

Territorial NEWSLETTER South Asia

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Chairman's Pen

Ravi Sehgal

South Asian economies remain some of the fastest growing markets globally and recent growth in major South Asian economies has been the subject of global interest and analysis. For instance, countries such as Sri Lanka and Bangladesh have become Asia's latest success stories. Economists feel however that this is the opportune time for the South Asian nations to deepen their intra-regional cooperation. This is true for all South Asian countries, large or small. Even India, the largest country in the region, will benefit. Therefore such interaction will go beyond economic gains and help promote trust and peace. This has been illustrated in the recent book by World bank, 'A Glass Half Full'. This edition of the South Asia newsletter focusses on the issues discussed in the book.

I sincerely believe that this edition will be insightful for our members and they will enjoy reading it.



SAARC Territorial Committee Chairman's Note

Akash Shah

South Asia is one of the fastest growing but least integrated region in the world. Studies have proved that increasing intra-regional trade and cooperation is critical for further economic growth and sustainable development of the region. In these lines, the World bank has published a book last month, 'A Glass Half Full'. This edition of the South Asia newsletter focuses on the discussions in that book.

Like our previous issues, an analysis of Indian engineering exports for April-July 2018 is also presented in this newsletter from both country-wise and DGCI&S panel-wise perspectives. Other sections include trade news on South Asia, upcoming events in South Asian regions and tenders.

I believe our member exporters will find this newsletter helpful in making business decisions.

Basic Facts South Asia

Grouping: South Asia Association for Regional Cooperation

Area: 5,099,611 km²

Population:
1,713,870,000

GDP: US\$ 3.292 trillion

Countries: Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka

Climate: The climate of South Asia can be divided into three basic kinds: tropical, dry, and temperate

Natural Resources: Rich agricultural land, minerals, energy resource



Issues with Intra-regional Trade in SAFTA: Excerpts from the World Bank Study 'A Glass Half Full'

Lack of trade integration is a major issue in the South Asian economies. While the South Asian Free Trade Agreement (SAFTA) came into being in 2006, it could never achieve its goals of barrier free trade within the South Asian region. Recently, the World Bank has published a book 'A Glass Half Full' documenting the various issues that plague the regional integration and trade within SAARC. There are also chapters dedicated to instruments that can act as a catalyst for better integration within the region. In this newsletter we briefly highlight the various issues and solutions mentioned in the book.

Intra-regional trade has always played a critical role in economic development and poverty alleviation across the globe. Various regions such as ASEAN, NAFTA and East Asia and Pacific or Sub-Saharan Africa have developed strong intra-regional trade relations. Intra-regional trade accounts for almost 50% of the total trade

in East Asia and Pacific and 22% of the total trade in Sub-Saharan Africa as compared to only 5% of the total trade in the SAARC region. This demonstrates that intra-regional trade in SAARC has not taken up as was expected. This is despite the fact that SAARC houses some of the most significantly populated countries in the world with substantially large markets. The World Bank in the book 'The Glass Half Full' has identified the following reasons that hinder intra-regional trade in the region. These include

- Better trade relations with distant countries other than neighbours: The book states that if the trade restrictiveness index is considered it will be found that in India, Nepal, Pakistan, and Sri Lanka, the indexes are two to nine times higher for imports from the South Asia region than for imports from the rest of the world
- Costs of doing trade within the SAARC region is significantly high almost 20% higher than that of ASEAN and three times higher than that in NAFTA
- While the countries as signatories of SAFTA have been working on lowering tariffs, there is incidence of opaque para-tariffs which are duties imposed on imports. This has led to further underperformance of SAFTA
- There are distinctive port restrictions especially in the land ports within the SAARC region. For instance, Pakistan allows only 138 items to be imported from India over the Attari-Wagah land route, the only land port between the two countries. These types of restrictions have compromised the advantages that the SAARC countries could have derived from their long shared borders
- Other than port restrictions there are various non-tariff measures or NTMs such as information asymmetry, infrastructural inadequacies in the ports, lack of harmonization of systems, corruption and lack of connect between the concerned departments in different countries
- Insufficient visa regimes also act as a barrier

