

**RECENT DEVELOPMENTS IN MYANMAR AND NEW  
OPPORTUNITIES  
FOR SUB-REGIONAL COOPERATION:  
A Bangladesh Perspective**

Debapriya Bhattacharya  
Distinguished Fellow  
Centre for Policy Dialogue (CPD)  
House 40/C, Road no. 32, Dhanmudi R/A,  
Dhaka-1209, Bangladesh

<debapriya.bh@gmail.com>

Mashfique Ibne Akbar  
Research Associate  
Centre for Policy Dialogue (CPD)  
House 40/C, Road no. 32, Dhanmudi R/A,  
Dhaka-1209, Bangladesh

<akbar.mashfique@gmail.com>

**September, 2012**



**CENTRE FOR POLICY DIALOGUE (CPD)**  
**B A N G L A D E S H**  
*a civil society think-tank*

1. Introduction.....	1
2. Integration of Myanmar in regional and global economy.....	3
3. Bangladesh-Myanmar Relations: The Present Context.....	11
4. Theorising Sub-regional Cooperation.....	15
5. Bangladesh and Myanmar: Opportunities and Challenges.....	20
6. Looking ahead.....	25
References.....	28

**List of Tables and Figure**

Table 1: Basic economic indicators of Myanmar.....	4
Table 2: External sector indicators of Myanmar.....	5
Table 3: Myanmar’s GDP growth rate and GDP per capita.....	6
Table 4: Myanmar’s share in the global arena.....	8
Table 5: Myanmar’s trade with BCI.....	10
Table 6: Bangladesh-Myanmar trade (goods).....	12
Table 7: Nash Equilibrium and Prisoner’s Dilemma.....	16
Figure 1: Edgeworth Box analysis.....	17
Figure 2: Kunming-Chittagong road link.....	22

## 1. INTRODUCTION

In recent times, significant changes have taken place in the Union of Myanmar (previously *Burma*). As is known, Myanmar remained under military rule since its independence in 1948, until March 2011 when the country witnessed the emergence of a new, semi-civilian elected government. Since 2011, Myanmar has embarked on policy reforms of anti-corruption laws, currency exchange rates, foreign investment laws and taxation. The large inflow of capital and foreign investment resulted in a stronger valuation of the Kyat (Myanmar currency). In response, the government relaxed import restrictions and abolished export taxes. It is to be noted at the outset that Myanmar's financial system remains one of the most rudimentary in Asia where most transactions are carried out in cash. Credit cards and the like are still an alien concept to the citizens of Myanmar; mobile phones can only be afforded by the affluent classes.

Sixty years of misguided policies have moved Myanmar from being the South-East Asian country with the brightest economic prospects at the end of World War II, to ranking among the lowest in the world by almost all socioeconomic indicators today. Economic sanctions were imposed on Myanmar by the US and the EU with ambiguous outcome. Asian countries have stepped into the vacuum created by the global actors by entering into trade agreements through a variety of bilateral and regional arrangements with Myanmar (Asiatic Society 2010b). The vacuum created by Western countries has been filled most notably by China, India and Thailand (ibid: 46).

Myanmar borders five nations and is endowed with rich natural resources — arable land, forestry, minerals (including gas and oil), freshwater and marine resources. The total border of Myanmar with China is 2185 km, with Thailand 1800 km, with India 1463 km, and with Bangladesh 193 km. Its geo-strategic location has made Myanmar part of six regional and sub-regional groupings, including Association of Southeast Asian Nations (ASEAN), Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), Forum for Regional Economic Cooperation among Bangladesh, China, India and Myanmar (BCIM). Some SAARC countries and Myanmar are members of the Ganga-Mekong Cooperation and all these groupings have provided platforms for member countries to interact with each other.

Bangladesh, China, India and Myanmar (BCIM), given their factor endowments poises to be a unique sub-region. Two of the most important concepts in contemporary international relations are regionalism and sub-regionalism. The enduring pursuit of regionalism and sub-regionalism has an underpinning thrust on peace, security and development through exploration, identification and gradual intensification of trade, economic and cultural ties among the members. The Kunming Initiative, or what has come to be known as the BCIM Forum (track-II initiative), came into effect more than a decade back on August 17, 1999, with the Conference on Regional Cooperation and Development among China, India, Myanmar and Bangladesh held in Kunming, the capital of Yunnan Province in the south-western region of China. It is one such sub-regional venture that explores the prospects of cooperation by clustering parts or the whole of Bangladesh, China, India and Myanmar, specifically the land-locked frontier areas.

The BCIM is one of the richest sub-regions in the world in terms of natural and mineral and other resources (Rahman et al. 2007).<sup>1</sup> The BCIM covers a total area of nearly 14 million sq km or 9 per cent of the world area. The BCIM concept draws its inspiration from the idea of 'growth zones' which has been a relatively new introduction in the vocabulary of development economics. It is estimated to account for 5 per cent of world trade with a lower record of 4 per cent intra-regional trade. The potential of BCIM intra-regional trade has been set at USD 125 billion, where 60 per cent is yet to be translated into reality (De 2011). The political aspects relating to economic integration in the BCIM sub-region: (a) market access in Myanmar; (b) investment opportunity; (c) connectivity problems; (d) contract farming; and, (e) energy cooperation.

What is of relevance here is that given the unprecedented winds of change shaping Myanmar's political discourse, there is ample scope for improving the economic cooperation status quo in the BCIM sub-region. The recent bidding war between the giants for the Shwe Gas and Pipeline project demonstrates Myanmar's regional importance (Tea 2010). "From an Indian perspective, Myanmar is an open door to Southeast Asia. From a Chinese perspective, Myanmar presents alternative routes for nature resources and strong influence in the region," (ibid: 16). This symbolises Myanmar's emergence in the Asian region which has serious repercussions for the BCIM sub-regional cooperation. Furthermore, Myanmar became the Chair of Association of South East Asian Nations (ASEAN) in November, 2011. It has been given this rotational opportunity amidst objections of many in the US after being accepted as a member of ASEAN in the same year.

### *Methodology and objectives*

This paper hopes to add new knowledge on sub-regional cooperation focusing on Bangladesh and Myanmar. Our point of departure rests on the premise that Bangladesh and Myanmar are natural allies for each other because they are both at the confluence of the two giant economies – China and India. In addition, Bangladesh and Myanmar constitute the bridge in connecting countries of South and South-East Asia regions. As far as our knowledge dictates, this is the first paper to deploy a game theoretic approach to help conceptualise the various possible strategies that partner countries, in the BCIM sub-region, may consider in arriving at their Pareto-optimal solutions, and thereby improve their prevailing integration status quo in terms of their economic relations. The explanations derived from the game theory have been extended by the Edgeworth box to place it in the conceptual framework of sub-regional integration. At the same time, we highlight the theoretical shortcomings of the paper in view of possible deterrents to sub-regional cooperation in the BCIM block.

The paper is based on primary and secondary sources of information. Interviews were held with resource persons with extensive knowledge on the subject of sub-regional cooperation. We consulted Mr. Karar Mahmud Hasan, Honorary Advisor, Bangladesh-Myanmar Chamber of Commerce and Industry (BMCCI) and Dr M Rahmatullah, Distinguished Fellow, Centre for Policy Dialogue (CPD), to inform our understanding about the potential for Bangladesh-Myanmar cooperation in view of the Indo-Sino

---

<sup>1</sup> Major growth zones in the Asian region are the Southern China Growth Triangle, Southern Growth Triangle, Greater Mekong Sub-region (GMS) and South Asia Growth Quadrangle (SAGQ).

dominance in both the countries. Though regional cooperation is a well-researched subject, the topic of promoting Bangladesh-Myanmar relations in view of their potential as natural partners, has yet to draw the attention of the academic world. There is, nevertheless, a large volume of literature dealing with regional cooperation in Asia with a focus on the BCIM sub-region (see for example Kalam, 2001 and Sobhan 2000, Rahman et al. 2007). Relevant literature dealing with economic cooperation in South Asia was reviewed from the Bangladesh and Myanmar perspectives to better understand the rationale of their cooperation, by taking into consideration the Indo-Sino dimension.

### *Layout of the paper*

The following section discusses Myanmar's economy performance and assesses its role in the South and South East Asia regions, particularly with a focus on the BCIM sub-region. *Section 3* identifies areas of bilateral trade cooperation between Bangladesh and Myanmar. This section is meant to underline the rationale of why and where Bangladesh and Myanmar could cooperate. In assuming these two neighbours as natural allies, we *ab initio* examine possible opportunities for promoting Bangladesh-Myanmar economic relations, particularly in the areas of trade and investment. Then we move on to analyse possible theoretical implications of the two countries in coming together for advancing their interests in the BCIM sub-region. *Section 4* presents the conceptual framework with Edgeworth box, coupled with the theoretical shortcomings in terms of interpreting the scope for sub-regional cooperation. *Section 5* extends the theoretical analysis by presenting a forward looking strategy, based on theoretical analysis empirical evidence, from the Bangladesh and Myanmar perspectives. *Section 6* summarises the discussion and concludes.

