

Highlights



A common developmental thread of BIMSTEC member countries is that all of the economies are passing through transitional phases of various nature. However, the diversities within the region may prove to be helpful from the perspective of developing robust regional and global value chains by putting in place dynamic production networks built on relative comparative advantages.



Reinvigorating the stalled negotiations on BIMSTEC FTA must be seen as a priority by involved policymakers to help RVCs and GVCs emerge in the region. Establishing seamless connectivity should be given due importance.



The BIMSTEC Secretariat ought to play a more proactive role in deepening BIMSTEC-wide cooperation. Only an adequately resourced Secretariat will be able to play the strategic role which the BIMSTEC is mandated to carry out



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Value Chains in BIMSTEC Region

Current Status, Possibilities and Challenges

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Introduction

The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) is a collaborative effort with the objective of stimulating and broadening cooperation among the seven member countries of the regional bloc: Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka and Thailand. The BIMSTEC was established in 1997 with the mandate of stimulating economic cooperation and business-to-business collaboration through targeted measures and by developing land and maritime connectivity between South and Southeast Asian countries. However, since its establishment two decades ago, the progress in terms of deepening economic ties has been rather insignificant, although member countries are in the process of implementing various projects in the 14 mandated areas of cooperation (BIMSTEC, 2018). In this backdrop, a study titled *Value Chains in BIMSTEC Region: Current Status, Possibilities and Challenges* made an attempt to assess the current state of cooperation among the BIMSTEC members, review the lessons from the experience of East and Southeast Asian regions in developing Global Value Chains (GVCs) and Regional Value Chains (RVCs), and examine the status, challenges and opportunities concerning GVCs and RVCs from the vantage point of the BIMSTEC region. This policy brief is based on the research report, which elaborates on the above issues and highlights the key points in this connection.

Current State of Cooperation in the BIMSTEC Region

BIMSTEC economies are in transition: All BIMSTEC members barring Nepal posted impressive economic growth records over the past two decades. A common developmental thread of BIMSTEC member countries is that they are in the transitional phase. Thailand has embarked on the journey to graduate to a developed country by avoiding the middle-income trap. Four relatively smaller member economies, Bangladesh, Bhutan, Nepal and Myanmar are poised to graduate from the least developed country (LDC) group by 2024 (UNCTAD, 2016). India is emerging as a major regional and global economic power, and has embarked on its transitional journey from a lower middle-income country (LMIC) to an upper middle-income country (UMIC). Nevertheless, these economic diversities within the region may prove advantageous to develop a robust regional as well as global value chain by sharing a dynamic production network. BIMSTEC is seen as an opportunity by member countries for transiting to a higher growth trajectory by taking advantage of the comparative advantage of the partner countries.

Intra-regional trade is lowest among all regional trading blocs: Despite the fact that intra-regional trade among BIMSTEC members has increased from 3.3 per cent in 1997 to 5.9 per cent in 2016, the grouping remained one of the least integrated regions in terms of trade cooperation. Barring the two major BIMSTEC economies (India and Thailand), other members have significant import share within the BIMSTEC region. The share of trade within the region is significantly high for countries such as Bhutan, Nepal and also, to some extent, Myanmar.

However, by any reckoning intra-regional trade remains below the potential for a majority of the member countries.

Investment connectivity, both within and outside the region, is weak:

Compared to other regional groups, BIMSTEC members have not been successful in attracting foreign direct investment (FDI), from within and beyond. The current inflow of FDIs within BIMSTEC countries continue to remain far below the potential, if the economic factors and production possibilities are taken into cognisance. The lack of institutional efficacy, infrastructure deficit in the area of access to electricity and port inefficiency, and administrative inefficiency, weak trade facilitation and political uncertainties undermine the cause of a greater flow of investment to the region.

