



**Centre for Studies in International Relations and Development**

# **BIMSTEC COOPERATION REPORT 2008**

## **Executive Summary**

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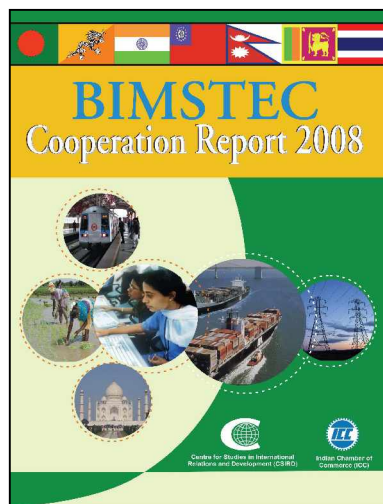
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## SYNOPSIS

The BIMSTEC economies have made substantial output gains in recent years, expanding at rates far exceeding the global averages. At the same time, there is no denying that what it has achieved in just 11 years of its existence has not been inconsiderable. Trade and FDI flows have expanded rapidly in the region, besides other remarkable achievements on the economic front. The region has made impressive strides in human development, but needs increased effort to catch up with the other regions of the globe and to achieve the Millennium Development Goals (MDGs). Its integration with the global economy has opened new opportunities and challenges. However, lately, the region faces a new threat of a slowdown in growth in the wake of the global financial crisis.



The point that CSIRD and ICC have tried to make in this Report is that BIMSTEC can face these challenges much more effectively if it could achieve deeper regional integration. The Report provides specific proposals in the fields of trade and investment, infrastructure, energy, tourism, fisheries, and small and medium enterprises – all oriented towards intensifying the process of such regional cooperation.

BIMSTEC is a classic growth region, characterized by many economic complementarities, geographical proximity, and close historical and cultural ties. The BIMSTEC has a vast potential for development, given large amounts of land, abundant skilled labor, rich natural resources, access to sea, and a sizeable internal market of nearly 1.5 billion people. When combined with the entrepreneurial skills of the dynamic private sector of BIMSTEC, these endowments can transform the region a powerful growth magnet and substantially reduce poverty in large parts of the region.

BIMSTEC as a regional bloc can be an effective tool in addressing poverty and energy shortage, and ensuring that no country is left behind, that landlocked regions/ countries have free and full access to markets, and that peace and stability are promoted. One of the key points made in the Report has been that such regional integration has to ensure “inclusive” economic growth. That, in a word, is its key word. The Report is an assertion of the need, in fact, the inescapability, of greater people-to-people and business contacts through improved connectivity and business environment, and implementation of the BIMSTEC Free Trade Agreement (BFTA). These initiatives would help increase investment and growth by reducing the infrastructure constraint and by lowering trade costs. A stronger BIMSTEC would also mean a more stable and prosperous Asia.

## MACROECONOMIC REVIEW AND FUTURE PROSPECTS OF BIMSTEC

Emerging BIMSTEC economies have made substantial output gains in recent years, expanding at rates far exceeding global averages. India and Thailand stand out in the region that have brought off rapid economic expansion and emerged as a major global economic power. Emerging BIMSTEC's output growth remained robust in 2006, at an estimated 6.48 percent, up from 5.84 percent in the previous year. That reflected the continued strong growth rates in some of the large economies in the region, such as India and Thailand. As in previous years, these two economies led the region's growth performance, with economic output expanding at about 6.05 percent in the ongoing decade, increased from 5.30 percent in the last five years of 1990s. At the same timer, the average output growth in other BIMSTEC countries also has been higher compared to the previous decade, which makes the point that the BIMSTEC region has entered a new growth phase since the turn of this decade.

As a region, BIMSTEC has grown faster than the world average in output, including the high income economies, in recent years. The region's share in world output (in PPP term) has increased from 4.78 percent in 1996 to 5.86 percent in 2006. With the region accounting for nearly one-fifth of world population, the emerging BIMSTEC countries continue to be an increasingly dominant force in global economic activities. However, the ongoing global financial crisis could make a dent on its growth prospects. Unexpected developments, such as higher than assumed oil and commodity prices (straining the balance of payments and fiscal positions), large budget revenue shortfalls, lack of a supply response by farmers, greater than expected shortages in power and gas (that will affect investment and growth), and the ongoing slowdown of the world economy, could be new challenges. Advanced economies are markedly slowing down and some are already in recession. And BIMSTEC economies are not totally immune to the spillovers of the ongoing global meltdown either. The financial contagion is spreading to the emerging market economies in the form of reversals in capital inflows, increased funding costs, and shifts in investor sentiment unrelated to fundamentals. It is not to deny that some of the BIMSTEC economies might lose growth momentum as a result of the slowdown in world economy. Therefore, this Report calls for a comprehensive international response to address the strains showing up in financial markets and restore market confidence.

