

Regional Value Chains and Connectivity in BIMSTEC

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Introduction

BIMSTEC or “Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation” was set up in 1997 to foster economic and social development among member countries, namely, Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka, and Thailand. Its significance lies in the fact that it serves as the direct linkage between South Asian and Southeast Asian countries through intra-regional collaboration between the Association of South East Asian Nations (ASEAN) and the South Asian Association for Regional Cooperation (SAARC). The BIMSTEC is a viable alternative to SAARC, which has been in a state of deadlock for quite some time.

The geographical contiguity, abundant natural and human resources, rich historical linkages, and shared cultural heritage are some of the unique advantages that BIMSTEC enjoys. BIMSTEC shares high trade potentials and economic complementarities, but mostly unrealised. Not only is it an energy hotspot, but BIMSTEC’s strategic location is also a great asset in the Indo-Pacific. Greater regional cooperation and integration offer immense opportunities for BIMSTEC.

Opportunities

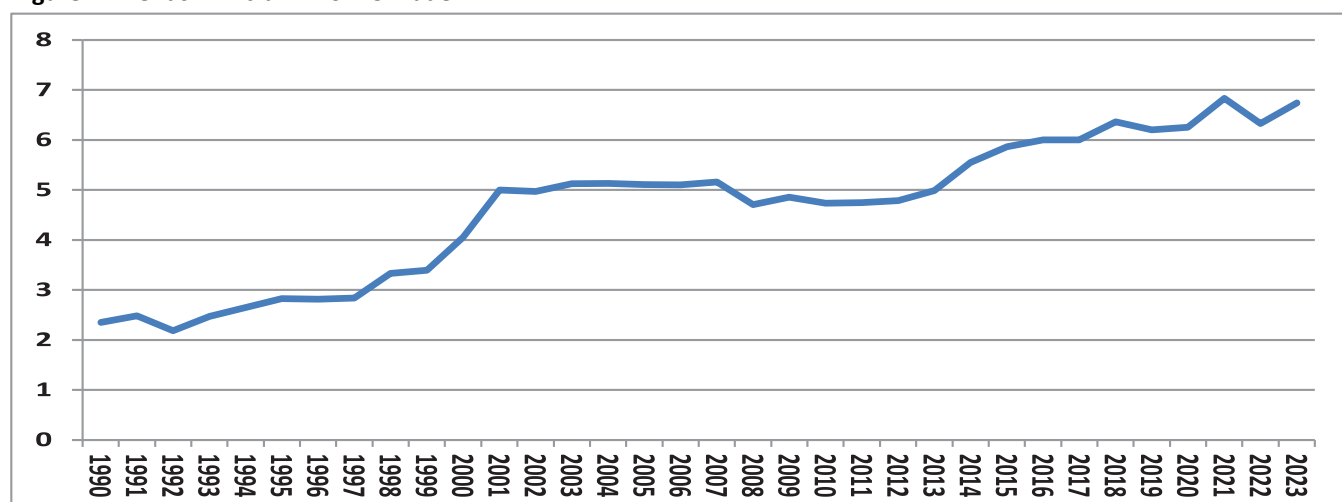
BIMSTEC becomes highly relevant in the following ways.

First, BIMSTEC with its unique geographic location can play the role of bridging South Asia and Southeast Asia through trade, connectivity and culture.

Second, BIMSTEC member states are surrounded by the Bay of Bengal, which is not only a space to support regional trade and transport connectivity, but also connects international maritime trade routes between the Indian Ocean and the Pacific Ocean. Maritime link is the key to trade and development.

Third, BIMSTEC member states are a powerhouse in some of the global products and services such as garments (Bangladesh), digital public infrastructure (India), maritime services (Sri Lanka), consumer durables (Thailand), and tourism (Nepal and Bhutan), among others. Intra-BIMSEEC trade of 6.7 per cent in 2023 has translated into a regional trade of US\$ 53.49 billion, up from US\$ 46 billion in 2019, thereby indicating growing trade complementarities among the member states. The good sign is that the contribution of each BIMSTEC member state to regional exports has gone up, even marginally for some member states, in 2023 compared to 2019. Greater regional cooperation may pave the way for deeper integration in BIMSTEC.

