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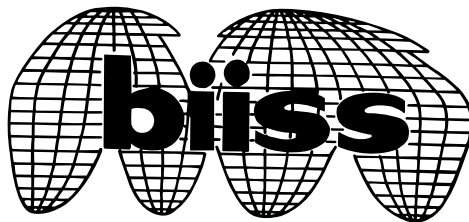
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Mahfuz Kabir

EXAMINING TRADE POTENTIAL IN BIMSTEC: A TRADE FRONTIER APPROACH

Abstract

The body of theoretical and empirical literature suggests that economic regionalism is beneficial for trade flows. The fundamental analytical questions are whether the groups demonstrate significant impetus to expand intra-bloc trade and whether trade liberalisation within the regional arrangement results in non-trivial mutual gains. To address these queries, this paper investigates the trading pattern and potential of Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC). It adopts a stochastic trade frontier approach to an augmented panel gravity model. The results reveal that imports of the member countries follow the Linder hypothesis, while exports can be explained by Heckscher-Ohlin-Samuelson theorem. Controlling for behind and beyond the border constraints, the results of a stochastic frontier gravity model also support these findings. Such constraints are found to explain most of the total variation in imports and exports. The results also suggest that the highest trade potential, estimated by the frontier gravity model, turns out to be significant. Also, members of the group can substantially expand intra-BIMSTEC trade if the constraints are either removed or kept at the minimum.

1. Introduction

Regional integration among the South Asian countries is one of the weakest in the world. Any attempt of intra-regional economic cooperation through Preferential Trading Arrangements (PTAs) remains unsuccessful mainly due to political divide, lack of comparative advantage and deficiency of hard and soft infrastructure. As the first step of enhancing regional economic cooperation in 1985, South Asian Association for Regional Cooperation (SAARC) countries thought to conclude preferential trading arrangement among them. Due to inherent weakness of SAARC to emerge as a vibrant regional trading bloc, India had been looking for other options of forming regional bloc.¹ Having realised the importance of economic cooperation between South and Southeast Asia, Thailand took the initiative in 1994 to explore the possibility of formation of a sub-regional group. Then, BIMSTEC was established after a series of

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¹ One of the major long-standing drawbacks of SAARC is Indo-Pakistan political tensions. India has so far explored other options, such as Bhutan, Bangladesh, India and Nepal-Growth Quadrangle (BBIN-GQ) and Mekong-Ganga Cooperation (MGC) incorporating five ASEAN countries, viz. Cambodia, Lao PDR, Myanmar, Thailand and Vietnam.

deliberations of Inter-Ministerial consultations and with the active support of Asian Development Bank (ADB) and the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP).²

With the unprecedentedly growing trend of economic regionalism, currently about 60 per cent of the world trade is being conducted through regional trading blocs. Up to 2015, more than 400 bilateral and regional trading agreements have been enlisted in the World Trade Organisation (WTO). The process of speedy regionalism is spurred mainly due to the slowdown of the WTO. Since BIMSTEC was established as the bridge between South and Southeast Asian countries, it is naturally expected to bring in non-trivial mutual gains. However, the body of theoretical and empirical literature suggests mixed results of economic regionalism in terms of trade flows, welfare and macroeconomic effects. Now, there are fundamental questions pertaining to the benefits of trade among BIMSTEC countries. First, what are the major drivers of bilateral trade flows of the bloc? Second, is there any significant potential of expanding intra-bloc trade, which can serve as an economic incentive behind it if the constraints can be effectively removed?

The present paper tries to address these two fundamental research questions by adopting a trade frontier approach. The contribution of the paper is threefold. *First*, it provides a formal trade frontier approach to analyse the trading pattern of BIMSTEC countries. *Second*, it works out the realised potential of bilateral trade of its member countries. *Third*, it indicates the unrealised trade which can be tapped by addressing behind and beyond the border constraints. Thus, the paper is organised as follows. After this brief prelude, Section 2 provides an account of BIMSTEC, socio-economic profile of the members and their trade performance. Section 3 summarises the literature on trade frontier approach. Section 4 describes the methodology and data of the study. Section 5 presents the findings while Section 6 concludes the paper.

2. Origin and Performance of BIMSTEC

2.1 Aims and Purposes

BIMSTEC was originally formed on 06 June 1997, with the name Bangladesh, India, Sri Lanka and Thailand Economic Cooperation (BIST-EC). Myanmar was an observer in the inaugural meeting and joined the bloc as a member on 22 December 1997, which led to change its name to BIMST-EC. Nepal was an observer since 1998 and in 2003 both Nepal and Bhutan were granted full membership. In the first Summit on 31 July 2004, leaders of the group renamed it as BIMSTEC. Thus, the formation of BIMSTEC can be attributed to mainly two reasons. *First*, is the failure

² S. K. Bhattacharya, "Does BIMSTEC-Japan Economic Cooperation Promote Intra-Regional Trade? The Case for Free Trade Arrangement", *Discussion Paper 23*, Kolkata: Centre for Studies in International Relations and Development, 2007.

of SAARC to form a vibrant regional forum for trade and economic cooperation. *Second*, ongoing process of liberalisation in economies in this region, which required discovering markets in the Association of South East Asian Nations (ASEAN) region as a substitute of SAARC. Also, Thailand has the desire to establish strong foothold on the Indian subcontinent because of increasing competition within the ASEAN market. Furthermore, the approach of South Asian countries to establish link and enhance economic cooperation shows their intension to strengthen economic relations with the ASEAN countries.³

The aims and purposes of the group, as per the Bangkok Declaration of forming BIST-EC, are to foster rapid economic development in the member countries, speed up social progress, promote active collaboration and mutual assistance in the areas of common interests, maintain cooperation with international and regional organisations and cooperation in projects that optimally utilise available economic, political and social strengths. BIMSTEC aims at combining the 'Look West' policy of Thailand and ASEAN, and 'Look East' policy of India and South Asia, thereby linking the ASEAN and the SAARC. It covers 13 priority sectors, namely (i) trade and investment, (ii) technology, (iii) energy, (iv) transport and communication, (v) tourism, (vi) fisheries, (vii) agriculture, (viii) cultural cooperation, (ix) environment and disaster management, (x) public health, (xi) people-to-people contact, (xii) poverty alleviation and (xiii) counter-terrorism and transnational crimes.⁴

The bloc is currently heading towards a Free Trade Area (FTA). The Framework Agreement for BIMSTEC-FTA was signed in the Sixth Ministerial Meeting in 2004. The Agreement provided for undertaking negotiations on trade in goods, trade in services and investment. A Trade Negotiating Committee (TNC) was formed with representatives from member countries to conclude the subsidiary agreements. The TNC was expected to settle down the Agreement on Trade in Goods by December 2005 in order to operationalise the Agreement from 01 July 2006. However, it could not complete the negotiations timely due to divergence in negative lists and Rules of Origin (ROOs). Later, the Agreement has been finalised in the 18th TNC Meeting in Thailand on 04 June 2009, in which the ROOs and Operational Certification Procedures for the ROOs have been agreed. The Agreement on Cooperation and Mutual Assistance in Customs Matters for the FTA has also been finalised in the Meeting.⁵

In case of First Track products, non-LDCs would open up their markets for the products of LDCs in one year and LDCs will do the same for non-LDCs in five years on the onset of the FTA regime. For Normal Track products, non-LDCs would

³ S. Kelegama, "Bangkok Agreement and BIMSTEC: Crawling Regional Economic Groupings in Asia", *Journal of Asian Economics*, Vol. 12, No. 1, 2001, pp. 105-121.

⁴ For further details, see <http://www.bimstec.org>.

⁵ Previously, all the BIMSTEC members exchanged their negative lists but the lists were overly long. Now the countries are preparing new negative lists that contain 19 per cent of the traded items according to the tariff line.

open up their market for the products of LDCs in 3-years and the LDCs would follow 10-years schedule in order to open up their markets for the products of non-LDCs. LDC members would enjoy “special and differential treatment”. The TNC conducts negotiations on trade in goods, trade in services and investment. There were about 19 meetings on BIMSTEC-FTA and the meetings have decided to keep their respective negative lists at 23 per cent of their tariff line of products.

2.2 Country Profile and Trade Policies

As of July 2015, Bangladesh, Bhutan, India, Myanmar and Sri Lanka are included in the list of lower middle-income countries, while Thailand is an upper middle-income country among the BIMSTEC countries. Nepal is the only low-income country in the bloc. India is the biggest economy in terms of its macroeconomic indicators while Bhutan is the smallest in the bloc. In between these two, only Thailand can be noticed as an influential country in the group. The combined Gross Domestic Product (GDP) of BIMSTEC member economies is nearly US\$ 1.6 trillion with a population of around 1.44 billion as of 2007. Currently, the countries are at different levels of economic and industrial development (Table 1).

Table 1: Key Characteristics of BIMSTEC Member Countries

	Bangladesh	Bhutan	India	Myanmar	Nepal	Sri Lanka	Thailand
GDP (US\$ billion, constant 2005)	97.26	1.49	1,458.73		11.37	41.05	230.37
GDP per capita (US\$ const. 2005)	621	1,977	1,165		409	2,004	3,438
GDP growth (annual %)	6.01	2.04	5.02	5.65	3.78	7.25	1.77
Trade % of GDP	46	104	53		48	54	144
Export Diversification Index	0.827	0.783	483	0.824	0.70	0.753	0.386
Applied tariff rate*	14.45 (2008)	16.4 (2007)	9.3 (2009)	5.1 (2008)	12.4 (2012)	7.7 (2012)	8.9 (2009)
WTO Membership	1995	Accession	1995	1995	2004	1995	1995

*On manufactured goods

Source: World Bank, *World Development Indicators and World Trade Indicators*, www.worldbank.org;

UNCTAD *Stat*, www.unctad.org.

The intra-BIMSTEC trade potential remains untapped due to tariff and non-tariff barriers, and to the absence of agreements on liberalisation of services and investment (Table 1). The economies are also incurring significant loss in terms of its volume and share in the economy due to the existing tariff structure. Kee *et al.*⁶

⁶ H. L. Kee, A. Nicita and M. Olarreaga, “Import Demand Elasticities and Trade Distortions”, *Review of Economics and Statistics*, Vol. 90, No. 4, 2008, pp. 666-682.

demonstrate that the linearly approximated dead weight loss (DWL) associated with the existing tariff structure ranges between 0.43 to 0.71 per cent of the total GDP of important member countries.⁷ The proportion of estimated DWL is much lower in more liberalised East Asian countries, such as Japan (0.02 per cent), South Korea (0.09 per cent) and Indonesia (0.11 per cent).

Bangladesh underwent substantial changes in economic policies in the 1980s and 1990s, and experienced an increased degree of integration with the global economy.⁸ Still, the country is characterised by one of the least liberal trade policy regimes in the world in terms of Trade Tariff Restrictiveness Index (TTRI), leading to low trade integration amongst BIMSTEC countries (Figure 1). The recent Most Favoured Nation (MFN) applied simple tariff average is much higher than the other members except for Bhutan.⁹ The tariff overhang is very high, which demonstrates its reluctance to bind the trade policy regime at rates close to the MFN applied rates (Table 1). The non-tariff measures frequency ratio is higher than that of Bhutan and Thailand, but much lower than that of India. Recent measures against corruption and the introduction of automation in customs clearance is expected to improve trade facilitation and institutional environment measures in near future.

Despite being the smallest member of the group, Bhutan's per capita GDP and economic growth are impressively high. Its trade policy is all about the FTA with India since 1949 that covers nearly 90 per cent of its trade; an FTA with Bangladesh covers certain product lines to another 5 to 8 per cent.¹⁰ The country's MFN applied simple tariff average is the highest in BIMSTEC. The stable political environment and governance situation help in facilitating its trade performance.

After nearly four decades of *de facto* autarchy, India moved towards a market-driven trade regime in the early 1990s, which encompassed a significant series of reforms in industrial policy, the removal of most of the licensing and other nontariff barriers, domestic deregulation of private industry, and simplification of the trade regime.¹¹ Its tariff protection has been substantially reduced in recent years. Large tariff reduction took place in 2004-05 and 2005-06 for most industrial products, which led to significantly lower and more uniform industrial tariff structure. The country's trade

⁷ DWL is divided into three components associated with the contributions of import-weighted tariff, tariff variance and the covariance between tariffs and import demand elasticities. A positive contribution of the covariance indicates that countries impose higher tariffs on more elastic imports.

⁸ R. Jenkins and K. Sen, "International Trade and Manufacturing Employment in the South: Four Country Case Studies", *Oxford Development Studies*, Vol. 34, No. 3, 2006, pp. 299-322.

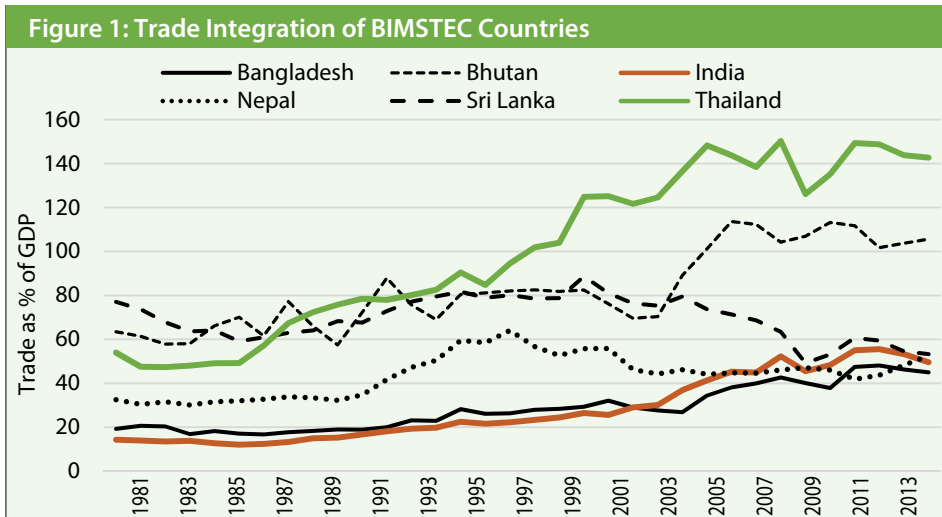
⁹ MFN is the principle of treating imports from a country on the same basis as that given to the most favoured other nation. It is fundamental to GATT. With some exceptions, every country gets the lowest tariff that any country gets, and reductions in tariffs to one country are provided also to others. MFN tariff is the tariff level that a member of the GATT/ WTO charges on a good to other members.

¹⁰ H. Oura and P. Topalova, "Bhutan: Selected Issues and Statistical Appendix", *Country Report 07/349*, Washington, DC: International Monetary Fund, 2007.

¹¹ R. Hasan, D. Mitra and K. V. Ramaswamy, "Trade Reforms, Labor Regulations and Labor-Demand Elasticities: Empirical Evidence from India", *Review of Economics and Statistics*, Vol.89, No.3, 2007, pp. 466-481.

regime is still much restrictive with respect to the ranking in trade policy compared to other members of the group such as Bangladesh, Sri Lanka and Thailand. This might have resulted in the lowest share of merchandise trade in GDP over the years in BIMSTEC (Figure 1). General Agreement on Trade in Services (GATS) commitments index suggests that there is ample room for greater multilateral commitments to liberalisation of service sector. The country is a beneficiary of the Generalised System of Preferences (GSP) with a number of advanced economies. However, political tensions with Pakistan limit the bilateral trade between two countries, and adversely affect regional integration in South Asia.

Myanmar possesses a relatively less restrictive trade regime.¹² Its MFN applied simple and trade-weighted average tariffs are the lowest among the members. The country took an 'open-door policy' in the late 1980s that considerably increased its trade with the neighbours later on.¹³ Its currency has appreciated in the recent years, but the government maintains restrictions on exchange rate and practices multiple currency.



Data source: World Development Indicators, www.worldbank.org

Nepal also undertook a series of market-oriented reforms in the 1980s and 1990s.¹⁴ However, the country has one of the most protectionist trade policy regimes in the world, which has perhaps led to a low share of trade in the economy (Figure 1). Its MFN applied simple tariff average is around the BIMSTEC average. The overall GATS commitment index is the highest among BIMSTEC members. The country's MFN

¹² ADB, *Economic Update: Myanmar*, Manila: ADB, 2001.

¹³ T. Kudo and F. Meino, "Trade, Foreign Investment and Myanmar's Economic Development during the Transition to an Open Economy", *Discussion Paper 116*, Chiba: Institute of Developing Economies, 2007.

¹⁴ K. Sharma, "The Political Economy of Civil War in Nepal", *World Development*, Vol. 34, No. 7, 2006, pp. 1237-1253.

duty-free exports remain lower than BIMSTEC countries except Bangladesh. A PTA with India signed in 2002, granted Nepal a preferential access to the highly restricted Indian market, although the arrangement still depends on stringent ROOs, tariff rate quotas, and safeguard clauses.¹⁵

Started in the early 1980s, economic reforms in Sri Lanka picked up in 1990s, which encompassed, *inter alia*, structural adjustments, liberalising trade and payments, lowering control on prices and interest rates, and reforming the financial sector.¹⁶ The country's trade regime is considerably more liberal than average BIMSTEC country. Its MFN tariff simple and trade-weighted applied tariff averages are noticeably lower than the group's average. Its exporters face lower trade barriers to foreign markets than the bloc average. The country's trade performance is affected by its inadequate port and infrastructure, poor delivery of basic services and cumbersome customs procedures.

The general trait of Thailand's trade policy regime has been liberal and outward oriented.¹⁷ The country undertook strong unilateral liberalisation in the 1980s and 1990s, especially in the manufacturing sector.¹⁸ Initiatives are taken in recent years to foster trade and market access, although the recent tariff structure remains relatively complex, involving a multiplicity of rates.¹⁹ However, the country's MFN simple and trade weighted average tariffs are notably lower than BIMSTEC averages. The country faces higher tariff barriers on its exports. Its MFN zero duty export is the highest among the members and nearly double of the group's average. It is a member of the ASEAN, the ASEAN Free Trade Area (AFTA), the Asia Pacific Economic Cooperation (APEC) and the East Asian Economic Caucus (EAEC). It is a GSP beneficiary with a number of advanced economies and is a signatory to FTAs with Australia, New Zealand, Japan and China. Trade integration of the country is the highest in BIMSTEC, which is due to a higher degree of liberalisation of its external sector.

2.3 Trend of Intra-BIMSTEC Trade

Intra-BIMSTEC trade is hovering at nearly six per cent while major intra-bloc importers are India, Thailand and Bangladesh and exporters are India, Thailand and Myanmar, respectively. The main import sources and export destinations of most of the BIMSTEC countries remain outside the bloc, although the recent trend in trade

¹⁵ S. Karla, S. Singh, A. Aisen, N. Wandwasi and C. Beddies, *Nepal: Selected Issues and Statistical Appendix*. Washington, DC: International Monetary Fund, 2006.

¹⁶ N. Duma, *Sri Lanka's Sources of Growth*, Working Paper 07/225, Washington, DC: International Monetary Fund, 2007.

¹⁷ X. Diao, J. Rattso and H. E. Stokke, "International Spillovers, Productivity Growth and Openness in Thailand: An Intertemporal General Equilibrium Analysis", *Journal of Development Economics*, No. 76, No. 2, 2005, pp. 429-450.

¹⁸ R. Sally, "Thai Trade Policy: From Non-Discriminatory Liberalisation to FTAs", *World Economy*, Vol. 30, No. 10, 2007, pp. 1594-1620.

¹⁹ WTO, *Trade Policy Review: Report by the Secretariat - Thailand*, Geneva: WTO, 2008.

growth is higher within the group than that with the world. Bangladesh, India and Nepal initiated comprehensive trade reforms in the 1990s that included a substantial decline in tariff and removal of quantitative restrictions. However, the markets of most of the members are normally restrictive.

The share of intra-BIMSTEC trade remains meagre in the world trade. In 1997, the intra-bloc import was 2.81 per cent of the world import, which increased to about six per cent in 2013. The figures for export were 2.80 and 5.27 per cent, respectively. However, there is an implicit positive trait in the trading pattern, which is missing in the literature.²⁰ After the formation of BIMSTEC, there has been a proportionate increase in the intra-group trade compared to trade with the world. This can be expressed in terms of increase in individual member's trade with BIMSTEC compared to their trade with the world during 1997-2013.

Table 2: Official Trade in BIMSTEC (Million US\$), 2013

	Export	Import	Trade
Bangladesh	554.75	6,980.34	7,535.09
Bhutan*	371.06	766.86	1,137.92
India	19,032.48	8,401.50	27,433.98
Myanmar***	4,218.63	646.75	4,865.38
Nepal	600.27	118.21	718.48
Sri Lanka	687.99	3,587.86	4,275.85
Thailand	10,320.48	7,636.85	17,957.32
Total	35,785.66	28,138.36	63,924.02

** Data of 2011, and *** Data of 2010

Source: COMTRADE database.

The increase in the intra-BIMSTEC trade compared to its trade with the world does not necessarily indicate that the countries are utilising their existing capacity of trade. The literature suggest that there are 'behind' and 'beyond' the border constraints on trade due to institutional, infrastructural and policy rigidities that restrain countries from trading optimally.²¹ These constraints are more likely to prevail in BIMSTEC countries, which are developing and least developed, and suffer from a variety of economic, social, political and institutional difficulties. Therefore, understanding the magnitude of trade potential would help the policymakers in removing these barriers.

²⁰ A. Strutt, "Quantitatively Assessing a BIMSTEC-Japan FTA: A CGE Analysis", *Discussion Paper 40*, Kolkata: Centre for Studies in International Relations and Development, 2008.

²¹ K. Kalirajan and K. Singh, "A Comparative Analysis of China's and India's Recent Export Performances", *Asian Economic Papers*, Vol. 7, No. 1, 2008, pp. 1-28.

3. Conceptualising Trade Frontier: A Review of Literature

Examining trade potential of a regional bloc can be carried out by either an equilibrium or a disequilibrium approach. In the equilibrium models, a home country's imports from and exports to all its partners can be exhaustive and represent a general equilibrium framework, and would be estimated to arrive at total trade values. In the disequilibrium framework, a home country's actual trade is assumed to differ from potential exports with respect to each trading partner. Following this framework, some further studies have been conducted recently that examine the trade performance by estimating trade potential in the context of either regional bloc or bilateral cases.²²

The usual assumption in the standard gravity model is that the trading environment in the home country does not impose any restrictions on its imports and exports. Despite admitting that the home country possesses behind the border constraints and it faces beyond the border constraints from the partners, these constraints are assumed to be insignificant and are randomly distributed across observations in standard models. However, such an assumption would be strong and may not reflect the real world circumstances.

The traditional gravity model normally ignores the effect of multilateral trade resistance on trade flows. However, some empirical models use multilateral trade resistance indices based on cross-section data, which is not suitable in panel data that encompass importer, exporter and time dimensions. Country dummies are also incapable of capturing such indices that varies over time.²³ Therefore, Carrère²⁴ replace multilateral trade resistance indices by remoteness indices for importers and exporters, and estimates multilateral trade resistance ($R_{ij,t}$), measured by indices of remoteness for countries i and j as

$$R_i = \left[\sum_{k=1, k \neq i}^N Y_k (D_{ik})^{1-\sigma} \right]^{\frac{1}{1-\sigma}} \text{ and}$$

$$R_j = \left[\sum_{k=1, k \neq j}^N Y_k (D_{jk})^{1-\sigma} \right]^{\frac{1}{1-\sigma}},$$

²² K. Kalirajan, "Regional Cooperation and Bilateral Trade Flows: An Empirical Measurement of Resistance", *International Trade Journal*, Vol. 21, No. 2, 2007, pp. 85-107; S. Armstrong, P. Drysdale and K. Kalirajan, "Asian Trade Structures and Trade Potential: An Initial Analysis of South and East Asian Trade", *EABER Working Paper* 32, Canberra: Australian National University, 2008.

²³ J. Brun, C. Carrère, P. Guillaumont and J. Melo, "Has Distance Died? Evidence from a Panel Gravity Model", *World Bank Economic Review*, Vol. 19, No. 1, 2005, pp. 99-120.

²⁴ C. Carrère, "Revisiting the Effects of Regional Trade Agreements on Trade Flows with Proper Specification of the Gravity Model", *European Economic Review*, Vol. 50, No. 2, 2006, pp. 223-247.

respectively, where Y means GDP, D indicates distance. σ is the elasticity of substitution in consumption in goods, which is known to be the Dixit-Stiglitz preference. This definition is an improvement over the definition of remoteness index as the weighted distance to all trading partners of country i and j as

$$\sum_j w_{j,t} D_{ij} \text{ for } i \neq j, \text{ and } w_{j,t} = Y_{j,t} / \sum_j Y_{j,t}, \text{ and}$$

$$\sum_i w_{i,t} D_{ij} \text{ for } j \neq i, \text{ and } w_{i,t} = Y_{i,t} / \sum_i Y_{i,t}$$

respectively. Both of the studies find positive and significant impact of resistance on the import flows. Nevertheless, the index of remoteness cannot capture the effects of multiplicity of unobservable restraining factors like implicit rigidities in institutional and bilateral trade policies. Furthermore, Anderson and van Wincoop²⁵ demonstrate that the functional form of the remoteness variable does not comply with the theory and thus can lead to biased estimates.

The empirical gravity models often ignores the economic distance between the trading partners i and j relative to a trade weighted average of the economic distance between a partner i and all points in the linear expenditure system explained in Anderson.²⁶ It is represented by

$$\left[\sum_j \frac{\varphi_j Y_j}{\sum_j \varphi_j Y_j} \cdot \frac{1}{f(d_j)} \right]^{-1}$$

Kalirajan²⁷ argues that ignoring this term in the empirical gravity model results in incorrect estimates. In the traditional gravity models, the economic distance between countries i and j are often replaced by geographical distance. This can lead to biased estimates since economic distance includes geographical distance as well as other country-specific factors such as historical and cultural ties. Differences of some other country-specific factors such as state of governance, functioning of the institutions, political stability, etc. are also typically left out in the standard models mainly due to the unavailability of data, which may result in correlation between the residual term and some of the regressors.²⁸

²⁵ J. E. Anderson and E. van Wincoop, "Gravity with Gravitas: A Solution to the Border Puzzle", *American Economic Review*, Vol. 93, No. 2, 2003, pp. 170-192.

²⁶ J. E. Anderson, "A Theoretical Foundation for the Gravity Equation", *American Economic Review*, Vol. 69, No. 1, 1979, pp. 106-116.

²⁷ Kalirajan, 2007, *op. cit.*

²⁸ K. Kalirajan, "Gravity Model Specification and Estimation: Revisited", *Applied Economics Letters*, Vol. 15, No. 13, 2008, pp. 1037-1039.

Some of the above-mentioned factors, such as the state of governance, can be broadly measured by the ratio scale or be indexed based on perception of the key respondents. However, the overwhelming socio-political and institutional factors are still beyond comprehensive quantification, which gives rise to imprecise specification of the empirical gravity model. The stochastic frontier gravity model can handle this quandary by virtue of its single-sided error term that exemplifies the combined effects of the intrinsic economic distance bias.

The omission of economic distance term in standard gravity model also leads to incorrect estimates and to heteroscedastic error terms. The log-linear standard gravity model in the presence of heteroscedasticity leads to inconsistent estimates as the expected value of the log of a random variable depends on higher-order moments of its distribution.²⁹ Moreover, it affects the normality assumption of the error term.

According to Baldwin and Taglioni,³⁰ Kalirajan and Singh³¹ and Salim *et al.*³² trade flows can be affected by three factors. *First*, natural constraints, such as geographical distance or transport cost. *Second*, behind the border constraints, which stem from socio-economic, institutional and political factors, and infrastructure rigidities prevailing in exporting countries. *Third*, beyond the border constraints, which include institutional and infrastructure rigidities in importing countries. These can be removed through various trade facilitating measures.

Wilson *et al.*³³ try to assess the impact of trade facilitation efforts on the flow of manufacturing exports of the APEC member countries for the period 1989-2000. They use four trade facilitation indicators: port efficiency, customs environment, regulatory environment and e-business usage. The study reveals that if the APEC members with below-average indicators improve capacity half way to the bloc's average, the intra-APEC trade would increase by one-fifth of the trade among these countries. The improved port efficiency explains nearly half of such increase. The indicators are, however, based on qualitative responses in a rating scale, which is likely to be biased due to the subjective judgment of respondents. Trade facilitation variables are indeed difficult to quantify.

Kalirajan and Singh³⁴ argue that beyond the border constraints include 'explicit' constraints such as tariffs and exchange rate, which can be measured by variables such as average tariffs and real exchange rate. Implicit beyond the border

²⁹ S. J. M. C. Silva and S. Tenreiro, "Gravity-Defying Trade", *Working Papers 03-1*, Boston: Federal Reserve Bank of Boston, 2003.

³⁰ R. E. Baldwin and D. Taglioni, Gravity for Dummies and Dummies for Gravity Equations, *Working Paper 12516*, Massachusetts: National Bureau of Economic Research, 2006.

³¹ Kalirajan and Singh, 2008, *op. cit.*

³² R. Salim, M. Kabir and N. Mawali, "Does More Trade Potential Remain in Arab States of the Gulf?" *Journal of Economic Integration*, Vol. 26, No. 2, 2011, pp. 217-243.