The service sector has emerged as the major contributor of income in BIMSTEC countries. It now accounts for as much as 48 percent of the region's GDP. The service sector today has emerged as a major element for economic growth in the BIMSTEC economies and is likely to play an even more important role in the coming days. To a certain degree, the growing share of services in GDP also reflects the dynamism of the BIMSTEC, where an efficient service sector is not only crucial to the region's economic growth but also crucial to its competitiveness in the current era of globalization. Therefore, further liberalization of the service sector is a pressing necessity. This Report recommends that speedier growth in service sector will exert a strong influence on other sectors and as a fillip for all economic activities, including poverty reduction.

The notable feature of the BIMSTEC's GDP growth has been a sharply rising trend in gross domestic investment and savings. Higher savings rate holds the key to a sustained growth in BIMSTEC. Domestic savings are the main source of investment, and generally the investment and savings rates move in tandem. Assuming a constant productivity of investment, the level of savings rate stands out as the primary determinant of economic growth. In contrast to increase in savings, the increase in investment has been driven by private sector domestic investment in BIMSTEC, whereas the foreign investment in some countries like Thailand has played a key role in bringing dynamism to the region.

This Report indicates that the key to a sustained growth of the BIMSTEC economies lies in how they could increase both the investment and savings rates, while keeping the current account deficit in check. It is well-known that not all the domestic savings are translated into investment. A part of savings always melts down due to several factors, such as an economic slowdown. Most of the BIMSTEC countries are at present investment hungry due to the compulsion of achieving higher growth rates. For them the challenge is not only to sustain the growth process but also to intensify it further. That implies that they have to make conscious efforts and initiate appropriate policies to encourage domestic savings. That is not all. They have to introduce efficient financial instruments in translating the savings into capital formation. With a view to increasing the efficiency of savings allocation and financing the heavy infrastructure needs of the BIMSTEC region, particular attention should be paid to long-term savings instruments.

Economic complementarities and opportunities in the BIMSTEC region span many agricultural and industrial products and activities, including plantation crops, fruits and vegetables, marine products, oil and natural gas,

chemicals and wood products. BIMSTEC now faces increasing challenges from second-generation reforms against the backdrop of global slowdown. These include the high cost of doing business, weak institutions, high knowledge asymmetry, and poor infrastructure. Infrastructure in BIMSTEC countries is largely inadequate and generally of poor quality which very often holds back growth momentum. Quite obviously, this has to be changed if more investment has to be generated and attracted. BIMSTEC also needs to expand its knowledge economy to raise the productivity of investment. Hopefully, the renewed policy reforms will support the sustainability of growth and regional integration as well.

BIMSTEC as a regional bloc can be an effective tool in addressing poverty and energy shortage, and ensure that no country is left behind, that landlocked regions/ countries have full access to markets, and that peace and stability are promoted. There is a need for greater people-to-people contact through improved connectivity, and liberalizing the restrictions on the trade of services, where the risk of trade diversion is low. These initiatives would help increase investment and growth by reducing the infrastructure constraint and by lowering trade costs. Better regional cooperation and integration can also increase welfare by improving the regional political environment, thereby reducing conflicts and associated social and economic costs.

## **TRADE PERFORMANCE AND INTEGRATION EXPERIENCE OF BIMSTEC**

BIMSTEC's spectacular growth performance in the ongoing decade reflects in large part a better-than-expected acceleration in international trade in goods and services. Driven by India and Thailand, BIMSTEC's share in global trade in goods has increased from an annual average of 3 percent in 1990s to about 5 percent in the first half of the ongoing decade. In parallel, the intra- BIMSTEC trade has grown up from 2.81 percent in 1997 to about 5.46 percent in 2007, increased by almost 53 percent per annum since its inception in 1997. The current volume of intra-regional trade in BIMSTEC is about US\$ 18.14 billion in 2007. The LDCs and landlocked countries are having higher share in intra-regional trade in BIMSTEC. Trade integration of large economies like Thailand with BIMSTEC has also increased in recent years. However, a large part of trade potential is yet to be unleashed.

