

Fostering Regional Trade Integration Between South Asia and East Asia for Covid Recovery

Chapter 10 in Salgado, R. and Anand, R. (editors): South Asia's Path to Resilient Growth, IMF

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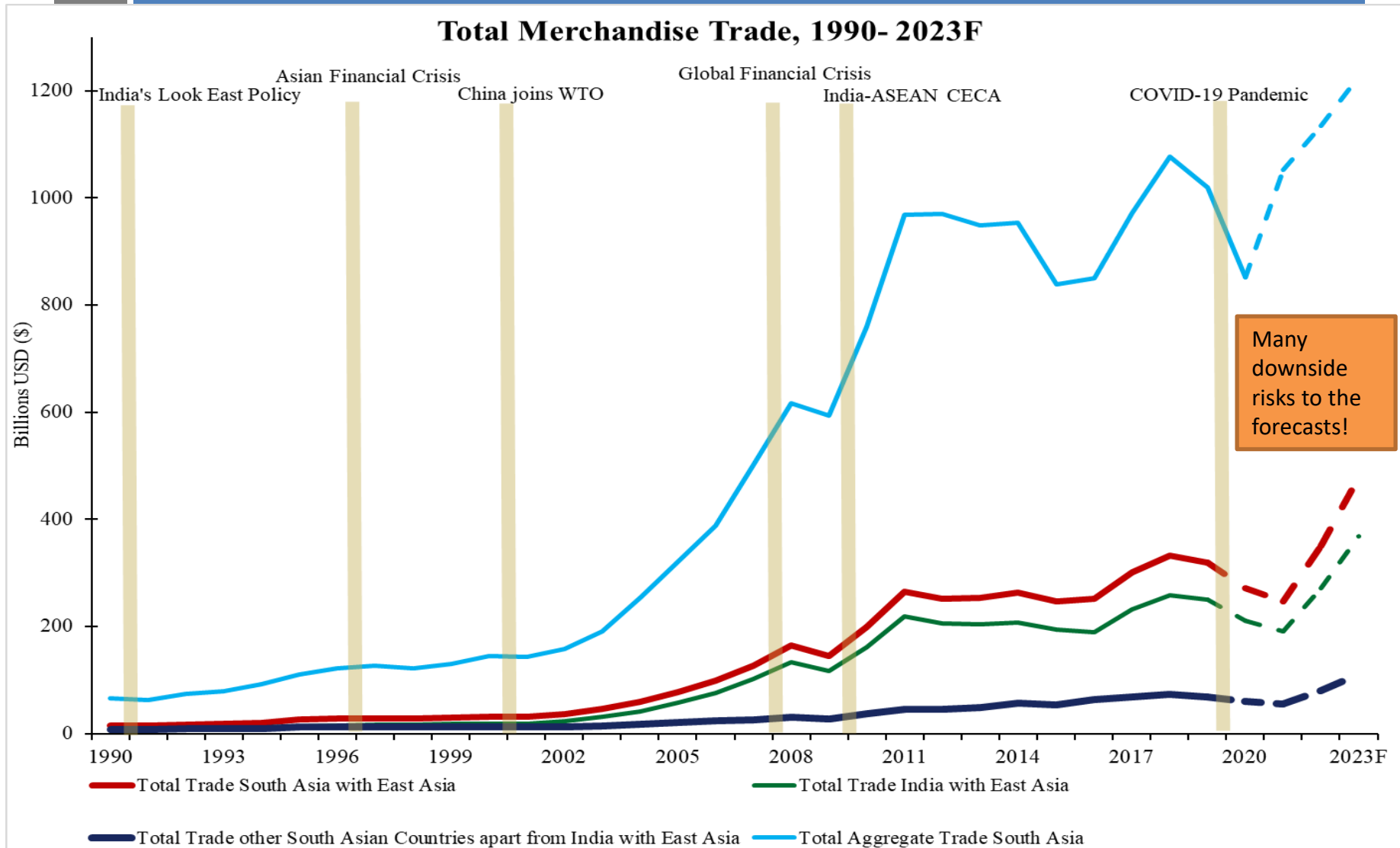
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Summary

