

Potentials of BIMSTEC as a Vibrant Regional Organization and Its Trade and Regional Integration Process for Catching Up with the Advanced Economies

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1. Introduction

The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) was established to create an enabling environment for the rapid economic development of the Bay of Bengal region. The founding leaders of BIMSTEC had the desire to develop a firm foundation for joint action to promote cooperation in the areas of trade, investment, technological exchange, and other inter-related regions in a spirit of equality and partnership, thereby contributing towards peace, progress, and prosperity in the area.¹

The leaders adopted the BIMSTEC Charter and approved the reconstituted sectors and sub-sectors of cooperation at the Fifth Summit held in Colombo, Sri Lanka on 30 March 2022. Now BIMSTEC has broadly seven sectors each led by a member state. Bangladesh leads the trade, investment, and development sector; Bhutan - environment and climate change sector; India - security sector (with sub-sectors-counter-terrorism and transnational crime, disaster management, and energy), Myanmar - agriculture and food security sector (with sub-sectors: agriculture, fisheries, and livestock); Nepal - people-to-people contact sector (with sub-sectors: culture, tourism, people-to-people contact forums); Sri Lanka - science, technology, and innovation sector (with sub-sectors: technology, public health, and human resource development) and Thailand - connectivity sector.

BIMSTEC bridges two vibrant growth areas (South and Southeast Asia) and the Bay of Bengal is a very important trading route for many countries. About 25% of the world's traded goods, 70-80% of China's energy imports, and 90% or more energy imports of South Korea and Japan all flow through the Strait of Malacca, the southern end of the bay.² BIMSTEC as a regional group has much potential which can help this region to grow together, enhance regional trade and support the regional integration process. With combined efforts, BIMSTEC can catch up with the advanced economies of the world at a faster pace which will be discussed in the following chapters.

2. Potentials of the BIMSTEC Region

2.1 BIMSTEC: A Region with a Huge Market

BIMSTEC covers 3.69% of the global surface area and about 1.74 billion people (22.05% of the global population) live in this region. India, Myanmar, and Thailand are the three biggest countries in surface areas while Bhutan and Sri Lanka are the smallest.

Bangladesh and Nepal are almost similar in size (see table 1).

Table 1: BIMSTEC Surface Area and Population

Member State	Surface area			Population in 2021			
	in 1000 sq km	% of BIMSTEC	% of World	in millions	% of BIMSTEC	% of World	Density (persons/sq km)
Bangladesh	147.57	3.03	0.11	166.30	9.58	2.11	1240
Bhutan	38.39	0.79	0.03	0.80	0.05	0.01	20
India	3287.26	67.42	2.49	1393.40	80.24	17.69	455
Myanmar	676.59	13.88	0.51	54.80	3.16	0.70	82
Nepal	147.18	3.02	0.11	29.70	1.71	0.38	196
Sri Lanka	65.61	1.35	0.05	21.50	1.24	0.27	350
Thailand	513.12	10.52	0.39	70.00	4.03	0.89	136
BIMSTEC	4875.72	100.00	3.69	1736.50	100.00	22.05	353
World	132,025.20		100.00	7875.00		100.00	60

Source: Author's own, based on World Bank database³ and United Nations Population Fund database.⁴

Since BIMSTEC has more than one-fifth of the world's population, it has been a huge market for goods and services. In terms of size of population, India and Bangladesh have the largest population. Bangladesh is the most densely populated country in the world with 1240 persons living in one square kilometer. BIMSTEC's average population density (353 persons per square km) is much higher than the world average (60 persons per square km).

2.2 BIMSTEC: A Region with a Large Population Dividend

The BIMSTEC region is endowed with a large population dividend. More than two-thirds (67.59%) of the population of the BIMSTEC region is of working age (15-64 years).

Table 2 illustrates that the average percentage of the working-age population in BIMSTEC is higher than the world average (64.50%). Thailand has the largest percentage (70.20%) of the working-age population among BIMSTEC member states while Sri Lanka has the lowest (65.0%). However, all the member states have a larger population dividend than the world average (64.50%). Population dividend is a good asset for economic development.

Table 2: Population Dividend and Agricultural Factor Productivity

Member State	% of the working-age population (15-64)	Labour productivity (USD/person)	Land productivity (USD/hectare)
Bangladesh	68.40	910	2641
Bhutan	69.10	961	405
India	67.40	1244	1506
Myanmar	68.40	1706	1659
Nepal	66.00	546	1528
Sri Lanka	65.00	1458	1149
Thailand	70.20	2727	1474
BIMSTEC	67.59	1365	1480
World	64.50	6918	1021

Source: United Nations Population Fund database⁵ and Economic Research Service database.⁶

The average labour productivity of the BIMSTEC region (USD1365/person) is much lower than the world average (USD 6918/person). Among the BIMSTEC member states Thailand has the highest labour productivity (USD 2727/person) while Nepal has the lowest labour productivity (USD 546/person). In the process of economic transformation, labour productivity increases. This shows that the average level of development of the BIMSTEC region is lower than the world average.

