

Towards Effective Regional Integration in South Asia: Bangladesh's Perspectives

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Why is effective RTA important in South Asia?

- Export market..
- The issue of food security..
- Now, lack of cooperation in South Asia might be costly...
- Advantage of being a neighbor of a high growing country
 - Example: Vietnam – China, East Asian countries

Trade and Welfare Effects from RTA

- The trade and welfare effects of regional trade arrangements (RTAs) are ambiguous.
- Preferential trading arrangements are not always trade creating or welfare enhancing on the whole.
- Distribution of gains among the members is unlikely to be equal
- Varied characteristics of the members greatly influence their gains from an RTA
- Implications for the weaker economies

Is SAFTA Welfare Enhancing for All Members?

- Under SAFTA, inherent dissimilarities of the member countries point toward a scenario of unequal distribution of potential gains from the regional cooperation scheme.
- Bhutan, Bangladesh, Maldives, and Nepal are the LDCs because of a number of overriding problems that constrain their economic growth and development.
- Consequently, to what extent these relatively weaker economies can benefit from SAFTA constitutes an important question.

Gains from RTA in South Asia for the Weaker Economies: Theoretical Insights

- Results of research and analyses suggest some worrying evidence of unequal distributional and adverse consequences for the weaker economies in an RTA
- That is, in a regional integration scheme involving only the low-income countries (that is, South–South cooperation), the poorest member countries will lose.
- This outcome is ingrained in comparative advantage of member countries relative to each other within the RTA and to the rest of the world as a whole.

An Example

- Consider the relative comparative advantages of Bangladesh and India in manufacturing production. Most people would think that India has a comparative advantage relative to Bangladesh, but not relative to the world.
- Under SAFTA, given this comparative advantage, India will export manufactured goods to Bangladesh, and, as such, tariff preferences exchanged within the trading bloc are likely to result in trade diversion for Bangladesh, because some of the previously manufactured goods imported from the world will be replaced by supplies from India.
- For India, however, gains are achieved from being able to supply goods and services to the Bangladesh market, protected from competition with the rest of the world.

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Factors determining Extent of Trade Diversion

- Initial source of import
- Own tariff rates
- Involvement in multiple RTAs

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Share of Intra-regional Trade to Total Trade

Insignificant level of intra-regional trade seems to suggest a low probability of having the most efficient suppliers within the region

Source: COMTRADE
Note: Figures are for 2005

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Significance of India in Sourcing Imports

Source: Author's estimates from the Direction of Trade Statistics of IMF, various years.

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Tariff Profiles of South Asian Countries

Countries	Simple average of MFN applied tariffs	Simple average applied tariffs in agriculture	Simple average applied tariffs in nonagricultural products	Share of duty-free tariff lines (% of tariff lines)	Share of tariff lines with duties more than 15 %	Maximum duty rate (MFN tariffs applied) (%)	Coefficient of variation (%)
Bangladesh	15.2	17.3	14.9	7.8	39.9	25	57
Bhutan	22.1	41.3	19.2	3.5	63.4	100	62
India	19.2	37.6	16.4	2.4	21.6	266	91
Maldives	20.2	18.4	20.5	0.1	59.5	200	62
Nepal	13.9	14.9	13.7	0.9	16.6	184	83
Pakistan	14.3	16.3	14.0	0	40.0	119	77
Sri Lanka	11.2	23.8	9.2	12.4	20.9	250	114

Source: World Trade Organization 2007.

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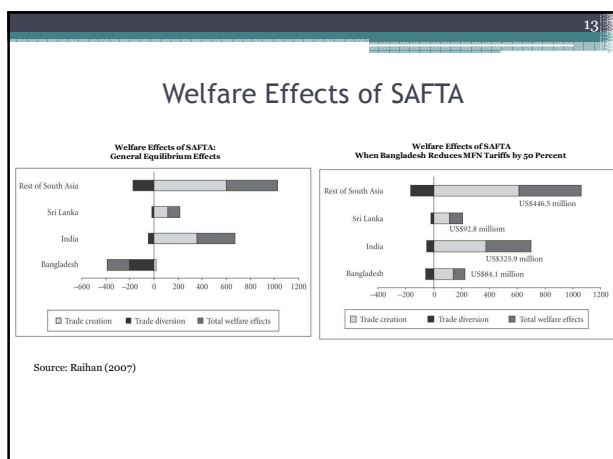
Impact of SAFTA: Rise in Regional Exports and Imports

Source: Estimates from the World Integrated Trade Solution (WITS) SMART simulations.

