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BIMSTEC-FTA: A New Hope for Enhanced Regional Trade

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ABSTRACT The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) has gained more importance recently because of the many hurdles that have come in the way of the South Asian Free Trade Agreement (SAFTA) since 2016, mainly due to issues between India and Pakistan. This brief explores the possibilities of stronger trade and investment ties between the BIMSTEC nations by expediting the signing of a Free Trade Agreement (FTA). Such an agreement has been in the works since 2004. While such an FTA may not easily enhance trade and investment in the short term, it could replace the moribund SAFTA in pushing cooperation and improving commercial ties and economic prospects in the region.

INTRODUCTION

The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) is a unique collaborative effort to cement sub-regional cooperation between Sri Lanka, Bangladesh, Myanmar, Thailand, Nepal, Bhutan and India. The BIMSTEC region comprises the countries surrounding the Bay of Bengal, and two landlocked countries, Nepal and Bhutan. Between its members, there is scope for both land and maritime connectivity that can enhance their trade, incomes, and welfare. Of the group of seven, four are Least Developed Countries (LDCs)—Nepal, Bhutan, Bangladesh and Myanmar.

BIMSTEC was initially set up by Bangladesh, India, Sri Lanka and Thailand in 1997. Myanmar joined later that year, and Bhutan and Nepal in 2004. For India, the largest member in the group, this sub-regional cooperation is important because it covers the northeastern region that remains largely underdeveloped despite progress in other parts of the country over the years. If the Northeast manages to nurture stronger links with India's neighbouring countries to the east, it will lead to a higher degree of integration with them, facilitating trade and development as well as attracting foreign investment. The possibility of

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greater connectivity of the Northeast with Myanmar and Thailand will also be important for a trade route to countries of the ASEAN (Association of Southeast Asian Nations). It will help raise the incomes of the people in the sub-region as a whole, and also act as a bridge to the rest of Southeast Asia.

The underpinning principles of BIMSTEC are sovereign equality, territorial integrity, political independence, non-interference in internal affairs, peaceful coexistence, and mutual benefit. Intra-BIMSTEC relations have been mostly harmonious, although Myanmar and Bangladesh are facing a challenge with the issue of the Rohingya refugees.

The grouping has met several times since its inception 20 years ago, and various memorandums of understanding (MOUs) have been signed to facilitate cooperation in connectivity, energy transfer, tourism, counterterrorism and the 'blue economy' (or the economy of the oceans). The region has 14 priority areas of interest: trade and investment, transport and communications, energy, tourism, technology, fisheries, agriculture, public health, transnational crime, environment, counterterrorism, natural disaster management, cultural and people-to-people contact, and climate change. The signing of a Free Trade Agreement (FTA), negotiations for which were initiated as early as 2004, could help strengthen cooperation in these priority areas. However, even after 20 rounds of negotiations, the FTA has yet to be signed by all the BIMSTEC members.

THE IMPERATIVE FOR AN FTA

BIMSTEC is one of the least integrated regions in the world although the member countries are contiguous to one another, except for Sri Lanka, which is an island. Bangladesh and India share a 4,096-km border and the two countries have undertaken various trade enhancing measures that have increased trade flows. India and Sri Lanka, for their part, signed an FTA in 2005. India and Thailand also have an FTA. There is an open border between Nepal and India. There are no visa requirements between Bhutan and India, and India's northeastern states have an unfenced border with Myanmar. For India, BIMSTEC is already a sub-region with few trade and investment barriers, yet trade in the region has not reached its optimum level. Also for India, the India-Myanmar-Thailand highway is the key to making inroads further east; the project figures prominently in the government's 'Act East' policy. It is hardly a surprise that India is keen to see the BIMSTEC- FTA signed by the end of 2017.

India being the biggest neighbour amongst the BIMSTEC nations, the 'Gravity Model' suggests that it should take the leadership in increasing trade and investment in the region and promoting people-to-people contact. India's trade share with BIMSTEC countries, however, remains low (See Table 1).

For India, the success of BIMSTEC has gained more weight recently because of the many hurdles that have come in the way of the South Asian Free Trade Agreement (SAFTA)

Table 1. India's Trade with BIMSTEC countries (2014-2015)

Country	Exports (US\$ million)	% Share in total exports	Imports (US\$ million)	% Share in total imports
Bangladesh	6,451.47	2.08	621.37	0.14
Bhutan	333.94	0.11	149.87	0.03
Myanmar	773.24	0.25	1,231.54	0.27
Nepal	4,558.77	1.47	639.91	0.14
Sri Lanka	6,703.72	2.16	756.17	0.17
Thailand	3,464.83	1.12	5,865.88	1.31

Source: Ministry of Commerce, Government of India

since 2016, mainly due to Pakistan's intransigence in granting the Most Favoured Nation (MFN) status to India¹ and the escalation of cross-border terrorism. The latter led India to boycott the last South Asian Association for Regional Cooperation (SAARC) annual meeting in Islamabad in November 2016; the summit was cancelled eventually. Indeed, problems between the two big members of SAARC have been the main impediment to the success of this 30-year-old grouping. With BIMSTEC, hopes are higher that the sub-regional cooperation will be more of a success, and that BIMSTEC FTA can replace SAFTA.

