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BCIM Economic Corridor

Facilitating Sub-Regional Development

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By

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Finally, it is relevant to mention that the research for this Special Report was completed before the third meeting of the Joint Study Group that took place in April 2017.

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BCIM ECONOMIC CORRIDOR

FACILITATING SUB-REGIONAL DEVELOPMENT

By

Roshan Iyer¹

INTRODUCTION

“Connectivity itself has emerged as a theatre of present day geopolitics”

S. Jaishankar

Foreign Secretary, Government of India

Raisina Dialogue, 2015

The Bangladesh-China-India-Myanmar Forum for Regional Cooperation's (BCIM) Economic Corridor (EC) initiative, a complex entanglement between security, economic and national interest, exemplifies Foreign Secretary Jaishankar's statement.

This paper attempts to analyse the economic aspect of this cooperation, focusing on the reasons for stalling of the BCIM EC's progress, and explores measures to take the initiative forward. Despite all four countries having agreed to implement the EC in principle, admittedly, there has been a lull in its progress. The EC's route has been put in place and is almost completely motorable. However, an analysis of the trade intensities and patterns among the four countries demonstrates that potential trade volumes are inadequate to justify its implementation. Nonetheless, the EC continues to emphasise cooperation on the “Zone 3” pillars of Trade, Transport and Energy, which avoid addressing the existing realities of the BCIM countries' underdevelopment.

It is for this reason that the “Zone 2” factor - ‘Human Development’ - must be brought into the ambit of the BCIM Forum framework, broadening its conceptual focus and ensuring that the EC's infrastructure and economic initiatives also benefit people from these countries. This would require a closer study of three aspects - the security-development measures needed to overcome the drug economy in the BCIM sub-region; the integration of three ports into the EC; and gradual liberalisation to bring the four economies together while keeping their economic diversities in mind.

The overall lack of development contributes to varying degrees of instability and security challenges across the sub-region, creating a vicious cycle of stunted development and deteriorating security. The drug economy and cross-border crime fund a majority of the insurgencies in India's Northeast

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region (NER) and Myanmar's Shan State - both that lay on the BCIM EC route. The production of licit crops over illicit crops, mainly poppy, should be incentivised, along with the provision of the necessary transport and market infrastructure. Social support infrastructure to producers of lesser profitable licit crops is also important. Simultaneously, possible security mechanisms that could be implemented through BCIM cooperation should also be explored.

On the transport front, the sub-region is relatively land-locked, isolating it from much of the global economy. The lack of effective road networks reduces the mobility of goods, resources and people within the sub-region. The integration of the Kaladan Multi-Modal Transport Project (KMTP), Sittwe Port (Myanmar's Rakhine State) and Chittagong Port (Bangladesh) would enable sea access, thereby addressing this problem. For this, about 500 kilometres of rail-links must be constructed, connecting these ports to the existing rail networks.

Soft infrastructure to facilitate trade also needs to be improved. Trade agreements and policies must be negotiated to protect smaller economies from succumbing to BCIM's economic giants. A Modified Free Trade Agreement to allow the gradual liberalisation of local markets should be put in place. Simultaneously, an investment protection agreement, insuring local investments from the sub-region's instability, will be necessary to build confidence among foreign investors. Both of these should be implemented alongside a policy focusing on community-building through both foreign investments and greater linkages between the communities and producers along the BCIM EC and regional value chains. This would facilitate the development of a sustainable economy.

A shift in the BCIM framework's ambit to 'Human Development' would provide a stronger impetus for the EC's implementation. These may also sow the seeds for regional cooperation in the future, bringing stability and prosperity to an otherwise unstable region.

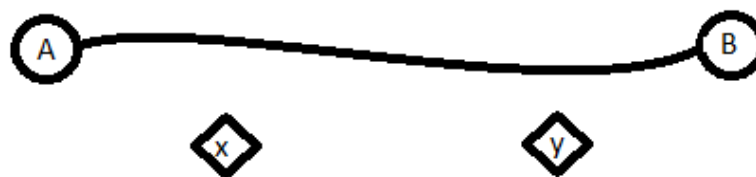
CONCEPTUAL FRAMEWORK ON ECONOMIC CORRIDOR DEVELOPMENT

The primary motivation for every EC is the prospect of either actual or potential economic growth, usually through prospects of increased trade between the countries involved. This is done linking centres or “nodes” of substantive economic activity within the countries through improved transport infrastructure, and facilitative policies and regulation. These nodes function as generators of growth and economic activity while the specific infrastructure projects and initiatives of the corridor work to spatially distribute this growth within the regional economy. The EC in itself does not create economic strength in the region, but instead channels and amplifies existing potential for economic growth. It functions as the backbone to the region’s economy, catalysing connectivity, trade facilitation, regional development, and finally, creating the necessary linkages for sustainable and efficient regional economy.

Width

While an EC may begin with the creation of physical connectivity between different nodes, the actual corridor will involve all the surrounding areas on the route. To illustrate, consider an economic corridor between major economic city-nodes ‘A’ and ‘B’, with ‘x’ and ‘y’ representing smaller towns located at some distance from the corridor.

Diagram 1



Assume that a trader living in town ‘x’ wants to travel to town ‘y’. The trader has the option of using the existing direct routes between the two towns or travelling from his town to the highway connecting EC nodes ‘A’ and ‘B’ and then exiting the highway to travel to town ‘y’. If the latter option is more convenient, towns ‘x’ and ‘y’ can be said to be part of the EC.