On the other hand, compared to labour productivity, the land productivity of the BIMSTEC region is better. The average land productivity of the BIMSTEC region (USD 1480 /hectare) is higher than the world average (USD 1021/hectare). Among the BIMSTEC member states Bangladesh has the highest land productivity (USD 2641/hectare) while Bhutan has the lowest land productivity (USD 405/hectare). Land is a fixed factor of production as it cannot be created. However, the use of high-yielding varieties, land consolidation, proper use of fertilizers and machinery, land utilization policy, etc., can increase land productivity.

2.3 BIMSTEC: A Rapidly Growing Region

The BIMSTEC region is a rapidly growing region in terms of gross domestic product (GDP). In the decade (1971-1980), the average GDP growth of BIMSTEC was lower (3.95%) than the world average (4.02%). However, the BIMSTEC region showed constantly higher growth than the world in the other four consecutive decades. Compared to the world average (3.18%), BIMSTEC had 5.45% growth in 1981-1990 which slightly decreased to 5.19% (vs 3.00% of world average) in 1991-2000, increased to 6.74% in 2001-2010 (vs 3.01% of world average) and decreased to 4.69% (vs 2.39% of world average) in the last decade (2011-2020).

Table 3: GDP Growth Rate in the Decades

Country	Average GDP Growth Rate of Decades (%)				
	1971-1980	1981-1990	1991-2000	2001-2010	2011-2020
Bangladesh	1.76	4.02	4.68	5.58	6.55
Bhutan	1.51	10.05	4.64	8.93	3.92
India	3.69	5.57	5.60	6.75	5.09
Myanmar	5.24	1.63	6.67	12.18	6.60
Nepal	2.94	4.79	5.00	3.93	4.30
Sri Lanka	5.00	4.20	5.22	5.20	4.09
Thailand	7.48	7.89	4.53	4.62	2.29
BIMSTEC	3.95	5.45	5.19	6.74	4.69
World	4.02	3.18	3.00	3.01	2.39

Source: Author's own, based on World Bank database.⁷

Among BIMSTEC member states, Bangladesh has maintained an increasing growth rate in the consecutive decades reaching an average of 6.55% growth rate in 2011-2020. However, the growth rate of other member states faced many ups and downs. In the last decade (2011-2020), Myanmar had the highest GDP growth rate (6.60%) followed by Bangladesh (6.55%), India (5.09%), and Nepal (4.30%). On the contrary, Thailand has the lowest growth rate (2.29%) in this decade followed by Bhutan (3.92%) and Sri Lanka (4.09%).

As the BIMSTEC region has a high growth rate, it is a vibrant and potential region. Among the least developed countries (LDCs) of BIMSTEC, Bangladesh and Nepal have already fulfilled the criteria to upgrade into developing countries (DCs) by 2026.⁸ Bangladesh has a better possibility for an earlier catch up with the advanced countries if it can maintain its current growth rate and exports.

2.4 BIMSTEC: A Region with Potential for Capital Accumulation

The BIMSTEC region had a very low average foreign direct investment (FDI) net inflow (0.96% of GDP) in 1981-2000 compared to the world average FDI net inflow of the same period (1.27% of GDP). It reached 1.63% of GDP in 2001-2020 with a slight increase. However, it was also far less than the average world FDI net inflow (2.78%) in the same period (see table 4).

The average FDI net inflow in the BIMSTEC member states was about 0-4% of GDP in both periods. Two member states of BIMSTEC which are also members of ASEAN (Myanmar and Thailand) had the highest FDI net inflow while Nepal, Bangladesh, and Bhutan had the lowest.

Table 4: Foreign Direct Investment Inflow and Outflow

Average FDI Net Inflow/Net Outflow (as % of GDP)				
Country	Net Inflow		Net Outflow	
	1981-2000	2001-2020	1981-2000	2001-2020
Bangladesh	0.09	0.89	0.00	0.08
Bhutan	0.07	1.15	0.00	0.00
India	0.25	1.71	0.02	0.60
Myanmar	3.36	3.57	0.00	0.00
Nepal	0.08	0.26	0.00	0.00
Sri Lanka	0.98	1.25	0.03	0.10
Thailand	1.87	2.55	0.16	1.71
BIMSTEC	0.96	1.63	0.03	0.36
World	1.27	2.78	1.29	2.57

Source: Author's own, based on World Bank database.⁹

Some of the member states of BIMSTEC such as Bhutan, Myanmar, and Nepal have no FDI net outflow in both periods because their national policies are somehow restrictive to allow them to invest abroad. However, Thailand, India, Sri Lanka, and Bangladesh have some FDI net outflow.