## **2. INTEGRATION OF MYANMAR IN REGIONAL AND GLOBAL ECONOMY**

### *State of the Myanmar economy*

Myanmar is endowed with rich natural resources including gas although it is considered to be one of the poorest regions of the world. Some of the basic salient economic indicators of Myanmar are presented in table 1. The economy is currently growing at a modest rate of 5.3 per cent with GDP hovering around USD 45 billion (ADB, 2011). Myanmar's economy is primarily agro-based with agriculture contributing 50 per cent of GDP followed by services industry contributing 34 per cent.

GDP per capita of Myanmar recorded an increase of 76.5 per cent from 1995 to 2005. The unemployment rate also has been very unresponsive to the ongoing changes in the economy which has remained very stagnant throughout the last decade. Other indicators such as gross national savings and total investment as a percentage of GDP have recorded an overall increasing trend from 1995 to 2010, although the trend is not consistent throughout the intermediate years.

**Table 1: Basic economic indicators of Myanmar**

Indicators	1995	2000	2005	2010
GDP(current USD, billion)	5.5	8.9	12.0	45.4
GDP per capita (current USD)	122.6	177.6	216.4	741.7*
GDP per capita (based on PPP; current international dollar)	314.8	458.9	859.2	1254.5*
Population (person in millions)	44.7	50.1	55.4	61.2*
Unemployment rate (per cent of total labour force)	-	4.0	4.0	4.0*
Gross National Savings (Per cent of GDP)	11.6	13.7	18.9	16.7
Total Investment (Per cent of GDP)	14.3	12.5	13.2	15.4

**Source:** International Monetary Fund, World Economic Outlook Database, September 2011

**Note:** \* indicates forecasted and not realised data

Table 2 shows the external sector's performance of the Myanmar economy. FDI was decreasing from 1995 to 2005; however, a forecasted figure of USD 910.4 million in the year 2010 shows the level of confidence that the newly formed democratic government have been successful to instil amongst international investors. Nevertheless, it is to be noted that FDI as a percentage of GDP may show a decrease in 2010. The net Official Development Assistance (ODA) has remained, more or less, at the same level from 1995 to 2005 while decreasing in 2000. One of the major reasons for the stagnation of ODA could be the then lack of progress of Myanmar towards political reform, coupled with ambiguous economic policies and consumer boycotts. The country was regarded as highly risky for investment purposes and arrears on previous loans had put it in the bad books of various donor agencies such as the Asian Development Bank (ADB) and the World Bank, alongside donor countries.

**Table 2: External sector of Myanmar**

Indicators	1995	2000	2005	2010
CPI (base year 2006 = 100) <sup>d</sup>	-	151.7	450.8	158.9
CPI (per cent change) <sup>d</sup>	-	-0.2	9.4	9.9
Remittance (current USD in millions) <sup>c</sup>	81.4	103.6	130.8	154.2
Remittance (per cent of GDP) <sup>c</sup>	1.1	1.4	1.1	0.4
FDI (current USD, million) <sup>a</sup>	279.9	258.3	237.2	910.4
FDI (per cent of GDP) <sup>c</sup>	4.1	2.9	2.0	1.8
ODA (current USD, million) <sup>a</sup>	150.2	105.6	144.8	-
Export (current USD in millions) <sup>a</sup>	1307.2	2139.4	4046.9	8197.9
Export (per cent of GDP) <sup>a</sup>	0.8	0.5	0.2	0.1
Import (current USD in millions) <sup>a</sup>	2020.1	2493.5	2261.4	5172.6
Import (per cent of GDP) <sup>a</sup>	1.7	0.6	0.1	0.9
Balance of Payment, net current account (current USD in millions) <sup>c</sup>	-261.0	-211.7	587.7	-
Balance of Payment (per cent of GDP) <sup>c</sup>	-3.4	-2.9	4.9	-

**Source:** Compiled from various sources

**Notes:** "a" indicates data from World Bank, World Development Indicators and Global Development Finance, 2011; "b" indicates data from International Monetary Fund, World Economic Outlook Database, September 2011; "c" indicates data from UNCTAD statistics, 2011; "d" indicates data from ADB, 2011

Although remittance increased in terms of value over the last decades, it is the case that such flows decreased as a share of GDP from early 2000s. The declining trend of remittance should be seriously considered by the government of Myanmar as it can be a vital source of foreign currency earnings. While export has increased in absolute terms, export as a percentage of GDP have decreased over the last 15 years. A notable observation about imports is that its level surpassed the level of cumulative exports till 2000, but after 2000, there was a reversal of this trend. This is also indicated in the current account surplus in 2005 whereas current account deficit can be observed in the earlier years. Imports of the economy as a percentage of GDP have also been following a sluggish pattern, which in turn, is a somewhat positive indicator for the economy from the growth but not the industrial development perspective.

**Table 3: Myanmar's GDP growth rate and GDP per capita**

Period	Average GDP growth rate (per	Average GDP growth rate per capita (per
1971-	4.2	1.8
1981-	1.4	-0.4
1991-	7.1	5.7
2001-	12.1	11.3

Source: UNCTAD statistics, 2011

It is important to consider the decade-wise GDP growth and average GDP growth per capita of Myanmar. The statistics are presented in table 3. It can be inferred that the state of affairs of the economy was at the minimum efficiency during the decade 1981-90. However, the latter decades experienced higher levels of prosperity and this is evident from the higher echelon reached by the GDP figure in the later decades at 7.1 per cent and 12.1 per cent. Similarly, GDP per capita suffered severe setbacks in the 1990s but recovered and grew in the latter decades.

Myanmar's export and import over the decades have been very asymmetrical. However, it has to be borne in mind that Myanmar only became a democratic regime in 2010 after decades of being isolated from the global community. Myanmar's overall exports growth over the decades has not been consistent, displaying a volatile trend. It was only from the decade of 1990-00 that the economy witnessed a consistent positive export growth at a rate of 14.4 per cent and a growth rate of 17.3 per cent in the decade thereafter. Similarly, import growth also experienced positive and negative growths interchangeably in the previous decades. The import growth of Myanmar displays significant growth of 22.6 per cent in the decade of 1990-00 and 7.6 per cent in the last decade covering 2000-2010.

The export growth of Myanmar was booming during the first half of the last decade. This was attributed to the earnings from natural gas exports. High oil prices caused Myanmar's gas exports to Thailand in 2006 to increase by 39 per cent (comparing with the same period in the previous year) amounting to USD 1.9 billion. Nevertheless, export growth has considerably slowed down in recent years. Similarly, Myanmar's imports picked up significantly in the first half of the first decade of the twenty-first century as a result of the relaxed import controls in the 2000s. But import growth dropped significantly in 2009, while picking up very modestly in 2010.

The latest of the reforms that the newly formed civilian government of Myanmar adopted is the floating exchange rate mechanism. This is one of the most crucial reforms in the current context because the liberalisation of the exchange rate will have a trickle-down effect on many other aspects of the economy. The fundamental implication will be that the economy would be able to cushion itself against the impact of high amounts of foreign aid and investment that could lead to high levels of inflation. The exchange rate will now be determined from market actions with the central bank having a role to play in the course of action. Amongst others, the *raison d'être* of the reform is to unify the various exchange rates that were existent in the economy. Elimination of restrictions on

international payments and transfers is another significant motive of the reform. At present, the official exchange rate of US Dollar to Kyat is around 818 to the dollar, but the previous official exchange rate was a far cry at 8.5 to the dollar.<sup>2</sup> Thus, the exchange rate reform policy is a major one that should minimise the long-running gap between the official rate and the black market one.

Finally, it is of little surprise to note that there is colossal statistical discrepancy in the case of Myanmar. It has been argued that efforts should be made to speed up economic development and improve economic competitiveness in Myanmar. Amongst many, one option would be set up a self-regulating central bank, independent from politics and which will also consolidate the financial market. An independent central bank would follow the pre-requisite of a financially viable government, which would be able to provide essential funds for economic activities. A financially sound government would have other positive externalities as well. This would include proper funding of military organisations and adequate infrastructure to facilitate non-gas production and exports.