The extent to which it remains viable for the surrounding points like ‘x’ and ‘y’ to use the projects associated with the EC determine its width. Viewed from this perspective, the ‘width of the corridor’ can lead to extensive logistics coverage, creation of regional value chains, larger economies of scale for production; encourage technology sharing; and increased regional and foreign investments.

Length

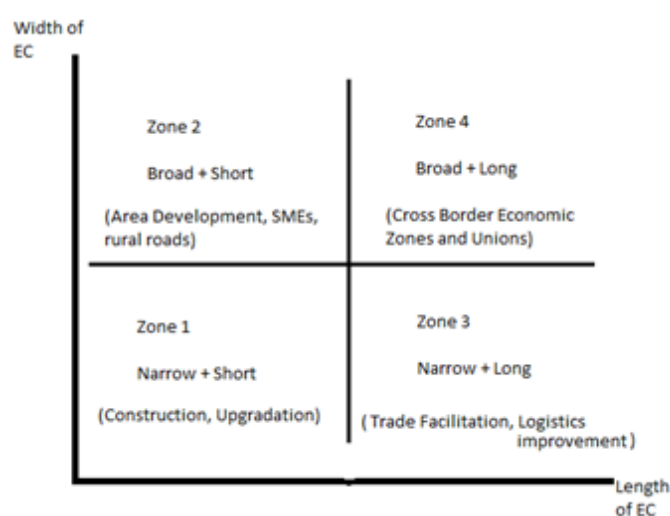
The second approach to expand an EC is by its length. An EC does not necessarily have to be regional, but can be a national initiative. The length of the corridor can be determined by looking at the projects within the EC, which is also used to define the corridor as a ‘national’ or ‘regional’ one. A regional initiative would hold sufficient cross-border implications and require coordinated action by the participant countries. Typical regional initiatives include sustainable use of shared natural resources; security measures against cross-border crimes; measures against pollution, etc. However,

several ‘national’ projects too can have regional implications, such as power projects that enable regional energy trade. These could be classified as ‘national projects of regional significance.’

Zones of Corridor Development

The assessment of an EC by its ‘length’ and ‘breadth’ can provide a useful framework to assess the EC’s development and expansion.

Diagram 2



“Zone 1” represents the initial stage of the establishment of the EC with construction of new roads and upgradation of existing roads, while putting in place the basic transport infrastructure. This establishes the possibility of linking the country to the region.

Once that is done, the EC can either shift to “Zone 2” or “Zone 3” (or both) depending on the agenda the EC authority is pursuing.

“Zone 2” activities include ‘area development’ and ‘widening’ of the corridor. This can be pursued through investments towards greater connectivity, urbanisation and industrial development while also enhancing rural development and integration of the surroundings into the EC. Improvements in the business climate for MSMEs and deregulation of uncompetitive sectors would also constitute widening of the EC.

“Zone 3” involves linking the corridor’s existing infrastructure to the region. The objective here is to improve the mobility of people, goods, and resources between the nodes. The focus should be on facilitating trade by removing trade barriers, standardising import and export sectors, and investing heavily in cross-border transport and logistics.



Finally, the “Zone 4” phase begins, when the region has achieved broad seamless connectivity enabling it to consider undertaking joint national cross-border projects on a regional-level. This is neither an inevitable outcome of all regional ECs, nor is it easy to implement.

BCIM'S STATUS



The BCIM's participants have always held varying levels of interests in the proposed EC. Originally proposed in the 1990s by Professor Rehman Sobhan, the idea involved a 'multi-modal transport network' with accompanying infrastructure that would boost the sub-region's economic activities. In 1999, what was then known as the 'Kunming Initiative' was formally christened as the BCIM at its first meeting. The BCIM Forum has gradually evolved, over the years, from a Track II initiative to a Track I initiative. Ultimately, it was the success of the 2013 Kolkata to Kunming (K2K) car rally that provided the necessary reassurance to India regarding the forum - as seen in the May 2013 Joint Statement issued during the state visit of the then Chinese Premier Li Keqiang to India - leading New Delhi to elevate it to Track I level the same year.² The initiative saw progress between 2013 and 2015, with all four members establishing a Joint Study Group (JSG) that held three annual meetings during this time. However, since then, there has been a lull in the BCIM EC's progress.

² "Joint Statement on the State Visit of Chinese Premier Li Keqiang to India," *Ministry of External Affairs, India*, May 20, 2013 <http://www.mea.gov.in/bilateral-documents.htm?dtl/21723/Joint=Statement+on>

THE BCIM ECONOMIC CORRIDOR TRADE ROUTE

At the centre of the BCIM initiative is the 2,800 km-long trade route connecting Kolkata, India, to Kunming, China, via Bangladesh and Myanmar (see Map 1). It runs from Kolkata via Benapole/Petrapole (on the India-Bangladesh border) to Dhaka and Sylhet (both in Bangladesh) before entering India again near Silchar. The route enters Myanmar at Moreh at the Myanmar-India border. In Myanmar, the route follows the Tamu-Kalewa friendship highway, crossing Mandalay and Lashio before entering China. In China, the route traverses Ruili, Longling and Dali before finally reaching Kunming, all in the Yunnan Province.

