

## BIMSTEC: An Idea Whose Time Has Come?

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**ABSTRACT** The idea of BIMSTEC—a grouping of seven nations around the Bay of Bengal—is a compelling one. Owing to the failures of SAARC, an earlier attempt to forge sub-regional integration in South Asia, hopes are being pinned on BIMSTEC to succeed in not only bringing closer its South Asian members but also bridging the region to Southeast Asia. This paper examines the factors that are favouring BIMSTEC so far, including investor interest and connectivity projects that shrink geographical distances. It argues that BIMSTEC can well become a vibrant grouping.

### INTRODUCTION

During Dr Manmohan Singh's term as India's prime minister, his first foreign visit was for the initial summit of the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) in Bangkok in July 2004. Interestingly, his last official visit was also for a BIMSTEC summit in March 2014, the third such meeting, at Nay Pyi Taw in Myanmar. Twelve years since the BIMSTEC's first summit, times are changing for the regional grouping. India invited the grouping's leaders to the eighth BRICS (Brazil-Russia-India-China-South Africa) Summit in Goa in mid-October 2016, in the hope that the conference will boost ties between the two groupings. The Summit

resulted in the decision to expedite a free trade agreement (FTA) between the member states, albeit, with limited ambition.

The draw of BIMSTEC is largely due to the frustratingly slow progress of the South Asian Agreement for Regional Cooperation (SAARC) which groups India, Afghanistan, Bangladesh, Bhutan, Maldives, Nepal, Pakistan, and Sri Lanka. Tensions between India and Pakistan have constantly derailed cooperation within the neighbourhood. For one, Pakistan continues to deny India a Most Favoured Nation status.<sup>1</sup> Very recently, the rising threat of cross-border terrorism led to the postponement of the 19th SAARC summit that was to be held in Pakistan

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in November 2016. This followed the September attack on an Indian military base in Uri in Jammu and Kashmir.

During his visit to India in early October, Sri Lankan Prime Minister Ranil Wickremesinghe called out on the SAARC member states for failing to address the issue of terrorism. “Cross-border terrorism is on the table,” he said. “SAARC has to look at it and discuss what has happened [the postponement of the summit in Islamabad]. How are we going to handle it? SAARC has to decide on two issues – cross-border terrorism and areas in which we can work together. If we don't do it, there is no future for SAARC.”

BIMSTEC, in this context, is considered a highly innovative strategy that seeks to work around the currently problematical nature of regional integration in South Asia. What BIMSTEC promises is a 'SAARC minus Pakistan', with Myanmar and Thailand thrown in for good measure. Other SAARC members like Afghanistan and the Maldives could join later as members. BIMSTEC, in fact, is a bridge between South Asia and Southeast Asia, and India is the prime mover behind the recent moves on this regional grouping. Its role is crucial to energising this grouping on the basis of sound bilateral relationships with individual members. While Thailand has done the heavy lifting so far, progress would not have been possible without India's leadership.

Yet BIMSTEC has not really taken off, almost 20 years since it was kickstarted in June 1997. First termed BIST-EC, it brought together Bangladesh, India, Sri Lanka and Thailand. Nepal and Bhutan would later join in 2004, and Myanmar attended the first meeting in 1997 as an observer and joined as a full-fledged member at a special ministerial meeting later that year. It was during the first summit in July 2004 that the group's leaders agreed to the name BIMSTEC.

The main objective of BIMSTEC is technological and economic cooperation among

the member countries that border the Bay of Bengal. At the BIMSTEC outreach summit in Goa, 14 “priority areas” were identified, including terrorism, disaster management, climate change, energy, and cooperation in agriculture. The Goa meeting promised to take the grouping forward with India's leadership, especially when regional integration in the neighbourhood is facing serious obstacles. Equally important is the China factor: as China widens its imprint in the region, India feels it must step up in its engagement with its neighbouring countries.