Other key reforms relate to restructuring of state-owned enterprises and attaining food security (USIP 2010). Myanmar's government needs to urgently undertake agricultural reform to secure the livelihood of the many farmers in the country. Agriculture contributes a significant share of Myanmar's GDP. Steps have been taken to liberalise agriculture and most production controls and mandatory procurement have ended. It is also encouraging to note that some state-owned economic enterprises involved in processing and supplying inputs to agriculture have been privatised. However, these efforts have so far been modest in nature and additional reforms are needed for further liberalisation of the agricultural sector and the extension of bank lending facilities directed toward the sector. Indeed, reforming Myanmar's state-owned enterprises will help Myanmar translate its targeted economic growth of 12 per cent under its *Five Year Plan*. A logical reasoning behind this argument would be the proposition that the state-owned enterprises of Myanmar have produced low profits and have been plagued with inefficiency, poor management, rent-seeking activities and corruption.

### *Myanmar in global perspective*

Myanmar is considered to be one of the poorest countries of the world suffering from decades of stagnation. The economy is primarily agro-based with agriculture contributing half of the GDP, followed by services. It has been argued that the country's economy is structurally flawed. Moreover, economic disparities within Myanmar are pronounced. Myanmar's export to the world consists mainly of natural gas followed by pulses, teak and garments. Principal imports of Myanmar comprises mainly of non-electrical machinery, refined petroleum and base metals. The country was not directly hit by the global financial crisis, given its absence of trade and financial linkages with industrial countries. However, exports and private consumption were reduced by the combined effect of economic slowdowns in neighbouring economies, a collapse in commodity prices, and the impact of Cyclone Nargis in 2008. Private consumption, however, remained subdued by a slowdown in inward remittances.

---

<sup>2</sup> According to <http://www.oanda.com/currency/converter/>. Retrieved on 4<sup>th</sup> June, 2012

Inflows of FDI into the energy sector helped to lift international reserves from about USD 4 billion in FY2008 to USD 5 billion at the end of FY2009, equivalent to 8 months of imports (ADB 2011). Despite a fall in growth to 5 per cent in 2008-2009, as reported earlier, growth is projected to stabilise at 5.5 per cent in 2011-2012, as domestic investment, privatisation, construction, and services pick up (ibid). Recent economic reforms in Myanmar and relentless efforts by the newly elected civilian government in Myanmar is helping the economy set up a more striking and open appearance to the global community. However, it is always helpful to have a look at the historic movements of essential economic indicators. Myanmar's export, import and FDI as a percentage of the collective world quantity is presented in table 4. It shows that Myanmar's export as a percentage of world export is increasing. In contrast, FDI and import as a share of the whole shows no trend and the year-to-year observations follow a random pattern.

**Table 4: Myanmar's share in the global arena**

Year	Myanmar's exports as a share of world export	Myanmar's import as a share of world import	Myanmar's FDI as a share of world FDI
1995	0.02	0.03	0.09
2000	0.04	0.04	0.01
2005	0.04	0.02	0.02
2010	0.06	0.03	0.06

**Source:** UNCTAD statistics, 2011

The progressive courses of action have also opened doors for foreign investors to actively participate in investment in Myanmar which would enhance scope for economic cooperation. A more liberal investment law has already been made official and the laws will recently take-over the restrictive and outdated code within a very short span of time. According to the Economist Intelligence Unit (EIU), approved foreign investment projects reached approximately USD 20 billion in 2010-11, with the majority of the allocation in oil, gas and power-related projects. But this phenomenon has not been widely accepted; the local residents are apprehensive that big foreign investors would impose very competitive conditions for local entrepreneurs. Market-oriented economic policies, including removal of remaining restrictions on private enterprise, have been announced by the new government which showcases its commitment toward establishing a market based economy in order to accelerate economic growth and social development.

Whether political change will stimulate economic reform or vice versa is uncertain. The latest April 2012 by-election in Myanmar is, nevertheless, signalling the beginning of a new era in the South East Asia and South Asia regions. The US's new *Pragmatic Engagement* foreign policy toward Myanmar indicates the interest of the global community in Myanmar (Asia Society, 2010a). Indeed, after 50 years of autocratic rule, Myanmar is sending strong signals of heralding a new kind of political leadership, which is setting a completely distinct tone for regional and sub-regional cooperation. In terms

of the latter, the BCIM forum is one of the arenas where Myanmar's new leadership ability is going to put under test.

### *Myanmar in BCI*

Table 5 reveals the performance of Myanmar in the BCIM growth zone. In particular, it reports on Myanmar's trade with BCI (Bangladesh, China and India). The export trend of Myanmar to the BCI block has been on an increasing trend. Inspection of data further allows us to deduce that export of Myanmar to the world, as a whole, have increased significantly in the last decade and consequently, exports to BCI increased by approximately seven fold from 2000 to 2010. Similarly, aggregate imports from the BCI block have increased. The growth in imports has been mainly driven by the enhanced amounts of imports from China, while that of Bangladesh have remained consistent. Imports from India have also increased but less than the growth of imports from China. The growth of imports of Myanmar from the world as a whole has increased from USD 3.6 billion in 2005 to nearly USD 10 billion in 2010. This growth is complemented by the incremental share of imports from the BCI sub-region from 32.3 per cent in 2005 to 41.6 per cent in 2010.

What is notable is that Myanmar's export to the BCI as a percentage to the country's total exports has increased significantly from 15 per cent in 2000 to 30 per cent in 2010. This indicates that Myanmar have been exporting goods and services which cater to the needs of the BCI and also at a competitive worth. The strengthening association between Myanmar and its neighbours is also evident from the fact that imports of Myanmar have increased from BCI in recent times. Table 5 shows that imports of Myanmar from BCI increased by 2 times in the last decade.

**Table 5: Myanmar's trade with BCI**

	Myanmar exports to BCI (million USD)					Myanmar imports from BCI (million USD)				
Countries	1990	1995	2000	2005	2010	1990	1995	2000	2005	2010
Bangladesh	1	4	20	29	91	1	2	1	2	4
India	44	146	163	451	1019	1	23	53	123	301
China	33	136	113	250	874	138	680	546	1028	3829
Total exports to / imports from BCI	78	286	296	730	198	140	705	600	115	413
			← 6.70 times →					← 6.89 times →		
Total exports to / imports from world	409	1198	1979	370	649	668	2342	3039	356	994
			← 3.28 times →					← 3.27 times →		
% of MYN's export to / import from BCI	19.1	23.9	15.0	19.7	30.6	21.0	30.1	19.7	32.3	41.6
			← 2.02 times →					← 2.11 times →		

**Source:** Estimated from Direction of Trade Statistics Database, IMF

From the political perspective, it has been argued that the outside world often exaggerates China's influence on Myanmar (Hongwei 2011). According to a recent report prepared by the *International Crisis Group*, China's influence on Myanmar is not as great as it is widely assumed (ICG 2011). The report observes that Myanmar's leaders are sensitive to outside interference, and therefore have developed relations with India, Russia, ASEAN, and other countries to counter China's hegemony in the region. However, as table 5 shows China's presence is evident from its share of imports done by Myanmar.

Most governments in Asia believe that sanctions and isolation imposed on the regime have been the two largest impediments to change in Myanmar and have driven it into China's ever-tightening embrace (Asia Society 2010b). This perception ignores a very plausible proposition that Myanmar's military leader cleverly manipulated these countries for their own advantage and benefit. Despite the nature of the current relationships with China and India, Myanmar has always been particularly wary of its two large neighbours (Hong 2007). This makes it imperative to consider other non-

traditional neighbours such as Bangladesh in approaching the regional cooperation agenda.

### **3. BANGLADESH-MYANMAR RELATIONS: THE PRESENT CONTEXT**

#### *Trade flow*

It is known that trade between Bangladesh and Myanmar is low with Myanmar recording a bilateral trade surplus. An interesting reality is that the trade balance used to be in favour of Bangladesh till the mid-1990s, after which, it started to tilt in the favour of Myanmar. According to the latest data, Bangladesh's total exports in FY2011-12 (July to December) stood at USD 11.8 billion. China, India and Myanmar recorded a very low share of Bangladesh's exports. Exports to Myanmar recorded USD 5.8 million, which is less than one per cent of Bangladesh's total exports to the world. However, the same does not hold true in the case of import activities. Latest data indicates that Bangladesh imported goods worth USD 79 billion in the ongoing fiscal year. China and India together accounted for 33 per cent of total imports. Share of imports from Myanmar recorded slightly better at 0.2 per cent compared to Bangladesh's exports to Myanmar.

In January 2012, direct bilateral export and import, that is, opening of letters of credit (LCs) was initiated between Bangladesh and Myanmar, which previously operated through Singapore or Thailand. Measures are also being taken by some of the government banks and private banks to facilitate and expand trade between the nations. The state-owned Sonali Bank Ltd. has already taken the initiative by opening LCs and two other private banks were given the permission to extent their LC facility to Myanmar.

