

Himalayan Journal of Development and Democracy, Vol. 7, No. 1, 2012

Re-invigorating South Asia by deepening "Look East" policies

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Until the early 1990s, South Asia had isolated itself from the global economy through the adoption of inward-looking development strategies. With post-1990 reforms, South Asia's economic dynamism increased and its economic growth shifted to a higher trajectory. These reforms together with the adoption of "Look East" policies in South Asia and "Look West" policies in East Asia, have also led to early signs of the "re-emergence" of Pan-Asia.

South Asia currently faces two related challenges. The first is to make the recovery from the global economic crisis more durable, inclusive, and sustainable in the "new normal" – slowing growth in the industrial countries and faster economic and demand growth in emerging markets. The second is the slowing pace of the economic reforms that were the key driver of the region's dynamic performance and resilience. Prime Minister Man Mohan Singh, the father of economic reforms in India, was expected to take reforms to the second phase after his re-election in 2009, but allegations of corruption and the ensuing political paralysis have slowed, and in some cases reversed, the pace of reforms. Prominent business leaders have questioned the government's commitment to continue the reform agenda. Accordingly, economic growth has slowed to the slowest in a decade as investors have lost confidence and the rupee is at an all time low.

This paper will argue that one way of re-invigorating South Asia is to deepen its "Look East" policies. Greater trade and investment with East Asia (defined as ASEAN+3) will not only re-energize South Asian economic integration which has stalled at a low level (for political reasons) but lead to greater economic dynamism in South Asia. Deeper integration within the sub-region and economic growth will, in turn, lead to the "re-emergence" of Pan-Asia.

Section II of the paper, will present estimates of quantitative benefits of South Asia-East Asia integration in the areas of trade and investment.

Section III will identify the potential for integration between South Asia and East Asia. This will be done through static analysis by calculating various indices of revealed comparative advantage and trade complementarities. The potential dynamic benefits of linking South Asia to regional production networks in East Asia and global supply chains will also be analyzed. As is well known, manufacturing production networks (or vertical specialization) are a key characteristic of East Asian integration and growth dynamism. So far there has been limited engagement between South Asia and production networks in East Asia. Parts and components that constitute a large amount of trade within East Asia is only a small part of South Asia's trade with East Asia.

Section IV will review and recommend policies to link South Asia to productions networks in East Asia and the world. It will argue that with the first round of reforms, South Asia has reaped the benefits of the low-hanging fruits through trade liberalization. Now there is an urgent need for South Asia to implement institutional reforms and to improve the environment for foreign investors. Data from the World Bank's Doing Business Survey will be used. The paper will argue that with lower tariffs, trade facilitation policies to reduce non-price trading costs (including logistics) have become the more critical determinants of trade flows. Data from the World Bank and World Economic Forum will be used to review logistic costs in South Asia and recommendations will be made to reduce trade and logistic cost between South Asia and East Asia. Trade facilitation is not only a question of logistics, but also of physical integration or connectivity.

Section V of the paper will review progress in improving land connectivity between South Asia and East Asia. The gradual and cautious reforms in Myanmar, which is one node where South Asia meets East Asia, have generated interest in various connectivity projects that have been talked about for some time in the past. The details of the "India-Mekong Corridor" project and others will be presented. The other node where China meets India is Nepal and the potential of Nepal being a land bridge and an economic corridor between the two giants will be discussed.