### **NEED FOR CATALYSING FDI**

Today BIMSTEC has acquired a more solid footing as its economic fundamentals are strong with dynamism in growth. India is among the fastest growing economies in the world with a rate of 7.6 percent. It is, no doubt, the dominant economy within this grouping with a GDP of \$2 trillion and population of 1.2 billion. Some of the smaller countries like Myanmar are expanding even more rapidly at 8.1 percent. BIMSTEC is likely to grow by 6.9 percent when the world economy is sluggish at a pace of 3.1 percent in 2016, according to the International Monetary Fund (IMF). BIMSTEC's gross domestic product (GDP) is \$3 trillion or four percent of global GDP in 2016.

However, even as India leads the grouping in terms of economic growth, its standard of living expressed in terms of income per head of the population is only \$1,719 in 2016 and is much lower than that of several of the other members like Thailand, Sri Lanka and Bhutan (See Table 1). Bhutan, further, is also pioneering in quantifying 'gross national happiness'. Bangladesh is also ahead of India in various indicators of socio-economic development, such as women's participation in the labour force. With such positive fundamentals, closer integration of the Bay of Bengal community promises to be beneficial for all.

**Table 1 Growth and Standards of Living in BIMSTEC (US \$ and %)**

	GDP Growth (%)	GDP (\$ billions)	Per capita GDP (\$)
India	7.6	2250.987	1718.687
Bangladesh	6.9	226.76	1403.086
Bhutan	6.028	2.085	2635.086
Myanmar	8.072	68.277	1306.649
Thailand	3.234	390.592	5662.305
Sri Lanka	5	82.239	3869.778
Nepal	0.561	21.154	733.665

Source: International Monetary Fund

What can catalyse greater trade and regional integration is a critical mass of investments.<sup>2</sup> Big-ticket investments by India and Thailand in other BIMSTEC member countries can initiate this process. Foreign direct investments (FDI) by others like Japan can also foster greater integration in the grouping—while its current focus is on Southeast Asia, for example, Thailand, Japan is also eyeing opportunities in South Asia, and in particular, Myanmar. Japanese businesses are similarly upbeat regarding the prospects of investing in Bangladesh, as its production costs are half of those back home.<sup>3</sup>

“Japan recently gazumped China's offer to build a new sea port, with a \$6.7 billion project that includes a liquefied-natural-gas terminal and four coal-fired power plants,” according to a

recent article in *The Economist*. In addition, India is supplying Bangladesh with power from its grid and has agreed to finance another big \$1.5-billion coal-fired power plant.<sup>4</sup> India has also invested around \$224 million in Myanmar in 2015-16, although it has made no new investments so far in 2016-17. Such investments are expected to boost productivity and growth in the Bay of Bengal economies.

BIMSTEC may have so far received only half of the foreign investments that accrue to ASEAN countries, but these inflows are higher than what SAARC has received (See Table 2). The grouping received \$61 billion of FDI inflows in 2015, the bulk of which is headed to India, according to the United Nations Conference on Trade and Development (UNCTAD). Thailand is next, attracting one-sixths of such inflows. FDI

**Table 2 FDI Inflows in selected regional trade groupings 2015 (US \$ billions and %)**

	FDI Inflows	Share in world FDI (%)	Inward FDI stock
RCEP	330	19	4156
BRICS	256	15	2373
BIMSTEC	61	3.4	502
ASEAN	126	7	1704
SAARC	48	3	342
APEC	953	54	12799
G-20	926	53	14393

Source: UNCTAD

to smaller countries like Myanmar is on the rise as well. Greenfield projects in Myanmar totaled \$11 billion in 2015 and \$2 billion in the first quarter of 2016.<sup>5</sup>

