Principles and modalities of regional integration: Contrasting stories of ASEAN and BIMSTEC

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Why do countries want to be part of regional economic grouping in developing world?

- ✓ The Answer is not very difficult to search. The developing countries, especially the low income ones, are grappling with the problem of growth along with job creation
- ✓ Growth of the economy has both supply and demand side constraints. Regional groupings widens the market, thereby partially solving the limited demand issue. Similarly, supply constraints are also relaxed by complementary FDI
- ✓ Unfortunately, job creation in these economies, Myanmar included, are mostly in unorganised service sector, which does not create enough jobs for all levels of skills. One needs strong manufacturing sector as well

What makes a regional economic grouping successful?

- Regionalism in standard theory is Vinerian trade creation and trade diversion
- The recent theories stress on the dynamic gains in terms of economies of scale, product diversity and global value chains (GVC)
- The recent advances in technology has promoted fragmentation in a grand scale and has given rise to market led regionalism preceding treaty bound regional groupings- the most successful is the story of ASEAN
- All Regional groupings could not benefit from such a path since they could not try to promote intra regional investment along with trade. One such example is BIMSTEC
- Myanmar fortunately belongs to both the groups. The present lecture is aimed at flagging the underlying conditions which make a regional grouping either a prime mover or a laggard

The BIMSTEC Region

"BIMSTEC provides a unique link between South Asia and Southeast Asia bringing together 1.3 billion people - 21 percent of the world population, a combined GDP of US$750 bn, and a considerable amount of complementarities. A study shows the potential of US$43-59bn trade creation under BIMSTEC FTA. When BIMSTEC was formed it had four members – Bangladesh, India, Thailand and Sri Lanka. In 1998, Myanmar joined and later in 2003, Nepal and Bhutan also became its members" (From CUTS briefing paper No. 12/2008)

Table 7: Share of Parts and Components in Bilateral Trade Flows, 1992/3 and 2006/7 (%)

Reporting country		EA	Japan	DEA	PRC	ASEAN	NAFTA	EU15	World
(A) Exports									
East Asia (EA)	1992/3	23.6	13.9	24.9	18.5	32.1	21.1	17.7	20.2
	2006/7	47.6	32.9	50.1	51.6	54.5	25.1	24.1	34.1
Japan	1992/3	28.9	0.0	28.9	18.9	31.4	25.5	20.9	23.9
	2006/7	42.0	0.0	42.0	41.5	47.9	31.5	30.4	34.4
Developing East Asia (DEA)	1992/3	20.1	13.9	21.6	17.8	32.8	17.0	14.7	17.3
	2006/7	48.1	33.4	53.9	0.0	65.2	22.7	21.6	34.0
People's Republic of China (PRC)	1992/3	8.7	6.0	9.4	0.0	14.6	5.8	6.0	7.4
	2006/7	36.2	25.2	40.6	0.0	49.1	17.1	16.3	25.6
Republic of Korea	1992/3	19.2	15.6	21.0	9.5	25.6	20.6	16.3	18.1
	2006/7	61.9	51.5	63.5	57.3	63.7	36.6	26.8	44.2
Taipei,China	1992/3	24.1	19.5	25.3	22.8	29.8	23.9	31.9	24.7
	2006/7	51.5	59.0	50.5	39.5	61.2	35.0	37.6	44.2
Association of Southeast Asian Nations (ASEAN)	1992/3	29.4	18.0	32.6	7.7	34.6	21.1	17.3	22.7
	2006/7	58.2	39.9	61.4	64.0	56.0	32.1	33.9	44.2
North American Free Trade Area (NAFTA)	1992/3	30.0	26.7	31.5	15.7	36.8	29.0	30.4	28.4
	2006/7	46.7	36.5	49.8	34.8	67.9	28.8	30.6	31.2
European Union (EU) 15	1992/3	17.4	10.0	20.5	20.0	24.3	23.1	18.4	18.3
	2006/7	31.4	18.7	34.8	30.4	46.5	22.1	22.0	22.4

