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POTENTIALS OF TRADE COOPERATION AMOMG THE BIMST-EC COUNTRIES

Abstract

One of the recent initiatives in regional economic cooperation has been the economic cooperation arrangement among five Indian Ocean rim countries, viz Bangladesh, India, Myanmar, Sri Lanka and Thailand, which is known as BIMST-EC. The present paper makes a preliminary attempt to examine the trade potential among the BIMST-EC countries. The paper observes that currently intra BIMST-EC trade is quite low, major trading partners of the BIMST-EC countries being the developed world. A gravity model analysis reveals that although bilateral export exceeds potential export in few cases, total export to BIMSTEC countries is lower than potential export for each of the five countries. Although trade complementarities among the BIMST-EC countries are not that strong, it is quite good in consideration of low variation in per capita income. Furthermore, there is wide variation in the nature of products exported from BIMSTEC countries in terms of resource base of the products, providing some indirect evidence of complementarities. Hence, freer trade among the BIMST-EC countries would have trade creating effect. However, expansion of trade and cementing economic

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cooperation is largely contingent upon appropriate trade facilitating measures and strong political will.

The past decade has witnessed a renewed interest in regional trading arrangement (RTA). While globalization is a fact of life, regionalism is also getting currency, at least at similar pace. Whether regionalism contradicts with basic tenet of WTO is a debatable issue, there is also a balancing view that regionalism may help to proceed towards a global world. Regional economic cooperation basically implies collaboration among a group of nations comprising the region on economic matters so that each member nation is able to derive greater benefits than what would be possible in the course of normal economic relationships without cooperation (Raghavan, 1995). Developing countries now view regional cooperation as a means to face the challenge of globalization more boldly and exploit the opportunities more effectively. The most common form of regional economic cooperation is RTA (regional trading arrangement). Regional economic cooperation arrangement among five Indian Ocean rim countries, viz Bangladesh, India, Myanmar, Sri Lanka and Thailand is one of the latest addition in this regard, which is known as BIMST-EC.

BIMST-EC was originally launched as BIST-EC with the adoption of the declaration at a Ministerial Meeting held in Bangkok in 1997. Following the admission of Myanmar as a member later in the same year, it was renamed as BIMST-EC. The first meeting of Commerce and Economic Ministers of the Grouping, held in 1998 in Bangkok, decided that BIMST-EC should aim at and strive to develop into a free trade arrangement and that it should focus on activities that facilitate trade, investment, and promote economic cooperation. As all the BIMSTEC countries share common maritime boundary, this has strategic importance as well. In a Foreign Ministers' meeting, held in Thailand, Nepal and Bhutan have been formally incorporated as members of the BIMST-EC. Accordingly, its current name will be changed. Although, Bangladesh, is one of the initial proponents, it is yet to sign the FTA deal due to denial of the other members to make provisions for compensation of revenue

loss of Bangladesh on account of FTA. However, Bangladesh is expected to formally sign the FTA deal at the next summit to be held in the middle of 2004.

The present paper makes a preliminary attempt to address the trade potential among the BIMST-EC countries. The structure of the paper is as follows: section II presents a brief overview of the economic conditions of the BIMST-EC countries. Section III focuses on current trade pattern of this region. Section IV is the core of the paper that discusses trade potential from alternative approach. Some general policy guidelines are contained in the concluding section.

II. Current Economic Status of BIMSTEC Region

Out of the five countries that belong to proposed BIMSTEC arrangement, three countries are low-income countries viz. Bangladesh, India, and Myanmar. Thailand is a lower middle-income countries, and Sri Lanka also graduated from its low-income status to lower middle-income countries recently. Although structures of these economies are not that different, there are some notable exceptions as well. Three South Asian countries, viz. Bangladesh, India and Sri Lanka have similar structure of the economy in terms of sectoral shares in GDP. However, two Southeast Asian countries are different in their economic structure. Myanmar is basically an agriculture-dominated country with very little share of industry. On the other hand, Thailand is an industry-dominated economy with a relatively small share of agriculture. More than 40% of people are below the poverty line in all countries except Thailand. Poverty incidence is much lower (only 18%) in Thailand. However, income inequality is more pronounced in Thailand. Level of physical infrastructure is reasonably high in the two middle-income countries. Infrastructure is very poor in the three low-income countries. In particular, electricity consumption is alarmingly low in Myanmar and Bangladesh. Adult literacy rate is very high in Sri Lanka and Thailand; the rate is also good in Myanmar despite being a poor country. Interestingly enough,

burden of foreign debt is higher in the two middle-income countries compared to low-income countries (Table 1).

