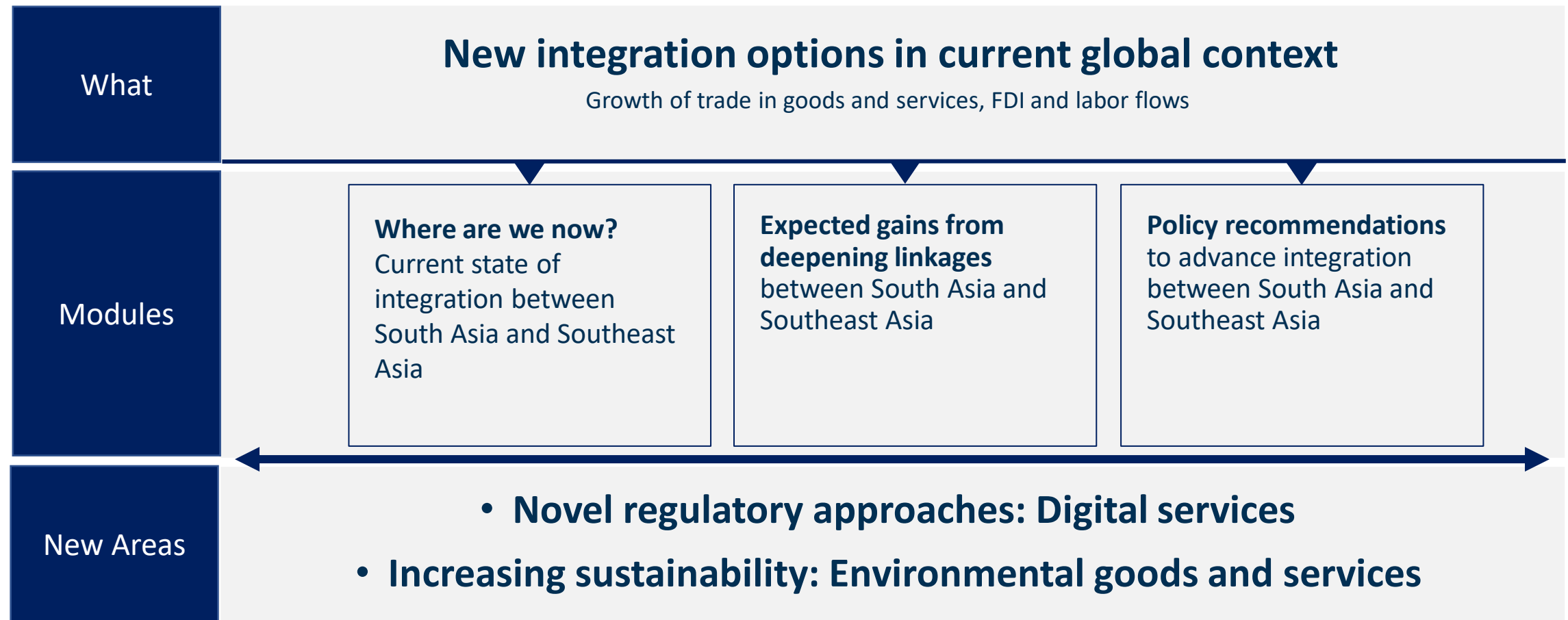


DEEPENING LINKAGES BETWEEN SOUTH ASIA AND SOUTHEAST ASIA

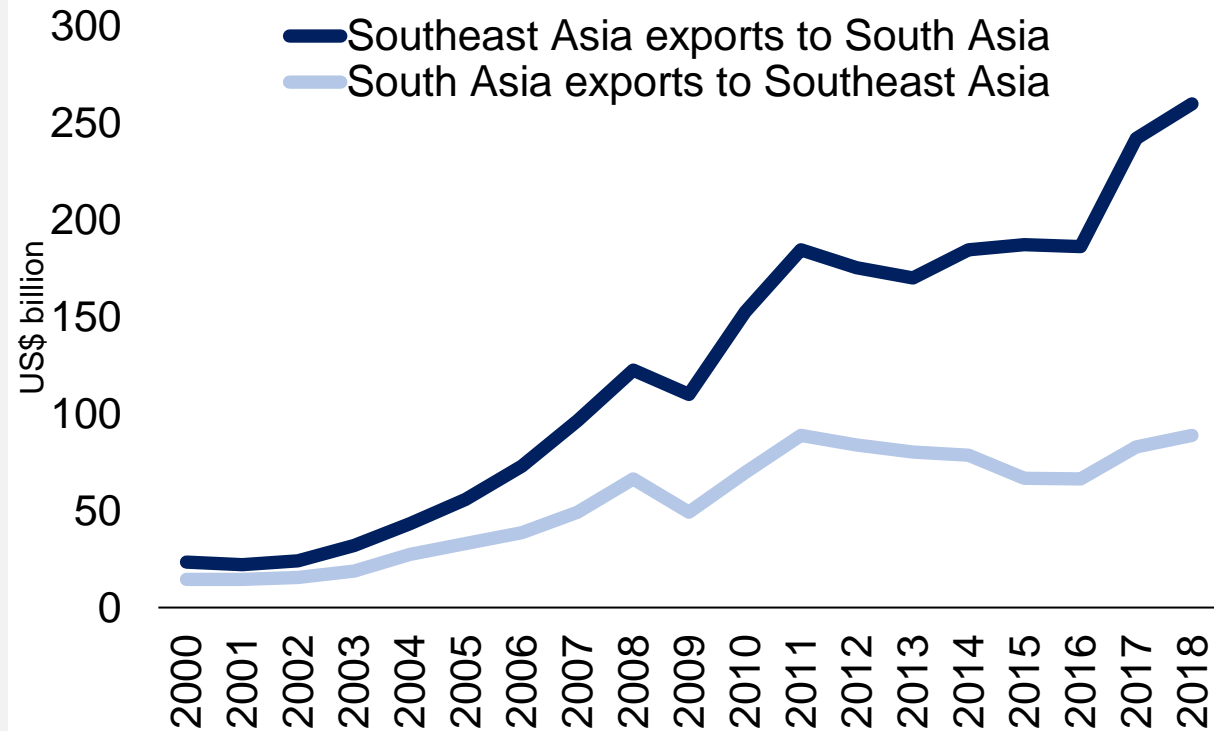
ARTNeT Webinar
May 19, 2022

Deeper Regional Integration between South Asia and Southeast Asia



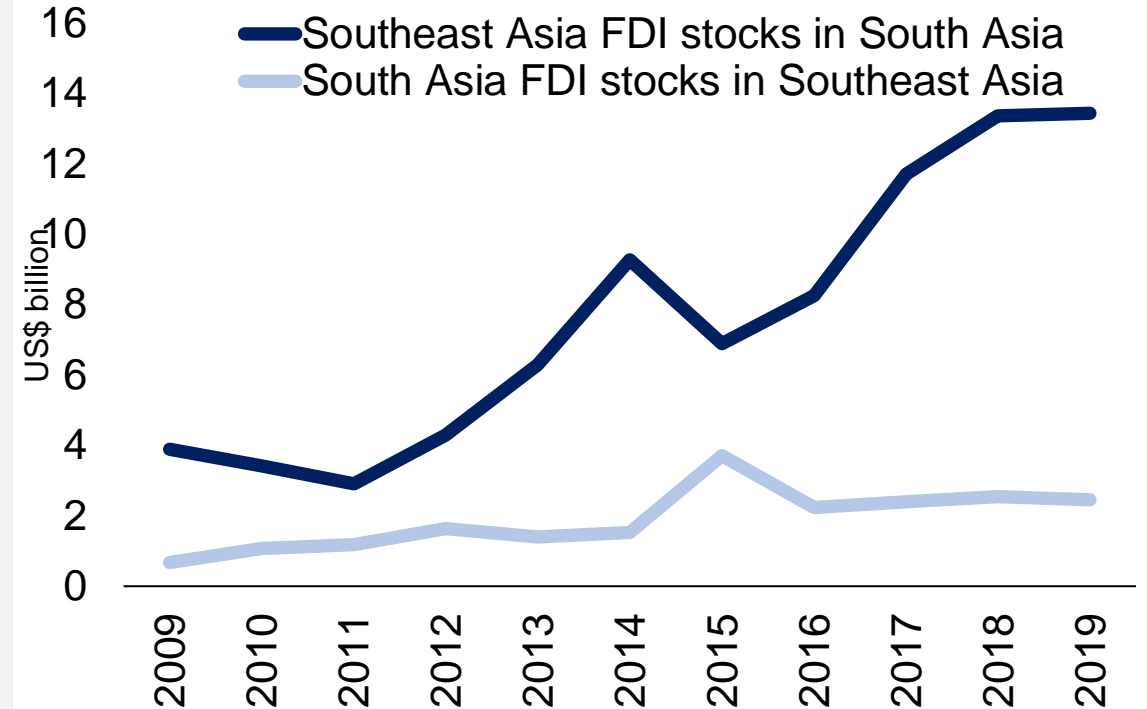
Limited interregional trade and investment linkages despite progress