Reporter	Partner	Indicator	2000	2005	2010	2014	Source
ASEAN+3	United States	Trade Share (%)	19.200	14.336	11.229	11.054	IMF Directions of Trade Statistics
ASEAN+3	Thailand	Cumulative FDI Share (%)	0.361	0.258	0.209	0.209	UNCTAD FDI database
ASEAN+3	Thailand	Trade Share (%)	2.286	2.470	2.583	2.452	IMF Directions of Trade Statistics
ASEAN+3	Sri Lanka	Cumulative FDI Share (%)	0.001	0.002	0.002	0.002	UNCTAD FDI database
ASEAN+3	Sri Lanka	Trade Share (%)	0.115	0.082	0.079	0.094	IMF Directions of Trade Statistics
ASEAN+3	Nepal	Cumulative FDI Share (%)	0.000	0.000	0.000	0.000	UNCTAD FDI database
ASEAN+3	Nepal	Trade Share (%)	0.019	0.007	0.013	0.027	IMF Directions of Trade Statistics
ASEAN+3	Myanmar	Cumulative FDI Share (%)	0.004	0.002	0.003	0.003	UNCTAD FDI database
ASEAN+3	Myanmar	Trade Share (%)	0.107	0.112	0.160	0.396	IMF Directions of Trade Statistics

ASEAN+3	Middle East	Trade Share (%)	4.905	5.764	6.299	7.338	IMF Directions of Trade Statistics
ASEAN+3	India	Cumulative FDI Share (%)	0.018	0.022	-0.003	-0.003	UNCTAD FDI database
ASEAN+3	India	Trade Share (%)	0.854	1.286	2.075	1.878	IMF Directions of Trade Statistics
ASEAN+3	Bhutan	Trade Share (%)	0.000	0.000	0.000	0.000	IMF Directions of Trade Statistics
ASEAN+3	Bangladesh	Cumulative FDI Share (%)	0.000	0.001	0.000	0.000	UNCTAD FDI database
ASEAN+3	Bangladesh	Trade Share (%)	0.149	0.135	0.200	0.240	IMF Directions of Trade Statistics
ASEAN+3	BIMSTEC	Trade Share (%)	3.531	4.093	5.110	5.087	IMF Directions of Trade Statistics
ASEAN+3	ASEAN+3	Cumulative FDI Share (%)	18.863	20.135	18.489	18.489	UNCTAD FDI database
ASEAN+3	ASEAN+3	Trade Share (%)	45.012	47.382	46.545	45.465	IMF Directions of Trade Statistics

BIMSTEC	United States	Trade Share (%)	15.262	10.828	7.660	7.935	IMF Directions of Trade Statistics
BIMSTEC	Thailand	Trade Share (%)	0.829	0.998	1.173	1.345	IMF Directions of Trade Statistics
BIMSTEC	Sri Lanka	Trade Share (%)	0.354	0.512	0.420	0.550	IMF Directions of Trade Statistics
BIMSTEC	Nepal	Trade Share (%)	0.162	0.240	0.246	0.367	IMF Directions of Trade Statistics
BIMSTEC	Myanmar	Trade Share (%)	0.392	0.611	0.618	0.754	IMF Directions of Trade Statistics

BIMSTEC	Middle East	Trade Share (%)	7.055	8.816	16.803	16.825	IMF Directions of Trade Statistics
BIMSTEC	India	Trade Share (%)	1.535	1.905	1.743	2.084	IMF Directions of Trade Statistics
BIMSTEC	Bhutan	Trade Share (%)	0.011	0.038	0.036	0.036	IMF Directions of Trade Statistics
BIMSTEC	Bangladesh	Trade Share (%)	0.486	0.440	0.434	0.596	IMF Directions of Trade Statistics
BIMSTEC	BIMSTEC	Trade Share (%)	3.769	4.744	4.670	5.731	IMF Directions of Trade Statistics
BIMSTEC	ASEAN+3	Trade Share (%)	35.744	37.291	37.934	37.726	IMF Directions of Trade Statistics

Myanmar	United States	Trade Share (%)	9.193	0.080	0.066	0.400	IMF Directions of Trade Statistics
Myanmar	Thailand	Cumulative FDI Share (%)	N/A	0.225	0.146	0.146	UNCTAD FDI database
Myanmar	Thailand	Trade Share (%)	15.689	32.975	29.705	17.464	IMF Directions of Trade Statistics
Myanmar	Sri Lanka	Trade Share (%)	0.031	0.088	0.038	0.055	IMF Directions of Trade Statistics
Myanmar	Nepal	Trade Share (%)	0.000	0.000	0.000	0.000	IMF Directions of Trade Statistics
Myanmar	Middle East	Trade Share (%)	0.188	0.466	0.427	0.250	IMF Directions of Trade Statistics

