



RIS Discussion Paper # 343

Strengthening Trade and Investment Integration in BIMSTEC: Assessing the Opportunities and Challenges

Rupa Chanda



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Strengthening Trade and Investment Integration in BIMSTEC: Assessing the Opportunities and Challenges

Rupa Chanda*

Abstract: BIMSTEC holds significant potential for trade, investment and value chain integration but this potential remains untapped. This chapter argues that BIMSTEC can strengthen its role as a bridge between South Asia and Southeast Asia by promoting greater trade and investment integration, improving connectivity, and supporting the development of regional value chains. It discusses the current status of integration within BIMSTEC and compares this with the experience of ASEAN and SAARC. It outlines the regulatory, infrastructural and institutional challenges which impede integration while also highlighting the opportunities for strengthening linkages in both traditional and emerging areas. It concludes by highlighting regional and domestic steps that can be taken to advance integration among BIMSTEC countries.

1. Introduction

Regional integration has long been regarded as an important mechanism for promoting economic development and expanding opportunities for trade and investment. Baldwin (1993) argues that regional integration can generate cumulative economic benefits by encouraging firms to reorganise production activities and investment decisions in response to larger and more integrated markets. As barriers to economic interaction decline, firms may be able to achieve greater efficiency through specialisation and economies of scale.

The expansion of global and regional value chains has increased the importance of economic integration. Research on production networks in Asia highlights the role of trade facilitation, connectivity, and investment

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in enabling firms to participate in cross border production systems.¹ Participation in such networks can create opportunities for productivity growth, export diversification, and technological upgrading. The World Development Report 2020 similarly emphasises the role of global value chains in supporting development by connecting firms and economies to international markets and production systems.²

These insights are particularly relevant to the Bay of Bengal Initiative for Multi Sectoral Technical and Economic Cooperation (BIMSTEC) group of countries given the strong foundations and drivers which exist for enabling regional cooperation and integration among them. BIMSTEC which was established in 1997 as a regional organisation for promoting cooperation among countries located around the Bay of Bengal, initially brought together Bangladesh, India, Sri Lanka, and Thailand, and subsequently expanded to include Myanmar, Nepal, and Bhutan. BIMSTEC now comprises seven member states that collectively connect South Asia and Southeast Asia within a single regional framework.³

Regional cooperation and integration among the BIMSTEC countries is underpinned by institutional, economic, geographic, historical, and strategic factors. On the institutional front, since its establishment, BIMSTEC has evolved into an increasingly important platform for regional cooperation, covering a broad range of sectors and seeking to strengthen economic collaboration among member states through greater cooperation in trade, investment, connectivity, and development. On the economic front, the region contains economies with differing resource endowments, industrial structures alongside alignment on key development priorities, which creates scope for member states to leverage these differences and to complement one another through stronger trade and investment relationships. Deeper integration in turn can contribute to more resilient economic linkages and greater participation in regional and global production networks for the BIMSTEC countries, which is particularly important in an uncertain global economic environment that is characterised by supply chain reconfigurations and growing protectionist challenges.⁴ On the geographic front, the location of BIMSTEC member states creates opportunities to improve transport linkages, strengthen economic cooperation and facilitate the movement of goods and

services across national borders.⁵ The importance of enhanced regional connectivity in BIMSTEC is evident from the adoption of transport connectivity frameworks and plans. On strategic grounds, the Bay of Bengal and the BIMSTEC countries occupy a strategically significant position within Asia as they serve as an important link between South Asia and Southeast Asia. And historically, there have been interactions among these economies through commercial relations, people mobility, cultural and religious ties, and connectivity. BIMSTEC thus provides a platform to leverage economic, strategic, and geographic advantages and to build on historical and cultural relations.

Although BIMSTEC has established an institutional framework for regional cooperation, economic integration within the region remains relatively limited. However, changing patterns of global trade, investment and production create new opportunities for deeper regional collaboration. This chapter argues that BIMSTEC, can strengthen its role as a bridge between South Asia and Southeast Asia by promoting greater trade and investment integration, improving connectivity, and supporting the development of regional value chains. Section 2 discusses the current state of integration within BIMSTEC while Section 3 compares its experience with that of other regional groupings such as ASEAN and SAARC. Section 4 identifies key challenges to deeper integration. Section 5 outlines selected sectoral opportunities for deeper integration. Section 6 concludes by highlighting steps that would be needed at the regional level and supporting domestic measures at the national level to enable deeper economic cooperation and integration among BIMSTEC countries.

2. Current Status of Integration in BIMSTEC

Despite its considerable economic size and strategic location, BIMSTEC remains one of the least integrated regional groupings in Asia in terms of intra-regional trade. This section discusses the current status of trade and investment flows among BIMSTEC countries, their current levels of participation in global and regional value chains, and status of regional connectivity.

2.1 Trade Integration

Although the seven member states collectively account for approximately US\$ 4.3 trillion in economic output and a population of around 1.7 billion people, trade among BIMSTEC countries represents only about 6 to 8 per cent of their total trade,⁶ indicating significant untapped potential for deeper economic integration. This contrasts sharply with ASEAN, where intra-regional trade accounts for 22 to 25 per cent of total trade and forms an important foundation for regional production networks and value chains.⁷

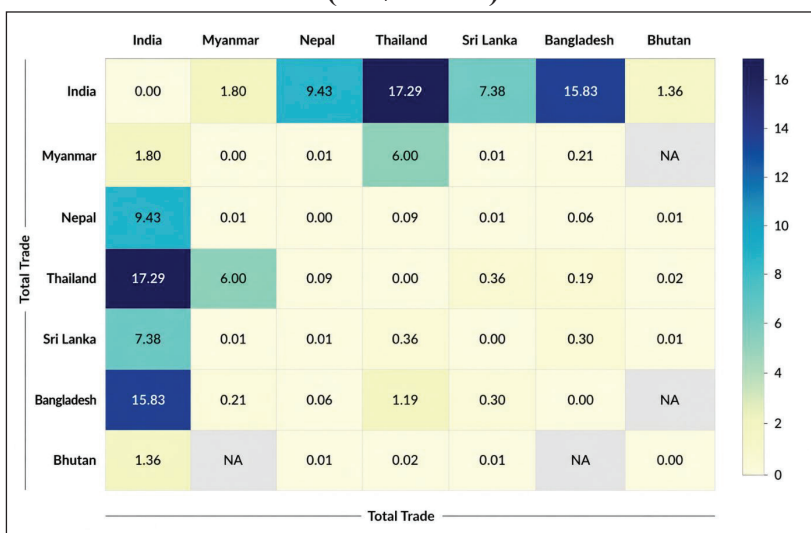
Trade performance among BIMSTEC members is highly uneven. India is the dominant trading economy within the grouping and accounts for the largest share of merchandise and services exports. According to United Nations statistics, India's share of global merchandise exports increased from 1.62 per cent in 2015 to 1.81 per cent in 2023, while its share of global services exports rose from 3.10 per cent to 4.27 per cent during the same period. This growth reflects India's expanding role in information technology, business services, and knowledge-intensive sectors. Thailand remains the second largest exporting economy within BIMSTEC, although its share of global merchandise and services exports declined during the period, partly due to disruptions affecting tourism and travel-related services during and after the COVID-19 pandemic.⁸