As these investments are made in BIMSTEC, the grouping's trade volumes are bound to pick up. A priority area for such investments, according to the outcome document of the Goa Summit, is the 'blue economy': sustainable fisheries, deep sea minerals, and tourism that depends on coasts and tropical islands. Sustainable fishing is imperative as high value fish have been overfished by trawlers. In the Bay of Bengal, landings hit a high in 2010 but more than 40 percent of the catch was categorised as 'unidentified', reflecting an unregulated expansion into newer areas and species.<sup>6</sup> Sustainable fisheries must be a building block of the region's blue economy. After all, the Bay of Bengal is home to 30 percent of the world's fisherfolk; big populations depend on it for their livelihood. Unfortunately, sustainability objectives have not been a priority in national and state legislation on marine fisheries. These waters harbour migratory as well as straddling fish stocks such as tuna and tuna-like species, sharks and mackerels, which India cannot harvest due to its handicap in deep-sea fishing. The advantages in this regard are mainly with the tuna fishing fleets of the Maldives, Sri Lanka, Thailand and Indonesia.<sup>7</sup>

At a Blue Economy Conference in September 2014 in Dhaka, Bangladesh called for a regional bloc of coastal and littoral states like the Maldives, Sri Lanka, Myanmar and Thailand to use marine resources in a sustainable manner. India and Bangladesh, for their part, have bilaterally agreed to develop the blue economy. During Indian Prime Minister Narendra Modi's visit to Bangladesh in June 2015, one of the bilateral agreements included a memorandum of understanding between the University of Dhaka and India's Council of Scientific and Industrial Research for joint research in oceanography. Soon after this agreement was

signed, China expressed its desire to collaborate with Bangladesh on the blue economy. Indeed, Beijing wants, like New Delhi, to ally with Dhaka to tap the marine resources of the Bay of Bengal. Bangladesh lacks deep-sea fishing capacities, as does India. According to an official quoted in a report in the *Dhaka Tribune*, "Bangladesh has the sovereign right to fish in up to 200 nautical miles but the vessels can go up to only 40 nautical miles." Medicines such as cod liver oil, cosmetics and toiletries can be produced with marine resources but Bangladesh lacks investment in the sector.<sup>8</sup>

## BIMSTEC CONNECTIVITY

Without connectivity, the promise of a prosperous Bay of Bengal community will remain in the realm of rhetoric. Freer trade will continue to be sub-optimal. India is involving BIMSTEC members in its northeast region, where Southeast Asia begins. Connectivity with Thailand entails establishing road, rail and other linkages traversing through Bangladesh and Myanmar. These infrastructure projects must be operationalised as early as possible so that this regional grouping gets seamlessly integrated with its members connected through road, rail, air and shipping services.

India has proposed to Myanmar that it will rebuild the Sittwe Port and make the Kaladan River navigable to provide an alternative access into Mizoram and India's Northeast region. According to Sushma Swaraj, India's Minister for External Affairs, 90 percent of the original waterways component of the Kaladan project has been completed; it is expected to be finished within this year. Delivering her keynote address at the Delhi Dialogue VII on 18 February, 2016, Minister Swaraj added that work on the road component and other waterway items has been initiated, and it is scheduled for completion by 2019.

There is also the Sittwe port which, according to BIMSTEC's recent newsletter,<sup>9</sup> is



ready to be inaugurated. For this port to attract investments, however, what is needed is the setting up of a Special Economic Zone. Myanmar, for its part, is also building port-based SEZs in Dawei, Kyaukphyu and Thilawa, which are projected to boost greater trade flows and investments in BIMSTEC.

In the India's Northeast, there is an abysmal lack of surface transport infrastructure for border trade in places like Moreh with Myanmar. Corruption is rampant and electricity supply is limited. Visa-free travel to Myanmar must be permitted. Other projects like the Rih Tedim highway to connect Mizoram and western Myanmar must be completed at the earliest. The contrasts are sharp with the flourishing border trade among Myanmar, China, Thailand and Laos. China is investing in infrastructure to link up with these countries, including optical cable connection between Yunnan and Myanmar.

