

Regional Economic Cooperation and Connectivity in South and South-West Asia: *Potential and Challenges*

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Outline

- Introduction
- Trade and Investment
- Transport, Energy and ICT Networks
- Financial Cooperation
- Other Key Sectors
- Conclusion and Way Forward

Introduction

- South and South-West Asia (SSWA) has been part of the recent growth and dynamism in Asia-Pacific (AP) region
- Growth prospects of economies in SSWA has improved in 2010 – the subregion is estimated to have grown at 7.5% in 2010 as compared to 3.9% in 2009, with India leading this growth momentum
- Yet, high inflation, along with high poverty levels, remains a key macroeconomic challenge for the subregion
- Also, the subregion – especially South Asia (SA) – is the least integrated subregion in the world, and has been slow in responding to the global trend of regionalism
- An integrated market can be especially important for small economies in the subregion to boost domestic and regional sources of demand – particularly in the aftermath of the global financial crisis and ongoing economic downturn in the West
- To maximize the benefits of higher growth, regional cooperation and connectivity thus needs to be strengthened

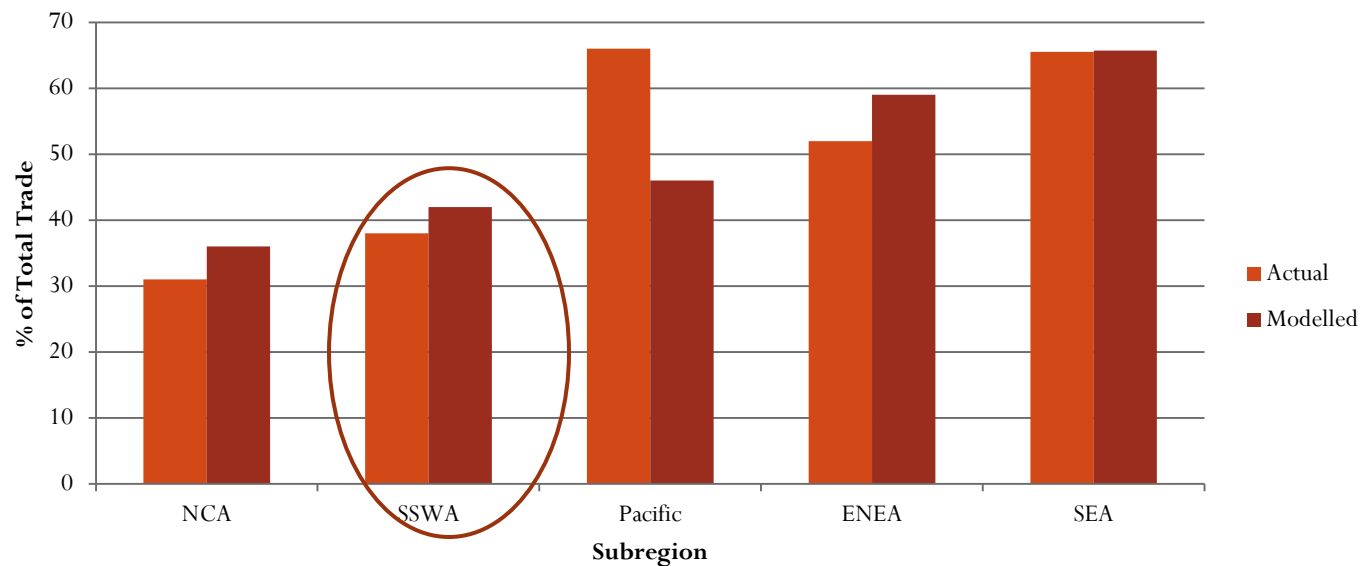
Trade and Investment

Market-Led Intraregional Trade and Investment

Merchandise Trade

- The intraregional trade share in SSWA is relatively low at 38%, compared to an average of 51.5% for the AP region, and is also below the modeled value derived from gravity equations, suggesting that the subregion has room for expanding intraregional trade

Intraregional Trade Shares of the Asia-Pacific Subregions: 2006-2009



Source: ESCAP 2011 based on data from IMF, Direction of Trade Statistics, 2010 and UN Statistics Division

Trade and Investment Cont.

- SSWA is not yet part of production networks, which has been the primary driver of intraregional trade in East Asia – trade in parts & components in SA was a mere 1.3%, compared to 56.3% for East Asia (ADB, 2010)
- Similarly, close to half (43.4%) of East Asia's trade in final goods was within the region, compared to only 2.8% of SA's
- Complementarity indices calculated by ESCAP (2011) reveal a high degree of complementarity between ENEA and SEA, but a low value for SSWA
- Yet the value for trade between SSWA and other subregions is somewhat higher – exports from SSWA are more complementary with imports from ENEA and the Pacific
- This suggests the desirability of pursuing a broader approach to trade integration in the SSWA subregion, not only within SSWA but also across other subregions
- It is particularly important for the subregion to get connected with production networks in East Asia, to realize full benefits of intraregional trade

Trade and Investment Cont.