Trade in goods



Source: World Bank WITS Database

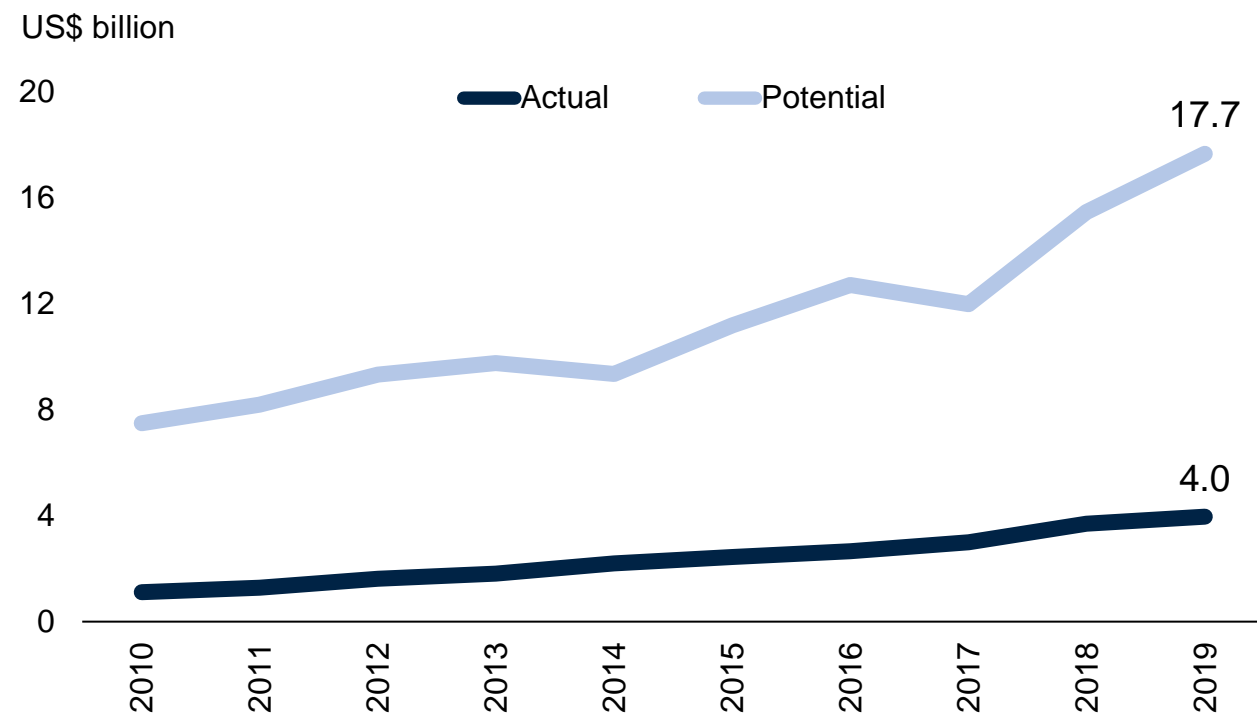
FDI stocks



Source: Lakatos 2021.

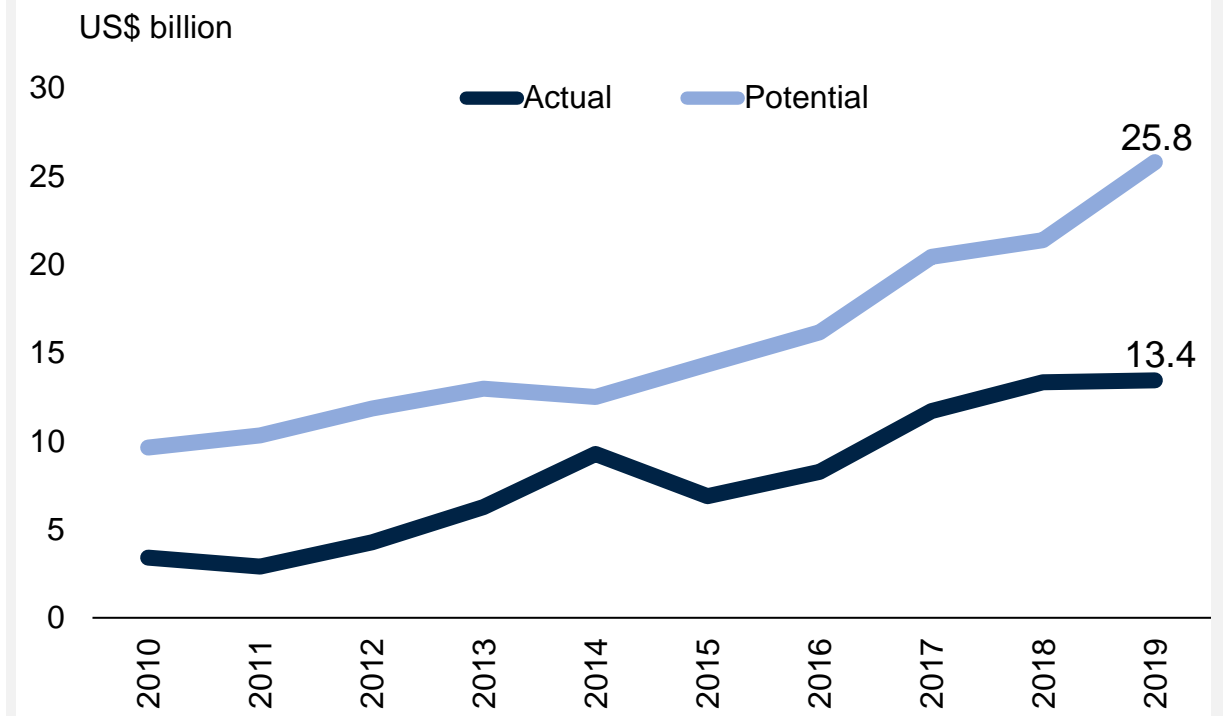
Untapped potential of intra- and interregional FDI

Missing intraregional FDI in South Asia



Source: Lakatos 2021.