Myanmar	India	Trade Share (%)	4.297	7.876	8.049	4.763	IMF Directions of Trade Statistics
Myanmar	Bangladesh	Trade Share (%)	0.414	0.426	0.578	0.211	IMF Directions of Trade Statistics
Myanmar	BIMSTEC	Trade Share (%)	20.432	41.365	38.370	22.492	IMF Directions of Trade Statistics
Myanmar	ASEAN+3	Cumulative FDI Share (%)	N/A	1.012	0.656	0.656	UNCTAD FDI database
Myanmar	ASEAN+3	Trade Share (%)	64.695	76.138	82.071	88.581	IMF Directions of Trade Statistics

Intra-regional trade intensity index is the ratio of intra-regional trade share to the share of world trade with the region, calculated using trade data. It is computed as:

$$(T_{ii} / T_i) / (T_i / T_w)$$

where T_{ii} is exports of region *i* to region *i* plus imports of region *i* from region*i*; T_i is total exports of region *i* to the world plus total imports of region *i* from the world; and T_w is total world exports plus imports. It determines whether trade within the region is greater or smaller than should be expected on the basis of the region's importance in world trade. An index of more than one indicates that trade flow within the region is larger than expected given the importance of the region in world trade.

Intra-regional trade share is the percentage of intra-regional trade to total trade of the region, calculated using trade data. It is calculated as:

$$T_{ii} / T_i$$

where T_{ii} is exports of region *i* to region *i* plus imports of region *i* from region*i* and T_i is total exports of region *i* to the world plus total imports of region *i*from the world. A higher share indicates a higher degree of dependency on regional trade.

Source: ARIC, ADB database

Trade Facilitation and Transaction Costs

"The benefits of trade facilitation can be evaluated in terms of its effect on trade transaction costs. Estimates of such costs vary significantly, and it is useful to distinguish between direct and indirect costs. Direct costs include the cost of preparing documentation, and complying with various customs and other regulations. These may also include the cost of moving goods from factory to port, handling costs at the port, finance and insurance, and international transport costs. Indirect costs include the opportunity costs associated with time and delays in moving the goods from the buyer to the seller. These have been estimated to account for about 80% of total trade transaction costs." (From Designing and Implementing Trade Facilitation in Asia and the Pacific, UNESCAP, 2013, p.6)

Commodity Composition of India's Exports (in per cent)

Commodity	1980	1985	1990	1995	2000	2005	2010	2013
Manufacturing	58.89	58.50	71.60	74.70	77.10	70.40	69.0	63.5
of which:								
Organic chemicals	0.20	0.28	1.28	2.31	3.59	4.39	3.48	3.87
Dyeing, tanning and colouring material	0.77	0.70	1.28	1.10	1.16	0.82	0.72	0.83
Medicinal and pharmaceutical products	1.28	1.46	2.50	2.32	3.02	0.55	0.61	0.74
Essential oils and perfume materials, soap, cleansing etc	1.01	0.63	1.32	0.54	0.52	0.49	0.52	0.66
Chemical materials and product n.e.s.	0.09	0.31	0.42	0.72	1.05	1.12	0.96	1.13
Leather, leather manufactures and dressed fur skin	4.77	6.00	4.59	2.30	1.94	0.75	0.41	0.50
Textile yarn, fabrics, made up articles	13.49	11.65	12.02	13.99	14.44	8.18	5.77	6.01
Woven cotton fabrics	4.14	3.67	3.15	3.08	2.66	0.83	0.47	0.58
Woven fabric of man-made fibres	0.52	0.22	0.86	1.35	1.22	0.95	0.89	0.68
Woven fabric other than of cotton and man-made fibre	2.40	1.88	1.07	0.65	0.89	0.48	0.23	0.11
Articles of apparel and clothing accessories	6.95	9.96	12.19	13.23	17.07	8.92	5.05	5.35

