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Unlocking Agricultural Trade Potential in the BIMSTEC Region

Policy Challenges and Implications

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Introduction

The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) is a regional organization that comprises seven nations, five of which are from South Asia (Bangladesh, Bhutan, India, Nepal, Sri Lanka) and two from Southeast Asia (Myanmar and Thailand). BIMSTEC aims to increase trade including agri-food products to much higher levels than its historical low values lying much below potential. In 2020, intra-BIMSTEC trade accounted for a mere 6.15% of the total trade among its member countries. In contrast, intra-ASEAN trade made up around 23% of the total trade within the Association of Southeast Asian Nations (ASEAN).[1] These figures highlight the significant room for growth in intra-regional trade among BIMSTEC member countries. Importantly the low share of intra BIMSTEC trade is not due to greater integration with supra-BIMSTEC partners. This policy note seeks to spell out some of the key agricultural trade policy-related challenges in the BIMSTEC region and their implications for economic integration in the area.

1. Tariff and Non-Tariff Barriers

The free flow of goods within the BIMSTEC region continues to be impeded by high tariff and non-tariff barriers, as noted by Sengupta (2017).[2] To address these issues, BIMSTEC has adopted a dual approach consisting of the BIMSTEC Free Trade Area Agreement and a trade facilitation initiative. The former is specifically designed to eliminate or minimize the tariff barriers that hinder intra-regional trade, while the latter aims to tackle the non-tariff barriers that affect both global and intra-regional trade(ADB,2022).[3] Despite adopting a framework for FTA negotiations in 2004, FTA is still not in place.

[1] https://development.asia/policy-brief/framework-enhanced-trade-facilitation-bay-bengal-region

[2] Sengupta J., BIMSTEC-FTA: A New Hope for Enhanced Regional Trade, ORF Issue Brief, 2017

[3] BIMSTEC Trade Facilitation Strategic Framework 2030, December 2022. https://www.adb.org/sites/default/files/publication/850371/bimstec-trade-facilitation-strategic-framework-2030_0.pdf

However, BIMSTEC's Trade Negotiation Committee was instructed to expedite its task and conclude the FTA by 2014 which also did not materialize.

Average tariff protection for agricultural products remains considerably higher than for non-agricultural products in all the BIMSTEC member states in 2021, as illustrated in Table 1. India's average MFN tariff for agricultural products was 39.2% compared to 14.9% for non-agricultural products in 2021. Similarly, Thailand's average tariffs for agricultural products and non-agricultural products were 31.2% and 8.4%, respectively, in the same year (WTO).

Table 1: Simple Average MFN Tariffs (%) of BIMSTEC members, 2021

BIMSTEC Members	Simple Average MFN Tariffs[4] (%)		
	Agriculture	Non-Agriculture	Difference
India	39.2	14.9	24.3
Thailand	31.2	8.4	22.8
Bangladesh	17.6	13.4	4.2
Sri Lanka	17.0	4.2	12.8
Nepal	16.7	12.0	4.7
Bhutan	12.4	9.3	3.1
Myanmar	9.5	6.0	3.5

Source: World Trade Organization

The imposition of tariffs on imports can serve as a deterrent to the growth of agro-food export earnings as it raises the cost of inputs and high-cost items like machinery and equipment.[5] Trade economists have long understood through the Lerner Symmetry Theorem that an import tax is also an export tax making the import competing sector more profitable and causing resources to move away from exportable sector. Additionally, if inputs face high tariffs and are being used by exportable sector, trade protection reduces export competitiveness. For example, the dry land of Maharashtra in India continues to focus on sugar production may be because of the country's restrictive trade policy on sugar, which makes domestic production more profitable, notwithstanding clear comparative disadvantage. In terms of comparative advantage that is captured in low opportunity costs, this allocation towards sugar production detracts from the cultivation of other commodities, such as Millet, which requires less water and could be exported and could very well have comparatively low opportunity cost.

Inter alia, the high tariff can also create a recipe for arbitrage by rerouting of imports. This is well captured in case of India’s edible oil imports. Due to the high duty differentials of edible oil between India and Nepal (India imposes high tariff and Nepal imposes low import tariff on the same commodities which after some processing is subject to duty free access under South Asia Free Trade Agreement from Nepal to India). Rationality dictates that there are gains to be made from rerouting exports of edible oils to India via Nepal or for that matter any other SAARC country. First importers in Nepal can import crude edible oils from producing countries (e.g., Malaysia and Indonesia for Palm oil and Russia Ukraine for sunflower oil), and

[4] Normal non-discriminatory tariff charged on imports (excludes preferential tariffs under free trade agreements and other schemes or tariffs charged inside quotas).

