Prospects and Challenges for South Asian Regional Integration

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SANEM Annual Conference, Dhaka
20 February 2016
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Prospects

• South Asia has shown impressive growth in the last decade
• This growth is reflected in the growth of trade and investment in the region
• India has been star performer among all South Asian countries
• More global integration and South Asia’s proximity to the growing Asian region (China, ASEAN) are explanatory factors of this growth
Prospects

- Large human capital base combined with competition through open economies is playing a crucial role in the growth process
- Increased remittances and growing middle class with high purchasing power
- Youth bulge and a possible demographic dividend
- High growth in services with modern technology
Regional Frameworks

• SAARC has functioned for three decades
• Two decades of preferential trade under SAPTA (1995-2005) and SAFTA (2006-2016) for trade in goods
• Plans to move towards a South Asian Economic Community and then a South Asian Economic Union by 2022 (or 2025 ?)
• SATIS put into operation in 2010 for trade in services
• SAARC Investment Treaty ready for signing
Progress

• SAARC is the least integrated region in the world
• Intra-regional trade at 6% is one of the lowest in the world compared to 66% in EU, 48% in NAFTA, and 27% in ASEAN
• Intra-regional services trade also at a very low level
• For example, there is little spill overs from the growing IT industry in India to its neighbours
Progress

• Intra-regional investment is at 1% and smaller countries have failed to attract larger chunk of growing outward investment from India
• Efficiency-seeking industrial restructuring in the region is at a very low level and this is seen from IIT (Intra-Industy Trade) indices estimated in various studies
• Joint ventures with buy-back arrangements and subcontracting activities at a low level in the region
Impediments for Trade in Goods

• Low preferential margins, large negative list with actively traded goods kept out of liberalization
• NTBs, procedural delays, and poor connectivity – according to the WB, cost of trading across borders in the region is highest in the world
• Lack of supply capacity in most small countries to exploit the growing larger markets in India and Pakistan
• “trust deficit” and the vulnerability of SAARC progress to political issues
Impediments for Trade in Services

• SATIS which works under GATS-Plus is progressing slowly due to “offer” and “request” lists of all members not been completed
• Afghanistan and Bhutan not being WTO members (Afghan received membership in December 2015) was a delaying factor
• Outdated regulatory systems taking a long time to modernize
• Bulk of the services transfers have happened through Mode 3 (Commercial Presence in smaller countries) and Mode 3 liberalization has been a slow process
Impediments for Intra-Regional Investment Flows

• High transaction cost -- presence of non-transparent procedures and bureaucratic delays.
• Poor infrastructure, etc.
• Lack of a SAARC Investment Area on the lines of ASEAN
• Lack of an Investment Treaty with clearly rules-based system
Emerging Issues

• With Global Value Chains increasingly determining trade, reducing tariffs in the region has become vital for South Asian integration process both to the world and in the region.

• With increasing “servicification’ of the manufacturing sector (services value added accounts for 26% of manufacturing in developing countries), services liberalization is important for South Asian competitiveness.

• Verticle and horizontal integration of industries is important for investment to drive trade and the trade-investment nexus to drive intra-regional trade.
Challenges

• Addressing the impediments to trade in goods, services, and investment

• Binding commitments are required in Trade Facilitation and NTB removal

• Bilateral FTAs moving ahead of the South Asian trade integrating process – the possible integration

• LDCs need Special and Differential Treatment– more support to go through the process -- Given its economic power, India will have to take on a disproportionately larger responsibility for promoting regional cooperation in SA
Challenges

• Focus SAARC Development Fund to develop the supply capacity of the smaller countries; utilize AIIB and ADB for the process
• SAARC Secretariat should be empowered to drive the SAARC economic agenda
• None of these issues are new issues and South Asia’s Track 2 has done research in most of these areas and readily available for Track 1 but an effective interaction mechanism between the two Tracks need to be formed
Concluding Remarks

• If the highlighted issues are addressed, Intra-regional trade can easily be boosted to about 20% in the region

• The benefits of more economic integration in the region will dilute the political differences and lead to deeper integration in the region

• A deeper integrated SAARC could be an important building bloc of a future Asian Economic Community
• Thank you