Source: Economic Survey, GOI, various issues

Iron and steel and manufactures thereof	1.03	0.52	1.60	3.30	3.56	4.80	4.77	4.04
Manufactures of metals n.e.s.	2.60	1.40	1.88	1.82	2.81	2.68	1.87	2.36
Power generating machinery and equipment	1.04	0.66	0.69	0.56	0.52	0.90	1.05	1.12
Machinery specialized for particular industry	0.77	1.09	1.30	0.77	0.83	0.90	1.00	1.25
Metal-working machinery	0.38	0.62	0.32	0.19	0.28	1.09	0.17	0.18
General industrial machinery etc.	0.79	0.67	0.72	0.50	0.19	0.27	1.75	2.00
Telecommunication and sound recording and reproducing apparatus and equipment	0.13	0.044	0.17	0.44	0	0.45	1.08	1.32
Electrical machinery, apparatus and appliances	1.34	1.36	1.33	1.16	0.22	2.06	2.48	1.98
Road vehicles	2.45	1.42	1.90	2.80	0.89	2.99	3.93	4.09
Other transport equipment	0.38	0.30	0.08	0.04	0.03	0.99	2.61	2.52
Pearls, precious & Semi-precious stones	6.82	13.08	14.94	15.25	15.59	11.54	10.15	9.60

