of the world's population of 7.5 billion<sup>8</sup>—it typically accounts for 2 percent or less of world trade.<sup>9</sup> Foreign investment into South Asia is similarly limited. According to the United Nations Conference on Trade and Development, South Asia's incoming FDI in 2015 amounted to only 12.6 percent of GDP, compared with Southeast Asia's 69.9 percent.<sup>10</sup> Investment in Bangladesh, India, and Sri Lanka in 2015 totaled \$48.1 billion, or 2 percent of the world total of \$2 trillion.

Fortunately, new opportunities to reintegrate the bay are opening up. They include the political transformation of Myanmar, the presence of a strong and reform-minded government in Delhi, India's 7 percent–plus growth rate, and the combination of China's economic diplomacy and concern on the part of regional governments about Beijing's intentions. All the states bordering the bay favor reviving and deepening pre-colonial maritime ties, adding new ones, and improving the infrastructure that sustains them. And all of them want to avoid having to choose between India and China (or between India and any other regional power).

### **THE CHINESE-INDIAN RIVALRY**

Deepening integration around the Bay of Bengal requires a peaceful environment to attract badly needed investment. Infrastructure funding needs in particular are long-term, and investors require a safe physical environment and reasonably predictable returns. For this reason alone, the governments of China and India must manage existing border disputes and other current tensions carefully to preserve peace, stability, and economic cooperation in the bay region.

India and China fought a major war in 1962 and have since clashed in border areas, and the peaceful resolution of Chinese-Indian disputes cannot be taken for granted. To counter China's growing presence in countries bordering the bay-and recognizing the strategic importance of the Strait of Malacca-in 2001, the Indian government established the country's first tri-service command in the southeast corner of the bay: the Andaman and Nicobar Command.<sup>11</sup> The southern end of the Andaman and Nicobar island chain is only 90 miles (145 kilometers) from Indonesia's Aceh Province, which borders the strategically vital Strait of Malacca. Three Indian army battalions have already been assigned to the command, and a number of fighter aircraft operate from the islands.<sup>12</sup> In addition, the Indian government has added more military personnel and equipment to the Eastern Naval Command, headquartered midway down India's east coast.13 Much of this capability is dedicated to protecting India's exclusive economic zone (EEZ) and to combating piracy, poaching, and illegal trafficking.

So far, China has not challenged India's military supremacy in the Bay of Bengal and shows no signs of doing so in the future. The risk of a Chinese-Indian military clash in the bay area is miniscule. A careful study of the Bay of Bengal published in 2012 concluded that "the rationale behind [Chinese and Indian activities in and around the bay] is more economic than strategic."<sup>14</sup> The Indian and Chinese governments share the common economic goal of providing access to the bay for landlocked portions of their own territory: the seven northeastern Indian states, where poverty levels are high and insurgencies are rampant, and China's Yunnan Province. More broadly, both countries need new sources of economic growth to cement their own legitimacy, and the reintegration of the bay provides a major opportunity for revenue-earning trade and investment. China's new Asian Infrastructure Investment Bank (AIIB), its Belt and Road Initiative, and other sources of funding will probably steer a significant amount of money toward countries bordering the bay, especially in the construction sector.

The current trajectory of Chinese-Indian relations provides a window for expanding and accelerating efforts to reintegrate the bay. Finding ways to promote Chinese-Indian political dialogue, keep occasional border clashes under control, and accept peaceful economic competition will contribute significantly to the future prosperity of the bay region. The current strategic environment points in this direction.

#### REGIONAL INITIATIVES TO PROMOTE CONNECTIVITY

Meanwhile, regional and bilateral efforts to reintegrate the Bay of Bengal are increasing. These initiatives demonstrate that the governments of the bay's littoral states recognize the potential economic boost that reintegration offers. Many discussions are in play. Since transborder projects require day-to-day coordination and joint problem-solving efforts, successful negotiations require some degree of trust. Numerous working group sessions and ministerial meetings may not produce many tangible results, but they foster communication and personal relationships that will prove useful as reintegration proceeds.

Some such discussions, elevated to the highest level of government, have already borne fruit. Transport-related negotiations between India and Bangladesh are particularly noteworthy. For India's seven northeastern states, access to the bay through Bangladesh would make the most sense. But owing to various disputes with Bangladesh, New Delhi had been unable to obtain approval from Dhaka for transit and transport rights until Indian Prime Minister Narendra Modi's visit to Bangladesh in June 2016.<sup>15</sup> Before the agreement was concluded, it took weeks for a container to be transported from Delhi to Dhaka, whereas transport by rail through Bangladesh would take only two or three days.

