DEEPENING LINKAGES BETWEEN SOUTH ASIA AND SOUTHEAST ASIA

ARTNeT Webinar
May 19, 2022
Deeper Regional Integration between South Asia and Southeast Asia

New integration options in current global context
Growth of trade in goods and services, FDI and labor flows

Modules

Where are we now?
Current state of integration between South Asia and Southeast Asia

Expected gains from deepening linkages between South Asia and Southeast Asia

Policy recommendations to advance integration between South Asia and Southeast Asia

New Areas

• Novel regulatory approaches: Digital services
• Increasing sustainability: Environmental goods and services
Limited interregional trade and investment linkages despite progress

- **Trade in goods**

  - Southeast Asia exports to South Asia
  - South Asia exports to Southeast Asia

- **FDI stocks**

  - Southeast Asia FDI stocks in South Asia
  - South Asia FDI stocks in Southeast Asia

**Source:** World Bank WITS Database

**Source:** Lakatos 2021.
Untapped potential of intra- and interregional FDI

- Missing intraregional FDI in South Asia
- 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
- Southeast Asia’s import tariffs on exports from South Asia

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

- 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
  - Implementation rate
  - Regional average

- Trade facilitation indicators
  - Index
  - Best practice

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

<table>
<thead>
<tr>
<th>Country</th>
<th>Electronic transactions</th>
<th>Consumer protection</th>
<th>Privacy and data protection</th>
<th>Cybercrime</th>
<th>AI</th>
<th>Blockchain</th>
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<td>India</td>
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<td>Ban on crypto assets under review following India Supreme Court decision in March 2020</td>
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<td>Sri Lanka</td>
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<td>Bangladesh</td>
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<td>Nepal</td>
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<td>Pakistan</td>
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<td>Draft</td>
<td>Y</td>
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<tbody>
<tr>
<td>Malaysia</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
<td>But plans to develop national AI framework</td>
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<td></td>
<td>N</td>
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<td>Y</td>
<td>N</td>
<td>Not recognized as legal tender, regulations put in place to record exchanges for anti-money laundering and tax purposes</td>
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<td>Singapore</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
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<td>Research funding into ethics and AI regulation - authorization for trials of autonomous vehicles</td>
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<td>Currently working on full regulatory framework including initial coin offering, payments, exchange licensing, and so forth</td>
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<td>Indonesia</td>
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<td>N - But promoting discourse</td>
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<td>Not considered legal tender, reports on working toward a legal framework</td>
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<td>Not considered legal tender, reports on working toward a legal framework</td>
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<td>Trading is subject to permission from the central bank</td>
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<td>Cambodia</td>
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<td>Not legal tender, but not illegal, banks asked not to allow people to conduct transactions – development of internal interbank blockchain network</td>
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<td>Thailand</td>
<td>Y</td>
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<td>Working toward implementation of new laws on tax and exchange registration, financial institutions asked not to trade</td>
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Higher tariffs on environmental goods in South Asia

- Simple average MFN tariffs on environmental goods
- 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

![Bar chart showing the number of NTMs applied on selected environmental goods in various countries.](chart.png)

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
References