The BIMSTEC member nations have a combined population of some 1.5 billion people, or 22 percent of the global population, and a gross domestic product (GDP) of US\$2.7 trillion overall. In the last five years, BIMSTEC countries have been able to sustain an average growth rate of 6.5 percent, despite the global financial meltdown in the late 2000s (See Table 2). To be sure, some members have recorded better GDP growth than others. For example, India, Bangladesh and Myanmar have managed to keep to a higher growth path than the others.

BIMSTEC trade negotiations have been held under the auspices of the Trade Negotiating Committee (TNC). The framework agreement for an FTA was agreed upon in 2004 and covered

the following: (i) tariff concessions on trade in goods; (ii) Customs cooperation; (iii) trade in services; (iv) investment cooperation; and (v) dispute settlement. It was agreed that the trade in goods would be dealt with first, followed by trade in services.

There have been four draft agreements so far: (i) Trade in goods; (ii) Rules of Origin; (iii) Dispute Settlement; and (iv) Customs. The avenues for tariff reduction cover two tracks, i.e., fast track and normal track. The base rate was taken as the MFN tariff rates on August 2007, and tariffs were slated to be eliminated in equal annual instalments according to the following schedule:

1. For fast track products: The non-LDC member countries would have to reduce/eliminate tariffs on LDC member countries by 30 June 2013. Tariffs among the non-LDC members would have to be eliminated by 2015. LDC countries have to reduce /eliminate tariffs among themselves by 30 June 2015 and tariffs imposed on non-LDC member countries by 30 June 2017.
2. For normal track products: Non-LDC member countries are required to reduce /eliminate tariffs on products of LDC member countries by 30 June 2016 and

Table 2. GDP Growth (annual percentage) of BIMSTEC members (2004-2016)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Bangladesh	5.24	6.54	6.67	7.06	6.01	5.05	5.57	6.52	6.52	6.01	6.06	6.55	7.11
Bhutan	5.90	7.12	6.85	17.93	4.77	6.66	11.73	7.89	5.07	2.14	5.75	6.49	6.17
India	7.92	9.28	9.26	9.80	3.89	8.48	10.26	6.64	5.46	6.39	7.51	8.01	7.11
Myanmar	13.56	13.57	13.08	11.99	10.26	10.55	9.63	5.59	7.33	8.43	7.99	7.29	6.50
Nepal	4.68	3.48	3.36	3.41	6.10	4.53	4.82	3.42	4.78	4.13	5.99	2.73	0.56
Sri Lanka	5.45	6.24	7.67	6.80	5.95	3.54	8.02	8.40	9.14	3.40	4.96	4.84	4.38
Thailand	6.29	4.19	4.97	5.44	1.73	-0.69	7.51	0.84	7.24	2.73	0.91	2.94	3.23

Source: <http://data.worldbank.org/data-catalog/world-development-indicators>

tariffs on products traded among them by 30 June 2018. The LDC members would do the same by 30 June 2021 for products traded among them and by 30 June 2023 for non-LDC members.²

A safeguard measure allowed BIMSTEC members to withdraw tariff concessions for protectionist purposes, in case imports from member countries through FTA access caused significant harm to domestic industries. It was also agreed that non-tariff barriers (NTBs) would have to be removed. There are long negative lists amongst BIMSTEC members that need to be pruned within a specific time period. After all, the harmonisation of standards and dismantling of all para-tariffs are crucial to the success of the BIMSTEC-FTA.

The Rules of Origin have been set at a fairly modest level. The TNC meeting in June 2009 decided on domestic value addition of 30-35 percent of freight on board (FOB) value, and that for regional aggregate accumulation, the final goods would have value addition of 30 percent of FOB value for LDC members, and 35 percent for non-LDC members. Product specific rules were agreed upon for 147 products at HS6 digit (a WTO classification of products) level. The Rules of Origin need to be simplified and relaxed further to allow for greater trade flow, even though India fears that Chinese goods may enter the domestic market through Thailand and Nepal.