The World Bank has further mentioned two areas where intervention may be required to address most of the above issues. The first one is improving the poor intra-regional connectivity. The book further mentions that recent liberalization of bilateral air services between India and Sri Lanka and how other SAARC countries can learn important lessons from this. The other area of intervention was identified as intra country trust which is a major barrier for SAFTA. The World Bank makes several suggestions that can increase people to people connect thereby fueling trust within countries, chief among them being the examples of India-Bangladesh border markets.

Apart from the above areas, the World Bank recommendations included

- Working on elimination of the SAFTA sensitive list in a time-bound manner except for a few products of exceptional concerns
- Forming of a panel of experts to establish a schedule for the elimination of Para tariffs within a time frame that is credible, sufficiently ambitious, and acceptable to all parties
- Making information flows within the region more regular and symmetric
- Introducing electronic data interchange, risk management systems, and single windows at more locations along India's borders points to enable the realization of potential gains from coordination and efficiency
- Streamlining and enhance the transparency of procedures for importing pharmaceuticals and pharmaceutical raw materials into Bangladesh and Nepal

Trend of India's Engineering Export with the South Asian Nations

India's engineering exports to Top 5 South Asian countries during Apr-Sep 2018 (All values in USD million)

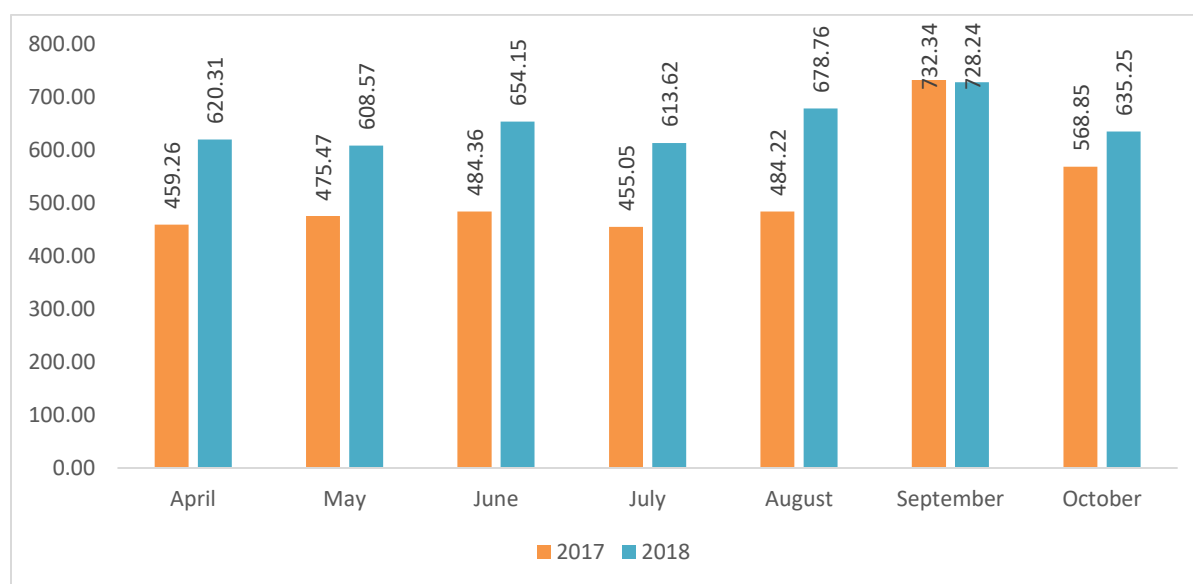
Row Labels	Export in Oct 2017	Export in Oct 2018	Growth (%)	Export in Apr-Oct 2017	Export in Apr-Oct 2018	Growth (%)
NEPAL	235.01	282.86	20.4%	1295.82	1793.41	38.4%
BANGLADESH	176.58	215.78	22.2%	1250.91	1572.96	25.7%
SRI LANKA	99.67	98.35	-1.3%	830.11	811.49	-2.2%
BHUTAN	12.18	17.48	43.5%	102.88	153.48	49.2%
PAKISTAN	12.61	13.19	4.6%	93.45	102.36	9.5%
AFGHANISTAN	26.90	4.63	-82.8%	57.29	74.36	29.8%
MALDIVES	5.89	2.95	-49.8%	29.09	30.84	6.0%
SOUTH ASIA	568.85	635.25	11.7%	3659.55	4538.89	24.0%

