

Report No. 20

**GROWTH ZONES IN SOUTH ASIA:
WHAT CAN WE LEARN FROM SOUTHEAST ASIA?**

Centre for Policy Dialogue

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The Centre for Policy Dialogue (CPD), established in 1993, is an innovative initiative to promote an ongoing process of dialogue between the principal partners in the decision making and implementing process. The dialogues are designed to address important policy issues and to seek constructive solutions to these problems. The Centre has already organised a series of such major dialogues at local, regional and national levels. These dialogues have brought together ministers, opposition front benchers, MPs, business leaders, NGOs, donors, professionals and other functional groups in civil society within a non-confrontational environment to promote focused discussions. The expectation of the CPD is to create a national policy consciousness where members of civil society will be made aware of critical policy issues affecting their lives and will come together in support of particular policy agendas which they feel are conducive to the well being of the country. The CPD has also organised a number of South Asian bilateral and regional dialogues as well as some international dialogues.

*In support of the dialogue process the Centre is engaged in research programmes which are both serviced by and are intended to serve as inputs for particular dialogues organised by the Centre throughout the year. Some of the major research programmes of CPD include **The Independent Review of Bangladesh's Development (IRBD), Governance and Development, Population and Sustainable Development, Trade Policy Analysis and Multilateral Trading System and Leadership Programme for the Youth.** The CPD also carries out periodic public perception surveys on policy issues and developmental concerns.*

*As part of CPD's publication activities, a CPD Dialogue Report series is brought out in order to widely disseminate the summary of the discussions organised by the Centre. The present report contains the highlights of a two day long international dialogue on the theme of **Growth Zones in South Asia: What Can We Learn from South East Asia?** held on September 21-22, 1999 at the CIRDAP Auditorium in Dhaka.*

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International Dialogue on

Growth Zones in South Asia: What Can We Learn from South East Asia?

i) The Dialogue

The Centre for Policy Dialogue (CPD), in association with the United Nations Economic and Social Commission for Asia and the Pacific (UN-ESCAP), organised a two-day international dialogue on *Growth Zones in South Asia: What Can We Learn from Southeast Asia?* on September 21-22, 1999 at the CIRDAP auditorium in Dhaka. The dialogue was organised with the objective of exploring the prospect of establishing a growth zone in Eastern South Asia. Such a growth zone was expected to help exploit the potentials of the region to its fullest extent, and would enhance the efficiency and competitiveness of the regional economies in a comparative perspective. A joint study conducted earlier by the ESCAP and the CPD along this line laid the basis for the discussions of the dialogue.

The discussions held during the dialogue took place in five sessions. An overview of the growth zones concept was presented at the inaugural session, which was attended by Finance Minister Shah A.M.S. Kibria as the Chief Guest. In the four following working sessions, focused discussions were held on different issues related to the conceptual framework, across country experiences and the emerging opportunities. CPD Chairman Professor Rehman Sobhan chaired the inaugural session, which was also addressed by Dr. Mirza Azizul Islam, Director, Development Research and Policy, ESCAP, and Dr. Debapriya Bhattacharya, Executive Director, CPD. Mr. Tofail Ahmed, Hon'ble Minister for Commerce and Industries, and Dr. Muhiuddin Khan Alamgir, State Minister for Planning attended two of the four working sessions as Chief Guests. About 50 participants, including academics, business leaders, politicians, journalists, donor agency officials and representatives from Bhutan, India, Myanmar, Nepal and Southeast Asia participated in the dialogue. The list of participants is annexed.

The organisation of the four working sessions included paper presentations (summary of papers is appended) followed by focused discussion on issues raised in the papers as well as in open discussions. A total of six papers were presented at the dialogue. The first working session dealt with the theoretical analysis of the concept of growth zones and its categories. Presentations were made by Dr. Aynul Hasan, Chief, LDC Section, UN-ESCAP and Dr. Narhari Rao, Senior Economist, ADB. In the second session Mr. Rafael G. Evangelista Jr., Regional Director, National Economic and Development Authority from Philippines, Mr. Mya Than, Senior Research Fellow, Institute of Southeast Asian Studies, Singapore and Mr. Abdul Rahman Maidin, President, Penang Malay Chamber of Commerce, Malaysia made their presentations. Professor Rehman Sobhan, Chairman, Centre for Policy Dialogue made a presentation on *Growth Zones in South Asia: Potential and Feasibility*. This session discussed the prospects for establishing a growth zone in South Asia, the status and structure of such a proposed zone, the areas of cooperation and possible bottlenecks. In the concluding session a plenary discussion was held which was designed to make a comprehensive review of all the important issues discussed in the course of the dialogue.

This dialogue report presents summaries of the main issues which were raised during the dialogue. This is followed by brief summaries of the four keynote papers (see appendix 1).

ii) Discussion

The participants' deliberation moved around three major areas. First, the dialogue focused on the theoretical concepts and the underlying analytical categories as they relate to *economic growth zones*. The second area of focus of the dialogue was the experience with regard to growth zones in Southeast Asia, the motherland of modern growth zone experiment. The third issue of the discourse was related to a discussion on the suitability of Eastern South Asia for the establishment of a growth zone. The major thrust of discussions, built on theoretical analysis of the concept and the experiences of Southeast Asia, was a proposition that Bangladesh, Bhutan, parts of India, Myanmar and Nepal should establish a growth zone (which could be named BBIMN in its abbreviated form through incorporation of the first letters of the names of the five countries). The basic objective of such a zone would be to effectively exploit the huge unutilised natural and mineral resources of the region and other potential opportunities through effective regional cooperation. A number of areas were identified for cooperation under the rubric of the proposed growth zone.