During a visit to India by Bangladesh's Prime Minister Sheikh Hasina, the two governments built on this breakthrough. Their joint statement noted that three Indian lines of credit to Bangladesh were or would soon be enhancing infrastructure and transport capacity, including port construction and shipping.<sup>16</sup>

Another promising development is the Motor Vehicle Agreement signed by Bangladesh, Bhutan, India, and Nepal (a subgroup known by the acronym BBIN) in 2015. The agreement envisages free passage of cargo and passenger motor vehicles, but it falls short of establishing truly open borders. Various protocols will define the number of vehicles that can cross the borders in a given year, the types of vehicles that can cross, and the specific routes they can travel along. These protocols will also provide for common forms to allow swift and smooth movement.<sup>17</sup> Similar BBIN discussions about connecting rail lines, upgrading land-based customs stations, and harmonizing customs procedures are under way.

Although Indian ships can now use Bangladesh's waterways and the Chittagong-area port to transport goods to and from India's isolated northeastern states, the Indian government is still going ahead with its prior commitment to fund an alternative route: the Kaladan Multi-Modal Transit Transport project in Myanmar. This ambitious road, rail, riverine, and maritime project will also enable the seven northeastern Indian states to avoid the difficult Siliguri (or Chicken's Neck) land corridor by providing a maritime route to southern India's Coromandel Coast.<sup>18</sup> Difficult terrain, the opening of Bangladesh's ports, and conflict stemming from the mistreatment of the Rohingya people in Myanmar's Rakhine State may well delay the completion of this project.

As the Kaladan project demonstrates, bilateral and regional initiatives to reintegrate the bay face numerous physical and political challenges. If this were not the case, reintegration would have taken place by now without help from governments and regional development banks. Nevertheless, there appears to be substantial and widespread political recognition of the gains stemming from reintegrating the bay, and this demonstrates that the time is ripe for overcoming obstacles to this promising opportunity.

### **PRIVATE SECTOR INVOLVEMENT**

A successful reintegration initiative will require providing adequate incentives and guarantees to the private sector. Financing modern, large-scale maritime and riverine infrastructure projects linking South Asia and mainland Southeast Asia will require trillions of dollars. Governments and development banks can legitimize projects and attract private participation, but they will be unable to supply more than a small fraction of the necessary funds. Even China's government-backed grants and loans, offered under the auspices of the Belt and Road Initiative, the AIIB, or other sources will not go very far. Private sector participation whether alone or, more likely, through carefully structured public-private partnerships—is thus essential.<sup>19</sup>

Such participation calls for substantial improvements in the business climate and hence profound changes in the business culture of the region. The task is immense. Countries bordering the Bay of Bengal score poorly in the World Bank's 2016 Ease of Doing Business rankings. Thailand is at the top of the group, ranking 46 (out of 190). The others range from 110 (Sri Lanka) to a dismal 176 (Bangladesh), with India coming in at 130 (data for Myanmar are not available).<sup>20</sup>

In addition to these impediments, there are many technical obstacles. The World Bank's Logistics Performance Index lists six indicators: customs, infrastructure, international shipments, logistics competence, tracking and tracing, and timeliness. In 2016, India and Thailand earned the highest global rankings among the five countries bordering the bay (35 and 45 out of 100, respectively), with the others well behind (Sri Lanka was not listed).<sup>21</sup>

Other obstacles holding back private sector investment in cross-border, transport-related infrastructure throughout the bay region arise from the shallowness of financial markets and the associated weakness of financial connectivity, compounded by a lack of harmonized regulatory procedures. Impediments include the inadequacy of existing rating frameworks; the slow pace of reform of financial markets, including the general absence of a commercial debt market; the lack of mechanisms to permit foreign exchange hedging; and the possibility that capital controls imposed without warning will cause large, destabilizing changes in currency values. Market-distorting energy subsidies and price controls impede cross-border energy transmission. Despite pledges to streamline the approval process for constructing energy facilities and transmitting energy across borders, investors must go through multiple time-consuming steps. They frequently encounter demands for bribes and other forms of corruption.<sup>22</sup>

For decades, India failed to take advantage of its long coastline (over 4,600 miles or 7,400 kilometers). In 2016, recognizing the country's maritime potential, the Indian government approved a major port-led development initiative known as the Sagarmala Program, consisting of more than 150 projects in thirteen states and union territories.23 Implementation will be carried out by relevant port authorities, state governments, and central ministries. Additional funding is projected to come from private sources or through public-private partnerships.<sup>24</sup> Although the Sagarmala Program was originally envisaged as a tenyear project, the time frame has now been acceleratedunrealistically, perhaps-to five years.<sup>25</sup> Plans include not only building ports, feeder roads, and solar-powered energy sources but also unscrambling and clarifying land ownership rights, which are often a source of major delays. The government has pledged that the awarding of waterfront and associated land to port-dependent industries will be conducted in a transparent manner.

