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## Can the Bay of Bengal be a New Hub for Regional Supply Chains?

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### Abstract

The COVID-19 pandemic has set off an exhaustive reorganisation of supply chains. The restructuring was precipitated by sourcing dependencies of several major chains (e.g., semiconductors, pharmaceuticals, energy, and food) in a few countries and the functional risks arising from sourcing disruptions in those locations. Anxieties over prominent sourcing hubs ‘weaponizing’ economic influence for extracting geopolitical benefits are also motivating the restructuring. Noteworthy multi-country initiatives for safeguarding strategic supply chains include the Supply Chain Resilience Initiative among India, Japan, and Australia and the efforts by the Quad (United States, India, Australia, and Japan). As chains restructure and re-shore, specific regional geographies are poised to emerge as new hubs of supply chains. The Bay of Bengal region is a distinct possibility in this regard. The region’s economic heterogeneity makes it a suitable geography for hosting a variety of supply chains. Much of its success in hosting new supply chains will depend on the degree to which it can accelerate the growth of intra- and extra-regional connectivity, enabling easy movement of goods, capital, technology, and people.

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## Supply chain restructuring and the Bay of Bengal

The COVID-19 pandemic is the most catastrophic global public health crisis since the Spanish Flu in 1918. It has also been a huge disruptor for supply chains. No other event in the last few decades has drawn as much attention to the vulnerability of supply chains as COVID-19.

Production halts across the world following the pandemic outbreak led to complex and spatially fragmented global supply chains rupturing rapidly. The meltdown began from Wuhan in central China's Hubei province, the first city in the world to go into lockdown on 23 January 2020 (Illmer, Wang, & Wong, 2021). The closure had a profound impact on global supply chains, several of which were linked to the city. More than 200 Fortune Global 500 firms were present in Wuhan, and more than 100 Fortune 1000 firms had direct Tier 1 suppliers in Wuhan and its neighbourhood (Kilpatrick & Barter, n.d.).

As the lockdown became prolonged, supply chain managers across the world began panicking over dwindling inventories of raw materials and intermediates sourced from China. In India, the biggest concern was over diminishing stocks of drug intermediates and active pharmaceutical ingredients (APIs). Further concerns for India arose over disruptions in imports of coal, fertilisers, electrical machinery, automobile parts and components, and a large number of other essential items.

### Geopolitics of sourcing and resilience initiatives

India and several other large economies with significant import dependencies on China, such as Australia, Japan, the United Kingdom, and the United States, were worried about not being able to access essential imports from China. These anxieties underpinned the importance of securing sourcing. This realisation was backed by the worry that countries like China, enjoying near-monopoly prominence as sourcing hubs for critical

natural resources, raw materials, and industrial components could, if they wished, exploit their advantage for geo-political ends.

With supply chains getting rocked by sourcing malfunctions and being identified as instruments of geopolitical 'power' projection, efforts began for safeguarding sourcing and supplies. Regional efforts to safeguard chains have focused on minimising risks arising from unexpected disruptions from unforeseen events such as the pandemic, or deliberate 'weaponization' of the strategic advantage enjoyed by the sourcing locations (Palit, 2022). The major initiatives for reorganising supply chains for making them secure and resilient include the Supply Chain Resilience Initiative (SCRI) between India, Japan, and Australia, and efforts by the Quad (US, India, Australia and Japan).

### Bay of Bengal and supply chains in the Indo-Pacific

As supply chains restructure and re-shore, specific regional geographies are poised to emerge as new hubs of supply chains. The Bay of Bengal region is a distinct possibility in this regard.

The Bay of Bengal has an interesting economic geography. In a geographically contiguous sense, it comprises countries on the rim of the Bay of Bengal—India, Bangladesh, Myanmar, Thailand, and Sri Lanka. Formalisation of the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC)—the most prominent regional architecture of the Bay of Bengal—has added Nepal and Bhutan to the Bay of Bengal's core community. The pan-economic understanding of the region, however, stretches well beyond this community.

A maritime vision of the Bay of Bengal drawn from cross-continental passenger and cargo shipping routes links the waters of the Bay of Bengal to the Strait of Malacca and the Pacific Ocean to the east, the Indian Ocean to the south, and the Gulf of Mannar and the Arabian Sea to the west. Moving further west and

south-west, the region connects to the Persian Gulf and the African continent.

The maritime perspective of the Bay of Bengal region leaves no doubt that it is a pivotal part of the geo-strategic vision of the ‘Indo-Pacific.’ The Indo-Pacific, as articulated by the former Japanese Prime Minister Shinzo Abe in his address to both Houses of the Indian Parliament on August 22, 2007, is a ‘confluence of the two seas’, the Pacific and the Indian Oceans (Abe, 2007).