The inaugural session of the dialogue especially concentrated on designing a conceptual framework for the ensuing discussion. An overview of the growth zone concept was presented in this session. It was underlined during the discussion that growth zone concept originated in Southeast Asia as a new form of regional cooperation, not requiring even a formal agreement between the governments of participating countries. Commenting on the modalities for cooperation amongst the participating countries, Dr. Debapriya Bhattacharya and Dr. Mirza Azizul Islam emphasised the need for putting in place sound regional arrangements which could enhance the capability of the South Asian countries for successful integration of the respective economies into the global market. Finance Minister Shah A.M.S. Kibria emphasised on a supportive policy framework and told that if the policy framework was discouraging to the development of a growth zone, then it would be an uphill task for the countries concerned. Elaborating his argument, Mr. Kibria said that if out of five countries two followed an extremely restrictive inward-looking policy and the other three followed an outward-looking liberal policy, it was unlikely that any rapid growth of a growth zone could be attained. Similarly, if some countries only push for exports and are not quite willing to open their own doors to others, it was also unlikely that they would succeed. The policy framework must be supportive and favorable to the growth within the growth zone, he stressed. On the perception of shared benefits, the minister thought regional cooperation to be crucial, particularly for the development of the South East region which comprises of both some relatively big countries as well as some very small ones. He argued that every individual country must feel that it was not being taken advantage of by some other countries.

The participants extensively discussed the possible status and structure of the growth zone, modalities of establishing a successful zone and the related bottlenecks. The dialogue participants also spelled out the respective roles of the stakeholders, including the governments, politicians, private sector, civil society and the donor agencies which was important to ensure its successful functioning. There was also a lively debate on some of the issues, which might surface in the process of establishing a growth zone, including the possibility of a conflict between the proposed growth zone which was of a sub-regional grouping nature and falls under the broader regional cooperation framework within the SAARC. Some of the participants were even skeptical about the success of such growth zone in the backdrop of the little progress made in pushing forward an earlier initiative of similar kind which was called South Asian Growth Quadrangle (SAGQ), which was envisaged to include the same countries except Myanmar.

Issues discussed during the two day dialogue are summarised below and are presented under three broad headings.

Theoretical Analysis of Growth Zones Concept

The concept of *Growth Zones* was, in fact, a relatively new experiment and became popular in late eighties and early nineties. However, such a concept was not backed by a sound and well articulated economic theory which would have been able to give the rationale for this particular type of economic cooperation arrangements. The textbook economics whilst dealing with regional cooperation has either focused on trading blocs with preferential and free trade arrangements or on customs unions. The countries in East and Southeast Asia have shown that regional cooperation was possible under such growth zone frameworks without requiring even a formal intergovernmental agreement.

However, four critical factors were identified as prerequisites for establishing a successful growth zone:

- Economic complementarity
- Geographical proximity
- Integrated infrastructure
- Political will

▪ *Economic Complementarity*

It was discussed during the dialogue that countries intending to cooperate under a growth zone must have something to offer which their other partners in the group would be needing, be it a product or a service. Even transit facilities for products having export potentials especially for landlocked countries could serve as a basis for cooperation. This was defined as the *complementarity*. This type of cooperation helped countries within such growth zones to optimise the benefits which could be derived from exploitation of latent regional potentials, which could be accessible only if cooperation took place. This

also helped the participating countries to ensure equitable distribution of the benefits of cooperation.

Complementarity could also occur in the area of production, available resources, technology and skills as also in the areas of specialisation of labour forces, in service rendering and even in geographical locations. Thus complementarity arose in large part from the differentials in factor endowments. This was an important factor which determined the trading pattern between and amongst countries.

It was difficult to deny the critical importance of the factor of economic complementarity among countries which intended to join hands under any cooperative arrangement. But there were also different views. One such view was that despite having a large degree of complementarities between north and the south, there are very few instances where countries, belonging to the two blocs, joined hands for economic cooperation. This is perhaps because of the absence of other factors which were required to make such cooperation successful. Moreover, complementarity may have varied forms. For instance countries producing the same products might still be interested to trade the item. One of the dialogue participants, however, maintained that complementarity might not necessarily be existing or visible all the time and that, it could even be latent, and that it might as well surface once economic cooperation takes off the ground.

- *Geographical Proximity*

Geographical proximity or contiguity is another important factor for countries intending to cooperate with one another. This was so, because cooperation meant exchange or transaction of something, and a cost-effective transaction amongst countries was possible only if they were contiguous. The dialogue participants pointed out that countries with geographical proximity could establish multi-modal system of transportation within the region to facilitate exchanges of goods, services, and even ideas more frequently and with less hassle. The cost of such exchanges would definitely be lower than the cost of similar exchanges between countries which were distantly placed. The proximity factor would lead to increased interaction amongst the people of the countries which would in turn lead to a more intense cooperation.

It was also possible that geographically proximate neighbors inherited proximate languages, common culture and similar history. Such similarities and commonalities induced neighbouring countries to seek solutions to their common problems through closer cooperation underpinned by common history, culture and ethnic links. In case of economic exchanges such cooperation might often be continuation of many existing informal economic links, which might only need to be formalised within the growth zones in order to give them an impetus through the backing of the public policy.

- *Integrated Infrastructure*

Integrated infrastructure was mentioned as one of the crucial prerequisites of a successful growth zone. However integrating infrastructure was not an easy task since it involved huge investment and also popular support particularly in such a politically sensitive region as the one under discussion. It was thought that, without integration of the infrastructure the potentiality of a particular growth zones might remain largely unrealised.

Countries intending to cooperate under such arrangements must integrate their road and rail networks for improved transportation of goods and services within the zone. Movement of different modes of transports within the region had to be rapid and smooth in order to facilitate exchanges of all kinds. This also applied to the waterways and airways within a particular region. An improved transportation system was essential to ensure lower transaction cost, the participants emphasised. It was also noted that besides the transport system, the countries within a growth zone should also have regional power and energy grid and similar integration in other major infrastructures depending on the differentials in respective factor endowments.

- *Political Will*

The participants thought that although formal intergovernmental agreements were not critically important for growth zones, political will or commitment on the part of the governments of constituent countries was an important determining factor for the success of one. Such agreements were important in terms of the essential policy framework as well as institutional support to effectively operationalise the growth zone.

