Deepening Regional Cooperation in the Bay of Bengal: Agenda of the BIMSTEC Summit

The Second Summit of the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) is taking place in New Delhi in November 2008 under the shadow of a deep financial meltdown affecting economies all across the globe even though it started as a crisis of the US financial system. The Asian economies are facing a compounded effect of the ongoing crisis resulting from the demand squeeze as well as falling stock markets and currencies due to outflow of foreign institutional investments. The latest projections suggest that the advanced economies of the world, namely, the US, EU, Japan, will be shrinking in 2009 by 0.3 per cent after having a nearly flat growth in the last quarter of 2008. However, developing Asian economies will still be growing at rates around 7-8 per cent, quite robust rates even though lower than those achieved in 2007. It is clear, therefore, that developing countries in Asia have to seek growth stimulus from within the region. Thus, regional economic integration assumes greater relevance and urgency in these times. Regional integration may help the participating countries in sharing each others’ dynamism. The Summit may impart a new impetus to deeper cooperation in the BIMSTEC region.

BIMSTEC region, comprising seven South and Southeast Asian economies, namely, Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka, and Thailand, is characterized by many economic complementarities, geographical contiguity, and close historical and cultural ties. Seen as a bridge between South Asian Association for Regional Cooperation (SAARC) and the Association of South East Asian Nations (ASEAN) by many, BIMSTEC epitomizes intertwining of the Look East Policy of India and Look West Policy of Thailand.

Over the past decade of its existence after its formation in December 1997, BIMSTEC has advanced the agenda of regional cooperation in 13 priority sectors, viz. trade & investment, technology, energy, transport & communication, tourism, fisheries, agriculture, cultural cooperation, environment and disaster management, public health, people-to-people contacts, poverty alleviation, and counter-terrorism and transnational crimes. Despite political crisis and natural calamities faced by a number of countries in the region, BIMSTEC has achieved tangible progress in areas like trade and investment, technology transfer, transport and communication, and people-to-people contact. Trade and FDI flows have expanded rapidly in the region, besides other remarkable achievements on the economic front. At the same time, the region has made impressive strides in human development, but needs increased effort to catch up with the other regions of the world and to achieve the Millennium Development Goals (MDGs).

With the region accounting for nearly one-fifth of world population, the emerging BIMSTEC countries continue to be an increasingly dominant force in global economic activities.

A Profile of the Region

The BIMSTEC is a US$ 1.22 trillion economy in nominal terms and a US$ 3.5 trillion economy in PPP terms at current international dollars, sharing about 22 per cent of world population and 3.64 per cent of surface area (Table 1). As a region, BIMSTEC has grown faster than the world average in output, including the high income economies, in recent years. The region has entered a new growth trajectory in the current decade with average growth accelerating to about 6.05 per cent from 5.30 per cent in the second half of 1990s. This dynamism has helped the region to enhance its share in world output (in PPP terms) to 5.80 per cent in 2006 from 4.74 per cent in 1997. This growth was triggered by reforms aimed at increasing global integration, improving macroeconomic management, and unleashing the private sector as a key engine of growth. Yet BIMSTEC faces major challenges for enhancing the inclusiveness of the growth process, bringing down the transaction costs and cost of doing business, strengthening the institutional base of the economies and infrastructure and expand the knowledge economy. Inadequate infrastructure is constraining growth of the region. The service sector has emerged as the major contributor of

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income in BIMSTEC countries accounting for as much as around 48 per cent of the region’s GDP. The global financial crisis has created fresh challenges for the region for generating growth impulses and raising resources for development.

BIMSTEC countries have recognized the potential of regional economic cooperation as apparent from their initiatives and approaches at bilateral and regional levels. Bangladesh, India, Sri Lanka, Bhutan and Nepal are members of SAARC; Myanmar and Thailand are members of ASEAN; and Bangladesh, India and Sri Lanka are also members of Asia-Pacific Trade Agreement (APTA). India and Sri Lanka have a bilateral FTA and an early harvest scheme of India-Thailand FTA is operational. India has also negotiated an FTA with ASEAN.