Trade within BIMSTEC is concentrated around a limited number of bilateral corridors rather than a dense network of regional commercial relationships. India occupies a central position in most trade flows, with significant bilateral trade volumes with neighbours like Bangladesh, Sri Lanka, and Thailand. The smaller economies maintain stronger trading relationships with India than with one another. This pattern limits opportunities for the development of multi-country production systems and regional value chains. The economic integration of parts and components within regional value chains is currently limited to a few sub sectors. The relatively low level of intra-regional trade also suggests that member states continue to rely heavily on extra-regional markets such as China, Japan and the US for both exports and imports despite their geographic proximity and complementary economic structures.⁹ Similar patterns are observed in broader global trade statistics, which

continue to show stronger intra-regional trade intensity in ASEAN than in BIMSTEC.¹⁰

Table 1 illustrates the concentrated nature of trade within BIMSTEC around a few bilateral corridors, particularly those involving India. It highlights the uneven nature of regional trade integration and the potential for expanding intra-regional commerce.

**Table 1. Country-wise Total Trade within BIMSTEC, 2022
(US\$ billion)**



Source: ITC Trade Map

The limited integration of BIMSTEC trade reflects a combination of policy, infrastructure, and institutional constraints, which are discussed later. Nevertheless, existing trade patterns indicate considerable opportunities for expansion. The region possesses large consumer markets, growing middle classes and increasing demand for manufactured goods and services. As member states pursue economic diversification and industrial upgrading, stronger regional trade linkages could contribute to greater resilience and reduce dependence on external markets during periods of global uncertainty.

2.2 Investment Integration

Global evidence indicates that investment integration remains an important driver of industrial upgrading, technology transfer, and participation in international production networks.¹¹ Investment integration within BIMSTEC, however, remains even less developed than trade integration and is low compared to blocs like ASEAN. Investment relationships are concentrated among few countries and sectors rather than forming a broad network of regional capital flows, reflecting a variety of regulatory and other restrictions, discussed in more detail later.

Recent trends, however, indicate the region's considerable intraregional investment potential. India has emerged as a major destination for investment in digital services, manufacturing, and pharmaceuticals, while Thailand continues to attract investment linked to automotive and electronics production. Bangladesh has attracted growing investment in garments and manufacturing activities, and several member states possess opportunities in energy, tourism, logistics and digital services. Intra-regional investments are largely driven by connectivity projects and market-seeking investments across South and Southeast Asia. India has been driving significant regional economic integration through power and infrastructure investments, such as the Arun 3 hydroelectric project in Bhutan and Multimodal Transport projects in Myanmar. The recent inclusion of the Blue Economy under the Trade, Investment and Development sector of BIMSTEC opens further avenues for coastal and maritime investments.¹² These trends indicate that greater regional coordination and improvements in the investment climate could help unlock additional investment flows while supporting the development of stronger production linkages across the region to complement trade flows among the countries (World Bank, 2020).

2.3 Connectivity and Economic Corridors

Connectivity represents one of the most important determinants of regional integration within BIMSTEC and is particularly important in a region characterised by diverse levels of economic development and varying degrees of integration with regional and global markets. Geographic proximity alone does not guarantee economic integration.

Efficient transport networks, logistics systems, ports, and border procedures are essential for reducing trade costs and facilitating commercial activity. Recognising this reality, BIMSTEC member states have placed increasing emphasis on connectivity as a central pillar of regional cooperation (ADB, 2022).

BIMSTEC member states adopted the BIMSTEC Master Plan for Transport Connectivity for improving transport infrastructure and strengthening regional linkages through coordinated investments and policy measures designed to facilitate trade and economic integration (ADB, 2022). The Master Plan provides a comprehensive framework for strengthening regional transport infrastructure and improving physical connectivity among member states. The plan seeks to enhance multimodal connectivity through investments in roads, railways, ports, maritime transport, and logistics infrastructure. Improved connectivity is expected to lower transport costs, increase trade competitiveness and support greater economic interaction across the region (ADB, 2022).

Another significant connectivity initiative is the India–Myanmar–Thailand Trilateral Highway, which is expected to strengthen overland connectivity between South Asia and Southeast Asia. The project has the potential to facilitate trade, tourism and investment while creating new opportunities for cross-border economic activity. Maritime cooperation initiatives are also becoming increasingly important given the strategic significance of the Bay of Bengal and the importance of shipping for regional commerce (ADB, 2022; Chanda, 2026).

Despite progress, however, important connectivity gaps remain due to infrastructural and institutional reasons, as discussed in detail later. Infrastructure quality varies significantly across member states, and transport costs remain higher than those observed in more integrated regional groupings. Trade facilitation indicators also reveal room for improvement.

2.4 Global and Regional Value Chain Participation¹³

Participation in global and regional value chains provides an important indicator of economic integration. Baldwin (1993) argues that successful regional integration depends upon the ability of firms to organise

production across national boundaries. Value chains enable countries and firms to specialise in particular stages of production while benefiting from access to larger markets, technology, and investment.

BIMSTEC's performance in this area demonstrates limited progress and significant opportunities for improvement. Approximately 34.8 per cent of BIMSTEC exports are linked to global value chains. However, as highlighted earlier, only around 6 percent of this trade is among the member countries indicating very limited regional value chain integration.

Within BIMSTEC, value chain participation is largely driven by India and Thailand. India contributes primarily through services, pharmaceuticals, and knowledge-intensive sectors, while Thailand's participation is linked to electronics and automotive production networks connected to ASEAN supply chains. Moreover, regional value chain development within BIMSTEC remains limited. Most existing value chain relationships are bilateral rather than genuinely regional, reflecting the bilateral trade relationships noted earlier. Examples include textile and apparel linkages between India and Bangladesh, where Indian producers supply yarn and fabric that are subsequently processed into garments in Bangladesh. Similar patterns can be observed in selected agricultural and manufacturing sectors. However, these relationships have not yet evolved into extensive multi-country production systems comparable to those found in ASEAN.