2.5 BIMSTEC: A Region with a Growing Number of Billionaires

The number of globally ranked dollar billionaires reached 195 in 2021 in the BIMSTEC region.¹⁰ India has 166 dollar billionaires followed by Thailand (26) and Nepal (1). The other member states do not have any dollar billionaires. As the region is growing rapidly, some of the rich business houses are accumulating billions of dollars and investing them in their multinational companies.

Increasing numbers of billionaires in a country will help in employment generation and the growth of the national economy. However, if not directed in the productive sectors by the government policies, it may also widen the gap between the haves and the have-nots.

In 2021, the combined economy of BIMSTEC constituted a total of US\$ 4.03 trillion with an average per capita GDP of USD 2372. Among the BIMSTEC member states, Thailand, Sri Lanka, and Bhutan are above the average and other members are below (see table 5).

Table 5: Income, Competitiveness, and Billionaires in the BIMSTEC Member States

Member State	GDP in 2021 (Billion USD)	Per capita Income in 2021 (USD)	Global Rank of Economy in 2021	World Competitiveness Ranking in 2019	Number of Globally Ranked Billionaires in 2021
Bangladesh	356.0	2,139	42	105	-
Bhutan	2.5	3,296	180	-	-
India	2946.1	2,116	6	68	166
Myanmar	66.7	1,246	77	-	-
Nepal	34.3	1,173	102	108	1
Sri Lanka	80.8	3,666	70	84	-
Thailand	546.2	7,809	26	40	28
BIMSTEC	4032.6	2,372			

Source: Compiled by the author based on World Bank data¹¹, World Economic Forum data¹² and Forbes.¹³

India has the largest size of GDP in the BIMSTEC region which is in the global 6th rank followed by Thailand in 26th rank and Bangladesh in 42nd rank. Thailand is the most competitive among BIMSTEC member states ranking 40th in the world followed by India at 68th and Sri Lanka at 84th.

2.6 BIMSTEC: A Region with a Growing Service Sector

The average contribution of the agriculture sector of BIMSTEC member states in their economy (17.14%) is far more than the world average (6.34%). Their industrial sector's average contribution (29.15%) is a little higher than the world average (28.94%). However, the service sector's contribution (53.70%) is lower than the world average (64.72%), but it is growing faster than other sectors.

Most of the BIMSTEC member states import raw material/intermediate goods for industry and add substantive value to it and send the final product to the international market. Therefore, their agricultural sector is shrinking while industry and service sectors are growing. However, Nepal has a different scenario as it has a less industrial base but more service sector contribution. On average the service sector of BIMSTEC member states is growing fast.

Table 6: Contribution of Agriculture, Industry and Service in GDP

Country	Agriculture	Industry	Service	2001-2020
Bangladesh	14.06	30.54	55.40	100.00
Bhutan	20.23	34.91	44.86	100.00
India	20.19	25.92	53.89	100.00
Myanmar	21.98	36.25	41.77	100.00
Nepal	26.43	12.52	61.05	100.00
Sri Lanka	8.48	30.85	60.67	100.00
Thailand	8.64	33.09	58.27	100.00
BIMSTEC	17.14	29.15	53.70	100.00
World	6.34	28.94	64.72	100.00

Source: Author's own, based on World Bank database.¹⁴

2.7 BIMSTEC: A Region with Potentials of Regional Value Chains

The BIMSTEC region is endowed with cheap labor forces as two-thirds of its population is of working age. It has huge potential for creating regional value chains (RVCs) using micro small and medium enterprises (MSMEs). RVCs can offer opportunities to the BIMSTEC member states to use the backward and forward linkages in their economies to generate multiplier effects. BIMSTEC as a manufacturing hub can create opportunities in the region to climb up the value chain ladder by using the region to boost their competitiveness and produce and export higher value-added products.

Regional industrial clusters can be made to produce regionally branded products. For example, the textile and clothing industry's value chains link from raw cotton to readymade garments (RMG). India is the top producer of cotton in the world which could supply cotton bales in this region. Thailand is good at producing fabrics while Sri Lanka has a competitive advantage in textile designs, and Bangladesh is more competitive in manufacturing readymade garments using those fabrics and designs. Pharmaceuticals production is also a prospective sector in the BIMSTEC region as India, Thailand, and Bangladesh have a good base to produce medicines.

As an economic hub, the BIMSTEC region may have an enormous opportunity to produce manufacturing goods by enhancing the regional capacities of value chains through MSMEs. Similarly, BIMSTEC has the potential to use regional values chains in tourism, construction, financial intermediaries, transport connectivity, and communication sectors.

The process of integration of multi-national enterprises (MNEs) and MSMEs through RVCs create different linkages in an economy generating multiplier effects for economic growth.

2.7 BIMSTEC: A Region with Huge Tourism Potentials

Tourism is one of the major sub-sectors of the people-to-people contact sector of BIMSTEC cooperation among the seven reconstituted sectors of BIMSTEC and this sub-sector is led by Nepal.¹⁵ The promotion of intra-regional, inter-regional, and region-bound tourism is one of the priority areas of BIMSTEC cooperation.