**Regional Economic Cooperation in Select Areas: Status, Prospects and Challenges**

BIMSTEC members are at different levels of development with complementary natural resource endowments. Although the current volume of intra-regional trade in BIMSTEC is not very large (US$ 18.14 billion in 2007), compared to other regional groupings, its proportion in their global trade has nearly doubled from 2.81 per cent in 1997 to about 5.46 per cent in 2007 (Figure 1). The growth in intra-regional trade has not been limited to relatively larger countries. Intra-regional export shares of smaller countries such as Myanmar and Nepal have increased significantly over the past decade. The proportion of intra-regional trade appears small due to the fact that a substantial proportion of trade in the region takes place informally. RIS had estimated a substantial trade creating potential of BIMSTEC of the order of US$ 43-49 billion. The exploitation of the potential of intra-regional trade is constrained by a number of tariff and non-tariff barriers, poor communication and transportation links, lack of information and financing, among others. Also the lack of supply capacities in smaller and lesser developed economies for the products demanded in larger economies, besides other factors and barriers, also do not allow the potential of intra-regional trade to be exploited fully.

FDI inflows to BIMSTEC countries have been growing in magnitude in view of their dynamism and strong fundamentals. India and Thailand are among

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**Table 1: BIMSTEC’s Share in World (%)**

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<tr>
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<th>1997*</th>
<th>2006</th>
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<tbody>
<tr>
<td>Surface area</td>
<td>3.64</td>
<td>3.64</td>
</tr>
<tr>
<td>Population</td>
<td>21.20</td>
<td>21.81</td>
</tr>
<tr>
<td>GDP, PPP (current international $)</td>
<td>4.74</td>
<td>5.80</td>
</tr>
<tr>
<td>GDP (current US$)**</td>
<td>2.07</td>
<td>2.51</td>
</tr>
<tr>
<td>Trade#</td>
<td>2.03</td>
<td>2.73</td>
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**Notes:** *The year of formation of BIMSTEC. **Excluding Myanmar. # Trade in goods and commercial services (excluding Bhutan).

**Source:** Calculated based on World Development Indicators 2008, World Bank.

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3 Ibid.
4 Refer, RIS (2004), Future Directions of BIMSTEC: Towards a Bay of Bengal Economic Community, RIS, New Delhi, in collaboration with IPS (Sri Lanka), ITTD (Thailand), and CPD (Bangladesh).
the preferred destinations of FDI from many developed economies but inflows to other BIMSTEC countries have also increased. FDI inflows as a proportion of GNP to BIMSTEC have increased from about 5 per cent in 1991 to about 14 per cent in 2007.6 Therefore, the foreign investments in BIMSTEC have taken a new shape. The pattern of FDI inflows into the major economies of BIMSTEC shows the dominance of the service sector. Some BIMSTEC countries such as India and Thailand have also emerged as significant sources of FDI outflows with nearly US$ 16 billion of outward investments in 2007.7 India and Thailand have shared a vibrant investment relationship in the recent years, following the bilateral FTA negotiations. Similarly, India-Sri Lanka FTA has led to a considerable FDI investments flowing not only from India to Sri Lanka but also from Sri Lanka to India. Nevertheless, on the whole the intra-BIMSTEC FDI remains rather small and its potential remains to be exploited.

Against that backdrop, we now review the status of BIMSTEC initiatives in select areas, challenges faced by the region, and the imperatives. 