The dialogue participants argued that there is no denying that private sector has to be the main actor in such a growth zone. In the absence of political commitment, there ought to be severe limits to such cooperation. In view of this, actions at the private sector level must be backed by adequate popular support. However, with or without formal intergovernmental agreements, there is a need for policy coordination, on a more limited scale than what is required for trading blocs or customs unions. It was also suggested that the policies of the constituent countries must include the provisions for incentives for investment and trade.

Experiences with Growth Zones in Southeast Asia

The major contributing factor in establishing cooperation in Southeast Asia under the growth zone framework, as was evident in the deliberations at the dialogue, was economic complementarity. Development experiences of all the growth zones in that region comprehensively shows that the participating countries had considerable complementarities to give impetus to economic cooperation within the region.

In case of Johor (Malaysia)-Singapore-Riau (Indonesia) (SIJORI) growth triangle and South China Growth Triangle (SCGT), the two metropolitan centres, Singapore and Hong Kong were primarily responsible for providing initiative and impetus in terms of flow of foreign capital, technology and financial services which had contributed to the success of such growth quadrangles. On the other hand, in case of the BIMP (Brunei-Indonesia-Malaysia-Philippines) growth triangle, there was no strong metropolitan centre to inject the necessary inputs. There was dearth of complementarities amongst the four participating regions and yet with the help of specific responsibilities undertaken by the individual, the BIMP could emerge and could exploit the advantages of sub-regional cooperation. In case of IMT (Indonesia-Malaysia-Thailand) growth triangle strong political support and strong private sector participation played a crucial role.

In most of these cases, the ADB, as a catalyst, played a significant role in identifying the complementarities and areas of cooperation. In several cases, the main justification for cooperation came from the latent complementarities rather than the apparent ones.

Prospect of a Growth Zone in South Asia

The idea of establishing a growth zone in South Asia, more particularly in its eastern part, originated from the need for exploiting the huge un- and under utilised resources of the region. This was also prompted by the lack of visible success of the formal regional grouping, SAARC, to move the wheel of cooperation forward at a reasonable pace, and to meet the collective needs of its members. In fact, the potential for cooperation in this part of the world was largely under-exploited. Many countries of the region, therefore, are exploring possibilities in other regional configurations which are beyond the SAARC ambit. Some of those even included countries which are outside the South Asian region; the BIMSTEC and the Indian Ocean Rim cooperation could be cited amongst such groupings as examples.

The proposition for establishing a growth zone originated against the backdrop of the historically strained relationship between two major partners of the SAARC i.e. India and Pakistan. Many of the participants believed that this was one of the major factors that slowed down the progress of SAARC and implementation of its objectives. They viewed normalisation of the bilateral relation between India and Pakistan as an important prerequisite for successful regional integration within the SAARC.

i. The Proposition

It was proposed by the dialogue discussants that a growth zone should be formed with Bangladesh, Bhutan, the northeastern part as well as the West Bengal province of India, Myanmar and Nepal. A formal intergovernmental agreement was not essential for its formation, but the governments of the participating countries must of necessity provide the policy framework to operationalise the growth zone. It was opined that the

private sector should be the main actor in giving impetus to this cooperation through a proactive interaction in areas of trade and investment. However, the policies should address the issues, such as free movement of goods and services, free movement of labour and integration of infrastructure. There should be an integrated transport network in the zone to facilitate trade, investment and other exchanges. The discussants suggested that the participating countries should also establish common power and energy grids ensuring optimum use of the huge natural and mineral resources of the region.

ii. *The Status and Structure*

It was argued that the growth zone should be largely informal in nature, requiring no formal intergovernmental agreement. No secretariat type of body need to be instituted for this purpose and this process should not undergo a lengthy bureaucratic procedure. Separate committees at concerned ministries of the governments could coordinate amongst themselves to ensure an enabling environment for cooperation by way of providing the required policy and regulatory framework. The committees should also develop regional projects taking into account the complementarities and resource endowments of the region. It was also stressed that the private sector should be actively involved in the process of planning and implementation of the growth zone.

There was also a proposal for putting this growth zone under the framework of SAARC to allay fears of a conflict of interest between these two arrangements, which involved a common set of countries. However, at the same time, forceful arguments were put forward against such a proposal. Firstly, it was argued that a number of growth zones has emerged independently in Southeast Asia despite the existence of the economic cooperation under the broader framework of such grouping as the ASEAN. However, such parallel groupings did not create any conflict or disagreement amongst the countries concerned. On the other hand, the proposed growth zone in South Asia included Myanmar, which was not a member of the SAARC. Other cooperation framework, such as the BIMSTEC comprising several SAARC member countries included entities beyond the South Asian region. All these might not be brought under the SAARC on the ground of allaying fears about a conflict. Thirdly, putting the proposed growth zone under the SAARC could eventually slow down its progress since in that case all the plans under the growth zone would have to be approved through a formal process under the SAARC where all the decisions are taken on a consensus basis. As a result, such arrangement could lead to delays in decision making within the growth zone. It was felt that economic cooperation plans could get bogged down because of such bottlenecks even in cases when such plans had genuine merits.

iii. *The Arguments*

With about 300 million population and with a per capita income of little above 300 dollars per year, the eastern part of South Asia, in terms of location, size and complementarity, presents a text book case for regional cooperation. The cooperation

could be in such area as trade and investment, infrastructure and transport as well as water resources and energy.

This region, in terms of natural and mineral resources, is one of the richest in the world. The region presides over a collaborative potential which could only be realised through regional cooperation. There is no denying that regional cooperation could set the premise under which the potentials of the region could be fully realised. For example, Nepal and the states of Uttar Pradesh and Bihar in India are hydraulic entities. It is difficult to regulate the water resources of the region to India's maximum benefit without the cooperation from Nepal. Likewise, Bangladesh has very few means at her disposal for regulating its own water resources without the cooperation of India. Thus, the upshot of this discussion is that the whole region is locked into a particular set of common problems which can be solved efficiently only through regional cooperation.

In addition to the above, this region constitutes a very dynamic potential particularly because it lies at the crossroads between the very dynamic regions of East and Southeast Asia on the one hand and South Asia on the other, the latter extending into Central Asia, West Asia and Europe. The region could use its strategic location within Asia to build links with other regions and could gain immensely from such cooperation.

