

Linking East and South Asia: Progress and Prospects

Ganeshan Wignaraja
(gwignaraja@adb.org)

Office of Regional Economic Integration
Asian Development Bank

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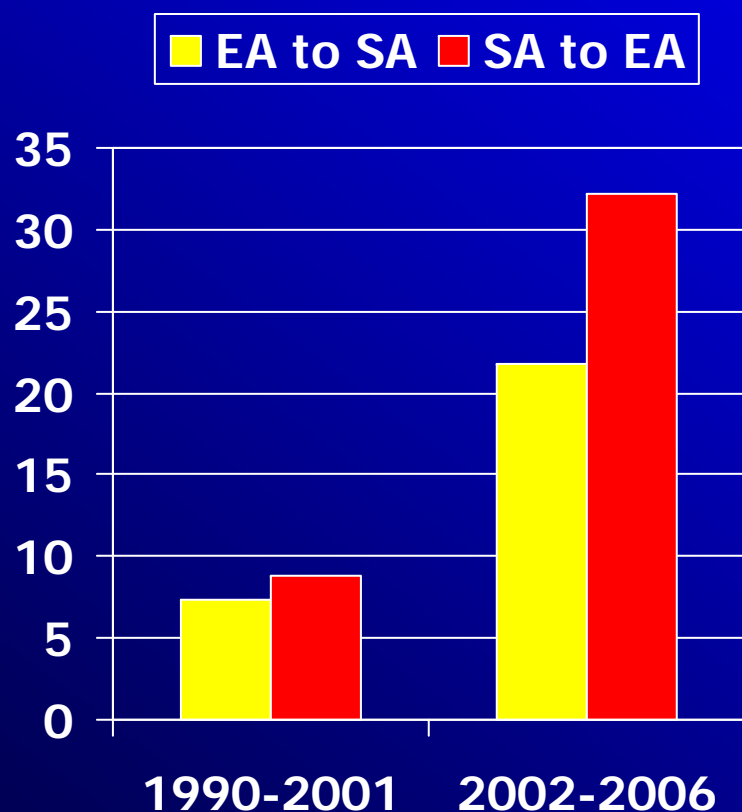
Messages

- East Asia-South Asia linkages growing rapidly from a small base, driven by PRC-South Asia and India-East Asia trade
- Benefits from closer cooperation between sub-regions and limited negative impact on outsiders
- Challenges – infrastructure, logistics, reforms and multiple rules of origin
- Big effort needed at regional/national levels

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- II. What are the benefits from closer integration?
- III. What challenges remain?
- IV. What are the policy implications?

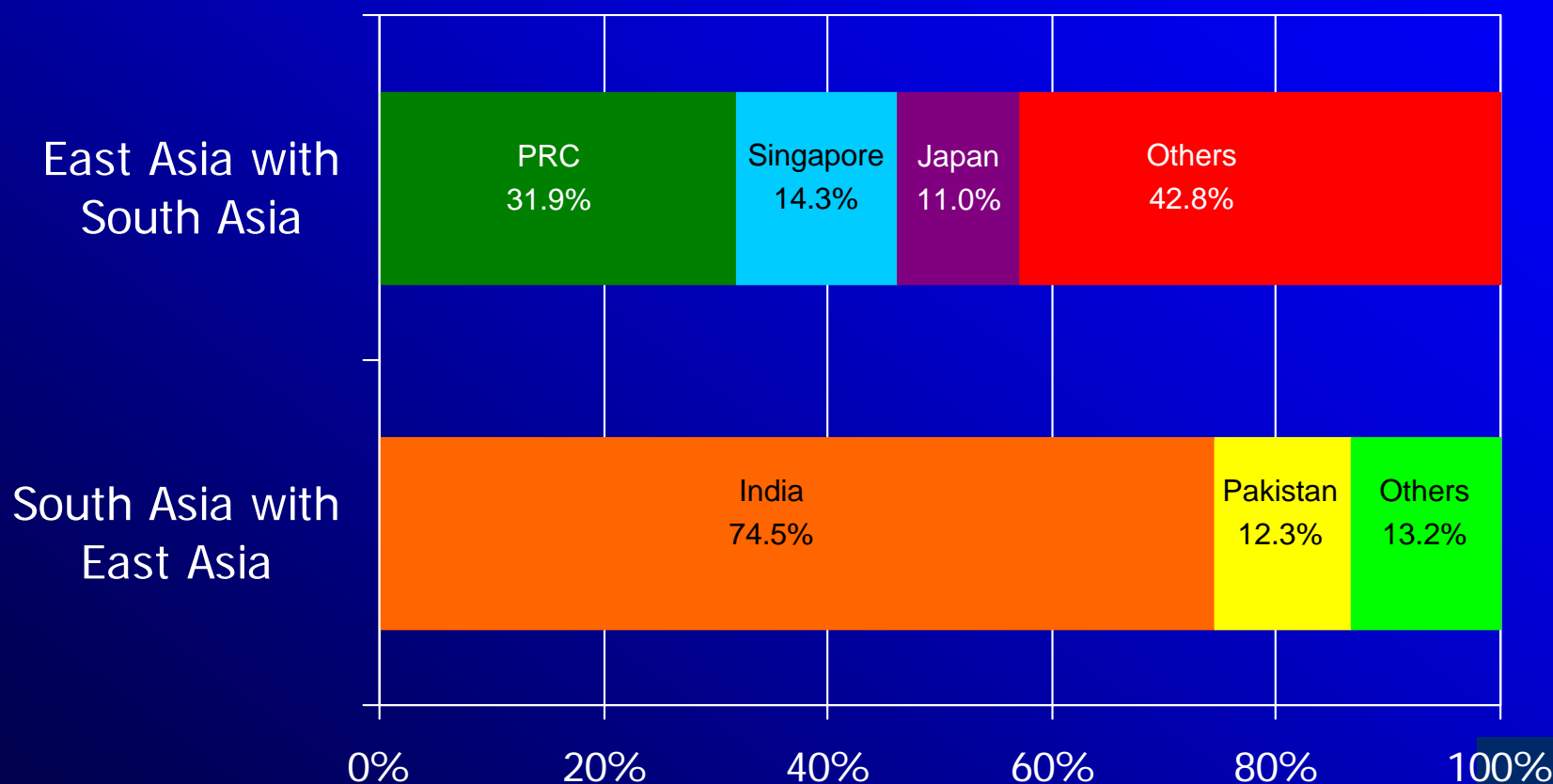
Growing East Asia-South Asia Trade (% per year)



