

**Towards BIMSTEC-Japan Comprehensive Economic Partnership:
Vision and Tasks Ahead – Sri Lankan Perspective**

1. Bay of Bengal Initiative for Multi-sectoral Technical and Economic Cooperation (BIMSTEC) is a sub-regional grouping combining some geographically contiguous South Asian and ASEAN countries around the Bay of Bengal. It was formed by the countries in the Bay of Bengal basin to exploit the synergies in their capabilities and resource endowments for their development.

2. BIMSTEC's success is likely to come from its vast US\$ 780 billion economy and 1.37 billion population resource. BIMSTEC economies are growing at a faster pace than that of some other predominant regional economic groupings; BIMSTEC has witnessed an average 5.20 per cent growth rate in GDP and 3.39 per cent in GDP per capita in 2004, even a decade back these countries had far lower rates of growth.

3. Today, BIMSTEC shares one fourth of the world's poor. It is not easy to think of another region of the world which can surpass BIMSTEC in terms of resource endowments - natural and otherwise. Notwithstanding its vast advantages of resource endowments, in terms of per capita income, BIMSTEC, as a whole, is running behind the developed world in terms of economic wellbeing. Economic disparity across the world is a common phenomenon but the same also prevails with varied intensity within BIMSTEC. For instance, people of BIMSTEC earn much less than what a national from the rest of Asia earns. In terms of social development indicators, BIMSTEC's performance happens to be poor and static. At the same time, Asia contains some of the world's most progressive and developed countries such as Japan. Trade and investment cooperation between BIMSTEC and Japan will certainly help overcome the economic stagnations of South and Southeast Asia.

4. Although the intra-BIMSTEC trade is small it is increasing faster than the overall trade of member countries. Full potential of intra-regional trade remains untapped because of high tariff and non-tariff barriers, poor communication and transport links, lack of information about the supply capabilities, among other barriers. Similarly, the intra-regional investment is negligible despite the tremendous potential that exists for market seeking as well as efficiency seeking investments within the region. It is also relevant to note the dangers associated with intra-BIMSTEC trade. When intra-BIMSTEC trade and transaction barriers are high, any sort of preferential reduction in trade barriers or short term reduction in transaction barriers will surely lead to trade diversion, which can be quite expensive. Again, there are also possibilities of trade diversion even if there is free trade among BIMSTEC members only. By involving external partners in the region with which BIMSTEC as a whole (or its individual members) has intensified trade, we may generate much more welfare generating regional trade activities primarily due to immense presence of trade and economic complementarities among the partners. It is in this context that integration of a developed country in BIMSTEC from immediate outside will lead to major economic gains in terms of technological improvement, trade creation, infrastructure development, and income generation.

5. Japan already happens to be one of the largest investors and trade partners in BIMSTEC. Integration between BIMSTEC and Japan could be seen as the result of higher trade, reduced costs of transportation in particular and other infrastructure services in general. With the help of greater cooperation by Japan, industries which are efficient in BIMSTEC will create a positive growth chain towards generating many new economic activities in the region. The complementarities between them are substantial. The technological supremacy of Japan could facilitate the exploitation of potential of efficiency seeking restructuring of industry in BIMSTEC, provided conditions for such restructuring are created. Economic

integration between BIMSTEC and Japan may help exploiting this hidden potential of intra-regional cooperation for mutual benefit.

6. Another reason for focusing on Japan is also pressing if we look into the region's trade coverage. When most of the BIMSTEC economies are having closer integration with Japan bilaterally, integration of the whole region with Japan will help small countries in BIMSTEC (such as Nepal, Bhutan) to grow fast. Moreover, given the vast resources of the region, an improved and integrated regional integration process with Japan is expected to boost the intra-regional trade when trade between Japan and most of the economies in BIMSTEC have been growing considerably for the last few years. Most of the members of BIMSTEC and Japan have traditionally enjoyed cordial relations. Interestingly, India is the first country in BIMETEC to which Japan extended the first Yen Loan and India has been one of the largest recipients of Japan's Overseas Development Assistance (ODA). Traditionally, Japan has been the second largest destination of BIMSTEC exports (major exports include gems, marine products, iron ore, and cotton yarn). BIMSTEC is also a major importer of goods from Japan, and its importance has been growing in recent years (major imports include machinery, plant-related products, transport equipment, and machinery). Working together for improvement of infrastructural facilities, an essential element to promote intra-regional trade, will pave the way for the region's access to international markets and through this to higher income.

7. CSIRD with support from the Sasakawa Peace Foundation (SPF), Japan has been carrying out a collaborative research study entitled "**Possibilities for a Comprehensive Economic Partnership between BIMSTEC Countries and Japan**", since April 2005 with the participation of some noted research organisations from BIMSTEC countries, namely, Bangladesh Institute of International and Strategic Studies, Dhaka, Institute of Economics, Yangon, Centre for South Asia Studies (Chulalongkorn University), Bangkok, Thailand Development Research Institute, Bangkok, and Centre for International Economics and Development Studies, Bangkok. The study undertakes an analysis of Japan's economic relations with BIMSTEC countries, and aims to come up with a perspective for comprehensive economic partnership between BIMSTEC and Japan.

8. The first two years of the project (2005 - 2006) was a great success in meeting the research objectives. Scholars, economists and experts from BIMSTEC and other countries and multilateral development organisations also participated in the deliberations of the project. Chambers of Commerce and investment promotion organisations of BIMSTEC countries also took part in the project. The research collaborators and participating institutions, government representatives, policy makers, civil society and politicians involved have shown tremendous enthusiasm, dedication, skill and discipline in understanding the research objectives and actions to be taken to attain the same. They are very responsive and receptive to suggestions, comments and feedbacks. Besides, supplementary steps taken by CSIRD are also found to be very useful in terms of outreach of the research project in 2005 and 2006. All these have generated great enthusiasm for involving Japan as a member of BIMSTEC.

9. In view of the outcomes of the 1st international conference of the project (*Kolkata Consensus*), and the 2nd international conference of the project (*Bangkok Consensus*) it was recommended by all collaborators to carry forward this project through country-level and sector-level consultations.

10. Country-level consultations have already been done on Bangladesh and Myanmar. However, a great deal of work remains to be done in 2007 through this project which will go a long way in developing conducive research culture, and diplomatic discussions among the researchers, scholars and government officials of BIMSTEC countries and Japan. We strongly feel to take the views of Sri Lanka which is one of the prominent members of BIMSTEC sub-

regional integration process. **Therefore, we plan to organise the second Dialogue in Colombo in collaboration with IPS, Colombo in August 2007.**

11. The fundamental aim of this proposed Dialogue is to develop an appropriate framework for understanding the future strategy towards creating close ties between BIMSTEC, Japan and Sri Lanka. This relationship should be envisaged in terms of economic, social, and cultural factors. As developmental heterogeneities are quite abounding in this part of the world, cultural and social phenomena play a pre-dominant role in such societies.

12. However, a lot many Japanese scholars are unaware of the BIMSTEC integration process. At the same time, they are very much enthusiastic to know what is happening in BIMSTEC and in Sri Lanka. It is our task to keep them informed about this project in general and BIMSTEC integration process in particular. In order to attain this objective, we therefore plan to organise a Dialogue at Colombo in consultation with IPS.
