

Linking up East, Southeast and South Asia through BCIM Cooperation: Opportunities, Challenges and the Way Forward

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Contents

- Yunnan in GMS and BCIM Cooperation
- Manufacturing Matters
- Potentials and Opportunities
- Challenges
- The Case Study of Myanmar
- The Way Forward

Part One

Yunnan in GMS and BCIM Cooperation

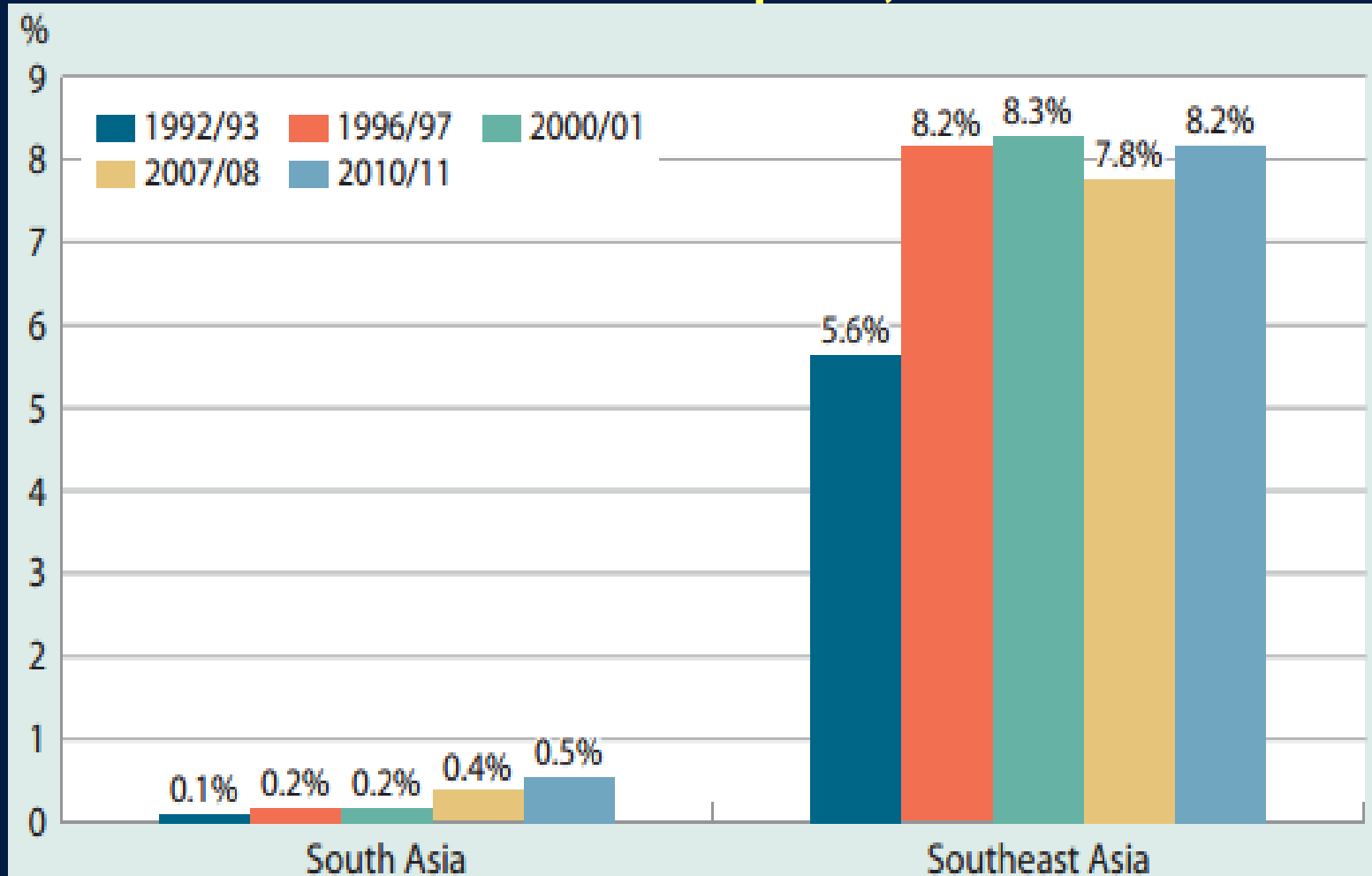
Yunnan's unique place in regional cooperation