Map 1



Source: Google Maps

As the 2013 K2K rally demonstrated, the road is completely motorable, albeit with a large security convoy. However, two stretches (in Myanmar and the NER) require additional work before it can be integrated into the EC. The 250 km-long Imphal-Jiribam-Silchar highway in the NER is not an all-weather road and experiences flooding in monsoons. In December 2016, India announced USD 14 million to construct two bridges and for additional maintenance of the road.³ In Myanmar, the 200 km Yargyi road, connecting Kalewa to Monywa, experiences landslides and a steep, hostile terrain. India has promised assistance on improving the Kalewa-Yargyi section, while Myanmar has agreed to improve the Yargyi-Monywa section.⁴

³“PM flags off Jiri-Silchar passenger train,” *The Sangai Express*, May 26, 2016 <http://www.thesangaiexpress.com/pm-flags-off-jiri-silchar-passenger-train/>

⁴“Bilateral Projects with Myanmar & Indian Projects to Promote Connectivity & Trade with NER,” *Ministry Of Development of North Eastern Region*, June 15, 2012 <http://mdoner.gov.in/node/1505>

CURRENT INTRA-BCIM TRADE

Table 1: Trade Statistics within BCIM Countries in 2015

Reporter	Partner	Trade Intensity Index	Export Intensity Index	Trade Share (%)
Bangladesh	Myanmar	0.60	0.39	0.06
	India	4.53	0.81	8.82
	China	1.18	0.26	13.72
China	Myanmar	3.53	3.05	0.38
	India	0.95	1.14	1.85
	Bangladesh	1.70	2.40	0.38
India	Myanmar	2.68	2.38	0.29
	China	0.92	0.42	10.74
	Bangladesh	4.26	8.41	0.95
Myanmar	India	2.64	3.40	5.14
	China	3.49	4.36	40.57
	Bangladesh	0.53	0.81	0.12

Source: Asian Development Bank

In 2012, intra-BCIM trade averaged at a dismal five per cent of the total BCIM trade.⁵ Trade statistics (Table 1) demonstrate that only Myanmar's economy shows a serious dependence on the sub-region with index numbers above 1 (except with Bangladesh) and a trade share of 45.83 per cent (of which China makes up 40.57 per cent). Meanwhile, Bangladesh does not export heavily to the BCIM sub-region; its export sector (especially the readymade garments industry) is more reliant on the West. However, its TII figures show that it imports heavily from the sub-region, and a fifth of its economy is dependent on India and China.

The case seems different for India and China. China is not dependant on the region with the BCIM trade share accounting for only 2 per cent of China's overall trade. However, the sub-region is a significant market for China's exports as demonstrated in the latter's export intensities with the sub-region. India's trade with China accounts for nearly 10 per cent of its overall trade. However, intensity-wise, India's overall trade and exports with Myanmar and Bangladesh are much higher than expected.

The trade intensities of the India-Bangladesh-Myanmar and China-Myanmar-Bangladesh triads mirror each other. These are the trading volumes that would significantly increase with the BCIM EC's implementation. Since these countries account for such a small share of each other's total exports, it can be concluded that the EC will not significantly affect the trade dynamics of the region. The caveat here is that the data above represents India and China as a whole and does not focus on those regions more directly impacted by the EC.

⁵Jingdong Yuan, "Sino-Indian Economic Ties since 1988: Progress, Problems, and Prospects for Future Development," *Journal of Current Chinese Affairs* 45(3), 2016, 48-52.

Table 2: Main Imports, Import Partners, Exports, Export Partners of BCIM Countries

Country/ Province	Main Exports	Main Export Destinations	Main Imports	Main Import Origins
Bangladesh	<ul style="list-style-type: none"> Raw Jute Fertilizer Garments Cement Leather Plastic Products Frozen Fish 	<ul style="list-style-type: none"> USA Germany UK France Spain 	<ul style="list-style-type: none"> Agricultural Products Coffee, tea, spices and cereals Minerals Chemical products Raw textile products Machinery, vehicles and automobile parts 	<ul style="list-style-type: none"> China India Singapore Indonesia Hong Kong
India (North East Region)	<ul style="list-style-type: none"> Coal Frozen Fish Agricultural Products Minerals Handicrafts Processed Fossil Fuels 	<ul style="list-style-type: none"> China Bhutan Bangladesh Myanmar 	<ul style="list-style-type: none"> Fresh Fish Cotton By-products Processed Food Garments Furniture Natural Gas 	<ul style="list-style-type: none"> China Bhutan Bangladesh Myanmar
China (Yunnan Province)	<ul style="list-style-type: none"> Chemicals products Base metals Tobacco Agricultural Products 	<ul style="list-style-type: none"> Myanmar Vietnam Hong Kong India Japan USA 	<ul style="list-style-type: none"> Minerals Machinery Electrical appliances Electronics Telecommunications equipment 	<ul style="list-style-type: none"> Indonesia Myanmar Taiwan South Korea Peru Australia US
Myanmar	<ul style="list-style-type: none"> Natural Gas Agricultural Products Wood Precious Stones Pearls 	<ul style="list-style-type: none"> China Thailand India Japan South Korea 	<ul style="list-style-type: none"> Processed Fossil Fuels Telecommunications equipment Precious Stones Vehicles and automobile parts 	<ul style="list-style-type: none"> China Thailand Singapore Japan India

Source: Ministry of Development of North Eastern Region, Observatory of Economic Complexity, World Bank: World Integrated Trade Solution, Hong Kong Trade Development Council

The commodities highlighted in Table 2 are those for which there is indigenous demand and supply in the BCIM sub-region. This demonstrates the existing trade complementarities between the sub-regional economies and is indicative of potential opportunities in terms of sub-regional trade.