Trade and Investment

BIMSTEC adopted a Framework Agreement on a BIMSTEC Free Trade Area (BFTA) in 2004. BFTA is a comprehensive agreement with the scope for cooperation extending to not only trade in goods but also bring in trade in services and investment promotion. Although a substantial progress has been made in the negotiations, these are yet to be concluded. These negotiations need to be concluded soon for exploiting the opportunities for exploiting the synergies especially in the context of the global financial crisis. Among other beneficial effects, the FTA would enable the region to exploit the dynamic effects that result in restructuring of the industry in a more efficient manner enabling creation of supply capacities in relatively smaller and lesser developed economies to take advantage of the opportunities available in the larger economies in the region and helping the region to exploit the economies of scale and specialization through intra-industry trade.8

BIMSTEC countries have also not been able to exploit the potential of trade in services which account for the bulk of their economic activity. In the negotiations on trade in services and investments, it was decided that the liberalization of trade in services would be based on ‘substantial’ sectoral coverage through a ‘positive list’ approach. The BIMSTEC countries have gradually opened various categories of their service market (e.g. banking services) over the years, in line with their economic interest. On the other hand, domestic reforms have been undertaken in several areas for facilitating the natural advantage (e.g. IT sector in India; telecom sector in Thailand). Although reform has taken place in the BIMSTEC countries in all the modes across the service categories in varying degrees, the countries have focused more on some areas depending on their economic interests. Transport, tourism, high education, audio-visual, information and communication, and financial services are quite important for all the BIMSTEC countries for their regional and global services trade to grow. They need to undertake region specific liberalization in services trade following a positive list approach within the framework of BFTA. The negotiations on trade in services among BIMSTEC countries need to be fast tracked along with those on trade in goods.

Similarly, the investment facilitation, promotion and liberalization need to accompany the FTA in goods and services to exploit the potential of potential of intra-regional investments in building supply capabilities especially in the smaller economies as a part of the efficiency-seeking industrial restructuring.

Physical Connectivity, Transport Infrastructure and Trade Facilitation

Getting the goods to market has been the key to the success of any regional economic bloc. Superior logistics plays an important role in the economic integration process, as in case of ASEAN and the European Union (EU). On the whole, the logistics efficiency of BIMSTEC region appears to be falling behind due to inadequate transportation networks and trade facilitation measures. The initiatives for building the supply capabilities and trade liberalization in BIMSTEC countries need to be complemented by a new approach towards connectivity and transit facilities to exploit the benefits of geographical contiguity. The FTA will not be effective unless accompanied by strengthening the infrastructure and facilitating trade and investment flows. BIMSTEC countries need to upgrade the road connectivity between their national network and the border crossings in order to facilitate trade and passenger flows. BIMSTEC should devise ways and means to fill the glaring gaps that exist in connectivity, transportation and infrastructure, and integration software like harmonization of customs, standards, etc.

Highways: The BIMSTEC Trilateral Highway (BTH) project linking India-Myanmar-Thailand is an important initiative in the direction of improving physical connectivity. It needs to be completed expeditiously.9 There has been some progress in linking India’s North Eastern Region (NER) with Bay of Bengal through Myanmar. The Kaladan Multimodal Transport Project (KMTP) is an example of growing partnership between India and Myanmar.10 An ADB-financed report on BIMSTEC Transport Infrastructure and Logistics Study (BTILS) is awaiting approval of the member countries. Similar studies should be taken up in other areas of transportation for common interest. While formulating regional highways and gateways for the entire region, following the example of other

RIS Policy Briefs #38
regional programmes, BIMSTEC must adopt a regional transit agreement for the uninterrupted flows of goods and vehicles in the region. A full regional transit will not only bring a steady revenue stream of transit fees but will also help develop industry and service enterprises in the border areas. According to an RIS Study, once the transit between India and Bangladesh is allowed, Bangladesh can earn hefty revenue (over US$ 1 billion per annum) as transit fees from Indian vehicles plying to and from India’s NER to rest of India using Bangladeshi soil. The amount may rise if other corridors between India and Bangladesh are also counted. 11