Anticipated changes in preferential trade structure and financing modalities:

It is anticipated that with the graduation of four LDCs belonging to the BIMSTEC region, the equation involving trade negotiations is set to change significantly. Market access facilities will need to be negotiated bi- or multilaterally, various types of LDC specific preferences and international support mechanisms may not be available any more. Not only for the prospective LDC graduates of the region, but also for economies such as India, Sri Lanka and Thailand, the concessional financing option will be phased out. Indeed, the net official development assistance (ODA) received by BIMSTEC countries has already been showing declining trends in recent years. All these will call for new strategies to stimulate investment in the region, both from within and beyond the region. In view of this, new strategies will need to be designed to encourage BIMSTEC-wide cooperation. In this connection, the development of GVCs and RVCs should be seen as strategic options to attain the goal of an economic integration in the BIMSTEC region.

State of GVCs and RVCs in BIMSTEC countries

Although the participation of BIMSTEC member countries in GVCs has been on the rise during the period of 1995–2011, available data reveals two points: (a) India's GVC participation is more global than regional, while it is the opposite for Thailand; (b) Thailand's backward-linkage participation involves the production of relatively high value-added products and services, while India is still limited to the production of relatively low value-added products and services. Although data is not readily available for other BIMSTEC members, considering the value-added trade dynamics of India and Thailand, a few general observations can be made: (i) Bangladesh and Sri Lanka are expected to be integrated more through backward-linkage participation in producing low value-added products. The linkages are likely to be more global than regional; (ii) Bhutan and Nepal are expected to participate in the GVCs mainly through India, whereas Myanmar is likely to remain significantly dependent on other Association of Southeast Asian Nations (ASEAN) economies; (iii) some of the value chains have the potential to be connected to global chains through the building of regional production networks.

Developing Value Chain in BIMSTEC Region: Opportunities and Challenges

GVCs are known to be international division of labour through which businesses try to optimise production processes by allowing product and market fragmentation. Traditionally, in this process, manufacturing businesses from economically advanced countries take advantage of labour cost differentials between the home country and other developing countries. Initially, it was mostly value chains of RVC type through which advanced economies took

advantage of the 'wage differential' by building production networks with relatively low-waged neighbouring countries. Although value chains were first set up by countries in Europe and North America, and partly by Japan, at present, East Asian economies alongside China are playing a significant role in establishing GVCs and RVCs. However, South Asian countries and members of BIMSTEC have not been able to capitalise on the opportunities in spite of the significant potentials to leverage on each other's capacities and comparative advantages.

Opportunities to Harness

Majority of members have been pursuing strategic trade liberalisation:

Within the BIMSTEC region, Thailand has been a leading member which pursued trade liberalisation policies aggressively from the very beginning. It has also developed better trade facilitation arrangements with the ASEAN region thanks to the ASEAN Free Trade Area (AFTA). In the recent past, Myanmar has opened up its economy and moved away from its erstwhile inward-looking policies. Other BIMSTEC countries have liberalised their economies to various extents. A majority of these countries have started to undertake trade reforms in the early 1990s, and has been pursuing the reforms and liberalising policies over the past years. The degree of openness of the BIMSTEC economies has tended to vary, depending on relative shares of exports and imports in respective gross domestic products (GDPs). However, the general direction is quite clearly in favour of pursuing strategic trade liberalisation. The global integration of BIMSTEC economies has been on a secular rise over the years. This emergent overall scenario offers a conducive policy environment to set up RVCs and GVCs in the BIMSTEC region.

FTAs could play a supportive role: While the BIMSTEC FTA is making only slow progress, individual members have started to take increasing interest in bilateral FTAs. Four prospective LDC graduate members of BIMSTEC will lose preferential treatment over the next few years as they move out of the LDC group. In view of this, they will need to seriously reconsider their trade strategies. The regional integration experience of East and Southeast Asian countries indicate that an increasing involvement in FTAs has acted as an impetus in deepening their participation in RVCs as well as GVCs (Havranek and Irsova, 2011). Accordingly, opting for bilateral FTAs could be one of the possible strategies to be pursued in this context.