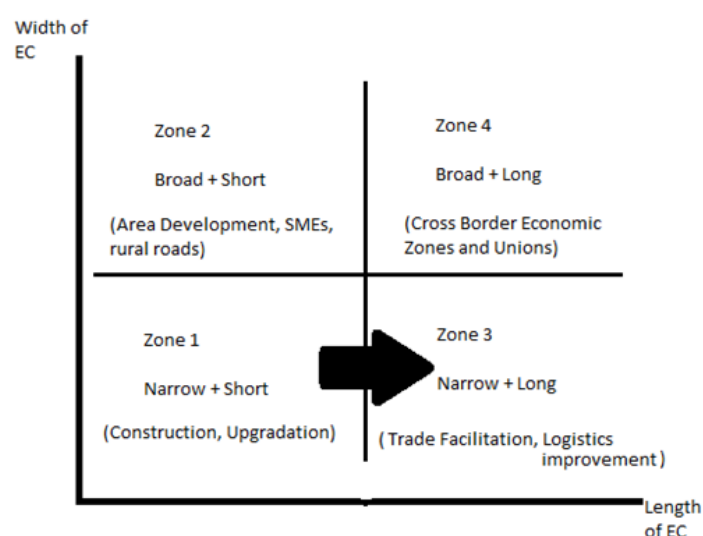
ADDRESSING THE ISSUES IN THE EXISTING BCIM FRAMEWORK

The BCIM Forum involves cooperation between two regional giants (and sometimes, rivals), India and China. Although India has in principle agreed to the initiative, it is reluctant to pursue the BCIM EC. The fear of low-cost Chinese goods flooding Indian markets⁶ compounded by the memory of how easily China invaded the NER in 1962 fuels this lack of enthusiasm. Moreover, there is a perception in India that the BCIM is primarily a Chinese initiative.

India's wariness regarding Chinese initiatives is also evident from its reluctance to join China's Belt and Road Initiative (BRI), despite repeated invitations. However, India also acknowledges the importance of development of its NER and eastern neighbours as part of its Act East Policy, and its engagement with BCIM and other multiple fora that all deliberately exclude China, such as the Bangladesh-Bhutan-India-Nepal Initiative; the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation; and the Mekong-Ganga Cooperation.

In its current state the BCIM EC is shifting towards "Zone 3" type of corridor development.

Diagram 3



This mirrors the approach China's Yunnan Province has undertaken towards its three Greater Mekong Sub-region (GMS) ECs.⁷ The minutes of the first BCIM JSG meeting reported that "[The] delegations agreed that in the development of the BCIM Economic Corridor, the delegations should fully learn from the best practices of other regional cooperation mechanisms," after a set of Asian Development Bank and UN Economic and Social Commission for Asia and the Pacific presented and spoke about the GMS ECs⁸. This can also be seen in the China-Pakistan Economic Corridor (CPEC).

⁶Ravi Bhoothalingam, "Can the Chinese Connection Speed India's Development?," *The Economic and Political Weekly* 50 (19), May 9, 2015, 33-38.

⁷Pradeep Srivastava, *Regional Corridors Development in Regional Cooperation*. Asian Development Bank Economic Working Paper Series 258, 2011.

⁸Consulate General of India, Guangzhou. (2013, December 19). *Minutes of the First Meeting of the Joint Study Group of BCIM Economic Corridor*. Retrieved February 19, 2017, from Consulate General of India, Guangzhou

http://cgiguangzhou.gov.in/news/news_detail/60

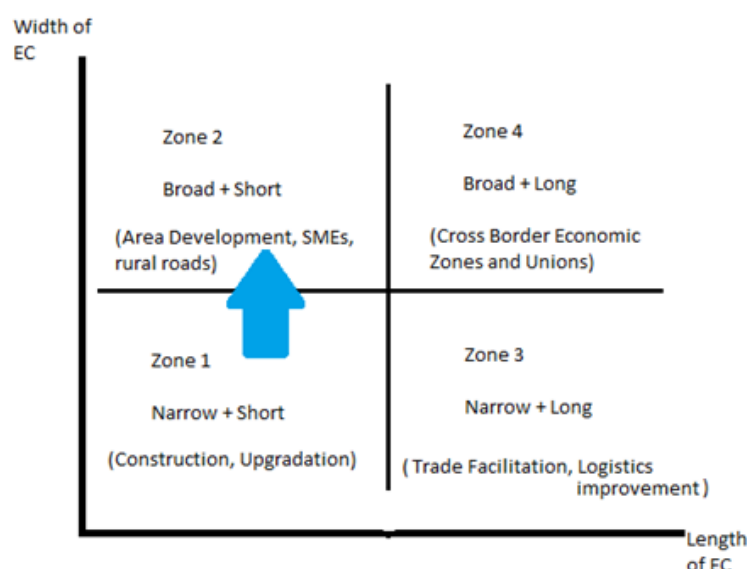


The BCIM EC cannot be simply based on massive trade facilitation and mega-infrastructure projects. This sub-region is inherently different from the GMS sub-region. The BCIM framework cannot continue to hinge upon Trade, Transport, Energy, and a variety of proposed trans-national infrastructure projects. The mere existence of a route will not ensure its usage by the people in the sub-region.

REFRAMING THE BCIM FORUM

“Zone 2” style development or “widening” of the corridor is the need of the hour. The Forum must work to strengthen the local economies and communities from within. Enabling the use of the BCIM route must remain the focal point rather than simply enhancing volumes of trade.

Diagram 4



A shift to “Zone 2” is only possible if the current economic and social situations of its residents are considered. The development of the surrounding communities and economies would enable people to fully utilise the corridor, which is essential to enhance regional economic integration. Economic opportunities in terms of cross-border ethnic and cultural ties, an important asset for intra-regional cooperation, continue to be underleveraged.