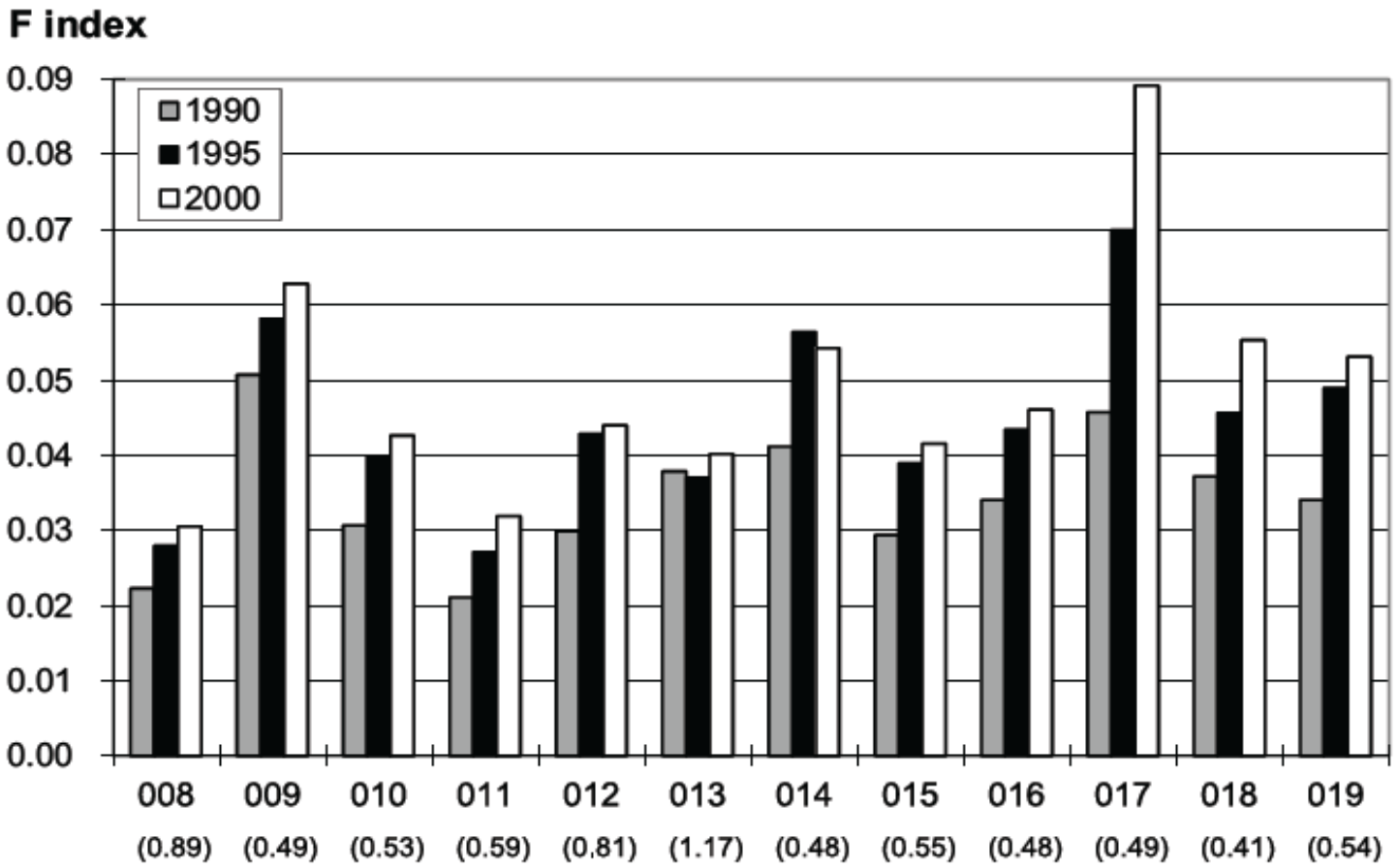

Figure 5.2. International fragmentation in East Asia by industry, 1990–2000.

Note: F index refers to the international fragmentation index.

Source: Calculated by the author using the Asian International Input–Output Tables, 1990–2000.

Source: Uncovering Value Added in Trade, edited by Yuqing Xing, ADB and World Scientific, 2016

Note: Figs in brackets are capital-labour ratios

Code	Industry	L/K
008	Food, beverage and tobacco	1.12
009	Textile, leather, and the products thereof	2.04
010	Timber and wooden products	1.89
011	Pulp, paper, and printing	1.69
012	Chemical products	1.23
013	Petroleum and petro products	0.85
014	Rubber products	2.08
015	Non-metallic mineral products	1.82
016	Metal products	2.08
017	Machinery	2.04
018	Transport equipment	2.44
019	Other manufacturing products	1.85

Revealed Comparative Advantage in Gross Exports of Manufacturing Goods

		Leather	Paper	Non-metal minerals	metal	& equipment nec	& optical equipment	equipment	uring nec; recycling
Australia	3.1	0.3	0.7	0.7	3.8	0.7	0.2	0.4	0.5
Japan	0.1	0.1	0.2	0.7	1.1	1.2	1.4	1.9	0.9
Korea	0.2	0.5	0.2	0.8	0.9	0.8	1.7	1.6	0.2
New Zealand	6.6	1.0	3.2	0.5	0.9	0.3	0.2	0.2	0.4
Brunei	0.3	13.4	0.1	0.1	0.0	..	0.1	0.0	0.3
Cambodia	3.9	6.4	1.4	0.2	0.3	0.3	0.3	0.1	0.8
China	0.3	2.6	0.5	0.5	0.8	0.8	1.8	0.3	1.6
India	**0.6**	**1.9**	**0.3**	**0.7**	**0.9**	**0.4**	**0.8**	**0.5**	**6.9**
Indonesia	2.8	1.9	1.5	1.2	0.7	0.6	0.5	0.3	0.9

Source: Regional Supply Chains in Asia by Amritendu Palit, CWS/WP/200/20, NUS, Singapore

Cambodia	3.9	6.4	1.4	0.2	0.3	0.3	0.3	0.1	0.8
China	0.3	2.6	0.5	0.5	0.8	0.8	1.8	0.3	1.6
India	**0.6**	**1.9**	**0.3**	**0.7**	**0.9**	**0.4**	**0.8**	**0.5**	**6.9**
Indonesia	2.8	1.9	1.5	1.2	0.7	0.6	0.5	0.3	0.9
Malaysia	0.7	0.5	1.2	1.2	0.4	1.6	1.8	0.1	0.2
Philippines	0.1	0.8	0.1	0.1	0.1	0.1	4.2	0.2	0.1
Singapore	0.2	0.1	0.2	1.9	0.3	0.8	1.7	0.4	0.2
Thailand	2.1	1.8	0.5	0.6	0.5	0.2	1.9	0.3	1.5
Vietnam	4.3	6.6	1.4	0.2	0.2	0.2	0.3	0.1	0.8