The dialogue participants also took up the issue of the framework and the nature of arrangement under which economic cooperation arrangements with this sub-region could be put in place. It was suggested that the cooperation should definitely take place under the auspices of a *growth zone framework*. This was because, despite being a new concept, the growth zones are more attractive than the other formal regional cooperation arrangements owing to the cost-effectiveness of this type of arrangement. There was no need for an additional bureaucratic structure or secretariat in order to establish and operationalise such a growth zone. The ministerial meetings, the senior officials consultations, or working groups meetings were good enough to ensure cooperation within the zone. The transaction costs involved to operationalise growth zones were relatively low compared to the other cooperative arrangements. The concept is amenable to exploitation of skills of production and technological indivisibility. Technologies could not be exploitable economically when countries are confined to themselves since the use of technology might be constrained because of the absence of opportunities for economies of scale.

iv. The Potentials

There was a lot of potentials for exploitation in this part of the region which was endowed with plenty of natural and mineral resources. There was also a lot of complementarities amongst the countries of the sub-region. One of the most important potentials was the water resource in the northeastern states of India and also in Nepal and Bhutan. With proper planning and injection of funds, such resources could be used effectively for the generation of electricity which could meet the energy needs of the

entire South Asia region. Estimates about the actual potential for power generation within the region vary, but there was no denying that the potential was immense.

Another important potential in the region was the huge reserve of natural gas in Bangladesh and the northeastern part of India. Besides, there was very large reserve of coal in West Bengal, Bihar, Assam and Orissa. A regional project on developing energy resources could very well be initiated for efficient and more value added use of these resources.

The transport sector could be another potential area for cooperation given the land-locked status of Bhutan, Nepal and the northeastern India. Under the circumstances, Bangladesh could play an important role by providing these countries (and regions) easy access to global markets. All the countries concerned could gain tremendously from such an arrangement. Besides, integration of the transport network would boost the trade and investment through reduction of the cost of transactions.

It was estimated that if there were smooth movements of vehicles, people and commodities within the zone, intra-SAARC trade volume would rise to about 11.0 billion dollars. There were also many other potential avenues which could have been exploited. For example, the horticulture product, which was surplus in northeast India but did not have an outlet, could be processed in Bangladesh and exported through the Chittagong port. This was a regional resource and only cooperation could ensure maximum mutual benefit.

v. *The Bottlenecks*

Political will was thought to be one of the most important factors in terms of pushing forward a growth zone of the kind under discussion. Precisely this was lacking in this region, and this had slowed the progress of SAARC and implementation of its objectives. The SAARC member countries have failed to fully implement the various provisions agreed under the SAPTA agreement even after six years of its signing. Establishment of a free trade zone planned for 2001 appeared to be an overoptimistic projection. Lack of political will was a major hindrance to the success of the planned growth zone and a major change in the mindset of the political leadership of the countries of the region was required in order to ensure successful economic integration within the zone.

Political will was also essential for putting in place an enabling policy framework and establishing an integrated infrastructure in the region. Lack of political will basically originated from lack of mutual trust at both government and non-government levels. For example, a proposal for giving India the transshipment facility to carry goods across Bangladesh sparked violent political agitation, including a series of general strikes, in Bangladesh. The protests were on the ground of an apprehension that India could use the facility for military purposes. How far such apprehension was initiated, was, however, an issue which should be put under scrutiny carefully analysed and widely discussed.

vi. The Pre-requisites

An important pre-requisite for establishing close cooperation at sub-regional levels was a shared perception of common benefits. There has to be a feeling amongst the governments as well as the people of participating countries that they are benefiting equitably, if not equally, from cooperation under the growth zone framework. There is rarely a cooperative arrangement in which all parties benefit equally, but distribution of the benefits has to be fair. What was important was that all participants gained compared to the pre-existing situation even when the distribution of such gains might not have been perfectly equitable.

It was also evident from experience of cooperation in other regions, particularly that of the Southeast Asian region, that there was a cost involved in establishing such cooperation. This cost could be more for the smaller partners of a cooperation framework compared to the bigger partners. It was also found that benefits normally concentrate on relatively more developed areas. So, there has to be a mechanism for compensation as well as fair distribution of benefits amongst the participating countries.

Trade is one of the main instruments for cooperation in any regional blocs or groupings. If there is a huge trade imbalance among the participating countries, or if there is bottlenecks to trade, or if the level-playing-field for trade is absent, it is likely that growth zones may not be a success. Thus harmonisation of trade policies, tariff structure, and dismantling of all non-tariff and para-tariff barriers is yet another major pre-requisite for cooperation under the growth zone framework. There has to be similarities in policy and regulatory framework, and a conscious attempt should be there to remove the obstacles which might stall the development of a growth zone.

vii. Recommendations

The recommendations put forward at the dialogue may be summarised as follows:

- The political environment in the sub-region needs to be improved, so that economic considerations warranting formation of growth zones can be backed up by political support, leadership, and trust amongst the political leaders, government officials and the private entrepreneurs;
- Effective mechanisms should be identified to explore complementarities in the economies and to pursue distribution of benefits and costs on equitable basis;
- Initiatives should be undertaken to build rail and road networks connecting important areas within the zone; a joint inter-governmental private company could be established to build road links to connect all these territories and areas;
- Chittagong port should be built up as the nodal point for trade purposes of the region;

- Production and consumption areas of the region should be connected by air links and telecommunication networks; private enterprises should be allowed to set up telecommunication and air network in the region through an inter-governmental decision;
- It is essential to ensure adequate investment for the development of energy, including hydro-gas and coal-based power generation;
- Plan for comprehensive development of water resources in Ganges-Brahmaputra-Meghna river basin should be formulated;
- Inter-governmental task forces to map out areas of actions in the fields of use of water resources, development of hydro-electric energy and hydro-carbon resources and development of port facilities so as to complement supply and demand of all in these territories and areas should be formed;
- The formation of trans-border joint chambers of commerce and industries and trade bodies to facilitate private investment and trade should be encouraged;
- The existing agreed cooperation programmes in the sub-region such as the SAPTA should be pushed forward;
- Suggestion was put forward for establishment of reliable infrastructure linkage between Myanmar and India.