On the contrary, people-to-people connections have allowed the emergence of a sizeable informal and illicit economy. India, through this Forum, should seek to improve the inter-regional cultural ties to create trans-border value chains and a well-connected business community within the sub-region. These potential benefits might be why the BCIM EC has considerable support in the NER.⁹

The overall lack of development in the sub-region is symptomatic of the lack of progress in three main areas: infrastructure, connectivity, and mobility of labour and resources. Additionally, per capita energy consumption in the region is one of the lowest due to low electrification rate. Energy scarcity has stifled industrial development, increasing peoples’ dependence on agriculture and basic labour employment, and this is compounded by the lack of educational and vocational training facilities. The sub-region’s difficult terrain and varying topography has made construction of transport infrastructure expensive and time-consuming. Social services such as medical, educational,

⁹“Bangladesh, China, India and Myanmar economic corridor beneficial for region's economy: Survey,” *The Economic Times*, November 25, 2014, http://articles.economictimes.indiatimes.com/2014-11-25/news/56455379_1_region-northeast-indian-manipur



and financial facilities etc are very limited. Despite being rich in natural resources, the inability to transport these resources disrupts the development of regional and local value chains, stagnating local economies.

POTENTIAL WAYS TO EFFECT "ZONE 2" DEVELOPMENT

The BCIM countries should launch initiatives with the dual objective of bringing balanced regional growth and development, and improving the mobility of people and goods within the sub-region.

Security-Development Measures

While the combination of road, rail and water linkages in the sub-region would facilitate the cross-border flow of goods and people, without adequate measures to deal with security challenges, the EC is unlikely to attract economic investments. The development of transport infrastructure and the consequent creation of trade opportunities could lead to concentration of wealth in certain pockets in the absence of development of surrounding areas. Such inequalities have caused much resentment regarding ownership (or lack thereof) among the local resources and been a major driving factor for the insurgencies in the region.

Background

The BCIM EC route passes through two areas of significant instability: Manipur (India) and Shan State (Myanmar). Both areas are primarily agrarian-based economies with low levels of development. Insurgents based in these areas fund their activities by taxing local populations and via other operations. Small and medium-sized chemical-based drug operations run through the two states. Shan is even part of the 'Golden Triangle' and contributes tremendously to poppy world poppy cultivation volumes. These activities are inextricably linked to other illicit activities such as smuggling of gold, alcohol, arms, jade and timber, and human trafficking. Insurgent groups in the NER and Myanmar are able to collaborate because of the strong cross-cultural ties in the sub-region. These local militias pose a constant threat to any form of economic activity in their regions. Managing, preventing and ultimately resolving these insurgencies will require a holistic approach.

Economic development for agrarian communities must be a bottom-up approach. In 2011, the UN Office on Drugs and Crime (UNODC) began implementing three new alternative development and food security projects in southern Shan State to reduce poppy production by providing alternative income-earning and livelihood opportunities through production of food crops. Farmers were provided with access to farm inputs such as seeds, seedlings, fertilisers, tools, and access to credit, transport infrastructure, field irrigation, health services and a variety of vocational training alternatives.¹⁰ A similar program has witnessed considerable success in Vietnam.

Specific Measures

Initiatives that focus on the human aspect of development are the way forward for the sub-region, and BCIM should work to expand these initiatives that can enable the shift away from the drug economy. Coffee, tea, bamboo and rubber have the strongest potential to replace illicit crops

¹⁰“UNODC Myanmar: Working to end Shan State dependence on opium poppy,” *UN Office on Drugs and Crime*, May 21, 2012. <https://www.unodc.org/southeastasiaandpacific/en/myanmar/2012/05/food-distribution/story.html>

considering their high value in the global markets. Farmers could also be provided with basic greenhouses and be trained to grow high-value specialty plants - such as paddy, maize, groundnut, sunflower, sesame, green peas, green gram, pigeon pea, cotton and sugarcane - to boost their incomes.

The initiatives should include the following:

Connecting farmers to local markets and regional value chains

Farmers have easy access to market for opiates; but lack of access to good transportation hinders their access to markets for licit crops. BCIM must bridge this gap. Farmers must be efficiently connected to local markets, which, besides transportation, would require post-harvest management and timely supply of processing facilities.

Direct Support

Considering the significantly lower market value of licit crops and the considerable effort required to produce these crops, farmers must be assisted via provision of seeds, fertilisers, tools and fuel. This could incentivise produce licit crops.

Creating a floor price system and providing up-to-date market information

While regular produce can never provide the same value guarantee as illicit crops, BCIM should seek to address this by ensuring a floor price for the licit crops. This would help secure farmers' incomes. Farmers should also be given the freedom to cultivate what they please if they believe they can make a greater profit. A platform providing farmers with up-to-date information on local markets should be created. Integration of communications technology would play an integral role here. Each community could be provided with one computer with access to the price platform.

Indirect Support

BCIM would have to provide farmers with basic transport services such as truck and bus services to enable farmers to access other regions, and more importantly, other markets. Basic irrigation infrastructure should also be put in place. Microfinance facilities for entrepreneurial farmers should also be pursued.

Promoting the formation of a conventional rations and foodstuffs market

Local drug economies tend to work as a barter system, wherein the farmer's poppy extract is traded for pre-ordered goods. However, once a substantial shift to licit crop production takes place and substantial numbers of farmers are connected to local markets, a more complicated local economy is likely to develop. Entrepreneurial ventures should be encouraged to assist the development of a self-sufficient local economy.

Provision of social services

Often, farmers are well aware of the damaging social effects of poppy cultivation, but have little choice in terms of alternative livelihoods. Provision of social services such as healthcare and educational might help address this problem. Rehabilitation services should also be provided to local

drug users. Local NGOs, such as Livelihoods and Food Security Trust Fund, PACT and World Vision, could be co-opted into this initiative.

