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Parallel Session I
Acceleration of Trade in South Asia:
Where are the Current Obstacles?

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by

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Acceleration of Trade in South Asia: Where are the Current Obstacles?

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Discussion points

1. Why have South Asian economies, even after being relatively open in terms of trade and existence of the SAFTA since 2006, not being able to increase intra-regional trade?
2. Has the rise of bilateralism undermined SAFTA and affected regional cooperation in trade and trade flow among the South Asian countries?

Low intra-regional trade: causes

- Intra-regional trade in South Asia is around 2%, in the case of East Asia the corresponding figure is 40%
 - While tariff barriers have declined, NTBs remain a hurdle (Ahmed, Kelegama and Ghani, 2010)
 - Poor infrastructure/ connectivity, transit and border trade barriers (De *et al*, 2010)
 - Similar export baskets/comparative advantages
*(caveat: while similarities in the exports profiles is viewed as a reason for this low value of trade in South Asia, it might not be a valid one, given the rising South Asian income. The intra-industry trade theory suggests that complementarily might actually increase trade in the presence of a rising income. There may be other important factors such as **trade costs** (Banik and Gilbert, 2008)*
 - Non-economic factors: regionalism in South Asia is hostage to Indo-Pak hostilities
- One reason South Asia has not been able to evolve as a region is that history weighs heavily on the countries in the area. (Burki, 2009)

SAFTA vs Bilateral FTA

- The formation of SAPTA in 1995 and SAFTA in 1996 have had limited impact on intra-regional trade in South Asia (Weerakoon, 2010).
- Why? Economic and non-economic factors, as discussed
- The economic decline of Pakistan
- The rise of India and its systemic importance in the global economy; Indo-centric South Asian trade
- India's priority: bilateral FTA both in South Asia and beyond the region, Look east policy, strategic engagement with US
- India's exports to South Asia: 5-6%, imports from South Asia 1%
- India's exports to ASEAN+3: 22%, Imports: 27%
- Series of bilateral FTA/Agreements with ASEAN and East Asian economies

SAFTA vs Bilateral FTA

- Pakistan also pursuing a similar strategy : bilateral FTA, both in the neighborhood and beyond
 - Pakistan's direction of trade; SAARC : 2.8%, ASEAN+3: 27%
- Bangladesh has not signed any FTA but there is a discussion to sign one with India (perhaps with Malaysia as well) in the near future
- Trade between Bangladesh and ASEAN+3 is on the rise, lately China replaced India as Bangladesh's number one trading partner
 - Bangladesh's direction of trade; SAARC : 11%, ASEAN+3 : 30%
- Key South Asian economies' engagement with ASEAN+3 is hardly surprising:
 - East Asian dynamism
 - World's *center of economic gravity shifts east* (Danny Quah).



The global center of economic gravity has shifted east over the past 30 years (black dots), and could well shift even farther east over the next 30 years (red dots). Source: The Global Economy's Shifting Centre of Gravity (Danny Quah)

Bilateralism in South Asia

Case study: Sri Lanka-India FTA

➤ India has offered asymmetric concessions to Sri Lanka under the bilateral FTA :

➤ Size of negative list, additional years for implementation of the tariff liberalization than the concessions offered under SAFTA (Weerakoon, 2010)

-13% of Sri Lanka's exports to India were subject to the Indian negative list under and the ISFTA, the corresponding figure is 42% under SAFTA (Weerakoon and Thennakoon, 2008)

Nepal also has a bilateral FTA with India

Both Sri Lanka and Nepal have experienced higher trade growth vis-à-vis India

Two emerging trends: Small economies trade share with India is rising, Larger economies trade share with East Asia