Promoting Intra-regional Investment & Technology Transfer in South Asia

24 November 2014
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 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.
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

<table>
<thead>
<tr>
<th>Country</th>
<th>Logistics Performance Index Score (1=low, 5=high)</th>
<th>Customs Score</th>
<th>Infrastructure Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Afghanistan</td>
<td>2.07</td>
<td>2.16</td>
<td>1.82</td>
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<tr>
<td>Bangladesh</td>
<td>2.56</td>
<td>2.09</td>
<td>2.11</td>
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<td>Bhutan</td>
<td>2.29</td>
<td>2.09</td>
<td>2.18</td>
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<td>India</td>
<td>3.08</td>
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<td>2.88</td>
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<td>Maldives</td>
<td>2.75</td>
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<td>Nepal</td>
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<td>Srilanka</td>
<td>2.70</td>
<td>2.56</td>
<td>2.23</td>
</tr>
</tbody>
</table>

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)

<table>
<thead>
<tr>
<th></th>
<th>Afghanistan</th>
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<th>Bhutan</th>
<th>India</th>
<th>Maldives</th>
<th>Nepal</th>
<th>Pakistan</th>
<th>Sri Lanka</th>
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<tbody>
<tr>
<td><strong>Ease of business</strong></td>
<td>164</td>
<td>130</td>
<td>141</td>
<td>134</td>
<td>95</td>
<td>105</td>
<td>110</td>
<td>85</td>
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<tr>
<td><strong>Starting a business</strong></td>
<td>24</td>
<td>74</td>
<td>86</td>
<td>179</td>
<td>71</td>
<td>97</td>
<td>105</td>
<td>54</td>
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<tr>
<td><strong>Dealing with construction permit</strong></td>
<td>167</td>
<td>93</td>
<td>132</td>
<td>182</td>
<td>18</td>
<td>105</td>
<td>109</td>
<td>108</td>
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<tr>
<td><strong>Getting electricity</strong></td>
<td>104</td>
<td>189</td>
<td>91</td>
<td>111</td>
<td>131</td>
<td>98</td>
<td>175</td>
<td>91</td>
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<tr>
<td><strong>Registering property</strong></td>
<td>175</td>
<td>177</td>
<td>86</td>
<td>92</td>
<td>161</td>
<td>24</td>
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<tr>
<td><strong>Getting credit</strong></td>
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<td><strong>Protecting investors</strong></td>
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<td>34</td>
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<td><strong>Paying taxes</strong></td>
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<td>100</td>
<td>104</td>
<td>158</td>
<td>115</td>
<td>126</td>
<td>166</td>
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<tr>
<td><strong>Trading across borders</strong></td>
<td>184</td>
<td>130</td>
<td>172</td>
<td>132</td>
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<td>177</td>
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<td><strong>Enforcing contracts</strong></td>
<td>168</td>
<td>185</td>
<td>37</td>
<td>186</td>
<td>90</td>
<td>139</td>
<td>158</td>
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<tr>
<td><strong>Resolving insolvency</strong></td>
<td>115</td>
<td>119</td>
<td>189</td>
<td>121</td>
<td>40</td>
<td>125</td>
<td>71</td>
<td>59</td>
</tr>
</tbody>
</table>

Source: International Finance Corporation 2014

Poor regulatory regime and contract enforcement hurting economic sentiments
Despite call for trade facilitation reforms the red-tape has not been cut down.

### Missing Trade Facilitation

<table>
<thead>
<tr>
<th>Country</th>
<th>Documents to export (number)</th>
<th>Documents to import (number)</th>
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</tr>
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Source: World Development Indicators 2014
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
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 throughout 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
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