[5] https://www.oecd.org/agriculture/topics/global-value-chains-and-agriculture/

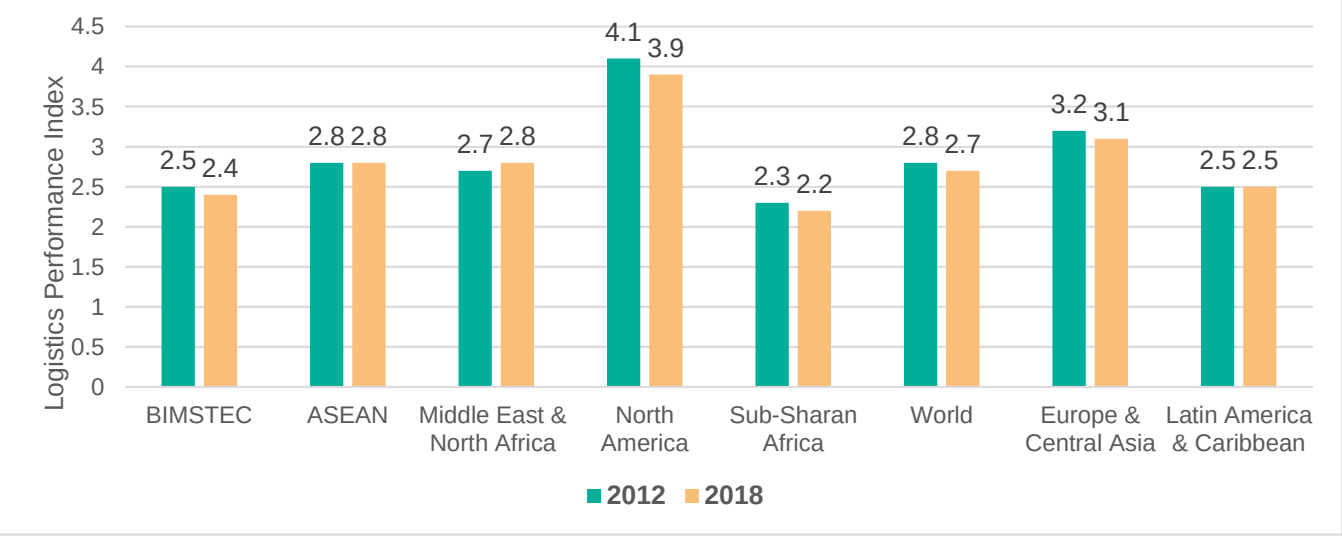
after some processing (that addresses the rules of origin requirements), semi processed or processed edible oil moves into India. This arrangement is akin to the proliferating Globalized Value Chains albeit not driven by principle of comparative advantage but by arbitrage inducing policies.

The BIMSTEC countries also grapple with a diverse array of nontariff measures (NTMs) that pose significant obstacles to agricultural trade. These measures encompass a wide spectrum, ranging from sanitary and phytosanitary (SPS) measures and technical barriers to trade (TBT), to import licenses, quotas, and regulations governing health and environmental concerns, as well as domestic support. Additionally, BIMSTEC countries also lack mutual recognition, uniform testing protocols, and have no regional single window system as it is there in the ASEAN. These barriers can be coalesced into measures of time to trade and cost to trade that differentially matter and limit the flow of agricultural goods, raise costs for businesses. Addressing these issues will require concerted effort and collaboration among policymakers, industry leaders, and other stakeholders, but the potential benefits of doing so cannot be overstated.

2. Trade Related Infrastructure Bottlenecks

The logistic performance index for 2018 paints a concerning picture of the BIMSTEC region's trade and transport-related infrastructure. Despite having made significant strides in recent years, the region still lags other parts of the world. Notably, the BIMSTEC region ranks second-to-last, just ahead of Sub-Saharan Africa, with regards to the quality of its ports, railroads, roads, and information technology. This comparison becomes even more striking when juxtaposed against the trade and transport infrastructure of neighboring ASEAN countries. These countries have managed to secure a commendable position, trailing only North America and Europe and Central Asia - the highest-ranked regions globally.

Figure 1: Region-wise Logistics Performance Index



Source: Logistics Performance Index, https://lpi.worldbank.org/.
Note: Logistics professionals' perception of a country's quality of trade- and transport-related infrastructure (e.g., ports, railroads, roads, information technology), on a scale ranging from 1 (low) to 5 (high). Scores are averaged across all respondents.