Table 6 presents Bangladesh-Myanmar's top 5 traded goods from the perspective of Bangladesh for the period 2009-10. This is a comprehensive indicator of the type of ongoing trade between Myanmar and Bangladesh. The top 5 export products accounted for 94.6 per cent of total exports to Myanmar and the top 5 imported products accounted for 99.7 per cent of total imports. Bangladesh's exports to Myanmar are predominantly pharmaceutical products. Pharmaceuticals accounted for more than 50 per cent of total exports to Myanmar. Iron and steel rank second in the category of exports. On the other hand, Bangladesh relies heavily on Myanmar in importing wood and articles of wood which recorded USD 41.3 million (59.3 per cent) in 2009-10, when the aggregate was USD 69.6 million. It is followed by vegetable products and then prepared food and live animals and fish.

**Table 6: Bangladesh-Myanmar trade (goods)**

Products	Exports in 2009-10 (USD million)	Products	Imports in 2009-10 (USD million)
<b>Exports from Myanmar</b>	<b>10.0</b>	<b>Imports from Myanmar</b>	<b>69.6</b>
Pharmaceutical products	5.6	Wood and articles of wood	41.3
Iron and steel	3.3	Vegetable products	25.3
Salt, sulphur, earth, stone, plaster, lime and cement	0.3	Prepared foodstuffs; beverages, sprits and vinegar; tobacco	1.4
Miscellaneous articles of base metal	0.2	Live animals; animal products	1.2
Mineral fuels, oils, distillation products, etc	0.1	Animal or vegetable fats and oils	0.3
<b>Sub-total - Top 5 products</b>	<b>9.5</b>	<b>Sub-total - Top 5 products</b>	<b>69.4</b>
<b>Top 5 share in total export to Myanmar</b>	<b>94.6</b>	<b>Top 5 share in total import from Myanmar</b>	<b>99.7</b>

Source: Export Promotion Bureau (EPB) Data

What is worth underlining here is that Myanmar's geography, where it shares borders with Bangladesh, China, India, Laos and Thailand, adds a special dimension to the prospects of bilateral business relation between Bangladesh and Myanmar. It has been pointed out that contrary to the established economic theory which conceives border areas as remote and backward regions they are more prosperous than the central region in case of Myanmar (Kudo and Mineo 2007). Four regions with the highest per capita household expenditure share borders with Thailand, China and Bangladesh (ibid). These regions are also growing more rapidly within Myanmar, widening the gap between border areas and other regions. Thus, it indicates that one of the ways to sustain Myanmar's prosperity is using its geographical advantage in the BCIM sub-region.

In the following discussion, we identify a few critical areas where Bangladesh and Myanmar could emerge as potential allies for promoting cooperation. This discussion is followed up by a theoretical analysis where we try to illustrate the potential of BCIM sub-regional cooperation by considering, on the one hand, Bangladesh and Myanmar as natural allies, and China and India, on the other hand, as natural partners in view of their similar geo-political interests.

#### *Bangladesh-Myanmar: Two-way investment*

There is an obvious geographical rationale for promoting Bangladesh and Myanmar bilateral relations. The Arakan Mountain Range separates Rahkine and Chin states bordering Bangladesh from the rest of Myanmar. These two Myanmar states possess abundant natural resources which include limestone, timber, bamboo, marine products and variety of valuable minerals. The main attraction in Myanmar for foreign investment is its abundant natural resources of agricultural products, timber mineral, marine products. Most of the natural resources are still under utilised or untapped.

There have been efforts from both Bangladesh and Myanmar to enhance both investment and trade. But the fact remains that there is still very modest sums of

investment in both counterparts. Myanmar and Bangladesh have huge potentials for bilateral investment that is yet untapped. Currently, most of the business activities between Bangladesh and Myanmar take place through informal channels due to the absence of formal banking facilities. A Memorandum of Understanding (MoU) was signed on the establishment of a joint business council involving the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI) and the Union of Myanmar Chambers of Commerce and Industry (UMCCI). Recently, Bangladesh government expressed its interest for investing in hydropower projects in Myanmar, import of gas for power generation, fertiliser production and industrial manufacturing from Myanmar and development of multi-module communications system.

### *Agricultural cooperation*

It was reported that Myanmar had shown interest to lend land for agricultural cultivation to Bangladesh during high level official visits. Cooperation in the agricultural sector offers an appealing opportunity for both the economies because Myanmar has abundant cultivable land and Bangladesh has the complementary man-power to cultivate those lands. Here, Bangladesh possesses the comparative advantage in terms of technological 'know-how' and Myanmar the advantage of leasing out acres of arable land. It may be pointed out here that at present, China and Thailand have contract farming agreements with Myanmar.

Consent was given by both counterparties to the proposal that Bangladesh would be taking lease of 50,000 acres of land in the state of Rakhine for contract farming. The proposal was presented in 2007 with an additional scheme that as many as 10,000 farmers from Chittagong could be employed through the contract farming process. This proposal would utilise the innovative knowledge and experience of Bangladeshi farmers on farming in Myanmar. The Myanmar Government has also proposed the provision of land tax exemption for a period of two to eight years and income tax waiver for a minimum period of three years to Bangladeshi private entrepreneurs.

From Bangladesh's perspective, contract farming practice with Myanmar offers a great opportunity to address agriculture production shortfall in Bangladesh. Contract farming is an important and viable step for Bangladesh in relation to the current scenario where the country is losing cultivable land as a result of rapid urbanisation.

### *Energy cooperation*

Myanmar's energy sector have been expanding in the last couple of years since its export of natural gas to Thailand in 2004. Gas is the single-most important source of income for Myanmar and one-third of Myanmar's FDI is also consumed by the gas and oil sector. It has been reported that Myanmar has potentials to generate revenue of USD 800 million from the Shwe gas field only, with expected revenue up to USD 3 billion a year.

It was presumed that the A-1 Block Shew field gas reserve would serve primarily the Indian market via and overland pipeline through Bangladesh to Kolkata. However, disputes regarding conditionalities between Bangladesh and India led to a standstill. In 2005, Myanmar signed a MoU with PetroChina regarding an overland pipeline through

Myanmar to Kunming. Since Myanmar has already come to an agreement with China regarding export of gas from the existing gas fields, Myanmar President U Thien Sein assured Bangladesh that Myanmar would export gas to the latter given that new gas fields in the territory are discovered. After opening up to the world market, Myanmar is being considered as one of the prime energy hubs in the South Asia region where India is displaying a keen interest to take advantage of its natural resources.

### *Transport connectivity*

Infrastructure is seen as a regional public good in terms of moving factors of production within and across regions, thereby facilitating in attaining productivity and growth (De 2009). Currently, there are no road or railway links connecting Bangladesh and Myanmar. Bangladesh and Myanmar, including China and India, are members of the Asian Land Transport Infrastructure Development (ALTID) project, launched by the UNESCAP in 1992. The ALTID project comprises of the Asian Highway Network (AHN), the Trans-Asian Railway (TAR) network and the facilitation of land transport. The agreement on direct road linkage between Bangladesh and Myanmar was already signed back in 2007. The fact remains that that a direct road transport connection between Bangladesh and Myanmar would not only facilitate bilateral trade but also would open a gateway to China and ASEAN for Bangladesh and India for Myanmar. Infrastructure facilities including linkage of major regional transport networks, simplifying documentation procedures at borders and developing more efficient customs services are the vital factors in promoting regional integration.

There is an ongoing discussion on the Tri-Nation Road Link connecting Bangladesh, Myanmar and China. Construction of the Myanmar-Bangladesh highway has already begun. It is the case that the Bangladesh Government has already built 43 km (20 km on Bangladesh side and 23 km on Myanmar side) out of the 133 km highway at a cost of USD 27 million. The second phase of the project will be carried out at an estimated cost of USD 128 million. The latter phase of the project will be supposedly carried out by Myanmar, the completion of which is yet to be declared.

### *Other arguments*

An agreement was signed during the last official visit of the Bangladeshi Prime Minister to Myanmar for the formation of a joint commission to oversee and coordinate bilateral issues in an institutional framework. A MoU was also signed between BMCCI and UMCCI with regards to the establishment of a joint business council. Direct road and rail links, promotion of tourism and enhancement of trade cooperation in education were also focused. In view of the above discussion, it is imperative that Bangladesh and Myanmar should focus on building a strong regional cooperation with Myanmar, both on a government level and also on public private partnership (PPP) basis.

It is the case that both Bangladesh and Myanmar are predominantly an agrarian economy with similar aspirations and way of life. Scores of initiatives from Myanmar part have come in the last couple of years. But the implementation of such proposals has not been finished due to factors unknown to us. Lack of timely and appropriate follow-up action has been probably the case with the Bangladeshi government. Following the theoretical analysis in the following section, we suggest a number of proposals in

section 5, advocated by business communities in both the countries, which could be initiated and implemented under the PPP model.