The rising share of manufacturing exports in BIMSTEC are accompanied by the rise in manufacturing imports as well, thus showing a sign of growing industrialisation as well as increased trade in intermediate products in the region. For instance, Thailand has already emerged as a major hub for assembling of auto components in the Southeast Asia, and the integrated production network is greatly benefited from the inputs (parts and accessories, etc.) coming mostly from other ASEAN countries. Similar specialisation in other product categories among other BIMSTEC countries also exists, and there is a potential scope to increase intra- industry trade in those categories in the region.

This Report argues that an FTA would strengthen the regional and global trade of BIMSTEC countries. Keeping the trade basket and the area of interest of the BIMSTEC countries in view, this Report has identified a few key areas for cooperation, such as textile and clothing, drugs and pharmaceuticals, gems and jewellery, horticultural and floricultural products, processed food products, automobile industry and products, and plantation crops (rubber, tea, coffee). These areas of cooperation, as the Report shows, would ensure that all the members stand to gain from the integration process.

This Report has also observed that the trade baskets of the BIMSTEC countries are heavily skewed in favour of a few product lines, thereby giving rise to the lower level of complementarities. With the formation of the BIMSTEC FTA in merchandise products and the consequent tariff reform, the dynamic effects would set in and reallocation of resources towards production of commodities with vibrant demand from other BIMSTEC countries is likely to follow. The inclusion of investment under the purview of the bloc may cause faster realisation of this effect. The tariff reform, once the FTA becomes fully operational, would not only significantly contribute in fuelling trade in intermediate products but also intensify intra- industry specialisation and vertical production across the region.

The BIMSTEC countries include both developing countries and LDCs and therefore, they are characterized with higher tariff barriers on their imports, vis-à-vis their developed counterparts. It was expected that while on one hand the preferential treatment would allow the countries to gain enhanced access in each other's market; the 'enabling clause' provision would provide them the requisite safeguard to protect the sensitive domestic sectors on the other. Moreover, apart from the tariff barriers, it was expected that the trade facilitation measures would

significantly lower the level of transaction costs, which currently put a downward pressure on the intra-regional trade volume.

One reason behind the spectacular export growth of ASEAN in global market is the considerable increase in the volume of intra-ASEAN trade over the last two decades, with Japanese investment and proximity to China playing a major role in that process. Japan can play a similar role in case of BIMSTEC. In this light, it is worth considering expansion of BIMSTEC FTA by including developed country like Japan.

This Report recommends fast-track completion of negotiations on Services, Rules of Origin (ROO), Sensitive lists and Safeguard mechanism. The analysis in this Report shows that from a static perspective, the future trade potential may look limited, but once the FTA is implemented, the dynamic effects would set in and the members would stand to gain substantially. The countries would also benefit from pursuing joint negotiating agenda at the World Trade Organisation (WTO), which the trade bloc may effectively lock-in.

## **INVESTMENT FLOWS AND POLICY ENVIRONMENT IN BIMSTEC**

Economic globalization went along with booming foreign direct investment (FDI) in developing countries in the 1990s. BIMSTEC countries were able to attract FDI primarily because its fundamentals have improved considerably in recent years. India and Thailand have been seen as preferred destinations of outward investments from many developed economies. FDI inflows to some small and/or low income countries in BIMSTEC have also been significant relative to their size. In general, average FDI inflows, as a share of GDP, to BIMSTEC have increased from about 5 percent in 1991 to about 14 percent in 2007. Therefore, the foreign investments in BIMSTEC have taken a new shape.

The pattern of FDI inflows into the major economies of BIMSTEC shows the dominance of the service sector. There has also been a rise in gross FDI outflows from BIMSTEC countries, from an estimated US\$ 177 million in 1991 to around US\$ 16 billion in 2007. Outward FDI from BIMSTEC was led by Thailand in the 1990s and India at present. However, the intra-BIMSTEC FDI is still miniscule, compared to the region's global FDI. The analysis in this Report shows high potential of intra-regional FDI, given the fact that BIMSTEC has emerged as an important source of outward FDI. The Report suggests that the BIMSTEC countries should utilize the advantage of geographical and cultural proximity in promoting intra-regional FDI. In ASEAN, the bulk of FDI inflows are actually in the form of intra-regional inflows. Therefore, effective and early implementation of BIMSTEC FTA and liberalization of trade may hopefully assist in exploiting the potential of intra-regional investments. To assist in this process of industrial restructuring with intra-regional investments, this Report recommends that BIMSTEC countries should expeditiously adopt an Investment Protection and Promotion Agreement for the entire region.