Railways: Railways can play an important role in integrating BIMSTEC which will promote bulk transnational movement amongst the neighbouring countries. Needs are two folds – (a) to link India’s Manipur with India’s main railway corridor, and (b) to re-establish and renovate railway networks in Myanmar. Indian Railways is engaged in harmonization of railway tracks in the NER and also construction of new lines. Considering the projects already sanctioned and under construction, Diphu-Karong-Imphal-Moreh rail link (on Indian side) is identified for development which will link India with ASEAN. Although at present construction work is being carried out in Diphu-Karong section, linking Karong with Morea via Imphal would link India with Thailand provided railway system on the other side (Myanmar) is also developed simultaneously.12 A comprehensive programme for harmonization of railway standards between India, Myanmar and Thailand, strengthening rolling stocks, and training of human resources has to be taken up urgently in the region.

Inland Waterways and Ports: Most of the ports in BIMSTEC baring Colombo suffer from draught restrictions. This limits navigation and the size of vessels that can be accommodated at the key BIMSTEC ports. This calls for developing deep water ports in the Bay of Bengal designed to handle big size container vessels and oil tankers. To serve the region better, ports have to be equipped with efficient multimodal transport system besides being able to accommodate larger, next generation ocean-going vessels. Countries in BIMSTEC should also encourage short-sea shipping within the region. In this respect many of the ports in BIMSTEC like Kolkata and Haldia (in India), Chittagong (in Bangladesh), Yangon (in Myanmar), and Bangkok (in Thailand) have many limitations because of navigational problems, lack of multimodal connectivity and absence of modern port handling equipments. There are also immense opportunities for inland water transportation in the region provided this system is well strengthened in tandem with the development of other modes of surface transport.

Trade Facilitation: Even though the BIMSTEC region is geographically contiguous, countries in the region do not trade much at border. Inadequate infrastructure at border crossings is a major concern. Modernization of major Land Customs Station (LCS) in BIMSTEC would pave the way in enhancing regional trade and formalizing the informal rent-seeking local economy. In this regard, the Indian government’s initiatives on Integrated Check Post (ICP) and Land Port Authority (LPA) are forward-looking steps, which would help improve India’s border infrastructure serving BIMSTEC neighbours. Other BIMSTEC countries also need to simplify customs procedures and agree to the transit arrangement following their commitments in WTO.

Most of the BIMSTEC countries are yet to ratify international conventions for cross-border movements of goods and vehicles. There are seven UN Conventions that set out a basic framework for the cross-border movements of goods and vehicles. In order to facilitate the cross-border movements of goods and vehicles, BIMSTEC countries should pursue a closer regional cooperation to accede to these conventions.

Lack of common standards in BIMSTEC is also a barrier to the growth of intra-regional trade. There is need to harmonize the conformity assessment procedures and evolve common standards or mutual recognition of reciprocal standards with respect to product rating, packaging, labeling, etc. so as to boost intra-BIMSTEC trade. The issue of coordination features prominently in the trade facilitation measures, which is required to be addressed with utmost importance by the BIMSTEC countries. This requires, in particular, coordination of border agencies for harmonisation and simplification of customs procedures, exchanging information and experiences, among others. 13

Modern customs organizations use automated customs clearance systems as a method of facilitating trade. Thailand and India have implemented their own EDI systems. Other BIMSTEC countries use Automated System for Customs Data (ASYCUDA), but often lack the latest software and important modules. Therefore, all BIMSTEC countries should operationalize fully-automated Customs Clearance Systems, which have the capacity to process import, export and transit declarations submitted electronically by traders or their representatives that reduce the need for submission of hard copy support documentation. BIMSTEC countries could also consider creating a BIMSTEC Single Window, which would allow intra-regional trade to pass through quickly.

