Exploring Trade Potential in BCIM EC
Possible Sectors for Developing Production Network

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Introduction

- Economic corridor is established to promote economic cooperation among the countries of a region by making the best use of their comparative advantages.

- BCIM EC can unlock untapped economic potential of member countries by facilitating industrial economic clusters around important transport corridors that can link to global production networks.

- BCIM countries are very diverse in nature:
  - China is known as the global manufacturing house.
  - India has the potential to become the third largest economy in the world.
  - Bangladesh is one of the fastest growing emerging economies.
  - Myanmar is full of natural resources.

- Hence, BCIM EC can bring enormous economic opportunities to the region.

- This paper seeks to explore the economic potential of BCIM EC in view of trade opportunities and possibilities of developing production network.
Introduction

- Srivastava (2011) discusses the stages of development of economic corridors. There are five stages in the transformation of a transport corridor to an economic corridor
  - a) Transport Corridor; b) Transport and Trade Facilitation Corridor; c) Logistics Corridor; d) Urban Development Corridor; and e) Economic Corridor.

- Kimura and Kobayashi (2009) argued about two key features
  - Developing special economic zones (SEZs) with an improved climate for local investment; and
  - Reducing the cost of service links that connect remote production blocs by improving trade and transport facilities.

- Sturgeon (2001) - ‘network’ that maps both the vertical and horizontal linkages between economic actors
  - The range of production network is not limited to only one product rather it links various productions horizontally
Trade barriers are the major bottlenecks for developing production network in a region.

Raihan (2014) believes that economic corridors would help the countries better integrate globally. Higher trade will only boost their confidence to do away with trade barriers.
Trends of Trade among BCIM Countries

Intra-BCIM Trade

- BCIM region has been observed with high growth of intra-region trade
  - In 2013, BCIM trade accounted for 13.6% of world’s total trade
  - It was only 7.3% in 2004
  - But lack of production network/global value chain (GVC) in the region undermines the regional trade compare to the global trade

- The share of the regional trade is only 4.5% of the global trade

- In terms of total intra-BCIM trade, China is on top of the list with USD 108.2 billion worth of trade followed by India with USD 80 billion in 2014

- Chinese imports from the region is insignificant implying that China is more dependent on the outside of BCIM in case of imports
Trends of Trade among BCIM Countries

Major Traded Products in the Region

▪ The export basket of China for Bangladesh covers a variety of products
  ▪ Share of the top 20 exportable items is only about 19.7% of the total exports to Bangladesh explaining the long list of exportable items

▪ China supplies a major share of primary goods to the Readymade Garments (RMG) industry of Bangladesh.
  ▪ Fertilizer, machinery equipment, parts of motorcycle are the other major exported items to Bangladesh

▪ Knit and woven (HS Chapter 61 and 62) products are the major imports from Bangladesh for China
  ▪ These cover about 33.6 per cent of the total import

▪ Jute fibers (HS Chapter 53), Fish/frozen foods (HS Chapter 03, 04), plastic products (HS Chapter 39) and raw leather (HS Chapter 41) are the other major imports from Bangladesh
Trends of Trade among BCIM Countries

- India is the second most important import source for Bangladesh, conceding only to China
  - Ranking is likely to change in India’s favour if informal trade with India is factored into the trade equation

- India is one of the major supply source of different kinds of cotton (HS Chapter 52) for Bangladesh that are used as raw materials in the RMG industry
  - Cereals (HS Chapter 10), automobile parts (HS Chapter 87), Onions (HS Chapter 07) and various types of fabrics

- Top 20 export products to India cover 69.1 per cent of total export to India
  - Due to the lack of Bangladesh’s export capacity

- Knit and woven products (HS Chapter 61, 62, 63) is about 20.7% of total export and second most exported item is jute fibre
Trade Potentials in the Region

Comparative Advantage of Products Sourcing from Bangladesh

- Revealed Comparative Advantage (RCA) index has been used for the analysis of estimating the comparative advantage.
- Top 20 exported products have relatively higher comparative advantage in the region and hence these items are on the top of the list.
- Most of the agriculture products and foodstuffs have relatively higher index score compared to other products in the list due to the fact of sharing border of India and Bangladesh.
- Textile fabrics and jute fabrics have better competitive advantage in the Indian market.
Trade Potentials in the Region