Resume of Keynote Presentations

a) Presentation by Mr. M. Aynul Hasan, Chief, LDCs Section, UN-ESCAP

Introducing *Growth Zones* as an innovative genre of regional economic cooperation which was capable of bridging the differences between regional blocs and international trade, Mr. M. Aynul Hasan in his keynote paper on *Growth Zones: An Overview, Examples and Conceptual Framework* noted that the growth zones commonly known as 'growth triangles' began to surface in Asia since the late 1980s. The growth triangles evolved independent of each other and these were thought to be free from some of the predicaments of regional blocks such as: (a) dearth of adequate volume of intra and inter-regional trade; (b) absence of complementary laws and regulations; (c) lack of geographic proximity and inadequate communication facilities; (d) presence of high income disparities, and (e) lack of political commitments and policy coordination. Elaborating on the conceptual dimensions of growth zones, Mr. Hasan pointed out that growth zones did not coerce an elaborate and formal fundamental change in national institutional and administrative framework. Unlike trading blocks, growth zones were usually delimited to only certain segments of two or more contiguous participating member countries.

Drawing examples from the Southern China growth triangle, Mr. Hasan noted that the advent of the zones had provided the Asia Pacific region with a fresh and renewed source of inspiration and economic vitality and dynamism. It had also demonstrated that, notwithstanding diversities and differences in economic and political systems amongst the members, market driven subregional growth zone was capable of achieving the objective of swift and sustainable economic development within the region. He viewed growth triangles or zones as a viable, practical and least costly option for the countries in the Asia region.

Agreeing with the notion that the emergence of growth zones could be due to interaction of many economic factors, Mr. Hasan mentioned four key elements which would stand out as critical factors in terms of establishing such a growth zone: (a) large inflows of foreign direct investment (FDI); (b) export-oriented growth strategies; (c) different factor endowments and factor costs; and (d) the need for balanced spatial development by each country. Instituting regional economic cooperation, growth zones are expected to promote further allocative efficiency of resources, cultivate international competitiveness, and encourage growth. The international mobility of capital (in terms of FDI) combined with low cost of labour and involvement of contiguous regions of more than one country make growth triangles far more attractive and competitive compared to traditional regional blocks. He maintained that the successful benefits of growth zones may even be augmented to the other parts of the region whilst the detrimental repercussions (such as liberalisation) could be confined to the adjacent areas of the zones.

Drawing attention to the fact that compared to the trading blocks the magnitude of regional market was less significant for the growth zones, Mr. Hasan pointed out that growth zones were quite suitable for Asian economies since their markets for high value added exportable products within the region are considerably limited as compared to those of North America and Europe. He, however, accepted that there might also be some non economic forces such as, strong ethnic identity, common language, long historical ties, similar cultural values which could provide impetus to the success of growth zones in the Asian region Based on the experiences of some of the existing zones (Southern China, JSR, IMT, BIMP-EAGA etc.). He drew attention to five factors which he considered to be important elements that may facilitate the successful operation of growth zones. Those were: (a) economic complementarity; (b) geographic proximity; (c) political commitment at the highest level; (d) policy coordination amongst member countries; and (e) development of infrastructure within the growth zone.

b) Presentation by Dr. Narhari Rao, Senior Economist, Asian Development Bank

Focusing on the experience of the Asian Development Bank (ADB) in the Greater-Mekong Sub-region (GMS), Dr. Rao in his paper on *Economic Cooperation in the Greater Mekong Sub-region and the Lessons for cooperation in South Asia* made an attempt to draw lessons from this experience for stimulating cooperation in the South Asian region. Compared to South Asian initiatives sub-regional cooperation efforts in South East Asia had been more successful in terms of benefits from mutually rewarding cooperation efforts. South Asian economies are at present opening up their economies, promoting external trade and encouraging inflows of both foreign direct and portfolio investment. South Asia is currently pursuing a proactive reform policy and is taking energetic steps to restore macroeconomic stability. With greater openness through external trade and inflow of foreign capital, the rationale for these economies to foster closer regional economic links has become stronger. He thought that the potentials for sub-regional cooperation in the South Asian sub-region has, till now, remained largely under exploited. He noted that because of political tensions and the desire of each of the regional countries to develop independently, potential avenues of regional cooperation through granting of market access, infrastructure development and policy coordination had thus far remained largely unexplored. He thought that if sincere efforts were undertaken the sub-region would stand to gain much economically in the same manner as the South East Asian countries.

Citing example of GMS program to stimulate closer economic ties and cooperation, Dr. Rao pointed out that the prospect of forming a trade bloc was still not on the agenda; instead these countries collaborate on specific projects and programs within an agreed framework. The natural process of economic integration boosts cross border trade, investment and labour mobility. The situation was not much different than in South Asia where there still exists a lack of proper appreciation of the possibility of a mutually beneficial economic cooperation; there was also a general mistrust. The GMS program, on the other hand, highlighted cooperation within the sub-region in the area of trade and investment infrastructure development, and exploiting the opportunities such as in the

areas of energy, tourism and product development. Such cooperation also covers resolution of trans-border issues, setting standards and exploitation of common resources. Under the GMS program, initiatives had also been taken to harmonise customs procedures, rights of cross-border passage for vehicles and drivers, load specifications, insurance provision and fixation of transit and user fees in order to minimize the effects of constraints stemming from non-physical barriers. In the energy sector, the agreement provided for a boost in building hydropower projects in the region, promoted establishment of power grid and encouraged a regional power market system. In the telecommunication sector it was the private sector which spearheaded the cooperation.