Figure 1: Trends in Intra-BIMSTEC Trade



Source: ARIC, ADB

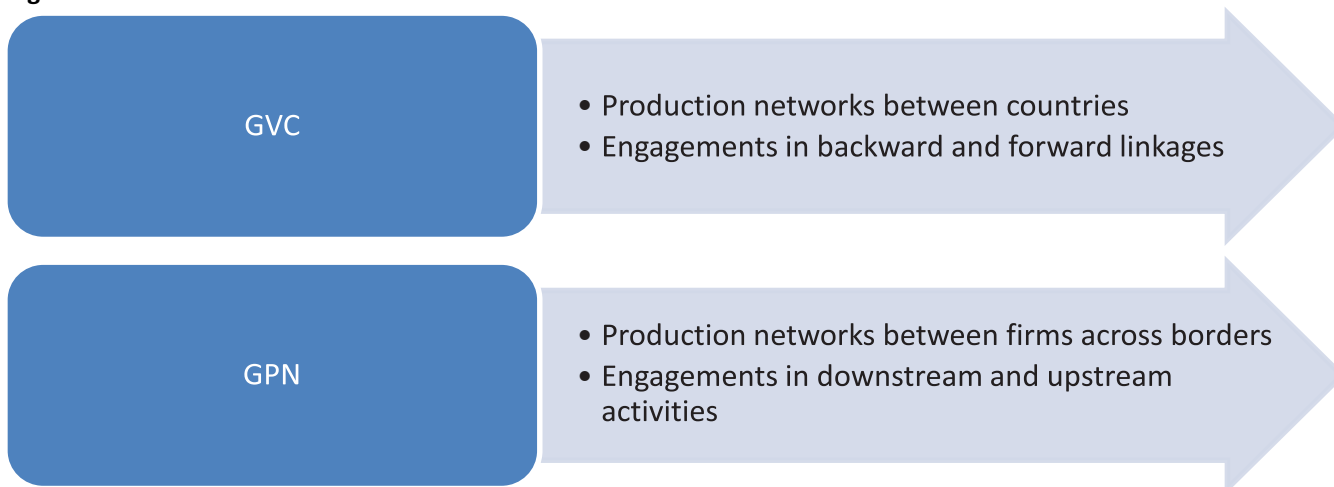
Table 1: Country-wise Trends in Intra-regional Trade

	2023	2019
	(US\$ billion)	
Bangladesh	1.76	1.12
Bhutan	0.67	0.51
India	28.82	25.45
Myanmar	4.49	4.00
Nepal	0.85	0.67
Sri Lanka	1.09	1.03
Thailand	15.80	13.14
Total	53.49	45.92

Source: Calculated based on IMF DOTS

Global value chains (GVCs) refer to international production sharing, a phenomenon where production is broken into activities and tasks carried out in different countries, which is also known as unbundling of production. The GVC/RVC is also known as a cross-border production chains comprising more than two countries. A GVC product (or services) may have two major components – domestic value added, and foreign value added.

Supply chain disruptions during the pandemic have exposed GVCs to a new set of challenges. The GVC production chains indicate several important policy insights in terms of trade, connectivity (supply chain), foreign investment, technology, skilling, climate, and gender, among others.