³³ J. S. Wilson, C. L. Mann and T. Otsuki, "Trade Facilitation and Economic Development: A New Approach to Quantifying the Impact", *World Bank Economic Review*, Vol. 17, No. 3, 2003, pp. 367-389.

³⁴ Kalirajan and Singh, 2008, *op. cit.*

constraints originate from institutional and policy rigidities of importing countries. Bilateral, regional and multilateral trade agreements aim to eliminate both 'behind' and 'beyond' the border constraints. These are difficult to measure by standard variables of the gravity model. The alternative gravity estimation considers these factors as given (e.g., Kalirajan³⁵). The combined effects of behind the border constraints on exports and beyond the border constraints to imports can be measured by decomposing error term of the standard gravity model into two. One incorporates the above-mentioned constraints, and the other includes residual factors.

In the stochastic frontier analysis of bilateral trade flows, higher variation in trade performance explained by behind and beyond the border constraints indicates greater distance from the trade frontier, given the core determinants of trade. The trade frontier shifts outwards due to an improvement in trade technology. Trade potential can be measured in the context of achieving it at a 'frontier', which estimates a level of trade that might be attained in the case of the most open and frictionless trade possible given current trade, transport and institutional efficiencies or practices.³⁶ This approach is appropriate to assess the impact of reforms in trade policy, infrastructure and institutions on trade performance particularly of developing and least developed countries who suffer the most from institutional rigidities, social and political constraints. Thus, it is applicable to examine the efficacy of regional trade integration, such as BIMSTEC.

However, gravity models of trade potential have some limitations. More specifically, these models cannot specifically disentangle the inefficiency factors into different components of behind and beyond the border constraints like bureaucratic rigidity, infrastructural and energy deficiency, and non-tariff barriers. In addition, the welfare effects from trade potential cannot be properly established using this model.

4. Empirical Specification and Data

The stochastic frontier gravity model captures trade resistances beyond and behind the border by bifurcating the error term of an augmented gravity model. The inclusion of a non-negative unobservable term in this model helps capture unobservable and manmade resistances to trade and barriers to regional economic integration. Kalirajan³⁷ suggests that the stochastic frontier approach can be adopted in circumstances when the information on all restrictive policy induced constraints in home and in partner countries is fully available.

³⁵ As Armstrong (2007) observes, some of the objective resistances, such as distance and official barriers to trade, can be controlled for in gravity models but the majority are difficult to quantify, leading them to lump into the idiosyncratic disturbance term. Standard gravity models, however, do not control for subjective resistances, for example asymmetric and imperfect information and internal constraints, at all.

³⁶ Armstrong *et al.*, 2008, *op. cit.*

³⁷ Kalirajan, 2007, *op.cit.*

Stochastic production frontier models are regarded to be the momentous contribution to econometric modelling of production function and estimating of technical efficiency of the production units involved in producing a particular output.³⁸ Examining the determinants of bilateral trade and calculating trade potential are also possible in this approach, as the trading process is subject to inefficiency due to various structural restraints such as political, social, infrastructural and institutional characteristics identified above along with exogenous shocks like business cycles.

To understand the nature of the stochastic frontier problem of bilateral trade, suppose that the trade function is $f(x_{ij,t}, \beta)$, where $x_{ij,t}$ is the vector of economic, geographic, social and institutional factors that influence traders i and j at time t , and β is the vector of unknown parameters. In the absence of any error or inefficiency, countries ij would trade

$$y_{ij,t} = f(x_{ij,t}, \beta) \quad (1)$$

where $y_{ij,t}$ is the scalar of observed bilateral trade between countries i and j at time t . A fundamental building block of the stochastic frontier gravity model is that each country potentially trades lower due to a degree of inefficiency arising from behind and beyond the border constraints, such that

$$y_{ij,t} = f[(x_{ij,t}, \beta). \tau_{ij,t}] \quad (2)$$

where $\tau_{ij,t}$ is the level of trade efficiency of the traders and $0 \leq \tau_{ij,t} \leq 1$. $\tau_{ij,t} = 1$ implies that the trade is optimal with the technology embodied in $f(x_{ij,t}, \beta)$, while $\tau_{ij,t} < 1$ indicates that the trade is non-optimal due to inefficiency. In the case of $\tau_{ij,t} = 0$, the trade is completely inefficient.

Assuming that trade is subject to random shocks, the stochastic frontier gravity model in a general form can be written as

$$y_{ij,t} = f[(x_{ij,t}, \beta). \tau_{ij,t}. \exp(v_{ij,t})] \quad (3)$$

where the stochastic error term, $v_{ij,t}$, represents the random exogenous shocks to the trading processes. Although trade is subject to different kind of shocks, the term is assumed to follow a common distributional pattern. Thus, $v_{ij,t}$ is a two-sided normally distributed variable. Assuming $\tau_{ij,t}$ to be an exponential as $\exp(-u_{ij,t})$, where $u_{ij,t}$ is a stochastic variable that follows a non-negative distribution, Equation (3) can be written in the following log-linear Cobb-Douglas form

³⁸ G. E. Battese and T. J. Coelli, "A Model for Technical Inefficiency Effects in a Stochastic Frontier Production Function for Panel Data", *Empirical Economics*, Vol. 20, No. 2, 1995, pp. 325-332.

$$\ln y_{ij,t} = \beta_0 + \sum_{k=1}^m \beta_k \ln x_{ij,t} + v_{ij,t} - u_{ij,t} \quad (4)$$

where the technical efficiency term $u_{ij,t}$ is time-varying.

Equation (4) provides estimates for two different specifications of the non-negative error $u_{ij,t}$: time invariant (TI) and time varying. In the simplest specification, $u_{ij,t}$ is a time-invariant truncated normal random variable, and $u_{ij,t}$ and $v_{ij,t}$ are distributed independently. In the time-varying decay (TVD) specification,

$$u_{ij,t} = [\exp\{-\eta(t - T)\}]u_{ij}$$

where T is the last period in the panel, η is the decay parameter and u_{ij} and $v_{ij,t}$ are distributed independently of each other. A non-zero η indicates that behind the border constraints on trade have been varying over time, either increasing or decreasing. More specifically, this assumption implies that if the estimate of η is positive, then behind the border constraints decline exponentially to its minimum value, u_{ij} , at the last period.³⁹

The stochastic frontier gravity model provide estimates of the trade potential that can be obtained if the bilateral trade operates at the frontier or maximum level when the trade resistances are at minimum or absent. Thus, the bilateral trade potential can be envisioned as the maximum possible trade which can take place if there is no resistance between them given the determinants. As most of the trade resistances cannot be quantified and thus remain unobserved, these together constitute the non-negative disturbance term.⁴⁰

Following the functional form of the trade frontier discussed above, the stochastic frontier gravity equation for BIMSTEC can take the general form of

$$TRA_{ij,t} = X\beta_k + v_{ij,t} - u_{ij,t} \quad (5)$$

where $TRA_{ij,t}$ indicates value of flow of commodities between country i and j in period t , X imply the regressors that include the variables, which possess time-invariant and time-varying bilateral, importers and exporters characteristics, β_k denotes the k number of unknown parameters, $v_{ij,t}$ is the idiosyncratic error term that represents random shocks to bilateral trade flow, and $u_{ij,t}$ measures the performance of a country relative to best practice. In other words, the later represents the degree to which the actual trade falls short of the potential, due for example to unmeasured socio-

³⁹ Kalirajan and Singh, 2008, *op. cit.*

⁴⁰ K. Kalirajan, "Stochastic Varying Coefficients Gravity Model: An Application in Trade Analysis", *Journal of Applied Statistics*, Vol. 26, No. 2, 1999, pp. 185-193.

economic and political infrastructure.

Kalirajan⁴¹ estimates the basic gravity equation where the explanatory variables are GDP, population and geographical distance. However, Kalirajan⁴² notes that there are other important factors than GDP and geographical distance that explains trade potentials, and to include such factors offers a more reliable and acceptable estimates.

Following theoretical underpinnings of the stochastic frontier model and its applications to gravity model, the augmented gravity model can be specified below.

$$\begin{aligned} \ln TRA_{ij,t} = & \alpha_0 + \alpha_1 \ln TGDP_{ij,t} + \alpha_2 RFE_{ij,t} + \alpha_3 SIM_{ij,t} + \alpha_4 \ln DIST_{ij} + \alpha_5 \ln RER_{ij,t} \\ & + \alpha_6 GOV_{i,t} + \alpha_7 GOV_{j,t} + \beta_1 BTA_{ij,t} + \beta_2 BOR_{ij} + \beta_3 CL_{ij} + \beta_4 BIM_{ij,t} + v_{ij,t} - u_{ij,t} \end{aligned} \quad (6)$$

where

$$TGDP_{ij,t} = GDP_{i,t} + GDP_{j,t}$$

$$RFE_{ij,t} = \left| \ln GDP_{i,t} - \ln GDP_{j,t} \right|$$

$$SIM_{ij,t} = 1 - \left(\frac{\ln(GDP_i)}{\ln(GDP_i + GDP_j)} \right)^2 - \left(\frac{\ln(GDP_j)}{\ln(GDP_i + GDP_j)} \right)^2$$

Adding up of GDP of i and j provides Total GDP (TGDP) that measures the overall economic space of the two countries, where the larger the TGDP the higher the volume of trade between the two countries for given relative size and factor endowments. RFE indicates the relative factor endowment and SIM is the similarity index. $DIST_{ij}$ indicates the distance between i and j , GOV indicates a governance indicator, RER indicates real exchange rate, BTA means bilateral trade agreement between the importers and exporters, BOR implies shared border, CL is the common language between the two countries and BIM means the membership of BIMSTEC.

Data on trade volumes come from International Monetary Fund's (IMF) Direction of Trade Statistics (DOTS). Data on GDP, official exchange rate and GDP deflator data come from World Bank's World Development Indicators. Data on geographical distance, common border and common language between two trading countries come from French Research Centre in International Economics (CEPII). The governance data is taken from World Bank's World Governance Indicators, and

⁴¹ *Ibid.*

⁴² Kalirajan, 2008, *op. cit.*

finally, BTA data come from World Trade Organization (WTO). To determine the sample counties, a quantitative restriction is set so that important trading partners of BIMSTEC countries can be identified. At the first stage, the sample countries are drawn from all the trading partners of the BIMSTEC countries by assuming that they should have 0.2 per cent of its total world imports and with the individual importing country.

5. Findings and Analysis

5.1 *Determinants of Intra-BIMSTEC Trade*

Maximum likelihood estimator (MLE) has been applied on the panel data to estimate Equation (6) and examine the importance of the factors identified above that are constraining trade reaching from their potential. The advantage of MLE is that it is not suffered from a loss of estimation efficiency. It estimates the influence of the economic distance term that leads to heteroscedasticity and non-normality, isolating it from the idiosyncratic error term. The estimation also provides potential estimates of intra-BIMSTEC imports and exports that are closer to frictionless trade estimates, which is determined by the upper limit of the data sets. The potential trade can be defined as the maximum level of trade given the existing level of determinants of trade and the minimum level of restrictions within the system.⁴³ This approach of estimation bears important implications for trade policy reforms to improve the performance of the socio-political and institutional factors.⁴⁴

The Maximum Likelihood estimates of Equation (6) have been presented in Table 3 for both the TI and the TVD models. The results help choose between two models based on the sign and significance of the coefficients from diagnostic tests. On the imports side, *TGDP* turns out to be positive as expected. The negative sign of *RFE* and *SIM* indicates the presence of *Linder* effect in imports of BIMSTEC counties at the aggregate level, rejecting the Heckscher-Ohlin-Samuelson theorem as well as the New Trade Theory. The coefficient of *SIM* is not significant either.

The sign of *DIST* is negative and significant for both the model, although *RER* takes the desirable sign but not significant in the TVD model. The variables *BOR*, *CL*, *BTA* and *GOV*, all take the expected sign. *GOV*, takes negative sign as opposite to the expectation but as it is not significant, the influence of governance in importing countries can be ignored.

⁴³ Potential trade does not indicate the free trade.

⁴⁴ Kalirajan, 2007, *op. cit.*

Table 3: Maximum Likelihood Estimates of Gravity Equation

	IMPORTS		EXPORTS	
	TI	TVD	TI	TVD
$\ln TGD P_{ij}$	0.796*** (0.106)	0.816*** (0.108)	0.371** (0.154)	0.453*** (0.148)
RFE_{ij}	-0.433* (0.262)	-0.425* (0.258)	0.737** (0.327)	0.730** (0.312)
SIM_{ij}	-0.359 (2.084)	-0.743 (2.141)	2.783 (2.452)	1.995 (2.394)
$\ln DIST_{ij}$	-0.675*** (0.217)	-0.735*** (0.233)	-0.590 (0.369)	-0.773** (0.364)
$\ln RER_{ij}$	-0.032* (0.019)	-0.029 (0.019)	0.040** (0.019)	0.039** (0.019)
BOR_{ij}	0.438 (0.638)	0.353 (0.650)	1.105 (1.151)	1.115 (1.107)
CL_{ij}	2.182*** (0.565)	2.073*** (0.587)	-0.542 (0.943)	-1.009 (0.925)
BTA_{ij}	0.287** (0.119)	0.269** (0.122)	0.276** (0.120)	0.235* (0.121)
GOV_i	-0.025 (0.050)	-0.029 (0.050)	-0.110** (0.054)	-0.049 (0.057)
GOV_j	0.143*** (0.054)	0.149*** (0.054)	0.101* (0.057)	0.121** (0.057)
BIM_{ij}	-0.048 (0.117)	-0.041 (0.118)	0.216* (0.119)	0.221* (0.120)
<i>Constant</i>	4.225* (2.207)	4.690** (2.306)	12.766*** (3.487)	14.046*** (3.468)
<i>Theoretical model rejected</i>	HOS, NTT	HOS, NTT	Linder, NTT	Linder, NTT
<i>N</i>	140		127	
μ	3.828*** (0.439)	4.035*** (0.523)	8.575*** (0.983)	9.305*** (1.170)
η	--	-0.003 (0.003)	--	-0.006*** (0.001)
$\ln \sigma^2$	1.023*** (0.123)	1.058*** (0.134)	1.983*** (0.134)	2.061*** (0.136)
$\text{ilgt } \gamma$	2.103*** (0.143)	2.144*** (0.156)	3.146*** (0.147)	3.237*** (0.149)
Wald χ^2	1045.800***	297.240***	963.470***	197.710***
Log Likelihood	-1697.766	-1697.527	-1601.324***	-1596.384***

Note: ***, ** and * indicate that the particular coefficient is significant at 1, 5 and 10 per cent level respectively.

The results of the exports side present the positive sign of *TGDP*, *RFE* with statistically significant coefficients, but *SIM* turns out to be insignificant. It is the evidence of rejecting *Linder* hypothesis as well as New Trade Theory, suggesting that Heckscher-Ohlin-Samuelson theorem can explain the pattern of BIMSTEC's exports. The sign of *DIST* is according to our expectation and it is significant in the TVD model. *RER* turns out to be positive. The sign of *BTA*, *GOV*, and *BIM* are positive and they are statistically significant, which indicate, as expected, their export-enhancing impacts.

Statistically insignificant coefficients suggest no influence of respective explanatory variables in import and export flows, these can be omitted to obtain more meaningful results of Equation (6). Table 4 presents the results after dropping such variables. In the re-estimated regression, *RFE* of imports in TI model is now significant at 1 per cent level, which was significant at 10 per cent level in Table 3 that keeps all the explanatory variables. This indicates that *Linder* hypothesis can more strongly explain the pattern of BIMSTEC's imports when we drop insignificant variables from our estimation. Also for exports panel, the statistical significance of *RFE* increased from 5 per cent to 1 per cent level. It is an indication of stronger relevance of Heckscher-Ohlin-Samuelson theorem in explaining the pattern of the bloc's exports. This implies that even if the behind and beyond the border constraints are removed or kept at the minimum, the pattern of imports and exports would remain intra- and inter-industry, respectively.

The distance elasticity is negative and significant at 1 per cent level in imports panel. It is negative and significant at 5 per cent level in the exports panel, which supports Kalirajan, and Kalirajan and Singh.⁴⁵ The negative distance elasticity concurs with the theory of gravity model.

The sign and significance of the other significant variables in imports panel do not notably alter. In the exports panel, the significance of *BTA* has improved from 10 per cent to 5 per cent level, which indicates that bilateral trade agreements enhances both imports and exports of BIMSTEC countries. The coefficient of *BIM* turns out to be positive and significant in exports panel, which reinforces the fact that the membership of this group has an export facilitating impact. This impact is 25.36 in the present estimate.

⁴⁵ Kalirajan, 2007, *op. cit.*; and Kalirajan and Singh, 2008, *op. cit.*

Table 4: Results of the Re-estimated Gravity Equation

	IMPORTS		EXPORTS	
	TI	TVD	TI	TVD
$\ln TGD P_{ij}$	0.789*** (0.102)	0.820*** (0.103)	0.377** (0.156)	0.428*** (0.142)
RFE_{ij}	-0.382*** (0.111)	-0.322** (0.128)	0.395** (0.155)	0.509*** (0.144)
$\ln DIST_{ij}$	-0.692*** (0.211)	-0.797*** (0.218)	-0.723** (0.364)	-0.878** (0.352)
$\ln RER_{ij}$	-0.031* (0.019)		0.039** (0.019)	0.038* (0.019)
CL_{ij}	2.197*** (0.561)	2.003*** (0.591)		
BTA_{ij}	0.278** (0.118)	0.260** (0.121)	0.291** (0.119)	0.241** (0.120)
GOV_j			-0.121** (0.053)	
GOV_j	0.145*** (0.054)	0.153*** (0.054)	0.106* (0.057)	0.130** (0.057)
BIM_{ij}			0.219* (0.119)	0.226* (0.120)
<i>Constant</i>	4.301** (1.684)	4.761*** (1.697)	15.287*** (3.070)	16.415*** (3.001)
<i>Theoretical model rejected</i>	HOS, NTT	HOS, NTT	Linder, NTT	Linder, NTT
<i>N</i>	140		127	
μ	3.777*** (0.425)	4.019*** (0.484)	8.688*** (0.958)	9.409*** (1.167)
η	--	-0.003 (0.003)		-0.006*** (0.001)
$\ln \sigma^2$	1.026*** (0.124)	1.089*** (0.131)	2.024*** (0.132)	2.083 (0.132)
$\text{ilgt } \gamma$	2.106*** (0.144)	2.179*** (0.152)	3.191*** (0.144)	3.259*** (0.144)
Wald χ^2	1043.760***	295.920***	951.210***	190.810***
Log Likelihood	-1698.209	-1698.970	-1605.047	-1598.163

Note: ***, ** and * indicate that the particular coefficient is significant at 1, 5 and 10 per cent level respectively.

5.2 Diagnostic Tests

Three tests assess the aspects of u_{ij} and the time dimension of the estimator, which are *gamma* (γ), *mu* (μ) and *eta* (η) (reported in the bottom of Tables 3 and 4). *Gamma* examines the appropriateness of u_{ij} in the data. More specifically, the γ

coefficient presents a measure of the total variation that is due to country specific behind and beyond the border constraints on exports and imports, respectively. It is an average over the period, that is,

$$\gamma = \frac{\sum_t \sigma_{ut}^2 / (\sum_t \sigma_{ut}^2 + \sigma_{vt}^2)}{T}$$

where σ^2 is the variance of u_{ij} at period t , σ^2 is the variance of v_{ij} at period t , and T is the total number of periods.⁴⁶ It means that the decomposition of the error term into u and v is valid for the present data sets and the deviation of actual trade from the potential is due to behind and beyond the border constraints, and not merely by random chances.

Here, the null hypothesis is that $\gamma = 0$ and the alternative is $\gamma > 0$. After the time invariant and time varying decay estimation of import and export panels, the γ coefficient turns out to be significantly different from zero. This is confirmed by the 95 per cent confidence interval. As γ lies between 0 and 1, the optimisation is parameterised with respect to its inverse logit (*ilgt* γ). The coefficients of *ilgt* γ are significant at 1 per cent level in both the panels, which is reported in Table 5. The large and significant γ coefficients in both import and export panels indicate that the influence of such country-specific factors explain a large proportion of mean total variation (σ^2) of the model.⁴⁷ According to results presented in Table 5, the estimated γ explains 89 per cent of total variation in imports panel, which captures the influence of beyond the border constraints on imports. For exports, behind the border constraints explain around 96 per cent of total variation, which is expressed by estimated γ for exports. That is, behind the border constraints contribute a larger and significant proportion to the variation in the gaps between potential and actual exports of BIMSTEC members.

The results support the use of a stochastic frontier in our estimation. These are also in accordance with previous findings. For instance, Drysdale *et al.*⁴⁸ find that 78 per cent of the variation in trade flows is due to the variance in the inefficiency term, which dominates the rest of the variation, from the stochastic disturbance term. Kalirajan⁴⁹ finds it to be 79 to 81 per cent, and it turns out to be 83 per cent for China and 87 per cent for India in Kalirajan and Singh.⁵⁰

⁴⁶ Kalirajan and Singh, 2008, *op. cit.*

⁴⁷ *Ibid.*

⁴⁸ P. Drysdale, Y. Huang and K. Kalirajan, "China's Trade Efficiency: Measurement and Determinants", in P. Drysdale, Y. Zhang and L. Song (eds.), *APEC and Liberalisation of the Chinese Economy*, Canberra: Asia Pacific Press, 2000, pp. 259-271.

⁴⁹ Kalirajan, 2007, *op. cit.*

⁵⁰ Kalirajan and Singh, 2008, *op. cit.*

Table 5: Diagnostic Tests

IMPORTS					
		<i>Coefficient</i>	<i>Standard Error</i>	<i>95% Confidence Interval</i>	
TI	σ^2	2.792	0.346	2.189	3.561
	$\sigma^2(u)$	2.489	0.346	1.810	3.168
	$\sigma^2(v)$	0.302	0.010	0.281	0.324
	γ	0.891	0.013	0.861	0.915
EXPORTS					
TVD	σ^2	8.033	1.066	6.193	10.420
	$\sigma^2(u)$	7.736	1.066	5.645	9.827
	$\sigma^2(v)$	0.297	0.011	0.274	0.319
	γ	0.963	0.005	0.951	0.971

μ is used to assess the distributional pattern of u_{ij} . The null hypothesis is that the mean $\mu = 0$ against the alternative $\mu \neq 0$. Here, μ also turns out to be statistically significant in both import and export panels, which indicates that a truncated normal distribution fits the u_{ij} better than the half-normal distribution.

It may be interesting to see how the γ coefficients vary over time. In other words, whether policy reforms toward promoting trade have been effective during the sample period can be investigated. The η coefficient provides the information on the temporal behavior of γ . It considers whether the impact of country-specific beyond the border constraints have been decreasing over the period or not. If the η coefficient turns out to be positive, the impact of such constraints would be decreasing over time. Conversely, if the sign of η becomes negative, it implies that the constraints are increasing over time. If η turns out to be zero or insignificant, it indicates that the impact of country-specific constraints remains constant over time.

The maximum likelihood estimates of imports panel provides a negative but insignificant coefficient of η , which indicates that the impact of country-specific behind the border constraints remains constant over time. Hence, the correct model in estimating the gravity equation is the TI model for imports. Conversely, it becomes negative and significant at 1 per cent level for exports panel, which indicates that the constraints are increasing over time. Thus, the TVD model is appropriate in estimating the gravity model for exports.

5.3 Realisation of Trade Potential

Trade potential measure provides useful insight to examine the scope of the highest possible trade expansion between the bilateral partners. In the conventional gravity model, trade potential or the performance of bilateral trade flow can be measured using the mean prediction.⁵¹ As opposed to such exercise, an estimate of

⁵¹ R. E. Baldwin, *Towards an Integrated Europe*, London: CEPR, 1994.

the highest potential can be worked out from the linear predictions of the estimated regression coefficients of the trade frontier from the augmented gravity model.

The focus of the stochastic frontier gravity model is to work out the impact of resistance to bilateral trade flows with respect to potential. Kalirajan⁵² defines potential trade to be the maximum possible trade that can take place, given the determinants, when no (beyond and behind the border) constraints are imposed on trade between the two countries. This potential may be constantly changing as countries either increase or decrease the impediments on trade. In this way, suppose that β_k^* are the estimates of parameters of the potential gravity function that yields the highest possible trade between two countries. The β_k coefficients are chosen to represent the trade responses following minimum constraints, beyond and behind the border, by the trading partners. These can be obtained from the individual response coefficients in the following way:

$$\beta_{k,t}^* = \max_j (\hat{\beta}_{kj,t}) , \quad j = 1, 2, \dots, n; t = 1, 2, \dots, T; k = 1, 2, \dots, K \quad (7)$$

If the response coefficients are selected using Equation (7), the highest possible trade between trading partners i and j if they face fewer restriction on trade can be determined by the gravity equation (6). Based on the regression estimates, trade potential between countries, i and j , can be worked out by the following ratio:

$$PT_{ij,t} = \frac{TRA_{ij,t}}{\exp(\ln TRA_{ij,t}^*)} \quad (8)$$

where $TRA_{ij,t}$ is the realised trade and $\exp(\ln TRA_{ij,t}^*)$ is the trade predicted from the significant coefficients of Equation (6) that yields the maximum possible trade following 'fewer' behind and beyond the border constraints. $PT_{ij,t}$ denotes the index of potential trade that varies between 0 and 1. Equation (8) provides useful information about the realisation of actual trade towards the highest possible trade measured at the frontier.

⁵² Kalirajan, 1999, *op. cit.*

Table 6: Mean Realisation of Trade Potential (1996-2013)

Country	Imports	Exports
BANGLADESH		
Bhutan	18.63	29.95
India	88.34	75.92
Nepal	20.80	53.76
Sri Lanka	27.45	56.72
Thailand	59.60	60.69
INDIA		
Bangladesh	53.02	48.77
Bhutan	37.16	20.43
Nepal	67.47	39.28
Sri Lanka	55.99	46.22
Thailand	71.54	42.16
SRI LANKA		
Bangladesh	17.52	17.26
India	81.15	32.85
Thailand	54.05	22.15
THAILAND		
Bangladesh	36.42	34.55
India	76.78	41.92
Nepal	0.02	20.78
Sri Lanka	33.53	33.66

The trend of realisation of intra-BIMSTEC trade potential over time has been displayed in Table 6. The realisation of Bangladesh's import potential has been around 90 per cent from India after forming BIMSTEC. This is perhaps due to the fact that smaller country Bangladesh is surrounded by large India and one of the major sources of its imports is India. Realisation of imports potential from Bhutan has been increasing since 2003 when the country joined BIMSTEC. Realisation of potential from Sri Lanka is fluctuating in a smaller band, from 24 to 31 per cent although an increasing trend is prevailing for the last three years. The realisation from Nepal is slightly increasing after joining the bloc. Thailand's trend is normally increasing, with around 70 per cent on average.

India's realisation of import potential shows normally positive trend with minor temporary fluctuations. Its realisation of imports from Bangladesh has been more than 50 per cent after the formation of BIMSTEC, while it has been mostly increasing in imports from Sri Lanka, from 47 per cent of 1997 to 71 per cent on average. It is notably increasing for Thailand as well, with 81 per cent realisation of import potential. The trend of Nepal and Bhutan is increasing since they have joined the bloc in 2003.

To put it more simply, the core findings are as follows. First, the trade between the partners and BIMSTEC countries increases with the economic space

(measured by total GDP) of the countries. Imports of the BIMSTEC countries from their partners increase if their preferences are similar, while exports may be increased without any similarity of preferences (supporting Linder hypothesis). It implies that export destination of the group are likely to be the countries having very high GDP and located outside the group (supporting Heckscher-Ohlin-Samuelson theorem). Second, higher geographical distance acts a disincentive for both imports and exports for the group. It implies that intra-bloc trade potential can be utilised with active interest by the members. Third, bilateral trade agreement of the members of the bloc have positive impact on both imports and exports. It means that in order to increase intra-bloc trade the member countries can go for bilateral trade agreement. Fourth, considerable proportion of intra-BIMSTEC trade potential is yet to be realised. It can be tapped through removing non-tariff barriers, institutional and infrastructural rigidity, and coming up with a free trade area within the bloc.

6. Concluding Remarks

This paper is an attempt to adopt stochastic frontier gravity model to examine the determinants of trade for BIMSTEC and calculating trade potential by taking into account the other important bilateral trading partners of the countries. Time invariant and time varying decay models have been adopted to work out trade potential for BIMSTEC. The results show that most of the parameters take the expected sign in the gravity model. The Linder hypothesis can explain the pattern of the bloc's imports, whereas Heckscher-Ohlin-Samuelson theorem explains its exports. The non-negative error component explains most of the total variation, which captures behind and beyond the border constraints. It indicates that stochastic frontier specification was correct for estimating both import and export panels. The estimation of individual and mean trade potential suggests that BIMSTEC countries can substantially expand both imports and exports among themselves if they can minimise various behind and beyond the border constraints, which need for addressing bilateral trade policies at the outset.