The comparatively low level of regional value chain integration among BIMSTEC countries reflects several structural constraints, including high trade costs, infrastructure gaps, regulatory complexity trade and investment barriers, and the absence of a fully implemented BIMSTEC Free Trade Agreement. These constraints continue to limit cross-border production, trade, and investment linkages in the region.

3. BIMSTEC in Comparative Perspective: Lessons from ASEAN and SAARC

A comparative assessment of BIMSTEC with ASEAN and SAARC on the extent of global and regional value chain integration, as well as on other dimensions such as the level of GVC maturity, achievements, and available instruments for enabling integration, yields useful insights.

It indicates that while BIMSTEC performs better than SAARC, it remains behind ASEAN in terms of value chain integration and regional production linkages. It also indicates that while BIMSTEC has available instruments to advance regional integration, it has yet to leverage emerging areas and opportunities as its focus is mainly on traditional issues such as connectivity. Table 2 captures some of the key differences in the status of GVC and RVC participation as well as in the approach to integration across the three regional blocs.

Table 2. GVC and RVC Participation in ASEAN, BIMSTEC and SAARC

	ASEAN (Gold Standard)	BIMSTEC (Emerging Bridge)	SAARC (Stagnant)
GVC-related exports	43.5% (\$962.2BN)	34.8% (\$451.1 BN)	32.6% (\$310.7 BN)
GVC Maturity	High (Global manufacturing hub)	Moderate (Driven by India/Thailand)	Low (Fragmented)
RVC development	High (Complex cross-border production)	Low (Bilateral/Sub-regional links)	Minimal (Political barriers)
Main instruments	AEC strategic plan 2026-2030 / RCEP	Bangkok Vision 2030 / "Act East"	SAFTA (Largely ineffective)
Integration Focus	Digital, Green, & Resilient GVCs	Multi-modal Connectivity	Border/Security Issues
Success Factor	DEFA & RCEP implementation	Trilateral Highway completion	Bilateral trade (India-Bhutan/Nepal)
Opportunity Factor	"ASEAN+1" de-risking	"China+1" alternative	N.A.

Source: UNESCAP, Regional Integration Value Chain Analyzer, ASEAN Secretariat, BIMSTEC Secretariat, SAARC Secretariat

As shown in Table 1, around 34.8 per cent of BIMSTEC exports are linked to global value chains, compared with 43.5 per cent in ASEAN and 32.6 percent for SAARC. Although this places BIMSTEC ahead of some developing regions, it also highlights the gap that remains between BIMSTEC and more integrated production hubs such as ASEAN. A closer examination of integration in ASEAN and SAARC, including the supporting mechanisms and processes underlying success as well

as the challenges which impede progress, provides useful lessons for BIMSTEC, as discussed next.

3.1 ASEAN as a Benchmark for Regional Integration

ASEAN is widely regarded as one of the most successful examples of regional economic integration among developing economies. Over several decades, ASEAN has progressively reduced trade barriers, strengthened institutional cooperation, improved connectivity, and facilitated the development of complex regional value chains. The result has been the emergence of a highly interconnected regional economy characterised by significant levels of intra-regional trade, investment, and production integration.

One of the most notable differences between ASEAN and BIMSTEC lies in the extent of intra-regional trade. As noted earlier, while trade among BIMSTEC members accounts for only around 5 to 7 per cent of total trade, ASEAN economies conduct around 22 to 25 per cent of their trade within the region. This higher level of integration reflects sustained efforts to reduce trade barriers, harmonise regulations and facilitate cross-border commercial activity. ASEAN's economic integration agenda has also been supported by institutional mechanisms such as the ASEAN Economic Community and the Regional Comprehensive Economic Partnership, which provide frameworks for market integration, investment facilitation, and regulatory cooperation.¹⁴ The ASEAN Economic Community Blueprint 2025 provides a long-term roadmap for market integration, competitiveness, connectivity, and regulatory cooperation across member states.¹⁵

ASEAN's success is particularly evident in the development of regional value chains which have evolved into sophisticated production systems spanning multiple ASEAN member countries. Industries such as electronics, automotive manufacturing and processed food production operate through networks that distribute stages of production across member states according to their comparative advantages. Thailand and Singapore, for example, perform higher value-added functions in design, management, and advanced manufacturing, while countries

such as Viet Nam and Cambodia have specialised in labour-intensive assembly operations.

Another important feature of ASEAN integration is its emphasis on trade facilitation and regulatory cooperation. Initiatives such as the ASEAN Single Window have reduced administrative burdens and improved customs efficiency, while efforts to harmonise standards have facilitated the movement of goods across borders. ASEAN is also pursuing deeper digital integration through the proposed Digital Economy Framework Agreement, which seeks to establish a more unified regional digital trade regime and support the continued expansion of the region's digital economy.¹⁶ These initiatives demonstrate that successful regional integration depends not only on tariff reductions but also on institutional reforms, regulatory cooperation, and connectivity improvements.

3.2 SAARC and the Limits of South Asian Integration

In contrast to ASEAN, SAARC provides an example of the challenges that can hinder regional integration. Established in 1985 to promote cooperation among South Asian countries, SAARC has achieved limited success in expanding regional trade and investment. Political tensions among member states, particularly between the region's largest economies, have constrained the organisation's effectiveness and limited progress towards deeper economic integration.

Although SAARC introduced the South Asian Free Trade Area, the agreement has not generated the level of integration originally anticipated.¹⁷ Regional trade remains concentrated within few bilateral relationships rather than developing into a cohesive regional market. Similarly, regional value chains remain weak and fragmented. While only around 32.6 per cent of SAARC exports are linked to global value chains, regional value chain development remains even more limited and is minimal when compared with ASEAN and even BIMSTEC.

An important characteristic of South Asian integration is the growing importance of sub-regional initiatives. The Bangladesh, Bhutan, India, and Nepal grouping has made progress in areas such as energy cooperation, transport connectivity, and motor vehicle agreements. However,

these initiatives have largely developed outside the formal SAARC framework, highlighting the difficulties associated with achieving region-wide consensus. The experience of SAARC demonstrates that regional institutions require sustained political commitment and practical cooperation mechanisms if they are to generate meaningful economic outcomes.