The BIMSTEC leaders have mandated to run circuits tourism and recently, BIMSTEC member states have identified destinations to include in five major tourism circuits called Buddhist circuits, temple circuits, eco-tourism circuits, cruise circuits, and adventure circuits.

Tourism can contribute to the socio-economic development of the BIMSTEC region both by facilitating people-to-people contact as well as creating remunerative jobs for our youths. Due to the civilizational, historical, and cultural linkages in this region, the BIMSTEC region has huge potential for the development of tourism circuits.

2.8 BIMSTEC: A Region with Huge Potential for Clean Energy

In the future, the world would be moving towards clean energy for sustainable development. There is no doubt that the BIMSTEC region has a huge potential for clean energy as it is endowed with abundant natural resources comprising tons of natural gas, a huge capacity of hydropower, and renewable energy potential. As most of the economies of BIMSTEC Member States are the fastest-growing economies, their developmental needs and the daily energy needs of the huge population in this region have created an enormous energy demand.

Therefore, BIMSTEC being a bridging organization between South and Southeast Asia, has provided an opportunity to explore how regional collaboration may build on the energy cooperation between these two regional groupings to ensure the sustainable use of energy in the future. Recently the Energy Ministers in the 3rd Energy Ministers' Meeting has recognized the urgent need to promote energy cooperation and energy trade among the Member States for achieving energy security and greater economic integration in the region.

3. Trade Engagement of BIMSTEC Outside and Within

3.1 Trade of BIMSTEC Member States in Global Markets

The BIMSTEC Member States are open to foreign trade. They are day by day exploring the comparative advantage of their economy to produce goods that can be sold in international markets. They are also trying to gain economies of scale and economies of scope. I summarize and show the major exporting and importing items of the BIMSTEC Member States and their top export and import destination in 2021 in table 7.

Table 7: BIMSTEC Member States' Major Exports and Imports to Global Markets

Member State	Top Export Items	Top Import Items	Top Trading Partners
Bangladesh	Knitwear and woven garments, jute and jute goods, frozen food, leather, pharmaceuticals, etc.	Cotton, machinery and vehicles, mineral fuels and oils, electrical machinery and equipment, iron and steel.	Export: United States, Germany, United Kingdom, Spain, France Import: China, India, Singapore, Hong Kong, Indonesia
Bhutan	Electricity, wood and rubber, silicon, boulders, cement, pebbles, gravel, stone, gypsum, dolomite	Oil and fuels, base metals, machinery and electrical appliances, vehicles	Export: India, Bangladesh, Italy, Nepal, China Import: India, China, Singapore, Thailand, Nepal
India	Engineering goods, Petroleum, jewelry, chemicals, electronics pharmaceuticals, cotton	Mineral fuels, waxes, and bituminous substances; pearls, precious and semi-precious stones; machinery and equipment; nuclear reactors, boilers	Export: USA, China United Arab Emirates (UAE), Hong Kong, Bangladesh Import: China, India, Singapore, Hong Kong, Indonesia
Myanmar	Oil and natural gas, vegetables, wood, fish, clothing, rubber, and fruits	fuel, vegetable oil, vehicles, pharmaceutical products, construction equipment, polymers, tires, and machinery	Export: China, India, Japan, South Korea, Germany Import: China, Japan, India, Indonesia, Germany
Nepal	Soya-bean oil; palm oil; yarns; woolen carpet; jute products; readymade garments;	Petroleum; gold, iron and steel, clothes, pharmaceuticals, electronics, vehicles;	Export: India, Bangladesh, Germany, France, Canada Import: India, China, Indonesia, Argentina, South Korea.
Sri Lanka	Textiles and garments, tea, spices, gems, coconut products, rubber, and fish.	Petroleum, textile fabrics, foodstuffs and machinery, and transportation equipment.	Export: United States, United Kingdom, Germany, Belgium, and Italy. Import: India, China, Iran, and Singapore.
Thailand	Auto parts & accessories, computers, equipment & parts, rubber products, plastic pallets, precious stones, chemicals	Raw materials and intermediate goods, crude oil, machinery, chemicals, iron & steel, electrical integrated circuits, base metals	Export: China, Japan, the United States, European Union, Malaysia. Import: Japan, China European Union, United Arab Emirates, United States.

Source: Author's own, based on World Integrated Trade Solution (WITS).¹⁶

3.2 Intra-regional Trade of BIMSTEC Member States

I have summarized the items that are exported to and imported from partner member states of BIMSTEC in table 8. Each member state has specific items to sell and purchase from other member states. This is making intra-regional trade in the BIMSTEC region possible.

