

“Increased connectivity and economic integration between South and Southeast Asia would create significant opportunities for both regions” – Ganeshan Wignaraja

blogs.lse.ac.uk/southasia/2017/04/26/increased-connectivity-and-economic-integration-between-south-and-southeast-asia-would-create-significant-opportunities-for-both-regions-ganeshan-wignaraja/

2017-4-26

At the end of March **Ganeshan Wignaraja** spoke at the Saw Swee Hock [Southeast Asia Centre](#) on the topic of infrastructure for integrating South and Southeast Asia. Sonali Campion caught up with him after the presentation to discuss the opportunities and barriers to greater regional integration, with a specific focus on the South Asian countries.

SC: Why are South Asia-Southeast Asia discussions so rare, and why might this be a good moment to think about moving regional integration forward?

GW: South and Southeast Asia discussions are rare because the two regions have been going at different speeds of integration. South Asia traditionally has been somewhat closed as an economy – India liberalised about 20-odd years ago in 1991, Sri Lanka liberalised in 1978 and others liberalised between those dates – whereas Southeast Asia basically since the 70s and 80s has been pretty open. So one part of the discussion was restricted because liberalisation hadn't happened.

Another reason is around priorities and expertise. Southeast Asia has always looked towards Japan, Korea and China, while South Asia has traditionally pursued its links with the UK, Europe, and the United States so the near neighbours were not seen as that important. But times have changed. We have India with its Look East policy that has been in place since 1991, that was converted into an Act East policy under Narendra Modi in 2014 because he was trying to make it a more active approach with trade agreements and the [Regional Comprehensive Economic Partnership](#) (RCEP) which is a broader deal that includes the ASEAN 10 countries, China, Korea, Japan, Australia and New Zealand, and India is a very important aspect of that. That set of discussions has been in place since 2013 and it's hotting up. Modi's first visit abroad was to Japan which signalled clear intentions to put East/Southeast Asia relations on the cards.

The two regions are fast growing, even in a world economy that is slowing. So there are many reasons why integration makes sense today.

To what extent does conflict within the SAARC region hold back the development of regional infrastructure within South Asia and towards Southeast Asia?

In an ideal world you would have an integrated South Asia interacting with an integrated Southeast Asia. In South Asia the speed of integration has been slow, partly because of India-Pakistan politics, but also some of the smaller countries have been worried about India vis-a-vis their own economies – we're talking about Nepal, Bangladesh, Sri Lanka here. Then the third issue on the South Asian side is that the private sector has hardly been involved, this is very much a government-led thing, so inter-regional trade flows are very small, inter-regional investment is even smaller, there's lots of political risk issues.

Historically, integration has therefore not been that great but the potential is quite large. You typically trade with your neighbours, the supply chain as it's moving out of China is also moving towards India. So although in the past things have been closed there are many reasons to be more optimistic about the future.

You mentioned in your talk that smaller countries in South Asia stood to benefit most from the regional integration. What are the pros and cons for a country like Sri Lanka?

The benefit of linking towards Southeast Asia as well as more with South Asia would be to attract more foreign investment from both areas, to export Sri Lanka's commodities – tea, rubber, coconut, gems, spices and garments, and to get some technology transfer, which is critical. There is also foreign aid and technical assistance – Southeast Asia in particular has a lot of expertise on how to build good roads, airports and railways, as well as energy supplies. Sri Lanka would benefit a lot from these kind of interactions. India is a very logical partner to trade with and link into the supply chain. India also has the Bangalore cluster of IT services. But when the wages rose in this sector, the country that Indian investors and others went to was the Philippines, they didn't look to South Asia. That was partly because countries like Sri Lanka had a shortage of IT engineers. So there are many potential gains but also challenges such as skills, infrastructure, traditional suspicions in terms of politics.

Is there ambivalence about Indian goods flooding the Sri Lankan market?

That too. Smaller businesses in the smaller South Asian countries, Nepal, Sri Lanka, Bangladesh, they worry about Indian firms which are bigger and more competitive flooding their markets with cheap imports. That's a real issue. I do believe the benefits eventually outweigh the costs but there have to be some safeguards.

Myanmar becomes a key player in this integration equation. Is it ready to act as the bridge between the two regions?