3.3 Implications for BIMSTEC

The experiences of ASEAN and SAARC provide valuable lessons for BIMSTEC as it seeks to strengthen trade and investment integration. ASEAN demonstrates that regional integration can generate substantial economic benefits when supported by effective institutions, policy coordination, connectivity investments, and private sector participation. The development of regional value chains, trade facilitation systems and regulatory cooperation frameworks has enabled ASEAN economies to achieve levels of integration that significantly exceed those observed within BIMSTEC. The experience of ASEAN also highlights the opportunities to widen the focus of cooperation and integration efforts beyond traditional areas of trade barriers and connectivity to address emerging issues such as digital economy and green GVCs and the scope to leverage recent developments such as the de-risking of supply chains. SAARC, on the other hand, illustrates the risks associated with weak institutional implementation and insufficient political commitment. Formal agreements alone are unlikely to produce meaningful economic integration if they are not accompanied by practical measures that reduce barriers to trade, investment, and connectivity. BIMSTEC therefore faces the challenge of moving beyond declarations and cooperation frameworks towards the implementation of concrete initiatives capable of generating measurable economic outcomes.

BIMSTEC thus occupies a unique position between these two regional experiences. Unlike SAARC, it benefits from a strategic geographic location linking South Asia and Southeast Asia. Unlike ASEAN, however, it has not yet developed dense production networks or extensive regional value chains. This intermediate position presents both opportunities and challenges, as discussed in the following sections.

4. Challenges and Barriers to Deeper Integration

Regional integration studies consistently show that infrastructure, trade facilitation, investment reforms, and institutional cooperation are key enablers of value chain participation (ADB, 2024). The limited levels of trade and investment integration and difficulties in translating plans into concrete tangible outcomes, reflect a range of structural, economic, infrastructural, institutional, and policy-related factors. These pertain to physical connectivity challenges, high transactions costs stemming from border and behind-the-border barriers, uneven levels of economic development among member states, regulatory fragmentation and complexity, and institutional weaknesses, among others.

Table 4 summarises the principal barriers and challenges which explain why trade, investment, and value chain integration within BIMSTEC remain below their potential.

Table 4. Major Constraints to BIMSTEC Integration

Challenge	Main Impact
Tariff barriers	Higher trade costs
Non-tariff measures	Compliance burden
Infrastructure gaps	Slower movement of goods
Investment restrictions	Reduced FDI flows
Digital regulatory complexity	Higher compliance costs
Institutional weaknesses	Slower implementation

Sources: ADB, World Bank and other sources

Addressing the aforementioned constraints will be essential if BIMSTEC is to achieve deeper integration, realise the opportunities associated with its strategic location, growing markets and diverse economic capabilities, and create the conditions that encourage businesses to view the region as an integrated economic space rather than a collection of separate national markets.¹⁸ This would enable BIMSTEC to realize its potential as an important bridge between two of Asia's most dynamic sub-regions. The following discussion expands

on some of these challenges and barriers to highlight their implications for deepening integration, if addressed.

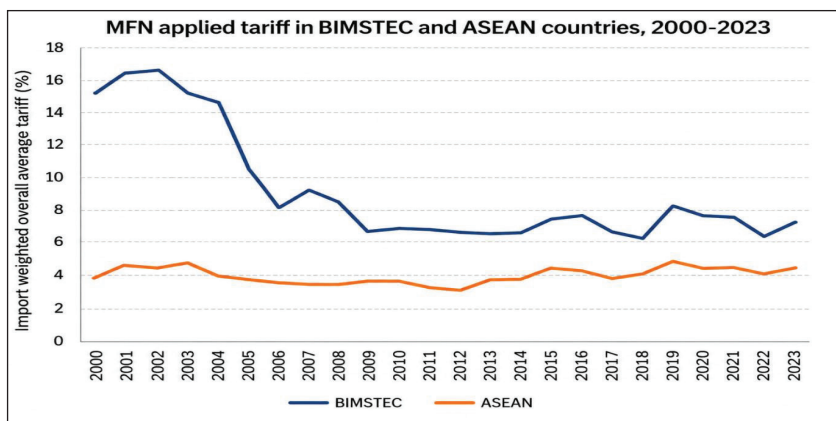
4.1 Tariff and Non-Tariff Barriers

Despite growing recognition of the benefits of regional cooperation, tariff and non-tariff barriers continue to constrain trade integration within BIMSTEC. While member states have reduced tariff levels over time, protection levels remain higher than those observed in ASEAN. Data presented at the Fourth Bay of Bengal Economic Dialogue show that average tariff rates across BIMSTEC economies declined significantly from approximately 15 to 16 per cent in the early 2000s to between 6 and 8 per cent in subsequent years. Nevertheless, these levels remain above the average tariffs observed in ASEAN economies, where tariff rates have generally remained between 4 and 5 per cent over the past two decades.¹⁹ Higher tariffs increase the cost of regional trade and reduce incentives for firms to develop cross-border production networks.

Figure 1 compares average tariff levels in BIMSTEC and ASEAN economies between 2000 and 2023. The figure shows that BIMSTEC has historically maintained higher tariff levels than ASEAN, although substantial trade liberalisation has reduced this gap over time. Despite these improvements, protection levels in BIMSTEC continue to remain above those observed in ASEAN.

Non-tariff measures create additional obstacles. Sanitary and phytosanitary requirements represent one of the most common forms of trade restriction affecting agricultural exports within the region. Differences in technical regulations, testing procedures and certification requirements increase compliance costs for exporters and can delay market access. These challenges are compounded by the absence of extensive mutual recognition arrangements comparable to those operating within ASEAN. As a result, businesses often face duplicative regulatory requirements when exporting to neighbouring BIMSTEC markets.

Figure 1: Average Tariff Levels in BIMSTEC and ASEAN Economies



Source: Based on WITS data

The absence of unified BIMSTEC-wide rules of origin framework further complicates regional trade. Exporters must navigate different origin requirements across markets, increasing administrative burdens and reducing the attractiveness of regional sourcing strategies. Such fragmentation limits the development of regional value chains and weakens incentives for firms to distribute production activities across multiple BIMSTEC economies.