- Yunnan Province is situated at the Southwest corner of China, bordering with Myanmar, Lao PDR, and Viet Nam.
- In 2011, Yunnan has been designated by the central government of PRC as the “gateway” of further opening up to Southeast and South Asia
- One of the two provincial level jurisdictions of China taking part in GMS cooperation
- Yunnan Academy of Social Sciences proposed the “Kunming Initiative” for BCIM cooperation in 1999

Part Two

Manufacturing Matters

Share of South and Southeast Asia in World Total Production Network Exports, 1992–2011



Source: Presentation for the 2nd China-South Asia Think Tank Forum by Prof. Shahidul Islam from BRAC University of Bangladesh, Kunming, Yunnan, PRC, 6-7 June 2014.

Geographic profile of World Network Exports, 2009-10 (%) (figures marked with * are for 2010-11)

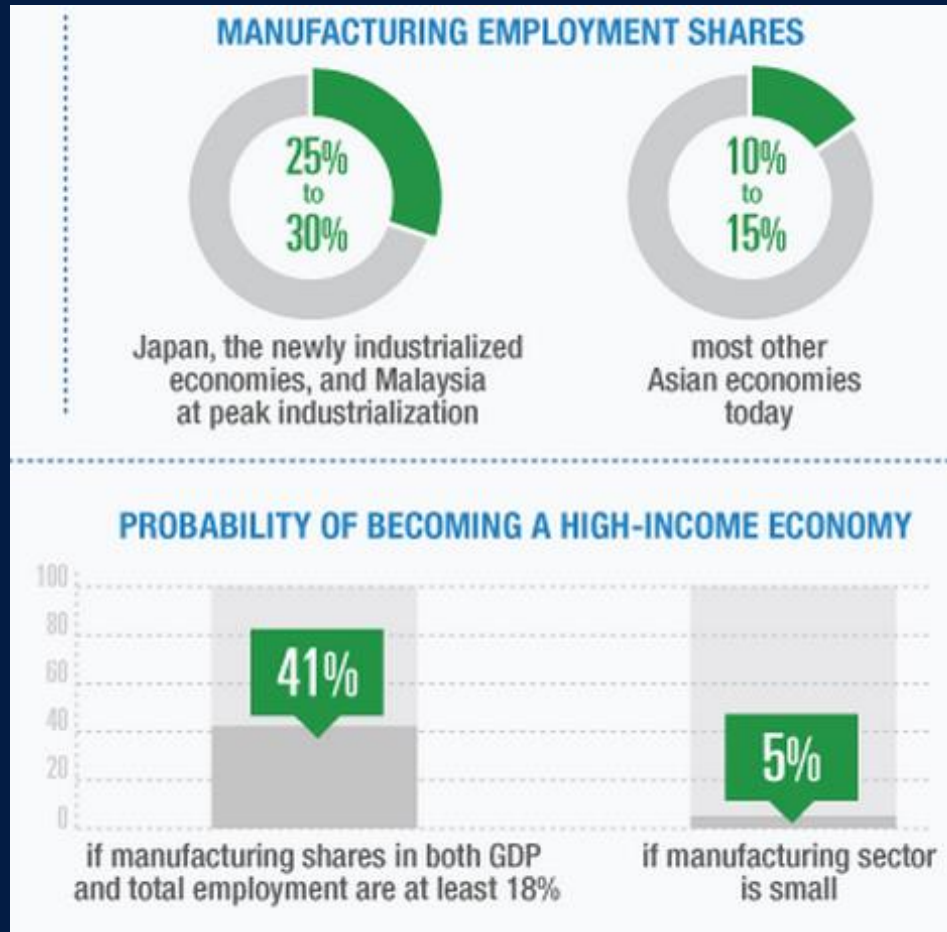
	Parts & components	Final assembly	Total
Developing East Asia (DEA)	36.9*	35.9*	36.3*
China	14.4	18.9	17.3
Hong Kong, China	0.6	0.5	0.7
Taiwan	4.1	2.2	3.2
South Korea	5.8	3.7	4.1
South East Asia	9.8	3.3	7.6
Indonesia	0.5	0.3	0.5
Malaysia	3.7	0.5	2.5
The Philippines	1.6	0.3	1.2
Singapore	2.5	0.7	1.9
Thailand	1.7	1.5	1.6
Vietnam	0.2	0.1	0.1
South Asia	0.5	0.2	0.3
Developed countries	51.9	56.1	52.4
Developing countries	48.1	44.4	47.6
World	100	100	100