Globalization can be expected to induce a shift from market-seeking FDI to efficiency-seeking FDI, provided host countries keep improving investment climates. International competitiveness of local production by foreign investors will then turn out to be a decisive factor shaping the distribution of future FDI in BIMSTEC. At present, BIMSTEC countries, except Thailand, ranked poorly with international peer countries in competitiveness. In BIMSTEC, there was no change in Thailand's position in global competitiveness, and Sri Lanka only improved its global rank in 2007-08, whereas the same for other BIMSTEC countries deteriorated. We therefore need to find ways of improving the BIMSTEC's global competitiveness, while preparing the economies to perform well in an economic landscape characterized by growing uncertainty. Deeper regional economic integration in BIMSTEC will help the region not only to emerge as a more attractive destination for FDI inflows in general but also to enhance the intra-regional FDI.

BIMSTEC countries also face risks from global meltdown. The ongoing global financial crisis may cut into FDI's going to BIMSTEC countries, just as to many others in general. Therefore, efforts are needed at national and regional levels to ensure sustainable long term FDI growth for the region as a whole.

## **DEEPENING ECONOMIC INTEGRATION IN BIMSTEC**

Regional cooperation is a stepping stone for economic integration of the world. Despite high potential in intra-regional trade in the region, BIMSTEC countries fail to enhance the intra-regional trade due to lack of supply capabilities of LDCs, poor infrastructure, high informal trade and presence of substantial amount of trade barriers.

The Report argues that the BIMSTEC has a potential to increase the trade among member countries by taking advantage of their geographical location in the region of the Bay of Bengal and the eastern coast of the Indian Ocean, provided FTA is implemented along with better trade facilitation measures in the region. The recent experiences of India – Sri Lanka FTA and India – Thailand FTA indicate the potential of BIMSTEC in fostering the regional trade and investment. To exploit its full potential of regional economic integration, this Report recommends that BIMSTEC countries need to expedite the FTA implementation schedule, and expand its scope by improving connectivity and addressing non-tariff measures. The next step for BIMSTEC economic integration would be to move towards BIMSTEC Customs Union (BCU) in early next decade. In order to effectively enforce the Customs Union, BIMSTEC member countries should accept the Rules of Origin (ROO) for the region and harmonisation of different procedures and standards. In parallel, BIMSTEC countries should also take concerted and coordinated actions to firm up the strategy to form the BIMSTEC Economic Union (BEU) by middle of the next decade, which will then have free movement of goods, services and factors of production in the region. BIMSTEC's sector specific cross-border cooperation should provide a new dimension to the Asian integration process through a creative development model. BIMSTEC has generated sufficient investment demand in all these areas. Optimal resource allocation considering the development need is essential and a regional mechanism may prove useful.

## **COOPERATION IN PHYSICAL INFRASTRUCTURE AND TRANSPORTATION SECTOR IN BIMSTEC**

One of the supposed objectives of regional cooperation is to strengthen infrastructure sector. The major contributing factor to rising regional integration across many parts of the world has been improved integrated transportation network which has facilitated nesting of regional and/or subregional markets. Although at present there is limited interdependence among BIMSTEC members in terms of intra-regional trade and transportation, a stronger regional economic integration is contingent upon improved transportation network among BIMSTEC countries. It is also to be noted that BIMSTEC is ahead of some other predominant regional trading blocs in terms of geographical contiguity, which has been found to be a necessary factor for expansion of intra-regional trade. Existing members are connected by a common sea (Bay of Bengal) and overland (except Sri Lanka).

Four critical components are missing in the region– harmonisation of railway tracks, networks, standardisation of all weather paved roads, international airports, and modern land custom stations – which are seriously hindering trade within BIMSTEC. The technology and knowledge deficiency is one obvious hindrance to transport development in the region. The problem of efficiency and reliability of this region's transport system are partly due to technological lag. Another apparent barrier is funding, as the reform of this region's transport network will need large amount of financing. There are many priorities of the region's transport system for example, physical rehabilitation of networks such as road maintenance and road width and capacity enhancing, rail track conversion and maintenance; the construction of the missing links; port development and acquisition of modern handling facilities; issues concerning border crossing such as ICD, storage and terminal development, custom procure reform, even the attempt to encounter the first barrier, to acquire technology and know how- in several occasions necessitate payment. And though the member countries of BIMSTEC are expanding economically, they are still developing, and the cost for transport infrastructure development may make them unable to fulfill the complete integrated network in a foreseeable future.