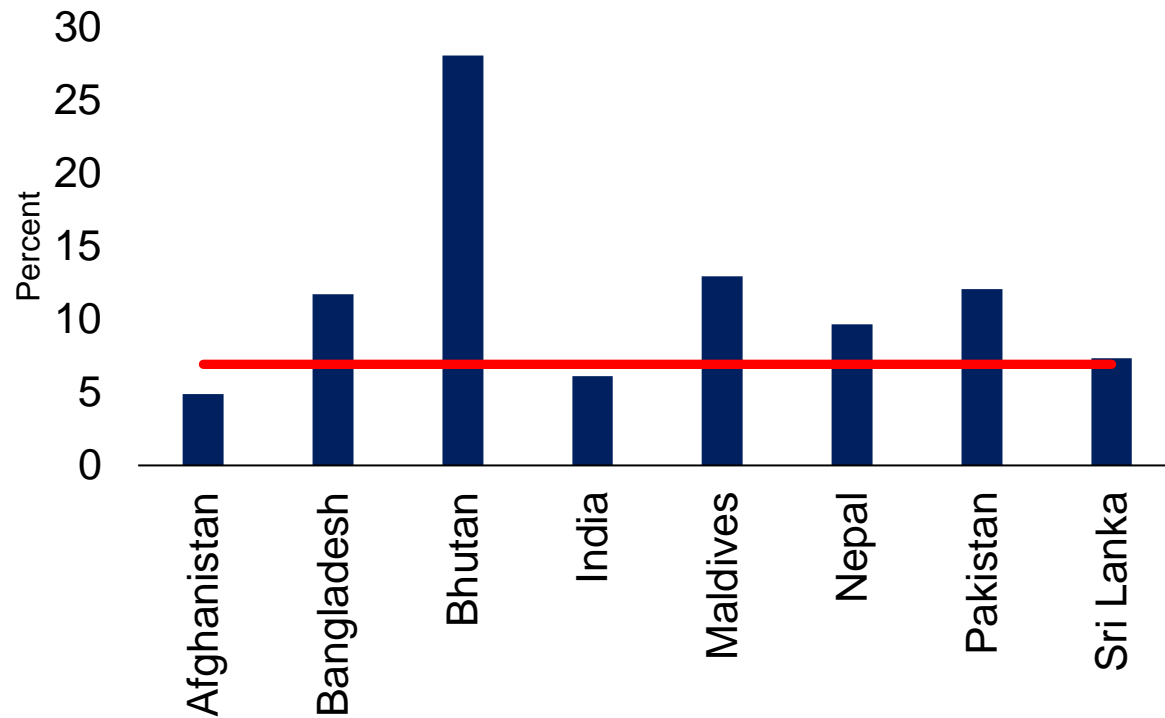
Missing FDI from Southeast Asia



Source: Lakatos 2021.

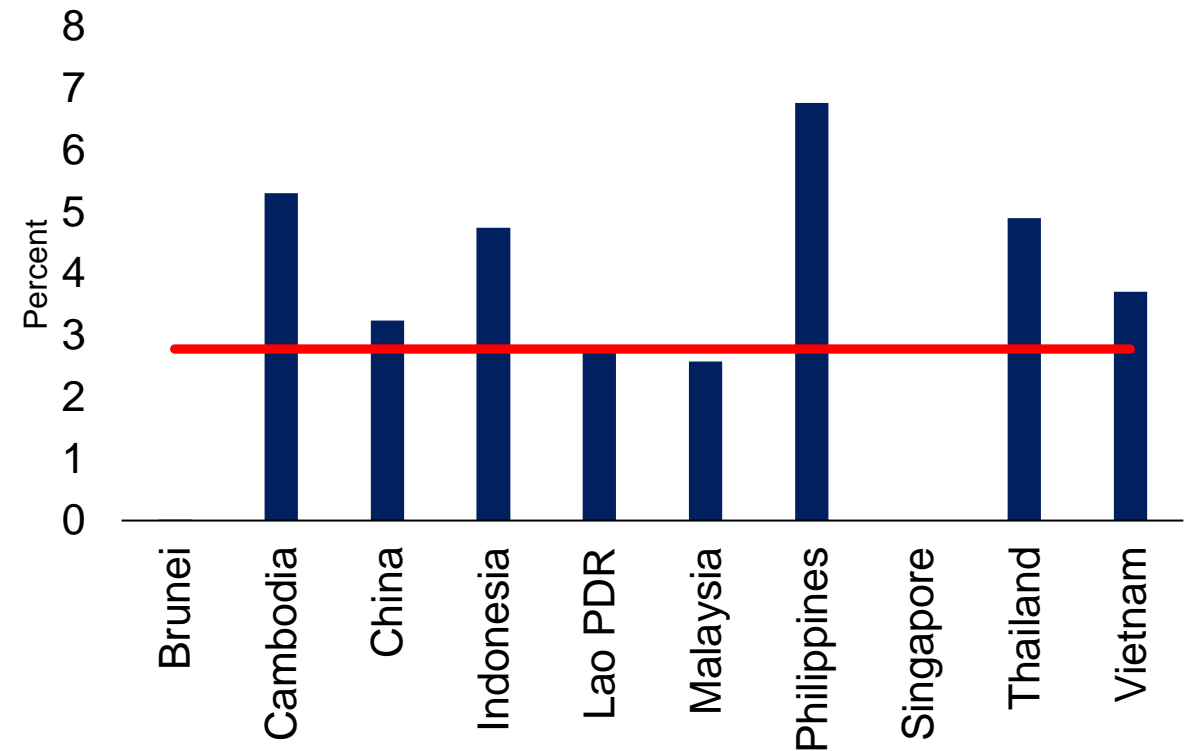
Higher tariffs in South Asia than in Southeast Asia

■ South Asia's import tariffs on exports from Southeast Asia



Source: World Bank WITS database.

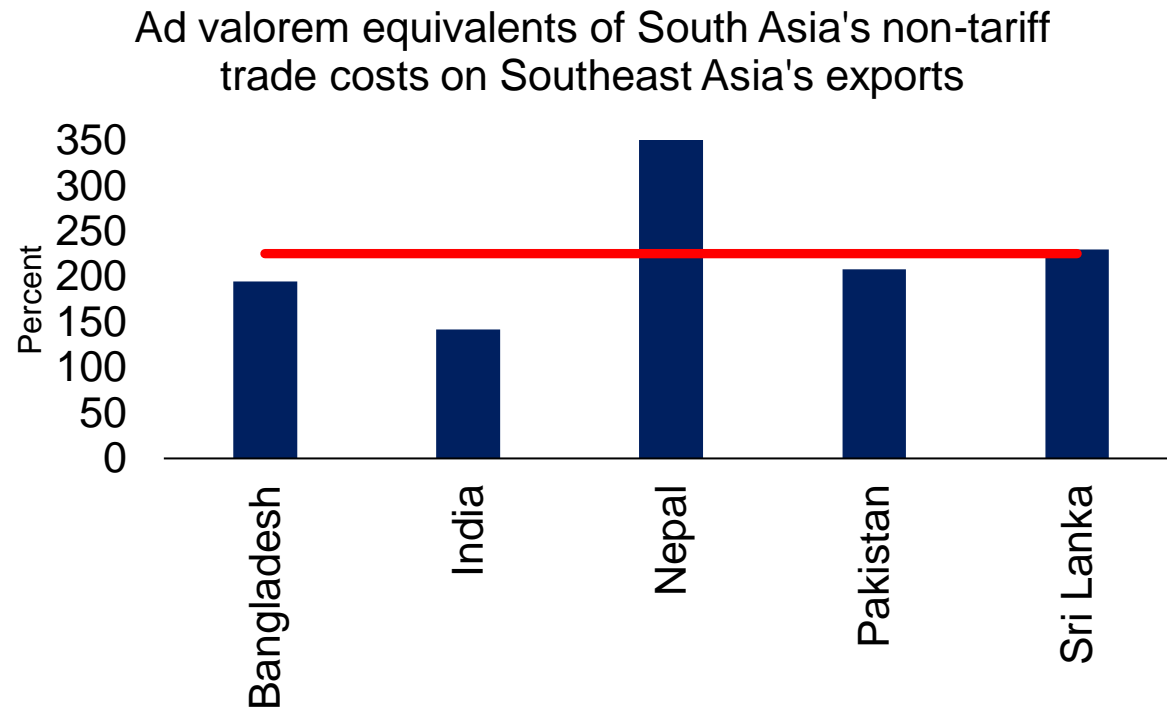
■ Southeast Asia's import tariffs on exports from South Asia



Source: World Bank WITS database.

