A Glass Half-Full: The Promise of Regional Trade in South Asia

Sanjay Kathuria
Lead Economist and Coordinator, Regional Integration, Macroeconomics, Trade and Investment Global Practice
The World Bank

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Imagine #OneSouthAsia
A South Asia where one can travel seamlessly...

- Breakfast in Kabul
- Lunch in Lahore
- Tea in Colombo
- Dinner in Delhi
...enabled by frequent connections, like in ASEAN

Air Connectivity between Selected Country Pairs in ASEAN and South Asia, 2017

<table>
<thead>
<tr>
<th>Departure-destination</th>
<th>No. of flights per year, one way</th>
</tr>
</thead>
<tbody>
<tr>
<td>IND LKA</td>
<td>7594</td>
</tr>
<tr>
<td>IND BGD</td>
<td>3967</td>
</tr>
<tr>
<td>SGP IDN</td>
<td>26691</td>
</tr>
<tr>
<td>IDN MAS</td>
<td>30914</td>
</tr>
</tbody>
</table>

Source: Based on data from DIIO (Data In, Intelligence Out) (database), Diio, LLC, Reston, VA (accessed August 2017), https://www.diio.net/products/index.html.
Connectivity also means consumers enjoy goods at the best available prices.

<table>
<thead>
<tr>
<th>City</th>
<th>Eggs regular,12</th>
<th>Potato 1 kg</th>
<th>Eggs regular,12</th>
<th>Potato 1 kg</th>
</tr>
</thead>
<tbody>
<tr>
<td>Colombo</td>
<td><strong>1.23</strong></td>
<td>1.03</td>
<td><strong>1.66</strong></td>
<td><strong>1.49</strong></td>
</tr>
<tr>
<td>Delhi</td>
<td><strong>0.91</strong></td>
<td>0.30</td>
<td><strong>1.50</strong></td>
<td><strong>1.10</strong></td>
</tr>
<tr>
<td>Dhaka</td>
<td>1.13</td>
<td>0.30</td>
<td>1.56</td>
<td>1.42</td>
</tr>
<tr>
<td>Islamabad</td>
<td>0.93</td>
<td>0.34</td>
<td>1.28</td>
<td>0.76</td>
</tr>
<tr>
<td>Kathmandu</td>
<td>1.44</td>
<td>0.38</td>
<td>1.49</td>
<td>0.94</td>
</tr>
<tr>
<td>CV</td>
<td>0.20</td>
<td>0.67</td>
<td>0.09</td>
<td>0.27</td>
</tr>
</tbody>
</table>

Source: Numbeo
The Story of South Asia: The most dynamic ...

South Asia: Most Rapidly Growing Region in the World

Note: e = estimate; f = forecast.
... yet the most disjointed

Intraregional Trade as a Share of Regional GDP

Source: Calculations based on data from UN Comtrade through WITS and WDI
Agenda for today

- Issue: The missing potential
- Barriers in trading with neighbors
- Approach of the Report
- Analysis and recommendations
- Achieving the goal
Agenda for today

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Neighbors trade and prosper... but not in South Asia

Intraregional Trade as a Share of Total Trade

South Asia lowest at 5%

Source: UN Comtrade; WITS
Intraregional trade is only one third of its potential...

Intraregional Trade Potential in South Asia

Trade gap has been rising:
- 2001: US$ 7 bn
- 2015: US$ 44 bn
- Goods only
- Underestimate

Source: Calculations based on data of CEPII Gravity Database, Centre d’Etudes Prospectives et d’Informations Internationales, Paris; WITS, World Bank
... and Sri Lanka can more than double its exports to South Asia

**Export Potential of Sri Lanka to South Asia (2015)**

- **Actual Exports to South Asia:** $1.2 Billion
- **Potential Exports to South Asia:** $2.8 Billion

**Gap:** $1.6 bn = ~15% of Sri Lanka’s global export

Sri Lanka significantly under exporting to:
- India ($1.3bn)

**Source:** Calculations based on data of CEPII Gravity Database, Centre d’Etudes Prospectives et d’Informations Internationales, Paris; WITS, World Bank