- EA's trade with SA \$109bn (2006) and projected to \$218bn (2012)
- SA's trade with EA \$112bn (2006) and projected to \$241bn (2012)

Key Role of PRC and India

% share of total trade in 2006



Source: Computed from IMF Direction of Trade Statistics data.

India's Trade with East Asia

EXPORTS

Minerals & fuels to PRC, Japan, Singapore

Gems to PRC, Japan, Singapore

Metals & metal products to SE Asia

Machinery & electronics to Singapore

IT services exports to Japan, Singapore, PRC and Korea

New – tourism, education & health services

IMPORTS

Machinery & electronics from PRC, Japan, Malaysia, Singapore

Chemicals from PRC, Japan, Hong Kong China, Malaysia

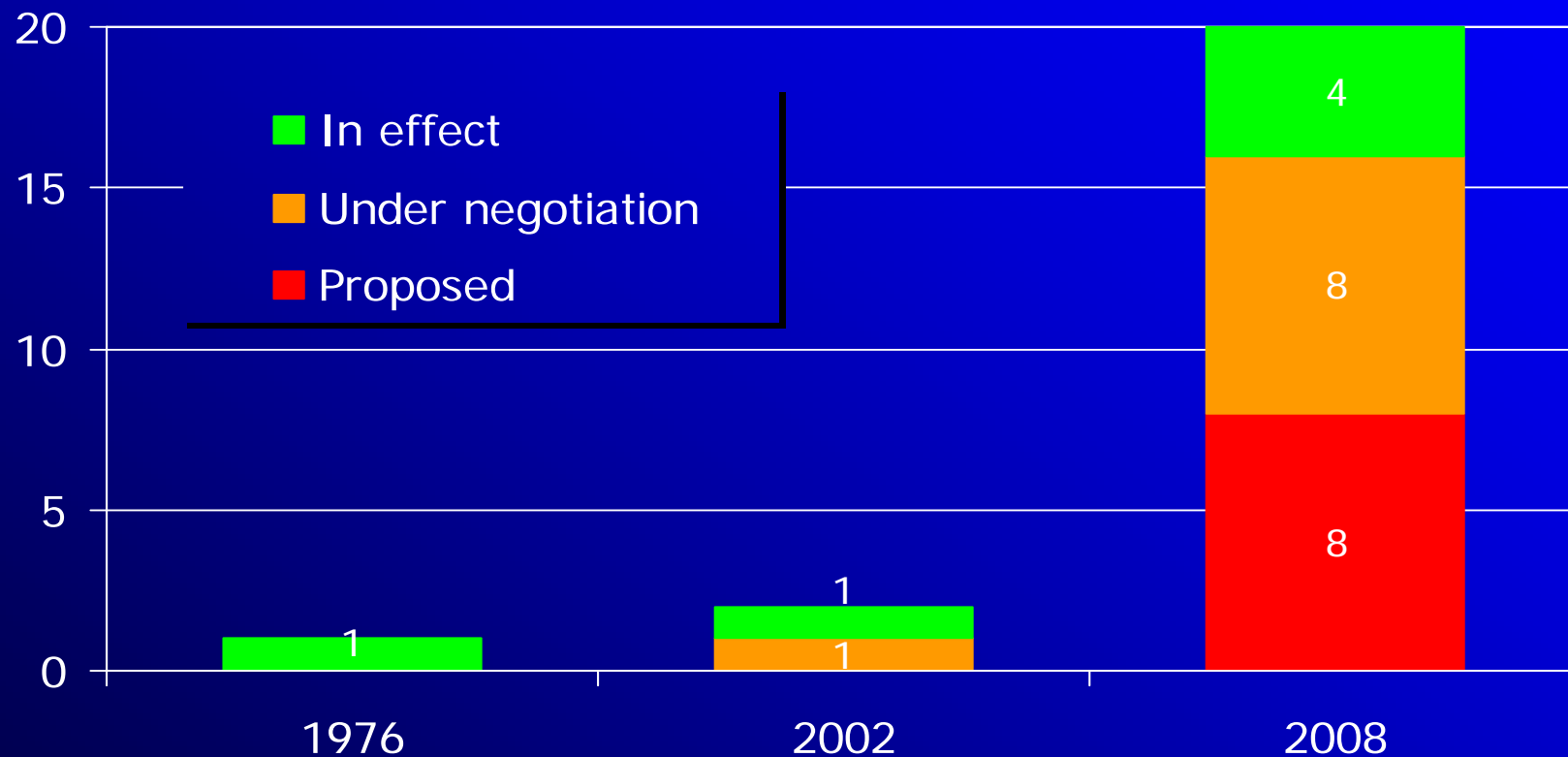
New - education services from PRC and Japan