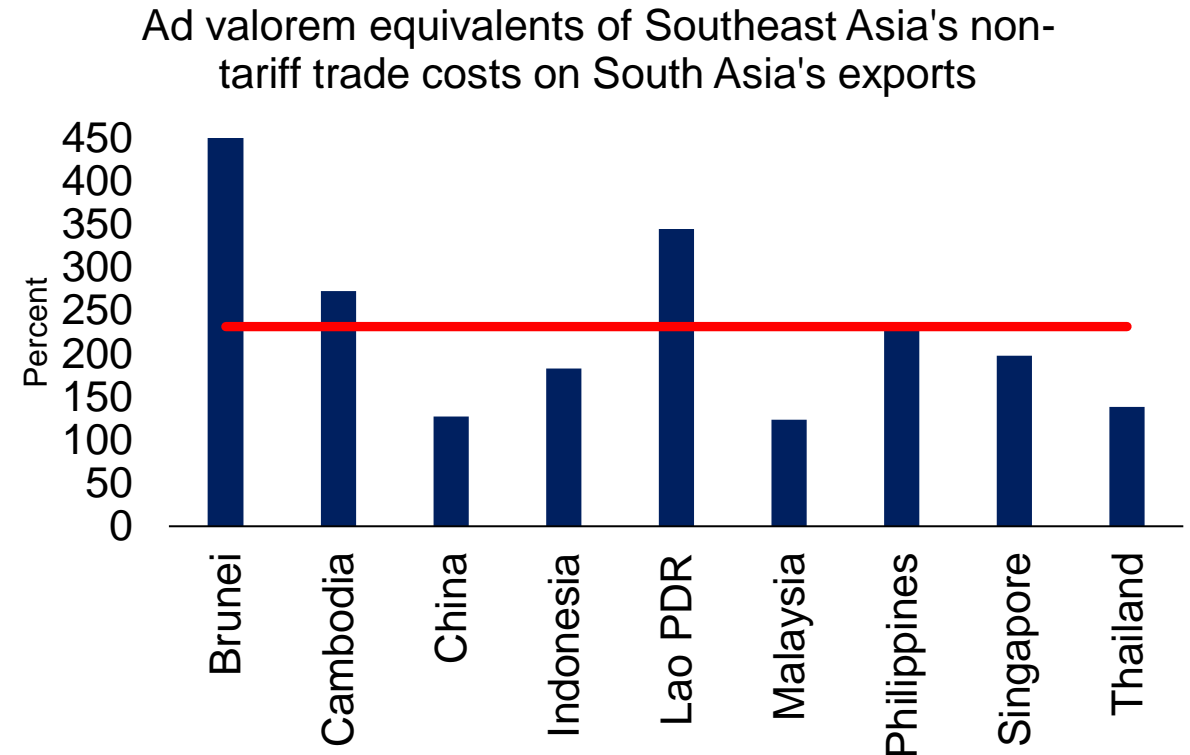
Non tariff barriers remain more important than tariffs in both regions

- Ad valorem equivalents of South Asia's non-tariff trade costs on Southeast Asia's exports



Source: UNESCAP–World Bank Trade Costs Database.

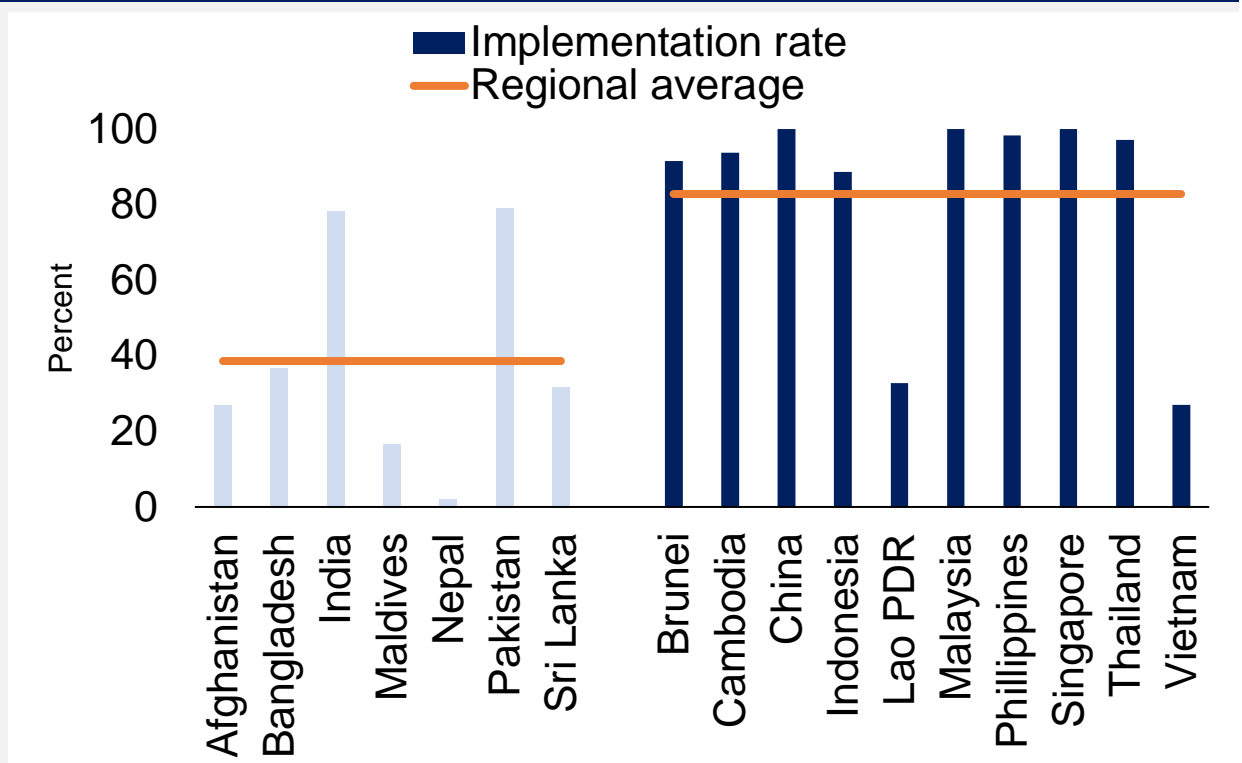
- Ad valorem equivalents of Southeast Asia's non-tariff trade costs on South Asia's exports



Source: UNESCAP–World Bank Trade Costs Database.