**Ultimately, people** are denied the benefits of proximity and trade
SL highest recipient of FDI within the region, but still very low overall

Table: Intra-Regional Outward Investment in South Asia in 2015 (Million US$)

<table>
<thead>
<tr>
<th>Investment from\Investment to</th>
<th>AFG</th>
<th>BGD</th>
<th>BTN</th>
<th>IND</th>
<th>MDV</th>
<th>NPL</th>
<th>PAK</th>
<th>LKA</th>
<th>Total Inv to SA</th>
<th>Total Inv to SA/Total Inv to World</th>
</tr>
</thead>
<tbody>
<tr>
<td>AFG</td>
<td>-</td>
<td>0.0</td>
<td>-</td>
<td>0.1</td>
<td>-</td>
<td>-</td>
<td>0.0</td>
<td>-</td>
<td>0.2</td>
<td>0.0</td>
</tr>
<tr>
<td>BGD</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>34.9</td>
<td>1.1</td>
<td>19.9</td>
<td>1.2</td>
<td>6.4</td>
<td>63.5</td>
<td>33.8</td>
</tr>
<tr>
<td>BTN</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.0</td>
<td>0.0</td>
<td>-</td>
<td>-</td>
<td>0.0</td>
<td>0.5</td>
</tr>
<tr>
<td>IND</td>
<td>-</td>
<td>140.6</td>
<td>19.6</td>
<td>20.9</td>
<td>131.5</td>
<td>-</td>
<td>431.4</td>
<td>744.0</td>
<td>0.9</td>
<td></td>
</tr>
<tr>
<td>MDV</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>17.3</td>
<td>17.3</td>
<td>12.3</td>
</tr>
<tr>
<td>NPL</td>
<td>-</td>
<td>0.2</td>
<td>-</td>
<td>0.7</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.9</td>
<td>1.2</td>
</tr>
<tr>
<td>PAK</td>
<td>9.6</td>
<td>22.6</td>
<td>-</td>
<td>-</td>
<td>5.3</td>
<td>3.4</td>
<td>-</td>
<td>15.6</td>
<td>56.5</td>
<td>18.4</td>
</tr>
<tr>
<td>LKA</td>
<td>-</td>
<td>10.2</td>
<td>-</td>
<td>30.5</td>
<td>53.7</td>
<td>0.9</td>
<td>-</td>
<td>-</td>
<td>95.2</td>
<td>14.4</td>
</tr>
<tr>
<td><strong>Total Inv from SA</strong></td>
<td>9.6</td>
<td>173.5</td>
<td>19.6</td>
<td>66.1</td>
<td>81.0</td>
<td>155.6</td>
<td>1.2</td>
<td><strong>470.7</strong></td>
<td><strong>977.5</strong></td>
<td>1.1</td>
</tr>
<tr>
<td><strong>Inv from SA/Inv from World</strong></td>
<td>27.5</td>
<td>1.4</td>
<td>11.7</td>
<td>0.0</td>
<td>13.1</td>
<td>17.2</td>
<td>0.1</td>
<td>4.7</td>
<td>0.3</td>
<td></td>
</tr>
</tbody>
</table>

Source: Calculations based on Coordinated Direct Investment Survey (CDIS) database, IMF
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Both nature and man have contrived to fragment the region

- Isolated and landlocked regions
- High tariffs and paratariffs
- Disproportionately high trade costs, due to poor logistics infrastructure and inefficient trade facilitation
- Complicated and non-transparent NTMs
- Constraints on services trade
- Below-potential FDI and lack of RVCs

Underlying theme in all obstacles – Lack of mutual trust
South Asian countries discriminate against each other...

Overall trade restrictiveness index (OTRI) indicate protection greater for South Asia imports than rest of the world.

OTRIs, select countries, South Asia, 2011

<table>
<thead>
<tr>
<th>Importing Country</th>
<th>Origin of imports</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>South Asia</td>
<td>Rest of world</td>
</tr>
<tr>
<td>Afghanistan</td>
<td>3.84</td>
<td>4.65</td>
</tr>
<tr>
<td>India</td>
<td>4.59</td>
<td>0.50</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>1.01</td>
<td>0.33</td>
</tr>
<tr>
<td>Nepal</td>
<td>10.59</td>
<td>6.87</td>
</tr>
<tr>
<td>Pakistan</td>
<td>3.00</td>
<td>0.51</td>
</tr>
</tbody>
</table>

In Sri Lanka, the index is 3 times higher for SA imports as compared to ROW imports.