India and Myanmar inaugurated the 250-km Tamu-Kalewa-Kalemyo (TKK) highway in 2001. This is part of a 1,360-km trilateral highway extending to Thailand. Elaborating on the status of this project, Minister Swaraj said during a visit to Hanoi in August 2014 that "160 km of the TTK friendship road as part of the trilateral highway to Mae Sot in Thailand has been completed so far ... Myanmar and Thailand are yet to complete their respective segments." The tendering for 69 bridges has also been initiated.

Further, India is keen for a Motor Vehicle Agreement between India, Myanmar and Thailand, as has been forged by Bangladesh, Bhutan, India and Nepal (BBIN) and signed in June 2015. Such an agreement will facilitate the movement of goods, services and people between these countries and, in the process, boost productivity and trade. For example, on 27 August, 2016, a truck originating from Dhaka entered Kolkata and travelled through Jharkhand, Bihar, UP, Haryana and Delhi for more than 1,850 kilometres to reach an Inland

Customs Depot in New Delhi. As there was a system put in place by the BBIN-MVA, the truck was easily issued an e-permit for the trial run through an online system for customs-free movement. It would do well for India, Myanmar and Thailand to pursue a similar agreement; the commercial and economic possibilities are immense.

Regional agreements will also nurture people-to-people contacts, in the form of, for example, tourism. At the third BIMSTEC summit in Myanmar, then Prime Minister Manmohan Singh said, "Yet another facet of connectivity is tourism, which is a powerful source of economic development and a bridge between peoples and cultures. To promote both BIMSTEC tourism packages and intra-BIMSTEC travel, let us declare 2015 as a Year of BIMSTEC Tourism."<sup>10</sup> India is organising a trilateral friendship car rally starting from Guwahati in Assam to Myanmar and Thailand in November 2016. This rally is intended to promote the vehicle agreement.

## FREE TRADE AGREEMENT

The full potential of BIMSTEC can be realised if a free trade agreement (FTA) is inked at the earliest. As the World Trade Organization's Doha round of negotiations remain stalled, India must leverage regional FTAs to their advantage. The progress on this front has been slow. According to India's Ministry of Commerce,<sup>11</sup> the BIMSTEC trade negotiating committee (TNC) has held 19 sessions of negotiations on areas like tariff concessions on (i) trade in goods, (ii) customs cooperation, (iii) services and (iv) investments.

Although the 3rd BIMSTEC summit directed the TNC to expedite its work for the conclusion of an FTA in goods by end-2014, this has not yet happened. Negotiations for a deal in September 2015 failed to reach a conclusion after India's proposal to revise tariff cuts, a decade ago, was opposed by Thailand.<sup>12</sup> The

process of give and take is inevitable in any trade negotiations. But given the limited success so far, there is a warrant for lowering the level of ambitions to secure the FTA. The Goa BRICS-BIMSTEC Summit renewed its commitment to conclude such an agreement as early as possible.

If BIMSTEC is to succeed where SAARC failed, India must draw the right lessons as the trade pact is being finalised. Besides India-Pakistan tensions, the process of South Asian integration proved to be difficult because the other member countries felt a resentment towards India's dominance. Ensuring greater market access through unilateral trade liberalisation would have made a big difference and SAARC members would then have benefited from India's rise as an economic power. Their resentment has only deepened as this has not happened. The fact that every member registered growing trade deficits with India tells a story of its own.

For instance, in 2015-16, Bangladesh has run up a deficit of \$5.3 billion. Nepal's has also ballooned to \$3.4 billion, Bhutan registered a \$188-million deficit and Sri Lanka's trade imbalance vis-a-vis India is \$4.5 billion, according to India's Ministry of Commerce.<sup>13</sup> As these are also BIMSTEC members, the FTA must enable them to export more to India. As India is taking a growing leadership role in this regional grouping, these smaller members must develop a larger stake in India's robust growth story. Only when these existing grievances are factored will integration in the neighbourhood bear fruition, albeit with a different nomenclature.