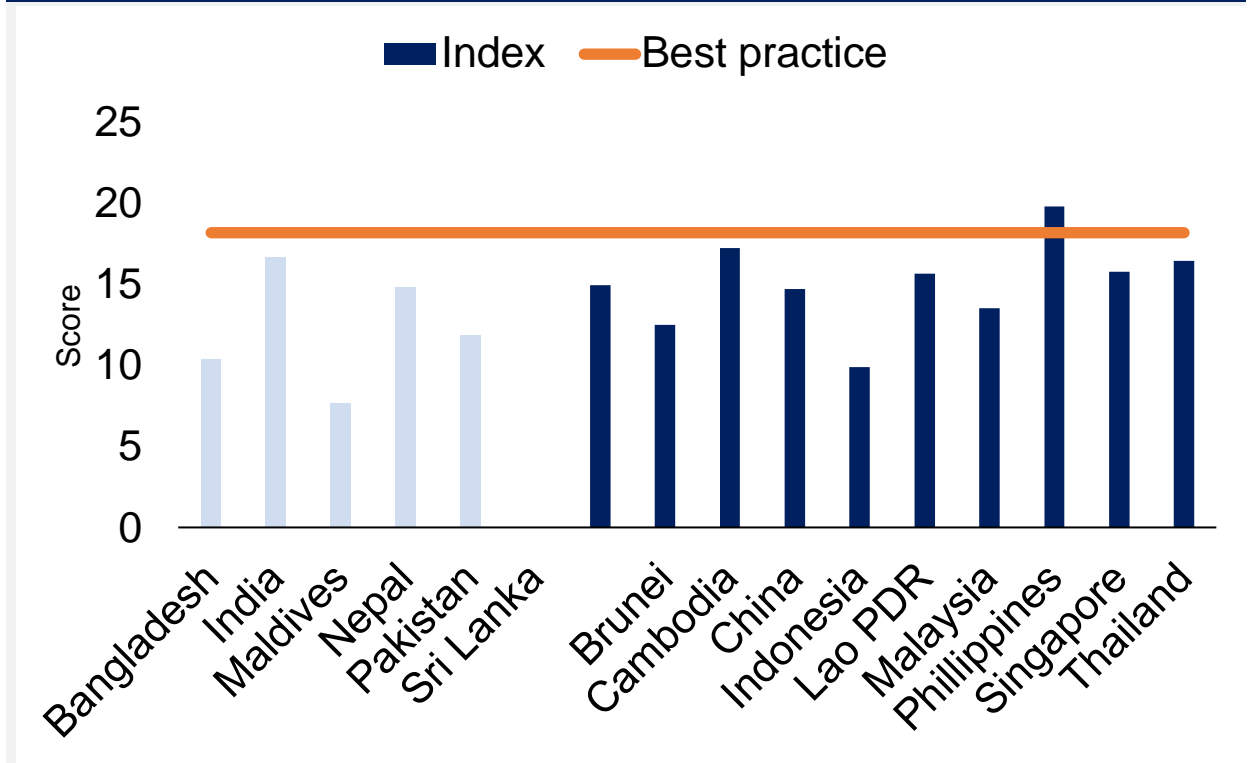
Trade facilitation needs to improve

- WTO Trade Facilitation agreement commitments



Source: World Bank.

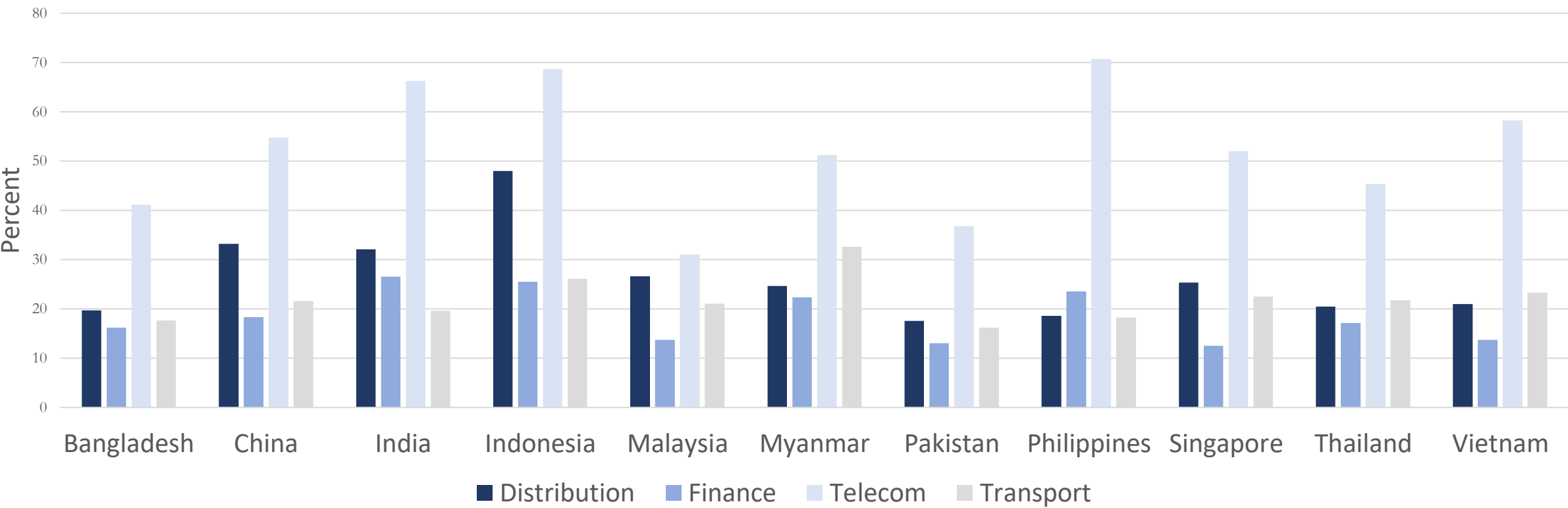
- Trade facilitation indicators



Source: OECD.

Significant barriers hamper trade in services

- Ad Valorem Equivalents of Services Trade Policies



Source: Shepherd, 2021.

Assessing the economy-wide impacts of policy reform: methodological framework

- GTAP-FDI Computable General Equilibrium (CGE) model (Lakatos and Fukui 2014). Two major extensions to the standard specification:
 - Explicit treatment of FDI
 - Representation of multinationals and foreign affiliates
- GTAP database complemented and disaggregated:
 - FDI stocks data: industry, host, source (Bekkers et al. 2021)
 - Foreign affiliates sales data: industry, host, source (Bekkers et al. 2021)
- Ideal for considering:
 - Linkages between trade and investment policy
 - Services trade policies– especially mode 1 (cross border) and mode 3 (foreign affiliates)

Inter-regional and multilateral integration tracks



Scenario 1

South Asia -Southeast Asia tariff liberalization: a uniform 90 percent cut in bilateral tariffs between South Asian and Southeast Asian countries across all sectors. Tariff cuts are not applied to trade flows within the two regions.



Scenario 2

Scenario 1 + a 50 percent reduction of actionable non-tariff trade costs: 50 percent of the total non-tariff trade costs are actionable (possible to be affected by policy measures), and 50 percent of these actionable barriers are liberalized.

Scenario 3



Scenario 2 + improvement in trade facilitation implying a 15.5 percent reduction in trade costs between South Asia and Southeast Asia.



Scenario 4

Scenario 3 + South Asia -Southeast Asia FDI liberalization: closing half the gap in missing bilateral FDI.

