

## **South Asia and South East Asia Economic Integration: Challenges Ahead**

**Surendar Singh, KVIC, Deputy Director at the Ministry of MSME of India**

There is an increased proclivity for the Pan-Asian economic integration, particularly between South and South-East Asian Economies. This interest is largely driven by economic, strategic and security factors that are at play in the Asia-Pacific region. India's Look East Policy (now Act East Policy) clearly indicates the intent of the South Asia's economy to restore the cultural, civilizational, ethnic, defence, and economic ties with South-East Asia (Wignaraja, 2014; Asher and Sen 2008). India, being one of the largest economies in the South Asia region, is the key anchor for South Asia integration with South-East Asian economies. India has signed Free Trade Agreement(s) with the Association of Southeast Asian Nations (ASEAN) as well as bilateral trade pacts with South Korea, Japan, Singapore (Singh, 2015, Francis, 2011). India's efforts to foster deeper economic and trade ties with South-East Asian countries received a major surprise when India decided not to join the Regional Comprehensive Economic Partnership Agreement (RCEP) given the fact that it is closely tied with its Act East Policy. It is pertinent to state here that India's decision to move out of RCEP was primarily driven by the China factor with which it has huge economic and trade disequilibrium as well as security concerns. India's efforts to strengthen its economic, political and trade ties are at the centre of its Act East policy and is in sync with foreign policies of Japan and South Korea. Against this backdrop, this brief paper makes an attempt to understand the prospectus of Pan-Asian integration by looking at regional trade, free trade agreements and key challenges in Pan-Asian integration.

### **A Bird Eye View of Regional Trade and Free Trade Agreements**

The history of South Asia and South-East Asian economic integration can be traced in three distinct periods *firstly* an era of limited regional integration efforts from the period of post second world war to late 1980s and secondly, a period of intensifying efforts at regional integration 1980s to 2008. Thirdly, the era of post global financial crisis of 2008 to the present, which has not been conducive in driving forward the agenda of regional economic integration. This is because of several factors such as weakening global value chains, diminishing labour cost arbitrage, BREXIT, US-China trade war and growing importance of nationalist

policies, inward orientation among others (Mckinsey, 2019 and World Bank, 2020). It is important to analyse the period of 2008 to the present to understand the dynamics of regional integration between South Asia and South-East Asia.

### Regional Trade and Free Trade Agreements

Table 1 demonstrates South Asian exports to East Asia has expanded from US\$ 55904.2 million to US\$ 66247.6 from 2010 to 2020. This reflects that the overall exports from South Asian countries grew to South-East Asia while exports from individual South Asian countries exhibit that total exports in terms of values have increased but in terms of share in total exports have mixed trends. India's and Pakistan's share in total exports from South Asia to South-East Asia have declined. Bangladesh's share in total exports of South Asia has increased from 2.1 percent to 5 percent from 2010 to 2020. Sri Lanka, Nepal, Afghanistan, Maldives and Bhutan's share in exports remained more or less the same during this period.

**Table 1: Growth in South Asia's Trade with East Asia, 2010-2020**

|             | Exports (US\$ Million) |         |         | % in Total exports |       |       | Imports (US\$ Million) |          |          | % in Total imports |       |       |
|-------------|------------------------|---------|---------|--------------------|-------|-------|------------------------|----------|----------|--------------------|-------|-------|
|             | 2010                   | 2015    | 2020    | 2010               | 2015  | 2020  | 2010                   | 2015     | 2020     | 2010               | 2015  | 2020  |
| India       | 51147.6                | 45397.3 | 58725.2 | 91.5               | 86.5  | 88.6  | 92712.0                | 129371.6 | 128931.9 | 72.2               | 69.9  | 69.7  |
| Bangladesh  | 1183.0                 | 2531.7  | 3308.4  | 2.1                | 4.8   | 5.0   | 15256.9                | 24392.2  | 25384.2  | 11.9               | 13.2  | 13.7  |
| Pakistan    | 2702.8                 | 3524.2  | 3137.4  | 4.8                | 6.7   | 4.7   | 12625.6                | 18784.1  | 20792.2  | 9.8                | 10.1  | 11.2  |
| Sri Lanka   | 799.4                  | 930.4   | 900.9   | 1.4                | 1.8   | 1.4   | 4874.9                 | 8542.9   | 6919.8   | 3.8                | 4.6   | 3.7   |
| Nepal       | 26.6                   | 45.4    | 83.1    | 0.0                | 0.1   | 0.1   | 1069.0                 | 1378.8   | 1510.9   | 0.8                | 0.7   | 0.8   |
| Afghanistan | 12.8                   | 10.8    | 57.7    | 0.0                | 0.0   | 0.1   | 1400.6                 | 1857.6   | 750.4    | 1.1                | 1.0   | 0.4   |
| Maldives    | 28.5                   | 31.3    | 33.5    | 0.1                | 0.1   | 0.1   | 403.1                  | 754.7    | 641.0    | 0.3                | 0.4   | 0.3   |
| Bhutan      | 3.5                    | 0.8     | 1.3     | 0.0                | 0.0   | 0.0   | 133.3                  | 54.0     | 92.8     | 0.1                | 0.0   | 0.1   |
| South Asia  | 55904.2                | 52471.9 | 66247.6 | 100.0              | 100.0 | 100.0 | 128475.5               | 185136.0 | 185023.1 | 100.0              | 100.0 | 100.0 |

