

Future Directions of BIMST-EC: Towards A Bay of Bengal Economic Community (BoBEC)

Background

Bangladesh-India-Myanmar-Sri Lanka-Thailand Economic Co-operation (BIMST-EC) is a sub-regional grouping combining some geographically contiguous South Asian and ASEAN countries in the Bay of Bengal. It was formed by the member countries to exploit the synergies in their capabilities and resource endowments for their development. The first meeting of the Economic/Trade Ministers held in August 1998 in Bangkok imparted a new dynamism to the grouping which had been formed in 1997 with the decision to constitute an Inter-Governmental Group (IGG) to prepare a concept paper on possible approaches towards a preferential trading arrangement leading to a Free Trade Area. Subsequently, BIMSTEC decided to establish a Free Trade Area in the region with the objective of promoting harmonious development of economic relations among member countries through expansion of trade by providing fair conditions of competition for trade among them. BIMSTEC has identified six sectors for cooperation, viz. trade and investment, technology, transport and communication, energy, tourism and fisheries. The regular interactions at the levels of experts, senior officials, economy/trade ministers and foreign ministers have started.

Fresh momentum has been imparted to the Grouping at the Ministerial Meetings held in Phuket in February 2004 with the proposed first Summit, expansion of the membership to cover

Nepal and Bhutan, and signing of the Framework Agreement on BIMSTEC Free Trade Arrangement. Therefore, a foundation for the launching of the process of deeper economic integration in the framework of the Grouping has been laid.

This brief presents some thoughts on the future directions of the Grouping.

Potential and Relevance of BIMSTEC

The combined size of BIMSTEC member economies is US\$ 750 billion with 1.3 billion population. The members are at different levels of economic and industrial development and different natural resource endowments. Hence, the complementarities between them are substantial. The geographical contiguity could also facilitate the exploitation of potential of efficiency seeking restructuring of industry, provided conditions for such restructuring are created. Although the intra-regional trade turnover is small, it is increasing faster than the overall trade of member countries. Full potential of intra-regional trade remains untapped because of tariff and non-tariff barriers, poor communication and transport links, lack of information about the supply capabilities, among other barriers. Similarly, the intra-regional investment is negligible despite tremendous potential that exists for market seeking as well as efficiency seeking investments within the region. Regional economic integration may help in exploiting this hidden potential of intra-regional cooperation for mutual benefit.

RIS Policy Briefs are prepared to communicate results of RIS research on specific policy issues to the policy makers.

This policy brief is based on the Executive Summary of a Report prepared by RIS for the BIMSTEC Ministerial Meetings in consultation with the Institute for Policy Studies, Colombo; Centre for Policy Dialogue, Dhaka; and International Institute for Trade and Development, Bangkok.



Beyond Free Trade Agreement: Bay of Bengal Economic Community

It is argued here that the grouping has a rich potential for regional economic cooperation arising from substantial complementarities existing between the economic structures and resource endowments of the member economies. These synergies could be exploited for mutual benefit through regional economic integration. Establishment of an FTA is a good beginning. However, to fully exploit the synergies with the help of efficiency-seeking restructuring of industry within the region the implementation of FTA needs to be expedited and complemented by trade and investment facilitation measures, development of transport and communication links, further deepening of integration with formation of customs Union and eventually to an Economic Community. The grouping should set its goal to form a Bay of Bengal Economic Community by the year 2020.

Lack of harmonization of custom procedures and documentation, conformity assessment procedures significantly increased transaction costs and adversely affects the competitiveness. It is important to facilitate trade by simplifying and harmonizing of customs procedures; promoting transparency, consistency and uniformity in the classification of goods traded between the member countries; evolving transparent, consistent and uniform valuation methods and rulings; enhancing use of information technology in the customs clearance procedure; and exchange of experience and expertise. Requirements of different countries with regard to specifications and conformity assessment procedures need to be studied with a view to assess the differences and a databases of standards and conformity assessment procedures in relation to the regulatory requirements of member countries need to be prepared for easy access by the regulatory bodies as well as exporters in the participating countries. Technical cooperation for capacity building through setting up an accreditation mechanism against various international systems standards will also be fruitful. BIMSTEC may consider establishing export and import control systems in line with internal standards of ISO and Codex. An Expert Group on Standards and Quality Control could also be set up which would meet regularly for experience sharing with regard to problems with importing countries, testing issues, standardization and conformity assessment issues and latest development in related fields.