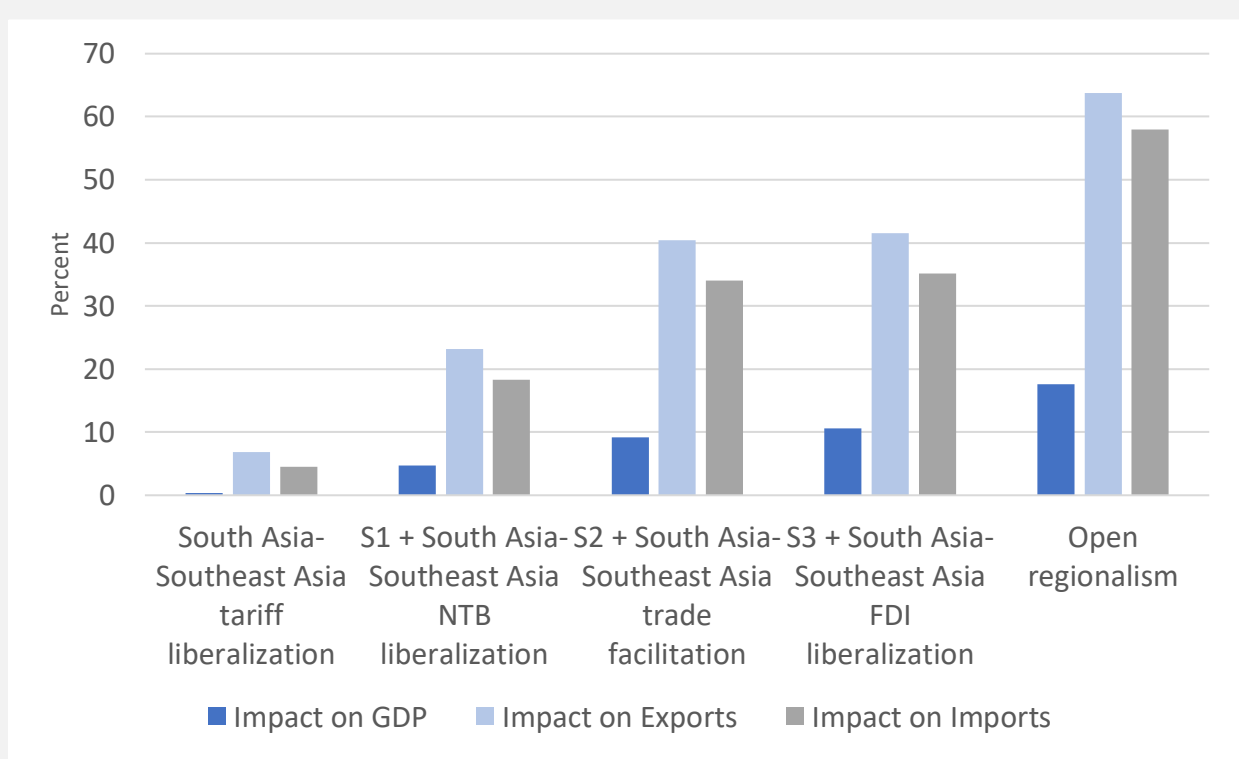


Scenario 5

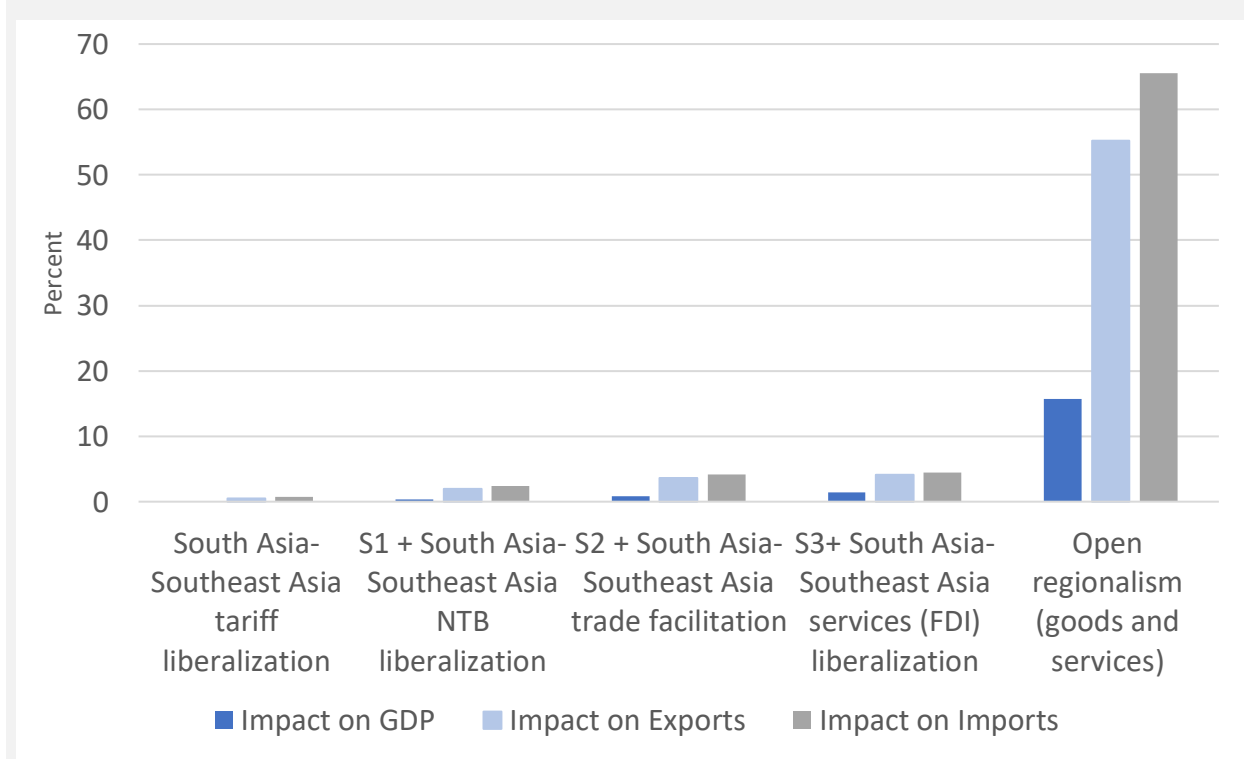
Open regionalism: South Asia and Southeast Asia extend the same liberalization to the rest of the world and also regionally within the two regions.

Economy-wide gains from deeper linkages between South Asia and Southeast Asia

- Gains in South Asia



- Gains in Southeast Asia



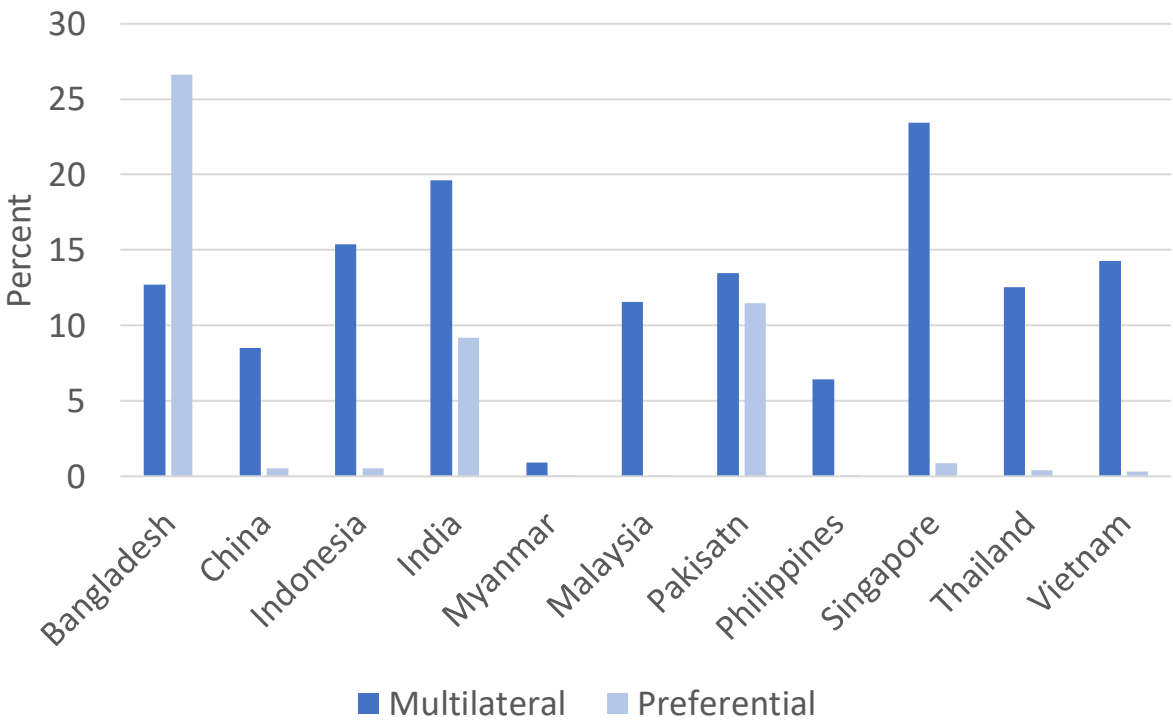
Source: Lakatos 2022.