Some Drivers

- East Asia's economic dynamism – high growth and FDI – offers spillovers for South Asia's prosperity.
- Shift in Asia's export orientation – increased integration of regional markets.
- Economic liberalization and emergence of two giants - PRC and India
- Falling tariffs, improved connectivity & logistics
- Improved technological capabilities of local firms
- Intensification of cross-regional initiatives

Growth of FTAs between East and South Asia, January 2008

No. of FTAs involving both East and South Asian countries



In effect: signed and/or under implementation; Under negotiation: Framework Agreement signed and FTA is under negotiation; Proposed: under study.

Source: ADB FTA Database (www.aric.adb.org), as of January 2008

CGE Exercise

MODEL

- Uses GTAP model and database with medium- to long-run investment effects
- Database projected through 2017
- FTAs – include goods, services, and trade costs via infrastructure improvement and trade facilitation

SCENARIOS

- ASEAN+3
- ASEAN+3 and South Asia

Main Findings

- Consolidation of FTAs improves economic welfare compared to current bilateralism
- An East Asia-South Asia FTA brings gains for both sub-regions
- India accounts for much of the South Asian gains but others also benefit if they are a part of the program
- East Asia-South Asia integration has a limited impact on outsiders - e.g. US and EU.

Impact of FTA Scenarios

Compared to 2017 baseline, at constant 2001 prices, in \$ Bn

	ASEAN+3 FTA	ASEAN+3 and South Asia FTA
East Asia^{/a}	226.8	241.5
PRC	41.5	43.5
South Asia^{/b}	-3.6	22.4
India	-2.4	18.2
EU (27)	6.8	10.3
US	-5.0	-1.9
World	213.9	260.9

^{/a} East Asia figures cover the 10 ASEAN members, Japan, Korea, and PRC (includes Hong Kong, China).

^{/b} South Asia figures cover Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka.

Source: Francois and Wignaraja (2008)

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Gaps in Road and Rail Links

- ✓ 141,000 km standard roadway crisscrossing 32 countries between Pakistan and PRC
- ✓ A network of national railways interconnects the two sub-regions
- ✓ Neither are fully operational as there are missing links and problems with conditions of other links
- ✓ An estimated \$18 billion is needed to develop 26,000 kms of roads alone

Variable Logistics Efficiency

	PRC	Thailand	India	Pakistan	Bangladesh
Overall LPI Score	30	31	39	69	87
Customs	35	32	47	70	124
Infrastructure	30	31	40	71	81
Ease of shipment	29	32	39	64	95
Logistics services	26	29	31	61	100
Ease of tracking	31	36	42	74	87
Internal logistics cost	75	27	49	92	44
Timeliness	35	28	45	90	54

