Towards a New Regime of Regional Integration in South Asia

Selim Raihan

The current regime of regional integration in South Asia has primarily focused on the rise in intra-regional trade in goods. However, South Asia is at the verge of a new regime of regional integration which has to involve four integration processes: (i) market integration: integration in trade in goods and services; (ii) growth integration: integration in economic growth processes of the South Asian countries; (iii) investment integration: promotion of regional investment and trade nexus; and (iv) policy integration: harmonization of economic and trade policies. A new regime on regional integration in South Asia calls for these four integration processes through responding to four fundamental questions:

On the first question “Why is there a need for a deeper regional integration in South Asia?” the answer is: there are now convincing evidences that deeper regional integration is needed for generating and sustaining economic growths in the South Asian countries, i.e. regional integration will be a critical factor in the future growth processes of these countries. This is required for larger employment creation and alleviation of poverty in a region which has the highest number and density of poor people. For the promotion of inclusive growth, regional integration will be an effective instrument. Ensuring food security is a challenging issue, and intra-regional trade in agricultural and food products will be immensely critical. Deeper regional integration through trade and transport facilitation will increase competitiveness of these countries to better participate in the global trade. Promotion of regional supply chain will be critical in developing dynamic comparative advantages of these countries. Finally, the peace dividends, through intra-country stable political relations, will be immensely high.

On the second question “How to achieve deeper regional integration in South Asia?” the answer is: despite all shortcomings, SAFTA is a landmark achievement, and deeper integration has to take lessons from SAFTA. Intra-regional trade in South Asia has been low, but there are signs of huge potentials. There is a need to move beyond SAFTA; and the new regime has to put much weight on regional investment and trade nexus. Promotion of intra-regional investments and attracting extra-regional FDIs in goods and services sectors in general, and energy and infrastructural sectors in particular will be the key driver in the new regime.

On the third question “What to do?” the answer is: a comprehensive assessment is needed on the achievements of SAFTA so far. For deeper market integration in goods, full implementation of SAFTA is needed with emphasis on further liberalization of intra-SAARC tariffs, reduction in sensitive list, relaxing the rules of origin, and establishing effective mechanisms to deal with the NTMs/NTBs. There is a need to link intra-regional liberalization with enhanced intra-regional investment in different services sectors. Regional and sub-regional efforts have to be promoted for different trade and transport facilitation measures, for cooperation in energy generation and transmission, and for linking energy cooperation and trade and transport facilitation with investment and growth processes of these countries. The focus should also be on the promotion of regional supply chains. The new regime will call for greater integration in trade, macro, financial and industrial policies with the aim for removing different policy and structural barriers. Short-term and medium term realistic targets should be spelled out. The new regime will re-emphasize on the importance of concrete regional efforts in the diversification of the export structures of the smaller and weaker countries for them to effectively integrate with the regional economy.

On the fourth question “Who will do and what?” the answer is: the new regime will require clear and visible leadership from India in taking the agenda forward. Other countries in the region should not be only at the receiving end but also have to take part actively and effectively. The new regime will call for all South Asian countries to balance what effectively they can offer and what they can expect in the deeper integration process.”
South Asia needs Regional Value Chains in Garments and Leather products

Rashmi Banga

South Asia as a region is losing out on its cost competitiveness, especially in their traditional export-oriented industries like textiles & garments and leather & leather products. Global imports of textile and leather products of the region increased by 70% and 300% respectively in the last decade. Not only are these industries losing out on their domestic markets, they are also losing out on their domestic value addition in their exports. Exports of textile products rose in Bangladesh by four times over the last decade, while it doubled in Sri Lanka. However, domestic value additions in these industries have declined in both the countries, as imports of raw material and semi-finished products in these industries have risen steadily. In Sri Lanka domestic value addition in exports of textile products declined by 4 percentage points and is now 48% while in Bangladesh it declined by 5 percentage points and is now 67%. Decline in domestic value addition in exports of textiles products is also striking in Pakistan, where it declined by 14 percentage points to reach 78%. Exports of finished leather products from India and Pakistan are experiencing a similar hollowing-out as domestic value addition declined in these products from 77% to 60% in India and from 85% to 74% in Pakistan. The importance of domestic value-addition in exports cannot be ignored as a fall would mean losing out on the commensurating production-linked gains of exports.