Myanmar is strategically placed between South and Southeast Asia. The opening up of a land bridge cuts down the overland transport times (road and rail) significantly. The costs also come down. The problem is internal road, rail and port systems in Myanmar are not well developed. The second problem is that Myanmar is very weak in its capacity to implement big infrastructure projects and in its ability to undertake major policy reforms. A third issue is that they are more concerned about integrating internally within their country rather than externally.



Pakokku Bridge under construction, Myanmar. Credit: Carsten ten Brink CC BY-NC-ND 2.0

There are a lot of challenges, but I think in the medium term once Myanmar sees the benefits of opening up to the outside world, and within Asia, it will gradually want to make those important investments. We have to help them realise the benefits through small and medium enterprise, through women playing a bigger role in the workforce, through building the roads and railways to realise that connectivity and also training citizens.

How does China fit into all of this? Because it is investing in Myanmar, Sri Lanka, Nepal and Pakistan, as well as Southeast Asia. How does the India-China rivalry affect the potential of this regional integration?

I think the story is really about China being the world's second largest economy. It happens to be in Asia and is

beginning to play an important role in trade, investment, infrastructure, and foreign aid across Asia. That's the first recognition point. Now China has also undertaken investments in some of the countries such as Sri Lanka with the Hambantota Port and new international airport. Some of those investments have not been as effective as they might have been under more ideal market conditions because these have been led by state-owned enterprises. They were also based on market interest rate loans, so Sri Lanka has a potential debt problem through these investments. However, the current Sri Lankan government is trying to restructure those investments and make them more profitable.

At the same time, China taking an interest in Sri Lanka and building the infrastructure opens the door to the supply chain from China that's beginning to move out. The benefits might go directly to Sri Lanka – Chinese firms take up positions, or European and American firms that were in Europe move to Sri Lanka because costs have risen in China – or arrive indirectly, with Chinese firms going to India and then requesting supply inputs from firms based in Sri Lanka. Chinese tourists are another very important benefit for a country like Sri Lanka.

So potentially China will play an important role as an integrator through trade, investment, tourism and other linkages. But of course in the short run people don't necessarily see the benefits. They see the costs: cheap Chinese goods flooding markets, Chinese labour used on projects and so on. Those are issues that have to be looked at carefully from a Sri Lankan or a South Asian point of view.

Does that raise questions around whether this has to be a regional conversation, but one that includes China?

I think you need the conversation at different levels: at the level of South Asia and Southeast Asia, using mechanisms including the Greater Mekong Subregion (GMS) cooperation programme, and the South Asia sub-regional Economic Cooperation (SASEC), to clarify planning, financing and the big questions; at the individual bilateral country level, say India with its neighbours. Then you need a third set of conversations including China as an external player – a donor, an investor, a strategic regional power – and hopefully other players. Japan, United States, Europe, many other countries may play in this game. Ultimately we are talking about pan-Asian integration. You start with a few projects and build up, because the financing and other difficulties are there.

What are the major barriers in terms of implementation?

The first big barrier is the political will, both in South and Southeast Asia, to want to link across out of their regions, it's seen as a risky business. Part of that issue is in Southeast Asia which would like to connect much more with China and Japan, so they are East Asia-centric in their view of the world. South Asia in their eyes centres on India and the Indian market is huge. The rest of South Asia to them is sometimes seen as a problematic region, it's seen as a region that has been in conflict, as being underdeveloped etc.

A second big barrier is the trade and investment barriers. Tariffs, restrictions on foreign ownership, restrictions on service companies operating across the region. A third area is about the financing of infrastructure, which is critical. The capital markets in South Asia in particular are quite small, they're very risk averse, big finance institutions are very risk averse. So government will play an important role in taking those first steps towards developing infrastructure and eventually moving towards public-private partnerships.

A last important barrier is that the trade and investment flows are only just beginning to take off. We're really investing in the potential. So private markets are more cautious about going into South Asia in particular – it's inherently seen as more risky.

This interview draws on Dr Wignaraja's co-edited volume [Connecting Asia: Infrastructure for connecting South and Southeast Asia](#), which is [available to read for free online](#). You can also listen to Dr Wignaraja's [Saw Swee Hock Southeast Asia Centre talk here](#).

About the Authors

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