Dispute settlement procedures were also laid out as follows: "Bilateral consultation shall be held within 30 days upon request. Upon failure to resolve the issues through bilateral consultation within 60 days' period the complaining member may request the constitution of an arbitral tribunal." Meanwhile, in Customs matters, the scope of mutual assistance has been elaborated upon in Article 3 of the Agreement on Cooperation and Mutual Customs assistance matters for BIMSTEC's FTA.

In the 19th TNC meeting in February 2011, the timeline for member states to submit their

negative lists and tariff liberalisation schemes was taken up and the deadline was set for November 2011. This deadline was not met, however, as some members did not submit their tariff liberalisation schemes. The whole process dragged on until the 20th meeting in Bangkok on 25 September 2015. At this meeting, India demanded a new formulation for tariff reduction as it felt the agreement on FTA that was formulated in 2004 had become outdated. Differences arose between India and Thailand regarding market access for professionals and duty cuts on traded goods, and the FTA was again stalled.³

Infrastructure and connectivity are the core elements of trade facilitation at the borders. Lack of telecommunication links, parking space, cold storages, facilities for truck drivers in-transit, and regular power supply are the major problems that hinder the smooth flow of trade between the member countries. As in the case of ASEAN, efficient cross-border transportation is most important and an integrated multimodal transport system, linking road, rail and sea transport has to be in place to enable seamless continuity of trade flows and make BIMSTEC-FTA a reality.

Unfortunately, since many of the trade facilitation measures – especially those relating to reduction of bureaucratic delays and paperwork and a single window facility – have not been undertaken, BIMSTEC intra-regional trade has failed to grow at the desired rates. It amounted to only US\$37 billion in 2014. This trend is unfortunate because there is an abundance of skills and labour in the region. It is a region which could attract foreign direct investment and export production. The region on the whole exports less and imports more, except for Thailand. India and Thailand together account for 85 percent of intra-regional exports of BIMSTEC.

India's trade with the other six BIMSTEC countries has grown at an annual growth rate of 10.4 percent as compared to intra-BIMSTEC trade growing at 0.62 percent. India's imports

from the other BIMSTEC countries have also grown at an annual rate of 5.4 percent.⁴

BIMSTEC's share in world trade was about 3.7 percent in 2014, which is small compared to other regional blocs like ASEAN which has a share of 29 percent, or even SAARC with a share of seven percent. BIMSTEC countries are important destinations for exports for Bhutan and Nepal and over 60 percent is sent to India.

The reasons for low intra-regional trade are the following:⁵

- The region has low purchasing power, with four members in the LDC category with high poverty levels.
- Even though there are complementarities in the exports and imports of the member countries, intra-regional trade is low due to many hurdles like tariff barriers, lack of connectivity and transportation problems. Some of the export items of one country within BIMSTEC are the main import items of another member.
- There are many supply-side constraints in the smaller countries of the group. With limited production capacity, they are unable to meet the demand generated by larger member economies. Lack of industrialisation is an important reason for low production capacity in some LDCs.
- The costs of transportation and logistics are high.
- High tariffs and NTBs on some goods still exist within the region, acting as barriers to trade.
- The trade is dominated by low-technology tradable products. There is an absence of a strong regional value chain.
- The trade is limited to only a few product categories.
- A substantial amount of informal trade takes place across the borders of India and its neighbouring countries which is not accounted for in trade statistics.

The grouping's trade in minerals, chemicals and plastics with the rest of the world has been rising significantly. Trade in automobiles, machinery and precision instruments is growing faster than in traditional products like textiles and wood pulp. BIMSTEC is a net importing region for parts and components. Barring Bangladesh, India and Thailand, the members are not linked to global value chains of the world. India is engaged in diverse sectors in parts and components trade with the world. Engagement in parts and components by others is thinly spread out in a few selected sub-sectors. BIMSTEC has a trade deficit with ASEAN but a trade surplus with SAARC.

With better connectivity and infrastructure, especially if there is development of multimodal connectivity, a vibrant regional value chain could emerge over time.⁶ Investment cooperation can help the grouping's development. Foreign direct investment (FDI) flows within BIMSTEC were highest into India, followed by Bangladesh, Myanmar, Thailand and Sri Lanka in 2016 (See Table 3). Nepal and Bhutan have received small amounts of FDI in recent years. India's total cumulative outward FDI to the region has been limited to US\$2.2 billion between 2006 and 2016. India's FDI has been mostly concentrated in three countries—Bangladesh, Thailand and Sri Lanka.

Intra-regional investment cooperation is needed to strengthen the BIMSTEC-FTA and to attract FDI to the region. The member countries must strengthen their competitiveness and productivity to become active recipients of both intra-regional and inter-regional FDI. FDI inflow will help in increasing incomes and employment, and in raising capital and technological intensity of production by bringing in know-how from advanced countries.