#### **4. THEORISING SUB-REGIONAL COOPERATION**

##### *Game theory*

There is no doubt that much empirical work has been done on the topic of regional cooperation and economic integration. However, few theoretical applications have attempted to provide a conceptual framework to better comprehend the complex nature of cooperation. In this paper, the game theory is deployed to help conceptualise the urgency and scope for cooperation in the BCIM sub-region, by considering Bangladesh and Myanmar as potential allies, and at the same time, reflecting the Indo-Sino factor in terms of their trade relations. The game theoretic interpretations are then extended by the Edgeworth Box to put the scope for sub-regional cooperation in a conceptual framework.

Game theory is a branch of applied mathematics which attempts to capture the behaviour of agents in strategic situations, in which an individual's success in making the right choice is directly dependent on the others' preferences. In equilibrium, each player of the game adopts a strategy that they prefer the most and which is dependent on the strategy of the other player. Many equilibrium concepts have been developed (most notably the Nash equilibrium and Prisoner's Dilemma), in an attempt to decipher the complex decision-making process of agents in strategic situations which are often conflicting in nature. India has its interest to utilise Bangladesh's geographical advantage to connect to its North-East region, comprising the seven sisters and beyond to the ASEAN region.

With similar interests of transport connectivity, China is interested to invest in Bangladesh's Bay of Bengal to connect its landlocked Yunnan province through highway and railway networks by building infrastructure connecting Chittagong and Kunming, through Myanmar. In view of their similar politico-economic interests, China and India are considered as partners on one hand, and Bangladesh and Myanmar on the other hand, since they constitute major artillery in linking South to South East Asia. As discussed earlier, China and India remains the major sources of import for Bangladesh and Myanmar. The major politico-economic interest here is to reduce the ever growing trade deficit with China and India through increasing their exports.

The game theory is relevant from the perspective of BCIM sub-regional cooperation in two ways – (a) where member states are informed about the equilibrium strategies of the other players (Nash equilibrium); and, (b) where one country faces difficulties in comprehending the others' strategies (Prisoner's Dilemma). In the following table, we illustrate the urgency for cooperation in the BCIM sub-region under both the assumptions and identify two dominant strategies. An illustration of the cooperation game with an example payoff matrix is shown in Table 3 with China and India, on one hand, and Bangladesh and Myanmar on the other hand. To keep matters coherent, let us recall the objective of cooperation. China and India wants to take advantage of Bangladesh and Myanmar's geographical position, whereas the latter group seeks market access for their exports to the giants' markets.

**Table 7: Nash Equilibrium and Prisoner’s Dilemma**

		China and India	
		Cooperate (A)	Defect (B)
Bangladesh and Myanmar	Cooperate (A)	100, 100	0, 50
	Defect (B)	50, 0	0, 0

If China and India cooperates alongside Bangladesh and Myanmar, all will stand to attain the highest possible payoff. On the other hand, China and India are likely to defect when Bangladesh and Myanmar are not willing to cooperate. Similarly, Bangladesh and Myanmar cooperation will imply that they are willing to bridge mainland India with its North-East region and also Yunnan province to the Bay of Bengal. If, however, India and China are not ready to provide means by which Bangladesh and Myanmar could reduce their yawning bilateral trade deficit, the latter group will defect. In view of the high costs of non-cooperation, at least theoretically, the players should cooperate, both adopting strategy A to receive the highest payoff, i.e., 100 (*dominant strategy 1*). If both players choose strategy B, there is still Nash equilibrium although each player is awarded less than optimal payoff.

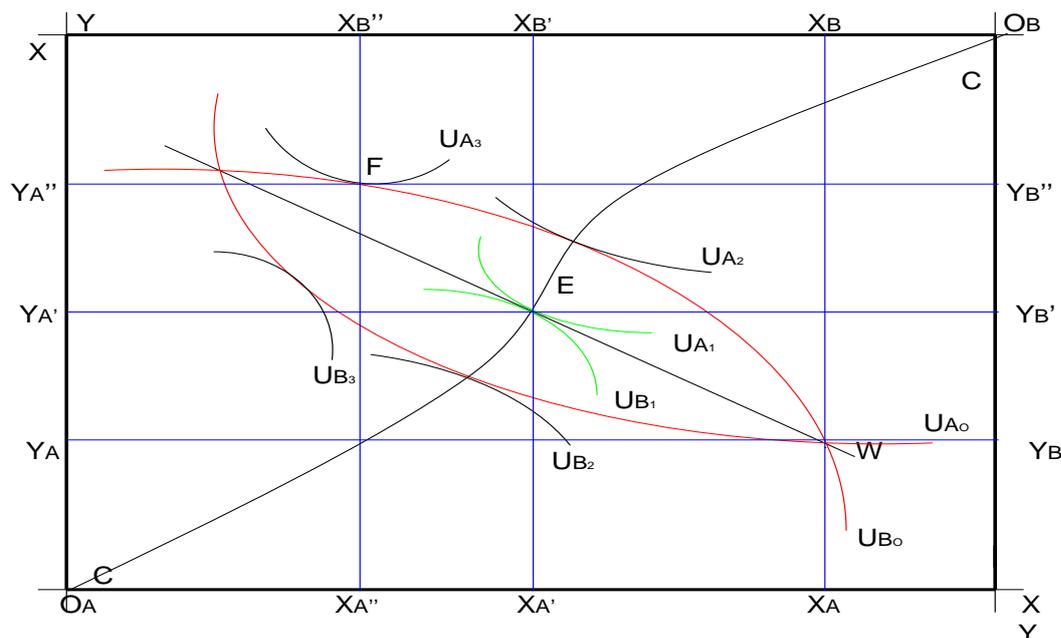
Thus, Nash equilibrium occurs when both parties either cooperate or defect and no agent can benefit by changing only his or her own strategy unilaterally. However, when information asymmetry prevails (e.g. absence of technical details, political uncertainty, etc), both parties can enter into a prisoner’s dilemma (PD) situation. Until now we have been assuming perfect information symmetry. In such cases, where countries are not aware of each other’s strategies, both will be inclined to defect and adopt strategy B with a zero payoff (*dominant strategy 2*). This will be the case when each of the parties reflects on the scenario based on a “what-if” analysis. Specifically, Bangladesh and Myanmar would choose a strategy maximising their payoff based on which strategy is pursued by the other party. The same analysis would be carried out by the counterparty, i.e., India and China. The paradox is that both states are acting rationally, but producing an evidently irrational result. In the real world, governments and concerned policymakers will need to play a strategic role in bridging the information gap and political uncertainty.

*Edgeworth box analysis*

In economics, an Edgeworth box is used to represent distribution of different resources. It is used frequently in general equilibrium theory and can aid in finding the competitive equilibrium of a simple system. In this paper, the Edgeworth Box is deployed to help readers comprehend the gap between *realpolitik* and theoretical implications. The Box is a useful tool to help conceptualise the scope for regional distribution of resources through close cooperation, by using a set of preference (indifference) curves where the competitive equilibrium takes place. It brings together two agents, Bangladesh/Myanmar and India/China, and two factors (trade and transport in this case) in a 2x2 diagram, depicting areas where Pareto improvement can take place. Ceteris paribus, i.e., assuming all other things remain the same, the theory makes the following three assumptions (see Varian 2003 for a detailed discussion):

- (a) The indifference (preference) curves are non-identical, i.e., China and India want to expand their transport connectivity outreach, while Bangladesh and Myanmar want to reduce their bilateral trade deficit with China and India.
- (b) No increasing returns, i.e., a zero-sum game whereby all players stand to gain or lose.
- (c) No asymmetry information, i.e., zero transaction costs implying that parties are well-informed about their strategic decisions.

These assumptions allow one to get on with the task of putting the sub-regional cooperation in a conceptual framework. The last two assumptions inherit the Nash equilibrium principles where with zero transaction costs countries can reach a mutually beneficial situation (a Pareto optimal equilibrium). Figure 1 present two countries China/India ( $O_A$ ) and Bangladesh/Myanmar ( $O_B$ ) initially faced with the status quo at  $w$ , with indifference curves  $U_{A0}$  and  $U_{B0}$  respectively. This situation is self-explanatory in terms of theory – an institutional market failure (non-Pareto optimal) where both countries stand to benefit through cooperation with each other. The endowment consists of two factors – bilateral transport connectivity (y-axis) and bilateral volume of export (x-axis), comprising both goods and services. In order to further enrich the qualitative analysis, we can assign numbers to explain the situation depicted in figure 1.



**Figure 1: Edgeworth Box Analysis**

The X and Y axis ranges from 0 to 100 with  $O_A$  and  $O_B$  representing the lowest values.  $X_A$  reflects China/India's current export level to Bangladesh/Myanmar (80) whilst  $X_B$  is their exports to China and India (20). Bangladesh/Myanmar's geopolitical advantage is demonstrated at  $Y_B$  (80) and China/India's inability to reach out to Yunnan/seven sisters, the North-East part of India and beyond, at  $Y_A$  (20). Thus, it is theoretically evident that there is much scope for Pareto improvement; in other words, all countries stand to make each other better-off without causing harm to either through close

cooperation, assuming there are no transaction costs (e.g. lack of political will, asymmetry information, or other external factors).