In terms trade intensity, two middle-income countries show a high degree of openness. Trade-GDP ratio is more than 70% in these two economies. Among the lower income countries, Bangladesh is moderately open as its trade GDP ratio stands around 35%. Myanmar is most conservative in terms of its openness to international trade. All the BIMSTEC countries have trade deficit as import exceeds export.

III. Trade Pattern of the BIMSTEC Countries

Although BIMSTEC countries represent more than one fifth of world population, their international trade counts only around 1.6% of global trade. Table 2A Shows major trading partners (top 5 export and import partners) for the BIMSTEC countries. The major trading partners of the BIMSTEC countries appears to be developed countries along with few Asian countries such as China, Hong Kong, Malaysia, and India. Japan is a very important trading partner for all the BIMSTEC countries. It is important to note that that except Bangladesh's and Sri Lanka's import from India and Myanmar's export to India, none of BIMSTEC countries appear among the top export and import partners of the BIMSTEC countries. The fact is further corroborated in the Table 2B by the fact that intra-BIMSTEC trade share is very low except the three cases already mentioned. However, BIMSTEC countries have a considerable dependence on Asia as a source of import. Bangladesh, India and Sri Lanka depend more on industrial countries for their export market, but they rely more on developing countries as their source of import. Thailand and Myanmar mostly rely on developing countries for both their export and import

Intra-BIMSTEC trade is quite low, around 4% of their total international trade, as shown in Table 3. Total international trade of these countries is also low (less than 2 percent of world trade) although it showing an increasing trend. Intra BIMSTEC trade is around only 11% of total trade of BIMSTEC countries with Asia.

However, total trade of BIMSTEC countries as a percentage of total trade of Asia is even lower (around 10%).

IV. Trade Potential among the BIMSTEC Countries.

Pioneer of the regional economic cooperation, the EEC countries, used to trade extensively among themselves even without any preferential trading arrangement. Intra EEC import among the original six EEC countries was more than 25% even before trade liberalization among themselves (Ben-David, 1993). Similarly, even before launching of NAFTA, intra NAFTA countries' import was more than 35%. As already pointed out that intra BIMSTEC trade is quite low, around 4% only. This brings to the fore the issue whether there is any untapped trade potential among these countries.

4.1 Gravity Model and Trade Potential

Gravity model of international trade may be used to simulate trade potential among a group of countries. Gravity model was developed to explain trade flows among countries. Though the model initially did not have strong theoretical base, performed pretty well explaining empirics of trade flows. Eventually scholars like Anderson (1979), Helpman and Krugman (1985), and Bergstrand (1989) provided missing theoretical basis to the model. Standard gravity model that is estimated now-a- days is as follows:

$$Xij = \alpha_0 y_i^{\alpha 1} y_j^{\alpha 2} Y_i^{\alpha 3} Y_j^{\alpha 4} D_{ij}^{\alpha 5} e^{uij}$$

Where, Xij is export from country i to country j, y_i and y_j are per capita incomes of country i and country j respectively, and Y_i and Y_j are GDPs of country i and country j respectively. The income variables represent the country size, which is supposed to reflect the strength of demand by the importing country and that of supply by the exporting country. This can also be an indicator of potential for intra industry trade as the larger country is likely to demand greater variety. Distance is to reflect the role of transport cost. Other variables like exchange rates or regional dummy may also be used.

The equations are usually estimated using log-linear form. Comparison of simulated export according to the estimated equation to the actual export provides a measure of untapped export potential.

ITCs (International Trade Commission) market analysis section estimated the gravity model using a wide data set for export from developing countries. The "South World" model is estimated using data for 53 developing countries facing 75 partners (ITC, 2000a). Estimation of the benchmark model provided the following estimates of the parameter:

$\alpha_0 = -14.381$, $\alpha_1 = 0.224$, $\alpha_2 = 0.127$, $\alpha_3 = 1.329$, $\alpha_4 = 1.065$, $\alpha_5 = 1.439$

Plugging in the relevant data of the BIMSTEC countries into the estimated equation, we have simulated potential export among the BIMSTEC countries.

