



# BIMSTEC

## The Road Ahead



**RIS**

Research and Information System  
for Developing Countries

विकासशील देशों की अनुसंधान एवं सूचना प्रणाली



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# Foreword

**Ambassador Shyam Saran**

*Chairman, RIS*

BIMSTEC is a sub-regional grouping, comprising some geographically contiguous South Asian and ASEAN countries in the Bay of Bengal. It was formed by the member countries to leverage the synergies in their capabilities and resource endowments for their development.

The member countries Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka and Thailand, constellation economies with strong complementarities – the very logic behind the formation of BIMSTEC – provide a fertile ground for cooperation in a many areas. In BIMSTEC each member country possesses unique capabilities in many areas, which could be a source of sharing and learning among members of the group. BIMSTEC constitutes a significant building block for eventual establishment of a Bay Bengal Economic Community. The key issues involved for promoting economic cooperation among BIMSTEC member countries include trade, investment, regional value chains, energy, connectivity, technology, management and capacity building, people to people contact, among others. The present publication entitled “BIMSTEC – The Road Ahead” analyses these issues and puts forward several recommendations for strengthening and deepening economic integration among the BIMSTEC member countries.

RIS has been in the forefront for evolving policy cohesion among the BIMSTEC member countries since 2004. The Institute, in collaboration with the BIMSTEC Secretariat and the Ministry of External Affairs, organised a Discussion Meeting on BIMSTEC-BRICS Engagement – The Way Forward and Regional Consultation of BIMSTEC Network of Policy Think Tanks in New Delhi on 27 September 2016. These meetings were held in the backdrop of the BRICS-BIMSTEC Outreach Summit as part of the BRICS Summit held on 15-16 October 2016 in Goa. I am sure that the publication will be found useful by policymakers and stakeholders from BIMSTEC member countries.



**Shyam Saran**



# Message

**Sumith Nakandala**

*Secretary General of BIMSTEC*

I am delighted to know that the Research and Information System for Developing Countries (RIS) will bring out a publication highlighting the key facts about BIMSTEC and issues it may consider in the days to come. I am also pleased to be a part of the Meeting on the “BIMSTEC-BRICS Engagement: The Way Forward” which was held in New Delhi, India on 27 September 2016 in association with RIS and the Ministry of External Affairs, Government of India; and the subsequent Regional Consultations of the BIMSTEC Network of Policy Think Tanks (RC-BNPTT).

This Meeting was timely initiative since it was held just before the BRICS-BIMSTEC Outreach Summit. The Meeting was also significant as it came up with number of suggestions and broader guidelines for BIMSTEC-BRICS engagements. As BIMSTEC will be moving into the third decade of its existence in 2017, I hope its partnership with BRICS as a landmark event will give further impetus to the activities of the organisation.

The enormous potentials of BIMSTEC still remained untapped. Significant and tangible achievements could not be made due to various reasons. In order to foster regional cooperation and integration in the Bay of Bengal region, it is imperative to give special focus to trade, connectivity, energy, climate change and people to people contact, some of which were also suggested at the second Meeting of the BIMSTEC Network of Policy Think Tanks (BNPTT), held in Bangkok in 2015.

For successful and meaningful regional integration, leadership and commitment are essential. The genesis of BIMSTEC lies into the amalgamation of the India’s ‘Look East’ and Thailand’s ‘Look West’ policies. BIMSTEC region hosts 1.5 billion population (21 per cent of the global population) with combined GDP of US\$ 2.5 trillion.

The Meeting on the BIMSTEC-BRICS Engagement suggested funding of some BIMSTEC connectivity projects through New Development Bank while cooperation in the fields of science and technology, disaster management including early warning system, clean energy and counter-terrorism and transnational crime were also recommended.

I hope that the publication will be able to draw the attention of the Leaders and the policymakers of the two groupings. At the same time it will contribute to enhance the visibility of BIMSTEC. I would like to thank RIS for taking this timely initiative.

**Sumith Nakandala**



# Preface

**Prof. Sachin Chaturvedi**

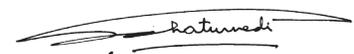
*Director General, RIS*

RIS has been closely associated with the work programme of BIMSTEC since the launch of the initiative in 1997. In 2004, the Institute had brought out the Report entitled “Future Directions of BIMSTEC – Towards a Bay of Bengal Economic Community”. The Report, prepared in consultation with prominent think-tanks from Bangladesh, Sri Lanka and Thailand, puts forward a roadmap for the future agenda of regional economic integration with the context of BIMSTEC. RIS had also organised the first and third meetings of the BIMSTEC Network of Policy Think-Tanks (BNPTT) on 18-19 February 2010 and on 27 September 2016 in New Delhi, respectively.

The present Report is the outcome of a Consultation that RIS organised in the context of BRICS outreach to BIMSTEC on 27 September 2016. The meeting deliberated on important issues of trade, investment and regional value chains and connectivity in regard to people to people contacts and BIMSTEC, BRICS and global governance. It contains an introductory chapter which highlights the key issues for strengthening economic cooperation among BIMSTEC countries alongwith brief contributions from eminent commentators in the field.

We are sure the academicians, stakeholders, policymakers and practitioners would find the publication interesting and a useful reference for future course of action for promoting economic development cooperation in the BIMSTEC sub-region.

We are grateful to Ms. Preeti Saran, Secretary (East), MEA for guiding the work programme and for her active participation at the above mentioned Consultation Meeting. We also thank Amb. Shyam Saran, Chairman, RIS; Mr. Sumith Nakandala, Secretary General of BIMSTEC; and Amb. Sudhir Devare, Chairman, RIS Research Advisory Council for their support and encouragement. We are also extremely thankful to all the contributions to the volume for their inputs. Thanks are also due to Dr. Ram Upendra Das, Professor, RIS for his valuable support during the Consultation Meeting. The Report has been designed out elegantly by the RIS Publication Unit.



**Sachin Chaturvedi**



# 1

## Overview: BIMSTEC Bay of Bengal Vibrant Community

### I. Introduction

The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) was set up in June 1997 to foster socio-economic cooperation among Bangladesh, India, Sri Lanka, and Thailand and was known as BIST-EC, until Myanmar's inclusion later in that year, when it became BIMSTEC.<sup>1</sup> In 2004, Bhutan and Nepal joined the bloc, which led to its current name. It was formed by member countries to exploit synergies in their capabilities and resource endowments for their development (RIS, 2004).<sup>2</sup> BIMSTEC constitutes a significant building block for the eventual establishment of a Bay of Bengal Economic Community.

It was initiated primarily as a combination of India's Look East Policy (now Act East Policy) and Thailand's Look West Policy. BIMSTEC has identified 14 priority areas, where a member country takes the lead, viz. trade and investment; transport and communication; energy; tourism; technology; fisheries; agriculture; public health; poverty alleviation; counter-terrorism and transnational crime; environment and natural disaster management; culture; people to people contact and climate change. Of these the areas that require utmost priority include trade, investment and regional value chains, connectivity and people to people relations. These are discussed in detail later. Other items on the agenda for strengthening

economic cooperation among BIMSTEC member countries are also being pursued as they are all inter-linked.

It needs to be underlined that BIMSTEC has in a relatively short period come of age. Though not much focus has been given to it, this sub-regional organisation has its own strengths. It brings together 1.5 billion people constituting 21 per cent of the world population and a combined GDP of US\$ 2.5 trillion.

However, since BIMSTEC is a member-driven organisation, the responsibility falls on member states to make it relevant, meaningful and productive. It is true that BIMSTEC has not been able to realise its full potential. It needs to be given fresh momentum.

In view of important role that BIMSTEC can play in the region, India invited the leaders of the BIMSTEC countries, including immediate neighbours such as Bangladesh, Sri Lanka, Bhutan, Nepal and Myanmar to the eighth BRICS Summit held in Goa in October this year, of which India is host. This BRICS-BIMSTEC Outreach Summit, a parallel event to the BRICS Summit, provided a good platform to boost ties between the BRICS countries and BIMSTEC.

In preparation for the BRICS Summit, RIS, in association with the BIMSTEC Secretariat

organised a Discussion Meeting on 'BIMSTEC-BRICS Engagement: The Way Forward' and Regional Consultation of the BIMSTEC Network of Policy Think-Tanks (RC-BNPTT). Delegations from the Members of the BIMSTEC Network of Policy Think Tanks (BNPTT), namely, the Centre for Policy Dialogue (CPD), Dhaka, Bangladesh; Research and Information System for Developing Countries (RIS), New Delhi, India; Myanmar Institute of Strategic and International Studies (MISIS), Ministry of Foreign Affairs, Yangon, Myanmar; Centre for Economic Development and Administration (CEDA), Tribhuvan University, Kathmandu, Nepal; and Institute of Policy Studies of Sri Lanka (IPSS), Colombo, Sri Lanka participated in these two meetings.

The first preparatory meeting of BIMSTEC policy research institutes was organised in India in 2004 by RIS. The First Meeting of BIMSTEC Network of Policy Think-Tanks (BNPTT) was organised by RIS on 18-19 February 2010 in New Delhi. The Second Meeting was held in Thailand, Bangkok on 8-9 October 2015. The Third Meeting was organised by RIS and BIMSTEC Secretariat on 27 September 2016 in New Delhi.