Table 8: Intra-BIMSTEC Exports and Imports

Member State	Major Export to BIMSTEC Members	Major Import from BIMSTEC Members
Bangladesh	Raw hides and skins and leather, articles of apparel, not knit or crocheted, fish, crustaceans, mollusks, aquatics, invertebrates, pharmaceuticals	Cotton, cereals, machinery, electronics, nuclear reactors, boilers, iron and steel, plastics, salt, sulfur, earth, stone, plaster, lime, and cement
Bhutan	Electricity, salt, sulfur, earth, stone, plaster, lime, cement, wood, rubber, silicon, boulders, pebbles, gravel, stone, gypsum, dolomite	Mineral fuels, oils, distillation products, machinery, nuclear reactors, boilers, electrical, electronic equipment, vehicles, iron and steel, cereals, plastics
India	Cotton, cereals, iron and steel, mineral fuels, machinery, nuclear reactors, boilers, Pearls, precious stones, metals, coins, Iron and steel, Vehicles, organic chemicals, fish, crustaceans, mollusks, aquatics invertebrates, aluminum	Pearls, precious stones, metals, coins, animal, vegetable fats and oils, cleavage products, coffee, tea, mate and spices, articles of apparel, not knit or crocheted, organic chemicals, copper
Myanmar	Edible vegetables and certain roots and tubers, edible fruits, nuts, peel of citrus fruit, melons, wood and articles of wood, wood charcoal, cereals, coffee, tea, mate and spices, rubbers, fish, crustaceans, mollusks, aquatics, invertebrates, oil seed, fruits, grain, seed	Machinery, nuclear reactors, boilers, vehicles, pharmaceutical products, iron and steel, plastics, mineral fuels, oils, distillation products, beverages, spirits and vinegar, electrical, electronic equipment, miscellaneous edible preparations, cereal, flour, starch, milk preparations and products
Nepal	Soya-bean oil, Cardamom, the Woven fabric of jute; Black tea, Mixtures of juices etc.	Diesel; Semi - finished products of iron or non-alloy steel; Refined petroleum; liquified petroleum gas; milled rice and paddy, etc.
Sri Lanka	Mineral fuels, oils, distillation products, coffee, tea, mate and spices, edible fruits, nuts, peel of citrus fruit, melons, pearls, precious stones, metals, coins	Pharmaceutical products, rubbers, plastics, sugars, and sugar confectionery, cotton, mineral fuels, oils, distillation products, iron and steel, knitted or crocheted fabric, machinery, nuclear reactors, boilers, vehicles
Thailand	Polymers of ethylene, propylene, etc in primary, chemical products, machinery and parts the roof and refine fuels, Page, animal and vegetable fats and oils, Iron and steel and their products, precious stones and jewelry, motor cars, parts, and accessories, beverages	Natural gas, jewelry, gems, silver bars, and gold, machinery and parts thereof, plants and plants, products, other metal ores, metal waste scrap, and products, chemical products, iron and steel, and their products, fresh, frozen, and dried foods, pharmaceutical products, motor cars, parts, and accessories

Source: Author's own, based on World Integrated Trade Solution (WITS) .¹⁷

3.3 Regional and Global Trade Engagement of BIMSTEC Member States

In 2020 the total global trade was US\$ 34.91 trillion while global trade of BIMSTEC was US\$ 1.23 trillion constituting only 3.53% of total global trade. The intra-regional trade in the same year was US\$ 77.00 billion. The intra-regional trade of BIMSTEC, out of its global trade, was only 6.25% (as shown in table 7). This shows that BIMSTEC is a less integrated region compared to ASEAN (intra-regional trade of 24%) and the European Union (intra-regional trade of 64%).¹⁸

Table 9: BIMSTEC Trade Engagement in 2020

Country	Intra-BIMSTEC trade		BIMSTEC global trade		Intra-regional trade share in global trade (%)
	Volume (in million USD)	Share of countries (%)	Volume (in million USD)	Share in BIMSTEC global trade (%)	
Bangladesh	8,202.62	10.65	76,604.44	6.22	10.71
Bhutan	2,667.97	3.46	2,880.09	0.23	92.64
India	30,491.36	39.60	643,630.43	52.23	4.74
Myanmar	6,446.47	8.37	34,584.50	2.81	18.64
Nepal	7,243.43	9.41	11,398.99	0.93	63.54
Sri Lanka	4,314.61	5.60	26,782.12	2.17	16.11
Thailand	17,640.88	22.91	436,348.36	35.41	4.04
BIMSTEC	77,007.33	100.00	1,232,228.92	100.00	6.25

Source: Author's own, based on DOTS database.¹⁹

In 2020, India had the highest (39.60%) trade share among member states while Bhutan had the lowest (3.46%). Similarly, India had the highest (52.23%) trade share in BIMSTEC global trade while Bhutan had the lowest (0.23%). In the intra-regional trade share in global trade, 92.64% of Bhutan's trade was within the BIMSTEC region (highest) and 4.04% of Thailand's trade was within the BIMSTEC region (lowest).