Inward flow of FDI has been low at US\$61 billion in 2015 in the sub-region because many of the members do not have the capability to undertake economic activities that could exploit substantial economies of scale. Increase in investment flows within the region will depend

Table 3. FDI Inflows to BIMSTEC members (2006-2016, in US\$M)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Bangladesh	792.5	666.4	1086.3	700.2	913.3	1136.4	1292.6	1599.2	1551.3	2235.4
Bhutan	72.2	40.2	10.1	25.6	75.5	28.6	19.9	35.9	17.5	7.3
India	20327.8	25349.9	47102.4	35633.9	27417.1	36190.5	24195.8	28199.4	34582.1	44064.1
Myanmar	724.2	2.2	603.4	27.2	6669.4	1117.7	496.9	584.3	946.2	2824.0
Nepal	-6.6	5.9	1.0	38.5	86.6	95.5	92.0	71.3	30.2	51.6
Sri Lanka	480.0	603.4	752.2	404.0	477.6	955.9	941.1	932.6	893.6	679.7
Thailand	8181.6	9194.8	8054.4	5361.8	14555.0	1370.4	9135.2	15493.0	4809.1	5699.7

Source – UNCTADstat (United Nations Conference on Trade and Development)

on governance, transparency, accountability and predictability of policies and rules and regulations relating to investments, both in the public and private sectors. Members will have to liberalise and harmonise their investment regimes and fiscal policy structures, making them more conducive to attracting FDI to the region.

For expanding business and investment in the region, a more flexible visa regime is also needed for prospective investors. A Schengen-type visa for the entire region is being explored.

CONCLUSION

The BIMSTEC region has an important neighbour, China, which is ready to render assistance in multiple ways. Infrastructure is one of them. The sub-region will have to reach a consensus over its relationship with China. All BIMSTEC countries trade with China extensively, including India. There has been pressure from some members like Bangladesh and Sri Lanka to include China as a member, but this is being opposed by others. Already, China is a member of BRICS. The BRICS bank, Asian Infrastructure Investment Bank (AIIB) located in Shanghai, can be a source of infrastructure financing for BIMSTEC.

Simulation models by Rahman and Kim (2016) suggest that the effects of the BIMSTEC-FTA will in general be welfare enhancing for all members except Bangladesh. It has also been found that the trading arrangements might generate employment for its members and create employment opportunities for unskilled labour. Increasing employment can help reduce poverty in the region.⁷

If BIMSTEC countries eliminate import tariffs completely in their trade with one another (Rahman and Kim 2016), Thailand, India and Bangladesh are expected to experience welfare gains. The gains will be highest for India, as well as Thailand and Bangladesh. However, Sri Lanka and Nepal are expected to experience welfare loss, and others will also lose because of diverted trade and the effects of unfavourable terms of trade.⁸

Among the keys to the success of BRICS is cooperation in production and marketing. The region, after all, is home to a population that possesses qualities of craftsmanship and hard work. BIMSTEC territories are also rich in precious raw materials, such as gems of high quality that can be used for the manufacture of jewellery. India, Thailand, Sri Lanka and Myanmar could undertake coordinated marketing in global markets and in

manufacturing. Textiles and garments could be another area of cooperation between the four countries. India, Thailand and Bangladesh could have joint ventures in leather goods. So too, should India, Sri Lanka, Bangladesh, Thailand and Myanmar consider joint marketing of marine products. In tea and jute, as well as rice and spices, there can be collaborations between the producing countries. Joint R&D must also be nurtured.

The diverse handicrafts of the region are much sought-after worldwide. Cooperation between the countries and research into product improvement, especially of bamboo-based products, could increase incomes in the sub-region, especially for women who engage in these cottage industries. The woodcraft and silk cloth production of the sub-region are also famous, but they are not marketed well globally. More efforts can be made in these areas for product improvement and marketing, since despite the high value addition price, income realisation by the artisans themselves remains low.

The region – especially the Himalayan regions of India, Nepal and Bhutan – is also rich in biodiversity and organic food production. The growing global demand for organic products can be tapped to make the BIMSTEC region a big producer and exporter of such high-quality products. Members could collaborate in the production of traditional medicines.

Further, the involvement of the private sector is also important. Chambers of commerce in the member countries should be involved in some of the negotiations for the FTA. Small-scale industries, especially in parts and components, can play an important role in cementing ties between BIMSTEC members. This sector should also be consulted in the negotiations.

If the BIMSTEC-FTA is signed by the end of 2017, it will be effective from 2018. It will be the right time to get this important initiative off the ground and realise its full potential. The main driver, however, for the signing of the FTA has to be strong political will amongst the leaders of the member nations. 

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ENDNOTES

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