The third meeting of the BNPTT deliberated on issues related to trade, investment and regional value chains; connectivity and people to people contacts; and BIMSTEC-BRICS cooperation and global governance. The meeting aimed to leverage the network of think-tanks for deepening regional cooperation and regional integration among the member-countries. The meeting also aimed to explore as to what kind of role think-tanks should play individually and collectively.

## II. Key Issues among BIMSTEC Countries

### II.1 Intra-BIMSTEC Trade and Economic Cooperation Potential of BIMSTEC

As stated above, BIMSTEC is home to 1.5 billion people, amounting to 21 per cent of the world population and a combined GDP of over US\$ 2.5

trillion. This also suggests abundance of labour supply in the region, whether unskilled, semi-skilled or skilled. There is also the availability of a large market, both in numbers but also rising per capita incomes. Apart from rich cultural heritage, the BIMSTEC region possesses unmatched natural resources and vast complementarities with enormous possibilities of economic expansion for the common benefit of people. The macroeconomic scenario of BIMSTEC countries is encouraging.

As the members of BIMSTEC have huge variations in the size, population, population density and other resource-based factors, a mean of their gross domestic product may not be a strong indicator of their progress. However, looking at the annual growth of their GDP, it can be easily stated that even during the global economic slowdown, the BIMSTEC countries maintained a near-steady growth of around 6 per cent per annum. The growth rate is better than several leading economic groupings.

### II.2 Trade, Investment and Regional Value Chains

In the last one decade and a half intra-BIMSTEC trade has grown slightly from 3.6 per cent in 2002 to 4.3 per cent in 2014 (see Figure 1). However, the full potential of intra-regional trade remains untapped because of tariff and non-tariff barriers, poor communication, lack of people to people contacts, poor transportation, lack of supply capabilities, and information gaps.

Similarly, the growth of intra-regional investment needs to be enhanced in various sectors and regional connectivity projects that have the potential to augment intra-regional trade must be promoted. Collaborative partnership among the member countries in the region will result in development and utilisation of these resources for collective benefit.

BIMSTEC is also characterised by weak Regional Values Chains (RVCs). Some factors for this include level of development, industrial structure, location, policy factors, FDI linkages,

## Evolution of BIMSTEC

- As a bridge between South and South-East Asia a sub-regional grouping came into being on 6 June 1997 through the Bangkok Declaration and this was formed with four Member States with the acronym 'BIST-EC' (Bangladesh, India, Sri Lanka and Thailand Economic Cooperation).
- Following the inclusion of Myanmar on 22 December 1997 during a special Ministerial Meeting in Bangkok, the Group was renamed 'BIMST-EC' (Bangladesh, India, Myanmar, Sri Lanka and Thailand Economic Cooperation).
- With the admission of Nepal and Bhutan at the 6th Ministerial Meeting (February 2004, Thailand), the name of the grouping was changed to 'Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation' (BIMSTEC).
- The BIMSTEC region is home to around 1.5 billion people which constitute around 22 per cent of the global population with a combined gross domestic product (GDP) of 2.7 trillion.
- BIMSTEC Chairmanship rotates among member countries alphabetically. In terms of its functioning the deliberations of the Trade and Economic Senior Officials' Meetings are followed by the Trade and Economic Ministerial Meetings. Similarly, Senior Officials' Meetings are followed by Ministerial Meetings. The outcomes of the Ministerials are considered at the BIMSTEC Summits. So far three BIMSTEC Summits have taken place in Bangkok, Thailand (31 July 2004); New Delhi, India (13 November 2008); and Nay Pyi Taw, Myanmar (4 March 2014).
- The BIMSTEC Permanent Secretariat is established in Dhaka.
- As the name suggests BIMSTEC focusses on various sectors with one country designated as the lead country: Trade and Investment (Bangladesh); Transportation and Communication (India); Tourism (Thailand); Fisheries (Thailand); Technology (Sri Lanka); Energy (Myanmar); Agriculture (Myanmar); Cultural Cooperation (Bhutan); Environment and Disaster Management (India); Public Health (Thailand); People to People Contact (Thailand); Poverty Alleviation (Nepal); Counter Terrorism and Transnational Crimes (India) and Climate Change (Bangladesh).
- BIMSTEC also has a network of Think-Tanks. The first preparatory meeting of BIMSTEC policy research institutes was organised in India in 2004 by RIS. The First Meeting of BIMSTEC Network of Policy Think-Tanks (BNPTT) was organised by RIS on 18-19 February 2010 in New Delhi. The Second Meeting was held in Thailand, Bangkok on 8-9 October 2015. The Third Meeting was organised by RIS and BIMSTEC Secretariat on 27 September 2016 in New Delhi.

logistic performance, quality of infrastructure, etc. There is need to create regional value chains that could feed into global value chains, which in turn could spark economic growth, create high-quality jobs, and reduce poverty. This would help the BIMSTEC member countries to take advantage of their collective capabilities. Some of the sectors amenable to Regional Value Chains are textile and clothing, processed food and light engineering goods. These need to be studied further for formulating a plan of action at the policy level.

### II.3 Connectivity and People to People Contact

BIMSTEC has till now held three Summits and in all of them connectivity has been a priority area. In the connectivity sector as many as 160 projects have been identified at the cost of nearly US\$ 45 billion which is a very big outlay. Connectivity improvement thus is the biggest task before BIMSTEC. Enhancing connectivity was also on top of the agenda at the BRICS-BIMSTEC outreach meeting.

Since connectivity improvements in the region is a major component of PM Narendra Modi's 'Act East' policy and India has taken up several connectivity projects in the region, such as the Kaladan Multi-Modal Transit Transport Project, that will connect the eastern Indian seaport of Kolkata with Sittwe seaport in Myanmar, it would

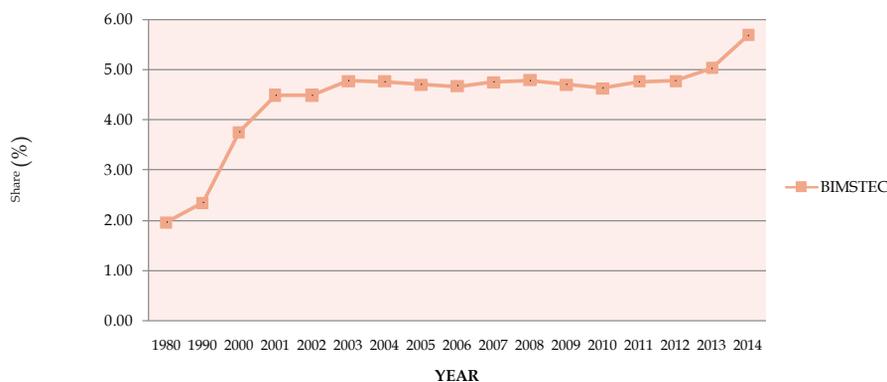
help the North-Eastern states of India by opening up fresh avenues for economic activities.

There are several areas where connectivity among the BIMSTEC members is relevant including road, rail, air transport, telecommunications and shipping links. In this context, the BRICS New Development Bank can play an instrumental role in providing capital along with other institutions like the ADB.

Apart from physical connectivity, promotion of people to people connectivity through different exchange projects is also an area of importance for BIMSTEC. India has been contributing to this through its capacity building programmes under ITEC. India is considering offering visa-free travel or the opportunity to obtain a visa on arrival to business visitors and tourists from its fellow BRICS countries. This could be an area of deliberation between BRICS and BIMSTEC.

India organised BRICS Trade Fair and Exhibition prior to BRICS summit. The Fair showcased about 20 key sectors. These include aerospace, agro-processing, auto and auto components, chemicals, green energy and renewables, healthcare and pharmaceuticals, railways, textiles and apparel, infrastructure, IT, engineering goods, tourism, gems and jewellery and skill development. The BRICS Trade Fair provided a platform to BRICS countries to exhibit their state-of-the-art technologies and advances made in industrial development. Besides established companies, start-ups and innovators from BRICS showcased

**Figure 1: Intra-BIMSTEC Trade as a Share of Total BIMSTEC Trade (%)**



their products. The idea was to help technology solution providers from BRICS countries to share knowledge and expertise in dealing with the common development challenges in areas such as healthcare, education, energy efficiency, waste management and urbanisation management. India invited leaders from BIMSTEC for discussions with the BRICS business leaders and companies at the Trade Fair. This is also a step towards enhanced commercial and people to people contact. BIMSTEC could also think of a similar fair among its members.

BIMSTEC too like BRICS need to be brought down to the level of people as it is the people whose benefits needs to be looked at while formulating policies for regional cooperation. This can be done by organising events among people and increasing the role of civil societies in the policy making process.

#### II.4 Towards a Bay of Bengal Energy Community

BIMSTEC countries face huge challenges in terms of energy security, which is a major constraint on their quest for economic growth at a higher trajectory. The region combines countries like Bangladesh and Myanmar having large gas reserves and Nepal and Bhutan with untapped potential for hydropower. The geographical region of BIMSTEC countries is endowed with rich resources of energy. Their development, distribution and efficient utilisation will require cooperation and trade among the countries of the region. For instance, while India sleeps, Thailand is two-three hours ahead of India. Thailand can use India's idle capacity when India is not using it. Similarly, some areas are cold; some areas are warm creating an opportunity for seasonal trade. Also, the countries can use supply diversity such as India in its day time can use solar energy and can get hydro energy from Nepal or Bhutan in the evening. Thus, 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 trade relations and link the region in a Bay of Bengal Energy Community and thus

contribute to the process of regional integration and economic growth.