Source: OECD WTO TIVA Database

Growth Rates of Major Industrial Groups

Industries	Mean Growth Rate for 40 yrs	Conclusions for 40 yrs	Mean Growth Rate for 10 yrs from '96 to '05	Conclusions for 10 yrs
Basic Chemical and Chemical Products	0.155451391	Low	0.120531083	High
Basic metals	0.173911054	High	0.20542626	High
Beverages and tobacco	0.151121869	Low	0.116564167	Low
Coke, Refined petroleum and Nuclear Fuel	0.277392537	High	0.313585814	High
Electric machineries	0.158587038	Low	0.034625913	Low
Food products	0.130010193	Low	0.065093787	Low
Leather and fur	0.161293585	Low	0.080757236	Low
Metal Products except machineries	0.152829874	Low	0.116582461	Low

Source: Annual Survey of Industries, CSO, Various Years

Non-electric machineries	0.172751794	High	0.114426517	Low
Non-metallic mineral products	0.173872006	High	0.161821149	high
Others	0.192382728	High	0.254279325	high
Paper, Printing and Publishing	0.156515322	Low	0.187388573	high
Professional and Scientific tools	0.268158868	High	0.039782663	Low
Rubber	0.166132838	High	0.13758323	high
Textiles and wearing apparels	0.101721642	Low	0.046355851	Low
Transports and Automobile parts, etc.	0.164096185	High	0.234710736	high
Wood	0.123150036	Low	0.055946026	Low
Med of Mean	0.161293585		0.116582461	

Unregistered Manufacturing Sector's share in Employment and GVA, 1999-2000

Sectors	Unregistered sector's share in total employment (%)	Unregistered sector's share in total Gross Value Added (GVA) (%)
Manufacture of Beverages	88	52
Manufacture of tobacco prods.	90	81
Manufacture of spinning, weaving and finishing of textiles	80	58
Manufacture of wearing apparel, except for apparel & Tailoring	90	63
Manufacture of tanning and dressing of leather, fur & fur products	92	54
Manufacture of wood and wood products except furniture	99	73
Manufacture of furniture	98	51
Manufacture of paper and paper products, publishing, printing etc	83	48
Manufacture of coke, refined petro products, nuclear, rubber and plastic products	79	40

Source: Contribution of the Unorganised Sector to GDP Report of the Sub-Committee of a NCEUS Task Force. WP #2, by K.P. Kannan et al, NCEUS, June 2008

Manufacture of chemical & chemical products	**71**	**27**
Manufacture of other non-metallic mineral products	**91**	**58**
Manufacture of basic iron & steel and non-ferrous metals	**58**	**32**
Manufacture of recycling of metal waste, scrap & non-metal scrap	**99**	**32**
Manufacture of fabricated metal products, Manufacture of machinery and apparatus n.e.c.	**86**	**43**
Manufacture of electrical machinery & apparatus, radio, TV & communication equipments	**79**	**44**
Manufacture of medical, precision & optical instruments, watches, clocks etc	**95**	**75**
Manufacture of motor vehicles, trailers & semi-trailers & other transport equipments	**45**	**41**

Types of Participation in Global Value Chain (GVC):

As per the definitions used by OECD -WTO TIVA database:

- *Forward participation* - presents the domestic value added content of gross exports / final demand of foreign countries by domestic industry *i* in country *c*. In other words this means supplying goods for use in foreign country exports / final demand

- *Backward participation* - presents the foreign value added content of gross exports / final demand by domestic industry *i* in country *c*. In other words this means sourcing imported inputs for their exports / final demand

Clearly *Forward Participation* exhibits the opportunity of any country to use GVC as a driver of growth of industries

Forward Participation in Final Demand (% of GVA)

Sl No	Country	Wood and paper	Total Manufg	Rubber & Plastic	Chemicals & Non-metallic minerals	Computer, Electronics & Optical Equipments	Basic & Fabricated Metals	Manufg n.e.c; Recycling	Motor Vehicles Trailers & Semi-trailers	Textiles, Textile products, Leather & Footwear
1	China	0.3	7.6	0.4	1.6	1.2	1.1	0.5	0.3	1.0
2	India	0.1	4.1	0.2	1.7	0.2	0.6	0.2	0.2	0.3
3	Indonesia	0.6	5.9	0.2	1.6	0.4	0.5	0.1	0.2	0.7
4	Malaysia	0.8	16.1	1.2	5.9	4.0	1.6	0.4	0.3	0.3
5	Taiwan	0.3	17.5	0.6	3.6	8.6	2.1	0.1	0.3	0.5
6	Thailand	0.9	15.5	0.8	4.1	1.2	1.2	0.6	1.1	1.1
7	Vietnam	0.5	11.1	0.6	2.0	1.0	1.2	0.6	0.2	2.7
8	Korea	0.4	17.4	0.8	3.5	3.9	3.1	0.1	2.0	0.5
9	Japan	0.2	5.4	0.3	1.0	1.0	1.0	0.1	0.7	0.1