The Sagarmala Program is still at an early stage. Detailed project reports and feasibility studies are now under way. In July 2016, the Indian government announced the creation of the Sagarmala Development Company, charged with identifying port-led projects, assessing risks, structuring the bidding process, and providing equity support to states and regions. Plans include issuing contracts and starting work on three major greenfield ports in the coming year. A Dubaibased company, DP World, is among those expressing interest in major investments in India's port infrastructure.<sup>26</sup> If the Sagarmala Program shows early signs of success, its example will send a strong signal to other governments and potential investors, but delays are almost inevitable.

Other countries bordering the Bay of Bengal also have plans to enhance maritime and associated transport connections. In a 2015 study, the Asian Development Bank (ADB) identified several illustrative priority projects. In addition to the Kaladan project linking Myanmar with northeastern India discussed above, they include:

- India: a new deepwater port (Kolkata/Haldia), with road and rail access.
- Bangladesh: a new container terminal in Chittagong and a new deepwater port serving Chittagong.
- Myanmar: improved road connections to the Thilawa Port, improved port connectivity in East Dagon Township of greater Yangon, and the development of a new port at Dawei, as well as a deepwater port at Kyaukpyu.
- Sri Lanka: the expansion of South Harbor in Colombo and an expansion of the deepwater port of Hambantota.<sup>27</sup>

Other sources of outside public funding include the AIIB and other China-sponsored sources. Bangladesh was the locus of one of the first four projects that the AIIB approved (a \$165 million loan for expansion of the electricity grid), and a maritime project may be on the horizon. A Chinese state-owned enterprise, the China Merchants Port Holdings Company, is trying again to acquire an 80 percent stake in Sri Lanka's southern port of Hambantota.<sup>28</sup> In short, major funds can be raised if political and commercial conditions are favorable.

## COOPERATIVE PRECEDENTS AND INSTITUTIONS

There is no shortage of global, regional, subregional, and bilateral organizations, agreements, and forums devoted to improving maritime connections, managing major cross-border rivers, and facilitating trade and investment in the Bay of Bengal region. Each of these efforts can or could provide technical expertise, sponsor technical dialogues, conduct in-depth studies of promising projects, host meetings with the private sector, provide a roadmap for next steps, and subtly apply peer pressure to governments that are slow to enact necessary reforms.

One of the most important agreements is the World Trade Organization's (WTO) Trade Facilitation Agreement, which came into force in February 2017. The agreement aims to cut red tape and streamline time-consuming customs procedures by expediting the movement, release, and clearance of goods. It also provides for technical assistance and capacity building for all signatory governments that have ratified the agreement and that request such help.<sup>29</sup>

Meanwhile, the WTO's Government Procurement Agreement has forty-seven national signatories. This agreement requires open bidding procedures and a high degree of transparency. Although none of the countries bordering the bay are members—India, Sri Lanka, and Thailand are observers—the standards set by this agreement should have a positive influence on infrastructure planning throughout the bay.

The most important source of research, analysis, and advocacy for reintegrating the bay is the ADB. In 2015, the ADB's Office of Regional Economic Integration and the Tokyo-based ADB Institute issued a study of connectivity between South Asia and Southeast Asia that outlines a wide range of initiatives and impediments.<sup>30</sup> The study demonstrated conclusively that "improving ports and port access has the greatest potential to improve connectivity between South Asia and Southeast Asia."

A logical vehicle for a stepped-up reintegration effort is the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), whose members are Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka, and Thailand. (Landlocked Bhutan and Nepal also have vital interests in access to the bay.) Since Pakistan is not a member, there is no serious political friction. There is a BIMSTEC Expert Group on Transport and Communication, chaired by India, which promotes regional integration. For example, the group convened an expert group on regionwide road development in 2013 and is now promoting an India-Myanmar-Thailand trilateral highway.<sup>31</sup> Governments engaged in the Greater Mekong Subregion Economic Cooperation Program—whose members include Myanmar and Thailand—have been pursuing cooperative solutions with the help of the ADB ever since the program was launched in 1992. This far-reaching initiative could serve as a model for major rivers emptying into the bay. Other relevant groupings include the ASEAN-India connectivity project, the Mekong-Ganga Cooperation group, and the Mekong-India Economic Corridor proposal.<sup>32</sup>

The United Nations Convention on the Law of the Sea (UNCLOS) provides mechanisms to arbitrate disputes, thereby providing governments with an opportunity to defuse tensions and reinforce stability. Maritime and riverine conflicts that have arisen in the bay include the delineation of EEZs, fishing rights, and water rights. In 2012, the International Tribunal for the Law of the Sea settled a maritime boundary dispute between Bangladesh and Myanmar.<sup>33</sup> To settle an EEZ dispute, India and Bangladesh chose a bilateral process, also under UNCLOS auspices.