Export Potential for Bangladesh in the region

- Bangladesh’s export potential in the BCIM region (only with China and India) has been calculated using Trade Map database from International Trade Centre (ITC)

- Taking only the top exported products to China having higher competitive advantages - export potential for Bangladesh is about USD 1.8 billion
  - Bangladesh’s current export figure to the Chinese market is about USD 762 million

- Considering all products, Bangladesh has about USD 6.7 billion worth of export potential in the Chinese market (highly ambitious)
  - This analysis does not take into account of existing tariff level, unit price of products or any other means of trade facilitation
Trade Potentials in the Region

- Top exported products to Indian market shows that Bangladesh has only USD 150 million worth of export potential for the products with higher RCA value
  - Bangladesh exported USD 520 million of goods in 2014

- Estimated gross indicative export potential for Bangladesh is about USD 1.5 billion

- According to some recent analysis, Bangladesh has supply-side capacities, and is currently exporting to the global market, but not to India. On the other hand, India is importing these items from the global market, but not from Bangladesh.
Trade Potentials in the Region

Possible Sectors for Developing Production Network

- Estimation of two trade indices can help to identify possible sectors for developing production network
  - Regional Trade Orientation Index (RTOI)
  - Intra Industry Trade (IIT) Index

Table: Top Sectors for Regional Export (RTOI)

<table>
<thead>
<tr>
<th>Bangladesh Sectors</th>
<th>Bangladesh HS chapters</th>
<th>India Sectors</th>
<th>India HS chapters</th>
<th>China Sectors</th>
<th>China HS chapters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foodstuffs</td>
<td>05, 06, 08, 12, 15</td>
<td>Foodstuffs</td>
<td>04, 05, 14, 15</td>
<td>Fertilizer</td>
<td>31</td>
</tr>
<tr>
<td>Chemical, Plastic,</td>
<td>28, 29, 38, 39, 40</td>
<td>Leather and Leather Products</td>
<td>41, 64, 67</td>
<td>Textile &amp; Clothing</td>
<td>50, 52, 53, 55, 59, 60</td>
</tr>
<tr>
<td>Leather Products</td>
<td>41, 64, 67</td>
<td>Textile &amp; Clothing</td>
<td>50, 52, 53, 55, 59, 60</td>
<td>Leather</td>
<td>41</td>
</tr>
<tr>
<td>Textile &amp; Clothing</td>
<td>52, 53, 56, 61, 62, 63</td>
<td>Railway Equipment</td>
<td>86</td>
<td>Nickel, Zinc</td>
<td>75, 79</td>
</tr>
<tr>
<td>Iron, Lead, Zinc,</td>
<td>72, 74, 78, 79</td>
<td>Copper, Zinc</td>
<td>74, 79</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Copper</td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>
Trade Potentials in the Region

- IIT – (Bangladesh-China) high level of intra industry in food, fish and frozen food industries, leather and footwear industries as well as clothing and textile industries

- Trade between Bangladesh and India is mainly concentrated on textile, clothing and apparel industry