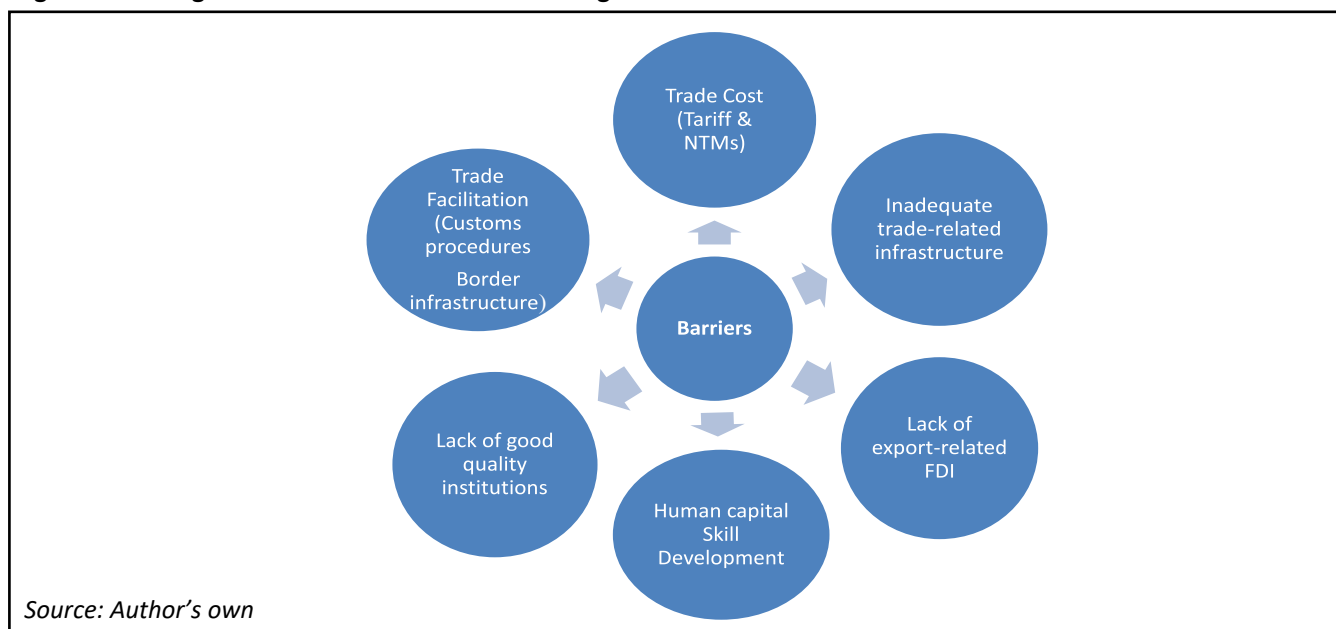
Figure 2: Difference between GVC and GPN

Source: Author's own

Illustrated in Figure 2, the Global value chains (GVCs) refer to international production sharing, a phenomenon where production is broken into activities and tasks carried out in different countries. GVCs refer to country-specific production networks. Global production networks (GPNs) refer to the interrelationships between a group of firms specializing in various stages of the production process of a given product as a single economic group within vertically integrated global industries. GPNs refer to the production-sharing between firms within or across borders.

- Production fragmentation: GVC is discussed from the production fragmentation angle with amplification of location advantages and service link costs (Jones, Kierzkowski and Sanyal; Kimura and Ando).
 - Southeast and East Asia have been a champion in utilizing the mechanics of international production networks (IPNs) or the second unbundling, particularly in machinery industries (also known as Factory Asia).
- Trade fragmentation: GVC is also known as slicing of trade or trade fragmentation (Athukorala et al.)
- Time-sensitive logistics services along with ICT are the key to facilitating cross-border production networks.

Figure 3: Dealing with Value Chains: Critical Challenges



Bay of Bengal countries have been facing differential shocks from global shipping disruptions, impacting heavily value chains. Some of these shocks are as follows:

- Red Sea crisis and high risk in shipping through the Suez Canal
- Dwindling water levels in Panama Canal
- Russia-Ukraine war
- Port congestion
- Rising freight rates
- Developing countries are vulnerable to these disruptions.