#### II.5 Fund for Regional Projects

A significant lack of investment in infrastructure development has remained a constraint on the growth and development of most BIMSTEC members. Funding for development of viable projects, i.e. funding for preparation of projects reports and for preparation of feasibility studies are scarce especially when projects are of regional character. In order to facilitate investments in infrastructure and industrial development, BIMSTEC should consider setting up a Regional Fund for Regional Projects with two windows: the first window could provide seed capital for preparation of project reports and feasibility reports and the other window could take part in lending for the viable projects along with other lender. The lending arm should also be able to support the investment activities of joint ventures in industry and manufacturing by provide the term loans or venture capital to projects set up by enterprises from one member country into another. This would serve to facilitate the intra-regional FDI flows as well. A more detailed concept paper for the BIMSTEC Fund can be prepared and issues deliberated upon.

#### II.6 Joint Marketing and Coordination in Global Market

Most often than not, BIMSTEC countries out-compete each other in the global markets. Instead, *marketing joint ventures* could be formed to extract greater value addition for the exporters by collaborating rather than competing in third countries. Joint research and development on common problems could help in saving valuable resources (RIS, 2004). Commodities in which such coordination could be fruitful include:

- Rice: India, Thailand
- Jute: India, Bangladesh
- Tea: India, Sri Lanka, Bangladesh, Nepal
- Spices: India, Sri Lanka, Thailand

- Leather goods: India, Bangladesh, Thailand
- Marine Products: India, Sri Lanka, Bangladesh, Thailand, Myanmar
- Textiles and garments: all the BIMSTEC countries
- Gems and Jewellery: India, Thailand, Sri Lanka.

## II.7 Technical Assistance for Compliance and Standards

Exporters are required to implement a number of technical standards and benchmarking standards for competing in the market by adhering to various international standards and technical specifications. The WTO Agreements usually have provisions for technical assistance. BIMSTEC countries are no exception. However, the experience has shown that such assistance is either not adequate nor provided in timely manner. Very often requisite expertise for dealing with such requirements in tropical climates, specific and relevant to BIMSTEC members, is not available.

## II.8 Technology Management and Capability Building

Technology is key for determining trade and economic growth. Thus, cooperation in technology management and capability building among BIMSTEC members assume critical importance. In frontier sciences like ICT, biotechnology, nanotechnology, space research, and new materials focus should be on basic research, but in other areas applied research and management of technology could be the primary consideration. The management of technology may cover issues like (a) management of IPRs, and (b) technology management with focus on technology forecasting, and technology intermediation.

The cooperation in S&T has to focus on all dimensions, and implementation of these

aspects may determine the extent of success in the cooperation process in BIMSTEC. The entire range covering the national innovation systems become relevant in this context along with adherence to global frameworks and policy regimes. Collaboration across BIMSTEC for both the cutting-edge scientific research, its application and formulation of common approach to global rules governing technology and related frameworks need a clear focus.

## II.9 BIMSTEC, BRICS and Global Governance

It has been observed that BIMSTEC is a fast growing region having tremendous economic potential and is likely to grow faster in coming years which presents opportunity for BRICS for increased business in the region. BRICS countries can help create regional value chains in BIMSTEC countries because net imports in the region are high. However, for this BIMSTEC-BRICS deliberations on broader issues of global economic governance becomes crucial.

The BIMSTEC-BRICS engagement is a novel and imaginative process. Both groupings share common objectives of promoting development cooperation. While BIMSTEC can benefit from the experience and expertise of large economies of BRICS in infrastructure or connectivity building or energy, BRICS can collaborate with BIMSTEC in certain other fields with global dimensions such as financial architecture, WTO and counter-terrorism. There is also enough scope for both groupings to benefit from sharing of best practices and experience.

### Endnotes

- <sup>1</sup> RIS. 2004. *Future Directions of BIMSTEC: Towards a Bay of Bengal Economic Community*. RIS: New Delhi.
- <sup>2</sup> BIMSTEC Meetings. 2016. Retrieved from Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation: <http://bimstec.org/index.php?page=bimstec-mechanism>

# 2

## Rejuvenation of BIMSTEC

Sumith Nakandala

How do we utilise the BIMSTEC Network of Think Tanks in terms of deepening the regional cooperation and regional integration. What kind of role the Think Tanks should have, individually and collectively? This is something that we have been debating for the last since the establishment of the BIMSTEC Secretariat. BIMSTEC Secretariat is very small secretariat. BIMSTEC is a Member driven organisation. The responsibility of pushing BIMSTEC and the agenda to promote and deepen regional cooperation integration again lies with the member states. The Secretariat has a catalytic role to play. The Secretariat is also focussed on the role played by the Think Tank network.

What we need is nothing but actionable programmes. We need ideas, concepts which are sustainable, pragmatic which will live up to the expectations of our leaders. In turn those will be the hope of the 1.5 billion people living in the Bay of Bengal region. There have been calls to make BIMSTEC relevant, meaningful and appropriate. We are reaching to a crucial juncture in BIMSTEC. In 2017, we will be entering into third decade of BIMSTEC. How long we can afford to live in the dream world of regional cooperation and integration? The time has come to be more optimistic and professional. How you treat BIMSTEC will decide its future course of action?

No regional organisation has succeeded without a leader. We need to address that fundamental and perennial question collectively

and dialectically more than ever. BIMSTEC needs a leader. BIMSTEC needs a leadership. Then others will follow.

In fact, we have made some headway in the counter-terrorism sector. We have BIMSTEC convention for mutual legal assistance in criminal matters ready for signature which is an important step. In 2009, we signed the Convention on counter-terrorism. In order to give legitimate legal effect you need to have second convention on the mutual legal assistance in criminal matters.

In the counter-terrorism field there are a number of sub-groups specially on intelligence. We have proposed the intelligence sharing platform which is now being taken at the highest level. Cooperation in the counter-terrorism is fairly productive. The other area on which the work has been done is the BIMSTEC Transport Logistics and Infrastructure Study (BTLIS) which was conducted with the ADB. 165 projects connecting the region except Sri Lanka have been identified. The projects are either maritime projects or civil aviation or road projects or rail projects. We are trying to get these projects as BIMSTEC projects. Some of these projects have been already implemented, some are on the half-way through, and some are waiting for the funding.

The other area where BIMSTEC has done some work is cooperation in energy sector. A Memorandum of Understanding (MoU) on trans-grid connectivity connecting all the grids of the

BIMSTEC Member States has been finalised. Once the MoU is signed we will go for the BIMSTEC grid interconnection Master Plan Study. We need to understand what are the missing links. For example, this agreement provides bilateral and multilateral building blocks. In case of Sri Lanka and India, India and Sri Lanka, *vice versa*, the grid inter-connection will be on bilateral basis, from Madurai to Habarana, 500 kv line. Those things we have been discussing time to time. Connection between India and Sri Lanka is on the right track. There are other areas like agriculture where we have not been able to make any headway.

Some work has been done in public health sector especially in terms of traditional medicine. The Government of India is trying to put emphasis on promoting traditional medicine, a very lucrative sector, billions of dollars can be procured through traditional medicine sector. A country like Sri Lanka has enough traditional medicine knowledge. India is one of the most important member state with respect to traditional medicine sector.

The work has been done in these areas but covering all 14 areas is difficult. In fact, the think-tank network has prioritised and identified three areas basically to concentrate at present. These are people to people contact, regional connectivity and regional value chain. These are the three major areas but we need to add energy security, counter-terrorism and climate change. These are the additional areas apart from connectivity, physical and digital connectivity plus the trade and investment. These are the areas that BIMSTEC should certainly focus on.

In terms of trade and investment, we have not been able to discuss that in detail but importance of trade and investment is not diminished whether there is BIMSTEC FTA or not. It was near conclusion in 2015 September when we met in Bangkok for the 20th trade negotiating committee meeting but unfortunately discussion did not go in terms of result in the conclusion of the agreements even though most of the member states were willing to conclude and then to sign the agreement but then there were some differences between

two member states, so that we have not been able to proceed. But we are trying to pursue this vigorously with the government of India and rest of the member states as far as FTA is concerned.

BIMSTEC was established in 1997. In 1998, within less than one year the economic cooperation was brought to the agenda. From 1997 to 2004, intense negotiations were held, four rounds of ministerial meetings were held and that resulted in the framework agreement for establishment of the BIMSTEC Free Trade Area. From 2004 to 2015, 19-20 rounds of trade negotiating committee were held. on 23 February 2011, the 19th Trade Negotiating Committee (TNC) meeting was held in Bangkok and a timeline for states to submit the negative lists and other tariff liberalisation schemes by November 2011 was agreed on and it was also decided to have the ministerial meeting to sign the FTA documents. But that didn't happen because some member state didn't submit the tariff liberalisation scheme. The whole process dragged from 2011 to 2012 to 2013 and 2014. At the Third BIMSTEC Summit held in 2014, it was said that it should be concluded by December 2014. However, the opportunity was missed.

In the BRICS-BIMSTEC outreach summit, we saw the golden opportunity for rejuvenation of BIMSTEC.