Thus, the process of a meaningful economic integration within the bloc should be aimed primarily at policy liberalisation, policy reforms and policy coordination amongst member countries. This can be initiated through a comprehensive tariff liberalisation by forming an FTA. The introduction of a preferential liberalisation scheme would be beneficial for the members through substantial trade and welfare effects as results indicate that the significant import and export potential remain untapped. However, an important fact of trading regimes prevailing among the BIMSTEC members is that the unobserved export policies and infrastructural rigidities are perhaps more restrictive towards this bloc than that of imports except for Bangladesh. This is indicated by the higher magnitude of total variation in exports due to behind the border constraints than the constraints of imports. These aspects can be examined further with an in-depth study of trade policies, institutional and socio-political barriers in future.

Kazi Nurmohammad Hossainul Haque

COLLABORATIVE GOVERNANCE AND POLICY CHANGE: THE CASE OF RIGHT TO INFORMATION (RTI) LAW IN BANGLADESH

Abstract

In a modern democratic state, civil society that includes Non Government Organisations (NGOs) is an important governance actor. With increasing demand for policy change as part of governance reforms, government-NGO-donor collaboration emerged to facilitate the process. Governance of collaboration or collaborative governance has been instrumental in policy changes across countries and sectors. However, the collaborative governance literature predominantly focus on in-country and local cases of "consensus-oriented decision making" by multiple stakeholders in wide range of fields. This article attempts to fill the gaps in literature by showing first that collaborative governance can be a tool of policy changes not just day-to-day policy choices, and second, the 'transnational' dimension of collaborative governance, in which case foreign or multilateral actors join with local and national actors in decision making - a frequent phenomenon in many countries of the global south that receive development assistance. The article examines the role of collaborative governance in policy change through a case study of the Right to Information (RTI) legal reform in Bangladesh. It adopts the general model of collaborative governance as depicted in Chris Ansell and Alison Gash's seminal piece 'Collaborative Governance in Theory and Practice' to explain government-NGO-donor collaboration over RTI law in Bangladesh.

1. Introduction

Governance relates to making and enforcing of rules for governing collective human activities by involving multiple actors to maximise collective welfare. Definition of governance in literature includes but not limited to horizontal relations between organisations instead of conventional vertical arrangements¹, public sector reform through reduction of transaction costs², system of rules with transnational implications³, three Es of economy, efficiency and effectiveness⁴, setting of rules that guide rule-making⁵ and governing without government.⁶

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¹ H. Cleaveland, *The Future Executive: A Guide for Tomorrow's Managers*. New York: Harper & Row, 1972.

² D. North, *Institutions, Institutional Change and Economic Performance*. New York: Cambridge University Press, 1990.

³ J. N. Rosenau, "Governance in the Twenty-First Century", *Global Governance*, Vol. 1, No. 1, 1995, pp. 13-43.

⁴ R. A. W. Rhodes, *Understanding Governance: Policy Networks, Governance, Reflexivity and Accountability*, Buckingham: Open University Press, 1997.

⁵ G. Hyden, "Governance and the Study of Politics", in M. Bratton and G. Hyden (eds.), *State, Conflict and Democracy in Africa*, Boulder, Colorado: Lynne Rienner, 1999.

⁶ J. Pierre and G. Peters, *Governance, Politics and the State*, New York: St. Martin's Press, 2000.

In a modern democratic state, civil society that includes Non Government Organisations (NGOs) is an important governance actor. Civil society can be understood as private domain which exists in the space between the state and its various apparatuses, on the one hand, and the economy and its various expressions, on the other.⁷ It is, therefore, rightly called the 'third sector' after state and market. A vibrant civil society is crucial for proper functioning of liberal democracy.⁸

The emergence of good governance agenda is closely linked with changing orientation of international development assistance. Increasing scepticism about development assistance set in during the 1980s mainly for corruption, bad policies and misuse of development assistance in many recipient countries.⁹ Then, World Bank presented good governance to address these challenges.¹⁰ They were followed by Burnside and Dollar,¹¹ Collier and Dollar¹² and World Bank¹³ which made powerful empirical claims that development assistance only works in countries that follow good governance and good policies.¹⁴ Subsequently, other donors also joined the good governance bandwagon.¹⁵

With increasing demand for policy change as part of governance reforms, government-NGO-donor collaboration emerged to facilitate the process. Governance of collaboration or collaborative governance has been instrumental in policy changes across countries and sectors. However, the collaborative governance literature predominantly focuses on in-country and local cases of "consensus-oriented decision making" by multiple stakeholders in wide range of fields such as public administration, conflict resolution and environmental management.¹⁶ So, two gaps are apparent that set

⁷ A. Van Rooy, *The Global Legitimacy Game: Civil Society, Globalization and Protest*, New York: Palgrave Macmillan, 2004.

⁸ M. Alagappa, "Civil Society and Political Change: An Analytical Framework", in M. Alagappa (ed.), *Civil Society and Political Change in Asia: Expanding and Contradicting Democratic Space*, Stanford: Stanford University Press, 2004.

⁹ P. Bauer, *The Development Frontier: Essays in Applied Economics*, London: Harvester Wheatsheaf, 1991, cited in W. Hout, *The Politics of Aid Selectivity: Good governance Criteria in World Bank, US and Dutch Development Assistance*, London: Routledge, 2007.

¹⁰ World Bank, *Sub-Saharan Africa: From Crisis to Sustainable Growth, A Long-Term Perspective Study*, Washington D.C.: World Bank, 1989, cited in R. Abrahamsen, *Disciplining Democracy: Development Discourse and Good Governance in Africa*, London: Zed Books, 2000; World Bank, *Governance and Development*, Washington D.C.: World Bank, 1992, cited in R. Abrahamsen.

¹¹ C. Burnside and D. Dollar, "Aid, Policies and Growth," *Policy Research Working Paper*, WPS1777, Washington D.C.: World Bank, 1997; C. Burnside and D. Dollar, "Aid, Policies and Growth: Revisiting the Evidence," *Policy Research Working Paper*, WPS3251, Washington D.C.: World Bank, 2004.

¹² D. Dollar and P. Collier, "Aid Allocation and Poverty Reduction," *Policy Research Working Paper*, WPS2041, Washington D. C.: World Bank, 1999.

¹³ World Bank, *Assessing Aid: What Works, What Doesn't and Why*, New York: Oxford University Press, 1998.

¹⁴ W. Hout, *op. cit.*

¹⁵ R. Abrahamsen, *op. cit.*

¹⁶ C. Ansell and A. Gash, "Collaborative Governance in Theory and Practice", *Journal of Public Administration Research and Theory*, Vol. 18, No. 4, 2008, pp. 543-571; K. Emerson, T. Nabatchi and S. Balogh, "An Integrative Framework for Collaborative Governance", *Journal of Public Administration Research and Theory*, Vol. 22, No. 1, 2012, pp. 1-29.

the stage for this article. First, the literature is preoccupied with day-to-day policy choices rather than policy changes. Second, the literature is oblivious of the 'transnational' dimension of collaborative governance, in which case foreign or multilateral actors join with local and national actors in decision making – a frequent phenomenon in many countries of the global south that receive development assistance.

This article, therefore, examines the role of collaborative governance in policy change through a case study of the Right to Information (RTI) legal reform in Bangladesh. Based on the three main categories of explanatory, descriptive and combined methodologies,¹⁷ this research is of the explanatory case study type. The methods used to implement the case study are literature review, document analysis and qualitative interviews. At the outset, a review of collaborative governance literature was conducted to determine the scope of research. The document analysis covered policy advocacy documents of concerned NGOs, national and international policy frameworks, relevant laws, donor strategies and donor correspondence. A total of 10 in-depth interviews were conducted with key informants - RTI activists, NGO leaders and government officials.

The concept of RTI – although not new – has become increasingly popular after the Second World War. In the first ever session of United Nations General Assembly (UNGA) in 1946, freedom of information was identified as the touchstone of all the freedoms while Article 19 of the Universal Declaration of Human Rights (UDHR) recognised information freedoms as essential part of the freedom of expression. Following the third wave of democratic transition during 1970-90, many of the new democracies were plagued with problems of accountability. Right to information a.k.a. freedom of information was recognised as a solution of the accountability deficit.¹⁸ Lack of accountability has been symptomatic of the democratic practice in Bangladesh also. The problem continued to persist since the country's democratic transition in the early 1990s.¹⁹

Bangladesh has relatively large civil society dominated by numerous NGOs supported by bilateral and multilateral development assistances. Two broad streams of NGO activities have been service delivery and issue-based activism.²⁰ From the 1990 onwards, increasing number of NGOs are doing advocacy on 'good governance' issues like decentralisation, rule of law, access to justice, freedom of expression, corruption, transparency and accountability. In early 2000, amid rising national and international

¹⁷ L. G. Morra and A. C. Friedlander, "Case Study Evaluations", *OECD Working Paper*, Issue 2, World Bank, 1999.

¹⁸ J. M. Ackerman and I. E. Sandoval-Ballesteros, "The Global Explosion of Freedom of Information Laws", *Administrative Law Review*, Vol. 58, No. 1, 2006, pp. 85-123.

¹⁹ F. Quadir, "Civil Society in Bangladesh: In Search of Democracy and Development", in F. Quadir and Y. Tsujinaka (eds.), *Civil Society in Asia: In Search of Democracy and Development in Bangladesh*, London: Ashgate, 2015.

²⁰ D. Lewis, "Disciplined Activists, Unruly Brokers? Exploring the Boundaries between Non-governmental Organizations (NGOs), Donors, and the State in Bangladesh", in D. N. Gellner (ed.), *Varieties of Activist Experience: Civil Society in South Asia*, New Delhi, India: Sage Publications, 2010.

concerns about corruption and accountability situations of Bangladesh, a number of NGOs involved in governance advocacy started demanding right to information.²¹ Following their campaign and a coincidental regime change that brought in a military-backed caretaker administration in 2007, a government-NGO-donor collaboration ensued whose ultimate outcome was the RTI Law.

The article is divided into four sections including the introduction. The following section is the discussion of collaborative governance as a conceptual framework and its adoption for this article. Section three is the case study of RTI law process in Bangladesh as manifestation of collaborative governance. Section four draws conclusion.

2. The Concept of Collaborative Governance

Government-NGO collaboration often facilitated and mediated under development assistance from donors, manifests the policy context of many global south countries. The above reality is nicely captured by Haque drawing upon Brinkerhoff as follows:

"In the contemporary global context characterised by the diminishing role of the state and the growing significance of non-state actors, most developing countries have embraced various modes or forms of partnership in public governance. Since the 1980s, this greater emphasis on partnership between the state and non-state entities has emerged in line with the recent shift in the government's role from rowing to steering, the priority given to public participation to ensure 'good governance', the concern for public sector inefficiency and ineffectiveness, and the preference of foreign donors for partnership in delivering services."²²

The above observation shows the ushering in of government-NGO partnership as a new governance model under active encouragement of donors as part of good governance reform to increase public participation and public sector's performance in delivery of public services. The partnership model has evolved and diversified in the following decades transforming into collaborative governance. Ansell and Gash in their seminal and summative article have defined collaborative governance as:

²¹ Paper presented by Iftekharuzzaman on "Towards People's Right to Information in Bangladesh: High Expectations, Tentative Progress, the Way Forward" at the Roundtable Discussion to mark the *International Right to Know Day*, organised by the RTI Forum on 28 September 2010, Dhaka.

²² M. S. Haque, "Governance based on Partnership with NGOs: Implications for Development and Empowerment in Rural Bangladesh", *International Review of Administrative Sciences*, Vol. 70, No. 2, 2004, pp. 271-290; and J. M. Brinkerhoff, "Donor-funded Government-NGO Partnership for Public Service Improvement: Cases from India and Pakistan", *Voluntas: International Journal of Voluntary and Nonprofit Organizations*, Vol. 14, No. 1, 2003, pp. 105-122.

"A governing arrangement where one or more public agencies directly engage non-state stakeholders in a collective decision-making process that is formal, consensus-oriented, and deliberative and that aims to make or implement public policy or manage public programmes or assets."²³

Ansell and Gash further elaborated that the definition stressed six important criteria:

(a) government agencies will be initiators of collaboration; (b) participants will include non-government actors; (c) all participants will directly engage in decision-making not just merely consulted by government agencies; (d) the collaboration will be formalised and regular; (e) there will be aim to make decisions by consensus although not always possible in practice; and (f) the focus will be on public policy or public management.²⁴

Ansell and Gash also stipulated that they were restrictive in their definition so as to increase comparability of cases.²⁵ But, it is observed that they took their definitional restrictiveness a little too far. According to their first criterion, government will be the initiator of collaboration. This is even against the spirit of the definition of governance that they subscribe to – collective decision making that includes both public and private actors. Because, if both public and private actors are entitled to decision making, then why only the former can take initiative of collaboration not the latter. In the age of governance while both public and private actors are engaged in the governing functions, many interesting collaborative initiatives can and do come from non-state actors like businesses, NGOs and even common citizens. In my case study, RTI law in Bangladesh is a glaring example of non-state collaborative initiative where the legal reform was initiated by an NGO coalition which not only campaigned for it but also prepared a draft law and then the proposed law became a reality through government-NGO-donor collaboration.

Another caveat with Ansell and Gash's above criteria of collaborative governance is the criterion that all actors will directly engage in decision making.²⁶ While this is alright since, mere consultation cannot amount to decision making, there could be more clarity about nuances of direct engagement. Some actors can play instrumental role through facilitation, exerting influence and financing even short of sitting in the decision table. That was the sort of role donors had behind the RTI legal reform in Bangladesh. Such role is not direct in the sense of explicit or visible participation but was crucial without which the legal reform may have been unrealised.

²³ C. Ansell and A. Gash, *op. cit.*

²⁴ *Ibid.*

²⁵ *Ibid.*

²⁶ *Ibid.*

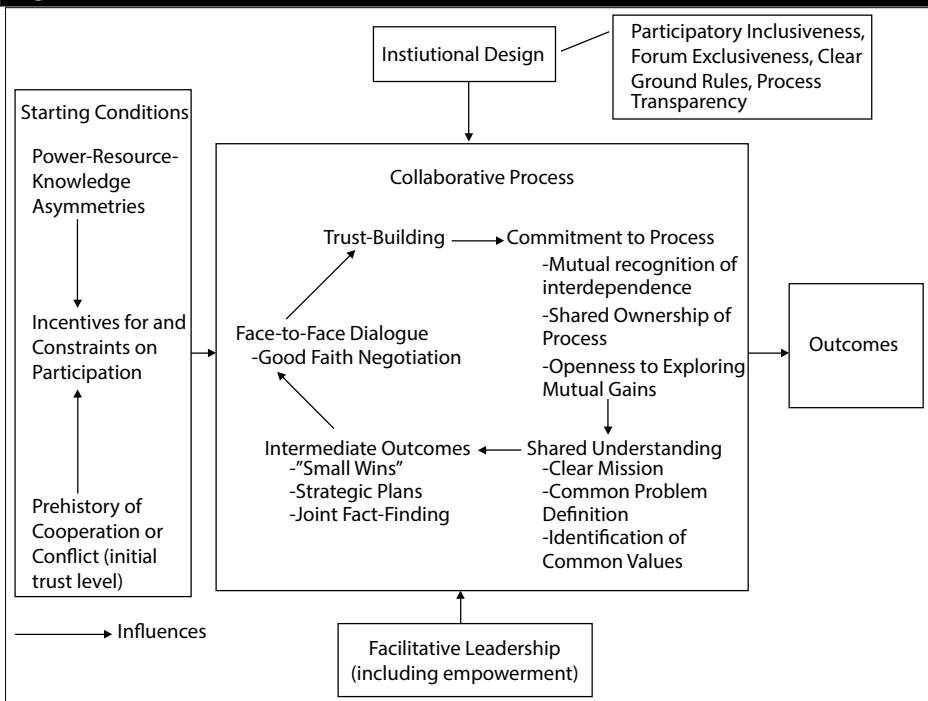
Therefore, this article adopts Ansell and Gash's²⁷ definition of collaborative governance with two modifications in criteria (a) and (c). Their criterion (a) stipulates that government agencies will be initiators of collaboration. This article modifies instead that any actor from government, private or NGO sectors can initiate collaboration. The criterion (c) stipulates that all participants will directly engage in decision-making. While fully agreeing to the point, this article adds the nuance that sometimes some actors have indirect but instrumental participation in decision-making amounting to direct engagement.

After an adoption of Ansell and Gash's²⁸ definition of collaborative governance, this article explores application of their collaborative governance model to the case of RTI law in Bangladesh. The model has four broad variables – starting conditions, institutional design, leadership, and collaborative process. Each of these broad variables is further disaggregated into more fine-grained variables. Collaborative process variables are treated as the core of the model. The other broad variables – starting conditions, institutional design and leadership are treated as critical contributions to or context for the collaborative process. Starting conditions are the conditions present at the outset of collaboration that can either facilitate or discourage cooperation among stakeholders and between agencies and stakeholders. Leadership is widely seen as a critical ingredient in bringing parties into collaboration and steering them through the process. Institutional design refers to the basic protocols and ground rules for collaboration. Collaborative process consists of various stages of developing collaboration.

²⁷ *Ibid.*

²⁸ *Ibid.*

Figure 1: A General Model of Collaborative Governance



Source: Ansell and Gash,²⁹ p. 550

In our case study of RTI legal reform in Bangladesh, the above model of collaborative governance acts as an analytical framework. This flow-based model is appropriate for the RTI case for a number of reasons. It is simplified yet well-structured that can capture the gradual but complex evolution of government-NGO-donor collaboration over RTI law. It is also comprehensive that sheds light on both the inner dimension of collaborative process itself and the outer dimension or contextual factors of collaborative governance. There is one problem with the model though. Its coverage of contextual factors is mainly in terms of pre-conditions of collaboration with no attention to wider political-economic-social factors, a limitation this article intends to overcome. While applying the collaborative governance model on the RTI case, this article emphasises on steering of collaboration towards successful outcome of RTI law and various contributing factors in addition to starting conditions - facilitating role of donors, growing national and international reactions against corruption, regime change, and civil society campaigning.

²⁹ *Ibid.*

3. Case Study: Right to Information (RTI) Legal Reform in Bangladesh

The introduction of RTI law in Bangladesh is the case study of collaborative governance and policy change in this article. As mentioned above, the case study adopts with modification of the collaborative governance model of Ansell and Gash³⁰ as the analytical framework. Accordingly, the ensuing discussion follows the model's components.

3.1 Starting Conditions

The collaborative governance model used by this article stipulates three starting conditions for governance collaboration - power-resource-knowledge asymmetries, incentives for and constraints on collaboration, and history of conflict or cooperation among stakeholders. This article suggests wider political-economic-social factors as the fourth kind of starting conditions. While the three original starting conditions are relevant for the RTI case study, the fourth one is especially relevant that ultimately triggered government-NGO-donor collaboration leading to enactment of RTI ordinance. What should be noted here is that something which was not explicitly mentioned by Ansell and Gash,³¹ starting conditions are interactive and even overlapping. In the following elaboration of starting conditions, the three original ones are highlighted while the fourth one is spanned across all of them.

Power imbalances between stakeholders are a commonly noted problem in collaborative governance situations.³² There can be absence or lack of capacity, organisation, status, or resources to collaborate or do so in equal basis. Power imbalance was also evident between the collaborating stakeholders of RTI in Bangladesh. This can be assessed by breaking into three separate elements - power (defined as ability to enact RTI law), resource (defined as financial commitment in implementing RTI law), and knowledge (defined as accumulated information about the concept and processes of RTI). The asymmetries among the three stakeholders namely government, NGO and donor are presented in the following table.

³⁰ *Ibid.*

³¹ *Ibid.*

³² B. Gray, *Collaborating: Finding Common Ground for Multi-party Problems*, San Francisco, CA: Jossey-Bass, 1989; C. Short and M. Winter, "The Problem of Common Land: Towards Stakeholder Governance", *Journal of Environmental Planning and Management*, Vol. 42, No. 5, 1999, pp. 613-630; L. Susskind and J. Cruikshank, *Breaking the Impasse: Consensual Approaches to Resolving Public Disputes*, New York: Basic Books, 1987; T. Lynn, J. Crowther and P. O'Hara, "Collaborative Partnerships in Community Education", *Journal of Education Policy*, Vol. 18, No. 1, 2003, pp. 37-51; and J. F. Warner, "More Sustainable Participation? Multi-stakeholder Platforms for Integrated Catchment Management", *Water Resources Development*, Vol. 2, No. 1, 2006, pp. 15-35, cited in C. Ansell and A. Gash, *ibid.*

Table 1: Power-Resource-Knowledge Asymmetries between Stakeholders of RTI

	Power	Resource	Knowledge
Government of Bangladesh	High	Nil	Low
NGOs	Nil	Medium	High
Donor Community	Nil	High	High

Source: Based on key informant interviews and author's observation.

In the above table, government's power is high while the power of NGOs and donor community is nil. Because, government is the only stakeholder who can enact law, an ability that the NGOs and donor community do not possess. In terms of financial resources for implementing RTI law, government's position was nil. Since RTI law was still not enacted, there was no question of financial allocation by government for its implementation. Whereas NGOs that were accepting RTI as a tool of advancing good governance have been receiving resources for this purpose from donors who were making funds available for RTI advocacy. As the source of resource, donor community is assigned high position as shown in the above table while the NGOs medium position as users of donor resource. In terms of knowledge about RTI, government is assigned low position as it contained little information of and showed little interest about RTI. On the contrary, both NGOs and donor community possessed high knowledge as evident from their advocacy and communication materials about RTI.

The incentives that stakeholders have to engage in collaborative governance and the factors which shape them are critical to successful collaboration.³³ One major factor that shape incentives for collaboration is power-resource-knowledge asymmetries discussed above.³⁴ And, one major incentive for collaboration is the mutual perception of stakeholders that achievement of their goals depends on cooperation of others.³⁵

In case of RTI law in Bangladesh, incentive structure was initially opposite for government on one hand, and NGOs and donors, on the other. With traditionally weak democratic institutions at the backdrop, the country's governments were not receptive of greater transparency and accountability. The Bangladesh Nationalist Party (BNP)-led alliance was in power during 2001-2005

³³ G. Andranovich, "Achieving Consensus in Public Decision Making: Applying Interest based Problem-Solving to the Challenges of Intergovernmental Collaboration", *Journal of Applied Behavioral Research*, Vol. 31, No. 4, 1995, pp. 429-445; D. Chrislip and C. E. Larson, *Collaborative Leadership: How Citizens and Civic Leaders Can Make a Difference*, San Francisco, CA: Jossey-Bass, 1994; B. Gray, *op.cit.*; L. Nelson and L. Weschler, "Institutional Readiness for Integrated Watershed Management: The Case of the Maumee River", *Social Science Journal*, Vol. 35, No. 4, 1998, pp. 565-576; and L. Susskind and J. Cruikshank, *op. cit.*, cited in C. Ansell and A. Gash, *op.cit.*

³⁴ T. I. Gunton and J. C. Day, "The Theory and Practice of Collaborative Planning in Resource and Environmental Management", *Environment*, Vol. 31, No. 2, 2003, pp. 5-19; M. Imperial, "Using Collaboration as a Governance Strategy: Lessons from Six Watershed Management Programs", *Administration and Society*, Vol. 37, No. 3, 2005, pp. 281-320, cited in C. Ansell and A. Gash, *op.cit.*

³⁵ J. Logsdon, "Interests and Interdependence in the Formation of Social Problem-solving Collaborations", *Journal of Applied Behavioral Science*, Vol. 27, No. 1, 1991, pp. 23-37, cited in C. Ansell and A. Gash, *op.cit.*

when demand for RTI was gradually voiced by some NGOs. The government did not reject demand for RTI law then, rather it kept the reform process in stalemate. There was continuous interaction and dialogue between government and NGOs with support of donors but they did not culminate into successful legal reform. When there was increasing allegation of corruption against government from opposition parties and media, the former became more sceptical of any reform like RTI that may increase scope for transparency and accountability.

With change in the government, there was also change in the incentive for government. The military-backed interim government that replaced BNP-led alliance in power had many incentives to support an RTI law. They took over under a special circumstance of extreme political uncertainty where major political parties were at logger heads. Public trust in both major parties came down to an all-time low and corruption was widely recognised as a systemic deficit of the country's body politic. There was expectation to the interim government to not just hold a free and fair election but also to address systemic corruption. RTI became an important component in the interim government's policy package to deal with systemic corruption. Moreover, RTI law along with other anti-corruption measures boosted legitimacy of the military-backed government that was unelected and was installed due to major political parties' failure to reach consensus over election. Although, RTI did not appeal to general population, it was appealing to NGOs, donors, civil society and international community. They were important niches to the government for its legitimacy especially at the absence of formal public mandate.

When AL-led alliance came to power in early 2009, there was already a RTI law in the form of ordinance promulgated by the outgoing interim government. The newly elected government now had to convert the ordinance into an act and they had a number of incentives to do so. It came to power through a landslide victory after a period of political turmoil. So, there was high public expectations in terms of good governance. It also enjoyed support and favourable opinion among civil society, media, donors and international community. Graduating the RTI law from ordinance to act would endorse its good governance credential especially among the latter groups who influence public opinion.

The incentives of both NGOs and donors aligned in favour of RTI law. Supported by donors, NGOs have been advocating good governance in Bangladesh ever since democratic transition of the late 1990. They have been campaigning on issues like freedom of expression, media freedom, local government, rule of law, human rights including women rights, child rights and rights of the disabled, and gender equity. It was increasingly felt by the NGOs that lack of access to necessary information is a major constraint in achieving good governance. There was especially more incentive for NGOs to have RTI as a legal reform instead of a

policy reform. Because, amid a culture of secrecy and a handful of secrecy laws inherited from colonial rule, RTI as legal obligation would ensure its application. That is not possible simply through a policy. This is also a question of sustainability. With implementation of RTI law, any government cannot just reverse the process. Besides, RTI as law than something lesser would be more substantial advocacy gain for NGOs.

Prehistory of cooperation or conflict is a starting condition since it facilitates or hinders collaboration.³⁶ The latter also notes that when the stakeholders are highly interdependent, a high level of conflict may in fact create a powerful incentive for collaboration. In case of the collaborative governance over RTI law in Bangladesh, the three stakeholders – government, NGOs and donors – have had long history of collaboration between them. Bangladesh is one of the most well-known countries for government-NGO-donor collaboration across sectors that benefitted millions of people. The country's model of government-NGO partnership has been also replicated in other countries of global south.³⁷ Although, government-NGO or government-donor collaborations have been mixed experience, they have been successful most of the times. Such collaborations were instrumental behind many of the country's success stories of development like microcredit, poverty reduction, universal primary education, child vaccination, reduction of child and maternal mortality, primary health care, and empowerment of women and girls. The successes manifested coming together of government policy, NGO programme and donor funding. Due to such a prehistory of collaboration, NGOs backed by funding and technical assistance from donors could easily present the demand for RTI before government and build up a process of consultation even when the latter was implicitly not receptive of necessary reform.

3.2 Facilitative Leadership

Despite the possibility of unassisted negotiations, there is overwhelming evidence that facilitative leadership has important role in stimulating collaboration between stakeholders.³⁸ In collaborative governance context, leadership's key

³⁶ R. D. Margerum, "Collaborative Planning: Building Consensus and Building a Distinct Model for Practice", *Journal of Planning Education and Research*, Vol. 21, No. 3, 2002, pp. 237-253.

³⁷ M. Ahmed, "Promoting Public-Private Partnership in Health and Education: The Case of Bangladesh", in Yidan Wang (ed.), *Public-Private Partnerships in the Social Sector: Issues and Country Experiences in Asia and the Pacific*, Tokyo: Asian Development Bank Institute, 2000; A. Dutta, "Partnering with Civil Society", World Bank Development Forum, Discussion Archives, 22 December 1999, available at <http://www2.worldbank.org/hm/participate/0076.html>; and A. M. Chowdhury, *Role of the State and NGOs in Curbing Poverty in South Asia: The Bangladesh Case* (The Japan Program Working Paper Series 3), Washington D.C.: Inter-American Development Bank, 2001, cited in M. S. Haque, *op. cit.*

³⁸ D. Chrislip and C. E. Larson, *op. cit.*; P. Ozawa, "Improving Citizen Participation in Environmental Decision-Making: The Use of Transformative Mediator Techniques", *Environment and Planning C: Government and Policy*, Vol. 11, No. 1, 1993, pp. 103-117; B. Pine, R. Warsh and A. Maluccio, "Participatory Management in a Public Child Welfare Agency: A Key of Effective Change", *Administration in Social Work*, Vol. 22, No. 1, 1998,

contributions are setting and maintaining clear ground rules, building trust, facilitating dialogue, exploring mutual gains, and empower and represent weaker stakeholders.³⁹ Collaborative governance over RTI law in Bangladesh also immensely benefitted from facilitative leadership especially in the NGOs and government. Manusher Jonno Foundation (MJF) and its Executive Director Shaheen Anam, Transparency International Bangladesh (TIB) and its Executive Director Iftekharuzzaman, Mass-line Media Centre (MMC) and Article 19 played leadership roles by facilitating NGOs throughout the country to come together in recognition of RTI and reach a consensus in support of RTI law. One of the triggers of the RTI advocacy in Bangladesh was Shaheen Anam's meeting with Maja Dahruwala, Executive Director, Commonwealth Human Rights Initiative (CHRI) - a New Delhi based International NGO (INGO) - that was working to replicate Indian best practices of RTI legal reform to other South Asian countries. Following the meeting, Anam invited Dahruwala to Dhaka. MJF organised a civil society consultation on RTI where Dahruwala discussed Indian experience with RTI law and possible advantages of such a law for Bangladesh. Iftekharuzzaman became President of RTI Forum that provided the crucial umbrella body for coordinated civil society advocacy in support of RTI law. During the rule of interim government, Ministry of Law, Justice and Parliamentary Affairs, and the Ministry of Information were leading government efforts of collaboration. Among the donor agencies, UK's Department for International Development (DFID), Norwegian Ministry for Foreign Affairs, and US Agency for International Development (USAID) – the three were at the forefront of RTI related funding.