Illustrated in Figure 3, trade facilitation is an essential condition for the rise in GVC in the Bay of Bengal region. Some measures could be unilateral where trade facilitation is the key enabler such as (i) faster handling of goods and services facilitate trade and GVCs' and (ii) other enabling factors like digital technology, paperless trade, etc. To facilitate GVCs, trade policy, industrial policy, etc. have equally important roles.

Several best practices are available across the world, and these are good lessons for the BIMSTEC member states for facilitating the GVCs/RVCs (Box 1).

Box 1: Best Practices in Trade Facilitation Leading to Strengthen Value Chains

Some cross-border paperless trade facilitation implementation best practices:

- 1. Recognized Certification Authority Issuing Digital Certificates** to Traders to Conduct Electronic Transactions (e.g. Digital Trade Hub of Azerbaijan)
- 2. Certificate of Origin (COO) Electronically Exchanged** between Countries (e.g. Korea and China have been exchanging COO, Bill of Lading and SPS Certificate, through online systems for seamless paperless trade transactions.)
- 3. Sanitary and Phytosanitary (SPS) Certificates Electronically Exchanged** between Countries (e.g. Malaysian exporters and importers exchange electronic phytosanitary certificates (PC) for cross-border trading of agricultural commodities through "MyPhyto".)
- 4. Banks and Insurers Retrieving Letters of Credit Electronically** without Lodging Paper-Based Documents (e.g. uTradeHub paperless trade portal in Korea provides services related to electronic exchange of export letters of credit, local letters of credit and opening of import letters of credit, among other services.)
- 5. Some regulatory developments in trade digitalization** India's UPI has gained good response for cross-border trade transactions (e.g. Nepal, Singapore, UK, UAE, Bhutan, Malaysia, Mauritius)
- 6. Third part acceptance of e-BL** (e.g. India-Singapore through DBS and ICICI and Maersk)
- 7. Application of blockchain for e-COO** (e.g. GUDD company in Singapore)

Source: Author's own

However, there are some endogenous options and some of them are (i) trade liberalisation, where FTA promotes trade and GVCs, ceteris paribus; (ii) liberal ROO, which facilitates GVCs, subject to market size; (iii) rationalisation of NTMs; (iv) favourable market access conditions and price factors; (v) availability of skilled human resources; and (vi) economic conditions of the participating countries and/or the region.

Cross-border trade facilitation is a building block to digital trade and sustainability and value chains.

- Two cross-border paperless trade measures are basic building blocks towards enabling the exchange of trade-related data and documents across borders:
 - Laws and regulations for electronic transactions, and
 - Recognized certification authority issuing digital certificates
- The other four cross-border paperless trade measures facilitate the actual exchange of trade-related data and documents across borders:
 - e-system for customs declaration
 - e-system for certificate origin
 - SPS certification
 - Letter of credit

Recent Developments

In BIMSTEC, some important instruments were completed such as the BIMSTEC Agreement on Grid Inter-connection; BIMSTEC Convention on Mutual Legal Assistance in Criminal Matters; MoU on Mutual Cooperation between Diplomatic Academies/Training Institutions of BIMSTEC Member States, among others. Besides, there are some important developments in the period between the post-5th BIMSTEC Summit to date, depicting energetic engagements. Let me discuss some of the major outcomes. Out of seven members, five countries have established democratic governments and/or rules-based democratic practices. Regional programmes are followed based on need and supported by democratic values and governance. Toward that direction, the BIMSTEC Charter, which was signed in 2022, entered into force on 20 May 2024. Following the 19th Ministerial Meeting in Bangkok in 2023, several new areas of cooperation have emerged. At the Ministerial Meeting, the Ministers considered and approved several key documents emanating from decisions of BIMSTEC Summits, including the Rules of Procedure for Core BIMSTEC Mechanisms (i.e. the Summit; the Ministerial Meeting; the Senior Officials' Meeting; and the BIMSTEC Permanent Working Committee); BIMSTEC Sectoral Mechanisms; and BIMSTEC's External Relations. The Rules of Procedure will be submitted to the 6th Summit for adoption (Table 2). BIMSTEC Foreign Ministers had their first retreat in Bangkok in July 2023 and second