Ideally Secretariat has suggested that BIMSTEC summit should be held every two years and naturally every meeting may not provide positive outcome, but leaders should meet regularly that would be the way forward.

Education is not part of our priority areas. But we are thinking to include education as part of the priority areas. But the problems in BIMSTEC, like in SAARC, is that the priority areas are led by lead country. All the 14 priority areas are led by a lead country. For example, trade and investment is led by Bangladesh. Transport and communication is led by India. Then public health is led by Thailand. Technology is led by Sri Lanka. So we need a member state who will take the initiative to lead the education sector. As stated, BIMSTEC is a member driven organisation, and the other important aspect in BIMSTEC is that there is no

Charter like in SAARC or IORA which means that by and large there is flexibility in taking decisions. If there is a charter then the things are very specific, rigid and fixed. The BIMSTEC secretariat is trying to develop certain norms within the BIMSTEC. A lot of work has been done in the secretariat for the last one and half years. Standard rules of procedures for the ministerial meeting, standard rules of procedures for senior officials meeting have been developed. But all these are waiting for the approval from the senior officials. It is hoped

that the proposed engagement with BRICS would bring some positive results.

There can be pessimism coming in and seeping into the system but to be optimistic it is hoped that BIMSTEC will do the justice to the people in the region. It may not happen next few years but it will happen because there is no other way except regional economic integration and regional economic cooperation. So this is the way forward.



# 3

## Strengthening BIMSTEC Secretariat

Seshadri Chari

While revisiting some of the regional multilateral organisations, almost instantly the first name that comes up for all of us is BIMSTEC. Given the changing dynamics of the geo-political situation not only in the world, but more prominently in our part of the region, the need to revive the working of BIMSTEC assumes greater importance and urgency. With three out of four large economies being on this side of the hemisphere and also given the importance of the economic implications of the changing times, the need for India to reshape regional institutions is even more imperative.

India's tryst with restructure and course correction of its economy began sometime in 1993 under the then Prime Minister Narasimha Rao. Soon its emphasis shifted to Look East. After witnessing a chequered path for more than two decades, the idea has assumed greater importance and meaning under the NDA regime under Prime Minister Modi. The new economic orientation and strategic outreach since 2014 has necessitated the need to relook and review those institutions that have implications on India's Look East policy. Needless to say, Act East is the next logical step in our Look East policy.

India realised the need for a strong foundation for regional and sub-regional cooperation in the Asian region since Independence. Besides our engagement with NAM, SAARC began as an important regional institution in 1985 followed by Bay of Bengal Initiative for Multi-Sectoral

Technical and Economic Cooperation (BIMSTEC) in 1997. These two institutions as well as the participating member countries recognised the need for deeper and enhanced economic and social cooperation to increase connectivity, sustainable and harmonious growth and peace, progress and prosperity of the people of the region. Existing mechanisms under BIMSTEC have to be now strengthened to effectively harness common natural resources, increase cultural exchanges and increase people to people contacts.

This brings into sharp focus the need for restructuring, redeveloping, relooking and reinvigorating the working and infrastructure support of all multilateral organisations of this region, especially the BIMSTEC. Due to various international and geo-political reasons there was an overemphasis (or probably necessary emphasis) on other multilateral organisations like the SAARC, the BRICS, ASEAN and many others. The lack of importance given to BIMSTEC has seriously affected our economic and strategic agenda, to say the least.

We are in a region which is geographically contiguous from one end of Asia to the other end in the far East. But this region is also the most heterogeneous one as far as governance, religion and economy are concerned. Countries which have grown at 5 to 8 per cent GDP coexist with countries whose economies have failed or are on the brink of bankruptcy. In a region which is one of the least integrated economically, divided

politically, with intra-regional trade at less than 5 per cent of official trade, there can be no alternative to institutionalised regional cooperation.

Just as we have common strengths, this region also has some serious common challenges like poverty, unemployment, unplanned urbanisation, digital divide, lack of research and investment in agriculture, income disparity – the list is endless.

BIMSTEC has a larger footprint area and greater potential to grow. Besides strengthening traditional bilateral exchange tools we need to look at newer vistas of import-export rules, scope of regulatory mechanisms, removal of trade barriers, and common banking and market arrangements. It is important for us to look into the issues in our north-east region and remove the impediments there so that north-east truly becomes the gateway to our look east and act east agenda and strengthen BIMSTEC initiatives.

India's north east is the meeting point of South Asia and Southeast Asia. In fact, four north eastern states, Mizoram, Nagaland, Manipur and Arunachal Pradesh have unfenced borders with Myanmar, which is the entry point to Southeast Asia making it an ideal gateway towards South-east Asia through Myanmar. BIMSTEC has helped us come closer to number of connectivity projects.

Besides trade and commerce, terrorism and conflict resolution have added a new dimension to the existing engagement with our regional partners. It is all the more important to invest more in the research, bilateral inputs and institutional strengthening of BIMSTEC for a better functioning of its headquarters. This will allow us to grow together and reach out to the last man in our respective countries and alleviate people's hardships by improving the standards of living.

# 4

## Challenges before BIMSTEC

Preeti Saran

BIMSTEC has to compete for space with other regional groupings. BIMSTEC is unique. It has its own place and there is a comparison. We should play upon the strengths of what BIMSTEC has. There are collective strengths, both in terms of natural resources as well as our cultural and historical linkages. BIMSTEC is very special for India to connect, integrate and also give prominence to a very important part of our country that is the North-Eastern States of India.

The other uniqueness about BIMSTEC is its rich heritage and its richness in natural resources. There is a lot of positive energy that it generates just by being that. BIMSTEC lies at the crossroads of SAARC and ASEAN and it draws its own energy. Therefore, there is a natural convergence to the Bay of Bengal. There exist strong historical linkages and there are enormous opportunities to work together in countering our security challenges. Terrorism is the biggest scourge that has plagued all of us, including the region of BIMSTEC. Then, there are natural disasters such as floods, cyclones, earthquakes and tsunamis.

BIMSTEC represents over 20 per cent of the world's population and has a combined GDP of over 2.5 trillion dollars. India is the largest country in BIMSTEC region. What BIMSTEC needs is a leader. India is aware of the fact that it is the largest country in the region and it is prepared to take on asymmetric commitments in BIMSTEC. India enjoys excellent relations, and

since its inception India has supported BIMSTEC's efforts at regional integration. We are also the lead country in several BIMSTEC initiatives in the fields of transport, communication, tourism, environment and disaster management, counter-terrorism and trans-national crimes.

Our association with BIMSTEC fully complements our Act East Policy which is an inalienable part of the journey that began with the launch of our Look East Policy, now the Act East policy. It is our conviction that BIMSTEC can play a very important role as an instrument to implement some of our own objectives as we integrate with ASEAN and with the countries beyond. BIMSTEC has witnessed several achievements but is yet to realise its full potential.

Next year, we celebrate the 20th anniversary of BIMSTEC. There is need for fresh ideas which can be brought up on this occasion. Connectivity, economic cooperation, energy security and people to people contacts are very important issues and if we focus on them. We would be able to make a very good start in rejuvenating BIMSTEC as we celebrate its 20th anniversary.

We face common challenges and the biggest challenge that we face is that of terrorism. The attacks in Dhaka and the Uri are once again a reminder of how terrorism has emerged as a more serious threat to international peace and security, with a rising number of terror attacks around the

world. The BIMSTEC region has not been immune to it. Time has come for BIMSTEC to work together to collectively address this scourge as well.

On the economic front, the idea of global value chains is a very important element. How we can exploit the benefits of SAFTA or the ASEAN FTA for those countries who are in bilateral agreements as India is with several of the BIMSTEC countries? This also provides us very important opportunity to give a fillip to overall economic activity and cooperation within the region.

For connectivity infrastructure is very important element. Certainly, the Government of India bilaterally as well as regionally is trying to address this, including connecting the northeastern region to Myanmar and to Thailand. Certain other softer instruments like the Motor Vehicles Agreement (MVA) that is being negotiated sub-regionally would give another reason to work on it. India could focus also on trade facilitation, easier trade, harmonisation of standards, and cooperation among our small and medium enterprises. If BIMSTEC were to have land and maritime connectivities as a grouping, that would go a much longer way rather than just keep struggling with an FTA which needs to have some fresh energy to it.

About cruise tourism, it needs to be underlined that BIMSTEC is a grouping around a water body which is the Bay of Bengal. Even as the two land locked countries, Bhutan and Nepal are very much part of this grouping, the challenge would

be to harness its wealth to add to the prosperity of people around the Bay and it should really benefit millions in terms of their livelihood as they are connected to the water. The Bay of Bengal is also home to over 30 per cent of the world's fishermen. Development and modernisation of the fishing industry can contribute substantially to improving living standards of the people in the region. When we talk of blue economy, about our marine resources, about fisheries as a sector and tourism including the cruise tourism, it becomes important to have a holistic approach in this regard and also for inland waterways.

Water, of course, also has proved to be a challenge for the region. Floods and cyclones are reasons where the Bay of Bengal initiative can be a very important element to focus our energies on. Given our close proximity, not just geographical but cultural as well, tourism in terms of our historical civilizational linkages, particularly through Buddhism, provides yet another element where BIMSTEC could focus; because countries in the BIMSTEC region have very strong linkage to Buddhism.