The BIMSTEC region's lackluster performance in terms of infrastructure can have serious implications for its economic growth and development. The region is grappling with a host of infrastructure constraints, including limited access to modern ports, inadequate transportation networks, and insufficient energy and

communication networks. These constraints can elevate the cost of doing business and impede the region's ability to leverage its vast market potential. However, BIMSTEC may ameliorate some of these constrains through investments relating to Trilateral Highway and Multi model connectivity. The Trilateral Highway is an effort to create a 3,200 km highway connecting India, Myanmar, and Thailand. Its primary focus is to enhance various modes of transportation and promote more connections. This highway is still under construction and expected to be completed by 2023. Once it is completed, will lead to better transport connections and greater trade between the three countries.[6]

Besides the Trilateral Highway, a motor vehicle agreement was signed by Bangladesh, Bhutan, India, and Nepal (BBIN) in 2015 to make it easier for passenger and cargo vehicles to cross borders. The agreement will allow member states to operate their vehicles in each other's territories for the transportation of cargo and passengers, including personal vehicles and third-country transport. However, the agreement has yet to be ratified by Bhutan, while Bangladesh, India, and Nepal have already ratified it. The agreement will come into effect only when all four member nations ratify it. The agreement will help to reduce transportation costs by eliminating multiple transshipment points and reducing delays and waiting times at border crossings.

3. Limited Trade Facilitation Measures

The BIMSTEC region still lacks effective trade facilitation measures, such as streamlined customs procedures and infrastructure, that would help to reduce trade costs and increase the efficiency of cross-border trade. This may hinder the growth of regional trade, particularly for small and medium-sized agriculture enterprises that lack the resources to navigate complex trade procedures. It also reallocates trade from formal to being informal.

In this connection, implementation of the WTO's Trade Facilitation Agreement (TFA) which came into force in 2017 presents a promising opportunity for BIMSTEC member countries to enhance their trade facilitation efforts. While the TFA focuses primarily on customs facilitation, its implementation provides a platform for comprehensive improvements across various trade-related domains. In this regard, BIMSTEC member states could capitalize on the TFA to undertake holistic measures aimed at streamlining trade and ensuring seamless cross-border transactions. By leveraging the TFA's provisions and committing to enhancing trade facilitation, BIMSTEC nations stand to reap immense benefits in terms of increased economic growth, regional integration, and improved livelihoods for their population.

The TFA of the WTO has set the standard for contemporary trade facilitation practices worldwide. The Organization for Economic Co-operation and Development (OECD) has projected that the complete enforcement of this agreement would result in a 10%-18% decrease in trade cost for the BIMSTEC region. Except for Bhutan, all BIMSTEC members have agreed to the terms of WTO's TFA and are currently at different stages of implementation. Bhutan is neither a member of WTO nor a signatory to the WTO's Trade Facilitation Agreement. However, Bhutan's Prime Minister has expressed concerns about joining the WTO, as he believes that the organization's policies and practices may negatively impact Bhutan's policy of Gross National Happiness (GNH). According to the Prime Minister, joining the WTO could potentially divert attention and resources away from the creation of conditions necessary for the promotion of GNH, and as such, Bhutan is hesitant to become a member of the WTO.[7] Table 3 indicates the estimated implementation levels of BIMSTEC countries as of March 2023.

[6] https://sasec.asia/index.php?page=news&nid=68&url=bimstec-trilateral-highway-project

[7] https://thebhutanese.bt/govt-says-no-to-wto-for-now/

Table 2: Implementation Levels of WTO's Trade Facilitation Agreement, (as of March 2023)

BIMSTEC Members	Overall Implementation Level (%)	Category A (%)	Category B (%)	Category C (%)
Bangladesh	44.5	34.5	10.1	0
India	100	72.3	27.7	0
Myanmar	8.8	5.5	3.4	0
Nepal	11.8	2.1	9.7	0
Sri Lanka	31.5	29	1.7	0.8
Thailand	98.7	91.6	7.1	0

Source: World Trade Organization

Note: Bhutan is not included since is it not a member of World Trade Organization and not a signatory to the Trade Facilitation Agreement.
Category A: provisions that signatories will implement by the time the agreement comes into force—within 1 year in the case of a least developed country.
Category B: provisions that signatories will implement after a transitional period after the agreement comes into force.
Category C: provisions that signatories will implement on a date after a transitional period after the agreement comes into force and requires assistance and support for capacity building.

Conclusion

The BIMSTEC region faces several trade policy issues that hinder its economic integration and limit the benefits of cross-border trade. The key to unlocking the full potential of this region lies in a multifaceted approach that combines trade liberalization, improved trade facilitation, and investment in trade-related infrastructure. By reducing or eliminating tariff and non-tariff barriers through the BIMSTEC trading arrangements, the region can create a more open and competitive trade environment. Additionally, implementing the provisions of the TFA and investing in critical infrastructure such as ports, railroads, roads, and information technology will help to streamline trade, reduce costs, and stimulate economic growth. To truly capture the full value of trade, policies and planning must also be geared towards mainstreaming trade in differentiated agri-food products and integrating value chains. This critical step will help to maximize the potential benefits of trade and ensure sustained economic growth in the BIMSTEC region.

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