**Source: ITC Trade map 2020**

On the import side, South Asia's imports from South-East Asian countries have increased from US\$ 128475.5 million to US\$ 185023.1 million during the period of 2010-2020. At the country level, import trends are mixed. India's imports as percentage share of total imports from South-East Asia has declined. On the other hand, Bangladesh, Pakistan, Sri Lanka, Nepal, Maldives and Bhutan's share as a percentage of total imports from South-East Asia are more or less the same during

this period. In short, it can be summarised that South Asia's trade relations with South-East Asia have improved over the past decade despite some ups and downs.

Increased trade and investment integration between South and South-East Asia is augmented by heightened FTA activity to expand preferential trade liberalization. This is further pushed by the delay of the WTO Doha Round trade talks and created pressure on South and South-East Asia countries to explore FTAs to improve their market access and address the inherent border regulatory barriers. Undoubtedly, South-East Asia has emerged as a centre of free trade activity in the Asia-Pacific region. The FTA among South-East Asia economies are deeper and cover a broad spectrum of issues beyond the WTO. Some of these include government procurement, intellectual property rights, dispute settlement mechanism and e-commerce among others. On the other hand, South Asian countries have also entered into bilateral and regional trade pacts but these trade agreements are shallow and are only confined to traditional areas of negotiations such as trade in goods, trade in services and investment. FTAs between South and South-East Asia countries are country-specific rather than regional. There is not even a single FTA that connects entire South and South-East Asia at a regional level. Bilateral FTAs between India-ASEAN, India-Malaysia CEPA, India-Indonesia CECA, India-South Korea CEPA, India-Japan CECA, India-Singapore, Pakistan -ASEAN FTA, Pakistan -Indonesia FTA, Pakistan-Philippines FTA, Pakistan-Brunei FTA, Pakistan-Thailand FTA to name a few among others.

### **Key Challenges to South Asia and South-East Asia Integration**

Growing trade amid enhanced free trade activity indicates that South Asia's and South-East Asian economic integration has been improving but a myriad of challenges at regional and national levels remain which can hamper the process of Pan Asia integration. Challenges in South Asia and South East Asia integration are in many areas but they are highly concentrated in three areas: a) gaps in cross-border infrastructure, b) shallow trade agreements and, c) trade facilitation measures and cumbersome export-import procedures

### **Gaps in Cross-Border Infrastructure**

There are emerging consensus that Asia's growth story and its ability to mobilize international investment hinge on robust, efficient, reliable, and seamless trade and transport infrastructure. A plethora of studies underline the importance of infrastructure connectivity to integrate South and South-East Asian trade (ADB, 2015 & Arnold 2009). These studies have clearly highlighted missing links and

intrinsic impediments particularly in sea and land transport for connectivity between South and South-East Asia. The dominant mode of transport between South and South-East Asia is the sea transport due to underlying innate advantages and strengths it offers. The major Shipping Lines rendering services in the South Asia & South-East Asia region work on the equatorial route connecting the logistics nodes of South-East Asia, Persian Gulf and that of the Mediterranean region. The rise of large container ship(s) and feeder services have invariably facilitated the growth of trade but there exist several infrastructural hurdles, regulatory challenges and operational inefficiencies at the public port(s) of South Asian countries, for instance, Chennai Port in India, Chittagong Port in Bangladesh and Yangon Port in Myanmar. The problem is further compounded by issues of hinterland land connectivity with poor quality and serviceability of road and railway networks that connect ports with Inland Container Depot(s).

