

Economic Diplomacy in South Asia

*by Harun ur Rashid**

My brief presentation has three parts, namely:

- (i) Economic diplomacy and its broad definition
- (ii) Main issues and nature of economic diplomacy
- (iii) Interaction between governments and private sectors in economic diplomacy.

Before I begin to discuss the above issues, I wish to say a few words of about South Asia and its economy.

South Asia

The term “South Asia” refers to seven countries, such as, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. In 1985 these seven countries have established a regional inter-governmental forum, called “South Asian Association for Regional Cooperation (SAARC), almost similar to ASEAN. South Asia is inhabited by almost 1.3 billion people (nearly 22% of the world’s total population) although it covers only 3.3% percent of the surface of the world.

The image of South Asia in foreign media is hardly positive and they highlight the negative ones because they find it newsworthy. Their typical image is one of flood, famine, armed conflicts and ecological disaster. Confrontational politics or Indo-Pakistan wars dominate news in the West including Australia and majority of people in these countries form perception about South Asian nations from such news coverage. Although admittedly there is poverty and past conflicts in the region, this attitude or perception must be balanced with a realistic assessment of what South Asia is all about.

One fact has been emerging is that the size of middle class has been growing very fast in South Asia and they have become consumers of all varieties of sophisticated and state of art goods. Some say that South Asian middle class consumers, (currently more than 100 million people and increasing day by day) are set to drive global demand in the years to come, as did the American consumer in the decades ago.

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Prior to the late 70s, South Asia's economy was one of the most regulated economies outside the communist block. Sri Lanka first liberalized the economy in South Asia in 1977, Bangladesh in 1980, Nepal in 1986, Pakistan in 1989 and India in 1991.

For the last ten years or so, the leaders of government leaders of South Asian countries have underscored the need of economic diplomacy, rather than solely on traditional or political diplomacy. For "butter and guns", money is needed and economic diplomacy is directed to this end.

What is economic diplomacy?

In the traditional sense, diplomacy is political diplomacy. This means that diplomats are primarily engaged in political relations because close or strong political relations lead to relations in other areas including economic. Empirical evidence suggests economic relations are not initiated in a significant way in a political vacuum in which there is a lack of trust.

Economic relations may act as glue to political relationships. There is a growing realization that if economic relationships are strong, they have an impact on political relationship and whatever ripples occur in political relations, it gets sorted out because both countries have a stake in not losing out beneficial economic relationship. Recent example of Australia's refusal to attend the Washington meeting of common security perspective on China provides the testimony to the fact that Australia does not wish to rock the boat of strong economic relations with China.

The term "economic diplomacy" is of recent origin. Economic diplomacy was earlier known as Trade Diplomacy. Trade diplomacy came with the nationalization of industries in many countries from the 50s to the 70s. This resulted in gradual involvement of diplomats in trade matters, that is to help sell products of nationalized industries.

Meanwhile with the time elapsed, political leaders have realized that "bread and butter" issues are the principal objectives for growth and prosperity of people. Added is that while strong economy exists, leaders can win successive elections.

Now the term "economic diplomacy" has become a buzz-word in all countries. In the process the term has raised confusion among many as to its exact meaning, although every one has a general idea about it.

There is no exact definition of it but it can be described as formulation and advancing policies relating to production, movement or exchange of goods, services, labour and investment in other countries.

A distinctive feature of economic diplomacy is that private sectors are involved in the decision-making process to influence negotiating position to remain in the global or regional competitive market.

This is because firstly market developments are rigorously monitored by private sectors. Secondly, they are in the field and they know where and how to invest, sell, goods and services in the interests of a country. In the case of traditional diplomacy, it is the officials/diplomats who are involved in it and there is no participation or input from private sectors.

Economic globalisation has increasingly made economic diplomacy significant factor in foreign policy. Many of the Foreign Offices have merged with trade sections. For instance, the Department of Foreign Affairs was changed to Department of Foreign Affairs and Trade in Australia in the late 80s.

Economic progress and prosperity depends on beneficial relationship with other countries come and each country wants to penetrate into other countries with its goods, services, labour and investment.

Economic globalisation has also made increasingly difficult to draw a clear-cut distinction between what is domestic and what is international. Global economic issues have great impact on domestic issues and in the process, economic diplomacy involves in global economic issues.

Economic diplomacy is concerned with the prediction of outcomes of future trade regimes and therefore it will need an understanding of market factors at work in a given global economic environment and in that process, a country will involve in making decisions in advancing economic interests.

Global economic or trade issues are complex and it needs skilled persons to negotiate within a framework of a given international institution, say, World Trade Organisation.

Globalisation of economy has greatly increased the range and variety of economic diplomacy. The range of countries active in economic diplomacy has expanded and now spans the whole globe.

There is an awareness that economic diplomacy may drive for greater transparency.— for better information, greater clarity and more publicity. Private sectors give high priority to transparency. However in all case transparency may not be desirable because negotiation on trade is like courtship: there is usually a period of private exploration and preparation before the parties are ready for public commitment.

Multilateral economic diplomacy ordinarily takes place within the framework of World Trade Organisation, International Monetary fund and World Bank. The last Multilateral Trade Agreement (known as Uruguay Round) was concluded in 1994. The current Doha Round of negotiations is continuing and hopefully it will succeed.