If Bangladesh/Myanmar were to remove their border restrictions for movement of cargoes and vehicles and allow China/India to connect with their landlocked states, perhaps the latter would be also willing to allow Bangladesh/Myanmar to export more to its market. This situation reflects that both pairs of countries can move to a new level of Pareto optimality, where both can benefit without harming the other. In terms of game theory, this would mean that all players would opt for dominant strategy 1 explained earlier in table 7.  $X_B$  is the new level of Bangladesh/Myanmar exports (from 20 to 50) with China/India, implying that its imports from the giants would reduce to  $X_{A'}$  (from 80 to 50). However, Bangladesh/Myanmar interest is not to reduce import from China/India (which would directly undermine the development of their industrial sector), but instead, on increasing export earnings through trade in transport services. On the other hand, at point  $Y_{A'}$  (from 20 to 50), China/India will be able to take advantage of Bangladesh/Myanmar geo-strategic location; the loss of Bangladesh/Myanmar in terms of sovereignty, which is compensated through increase in exports, is depicted at point  $Y_{B'}$  (from 80 to 50).

Point E represents a Pareto-optimal equilibrium, with  $U_{A1}$  and  $U_{B1}$  as the countries' new preference curves. We have assigned the number 50 to illustrate the Pareto-optimal distribution of benefits that are yet to be realised through close cooperation. Point E shows that the BCIM sub-region can improve its prevailing status quo in terms of their trade and transport relations through close cooperation. But once they reach equilibrium, it would be difficult for the countries to make each other better-off unilaterally, without eroding the other party's interests, thereby locking-in progress. It is to be noted that in the illustration, any movement from  $w$  to E or any other point on the CC (contract-curve) can be considered a Pareto improvement.

### *Theoretical shortcomings*

Both the above discussed theories, in their static form, have attempted to illustrate the scope for cooperation between Bangladesh/Myanmar and China/India. It is to be acknowledged here that development in the prevailing status quo between the four countries will carry unintended consequences for regional integration. The game theory is a version of a 'tit-for-tat' or 'give and take' game designed to provide a framework to recognise when agents are likely to cooperate with each other. Similarly, in assuming zero transaction costs, the Edgeworth theory reflects a Nash equilibrium situation to the extent that all countries are informed about each other's strategies.

Allowing for some dynamics to take place, all such propositions, inevitably, will be rendered irrelevant. If China and India are not willing to allow more exports from Bangladesh and Myanmar to enter their markets, whereby the latter may not be too keen on granting connectivity, all can look for alternative options to move their respective agendas forward (reaching *dominant strategy 2*).

Myanmar is well-positioned geographically: in addition to its southern coastline, it borders India to the west, China to the north and Thailand to the east. It has nine ports available for sea going vessels along the coastline connecting the Bay of Bengal and of

these, four ports Yangon, Sittwe, Patheingyi and Mawlamyine can be accounted as efficient for international maritime transport (Thein 2008). It has, therefore, possible extra-regional factors deterring its prospect of integration. The BCIM sub-region comprises of two member countries of ASEAN (China and Myanmar) and two member countries of SAARC (Bangladesh and India). Thus, BCIM acts as a land bridge connecting ASEAN and SAARC. The success of BCIM will inevitably contribute and complement to the development success of both ASEAN and SAARC and vice versa. Asian Highway and TransAsian Railways, the two transportation projects of UNESCAP, can never be fully accomplished without the active participation of the BCIM countries (ibid: 41).

There may also be occasions when Bangladesh and Myanmar may not serve each other's interests. It is also not necessary that China and India will come together to allow Bangladesh and Myanmar access to their markets. India will be able to craft avenues to reach the Far East, whether by land (via Bhutan) or by sea (via Myanmar) excluding Bangladesh from the integration process. Similarly, China will not have to rely completely on Bangladesh to connect with South Asia and beyond if Myanmar is willing to grant it the access. A further *raison d'être* for cooperation between the four countries arises due to the ongoing international negotiations on withdrawal of sanctions against Myanmar.

The issue of *Rohingya* refugees, which cropped up more than three decades back in 1978, is yet to be resolved. The *Rohingya* are Myanmar's Sunni Muslims which constitute 4 per cent of the population. They live mostly in the north of Rakhine State (also known as Arakan). Their language (*Rohingya*) is derived from the Bengali language and is similar to the *Chittagonian* dialect spoken in Bangladesh. The migration of the *Rohingya* people to Bangladesh is a complex issue. Many militant *Rohingya* groups, including the Arakan *Rohingya* National Organisation and Arakan *Rohingya* Islamic Front, have been reportedly fighting for decades for a separate land in *Rohingya* state.

In this context, the European Union has taken a 100 million Euro project for the rehabilitation of the Muslim ethnic minority group in their homeland on return from Bangladesh. At present, it is reported that there are between 300,000 to 400,000 unregistered *Rohingyas* are living in the slums and villages throughout Cox's Bazaar and Chittagong. But an official estimate states the figure between 38,000 to 40,000. Both the governments are striving to reach a consensus about the *Rohingya* issue. The President of Myanmar has assured the Prime Minister of Bangladesh, on her latest visit to Myanmar, the latter would take back all *Rohingya* refugees after proper verification is carried out as per the criterion agreed between both the countries.

Other countries like Thailand and India also have refugee problems. But they are keeping the keeping the refugee issue aside with an aim to improve on the bilateral relationships. However, recent events at the Bangladesh-Myanmar boundary are sending a negative signal to the international community. Thus, how Bangladesh sequences its priorities for negotiations with Myanmar, i.e., whether *Rohingya* should be a *sine quo non* agenda or whether it will opt for a more comprehensive package where *Rohingya* will be only a part, remains open to debate.

Furthermore, the Bay of Bengal, believed to be rich with undersea deposits of oil and natural gas, lies at the mouth of the Bengal Delta, which forms 60 per cent of the Bangladesh coastline. The maritime delimitation of the Bay forms the subject of a long running dispute between India, Bangladesh and Myanmar. On March 2012, the *International Tribunal for the Law of the Sea* (ITLOS) issued its verdict concerning delimitation of the maritime boundary in favour of Bangladesh. Given Bangladesh's recent victory against Myanmar over the maritime boundary, there is every possibility to renew bilateral cooperation on a new footing which will have serious implications for setting the agenda for sub-regional cooperation in the BCIM. However, the dispute with India is yet to be settled. The issue regarding the hydrocarbons in the Bay of Bengal will be a huge carnage at the political level if cooperation is not ensured by Bangladesh. China has already built a pipeline from Sittwe to Kunming. Both Bangladesh and Myanmar should seriously consider negotiating with the giants regarding the hydrocarbon deposits at the Bay of Bengal. However, the dispute of Bangladesh with India regarding the maritime boundary is yet to be settled.

## **5. BANGLADESH AND MYANMAR: OPPORTUNITIES AND CHALLENGES**

### *Special economic zones (SEZs)*

China's attempt to establish SEZs did not succeed because of Myanmar's inability to endorse the concept (Hongwei 2011). Lack of economic expertise resulted in its failure to pass a law that would have helped develop the economy. Recently, the civilian government halted construction of a 4,000 megawatt coal-fired power plant in Dawei and planned a site of the country's 'first and biggest special economic zone' in order to accommodate environmental issues. But Myanmar is working very hard to develop SEZs to attract FDI into the region. Myanmar is also considering Export Processing Zones and sub-trading zones together with SEZs. It is known that incentives to investors are allowed in the form of income tax exemption for 5 years and 50 per cent of taxes for the next 5 years.

Two SEZs are reportedly in the works, one near the commercial capital Yangon and the other in Kyaukphyu, where the China-Myanmar pipeline starts. Additionally, a deep-sea port is nearly finished. Alongside the SEZs, Bangladesh can explore cooperation in the fields of solar energy and bio-gas projects.

### *Contract farming*

Myanmar's liberal policy on leasing out land for agro-based industries is attractive to lure foreign investors. Depending on the type of venture, exemption from land tax is also offered for a period of two to eight years. There are also provisions for income tax waiver for a minimum period of three years from the date of commercial operation. Contract farming can be initiated immediately in the Myanmar states bordering Bangladesh, though there may be some potential deterrents.