Estimating potential gains from services trade liberalization

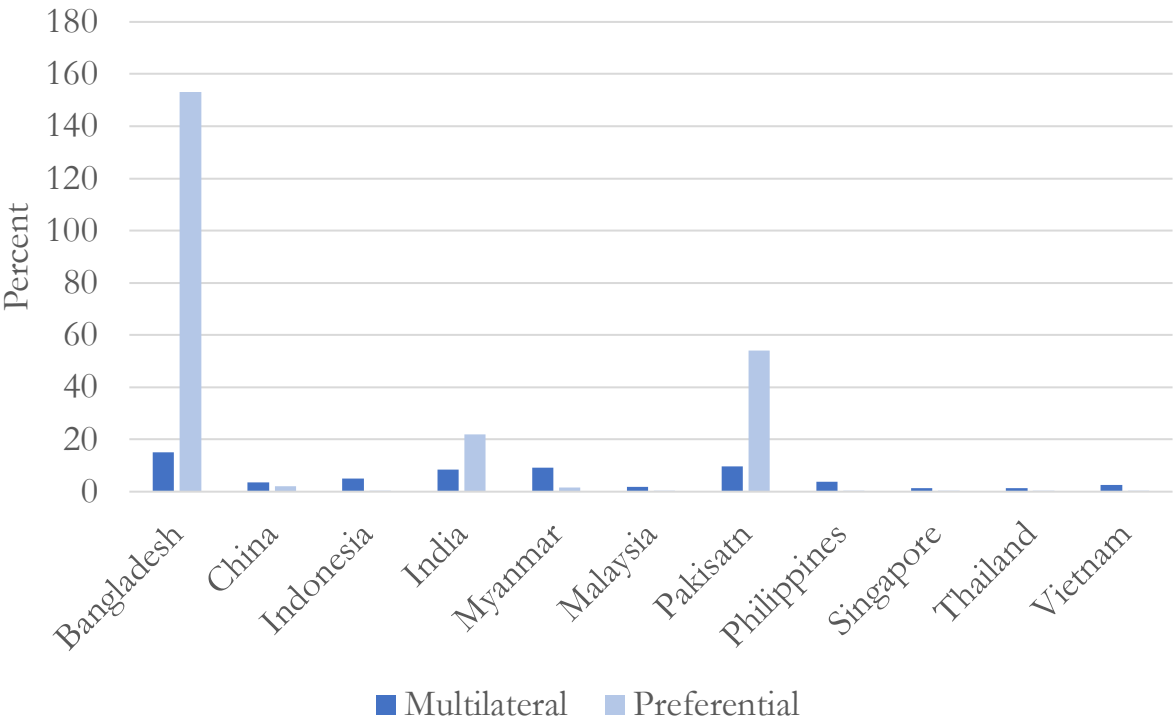
- Structural gravity model
 - Includes a standard gravity model controls based on geography and history, along with tariffs, a preferential trade agreement (PTA) dummy, and an indicator of service trade restrictiveness (STRI) and an interaction between the STRI and a dummy for countries that are members of an economic integration agreement
- Simulation scenarios
 - Multilateral liberalization: South Asian and Southeast Asian countries reduce their Services Policy Index scores by 10 percent on a multilateral basis, with all other countries maintaining baseline policies
 - Preferential liberalization: South Asian and Southeast Asian countries also sign a complete network of preferential trade agreements among themselves but keep their multilateral Services Trade Policy Index scores constant.

Potential gains from services liberalization

- Telecom



- Financial services



Source: Shepherd 2021.

Implications for policy makers

- The largest economic gains come from nondiscriminatory policy reforms
- Partial exception to this finding: South Asia
 - The degree of regional integration is very low in South Asia as compared to Southeast Asia
- An ambitious regional integration agenda that covers goods, services and investment can boost the gains in both regions

Services liberalization and regulatory approaches: the case of digital services

- Regulatory heterogeneity: particularly challenging for small and medium-size enterprises attempting to trade at the regional level
- National and regional reforms:
 - Developing supporting policies for digital services: data protection, cyber security, consumer protection, competition law, and recognition of e-signatures and electronic transactions
 - Pursuing sectoral legislative and regulatory reforms
 - Encouraging mutual recognition of qualifications and regulations

Regulatory heterogeneity: digital services

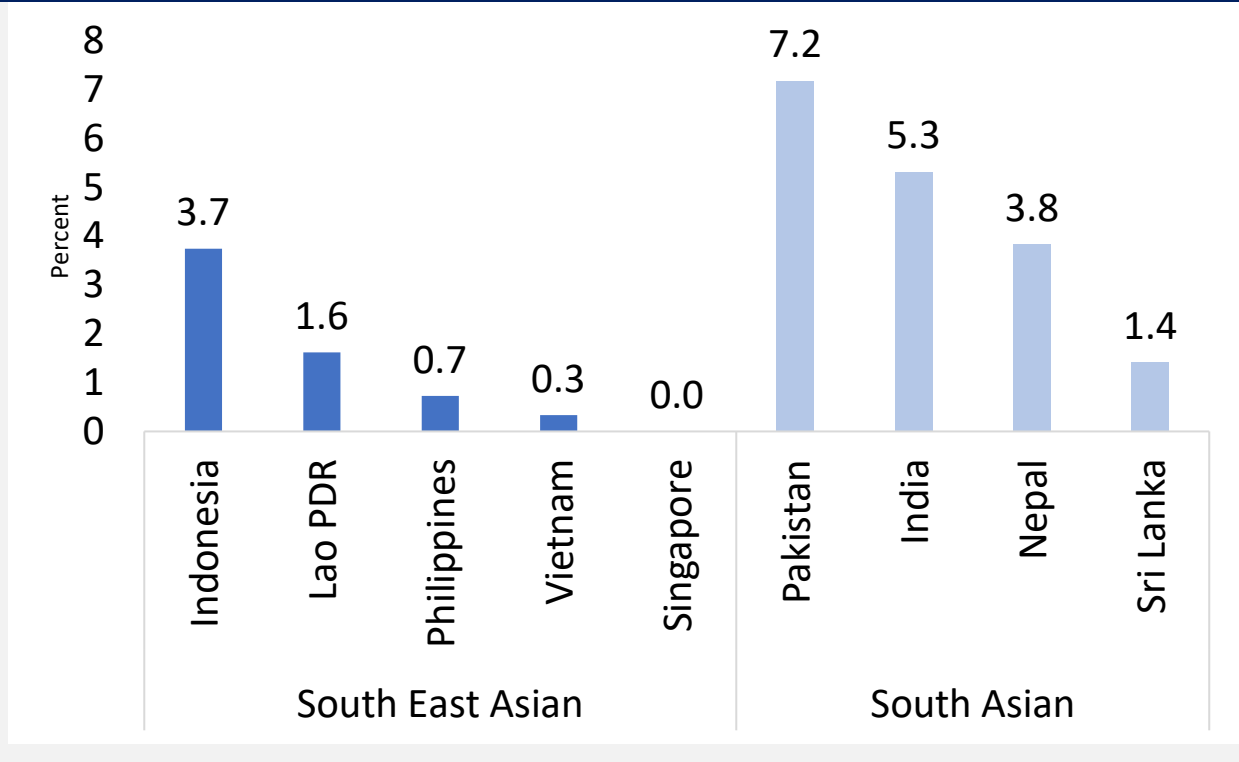
Country	Electronic transactions	Consumer protection	Privacy and data protection	Cybercrime	AI	Blockchain
India	Y	N	Y	Y	N - But ongoing dialogue	Ban on crypto assets under review following India Supreme Court decision in March 2020
Sri Lanka	Y	Y	N	Y	N	N
Bangladesh	Y	Y	N	Y	N	Ban on cryptocurrencies
Nepal	Y	Y	Y	Y	N	All transactions related to Bitcoin are illegal
Pakistan	Y	N	Draft	Y	N	Not recognized in any way but not currently regulated
Bhutan	Y	Y	Y	Y	N	N
Afghanistan	Draft	N	N	Y	N	N