retreat in July 2024 in New Delhi. The first BIMSTEC Business Summit was held in August 2024 in Delhi. The Eminent Persons Group (EPG) has started working and they are mandated to make recommendations on the future directions of BIMSTEC; the Agreement on Maritime Transport Cooperation, which is expected to be signed during the sixth Summit; and the BIMSTEC Bangkok Vision 2030 aimed at achieving a 'Prosperous, Resilient and Open BIMSTEC by 2030', which is to be launched during the sixth BIMSTEC Summit.

Table 2: Negotiated Instruments*

Sr. No	Particulars
1	BIMSTEC Agreement on Maritime Transport Cooperation
2	BIMSTEC Guidelines for Maritime Component of Humanitarian Assistance and Disaster Relief
3	Memoranda of Understanding between BIMSTEC and several international organisations
4	Rules of Procedure for Core BIMSTEC Mechanisms
5	BIMSTEC Bangkok Vision 2030

**To be adopted/signed at the sixth BIMSTEC Summit
Source: Author's own*

BIMSTEC leaders have tasked the Working Group on Rules of Origin (ROO) to build on the progress made during its 21st Meeting to finalise the Rules for Determination of Origin of Goods and Operational Certification Procedures and Product Specific Rules as a priority to finalise the Agreement on Trade in Goods of the BIMSTEC FTA. If a full FTA takes time, let's move with a PTA. Besides, the BIMSTEC Transport Connectivity Working Group (BTCWG) has been instructed to expedite the implementation of the agreed activities under the BIMSTEC Master Plan for Transport Connectivity. BIMSTEC leaders have asked to initiate the process of drafting the Standard Operating Procedure (SOP) according to the Agreement on Maritime Transport Cooperation for discussion in the Joint Shipping Committee. They have also urged the BTCWG to finalise the Concept Note of the BIMSTEC Framework Agreement on Transit, Transshipment, and Movement of Vehicular Traffic between and among BIMSTEC member states to facilitate the formulation of the draft Framework Agreement. As of now, India has already provided the Draft Text of the Standard Operating Procedure (SOP) of the Agreement, which has been circulated among BIMSTEC member states for their consideration, and when the Agreement is to be signed by the member states at the sixth Summit in Thailand, then the Draft SOP has to be negotiated and finalized by the Joint Shipping Committee as per the Agreement. Besides, BIMSTEC leaders have emphasised simultaneous negotiation and finalisation of the BIMSTEC Motor Vehicle Agreement for the Regulation of Passenger, Personal, and Cargo Vehicular Traffic between and among the BIMSTEC member states.

The BIMSTEC Secretariat has been entrusted to come out with Plans of Action (POA) for the region because of the reorganisation of priority areas of cooperation. A 'Plan of Action on Strengthening BIMSTEC Agricultural Cooperation' has been under implementation since 2022.

BIMSTEC signed the Host Country Agreement between India and the BIMSTEC Secretariat in August 2023 for establishing the BIMSTEC Centre for Weather and Climate (BCWC) in India. So far, BIMSTEC has also established the BIMSTEC Centre for Weather and Climate (BCWC) and BIMSTEC Energy Centre (BEC). A Technology Transfer Facility is being set up in Colombo. India has also extended US\$ 1 million to the BIMSTEC Secretariat as a grant for the use of the Secretariat. The 2nd Meeting of the BIMSTEC Expert Group on Maritime Security Cooperation in the Bay of Bengal took place in New Delhi on 12 October 2023. The series of issues discussed by the Expert Group included consideration of the Draft Guiding Principles for Law Enforcement Agencies for Interaction at Sea and the Draft BIMSTEC Guidelines for Maritime Component of Humanitarian Assistance and Disaster Relief. A Special Meeting of the BIMSTEC Permanent Working Committee convened in Paro on 5-6 October 2023. The Meeting, among others, considered and finalised Memoranda of Understanding between BIMSTEC and several international organisations, namely, the UNESCAP, the UNOPS, the World Bank, the UNODC, the IFPRI, and the IORA for submission to the BIMSTEC Senior Officials' Meeting for consideration. At the end of November 2023, BIMSTEC formed the Eminent Persons Group (EPG) to provide future direction to the regional body. The Report of the EPG is ready and is likely to be adopted in the next Summit. Nonetheless, the importance of growing regional partnerships should continue to energize BIMSTEC.