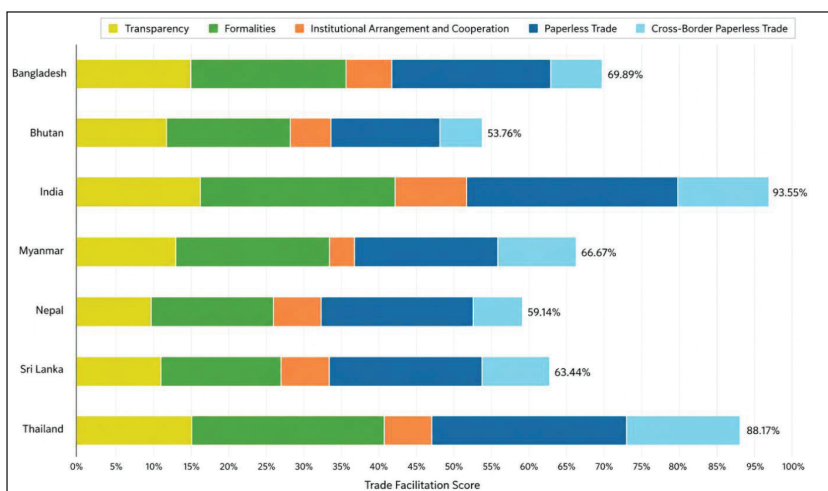
4.2 Infrastructure and Connectivity Constraints

Infrastructure and connectivity deficits represent another major barrier to deeper integration. Although BIMSTEC member states are geographically connected through the Bay of Bengal region, physical connectivity remains uneven. Transport networks, logistics systems and border infrastructure vary considerably across countries, contributing to higher trade costs and reducing the efficiency of regional commerce.²⁰ Differences in logistics performance across member states further affect supply chain efficiency and the competitiveness of regional trade corridors.²¹

Inadequate connectivity affects both merchandise trade and investment. Delays at borders, limited multimodal transport options and insufficient

infrastructure links increase the time and cost required to move goods across the region. These constraints reduce the competitiveness of regional supply chains and discourage firms from establishing production networks that span multiple BIMSTEC economies. The resulting fragmentation limits opportunities for industrial specialisation and regional value chain development.²² Figure 2 illustrates the gaps in trade facilitation and digitalization of trade procedures in BIMSTEC countries.

Figure 2. Trade Facilitation and Paperless Trade Implementation in BIMSTEC (2025)



Source: Based on Asia-Pacific data from the UN Global Survey on Digital and Sustainable Trade Facilitation (2025), <https://www.untfsurvey.org/region?id=ESCAP> (accessed January 2026)

As shown in Figure 2, BIMSTEC countries have made considerable progress in trade facilitation and digitalization of trade, with an average implementation rate of approximately 70 per cent across all trade facilitation measures, as per the latest UN Global Survey on Digital and Sustainable Trade Facilitation. This is comparable to an implementation rate of around 80 per cent for ASEAN economies. However, there is considerable variation in performance among the member states, with India achieving an overall implementation rate of nearly 94 percent and Thailand at 88 percent, while some member countries lag with implementation rates of less than 60 percent. What is more telling,

however, is the uneven performance across the trade facilitation measures, with much less progress seen in the areas of institutional arrangements and cooperation as well as cross border paperless trade compared to areas such as formalities and transparency measures. This indicates that although there has been progress in trade facilitation domestically, further progress in paperless trade systems, digital documentation, cross-border interoperability, and institutional coordination is needed to improve efficiency of customs procedures and cross-border transactions, to reduce trade costs and enhance regional integration in BIMSTEC.²³

Connectivity and institutional coordination challenges also affect smaller economies disproportionately. Countries with weaker infrastructure networks and less institutional capacity face greater difficulties integrating into regional markets and attracting investment. Consequently, improvements in transport corridors, ports, logistics facilities, and cross-border infrastructure remain essential for supporting deeper regional integration and enabling more balanced economic participation across BIMSTEC member states.²⁴

4.3 Investment Restrictions and Regulatory Complexity

Investment plays a critical role in supporting trade integration, technology transfer, and value chain development. However, the investment environment across BIMSTEC remains characterised by regulatory complexity and varying levels of openness. Many member states maintain foreign equity restrictions in sectors such as banking, insurance, retail trade, telecommunications, and transport.²⁵ In several cases, foreign investment beyond specified thresholds requires government approval or additional regulatory scrutiny.

Restrictions relating to land ownership, licensing requirements and local participation obligations further increase the complexity of cross-border investment, raising transaction costs and reducing investment attractiveness. Strategic sectors such as infrastructure, energy transmission and transport services frequently involve special approval procedures or local partnership requirements. Although such measures are often justified on public policy or national interest grounds, they can discourage investment and reduce opportunities for regional production

integration. Table 3 summarises common investment restrictions that influence foreign investment decisions across BIMSTEC member states.

Table 3. Common Investment Restrictions across BIMSTEC Economies

Nature of Restriction	Implication
Foreign equity limits	Reduced ownership flexibility
Licensing requirements	Higher entry costs
Government approvals	Longer investment timelines
Land ownership restrictions	Limited investment options
Local partnership requirements	Increased compliance obligations

Source: ADB, World Bank and other sources

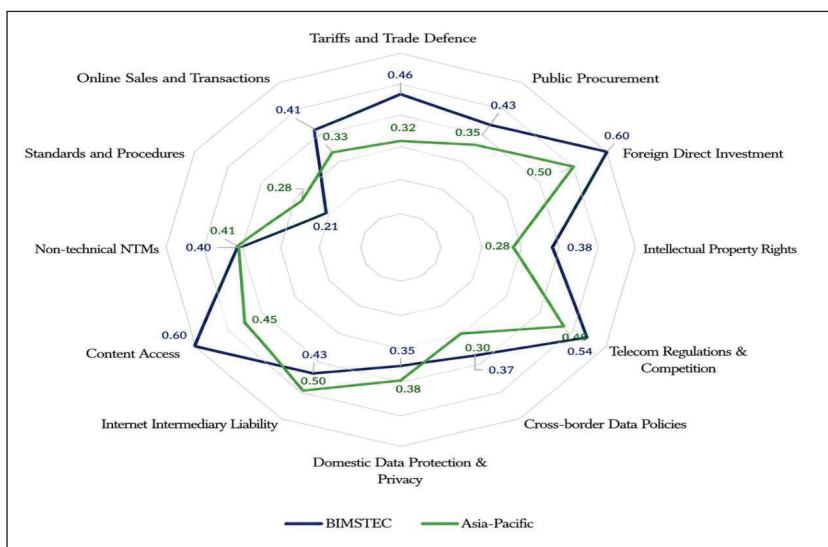
Differences in regulatory frameworks across member states create additional challenges. Firms seeking to operate across multiple BIMSTEC markets must often navigate distinct legal requirements, administrative procedures, and sectoral regulations. These differences increase transaction costs and reduce predictability for investors. Greater regulatory transparency and coordination would help improve the regional investment climate and support stronger economic linkages across the region.²⁶

A major challenge arises from the regulatory diversity that characterises the investment environment across BIMSTEC member states. Many countries maintain foreign equity restrictions in sectors such as banking, insurance, retail trade, transport, and telecommunications.

