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Intra-BBIN Trade: Opportunities and Challenges

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ABSTRACT The Bangladesh, Bhutan, India, Nepal (BBIN) sub-regional initiative is envisioned to improve economic cooperation and connectivity among the four South Asian countries. For India, this initiative allows it to bypass some of the more complex political issues of SAARC and engage in direct discussions on connectivity with Bhutan, Bangladesh and Nepal. This initiative is expected to help the landlocked developing countries of this region to integrate more effectively with the global economy. But there may be certain challenges, too. India has been a dominant member of SAARC; without Pakistan and Sri Lanka, India's dominance in BBIN will be even more pronounced. It is also important to keep in mind that political objectives and policy priorities of BBIN countries might not always align perfectly. The long-term success of BBIN will depend on how well these concerns are managed within the framework.

INTRODUCTION

Although countries of South Asia are tied by shared history and culture, they are still not well connected with each other and integration remains one of the poorest in the world. The Bangladesh, Bhutan, India, Nepal (BBIN) sub-regional initiative is envisioned to improve economic cooperation and connectivity among these four South Asian countries.

To begin with, these countries trade very little among themselves. In spite of having an overarching regional free trade agreement in the form of the South Asian Free Trade Agreement (SAFTA) signed in 2004, and various other bilateral and regional trade agreements forged since then, intra-regional trade among South Asian countries accounts for only about five percent of their total trade. To put such figure in perspective, trade among the countries in the Association of Southeast Asian Nations (ASEAN), for example, is around 25 percent of their total trade. Estimates reported by the South Asian Association for Regional Cooperation (SAARC) secretariat in 2015 indicated that intra-SAARC trade was around $28-30 billion per year. In contrast, intra-ASEAN trade, as reported by the Malaysia External Trade Development Corp., was around $608.6 billion for 2014.[1]

This low level of regional integration in South Asia is manifested by poor intra-regional investment, and even poorer intra-regional factor movements. The lack of regional integration hurts the region's smaller countries more. Countries such as Nepal and Bhutan are least developed, landlocked countries, and access to regional and international markets is crucial for their development. Their very lack of economic and physical connectivity leaves them with little opportunity to create productive ties with the rest of the world, rendering them highly disadvantaged in a global economy where such relations help achieve development goals.

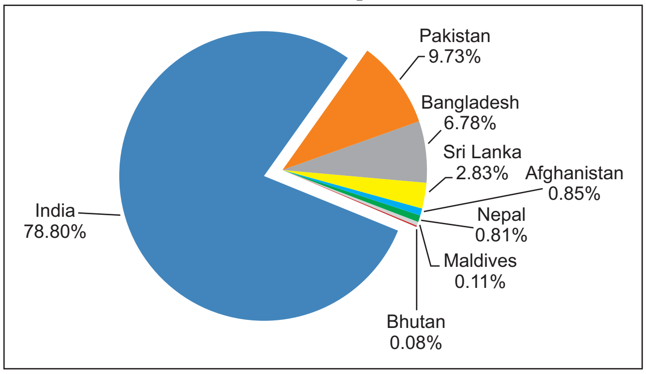
A number of initiatives have been taken to improve regional integration in South Asia. In 1985 SAARC was formed, which later paved the way for the South Asian Preferential Trade Agreement (SAPTA) signed in 1995, and eventually the SAFTA in 2004. However, intra-regional economic integration continues to be low among these countries, for a number of reasons.

The first and most obvious reason is the high level of political tension and mistrust between India and Pakistan, the two biggest economies of SAARC and as such, whose relationship tends to dictate the overall tenor of the association. Historically, the two countries have not cooperated well on international platforms; the same has been true for SAARC. This has led to repeated stalling of negotiations in SAARC summits.