3.4 Historical Aspects of Intra-Regional Trade in BIMSTEC Before and After Establishment of BIMSTEC

BIMSTEC was established on 6 June 1997 through the Bangkok Declaration. After seven years of establishment of BIMSTEC, the states agreed to establish the BIMSTEC Free Trade Area (FTA) Framework Agreement on 08 February 2004 to stimulate trade and investment and attract outsiders to trade with and invest in BIMSTEC.

Table 7 shows the comparative data of intra-regional trade in BIMSTEC before and after 23 years of its establishment. Intra-regional trade was USD 444.45 million (2.52%) in 1974 while reached a height of USD 96094.88 million (6.37%) in 2018. It decreased in 2019 and 2020 due to the effect of the COVID-19 pandemic.

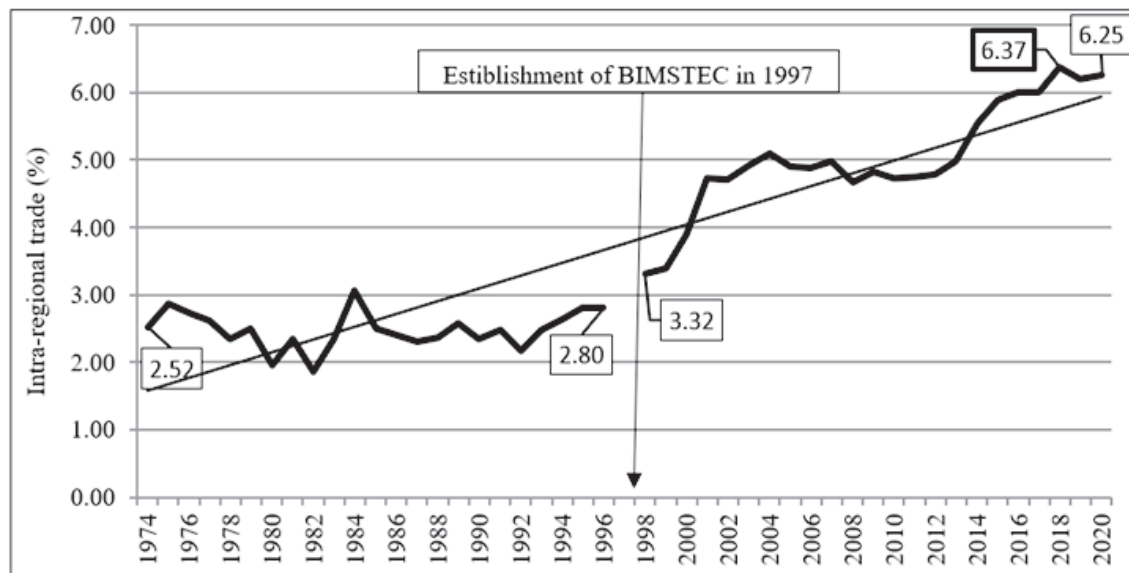
Table 10: Intra-Regional Trade in BIMSTEC Before and After Establishment

Year	Intra-regional Trade			Year	Intra-regional Trade	
	USD millions	Share (%)			USD millions	Share (%)
1974	444.45	2.52	Establishment of BIMSTEC in 1997 (Intra-regional trade: USD 6,333.25 or 2.83%)	1998	6724.31	3.32
1975	553.92	2.87		1999	7514.57	3.38
1976	529.77	2.73		2000	10137.19	3.90
1977	631.59	2.62		2001	12035.57	4.72
1978	670.15	2.35		2002	12966.09	4.71
1979	900.93	2.50		2003	16168.72	4.93
1980	915.35	1.96		2004	20863.12	5.10
1981	1083.98	2.34		2005	25236.05	4.90
1982	862.79	1.86		2006	30017.86	4.88
1983	1065.22	2.36		2007	37178.45	4.97
1984	1495.26	3.05		2008	44298.11	4.67
1985	1219.08	2.51		2009	37654.15	4.83
1986	1199.99	2.41		2010	49084.05	4.73
1987	1392.71	2.30		2011	63288.11	4.74
1988	1837.36	2.37		2012	65690.43	4.78
1989	2321.42	2.57		2013	68876.27	4.98
1990	2582.79	2.35		2014	75892.78	5.54
1991	2893.48	2.48		2015	70860.69	5.89
1992	2835.25	2.18		2016	70009.22	6.00
1993	3512.14	2.47		2017	81385.06	6.00
1994	4460.33	2.64		2018	96094.88	6.37
1995	6277.20	2.81		2019	90841.66	6.20
1996	6293.99	2.80		2020	77007.33	6.25

Source: Author's own, based on DOTS database.²⁰

The chronological data of intra-regional trade of BIMSTEC shows that it has increased over time but not substantially. Delay in the agreement on the constituent agreements of FTA is clearly shown by the nature of the data.