There is a substantial potential of rationalization of industry on the basis of overall efficiency taking into account the special advantages of different locations across the region in terms of availability and relative cost of labour and skills, natural resources, and other factors. For this restructuring to take place, process of trade liberalization should be complemented by investment liberalization and facilitation. To facilitate flow of intra-regional investments, there is need for pursuing investment liberalization on a negative list basis and also incorporate provisions of double taxation avoidance in the Framework Agreement.

To reduce transaction costs for trade, there is need for strengthening monetary cooperation between the member countries. Monetary cooperation may include Thailand becoming a member of the Asian Clearing Union and consideration of a parallel currency as a unit of account backed by a Reserve Fund, more intensive commercial banking links, cooperation between stock exchanges for facilitating the cross listing of securities and development of Asian Bond Market for financing of infrastructure development. A BIMSTEC Fund for Regional Projects should also be established for further strengthening of business links.

BIMSTEC Cooperation for Strengthening External Competitiveness

Regional cooperation could also assist the member countries in strengthening their external competitiveness. The cooperation could take the form of joint marketing and coordination in third country trading, regional cooperation for dealing with non-tariff barriers (NTBs) in developed world, coordination for WTO negotiations, technical assistance for compliance with WTO commitments and international standards. There could also be fruitful cooperation between the BIMSTEC countries in technology management and capability building, in dealing with the digital divide, among other areas.

Coordinating Secretariat

BIMST-EC needs an institutional structure to follow-up the decisions taken by the Ministerial Conferences and the Summits and for preparing the agenda of different meetings. This institutional structure could also evolve and coordinate programmes for promoting the identity of the grouping. The forthcoming Ministerial Meeting is expected to take a decision on the proposal to set up a Secretariat.

Membership

After the admission of Nepal and Bhutan in 2004, the membership of the grouping should be frozen for the next few years to concentrate on consolidation. Other potential candidatures for membership should be considered only after the Grouping has consolidated and some gains from integration are visible.

Transport Infrastructure and Linkages

BIMST-EC member countries are geographically contiguous by virtue of sharing common waters (Bay of Bengal) and overland contiguity (except in case of Sri Lanka). The geographical contiguity is a key condition for deeper economic integration. However, the benefits of geographical contiguity are often lost due to poor transport linkages. BIMSTEC countries vary in terms of the availability and quality of infrastructure. The disparities in terms of infrastructure availability across the region in a way are reflective of the national capabilities in respective fields and thus create avenues for mutual cooperation. A substantial proportion of intra-BIMST-EC trade at present passes through land and sea routes. A major problem with respect to road connectivity is that there are many missing links between highways besides poor condition of roads in some countries which does not allow efficient plying of large trucks for trade. Railway links are also deficient where an additional problem is lack of harmonization gauge across the region. The ports in most part of the region need to be modernized and equipped with multimodal transport facilities besides efficiency improvements. The customs and clearance procedures at borders need to be streamlined to reduce delays and costs of transit.

In this context the recent launch of the India-Myanmar-Thailand Highway project is an important step in promoting overland connectivity among BIMSTEC countries. Another project worth considering is the India-Sri Lanka Land Bridge. In the case of railway links the priorities could be to link India's Manipur through broad gauge railway track with its main railway corridor, to establish Myanmar-Thailand rail network, and modernize the Myanmar's railway network including standardization of railway gauge.

Liberalization of intra-BIMST-EC trade in services requires strengthening transport links, interconnecting telecommunication networks, increasing the use of information and communications technology, and liberalizing investment in these sectors. Simplification of procedures and requirements for the transit and

transport of dangerous goods in BIMSTEC, using internationally accepted standards and guidelines will pave the way towards faster integration of the region. BIMSTEC countries could sign a Protocol to facilitate movement of goods in transit – air freight, road freight and sea freight in short term. BIMSTEC may learn from the experiences from ASEAN on the provision of designated airlines of each ASEAN member country to operate all-cargo (with 3rd/4th freedom air traffic rights) services up to 100 tonnes weekly with no limitations on frequency and aircraft type.

BIMSTEC could adopt a BIMSTEC Land Transport Infrastructure Integration Roadmap and BIMSTEC Transport Facilitation of Goods Roadmap. These could facilitate BIMST-EC Highway and BIMST-EC Railway projects.