### **Shallow Free Trade Agreements**

The proliferation of Free Trade Agreement(s) coupled with increasing preferential trade liberalization between South and South-East Asian region has contributed to the growth and expansion of international trade. There are limited number of FTAs that exist between South and South-East Asia region and the most of them have come into force in the last one decade. Free trade agreements between South and South-East Asian countries are shallow in nature and do not cover issues that are WTO plus and WTO extra. Moreover; these trade agreements vary considerably in their provisions relating to reducing barriers to trade in goods, trade in services and 21<sup>st</sup> century trade policy issues related to regulatory harmonization. The degrees of trade, services and investment liberalization differ significantly between South and South-East Asia. As matter of fact; the tariff preferences in South Asia and South-East Asia's FTAs vary among effectual trade agreements due to complex and regulatory hurdles thus leading to decision-dyad in obtaining even a Certificate of Origin.

### **Trade Barriers and Cumbersome Business Procedures**

Needless to refer that there are multiple and overlapping bilateral and regional trade agreements in Asia, which contributed to the rise of a diverse range of rules and regulations thereby affecting export-import operations. The uneven trade infrastructure and the cost(s) arising from rules and regulations affect cross border trade between South Asia and South-East Asia thereby undermining the development of potential cross border value chains. South-East Asian countries have streamlined their rules and regulations that are critical for efficient and

reliable regional supply-chains (ADB and ADBI 2015). On the other hand, the South Asian countries are yet to streamline and harmonise their rules and regulations related to export-import operations to foster an ecosystem that supports regional supply chains. The South Asian countries need second generation economic reforms to drive inclusive growth by creating an eco-system for free and unrestricted trade. This requires reforms in critical areas such as investment policy, competition policy, state-owned enterprises and tax related matters.

## **Conclusion**

It is a pertinent to note that Pan Asia regional integration is not an easy task due to overlapping trade agreements that create difficulties in generating universal operational rules. Despite these challenges, lessons can be learnt from international experience that might be relevant to develop a strategy that facilitate pan Asian regional integration. It is important to note that one size fit all approach will not work in work when it comes to South Asia–East Asia economic integration. This is primarily because of different stages of economic development and priorities. Key strategy for pan Asian regional integration could be begin through existing Regional Comprehensive Economic Partnership Agreement if special and differential approach is followed to accommodate the interest of low-income countries. This further needs to be complemented by other set of critical domestic reforms. These include investment in infrastructure and human capital, improvement of logistics and improving the capabilities of trade institutions, labour and goods market reforms.

## References

- Arnold, J. 2009. The Role of Transport Infrastructure, Logistics, and Trade Facilitation in Asian Trade. In J. Francois, P.B. Rana, and G. Wignaraja, eds. Pan-Asian Integration: Linking East and South Asia. Palgrave Macmillan. pp.
- Asher, M. and R. Sen. 2008. India and Asian Economic Integration. In N. Kumar, K. Kesavapany, and Y. Chaocheng, eds. Asia's New Regionalism and Global Role: Agenda for the East Asia Summit. New Delhi and Singapore: Research and Information System for Developing Countries and Institute of Southeast Asian Studies
- Asian Development Bank. 2015, 'Connecting South Asia and Southeast Asia. A Joint Study of The Asian Development Bank and the Asian Development Bank Institute.
- Francis, S. 2011. The ASEAN–India Free Trade Agreement: A Sectoral Impact Analysis of Increased Trade Integration in Goods. Economic and Political Weekly 46(2).
- Singh, S (2015). India's Approach towards Bilateral, Regional and Multilateral Negotiations, Discussion Paper, CUTS International.
- Susan L, James M, Jonathan W, Jacques B, Mekala K, Jeongmin S, and Mac M. 2018, 'Globalization in transition: The future of trade and value chains', McKinsey Global Institute.
- Wignaraja, G. 2014. Assessing the Experience of South Asia–East Asia Integration and India's Role. ADBI Working Paper 465
- World Bank. 2020, 'World Development Report 2020 Trading for Development in the Age of Global Value Chains.