Getting the goods to market has been the key to the prosperity of any regional economic bloc. Trade has been crucial to rapid growth, and trade expansion is equally found to be important. Superior logistics has played an important role in most of the economic integration process. This is particularly so in case of ASEAN and EU. However, performance varies across BIMSTEC countries. On the whole, it appears that logistics efficiency of BIMSTEC region appears to be falling behind on the ground of inadequate transportation networks. Increased logistics costs stem from inadequate transport infrastructure, underdeveloped logistics and transport services, and bureaucratic import and export procedures. Issues of coordination feature prominently in the broad measures required to address the logistics challenges of BIMSTEC countries. This requires, in particular, coordination across national boundaries (in harmonisation and simplification of customs procedures, for instance, or information sharing), and in urban management (most important, in the implementation of land use policies for the location of roads, ports, and other infrastructure related to logistics), and multimodal transportation and opening of Regional Transit in BIMSTEC.

Trade liberalisation is a necessary but not a sufficient condition. To achieve any substantial progress in intra-regional trade and whole-hearted economic cooperation among the countries in BIMSTEC, we must give utmost priority for the development of national and cross-border infrastructure facilities. Added to this, complimentary policy reform, accompanied by improved procedural and operational efficiency, in the transport sector is essential to support trade liberalization of BIMSTEC.

## **COOPERATION IN ENERGY SECTOR IN BIMSTEC**

Since its inception, energy has been one of the core areas of cooperation among BIMSTEC countries. The region with one-fifth of global population consumes about 5 percent of world energy. However, energy resources in BIMSTEC are not evenly distributed. Some countries have considerable reserves in hydrocarbon, whereas some show enormous hydro- electricity potentials. Some are energy-surplus, while others are energy- deficient. This environment creates a situation where there is an ample scope of cooperation for energy sector development, production, consumption, and trading in order to foster the developmental efforts of BIMSTEC. On the other hand, technological backwardness characterises most of the BIMSTEC countries in developing energy infrastructure, technology, and conversion of energy resources into power. In addition, the region is currently far behind the potential exploration of renewable energy that could be translated into higher level of socio- economic development.

This Report recommends that BIMSTEC countries should enhance regional cooperation in order to remove the technological, financial and institutional constraints which are the main barriers in energy sector. There is a need to adopt a participatory people-centred” approach to project identification, design, implementation and delivery mechanisms including CDM. This is necessary to ensure the empowerment of local communities, with a particular focus on the poor, and can be achieved by engaging relevant stakeholders across all key stages of decision-making. Participation is the key to successful delivery of modern energy services in rural areas.

There are a number of technologies that offer the potential to assist progress in rural areas and it is important to pay particular attention to the poorest households and to strategies to make the technology available to them. Technological developments alone, however, will not improve access or promote greater equity. New institutional measures are also needed, including financing to cover the initial capital costs of devices and equipment. Integration of energy and rural development policies and programs has been recognised as a means to promote energy and rural development. Energy initiatives will be most successful when integrated with other policies that promote development. Countries with high energy technology and investment should be invited to invest in energy improvement program in rural areas in BIMSTEC. The governments in BIMSTEC should assist in the development of institutions that support the renewable energy market.

The energy infrastructure is not flourishing due to resource constraints in most of the countries. There is, therefore, need for external assistance, both technical and financial. The principal barriers to developing interconnected energy networks in BIMSTEC are largely political in nature. While not insuperable, these barriers have been challenging for establishing integrated energy grids in the region. Often, lack of political willingness coupled with simmering mistrust handicap the attempts for sharing resources regionally in BIMSTEC.