Under the contract, Myanmar farmers can offer their land and labor, while Bangladesh entrepreneurs may provide know-how and necessary supervision, supply of required inputs, furnish a buy-back guarantee ensuring recovery of cost of production and provision of profit for the farmers which would be mutually agreed upon. Having a

geographical land area of more than five times than that of Bangladesh, but yet producing the staple, rice, at lesser quantities than Bangladesh has opted the economy to search for full-scale assistance and the know-how of agriculture from Bangladesh. A recent proposal has been put forward by Myanmar seeking Bangladesh cooperation to expand its agricultural production. This proposal developed as a result of the new policy adopted by Myanmar to increase rice exports in the face the new democratic regime. The Bangladesh government has agreed to help Myanmar in the agricultural sector, although several rounds of talks would have to be initiated for the cooperation to be realised.

### *Connecting Bangladesh and Myanmar*

Transport connectivity between the nations offers huge services export opportunities. It may perpetuate intra-regional disparity if relatively less developed economies like Myanmar and Bangladesh do not prepare themselves to face competition from bigger economies like China and India. Sobhan (2000) affirmed that Bangladesh perceives itself as a prospective Singapore provided that it can enjoy both market access and seamless physical linkages with Nepal, Bhutan, India, Myanmar, Thailand and China. The ongoing discussion on Tri-Nation Road Link connecting Bangladesh, Myanmar and China should be given due consideration, in particular by Bangladesh, in view of India's reluctance to finance infrastructural projects in Bangladesh.

It was reported that both the governments have agreed to allow the plying of non-conventional vessels having a maximum capacity of 1600 GT tonnes. This decision was recently taken at a meeting held in Yangon in an effort to boost bilateral trade between Bangladesh and Myanmar. The Government of Bangladesh and relevant ministries is already taking the necessary steps to amend the existing protocol and incorporate the plying of non-conventional vessels. The formal framework of the Standard Operating Procedure (SOP) is underway as it is the case that both the countries will be signing the SOP shortly.

The flagship project is the Kaladan multimodal transport project involving the upgrading of the Sittwe port and the construction of a highway connecting the town of Paletwa in the Chin state to the Indian border in Mizoram state. India is enthusiastic about building a regional hub for trade, investment and communication in the region. An agreement has already been signed between the nations in a number of road building projects. Specifically, the Trilateral Highway connecting India, Myanmar and Thailand is to be drawn to a close by 2016.



**Figure 2: Kunming-Chittagong Road Link**  
 Source: Rahmatullah (2012)

While transport connectivity regarding road networks, air and sea are being reviewed, the cooperation regarding connectivity at the borders is being neglected from Bangladesh's part. It is the case that Myanmar fish exporters are exporting huge quantities of fish through Teknaf to Bangladesh every year and they have requested the concerned Fishery Department to allow them to legally use the Sadarghat and Chittagong fishery ghat. The BMCCI also urged the Ministry to accommodate the problems of Myanmar fish exporters at Sadorghat, but the concerned authorities are paying very little heed to the issue and there are no developments in resolving the bottlenecks. Hence, such issues of connectivity should be dealt with as early as possible so that the Myanmar traders do not feel insecure and uncomfortable in doing business with their counterparts in Bangladesh.

Serious political commitments would be necessary for the transport projects to come into effect. The present state of transport connectivity and cooperation is out of the path with respect to global trend towards regionalisation (Rahmatullah, 2012). It is thought that lack of political commitment is holding the progress, not only in the transport connectivity segment but also in other areas of regionalisation as well. A change in mindset of the political leaders would be a necessary condition to make further progress. This might seem like a very rigid task, but it is not insurmountable.

## *Energy*

Considering the energy-scarce situation where 87 per cent of the power plants in Bangladesh are running on natural gas, a source which is fast depleting, the government should seriously consider exporting electricity from Myanmar, not only from India. The cross-border power trading will not only kick-start the strong bilateral link between Bangladesh and Myanmar but will also greatly assist in solving the electricity shortage of the nation, at least partially. Myanmar officials, during an official visit in May, 2010, expressed their keen interest about power trading and also identified potential challenges and opportunities.

Bangladesh should immediately consider power trading with Myanmar with a stern outlook. This is because a private Myanmar company has already leased land for the set up of power plant and another firm have already expressed their interest in setting up a hydro-electric power plant. Both the projects would be initiated in the state of Rakhine with the primary intention of exporting electricity to Bangladesh. Thailand is already exporting natural gas from Myanmar, with more than half of Bangkok's electricity relying on gas piped from their western neighbour. The hindrance, apart from lack of cooperation between the nations, would be the competition from the giants, who would grab every opportunity that would allow them to put their hands on potential energy sources in Myanmar.

Since Bangladesh is still importing urea fertiliser, the government may explore the idea of importing gas from Rakhine, for production of urea fertiliser which can be re-exported to Myanmar. It has been suggested by the BMCCI that the construction of a gas pipeline from Rakhine to Chittagong be undertaken by a private sector-led consortium of investors from Bangladesh. It is suggested that businesspersons and entrepreneurs of both the nations take advantage of bilateral cooperation in the area of tourism development. It was also suggested, during official talks, that the cooperation should be taken up at the private level and should not only be confined at the government level.

Recent discovery of estimated 16 trillion cubic feet (TCF) of proven gas reserves in Rakhine state has opened up new corridor of industrial development possibilities for Myanmar's future generation. Bangladesh and Myanmar businessmen could come together for harnessing many of the nature resources for mutual benefits. Import substitution industries under joint-venture could be explored to be set up at both the parts of the border at convenient places. Besides millions of tones of limestone deposits in the Rakhine State, there is a single patch of bamboo forestry stretching over 7,000 sq km producing 2.2 species of bamboo, equivalent to 8,00,000 metric tons of pulp that can feed upto 25 paper mills the size of Karnaphuli paper Mills.

## *Political outlook*

The recent civilian government and the interest of Myanmar to open up have caused more than a few foreign leaders and foreign ministers to visit the country to discuss political and economic cooperation. Some of the recent visits include visit by the Bangladesh Prime Minister Sheikh Hasina, the Indian Prime Minister Manmohan Singh, member of the Political Bureau of the Communist Party of China (CPC) Central Committee, Lao Prime Minister Thongsing Thammavong, Thai Prime Minister Yingluck

Shinawatra, Vietnamese Prime Minister Nguyen Tan Dung, Australia's Foreign Minister Kevin Rudd, Indonesia's Foreign Minister Marty Natalegawa, India's S.M. Krishna, Japan's Koichiro Gamba, UK Secretary of State Andrew Mitchell, and U.S. Secretary of State Hillary Clinton.

On July, 2011 during the 5<sup>th</sup> Joint Bangladesh Myanmar Economic Commission meeting held at Nay Pyi Taw, both the Chambers agreed that a seminar will be held on Bangladesh Myanmar business development. While the Export Promotion Bureau of Bangladesh in association with other concerned stakeholders has already started taking such initiatives, it was also agreed that a trade fair will be held in Yangon to display Bangladeshi products. It has been argued by experts that the BMCCI should form cells with appropriate representation from different concerned chambers to discuss and explore the potentials of business with the concerned bodies of Myanmar.

It is highly relevant that any discussion on the potential of Bangladesh-Myanmar cooperation should take into consideration outside factors (as discussed in section 4). It should be borne that it is not only Bangladesh who is interested about doing business with Myanmar. Thailand and China already have bilateral business activities with Myanmar. Additionally, a recent visit by the Indian Prime Minister to Myanmar has made it translucent that India is keen on strengthening its bilateral relations with Myanmar. The visit also stamped the signing of a MoU of USD 500 million credit to Myanmar.

India and Myanmar have agreed to setup several border markets and development of border infrastructure. Attention from the part of Myanmar can be noted from the fact that Myanmar invited the Indian Government in the development of several areas adjoining the common border, namely the Naga Self Administered Zone of the Sagaing Region and the Chin State. Beside the Indian Government, the Indian industry is also displaying increasing interest in Myanmar to exploit the full potential of trade and investment. It is the case that the United Bank of India is in the process of opening its representative offices in Myanmar.

The nations are collaborating in human resource development and also considering further association of energy cooperation in the geological terrain that both the countries share. Tourism is another sector where India wants to collaborate with its counterpart. On the other hand, the civil aviation authorities of both the countries have agreed on enhancement of direct flights and other aspects of the commerce. In the sector of education, a MoU was signed between Kolkata and Dagon universities, along with the consideration of setting up the India-Myanmar Foundation in order to promote educational, cultural and literary exchanges between the two countries.

Cooperation regarding agriculture is taking a progressive stand as an agreement has already been signed for the setup of Advanced Centre for Agricultural Research and Education near Nay Pyi Taw. This collaboration will focus on crops which are of prime interest to both the countries. Nevertheless, both the nations recognise that peace and stability in the region is a necessary condition for the development and well-being of the citizens of respective countries. Taking the above facets into consideration, it would not be unfair to state that cooperation between India and Myanmar is moving at a very fast pace.