Although the potential of global/regional value chains is quite high, the geo-political conflicts and global uncertainties have slowed down the formation of the value chains in a practical sense in the Bay of Bengal region.

Global economic uncertainties have led to increased distress across many countries. The United Nations Conference on Trade and Development (UNCTAD) recently noted that the global economy is at "a critical juncture," with some economies thriving while others struggle.¹ The ongoing global uncertainties, including the war in Ukraine,

are significantly affecting trade outlooks.² In addition to these challenges, the Bay of Bengal region faces emerging issues that require attention.

The region must address environmental challenges by implementing sustainable connectivity policies. The G20 New Delhi Leaders' Declaration emphasizes the importance of a green development pact for a sustainable future.³ Key to this is transitioning to green transportation, including the adoption of low-carbon vehicles and high-speed railways, which are crucial for reducing carbon emissions and meeting climate goals.

The COVID-19 pandemic has underscored the need for trade facilitation and the digitalization of trade procedures. Digitalization is now recognized as a critical component of sustainable trade and connectivity.⁴ The G20 leaders have proposed high-level principles for the digitalization of trade-related documents. The G20 Trade and Investment Ministerial Declaration highlights the importance of reliability and predictability in international trade and cargo operations, advocating for international paperless trade transactions and targeted investments in logistics infrastructure to boost global trade demand.⁵

These developments underscore the urgent need for improved global economic cooperation. Enhanced regional cooperation is essential for strengthening partnerships and contributing to global development, ensuring that all economies can navigate these challenges and opportunities effectively.

Way Forward

Trade is one of the priority areas of the BIMSTEC. RVCs offer immense opportunities. However, BIMSTEC has yet to make substantial progress in reducing non-tariff barriers, streamlining regulatory frameworks, and harmonizing standards. Trade and transit facilitation and energy and digital connectivity must be prioritized. BIMSTEC leaders have urged the Trade Negotiating Committee and its Working Groups to accelerate the finalisation of the BIMSTEC Free Trade Area and its constituent agreements including their annexures. They have also tasked the Working Group on Rules of Origin to build on the progress made during its 21st Meeting to finalise the Rules for Determination of Origin of Goods and Operational Certification Procedures and Product Specific

¹It has also reported that world economic growth is expected to decelerate from 3 per cent in 2022 to 2.4 per cent through 2023, with limited signs of a rebound in 2024. Refer, UNCTAD (2023)

²For example, the WTO forecasts rebound in global trade in 2024 but warns of downside risks. The volume of world merchandise trade may increase by 2.6 per cent in 2024 and 3.3 per cent in 2025 after falling 1.2 per cent in 2023. However, regional conflicts, geopolitical tensions and economic policy uncertainty pose substantial downside risks to the forecast. Refer, https://www.wto.org/english/news_e/news24_e/tfore_10apr24_e.htm

³Refer, https://www.g20.org/content/dam/gtwenty/gtwenty_new/document/G20-New-Delhi-Leaders-Declaration.pdf

⁴Refer, for example, United Nations (2023)

⁵Refer the commentary of Nick Ashton-Hart (2020)

Rules as a priority to finalise the Agreement on Trade in Goods of the BIMSTEC FTA. If FTA is difficult to achieve, let's move with the PTA.

