

Enhancing Trade in the BIMSTEC Region

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The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) was established in June 1997 through the Bangkok Declaration as a bridge between South and Southeast Asia. Among the BIMSTEC's seven member states, Myanmar and Thailand are also members of the Association of Southeast Asian Nations (ASEAN), while Bangladesh, Bhutan, India, Nepal and Sri Lanka are also members of the South Asian Association for Regional Cooperation (SAARC). BIMSTEC was established to create an enabling environment for rapid economic development. The aim is to establish a foundation for common action in trade, investment, technological exchange and other interrelated sectors through a spirit of equality and partnership, thereby contributing to peace, progress and prosperity in the region.¹ Of the 14 areas of cooperation, trade and investment promotion constitutes the core of BIMSTEC cooperation.

The Bay of Bengal is an especially important trading route for many countries. About 25 percent of the world's traded goods, 70 percent to 80 percent of China's energy imports, and over 90 percent of South Korea and Japan's energy imports flow through the Strait of Malacca, the southern end of the bay.² BIMSTEC covers 3.7 percent of global surface area and is a market of almost 1.7 billion people (or 22.2 percent of global population). In 2018, the combined BIMSTEC economy was worth US\$3.7 trillion, accounting for 4.3 percent of global gross

domestic production (GDP). The average per capita GDP was US\$2,191, with Thailand, Sri Lanka and Bhutan above the average. The BIMSTEC countries had an average of 6.6 percent GDP growth rate; among them, Bangladesh had the highest growth (7.9 percent) and Bhutan had the lowest growth (2.3 percent).³

Trade Engagement in BIMSTEC

In 2018, BIMSTEC accounted for 3.8 percent of global trade (US\$1.50 trillion out of US\$38.90 trillion), while intra-regional trade totaled US\$94.61 billion.⁴ Out of the total global trade, intra-regional trade within BIMSTEC was 6.30 percent (see Table 1). This shows that BIMSTEC is a less integrated region than ASEAN (intra-regional trade of 24 percent) and the European Union (intra-regional trade of 64 percent).⁵

In 2018, India had the highest trade share among all BIMSTEC members (40.26 percent), while Bhutan had the lowest (2.11 percent). India also had the highest trade share in BIMSTEC's global trade (55.42 percent) while Bhutan had the lowest (0.16 percent). At the same time, 85.71 percent of Bhutan's trade was with the BIMSTEC region (the highest), while only 4.30 percent of Thailand's trade was intra-regional (the lowest).⁶

Table 1: BIMSTEC Trade Engagement in 2018

Country	Intra-BIMSTEC trade		BIMSTEC global trade		Intra-regional trade share in global trade (percentage)
	Volume (in million USD)	Share of countries (percentage)	Volume (in million USD)	Share in BIMSTEC global trade (percentage)	
Bangladesh	10,957.98	11.58	89,094.36	5.93	12.30
Bhutan	1,997.90	2.11	2,331.07	0.16	85.71
India	38,087.67	40.26	832,257.25	55.42	4.58
Myanmar	7,369.83	7.79	36,209.81	2.41	20.35
Nepal	9,295.66	9.83	13,607.11	0.91	68.31
Sri Lanka	5,619.11	5.94	33,361.02	2.22	16.84
Thailand	21,279.09	22.49	494,984.73	32.96	4.30
BIMSTEC	94,607.23	100.00	1,501,845.34	100.00	6.30

Source: Author's own, based on IMF data⁷

In the same year, out of Bangladesh's total trade with the other BIMSTEC countries, 87 percent was with India and 10 percent with Thailand, with the remaining 3 percent with the others. Of Bhutan's total trade with the BIMSTEC region, 81 percent was with India, 15 percent with Bangladesh and the rest with the other member states. Of Myanmar's total trade with the BIMSTEC states, 77 percent was with Thailand, 21 percent with India, and rest with the others. For Nepal, 97 percent of intra-regional trade was with India. For Sri Lanka, 86 percent of BIMSTEC-wide

trade was with India, 10 percent with Thailand, and the remaining with the other countries. Out of Thailand's total trade with the BIMSTEC, 57 percent was with India, 34 percent with Myanmar, and the other countries making up the remaining 9 percent. Similarly, of India's total intra-regional trade, 32 percent was with Thailand, 26 percent with Bangladesh, 20 percent with Nepal, 16 percent with Sri Lanka, 4 percent with Myanmar and 2 percent with Bhutan.⁸

India is the top trading partner for five other BIMSTEC member states (Bangladesh, Bhutan, Nepal, Sri Lanka and Thailand), while Thailand is India and Myanmar's top trading partner. At the same time, Bangladesh, Bhutan, Myanmar, Nepal and Sri Lanka have few trade engagements with each other.

In addition, the BIMSTEC region had a low foreign direct investment (FDI) inflow in 2015-2018. The average FDI inflow in the BIMSTEC member states was about 1 percent to 3 percent of GDP, although Myanmar fared better (FDI inflow of 4 percent to 6 percent of GDP).⁹

BIMSTEC Free Trade Area

The BIMSTEC members are bound by different trade agreements. The five member countries who are also part of SAARC are bound by the South Asian Free Trade Area (SAFTA). Similarly, as ASEAN members, Myanmar and Thailand are signatories of the ASEAN Free Trade Area. India, Myanmar and Thailand have the ASEAN-India Comprehensive Economic Cooperation Agreement. India also has bilateral trade pacts with Bhutan, Nepal, Sri Lanka and Thailand. Sri Lanka and Thailand also have a bilateral trade deal.¹⁰

The BIMSTEC Free Trade Area (FTA) framework agreement was signed in February 2004, and included six constituent agreements—Agreement on Trade in Goods, Agreement on Trade in Services, Agreement on Investment, Agreement on Cooperation and Mutual Assistance in Customs Matters, Agreement on Rules of Origin and Operational Certification Procedures, and Agreement on Trade Facilitation.¹¹

The BIMSTEC FTA covers areas such as the progressive elimination of tariffs and non-tariff barriers; liberalisation of trade in services; establishing an open and competitive investment regime; establishing effective trade and investment facilitating measures; establishing appropriate mechanisms for the implementation and simplification of customs procedures; and developing mutual recognition arrangements.