Second, India is a major economic power in South Asia and its GDP is about 79 percent of the total GDP of the region (See Figure 1). Therefore, there exists some skepticism about India's possible dominance of SAARC. This apprehension is reinforced by the fact that India runs a huge trade surplus vis-à-vis all South Asian countries. Data for 2014-15 show that while the South Asian countries account for about 6.6 percent of India's exports, they only supply about 0.65 percent of India's total imports. None of the South Asian countries featured in the top 25 trade partners of India in 2014-15. India's trade patterns show that the country imports more from, for example, Southeast Asian countries. Vietnam, for one—which is not an oil-exporter and in 2013 had a GDP of $170.6 billion—exported more than $3 billion worth of goods to India in 2014-15. Pakistan and Bangladesh, meanwhile—whose GDP for the same year were $231.6 billion and $161.3 billion, respectively—exported to India in the amounts of $497.3 million and $621.4 million in 2013 (See Table 1).

Figure 1. Share of GDP of Countries in Total GDP of South Asia (%)

(GDP numbers are taken in current prices for 2013)



Source: International Monetary Fund, World Economic Outlook Database, October 2015

Table 1. Trade between India and other South Asian Countries (2014-15, in $million)

(Rank based on India's total trade, both exports and imports, with the partner country for that year.)

Rank	Country	Exports	Imports	Total Trade	Trade Balance
30	SRI LANKA DSR	6,703.72	756.17	7,459.89	5,947.55
31	BANGLADESH PR	6,451.47	621.37	7,072.84	5,830.10
38	NEPAL	4,558.77	639.91	5,198.68	3,918.86
51	PAKISTAN IR	1,857.18	497.31	2,354.49	1,359.87
86	AFGHANISTAN TIS	422.56	261.91	684.47	160.65
93	BHUTAN	333.94	149.87	483.81	184.08
131	MALDIVES	152.38	4.32	156.7	148.06
	India's Total	**310,338.47**	**447,964.38**	**758,301.08**	**-137,625.92**
	Share of South Asian countries (in %)	**6.60**	**0.65**	**3.09**	
Memo Item					
	Vietnam	*6,257.88*	*3,003.35*	*9,261.23*	*3,254.53*

Source: Export-Import Database, Ministry of Commerce, India

Similar numbers are often portrayed to indicate that India has not played a role that is commensurate to its economic size in the South Asian regional integration process. In other words, it is a long held view that India has not opened its markets effectively to its South Asian trade partners. India, for its part, has over the years responded to such calls by reducing its tariff rates against these countries. Tariff negotiations are going on since the establishment of SAARC and market access negotiations continue under the SAFTA platform.

Statistics show that tariff reduction under SAFTA has not helped improve economic integration beyond a certain level. Most studies indicate that to further improve economic integration, South Asian countries should focus more on the removal of non-tariff barriers (NTBs), reduction in the sensitive list of products, improve trade in services and, most importantly, improve connectivity and strengthen institutions.[2] The Asian Development Bank (ADB) has expressed similar concerns. At a meeting on regional road transport connectivity, ADB's Wencai Zhang said, "Non-tariff barriers continue to impede growth of intra-regional trade. One UNESCAP-World Bank trade database shows that it can cost much more for a South Asian country to trade with another country within the sub-region than with one outside. In fact, bilateral trade costs within South Asia were, on average, 244% of the value of goods, in contrast to the figure of 121% for the region's trade with the East Asia/ Pacific region. This high cost of trade is attributed to a variety of non-tariff barriers."[3]

These concerns about NTBs, connectivity and trade facilitation-related problems have been under discussion in SAFTA and SAARC for many years now. These talks, however, have not gone smoothly. While there may have been a degree of foot-dragging over some of these issues by the concerned governments in SAFTA, genuine efforts to improve physical connectivity and encourage improved energy cooperation have been repeatedly stalled in SAARC summits due to a mutual lack of trust between India and Pakistan. For example, in the 18th SAARC summit in Kathmandu in November 2014, ambitious proposals to integrate South Asia through connected networks of road and rail could not be signed due to Pakistan's reluctance. This served as one of the motivating factors for the relatively fast-track negotiations for a sub-regional economic cooperation agreement within the broader SAARC framework, involving the BBIN countries.