Source: Presentation for the 2nd China-South Asia Think Tank Forum by Prof. Shahidul Islam from BRAC University of Bangladesh, Kunming, Yunnan, PRC, 6-7 June 2014.

The Demographic Dividends

Job opportunities, proper education and training are necessary to translate population into demographic dividends

Manufacturing matters in job creation and improvement of productivity



Source: Presentation for the 2nd China-South Asia Think Tank Forum by Prof. Shahidul Islam from BRAC University of Bangladesh, Kunming, Yunnan, PRC, 6-7 June 2014.

Part Three

Potentials and Opportunities

Potentials of BCIM Cooperation

● The Potential: Regional Market Access

- 3 billion people: China+India+Bangladesh +ASEAN
- Growing Chinese market: world's No.1 in terms of the volume of trade in goods in 2013 (US\$ 4.16 trillion), and world's 2nd largest market
- China is re-balancing its economy, and promoting urbanization to boost domestic demand to address the problem of over-dependence on export and investment
- West China developing faster than East China since 2007

Opportunities for Industrial Cooperation

- Excess production capacity of China
- The growing production costs and long-term appreciation of the Chinese currency RMB
- Export-oriented labor-intensive industries in China are relocated in interior or moving out to neighboring countries
- The problem of excessive dollar in China (foreign exchange reserve at US\$ 3.82 trillion by the end of 2013) and China has become a major source of FDI.

The Complementarity

- From competition to cooperation
 - The case of Multi-fiber Agreement (MFA) ;
 - India's strengths lie in service sector, IT, pharmacy, financial system, private sector development, etc. while China's lie in manufacturing sector, infrastructure development and financial resources
- Ageing population of China, and labor shortage of Yunnan esp. in rural areas

Cooperation has already begun

- Bangladesh-China cooperation on manufacturing; India-China cooperation in IT, Pharmaceutical Industry and education;
- Industrial parks to receive regional FDI and technology transfer (creat jobs, and address the problem of trade deficit with China and improve BoP situation)

Part Four

The Challenges

Challenges

- Intra-regional trade level is not satisfactory
- Countries in the region are competing for FDI and market.
- Other factors, e.g., non-tariff barriers, transparency problems, border trade restrictions and bottlenecks on cross-border transportation, etc., are hampering regional integration.
- ❖ Construction of AEC and FTA for SAARC will be a long, gradual process.

Major obstacles for regional connectivity

- Infrastructure in poor condition
- Limited capacity for transshipment
- Lack of cross-border and transit transportation agreement
- Trade restrictions
- Complex custom process at border areas
- Limited financial resources
- Lack of appropriate technology
- Security concerns

Difficulties in facilitating industrialization

- Land acquisition for Special Economic Zones/Industrial parks development
- Red tape: quotas and licenses
- Rules and regulations need streamlining and harmonization
- Overall business environment improvement