3.3 *Institutional Design*

According to Chrislip and Larson, the first condition of successful collaboration is broad inclusiveness of all stakeholders who are affected by or care about the issue while Reilly found that exclusion of critical stakeholders is a key reason for failure.⁴⁰ Collaborative governance over RTI law in Bangladesh had an inclusive institutional design that worked to its advantage. The NGOs and NGO leaders, who were leading the RTI advocacy, tried to reach all relevant stakeholders including grassroots NGOs, Civil Society Organisations (CSOs), women's organisations, human rights organisations, journalists, community leaders and local government representatives. MJF prepared a draft RTI law by a legal expert that was finalised with inputs from various stakeholders across the country. Building on the outreach, RTI Alliance was formed with membership of the above stakeholders to echo a unified voice of demand for RTI law. When government formed a drafting committee for the RTI law, there was one civil society representative who was the concerned Programme Coordinator of MJF.

pp. 19-32; T. Reilly, "Collaboration in Action: An Uncertain Process", *Administration in Social Work*, Vol. 25, No. 1, 2001, pp. 53-73; and L. Susskind and J. Cruikshank, *op. cit.*, cited in C. Ansell and A. Gash, *op. cit.*

³⁹ C. Ansell and A. Gash, *op. cit.*

⁴⁰ D. Chrislip and C. E. Larson, *op. cit.*; and T. Reilly, *op. cit.*, cited in C. Ansell and A. Gash, *op. cit.*

Although, the government committee was receptive of the recommendations of the civil society and especially they began their work by using the MJF-led draft law as reference point, they only allowed one civil society representative for inclusion. That doesn't signal broad inclusiveness. Moreover, the civil society representative was a government official herself who was working with MJF on leave from government. So, may be her inclusion was not only for her civil society credential but also for her government credential.

3. 4 *The Collaborative Process*

Governance collaborations are sometimes explained by process models which trace their development in stages.⁴¹ However, Ansell and Gash disagree that collaboration is a linear process.⁴² They instead find collaboration to be a cyclical process involving communication, trust, commitment, understanding, and outcomes.⁴³

RTI in Bangladesh is an interesting case of government-NGO-donor collaboration in policy change. The RTI advocacy in Bangladesh that eventually led to introduction of RTI law was initiated by NGOs who pursued government with financial and technical support from donors. Various actors collaborated in realising RTI in Bangladesh who are drawn from different stakeholders. These actors are broadly classified into three categories - government, civil society and donors. Prime Minister's Office (PMO), Law Ministry, Information Ministry, Jatiyo Sangsad (Parliament of Bangladesh) and Law Commission, Bangladesh were the main government actors. NGOs promoting good governance namely MJF and its partner NGOs, TIB and Article 19 Bangladesh were the main civil society actors. Main donor actors were the bilateral donor agencies DFID, Norwegian Ministry of Foreign Affairs, Swedish International Development Cooperation Agency (SIDA) and Danish International Development Agency (DANIDA), multilateral development banks like World Bank and Asian Development Bank (ADB), International Organisations (IO) like United Nations Development Programme (UNDP) and United Nations Educational, Scientific and Cultural Organization (UNESCO) and INGOs like Transparency International (TI), Article 19, Asia Foundation and Open Society Institute.

As a major thematic campaign, MJF undertook RTI movement with different stakeholders and initiated a RTI law drafting process. MJF formed a Draft Law Core Group with responsibility for RTI law drafting through necessary

⁴¹ B. Gray, *op. cit.*; and J. Edelenbos, "Institutional Implications of Interactive Governance: Insights from Dutch Practice", *Governance: An International Journal of Policy, Administration and Institutions*, Vol. 18, No. 1, 2005, pp. 111-134, cited in C. Ansell and A. Gash, *op. cit.*

⁴² C. Ansell and A. Gash, *op. cit.*

⁴³ C. Huxham, "Theorizing Collaboration Practice", *Public Management Review*, Vol. 5, No. 3, 2003, pp. 401-423; and M. Imperial, *op. cit.*, cited in C. Ansell and A. Gash, *op. cit.*

research and consultations.⁴⁴ Both initiatives were implemented in collaboration with partner NGOs (PNGOs). Other two major civil society players at national level were TIB and Article 19 who were also in the movement with various stakeholder populations including PNGOs. About the collaborative governance process involving RTI legal reform process, Anam observes:

"It is important to note that, unlike India, the demand for the law did not start at the grass-roots level. The demand was raised by civil society groups, realising that if Bangladesh were to have any chance of improving governance, curbing corruption and establishing accountability and transparency in public institutions, then a law on RTI would be key tool to do so."⁴⁵

Anam further informed that MJF sought technical assistance of CHRI for its RTI advocacy which played important role in expansion of RTI legal regime across Indian states and later, other parts of South Asia.

Initially, the NGO coalition for RTI movement was an informal one that consisted of MJF and its PNGOs, TIB and Article 19. But at the later stage of the advocacy campaign, the coalition was given a formal shape through formation of RTI Forum with largely similar membership. All the NGOs involved in the RTI advocacy came together by forming RTI Forum in 2008. The RTI movement continuously engaged government all through. But the then government still refrained from introducing the RTI law. The following caretaker government accepted civil society demand, placed an RTI Ordinance for public consultation and eventually, issued RTI Ordinance on October 2008. As the present government came to power, the ordinance was adopted as an act or regular law of the country on October 2009.

Donors are an important actor in RTI advocacy for a number of reasons. First, as funding source since, all major NGO actors of the country's RTI movement especially MJF, TIB and Article 19 along with their PNGOs are direct or indirect recipients of development assistance (See Table 2). Secondly, donors are often sources or inspirations of NGO advocacy agenda on RTI. The role of donors in NGO agenda setting can be voluntary, coercive or mixed. NGOs may voluntarily seek ideas and suggestions from donors due to the former's capacity constraint. But the donors' role may also result from development assistance conditionality in which case NGOs have to include certain components or follow certain strategies in their advocacy programmes. But there may also be convergence of donor and NGO thinking about goals, objectives and strategies. This was mainly the case with

⁴⁴The members of this expert committee were Barrister Tanjib-ul-Alam, Advocate, Bangladesh Supreme Court; Dr. Asif Nazrul, Professor, Department of Law, Dhaka University; Sultana Kamal, Executive Director, Ain O Salish Kendra (ASK); and, Dr. Shamsul Bari, Executive Director, Research Initiatives Bangladesh (RIB). Barrister Tanjib-ul-Alam conducted most of the research while the rest supported him with their comments and guidance.

⁴⁵S. Anam, "Freedom to Know", *Forum*, Vol. 3, No. 6, 2009.

donor-NGO collaboration for RTI movement in Bangladesh. There was already a broad ‘agenda convergence’ pre-existing among the major donor agencies and NGOs with respect to good governance promotion. As the NGOs recognised RTI Act as a useful tool to promote good governance, there was no reason for the donor community to oppose.

Table 2: Donors of the Leading NGOs of Bangladesh RTI Movement	
NGOs	Donors
MJF	DFID, Norwegian Ministry for Foreign Affairs
TIB	DFID, Norwegian Ministry for Foreign Affairs, DANIDA, Swedish SIDA, UNDP, SDC
Article 19	Netherlands Ministry of Foreign Affairs, Norwegian Ministry for Foreign Affairs, Swedish SIDA, European Commission, Ford Foundation, Fritt Ord, Open Society Institute, William and Flora Hewlett Foundation

Source: MJF, TIB and Article 19 websites

Now, let us briefly review principles and commitments of the major donors who are involved in providing development assistance for RTI. We start our discussion with DFID, which is one of the largest bilateral donors in Bangladesh. As of 2012, DFID had 27 operational projects in the country with a total budget of GB£ 1.12 billion and a total spend of GB£ 443 million. Between 2008 and 2011, DFID annual project allocation for Bangladesh more than doubled from GB£ 100 million to over GB£ 200 million. ‘Government and Civil Society’ was the biggest individual sector group of DFID funding in the country. ‘Access to Information for Greater Participation and Government Accountability (Project Code: CSCF400) worth GB£ 228,977 was a recently concluded DFID project. Its objectives were to: increase access to information through enactment of a progressive right to information law, empowerment of individuals and civil society organisations to demand information to advocate their interests, and facilitate change in culture and capacity of public officials to supply information. DFID also funded TIB (Project Code: 107438) GB£3.3 million to facilitate citizen demand for transparency in public, private and non-profit transactions. It has also created a ‘Rights and Governance Challenge Fund (Project Code: 113976)’ to support access to services and human security of poor and vulnerable peoples.⁴⁶ Also, for the period 2008-2013, DFID committed GB£ 29 million for MJF.⁴⁷ These instances show resource commitment of DFID behind introduction and implementation of RTI law. A review of DFID strategy for Bangladesh during the period 2000-2005 finds that addressing governance and corruption is one of the two deepening areas of emphasis. But in realising this goal, DFID favoured more subtle and less confrontational approach with multiple entry points under its country assistance plan of 2006 onwards.⁴⁸ RTI law appears to be

⁴⁶ Available at <http://projects.dfid.gov.uk/Default.aspx?countrySelect=BD-Bangladesh>, accessed on 10 May 2012.

⁴⁷ Available at http://www.manusherjonno.org/index.php?option=com_content&view=article&id=6&Itemid=7, accessed on 10 May 2012.

⁴⁸ A. Batkin, N. Chapman, J. Toonen, M. Sultan and M. Visser, *Evaluation of DFID Country Programmes: Country Study – Bangladesh 2000-2005*, Evaluation Report EV665, London: DFID, 2006.

one such entry point that presented scope for reducing corruption and enhancing good governance in less confrontational manner. However, no explicit interest or commitment specifically for RTI was shown on the part of DFID. That is the impression we get from some of the key policy documents about DFID development assistance to Bangladesh.⁴⁹ This is also indicative of Bangladesh civil society's ownership over RTI advocacy agenda-setting despite resource commitment to the cause from DFID and other donors.

The findings are also quite similar regarding the second major donor of RTI movement in Bangladesh, Norwegian Ministry for Foreign Affairs. Bangladesh is one of the largest recipients of Norwegian bilateral development assistance that has cumulated into more than US\$ 1 billion over the years. Although, all these contributions were not for governance field rather, strengthening governance and combating corruption have been two key priorities of Norwegian development assistance for Bangladesh. Under these priorities, MJF received grant support from Norway.⁵⁰ For the period 2010-2012, Norway is contributing Nkr. 60 million to MJF. This has doubled from the period 2007-2009, when Norwegian contribution to MJF was Nkr. 30 million.⁵¹ The doubling of Norwegian grant to MJF coincided with the latter's successful advocacy for RTI law in Bangladesh. Whether the doubling of assistance is a reward for the achievement or a mere coincidence cannot be definitively clarified. But convergence of thinking is definitely visible. This is evident from Norwegian Government's development assistance priorities in 2008. It identified vibrant civil society with free media and active pressure groups as one of the three national factors that affect development and poverty level of countries and hence, to be influenced by development assistance.⁵² Norway's support for MJF thus, definitely goes with its approach to development assistance. MJF, its PNGOs and other NGO actors of the civil society advocacy for RTI showed all signs of vibrant civil society while they acted as a pressure group on government for RTI law reform.

Civil society advocacy and donor support in their favour withstanding RTI Act 2009 would have never realised without Bangladesh government's enactment of the law. In 2002, Law Commission, Bangladesh submitted a report to the government on RTI Act. In building case for RTI, the report observed "universal recognition of the demand and necessity for the establishment of people's right of access to information" and referred to international statutes especially UDHR and International Covenant on Civil and Political Rights (ICCPR). It analysed laws of

⁴⁹ *Ibid*; J. Barr and C. Barnett, "DFID Country Programme Evaluations: Synthesis of 2005/2006 Evaluations," *Evaluation Report EV665*, London: DFID, 2006; and Department for International Development, *Operational Plan 2011-2015 – DFID Bangladesh*, London: DFID, 2012.

⁵⁰ The Royal Norwegian Embassy, *Bangladesh & Norway: Platform for Partnerships*, Dhaka: Norwegian Ministry for Foreign Affairs, 2012.

⁵¹ "Contract between the Norwegian Ministry for Foreign Affairs (MFA) and Manusher Jonno Foundation (MJF) regarding support for a Human Rights Funding Mechanism", available at http://www.norway.org.bd/News_and_events/, accessed on 12 May 2012.

⁵² Available at http://www.regjeringen.no/en/dep/ud/selected-topics/development_cooperation/norwegian-development-assistance-in-2008.html?id=493308, accessed on 12 May 2012.

the country prohibitive of right to information, studied relevant laws of United States, India, Pakistan and Sri Lanka and then proposed promulgation of an RTI act by laying down its possible provisions (Law Commission Bangladesh 2002). The Law Commission report was not followed up with any steps by government. But in the meantime, civil society advocacy for RTI law gathered momentum amid growing concern over corruption and quality of governance. As in case of the Law Commission report, the civil society initiatives were also built on international statutes namely UDHR and ICCPR and were inspired by developments in other countries especially, India.

The RTI law was first introduced by the interim caretaker government as an ordinance that was later adopted by the current government as a full-fledged law. But even the previous government was engaged in the RTI law advocacy process of civil society. For example, MJF organised the 'Seminar on Right to Information' on 05 September 2005 at Dhaka where the then Minister for Law, Justice and Parliamentary Affairs was the Chief Guest and Chairman of the Parliamentary Standing Committee on the Ministry of Information and Secretary of the Ministry of Information were Special Guests. All the three representatives of government accepted RTI in principle but remained non-committal about relevant legal reform. The Law Minister said that Information Ministry, as the concerned executing agency under rules of business, is responsible for submitting RTI law to the cabinet. He informed that Information Ministry is working on this and hoped that RTI law will be presented in parliament very soon.⁵³ However, that never happened during the term of that government. In the meantime, civil society initiative for a draft RTI law under the auspices of MJF went forward.

Despite government's passiveness in moving forward with introduction of RTI law, the government-civil society dialogue over the legal reform went on. Throughout 2006, MJF organised series of divisional consultations on the draft RTI law where government officials also participated along with other stakeholders. About seventy recommendations came from these consultations.⁵⁴ The draft RTI law was submitted to the Information Ministry in 2007. In the meantime, the interim caretaker government (CTG) took over. This opened a window of opportunity for the cause.

MJF along with RTI Forum approached the CTG to materialise RTI law and continued its advocacy as it was doing with the previous government. The civil society advocacy that has been going on till then also produced some champions within government officials. They also played a role from inside in influencing government for accepting RTI law demand. Under CTG, Ministry of Information formed a drafting committee where the MJF point person for RTI

⁵³ Manusher Jonno Foundation, "Seminar on Right to Information", *Oikotan*, Vol. 2, No. 2, 2005.

⁵⁴ Manusher Jonno Foundation, "Recommendations from the Divisional Consultation Meetings on RTI Act (Draft)", *Oikotan*, Vol. 3, No. 4, 2006.

was included as a member. Thus, the otherwise all government member drafting committee had at least one member from civil society. The committee actively considered the draft law from civil society submitted by MJF and also the earlier Law Commission report to come up with a government draft of the proposed RTI law. Then the government draft was made public for comments and there were also public consultations. The RTI Ordinance was introduced on October 2008. The MJF member to the drafting committee informed that there were lively discussions and debates in their meetings. Despite being the lone member from outside government, the civil society representative never felt marginalised. She had equal opportunities to make contributions as the government members. She identified Secretary of Information Ministry who was chairing the committee and the Law Ministry's representative to the committee as two enthusiastic champions of RTI.

There was considerable convergence of the RTI Ordinance 2008 (the Ordinance) that later became RTI Act 2009 (the Act) with the draft law from civil society (the CS draft). The provisions of the CS draft that were totally adapted in the ordinance are: overriding power of the law, specific inclusion of NGOs as information providing authority, inclusion of women as Information Commission (the Commission) member, mechanism sensitive to peoples with disability, free of cost information provision to poor people in consultation with Information Commission, wider responsibilities of the Commission and same powers as civil court to the Commission with regard to complaints.

Despite the fact that the government adopted RTI law following civil society advocacy yet, the former exercised considerable ownership over the outcome. That is why there are also significant variations between the two documents. The CS draft included note sheets or their copies in the information list but the Ordinance and the Act excluded it from the list. While the CS draft explicitly mentioned political party as information providing authority that is not the case with the Ordinance and the Act. According to the Ordinance and the Act, information providing authority is extended up to Upazilla level while it was extended up to Union level in the CS draft. The scope of publication of information by public authority is reduced in the Ordinance and the Act then from the CS draft. There is strong protection of whistle-blower in the CS draft that has been mentioned only indirectly in the Ordinance and the Act. The Chief Information Commissioner (CIC) was accorded higher rank in the CS draft. But the Ordinance and the Act did not specify rank and allowances of CIC and other Information Commissioners. The CS draft made the Commission sole authority to appoint its employees. But the ordinance stipulates government to appoint employees of Information Commission. The CS draft stipulated presentation and discussion of the Commission's annual report in the concerned parliamentary standing committee. But the Ordinance and the Act stipulate that the annual report will be

submitted to the President who may or may not send it to parliament. The CS draft had lesser numbers of exemptions from providing information in comparison to the Ordinance and the Act.

However, the government's exercise of ownership over RTI law outcome did not always reduce its scope. Some of the government's own provisions even strengthened the law. A strong point of the Act is obligating information providing authorities to publish annual report of their activities that raised urgencies for transparency and accountability. The CS draft and the Ordinance provided for bi-annual reports in this case. The quorum of the Commission has been reduced to two members in the Act from three members in the Ordinance. This facilitated regular holding of the Commission's meetings.

The newly elected government of Awami League (AL)-led alliance introduced the Right to Information Act in the first session of the ninth parliament. In her message to the international conference titled, "Right to Information: Law, Institution and Citizen" held in Dhaka on 21-22 June 2009, Prime Minister Sheikh Hasina said,

"In our election manifesto, we ... pledged to ensure free flow of information. That is why we enacted the Right to Information Law on March the 29th this year in the first session of the 9th parliament. As we have enacted the law, we are now committed to implementing it. Our constitution guarantees every citizen the freedom of thought, conscience and speech irrespective of religion, race, caste and sex."

4. Concluding Remarks

It can be concluded from the above discussion that a fruitful government-NGO-donor collaboration was instrumental for policy change regarding RTI legal regime in Bangladesh. Lack of access to information in the country was constraining scopes of good governance in general and that of transparency and accountability in particular. But government was not forthright to amend the situation through necessary policy reforms. It was some of the leading NGOs of the country working for promotion of good governance who came forward with appropriate policy proposition in the form of RTI Act. They successfully adapted the idea from other countries with technical assistance of INGOs. They also advocated for introduction of RTI law, prepared a draft law, generated public opinion in support of the law and engaged with government on this issue.

While donor funds provided necessary resources for RTI movement advocacy, the agenda-setting was self-driven by the NGOs. The donors also did not have any explicit influence whatsoever other than fund contributions.

However, civil society's prioritisation of RTI reflect internationally recognised values like good governance, freedom of expression, transparency, accountability and corruption prevention that are enshrined in international regimes and often promoted by donors. With change of regime, the interim government whose main objectives were to conduct a free and fair election and to address systemic corruption, RTI law appeared as a significant policy tool. So, the government-NGO-donor collaboration fully flourished and resulted into the adoption of RTI law that was sustained by the newly elected government following election culminating in the successful governance collaboration.

Mohammad Jasim Uddin

ECONOMIC DIPLOMACY OF BRICS COUNTRIES: LESSONS FOR BANGLADESH

Abstract

Divergence of economic diplomacy among the BRICS (Brazil, Russia, India, China and South Africa) countries produces variation in their external economic settings. Bangladesh may not be able to follow the whole of economic diplomacy exercised by BRICS countries. Even a particular country's entire initiatives may not be fully suitable for Bangladesh. Economic diplomacy of Bangladesh could be benefited from mutual learning and exercising best practices of BRICS countries. Diplomatic networks of Bangladesh's Ministry of Foreign Affairs (MoFA) need to be attuned with changing global economic diplomacy. Bangladesh should realise that economic diplomacy differs based on competence and skills of diplomats engaged in international economic negotiations. Otherwise, consolidation of Bangladesh's foreign affairs and its economic promotion would be tricky.

1. Introduction

International trade, Foreign Direct Investment (FDI) and Official Development Assistance (ODA) are the three most important features of economic diplomacy.¹ Among the developing countries, some are proactively pursuing the basics while some have been reactive to the international economic relations.² Bulk of developing countries is placed in between the two.³ Divergence of economic diplomacy among the BRICS (Brazil, Russia, India, China and South Africa) countries produces variation in their external economic settings. It is important to distinguish viewpoints of BRICS countries' economic diplomacy within global political economy.

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¹ Teddy Soobramanien, "Economic Diplomacy for Small and Low Income Countries", in Nicholas Bayne and Stephen Woolcock (eds.), *The New Economic Diplomacy: Decision-making and Negotiations in International Economic Relations*, 3rd Edition, London: Ashgate Publishing Limited, 2011.

² Madu Magnus Emeka, "The Dynamics of Economic Diplomacy in Developing Countries: The Case Study of Nigeria", *Malaysian Journal of History, Politics and Strategic Studies*, Vol. 37, 2010, pp. 165-189; Kishan S. Rana, "Economic Diplomacy: The Experience of Developing Countries", Chapter 11, in Nicholas Bayne and Stephen Woolcock (eds.), *The New Economic Diplomacy: Decision Making and Negotiation in International Economic Relations*, 2nd Edition, London: Ashgate Publishing Limited, 2007.

³ Kishan S. Rana and Bipul Chatterjee, "Introduction: The Role of Embassies", in Kishan S. Rana and Bipul Chatterjee (eds.), *Economic Diplomacy: India's Experience*, Jaipur: CUTS International, 2011, pp. 1-23; Ivan Mbirimi, "Economic Diplomacy for Developing Countries", in Nicholas Bayne and Stephen Woolcock (eds.), *The New Economic Diplomacy Decision-Making and Negotiation in International Economic Relations*, 1st Edition, London: Ashgate Publishing Limited, 2003, pp. 251-260.

BRICS countries are in general influential over international economics⁴ and markets⁵. They represent models of diversified developments and are eager to transform international business.⁶ Immediately after independence of Bangladesh, one of BRICS countries, who was highly keen to associate with Bangladesh and supplied overseas economic and technical support to Bangladesh, was Russia. In recent times, relations between the two, comprised of economic and security issues, are being strengthened. Bangladesh's two most important trading partners are China and India. Both countries are geographically proximate to Bangladesh. Being strategically placed in between the two, Bangladesh realises that gains are likely to be achieved through collaborating closely with China and India. Brazil and its relations with Bangladesh in multi-party economic forums are vital. Bangladesh in 2011 (28 July to 10 August) sent a 'Fact-Finding Mission' to Latin American countries including Brazil. Recently, the former has re-established its diplomatic mission in the latter to further mutual economic diplomacy.

Both Jim O'Neill and Goldman Sachs popularised the acronym 'BRIC' (Brazil, Russia, India and China) and stated that it would in near future become an important global economic growth provider. Thereafter, a debate continued on why any African country was not included in BRIC? Perceived economic irrelevance of Africa was a cause for long. It brought doubt about BRIC's claim to speak for the emerging world.⁷ After that, either Nigeria or South Africa was thought to be included. The latter was considered and BRIC became BRICS in 2010. South Africa was not considered by original thoughts of O'Neill and Sachs. South Africa has no embassy in Bangladesh and till now the former is not interested to open embassy in Dhaka. Bilateral economic relations are tricky to be managed well without both-way embassies. Bangladesh's economic relations with South Africa are not as comparable as with initial BRICS i.e., BRIC.

The features aforementioned take initial BRICS (i.e., BRIC) into consideration to be studied and compared simultaneously. As of 2012, Gross Domestic Products (GDPs) of China, Brazil, Russia and India were US\$ 8.25 trillion, US\$ 2.4 trillion, US\$ 1.95 trillion and US\$ 1.9 trillion respectively.⁸ In the days to come, one might see a cluster of developing countries changing their economic diplomacy in the direction of BRIC. Rationales before the dynamism are the following three: increasing their international

⁴ Goldman Sachs, "Is This the BRICs Decade?", *BRICs Monthly*, Issue No. 10/03, May 2010, Goldman Sachs Global Economics, Commodities and Strategy Research, available at <http://www.360.gs.com>, accessed on 11 October 2011.

⁵ Stratfor, *Emerging Economies: The Geopolitics of the BRICS Nations*, CreateSpace Independent Publishing Platform, 2012.

⁶ Francis A. Kornegay and Lesley Masters, "From BRIC to BRICS", Report on the Proceedings of the International Workshop on South Africa's Emerging Power Alliances; IBSA, BRIC, BASIC, Pretoria: Institute for Global Dialogue (IGD), May 2011, p. 122.

⁷ "Why is South Africa Included in the BRICS?", *The Economist*, 29 March 2013.

⁸ Mohammad Jasim Uddin, "Economic Diplomacy, Developing Countries and Bangladesh", *Dhaka Courier*, Vol. 29, Issue 45, 24 May 2013.

trade, attracting FDI and making assistance for development cooperation available. Consequently, for a developing country like Bangladesh, there are lessons to learn from the practices of BRIC countries' economic diplomacy.

This paper is divided into five sections, including introduction. Section two discusses economic diplomacy of Brazil, Russia, India and China (BRIC). Section three makes a comparison of BRIC countries' economic diplomacy. Section four draws some lessons for Bangladesh. Section five ends with concluding remarks. It is to note that this paper limits incorporating data no later than 30 June 2014.

2. Economic Diplomacy of Brazil, Russia, India and China: A Historical Evolution

2.1 The Case of Brazil

Since early 1960s, Itamaraty, Ministry of External Relations (MER) of Brazil, as a leading agency started practising economic diplomacy⁹ and "adapted to take on new subjects, built up an extensive structure of private sector contacts and maintained good relations with other ministries."¹⁰ Both internal consultation and international negotiation are pursued by Itamaraty.

Growing technicality of international economics has forced Itamaraty to entrust some of its tasks to experts of commerce ministry and modify its economic diplomacy into a multi-agency approach.¹¹ There are few countries which send their foreign ministers to represent at the World Trade Organization (WTO) and Brazil is one of them.¹² Thus, diplomatic services of Itamaraty and commerce ministry jointly handle trade and commercial tasks abroad. Various aspects of overseas tasks are interrelated and demand integrated management; hence, Itamaraty promotes political and economic diplomacy side by side. Besides, Itamaraty has a specific unit to uphold brand image of Brazil abroad.

⁹ Braz Baracuhy, "Brazilian Economic Diplomacy: Agriculture and the WTO", in Nicholas Bayne and Stephen Woolcock (eds.), *The New Economic Diplomacy: Decision-making and Negotiations in International Economic Relations*, op. cit., 2011, pp. 341-358.

¹⁰ Nicholas Bayne, "Challenge and Response in the New Economic Diplomacy", in Nicholas Bayne and Stephen Woolcock (eds.), *The New Economic Diplomacy Decision-Making and Negotiation in International Economic Relations*, op. cit., 2011, p. 63.

¹¹ Gelson Jr. Fonseca, "Notes on the Evolution of Brazilian Multilateral Diplomacy", *Global Governance: A Review of Multilateralism and International Organizations*, Vol. 17, No. 3, July-September 2011, pp. 375-397.

¹² Oscar Montealegre, "Brazil's Trade Diplomacy", 2011, available at <http://www.diplomaticcourier.com/news/regions/brics/169-brazil-s-trade-diplomacy>, accessed on 23 June 2012; Oscar Montealegre, "The Secret to Brazil's Success: Trade Diplomacy", 2011, available at <http://oilprice.com/Geopolitics/South-America/The-Secret-To-Brazils-Success-Trade-Diplomacy.html>, accessed on 30 June 2012.

An important economic diplomacy of Brazil is increasing its influence in multiple level forums¹³ to give a message that Brazilian government is enthusiastic to carry out its global pledges without any unexpected anomaly. Hence, the country dispatches "increasing number of provincial level business delegations and establishes its marketing offices abroad."¹⁴ On the other hand, Brazil is keen to grip any opportunity to uphold its economic diplomacy. In that, the role of Brazilian sub-national bodies as independent economic actors has been crucial.¹⁵

Both developed (e.g., North-American countries, Germany, etc.) and developing economies (e.g., China, India, etc.) are targets of economic diplomacy of Brazil to invigorate its global and regional (e.g., within Mercosur, a trading bloc of South America) economic integration, attract FDI inflow, adapt with multiple trade models, and deepen its relations with global financial agencies.¹⁶ A study identifies two important features of Brazilian economic diplomacy: "sticking to the diplomacy serves to economic construction, and establishing new diplomatic forms of the integration of the great power-multilateral-sustainable development."¹⁷ Thus, economic diplomacy of Brazil since the beginning of 1990s has given significant weight to changing global economics and politics, and has promoted politico-economic advancement within its region.