Table 4 reports estimated potential export along with actual export of the BIMSTEC countries. It is evident that though bilateral export exceeds potential export in few cases, total export to BIMSTEC countries is lower than potential export for each of the five countries. Ratio of actual to potential export to BIMSTEC countries is lowest for Bangladesh and highest for Srilanka. The former is consistent with the fact that majority of export from Bangladesh is directed towards Industrialized countries. The later can be partly explained by the fact that Sri Lanka is the most open regime in this region and its effective distance with its largest trading partner (i.e. India) is much lower than the capital to capital distance used in the simulation through gravity model. India's export to Bangladesh and Sri Lanka is higher than its potential. Bilateral trade between Sri Lanka and Thailand exceeds its potential in either direction, both of them being more open to international trade. However, export to Thailand from three low-income countries is much lower than their potential, even though about 70% of Thailand's imports come from developing countries. Overall, intra-BIMSTEC trade is only 54% of its potential, leaving huge amount of untapped trade potential. Preferential trading arrangement among

these countries will imply an even higher trade potential (considering a positive coefficient of RTA dummy). Thus, according to the implication of gravity model, there is both untapped and further trade potential that could be exploited through some regional cooperation arrangement within this region.

4.2 Complementarities and Trade Potential

Trade potential among a group of countries can be also examined through complementarities among them in terms of specialization and trade. Trade theories identify two basic forces driving trade: inter-industry trade based on difference in comparative advantage, and intra-industry trade based on scale economies and diversification of choices. Though, it is difficult to measure comparative advantage, the classic work of Balassa (1965) shows that comparative advantage could be 'revealed' and revealed comparative advantage (RCA) can be measured from observed trade flows[2].

In the trade flow analysis, an indicator of comparative advantage aims at measuring specialization. To examine complementarities among BIMSTEC countries, we use here ITCs measure of RCA that aims at measuring specialization among the 14 select groups of commodities. The index, measured in thousand parts of trade, gives the contribution of each sector to overall trade balance (ITC,2000b). It is calculated as the difference between the actual net balance and the theoretical trade balance for each sector, and as such it can identify sectors with highest level of specialization in a country.

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2 Traditionally, 'revealed' comparative advantage (RCA) indices are computed using export statistics. The RCA shows whether a country has a comparative advantage in manufacturing a certain product. The index has a relatively simple interpretation. If its value exceeds unity, the country is said to have a comparative advantage in the production of the concerned product. In contrast, if the RCA index is below one, the country is at a comparative disadvantage in the production of the said merchandise.

Table 5 reports estimated RCAs for BIMSTEC countries. All of the five countries show positive RCAs in two groups: clothing and leather and leather product. Except Bangladesh, remaining four countries shows positive RCA in fresh food and agrobased products. Thus, there is some similarity in the RCAs of the BIMSTEC countries indicating a limited trade complementarity. Bangladesh has positive RCAs only in two groups of commodities. However, RCAs in India and in Thailand are quite diversified. In each of this countries, 7 groups of commodities show positive RCA. In Myanmar and Sri Lanka, RCAs are moderately diversified, four commodity groups showing positive RCA in each of these two countries. Despite some similarities in RCAs, there is also considerable variation in RCA rankings of commodity groups. Positive RCAs in some country is matched with negative RCAs in other countries, indicating some potential trade complementarities. For example, India and Thailand have positive RCAs in the category of processed food, other three countries having negative RCA. For product group wood, wood products and paper, Myanmar and Thailand have positive RCA matched by negative RCA by other countries. For electronic components, only Thailand has positive RCA while for minerals, only Sri Lanka enjoys positive RCA. Thus, compared to the low variation in per capita income of the BIMSTEC countries, trade complementarities do not seem to be that low. Hence, hence preferential trading arrangement may generate trade creation effect. However, positive RCAs in India and Thailand for a large group of commodities imply that BIMSTEC countries trade balance may worsen with India as a result of static trade cooperation. It is to note that, RCAs described here only for 14 broad commodity groups. Further classification of commodities at more disaggregated level might be able to show more evidence of trade complementarity[3].