Energy Security
The BIMSTEC region is richly endowed with energy resources, the vast unexploited potential of which can be tapped through a cooperative approach. Most of the BIMSTEC members are highly deficient in energy and have to rely on imports. Although there have been limited exchange of electricity and gas, except between India and Bhutan in hydro-power, and Myanmar and Thailand in gas, in the region, the full potential of
energy resources can be best utilized through developing an integrated energy market. The energy demand-supply scenario in BIMSTEC shows considerable potential for the energy exchange as demonstrated by the hydroelectric cooperation (see Box 1). The energy surplus areas in BIMSTEC can easily feed the energy deficient areas in neighbouring countries, thus creating a viable cross-border trade and industrialization in the region.

The BIMSTEC region has abundance of offshore natural gas resources. However, current engagement among the BIMSTEC countries in gas transmission is limited. Myanmar and Thailand have two cross-border gas pipelines, developed through PPP: the Yadana (Myanmar)-Ratchaburi (Thailand) pipeline, completed in 1999, and the Yetagun (Myanmar)-Ratchaburi (Thailand) pipeline, completed in September 2000. India’s OVL and GAIL are already involved in similar activities at offshore Blocks A-1 and A-3 in Myanmar’s western coastal Rakhine state in partnership with South Korean companies. Natural gas has emerged as an important export for Myanmar facilitated by cross-border gas pipelines. Such cross-border pipelines need to be built between Myanmar and India.

Besides grid connectivity, gas pipelines, and hydropower cooperation, there is considerable scope for cooperation among BIMSTEC countries in the fields of renewable sources of energy, enhancing energy efficiency and energy sector reforms and regulations, and adoption of best practices through exchange of experiences. The decision to establish a BIMSTEC Energy Centre in India at the 9th BIMSTEC Ministerial Meeting held in New Delhi in December 2006 was an important landmark in the evolution of energy cooperation in BIMSTEC.

BIMSTEC countries should adopt a comprehensive cooperation framework in energy sector comprising BIMSTEC Power Grid and BIMSTEC Gas Grid supported by dedicated projects and a dedicated regional fund for the energy sector.

### Information Technology

IT sector is one area with immense potential for intra-BIMSTEC cooperation as two of its members have gained tremendous comparative advantage in complementary directions. India’s competence in the field of software development is well known while Thailand has specialized in the hardware assembling. BIMSTEC ICT Cooperation may focus on IT training and software development, IT-enabled services, transfer of hardware technologies, joint ventures for computer manufacturing, adaptation of communications technologies for local use, development of content in local languages and sharing of development experiences in e-governance, e-commerce, etc. A BIMSTEC ICT Forum with participation of developmental agencies as well as private sector and other stake-holders should be evolved to share experiences and foster regional cooperation in the sector.

### Technology Management and Capability Building

There is rich potential for cooperation in the area of fundamental and applied scientific and technological research, technology management and capability building in the region. The cooperation in S&T should focus on all dimensions, and implementation of these aspects may determine the extent of success in the cooperation process in BIMSTEC. Towards this direction, BIMSTEC countries have decided to set-up BIMSTEC Technology Transfer Exchange Facility in the region, which would facilitate exchange in technology and strengthen the regional capacity.\(^{14}\)

\[^{14}\text{Refer to the Joint Statement of the 10th BIMSTEC Ministerial Meeting, New Delhi, 29 August 2008.}\]

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### Box 1: Cross-Border Hydro Power Projects in BIMSTEC: Unleashing the Regional Energy Potential

There are several major cross-border hydro-power projects in BIMSTEC. As of October 2008, India has implemented three hydro-power projects, namely, Chukha (336MW), Kurichhu (60MW) and Tala (1020), in Bhutan. The Tala hydroelectric project is the biggest cross-border power project in South Asia, and also the largest hydro project in Bhutan. This 1020 MW project is constructed with an investment of around $750 million, which is entirely funded by the Government of India by way of grants and loan (with a ratio of 60 and 40). India is helping Bhutan not only in setting-up the hydel plants but also providing the training and human resource development in power sector. Bhutan earns an annual revenue of about US$200 million by exporting surplus power to India generated by these plants. Indian Prime Minister Dr. Manmohan Singh in his visit to Bhutan in May 2008 has laid the foundation stone of another 1095 MW hydropower project at Punatsangchhu. The benefit of cross-border energy trade encouraged Bhutan to seek Indian investments in setting up hydro-power plants, which has over 30,000 MW hydroelectric potential. India-Bhutan example in hydroelectric cooperation is also being replicated to other parts of BIMSTEC. Nepal is also hoping to earn a revenue of US$195 million per annum from West Seti project on completion. India and Myanmar are working together for development of a hydroelectric project at Tamanthi. This project has the potential of generating between 600 – 1000 MW of electricity.