Source: OECD-WTO TIVA Dataset

Sl No	Country	Wood and Paper	Total Manufg	Rubber & Plastic	Chemicals & Non-metallic minerals	Computer, Electronics & Optical Equipments	Basic & Fabricated Metals	Manufg n.e.c; Recycling	Motor Vehicles Trailers & Semi-trailers	Textiles, Textile products, Leather & Footwear
10	Poland	0.8	9.9	0.8	2.4	0.5	1.5	0.5	1.1	0.4
11	Hungary	0.8	16.9	1.1	4.0	2.2	1.5	0.4	2.6	0.4
12	Czech Republic	1.2	17.2	1.6	3.4	1.1	2.9	0.6	3.0	0.5
13	Slovak Republic	1.4	16.6	1.1	2.9	1.5	3.6	0.4	2.9	0.7
14	Slovenia	1.3	14.6	1.2	4.1	0.7	2.9	0.7	1.1	0.6
15	Romania	0.8	11.8	0.4	1.3	0.8	1.6	0.7	1.9	1.9
16	Russia	0.3	6.9	0.1	3.5	0.2	1.8	0.1	0.1	0.0

Rank Correlation Dataset

Sector	forward	growth	RCA	Shareexp	fragment	labcapratio	Unorgemp	unorgoutput
Textile plus leather	0.3	6.85	1.9	25.85	0.062	2.04	0.89	0.583
Chemical and non-metallic	1.7	14.1	0.7	1.09	0.042	1.53	0.81	0.425
Basic Metals	0.6	20.54	0.9	6.93	0.046	2.08	0.58	0.32
Machinery	0.3	8.85	0.4	3.86	0.089	2.04	0.825	0.435
Transport equipments	0.2	23.47	0.5	2.45	0.055	2.44	0.45	0.41
Wood and Paper	0.1	18.74	0.3	0.63	0.037	1.8	0.93	0.573
Rubber and Plastics	0.2	13.76	0.72	4.9	0.055	2.08	0.79	0.4
Other Mnfg	0.2	25.43	6.9	13.57	0.524	1.85	0.946	0.96

Rank Correlation Coefficient (Kendall's Tau)

Item	Forward participation in final demand, 2011	Average Growth of output 1996-2005	RCA in 2009	Average share in export 2000-2005	Index of International fragmentation, 2000	Average Labour to capital ratio 1995-2005	Ratio of Unorganised sector employment	Ratio of Unorganised sector output
Forward		-0.231	0.154	0.154	-0.079	-0.040	-0.231	-0.231
Growth			0.071	-0.071	-0.036	0.148	-0.143	-0.071
RCA				0.714**	0.400	0.000	0.071	0.000
Export Share					0.546*	0.148	0.071	0.000
Fragmentation						0.038	0.182	0.327
L/K							-0.593**	-0.371
Unorganised Emp								0.786***

Some inferences

- India has not taken much advantage of either international fragmentation of products or Participation in GVC- arguably the two are interrelated.
- Given strong association of output and employment in unorganised sector, this sector generates jobs but contributes little in enhancing India's competitiveness
- Thus, within BIMSTEC, Thailand has exploited this trend of parts and components production , integration in GVC through small scale sector producing jobs as well. But they have aligned themselves with the spirit and dynamics of ASEAN.
- Given India's rather weak integration in GVC and Thailand's orientation towards ASEAN, BIMSTEC shows little prospect in medium term. However, one may look forward to significant gains in the long run if orientation within the group changes.
- Myanmar, having good scope of restructuring its manufacturing sector, could get some good lessons from this to exploit its membership in regional groupings.

Thank you