Conference on Regional Cooperation and Integration
Experiences in Asia and the Pacific

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Papers and Presentations

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Regional Economic Integration in South Asia: Potential, Barriers, and Options
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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
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
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, smoothing 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
    o That also lead to informal trade and third country trade
  • Poor transport connectivity and trade facilitation
    o Lead to high trade costs within the subregion
      o 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