As BIMSTEC countries are rich in natural and renewable energy resources, they are committed to sustainable development of clean energy. A very important initiative in this regard was taken by the India Prime Minister at CoP-21, when he announced the international solar alliance. This is yet another important element because BIMSTEC countries are solar rich countries.

# 5

## Trade, Investment and Regional Value Chains

S. K. Mohanty

The world economy is passing through a critical phase of global recession where the global outlook is indicating towards a subdued growth prospects for the world economy following the uncertainties associated with the Brexit, weak growth prospects in the US and muffled economic outlook of advanced economies. The impact of the current global trend could be deleteriously reflected on several economic indicators. There has been downward pressure on global interest rate, sentiments towards business environments affected adversely, weakening of global commodity prices, growing political discontent and low productivity of investment in developed countries, among others. On the contrary, there have been positive signals emanating from emerging markets and developing countries, particularly led by Asia in shaping the global growth outlook in 2017. India and China are expected to put lasting impact on global output and trade in the coming years. In this turmoil economic situation, contraction of oil prices has provided some soothing effect to the global economy.

In the backdrop of negative narrations about the present global economic situation, BIMSTEC has emerged as a successful region, displaying much better performance than several large as well as dynamic regional groupings of the world. With its robust performance over the decades, it is emerging as a vibrant region in Asia. Records of growth performance of several countries have

been robust for several regional groupings in the world since 1990s, but some regions have grown much faster than others, thereby share of these regions in the global economy has been growing persistently over years. BIMSTEC is one of such cases where the share of region in the Gross World Product is growing steadily, though with a shaky start in the 1990s but maintaining a steady rise then after including the period of the global recession. This narrates the story of BIMSTEC which is much more vibrant than many other emerging RTAs in the World.

Before the onset of the global recession and after, BIMSTEC has been maintaining impressive growth profile vis-à-vis many other regional groupings. Why it is so? Various factors contributing to such a situation. Growth performances of several of its member countries have been robust over a long period of time. It is again a region of 1.6 billion young population which is contributing steadily to the large labour force of the region. Even during the period of recession, the annual growth rate of the region was ranging between 4.7 per cent and 9.6 per cent in average. Productive capacity of the region is high, and they are reflected in high saving ratio, largely led by private sector, rising investment ratio, impressive gross fixed capital formation, etc. which are key factors for steady growth. Moreover, openness of the region is also large where export plus import as a percentage of GDP is exceeding more than 50 per cent.

Macroeconomic fundamentals of the region is strong where the inflation profile of the region is under the safe limit, mostly declining in recent years. The high productive capacity of the region is not only demonstrated in terms of savings and investment ratios, it is also strongly supported by incoming remittances. There are couple of regional groupings such as the EU, TTIP, SAARC, IBSA etc. which have performed well in attracting remittance in the past, but BIMSTEC is not lagging behind them. BIMSTEC's incoming remittances in 2012 was almost similar to that of the EU. So region's resource mobilisation capacity has been strongly supported by inflows of remittances. Taking into account various dimension of macroeconomic profile, the region is emerging as a competitive economic space as a compared to many other regions in the world.

The regional trade with the world economy was growing rapidly since 2002 but slowed down significantly during the second phase of recession. Deceleration of overall trade was noticed for both exports and imports with the world. As such BIMSTEC is a net trade deficit region with the world and recent decline of its exports to the world is linked with decline of imports. During the first phase of recession, the region's trade with the world did not decline, but significant trade deceleration was observed only in the second phase of recession. In fact, recession has left a significant imprint on region's trade prospects with the world economy.

Intra-regional trade (IRT) of BIMSTEC is increasing steadily since 2000, and showing upward trends in recent years, despite global downturn. Comparing IRT of BIMSTEC with seven other important regions of the world including Mercosur, Andean, SADC, APTA, LAIA, SAARC and BRICS reveals that IRT ratio of BIMSTEC is not very significantly different from these RTAs which are considered as stable and flamboyant regional groupings in the world. BIMSTEC has not only posted better performance in IRT than that of SAARC, but also has signalled better performance during the period of recession. So far as region's

trade with the world economy is concerned, sectors like raw materials and finished goods are doing brisk business in recent years. Among the basic sectors, minerals, chemicals and plastics are making significant trade with the rest of the world. Some sectors under final products such as automobiles, machinery, precision instruments are growing fast as compared to other sectors. There are other traditional sectors like textiles, pulps of wood etc. are booming as compare to other sectors with the rest of the world.

Global Value Chain (GVC) is becoming a global buzzword where global trade has been robust since last half a century. Regions associated strongly with GVC trade are performing well in trade with the world economy. In the global trade, GVC segment is growing much faster than rest of the trade segments and growth of the trade sector is exceedingly high in many regions which are strongly associated with the GVC trade. There are discussion about the relevance of the trade sector in the context of BIMSTEC. Empirical evidences indicate that BIMSTEC's trade in GVC with the rest of the world, is persistently growing, both in exports and imports. However, the region is registering a net trade deficit in GVC with the rest of the world. Further, region's import is growing faster than that of its exports to the rest of the world. Other RTAs may have interest in BIMSTEC because this is a net importing region for parts and components. In terms imports and exports of parts and components, BIMSTEC has a strong preference for products from specific sub-sectors such as machinery, auto components and precision instruments. The central issue is how individual countries are engaged in the trade of GVC with the rest of the world? In this sector, behaviour of the region in exports and imports with the rest of the world is different. So far as exports of the region is concerned, many LDC's within the region are not linked with the rest of the world except Bangladesh. India and Thailand are deeply engaged in diverse sectors of parts and components. Engagement of other economies in parts and component trade is thinly spread into selected sub-sectors.

BIMSTEC is partly linked to both SAARC and ASEAN. What are their performances with SAARC and ASEAN in regard to global value chain? With respect to SAARC it is low but it is growing very fast. But with ASEAN it is strong and growing rapidly over the years. When we look at the trade deficit part of it, region is a net trade deficit economy with respect to ASEAN countries in parts and components where it is having trade surplus with the SAARC region.

In the investment front, India's focus is not yet concentrated on the BIMSTEC region. Its cumulative outward FDI to the region is limited to \$2.2 billion between 2006 and 2016, and the size of OFDI is growing steadily during this period. India's OFDI is mostly concentrated in three countries namely Bangladesh, Thailand and Sri Lanka and it is likely to expand as BIMSTEC is a priority area for India.

Broadly speaking, BIMSTEC region is growing fast, having tremendous potential to grow in future as predicted by the IMF (WEO, 2016). BIMSTEC countries have large opportunities in SAARC and ASEAN to have brisk business in these regions. This could be the most opportune time to make new initiatives to expand regional trade. The BIMSTEC region is already suffered from chronic global recession and intervention of BRICS could provide cushion to the former. With regard to parts and components, more trade engagement could be possible with the BIMSTEC region because it is a net trade deficit region in parts and components trade. There are several avenues for BRICS countries to get engaged with the BIMSTEC region for effective and prudent economic engagement. The region is an investment-poor one and large investment is required for promoting infrastructure development. Therefore, BRICS countries can focus on BIMSTEC on trade and investment.



# 6

## Multi-Dimensional Connectivity

Ram Upendra Das

We must realise by now that connectivity is not just transport or infrastructure. It is a much wider concept. It is multi-dimensional including physical connectivity and digital connectivity. These are two very crucial aspects of the overall concept of connectivity. For very obvious reasons, a region's development is closely determined by how developed its connectivity and infrastructural facilities are. In BIMSTEC, of course, there have been efforts to build connectivity for a long time in South Asia, South-east Asia because BIMSTEC is at their intersection. The efforts have been made but still the connectivity situation has not improved to the desired levels.

There is a need to highlight one of the paradoxes of connectivity-related projects due to which they do not get developed. The private sector has the investible resources. However, they cannot go to connectivity projects because they have a problem of short-term gains whereas connectivity projects are often long-term investments. On the other hand, the public sector, which wants to go for such projects, is often short of investible resources. They have to raise that. This paradox actually is the crux of the problem of underdeveloped connectivity in a region like the BIMSTEC.

Further, people often think that quite obviously connectivity would lead to greater people to

people contact and more business linkages as also greater trade linkages but many times we do not understand that most of the connectivity related projects are essentially trade-in-services. Whether it is digital connectivity, computer services, IT services, transportation services and visual services, these all services imply connectivity. Similar is the case with educational services. We have to understand that connectivity will give rise to trade in services. Most of the connectivity and linkages in infrastructural projects are actually within the realm of trade-in-services. Therefore, we should not separate trade-in-services or trade *per se* from connectivity. They are quite 'connected' so to say.

Now having said that the question is what do we do? This is where perhaps the linkage between BRICS and BIMSTEC can be continued. Usually BRICS has an outreach programme and it is a one-off affair. When the country changes with presidency, the linkage or outreach programme is launched with some other institution. How do we sustain this process? One of the ways to sustain BRICS and BIMSTEC linkage is through the New Development Bank. But that doesn't mean that BIMSTEC doesn't have other options. New initiatives like the AIIB and existing ones like the ADB and World Bank need to be harnessed further.