The first achievement of the BBIN initiative has been the Motor Vehicles Agreement (MVA), signed on 15 June 2015 in Thimpu, Bhutan. The MVA looks at easing passenger, personal and cargo movement among the BBIN countries. It has been developed with the support of the ADB under its South Asia Subregional Economic Cooperation programme.

BBIN AND TRADE COOPERATION

The establishment of the BBIN initiative is important for trade for various reasons. As discussed earlier, market access barriers like tariffs and non-tariff measures have been discussed in SAFTA for many years now and will continue to be negotiated under the same framework. BBIN will retain all these works that are going on under the SAFTA umbrella.[4] However, new literature on trade within South Asia indicate that trade facilitation issues have emerged as key issues blocking the rapid expansion of intra-regional trade. Various travel restrictions at the border Land Customs Stations (LCSs), delays due to transshipment issues, poor and sometimes non-existent infrastructure at some LCSs, and other customs documentation and clearance-related problems are significantly adding up to the time and financial costs of conducting trade among these nations.

In this context, the BBIN MVA is a welcome step. As explained by a response in Indian Parliament,"This BBIN MVA will allow the BBIN countries to move forward with implementation of land transport facilitation arrangements between and among them, enable the exchange of traffic rights and ease cross-border movement of goods, vehicles and people, thereby helping to expand people-to-people contact, trade and economic exchanges between them. The BBIN MVA would make cross border trade and transport in and through the Northeastern region of India to and from Bangladesh, Bhutan and Nepal more efficient".[5]

The agreement will allow vehicles to enter each other's territory and eliminate the need for transshipment of goods from one country's truck to another at the border, thereby eliminating a time-consuming and costly process. This is not only going to reduce trade costs between nations and facilitate smoother transactions and boost trade, but it will also possibly reduce some of the informal trade that happens among these countries. Estimates suggest that while formal intra-SAARC trade is around $28-30 billion per year, informal trade among these countries can be as high as $25 billion.[6]

An added benefit of the MVA will be that it will promote support for containerised movement of cargo. Containerisation of trade has lowered the cost of trade across the world significantly and it is likely that high trade costs among South Asian countries will be drastically reduced when containerisation gains more popularity. Recent news reports indicate that BBIN countries have agreed to begin discussions on the possibility of having a BBIN rail agreement. One of the biggest advantages of containerised trade is that it is multi-modal and therefore, an integrated and seamless road and rail network will further facilitate containerisation in South Asia and help reduce trade costs.

Such initiatives will also give a boost to the landlocked LDCs such as Bhutan and Nepal, with small domestic markets. It is imperative for these countries to have access to global markets, both for exports and imports. These countries will benefit most due to easier cross-border movement of passenger and goods due to the BBIN MVA and the expected BBIN rail network agreement. These agreements will make it easier for the countries to access the ports of India and Bangladesh for intra-regional and extra-regional trade.

The northeastern region of India will also benefit significantly from the BBIN MVA and rail network programmes. One of the major challenges faced by India's Northeast has been poor connectivity. The BBIN agreements will reduce distance between the northeastern states and the Kolkata port by about a thousand kilometres, as well as allow these states to access the Chittagong port in Bangladesh. This has the potential to unlock significant business opportunities in India's Northeast. As Ghosh[7] points out, the BBIN initiative also aligns well with some of the major initiatives taken by the ADB. A study by the ADB has proposed 10 regional road networks as South Asian Corridors, out of which seven have been identified in the BBIN region. These economic corridors will allow landlocked trading centres of Nepal and Bhutan to gain access to ports in India and Bangladesh. For example, Tripura can get access to Bangladesh's Ashugunjport; Chittagong and Mongla ports can be accessed from Kolkata and the northeastern states.