Source: Calculation Kee & Nicita in 2018 based on Kee and Nicita 2017
...and negate the benefit of proximity...

**Average Trade costs, Intraregional and Interregional, 2010-2015**

### Regional trade agreements

<table>
<thead>
<tr>
<th>Trade agreements</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>SAFTA</td>
<td>193</td>
</tr>
<tr>
<td>ASEAN</td>
<td>160</td>
</tr>
<tr>
<td>MERCOSUR</td>
<td>119</td>
</tr>
<tr>
<td>NAFTA</td>
<td>47</td>
</tr>
</tbody>
</table>

### Country pairs

- **India-Pakistan**: 153
- **India-Brazil**: 135
- **Sri Lanka-Nepal**: 386
- **Sri Lanka-Brazil**: 210
- **Bangladesh-Nepal**: 248
- **Bangladesh-Brazil**: 159

Source: Calculations based on UNESCAP trade cost database
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The report gathered detailed on the ground knowledge...

- Surveys
- Focus group discussions
- Stakeholder consultation
- Analysis of new data
...and unpacked four critical barriers to deeper trade integration in South Asia

- **Nontransparent and protective tariffs, especially paratariffs**
  - Analyzed in detail in 3 countries (Bangladesh, Sri Lanka, Pakistan)

- **Real and perceived nontariff barriers**
  - Examined through the lens of a handful of products and trading relationships

- **Higher costs of connectivity**
  - Investigated using India-Sri Lanka air travel agreement as a case study

- **Broader trust deficits in the region**
  - Draws lessons from the 4 operational Bangladesh-India border haats
Agenda for today

Issue: The missing potential

Barriers in trading with neighbors

Approach of the Report

Analysis and recommendations

Achieving the goal
Import tariffs are a tax on imports.
they are also tax on exports.
Overall, tariffs are falling in South Asia ...

Simple Average Tariffs, South Asia, 1987–2016

Source: Calculations based on data in Pursell 2011; WTO, ITC, and UNCTAD 2017.
... yet it remains more restrictive than other regions

### Average Tariff in 2016 (%)

<table>
<thead>
<tr>
<th>Region</th>
<th>Average Tariff (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>2.7</td>
</tr>
<tr>
<td>Europe &amp; Central Asia</td>
<td>4.3</td>
</tr>
<tr>
<td>East Asia &amp; the Pacific</td>
<td>7.3</td>
</tr>
<tr>
<td>Latin America &amp; the Caribbean</td>
<td>7.4</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>11.4</td>
</tr>
<tr>
<td>South Asia</td>
<td>13.4</td>
</tr>
</tbody>
</table>

Source: WB staff calculation based on WTO data
SAFTA is undermined by long sensitive lists

In 2015, almost 35 percent of intraregional trade under in South Asia was restricted under sensitive lists

<table>
<thead>
<tr>
<th>Country</th>
<th>Products, revised list (phase II)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Afghanistan</td>
<td>850</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>987 (LDCs); 993 (NLDCs)</td>
</tr>
<tr>
<td>Bhutan</td>
<td>156</td>
</tr>
<tr>
<td>India</td>
<td>25 (LDCs); 614 (NLDCs)</td>
</tr>
<tr>
<td>Maldives</td>
<td>154</td>
</tr>
<tr>
<td>Nepal</td>
<td>998 (LDCs); 1,036 (NLDCs)</td>
</tr>
<tr>
<td>Pakistan</td>
<td>936</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>837 (LDCs); 963 (NLDCs)</td>
</tr>
</tbody>
</table>


No clear guideline for phasing out sensitive lists
Sensitive lists cover a large proportion of Sri Lanka’s import.