4.4 Digital Trade and Regulatory Barriers

Digital trade is becoming increasingly important for regional integration, yet regulatory fragmentation remains a significant challenge within BIMSTEC. According to ESCAP's the Regional Digital Trade Integration Index (RDTII), the overall digital trade regulatory complexity score for BIMSTEC is 0.43, compared with an Asia-Pacific average of 0.38. This indicates that firms operating within BIMSTEC face a more complex regulatory environment than those operating in many other parts of the region.²⁷

Figure 3. Digital Trade Regulatory Complexity: BIMSTEC and Asia-Pacific Comparison



Source: ESCAP Regional Digital Trade Integration Index (RDTII), reported in Chanda (2026)

As shown in Figure 3, which compares digital trade regulatory complexity across BIMSTEC and the Asia-Pacific region, BIMSTEC records higher levels of regulatory complexity in several areas. These include tariffs and trade defence measures on ICT products, foreign direct investment regulations affecting the digital economy, content access, and technical standards, highlighting barriers that may constrain digital trade and cross-border business activity.

Regulatory complexity is particularly evident in areas such as foreign investment rules, content regulation, technical standards, intellectual property requirements, and cross-border data policies. Differences in these regulations increase compliance costs and create uncertainty for businesses seeking to engage in digital trade across multiple jurisdictions. Small and medium-sized enterprises are especially affected because they often lack the resources necessary to navigate complex regulatory systems.²⁸

Digital integration is also constrained by barriers affecting information and communications technology goods and services. The persistence of tariffs and regulatory restrictions can increase the cost of digital infrastructure and technology adoption. In addition, limited interoperability in digital systems, electronic documentation and cross-border data exchange reduces the efficiency of digital commerce. Addressing these barriers will be essential if BIMSTEC intends to leverage digital technologies as a driver of regional integration and economic growth.

4.5 Institutional and Political Constraints

Beyond economic and regulatory barriers, institutional and political challenges continue to limit the pace of integration within BIMSTEC. Effective regional cooperation requires sustained coordination among member states, yet differences in national priorities, administrative capacities and development levels can complicate collective action. As a result, implementation gaps often emerge between regional commitments and practical outcomes.

Existing studies point to weak regional coordination, inadequate information sharing and institutional limitations as important constraints to integration efforts. Businesses frequently lack access to comprehensive information regarding investment opportunities, regulatory requirements, and market conditions across the region. This reduces commercial engagement and limits awareness of potential regional partnerships.

Another challenge arises from the continued importance of bilateral relationships. In many cases, governments prioritise bilateral economic arrangements or external partnerships over BIMSTEC-wide initiatives. While bilateral cooperation can generate important benefits, an excessive reliance on bilateral approaches may reduce incentives to pursue broader regional solutions. Consequently, BIMSTEC requires stronger institutional mechanisms that encourage collective action while demonstrating the practical benefits of regional cooperation.

5. Opportunities for Deeper Integration

Having outlined the barriers and issues warranting greater cooperation among BIMSTEC countries, it is also important to understand where the

opportunity segments lie for deepening economic linkages so that actions can also be targeted to specific sectors and value chains, to realize tangible outcomes. The discussion that follows highlights selected opportunity areas to strengthen existing linkages and realize potential ones, coupled with some country-specific experiences and examples.²⁹

5.1 Textiles and Apparel Value Chains

The textiles and apparel industry presents one of the most immediate opportunities for deeper BIMSTEC integration because regional production linkages already exist. According to value chain data, approximately 32 per cent of BIMSTEC textile and clothing exports are linked to global value chains while 44.8 per cent of intra BIMSTEC exports in this sector are associated with regional value chains. These figures indicate that regional sourcing and production networks have already begun to emerge.

A strong example is the India–Bangladesh textile relationship. India supplies yarn and fabric, while Bangladesh specialises in garment manufacturing and exports finished products to international markets. Bangladesh's position as a major ready-made garment exporter, combined with India's large textile industry, provides a natural basis for expanding regional production networks. Stronger logistics links, investment flows, and trade facilitation measures could increase regional value addition and improve competitiveness in global apparel markets. Evidence from regional value chain studies suggests that greater specialisation across production stages can improve efficiency and support export growth.

5.2 Pharmaceutical and Healthcare Value Chains

Pharmaceuticals represent one of BIMSTEC's strongest value chain sectors, with approximately 59 per cent of exports linked to global value chains and around 60 per cent of intra-regional exports associated with regional value chains. These levels are among the highest reported for BIMSTEC sectors and demonstrate the industry's capacity to support regional production networks.

India plays a leading role through its production of active pharmaceutical ingredients and generic medicines, supplying both regional and international markets.³⁰ Its role as a supplier of active

pharmaceutical ingredients and generic medicines provides an important foundation for further regional integration. Greater cooperation in manufacturing, distribution and regulatory processes could strengthen regional healthcare supply chains. As participation in value chains contributes to technology transfer and productivity improvements,³¹ the pharmaceuticals sector a particularly key area for regional cooperation. Additional opportunities exist in medical tourism, healthcare services, and telehealth, all of which can complement pharmaceutical production and support broader integration across the Bay of Bengal region.

5.3 Automotive Manufacturing and Industrial Production

Automotive manufacturing provides another promising opportunity for BIMSTEC economies, although activity remains concentrated in India and Thailand. Approximately 51 per cent of transport equipment exports are linked to global value chains, while around 51 per cent of intra-regional exports are associated with regional value chains. Existing production networks are concentrated between India and Thailand, reflecting the strengths of these economies in automotive manufacturing.

Thailand has established itself as an important automotive production centre within Asia,³² while India possesses significant capabilities in vehicle manufacturing, engineering, and component production. These complementary strengths create opportunities for deeper industrial cooperation through investment, technology sharing, and supply chain development. Research on value chains suggests that greater production integration can improve productivity and strengthen export competitiveness by allowing firms to specialise in particular activities. Improved connectivity and lower trade costs would further support the development of regional automotive production networks.