# 7

## Challenges to a BIMSTEC Free Trade Agreement (FTA): A Sri Lankan

Janaka Wijayasiri

The BIMSTEC region accounts for 22 per cent of the world's population and contributes about US\$ 2.8 trillion to the world's GDP. One of the unique features of this regional grouping as it was mentioned was the fact that it bridges South Asia with East Asia to regional groupings that is SAARC and ASEAN on a sub-regional basis. At the inception, it was considered that there were enough complementarities among the member countries for economic cooperation, given the substantial differences in the economic levels of development and resource endowments between the countries. Moreover, the countries in the region share a common border providing a condition for economic cooperation. The low level of inter-regional trade also indicated that there is untapped potential in the region to be exploited thus providing impetus for an FTA.

However, the progress to date on signing FTA has been slow. The initial idea was proposed back in 2002 and the agreement was supposed to have been completed in 2006 covering not only trade in goods but also services and investment. However, after more than a decade and several rounds of negotiations, the grouping has not been able to reach consensus and finalise the trade agreement. Despite these delays, the FTA still remains on the agenda of the BIMSTEC. In terms of the main components of the trade agreement, the member countries have agreed to reduce tariffs on two track basis, fast track and a normal track. Under Fast track basis, tariffs will be reduced within a

period of 1-5 years while under the normal track, remaining tariffs will be reduced over a longer period of time. The region has agreed to liberalise on a negative list basis.

The agreement also importantly contains rules of origin as any FTA. A country could be eligible for tariff concession under the Agreement if the product has been wholly produced in the member country or if countries could satisfy the rules of origin in terms of change of tariff headings at six-digit HS level as well as meet domestic value addition of 30-35 per cent.

More importantly, the BIMSTEC FTA has provisions on dispute settlement, application of safeguards and customs matters. However, the trade negotiating committee has been unable to finalise trade agreement due to inability to come to agreement on certain issues.

Exports within the region have increased from 2002 to 2014. In fact, exports have grown almost by 50 per cent, which is greater than BIMSTEC's exports to the rest of the world, that was 20 per cent. Consequently, the intra-regional exports have increased from about 2 per cent in 2002 to about 6 per cent by 2014. The main exporters within the region are India and Thailand which together account for about 85 per cent of intra-regional exports in the BIMSTEC region.

In terms of inter-regional imports also the region shows an increase. But the increase of imports within the region is about 17 per cent which

is far less than what BIMSTEC is importing from the rest of the world. Consequently, intra-regional imports within the BIMSTEC fell over the last couple of years from about 5.3 per cent to about 2 per cent. Main importers within BIMSTEC, include India, Thailand and Bangladesh, representing the sizes of these economies in the region.

If we look at some of the statistics of intra-regional trade and importance by country-wise, we find that BIMSTEC is an important destination for exports of Bhutan and Nepal due to the substantial trade with India.

If we look at imports within the region country wise, BIMSTEC again is an important source of imports for not only Bhutan and Nepal but also to a lesser extent for Bangladesh and Sri Lanka. Again within the BIMSTEC, these countries depend on India for much of their imports. The inter-regional trade within the BIMSTEC has progressed over the last ten years. Intra-regional trade within the BIMSTEC region has hovered above 3 per cent but not more than 5 per cent in total. Some of the reasons why intra-regional trade has been low have been due to the low purchasing power among some of the countries, the low complementarities between the export and import structures of the countries and the supply side capacities of the small countries are not being able to meet the demands of the larger countries. The presence of high cost in terms of transport and logistics, high tariffs or rather tariff peaks on products of interest to the trading countries and concentration on a few products traded within the region. These factors have contributed to the low levels of inter-regional trade in the BIMSTEC region.

Sri Lanka is already part of four trade agreements, two regional trade agreements, one with South Asia under the SAFTA and one with the Asia-Pacific Trade Agreement which is a preferential trade agreement. Sri Lanka also has two bilateral FTAs, one with India and Pakistan, which are Sri Lanka's largest trading partners in South Asia. Currently, Sri Lanka is engaging in deepening its FTA with India under the Economic and Technical Cooperation Agreement (ETCA)

and Sri Lanka is also engaging with both China and Singapore in negotiating a comprehensive trade agreement which the government hopes to complete by the end of this year or the beginning of next year.

BIMSTEC is one of the many regional trade agreements that Sri Lanka signed up to date and as such at present the potential benefit for Sri Lanka seems to be limited in terms of access to basically Thailand and Myanmar since Sri Lanka already has access to other BIMSTEC countries through various trade agreements either through bilateral agreements or through the regional agreements. In this context is there actually a role for the BIMSTEC FTA from the perspective of Sri Lanka? If we look at some of the provisions made under the bilateral FTAs, they are much more favourable than the ones that Sri Lanka has with the regional groupings such as SAFTA. Both the bilateral agreements have given Sri Lanka a better access to individual countries than under regional groupings. Nevertheless, what we need to bear in mind is that much of the trade between India/Pakistan and Sri Lanka has been outside the scope of the agreement. Although you can see an improvement in trade between India and Sri Lanka, the utilisation rates of the bilateral agreement have been quite low. For example, under the Indo-Lanka free trade agreement, Sri Lanka's utilisation rates varies from 65 per cent in the case of exports to 14 per cent in the case of imports.

In this context, the BIMSTEC FTA could still provide greater access to India, Bangladesh, Nepal beyond these existing agreements as well as to Thailand and Myanmar. If the BIMSTEC agreement is comprehensive in its coverage it could address some of the potential problems of the existing agreements that Sri Lanka has currently in place.

Some of the lessons that Sri Lanka could recommend in terms of finalising the BIMSTEC agreement include the drawing up of the negative list which BIMSTEC should be mindful of in its approach to liberalisation, considering the lessons learnt from the existing agreements. The negative

list should be rationalised so that substantial trade is covered under the agreement. Then there is the issue of Non-Tariff Measures (NTMs). These should be identified at the onset of the negotiation and addressed along with tariff reductions. There is also issue of rules of origin. There is a need to have simplified and relaxed rules of origin so that traders can make better use of the agreement. The issue of mutual recognition is very important for countries to recognise each other's standards so that it could facilitate trade amongst the countries and ensure standards, SPS or TBT issues do not become a barrier for trade. It is also important to create national awareness and engage the private sector because at the end of the day the business community is the stakeholder which will be using the agreement. They should be also engaged in the

finalising of the agreement and their perspective should be taken into account.

Another issues that needs to be thought out include the need for institutional support. Once the agreement comes into place, a body is necessary which can actually deal with practical problems in using the agreement and deal with day to day problems in the use of the agreement. The other issue is trade facilitation. Everyone knows the importance of trade facilitation. Reducing bureaucratic delays and paperwork; for example, the introduction of a single window would help in moving goods across borders. There is also the issue of connectivity, in terms of promoting trade within the region. These are some of the issues that needs to be thought out in terms of finalising the agreement from the point of view of Sri Lanka.



# 8

## Energy Security in BIMSTEC Region

Jyoti Parikh

Energy security is important for BIMSTEC region. Energy is needed for its poor people, for its growth and for its youth which has increasingly to engage in very many activities. We have been talking about cooperation among think tanks. IRADe is a think-tank which deals with multi-disciplinary research and policy analysis. We handle multi-stakeholder problems and develop approaches involving government, non-government organisations. The focal areas are climate change, environment, energy and power, urban development and agriculture. The world average for electricity consumption is 3000 units but South Asia region is below the world average, some of them are way below and the region is actually bringing down the world average. Here is another story of how Bhutan has profited from bilateral trade in power. It used to have half the per capita electricity consumption than India just twenty years ago. Bhutan's per capita GDP was also half than India then. Now it is twice. Even more than twice compared to India. The power trade could have a transformative effect on economies and Bhutan has done it. It can grow further and we hope that Nepal can also grow through its power exports and may be Bangladesh through power imports from India. Myanmar has also very low per capita electricity consumption. It takes three or four years to put up a power plant. Now Myanmar does not have that much time to loose, so power transmission lines are far easier to put up and perhaps they can benefit earlier and start their growth process earlier.

You may think that if everybody has so low energy supply, then how they can trade. The trade is possible through various opportunities. One is the energy supply differences-seasonal differences, daily load differences due to time zone. Thailand, and Myanmar are about 2- hours ahead of India, so they can use India's idle capacity in the early morning and the power can come from there in the evening when they are not using it. Similarly, in the summer, some areas are cooler e.g. Bhutan, but some areas are hot in India and need electricity. Nepal can import power in dry season and export in wet season. Thus, seasonal trade can also be done. So there are many ways to stabilise power system and at the same time meet the demands of various types. The energy supply diversity is also there, for example, India can use solar energy during the day time but in the evening we can get hydro power from Nepal or Bhutan. We are already trading approximately 2500 megawatts. We already exceed the power trade done by the countries of the greater Mekong region. This is the way we are already progressing and India's leadership is crucial because all the power has to go through India. Here also the high hydro potential based in Arunachal, can be tapped and sent to Myanmar, to Bangladesh and to the rest of India through Bangladesh. Thus many options are currently unexplored. Together we can generate synergy for this type of activities.