- Since the 1990s, South Asia–East Asia trade and FTAs have accelerated as India’s trade realigned toward East Asia.
- As regional trade recovers after the COVID-19 pandemic, South Asian economies have opportunities to participate in global value chains and services trade.
- Regional trade integration across Asia can be encouraged by:
 - ✓ Gradually reducing barriers to goods and services trade and investing in modern SEZs, supported with adjustment financing and technical assistance to losing sectors to reallocate factors of production.
 - ✓ Pursuing comprehensive FTAs eventually leading to the RCEP can provide for regional rules-based trade to help insure against rising protectionist tendencies.
 - ✓ A reinvented trade-focused BIMSTEC may catalyze more effective regional cooperation for small and large economies alike.
 - ✓ Narrower geographical coverage between South Asian and Southeast Asian economies could act as a building block for eventual trade integration across Asia.
- To avoid potential backlash against regionalization, special attention should also be paid to ensuring actual gains from trade for South Asia’s smaller and poorer economies.

Total South Asia-East Asia Merchandise Trade (\$Bn)



#1 Reducing Protection and Promoting SEZs

- Tariffs and non-tariff measures have risen in 5 South Asian countries since the global financial crisis.
 - ✓ South Asian countries have scope to streamline protection and gradually reduce trade barriers affecting goods and services trade.
 - ✓ This will help integration with East Asia and the global economy.
 - ✓ South Asia's trade opening should be supported with adjustment financing and technical assistance to losing sectors and economies, particularly in small economies.
- South Asia has about 645 special economic zones (SEZs) in operation making a notable export contribution
 - ✓ E.g.s Cochin (India), Gwadar (Pakistan), Mirsarai (Bangladesh), Hambantota (Sri Lanka)
 - ✓ Improve the performance of existing SEZs and invest in services SEZs to facilitate industrial clustering and exports.
 - ✓ This requires good practice regulatory policies, competitive fiscal incentives and ensuring macro/political stability.
 - ✓ The feasibility of SEZs in small economies in South Asia needs analysis and policy lessons drawn.

#2 Pursuing FTAs leading to RCEP

- South Asia-East Asia FTA nos. may increase from 11 to 30 between Aug. 2021 and 2030
 - ✓ E.g the India-Japan FTA, the Singapore-Sri Lanka FTA and the Pakistan-Indonesia FTA.
 - ✓ The few regional FTAs means little risk of Bhagwati-type 'spaghetti bowl' effects.
 - ✓ But such FTAs have a mixed picture of tariff preference use and depth of coverage
- Pursuing mega-FTAs eventually leading to RCEP can provide a framework of regional rules-based trade to insure against rising protectionism.
 - ✓ RCEP-15 - the world's largest FTA – can promote liberalization and supply chains
 - ✓ By September 2022, 13 members had ratified the RCEP, two years after signing.
 - ✓ Although India is not a party to RCEP, it can prepare for future membership by undertaking structural reforms to improve business competitiveness and greater regulatory coherence with East Asia.
 - ✓ If India joins, the rest of South Asia may be incentivized to join RCEP.
 - ✓ Studies suggest that India gains if rest of South Asia is also included a mega-FTA with East Asia

#3 Reinventing Institution Lite Regionalism

- Inactivity in SAARC means BIMSTEC (1997) has an opportunity to promote South Asia-Southeast Asia cooperation.
 - ✓ 2022 March: The adoption of the BIMSTEC Charter and the Master Plan for Transport Connectivity are important milestones.
- A reinvented trade-focused BIMSTEC focused on trade integration can foster regional integration and the interests of small economies.
 - ✓ Better resourcing of the BIMSTEC Secretariat and pushing to conclude a comprehensive BIMSTEC FTA are key agenda items.
 - ✓ Trade policy capacity must be built in small economies before they embark on trade talks and technical assistance is needed to improve business use of FTAs in effect.
 - ✓ An open accession clause for new members is needed whereby a BIMSTEC agreement is open to accession on terms to be agreed by the parties.
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 - ✓ Narrower geographical coverage between South Asian and Southeast Asian economies could act as a building block for eventual trade integration across Asia.
- To avoid potential backlash against regionalization, special attention should also be paid to ensuring actual gains from trade for South Asia’s smaller and poorer economies.