Connectivity projects are making space in policy agenda: Following many years of slow progression, in recent times, the idea of developing transport connectivity as a critically important means of strengthening trade cooperation within the BIMSTEC region has been gaining traction. The BIMSTEC Ministerial Meeting held in Kathmandu in August 2017 may be considered a milestone in this connection. Several multi-country and bi-lateral connectivity projects are being implemented in the BIMSTEC region; several others are expected to be implemented in the near-to-medium-term future. India under its 'Act East Policy' has emphasised speedy initiation, approval and implementation of regional projects. India is also making significant investment in its neighbouring economies through lines of credit to support the building of the needed infrastructure. China has been a proactive player as well.

Unexplored potentials of the blue economy: Within the BIMSTEC region except for two land-locked countries, Bhutan and Nepal, all the others have maritime boundaries. Experience shows that international maritime transport is the most cost- and energy-efficient mode of transportation for international trade

among countries and regions of the world. Historically, the Bay of Bengal has played an important role as a key trade artery for the South and Southeast Asian region. However, for years, traffic flows—both container and cargo—has been rather limited in the Bay of Bengal. Current initiatives could change the prevailing scenario and the Bay of Bengal could reemerge as a major trading route for countries in the region. A large part of the blue economy potentials of BIMSTEC remains unexplored. Scientific research to explore blue economy resources has just started to gain some momentum in this region. Overall, the Bay of Bengal could be an important conduit in the development of RVCs in the region. The 2030 global agenda and implementation of the Sustainable Development Goals (SDGs) by member countries could stimulate BIMSTEC-wide collaboration in this connection.

Challenges to Overcome

Infrastructure bottlenecks are impeding economic performance: South Asian economies have not been able to reap the benefits of geographical proximity because of lack of connectivity in general, and seamless connectivity in particular. In terms of sea and airport infrastructure, most South Asian countries are lagging far behind and failing to offer a business-friendly environment. For instance, in Bangladesh, the capacity of cargo handling at both sea and airports has reached a point where the emergent situation has become a binding constraint. Trade logistics and customs clearance leave much to desire. All these lead to longer than necessary lead time which, as a consequence, undermines the competitiveness of the private sector. The lack of telecommunication links, parking space and warehouse facilities, cold storages, facilities for truck drivers in transit, single window, harmonised customs and technical standards, interoperability of customs system are some of the trade-facilitation related bottlenecks that will need to be addressed to promote the cause of RVCs and production networks in the BIMSTEC region. The implementation of WTO's Trade Facilitation Agreement (TFA), which came into force in 2017, could help BIMSTEC members in this context. Although TFA is primarily concerned with customs facilitation, it should be seen as an opportunity to undertake improvements in other areas to ensure comprehensive trade facilitation.

Stalled Negotiation as regards BIMSTEC FTA: There are several trade agreements and memorandums of understanding (MoUs) between and among countries of the BIMSTEC region. Bangladesh and India have undertaken various trade-enhancing measures to enhance trade flows. These include coastal shipping agreement, inland water transshipment agreement, multimodal transit agreement that covers rail, road and water modes of transport. India shares an open border with Nepal; no visa is required between Bhutan and India. India and Sri Lanka had signed an FTA in 2005 which was broadened to a comprehensive economic partnership agreement (CEPA) and then to the current economic and technological cooperation agreement (ETCA). Similarly, India has an FTA with Thailand. On the other hand, Thailand has a free trade arrangement with Myanmar as part of AFTA. Despite these bilateral initiatives, negotiations on the BIMSTEC FTA have not been able to make much progress. In all likelihood, the BIMSTEC FTA, by being just an FTA, may not be able to deepen intra-BIMSTEC economic relations (De, 2017). The scenario could change significantly if the FTA is complemented by other supportive measures which then stimulate production networks among member countries and generate new value chains. Reinvigorating the stalled negotiations on the BIMSTEC FTA must be

seen as a priority by policymakers in BIMSTEC to help RVCs and GVCs to emerge in this region.