Bridging the gap between security and development

Resistance can be expected from insurgents as these measures directly target their primary source of income. Therefore, the abovementioned development measures should be initiated alongside considerable action vis-a-vis security and counter-insurgency.

Regular inspections, and even punitive actions, would be required to ensure funds and resources are not being diverted towards illicit crop cultivation. A joint BCIM security mechanism should be considered to protect villages that are shifting to licit crop production from local insurgents. This would require cooperation and rapid information sharing among the BCIM security agencies. As highly sensitive operations, they should operate only in the short-term as a defensive force under a comprehensive operational framework agreed upon by all the stakeholders. In the long-term, a local security force by respective governments should be established.

The development of the sub-region's economy, based on a shift away from a drug economy, is a long-term project that requires a sustained decades-long effort by the BCIM countries.

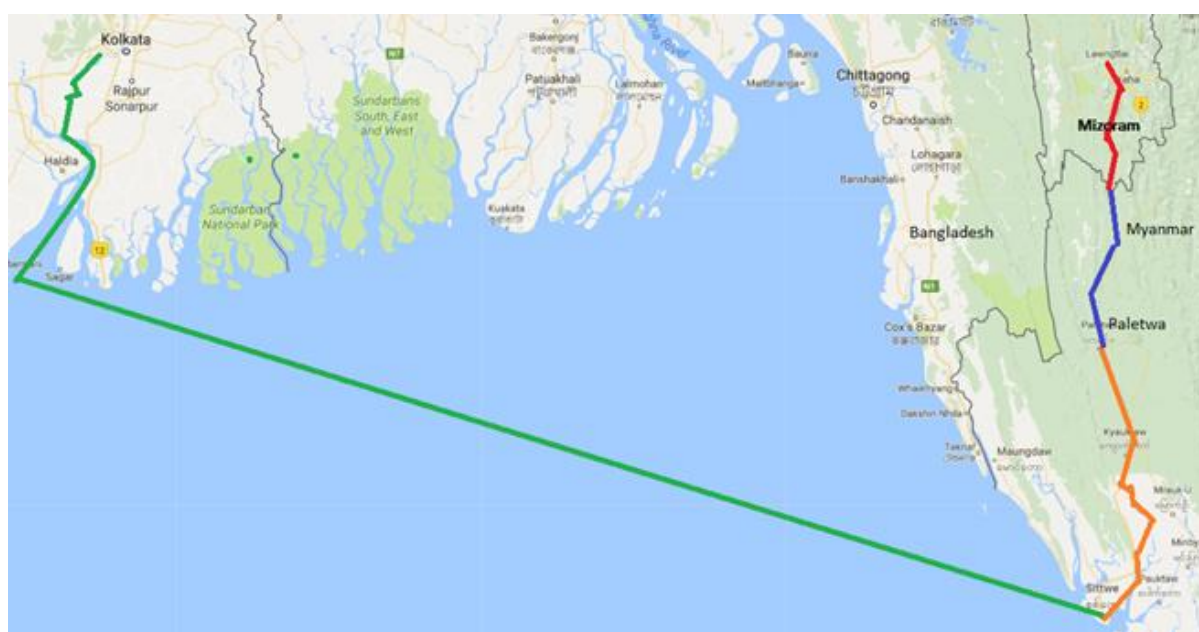
INTEGRATION OF PORTS AND TRANSPORT INFRASTRUCTURE

Currently, the BCIM sub-region remains one of the least connected sub-regions in the world. Investment into infrastructure should focus on enabling transport of resources and commodities between regional SMEs and manufacturing centres throughout the sub-region, as well as to global markets. The inclusion of three ports - Hooghly (India), Chittagong (Bangladesh) and Sittwe (Myanmar) into the BCIM EC might offer much needed global access to the sub-region. The Kaladan Multimodal Transport Project (KMTP) allows for commodities to travel from Kolkata to Mizoram via Sittwe Port,¹¹ and will help reducing transportation time and costs between the rest of India and the NER.

While integration into the BCIM EC would allow for rapid movement of goods between India, China and Myanmar, Chittagong port could also be included in the route allowing for much greater connectivity between all four countries and reducing the EC's overdependence on one port. This would involve the substantial extension of the corridor by roughly 500 kms. Since these measures align with the objective of bringing sea access to Yunnan Province, China may be willing to bear a significant burden of this expansion.

Integration of the KMTP into the BCIM EC

Map 2



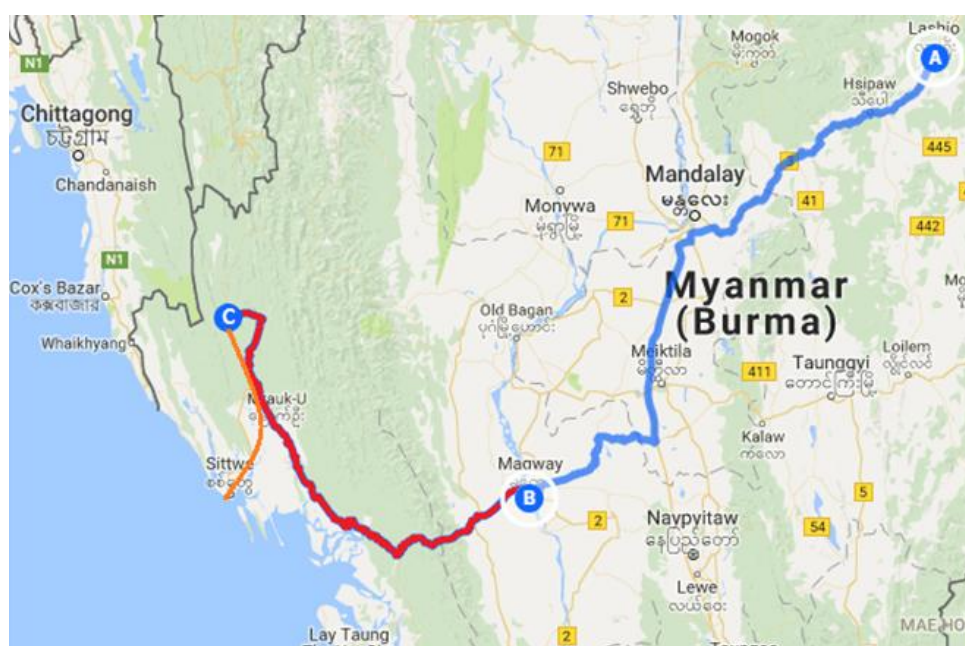
The KMTP (illustrated in Map 2) comprises a 539 km shipping route from Hooghly port to Sittwe Port (green). From Sittwe, ships move via a 158 km inland waterway transport system to a terminal at Raletwa