Table 6 reports export shares of different groups of products according to resource intensiveness to further shed light on trade complementarity. Though there is importance of labour intensive

3 There is moderate degree of product diversification of major export groups in terms of product diversification index (ITC 2001b).

manufactures in exports of all BIMSTEC countries, in general, there is wide variation in shares of different groups of export in these five countries. While export share of labour-intensive manufacture are 88% in Bangladesh and 66% in Sri Lanka, the figures are 41% in Myanmar, 33% in India, and only 16% in Thailand. While Bangladesh's export share of technology intensive product is only 1%, the share is 41% in Thailand. Myanmar and India virtually export no human capital-intensive product, but other countries do export those, the share being 14% in Thailand. Dependence of primary product is very high (45%) in Myanmar, but very low in Bangladesh (7%). A considerable share of export from India is occupied by natural resource intensive manufactures, the share is low for other countries. Thus, there is wide variation in the nature of products exported from BIMSTEC countries in terms the resource base of the products, providing some indirect evidence of complementarity.

4.3 Dynamic Aspects of Trade Potential

In addition to potential from static point of view, there is further trade potential among BIMSTEC countries in terms of intra industry trade and other synergies. First, there are similarities in consumer taste pattern in this region, trade cooperation may increase intra industry trade by exploiting intra industry trade. Actually, trade flow records in terms of 14 aggregated commodity groups indicates that intra industry trade counts a considerable portion of total trade of these countries. Though all of the BIMSTEC countries heavily specialize in clothing and leather products, these are consumer's goods where choices vary over a wide range. Hence, there is potential for growing intra industry trade, particularly with increase in income.

Second, trade in services is growing over the world. Given that service sector occupies a large share of GDP, and there is diversity in human resources among these countries, we can infer that there is immense potential for growth in trade in service sector in this region. There is also huge potential for development of tourism in this region.

Third, there is potential for industrial restructuring that will enhance both intra-regional and overall trade of this region. Investment might be allocated according to within region comparative advantage that will increase overall efficiency of the region. Strategic alliances in form of growth quadrangles as followed by some of sub group of countries in APEC region could be an important mode of trade and economic cooperation among the BIMSTEC countries.

All of the BIMSTEC countries compete in the export market for RMG. The competition will be severe in near future with phasing out of MFA (multi fiber arrangement). In the process of development of RMG sector, each of the countries has developed their own specialties. Sri Lanka, Thailand (and India to some extent) already proved their efficiency in producing higher value added item. The BIMSTEC countries may enhance their trade cooperation through outsourcing of RMG production within the member countries.

Poverty is a glaring feature of BIMSTEC countries. Food security is very important for these countries. Thailand is a major player in international rice market. Myanmar is a predominantly agricultural economy producing huge amount of foodgrain. India and Bangladesh also produces food. Despite that, sometimes food security is endangered because of natural calamities and unfavorable weather. A joint action strategy of food grain production and trade within the BIMSTEC region may enhance food security and help ensure safety nets in this region. This will also enhance intra-regional trade in food, even though not always in the same direction. It is to note that liberalization of foreign trade in foodgrain by Bangladesh and India helped Bangladesh to ensure adequate supply of food in Bangladesh's market after the devastating flood of 1998 (Dorosh, 1999).

Last, but not least, all the countries of BIMSTEC region share a common sea resource as these countries surround Indian Ocean. BIMSTEC countries should engage in meaningful cooperation in taping marine resources. This may, in turn, increase intra-BIMSTEC trade and overall trade of this region.

V. Policy Issues and Conclusion

Success of any trade cooperation arrangement depends on the formulation and implementation of appropriate policies. Though there is variation in terms of particularity, there are also some general aspects of policy issues regarding any trade cooperation arrangements. Also sequencing of the policy actions is of vital importance.

Regional trade can be enhanced by trade facilitation measures, by overall trade liberalization, and by formal arrangement of regional economic cooperation. Ultimate objective of the BIMSTEC countries obviously is to form an economic cooperation arrangement. However, several trade facilitation measures must be implemented to explore the untapped trade potential. Trade facilitation measures include a wide range of areas such as harmonization and simplification of trade rules and regulation, standardization of products, simplification of rules of origin, formation of special clearing union etc. Development of the financial sector, particularly in Myanmar is also needed to facilitate foreign trade with this country. Process of settlement of commercial dispute should be simplified.