Thus, Bangladesh should sincerely assess the options for strengthening its estranged relationship with Myanmar before others step in to fill the vacuum. There are two possible scenarios: (a) high-engagement with high risks leading to high outcome; or, (b) low-engagement with low risks leading to low outcome. It is suggested that Bangladesh gears up its effort for a third scenario where the government should focus on engaging proactively in moderate risky activities which would yield at least a satisfactory outcome in the immediate outlook. Such an approach is required to lock-in political commitments and progress in economic cooperation. However, caution will need to be applied to ensure that Bangladesh does not incur the wrath of the giants.

### *Role of non-state actors*

The most recent of the advancements regarding bilateral cooperation in trade, investment and business opportunities came in September, 2011, when a MoU was signed between the BMCCI and the RSCCI (Rakhaine State Chamber of Commerce and Industry). The BMCCI and RMCCI agreed on exploring mutual growth, promotion and development of bilateral trade between Bangladesh and Myanmar. Promotion and coordination of joint collaboration with the provision of law and regulation were also agreed upon with a spirit of common purpose. Both the business chambers have requested the governments of Bangladesh and Myanmar to adopt and amend laws and regulations aimed at enhancing trade and business opportunities between the two neighbours. In view of the slow pace being witnessed at the government level, the BMCCI and RSCCI needs to take on a leadership role and provide a common platform for both their private sector actors to come together in generating ideas, focusing on harnessing the benefits that are to be realised through close bilateral cooperation.

## **6. LOOKING AHEAD**

Both India and China - the two giant members of the group - have large amount of foreign exchange reserves. They could play significant roles in promoting investments in Bangladesh and Myanmar which could, in turn, target the Indian and Chinese markets through preferential market access initiatives. It has been argued by Sobhan (2000) that the emergence of an Asian community would be greatly accelerated if governments and particularly the governments of China and India were to commit themselves to invest their political and diplomatic resources in advancing the process of integration.

With the aim of creating a borderless world of trade, tariffs are being gradually eradicated. This paper will not probe into detailed discussion of non-tariff barriers and its impact on the international trade of economies in comparison to tariffs. Nonetheless, regional cooperation would be the penultimate step to surmount the challenge of globalisation. Developing economies like Bangladesh and Myanmar would have to keep in mind that they would be experiencing grim competition from the giants India and China as they are at the confluence of these giants. Bangladesh-Myanmar cooperation would not only alleviate the chances of being stepped upon but also would help in maintaining an identity of their own.

The key trading partners of Myanmar include China, Singapore, Japan, Thailand, Malaysia, Indonesia and India. Myanmar has bilateral trade agreements with Republic of Korea, People's Republic of China, Thailand, Bangladesh, India, Pakistan, Vietnam, Laos,

Philippines, Malaysia, Sri Lanka and Israel. Myanmar also has Border Trade Agreements with its neighbouring nations. In particular, Bangladesh and Myanmar have about 10 bilateral trade agreements including land boundary management and trade and transport, out of which only the Border Trade Agreement is in motion. However, it is the case that irregularities and highhandedness is a common factor faced by the Myanmar traders who are involved in border trade with Bangladesh. During the last decade, there have been official visits by both the counterparts but very limited discernible progress has been made in strengthening bilateral cooperation in mutually beneficial areas.

This paper has attempted to analyse the theoretical scope of sub-regional cooperation in the BCIM region using empirical data. It has examined how Myanmar is reforming with consequent implications for cooperation with its close neighbours. The case of Bangladesh and Myanmar has been analysed as natural allies by highlighting some areas of economic cooperation. We have analysed the urgency and scope for sub-regional BCIM cooperation in the theoretical framework using the Edgeworth box diagram. At least theoretically, it is clear that the approach to sub-regional cooperation should not be one of zero-sum game, i.e., gain of one at the expense of others, or the striving of a “winner takes it all.” This has also been argued by Kalam (2001) where the authors suggests that there should be an element of mutuality guiding policies of the concerned players based on positive-sum game if the BCIM sub-regional entity is to take any shape to serve the destitute in South and South East Asia. Thus, economic integration for Bangladesh and Myanmar has gained high importance in view of the fact that SAARC remains one of the least integrated regions in the world (Ahmed et al. 2010).

By adding new knowledge to the regional cooperation topic, we hope that it will draw the attention of concerned academics and policymakers in approaching the economic integration from a new angle. However, it is recognised at the same time that much work needs to be done to promote the use of Edgeworth Box as a dynamic model to underline the scope and urgency for cooperation.

In the final analysis it is recognised that in order to give impetus to the Bangladesh-Myanmar relationship, formal institutionalisation of bilateral cooperation has become a necessary condition under the Track 1 approach. Track 2 involving the civil society should also be dealt with more emphasis with the deployment of a more energetic approach. Track 3, involving civilians of both the countries, would help to bring about a cooperation that would provide the maximum level of integration and offer mutually beneficial opportunities for both the economies. Then again, will Bangladesh be able to play the full potential without being oblivion to the Indo-Sino dynamics? Who will facilitate the initiatives in the future? The US, the UK and the EU are the silent elephants in the room and it would be rational for Bangladesh to consider their priorities and views when negotiating with Myanmar.

After a long time the Bangladesh and the Myanmar leadership are demonstrating an awareness that the future is impinging on its present, much more rapidly than it did in the past. However, it is still the case that Bangladesh still does not fully comprehend the potential that Myanmar possesses in terms of their strategic and geopolitical advantage. Bangladesh needs to realise that cooperation with Myanmar will be of immense benefit from the many above discussed perspectives. Their main challenge is to seize the

moment and lead the way into the future, rather than being context with the prevailing status quo by acknowledging that their strength lies in cooperation, not isolation.

## REFERENCES

ADB. (2011) *Asia Development Outlook 2011: Myanmar Factsheet*, Manila, Asian Development Bank (ADB).

Ahmed, S., Kelegama, S. and Ghani, E. (eds) (2010) *Promoting Economic Cooperation in South Asia*, USA, World Bank.

Asia Society. (2010a) 'Current Realities and Future Possibilities in Burma/Myanmar: Options for U.S Policy,' USA, Asia Society Task Force Report.

Asia Society. (2010b) 'Current Realities and Future Possibilities in Burma/Myanmar: Perspectives from Asia' USA, Asia Society Task Force Report.

De, P. (2011). 'Trade Facilitation in BCIM: Challenges and Opportunities,' Paper available online <http://www.seasas.cn/content.aspx?id=764808499059> (Accessed on 12 April 2012).

De, P. (2009) 'Regional Cooperation for Regional Infrastructural Development: Challenges and Policy Options for South Asia,' *Discussion Paper No. 160*, New Delhi, Research and Information Society for Developing Countries (RIS).

Economist Intelligence Unit. (2011). 'Country Report: Myanmar (Burma).' London: Economist Intelligence Unit (EIU). Available online - <http://burmanationalnews.org/burma/images/Documents/eiureportonmyanmar20110801.pdf>

Economist Intelligence Unit. (2012). 'Myanmar: White elephant or new tiger economy?' London: Economist Intelligence Unit (EIU).

Hong, Z. (2007). 'China and India Courting Myanmar for Good Relations.' *EAI Background Brief No. 360*.

Hongwei, F. (2011) 'China's 'Look South': China-Myanmar Transport Corridor,' *Ritsumeikan International Affairs*, Vol. 10, pp. 43-66.

ICG. (2011) 'Myanmar: Major Reform Underway,' *Asian Briefing No. 127*, Jakarta/Brussels, International Crisis Group (ICG).

Kalam, A. (2001) *Subregionalism in Asia: ASEAN and SAARC Experience*, Dhaka, University Press Limited (UPL).

Kudo, T. and Mieno, F. (2007) 'Trade, Foreign Investment and Myanmar's Economic Development during the Transition to an Open Economy,' *IDE Discussion Paper No. 116*, Institute of Developing Economies (IDE).

Rahman, M., Rahman, H. and Shadat, W.B. (2007) 'BCIM Economic Cooperation: Prospects and Challenges,' *CPD Occasional Paper No. 64*, Dhaka, Centre for Policy Dialogue (CPD).

Rahmatullah, M. (2012). 'BCIM Connectivity: Areas to be Focussed.' Paper presented at the 10th BCIM Forum, Kolkata, India on 18-19 February 2012.

Sobhan, R. (2000) *Rediscovering the Southern Silk Route*, Dhaka, University Press Limited (UPL).

Tea, B. (2010) 'China and Myanmar Strategic Interests, Strategies and the Road Ahead,' *IPCS Research Paper*, New Delhi, Institute of Peace and Conflict Studies (IPCS).

USIP. (2010) 'Can Economic Reform Open a Peaceful Path to Ending Burma's Isolation?' *Peace Brief 14*, USA, United States Institute of Peace (USIP).

Varian, L.H. (2003) *Intermediate Microeconomics: A Modern Approach*, London, Norton.