¹¹Nava Thakuria, "Better Late Than Never," *The Statesman*, December 12, 2016. <http://www.thestatesman.com/features/better-late-than-never-1481504554.html>

Paletwa (orange). A 110 km road connects Paletwa jetty to the India-Myanmar border (blue) and from there the goods are transported into Mizoram, India (red).¹²

India might be reluctant to allow China direct access to Sittwe port citing the strategic importance of the port. However, a possible compromise - perhaps involving Myanmar's new Chinese-built Kyaukphyu Port and its associated Special Economic Zone - could be reached allowing for the integration of the KMTP into the BCIM EC without undermining India's concerns.

Map 3



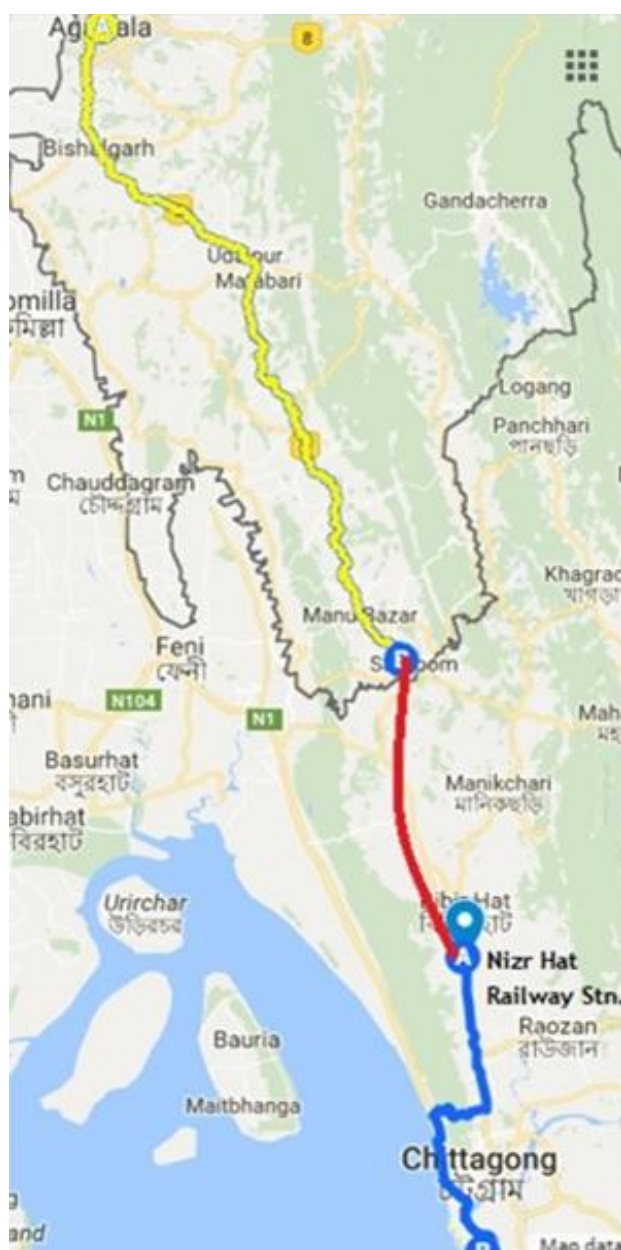
As Map 3 highlights, on the KMTP, goods are carried from Sittwe port to Paletwa (Point C). However, Myanmar's rail network only extends up to Magway. A 460 km railway link needs to be constructed between Paletwa and Magway (indicated in red). From Paletwa, goods can either move to Mizoram (by road) or to Sittwe Port (via the inland waterway). This enhances connectivity from Lashio, (Point A) - which is already well connected to the Chinese border city, Ruili - right up to either Kolkata or the NER. Over time, BCIM cooperation in this state could extend to also include the Kyaukphyu Special Economic Zones that are already in the initiation stage.

Integrating Chittagong Port into BCIM EC

Parallel to the effort to integrate the KMTP into the BCIM EC, an initiative to integrate Chittagong port to the NER and the BCIM EC can also be undertaken. Following the MoU allowing India to access

¹²"Kaladan Multi-Modal Transit Transport Project," Ministry Of Development of North Eastern Region, April 25, 2014
<http://mdoner.gov.in/content/introduction-1>

Map 4



Chittagong and Mongla ports,¹³ there now exists a significant opportunity for the NER. A bridge connecting Tripura to Chittagong Port via Feni River was planned but has failed to make progress.¹⁴

A 44 km rail link connecting the NER railway to Bangladesh's is a viable option. Map 4 shows the southern part of Tripura and Bangladesh. The yellow line highlights the USD 251 million 130 km long Agartala-Sabroom rail link set to open in 2017.¹⁵ If a 44 km rail link is constructed (red line in Map 3) between Sabroom in South Tripura and Nizir Hat (which is already connected by rail to Chittagong port) in Bangladesh, there would be a direct rail link between the NER and Chittagong port.