The potential for mutually advantageous energy trade in BIMSTEC is considerable. Energy trade requires costly infrastructure involving huge investments with long gestation periods. There is an urgent need for a regional legal framework for securing investment, cross-border energy flows and cooperation through dialogue in BIMSTEC. Such framework could provide a body of common binding rules on investment protection, facilitating cross-border transit on energy, encouragement of transparent and competitive markets and promotion of energy efficiency in the region. This would work as a stepping stone to attaining regional energy solutions by mobilizing investment both regionally and globally. Moreover, this would increase regional trust and cooperation by fostering energy integration through cross-border projects. Against such a backdrop, a comprehensive functional framework in the energy sector, namely, BIMSTEC Comprehensive Energy Cooperation (BCEC), is worth considering.

This comprehensive cooperation should adopt an overall policy framework for the implementation of the BIMSTEC Power Grid, BIMSTEC Gas Grid, etc. There should be dedicated projects for the regional power and gas grids. BIMSTEC countries should also take initiatives to foster cooperative partnerships with ASEAN, SAARC, notably with Australia, EU and Japan, and other countries, and with relevant international/ regional organizations such as UNESCAP, Asia-Pacific Energy Research Centre (APEREC), International Energy Agency

(IEA), and the Energy Charter Secretariat (ESC). In order to effectively operationalize a regional energy trade, setting-up a regional fund for energy sector development in BIMSTEC would be very useful.

## **COOPERATION IN TOURISM SECTOR IN BIMSTEC**

Globalization, technological development and rising income level in the last two decades have created greater demand for tourism. BIMSTEC is invigorated by the 'Look West' Policy of Thailand and the 'Look East' Policy of South Asian countries, particularly India. It is widely recognized that tourism is making a significant contribution to the socio-economic development of many countries in the Asia and Pacific region. In many BIMSTEC countries, tourism has already become a significant source of income, foreign exchange, and employment.

BIMSTEC has the opportunity to benefit significantly from future expansion of global tourism. Some strategies are being used throughout the region, including initiatives to stabilize seasonal fluctuations (Thailand); to benefit from identified growth markets (Japan, China and India), and to encourage tourists to stay longer (Nepal). For most BIMSTEC countries, low levels of intra- regional tourism need to be addressed, for example, by relaxation of visa and cross- border formalities.

In order for BIMSTEC countries to reap the benefits from expanding tourism, first of all, each individual country needs to be fully aware of the current tourism situation in their respective country by learning from one another in a comparative way. For example, in some countries the length of stay is very short. In others, complicated visa formalities and perceived difficulties of travel have prevented many tourists from visiting the country. Secondly, there is also much to learn from the experiences of other regional organizations, such as the GMS, where developing tourism related infrastructure towards improving human resources in the tourism sector, promoting pro-poor community-based sustainable tourism, and encouraging private sector participation and facilitating the movement of tourists to and within the GMS, paid handsome dividends. The Agency for Coordinating Mekong Tourism Activities (AMTA), established within the Tourism Authority of Thailand (TAT), which serves as the secretariat of the working group is also a mechanism worth considering by BIMSTEC. Thirdly, for BIMSTEC countries to reap the above mentioned benefits from tourism, a tripartite approach will be necessary whereby public-private partnership (PPP) is given a boost with regional coordination and international cooperation. This is especially so since competition for tourists from neighbouring countries is intense. Greater efforts need to be made at cooperation on a regional basis. That being the case, governments in BIMSTEC need to play the roles of 'operator, regulator, stimulator, promoter, coordinator and educator'. At the same time, the private sector needs to be given a greater role and participate actively in all the tourism-related sectors.

## **COOPERATION IN FISHERIES SECTOR IN BIMSTEC**

Fisheries is one of the core sectors included for cooperation in BIMSTEC. Except Bhutan Nepal, remaining BIMSTEC countries have access to sea and thus, enjoy natural competitive advantage in fisheries. During 2002 – 2004, Thailand was the 3rd largest fisheries exporting country in the world, next to China and Norway. In general, BIMSTEC countries contribute nearly 10 percent of the total world fisheries export. In terms of production, India is the largest country in the world in 2004, sharing about 2.59 percent of world fisheries production.

Increasing demand for fishery products in the international market had led to rapid development in the fisheries sector in BIMSTEC. Due to lack of scientific information on fish stock assessment, it is difficult for the governments to effectively manage their fisheries, especially in commercial fisheries. Due to strong demand for primary fishery products, developed countries had reduced tariff rates on fresh/ chilled/frozen products. They were nil in many importing countries in need of raw inputs. Nevertheless, problems of tariff escalation still prevailed. Tariff rates on processed seafood were relatively high, which was difficult for exporting countries, mainly less developed countries, to earn foreign exchanges from value added products. Once import share of less developed countries has been increasing in developed countries, there is a tendency on non-tariff measures against import from developing countries. Often found were the measures on sanitary and phytosanitary as allowed by the WTO, rules of origin, ecolabelling, and anti-dumping and countervailing duties. The WTO provisions offered channels for reconciliation on trade dispute on these non-tariff measures.

