

Promoting Intra-regional Investment & Technology Transfer in South Asia

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Background

- Intra-regional investments based on 'competitive advantages' are fast leading to:
 - Efficiency enhancement in production (Galar 2012)
 - Improved production techniques (Banga 2013)
 - Reduced logistics expenditures (Ferdows 1997)
 - Political Economy Choices (Import is not always bad)
- A positive relation between GDP and growth of intra-regional investments (IRIs) has been observed
- IRIs are deeper if supplemented with production sharing (global value chains)
- Global value chains relatively more beneficial to developing economies (UNCTAD 2013)

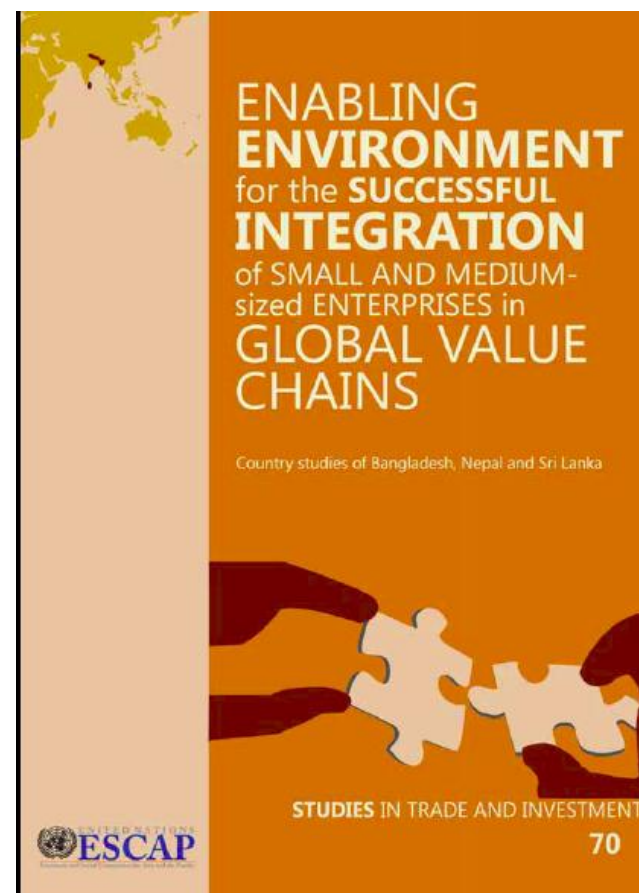
Regional Supply Chains – Textile Sector

- UNCTAD & CWS evaluated the supply chain products of Pakistan, Bangladesh, India and Sri Lanka at six digits levels
- The study has identified 948 products where these countries can possibly undertake the mutual trade and enhance competitiveness.
- **Bangladesh** is a leading garment exporter and has developed backward spinning linkages
- **India** is an emerging supplier of textiles spinning machinery, chemicals and dyes for textiles processing.
- **Pakistan** is well poised in cotton yarns and fabrics
- **Sri Lanka** is engaged in high end fashion garments and is the only country in the region with higher foreign direct investment and joint ventures.

Sri Lanka - Indian Supply Chain: Moving beyond textiles

- Sri Lankan integration into Indian Supply Chain (Abeyratne (2013))
- India's imports of parts and components from Sri Lanka increasing in:
 - Tires and tubes
 - Aluminum
 - Tools of base metal
 - Electrical machinery and equipment

- There has been a supply chain success in: a) textiles and b) staple foods in South Asia
- At a more national level, Sri Lanka succeeded in supply chain for rubber and electronics, Bangladesh in plastics (other than textile), Nepal in Ginger and Coffee.



Why we don't hear many success stories on IRIs?

- **Brunner H (2013)** Competitive advantage of South Asia depends upon developing and **investing in logistics infrastructure** and in value chains which connects the suppliers to buyer demand.
- **Abe M (2013)** IRIs can be developed either by **policy initiatives** or by arrangements to produce regional public and quasi-public goods. Improvements in transport and logistics, inflow of FDI, allowing inclusion of SMEs and ease in cost of doing business are the key elements to successfully develop regional value chain
- **Bhattacharya D and Moazzem K (2013)** LDCs are still struggling to take advantage of globally integrated processes which is mainly because of their **engagement in trade of lower value inputs** and global economic governance
- **Banomyong R (2010)** Cost associated with physical transfer of goods and **security of supply chains** are hindering value chain development in South Asia; thus logistic providers control firms' supply chains
- **Noomhorm A and Ahmad I (2008)** Traditional supply chains transformed into **technology based end-to-end distributing system** and having focus on customer satisfaction.