As regards problems which constrained sub-regional cooperation in South Asia, Dr. Rao was of the opinion that if these could be resolved by adopting a systematic approach towards harmonization of policies and institutions in the region and encouraging investments in the region which were complementary in nature. This was what was being done by GMS countries. He thought the GMS model to be a successful one and viewed GMS as a model to be followed by other countries. In this regard Dr. Rao mentioned that the SAARC members had already signed a number of bilateral agreements which included India-Bangladesh private sector initiatives, purchase of power by India from Pakistan, transit for Nepal via India and Bangladesh, India-Nepal Agreement on Integrated Development of the Mahakali River, India Nepal Trade Treaty, India Bangladesh and Pakistan Private sector initiatives, Bus Services Between Dhaka and Calcutta and between Lahore and Delhi. This was indicative of the appreciation of political leadership of the sub-regional countries about the mutual benefits to be accrued from regional economic cooperation.

Successful regional cooperation requires a high degree of genuine commitment and coordination at the highest level amongst the participating countries. Along with the need to adopt a broad based approach to development it is equally important to pay close attention to harmonisation of policies and procedures, as well as institutions across countries, Dr. Rao stressed. He opined that some degree of loss of political autonomy may be a necessary price to pay for faster development of the South Asian region. It is critically important that the countries concerned have mutual trust. At the same time, decisions to undertake particular projects must be based on an objective assessment and such assessments should be acceptable to all groups of stakeholders in the participating countries.

**c) Presentation by Mr. Rafael G. Evangelista, Jr., Regional Director,
National Economic and Development Authority, Philippines**

Drawing experiences from the East Asian Growth Area, BIMP, which comprises sub-national groupings of Brunei Darussalam, Indonesia, Malaysia and the Philippines, Mr. Evangelista in his keynote presentation on *The Experience of Growth Zones in South-East Asia: Brunei Darussalam - Indonesia - Malaysia - Philippines* shared the lesson learnt from the BIMP-EAGA and its value in terms of establishing a growth area in the South Asia. He informed the participants that the establishment of the BIMP-

EAGA had a number of positive outcomes and at the same time the grouping had also to face considerable problems in effectualising their cooperation. The growth area resulted in a bigger potential market for the businessman and also served as a source of raw materials for the member countries. The EAGA had demonstrated the potential capacity stemming from such economic cooperation to facilitate the transfer of excess labour from labour-surplus areas to labour-scarce areas. The opportunities offered by the region likewise beckoned investment in productive economic activities from extra regional sources.

The participating countries also faced difficulties. Due to the dearth of consolidated EAGA data, Mr. Evangelista found it difficult to determine whether the EAGA initiative could be termed as a success (or a failure). He mentioned about some of the initial impacts of the EAGA on the economy of Philippines: (i) more favourable national policies; (ii) higher priority for infrastructure; (iii) increase in investment; (iv) investment support for the Mindano peace process. He, however, thought that these gains were not far reaching enough and the initial momentum was adversely affected by the Asian Financial Crisis as well as other factors (e.g. change in political regime in three of the four member countries).

Drawing attention to the negative developments, Mr. Evangelista mentioned the following: (i) reduced number of EAGA multilateral initiative; (ii) temporary postponement of the launching of the EAGA Fund; (iii) Retraction of Davao - Kota Kinabalu flights; (iv) Slowdown of private building construction and (v) Crisis in confidence. Notwithstanding the above Mr. Evangelista believed that the EAGA initiative will continue to be pursued in future and that the objectives of this initiative were commensurate with the broader socio-economic goals pursued by the Philippines. He thought that broader economic policies of the Philippines which included (i) agricultural development; (ii) infrastructural development to increase productivity; (iii) continuing focus on both domestic and global economy; (iv) human resource development; (v) institutional development for effective governance; (vi) improvement of peace and order were best served through intensification of cooperation under the ambit of EAGA. However, he opined that EAGA would have to continuously and consciously nurture the development efforts in order to best serve the purpose of economic development of the participating countries. Mr. Evangelista also pointed out some other factors including weak economic complementarities, bulky and numerous government institutions, weak physical linkages as well as socio-political differences which might result in higher transaction costs, and in effect may hinder the growth of future cooperation within the growth zone.

According to Mr. Evangelista a number of factors were important for successful economic cooperation within a growth zone. These were:

- The early stage of the establishment of a growth zone was crucial. Based on the EAGA experience, an important ingredient which helped push its establishment was the strong support the initiative received from the heads of state of all member countries;

- Whilst existing economic complementarities could play a major role in the formation of a growth zone, the EAGA experience indicated that this was not a binding constraints. Such complementarities might also appear as a result of cooperation within the region and thus serve as a driving force to ensure its success;
- The EAGA practice of promoting the private sector as an active participant in the policy making mechanisms of the growth area should serve as an important lesson;
- In setting up a growth zone, the promotion and development of air, sea and telecommunication linkages should be given high priority in order to facilitate and enhance the movement of people, goods and services within the growth zone;
- It was essential to establish an effective institutional set-up to address the cross-border issues and concerns. Standard operating procedures should be instituted including decision making time frame and agreed sanctions.

**d) Presentation by Mr. Mya Than, Senior Research fellow,
Institute of Southeast Asian Studies, Singapore**

Viewing the Indonesia-Malaysia-Singapore growth triangle as the most successful of all the subregional arrangements in the region, Mr. Mya Than in his paper *The Experience of Growth Zones in South - East Asia: Indonesia-Malaysia-Singapore* drew attention to factors which contributed to this success. He identified the key prerequisites of a successful sub-regional economic cooperation arrangement. According to Mr. Than the concept of growth zone was an economic, rather than a political concept. The rationale behind establishment of a growth zones was that it provides additional competitive advantage for participating countries. He added that the private sector ought to play the leading role in such a zone, whilst the government acted as a facilitator by removing barriers to movement of goods, services and factors of production, by providing the physical infrastructure, and by offering various investment incentives to stimulate economic activities within the zone. This was the case with Indonesia-Malaysia-Singapore growth zone. The major role of the growth triangles was to reduce artificial cross border barriers to trade in order to create a business environment conducive to economic growth.