Logistics perceptions Index. Lower score = more efficient trade logistics

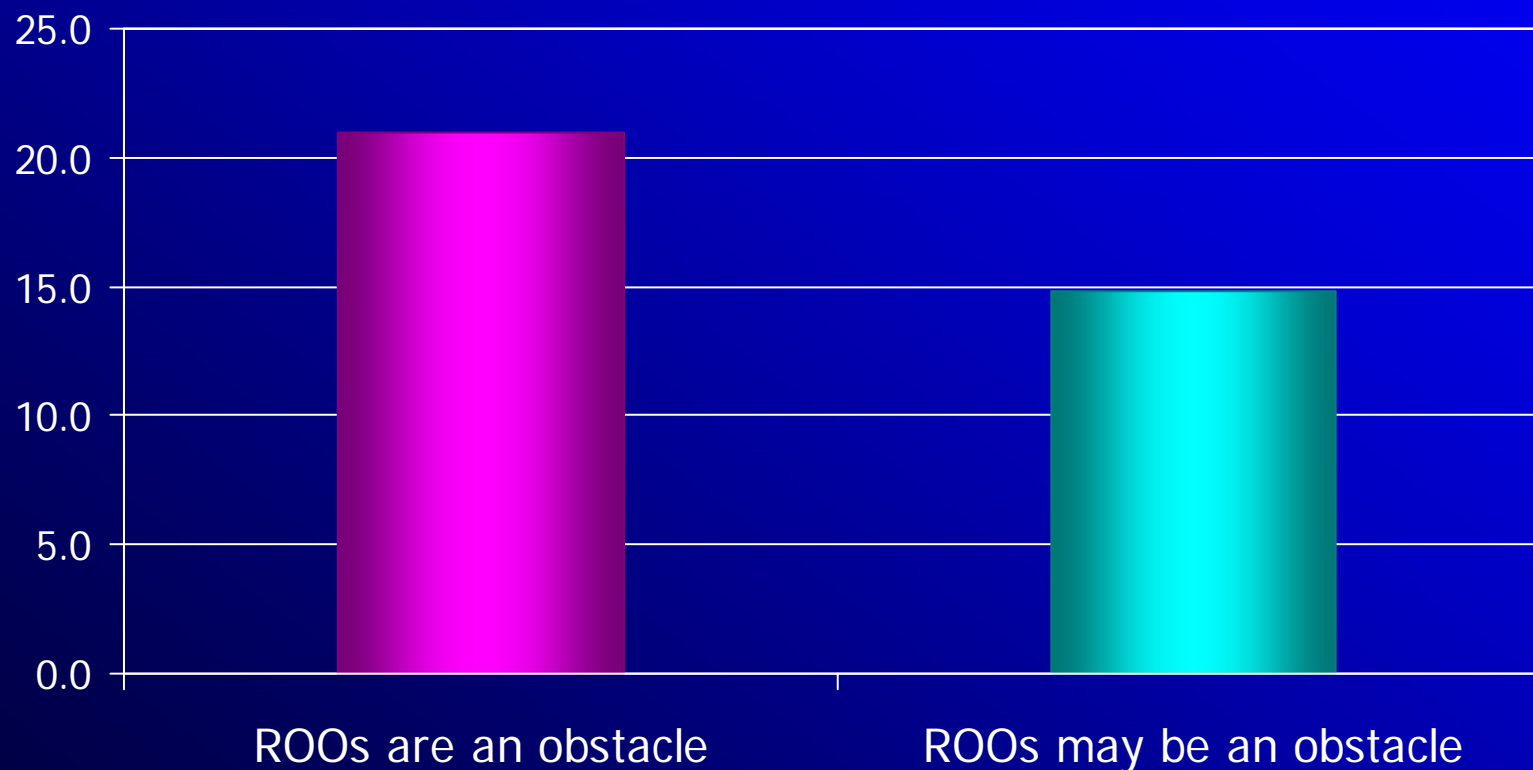
Source: World Bank



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Burden imposed by multiple ROOs on business

Firms' views of ROOs with regard to using FTA preferences
% of sample firms (Japan, Singapore, and Thailand)



Source: on-going ADB enterprise surveys, January 2008

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Differing Levels of Openness and Market-Orientedness

	Ave. Import Tariff Rates* (Manufactures, in %)	Documents for Export (number)	Time to Start a Business (Days)
Japan	3.4	4	23
Singapore	0.0	4	6
PRC	10.1	7	35
India	15.6	8	33
Pakistan	14.5	9	24

* MFN rate in 2005.

Sources: UNCTAD and World Bank Doing Business (2008)



Suggestions: Regional Level

- Countries should continue lowering trade and non-tariff barriers.
- Investment in trade-related infrastructure and streamlining of cross-border procedures offers a direct path to lower trade costs.
- East and South Asian countries need to consolidate their FTAs and deepen 'WTO Plus' elements.
- Deregulation and policy reform in the service sectors should be pursued.
- Trade liberalization efforts need to be embedded in a wider program of economic reforms.