Regulatory heterogeneity: digital services

Country	Electronic transactions	Consumer protection	Privacy and data protection	Cybercrime	AI	Blockchain
Malaysia	Y	Y	Y	Y	N - But plans to develop national AI framework	Not recognized as legal tender, regulations put in place to record exchanges for anti-money laundering and tax purposes
Singapore	Y	Y	Y	Y	Research funding into ethics and AI regulation - authorization for trials of autonomous vehicles	Currently working on full regulatory framework including initial coin offering, payments, exchange licensing, and so forth
Indonesia	Y	Y	Y	Y	N - But promoting discourse	Not banned, but warned against use
Brunei Darussalam	Y	N	N	Y	N	Not considered legal tender, not regulated
Vietnam	Y	Y	Y	Y	N	Not considered legal tender, reports on working toward a legal framework
Philippines	Y	Y	Y	Y	N	Trading is subject to permission from the central bank
Cambodia	Y	Y	N	Draft	N	Not legal tender, but not illegal, banks asked not to allow people to conduct transactions – development of internal interbank blockchain network
Thailand	Y	Y	Y	Y	N	Working toward implementation of new laws on tax and exchange registration, financial institutions asked not to trade
Lao PDR	Y	Draft	Y	Y	N	N
Myanmar	Y	Y	Draft	Draft	N	N

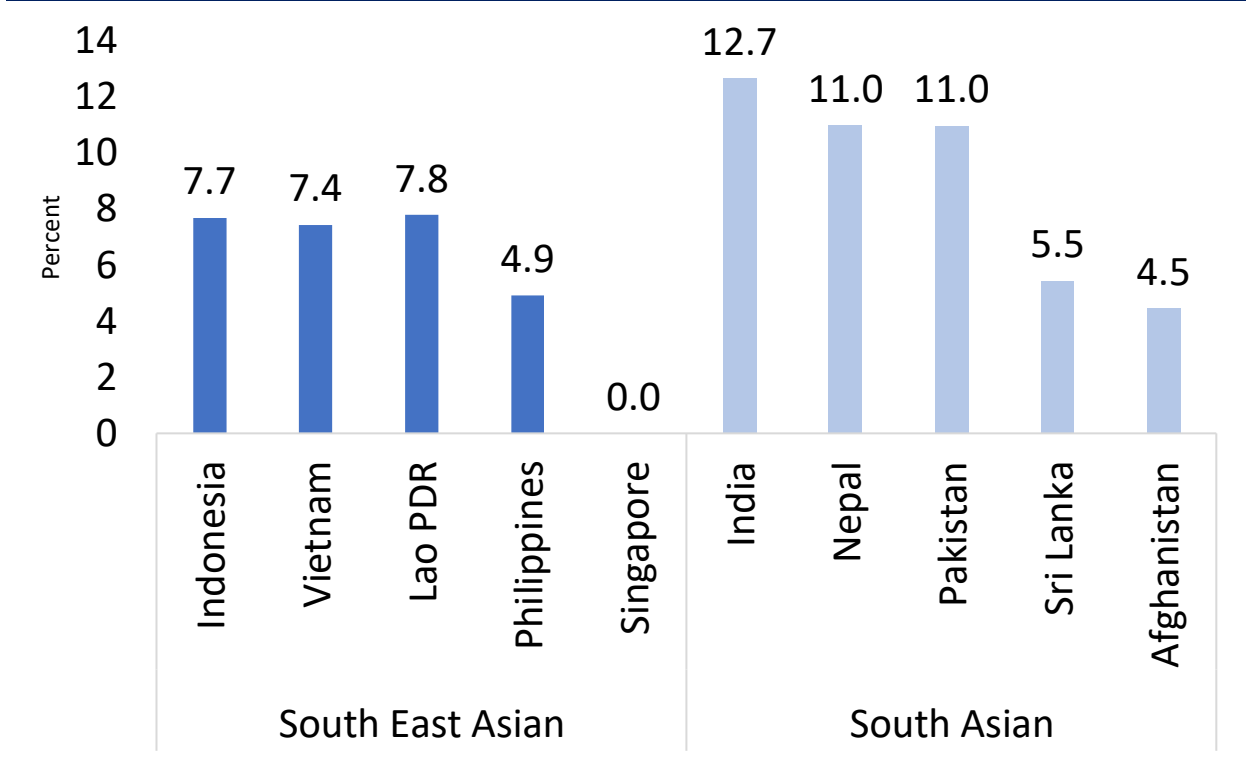
Higher tariffs on environmental goods in South Asia

Simple average MFN tariffs on environmental goods



Source: Stojanov 2021.

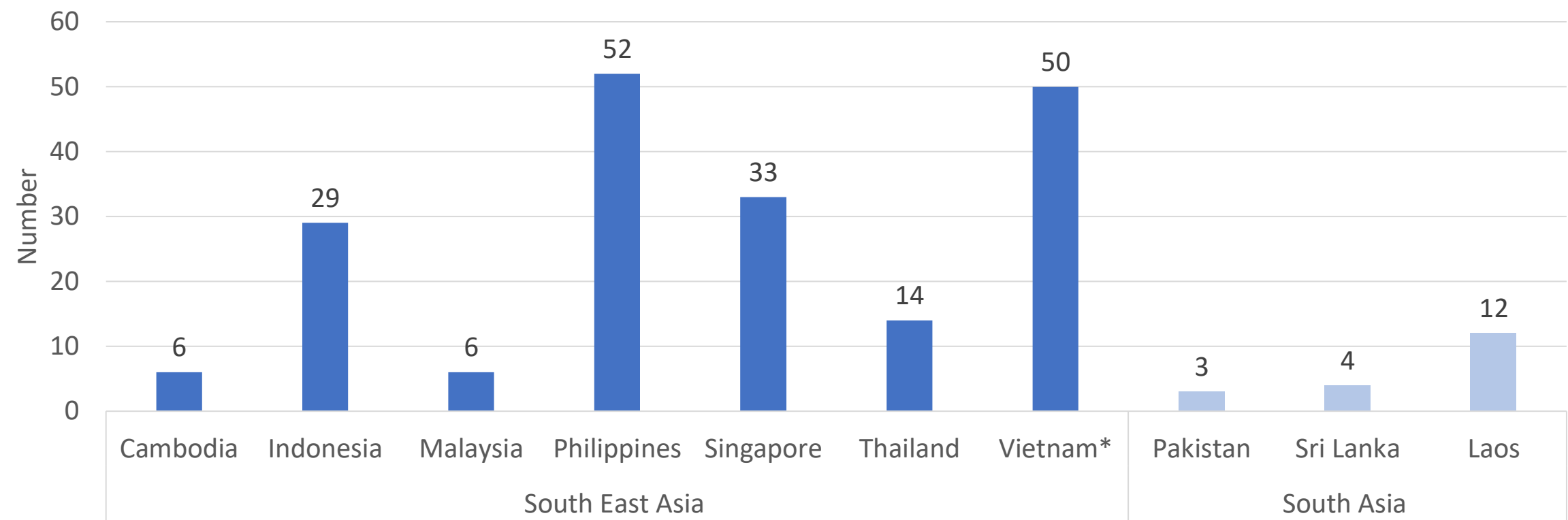
Simple average MFN tariffs on environmentally preferable goods



Source: Stojanov 2021.

Non-tariff measures on environmental goods appear more prevalent in Southeast Asia

- Number of NTMs applied on selected environmental goods



Source: Stojanov, 2021.

Making regional trade sustainable

- Reduce the tariffs on environmental goods to boost domestic uptake of cleaner technologies and spur green growth
- Adopt adequate regulation for environmental markets including standards and capacity to implement them, while minimizing the costs of compliance for producers and distributors
- Upgrade existing trade agreements to include environmentally-friendly provisions that can help reduce NTBs
- Liberalize trade in environmental services including the movement of environmental experts
- Facilitate trade in environmental goods and services to help firms maintain competitiveness

THANK YOU

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