Development of adequate physical infrastructure is extremely important for trade facilitation and regional economic cooperation. Port facilities must be improved. Given the fact that a vast region is far away from the seaport and no uniform mode of transportation covers the whole region multi-modal transportation may play an important role in promotion of trade among the BIMSTEC contries. Cooperation for technology transfer and technological progress might bring in new avenues for trade.

Trade among these countries may be enhanced also through dissemination of information and people to people contact. Regional trade information network should be made more effective. Arrangement of trade shows and setting up display centre may also help in this regard. Chambers of the member countries may play important role in this regard.

Along with the trade facilitation measures, countries has to work a to set up a meaningful union for economic cooperation. Economic cooperation passes through many stages. Obviously, we have to start

from initial stage, i.e., preferential trading arrangement. We have to carefully examine whether we will go for uniform tariff cut or selective tariff reduction. However, we should do our trade liberalization on reciprocal basis. Also importance must be assigned on reduction of non-tariff barriers and other obstacles.

Last but not least, strong political will is a must for meaningful trade and economic cooperation among the BIMSTEC countries. Fortunately political dispute is very minimum among these countries. Finally, private sector cooperation may play a vibrant role in the entire process of regional cooperation.

Table 1. Basic Economic Profiles of BIMST-EC Countries

	Bangladesh	India	Myanmar*	Sri Lanka	Thailand
Classification of Economy by World Bank	Low Income	Low Income	Low Income	Lower Middle Income	Lower Middle Income
GNP (billion US $)	47.0	442.2	44.8	15.7	121.0
Population (million)	128	998	45	19	62
Per capita income ,PPP adjusted($)	1475	2149	-	3056	5599
Gross Domestic Investment (% of GDP)	20	24	12	25	21
Export as % of GDP	14	11	3.0	36	32
Import as % of GDP	21	14	5.3	42	40
Share of Agriculture (%)	21	28	53	21	13
Share of Industry (%)	27	25	9	28	40
Electricity Consumption per capita	76	363	57	227	1360
Paved Road (% of total)	9.5	18.0	12.2	95.0	97.5
Adult Literacy (1998)	Male 51% Female 29%	Male 67% Female 53%	Male 89% Female 79%	Male 94% Female 88%	Male 97% Female 93%
% of people below poverty line	42.7	40.9		40.6	18.0
Inequality (Gini Coefficient)	33.6	37.8		34.4	41.4
Present Value of External debt as a % of GDP	22	20		41	79

Table 2: Trade Structure of the BIMST-EC countries

A. Major Trading Partner of BIMSTEC Countries

		1	2	3	4	5
Bangladesh	Export	US	Germany	UK	France	Italy
	Import	India	Japan	China	Singapore	Hong Kong
	Export	US	UK	Japan	Hong Kong	Germany
India	Import	US	Belgium*	Japan	Germany	UK
Myanmar	Export	US	India	Singapore	Japan	China
	Import	Singapore	China	Malaysia	Japan	Indonesia
Sri Lanka	Export	US	UK	Germany	Japan	France
	Import	India	Japan	Singapore	Korea	Hong Kong
Thailand	Export	US	Japan	Singapore	Hong Kong	Malaysia
	Import	Japan	US	Singapore	Malaysia	Germany

*including Luxembourg

B. Direction of Trade, 2001

		Total (US $ in Million)	BIMSTEC countries (%)	Asia (%)	Developing countries (%)	Industrial countries (%)
Bang	Export	5736	1.41	5.39	9.48	74.49
	Import	9001	15.59	51.87	59.68	25.42
India	Export	44434	5.21	24.31	44.51	53.36
	Import	51884	1.91	25.25	59.79	39.71
Myanmar	Export	2782	37.49	53.20	62.76	36.23
	Import	2684	17.39	85.58	87.00	12.30
Sri Lanka	Export	4722	2.54	8.26	24.46	74.65
	Import	5731	13.11	58.26	68.52	31.16
Thai	Export	65112	1.86	35.40	43.31	56.47
	Import	62057	2.49	32.72	46.55	50.86