Part Five

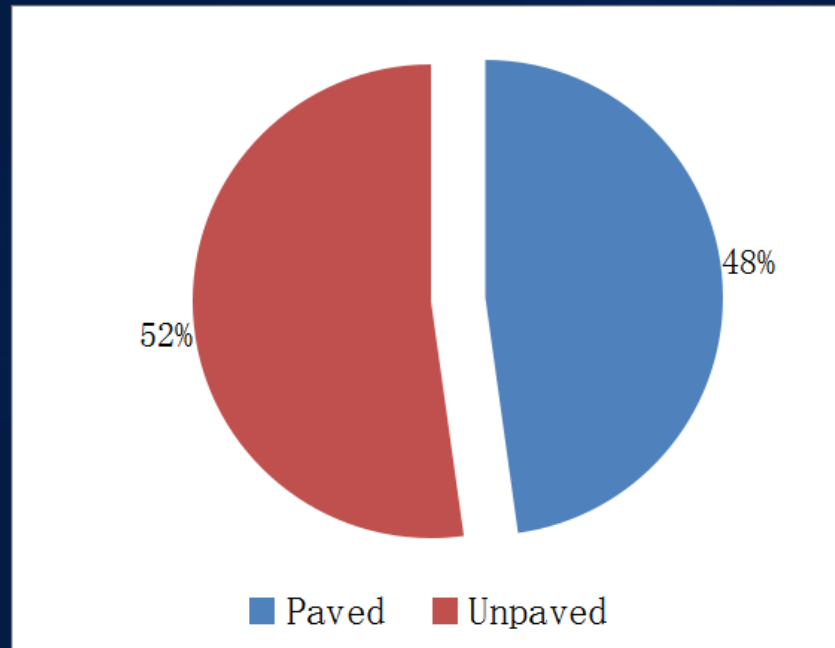
The Case Study of Myanmar

The Importance of Myanmar in BCIM cooperation

- Myanmar is the land bridge linking East, Southeast and South Asia
- Therefore, Myanmar's development is of critical importance in terms of regional cooperation
- Particular concerns on regional connectivity, the industrial policy and prospect of improvement of productivity in Myanmar

Infrastructure

Percentage Ratio of Paved and Unpaved Road In Myanmar



(As of March, 2013)

Source: Ministry of Construction, Myanmar

The development of the export-oriented, labor-intensive industries

- Formerly We thought...
 - Lessons and experiences: As evidenced by most countries' experiences, import substitution strategy in a closed market environment has been proved time and again unsuccessful.
 - Comparative advantages: Myanmar has advantageous location, rich resources and relatively low labor cost which are essential for light industry's development, and copy the success stories of the 4 Asian Tigers and the newly industrialized economies (NIEs) in Asia.
 - Market Access: Lifting of the economic sanctions and fast progress in regional cooperation will offer Myanmar an unprecedented chance to access regional and global markets.

More outside and internal challenges

- The demand side problem: The American and European markets are not improving after the 2008/2009 crisis
- Competition from other Asian neighbors (Vietnam, Cambodia, Indonesia, Bangladesh...)
- Infrastructure problem
- Human resources problem
- Lack of Indigenous technology (to learn and absorb new tech)
- Lack of Industrial clusters

A race to the bottom?

- Development of the export-oriented, labor-intensive industry should be taken as just an initial stage of industrialization development.
 - Labour-intensive --- capital-intensive --- knowledge-intensive
 - Factor-driven --- capital-driven --- technology-driven --- innovation-driven
- However, there is danger of falling into the "low-tech trap"
 - Competition from other countries for FDI and overseas market : lower costs of labor and land
 - The difficulty to climb the value chain and upgrade the industry
 - Hence the difficulty to improve productivity

Part Six

The Way Forward

Result-oriented, Project-based Cooperation

----Learn from Great Mekong Subregion (GMS) Cooperation

- Learn from the GMS Regional Investment Framework Pipeline of Potential Projects (2013–2022) adopted in Vientiane, Lao PDR, Dec. 2013
- Identify a number of prioritized projects and establish a BCIM Regional Investment Framework
- Focus on transportation and energy sector, and construction of industrial parks
- Select and implement some "Early Harvest" or pilot projects to boost confidence

Policy coordination on transport and investment facilitation

- Learn from the Greater Mekong Sub-region (GMS) in transport and customs clearance facilitation -- GMS Cross-border Transport Agreement (GMS CBTA), reach consensus on signing a BCIM CBTA
 - Single Stop Inspection (SSI)
 - Single Window Inspection (SWI)
 - Customs Transit System (CTS)

Capacity building and knowledge sharing

- Training programs be incorporated in BCIM-EC cooperation
- Learn how to work together with colleagues from other countries
- Knowledge sharing for innovation

Assistance from ADB is very important

- Fund regional connectivity and industrial projects
- Offer Technical assistance
- Efficient use of factors of production
- Investment in technology and innovation
- Help create regional production network, facilitate regional labor division, trade and investment , economies of scale and other spillover effects.