Besides easier flow of goods, the BBIN initiative also promises to facilitate the movement of people across borders. This has huge implications for both business and trade as it can lead to improved people-to-people contact, encourage business travel and most importantly can give a huge boost to trade in various services. One major advantage of BBIN is that there is little that divides the citizens in terms of demographics and cultural traits--and this can be leveraged to promote trade in different types of services. For example, easier travel requirements can unleash enormous cross-border tourism in this region. It is well recognised that there is big potential for religious, cultural, adventure and eco-tourism among the BBIN countries. There is also significant opportunity to improve trade in services in the areas of energy, healthcare and education. Easier movement of people across borders among the BBIN countries is expected to boost these services. It is also expected that increased economic and trade integration among these countries will generate demand for supporting services such as logistics, shipping, banking and finance and express delivery. An integrated market will also boost e-commerce services in the region.

Other expected benefits to the region will come from possible development of regional value chains in South Asia. Globally there is an increased trend for participation in production networks or value chains where a number of spatially separated but linked firms engage in the production of different components of the same product. By breaking up the production process into tasks that require different input combinations or skills, these firms can improve the overall production efficiency by matching tasks with location-specific advantages. Therefore, at a regional level, a group of firms engaged in such production networks can utilise country-specific comparative advantages to lower production costs and increase market access.[8] As Brunner points out, participation in such regional value chains requires closer regional integration through logistics, information network and connectivity improvement.[9] This can increase the 'virtual size' of an economy as trade with neighbouring countries goes up. Participation in regional production networks will allow these countries to substantially benefit from scale, network, coordination, and agglomeration economies.

From a wider perspective, the BBIN MVA can be seen as a first step towards a broader integration process. The locational advantage of South Asia implies that it can serve as a gateway for connecting to Southeast and East Asia. The BBIN MVA network has created the first step of this broader integration process. India is at present negotiating a similar agreement with Myanmar and Thailand. If the agreement is implemented, the BBIN sub-region will be more seamlessly integrated with the ASEAN market. This is important because of both economic and strategic reasons. ASEAN is a big and growing market and India already has a number of FTAs signed with the ASEAN countries. Improved connectivity will imply much tighter economic integration between India and other BBIN countries with ASEAN. The biggest beneficiaries are likely to be the landlocked countries of Bhutan and Nepal, Bangladesh and eastern and Northeastern parts of India. The ADB also has ambitious plans of trans-Asia road and rail networks, and the BBIN initiative coupled with the India-Myanmar-Thailand agreement can fit well into that plan.

There is also a strategic implication of the BBIN initiative. China is investing heavily in developing road and rail networks to recreate the age-old Silk Route. Its massive One-Belt-One-Road (OBOR) initiative is planned to run through the continents of Asia, Europe and Africa. The OBOR initiative will connect the East Asian economic circle with the developed European economic circle. It plans to link China with the Persian Gulf and the Mediterranean Sea through Central Asia and West Asia and connect China with Southeast Asia, South Asia and the Indian Ocean. In its largest definition, OBOR would include 65 countries, 4.4 billion people and about 40 percent of global GDP.[10] Given such grandiose plans on the part of China and their possible ripple effect on South and Southeast Asia, initiatives like BBIN may give India a toehold in the region in both economic and strategic terms.

CONCLUSION

The BBIN initiative is a welcome sub-regional integration project for India. It allows India to bypass Pakistan and discuss connectivity issues with Bhutan, Bangladesh and Nepal, which has proved difficult at the SAARC level. It also integrates well with India's 'Look East Policy'. This initiative can also solve India's longstanding problem of locational disadvantage and poor connectivity of its northeastern states. The BBIN initiative fits well with the new wave of developing massive transnational road and rail connectivity networks. All these will facilitate intra- and inter-regional trade in goods and services. It may also help develop sub-regional and regional value chains, which can be further integrated with global production networks.