Services Trade

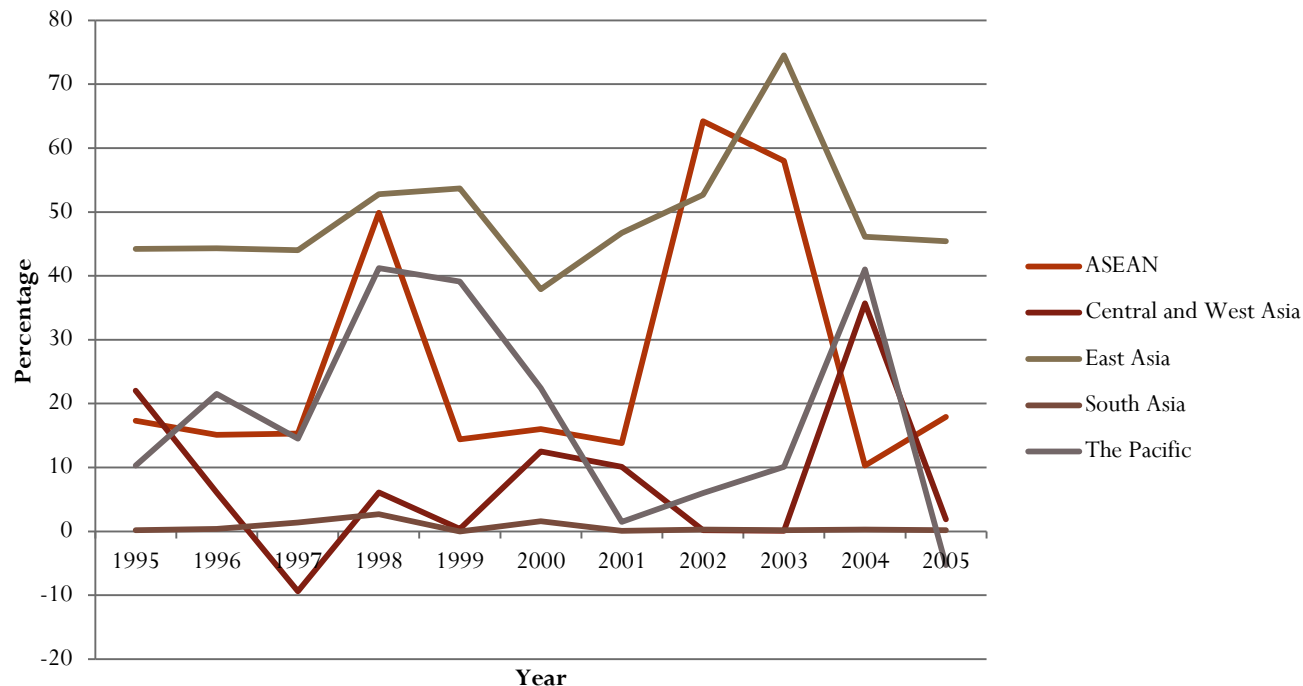
- Services are playing an increasingly important role in SSWA – the largest increase in AP between 1999-2010 was recorded in the regional share of SSWA – more than 30%, mostly due to India
- But it still remains only the 3rd largest contributor to regional services trade at 15%, suggesting potential for further growth
- India has played a major role in services trade – in 2008, India accounted for around 70% of Asia's exports of computer and IT services (WTO)
- Most of India's computer services exports however were destined for North America and ADB (2010) analysis shows that intraregional trade shares in services are negligible in SSWA
- The subregion's low level of bilateral flows of services trade, and the high growth of total services trade, signal a potential for increased intraregional trade in some services sectors
- Also, unlike merchandise trade, services trade is more complementary – India specializes in computer and IT services and other economies in traditional services (travel, transport)

Trade and Investment Cont.

Intraregional Investment

- Investment integration measured using the annual FDI (AFDI) share – the % of regional FDI inflows to the total FDI from the investing region – show that SA and Central & West Asia are least integrated among the subregions

Intraregional FDI Shares in Asia and the Pacific: 1995-2005



Source: Asia Regional Integration Center (ARIC)

Trade and Investment Cont.

Trade Costs

- The large potential and opportunities for intraregional trade and investment is severely hindered by the presence of various trade-related costs
- Intraregional trade costs in the SA region are particularly high - they are only 1% lower than those between SAARC and ASEAN or those between SAARC and the EU (ESCAP, 2011)
- Trade procedures in SSWA still take 50% more time to complete than in South-East Asia
- Trade Facilitation measures are essential in dealing with trade costs, but remains a big challenge:

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