BIMSTEC tariff reduction is divided into fast and normal tracks and two categories, developing countries (India, Sri Lanka and Thailand) and least developed countries (LDCs; Bangladesh, Bhutan, Myanmar and Nepal). It also recognises that LDCs in the region need to be accorded special and differential treatment given their development needs. Some products are listed in the negative list and will see no tariff reduction. The trade negotiating committee (TNC) held its first meeting in September 2004 and has several working groups to assist in the negotiations, including those on rules of origin, trade in services, investment, and Trade Facilitation.¹²

The TNC has held 21 rounds of negotiations to finalise constituent agreements under the BIMSTEC FTA but has been unable to conclude any deal due to a lack of consensus on important issues. At the 21st meeting in 2018, several core elements related to the Agreement on Trade in Goods, its rules of origin and product specific rules were agreed upon.¹³

Agreements on the trade in goods and customs cooperation are expected to be signed soon. Customs cooperation and trade facilitation agreements are being negotiated to remove non-tariff barriers. Although the BIMSTEC Economic Forum and BIMSTEC Business Forum were established to promote partnerships between governments and the private sector, the former has been passive since 2011 and the latter since 2016.¹⁴

BIMSTEC is not a substitute but an addition to the existing platforms. This is why the FTA must not duplicate or contradict existing or proposed bilateral, regional and multilateral agreements, and must incorporate the spirit of these trade agreements.

Limitations and Opportunities

In 2017, the average tariff rate in intra-regional trade in South Asia was 6.8 percent, which was higher than in ASEAN (2.7 percent), Latin America (1.1 percent), Sub-Saharan Africa (3.1 percent), transition economies (0.4 percent), and West Asia and North Africa (1.9 percent).¹⁵ Non-tariff barriers and issues such as a lack of connectivity and infrastructure, high transaction costs, complex customs procedures and huge informal cross-border trade are obstacles to smooth intra-regional trade. Various domestic compulsions have also prolonged the trade negotiations. The BIMSTEC tariff reduction list is wider than other agreements, and some member states appear to be apprehensive of losing customs revenue and significant harm to domestic industries if the FTA is implemented.¹⁶

There are many opportunities to prosper together in the BIMSTEC region. Deeper regional trade and connectivity will reduce the isolation of India's northeastern states and the two landlocked BIMSTEC countries (Bhutan and Nepal) since they will benefit from a reduction in transaction costs among the other countries. Businesses in the region can also benefit from better access to markets in South and Southeast Asia, and can create regional value chains through small and medium enterprises that integrate in the global value chains. In addition, free trade reduces monopoly, lowers prices, and increases economic efficiency. The informal trade can be diverted to official channels and bring revenue and other benefits with the barrier-free trade provisions.

Tariffs are no longer the major barrier to intra-regional trade, but the cost and time to trade remain relatively high.¹⁷ Tariffs have reduced as a result of global, regional and bilateral agreements, and no longer appear to be the major barrier to trade in BIMSTEC. Instead, it is the non-tariff barriers that are the main cause for dismal intra-regional trade in the region.¹⁸ The FTA will grant all BIMSTEC member states greater market access since it connects South Asia, one of the least economically integrated regions, and Southeast Asia, one of the most integrated regions.

The COVID-19 pandemic has underlined the need to develop an uninterrupted supply chain for food, medicines and other basic essential commodities. With the global supply chain severely disrupted as a result of the pandemic, there is an opportunity for more intra-regional trade among the BIMSTEC countries. To seize this opportunity, member states should agree on some trade facilitation measures, including the simplification of customs procedures, the introduction of electronic tracking system for cross-border container movement, and the acceptance of electronic versions of export-import related documents. They should also conclude the pending BIMSTEC FTA and BIMSTEC Customs Cooperation Agreement to increase the volume of intra-regional trade. Trade facilitation measures need to be accompanied by efficient transport connectivity to ensure the easy movement of goods and people. Renewed emphasis will be needed to develop a resilient regional transport connectivity system capable of withstanding future disruptions. In this milieu, BIMSTEC member states should consider harnessing the unexploited potential of intra-regional trade to speed up their recovery from the pandemic.¹⁹

Conclusion

Trade engagement among the BIMSTEC member states remains low. The BIMSTEC FTA can serve to increase trade volumes. The BIMSTEC member states need to reduce non-tariff barriers through trade facilitation and custom cooperation agreements. Enhanced connectivity through the motor vehicles and coastal shipping agreements will reduce trade costs. In addition, the BIMSTEC member states can mobilise economic diplomacy to attract FDI and promote export trade. They can also explore new source of financing and promote small and medium enterprises. The countries must eliminate negative lists gradually, simplify trade procedures and reform the visa regimes to create a trade-friendly environment in the region.

At the Fourth BIMSTEC Summit in 2018, the countries called for the early conclusion of the FTA negotiations, and directed the BIMSTEC Trade and Economic Ministerial Meeting and its subsidiary bodies, including the TNC, to expedite the finalisation of the deal. The member states must now match their words with action.

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Endnotes

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