

Enhancing Regional Cooperation and Economic Connectivity in South Asia

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Outline

- Background
- Intraregional Trade & Investment
- Transport Connectivity
- ICT Connectivity
- Way Forward: Strengthening Institutional Structure

Background

- SA has emerged as one of the fastest growing regions in the world
- However, significant development challenges still remain
- The turbulent economic climate in the West calls for alternative sources of growth through demand creation both domestically & within the region
- Thus, the acceleration and broadening of regional cooperation & connectivity assumes critical importance
- Connectivity – degree to which exchange activities are facilitated
- Key components of economic connectivity – intraregional trade/investment, transport & ICT connectivity
- Natural market integration in the region is slowly picking up
- Yet, one cannot rely on market processes alone – an effective institutional structure is essential in facilitating & deepening economic connectivity
- Institutional mechanisms in place to promote connectivity – led by SAARC – have so far yielded limited results
- There is a need to look beyond the existing institutional arrangements & examine alternative approaches that could be worked on

Intraregional Trade & Investment

Issues

- Low intra-regional trade in goods – 5% of total trade (ADB 2009)
- Low intra-regional trade in services – 0.2% in 2007 (ADB, 2010)
- Outward FDI from selected Indian enterprises to SA less than 1% of total FDI outflows included in the sample in 2002-2006 (Kumar, 2008)
- If this percentage is applied to India's aggregate FDI outflows, India's FDI to SACs account for less than 5% of total FDI inflows received by SACs
- On a positive note, services and investment links are strengthening:
 - Health & education services, financial services, telecommunication, migration & tourism
 - Tata Inc. has reopened discussions with Bangladesh on investment in the country's telecoms, power & automobile sectors
 - India is Sri Lanka's 2nd largest FDI source, contributing to 15% of total FDI in 2011

Intraregional Trade & Investment Cont.

Causes

- Low effectiveness of SAFTA:
 - Low coverage – 53% of regional exports excluded from preferences (2006)
 - Came into operation with an already prevailing “spaghetti bowl” in the region
- Ideas on deepening connectivity from the private sector/academia – track 2
 - have limited impact on the official SAARC process:
 - communication between track 1 & track 2 is informal, ad hoc & personal
 - Reluctance to overload the SAARC agenda with another set of policy proposals from the 2nd track

Intraregional Trade & Investment Cont.

Challenges

- Positive outcomes emerging should be taken forward
- Encourage more connectivity through the bilateral track & natural market integration
- Promote intra-industry trade – processed foods, rubber products, plastics, pharmaceuticals, textiles, apparel & light engineering goods
- Explore new opportunities to engage in parts & components trade – strengthen connections with India
- Build upon recent growth in services in SA (Modes 1 & 4) – especially India
- Implementation of services & investment liberalization by expediting SATIS (SA Trade in Services)
- Ensure greater involvement & contribution from the private sector

Transport Connectivity

- A main factor hindering trade & investment linkages in SA is poor (transport) infrastructure connectivity
- Quality of SA's infrastructure lags significantly behind the G7 country average, the world average & Asia-Pacific average
- Several initiatives have been taken:
 - SAARC Regional Multimodal Transport Study (SRMTS) – construction & upgrading of 2000km of land transport network by Bangladesh
 - "Subregional Transport Logistics & Trade Facilitation Projects" between Bangladesh, Bhutan, India, & Nepal – rehabilitated rail links (Bangladesh, India), improved road corridors (Bhutan, India) & improved trade corridors, transit arrangements & facilities (Nepal, Bhutan)
- However, improving transport connectivity has been hindered by the lack of political will to move forward

Transport Connectivity Cont.

Challenges

- Establish a “regional infrastructure fund” to support the infrastructure deficit
- Exchange of experiences in infrastructure financing & development among countries of the region could go a long way in improving regional infrastructure & connectivity

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https://www.yunbaogao.cn/report/index/report?reportId=5_6099