There are challenges ahead, too. India has been a dominant member of SAARC and without Pakistan and Sri Lanka, India's dominance in BBIN will be even more pronounced. It will be a responsibility that India will need to address in the sub-regional grouping. Then, other countries in the group may not have their priorities completely aligned with India. For example, Bhutan often puts its emphasis on maintaining its leading rank in the gross national happiness index over economic growth. Consequently, there have been some reservations in Bhutan about free movement of cargo and people within the sub-region. Other countries of BBIN need to accommodate these diverse views while taking the initiative forward. It will also be important to keep in mind that even within the BBIN countries there are political problems and issues of mistrust. India's demand for transit through Bangladesh has been a political hot potato for many years. Recently, India and Nepal experienced a political standoff where Nepal accused India of creating trade blockages. These controversial issues have not yet been tackled completely and may on occasion cause disruptions.

The other challenge is related to the informal economy, arising as a result of inefficiencies and trade facilitation problems (like transshipment) along these countries' borders. Economic agents who are part of this informal economy are essentially rent-seekers who have gained from the non-transparency and inadequacy of the system. Any process to streamline trade and transport logistics can meet strong resistance from these economic agents and the local informal economies. Reports indicate that the DHL Global Forwarding is working with the Indian government and conducting pilot runs for the BBIN network. While interest shown by multinational corporations like DHL is encouraging and shows possible potential of the BBIN initiative, the respective governments of the countries should be prepared to address local issues which may stem from reduced rent-seeking activities and its possible negative impact on the informal economies.

Finally, for the BBIN initiative to achieve success, it will be important to calibrate the speed and level of its ambitions. It must be recognised that even within the BBIN group there is significant heterogeneity in terms of economic size and level of economic development. Therefore, the political objectives and policy priorities of these countries might be very different. Further, national security issues are increasingly becoming an area of major concern, which can put a brake on regional or sub-regional integration. The long-term acceptability and success of BBIN will depend on how well these challenges are taken up within the framework. ORF

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ENDNOTES:

1. Note that GDP of SAARC is around $2.9 trillion while GDP of ASEAN is $3.6 trillion according to IMF estimates.
2. Raihan, Selim (2015): 'South Asian Economic Union: Challenges and Tasks Ahead', South Asia Economic Journal, September 2015,Vol. 16.No. 2.
3. Opening Remarks at the Meeting of the Ministers of Transport of Bangladesh, Bhutan, India, and Nepal on Regional Road Transport Connectivity - Wencai Zhang, available at:

http://www.adb.org/news/speeches/opening-remarks-meeting-ministers-transport-bbin-road-transport-connectivity-wzhang

4. All BBIN members apart from India are Least Developed Countries and India has given them duty free tariff preference. Bhutan and Nepal are yet to become beneficiary of this scheme. This further shows that over the years tariff rates have become a less important factor for the countries of this sub-region.

5. Answer to Lok Sabha question number Q.NO.†1568. BBIN CORRIDOR, 29 July 29 2015, available at: http://www.mea.gov.in/lok-sabha.htm?dtl/25539/QNO1568+BBIN+CORRIDOR

6. RIS (2015): South Asia Development and Cooperation Report: Economic Integration for Peace Creating Prosperity, Research and Information System for Developing Countries, New Delhi 2015.

7. 'India must watch Chinese plans when opting between BBIN & BCIM blocs,' by Nilanjan Ghosh, 11 December 2015, available at: http://www.abplive.in/blog/india-must-watch-chinese-plans-when-opting-between-bbin-bcim-blocs

8. Serieux, John (2012): 'Productive Integration of LDCs into Regional Supply Chains: The Case of South Asia', Background Paper 2, UNCTAD, June 2012. Available at: http://unctad.org/en/PublicationsLibrary/ecidc2013misc1_bp2.pdf

9. Brunner, Hans-Peter (2013): 'Can Global Value Chains Effectively Serve Regional Economic Development in Asia?', ADB Working Paper Series on Regional Economic Integration, Paper No. 110, Asian Development Bank, Manila 2013.

10. http://blogs.worldbank.org/eastasiapacific/china-one-belt-one-road-initiative-what-we-know-thus-far

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