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Distribution of Changes in Regional Exports and Imports

Source: Based on the gravity model simulation results presented in Rodriguez-Delgado 2007.



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Mitigating the adverse consequences and benefiting from the regional cooperation

- Is reducing the MFN Tariff an easy option for the relatively weaker economies in South Asia?
- These countries recognize the need to provide protection to some of their domestic industries, and they are dependent on these tariff revenues.
- However, despite the associated difficulties, unilateral and multilateral liberalization is likely to remain a critical factor in mitigating some of the adverse welfare consequences.

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Sensitive List

- Sensitive List: the perceived need to support the domestic industries, along with the urgency of protecting tariff revenues
- While the rationale for such sensitive lists is well understood, it is not clear how judiciously these industries can be selected for protection. The political economy factors might imply the selection of sectors for protection.
- The inclusion of such large proportions of products on the sensitive list somewhat undermines the regional cooperation initiative in South Asia.
- Problem for LDCs.

Example of NTBs faced by Bangladeshi Exporters

Exportable Items	NTBs	Remarks
cement, gelatine, X-ray equipments etc	License regarding compliance of quality standards is required	Time consuming and costly
agricultural products to India	Bio-security and sanitary and phyto-sanitary requirement	complex process and lacks transparency
processed food products to India	shelf life to be not less 60 percent of original shelf life at the time of import	Determination of shelf life is often done arbitrarily and without transparency

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Other Important Issues

- Cooperation is needed to create harmonization of standards and policies. Lack of harmonization of policies is currently a major nontariff barrier obstructing trade flows.
- The cost of trading across borders
- Improved trade facilitation measures alone can contribute to a significant rise in the intraregional trade in South Asia

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Dynamic Gains

- Potential scope of dynamic gains should not be undermined.
- However, supportive policies in the relatively advanced developing countries will be required so that these new sectors do not become subject to restrictive trade measures. This is particularly important for LDCs, because they produce only a few items for export.
- Extended cooperation can open up a number of avenues with different natures of trade expansion.

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Importance of Trade in Services

- Services can provide significant opportunities for trade creation
- India is likely to have clear comparative advantage over the rest of the world
- Opening up could lead to welfare gains for the weaker economies.
- Limited scope for trade diversion
- Potential gain from transit trade

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Investment

- Greater cooperation among these countries may result in FDI inflows from the relatively advanced developing countries to weaker economies.
- This has already taken place in the case of India–Sri Lanka trade.
- Bangladesh has witnessed India's investment in the health and information technology sectors along with investment proposals for other sectors.

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Regional cooperation in improving the infrastructure

- Regional cooperation in improving the infrastructure can have major beneficial effects for the weaker economies.
- Trade and cooperation in energy and water are important areas of common interest to most South Asian countries.

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Other Challenges

- Weaker members of SAFTA may be challenged by other developments associated with the formation of trading blocs involving South Asian members and countries outside the region.
- This may create a loss of trade preferences not only in the regional market but also in other major global markets.

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Conclusion

- A political will is required on the part of the advanced developing members to ensure that the weaker economies benefit from the regional integration process.
- This political will requires providing generous treatment to all LDC goods immediately, including those included on the list of sensitive products.
- Advanced developing countries in collaboration with their weaker counterparts may devise fiscal and financial incentive packages so that regional and international investors find it attractive to invest in the weaker countries.

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Conclusion..

- The LDC members of SAFTA should continue with their concerted efforts, in terms of reforms and addressing supply-side bottlenecks, so that they can benefit from a bigger regional market.
- In fact, South Asian countries will have to be involved in far more extended cooperation if the poorest countries can make use of SAFTA for their trade, economic growth, and development.
- It may be useful for LDC members to realize that regional cooperation may not depend on trade preferences alone. Mutual and extended cooperation are likely to augment trade irrespective of preferences exchanged.