Nevertheless, developing countries need a better capability in such trade negotiation. Regional collaboration on trade negotiation could strengthen such capacity. Human resource development in trade negotiation could be a

benefit, and could be improved through regional collaboration. Collaboration in BIMSTEC could improve capacity in fisheries sector. This Report provides some suggestions: (a) strengthening fisheries management capacities among member countries both in commercial and small scale coastal fisheries as well as aquaculture and inland fisheries; (b) capacity building in use of WTO provisions and further negotiation; (c) better resource utilization through reduction of post harvest losses, quality control, human resource development, increasing value added from fisheries catches, and collaboration for trade negotiations.

## **COOPERATION FOR SMALL AND MEDIUM ENTERPRISES IN BIMSTEC**

Small and medium size enterprises (SMEs) play a key role in economic growth and industrial development of a region. They make vital contributions in improving economic and social sectors through stimulating large scale employment, investment, development of indigenous skill and technology, promotion of entrepreneurship and innovativeness, enhancing exports, and also building an industrial base at different scales. The share of SMEs in an economy is an indicator of the economy's flexibility of industrial base.

While the SMEs of the developed countries continued to contribute substantially to the economy, the SMEs of developing countries have not fared at par with their developed country counterparts. However, not all of them fared badly. The high performers among the developing nations are those who are able to modify their sector according to the need. The successful integration of the SMEs through global production network to the world economy has opened up huge potential in future. We have seen in this Report that Bangladesh has performed commendably after being integrated to the global production network. It also opened up the scope for other economies of the BIMSTEC to get integrated to other such production networks. Since most of the countries have a strong textiles sector in this region, the scope of developing production networks in the region is very high, especially at a time when the MNEs are looking towards the Asian region. Moreover, the BIMSTEC region has a wide range of products developed through the traditional expertise prevailed in the region. These products have high value in the international markets provided they meet the quality standards. Thailand is the only country in the region that has actually developed a strategy to market these products and develop the region. This can be carried out in other countries like India, Bangladesh, Sri Lanka, etc. since all of them have a strong handicrafts sector. There is a substantial scope in developing the SMEs in the BIMSTEC region through the opportunities being provided under the new economic system tapping the backward and the forward linkages generated in the process of integration of the economies. In order to reap the benefit of this vast potential, and to encourage efficiency- seeking industrial restructuring, the utmost priority should be given for implementation of the BIMSTEC FTA, which, in turn, would gradually support the development of SMEs in the region.

The government has to play the role of a facilitator, rather than a regulator. Under the new dynamics of economy, the government's role has been more linked to envisaging policies that are consistent. Under the framework of development of the BIMSTEC cooperation, each governmental policy formulators need to work in a way so as to assess correctly the conjectures of the others. In this regard, the cooperation between the governments of Japan and Thailand is worth mentioning. The two governments have worked together to develop the SMEs sector in Thailand. The technological support, the financial support and even the managerial support of the various programmes are provided through the expertise of the Japanese in this field. The supports have structured in a way to provide sustainability to the SMEs sector in Thailand. Thus, the success of the cooperation between the countries at the governmental level will depend on how better we understand the requirements of the other and become a complementary partner to each other. This Report calls for a collaborative approach for the development of SMEs at the policy making level, making it possible to sustain in the fast changing world.

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## **Centre for Studies in International Relations and Development**

The Centre for Studies in International Relations and Development (CSIRD) is a non-profit research organization which seeks to carry out policy-related work in the field of international economic relations and development cooperation. It aims to grow into a leading think tank to promote policy issues related to globalisation, trade and development. CSIRD emerged out of a recognised need for an institution that would give a distinct shape to the realisation of a shared future for the World. It is an organisation involved in addressing issues of multilateral, regional, bilateral and national concern to our society. The work of CSIRD is published in the form of research papers, books, working papers, and monographs. For more information about CSIRD and its activities, please visit its websites: [www.csird.org.in](http://www.csird.org.in) ; [www.bntt.org](http://www.bntt.org)

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