The trend of intra-regional trade share in BIMSTEC is increasing at a slow rate (see figure 1). It was 2.52% in 1974 and reached 2.80% in 1996. BIMSTEC was established in 1997 when the intra-regional trade was 2.83%. It gradually increased to 3.32% in 1998. The highest share was noticed in 2018 (6.37%) after which it decreased to 6.25% in 2020.

Graph 1: Intra-Regional Trade in BIMSTEC

Source: Data from Table 10

3.5 BIMSTEC Free Trade Area and Its Constituent Agreements

The BIMSTEC members are bound by different trade agreements. The five-member states who are also part of the South Asian Association for Regional Cooperation (SAARC) are bound by the South Asian Free Trade Area (SAFTA). Similarly, as Association of Southeast Asian Nations (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 bilateral trade deals.²¹

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.²²

The BIMSTEC FTA covers areas such as the progressive elimination of tariffs and non-tariff barriers; liberalization 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 recognizes 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. The TNC has several working groups to assist in the negotiations, including those on rules of origin, trade in services, investment, and Trade Facilitation.²³

The TNC has held 21 rounds of negotiations to finalize 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, and its rules of origin and product-specific rules were agreed upon.²⁴

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 (NTBs). 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 2016.²⁵

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.

4. Regional Integration Process in BIMSTEC

4.1. Stages of Regional Integration

In the process of globalization, the economies of different countries have become interdependent and interconnected. The integration of the economy passes through regionalization to globalization in mainly 6 stages. They are- (1) preferential trading agreement (2) free trade area (3) custom territory (4) common market (5) economic union (6) full economic integration.

While assessing, depending upon the steps of economic integration, none of the economies in the world are in stage 6. The European Union passing from stage 1 is now in stage 5. As the ASEAN region pursues its goal of becoming a highly integrated and cohesive economic zone by 2025, in line with the vision of the ASEAN Economic Community, this region is progressing towards stage 3 while the SAARC region is in stage 2. However, BIMSTEC has entered stage 2 but needs a conclusion of constituent agreements of FTA without delay to maintain stage 2.

4.2. Dimensions of Regional Integration for BIMSTEC

The process of regional integration mainly involves eight dimensions for regional integration for BIMSTEC. They are presented in table 11 as (1) integration of industries and value chains, (2) integration of financial systems, (3) integration of trade and investment, (4) integration of knowledge and technology, (5) integration of climate and environment, (6) integration of infrastructure connectivity, (7) integration of people's connectivity, and (8) integration of institutions and mechanisms.

Table 11: Regional Integration in BIMSTEC

Industries/Value Chains	Financial Systems	Trade and Investment
❖ Regional industrial clusters ❖ Regional value chains via MSMEs ❖ Forward and backward linkages ❖ Regionally branded products	❖ Regional financial policy ❖ Regional banks and financial institutes ❖ Regional capital markets	❖ Free trade of goods and services ❖ Free inflow/outflow of capital ❖ Regional supply chains
Knowledge/Technology	Integration in BIMSTEC Region	Climate/Environment
❖ Common regional technology ❖ Sharing of best practices ❖ Transfer of technology		❖ Sustainable use of regional natural resources ❖ Climate change impact reduction ❖ Disaster warning system
Infrastructure Connectivity	Institutions/Mechanisms	People's Connectivity
❖ Cross-border transport networks (road, railways, airlines, waterways, shipments) ❖ Grid interconnection and energy trade ❖ Common projects	❖ BIMSTEC meetings ❖ BIMSTEC centers ❖ BIMSTEC entities ❖ Common policies ❖ Joint research and innovations	❖ Common visa and free movement ❖ BIMSTEC tourism circuits ❖ Common cultural heritage ❖ People's forums ❖ Education and health networks

Source: Author's own, based on different sources.

5. Creation of Opportunity Cost and Interdependency in BIMSTEC

Capital and labor are movable factors of production as they move to places where there is a higher opportunity cost for them. The factors of production of BIMSTEC member states are underutilized and there is an enormous possibility for efficiency gain in the economy (either from reducing inputs and producing the same level of output or producing more output with the same level of inputs).

Moreover, the transfer of knowledge and technology plays a vital role in efficiency gain in developing countries. Efficiency gain will increase the size of the pie of the economy causing high economic growth. Transfer of capital from capital abundant countries to capital scarce countries is very important in the process of economic development. Multi-national enterprises (MNEs) in developed countries invest their money in developing

countries because they have better opportunities of gaining profit in developing countries than in developed countries.

On the other hand, the micro, small, and medium-sized enterprises (MSMEs) in developing countries have capital and technology shortages with fewer marketing opportunities. The collaboration between MNEs and MSMEs is a win-win situation for both of them which will help to create Global Value Chains (GVCs).

