



Conference on Regional Cooperation and Integration

Experiences in Asia and the Pacific

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Papers and Presentations

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BIMP-EAGA
East ASEAN Growth Area



CAREC
Central Asian Regional Economic Cooperation



IMT-gt
Indonesia - Malaysia - Thailand
Growth Triangle



SASEC
South Asian Sub-Economic Corridor







Regional Economic Integration in South Asia: Potential, Barriers, and Options

By Mr. Nagesh Kumar, Chief Economist and Director, UN-ESCAP

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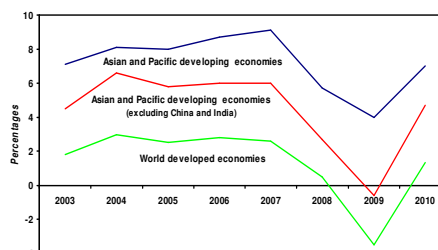
Presentation Outline

1. Asia Pacific and the Changing Economic Geography
2. Emerging post-crisis global economic order
3. Regional Economic Integration in South Asia
4. Potential of South Asian Trade
5. Major Barriers
6. Way Forward

Asia-Pacific and the changing economic geography

Emergence of Asia as a new growth pole

- Emerging Asian economies growth average 7.8% compared to rich countries' average of 2.7% over 2004-07
- Continued growing robustly during 2009
- Disproportionately high share of incremental output in the world coming from Asia



Asia-Pacific emerging as the centre of gravity of the world economy with 3 of the 4 largest economies in the world

- Rise of Asian middle class as a final consumer
- Largest markets for a growing number of products and services

Emerging post-crisis global economic order

- Continuing uncertain and subdued outlook for developed economies
- Financial crisis as a new structural break
 - Difficult to return to pre-crisis **business as usual** scenario even in the medium term
- Advanced economies will need to
 - unwind global imbalances by restraining debt-fuelled consumption
 - Increase savings and exports
- Imperative of rebalancing of Asia-Pacific's growth
 - Asian dynamism will have to be increasingly sustained by domestic demand
 - Regional economic integration will have to play a key role in future development strategy

Quarterly real GDP growth in advanced economies

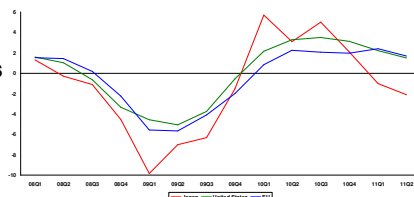
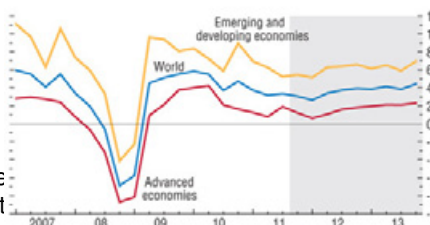


Figure 1. Global GDP Growth
(Percent, quarter over quarter, annualized)



Regional Economic Integration in South Asia

- ✓ Recognition of complementarities
- ✓ Trade liberalization: SAPTA, SAFTA, bilateral FTAs, unilateral preferences
- ✓ Trade facilitation under SAARC
 - Customs cooperation covering infrastructure development at land customs stations, smoothening of custom procedures, harmonization of documentation, automation in clearing, EDI, harmonization of tariff lines
 - Standards: South Asian Regional Standards Organization (SARSO) for evolving common standards, moving towards mutual recognition of conformity assessment procedures, and accreditation

Regional Economic Integration in South Asia - continued

- ✓ Transport and transit arrangements
 - Bilateral transit arrangements for land-locked countries: India-Nepal and India-Bhutan; India-Bangladesh
 - SAARC Regional Multimodal Transport Study
- ✓ Functional subregional groupings: SASEC covering energy, transport, and trade

Underexploited potential of South Asian Trade

- ✓ Share of intraregional trade remains low
 - Underestimation due to considerable informal trade and third country trade
 - Even though it is significant for smaller countries and is growing
- ✓ Only about 25% of potential is realized
- ✓ Potential of intraregional FDI also remains to be exploited
 - India-Sri Lanka investment flows in recent years indicate the potential of bilateral FDI

Major Barriers

- ✓ Major barriers are:
 - Trade barriers: tariffs and NTBs
 - That also lead to informal trade and third country trade
 - Poor transport connectivity and trade facilitation
 - Lead to high trade costs within the subregion
 - Trade costs for intraregional trade same as for trade with EU => benefit of geographical proximity not being exploited
 - Poor banking links
 - Poor supply capabilities

Poor supply capabilities in LDCs

- ✓ Persistent trade imbalances between India and other South Asian countries due to supply capabilities
 - India-Bangladesh case
 - India-Nepal case
- ✓ Freeing trade can help in addressing the supply constraints by facilitating FDI in creating supply capacities for export
 - India-Sri Lanka case
 - Nepal and Bhutan BAN

Way Forward

- ✓ Expedite completion of SAFTA
- ✓ SAFTA: substantial potential in efficiency-seeking restructuring of industry and creating supply capabilities in smaller countries
 - Facilitate emergence of regional hubs based on comparative advantages
 - Sri Lanka for rubber-based industries
 - Bhutan for forest-based industries, and so on

Way Forward - continued

- ✓ Strengthening cooperation in banking, investment and services
 - Conclusion of the SAARC Investment Agreement
 - Facilitation of intraregional investment and financing
 - Better banking links and trade finance
 - Liberalizing trade in services as a part of the framework agreement
 - Integration of capital markets
 - Realizing the potential of cooperation in energy
- ✓ Deepening regional cooperation beyond SAFTA

Cooperation in Transport Infrastructure

- ✓ Benefits of geographical proximity lost due to poor connectivity
- ✓ Moving towards a regional transport policy
 - Harmonized technical standards: e.g. truck size and weight; railway gauge and rolling stock
 - Simplified documentation and clearance procedures
 - Standardized cabotage rules etc.
 - Open sky policy, facilitation of movement of container trains and goods vehicles
 - Development of inland waterways, shipping links, highways and railway lines
 - Develop telecommunication infrastructure and e-commerce readiness

Strengthening Trade Facilitation

- ✓ Strengthening trade facilitation
 - Major improvement in the infrastructure at the border posts and transit facilitation
 - South Asia as a hub for intra-Asian trade
 - Movement towards a South Asian single window and paperless trade
 - Agreements for mutual recognition of standards and conformity assessment procedures

Thank You