Farther afield, agreements on the Amazon, the Danube, the Nile, and other rivers have existed for decades and could serve as precedents. Drawing on international law, they unite a wide range of bilateral agreements and establish common codes. Except for the Mekong, major rivers in South Asia and Southeast Asia lack similarly comprehensive legal and management arrangements.

Perhaps the most viable candidate for a cooperative riverine management framework is the Brahmaputra River, which arises in China and flows through India and Bangladesh. Political rivalry and competing claims to the Brahmaputra's vast resources pose potentially serious security risks that should be addressed sooner rather than later.<sup>34</sup> A cooperative arrangement could set an example for other river management projects. The most suitable framework would appear to be the Bangladesh-China-India-Myanmar Economic Corridor. Its three riverine basin countries are formally committed to improving connectivity, so the Brahmaputra is a natural discussion topic.<sup>35</sup>

# **POLICY RECOMMENDATIONS**

It is time for a major push to reintegrate the Bay of Bengal. The political and strategic environment is favorable, and the potential economic benefits of reintegration are enormous. Given the vast sums of money and the sophisticated technology needed to modernize maritime and associated infrastructure, private sector participation is essential. Governments in the region should pursue the following policy recommendations:

- The domestic business climates in countries bordering the bay need to be substantially improved so as to encourage private and joint public-private funding. Although reforms in some countries, notably India, are under way, the pace of reform needs to be sped up. Private companies possess badly needed capital and know-how, but most of them will not make major investments in maritime and riverine infrastructure unless business conditions continue to get better and risks are reduced.
- Representatives of private companies should be involved in the selection of viable projects—in close and continuous consultation with local communities, port authorities, and indigenous inhabitants—so as to mobilize the best available technology and learn from the most relevant experience. Port authorities, managers of riverine traffic, and others with relevant infrastructure and financial experience should form cross-border working groups—perhaps within the BIMSTEC expert group that India chairs—to ease bottlenecks and keep agreed-upon projects on schedule and within budget.
- Governments should enact and enforce laws and regulations designed to ensure contract enforcement, clarify land rights, reduce corruption, and train the personnel needed to operate modern port and riverine systems. To minimize political backlash, redundant customs inspectors and others displaced by more modern and efficient procedures should be offered new job opportunities and/or receive some form of compensation.
- Governments should fully implement the WTO's Trade Facilitation Agreement and make efforts to apply standards set by the WTO's Government

Procurement Agreement. Projects should be developed and implemented in a fully transparent manner. Bidding opportunities should be publicized and nondiscriminatory, and subsidies should be identified. Governments should participate actively in all relevant global, regional, and bilateral forums designed to promote connectivity. They should also engage in closer dialogues and take advantage of available mechanisms to resolve disputes. Infrastructure funding from China-affiliated entities should not be seen as a threat.

Initiatives aimed at reintegrating the bay region should feature prominently in national development plans and receive the highest political backing. Plans should center not only on the technicalities and financing of infrastructure modernization but also on creating and publicizing improved conditions for cross-border travel and wide-ranging people-to-people ties.

Bays and major rivers divide people and countries, but they can also connect them. The time is ripe for top-level leaders to commit themselves to the reintegration of the Bay of Bengal by mobilizing adequate resources, improving the business climate, and taking concrete steps to foster a renaissance in and around this strategically important and potentially prosperous waterway.

The views expressed in this article are those of the author and do not necessarily represent those of the National Defense University, the U.S. Department of Defense, or other branches of the U.S. government.

#### **NOTES**

 The Bay of Bengal covers around 839,000 square miles (2.2 million square kilometers), the Gulf of Mexico occupies approximately 600,000 square miles (1.6 million square kilometers), the Sea of Japan takes up 377,600 square miles (978,000 square kilometers), and the Mediterranean Sea covers around 970,000 square miles (2.5 million square kilometers). Please see Philomene A. Verlaan, Suri Balakrishna, and Joseph R. Morgan, "Bay of Bengal," Encyclopedia Britannica, https:// www.britannica.com/place/Bay-of-Bengal; Richard A. Geyer, James M. Broadus, and Matthew J. LaMourie, "Gulf of Mexico," Encyclopedia Britannica, https://www.britannica. com/place/Gulf-of-Mexico; Baruch Boxer, Mostafa Moh. Salah, "Mediterranean Sea," Encyclopedia Britannica, https://www. britannica.com/place/Mediterranean-Sea; Michitaka Uda, Joseph R. Morgan, "Sea of Japan," Encyclopedia Britannica, https://www.britannica.com/place/Sea-of-Japan.

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#### **CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE**

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