Difference between Brazil and its regional (i.e., Mercosur) states, in case of exercising economic diplomacy is that the country has intensely searched for potential markets for boosting its export promotion.¹⁸ Brazil is affiliated with a number of common markets as well as strategic and economic collaborations. Besides, it advocates an international view "which is a hard-to-pin-down blend of pragmatism, relativism and a seemingly indiscriminate willingness to be friends with everyone."¹⁹ Hence, it is important to understand what Brazilian economic diplomacy stands for and what are its ultimate aims. A study identifies some core aims of Brazilian economic diplomacy. These are - growing as a key regional market, offering open market competition for developing states and gaining a seat in the United Nations Security Council (UNSC).²⁰ In order to meet these aims, Brazil has taken several strategies e.g., country-branding, deepening south-south collaborations, promoting partnerships on economy and boosting energy initiatives.

¹³ Stephanie Hanson, "Brazil on the International Stage", 02 July 2012, available at <http://www.cfr.org/brazil/brazil-international-stage/p19883>, accessed on 06 August 2012.

¹⁴ Kishan S. Rana, "Economic Diplomacy: What Might Best Serve a Developing Country", *International Journal of Diplomacy and Economy*, Vol. 1, Nos. 3/4, 2013, p. 239.

¹⁵ Author's interview with Leonardo B Azevedo, Deputy Head of Mission, Embassy of the Federative Republic of Brazil in Bangladesh in 2014.

¹⁶ Lael Brainard and Leonardo Martinez-Diaz (eds.), *Brazil as an Economic Superpower?*, Washington, DC: The Brookings Institution, 2009.

¹⁷ "Analysis on Economic Diplomacy of Brazil from 1990", 2011, available at <http://www.economics-papers.com/analysis-on-economic-diplomacy-of-brazil-from-1990.html>, accessed on 31 December 2011.

¹⁸ Oscar Montealegre, 2011, *op. cit.*

¹⁹ "Dilma Rousseff's Visit to America Our Friends in the South", *The Economist*, 07 April 2012, p. 23.

²⁰ "Exploring Public and Economic Diplomacy", Project Final Report by School of International and Public Affairs (SIPA), Columbia University, Spring 2012.

2.2 The Case of Russia

Economic diplomacy of Russia can be expressed by the ability to re-define its affiliation with ex-Soviet states, to become known as a global leader and to associate with multiple level trade and global economic groupings.²¹ These are focused on external economic and trade promotion, interacting with global economic and financial agencies, affiliating with regional blocs, facing international economic barriers and attracting FDI.²² Attracting overseas strategic partners and improving country image abroad are also vital steps of Russian economic diplomacy to attract FDI.

Russia is now involved in interactive diplomatic endeavours with international economic and trade organisations. The World Bank (WB) is no more a supplier of external economic resources for Russia, but a crucial means of transferring experience and expertise in case of global developmental and economic assistance. Importantly, Russia has emerged as a donor instead of a receiver.²³ On the other hand, a fundamental aspect of Russian economic diplomacy is its accession to the WTO. Although preserving " 'dosed' protectionism of Russian economy's certain branches of special interest"²⁴ still continues, Russia's entry to the WTO helps its foreign trade liberalisation.

Russia is actively engaged with Black Sea Economic Cooperation (BSEC), Barents Euro-Arctic Council (BEAC), Council of the Baltic Sea States (CBSS), Single Economic Space (SES), Eurasian Economic Community (EEC), European Union (EU), Asia-Pacific Economic Cooperation (APEC) and BRICS. Besides, it is keen to associate with Organisation for Security and Co-operation in Europe (OSCE). Involvement of Russia with these organisations to uphold its global trade and economic relations substantiates that regionalism, regional or sub-regional and extra-regional groupings are important aspects of Russian economic diplomacy. On the other hand, being a key source of gas and oil to the former Soviet countries and a provider of important route for exporting energy resources of the countries to external markets, Russia continues to advocate reintegration programmes in the ex-Soviet Union.²⁵ Thus, Russian energy diplomacy and economic diplomacy are mingled both at regional and global levels.

²¹ Alexey Likhachev, "Economic Diplomacy of Russia in the Context of Globalization", 2007, available at <http://www.economy.gov.ru/wps/wcm/connect/economylib4/en/home/about/management/lihachev>, accessed on 19 July 2011.

²² Kato Mihoko, "Russia's Multilateral Diplomacy in the Process of Asia-Pacific Regional Integration: The Significance of ASEAN for Russia", 2007, available at <http://www.isn.ethz.ch/Digital-Library/Publications/Detail/?ots591=0c54e3b3-1e9c-be1e-2c24-a6a8c7060233&lng=en&id=34994>, accessed on 22 June 2011.

²³ Claire Provost, "The Rebirth of Russian Foreign Aid", 2011, available at <http://www.theguardian.com/global-development/2011/may/25/russia-foreign-aid-report-influence-image>, accessed on 12 September 2012.

²⁴ "Russia's Economic Diplomacy", *Diplomat*, 2003, p. 1, available at <http://www.usrcne.org/news2.phtml?m=122>, accessed on 11 June 2011.

²⁵ Author's interview with Maxim Basak, Second Secretary, Embassy of the Russian Federation in Bangladesh, in 2014.

Russia is keen to deepen its functional relations with energy-oriented multiparty arrangements e.g., International Energy Agency (IEA), Organization of Petroleum Exporting Countries (OPEC), International Energy Forum (IEF), etc. Russia has also been pursuing bilateral diplomacy with some countries producing oil. On transport connectivity, Russia is focused on assessing its potential to be a bridge between Asia and Europe. Already, it has taken initiatives to execute multiparty Agreement on the International 'North-South' Transport Corridor.²⁶ On global trade, Russia emphasises on its trade diversification, maintaining traditional and searching potential markets for its exports. Thus, economic diplomacy of Russia is focused on global collaboration in energy, trade and transport connectivity.

Russian economic diplomacy is advanced by a number of actors placed in different agencies e.g., MoFA, ministry of economic development, business organisations, trade agencies, etc.²⁷ MoFA is the most important actor with its overriding functions e.g., providing national trade and business organisations with various facts and figures related to overseas markets and companies; working with various groups of businessmen and companies in overseas states who have interests to promote trade and business collaboration with Russia; identifying concerns of investors and dispatching ideas and proposals of the investors to appropriate organisations and top-level officials of Russia. It also helps in developing work conditions for Russian businessmen working abroad as well as for the overseas entrepreneurs working in Russia; and in providing diplomatic assistance for the foreign projects to be implemented by Russian agencies.²⁸ Thus, MoFA helps Russia to promote its economic diplomacy.

2.3 *The Case of India*

Indian economic diplomacy is performed by both conventional and contemporary institutions e.g., Indian Foreign Service, Ministry of External Affairs (MEA) with its Economic and Public Diplomacy Divisions, other public agencies of India e.g., Ministry of Commerce and Industry, three top-level business bodies i.e., Confederation of Indian Industry (CII), Federation of Indian Chambers of Commerce and Industry (FICCI) and the Associated Chambers of Commerce (ASSOCHAM). While public agencies encourage Indian entrepreneurs to outspread their activities abroad, CII, FICCI and ASSOCHAM interact with MEA to uphold international economic issues of India. MEA cooperates with national/international Civil Society Organisations (CSOs) and maintains relations with ex-diplomats. Its overseas missions help arranging international trade fairs at home and abroad. These missions also help in

²⁶ Ministry of Economic Development of the Russian Federation, "Foreign-Economic Activity", 2012, available at <http://www.economy.gov.ru/wps/wcm/connect/economylib4/en/home/activity/sections/foreigneconomicactivity/index>, accessed on 30 June 2012.

²⁷ Vladimir Radyuhin, "Russia's Economic Diplomacy", 2004, available at <http://www.hindu.com/2004/04/27/stories/2004042701611000.htm>, accessed on 22 August 2011.

²⁸ Ministry of Economic Development of the Russian Federation, 2012, *op. cit.*

signing of agreements on trade, avoidance of double taxation, and investment etc. MEA in managing its external economic affairs employs a hybrid model of economic diplomacy that works at multiple levels.²⁹ While Territorial Divisions of Indian foreign embassies deal with inter-state economic activities, Economic Divisions assist Territorial Divisions. Thus, close working relations among MEA, its overseas missions, the public agencies and business bodies aforesaid have been vital aspects of Indian economic diplomacy.

Until late 1980s, building partnership with developed countries to dig up overseas development projects, upholding politico-economic relationship with Arabian Peninsula to export Indian manpower and gatherings of 'Aid India Consortium' in Paris were significant experiences of Indian economic diplomacy.³⁰ Since the beginning of 1990s, India started to reform and liberalise its economy as well as penetrate 'first and second phases of economic diplomacy'³¹ simultaneously e.g., reaching South America and Africa to meet Indian needs of natural and mineral resources, energy, raw materials and agricultural demands; carrying on several initiatives (establishing 'India Brand Equity Fund'³²) to uphold Indian image to be treated as a global investment destination, etc. Since late 1990s, India began penetrating third phase of economic diplomacy e.g., concluding bilateral Free Trade Agreements (FTAs) with Sri Lanka, Thailand and Singapore³³; continuing negotiations for FTAs with the European Union (EU), Association of South East Asian Nations (ASEAN), Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) or IBSA (a grouping of India, Brazil and South Africa)³⁴; associating with South Asian Free Trade Area (SAFTA); accessing to Shanghai Cooperation Organization (SCO), Group of Eight (G-8) and ASEAN as an observer³⁵; focusing more on *Look East Policy*.

²⁹ Ministry of External Relations (MEA), "India's Economic Diplomacy", 2012, available at www.ibef.org/attachdisplay.aspx?cat_id=84&art_id=1335, accessed on 30 June 2012.

³⁰ Kishan S. Rana, 2007, *op. cit.*

³¹ There are three phases of economic diplomacy: *economic salesmanship*, *economic networking and advocacy*, and *regulatory management and resource mobilisation*. Functions to increase external economic resources are included in *economic salesmanship*. It appreciates improving political negotiations between target and home countries to get foreign projects. It concentrates to publicise home country's skills and potentials abroad to facilitate its trade and business. *Economic salesmanship* values managing overseas economic supports. *Economic salesmanship* is extended by *economic networking and advocacy*, and these two are seen in sync. Crucial in this phase is to liberalise economy and involve both state and non-state actors from home and abroad working on global economy. Initiatives to increase exports, FDI inflow, inbound aid and access to foreign technologies are facilitated by *economic networking and advocacy*. The third phase works on few things: accessing to new economic blocs, agreements on resources, negotiating free trade agreements, and country branding plus its image building. *Regulatory management and resource mobilisation* demand functional coordination between public and private officials from home and abroad to harmonise country priorities with its global economic interests. MoFA is the core of such coordination, and it is assigned to direct inter-state discourses.

³² It helps Indian trade and commercial firms to promote country-image as well as product-image abroad.

³³ Kishan S. Rana, "Economic Diplomacy in India: A Practitioner's Perspective", *International Studies Perspectives*, Vol. 5, 2004, pp. 66-70.

³⁴ *Ibid.*

³⁵ "MEA Laying Greater Thrust on Economic Diplomacy", *Economic Times*, 2010, available at http://articles.economictimes.indiatimes.com/2010-09-05/news/27625268_1_ftas-diplomacy-countries, accessed on 17 July 2011.

India is keen to avail advantages (e.g., accessing scarce technology, having concessions on international trade, inward FDI opportunities, etc.) produced by global and regional (economic) integration as well as to affiliate with international economic and monetary reforms.³⁶ These are likely to promote and sustain India's overseas trade and economic interests. Nowadays, one of the foremost activities of MEA and its overseas missions is investment (inward and outward FDI) and aid (both inbound and outbound) mobilisation.³⁷ In effect, multiple level trade, aid and investment negotiations and agreements are important goals of Indian economic diplomacy. Besides, promotion of technical know-how, education, culture and media "feeds into and interacts with economic outreach"³⁸ of India. However, external economic functions implemented by Indian policy-makers, statesmen and diplomats appear to be vibrated by economic diplomacy of China and its strategies. Hence, economic diplomacy of India seems to be motivated by a proverb – *catch up with China*.³⁹

2.4 The Case of China

Since late 1970s, China hinges a lot on overseas investment, international trade and low-cost labour to maximise its economic development and growth. Countries depending significantly on external trade and investment usually undertake aggressive economic diplomacy⁴⁰ and China is an important instance of that. China has micro and macro-level strategies in pursuing its economic diplomacy. Providing overseas assistance and trade concessions, mobilising outward FDI and showcasing product and country image globally are important macro strategies.⁴¹ By contrast, sustaining interaction between commerce (MOFCOM - Ministry of Commerce of the People's Republic of China) and foreign ministry as well as deepening interaction between external economic objectives and overseas policy are vital micro strategies.

MOFCOM together with other economic bodies deals with foreign economic tasks. Foreign ministry never deals with preliminary tasks on foreign commercial and trade promotion. These are handled by a particular commercial unit. Functional harmonisation among the ministries is executed by a party mechanism. Chinese Politburo is assigned to supervise a variety of important sectoral small groups. These groups are comprised of important ministers and top party leaders for making coordinated decision.⁴² In brief, MOFCOM and its experts deal with overseas trade

³⁶ Author's interview with R. Masakui, Counsellor, Economic and Projects, Indian High Commission to Bangladesh, in 2014.

³⁷ Ministry of External Relations (MEA), 2012, *op. cit.*

³⁸ Kishan S. Rana, 2007, *op. cit.*, p. 31.

³⁹ Kishan S. Rana, 2013, *op. cit.*

⁴⁰ Centre for International Governance Innovation (CIGI), China, Workshop Report on "China's New Economic Diplomacy", 25-27 April 2008, pp. 1-8.

⁴¹ *Ibid.*

⁴² John Ravenhill and Yang Jianq, "China's Move to Preferential Trading: A New Direction in China's Diplomacy", *Journal of Contemporary China*, Vol. 18, Issue 58, 2009, pp. 27-47.

promotion, whereas Chinese diplomats handle foreign economic strategy and foreign embassies exercise active advocacy, a key component of economic diplomacy.

Since mid-1990s, Chinese economic diplomacy entered a new phase e.g., engaging with multiparty economic diplomacy, joining WTO (in 2001), taking steps to institute FTA with ASEAN neighbours, making efforts to establish an East Asian FTA with Japan and South Korea, internationalising Chinese companies, making overseas venture available to Chinese companies, etc.⁴³ Even after that, economic diplomacy of China sometimes seems inward-looking and difficult to understand because China's affiliation with international trade and economy depends on its individual assessment and the country opposes everything it considers as international pressure. However, outward-looking behaviours are also available.

Developing wide-ranging south-south collaboration, wishing to be a lead actor in groupings like Group of Five (G-5), Group of Twenty (G-20) or Group of Seventy Seven (G-77), interacting closely with Brazil and India to vibrate UN-led initiatives and influencing decisions of different regional economic blocs or efforts (e.g., SCO) are some instances of China's outward-looking behaviour and economic diplomacy. Other instances include identifying itself as a role model in case of negotiating Preferential Trade Agreements (PTAs), gradually embracing "summit diplomacy starting with Asia Pacific Economic Cooperation (APEC), ASEAN Plus Three (APT) and Forum on China-Africa Cooperation."⁴⁴

Yet, other instances of China's economic diplomacy are its continuous engagement with Africa and Latin America, enthusiasm to promote regional diplomacy, affiliation with sub-regional bodies, economic strength to uphold country-image, etc. Although, Asia is undeniably China's major focus,⁴⁵ its investors are showing greater interest towards Africa and Latin America.⁴⁶ A large quantity of natural and mineral resources (i.e., raw materials) in these destinations, getting access to markets, promoting exports, globalising Chinese skills and expertise are strong inducements for China.

Again, promoting regional diplomacy is a mainstay of Chinese economic diplomacy.⁴⁷ China promotes regional diplomacy through its provinces e.g., Shandong and Liaoning with South Korea, Yunnan with Greater Mekong Sub-region (GMS), etc. Besides, China has partnership with several regional and sub-regional arrangements (e.g., BCIM [Bangladesh, China, India and Myanmar] initiative – a grouping for enhancing

⁴³ Ana Christine Alves, "Emerging Post-Colonial Solidarities: China's New Economic Diplomacy towards Sub-Saharan Africa", Institute of Political and Social Sciences, Technical University of Lisbon, 2006.

⁴⁴ Centre for International Governance Innovation (CIGI), 2008, p. 7.

⁴⁵ Kurosawa Akira, "Activism of China's Economic Diplomacy and Japan's Asia Policy", *Japan Echo*, Vol. 30, No. 1, 2003.

⁴⁶ Report on "China's Economic Diplomacy 2012", available at <http://www.sino-ced.org.cn/English/profile/speech.html>, accessed on 12 June 2014.

⁴⁷ Kishan S. Rana, 2007, *op. cit.*

sub-regional connectivity). Such engagements are by and large administered by China's provincial administrations and motivated for trade and economic expectations e.g., authorising most of the Chinese inward FDI.⁴⁸ On the other hand, employing foreign embassies, diplomats or trade specialists in branding Beijing or Shanghai as an international place (i.e., country-branding) and promoting product image globally (i.e., product-branding) by dint of public diplomacy are vital aspects of Chinese economic diplomacy.⁴⁹ In summary, economic diplomacy of China is comprised of three aspects: promoting trade at multiple levels, encouraging FDI (both inward and outward) and committing and disbursing of international assistance.

3. Economic Diplomacy of BRIC Countries: A Comparison

Kishan S. Rana outlines an important typology of economic diplomacy for developing states based on some aspects e.g., external economic management, policy management, the role of Non-State Actors (NSAs), recipients and donors of foreign assistance, trade and investment promotion, regional diplomacy, etc.⁵⁰ The typology segregates developing states in four groups. First, states are tied up with traditional approaches but execute some transformations sluggishly. Second, states enjoy some space globally and are focused on their particular initiatives. Third, states endeavour to acclimatise their economic reforms and specific activities with latest global advantages. And fourth, states are always moving forward in line with continuous global economic changes. Although current international scenario might not be tied up with such specific classification, the typology of Kishan S. Rana might permit one in comparing BRIC countries' economic diplomacy.

A key feature of managing external economic issues by MEA of India is its consent to follow a hybrid economic diplomacy approach. Economic diplomacy of India is interactive as well as self-protective. On the contrary, economic diplomacy of China aligned with its political diplomacy is, in fact, aggressive relying overwhelmingly on inward FDI and international trade.⁵¹ While economic diplomacy of Brazil is dynamic as well as outward-looking, economic diplomacy of Russia believes in practising top-down approach but is at times not synchronised strategically.⁵² Russian economic diplomacy is somewhat reactive as well as responsive to its shifting politico-economic interests. On the other hand, maintaining public diplomacy is a key challenge to Russia's economic diplomacy.⁵³ Hence, Russia is concentrated to integrate regionally and is practising coercive economic diplomacy.⁵⁴

⁴⁸ Report on "China's Economic Diplomacy 2013", available at <http://www.sino-ced.org.cn/English/profile/speech.html>, accessed on 16 August 2014.

⁴⁹ Author's interview with Li Jun, Chinese Ambassador to Bangladesh, in 2014.

⁵⁰ Kishan S. Rana, 2013, *op. cit.*

⁵¹ "Exploring Public and Economic Diplomacy", 2012, *op. cit.*

⁵² *Ibid.*

⁵³ *Ibid.*

⁵⁴ Ministry of Economic Development of the Russian Federation, 2012, *op. cit.*

China is keen to access global markets for its export growth and accept inward FDI for infrastructural development of the country.⁵⁵ These two are the main engines of China's economic growth and have encouraged the country to practise aggressive economic diplomacy.⁵⁶ On the other hand, China provides foreign aid as an important instrument of its economic diplomacy.⁵⁷ Reasons behind these are to negotiate China's future economic contracts and secure international political consent in order to promote its *One China Policy*.⁵⁸ Sovereign wealth fund is another instrument of Chinese economic diplomacy. China invests such fund in transnational firms.⁵⁹ Rationales behind this funding are to meet China's geo-strategic as well as geo-economic objectives.

On the other hand, India is focussed on upholding its economic diplomacy, at times examining China's external economic policy.⁶⁰ India pays a significant attention to train its diplomats so that they become knowledgeable in managing external economic affairs.⁶¹ Consequently, India also pursues aggressive economic diplomacy for its export promotion and to attract a large amount of inward FDI.⁶² India has improved trade relations with South Asian and ASEAN countries. India has established ASEAN-India FTA.⁶³ It has given the country an access to a market of 1.8 billion people⁶⁴ as well as has produced a significant impact on international trade flows of India. Besides, India has simplified its foreign investment regulations and targeted FDI from the overseas Indians. Even though, China attracts more inward FDI than India attracts.⁶⁵ Although India has emphasised on regional trade integration, the country has faced several criticisms for averting accord in the Doha Development Agenda (DDA).⁶⁶ Also, India appears to be sluggish to grip advantages sourced from global collaboration, regardless of Indian progress in its economic diplomacy.⁶⁷ Like China, India also has started to provide foreign assistance to some developing countries as a crucial instrument of its economic diplomacy.⁶⁸ As a result, Indian aid agency, International Agency for Partnership Development (IAPD) is now in function.⁶⁹

⁵⁵ Report on "China's Economic Diplomacy 2012", *op. cit.*

⁵⁶ "Exploring Public and Economic Diplomacy", 2012, *op. cit.*

⁵⁷ *Ibid.*

⁵⁸ Report on "China's Economic Diplomacy 2013", *op. cit.*

⁵⁹ *Ibid.*

⁶⁰ Kishan S. Rana, 2013, *op. cit.*

⁶¹ "Training Needs for Commercial and Economic Diplomacy", 2011, available at <http://www.cutscitee.org/pdf/RREPORT08-01.pdf>, accessed on 23 May 2012.

⁶² "Exploring Public and Economic Diplomacy", 2012, *op. cit.*

⁶³ Kishan S. Rana and Bipul Chatterjee, 2011, *op. cit.*

⁶⁴ "Exploring Public and Economic Diplomacy", 2012, *op. cit.*, p. 81.

⁶⁵ Ministry of External Affairs (MEA), 2012, *op. cit.*

⁶⁶ "The BRICs: The Trillion-Dollar Club", *The Economist*, 15 April 2010.

⁶⁷ Kishan S. Rana, 2013, *op. cit.*

⁶⁸ "Aid 2.0", *The Economist*, 13 August 2011, p. 9; "Official Development Assistance Aid 2.0", *The Economist*, 13 August 2011.

⁶⁹ *Ibid.*

Brazil considers economic diplomacy as the ability to exercise international economic drivers.⁷⁰ One of the important aspects of Brazilian economic diplomacy is its desire to be a key trade partner of Latin America. Other aspects are branding Brazil, accessing potential markets, branding the country as a pioneer of promoting green economy, etc. On the other hand, Russia regards economic diplomacy as the aptitude to retain authority in its region. Russia is keen to regain an economic position in the ex-Soviet Union by means of unifying customs, influencing trade relations, etc. Other important goals of Russian economic diplomacy are economic diversification, attracting inward FDI and becoming a key channel of gas and oil for Europe.⁷¹

Table-1 Comparing Features of BRIC Countries' Economic Diplomacy			
Brazil	Russia	India	China
Active and outward-looking economic diplomacy; intends to be the leading trading country of Latin America; 'branding' Brazil; vigorously searching for potential markets abroad; and 'marketing' Brazil as a modern leader in the development of technology.	Top-down and reactive to changing unilateral economic interest; promoting coercive economic diplomacy; focusing on regional integration; recouping economic space of the former Soviet Union; diversifying economy; retaining status as a key oil and gas channel for Europe; and attracting FDI.	Active but basically pursuing protective economic diplomacy; prioritising regional trade; instituting ASEAN-India FTA (AIFTA); boosting exports; attracting FDI by simplifying its regulations and targeting Non-Resident Indians (NRIs); setting up of own aid agency; and training of diplomats to be financially and economically informed.	Conducting aggressive economic diplomacy; focusing on global market, foreign trade and FDI; exercising strategic aid programmes as the tool of economic diplomacy; and employing sovereign wealth fund to invest in multinationals for strategically beneficial, non-commercial and geopolitical rationales.

Source: Compiled from various sources

The table shows that economic diplomacy of BRIC countries is comparable with one another. Strategies, objectives and initiatives of BRIC countries' economic diplomacy make the comparison evident. A number of factors and their practices create differences of economic diplomacy. These factors are: international trade and economic diplomacy management, country and product image management, external economic promotion, regional and global economic integration, etc. Thus, phases of economic diplomacy of BRIC countries might not be telescoped into one another.

⁷⁰ "Exploring Public and Economic Diplomacy", 2012, *op. cit.*

⁷¹ *Ibid.*

4. Lessons for Bangladesh

Since the beginning of the twenty-first century, BRIC countries have been strong economic forces in the world.⁷² Therefore, international economic negotiations have no alternative but to take BRIC countries' demands into consideration.⁷³ It has made considerable impacts on many developing countries' economic diplomacy. In the days to come, it is likely that some developing economies will be in the process of changing their economic diplomacy in the direction guided by BRIC countries.⁷⁴ This is to increase international trade, attract FDI and make assistance for development cooperation available.⁷⁵ As a developing country, Bangladesh can learn significant lessons from the best practices of BRIC countries' economic diplomacy. Since, economic diplomacy and its reciprocal benefits are important to sustain economic partnerships with overseas states.

Despite a few differing aspects, BRIC countries are sustaining their goals and strategies of economic diplomacy with some identical initiatives. These are pluralistic practices of foreign economic policy-decision, widespread networking and a 'whole government' approach. The initiatives are facilitated by overseas missions of BRIC countries.⁷⁶ They are more focused on promoting their economies, building images as well as branding nations.⁷⁷ They continue to negotiate with international economic system, set up standards at multiple level institutions, and deal with multi-actor groupings and associations.⁷⁸ BRIC countries are advocating productive relationships with their neighbouring countries.⁷⁹ Their efforts on economic diplomacy facilitate their trade and industrial development as well as enterprise growth. BRIC countries' economic diplomacy is more focused on attracting FDI inflow. Branding their nations has been a key instrument of BRIC's economic diplomacy to sustain as the important destinations for foreign investment. They arrange versatile training programmes for their foreign service officers and diplomats to make them better acquainted with international economic relations. Indeed, BRIC countries have put significant emphasis on strengthening, consolidating and integrating their initiatives of economic diplomacy.

Developing states are rather asymmetrical in practicing economic diplomacy.⁸⁰ Bangladesh being a developing nation may not be able to follow

⁷² Stephanie Jones, *BRICs and Beyond: Lessons on Emerging Markets*, United Kingdom, John Wiley & Sons Ltd., 2012.

⁷³ Braz Baracuh, 2011, *op. cit.*

⁷⁴ Nicholas Bayne, "Economic Diplomacy in Practice: Domestic Decision-Making", in Nicholas Bayne and Stephen Woolcock (eds.), *The New Economic Diplomacy: Decision-making and Negotiations in International Economic Relations*, 2011, *op. cit.*, pp. 41-58.

⁷⁵ *Ibid.*

⁷⁶ Kishan S. Rana, 2013, *op. cit.*

⁷⁷ *Ibid.*

⁷⁸ Kishan S. Rana and Bipul Chatterjee, 2011, *op. cit.*

⁷⁹ *Ibid.*

⁸⁰ Saeed Khatibzadeh, "Iran's Economic Diplomacy: An Assessment of Iran Economic and Trade Cooperation

the whole of economic diplomacy exercised by BRIC countries. Even a particular country's entire initiatives on economic diplomacy may not be fully suited for Bangladesh. Often persons are placed in various economic posts in important foreign trade missions who are political appointees lacking adequate expertise on international economics. As such they are not always well-informed with global economic facts and figures that play a significant role at multiple levels of economic diplomacy. These are some of the challenges creating insufficient capability for developing countries like Bangladesh to collaborate in an intricate global situation.

The lessons Bangladesh could learn from the emerging BRIC countries are: how to coordinate Bangladesh's goals and strategies of economic diplomacy, how to consolidate the country's economic diplomacy functions, how to market 'Brand Bangladesh', how to negotiate Bangladesh's economic issues globally, how to build economic alliances regionally and bilaterally, how to train Bangladesh's diplomats and its civil servants on the acumen of commercial and economic diplomacy and how to engage multi-stakeholders in Bangladesh's economic diplomacy.

