Boosting Trade and Prosperity in South Asia: an Actionable Agenda

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Outline

• Why regional integration matters for South Asia

• Four steps to achieve $100 billion trade

• A vision for South Asia’s trade in goods and services
Neighbors elsewhere trade, and prosper...but not South Asia

Figure: Intra-regional trade share in South Asia (% of total trade)

Figure: Intra-regional FDI, 2011

Source: Breaking Barriers (WB) from IMF Coordinated Direct Investment Survey
South Asia was not always disconnected, but corridors today are fragmented, deterring trade

A container from Ind→Pak costs 4-6 times more to travel the indirect sea route

... and travels 3 times the distance from Dhaka to Lahore via sea

Goods from Agartala travel 8 times the distance to reach Kolkata Port, instead of using Chittagong

A container takes 6-7 times as long to get from Delhi to Dhaka via Colombo...
Why should we care?

• Deeper intra-regional cooperation can take advantage of proximity, complementarities, and growing markets and result in:
  • 250 percent increase in intra-regional trade (dynamic gains higher)
  • Lower prices, better quality, and greater variety
  • Greater inter-dependencies, less poverty, constituencies for peace
  • Trade and connectivity for landlocked countries/border sub-regions (Bhutan, Nepal, NE India, NW Pakistan)
  • Cheaper, cleaner supply system and better investment climate

• South Asia can increase trade to US$100 billion in five years
$100bn trade in five years is an aspiration, but it can be realized through:

- **CONNECTIVITY**
  Position SA as a gateway between East & Central Asia and the Middle East

- **TRADE POLICY**
  Create a fully functioning SAFTA

- **TRADE POLICY**
  Tackle Non Tariff Barriers (NTBs)

- **INVESTMENT**
  Encourage private and intra-regional investment

- **30%** (approx.) annual growth in intra-regional trade
- **Trade boost from current** $28 billion **to** $100 billion **by 2020**
- **Intra-regional trade would increase from 5% to 10%**
Step 1: Position South Asia as a Gateway
South Asia is the least connected region in the world

- India-Pak trade 115% more expensive than China-US trade!
Yet, it sits very strategically, at the crossroads of three important regions
Geography offers South Asia big opportunities for trade and transit

• But inadequate trade facilitation and infrastructure
  • Logistics Perception Index: average rank Top 5 emerging countries East Asia 40; Top 5 South Asia 80

• Becoming a gateway: investing in hard and soft infrastructure
  • Develop railway traffic: particular promise due to existing network, less congestion
  • Increase capacity at important ports to improve internal and external connectivity
  • Augment inland waterways to spur multi-modal transport linkages
  • Improve border clearances, develop transit (Motor Vehicles Agreement)

• Deepening sub-regional initiatives (BBIN, Pakistan-Afghanistan-Central Asia) can help develop connectivity and form building blocks of SA gateway
For the gateway to work, India and Pakistan need to connect

- Sparse overland connectivity: small number of goods, no transit
- Current Indo-Pak trade is $2.6 billion
- Potential trade estimated at 10-27 times the current value

- Enhanced connectivity will generate positive benefits for the rest of South Asia:
  - Economy: Improved trade between the two largest economies will create a more integrated SA market with benefits for all
  - Connectivity: Improved India-Pak transit will enhance connectivity between SA’s western and eastern-sub regions
  - Peace dividend

Source: Directorate General of Foreign Trade: Ministry of Commerce, India
Step 2: Create a Fully Functioning SAFTA
Making SAFTA work

• The power of a 1.7 bn market is more theory than reality because the market is fragmented
• SA highly restrictive trade regime hurts overall and intra-regional trade
  • More than 50% of BD imports from Pakistan and Nepal sensitive
  • More than 45% of Nepal’s imports from India and Sri Lanka sensitive
• SAFTA very far from zero duty trade (as FTA implies), despite reduction of sensitive lists
• SAFTA needs to articulate a program for phasing out sensitive lists and moving to FTA with clear deadlines
• There will be winners and losers, but net impact positive, and small countries gain
• Policy makers to address job losses and business transition
Step 3: Tackle Non Tariff Barriers
Why do NTBs matter for trade?

• Non-Tariff Measures (NTMs): all measures other than tariffs that affect flow of goods and services
  • Include technical regulations, quality specifications, product standards, customs procedures, etc;
  • NTM becomes NTB when it is used for protectionist purposes

• Traders from across South Asia have many NTB complaints
  • Many barriers are perceived, others real
  • Create misperceptions, exacerbate trust deficit arising from asymmetric economic power

• The high incidence of NTBs leads to the problem of “missing markets”
  • If Bangladesh can export its apparel to the rest of the world, why is it so difficult to do so with the rest of South Asia?
A Transparent mechanism can help reduce NTBs

- NTB complaints arise from lack of information; testing and certification infrastructure/recognition; and a genuine NTB
- Significant share of complaints in first two categories and can be addressed through problem solving
- Africa’s transparent redress mechanism (Online Mechanism for Reporting, Monitoring and Eliminating NTMs) identifies, removes, and monitors NTBs
- Lowering NTBs will reduce informal trading, create trust, increase gov’t revenue
Step 4: Encourage Private Investment
Trade and investment are twins
South Asia lags in FDI inflows, which affects trade

• More trade ↔ more investment. Twins.

• Higher investment can increase existing low levels of export diversification: most countries highly dependent on textiles and garments

• Enhanced intra-regional FDI will facilitate the formation of value chains.

• South Asian countries rank low in business environment rankings, affecting investment
Exports from Bangladesh to India remain stagnant, despite open market since 2012

Annual growth of Bangladeshi exports to India (%)

Duty-free, quota-free access given to Bangladeshi exports into the Indian market
Gains from investment flows are reciprocal: outward FDI benefits recipients as well as originators

In the last decade:

- Outward FDI stock of developing economies increased 3 times from $1.2 trillion (2005) to $4.8 trillion (2014)
- Doubled their share of world outward FDI from 10 percent to 19 percent
Energizing foreign direct investment

• Improve the investment climate for foreign investors in general and South Asian foreign investors in particular

• Governments to pro-actively seek ‘anchor investors’ from within South Asia:
  • Helps build later investors’ confidence and knowledge about the prospective market
  • Allows the formation of business networks

• Countries such as Bhutan and Nepal should reduce and eventually eliminate restrictions on outward investment
Enabling South Asia to join the Asian Century

1. Position South Asia as a gateway between East Asia and Central Asia to magnify trade and transit opportunities: create internal connectivity, transit regimes, streamline border clearances

2. Create an effective SAFTA to realize the power of a market of 1.7 billion people: timeline to eliminate sensitive lists and envision a truly free trade area

3. Establish a transparent redress mechanism to tackle NTBs to complete free trade area, create trust and enhance government revenue

4. Encourage private investment to unleash the potential of regional value chains and make South Asia an export powerhouse: improve the business environment and pro-actively seek anchor investors from the region
Where could this lead us to...

• Envision a South Asia where:
  • People cross borders in large numbers to study in universities or use specialty hospitals
  • Air connections between Lahore and Delhi are three times a day instead of once a week
  • Amritsar’s garment factories gets its fabric from Lahore instead of, say, Tirupur
  • Investors from South Asia freely invest in any other country in the region, at par with domestic investors