Member countries are competitors rather than complementary partners: BIMSTEC members tend to produce similar exportable products. These countries are competitors rather than allies in complimentary production (Sengupta, 2018). Most enjoy comparative advantages primarily in the form of low-wage labour. Except for Thailand, and to some extent India, exports of other member countries are highly concentrated both in terms of markets and products. A review of secondary literature suggests that similar challenges were initially faced by ASEAN members as well. While some producers resisted increased competition, others recognised the need for greater cooperation to take advantage of the potentials of building production and supply chain to become more competitive. Several initiatives that ASEAN members undertook at the time have benefitted them subsequently, and helped reduce overall trade costs. BIMSTEC countries will also need to move forward in a strategic fashion and craft the required policies to raise their competitive presence on a global scale.

Lack of data on value addition in the BIMSTEC region: Data limitations severely constrain the ability to arrive at a good understanding about the state of GVCs and RVCs in the BIMSTEC region. The Organisation for Economic Co-operation and Development Trade in Value Added database (OECD TiVA) currently covers value-added trade data for 63 countries, of which data is available for only two BIMSTEC countries, India and Thailand. The input-output tables are also not available for all BIMSTEC members. Consequently, BIMSTEC countries must take energetic initiatives to generate the required data, systematically and at disaggregated levels, to understand and analyse the value-added trade in the BIMSTEC region. This is a prerequisite for identifying the potentials of putting in place RVCs and GVCs in the region, which in turn, is key to deepening regional integration.

Balancing productivity enhancement and employment generation: Relatively labour-intensive value-added activities are where BIMSTEC countries tend to enjoy comparative advantage. However, infusion of technology and skills have to be given due importance since in the near future, BIMSTEC countries will have to graduate from factor-driven to technology-driven economies. In this backdrop, BIMSTEC members will have to strategise in such a way that they are able to take advantage of 'traditional economy' and at the same time, be prepared to reap the advantages of the 'new economy'. The BIMSTEC Secretariat should be playing an important role in helping the members devise such forward-looking strategic plans.

Geopolitical Concerns: Considering the size of its economy, population and strategic role, India is expected to be a key partner in any BIMSTEC-wide initiative. Thailand, on the other hand, is also a key player which can potentially play the role of a conduit between ASEAN and BIMSTEC. Both India and Thailand have started their (lower) middle-income journey for some years now. Other relatively smaller economies have started or are going to start their middle-income journey only in recent times. If India and Thailand are to avoid falling into the so-called 'middle-income trap', and other member countries are to have smooth middle-income journeys, the deepening of economic relationships could serve the strategic interests of all the BIMSTEC members. Collective endeavours to resolve cross-border issues and to exploit regional and sub-regional

opportunities including those relating to the development of hydro-energy, maritime resources and natural endowments (which in the past induced some form of geopolitical concerns) will help create the conducive environment which could, in turn, help the development of GVCs and RVCs in the region.

A more proactive role of the BIMSTEC Secretariat: The role of the BIMSTEC Secretariat has been rather subdued till date because of lack of human and financial resources. Only an adequately resourced Secretariat will be able to play the strategic role which the Secretariat is mandated to carry out, to foster BIMSTEC-wide cooperation. If RVCs and GVCs are to be developed in the region, there is a need for the Secretariat to undertake a thorough examination of the state of intra-industry trade and potential areas for building production networks. The Secretariat's unique position implies that it is best-placed to undertake comprehensive study towards the identification of concrete measures to promote the cause of integration in the BIMSTEC region.

Conclusion

BIMSTEC leaders have to be convinced that the grouping could result in win-win outcomes, and then commit to advancing the cause of collaboration, cooperation and integration with the active participation of member countries. The upcoming BIMSTEC summit and other platforms of discussion should be seen as good opportunities to hold effective negotiations to materialise the initial aspiration of forming the BIMSTEC grouping. By making strategic investments, particularly in building seamless connectivity, by taking measures to improve trade facilitation and by putting in place production networks to build RVCs and GVCs—based on comparative advantages—BIMSTEC has all the potential to emerge as a highly successful regional grouping. Policymakers in BIMSTEC member countries ought to take advantage of the potentials that BIMSTEC promises by pursuing strategic trade and investment policies that foster cooperation in the BIMSTEC region. The discussion in the preceding sections has come up with a number of suggestions on how best to go forward in this connection.

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