BIMSTEC member states are primarily agriculture-driven. Member states face similar challenges in harvesting as well as post-harvest storage and marketing. Trade in agriculture is thus limited to a positive list of items. BIMSTEC countries may promote enhanced agricultural cooperation, including the exchange of technologies and know-how.

The connectivity plan is ready, but the real implementation is yet to start. Here, the ASEAN model offers many important lessons. First and foremost, the BIMSTEC Secretariat has to be proactive while dealing with connectivity projects. Since the BIMSTEC maritime cooperation agreement is ready to be signed, the Secretariat may pick up the maritime sector (e.g. ports, IWT, and shipping) as low-hanging fruits to start with deeper cooperation programmes. Cruise tourism, port connectivity, and maritime safety in BIMSTEC are some areas of great potential.

Digital cooperation is another area that holds high scope to encourage regional integration in BIMSTEC. The digital economy is an accelerator of regional integration in BIMSTEC. The recent pandemic has indicated that digitalization has a high impact on the economy in terms of improvement of services in healthcare and education, e-commerce, etc. Besides, integrating digital technologies across borders can strengthen regional integration. India's grand achievements in Digital Public Infrastructure (DPI), QR-based digital payment system, etc. offer many lessons to other BIMSTEC member states. BIMSTEC may design a regional digital strategy for 2030 and beyond to drive digital integration and sustainable development.

While the recent developments add to the foundation of BIMSTEC, member states need to strengthen the BIMSTEC-like institutions and centres. The BIMSTEC Secretariat may consider strengthening linkages with the Civil Society Organisations (CSOs) and think tanks. The Secretariat needs to be adequately resourced and has sufficient delegated powers to fulfil its role as a coordinator of activities across BIMSTEC members. With increased resources, there is a need to develop a roadmap for capacity building of the BIMSTEC Secretariat.

Although the BIMSTEC has made some tangible progress since the last Summit in 2022, the region requires a further

push to scale up to a higher level. Bangladesh is going to take over the chairmanship of BIMSTEC from Thailand once the 6th BIMSTEC Summit is over. There are high expectations from Bangladesh to accelerate the regional integration in BIMSTEC.

The recent crisis in Bangladesh depicts that global uncertainties can never be predicted, and the BIMSTEC faces several challenges both on the economic and non-economic fronts. Regional understanding of global challenges may provide sustainable solutions. Here, a stronger Secretariat is required to drive meaningful interactions among member states. BIMSTEC countries need to work together on governance, connectivity, trade facilitation, disaster management, climate issues particularly green financing, counter-terrorism, global value chains, health, digitalization, QR-based payment, foreign direct investment, and implementation of the BIMSTEC master plan of connectivity.

The BIMSTEC Summit was scheduled to take in November 2023, which was later rescheduled to September 2024. The available information indicates the BIMSTEC Summit is likely to take place in 2025. The repetitive postponement of the BIMSTEC Summit has already slowed the integration process and shrunk the opportunities for RVCs. Unforeseen events are difficult to predict. Since the expectations are very high, the BIMSTEC Summit and quick implementation of the pending instruments could pave the way for unlocking the value chain potentials in BIMSTEC.

To conclude, high trade barriers (tariff and non-tariff) in the BIMSTEC region hinder the trade flow and also value chains in the manufacturing sector. The COVID-19 pandemic has underscored the importance of digitalized trade facilitation to address the increasing food insecurity and economic concerns. In the case of implementing the paperless trade measure, BIMSTEC has made substantial progress. However, in the case of the cross-border paperless trade measure and the cross-border exchange of trade-related data and documents, payments, and interoperability, the implementation of a permanent mechanism is needed. Additionally, setting up a regional certification authority, and capacity-building programme on the CBPT can help in addressing the related issues. Completion of the BIMSTEC FTA is crucial. By addressing these issues and by promoting digitalization, regional value chain trade may gain further momentum in BIMSTEC.

*Dr Prabir De is Professor at RIS, New Delhi, India. This commentary is based on the inputs received from the public domains in general.
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