While it can be argued that rising import-content of exports indicates linking into global value chains (GVCs), it is important to pause and rethink whether falling domestic value-addition of exports can be in any way gainful for an economy. While the entire emphasis of policy makers has been on linking into GVCs, there is a need to refocus policies on "gainfully" linking into GVCs, whereby not only exports rise but also domestic value-added content of exports. While it may be difficult to climb up the GVCs given the structure of GVCs- where the lead firms capture maximum value created in GVCs through providing pre and post manufacturing services- forming Regional Value Chains (RVCs) in these industries can offer much higher to South Asian countries in terms of domestic value-addition.

A RVC differs from GVC, as in RVCs the end product (finished product) is exported by a country from the region, while sourcing its intermediate products and raw materials from within the region. This will create demand for raw materials and semi-finished products within the region offering higher scale economies to other South Asian countries. For example, if a RVC is formed within South Asia and leather products are exported by Bangladesh and India and tanned leather imported from Pakistan, not only tanneries in Pakistan will benefit but the finished leather product industry will also benefit from falling costs of tanned leather due to rising scale of production. RVCs therefore offer opportunities to the countries within the region to link into value chains by using the region for boosting their competitiveness and increasing the domestic value added content of their exports. Linking into GVCs at higher end can also become easier if there are well established RVCs, as this will improve countries’ bargaining power vis-à-vis the lead firms in GVCs. Sri Lanka and Bangladesh have acquired the necessary skills for producing world class quality garments and have well trained workforce. Establishing their brands is the need of the hour.

The region has rising demand and supply of both the inputs and outputs of textile and clothing industry and therefore provides a fertile ground for forming the RVC. Similar potential exists in the region’s leather industry.

However, RVCs will not form automatically given the political economy of the region. There is a need to develop targeted policies and strategic interventions by both the policymakers as well as firms and consumers and therefore broadens the market for these products.

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The leather industry accounted for more than $980 million exports in 2012-13. It has huge potentials in generating employment and growth by increasing export of higher value added products. However, the sector has not yet reached its full potential primarily due to operating constraints stemming from its production base in Hazaribagh of Dhaka city where there are minimal waste management systems and inadequate industrial layout planning. Out of more than 200 tanneries in Bangladesh, majorities are located in Hazaribagh. Following legal orders of the High Court, the government and the leather associations signed a MoU in 2003 to relocate all the tanneries from Hazaribagh to a new tannery estate. However, the implementation of the first MoU was stuck for many difficulties with unresolved decisions on cost sharing of various components (e.g. CETP) of the new industrial estate. SANEM, in partnership with the Asia Foundation, formed a coalition and began working with the leather associations and BSCIC in December 2012, in an effort to facilitate an acceptable agreement among all parties that would speed-up the relocation process. The coalition helped leather entrepreneurs and policy makers signing of a revised MoU in October 2013. As a result, the Hazaribagh-centric tannery industry is now legally bound to relocate all the factories to a new environmentally compliant tannery estate at the outskirt of Dhaka city. In resolving these binding constraints, the coalition maintained relentless liaison with all the relevant parties including leather associations, BSCIC, Ministry of Industry, and Ministry of Finance. Moreover, the coalition also organized several back-to-back meetings, roundtable discussions and seminars with leather sector entrepreneurs and government representatives during February 2013 and May 2014. Since then, the coalition has been addressing issues like initiation of CETP construction, drafting of compensation guidelines, advocating for ‘soft loans’ at lower/subsidized interest rate, and submission and approval of layout plans. Around 150 tannery owners out of 155 plot-owners in the new tannery estate already submitted their layout plans to BSCIC by May 2014. The coalition will continue to oversight the construction of the CETP; help formation and operation of a new company, jointly owned by the government and the leather associations to operate the CETP after it is set up; develop policy mechanism for the shifting of mortgages from land in Hazaribagh to the plots in Savar; and advocate for ‘soft loan’ for the entrepreneurs who will start shifting to the Savar Tannery Estate.

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SANEM Hosts Regional Workshop on “WTO and Post-Bali Work Program for Asia”

With the mission to discuss and identify the issues of interest to Asian LDCs and countries with special needs, SANEM hosted the regional workshop on “WTO and Post-Bali Work Program for Asia” which was held on 5th and 6th May, 2014 at the Ruposhi Bangla Hotel premises in Dhaka, Bangladesh. Other organizers of the workshop included the Commonwealth Secretariat, Bangladesh Foreign Trade Institute (BFTI), African EXIM Bank and Center for WTO Studies, New Delhi.