Sri Lanka's experience with India is illustrative. Although Prime Minister Wickremesinghe called for greater bilateral economic engagement, a deeper agreement to include services and investments in its FTA with India has not been easy. India has an FTA with Sri Lanka since 2000 and has registered growing trade surpluses. It must explore ways

and means to reduce this surplus, including allowing tariff-free quota rate access for Sri Lankan textiles and other commodities. While India's investments in Sri Lanka are significant, Sri Lankan investments in India must be encouraged to create economic inter-dependencies.

If the proposed broader India-Sri Lankan Economic and Technical Cooperation Agreement is to be concluded as expected by end-2016, it could serve as a template for similar FTAs with other BIMSTEC members like Bangladesh, Bhutan and Nepal. The bottomline is that such agreements must ensure that freer trade with the dominant partner does not prove inimical to the interests of the smaller countries. India must be willing to make sacrifices in its trade balance to make the Bay of Bengal grouping a success. If these countries are firmly on India's side, there would be no difficulty in getting Myanmar and Thailand onboard.

Certain segments of the Indian industry, however, harbour deep-seated reservations on a bilateral FTA that India sought to negotiate with Thailand in 2004, especially the Early Harvest Scheme (EHS). According to the EHS, tariffs on 82 items were eliminated when it came into force in September 2004. This provided undue advantage to Japanese and US companies, who have a major presence in Thailand, to supply the Indian market with zero or low tariffs in auto components, electronics, among others. Much of the trade gains occurred to Thailand for the 82 EHS items, skewing the bilateral trade balance in its favour.

India must move on from this past experience to make the BIMSTEC FTA a reality. The path ahead is not easy—India will have to deal with, for instance, the military junta in Thailand, and the same in Myanmar. This is admittedly not an easy situation for the Modi-led government considering its experience of seeking constructive engagement with


Pakistan. Since it came to power in May 2014, it has also sent out signals that it will re-examine all its FTAs. These concerns must be considered in inking a low-ambition trade agreement.

Low ambition in case of FTAs means that it will, in the beginning, be confined only to goods. Although the Goa Summit tasked the BIMSTEC TNC to expedite talks on services and investment, adding on movement of service professionals might not be feasible at this point. Trade in services has proved to be difficult even in ASEAN; members like Philippines and Indonesia have been apprehensive to a considerable degree that Indian professionals will be “eating away their jobs”. Similarly, BIMSTEC members might not be ready to open up as yet to a freer movement of Indian professionals.

## CONCLUSION

This paper has argued that time is indeed ripe for BIMSTEC to take steps forward, albeit fledgling ones. The idea of BIMSTEC as a bridge

between South and Southeast Asia is a compelling one, owing largely to the failed narrative of SAARC. Although it got off the ground in 1997, the Bay of Bengal grouping languished as the critical ingredients that can catalyse the process of integration were missing. But the situation has changed, and the grouping is attracting greater interest from foreign investors outside of the region, including for smaller countries like Myanmar and Bangladesh.

Among the areas that have considerable investment potential, a blue economy policy thrust is most efficacious to integrate the Bay of Bengal community. Connectivity projects, which are making definite progress, would also give a huge boost to integration. An FTA that has so far proved elusive would take matters forward even if it is restricted to goods to start with. With a permanent secretariat located in Bangladesh, the building blocks for BIMSTEC to become a vibrant grouping are in place, and with India's leadership, it may just prove to be a success. 

## ABOUT THE AUTHOR

**N Chandra Mohan** is an economist based in New Delhi. He wishes to acknowledge the valuable comments of three anonymous referees in completing this Brief.

## ENDNOTES:

1. Most Favoured Nation status implies a non-discriminatory trade policy that ensures equal trading privileges between two countries or members of a regional trade association like, say, SAARC.
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