Taking the aforesaid factors into consideration, it is crucial to evaluate how Bangladesh manages external economic affairs attached with its economic diplomacy, copes with global economic management, adapts with changing global economic scenario and undertakes and implements concerted initiatives in managing country-image. Organisations assigned to increase country-image are inadequately functioning in Bangladesh. 'Public diplomacy boards' are not available in Bangladesh. The country is in dilemma to deal with public diplomacy aspects that contribute lot to country-images. It is vital, therefore, to interlink image management, public diplomacy and economic diplomacy. It is also important to distinguish viewpoints on economic diplomacy and to understand international economics. These require identifying which economic diplomacy approaches are suitable for Bangladesh. This paper opines that Bangladesh should pursue both proactive and protective economic diplomacy, prioritising its national economic aspects. It would enable the country to uphold its overseas business and economic interests.

5. Concluding Remarks

Countries, practicing economic diplomacy inefficiently, may inadequately handle their political diplomacy. Foreign ministries of the countries usually interact poorly with their corresponding public and private agencies. On the other hand, as long as governance of a developing country works in unanimity with a procedure open to consider choices from diverse actors, one may come across the pertinent

with Japan, China and South Korea", V.R.F. Series, No. 417, 2006, p. 9, available at <http://www.ide.go.jp/English/Publish/Download/Vrf/pdf/417.pdf>, accessed on 26 December 2011.

approach of economic diplomacy. It is important to continue functionalising better economic policies at home and effective economic diplomacy. This is because amalgamating the two produces capability of a developing nation to project its image abroad. The alternative may turn into a vicious circle. However, producing a receptive climate for branding a developing nation requires two important things: increasing country attractiveness and coordinating initiatives on economic diplomacy. On the other hand, unilateral as well as universal actions are evenly important and it partially elucidates why some developing states in practicing economic diplomacy are in better shape than others. This paper argued that economic diplomacy of developing states (e.g., initial BRICS countries) varies based on approaches they exercise.

The cases of Brazil, Russia, India and China show that these countries pursue economic diplomacy in line with their overseas economic objectives and goals. Aggressive economic diplomacy is pursued by India and China. By contrast, regional economic diplomacy is practiced by Russia and Brazil. However, all the four are keen to promote their external trade and economic prosperity. BRIC nations are ardent to economic promotion though they believe in their individual protectionist approach. Also at multiparty agencies, they sometimes do not tune on the same tone on some trade and economic affairs of developing states. Hence, divergence of economic diplomacy among the BRIC countries produces variation in their external economic settings.

Basically, economic diplomacy is a continuous course of action. Its outcome may not be evident within a short timeframe; rather, it could take a decade or even longer period. Hence, economic diplomacy may not at times be successful with a global economic scenario that is changing very fast and sometimes without any prior notice. Indeed, this is a dilemma. Economic diplomacy has to be pursued as part of a long-term policy approach of a developing country. It would facilitate external economic interests. Although there are variations in BRIC countries' economic diplomacy, this paper finds that foreign trade, investment and aid still are the mainstays of their economic diplomacy. Bangladesh's economic diplomacy being a developing state should be guided by the following three basics: increasing exports, FDI inflow and managing regular effective aid inflow. Bangladesh should not split economic diplomacy from its political diplomacy.

Economic diplomacy of BRIC countries could be the guiding lessons for Bangladesh. BRIC countries have amalgamated their foreign policy agenda, economic diplomacy and public diplomacy. Image building plus nation branding, indeed, public diplomacy is a frequent practice to economic diplomacy of BRIC countries. Public diplomacy is exceedingly pertinent to Bangladesh. Bangladesh could gain benefits by exchanging knowledge and skills as well as exercising varied approaches of economic diplomacy. Bangladesh's diplomatic networks

must be acquainted with changing global economics. Bangladesh should increase its external economic collaborations and be familiar with changing both political as well as economic diplomacy. This would facilitate to consolidate overseas interactions and economic advancement. Such consolidation would in other way be a key instrument for Bangladesh to build its positive image abroad.

Md. Muhibbur Rahman**PROSPECTS FOR SINO-INDIAN MARITIME CONNECTIVITY IN THE INDIAN OCEAN REGION****Abstract**

This paper examines the prospect for Sino-Indian maritime cooperation in the context of China's recent multilateral maritime connectivity project known as the 21st Century Maritime Silk Road. This ambitious step as a part of China's greater 'Road and Belt' initiatives generated considerable trade and infrastructure development prospects for neighbouring countries including India. However, India is highly skeptical and anxious about China's long term motive and has taken rather an ambivalent position. Geopolitical apprehensions concerning China's rise and the fear of China's growing influence in the Indian Ocean made this maritime project an uneasy development for India, despite the initiative's potential to accord the country tangible economic benefits. In addition, extra-regional forces in Indian Ocean geopolitical calculations could complicate India's maritime cooperation with China. Therefore, the complicity involves a much broader geopolitical hedging. There is an alignment of interests among India, the US and Japan in preventing China's deeper and long-term engagement in the Indian Ocean Region. However, economic interdependence, the need for infrastructure development as well as seaward reorientation of Indian economy could drive the country to find out a carefully crafted policy of exploiting economic benefits by engaging with China in the maritime sphere.

1. Introduction

The multi-billion dollar maritime connectivity project of China known as the 21st Century Maritime Silk Road has created a critical context for China's maritime engagement in the Indian Ocean Region (IOR). This initiative manifests a significant foreign policy aspiration of China in today's world. Under the leadership of President Xi Jinping, the Maritime Silk Road as a part of 'Road and Belt' initiatives has become a key component of the country's economic diplomacy, neighbourhood policy, multilateral cooperation and energy security.¹ With a dramatic increase of China's sea-based imports and exports, maritime connectivity has become critically important to China. As Cai Penghong observes, "China's further development heavily depends on a secure and stable sea lane in the IOR to transport oil and raw materials into China and export China's goods to other countries."² To build partnerships in the maritime sphere, China is promoting the idea of "win-win cooperation" so that countries along the road can share in mutually beneficial outcomes.

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¹ Woo Duck Han, "Projects can Further Promote Northeast Asian Prosperity", *China Daily*, 14 February 2015.

² Cai Penghong, "The Indo-Pacific: Its Geopolitical Implications for China", *Global Review*, Winter, 2013.

However, the implication is quite obvious suggesting a significant Indian stake in this process. India which considers Indian Ocean and adjacent regions to be its core economic and security priority, is very skeptical and anxious about China's long term motive and has taken rather an ambivalent position. Geopolitical apprehensions concerning China's rise and the fear of China's growing influence in the neighbouring regions made this maritime project an uneasy development for India. In addition to inheriting historical rivalry with China particularly the sensitive border disputes, India shares a common concern with the US and Japan over Chinese potential influence in the IOR. On the other hand, India has a deepening economic interdependence with China. In the last decades, China has become its largest trading partner. The two countries' growing industrialisation, seaward economic reorientation, increasing volume of trade, and the consequent demand for infrastructure development together have created ample economic complementarities between them. However, India's participation in the initiative involves multiple factors ranging from domestic popular support to decision making process to geopolitical compulsions and aspirations.

This paper primarily seeks to examine the prospect for Sino-Indian maritime cooperation in the context of China's recent multilateral maritime connectivity initiative and to find out what implications this initiative could bring for their future relations. This central theme of the paper is developed in three sections. The first section examines potential Indian response, including its concern over other neighbouring countries' participation in the initiative. The second section outlines extra-regional factors and Indian Ocean geopolitical issues that could complicate China's maritime cooperation with India. The final section, identifying potential complementarities, mediating factors and challenges, assesses whether India would consider joining the initiative in the long run to exploit potential economic benefits out of this maritime connectivity initiative.

2. China's Maritime Connectivity Initiative

The 21st Century Maritime Silk Road is undertaken by China to initiate a new era of maritime connectivity and cooperation.³ This draws inspiration from the legacy of historical maritime exchanges of goods and culture among the Chinese, Indians and Arabs starting over two millennia ago. The availability of large quantities of porcelain, silk and consumer goods after the Chinese 'economic revolutions' during about 900 AD, together with superior ships and navigational techniques of Chinese merchants, led to the growth of China's maritime enterprises across the Indian Ocean.⁴ During the time of Song and Yuan Dynasties from 960 to 1368 AD, Quanzhou became the largest oriental port, almost as famous as Alexandria of Egypt.⁵ A great Chinese explorer of

³ Xinhua, "International Experts Focus on More Practical Aspects to Build Silk Road Economic Belt", *Shanghai Daily*, 30 November 2014.

⁴ John E. Wills, Jr., "Maritime Asia, 1500-1800: The Interactive Emergence of European Domination", *The American Historical Review*, Vol. 98, No. 1, 1993, pp. 83-105.

⁵ Address by Li Zhaoxing, Former Foreign Minister and Chairman of China Public Diplomacy Association,

Ming Dynasty Admiral Zheng commanded seven voyages to the Indian Ocean.⁶ The subsequent development of shipping routes passing from the South China Sea into the Indian Ocean and beyond⁷ is popularly known as Maritime Silk Road today.

As a part of China's 'One Belt, One Road' strategy, Chinese President Xi Jinping declared the initiative in October 2013 with the aim of strengthening ties with its neighbouring countries and speed up their exchanges in terms of people, capital, goods and ideas.⁸ The Maritime Silk Road will cover countries and regions with a total population of 4.4 billion and a total economic volume of US\$ 21 trillion, 63 per cent and 29 per cent respectively of the world's total.⁹ Major areas of cooperation will include maritime connectivity and transportation development, oceanic resources mobilisation, infrastructure building, port and economic zone development, cooperation in scientific research, environmental protection, tourism promotion and maritime archeological conservation.

China is devising an innovative model for its 'One Belt, One Road' initiative including the Maritime Silk Road. The model is based on the combined strategies of "bringing in" and "going out", offering a new stage of China's development and opening up to the outside world.¹⁰ The core of this model is based on a new concept of 'justice'. As China is dependent on natural resources from abroad, this development model will share the country's growth dividends with its neighbours through common partnership.¹¹ In addition, this will encourage each country's innovative development, offering modern technology and helping out countries not possessing natural resources.

China has two major objectives in pursuing this region wide mega-connectivity network. The first is to turn China into a world centre of maritime trade and cooperation. With an 18,000-kilometer coastline and an increasing dependence on sea for more than 90 per cent of the trade that drives China's growth, maritime connectivity, security and trade potential would be vital considerations for the future Chinese economy. China holds eight of the world's 10 largest deep-water harbours, fourth largest shipping capacity, and annual 6 per cent growth in demand for ocean shipping as a result of foreign trade, with a potential to become the key centre of

"Building the Maritime Silk Road of the 21st Century with Open Mind and Bold Courage", delivered in an *International Symposium on Maritime Silk Road of the 21st Century*, 12 February 2015, Quanzhou, Fujian Province, China.

⁶ Zhang Xianyi, "History and Legend of Sino-Bangla Contacts," *The News Today*, 28 September 2010.

⁷ James A. Anderson, "China's Southwestern Silk Road in World History", *World History Connected*, Vol. 6, No. 1, 2009.

⁸ Institute of International Studies, *Imbalance and Restructuring: Fudan International Strategic Report 2014*, Fudan University, China, 2014.

⁹ Xinhua, "Maritime Silk Road to Boost Regional Prosperity: Overseas Experts", *Shanghai Daily*, 14 February 2015.

¹⁰ Shi Ze, "One Road and One Belt and New Thinking with Regard to Concepts and Practice", *CIIS Time*, 25 November 2014.

¹¹ *Ibid.*

global seaborne trade.¹² To realise its maritime potential, China is keen to seize the opportunities of rapidly growing global ocean economy and establish pivots and corridors for maritime economic cooperation.¹³

The second purpose is to respond proactively and innovatively to the necessity of an alternative model for China's future economic growth. To sustain the ongoing pace of Chinese economy, traditional business model needs to be reformed. Despite having excessive production capacity (total 900 million tons in 2014 in which 730 million tons were utilised), growth is slowing down and domestic employment opportunity is getting slimmer day by day.¹⁴ China needs to find external markets to invest its huge accumulated capital and excessive production capacity so as to create employment, mobilise resources and bring high returns on its investment. Besides, China needs to take care that other countries have capacity to buy Chinese products. For that end, assisting economic growth of its neighbours through infrastructure building and industrialisation is heavily linked to China's own development. While China is advancing the idea of win-win cooperation, the Maritime Silk Road and other Silk Road projects are at the winning end first for China, and then possibly winning for its neighbours and partners.¹⁵ These efforts could ensure the realisation of China's goal of doubling the 2010 GDP and per capita income of urban and rural residents,¹⁶ and reverse the slowing down of its economic growth in the coming decades.

Within the first two years of launching the initiative, China has made major progresses in several areas including policies and planning. China has already made notable advances in formulating pertinent policies and building institutional mechanisms. President Xi Jinping visited several countries including India, Sri Lanka, the Maldives and many of Southeast Asian countries in the last two years. Responding to China's call, more than 50 countries and many regional and international organisations including the European Union (EU), Association of South East Asian Nations (ASEAN), Shanghai Cooperation Organization (SCO) and United Nations Economic and Social Commission for Asia and the Pacific (UN ESCAP) expressed their interests to support the initiative. China also signed the 'Road and Belt' cooperation agreements with many countries on projects and programmes ranging from transport infrastructure to industrial development and people-to-people exchange.¹⁷

In addition, China has devised the funding sources for the projects, and for that end, successfully launched a US\$ 40 billion Silk Road Fund.¹⁸ This fund can be

¹² Yang Mingjie, "Sailing on a Harmonious Sea: A Chinese Perspective", *China US Focus*, 26 May 2011.

¹³ Address by Li Zhaoxing, *op. cit.*

¹⁴ Author's interview with Professor Shen Dingli, Deputy Dean, Institute of International Studies, Fudan University, 23 March 2015.

¹⁵ *Ibid.*

¹⁶ Xinhua, "Xi Eyes More Enabling Int'l Environment for China's Peaceful Development", *Shanghai Daily*, 30 November 2014.

¹⁷ Address by Li Zhaoxing, *op. cit.*

¹⁸ Feng Jianmin, "China's US\$ 40b Fund to Pave Silk Road Projects", *Shanghai Daily*, 17 February 2015.

further leveraged with private investment up to US\$ 8 trillion.¹⁹ The establishment of Asian Infrastructure Investment Bank (AIIB) and Brazil, Russia, India, China, South Africa (BRICS) Bank were two other major breakthroughs towards the funding arrangement. Silk Road Fund coupled with US\$ 50 billion of AIIB and BRICS Bank would be the basic funding architecture for the 'Road and Belt' projects.²⁰ The fund will be mainly invested in infrastructure, resource development and industrial and financial cooperation through long-term equity investments.

3. India's Response: Concerns and Counter-Measures

India's position towards this maritime connectivity project is generally ambivalent, marked by its skeptical view of China's long term motive and nervousness about China's likely presence in the Indian Ocean.²¹ The perceived threat of Chinese expansion rooted in the psyche of Indian political elites as well as strategic calculations based on Indo-US alignment of interests in the IOR are the key driving factors behind such not-so-clear stance. India's reluctance to take an explicit stance suggests the country's sensitivity to maritime engagement with China, contrary to its willingness to involve in the joint study on Bangladesh-China-India-Myanmar Economic Corridor (BCIM-EC).²² In addition, India has a self-understanding of its critical importance for a successful integration of South Asia with the Maritime Silk Road. Hence, the country has demanded detail information about the project from China, and is keenly observing recent developments, remaining careful about making any definite move.

With the BJP-led new government in power, India's overall view of cooperation and connectivity with China shows certain visible shifts. During the previous government under Manmohan Singh, Sino-Indian relations reached a new height. Particularly, Manmohan's 2013 China visit and the Border Defence Cooperation Agreement (BDCA) underlined both countries' willingness to manage their differences.²³ Top leadership of both India and China agreed to effectively move with BCIM-EC by establishing joint study group and expressing commitment to work collectively for regional cooperation and connectivity. This underpinned a positive and strong ground for building partnership in areas like maritime connectivity. On the other hand, Modi government has taken rather a cautious and restrictive view of its cooperation with China. India's enthusiasm for BCIM-EC has gone down, and it views China's multilateral initiatives like the Maritime Silk Road through geopolitical and market-competition lens. Instead of looking at China-initiated regional endeavours as a collective way to address common challenges, Modi and his technocrats consider maritime connectivity project as Chinese expansion in the Indian Ocean -

¹⁹ "China Hopes Silk Road Fund can be Leveraged by Private Capital", *The Economic Times*, 02 December 2014.

²⁰ *Ibid.*

²¹ Abhijit Singh, "The Developing India-China Maritime Dynamic", *The Diplomat*, 01 May 2014.

²² "China Admits Mistrust about Mega Silk Road Project", *The Economic Times*, 31 January 2015.

²³ Ananth Krishnan, "China Highlights Outcome of Manmohan's Visit", *The Hindu*, 26 October 2013.

a big concern for India's national security and regional preeminence. The national security establishments and civil society in Modi's good book are also advocating for a more geopolitically driven response to China's call for regional connectivity and cooperation.

India's response to the initiative includes three likely steps. First, India is pursuing a 'wait and observe with caution' stance at this early stage. This step is marked by a dilemma between the temptation of joining and the fear of China's expansion in the Indian Ocean. From the economic and commercial viewpoint, India understands that a successful maritime connectivity will generate opportunities for its economic growth. India's need for infrastructure including ports, roads, highways, telecom and power infrastructure is enormous. The country is also in immense need of investment to reverse sluggish manufacturing industry and to address a growing number of unemployed young people. Despite the fast development of the software industry which created around two million jobs in the last decade, a large portion of more than 12 million young people who enter the labour market every year are unemployed.²⁴ China can provide all of these, and it is the infrastructure provider of Asia today. On the other hand, India also perceives the initiative to be a gateway for China to extend its sphere of influence in the Indian neighbourhood.

Nevertheless, India is not considering the Maritime Silk Road as a severe challenge to its national security. What is there in the mind of the top leadership and policy-makers is a state of reluctance to see it as an immediate opportunity, unlike other South Asian countries. India is thinking on both sides of the argument for the country's participation. India can roll either way: work in tandem with China allowing its investment and presence in the Indian Ocean, and then grab economic benefits from this project. On the other end of the spectrum, given the recent poor track record of the Indian diplomacy, India might consider China's presence across the Indian Ocean as a reduction of India's overwhelming influence in the region and hence, see the project as a harmful development.

Second, India is preparing with counter-measures and policy responses. Both from geopolitical and market competition perspectives, Indian foreign policy is mostly guided by Kautilyan thinking and zero-sum strategy. As the country shares border with China, specially a disputed border over Arunachal Province where it fought a war in 1962, India's political psyche inclines to undertake counter-measures against China's possible engagement in adjacent area of India's maritime boundary.

Some possible counter-measures could be:

- (1) *Speeding up efforts to strengthen navy and maritime surveillance capacity:*
India has been rapidly transforming its navy to become a maritime

²⁴ Liu Zongyi, "Beijing Offers Manufacturing Lesson to Delhi", *Global Times*, 23 November 2014.

power. Although maritime domain was mostly neglected during the post-colonial independent India, the Bharatiya Janata Party (BJP) started to give much importance on building maritime capability since 1998.²⁵ Now, the Indian Navy is the fifth largest maritime force in the world and continues to push forward ambitious expansion plans. By 2025, it aims to operate 162 imported and locally designed platforms, including two aircraft carriers and conventional and nuclear-power submarines.²⁶ With this growing strength, India would pursue stronger maritime policy to eliminate the historical burden of being dominated by outsiders.

- (2) *Welcoming similar initiatives by the peer competitors of China in the region:* Even though India's power is increasing, the US, together with its allies France and Japan, will remain as the strongest military force in the Indian Ocean theatre for a long time. Hence, the second alternative counter-measure could be to participate in any competing initiatives taken by the US and its Asian allies. India has already expressed its support for US Indo-Pacific Economic Corridor project in exchange of US and Japan's support for its Mekong-Ganga Cooperation project.²⁷
- (3) *Undertaking similar initiative by India itself:* This is something India might think in the long run. In order to enhance and sustain its legitimacy to lead the region as a part of so called natural rights, India could dig out history to find any trace of India-led collective initiatives. Reportedly, India is already thinking of such endeavour known as 'Project Mausam'. Although there has been no formal declaration, Indian Cultural Minister Mahesh Sharma announced in the Indian Parliament of a project to revive the ancient links among the countries of the Indian Ocean to gain a more holistic understanding of the subcontinent's maritime history.²⁸ Not an economic endeavour like the Maritime Silk Road, it aims to reestablish communications, rekindle long-lost ties across nations of the Indian Ocean, and forges new avenues for cooperation and exchange. While India projects this initiative as a cultural endeavour, it has both strategic and security dimensions. Indian former foreign secretary Sujatha Singh's meeting with culture secretary Ravindra Singh on how to link the project with India's foreign policy goals suggests that India is likely to pursue long-term strategic objectives through building partnership in

²⁵ Chunhao Lou, "US-India-China Relations in the Indian Ocean: A Chinese Perspective", *Strategic Analysis*, Vol. 36, No. 4, 2012, pp. 624-639.

²⁶ Rahul Bedi, "Interview: Admiral Nirmal Verma, India's Chief of Naval Staff", 22 July 2011, available at <http://defence.pk/threads/indian-navy-news-discussions.30327/page-96#ixzz3yH0e4UR8>, accessed on 18 March 2015.

²⁷ Liu Zongyi, "India Still Nervous about China's Growing Strength Despite Economic Ties", *Global Times*, 06 January 2015.

²⁸ "Project Mausam to Revive Links Among Indian Ocean Countries", *Outlook India*, 01 December 2014.

the name of 'Project Mausam'.²⁹ India is further promoting its maritime connectivity initiatives as part of its newly proposed 'Cotton Route', aimed at increasing its economic cooperation and strategic partnerships with countries in the IOR.³⁰ Prime Minister Modi's visit to Seychelles, Mauritius and Sri Lanka were aimed at boosting these initiatives.

Third, India is likely to get involved in diplomatic persuasion of neighbours with an aim to discouraging them from building any partnership that undermines perceived interests of India in this region. This policy step is linked with India's regional diplomacy of keeping its neighbours under its own sphere of influence. India is very sensitive about other countries' deep involvement in its neighbourhood. This step depends primarily on how India reaches its decision regarding its own participation in the maritime belt. If India is convinced that it is a beneficial endeavour for the country, it can play a game changer role and a solution itself.³¹ India's participation could eliminate the most critical barrier for other smaller countries to join the initiative. But given the mistrustful psyche of India, it is more likely that it will act to consolidate its sphere of influence on its neighbours, instead of realising common development and prosperity.³²

4. Geopolitical Apprehensions and Extra-regional Forces

A fundamental factor to consider is India's geopolitical and security orientation would make it difficult for the country to allow China to meddle in the Indian Ocean affairs. Bestowed with a geopolitically significant location at about 1,000 miles into the Indian Ocean and as the only linkage between the Bay of Bengal, the Arabian Sea and the Malacca and the Andaman Straits, India enjoys unique geographic preeminence in the IOR. This has cultivated a strong aspiration among Indian strategists who view the Indian Ocean as their 'rightful domain' to dominate the region.³³ Most of the Indian defence and naval policy documents put extensive focus on the necessity and rights of India to dominate the region. The Indian Army Doctrine pointed out that "by virtue of her size and strategic location in the IOR, India is expected to play her rightful role to ensure peace and stability in it."³⁴ They have established an inextricable inter-linkage between the IOR and Indian national security. India's maritime doctrine published in 2007 emphasises that any development in the Indian Ocean affects India's national security and the country needs to take interests

²⁹ Sachin Parashar, "Narendra Modi's 'Mausam' Manoeuvre to Check China's Maritime Might", *The Economic Times*, 16 September 2014.

³⁰ Dipanjan Roy Chaudhury, "India Plans Cotton, Ancient Maritime Routes to Counter China's Ambitions", *The Economic Times*, 17 April 2015.

³¹ Author's interview with Professor Zhao Gancheng, Senior Fellow, Shanghai Institute for International Studies, 17 March, 2015.

³² Liu Zongyi, "S. Asia Forum Delayed by India's Self-Interests", *Global Times*, 09 December 2014.

³³ Chunhao Lou, "Power Politics in the Indian Ocean: Don't Exaggerate the China Threat", *East Asia Forum*, 24 October 2013.

³⁴ "Indian Army Doctrine", Headquarters Army Training Command, Simla, 22 October 2014.

to any such occurrences.³⁵ It is expected that China's increasing presence in the Indian Ocean would be perceived as intended to dominate the ocean and to threaten India's national security.

In today's world, the Indian Ocean has emerged as a major centre of geopolitical competition. The immense strategic significance of the ocean, together with its central position in the geopolitical thinking from Harold Mackinder and Alfred Thayer Mahan to contemporary geostrategist Robert Kaplan,³⁶ has created enduring interests among both traditional and newly rising powers. The IOR is comprised of one-third of the world's population, 25 per cent of landmass and 40 per cent of oil and gas reserves. The Ocean is the third-largest body of water in the world and contains vital sea lanes and choke points, such as the Straits of Hormuz, Straits of Malacca, Lombok and the Sunda Straits. Hosting the transit of more than 80 per cent of the world's seaborne trade and oil, the Indian Ocean's sea lanes are considered among the most strategically important in the world.³⁷ Therefore, Indian Ocean has recently seen an increased involvement of both regional and extra-regional powers in terms of strengthening military surveillance and strategic partnerships.

In this context, China's maritime initiative, unlike the overland Silk Roads, is drawing much deeper geopolitical connotation. It is highly likely to be assessed through the prism of a rising China. "Because China's rise has caused a transformation in the global power structure, relations between China and the external world are now entering into a very sensitive period."³⁸ More importantly, apprehensions are spreading in quite a loud volume since China's so-called assertiveness in the maritime sphere is reflected through its recent actions, such as the proclamation of the South China Sea as a core national interest, opposing a US carrier entering the Yellow Sea for military exercises and serious face-off with Japan over the Diaoyu islands.³⁹ Though there could be some debate over to what degree geopolitical factors are concretely present in this calculation, in effect these factors will have definite influences on the possibility of China-India maritime cooperation. The deepening alignment of interests among India, the US and Japan is based on their shared perception that China ultimately aims at establishing its control over the Indian Ocean. This perceived apprehension is likely to bring these countries together into a soft network, Indo-US-Japanese Axis, in terms of formulating common approaches to their security and external policies to deal with China in this region.

The US maintains two major wings in its pivot to Asia: Asia-Pacific where it has Trans-Pacific Partnership and other bilateral and multilateral security alliances,

³⁵ "Freedom to Use the Seas: India's Maritime Military Strategy", Integrated Headquarters Ministry of Defence (Navy), New Delhi, 2007.

³⁶ See Robert Kaplan, *Monsoon: The Indian Ocean and the Future of American Power*, New York: Random House, 2010.

³⁷ Sergei DeSilva-Ranasinghe, "Why the Indian Ocean Matters", *The Diplomat*, 02 March 2011.

³⁸ Da Wei, "Has China Become 'Tough'?", *China Security*, Vol. 6, No. 3, 2010, pp. 97-104.

³⁹ *Ibid.*

and the Indian Ocean with increasing ties and strategic cooperation with India. The US seeks a forward presence in the Indian Ocean to maintain its preeminent Asian power status.⁴⁰ Responding to shifting power balance in Asia, it has deployed substantial military forces in the IOR. "The US 5th Fleet is headquartered in Bahrain and uses the island of Diego Garcia as a major air-naval base and logistics hub for its Indian Ocean operations."⁴¹ During the 1990s, the US established this 5th Fleet, which comprises an aircraft carrier strike group and multiple other task forces.⁴² Successive US governments have been able to secure military facilities in Oman, Bahrain, Kuwait, United Arab Emirates (UAE), Qatar, Saudi Arabia, Kenya and Singapore.

Along with prevailing military deployment, the US is also very active in fuelling strategic competition among the Asian powers in the Indian Ocean. By building strategic partnerships with India, Japan and Australia, the US is mostly acting with a view to preventing China from gaining preeminence in the maritime sphere. According to Chen Xiangyang, "The United States is taking advantage of China's maritime disputes with its neighbors by shoring up the position of its allies (Japan and the Philippines) vis-à-vis China."⁴³ It also takes particular interest in strategic competition between India and China in Asia.⁴⁴ During the last decade, it held several, unprecedented joint exercises, including advanced naval and air combat exercises that involved U.S. submarines and aircraft carriers.⁴⁵ For a greater coordination in its pursuit to maintain hegemony in global oceans, the US has devised the geopolitical concept of 'Indo-Pacific' as a part of incorporating India into its Asia-Pacific alliance.⁴⁶

On a quite similar ground, Japan is also showing greater assertiveness in the maritime sphere in general and Indian Ocean in particular. Due to maritime disputes with China and remilitarisation drive, the country has started to modernise the Japanese Coast Guard (JCG) by surpassing JCG budget to the self-imposed 1 per cent of GDP limit, and strengthen overall Japanese maritime capabilities.⁴⁷ Recent Japanese naval presence in Indian Ocean started in 2001 with the Japanese Navy's US-led war on terror missions in the Indian Ocean under Enduring Freedom-Maritime Interdiction Operation.⁴⁸ In addition, the Japanese Navy has been operating counter-piracy operations in the Gulf of Aden since 2009, and has established a

⁴⁰ Robert Kaplan, *op. cit.*

⁴¹ Sergei DeSilva-Ranasinghe, *op. cit.*

⁴² Frans-Paul van der Putten, Thorsten Wetzling and Susanne Kamerling, "Geopolitics and Maritime Security in the Indian Ocean", *Policy Brief No 11*, The Hague Institute of Global Justice, August 2014.