In analysing the success of the growth zones, Mr. Than identified several factors which played a vital role in the success of the Indonesia-Malaysia-Singapore growth Zone. Firstly, participating countries need to be contiguous and national boundaries ought to be easily accessible. Secondly, the existence of a metropolitan centre, in this case, Singapore, which was capable of spread spillover effect on the participating areas in the growth triangle. Thirdly, there was complementarity in resource endowment, labour, technology, and capital amongst the participating countries. Fourthly, there existed a well-developed infrastructure, particularly in transport, in Singapore and Johor. Fifth, since the establishment of ASEAN, there had been a reasonable degree of political

stability within the growth triangle countries. Sixthly, the engine of growth in the growth triangles was the private sector which gave impetus to the cooperation within the region. Strong political commitment at the highest level to overcome vested interests or domestic political constraints was also identified by Mr. Than as another important factor for the success of Indonesia-Malaysia-Singapore growth triangle. Growth triangle of the above type could be replicated if complementarity in factor endowments existed, and some basic parameters such as political stability, coordinated planning, and joint investment promotion were set in place. These factors served as necessary preconditions for the success of any subregional economic cooperation arrangement.

Mr. Than also identified the weaknesses of the Indonesia-Malaysia-Singapore growth triangles which could constrain future regional cooperation. If regional and local level leadership was not convinced about the justification of a growth triangle it would be difficult to successfully operationalise one. Mr. Than considered involvement of national and regional/provincial leaders to be an important element for the success of a growth zones. In this regard, he mentioned that national and regional level leadership played an important role and provided the impetus for action in stimulating cooperation within Indonesia-Malaysia-Singapore growth zones. Historical baggage and mistrust among the participating countries could be another stumbling bloc, and governments should pursue a proactive policy to overcome this.

Mr. Than also noted three inter-country issues that could hinder future prospect of growth zones. First, the issue of sovereignty - less developed states are wary of any attempt at economic domination by relatively more developed states. In the past, Indonesia was reluctant to depend on FDI for economic development, and there still remained some reservations in certain quarters in Jakarta because sovereign areas of the country had come under the influence of Singapore, he informed. Second, the issue of distribution of benefits. Some quarters in Indonesia and Malaysia are of the opinion that Singapore stands to gain more from the growth triangle compared to the former two countries. Accordingly, some even go on to characterise the growth triangle as a new version of the old colonial plantation economy when Indonesia was at the bottom of the subregional division of labour supplying unskilled low paid labour. Third, social problems arising from large-scale foreign investment, industrialisation and urbanisation in the form of displacement of local people and massive immigration from other parts of the country had the potential to disrupt social harmony. Those problems led to increased crimes, the growth of urban slums, rapid deforestation and environmental degradation, rising prices of goods and services, escalating real estate values and traffic congestion, Mr. Than noted. Due to the nature of relationship between the centre and the periphery, the growth triangle arrangement, in some instances, could lead to conflict of interests in terms of priorities in regional development, he opined. Moreover, the growth triangle may also increase inter- provincial/state rivalry due to possible diversion of development and investment funds.

**e) Presentation by Mr. Abdul Rahman Maidin,
President, Penang Malay Chamber of Commerce, Malaysia**

Drawing experiences from the Indonesia-Malaysia-Thailand Growth Triangles (IMT-GT), Mr. Abdul Rahman Maidin in his keynote presentation on "The Experience of Growth Zones in South-East Asia: Indonesia-Malaysia-Thailand" analysed the key factors which had contributed to the strengths and weaknesses within the IMT growth zone. He drew attention to lessons that should be borne in mind by other countries which were actively thinking about establishing growth zones. Stressing that the IMT growth zone was primarily aimed at jointly developing the infrastructure, natural resources and industries to strengthen the socio-economic base of the sub-region, Mr. Maidin underlined that there had been many significant gains stemming from the IMT-GT initiative. These included increase in tourism activities, development and better management of natural resources, and growing attractiveness of the region to foreign investors. The success of the IMT-GT could also be quantified by the number (75) of Memorandum of Understandings (MOUs) signed in the field of telecommunications, power generation, agriculture, fishery trade and development of industrial estates with a total value estimated at RM 20 billion. Although, some 26 MOUs had failed to materialise in the end, 23 have been implemented and 26 are at various stages of implementation.

Mr. Maidin informed the participants that the mechanism set for achieving IMT-GT objectives considered the private sector as the main engine of growth, whilst the role of governments was viewed as a facilitator which should provide direction, and ensure effective participation of the private sector. Economic complementarity, geographical proximity, political commitment and infrastructure development served to encourage the private sector to make a commitment towards investing their resources in a growth zone; he stressed. Whilst economic complementarity provided the underlying logic for attracting the interest of the private sector, geographical proximity facilitated the movement of labour and allowed regular interpersonal interaction. Firm political commitment by member governments in a growth zone could simplify and standardise regulations and reduce trade barriers, which creates an enabling environment for private sector investments.

Drawing attention to the recent economic downturn in East Asia when the economies of all three member countries of the IMT-GT were badly affected, Mr. Maidin mentioned that according to him, political stability was a critical factor in the success of the growth zones. As an example he said that politically more stable countries such as Malaysia and Thailand were able to recover at a relatively faster rate from the crisis compared to others. The cooperation between the Federal Government and the Local or State Governments was also crucial to the success of IMT-GT.

By way of drawing lessons for other countries who were considering the establishment of new growth zones, Mr. Maidin singled out the role of private sector as crucial for the success of the growth zones, and made following recommendations:

- Policy and procedural reforms ought to be undertaken by the governments in order to remove barriers which hindered economic cooperation within a zone;
- Economic complementarities did not always originate from the member countries of the growth triangle. From the receiving country's point of view, it should not matter whether capital or technology came from a member country;
- The concept of growth zones operates on the principle that *the whole is greater than sum of the parts*. Growth triangles link adjacent areas of separate countries and combine their resources in order to gain competitive edge in attracting both domestic and foreign investments, and promoting export for the mutual benefit of the areas and the countries involved. Consequently, those wishing to participate in the growth zone and contribute to its socio-economic development should be prepared to operate on a regional basis, and their business policies and strategies should not be inward looking;
- Growth zones must make economic sense and be attractive to business. Results from the cooperation within the growth zone were medium to long term in their nature. Thus, it would be hardly wise to look for immediate results.

f) Presentation by Professor Rehman Sobhan, Chairman, Centre for Policy Dialogue

Drawing on his earlier study on *Transforming Eastern South Asia: Building Growth Zones for Economic Cooperation*, Professor Rehman Sobhan in his keynote presentation on *Growth Zones in South Asia: Potential and Feasibility* dwelt on the multi-dimensional aspects of establishing growth zone(s) incorporating Bangladesh, Bhutan, India, Myanmar and Nepal (BBIMN). According to Professor Sobhan studies on the subject of growth zones in the BBIMN region was moved by a belief that growth zones are, at an institutional level, a national loci for more purposeful endeavors at promoting intra-regional cooperation, which could readily lend itself to dynamising the development prospects of one of the least developed sub-regions in the world. Professor Sobhan in his presentation argued that the eastern regions of South Asia preside over a collective potential whose full realisation will only be accessible through cooperation within the framework of a growth zone in the BBIMN region.