- 44% of Sri Lanka’s imports from South Asia
- 23% of Sri Lanka’s exports to South Asia
SAFTA is significantly diluted by para-tariffs, which are not a part of trade concessions.

<table>
<thead>
<tr>
<th>Country</th>
<th>Average Import Tariff</th>
<th>Average Tariff Including Para Tariff</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh (%, FY17)</td>
<td>13.3</td>
<td>25.6</td>
</tr>
<tr>
<td>Pakistan (%, FY17)</td>
<td>13.1</td>
<td>15.3</td>
</tr>
<tr>
<td>Sri Lanka (%), 2016</td>
<td>10.8</td>
<td>22.4</td>
</tr>
</tbody>
</table>

Source: Calculation from National Board of Revenue (Bangladesh), Federal Bureau of Revenue (Pakistan) and Sri Lanka Customs.
How can SAFTA be made more meaningful?

- South Asian countries need to agree on an accelerated, time-bound schedule for elimination of sensitive lists
  - Particularly for Bangladesh and Sri Lanka

- Problem of paratariff needs to be squarely addressed
  - Important for Bangladesh, Pakistan and Sri Lanka
  - Sri Lanka has already taken some steps

- SAFTA members should continue their tariff elimination efforts for their non-sensitive lists
  - For all countries
As tariffs have gone down, countries have tended to substitute them with non-tariff measures.
Unpackaging the black box of NTMs

- Study examines NTMs in bilateral trade between Bangladesh and India and between India and Nepal in selected products of significance.

- Focuses on SPS and TBT measures – account for majority of NTMs in South Asia.

- Distinguishes between real and perceived issues by triangulating survey information with examination of regulations and consultations with regulators in the 3 focus countries.
‘Real’ and ‘perceived’ non-tariff barriers add to the ‘noise’ and trust deficit

<table>
<thead>
<tr>
<th>Perceived</th>
<th>Real</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Information asymmetries</strong></td>
<td><strong>Inadequate capacity</strong></td>
</tr>
<tr>
<td>Lack of awareness among exporters about partner country’s requirements on regulations and standards</td>
<td>Exporting countries lack accredited capacity for testing and certification to meet standards, and have to rely on partner country infrastructure</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Border infrastructure</strong></th>
<th><strong>Procedures</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Very few border points have Electronic Data Interchange (EDI), Risk Management System (RMS), and Single Window</td>
<td>Cumbersome procedures in product registration and renewal</td>
</tr>
</tbody>
</table>
Removing non tariff barriers requires persistent coordination

- Information flows
  - Explore a non-tariff barrier resolution mechanism for South Asia.
  - Increase awareness of exporters through campaigns and workshops about importing country standards.

- Infrastructure
  - EDI, RMS, and single window at border points

- Procedures & capacity building
  - Bilateral mechanism to coordinate and expedite accreditation

These steps can be seen as confidence-building measures for eventual mutual recognition agreements
Connectivity is the nuts and bolts of international trade.
Regional air connectivity in South Asia is poor even between capitals

### Bilateral Connectivity in South Asia, by Number of Flights per Week

<table>
<thead>
<tr>
<th>Country</th>
<th>Sri Lanka</th>
<th>India</th>
<th>Pakistan</th>
<th>Bangladesh</th>
<th>Maldives</th>
<th>Nepal</th>
<th>Afghanistan</th>
<th>Bhutan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sri Lanka</td>
<td></td>
<td>147</td>
<td>10</td>
<td>6</td>
<td>30</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>India</td>
<td>147</td>
<td></td>
<td>6</td>
<td>67</td>
<td>32</td>
<td>71</td>
<td>22</td>
<td>23</td>
</tr>
<tr>
<td>Pakistan</td>
<td>10</td>
<td></td>
<td></td>
<td>10</td>
<td>0</td>
<td>1</td>
<td>6</td>
<td>0</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>6</td>
<td>67</td>
<td>10</td>
<td></td>
<td>1</td>
<td>5</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Maldives</td>
<td>30</td>
<td>32</td>
<td>0</td>
<td>1</td>
<td></td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Nepal</td>
<td>0</td>
<td>71</td>
<td>1</td>
<td>5</td>
<td>0</td>
<td></td>
<td>0</td>
<td>14</td>
</tr>
<tr>
<td>Afghanistan</td>
<td>0</td>
<td>22</td>
<td>6</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Bhutan</td>
<td>0</td>
<td>23</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>14</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