Gaps in the Literature

In a South Asian context we are interested in the following less researched areas:

- Role of intra-regional investments in direct poverty reduction via job creation
- Making value chains resilient in the face of future economic downturns
- Linking South Asian value chains with counterparts in Central and East Asia

Infrastructure for Business

Country	Logistics Performance Index Score (1=low, 5=high)	Customs Score	Infrastructure Score
Afghanistan	2.07	2.16	1.82
Bangladesh	2.56	2.09	2.11
Bhutan	2.29	2.09	2.18
India	3.08	2.72	2.88
Maldives	2.75	2.95	2.56
Nepal	2.59	2.31	2.26
Pakistan	2.83	2.84	2.67
Srilanka	2.70	2.56	2.23

Source: World Development Indicators 2014

South Asia slow in adopting IT-enabled innovations to logistics management

Doing Business in South Asia

(Ranking out of 189 countries)

	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
Ease of business	164	130	141	134	95	105	110	85
Starting a business	24	74	86	179	71	97	105	54
Dealing with construction permit	167	93	132	182	18	105	109	108
Getting electricity	104	189	91	111	131	98	175	91
Registering property	175	177	86	92	161	24	125	145
Getting credit	130	86	109	28	109	55	73	73
Protecting investors	189	22	147	34	80	80	34	52
Paying taxes	98	100	104	158	115	126	166	171
Trading across borders	184	130	172	132	138	177	91	51
Enforcing contracts	168	185	37	186	90	139	158	135
Resolving insolvency	115	119	189	121	40	125	71	59

Source: International Finance Corporation 2014

Poor regulatory regime and contract enforcement hurting economic sentiments

Missing Trade Facilitation

	Documents to export (number)	Documents to import (number)
Country	Year 2013	Year 2013
Afghanistan	10	10
Bangladesh	6	8
Bhutan	9	12
India	9	11
Maldives	7	9
Nepal	11	11
Pakistan	8	8
Srilanka	5	7

Source: World Development Indicators 2014

Despite call for trade facilitation reforms the red-tape has not been cut down

Regional Perceptions on IRIs & Value Chains (Qualitative Inquiry)

Our approach

- In-depth interviews: 70 manufacturing entities interviewed across South Asia
 - Bangladesh (10), India (20), Sri Lanka (13), Pakistan (27)
- Firms had current experience of trading in South Asia
- Senior management could answer questions related to value chain development in the region

Key Findings

Lack of Functional Economic Corridors

- Issues:
 - Transport network missing in the region
 - Logistics corridor either missing or entailing higher costs
 - Informal trade hurting incentives for formal exchange
- Possible recommendations:
 - SAARC single permit system for rail and road
 - Diversify transport modes across the region

Facilitating Agglomeration

- Issues:
 - Lack of national reforms in retail and wholesale trade
 - Domestic commerce contributing over 20% output
 - Heavily regulated distribution and warehousing hurting commerce in urban centers
- Possible recommendations:
 - Domestic Commerce Policy
 - Strong Property Rights Regime
 - Promotion of Domestic Brands

Trade Facilitation for Value Chain Development

- Issues:
 - Lack of trade facilitation reforms single most important constraint according to our respondents
 - Transport costs and compliance costs of trade-related documentation higher vis-à-vis other regions
- Possible recommendations:
 - Expedite capacity reforms at ports and customs (including automation)
 - Trade facilitation should also meet the requirements of transit agreements
 - Integrated border check posts missing at several border points through out South Asia.

Missing Participation of the Private Sector

- Issues:
 - Private sector not very happy with public sector's lack of engagement
 - Private sector sees high costs and low rewards associated with process upgrading (in the context of South Asian value chains)
 - Fears of policy reversals
- Possible recommendations:
 - A joint working group of public and private sector on value chain development under SAARC
 - This should be helped by similar national-level working groups.

NTBs Preventing Skills & Technology Transfer

- Issues:
 - NTBs in trade are already known at sectoral-levels
 - NTBs hurting value chain development require a deeper study
 - Most NTBs in sectors which carry comparative advantage in South Asia
- Possible recommendations:
 - Revisit work by SAARC Human Resource Development Centre on NTBs hurting HRD in the region
 - Most NTBs e.g. visa requirements are not even trade-related and may be handled expediently if governments are committed to the SAARC process
 - Consumer perspective in the context of ‘NTBs hurting value chains’ requires further research

What needs to be done?

What firms need to understand?

- To understand changing modalities of **sourcing**
- Competing on **cost**
- Competing on **quality**
- Competing on supplier's **organization**
- Remaining in **horizontal alliances** of producers
- Competing on volume

Firms would have to invest in:

- Market intelligence capital
- Organizational capital
- Technology capital
- Financial and risk reduction capital

Conclusion

Take home messages

- Intra-regional investment cooperation cannot be seen in isolation from value chain development
- Expedite SAARC-level pending agreements on transport, energy, connectivity and dispute resolution
- Work towards revision and deepening of current free trade agreements in the region (closer to SAFTA approach). Should include investment and technology clauses
- Cross-border investment requires harmonization of national-level competition policies.

Thank You

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