In defining the conceptual terrain which provided the basis for mapping out the territorial scope of a growth zone in the region, Professor Sobhan made a distinction between sub-regional cooperation and economic growth zones. Growth zones put their emphasis on geographical contiguity which provided for a shared infrastructure and resource base whose optimal utilisation may demand transborder cooperation. The BBIMN region is bonded by the inheritance of geography which gave it a shared natural resource base, ecology and history, which gave it a shared transport infrastructure as well as a tradition of interaction between peoples moving across the frontiers for purposes of trade and settlement. He viewed that physical proximity between cooperating countries

was more likely to be conducive to effective cooperation within a growth zone by contributing to a reduction in transaction costs between economic areas within the growth zones. Thus, physically proximate countries and sub-regions within countries could be brought together within a common zone with a view to enhance their development potential.

The emergence of BBIMN growth bloc is without prejudice to the involvement of its component regions within a broader nation state (Northeast India) or countries which remain members of a broader regional groupings (SAARC or ASEAN). However, the point of differentiation between a growth zone and a programme of regional or sub-regional cooperation, according to Professor Sobhan, lied in the fact that the main focus of activity within a growth zone remained project based cooperation. Professor Sobhan thought that such projects usually transcend national boundaries and depend on deriving their economic externalities from a shared approach to using natural resources such as water or management of shared ecology, or strive to develop the transport and energy infrastructure of the growth zone.

Drawing attention of the participants to the fact that the concept of a BBIMN growth zone drew its inspiration from the experiences of East and South East Asia, which have taken the lead within Asia in pioneering growth zones, Professor Sobhan made a distinction between the market driven growth zones of East Asia such as Southern China Growth Triangles (SCGT) and Singapore-Johor and Riau Triangle (SJRT), and those which have emerged out of the enterprise of multilateral agencies such as Greater Mekong Sub-region (GMS) and Indonesia-Malaysia-Thailand (IMT) . He observed that the market driven growth zones are generally seen to be founded on economic complementarities. Looking at the problems of competition as well as complementarity in specific areas within the BBIMN including production of jute, readymade garments (RMG), natural resource use and labour markets, Professor Sobhan that the advantage of building on the complementarities in these areas were quite substantial. Being locked into self-destructive competition and leaving development potential of the area unrealised was viewed by Professor Sobhan to be myopic.

Professor Sobhan opined that in order to regenerate the growth potential of the BBIMN region it was critically important to diversify and expand the export capacity of the less developed economies of Bangladesh, Bhutan, Nepal, Northeast India and Myanmar. However, he noted that this would require comprehensive market access both to the larger Indian market and also to the markets of China and ASEAN. Although, SAARC already provided a forum for persuading India to give such an access to its small neighbors, BBIMN could be used to obtain similar concessions from China and ASEAN. To stimulate project based cooperation, he viewed three particular areas to be of interest: transport, energy and water. In this regard BBIMN should focus, amongst others, on the following:

- The advantage of reintegrating the transport infrastructure within the wider context of ESCAP's *Asian Land Transport Infrastructure Development (ALTID)* programme which sought to establish uninterrupted land and rail links between South East Asia

and Yunnan Province through Myanmar, Northeast India and Bangladesh to Nepal, Bhutan, mainland India, Pakistan, West and Central Asia, leading into Europe.

- Establishment of a *Joint Rivers Commission* to provide an institutional basis for bringing together India, Bangladesh, Nepal and Bhutan to collectively plan the development of the resources of the Ganges/Brahmaputra/Meghna (GBM) basin.
- Exploitation of hydro-electric power generation potential available to Nepal, Bhutan and North East India and also Tibet.
- The need to network the region's resources both on the supply as also the demand side with energy resources and markets in Central, South, East and South East Asia.

In concluding his presentation Professor Sobhan drew attention to the political constraints to cooperation within the BBIMN. Constraints related to the following concerns:

- The need for the projects of the BBIMN growth zone to avoid conflict and overlap with the agendas of both SAARC and ASEAN
- The recognition of the extra zonal linkages of the BBIMN partners which recognise Myanmar's links with China and ASEAN and also those of Bangladesh, Bhutan, Nepal. North east India and west Bengal's position as states within India also merits special attention.
- The need for political balance within BBIMN which would not give disproportionate influence to the larger partners within the growth zones.
- Domestic political apprehensions about association within the BBIMN and the value of building consensus supportive of the growth zone initiative.

Professor Sobhan argued that most of these political concerns could be resolved by emphasising the concept of a growth zone rather than the proclamation of an economic sub-region. He told that the sub-zone would, by its nature, be built around specific projects designed for promoting joint resource and infrastructure development. He further added that a prospective BBIMN growth zone needed some political parentage. He thought that the emerging grouping of Bangladesh, India, Myanmar, Sri Lanka, and Thailand (BIMSTEC), if extended to include Nepal, Bhutan and Yunnan Province of China, could provide institutional parentage to BBIMN and serve as the intersect for bringing China, South-East Asia and South Asia together within a broader Asian project for cooperation. Professor Sobhan stressed that central to such endeavor should be the economic transformation of the less developed regions of Eastern South Asia as well as of Myanmar in order that their potentials could be realised to the fullest extent.

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