Moreover, energy resource complementarity is such that India, has 90 billion tonnes of coal resources and some oil resources, Bangladesh has

more gas comparatively and the hydro potential is a staggering 30 gigawatts (GW) in Bhutan, 80 GW in Nepal, 150 GW in India. Some of these are being exploited but a large percentage of it is unexplored. (1000 MW=1 GW)

CO<sub>2</sub> emissions can be also lower because hydro power is a clean energy source. The region emits less than 2 tonnes of CO<sub>2</sub>, in per capita terms than the world average which is more than 5 tonnes per capita. Moreover, in South Asia, the number of people affected by climate change is large and climate adaptation is a big issue for all of these countries. Therefore, climate adaptation and finance is another thing that unites.

IRADe is already working on the South Asia Regional Initiative (SARI) for energy integration (EI) funded by the USAID. This initiative has three task forces in which all South Asian countries are members. Task Force-1 is about the policy alignments, regulations and legal frameworks. The second task force is on the advancement of physical infrastructure such as transmission, interconnection and so on. The third task force is about power markets, pricing mechanism, etc. Each of these task forces have met several times. These task forces have discussed many aspects, regulatory guidelines, regional investment framework, which countries have what kind of licensing rules, what kind of laws and practices are there and what kind of amendments are needed, (e.g electricity act is in India but not in other places) and so on. The power cannot be exchanged if the power infrastructure in the trading countries are not harmonised. Task Force-3 discussed at what price we exchange the electricity with each other and what can be the model power purchase agreements and so on. In addition, recently we added three more activities, one is the analytical studies where we are actually doing energy modelling for energy trading countries to see how they can really do this inter-connection. What kind of macroeconomic benefits we can bring in with this kind of power trade? We are now getting South Asian think tanks to discuss energy security issue and how to smoothen out some of these problems, and what kind of socio-

economic benefits are there and how to propagate these ideas at various fora. We are also initiating training for the grid operators, how to operate power markets, how to trade in power markets.

So far many workshops have been held with participation of research institutions, ministry officials, diplomats, ambassadors, regulators, etc. In this framework, one can add Thailand and Myanmar and see what kind of difficulties arise at the boundary between the two countries, boundary in the sense of power system and what kind of issues can arise for power trade for those two countries. Regional regulatory guidelines and amendments have also been prepared. Country by country we have seen, what kind of electricity structures, laws, regulations, policies are there and what needs to be amended for us to interact with each other.

When we add also Thailand and Myanmar for BIMSTEC region, we have to again carry out some of these exercise about licensing, of cross border trading, open access network, transmission pricing regimes, planning, imbalanced settlement mechanisms, harmonisation codes, dispute resolution etc which we have already done for the remaining countries. South Asia power trade with BIMSTEC or BIMSTEC power trade is a kind of a low hanging fruit which can really start very soon. While we are negotiating transmission lines and other issues, we need to go ahead with other discussions regarding harmonisation and then something one can start within a couple of years. A roadmap needs to be developed for action and decision making in the respective countries. We have to establish clear regulatory environment and produce consistency and clarity in cross border power trade transactions. Invest in the energy infrastructure for BIMSTEC region would not only transform some economies, but also bring peace and harmony.

So it is hoped that this issue of energy cooperation would be taken up among BIMSTEC countries. From this every country will gain and there is hardly anything to lose. So it is a win-win game and let's hope that we can push this forward.

# 9

## People to People Contacts

Baladas Ghoshal

Geographical contiguity and access to the ocean should have been the greatest asset of BIMSTEC. Few centuries back Chittagong used to be a ship building area and there was greater connectivity between these regions. Yet today, a Dal merchant in Mandalay sends his dal to India not through the land border but through Singapore. The route that it takes, plus the expenses are cheaper than to be sent by the land border essentially because of the lack of connectivity as well as all kinds of other problems that come with a disturbed Northeast. Many of the programmes that have been undertaken by the successive governments in order to build bridges with Southeast Asia through Myanmar, the only land border of India with Southeast Asia, like the trilateral highway and various other projects have not really fructified. In most of the cases, there has been delay. There are sometimes technical problems associated with it. There are bureaucratic problems as well and red-tapism. Whatever the reasons might be for the delays, sometimes legitimate and sometimes for sheer bureaucratic ineptness or sheer lack of interest, the connectivity has not really been to the satisfaction and that has really undermined the entire effort in terms of integrating the region.

BIMSTEC is one of the least integrated regional organisations amongst all other regional groupings. Regional integration is not possible only with inter-governmental interactions. It has to extend to business-to-business and people to people, the most important component of

integration. Without the civil society involved in the process, integration remains incomplete. Again, this region is one of the least connected regions in terms of civil society interactions. The only exceptions are Nepal and Bhutan, of course, with which we have connections. With Myanmar, at one time, there had been tremendous amount of connectivity by sea, and it looked as if Rangoon, the capital of erstwhile Burma, was an Indian city. All that connectivity has gone now. So what we find now is that not only no new connectivity has been established, but even the old ones don't exist anymore.

### Educational Cooperation

The South Asia University in India was created in order to bring about connectivity, academic interactions between the people of South Asia but the way it was planned, it is a disappointment in the sense that it is like any other university that has come up. Students are coming from other parts of South Asia but there is a one-way traffic. The students from here are not going. A couple of years back at the beginning of ASEAN there was an arrangement amongst some of the ASEAN countries that one teacher or professor would go from one country to another to teach for at least a semester and this was on an exchange basis amongst all the countries of ASEAN. Like an Indonesian could go to the Philippines to teach and a Filipino could come to Malaysia. In the process there was not only interaction between academics

and students who were exposed to perspectives from another country of the region helping them to remove much of the prejudices people had vis-à-vis each other. Essentially because they were able to interact with the academics of that particular country and they could really talk to each other in person. The second thing is students exchange programme between the countries of BIMSTEC. The great sociologist, Mr. M. N. Srinivas at one time talked about the people on the wrong side of the border, meaning the overlap of population and ethnic groups in South Asian countries. Despite this fact and the language commonness and the commonness of customs and values, the kind of interactions that could have brought them closer to each other have not taken place very much. This can only be done through educational exchanges among students through enrolling themselves in other universities, in one of the BIMSTEC countries. Indian students can go and enrol themselves in one of the member countries of BIMSTEC. Similarly, students from those countries could come to India. After all, today's students are future leaders of their countries, and if they knew each other at their formative stages, it will equip them better to relate to each other. Interactions with the people from their neighbouring countries will not only help in understanding each other, but it also help India in supporting its Area Studies programme in Indian Universities. For example, there are very few experts in Burmese language. If we go to the North-east, there are lots of people who really know Burmese, at least they are able to understand Burmese. Either we send them to Myanmar for training in advanced Burmese language programme, or we can request the Myanmar government to send a Burmese language teacher to an Indian university to teach Burmese language for Indian researchers specialising on Myanmar. Through such programmes we can really create a kind of a base for more academic interactions.

## Tourism

Most of the universities and schools and colleges these days in India and in certain other countries also have a programme for what they call educational tour or entertainment. Now instead of travelling within the country, the governments could organise some sort of a mechanism in which students from India could go to Myanmar to spend their holidays or for an educational tour and similarly people from Myanmar could come to Bangladesh or from Bangladesh to Nepal. Like that there could be some kind of an arrangement. People to people connectivity apart from the physical connectivity is very important in terms of regional integration.

## Air Connectivity

If we have to go to Yangon from Calcutta, we need to pay almost 30,000 rupees for a ticket and the flight is only about an hour and a half. The air connectivity is non-existent in this region. Take the example of ASEAN, they have been able not only to establish a connectivity amongst the countries and allowing travel to be much easier, there is also ASEAN discount. If we buy a ticket from here, then it might be expensive but within the ASEAN countries there is not only visa free travel but each of the ASEAN country people also get a kind of a discount to travel to another country. That brings obviously better tourism and better connectivity. Therefore, there is urgent need for promoting and strengthening air connectivity.

If some of these things could be worked out, by agencies in all these countries, then the people to people connectivity as well as other forms of connectivity can lead to a better understanding of each other. Regional integration is nothing but exchange of knowledge. Understanding amongst people will give a better and solid foundation for regional integration.

# 10

## Challenges in People to People Contact

Fahmida Khatun

Connecting with people is an inherent urge in human being. Movement of people and ideas contributed towards the progress of societies. Sustainability of societies depends on movement of people from one region to another. As societies have progressed and economic activities have expanded the world has also become interlinked. People in one country depend on people from other countries for economic and social needs such as food, medicine, education and entertainment. People travel from one corner to another corner of the globe to fulfil their demands. With technological progress, people also can avail various services without travelling and just by hitting the keyboard of their laptops or touching the screen of their mobile phones. But at the heart of getting any services either from within or outside the country is the idea of getting connected through people.

Such realisation rewarded the advanced countries despite various problems that accompanied with this strategy. South and East Asia has engaged itself into various groupings such as South Asian Association for Regional Cooperation (SAARC), Bangladesh-China-India-Myanmar (BCIM), Bangladesh-Bhutan-India-Nepal (BBIN) and the Bay of Bengal Initiative for Multi-Sectoral, Technical, and Economic Cooperation (BIMSTEC). Of these BIMSTEC covers the entire Bay of Bengal region. Countries

in this initiative viz. Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka and Thailand have several complementarities in economic and social areas. This makes the initiative a prospective one even though these countries are divergent in terms of economic, social and political development. However, launched in 1997, BIMSTEC is yet to get momentum for cooperation among its member countries. Thus, with a GDP of USD 2.7 trillion and a population size of 1.3 billion the potential of the initiative remains untapped.