5.4 Agriculture, Food Processing and Maritime Opportunities

Agriculture displays weak intraregional integration due to trade barriers, fragmented production systems, and limited harmonisation of standards. However, as a major source of employment and economic activity across BIMSTEC member states, it offers considerable opportunities for integration with large potential spillover benefits for development.³³

Myanmar's strengths in rice, fisheries, and pulses, together with the large agricultural markets of India and Bangladesh, create favourable conditions for expanding agricultural trade and food processing activities. Opportunities also exist in specialised products. Bhutan's focus on organic agriculture and Nepal's growing capabilities in herbal and wellness products provide opportunities for niche regional value chains serving both regional and international markets. The Agricultural Transformation and Market Integration initiative demonstrates increasing interest in strengthening agricultural cooperation and improving market access within the region. There are considerable opportunities in fisheries, seafood processing, and maritime economic activities. Greater cooperation in logistics, standards and market access could improve value addition while strengthening food security and economic resilience across member states.

5.5 Digital Services and Emerging Growth Sectors

Digital services are likely to become increasingly important for BIMSTEC integration in the coming years. Some sectors with strong potential for regional cooperation include information and communication technology services, fin-tech, tele-health, e-commerce, edu-tech and agri-tech given member country strengths in some of these areas, growing presence in global services exports, and alignment of national priorities and interests. These sectors can promote innovation, improve productivity, and strengthen connections between businesses across national borders, thus generating wider spillover benefits both nationally and regionally.

India's information technology sector positions it as a natural regional hub for digital services, while Sri Lanka has developed strengths in information technology, fintech, and logistics. Thailand is also expanding its capabilities in digital industries and advanced services (Chanda, 2026). According to UNESCAP (2024), digital connectivity and regulatory cooperation are becoming increasingly important drivers of regional economic integration. Enhanced cooperation in digital payments, technology infrastructure and innovation ecosystems would support both services trade and traditional industries. By combining digital capabilities with opportunities in manufacturing, healthcare, and

agriculture, BIMSTEC members can build stronger regional value chains and improve their position within the wider Asian economy.

5.6 Summarizing the Opportunities

There are thus several traditional and emerging areas where there is scope for regional value chain development among BIMSTEC countries. Table 5 presents some of the major sectors with RVC potential based on the earlier discussion and highlights the countries that can participate in these value chains. Table 6 further highlights a wider range of products and services where individual BIMSTEC countries have strengths and thus potential to be part of RVCs and GVCs.

Table 5. BIMTEC Regional Value Chain Opportunities by Sector

Sector	Key Countries	Main Opportunity
Textiles and Apparel	India, Bangladesh	Regional apparel value chains
Pharmaceuticals	India, Bangladesh, Thailand	API production and medicine manufacturing
Automotive	India, Thailand	Component and vehicle production
Agriculture	Myanmar, Bangladesh, India	Food processing and agricultural trade
Digital Services	India, Sri Lanka, Thailand	ICT, fintech, and digital trade

Source: ADB, World Bank and ESCAP RIVA analysis

Table 6. Opportunity Products and Services with RVC Integration Potential

Country	Products, Services and Industry Segments
Bangladesh	Textiles, ready-made garments, shipbuilding, pharmaceuticals; integration into regional apparel value chains.

Continued...

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Bhutan	Hydropower exports, eco-tourism, organic agriculture; potential for green energy corridors.
India	ICT services, pharmaceuticals, automotive components; hub for digital trade and telehealth.
Myanmar	Rice, fisheries, pulses; cross-border agricultural value chains and agro-processing.
Nepal	Hydropower, tourism, herbal products; potential for niche value chains in wellness and eco-tourism.
Sri Lanka	IT services, fintech, logistics; potential to anchor digital value chains and maritime services.
Thailand	Electronics, automotive, processed food, integration into ASEAN-led supply chains and Bay of Bengal transport corridors.

Source: ADB, World Bank and ESCAP RIVA analysis

Thus, it is evident that the potential for trade, investment and value chain integration remains unexploited in BIMSTEC, especially if one looks beyond the traditional areas of agriculture and textiles and considers opportunities in other areas, including emerging sectors and in particular, services. For example, smaller economies such as Bhutan and Nepal have scope to plug into regional energy and tourism services value chains, thereby also helping to address asymmetries among member countries. There are also sectoral opportunities for integration in areas like telehealth, medical tourism, ICT, and transport services, which would in turn also support cooperation efforts in trade facilitation, digital economy, and energy security, and align well with national priorities and sustainable development objectives in the member countries. Development of services-manufacturing linkages is another potential area for deepening integration in BIMSTEC, such as the complementarities between ICT services and automotive manufacturing or telecom services and telecom equipment manufacturing. Focusing on cross-sectoral linkages would leverage the complementary strengths and comparative advantages of individual member countries across services and manufacturing, while also supporting broader cooperation efforts.

6. Advancing Integration

Promoting greater integration in BIMSTEC will require improvements in connectivity, trade facilitation, trade and investment linkages, and regulatory cooperation to overcome trade barriers, infrastructural deficits, and regulatory frictions. Strengthening these foundations would allow member states to move beyond predominantly bilateral trade relationships and to develop more sophisticated regional production networks capable of supporting long-term economic growth and resilience. This will require translating existing regional frameworks and strategies into tangible outcomes through regional efforts coupled with policies at the national level which support the liberalization of trade and investment, trade facilitation, and which create a conducive business environment within individual BIMSTEC member states. The strategy and approach required would be to align regional efforts with national interests and priorities, build on national initiatives and successes, leverage individual strengths and areas of comparative advantage, leverage complementarities in endowments and conditions, and importantly, to engage the private sector more closely in integration efforts. The key areas where regional and national efforts will be needed are outlined next.

6.1 Regional Efforts

Deeper trade and investment integration within BIMSTEC will require stronger regional cooperation and a greater focus on implementation. A key priority is accelerating progress towards the BIMSTEC Free Trade Agreement (2004) and completing outstanding negotiations on tariffs, services, investment, and rules of origin. Conclusion of the trade in goods agreement is a necessary step towards a full FTA and if the latter is not feasible, an early harvest agreement or preferential trade agreement with a phased approach towards a full FTA, could be considered. A more predictable and transparent regional trade framework would reduce business uncertainty and encourage firms to expand cross border commercial activities.

It would also be important to complement these market access efforts with the Implementation of the BIMSTEC Trade Facilitation Strategy Framework 2030,³⁴ through the simplification of customs procedures,

harmonisation of standards and certification processes, development of mutual recognition arrangements, standardization of electronic data interchange and upgrading of both hard and soft infrastructure across borders to reduce trade costs among member states. Development of a long-term strategic framework for trade facilitation should be pursued independent of the progress in finalizing the FTA. Moreover, given differences across member states in implementing trade facilitation measures and differences in capacities, information and best practice sharing, capacity building, and implementation of pilot projects with demonstrated outcomes, would also be important to advance trade facilitation.