MNEs do not have much opportunity to gain profit in developed economies (due to rising input prices and stagnating markets) where there is already full efficiency gain and no further space for the growth of the economy without innovation. Therefore, MNEs in developed countries require new business and production strategies to cut costs and are drawn to invest and shift their factories to developing countries (to reduce transaction costs) where the labor input is cheaper. This is to harness the lucrative benefit of factor endowments and comparative advantage of labor resources in developing countries.

Furthermore, MNEs also may produce some part of their product brand in one country and another part in other countries cost-effectively and assemble the parts in a different country for the exportable final product. This motivates the MNEs in developed countries to make partnerships with SMEs in developing countries creating interdependency in GVCs.

6. Opportunities in BIMSTEC

There is steady economic growth in the BIMSTEC Member States with enormous domestic demand and favorable demography (cheap labor force). Robust economic growth (more than 5% on average), endowments of natural resources, expanding middle class, increasingly well-educated population, diversified economy, and intensive regional integration initiatives are the main causes of attraction of outsiders towards the BIMSTEC region.

This year BIMSTEC is going to celebrate its silver jubilee (25th anniversary) on 6 June 2022. BIMSTEC member states have more than two decades of engagement with each other and recently they have adopted the BIMSTEC Charter. Furthermore, the rationalization and reconstitution of 14 sectors of cooperation into seven sectors and sub-sectors each led by a member state have created many opportunities in the BIMSTEC region.

The Member States can now make a plan of action for the sector they lead with a long-term strategic vision and priorities. They can explore more partnerships with multilateral organizations such as the World Bank, Asian Development Bank (already working with), International Food Policy Research Institute (IFPRI), Organization for Economic Co-operation and Development (OECD), European Union (EU), and also with similar regional organizations such as ASEAN, Indian Ocean Rim Association (IORA), etc. in terms of the issues related to sharing the best practices, investment, education and skills, MSMEs, good regulatory practice, connectivity, tourism and public-private partnership (PPP).

Like in the ASEAN region, MSMEs can play a vital role in BIMSTEC as part of GVCs by combining the movement of capital (investment), labour (employment), transfer of technology, international trade, and promoting research and development, invention and innovation.

BIMSTEC region has an even cheaper labor endowment and big domestic markets than the ASEAN region. Therefore, MNEs in advanced economies have a better opportunity to bring investment in the forms of FDI, joint venture capital, and partnership (e.g., service contract, contract manufacturing, marketing agreements, franchising, licensing agreements, research collaborations, etc.) and utilize local resources through MSMEs in the BIMSTEC member states.

The best practices of MNEs-SMEs collaboration in the ASEAN region can be taken as an example for the BIMSTEC region and be applied with some modifications as per the need of FDI receiving member states.

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. Therefore, regional connectivity lies at the core of promoting enhanced transport linkages and intra-regional trade and its development requires a set of coordinated policies and strategies.²⁶

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 into 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.

7. Challenges in BIMSTEC

The challenges faced by all the member states of the BIMSTEC region are not always the same, given that they are at different stages of development. As the more advanced economies of the BIMSTEC region such as India, Sri Lanka, and Thailand come under the increasing pressure of declining cost advantages and increasing middle class, they will need more investment and human capital in the skills- and technology-intensive segments of the economy.

On the other hand, the less developed economies of the BIMSTEC region (e.g., Bangladesh, Bhutan, Myanmar, and Nepal) will have to address more fundamental issues, such as basic infrastructure, as a first step towards supporting linkages for regional integration.

In 2020, the average tariff rate in intra-regional trade in South Asia was 5.4 percent, which was higher than in ASEAN (1.5 percent), Latin America (1.3 percent), and Africa (2.6 percent).²⁷ Since tariffs are already low, they are no longer the major barrier to intra-regional trade, but the cost and time to trade remain relatively high. The tariffs have been reduced as a result of global, regional, and bilateral agreements.

However, compared to the tariffs, 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.²⁸

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 an 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.

8. Conclusion

At the Fifth BIMSTEC Summit, the BIMSTEC leaders urged the member states to expedite the conclusion of pending legal instruments. The 17th Ministerial Meeting has stressed the importance of enhancing intra-regional trade and investment for economic recovery in the post-COVID 19 periods and called upon the member states to continue the work on the Agreement on Trade in Goods and the Agreement on Cooperation and Mutual Assistance in Customs Matters.

Furthermore, the leaders and the ministers have also encouraged the member states to put in place trade facilitation measures including simplification of customs procedures, the introduction of an electronic tracking system for cross-border container movement, mutual recognition arrangements, and acceptance of electronic copies of export-import related

documents. 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.

To conclude, the member states, as envisioned by the leaders, need to intensify regional cooperation to strengthen economic and physical connectivity to enhance regional trade, investment, tourism, technology, energy, and other forms of exchanges, including offsetting the economic losses caused by the pandemic to catch up with the advanced economies of the world at a faster rate.

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