As supply chains scramble to reorder within the Indo-Pacific region in the aftermath of COVID-19, they are searching for amenable locations. The Bay of Bengal’s attractiveness in this regard is undisputed.

From a supply chain perspective, the Bay of Bengal’s appeal arises from the significant agglomeration benefits it offers to cross-border back-and-forth movements of goods and people. It connects by water to extensive stretches of maritime traffic across the eastern and western hemispheres. By land too, it connects the East European, Central, West, and South Asian regions to Southeast Asia—through Myanmar and the former French Indo-China group of countries (Cambodia, Laos, and Vietnam)—to the Malaysian peninsula.

Thus, the Bay of Bengal region’s success in emerging as an active hub of supply chains depends crucially upon its connectivity capacities—both within itself and with other regions. Strong and well-managed connectivity can be a true enabler for accommodating a variety of supply chains in the region.

## Supply chains and regional connectivity

It is important for the Bay of Bengal economies and the BIMSTEC to comprehend the significance of the economic and strategic prospects for the region that can accrue from its maturing into an energetic hub for supply chains.

## Benefits of hosting supply chains

Greater integration of the region with global and regional supply chains would bring it substantial benefits through higher trade in goods and services. More supply chains would result in greater movements of commodities across borders, both intra- and extra-regional, leading to enhanced goods trade. Strong supply chains would also lead to greater movement of business visitors, along with an increase in several cross-border services such as shipping, rail, aviation, finance, education, and retail, leading to a substantial increase in several segments of the services trade.

Growth of supply chains would also facilitate new investments. These investments, apart from their focus on creating new production facilities within the Bay of Bengal economies and thereby generating new jobs and livelihoods, would also flow into infrastructure services for expanding regional connectivity.

A supply-chain focused investment outlook makes prospects of long-term foreign direct investment (FDI) from Japan, Australia, Singapore, the United Arab Emirates (UAE), and the US in regional logistics facilities particularly bright. These countries, which are major capital exporters and core actors in various supply chains, are keen on committing to a new generation of resilient supply chains diversified in sourcing and concentrated in strategic parts of the Indo-Pacific geography like the Bay of Bengal.

## Supply chains, logistics and trade facilitation

A supply-chain focused approach will attract extra-regional investments into logistics and augment national logistics capacities of the Bay of Bengal economies, most of which are currently low on global logistics performance indicators. Except Thailand and India, which are ranked 32<sup>nd</sup> and 44<sup>th</sup> in the global logistics performance index (LPI) of the World Bank, the remaining BIMSTEC economies are ranked quite low in the LPI (The World Bank, 2018). Low LPI ranks reflect relatively higher costs of cross-border transportation and are obstructive to the growth of a diverse range of supply chains.

The COVID-19 pandemic has emphatically reinforced the role of logistics in safeguarding supply chains. As cracks began surfacing in supply chains due to sourcing problems during the pandemic, businesses and countries realised that the disruptions were not only due to factories closing down; they were significantly attributable to logistics failures as well.

Ports were congested as containers faced long delays in offloading and onloading cargo with the number of on-site staff reducing fast due to rising infections. The same problem hit the invoicing and back-end movement of cargo from various ports to their hinterlands. The problems were greater in ports that were relatively more labour-intensive in on-site functions. Digitized 'smart' ports were able to avoid these problems to a large extent. Such ports, however, are rare in the Indo-Pacific region, with the exceptions of Shanghai, Singapore, Busan, and Adelaide.

The emphasis on supply chain resilience in initiatives like the SCRI and Quad focuses strongly on the digitisation of logistics functions. This is just what the Bay of Bengal region needs for drawing investments into new generation logistics facilities enabled by cutting-edge trade facilitation. Better trade facilitation improves the quality of logistics and brings down the cost of cross-border movement of goods. The emphasis on supply chains will encourage investments in trade facilitation geared towards institutionalising regional best practices.

Extra-regional economies and major stakeholders in the Indo-Pacific such as Japan, Australia, Korea, and Singapore, could be long-term partners for the Bay of Bengal in investing in 'best practices' for trade facilitation, like paperless systems for documenting exports and imports. Investments in such 'smart' logistics would also contribute to the greater goal of sustainable development.

### Supply Chain Resilience and the BIMSTEC Transport Connectivity Master Plan

An important condition for the Bay of Bengal region in increasing its appeal as a location

for supply chains is to dovetail its vision of connectivity to that of safeguarding regional supply chains. Unfortunately, till now, the congruence between fostering efficient supply chains and connectivity has hardly been featured in discussions on connectivity within BIMSTEC. This emphasis needs to be promoted urgently for drawing closer the imperatives of supply chain resilience initiatives in the Indo-Pacific with those of connectivity growth in the Bay of Bengal.