Source: Authors' compilation from IMF Direction of Trade Statistic Yearbook

Table 3: Extent of Intra-BIMSTEC Trade

	1994	1995	1996	1997	1998	1999	20001
Intra-Bimstec Trade as % of total trade of the Bimstec Countries	3.69	4.75	3.84	3.55	4.07	4.08	3.91
Total Trade of the Bimstec countries as a % of World Trade	1.26	1.37	1.33	1.32	1.38	1.46	2.03
Intra-Bimstec Trade as % of total trade of Bimstec Countries' with Asia	8.62	10.44	8.69	8.37	10.28	9.68	12.45
Total Trade of the Bimstec countries as a % of Total trade of Asia	6.89	7.28	7.06	7.09	8.20	8.20	10.95

Source: Authors' calculation with data from IMF Direction of Trade Statistic Yearbook

Table 4: Estimated Potential Export and Actual Export within the BIMSTEC countries

Origin		Bangladesh	India	Myanmar	Sri Lanka	Thailand	BIMSTEC Total
Bangladesh	Potential Export Actual Export (Actual as a % of Potential)		424 50 (11.79)	63 1 (1.59)	8 7 (88.95)	113 19 (16.75)	608 77 (12.66)
India	Potential Export Actual Export (Actual as a % of Potential)	804 931 (115.80)		417 53 (12.70)	155 564 (363.66)	1041 468 (44.95)	2417 2016 (83.40)
Myanmar	Potential Export Actual Export (Actual as a % of Potential)	68 13 (19.11)	238 227 (95.27)		10 7 (71.79)	547 0 (0.00)	863 247 (28.62)
Srilanka	Potential Export Actual Export (Actual as a % of Potential)	7 7 (104.48)	70 49 (70.35)	24 0 (0.00)		21 57 (266.23)	122 113 (92.56)
Thailand	Potential Export Actual Export (Actual as a % of Potential)	175 181 (103.53)	846 447 52.82	779 0 0.00	39 157 (405.06)		1839 785 (42.70)
BIMSTEC as a whole	Potential Export Actual Export (Actual as a % of Potential)	1054 1132 (107.45)	1578 773 (48.98)	1283 54 (4.21)	211 735 (347.57)	1723 544 (31.58)	5849 3238 (55.36)

Table 5. Revealed Comparative Advantage (RCA) Indices of the BIMSTEC countries

	Bangladesh	India	Myanmar	Sri Lanka	Thailand
1. Fresh food and agrobased products	-7 (4)	46 (3)	130 (2)	44 (2)	21 (4)
2. Processed food and agrobased products	-43 (11)	22 (4)	-53 (12)	-44 (12)	47 (2)
3.Wood, wood products and paper	-12 (7)	-15 (9)	109 (3)	-13 (6)	3 (7)
4. Yarn, fabrics and textile	-90 (14)	70 (2)	-43 (11)	-65 (13)	2 (8)
5.Chemicals	-46 (12)	-32 (12)	-64 (13)	-27 (9)	-28 (12)
6.Leather and leather products	161 (2)	19 (5)	4 (4)	18 (3)	11 (5)
7. Metal and other basic manufacturing	-52 (13)	-19 (11)	-38 (10)	-22 (8)	-45 (14)
8. Non-electric machinery	-35 (9)	-48 (13)	-70 (14)	-41 (11)	-20 (10)
9. Computers, telecom; cons electronics	-8 (5)	-15 (10)	-15 (5)	-30 (10)	61 (1)
10. Electronic components	-9 (6)	-13 (8)	-19 (6)	-16 (7)	-27 (11)
11. Transport Equipment	-32 (8)	2 (6)	-28 (8)	-80 (14)	-16 (9)
12. Clothing	361 (1)	72 (1)	141 (1)	274 (1)	30 (3)
13. Misc. Manufacturing	-7 (3)	1 (7)	-19 (7)	-4 (5)	5 (6)
14.Minerals	-37 (10)	-90 (14)	-35 (9)	5 (4)	-43 (13)

Note: number in the parenthesis shows RCA ranks within a country.

Source: Compiled from ITC (2001b)

Table 6. Export share (%) of different types of product, 1999

Product Category	Bangladesh	India	Myanmar	Sri Lanka	Thailand
Primary Products	7	19	45	23	21
Natural Resource Intensive manufactures	3	21	11	3	4
Labor Intensive Manufactures	88	33	41	66	16
Technology Intensive Manufactures	1	14	2	4	41
Human Capital Intensive Manufactures	0	13	0	4	4

Source: Compiled from ITC (2001b)

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