To pursue economic diplomacy presupposes that there must be a pool of skilled persons in the government and private sectors to understand and negotiate key economic and trade issues from national perspective. Economic diplomacy will fail if there is dearth of skilled persons who are able to negotiate from position of understanding and strength.

Issues in Economic Diplomacy

Economic diplomacy may face certain issues, namely tension between politics and economics, tension between international and domestic pressures and tension government and private sectors. Let us briefly examine each one of them

With regard to first tension between politics and economics, since states are political entities, politics encroaches economic field. If there is a tension or conflict between the two, political considerations outweigh economic interests. For example, a country is not willing to engage in trade because of political considerations. Many Muslim majority countries have yet to establish economic or trade relations with Israel.

When governments choose policies, private sectors often find that those policies which make most sense in economic terms are not often approved for political considerations. However in certain circumstances, governments strike a balance between politics and economics.

For example, when Taiwan private business office was opened in Dhaka (Bangladesh) in 2004, there was a hue and cry from a section of media that Bangladesh's relations with the People's Republic of China would be adversely affected. However government of Bangladesh managed the situation in such a way that commercial interests with both China and Taiwan continue in a robust way, while confirming strongly "one-China policy" (meaning Taiwan is a part of China).

The second tension is between domestic and international pressures in economic policy-making. Often domestic pressures are contrary to international regime in respect of trade and investment. Generally domestic positions get modified in order to reach an internationally good result.

For example, national companies and business enterprises oppose opening national economy because of stiff competition they would face from foreign — made products. However governments, as responsible members of international community, have to abide by international regulations for long- term interests and introduce de-regulation of domestic markets.

In such situations, governments make sure that their decisions are understood and accepted by private sectors. Eventually, when benefits flow to domestic stake-holders for opening up national economy, they accept de-regulation and liberation of economy. Bangladesh is currently one of the most open economies in South Asia and the result is that on average Bangladesh exports have grown by about 15% per year.

The third tension is between the government and private sectors. Often private traders, financiers and investors play an important role in economic diplomacy but governments often do not heed to their advice because of policy considerations, political or otherwise. Since governments call all the shots in the matter, there exists a tension between private sectors and governments on some issues of economic diplomacy.

Multi-level nature of economic diplomacy

Economic diplomacy may operate in three levels: (a) bilateral (b) regional and (c) multilateral.

Bilateral economic diplomacy forms a major part in economic relations, whether this consists of informal dealings between two countries on a range of issues or formal bilateral agreements on trade or investment or avoidance of double taxation.

Regional dimension in economic diplomacy is of growing importance. Regional economic agreements offer a more rapid way of opening markets. Liberalisation of economy may be easier to accept for national interests when it occurs within a regional grouping of countries. For example, South Asian Free Trade Agreement (SAFTA) within the seven South Asian countries has been agreed by all member-countries.

How do they interact?

One of the areas of economic diplomacy is related to bilateral free trade agreements (FTA). Different countries may use different levels of trade agreements. The multi-level nature of economic diplomacy means that governments take advantage of such levels. It implies that governments have many options to take.

Bilateral trade agreements have been the order of the day. Bilateral Free Trade Agreements (FTA) are being concluded by many countries. The number of FTAs constituting trade blocs has increased substantially in recent years. The existing arrangements of FTAs involves 45 countries in Africa, 26 in Europe, 32 in the Americas and 13 each in the Asia-Pacific and the Middle East regions.

The devil is in the details of FTA. For instance, how extensive will be the cover of FTA? How large is going to be the negative list of commodities that will be exempt from FTA? Are tariff and non-tariff barriers simultaneously eliminated or reduced gradually? Such issues are being dealt with within the economic diplomacy.

Regional agreements may suit neighbouring countries and countries of the same level of economic and social development. Details of South Asia Free Trade Agreement (SAFTA) are being worked out so that its implementation may begin in 2009 and complete in 2013, depending the size and scale of economy. Many economists prefer to multilateral treaties on trade (current Doha Round) to bilateral trade agreements.

Another matter that merits attention is that millions of people of South Asian origin live in Western countries and most of them earn good money. One dimension of economic diplomacy has been to get them involved in economic and commercial activities within their home countries by disseminating information about investment climate. They can invest not only to earn profits but also help develop their home countries on the road to economic development.

Conclusion

Economic diplomacy is dynamic and has to adjust to the contemporary realities. New questions always emerge and the context can change sharply. The terrorist attacks on September 11, 2001 have raised many complex questions about the likely direction of economic diplomacy. New rules for shipping and road transportation of goods have been introduced and for many developing countries their compliance is not only costly but is often found beyond means.

Economic diplomacy is the pursuit of all countries. The richer a country gets, the more politically rulers are stable on their seats. It is the strong economy accompanied with social justice that underpins good governance and it can be achieved through robust economic diplomacy.

All South Asian countries have embarked on the course of economic diplomacy for some years and economic relations with other countries including volume of trade have greatly increased. For example in 2004, Indo-China trade reportedly stood at US\$13 billion from a meager amount of some hundred of millions a few years earlier.

During the Cold War, an absence of armed conflicts was considered a success. At the dawn of the 21st century, there is a different definition of success. It is judged by interactions through economic diplomacy to enhance country's economic gains in the globalised and competitive world.