Dr. Selim Raihan (Executive Director, SANEM) commenced the inaugural session with his warm welcome address on May 5, 2014. Among others, Prof. Abhijit Das (Head, Center for WTO Studies, New Delhi), Dr. Md. Mozibur Rahman (CEO, BFTI, Dhaka) and Dr. M. A. Razzaque (Adviser and Head, Economic Affairs Division, the Commonwealth Secretariat) embellished the inaugural session with their special remarks.

The workshop consisted of nine technical sessions on diverse trade issues and each session ended up with a lively open house discussion where the participants came up with their feedback, comments and recommendations. The major presentations on the first day included “Key Issues in negotiations on industrial tariffs”, “NAMA Issues: Development Implications for LDCs and low income countries in Asia”, “Recent developments regarding NAMA issues”, “Key Issues in Agriculture for LDCs and low income countries in Asia”, “Implications of Bali Decision on Public Stockholding for food security purposes”, “Green Box Support: Development Implications”, and “Key Issues in negotiations on Services” where the panelists discussed on the current state of play and implications for developing countries. Panelists for the first day included Dr. Saman Kelegama (Executive Director, IPS, Sri Lanka), Dr. Mustafizur Rahman (Executive Director, CPD, Dhaka), Prof. Abhijit Das, Dr. Rashmi Banga (Economist, UNCTAD, Geneva), Mr. Puspa Sharma (Research Director, SAWTEE, Kathmandu), Dr. M. Asaduzzaman (Professional Fellow, BIDS, Dhaka), Dr. Georgios Mermigkas (Trade and Food Security Officer, FAO, Geneva), Dr. Md. Mozibur Rahman, Dr. Selim Raihan and Dr. Nazneen Ahmed (Senior Research Fellow, BIDS, Dhaka).

The second day started off with a special address on “WTO Trade Negotiations and post-Bali Agenda: Issue of importance for LDCs and low income countries” by Mr. Amitava Chakrabarti (Director General, WTO cell and Secretary, Ministry of Commerce, Government of Bangladesh). Other presentations of the second day were on “Key issues in trade facilitation”, “Trade Facilitation Agreement: Implications for LDCs and low income countries in Asia”, “Single Undertaking: Implications and Options focusing specifically on LDCs and low income countries in Asia”, and “Other Development Issues for LDCs: DFQF”. The representatives from the participating countries expressed their observations and recommendations from individual country perspective. The distinguished panelists on this day were Dr. Selim Raihan, Mr. Jeff Procak (Regional Cooperation Specialist, ADB Manila), Prof. Abhijit Das, Dr. Mostofa Abid Khan (Director, BFTI, Dhaka), Dr. Cuong Minh Nguyen (Senior Economist, ADB Manila), Dr. M. A. Razzaque, Mr. Manzur Ahmed (Advisor, FBCCI, Dhaka) and Mr. Shaquib Quoreshi (Secretary, MCCI, Dhaka).

The concluding session was chaired by H.E. Mr. Pan Sorasak (Secretary of State, Ministry of Commerce, Cambodia), Dr. Rashmi Banga and Dr. M.A. Razzaque presented the first draft of the summary of the workshop. The workshop ended successfully with sharing of ideas, perceptions, expectations and recommendations from distinguished academics, researchers and practitioners.

Asian Development Bank (ADB) organized a two day long round-table meeting, on 24-25 March 2014 in Manila, Philippines, focusing on priority areas for South Asia’s regional cooperation and integration. The meeting was attended by eminent scholars from this region presenting and discussing on the first drafts of the papers under the ADB-SAARC Secretariat Study on “A Roadmap for South Asia Economic Union”. Dr. Selim Raihan, Executive Director of SANEM and the team leader of the study, presented the outline of the study and made presentations on two papers: “Identification of priority sectors for fast track liberalization” and “Quantitative assessment of phases of regional economic integration”. Dr. Farazi Binti Ferdous, Fellow from SANEM, was a discussant for the study on “informal trade in SAARC”. The study is now in the process of being finalized, and Dr. Selim Raihan will make the final presentation at the ADB-SAARC Secretariat workshop on 21 July 2014 in Thimphu, Bhutan.

Roundtable Meeting on “SAARC Regional Economic Integration”

SANEM is a non-profit research organization registered with the Registrar of Joint Stock Companies and Firms in Bangladesh. Launched in January 2007 in Dhaka, it is a network of economists and policy makers in South Asia with a special emphasis on economic modeling. The organization seeks to produce objective, high quality, country- and South Asian region-specific policy and thematic research. SANEM contributes in governments’ policy-making by providing research supports both at individual and organizational capacities. SANEM has maintained strong research collaboration with global, regional and local think-tanks, research and development organizations, universities and individual researchers.