Table: IIT Index for Bangladesh with China and India

<table>
<thead>
<tr>
<th>HS Code</th>
<th>Label</th>
<th>IIT Index</th>
<th>HS Code</th>
<th>Label</th>
<th>IIT Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>'41</td>
<td>Raw hides and skins (other than furskins) and leather</td>
<td>0.99</td>
<td>'53</td>
<td>Vegetable textile fibres nes, paper yarn, woven fabric</td>
<td>0.97</td>
</tr>
<tr>
<td>'74</td>
<td>Copper and articles thereof</td>
<td>0.80</td>
<td>'63</td>
<td>Other made textile articles, sets, worn clothing etc</td>
<td>0.96</td>
</tr>
<tr>
<td>'64</td>
<td>Footwear, gaiters and the like, parts thereof</td>
<td>0.80</td>
<td>'61</td>
<td>Articles of apparel, accessories, knit or crochet</td>
<td>0.83</td>
</tr>
<tr>
<td>'03</td>
<td>Fish, crustaceans, molluscs, aquatic invertebrates nes</td>
<td>0.68</td>
<td>'62</td>
<td>Articles of apparel, accessories, not knit or crochet</td>
<td>0.78</td>
</tr>
<tr>
<td>'75</td>
<td>Nickel and articles thereof</td>
<td>0.64</td>
<td>'11</td>
<td>Milling products, malt, starches, inulin, wheat gluten</td>
<td>0.74</td>
</tr>
<tr>
<td>'11</td>
<td>Milling products, malt, starches, inulin, wheat gluten</td>
<td>0.63</td>
<td>'65</td>
<td>Headgear and parts thereof</td>
<td>0.36</td>
</tr>
<tr>
<td>'06</td>
<td>Live trees, plants, bulbs, roots, cut flowers etc</td>
<td>0.60</td>
<td>'57</td>
<td>Carpets and other textile floor coverings</td>
<td>0.35</td>
</tr>
<tr>
<td>'08</td>
<td>Edible fruit, nuts, peel of citrus fruit, melons</td>
<td>0.60</td>
<td>'26</td>
<td>Ores, slag and ash</td>
<td>0.35</td>
</tr>
<tr>
<td>'62</td>
<td>Articles of apparel, accessories, not knit or crochet</td>
<td>0.60</td>
<td>'90</td>
<td>Optical, photo, technical, medical, etc apparatus</td>
<td>0.32</td>
</tr>
<tr>
<td>'65</td>
<td>Headgear and parts thereof</td>
<td>0.59</td>
<td>'44</td>
<td>Wood and articles of wood, wood charcoal</td>
<td>0.32</td>
</tr>
</tbody>
</table>
Trade-led Investment Potential for Bangladesh

- Both Chinese and Indian FDI inflow into Bangladesh have continued to increase each year since 2008
- Most of these investments are targeted toward the domestic market-oriented gas, petroleum, banking, and telecommunication sectors; and the export-oriented textiles, clothing, and leather sectors
- Realized FDI is higher in sectors where domestic supply chains are well established, sourcing of raw materials is easier, and where markets are assured

Figure: Chinese and Indian FDI Inflow into Bangladesh
Despite of having competitive advantage in many potential sectors, Bangladesh has performed very poorly in attracting FDI from the BCIM

- Lack of infrastructure development has constrained Bangladesh to develop an effective production network in the region

- It is evident from the analysis in the earlier section that textile & clothing industries, leather & footwear industries and food & agro processing industries have more potentials for developing production network in Bangladesh

- Major advantage for Bangladesh is the affordable labour market and market access opportunity to the outside world

- Due to high labour cost, China will push the low end manufacturing industries to spread over other neighboring Asian countries
  - Hence, Bangladesh can be a good place for investment
Major Bottlenecks

Major Challenges in the Region

▪ Slow implementation progress
  ▪ In order to foster BCIM EC, it is important for the four countries to rise above their differences in social system, ideologies for the sake of economic development

▪ Poor Connectivity
  ▪ It is the responsibility for the respective countries to develop the roads to the international standard for smoother connectivity
  ▪ Member countries should also work on improving railway connectivity

▪ Lack of Trade Facilitation and Trade Services
  ▪ There is a need for improvement of border corridors (Bangladesh-North East India and Myanmar-India), land custom stations to remove any asymmetry currently present there
Major Bottlenecks

Challenges for Bangladesh

▪ Development of Special Economic Zones (SEZs)
  ▪ A well functioned production network requires economic zone with sufficient infrastructure support
  ▪ It is important for Bangladesh to finish setting up SEZs before the corridor commences

▪ Infrastructure Support
  ▪ Bangladesh needs to improve its road infrastructure for effortless goods movement to the sea ports

▪ Improvement of Border Ports
  ▪ Improvement of physical infrastructure of border ports for hassle-free movement of goods across the border is required
  ▪ Automation of border ports, availability of mechanical unloading, better loading and unloading facility, better cargo clearance facilities
Concluding Remarks

- The opportunity for an upsurge in trade and investment in the region is immense under BCIM EC
  - But the individual economic gains are dependent on how well the member countries are connected in the region with sufficient infrastructure support
- Connectivity and infrastructure support will lead to develop effective production networks in the region
- Currently, traditional inter-industry trade is more dominant in the region than intra-industry trade
- It is time to develop intra-industry trade and progress towards production network in the industries of fruit, vegetables, textile & clothing, leather & footwear and pharmaceuticals
- BCIM EC needs to be developed beyond simply transport connectivity rather towards a secure place for traders and investors so that the corridor would generate substantial additional trade and investment and would develop a regional production network
Thank You