Source: RIS
BIMSTEC countries have also agreed to establish the BIMSTEC Centre for Weather and Climate Change in India. While these two projects will certainly strengthen the region’s capacity in S&T, the region has to take concerted efforts for sharing of information and assessment/understanding of each other’s capabilities; human resource development, particularly through training and research programmes; prompting interaction in the private sector; joint R&D projects involving in diagnostic research, product evolution, etc.

Tourism

Tourism offers a rich potential of cooperation for both promoting intra-regional tourism as well as for third country tourism. In some countries in the region like Thailand, Sri Lanka and in Nepal, tourism plays an important role in the national economic activity but its importance is rising in other countries as well. Better connectivity of the land routes as discussed earlier and easing of visas will go a long way in promoting the intra-regional tourism in the region. The region presents a major avenue for joint promotion of a tourist circuit. Most of the countries have cultural links and share Buddhist monuments. Asian Buddhist Heritage Packages combining all the important Buddhist sites in Sri Lanka, India, Thailand, Myanmar and Nepal and Bhutan among the BIMSTEC members could be highly attractive. These packages could combine air links, cruise liners and overland connections offering the tourists a much greater variety than any single country presents. To promote such joint packages the tour operators and travel agents of the region could form an association or consortia to develop and market such packages. BIMSTEC Tourism Ministers at their meeting in Kathmandu in August 2006 adopted a Plan of Action for advancing cooperation in the sector and decided to constitute a Tourism Working Group and endorsed establishment of the BIMSTEC Information Centre in New Delhi for promoting tourism.

Exchange of Development Experiences and Network of Think Tanks

Different countries in the region not only have complementary strengths, there is great scope for learning from each other in development experiences. For instance, Bangladesh’s experiments in micro-credit and in population management, Thailand’s experiences in managing globalization and in universal coverage health insurance, Sri Lanka’s experiences in human development, India’s experiences in prudent management of banking and capital markets and in rural telecommunication and so on so forth could be exchanged to mutual advantage. To facilitate the exchange of development experiences, a BIMSTEC Network of Think-Tanks of the region could be created. This Network should meet regularly like the meetings of Business Forum to discuss and draw policy lessons from development experiences of different member countries and potential of economic cooperation and present its report to the Summit and Ministerial Meetings for follow-up.

Concluding Remarks

Regional economic integration assumes a new salience in the context of the global financial crisis. The Bay of Bengal region is a classic growth region, characterized by many economic complementarities, geographical contiguity, and close historical and cultural ties. The region has a vast potential for development, given its abundant natural and human resources, access to sea, and a sizeable internal market of nearly 1.3 billion people. When combined with the entrepreneurial skills of the dynamic private sector of BIMSTEC, these endowments can transform the region into a powerful growth pole and substantially reduce poverty in large parts of the region. BIMSTEC has been launched with laudable objectives of promoting cooperation in the region in a mutually beneficial manner in 13 select areas. The potential for cooperation is immense in view of the synergies of the member countries. A number of steps have been taken to evolve an institutional framework for fostering regional cooperation. It is now time for advancing the agenda for action and expediting the implementation of programmes. The progress in BIMSTEC also has great positive implications for development of India’s North Eastern region transforming it as India’s gateway to the East. The Delhi Summit will be an opportunity for India to give a new thrust towards promoting integration within the region.