It is not just about physical connectivity

---- 5 Links of BCIM cooperation

- **Road/Railway link:** China should contribute more
- **Policy link:** Coordination and harmonization of relevant policies such as transport facilitation
- **Trade link:** Great trade settlement in the region. FTZs at border areas and BCIM FTA
- **Currency link:** Use local currency and more currency swap schemes in the region (address the problem of BoP); BCIM Investment Bank;etc.
- **People link:** People-to-people contact, cultural exchanges, easy flow of skilled labor and professionals, tourism promotion

The Vision

- ◆ “China and India are fellow travelers sharing weal and woe in a common journey.”

----- Mahatma Gandhi

- ◆ “China and India are two bodies with one spirit.”

----- Indian Prime Minister Modi

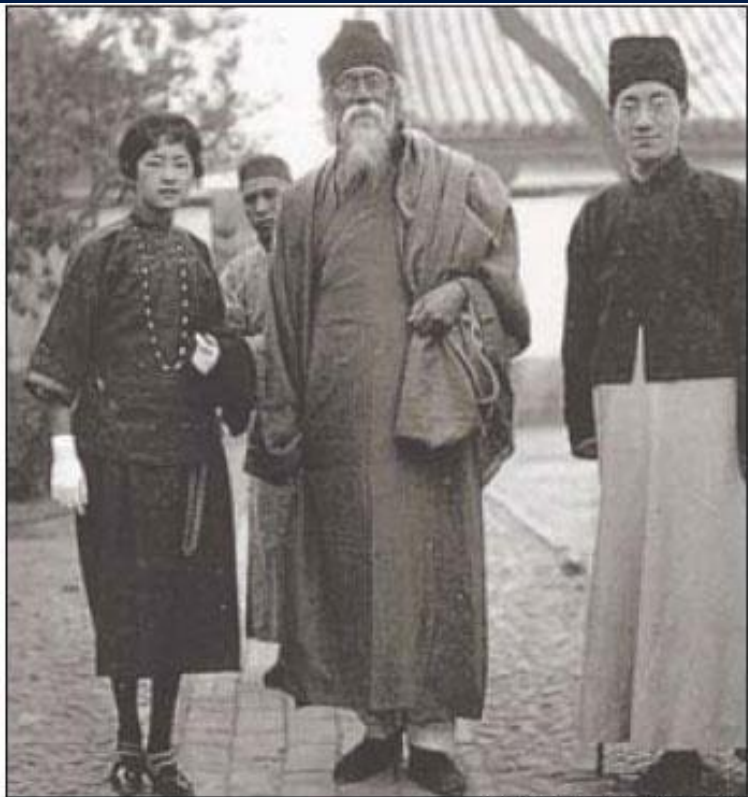
“The Indian culture emphasizes harmony, inclusiveness, spiritual transcendence and hopes for the future; the Chinese culture values peace, perseverance, self-discipline and social commitment.”

----Prof. M. Shahidul Islam

- ◆ Foster a regional sense of belonging, a new regional spirit based on common interests

The Vision

- The rich historic and spiritual legacy in the region:
The Southern Silk Road, Rabindranath Tagore...



CHINA PHOTO PRESS

**Tagore and Chinese poet Xu Zhimo (right),
with whom he forged a lasting bond.**

- R. Tagore: the author of the national anthems of both India and Bangladesh
- Ms. Lin Huiyin(left): the designer of PRC's national emblem

The Win-win Strategy

- Multilateral regional cooperation requires patience and confidence
- Gradual open-up
- Preferential treatment to the less developed member countries to help them come along

Thank You !