There should be regular dialogue among BIMSTEC transport officials besides setting up BIMSTEC Airlines Group, BIMSTEC Federation of Forwarders Associations, BIMSTEC Ports Association, Federation of BIMSTEC Shipowners' Associations, and the Federation of BIMSTEC Shippers' Councils (FASC). Regular exchange of each other's experiences in respect to harmonization of technical standards such as truck size and weight regulations, transport rules and regulations, etc., liberalized border inspection except in strategic areas, simplification of documentation and clearance procedures would facilitate intra-regional cargo movement and trade.

Towards A Bay of Bengal Energy Community

The geographical region covering the BIMST-EC countries is endowed with vast untapped resources of energy. The development, distribution and efficient utilization of these resources will require cooperation and trade among the countries of the region. The prime objective of energy cooperation between the BIMSTEC nations would be to ensure energy security of member countries. The region combines countries like Bangladesh and Myanmar having large gas reserves beyond their short and medium term domestic requirements and those with immense untapped potential of hydropower such as Nepal and Bhutan and countries that are net importers of energy such as India and Sri Lanka.

The energy demand-supply sectors in the countries of Bangladesh, India, Myanmar, Sri Lanka, Thailand, Nepal and Bhutan offer a potential for regional resource cooperation, which could go beyond export-import trade

relations and link the region in a Bay of Bengal Energy Community and thus contribute to the process of regional integration.

The key to developing such a Community lies in identifying complementary conditions and combination of interrelated production characteristics among energy supply and demand sectors of these countries. A regional institutional mechanism needs to be created to collect and disseminate information on energy supply and demand sectors of the individual countries, establishing uniform energy codes, technical specifications and standards for all the countries in this region for smooth regional energy trade, for devising the reform and restructuring of the energy sector in the member countries that would be required to make them more competitive and efficient to integrate into a seamless market, setting of rules for establishing the level and structure of tariffs, and to have authority to decide on investments in maintenance, repair, and upgrading of the regional pipeline systems or utility grid network. The member countries will also need to cooperate in mobilizing capital for energy investment needs through investor friendly fiscal and regulatory policies. Finally, a public awareness programme would be important for dissemination of information on the benefits of regional energy cooperation.

Cooperation in Tourism, Fisheries, Auto, SMEs and Other Sectors

The Report finds opportunities for fruitful cooperation in many other sectors. In tourism,

for instance, development and promotion of joint packages combining major Buddhist sites across the region - Asian Buddha Heritage Package - is one such possibility. There are valuable opportunities for sharing of expertise in food processing, fisheries, technology management, IT and addressing the digital divide, and SME development and for specialization in auto and auto parts production.

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 development and 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 Policy Think-Tanks of the region could be created. This Network should meet regularly like the meetings of Economic Forum and 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 Ministerial Meetings for follow-up.

RIS Policy Briefs

- #1 Relevance of an Asian Economic Community
- #2 Initiative for Closer Economic Cooperation with Neighbouring Countries in South Asia
- #3 Reserve Bank of Asia: Institutional Framework for Regional Monetary and Financial Cooperation
- #4 Cancun Agenda: Trade and Investment The Way Forward for Developing Countries
- #5 Cancun Agenda: Environmental Requirements and Developing Countries Exports – Lessons for National, International and Regional Action
- #6 Cancun Agenda: TRIPs and Development Implications and an Agenda for Action
- #7 Cancun Agenda: Geographical Indications and Developing Countries
- #8 Energy Cooperation in South Asia: Potential and Prospects
- #9 Road to a Single Currency for South Asia
- #10 International Financial Architecture: An Agenda for Reform
- #11 Managing Global Macroeconomic Imbalances: The US Current Account Deficit, Exchange Rate Flexibility and Asian Reserves

RIS Discussion Papers, Policy Briefs and RIS Diary are available at RIS Website: www.ris.org.in



RIS

Research and Information System for the
Non-Aligned and Other Developing Countries

Core IV-B, Fourth Floor
India Habitat Centre
Lodhi Road, New Delhi-110 003, India.
Ph. 91-11-24682177-80
Fax: 91-11-24682173-74-75
Email: dgoffice@ris.org.in
Website: <http://www.ris.org.in>