While such potentials are to be explored through trade, through infrastructural connectivity, through investment and through linking productivity and value chains, the importance of establishing connectivity through people to people contact is no less important. If one looks at the flow of people traveling from one country to another within the region it is obvious that the flow has been continuous and increasing, be it for health care, education, business, seminars and meetings or only tourism. One indication is the number of flights operating in the region compared to that of ten years back. Quite often one would find it difficult to get an airline ticket to travel to India or Bangkok if seats are not reserved well in advance. Trade and investment cannot take place without services. At this day and age services have international character. They have moved from domestic to global level

mostly thanks to technology. Electronic banking, telemedicine and online education have proved to be popular among consumers across the world. But there is a need for physical presence too. Given the importance of trade in services which involve people, international agreements have been formulated. For example, General Agreement on Trade in Services (GATS) of the World Trade Organisation (WTO) provides guidelines for services trade in various sectors. However, as the WTO negotiation is at stalemate, progress on GATS is also slow. BIMSTEC has not seen much progress on this either.

Several patients from Bangladesh and other countries in the region travel to India and Thailand. A good number of students also go for studies. Intellectual and cultural exchanges have also increased than before. However, visa continues to be difficult for many travellers. True, the visa regime has improved over time. Online visa application form has done away with the physical queue which used to be tiring and painful even though the rise of the middlemen has made the electronic application difficult of late. Visa application form has been simplified to a great extent. For example, Indian visa application form has been reduced to two pages from what was eight pages earlier. Also business visa for five years has proved to be useful. But apart from business

and senior citizens, long term visas are restricted even for genuine and frequent travellers. Similar problems exist in case of Thai visa. Sometimes due to visa related problems patients do not tell the truth as that require more paperwork and delay the process even when there is an emergency. This results in post travel problems such as difficulty in transfer of money.

In addition to stronger political commitment, media can also play an important role in improving people to people contact. Currently, news coverage of within BIMSTEC countries is narrow. Also, mostly negative news gets focussed in the media. Instead of covering only political and social tensions, highlighting issues such as social and developmental changes happening in the region would be more constructive.

Movement of people from one country to another country is a necessity. It happens despite tensions amongst and between countries. Interests of governments and that of the people may not always be the same. But greater people to people contact can facilitate smooth solution of existing problems. It can help reduce fear and suspicion among countries. It can be complementary to economic and political dialogues at the policy level that is necessary for economic transformation of the Bay of Bengal region.

# 11

## BIMSTEC and Global Governance

Samir Saran

This new focus on the Bay of Bengal community in India is important. This may result in new energy and new leadership attention directed at giving new life to this grouping. So let all of us grab this opportunity and do more with each other and with the world together. Before proceeding to discuss let me set, very briefly, the context.

We all have signed-up for two major global agreements in the last 12 months. One at Paris in terms of climate change and second, of course, the ambition to respond to development goals around the world where 17 goals had been commonly identified by members of the United Nations system.

All of us belong to roughly similar agro-climatic regions. Can we together put forward a Bay of Bengal community proposition for the world to emulate? Can we create a solution for the parts of the world that are living with a particular development standard and with a particular development reality? Can we create solutions for us and for them?

The SDG agenda is ripe with opportunities for collaboration in terms of what we do on financial inclusion. How do we proceed towards gender inclusion, how do we work on health and life issues? How do we work on job creation and livelihood? There are immense opportunities there. We must avail of these opportunities.

### Climate Change

We are tied by the same water and we are going to have to respond in ways that are cognisant of each other's concerns. Can we use and develop certain instruments to further the renewable energy agenda? Can we work towards cleaner coal? Can we work towards a more efficient energy system? Can we build renewable handheld devices, rooftop solar and multiple appliances? India has the scale to bring down the price. Can India be the incubator centre that can help work on technologies, bring them to scale, bring down the price and share that in a more fair, equitable basis with some of its partners, with smaller populations. That is a test case for India. It has already informed the world of its intention to lead the international solar alliance along with the French presidency. Can the international solar alliance also incubate certain projects in some of India's neighbourhood? This is one area that is again an opportunity for the Bay of Bengal community to pursue.

### Blue Economy

There are two new spaces that we must start speaking about. The first is of course, the water itself that connects us. Blue economy is an important aspect today. For the Bay of Bengal community this is one of the key issue. Can India think about a blue economy without engaging the Bay of Bengal community? Can we have any

economic framework, any normative framework, any governance framework without having a conversation with our Bay of Bengal neighbours? Can we create new rules of fishing, of exploiting sea-bed resources, of coastal infrastructure, of shipping and other infrastructure of connecting us through sea bridges, etc. without developing consensus and co-benefits? Can we create a normative framework both on the economic realm, security realm and political realm together?

Can all of us agree to this that anyone who wants to participate in the Bay of Bengal community must agree to the principles of deliberative dispute resolution mechanisms? Anyone who wants to enter the water must work in this plural democratic framework, something that India and Bangladesh demonstrated in terms of their bilateral dispute? Can we create such norms? None of us can compete with the big powers like the US or China but we can be normative powers. This is a leaf to take out of the European book that when you can't win a war, you throw laws at your adversaries. So can we create such norms to safeguard this Bay of Bengal community? That is an important aspect of ocean cooperation, blue economy and the region.

The second new area that has opened up which in a sense will again allow us to create that framework for future for other countries to emulate is in the digital sector, the cyber space.

## Digital Market

We can complain about Indian cars not being allowed into Myanmar or not being allowed into Thailand and we need to integrate our DMVs, we need to have data handovers, we need to have infrastructure but nothing stops you from connecting to each other digitally. Can we agree to free flow of data between our countries as first step? Can we agree to no tax or no duties or no surcharge when services and data move across our borders digitally? Can we create an integrated market, a digital market, e-commerce market? Can coconuts from certain parts of the BIMSTEC move to other parts of BIMSTEC. Can mangoes move the

same journey? Can we use e-commerce platforms to further the trade agenda that real infrastructure prevents us from doing?

The e-commerce space, the digital economy space is a new area where governance within BIMSTEC, the arrangements we create within BIMSTEC can become templates for others. If you don't do it, you will have to accept other people's templates because a TPP will eventually come, some other arrangement will become the norm and they will force those standards on you. This is the time to take up propositional leadership and put forward a organic template for engagement.

## Trade Governance

Present leadership has shown a certain vigour in pursuing international agreements and this is that moment to try and correct some of our own follies of the past. If we can get it done in the next two years, if we can get an agreement on the table in the next two years, it is probably going to be the best time we have to get something done in our political system in India. But more importantly, and this is the central point, again we must understand that when we need globalisation the most today, those who created the idea of globalisation are rejecting it. The progenitors of global trade, the progenitors of the WTO system, those who defended the whole idea of a liberal trading regime, are undermining it today. So it will have to be groupings like ours which defend the need and the necessity for a WTO, who defend and describe the need for a liberal trading order, for an open democratic trading system. It is the only forum where every country has one vote. This is something that is not acceptable to certain players in the market today and they want to undermine such a system. Countries like us must become more robustly engaged in defending the WTO system even as we try and create an FTA between us. Our FTAs must be enshrined in the same ideals under which we want the WTO to operate. We should not do what other western powers are seeking to do, to create different sets of rules for the international system and for their own club of similarly placed countries.

## Financial Governance

There are two aspects in this regard. The first, of course, is that we have to be a little honest with ourselves. International financial flows are not going to be easy going forward. Globally, we today have trillions of dollars of savings, some estimates say over a 100 trillion dollars of global savings in various wealth funds, various assets etc., asset classes etc.; yet the 2-3 trillion \$ that we require each year for infrastructure development for financing for development is difficult to come by. The developed countries have got used to lazy capital. In Germany they are giving you zero interest rate for a 10-year loan. They are happy with no interest as it involves zero risk.

To say that we are fast growing economies, to say that we are going to give you 4 per cent returns clearly does not seem to be working, does not seem to be pulling in huge amount of global finances to the developing world. The strategy has to change. We have to start thinking differently.

Now of course, one is creating regional banks or regional financial institutions. NDB is clearly one of them. The Asian Infrastructure Investment Bank is another one of them. Can India ensure funding from these to the region, and treat this as an Indian challenge, like South Africa pitches for

lending to Africans, like the Chinese want OBOR projects to be financed through the NDB or the AIIB? Can we make a strong case for funding from the NDB to the Bay of Bengal community, be it blue economy infrastructure projects, be it certain sustainable development projects? Can India voice the need for NDB to engage with the region? Why don't we say this? The Chinese always have an idea on what to do with the money. The South Africans are speaking for the Africans. Why can't India take leadership and talk about lending to this particular community.

The second aspect of financial governance obviously will have to go beyond the financial institutions and will need to focus on reforming our own internal financial markets. Here too we are similarly placed. Here too, there is a great opportunity to tap into the huge savings that exist in some of our countries, and to create our own instruments to deploy towards development. Can BIMSTEC come up with certain instruments that are able to tap into our own savings? It need not be big. Everything that is big is not beautiful. We can also be more modest as we scale up. Financial governance and reform of the financial governance system should be the idea that we should consider together for development of own financial markets.

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