⁴³ Chen Xiangyang, "Time to Rethink the China-Focused Pivot", *China-US Focus*, 14 August 2014.

⁴⁴ Michael J. Green and Andrew Shearer, "Defining U.S. Indian Ocean Strategy", *The Washington Quarterly*, Vol. 35, No.2, 2012, pp. 175-189.

⁴⁵ Evan S. Medeiros, "Strategic Hedging and the Future of Asia-Pacific Stability", *The Washington Quarterly*, Vol. 29, No.1, 2005, pp. 145-167.

⁴⁶ Cai Penghong, *op. cit.*

⁴⁷ Richard J. Samuels, "New Fighting Power! Japan's Growing Maritime Capabilities and East Asian Security", *International Security*, Vol. 32, No. 3, 2007/08, pp. 84-112.

⁴⁸ Toshi Yoshihara and James R. Holmes, "Don't Expect much from Japan in the Indian Ocean", *Journal of Military and Strategic Studies*, Vol.13, No. 2, 2011, pp.1-17.

de facto base in Djibouti to support its counter-piracy activities in 2010.⁴⁹ Like the US, Japan is also working towards strengthening ties with India in multiple fronts including partnership in the maritime sector. Both Japan and India agreed to further strengthen 'the Strategic and Global Partnership', considering the changes in the strategic environment. In 2011, Japanese Prime Minister Abe called for strengthening Japanese-Indian cooperation at sea.⁵⁰ They have decided to conduct bilateral naval exercises on a regular basis with increased frequency.

India is increasingly aligning with the US-Japanese coalition in the Indian Ocean. The country's 'Indian Ocean psyche' is deeply rooted in its aspiration for a great power status in the world. India considers its ability to dominate the Ocean as the most vital pillar of its future power potential. It has been aggressively expanding its naval presence by establishing listening posts in the Seychelles, Madagascar and Mauritius, as well as by co-opting the Maldives as part of its southern naval command in 2009.⁵¹ The Indian Navy is envisioning for a three-carrier fleet as the cornerstone of India's future blue-water navy, making it the equal of the Royal Navy and second only to the United States in aircraft carrier assets.⁵² In addition, its dependency on the ocean for more than 70 per cent of oil imports has driven the country to deepening its strategic influence by becoming a major foreign investor in regional mining, oil, gas and infrastructure projects.⁵³

India's China concern in the Indian Ocean is also linked by its defense community with the so-called idea of "String of Pearls." This is supposedly a geopolitical term and indicates China's sea based facilities in the Indian Ocean littoral along the sea lanes of communication, ranging from mainland China to Port Sudan and involving several major maritime choke points. Since it has been coined in 2005 by US consultancy Booz Allen Hamilton which predicted China's potential desire "to expand its naval presence throughout the IOR by building maritime civilian infrastructure in friendly states in the region", India's maritime posture is claimed to be guided by this concept.⁵⁴ While might be useful in framing China's maritime policy through geopolitical lens, this concept neither fully captures the multi-prong nature of China's maritime interests and strategies, nor attests India's careful policy approach towards Chinese increasing presence in the Indian Ocean. China never uses the term and India's mainstream documents also avoid muddling with it too much.

At present India's options in Indian Ocean are complicated, due to lack of its superior power projection capability, poor infrastructure and inexperience in the maritime sphere. Hence, India pursues limited and relative maritime control and

⁴⁹ Frans-Paul van der Putten, Thorsten Wetzling and Susanne Kamerling, *op. cit.*

⁵⁰ *Ibid.*

⁵¹ Sergei DeSilva-Ranasinghe, *op. cit.*

⁵² Walter C. Ladwig, "Delhi's Pacific Ambition: Naval Power, "Look East," and India's Emerging Influence in the Asia-Pacific", *Asian Security*, Vol. 5, No. 2, 2009, pp. 87-113.

⁵³ Sergei DeSilva-Ranasinghe, *op. cit.*

⁵⁴ Benjamin David Baker, "Where is the 'String of Pearls' in 2015?", *The Diplomat*, 05 October 2015.

allows US dominance in the Indian Ocean, tolerating an unchallenged US military presence in the region. However, India's maritime power is increasing day by day, so is its ambition. Even though the US, together with its allies France and Japan, will keep its strongest military presence for quite some time, it is quite probable that India by dint of its growing maritime power and geographic advantages will definitely play a bigger role in regional affairs. How would a powerful India act in terms of treating external powers, be it the US, Japan or China, is particularly a gray zone. For now, India needs favourable external presence in the Indian Ocean, and its previous records suggest that it will prefer the US-led alliance to remain the strongest force in the region in the next decade or so.

These geopolitical issues bear certain potential to complicate China's relations with India and other littoral South Asian countries, obstructing potential Sino-Indian maritime cooperation. It is not unlikely that geopolitical apprehensions would drive the initiative towards a conflicting direction to a certain extent. If that is the case, it will add to the India's dilemma, by throwing the government into a complicated calculation based on both perceived fear and existing relations with key geopolitical actors in the region. India, with its rising economic and military power, might have some leverage to choose its autonomous path from the US. But as long as it remains occupied with geopolitical considerations, it will nurture and fuel its trust gap with China.

5. Complementarities and Potential Benefits for India

Looking from an optimistic perspective, experts believe that India and China share many common grounds which could allow the latter much room to convince the former to participate in the maritime connectivity. The most important of all is the common drive for economic growth. Modi government's overall external policy speaks of a growing space for India-China cooperation. After taking seat, Modi has been pursuing a six-characteristic foreign policy which are "developing the economy first, focusing on the neighbourhood, securing a resolution of tensions on the borders, expanding India's engagement with Asian countries, expanding cooperation with major powers and learning from China how to deal with multilateral issues."⁵⁵ Just like former Chinese leader Deng Xiaoping, Modi is a realist, whose aim is to rejuvenate India's economy. Modi visited China's special economic zones and relatively developed regions many times when he served as Chief Minister of Gujarat. It is quite evident that Modi wants to introduce China's experience of development into India. His government has made it very clear that any Indian economic strategy must involve a significant role of China.⁵⁶ This emphasis on economic growth and the recognition of the China's role is likely to forge economic partnerships, positively affecting India's policy towards maritime connectivity with China.

⁵⁵ "Media Plays Role in Sino-Indian Peace", *Global Times*, 03 February 2015.

⁵⁶ *Ibid.*

In addition, there is a significant level of economic interdependence between the two countries. China is the largest trading partner of India: bilateral trade is to reach US\$ 100 billion by 2015, from US\$ 61.74 billion in 2010.⁵⁷ But India has a huge trade deficit, US\$ 35 billion in 2013, with China,⁵⁸ while prior to 2005, India enjoyed a trade surplus with China. In addition to trade, China has several big cooperation projects in India including: a US\$ 2.4 billion contract to build the second phase of a massive coal-fired power complex in southern India, and an agreement to set up Chinese Power Equipment Service Centres (PESCs) in India.⁵⁹ Adding up to existing economic ties, China is offering India with massive investment funds for infrastructure development. During the Chinese President Xi Jinping's official visit, China pledged to invest US\$ 20 billion in India in the next five years, establish two industrial parks and participate in its infrastructure development including the high-speed railway project from Delhi to Chennai.⁶⁰ It represents a huge leap compared to the investment stock of US\$ 411 million during the past decade.

India might also think pragmatically to exploit potential benefits from the maritime connectivity and cooperation with China. The Chinese initiative will provide enormous opportunities for infrastructure investment and low-cost financing. China is now the world's third-largest outbound investor, and its outbound investment in 2014 totaled over US\$ 100 billion for the first time.⁶¹ Connectivity projects are driven by the country's huge outbound investment plan, which is expected to exceed US\$ 1.25 trillion in the decade from 2015, and to help finance a large-scale infrastructure boom among developing economies, starting with its neighbours.⁶² This infrastructure investment could help India to address its low level of industrialisation and unemployment problems. As China has more than US\$ 3 trillion of foreign exchange reserves⁶³ it could offer low-cost financing to the participating countries.⁶⁴ China is also increasingly accommodating huge inbound investment in the previous years. In 2014, it absorbed US\$ 119.6 billion in non-financial foreign investment. This helped China surpass the United States to become the world's top destination for foreign investment.⁶⁵ This will create large-scale business expansion opportunities for neighbouring countries in China's mainland.

The other factor that could also bring India closer to China is the former's participation in the multilateral effort to develop an alternative financial order in

⁵⁷ Timsy Jaipuria, "Sino-Indian Trade likely to Reach US\$100 Billion by 2015, says Deloitte", *The Financial Express*, 20 August 2011.

⁵⁸ "China is Addressing Sino-India Trade Imbalance: Le Yucheng", *The Economic Times*, 16 September 2014.

⁵⁹ Liu Zongyi, "China's Economic Relations with SAARC: Prospects and Hurdles", *CIIS Time*: 01 December 2014.

⁶⁰ Liu Zongyi, 06 January, *op. cit.*

⁶¹ Wang Yanlin, "China Expects to be Net Investor", *Shanghai Daily*, 17 January 2015.

⁶² Zhao Shengnan, "Sri Lanka Welcomes Chinese Investment, Says Minister", *China Daily*, 28 February 2015.

⁶³ Han Dongping, "US Should Adapt to Changed Geopolitics in Asia", *China Daily*, 12 February 2015.

⁶⁴ Xinhua, "China's Silk Road Strategy Draws Interest from Over 50 Countries: Official", *Shanghai Daily*, 25 January 2015.

⁶⁵ Wang Yanlin, "China's FDI Grows Fastest in 4 Years", *Shanghai Daily*, 17 February 2015.

Asia.⁶⁶ India's willingness to be an inaugural member of both AIIB and BRICS Bank is a big development in this regard. In addition, both countries have been working together in BCIM-EC initiative. Since 2013, BCIM got the momentum when the top leadership of both China and India agreed to form the joint study group. The progress is quite promising with important meetings, successful Kolkata to Kunming (k2k) car rally and combined country report on thematic areas of cooperation. If this initiative can deliver fruits on its promises, India will be encouraged towards greater partnership building in other connectivity areas.

Experts also believe that India will understand in the long run that it has common security interests with China in the IOR.⁶⁷ It is quite logical to see China playing a constructive role in the Indian Ocean. While it is rather a remote zone for China, but the region is critical for the safety of Chinese seaborne trade and energy transportation as well as for the security of the sea lanes of communication. This is also a common ground. Like China, India's import of crude oil has followed an upward trend over the past years and currently India is the fourth-largest buyer of crude oil and petroleum products. By 2025, India is expected to overtake Japan as the world's third-biggest importer. On the other hand, unlike China which has been more successful in source diversification, especially in pipeline diplomacy, India's geographical location is less promising in terms of overland source diversification.⁶⁸ As such, the safety of maritime energy transportation is crucial for India. In this context, working with China could seem profitable to India. Establishing of a forum of Oceanic regionalism, particularly China's participation in the Indian Ocean Rim Association (IORA) could become a reality in the long run.

6. Mediating Factors on the Geopolitical Front

On the geopolitical front, despite having conflicting interests among the countries, a relative stability in the region is the most likely outcome. Gradually other big powers, both regional and extra-regional, will adjust their policies in terms of peaceful coexistence with this geoeconomic maritime belt. There are several reasons to believe that this normalisation would take place. First, countries well understand that Cold War thinking is over. A newer form of multilateral diplomacy has emerged where countries allow competitors in and engage with them to maximise their national interests. This rising tolerance to multilateral coexistence would be a key factor to the evolving geopolitical architecture in the IOR. Contemporary postures of the US, while showing assertiveness in deterring the rise of any peer competitor in the high seas, signal a relatively mild tone towards China. Since the beginning of Obama's second term, the US has become cautious in making statements or taking steps on

⁶⁶ Author's interview with Professor Ren Xiao, Director, Centre for China's Diplomatic Research, Fudan University, 24 March 2015.

⁶⁷ *Ibid.*

⁶⁸ Serafettin Yilmaz and Olga Daksueva, "China-India Energy Policy in the Middle East: A Comparative Analysis", *Global Review*, Winter 2014.

related issues. It appreciated Japan's restraint on the Diaoyu Islands issue and avoided making any public response on the Sino-Japanese maritime face off.⁶⁹ In addition, the US now tends to reinterpret its rebalancing strategy that it does not mean containing China or seeking to dictate the terms in Asia.⁷⁰ Along with this shifting behavior and the growing maritime capability of China and India, there is a good possibility that the US dominance in the Indian Ocean will transform into US-India-China trilateral co-existence and interaction.⁷¹ Geopolitical factors are going to be subsided by economic and other forms of common challenges.

On the same token, India is also likely to be able to reconcile both of its pro-West interests in the Indian Ocean and potential maritime cooperation with China, keeping the relationship low in geopolitical terms in both fronts. There are at least two reasonable claims that support this assessment: First, India's naval power, which is increasing in a faster and considerable degree, would grant India a much stronger autonomy from the US-led Western dominance in the Indian Ocean. As a consequence, India would be in a better shape to make independent decisions and follow divergent choices in some areas for instance cooperating with China in Ocean economy. Second, the complex interdependent nature of interactions between the extra-regional forces and China might create additional incentive for India not to completely sideline China's role in its future ambition to emerge as a big power both regionally and globally.

Second, there has been a growing maturity among the major powers, and by learning from the past, they now act with greater restraints. China has been quite successful in avoiding war or serious confrontation and has smoothly steered into a new multipolar world. China's relations with Russia and India, with whom it fought border wars in the 1950s and 1960s, have stabilised over the years.⁷² Cool headed thinking and responsible behaviour have prevailed between China and the US. Both countries are working hard to avoid misunderstanding and misperception of each other's actions. A host of dialogue mechanisms, notably the Strategic and Economic Dialogue (S&ED) is facilitating trust building at the strategic level.⁷³ Some key examples of accommodative behaviors are: China's participation in the US-led RIMPAC naval exercises for the first time; and China's flexible reading of the US deployment of 60 per cent of its naval forces to the Pacific.⁷⁴ Similarly, India is also showing mature posture in crafting its engagement in issues that concerns China. In the latest published maritime strategy, a revised version of India's 2007 maritime doctrine, the country reduces its excessive focus on the Indian Ocean as well as reassures its resolve of not

⁶⁹ Ruan Zongze, "Toward a New Type of Major-Country Relationship between China and the US: Challenges and Opportunities", *China Institute of International Studies (CIIS) Paper*, No. 1, December 2013.

⁷⁰ *Ibid.*

⁷¹ Chunhao Lou, 2012, *op. cit.*

⁷² Feng Zhongping and Huang Jing, "China's Strategic Partnership Diplomacy: Engaging with a Changing World", *ESPO Working Paper*, No. 8, European Strategic Partnerships Observatory (ESPO), June 2014.

⁷³ Chen Xiangyang, *op. cit.*

⁷⁴ Zhao Gancheng, *op. cit.*

engaging directly in the affairs of the Western Pacific to avoid being sandwiched in the US-China power politics dynamic.⁷⁵

Third, in the dawn of 21st century, all the countries in Asia share a common outlook that this is the 'Asian Century'. "The concept of a 'Greater Asia-Pacific' is taking shape – a region covers the Pacific and Indian Ocean, of nearly 4 billion population, over US\$ 42 trillion in total economic output (60 per cent of the world's total), and over US\$ 20 trillion in trade volume (77 per cent of the world's total), with an increasingly deep and complex interaction between and among political, economic, security and environmental factors."⁷⁶ There is a greater spread of the idea that a common Asian identity provides a unique ground for rising Asian economies to cooperate and assist one another in attaining economic growth and improving the quality of life to the scale of developed industrialised countries. Such an optimistic outlook is based on the glorious past of the Asian civilisations with highly developed economy and close contacts with one another. This underpinned a newer form of geographical imagination and reimagining of the entire world keeping Asia at its centre. It is highly likely that Asian common identity will make a bridge between India and China, leading to greater harmonisation of their policies and actions. In addition, this idea of greater Asian regionalism is slowly gaining currency to the outside world. With the mounting economic and military capability of Asia, as well as the dominant representation of Asian culture, outside powers will eventually give credence to this world's largest cultural conglomerate.

7. Challenges for India to Overcome

There are several key challenges India ought to overcome if it wants to arrive successfully at a position to consider its meaningful involvement in the maritime and other forms of connectivity with China. The first challenge would be how to separate the inter-linkage between border disputes and sensitivity in the areas of substantive cooperation. Frequent tensions at the disputed border induced from the historical legacy of border war are likely source of mistrust that could breed further anti-Chinese directions in Indian policies in many areas. Indian and Chinese troops were engaged in a face-off even when President Xi and Modi held official talks in Delhi.⁷⁷ In addition, India has announced the creation of a new military corps of 50,000 troops, likely to be stationed along the often-contentious border with China.⁷⁸ This marks India's growing worries in the east and sensitivity towards Chinese assertiveness in the neighbouring regions. However, the level of cooperation between the two countries in the previous decades is a testimony that both can build partnerships keeping aside

⁷⁵ "Ensuring Secure Seas: India's Maritime Military Strategy", Integrated Headquarters Ministry of Defence (Navy), New Delhi, 2015.

⁷⁶ Cai Penghong, *op. cit.*

⁷⁷ Liu Zongyi, 01 December 2014, *op. cit.*

⁷⁸ Sanjay Kumar, "Uneasy Neighbors", *Global Times*, 31 July 2013.

all bilateral outstanding issues.

The second challenge necessitates India to address the anti-Chinese psyche of political leaders and negative popular opinion towards Chinese initiatives. This is relevant for any joint initiatives with China. Both ordinary Indian people and opinion makers regard China as a threat rather than a friend. Many Indians feel anxious and worried as their neighbour is becoming more and more powerful.⁷⁹ A joint poll conducted by the Lowy Institute for International Policy and Australia India Institute shows that 83 per cent of 1,223 adults surveyed considered China a security threat.⁸⁰ This negative view could make any strong partnership with China very unpopular domestically and hence, unwelcomed politically.

The third challenge is how India defines its position with regard to taking side with Vietnam, Philippines and Japan on the maritime disputes in both South and East China Sea. This relates to the future dilemma with the 'Act East' policy of Modi Government as well. If India can successfully explore complementarities between India's Act East policy and Chinese connectivity projects, the solution to this problem will become much easier. Since the beginning of the 21st century, the focus of India's "Look East" policy gradually expanded from economic and cultural fields to strategic and security fields and from Southeast to Northeast Asia. In 2011, India interfered with South China Sea disputes by declaring that it would cooperate with Vietnam on oil fields exploitation in this region. Though it is claimed that India's actual interest in Asia-Pacific is to get more leverages from China,⁸¹ after Prime Minister Narendra Modi took power, the "Look East" policy has been developed into an "Act East" policy. India has also enhanced its strategic and military cooperation with countries around China, such as Japan, Vietnam and Australia.⁸²

The final challenge is how to keep balance between its strategic partnerships with the US, Japan, South Korea and Australia on the one hand, and to continue to extend cooperation with China, on the other. The US and its Asia-Pacific allies want to have closer security cooperation with India particularly in the maritime sector.⁸³ Modi government after taking the office made Japan the first foreign port of call beyond the Indian subcontinent. Japan has been consistently assisting India's economic rise through aid, investment and technology transfer. During the last visit, Tokyo pledged US\$ 35 billion assistance, while the two sides also upgraded their ties to a "Special Strategic and Global Partnership" to emphasise increased economic and defence

⁷⁹ Hu Shisheng, an expert on South Asia at the China Institute of Contemporary International Relations, cited in Sanjay Kumar, *op. cit.*

⁸⁰ Sanjay Kumar, *op. cit.*

⁸¹ Zhao Gancheng, "Chinese Perspectives: Interests and Roles in Indo-Pacific", in Mohan Malik (ed.) *Maritime Security in the Indo-Pacific: Perspectives from China, India, and the United States*, London: Rowman and Littlefield, 2014.

⁸² Liu Zongyi, "New Delhi-Beijing Cooperation Key to Building an 'Indo-Pacific Era'", *Global Times*, 30 November 2014.

⁸³ Meena Krishnendra, "India and the Indo-Pacific Geopolitical Imagination", *Global Review*, Fall 2014.

cooperation.⁸⁴ Whether India would be able to keep its strategic independence from this multi-prong strategic engagement with the US and Japan will be highly significant to its ability to work with China on 'One Road, One Belt' projects.

8. Conclusion

China's drive to establish the 21st Century Maritime Silk Road shows a high prospect for a new development and cooperation model to promote comprehensive and collective economic growth across different parts of Asian and African continents. Going beyond geopolitics-centric maritime partnership, this initiative is a promising development in connecting rising economies with poor and underdeveloped regions, and thus creating a more balanced distribution of growth in the coming decades. China is advancing the idea of "win-win cooperation" and acting with a negotiating, flexible and transparent attitude to curb geopolitical apprehensions and build confidence among the countries along the road.

India being the largest and most powerful country in the Indian Ocean littoral occupies vital importance in connecting the East and Southeast Asia with Middle East and East Africa. It is facing geopolitical and security dilemmas in making concrete decisions. Economic interdependence and the need for industrialisation and infrastructure development as well as seaward reorientation of national economies have created ample complementarities between the two countries. While India's position would be big factor into the play, the complicity involves a much broader geopolitical hedging. There is an alignment of interest among India, the US and Japan in the Indian Ocean. The traditional policy of the US of preventing the rise of peer competitor in its hegemonic pursuit of controlling global oceans could make China's maritime initiative appear as a counter-balancing by China, and lead to strengthening of US Indo-Pacific security alliances. Japan's growing maritime ambition along with its customary anti-Chinese stance has brought the country closer to the US-Indian platform. Nevertheless, the growing Indian maritime capability might lead the calculation to a different direction. Whether India will act in tandem with the US-Japanese frame in the long run will depend how India assesses its trade off between its potential geoeconomic opportunities and geopolitical aspirations.

India in the long run might prefer to participate in the initiative. The most compelling factor would be its enormous need for infrastructure development and employment creation to meet challenges of growing population and industrialisation. Its participation will also depend on China's diplomatic ability to maintain the benign nature of the maritime belt in the face of perceived threats and geopolitical apprehensions. Economic and security complementarities are likely to create scope for

⁸⁴ R. Lakshminarayan, "Modi on the Move", *Global Times*, 16 September 2014.

greater connectivity and cooperation between India and China. In due course, extra-regional actors could also understand the significance of maritime cooperation and adjust with the Silk Road maritime belt, going beyond Cold War zero-sum thinking, leading to peaceful status quo in the IOR.

For a successful maritime connectivity through the Maritime Silk Road that would create greater appeal to neighbouring countries including India, China needs to project the initiative as a collective endeavour by the countries along the road, instead of appearing to be solely a Chinese project. For that end, it should think of creating a forum for regular consultation and negotiation on the potential areas of cooperation, as well as for jointly defining terms and procedures. Developing concrete plans for efficiently implementing the initiative as a commercially profitable and diplomatically meaningful cooperation would be critical for convincing India to participate. It is very important to note that, making the Maritime Silk Road a win-win scheme in this region, which is marked by historical legacies of disputes, instability and unequal level of development will require a great plethora of innovative thinking and policies.⁸⁵ One very important step is to make constant efforts to avoid any activities that provoke geopolitical apprehensions among the potential big partners like India. For instance, China's reportedly signing of "a 10-year agreement with Djibouti to set up a navy base to serve as a logistics hub for the People's Liberation Army-Navy"⁸⁶ is likely to draw geopolitical connotation of the initiative and discourage others to participate in the initiative.

China needs to increase its diplomatic maneuvering skills to a great extent. Chinese embassies in the partner countries will have to play more engaging role. Many Chinese experts think that the country's foreign missions are not equipped enough to undertake specific activities dedicated for projects like the Maritime Silk Road. There is a strong necessity to strengthen its foreign missions by creating specific departments to deal with such issues. Public diplomacy in the long run would be very important for materialising this project. Countries with democratic political setting like India have different portfolios other than the government. The project ought to take multiple stakeholders into confidence. Business groups, entrepreneurs and civil society are having their growing influence as pressure groups in the policy making processes. Negotiation and discussion should evolve in multiple fronts, alongside formal government channels. More diplomatic level exchanges among foreign ministries, ministries of trade and commerce, transportation, energy and other relevant government departments should be undertaken to foster spreading of the idea.

China needs to be pragmatic while undertaking plans. Clear incentives should be chalked out to generate wide-scale interests in India. Priority should be given on output oriented projects in the beginning so that the initiative can visibly deliver on

⁸⁵ Author's interview with Professor Ren Xiao, *op. cit.*

⁸⁶ Anthony Kleven, "Is China's Maritime Silk Road a Military Strategy?", *The Diplomat*, 08 December 2015.

its promises. This will build confidence on win-win cooperation. China has to find out acceptable ways to resolve maritime disputes peacefully with its neighbours in both South China and East China Seas. China's ability to resolve the disputes in a win-win manner would be a great leap forward towards building confidence among both regional and extra-regional players, and thus motivating them to participate in its ambitious projects.

Monzima Haque

THE IRANIAN NUCLEAR AGREEMENT: REGIONAL AND GLOBAL IMPLICATIONS

Abstract

Over the last two and a half years, negotiators from P5+1 and Iran are trying to reach out a diplomatic solution on the issue of nuclearisation of Iran. The motive behind such an arrangement had been to ensure that Iran's nuclear ambition remains exclusively peaceful in harmony with the international non-proliferation principles. Iran too, wanted to break out from the shackles of sanctions that had limited its global commerce in the past years. With the conclusion of a nuclear agreement in Vienna, it is expected that Iran will not pursue actions to develop nuclear weapons, at least in the immediate future. Nevertheless, implementation of the agreement requires walking down an even more complicated path than negotiation and is considered to have significant implications for the Middle Eastern region. Given this context, this paper makes an attempt to review the nuclear deal being signed and looks into its future implications.

1. Introduction

After a phase of intense negotiation and consultation for nearly two and a half years, in July 2015, six world powers - United States, China, Russia, United Kingdom, France, Germany and Iran hammered a nuclear agreement known as Joint Comprehensive Plan of Action (JCPOA). The long negotiated landmark agreement aimed to bring an end to Iran's alleged nuclear ambitions in exchange of release from sanctions imposed by the United States (US), European Union (EU) and the United Nations (UN). This agreement is considered as a landmark one because it demonstrated the prospects of a diplomatic solution to a decade long nuclear stalemate.

The agreement concluded in Vienna (2015) should be seen as a continuation of the Joint Plan of Action (JPOA) made in Geneva (2013) and Framework for the Comprehensive Agreement concluded in Lausanne, Switzerland (2015). The Joint Plan of Action of 2013 was the first phase of the attempt since 2006 for a 'mutually agreed long term comprehensive solution'. It came up with a six months long interim agreement expecting Iran to ice up its nuclear programme offering relief from some sanctions in exchange. Followed by the interim agreement, in April 2015, countries came up with a framework for a comprehensive agreement that set the outlines for a deal on the basis of which restrictions will be placed on Iran to keep its nuclear activities within a peaceful reach.¹ Within a few months of the framework agreement, negotiating parties

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¹ Mentioned in the Joint Plan of Action concluded by P5+1 in Geneva in November 2013.

finalised a Joint Comprehensive Plan of Action (JCPOA) in Vienna anticipating that its implementation would contribute to the peace and stability of the Middle Eastern region and usher in a new era of hope.

This nuclear agreement is hailed as well as debated internationally. It is welcomed as a historic deal because it ended years of stagnancy in Tehran's nuclear programme negotiation and finally allowed involved actors to reach a point of consensus. However, the deal did not satisfy all actors since claims have been made that there remains numerous *but*s and *if*s in its path of implementation and afterwards. Against this background, the objective of this paper is to review the nuclear agreement between Iran and six world powers. The key questions to be addressed are: what are the key issues in the agreement and how were these reached? What are the benefits and constraints of the agreement? What are the implications of the agreement in the region and beyond? The paper begins with the theoretical debate on nuclear proliferation and then follows the sequence of the aforementioned questions.

2. Theoretical Debates on Nuclear Proliferation

Growing urge for nuclearisation worldwide has garnered serious debates and discussions in the international relations theoretical discourse for long. Various scholars have listed different motives as fueling a state's desire to acquire nuclear weapons and these can be summarised with three 'P's: power, prestige and politics. The urge to be more powerful in systemic structure to pursue political and security goals; the stature of being a nuclear power and finally, domestic political context are some of the causes that drive a state towards nuclearisation. In case of Iran too, the decision to pursue nuclearisation can be linked with the three 'P's. As a member of the nuclear club, Iran will certainly have more regional and global voice as well as increased bargaining power in influencing global decision-making structure. Moreover, as a country seeing itself placed in the 'axis of evil' and given the 'fate of Iraq', Iran just cannot be out-rightly blamed for having nuclear weapon based security impulses. It is also important to note here that nuclear weapon is a powerful deterrent and in some cases, an inexpensive alternative to creating a large conventional force which can also be seen as one of the reasons for nuclear motivations of Iran.²

Whatever are the motivations, whether nuclear proliferation is dangerous or not, is still a matter of debate among international relations scholars. Nuclear proliferation optimists argue in favour of its deterrence value stating that nuclear weapons reduce the probability of war because countries know that using the weapon will be too destructive. There also remains the threat of retaliation in the back of their mind while planning to use it. This argument builds on the experiences of the Cold War. According to proliferation optimists, like Kenneth Waltz, a nuclear Iran

² Scott D. Sagan, "Why Do States Build Nuclear Weapons: Three Models in Search of a Bomb?", *International Security*, Vol. 21, No. 3, Winter 1996/1997, p. 56.

would be more stable and responsible in its conduct.³ Moreover, nuclear weapons reduce the imbalances in military power, and thus, it would actually bring stability in Middle East by breaking Israeli nuclear monopoly. The chance of weapons being transferred is also reduced because when countries develop the weapon, it becomes more concerned and acts reasonably to prevent such transfers, at the least will not do it deliberately.