This would allow all of the NER to channel their exports and imports directly through the Indian Ocean. The cost of building a new Sabroom-Nizir Hat rail link is estimated at USD 85 million. However, significant improvements in the NER railway network are required for this to be a viable option. A portion of the recently promised USD 3 billion for connectivity in the NER¹⁶ could be utilised for this.

Bangladesh and Myanmar should also charge a transit fee for the use of their ports, ensuring income generation.

¹³"Bangladesh-India to sign MoU on use of Chittagong, Mongla ports," *Business Standard*, December 7, 2016 http://www.business-standard.com/article/news-ani/b-desh-india-to-sign-mou-on-use-of-chittagong-mongla-ports-116120700602_1.html

¹⁴Munima Sultana, "Feni bridge project in limbo." *The Financial Express*, 3 November, 2016 <http://www.thefinancialexpress-bd.com/2016/11/03/51757/Feni-bridge-project-in-limbo>

¹⁵"Rs. 1,741 crore Agartala-Sabroom rail-link by 2017," *Tripura Infoway*, June 21, 2016 <http://www.tripurainfoway.com/news-details/TN/30242/rs-1-741-crore-agartala-sabroom-rail-link-by-2017.html>

¹⁶"PM flags off Jiri-Silchar passenger train," *The Sangai Express*, May 26, 2016. <http://www.thesangaiexpress.com/pm-flags-off-jiri-silchar-passenger-train/>

GRADUAL LIBERALISATION

In its current form, the BCIM Framework highlights “Trade” as its first pillar. This approach to ECs as purely trade facilitating mechanisms, anchored firmly in “Zone 3” style development will not contribute to the sub-region’s development. While there is still a need for “Zone 3” style policy for trade facilitation between the BCIM countries, in the initial stages, “Zone 2” style development must remain the primary concern. The corridor should enable the establishment of forward and backward linkages in local industry, along with access to regional and foreign investment and technology. Enabling local communities to overcome institutional constraints and bottlenecks through the EC will enhance regional competitiveness and build the region’s market in the long run. Successful completion of this initiative would require India to balance its pursuit of sub-regional development with its strategic competition with China.

Trade policy must be designed keeping in mind the varied objectives of the BCIM nations. Economic integration must be allowed to occur at a gradual pace, parallel to the sub-region’s development, which can be expedited over time. The resultant lower transportation costs would facilitate an increase in trade without disrupting the domestic industries and markets of any country. Meanwhile, the countries need to undertake measures to insulate trade and investments from instability in the region.

Establishing a Modified Free Trade Agreement

Despite trade facilitation being a priority, the implementation of a free trade agreement (FTA) between the BCIM countries would take considerable political will and time. Instead the Forum should attempt to set up a Modified FTA that allows for gradual liberalisation. E.g., in the first year, foreign imports can be limited by tariffs, which can gradually be reduced by 5 per cent each year. There is also an incentive to support the BCIM EC for access to ports and other transport infrastructure that it provides to its members. The EC’s infrastructure should enable rapid export of the sub-region’s output to the Indian Ocean and the global market. This would allow for investment to strengthen the sub-region’s existing competitive sectors such as agriculture-based production and garment manufacturing. Over time, the Forum can address issues of service and investment liberalisation alongside liberalisation of goods markets.

BCIM-Multilateral Investment Promotion and Protection Agreement and Fund

Local investors might be unlikely to invest in some areas of the BCIM EC given the instability in the region and lack of strong domestic institutions. The overarching objective of this agreement should be to increase FDI flows among the BCIM countries. Therefore, a BCIM-Multilateral Investment Promotion and Protection Agreement (BCIM-MIPPA) should include a legal instrument that establishes specific rights and obligations of the countries to protect foreign investments against any kind of insecurity. This would compensate the investors for any incurred loss. The compensation could be structured in such a way that the compensation fund is raised by the host country of the investment, the country of origin of the investor, as well as through taxation of the company using the BCIM EC.



CONCLUSION

The proposed 2,800 km-long BCIM initiative holds great potential for unprecedented cooperation with the possibility of expanding economic development of the sub-region. However, BCIM countries should not embark upon a massive “Zone 3” expansion of infrastructure and connectivity programme without taking into account the lack of regional cohesion and the inherent instability in the sub-region. The launch of the “Zone 2” must have a dual objective of maximising possibility of bringing balanced growth to all four nations and improving mobility of both goods and people within the region.

Preliminary “Zone 3” measures can be implemented through a three-pronged approach: harmonisation of quality standards and the dismantling both tariff and non-tariff barriers; creation of necessary trade infrastructure like truck stops, customs offices and warehouses to ease flow of goods; financial institutions must allow for the provision of insurance and loan support to the sub-region’s firms wishing to engage in BCIM trade; and the support of SMEs within the region, especially those engaging in joint ventures with firms from the other BCIM nations, will be necessary to build intra-regional business ties.

Measures suggested here cannot be implemented on a one-off basis, but instead be successively rolled out while constantly monitoring their developments in the sub-region. The involvement of the sub-region’s population is crucial to overcome the existing trust deficit in the region; and this cannot be done without substantive improvements to the BCIM's current framework.

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