*Source: Compiled using data obtained from the websites of various South Asian airlines, June 2015.*
Efficiency of air travel services is an important determinant of trade costs

- Impact on trade in goods
  - High value, low volume goods

- Impact on services trade
  - Tourism, education

- Impact on FDI

- Study focuses on India-Sri Lanka air services liberalization focusing on 2003 and 2011 amendments
  - Stakeholder consultation
  - Econometric analysis
The liberalization episodes resulted in improved connectivity, reduced prices, and increased air traffic.

- **2011 amendments:**
  - Increase of 16 flights per week
  - 2442 seats per week

- Prices fell by 20-40% on routes with competition

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**Growth in airline flights between India and selected countries, 2004–17**

Source: Based on data from DIIO (Data In, Intelligence Out) (database), Diio, LLC, Reston, VA (accessed August 2017), https://www.diio.net/products/index.html.
Economic impact of liberalization went beyond aviation: tourism key example

- Since 2005, India is the biggest source of tourist arrivals in Sri Lanka.
- Since 2003, there has also been a steady growth in Sri Lankan tourist arrivals in India.
South Asia can learn from India-Sri Lanka air liberalization experience

- Gold standard of open skies agreement not necessary to begin liberalization
  - Incremental approach adopted by India-Sri Lanka offers an alternative
  - Tourism from countries such as Bangladesh can increase because of growing middle class

- Gains can be more if accompanied by other supporting reforms
  - Sri Lanka’s authorization of visa-on-arrival for expansion

- Structural weakness of the industry needs to be addressed to amplify benefits
  - Inherent structural weakness of the airline industry in both countries reduced impact of liberalization

- Policy persistence pays off
Cross-country studies show that nations in which there is a lot of trust among people do well economically.

-Kaushik Basu
Trust is a fragile commodity in South Asia

- The virtuous circle between trade and trust is broken in South Asia.
- However, Bangladesh-India border haats are helping bridge trust deficit by promoting people-to-people interaction.
- Study examined functioning of 4 operational border haats through detailed fieldwork.
Border haats have had significant positive welfare impact on all stakeholders especially on women.

I am a housewife, but I make 30,000 BDT every Tuesday because of the border haat.
The welfare impact of border haats can be further strengthened

- Border haat initiative should be scaled up
  - Does not detract from formal trade.

- Larger gains possible by streamlining procedures, improving facilities, and enhancing use of technology.
  - Vendor selection, electricity and sanitation, prevention of theft.

- Focus on value limits instead of limitations on products would be more meaningful.
  - Expand product list

- Female participation in haats can be boosted.
  - Improved sanitary facilities, quota for women vendor.
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How do we get there?
Sri Lanka’s own role is crucial in realizing regional economic benefits

- **Liberalizing trade within South Asia**
  - Reducing paratariffs – Sri Lanka already taking steps
  - Reducing tariffs and sensitive lists

- **Build awareness, capacity and infrastructure to reduce problems arising from NTMs**
  - Focus on partner country standards and related capacity building
  - Accredited laboratories for testing
  - Electronic data interchange with partner countries
  - But also streamline own SPS and TBT measures (part of anti-export bias story)

- **Accelerate connectivity agenda with neighbors**
  - Air connectivity with Pakistan, Bangladesh

- **Take initiatives of trust building activities through people to people contact**
  - Encourage tourism from other South Asian countries
Unlocking the potential through targeted reforms and their careful management...

- Incremental yet concrete steps needed to tap potential
  - Effective SAFTA
  - Chip away at real and perceived NTBs
  - Improve connectivity

- This will also help to open up regional value chains, critical to trade dynamism

- Open regionalism

- Trust deficit should be addressed in conjunction with other reform

- Careful management of implementation, addressing winners and losers
Links and Hashtags

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#AGlassHalfFull

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https://twitter.com/WorldBankIndia
https://twitter.com/Sanjay_1818