How can supply chain resilience projects in the Indo-Pacific, such as the SCRI, be aligned with connectivity initiatives in the Bay of Bengal? The obvious solution is to do so through the transport connectivity master plan of the BIMSTEC, developed in collaboration with the Asian Development Bank (ADB, 2022).

The transport connectivity master plan, approved at the last BIMSTEC summit held in Colombo during March 30-31, 2022, has several projects that can contribute to the goal of making supply chains resilient, thereby serving both the objectives of securing supply chains and expanding regional connectivity. Indeed, a robust regional transport infrastructure, as envisioned in the master plan, would be of great help in making supply chains secure by minimising disruptions in the movement of products through various trade routes, both intra-region as well as those between the region and the rest of the world.

### Supply chains and connectivity: The policy agenda

Safeguarding supply chains requires intra- and extra-regional cooperation, and addressing trade facilitation issues in various segments of multi-modal connectivity. This cannot be achieved without scaling up the perspective and vision on regional connectivity from a limited view of land and maritime links within the BIMSTEC to one where various transport and systemic connections link businesses and customers seamlessly between the BIMSTEC and extra-regional Indo-Pacific economies.

A comprehensive set of policies is required for a regional connectivity agenda that would create enabling conditions for safeguarding supply chains and encourage their positioning in the Bay of Bengal region. Some of the key elements of the policy agenda are as follows:

1. BIMSTEC members should commence Track 1.5/ Track 2 dialogues with extra-regional member economies—Japan, Australia, Singapore, Korea, Vietnam—that have commendable records of trade facilitation in regional connectivity and major presence in regional supply chains. The dialogues should focus on ‘learning’ of best practices in cross-border supply chain management.
2. BIMSTEC, in consultation with major regional economies engaged in supply chains, should identify industries whose supply chains have strong prospects in the region. It would be sensible to identify a priority group of industries for maximising trade facilitation and connectivity efforts. India, Thailand, and Bangladesh should take the lead in identifying industries.
3. India is part of the SCRI initiative. As the largest BIMSTEC member and a key stakeholder of SCRI, it must work on exploiting the synergies between SCRI and the BIMSTEC transport connectivity master plan.
4. The Advanced Logistics Project (REG-TF-029)<sup>1</sup> in the BIMSTEC Transport Connectivity Master Plan—a regional flagship project—can become a part of SCRI. The project resonates with the SCRI’s intent to ‘facilitate joint projects for supply chain resilience’ and ‘promote supply chain principles in the region’ (*Joint Statement on the Supply Chain Resilience Initiative by Australian, Indian and Japanese Trade Ministers*, 2022).
5. The Advanced Logistics Project was to be implemented from 2019–2023. However, it is yet to find funders. A close engagement between key investment promotion agencies such as Austrade, Invest India, and JETRO, can help in identifying funders. Funding opportunities can also be identified through the Bay of Bengal connectivity partnership between Australia and India, being implemented through the Australia-India Infrastructure Forum (Minister of Foreign Affairs, 2022).
6. India should work with other Bay of Bengal economies to extend its initiative of digitisation of bills of lading and trade documents (e.g., e-delivery orders, e-certificates of origin, letters of credit) across the region. The trade facilitation has been enabled through a blockchain platform and is currently operational at 19 ports connecting more than 16,000 corporate stakeholders (The Maritime Executive, 2020). Prospects of supply chains in the region would greatly expand if other BIMSTEC members adopt the practice.

The biggest challenge that BIMSTEC and the Bay of Bengal community must overcome is the sluggishness that has historically characterised policy implementation in the region. A weak BIMSTEC secretariat with limited capacity for steering connectivity projects is a hindrance to progress, as is a lack of focused discussion and understanding of supply chain management issues within the grouping. Summoning the necessary energy for expediting a policy agenda addressing the twin needs of supply chain management and connectivity won’t be easy. A lot will depend on the proactive role played by the leading BIMSTEC members, India and Thailand, and extra-regional actors like Japan and Australia, in committing to the policy agenda.

<sup>1</sup> REG-TF-029: Regional Trade Facilitation project for the development of advanced logistics (e.g. Supply chain management, less than container load [LCL] services, last mile or kilometer logistics). The estimated cost as of 2018 stood at \$5 million and the estimated timescale set between 2019-2023. The project will improve logistics performance in BIMSTEC member states.

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