By contrast, nuclear proliferation pessimists argue that acquiring nuclear weapons does not make states rational rather more aggressive and increases the risks of a conflict break-out. Similarly, nuclear pessimists state that Iran is not a 'security-seeking' state, rather a 'greedy' one and becoming a nuclear state would make it even more dangerous. As a result, once crossed the nuclear threshold, Iran would advance its revisionist agenda in the region and become more aggressive.⁴ The country might also let the proxies' access to its nuclear weapons which increases risk of nuclear weapons falling in the hands of terrorist groups.

Looking into these debates, it is understandable that the policy makers of P5+1⁵ builds more on the arguments of proliferation pessimists and look into a nuclear armed Iran as a potential danger. As a result, initiatives to bring a diplomatic solution to the concern, while simultaneously imposing sanctions to discourage the Islamic republic have been observed in past years.

3. The Nuclear Agreement: Background and Key Issues

The Iranian nuclear energy programme was established under the Shah regime in late 1950s with the help of the United States. This is the very first phase of Iranian nuclearisation and this phase was based on 'cooperation' with the United States. In 1957, an agreement was concluded named 'Atoms for Peace'. This programme helped flourish nuclear cooperation between Iran and other countries under the context of President Eisenhower's address in 1953 that called for the use of nuclear materials in serving 'the peaceful pursuits of mankind'.⁶ The Shah established the Atomic Energy Organisation of Iran (AEOI) in 1974 and in the same year announced plans for an ambitious nuclear programme that would eventually include over 20 nuclear power reactors. This programme was then actively supported by the major Western powers.⁷

³ Kenneth N. Waltz, "Why Iran Should Get the Bomb: Nuclear Balancing Would Mean Stability", *Foreign Affairs*, July/August 2012.

⁴ Colin Kahl and Kenneth Waltz, "Iran and the Bomb: Would a Nuclear Iran Make the Middle East more Secure?," *Foreign Affairs*, September/October 2012.

⁵ The 'P5+1' is a group of six world powers which, in 2006, joined the diplomatic efforts with Iran with regard to its nuclear programme. The term refers to the P5 or five permanent members of the UN Security Council, namely China, France, Russia, the United Kingdom, and the United States, plus Germany.

⁶ "Iran's Nuclear History from the 1950s to 2005", *ISIS Report*, available at www.isisnucleariran.org/assets/pdf/Iran_Nuclear_History.pdf, accessed on 22 April 2015.

⁷ *Ibid.* See also, "Iranian Nuclear Weapons? The Uncertain Nature of Iran's Nuclear Programs", *CSIS Report*, available at http://csis.org/files/media/csis/pubs/060412_iran_uncertainty.pdf, accessed on 28 April 2015.

Gradually, 'cooperation' turned into 'discontentment'. Iran expressed its interest in acquiring domestic reprocessing plant, an action opposed by the United States. Instead, the United States encouraged Iran to participate in a multinational plant.⁸ During this period, it was alleged that Iran's nuclear programme also included nuclear weapon intentions. However, the establishment of the revolutionary Islamic government in 1979 ended US participation in Iran's nuclear energy programme.⁹ The then Supreme Leader also decided to discontinue the nuclear energy programme as it was considered 'sinful'. Nevertheless, the devastating human costs of Iran's war with Iraq influenced its leaders' decision to develop nuclear and other unconventional weapons.¹⁰

Since 2003, the US has alleged that Iran has a programme to develop nuclear weapons. Iran says that its nuclear programme is only to generate electricity.¹¹ In 2002, it was revealed that Iran has been building sophisticated facilities at Natanz and other places. With this revelation, the phase of 'sanctions' against Iran started. Since Iran was a signatory of the Non-Proliferation Treaty (NPT), Iran was accused of violating the treaty by not reporting its nuclear activities to International Atomic Energy Agency (IAEA). Based on these circumstances, Britain, France and Germany launched a diplomatic effort and signed the Paris Agreement (2004) with Iran to persuade it to abstain from its uranium enrichment and reprocessing-related activities. In 2006, based on these allegations, the US and European countries call on Security Council of United Nations (UNSC) to act against Iran.¹²

From 2006 till 2010, the Security Council adopted a total of six resolutions and imposed gradual sanctions on Iran, including freezing assets, banning the supply of nuclear-related technology to the country etc. Relations between Iran and the West deteriorated to the extent that the US even started considering air strikes against Iran considering the threats on the security of Israel, the key ally of the US in the region. The US government also accused Iran of state sponsored terrorism and human rights violation against Iranian people.

Nevertheless, since 2013, the US started back-channel diplomacy via Oman, beginning series of secret talks with Iranian officials.¹³ This phase of 'negotiation' made its way when both Iran and the US supposedly realised that mutual hostility and mistrust would get them nothing. The process was delayed because the Obama

⁸ Dafna Linzer, "Past Arguments Don't Square with Current Iran Policy," *The Washington Post*, 27 March 2005.

⁹ Greg Bruno, "Iran's Nuclear Program," *Council on Foreign Relations*, available at <http://www.cfr.org/iran/irans-nuclear-program/p16811>, accessed on 15 May 2015.

¹⁰ "The United States and Iranian Nuclear Program: Policy Options," *Watson Institute for International Studies*, Brown University, available at <http://www.choices.edu/resources/twtn/documents/choices-twtn-iran-options.pdf>, accessed on 19 May 2013.

¹¹ *Ibid.* See also, Iilan Goldenburg, "US Strategy after the Iran Deal," *Center for New American Security*, available at http://www.cnas.org/sites/default/files/publications-pdf/CNAS_Iran_Deal_061015.pdf, accessed on 01 June 2015.

¹² "Iran has extremely advanced nuclear program," *CNN*, available at <http://edition.cnn.com/2003/WORLD/meast/03/09/iran.nuclear/>, accessed on 01 June 2015.

¹³ Ben Smith, "Iran's Nuclear Program and Sanctions," *House of Commons Report*, available at www.parliament.uk/briefing-papers/sn05275.pdf, accessed on 01 June 2015

administration was under pressure from the pro-Israeli segment in the political system of the United States. Washington realised that relations with Iran are crucial for the US to manage the complex Middle-eastern political dynamics, in its fight against Islamic State (IS) and to ensure security of its key allies there. The strategic decision of Tehran to cut a deal to get sanctions relief came at a moment when Hassan Rouhani was elected as Iran's President in 2013. The changed realities encouraged the move towards openness from both side and negotiation for a nuclear agreement received the necessary impetus.

With the passage of time, interaction between the two main actors, the US and Iran increased and in November 2013, Iran and the West (P5+1) reached an interim agreement known as Joint Plan of Action (JPA). The Lausanne Agreement should be seen as an extension of this JPA that failed to reach its deadline for a comprehensive agreement; first in, July 2014 and, second in November 2014. The deadline was finally extended to end of June 2015, with the target of reaching a framework understanding by end of March. On 02 April 2015, Iran and world powers announced framework deal to restrict Iran's nuclear programme in return for sanctions relief.¹⁴

A draft of the nuclear deal had been developed in June 2015 that outlines the key parameters of a Joint Comprehensive Plan of Action (JCPOA). The key points in the agreement included limiting production of centrifuges as well as reduce installed enrichment centrifuges; reducing uranium enrichment; halting construction of additional nuclear facilities; covert arrangements would be converted so that it stops producing uranium; halt the production and additional testing of fuel for the Arak reactor; allowing inspection to all its declared nuclear facilities, maintaining the time period for rolling-back; and finally, in return, the US and EU would lift their nuclear-related sanctions placed on Iran.¹⁵

Two issues are important to understand the road towards the deal. Firstly, the talk received a momentum with the election of President Hassan Rouhani in June 2013. He has previously been the nuclear negotiator and is known for his efforts towards constructive engagement to end Iranian policy of isolation. And the second is, several bilateral meeting arranged in Oman by the Obama administration in March 2013 in this regard.¹⁶ These two initiatives set the stage for reconciliation between Iran and the West, and ultimately, an understanding was reached.

¹⁴ "Everything you need to know about the Iranian nuclear deal", *The Economist*, available at <http://www.economist.com/blogs/economist-explains/2015/04/economist-explains-3>, accessed on 02 May 2015.

¹⁵ Eric Bradner, "What's in the Iran Deal?", *CNN*, available at <http://edition.cnn.com/2015/04/02/politics/iran-nuclear-deal-main-points-of-agreement/>, accessed on 27 April 2015. Also see, "Iran's Nuclear Deal: Key Points", *BBC News*, available at <http://www.bbc.com/news/world-middle-east-25080217>, accessed on 27 April 2015.

¹⁶ *Ibid.*

Based on this understanding, after several attempts beginning with the interim agreement, Iran and six leading world powers signed the comprehensive plan on 14 July 2015. Issues that were open for debate and discussion in the 'parameters of the deal' were resolved and clarified in the final agreement. Decisions were taken on establishment of a joint commission to monitor the implementation of the action plan and handle dispute situations. The IAEA has been tasked with verifying voluntary nuclear-related measures by Iran. In addition, all involved world powers and Iran decided to hold ministerial-level meetings at least once every two years to monitor the progress.¹⁷

Apart from establishment of commission, the agreement also presents a list of provisions. With regard to enrichment, limits have been placed and Iran is supposed to carry out enrichment only at the Natanz facility enriching uranium up to maximum of 3.67 per cent. Stockpile of uranium, one of the ingredients which can be processed into bomb-grade fuel, should not exceed 300 kg of uranium hexafluoride or equivalent chemical forms. The Fordow facility has to be converted into an internationally-supported technological centre. The Arak nuclear reactor should be modified for peaceful research and the spent fuel should be shipped to other nations for re-processing. Tehran has also been restricted from using reactor designs that require heavy water. Break-out phase has been agreed upon keeping in mind the minimum amount of time it would take Iran to assemble a single nuclear weapon. For the next fifteen years, Iran should be responsible to reduce its current stockpile of low-enriched uranium. In addition, it would also be required to reduce the amount of spinning machines used to enrich uranium known as the centrifuges to 5,060. Iran currently has about 19,000 centrifuges.

To maintain transparency, Tehran requires allowing IAEA to monitor its facilities and safeguard measures for the next 25 years at a row. Tehran has pledged not to conduct research relating to development of nuclear explosive devices. In return, the UN Security Council will lift its nuclear-related sanctions against Iran. The EU and the US will also lift their sanctions, including those on banking services, insurance, sale of aircraft parts, access to airports etc.¹⁸ However, all these will come at a moment when the IAEA has completed monitoring and verifies that implementation of certain measures mentioned in the agreement has been ensured by Iran. Proliferation-related sanctions will also be lifted by the EU and the US, but in eight years of time of the adoption of the agreement. This implies that sanctions would be lifted only when Iran fulfills its pledges and respects the deal. No additional embargo would be imposed on Iran as long as the timeline of the deal does not end.¹⁹ But provisions have also

¹⁷ Gary Samore (ed.), *The Iran Nuclear Deal: A Definitive Guide*, Belfer Center for Science and International Affairs, August 2015.

¹⁸ "Key points of historic nuclear deal reached by Iran and 6 world powers", *RT News*, available at <http://www.rt.com/news/273553-iran-nuclear-deal-highlights/>, accessed on 25 July 2015.

¹⁹ "Reactions to the Deal on Iran's Nuclear Program", *The New York Times*, available at <http://www.nytimes.com>.

been made that sanctions can be re-imposed in case of Tehran violating the agreement.

4. An Assessment of the Agreement

An assessment of the nuclear agreement is necessary to realise its implications. In view of the uncertainty of the situation with regard to Iran's nuclear desire and the turn it might take, the agreement was a sigh of relief for all the concerned actors. The US had only a few options available to deter Iran from its path towards nuclearisation. The first would be full-scale military strike or preventive war as it did in Iraq. Given its experience in Iraq in 2003, it was highly unlikely that US would have public and political support to plan another war. The second option would be imposing sanctions which was in play by both the US and the EU. But the result was far less than expected. Another option was sabotaging Iran's nuclear activities. Aimed to slow down Iran's nuclear efforts, the US used cyber-weapons against Iran's nuclear efforts. Upon revelation, Iran responded with declaration of building its own cyber military unit.²⁰ Therefore, it seemed to have caused escalation rather than being an effective deterrence. And, the final option at the exposure of the US was diplomacy. It could be said that the agreement resulted from the US administration's effort to balance diplomacy with sanctions.

Benefits of the agreement lie in the detailed nature of the provisions. The thoroughness and comprehensiveness of the agreement necessarily blocks all the pathways to the expansion of nuclear capability by Iran. Nuclear fuel can be developed using two paths: either using enriched Uranium or Plutonium. The current deal addresses both; it includes clauses to eliminate more than 95 per cent of the enriched uranium as well as blocks its capacity to move forward on the alternative plutonium path. The plutonium side is blocked since Tehran would have to ship all the spent fuel from that reactor and other research reactors out of the country. Adding to these cuts, the deal expands inspections and transparency on nuclear activities in Iran.²¹ Covert facilities would also have to be modified and closely inspected. Thus, the detailed provisions of the agreement greatly reduce the chances that Iran could continue to build a covert programme without being observed.

The agreement was made in presence of technical experts from all sides along with high- level officials. This certainly has increased its credibility and acceptance. Iran's approval of the inspection and decisions to establish voluntary safeguard and surveillance measures is an important demonstration of willingness from its side

com/live/iran-nuclear-deal-live-updates/key-provisions-of-the-accord/#, accessed on 25 July 2015.

²⁰ David Sanger, "Obama Order Sped up Wave of Cyberattacks Against Iran", *The New York Times*, available at <http://www.nytimes.com/2012/06/01/world/middleeast/obama-ordered-wave-of-cyberattacks-against-iran.html>, accessed on 02 October 2015.

²¹ Doug Gavel, "Analyzing the Iran Nuclear Deal", available at <http://www.hks.harvard.edu/news-events/news/articles/matthew-bunn-on-the-iran-nuclear-deal>, accessed on 25 July 2015.

reflecting that they are acting rationally on this issue. Since Iranian government has expressed its readiness to roll-back, it was also a matter of political gain for the US. From the Iranian side, the achievement is the probability of lifting of sanctions which would improve its economic standing. This issue of lifting sanctions has been debated a lot since critics consider that it would give Iran an upfront relief. However, it is pertinent to note that, according to the agreement, sanctions related to energy and financial industries will be lifted, as soon as Iran adopts all the key nuclear related steps that would be verified by IAEA.²² This refers to the fact that only compliances can bring an end to sanctions. It has also been stated that non-nuclear sanctions will remain in place. Moreover, the accord also has 'snapback' provisions which means that sanctions will be re-imposed if Iran does not comply. 'Additional Protocol' also allows IAEA to visit sites that it finds suspicious on short notice. Most importantly, IAEA has the technical expertise to figure out presence of uranium even if it is as tiny as a Nano cm. Thus, the argument of the critics that there remains chances for Iran to 'cheat' on uranium and clean it off before inspections take place is irrelevant.²³

However, the agreement necessarily has downside to it. It would eventually come to an end in fifteen years of time and restrictions on uranium enrichment would be lifted by then. Thus, it is debated to be a temporary solution to the problem allowing Iran to buy time to continue developing its nuclear capability. The argument goes on as, a country with technical know-how can always revert back to nuclearisation; a concern of both Israel and Saudi Arabia. In this regard, the true success of the agreement would still be dependent on how these fifteen years are put to use.

Another major constraint is the domestic situation of both Iran and the US. The implementation of nuclear agreement is subject to the approval of the US Congress and there remain chances that Congress revokes the agreement. In such a situation, Iran would feel betrayed invoking hostile responses from them. If the agreement is blocked at this stage, the international community would blame the US. It might further antagonise US-Iran relations and would also reduce chances of any future deal over the issue.²⁴

Even more concerning is that the moderate forces in Iran are very enthusiastic about the deal while hardliners are worried about its possible impact. The President of Iran Hassan Rouhani, the reformist in Iran and key person to bring an end to the isolationist policies of Iran, considers the deal as a political victory. This pragmatist, from 2003 to 2006, tried to prevent the nuclear dossier to be referred to the Security

²² Kyle Crichton and David E Sanger, "Who Got What They Wanted in the Iran Nuclear Deal", *The New York Times*, available at <http://www.nytimes.com/interactive/2015/07/14/world/middleeast/iran-nuclear-deal-who-got-what-they-wanted.html>, accessed on 02 October 2015.

²³ "Iran Nuclear Deal Background", *Congressional Digest*, Vol. 94, Issue 9, November 2015, p. 16. See more at Daryl G. Kimbal, "Assessing a Nuclear Deal With Iran", *Arms Control Today*, Vol. 44. No. 6, July/August 2014.

²⁴ Oran Dorell, "Iran-US differences over the Nuclear Deal Widens", *USA Today*, available at <http://www.usatoday.com/story/news/world/2015/04/17/politics-and-details-divide-usa-and-iran-on-nuclear-deal/25944199/>, accessed on 01 May 2013.

Council. After being President, for the last two years, he had been able to get Iran out of Chapter VII of the UN Charter and this helps him justify concessions being made at the deal.²⁵ It is expected that a successful completion of the deal would strengthen the pragmatists to exercise greater influence and would ultimately moderate the actions of the country. Nevertheless, there are also risks of hardliners reasserting their influence after the agreement as they feel threatened. Iranian Supreme Leader has already emphasised that he is not committed to any agreement and also mentioned 'sanctions must be lifted at the start of any agreement' and 'international inspectors would not be permitted in military sites'.²⁶ It certainly indicates that hardliners are not taking the deal positively and would not let Iran reconcile with the US so easily.

In sum, Iran has managed to enter into an agreement that allows it to shake off sanctions in return of pausing, or turning-back its nuclear activities, at least in the short term. It can be termed as a success for Iran if the objective of Tehran nuclearisation was to use it as a bargain. If the aim was to actually entering the nuclear club, Tehran has made a huge concession. For the world powers, the agreement is certainly a relief, at least temporary, if not a full-fledged success.

5. International and Regional Implications

Contrasting views exist with regard to the future of the nuclear agreement. Optimists hold that if successfully implemented, the Iranian nuclear agreement would open up new avenues of cooperation. It would allow reintegration of Iran in the regional dynamics and help improve its relations with the US. The opposing view holds that Iran would take advantage of the arrangement. Lifting sanctions would in turn allow it to gather more resources increasing its spending on militias.

If the agreement is implemented, it can be stated that a positive vive would be created. Global nuclear proliferation regime would experience the success of diplomacy over coercive stances; the triumph of policy of engagement over policy of coercion. It would reinforce the foundations of NPT and encourage development of peaceful nuclear energy and technology in adherence to proper scrutiny of the mechanism. It would add confidence to the UN and IAEA safeguard mechanism. The comprehensive agreement could even emerge as the building block for nuclear-weapons free zone in the Middle East and beyond. Emerging and aspiring nuclear powers would realise the probable and required level of transparency it needs to add to the development process of nuclear technology in its country which might reduce the urge to building such weapon. On the contrary, in case the agreement is

²⁵ Emma Graham-Harrison, "Hassan Rouhani: Reformist insider who has ended Iran's isolation", *The Guardian*, available at <http://www.theguardian.com/world/2015/apr/05/profile-hassan-rouhani-iran>, accessed on 12 May 2015.

²⁶ "Iran's Ayatollah Ali Khomeini Blasts Terms of Nuclear Framework Deal", *The Wall Street Journal*, available at <http://www.wsj.com/articles/ayatollah-blasts-terms-of-nuclear-framework-142862350>, accessed on 12 May 2015.

not implemented, any alternative left to the US is to withdraw from the agreement and plan for military actions which may further increase the Iranian urge to rebuild its facilities and continue with the current pace of its nuclear programme. This option would put things in a state of perpetual war and create increasing acceptance of Iran's activities at home and in friendly countries. This can further cause radicalisation in the country and in the region which is against the interest of the West in every absolute term.²⁷

With regard to the bilateral relations between the US and Iran, this is the first time since the Iranian revolution of 1979 that Washington and Tehran have entered into an overt deal on an issue vital to the national interests of both countries.²⁸ This deal is crucial since a US-Iran nuclear detente reflects a change in approach of the two countries over core issues of strategic interests. It is also expected that cooperation between the two countries would widen and would be applied to other points of contention in the region like Syria, Libya, Yemen, and Bahrain. This would create a space to further cooperation in issues of national and regional interests. This would foster progress towards an entirely new beginning. On the part of the US, the country is already strained with war in Afghanistan and Iraq and, therefore, needs the support of Iran to stay away from another war. Moreover, economic growth in Iran would strengthen moderate forces that are in favour of rapprochement which is in the interest of the US.

Russia has played a favouring role with regard to this agreement although they have had intricate records with Iran. This is because the Vienna agreement has opened up avenues of civilian nuclear cooperation with Iran. Moreover, Russia is one such probable country where Iran might ship its low-enriched uranium of current stockpile. Thus, Moscow is one of the crucial actors in the implementation of the agreement. It sees the deal as upholding stability in the region and looks forward to expanding cooperation with Iran. Through this, the energy-rich Persian Gulf would be open to the former superpower for energy trade. However, there remains apprehensions in Russia that the possible energy trade between Iran and Europe would reduce Europe's dependency for energy on Russia. Arms trade is another area of involvement between the two countries. Apart from its collaboration with Tehran, another reason for Moscow to support the nuclear agreement is its bargain with Washington on the NATO missile defence system in Europe.²⁹

Relations between China and Iran would continue to grow after the agreement. Primarily, because both countries does not have any complicated history

²⁷ James M. Dorsey, "The Iran Nuclear Deal: Rewriting the Middle East Map", *Insight Turkey*, Vol. 16, No.1, Winter 2014, p. 59.

²⁸ Nazir Hussain and Sannia Abdullah, "Iran Nuclear Deal: Implications for Regional Security", *Journal of Political Studies*, Vol. 22, No. 2, Winter 2015.

²⁹ "Russia Contemplates Arms Deliveries to Iran Following Nuclear Deal", *The Moscow Times*, available at <http://www.themoscowtimes.com/news/article/russia-contemplates-arms-deliveries-to-iran-following-nuclear-deal/525605.html>, accessed on 24 July 2015.

which is the case for US-Iran and Russia-Iran bilateral ties. In addition, China has good trade relations with Iran. Bilateral trade between the two countries constituted almost US\$ 50 billion in 2014.³⁰ China also played a constructive and facilitating role in delivering the agreement and provided Iran with technical expertise to sort out issues of contentions in the provisions of the agreement. It might be a result of China's deep sense of suspicion about the intentions of the United States. By remaining a credible partner of the six negotiating world powers, the strategy of China probably is to make sure that relations between the US and Iran do not deteriorate to a level to hurt its energy interests in the Persian Gulf region.

On the regional front, followed by the nuclear agreement, the expectation is that Iran would emerge as a more responsible regional actor playing a significant role to craft solutions for conflicts in the region. There also remain scopes for further economic cooperation among regional actors, like Oman, and Iran. In such a scenario, the nuclear agreement might end up opening the doors of dialogue in the Middle East and thus, assist in building regional peace. Countries in the Middle East see the nuclear accord as a positive development and consider it as preventing the region from descending into a critical nuclear weapon competition. Nonetheless, the nuclear agreement and sign of gradual rapprochement between the US and Iran has also invoked bitter responses from Israel, one of the key allies of the US in the region. Saudi Arabia, another ally of the US, is also very doubtful about the prospects of the agreement. By contrast, countries like Oman, Kuwait, and Qatar have expressed positive sentiments about the developments.

For Israelis, Iranian nuclear programme has always been an existential threat. The country that is believed to be the only Middle East country to possess nuclear weapon dubbed the nuclear agreement as a 'historic mistake'. As a result, Israel is trying to harbour and project similar fear and suspicion among other Arab countries. Another US ally, Saudi Arabia, sees the agreement as an attempt of Iran to pursue an aggressive policy to gain regional hegemony using proxies and sectarian instability. Given their skepticism, it will not be surprising if Saudi Arabia tries to look for new alliances within and beyond the region. Through the air campaign in Yemen against Houthis, Saudis have already displayed their activism against potential rise of Iran's influence in the region. Certainly, they would not let Iran alter the balance of power in the Middle East by entering into an agreement with the US.

These countries are concerned that an economically powerful Iran followed by sanction-relief would emerge as a powerful player in the regional political landscape. In such a reality, one cannot rule out the possibilities of an increasing struggle for regional power and prestige among the major powers in the region. However, followed by the nuclear agreement with Iran, it can be stated that, given the

³⁰ Michael Singh, "The Sino-Iranian Tango", *Foreign Affairs*, available at <https://www.foreignaffairs.com/articles/china/2015-07-21/sino-iranian-tango>, accessed on 26 July 2015.

scrutiny and inspections that a country would be subjected to if it attempts to develop nuclear weapons, the agreement would reduce desire of the Arab States to enter into any such arrangements. If Iran is allowed to continue with its nuclear programme, and ultimately gathers a nuclear weapon, that would certainly encourage countries like Saudi Arabia, Egypt and Jordan to develop such weapon. This resulting security dilemma would put things in a state of war. Interestingly, to deal with the regional insecurities, some experts have also advocated for an American- sponsored regional security framework as a form of extended deterrence in the Middle East. Such expectations are not practicable, especially in the context when the US is shifting its pivot to Asia and trying to limit its commitment as security provider in the Middle East. Therefore, limiting the scope of deadly war and creating a space for dialogue in the region should be the utmost priority.

Involvement of European powers in the deal is a manifestation that these countries recognise Iran as a powerful force to ensure a more peaceful and stable Middle East. Increased coordination between Iran and the EU would allow undertaking coordinated steps to combat rising trends of terrorist groups like ISIS. With regard to the implication in the intra-state political dynamics of Iran, there remains a lot to be considered. Since both reformers and hard-liners hold different views of the accord, the future of the country as well as the Middle East would be determined by which power emerges as the beneficiary of the accord.³¹

In South Asia, the nuclear agreement offers prospects of enhanced economic cooperation with Iran. India is already deeply looking into prospects of making heavy investments in Iran. Bangladesh should also make use of this opportunity as well. Bangladesh's trade relations with Iran would receive a boost if the nuclear agreement is implemented. Bilateral trade relations between the two countries are tilted in favour of Bangladesh. However, a decreasing trend has been exhibited in trade relations when the sanctions were imposed. Value of bilateral trade was nearly US\$ 160.3 million in FY 2011 which reduced to US\$ 67.4 million in FY 2014. Thus, an Iran without embargo means a market for Bangladeshi products like textiles, chemicals and jute items. Bangladesh can also benefit from importing oil at a cheaper price from Iran.³² With gradual stabilisation in the Middle East, manpower export from Bangladesh to the region would be positively impacted as well.

³¹ Yaroslav Trofimov, "Will Nuclear Deal Boost Iran Moderates or Hard-Liners?", *The Wall Street Journal*, available at <http://www.wsj.com/articles/will-nuclear-deal-boost-iran-moderates-or-hard-liners-1432808828>, accessed on 28 May 2015.

³² Asjadul Kibria, "Post-Sanction Iran Offers Business Opportunities", *The Financial Express*, available at <http://www.thefinancialexpress-bd.com/2015/07/25/101403/print>, accessed on 25 July 2015.

6. Conclusion

The Iranian nuclear agreement has been a successful demonstration of years of negotiation, a landmark achievement for global proliferation discourse and an accomplishment for diplomacy. It has created options for reconciliation between Iran and the US which can be crucial for the future of Middle East security architecture. The US has demonstrated its leadership role through this initiative; while Iran has extended the deadline for bringing an end to its nuclear development programme. Whether this new change would alter the power balance of the region is yet to be observed. But, the ground reality is, years of negotiation has come to an end with a formal agreement which in itself is a success. The agreement is detailed and it looks forward to ensuring nuclear weapons free Iran for at least ten to fifteen years; while, on the contrary, opposing the deal offers nothing except an Iran as determined to have developed nuclear weapon in a short time even in face of sanctions.

The bottom line of the agreement is that understanding and consensus can help to create ground for dealing with instability in the region in immediate future. Moreover, engagement rather than containment might help in curtailing Iran's hegemonic aspiration and allow for a consensual regional role-playing. As the timeline of a decision from US Congress and Iran's Parliament approaches, it is understood that the agreement will be the next step in a long and complex process. It is the mindset of the politicians, intra-state dynamics of Iran and the US, as well as the regional and international geo-political players evolving in the next fifteen years, all of which would determine the future of the agreement.

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