Improving connectivity must also remain a central regional objective. The BIMSTEC Master Plan for Transport Connectivity³⁵ provides an important framework for strengthening transport corridors, logistics networks, ports, and border infrastructure throughout the region. Effective implementation of these projects would lower transport costs, improve supply chain efficiency and support the development of regional value chains. Another important regional step would be the implementation of the BIMSTEC Maritime Transport Cooperation agreement through infrastructure investments in multimodal transport connectivity and the integration of landlocked member states into the region's maritime supply chains. Furthermore, if these investments are supported by trade facilitation reforms in terms of greater customs cooperation, wider adoption of paperless trade systems and improved information sharing among border agencies, the resulting gains can be significant.

Regional efforts should also focus on investment promotion as international experience shows that value chain development depends not only on trade liberalisation but also on policies that facilitate investment, innovation, and cross border business activity.³⁶ Firms often establish production networks through investment decisions that connect suppliers, manufacturers, and service providers across multiple countries. Increasing intra-regional investment would be necessary to complement trade integration and support the development of more sophisticated regional value chains within BIMSTEC.³⁷ This would require coordinated investment facilitation measures, greater transparency, and stronger

institutional cooperation to encourage businesses to view BIMSTEC as a more integrated economic space. Intraregional investment can be promoted through the creation of strategic investment zones, fiscal incentives, and dedicated investment projects, by leveraging the strengths of members and their investment interests in selected sectors such as energy, tourism, and health, and by developing investment hubs across key transport corridors to create strategic value chain nodes. Private sector engagement can be enhanced through structured platforms where business can share information about investment opportunities, learn about bankable projects in other member countries, and receive tailored information about each member country. Such efforts would, however, need to be supported by policies at the national level to improve the investment climate by reducing FDI restrictions and the regulatory burden on businesses.

Another area where regional cooperation efforts need to be targeted is in the digital economy, including cooperation in digital trade regulations, digital payments, and technology standards to reduce regulatory fragmentation and support the growth of regional services markets. There is scope to leverage the expertise and successes of some member states to expand digital trade and payments systems.

6.2 Domestic Efforts

Deeper integration would also need to be underpinned by domestic reforms and measures within individual BIMSTEC member states. Governments will need to prioritise improving the investment climate by simplifying regulations, reducing administrative burdens, and increasing transparency in licensing and approval processes, not just for BIMSTEC integration but more generally. More predictable regulatory frameworks would encourage both domestic and foreign investment while supporting stronger participation in regional production networks.

Member states would also need to strengthen customs administration, digital infrastructure, and institutional capacity to facilitate trade and investment. Investments in education, technical skills and workforce development would help businesses adapt to changing production requirements and participate more effectively in regional value chains.

Particular attention should be given to supporting small and medium sized enterprises, which often face greater barriers when entering international markets. The World Bank (2020) highlights the importance of domestic competitiveness and productivity improvements for successful participation in value chains. By strengthening domestic institutions and improving the business environment, BIMSTEC members can maximise the benefits of regional integration and create stronger foundations for long term economic growth.

7. Concluding Thoughts

BIMSTEC has become increasingly important as a geopolitical and economic anchor for the region. With the stagnation of the SAARC grouping due to regional political hurdles, member states are increasingly looking to BIMSTEC to forge reliable supply chains, insulate trade from broader geopolitical tensions, and deepen integration between the Indian Subcontinent and Southeast Asia.

The discussion in this chapter has clearly shown that BIMSTEC possesses significant potential to become a more integrated economic region given its strategic location, large population, and diverse economic capabilities. However, current levels of trade, investment and value chain integration remain below those achieved by more established regional groupings due to numerous challenges that continue to constrain integration. But as the discussion has highlighted, there exist many opportunities across sectors such as textiles, pharmaceuticals, automotive manufacturing, agriculture, digital services, health, tourism, and energy.

BIMSTEC's success in navigating geopolitical uncertainty and fostering trade relies heavily on member states translating high-level summit intentions into concrete agreements, commitmentsto reduce trade and investment barriers,pilot projects which demonstrate small successes and build trust, and how the member countries are able to leverage their complementarities in market size, resources, and capacities while taking advantage of their strengths.Only through such a strategic approach to regional cooperation that is also backed by domestic measures, can the BIMSTEC grouping strengthen its position within the wider Asian economy and generate meaningful benefits for all its member states.

Endnotes

- ¹ Athukorala (2013)
- ² World Bank (2020)
- ³ BIMSTEC Charter (2024)
- ⁴ UNESCAP (2024a)
- ⁵ ADB (2022)
- ⁶ CII (2024)
- ⁷ ASEAN Statistics, <https://aseanstats.org> (accessed January 2025)
- ⁸ UN Statistics, <https://unstats.un.org/sdgs/unsdg/> (accessed January 2025)
- ⁹ International Trade Centre, Trade Map (accessed January 2025). Also, see, Sengupta (2017), CII (2024)
- ¹⁰ WTO (2024)
- ¹¹ UNCTAD (2024)
- ¹² <https://bimstec.org/trade-investment-and-development>
- ¹³ Statistics for value chain integration in this section are based on UNESCAP, Regional Integration Value Chain Analyzer, [Ihttps://riva.negotiatetrade.org/](https://riva.negotiatetrade.org/)
- ¹⁴ ASEAN Secretariat (2025)
- ¹⁵ ASEAN Secretariat (2015)
- ¹⁶ ASEAN Secretariat (2023)
- ¹⁷ SAARC Secretariat (2004)
- ¹⁸ ADB (2022), Baldwin (1993)
- ¹⁹ World Bank (2025)
- ²⁰ ADB (2022)
- ²¹ World Bank (2023)
- ²² ADB (2022)
- ²³ UNESCAP (2024)
- ²⁴ ADB (2022)
- ²⁵ UNCTAD (2025)
- ²⁶ World Bank (2020)
- ²⁷ UNESCAP (2024)
- ²⁸ UNESCAP (2024)
- ²⁹ Most of the value chain statistics presented in this section are from UNESCAP's Regional Integration and Value Chain Analyzer, <https://www.riva.org>

- ³⁰ Government of India, Ministry of Chemicals and Fertilizers (2025)
- ³¹ World Bank (2020)
- ³² Thailand Board of Investment (2024)
- ³³ FAO (2024)
- ³⁴ ADB (2022a)
- ³⁵ ADB (2022b)
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