Source: DGCIIS

During October 2018, engineering exports to South Asia grew by 11.7%. Bhutan experienced the highest year on year growth of 43.5% in October 2018. It was followed by Bangladesh (22.2%) and Nepal (20.4%). Quantitatively Nepal continued to remain the biggest importer of Indian engineering products in October 2018. Fall in exports were witnessed in Sri Lanka (-1.3%), Afganistan (82.8%) and Maldives (49.8%).

In terms of cumulative figures too Nepal remained the biggest importer of Indian engineering followed by Bangladesh with impressive growth in imports, 38.4% and 25.7% respectively. However, exports to Sri Lanka experienced a drop of 2.2%. All South Asian nations witnessed growth in engineering imports (24%) from India during Apr - Oct 2018-19 over the same period last fiscal.

Month-wise Trend in Total Engineering Export to South Asia (Apr-Oct 2018-19) (Value in USD Million)



Panel-wise trend in engineering exports to South Asia during Apr-Oct 2018

Top 10 engineering panels exported to South Asia during Apr-Oct 2018 are listed below (Value of Exports measured in USD Million)

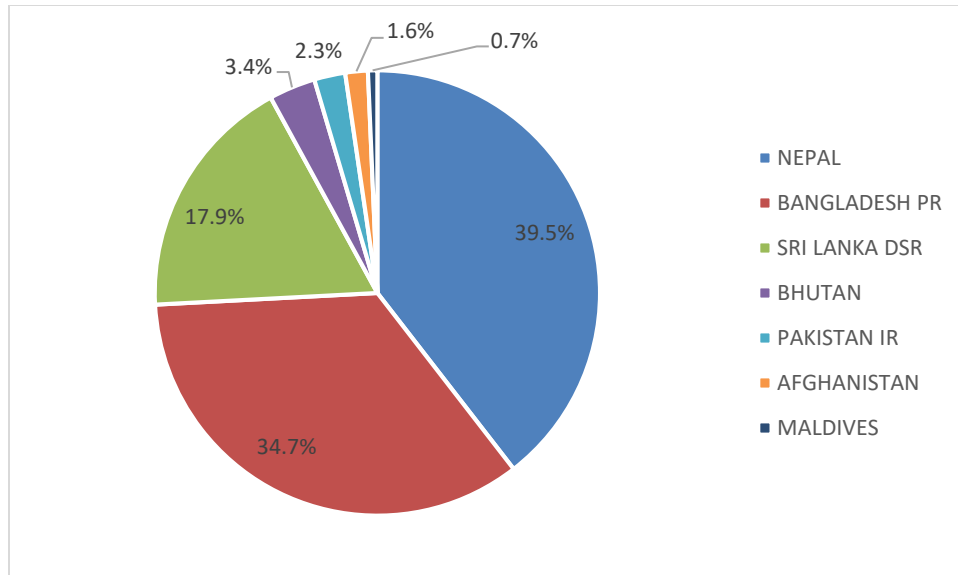
Panel	Export in Oct 2017	Export in Oct 2018	Growth (%)	Export in Apr-Oct 2017	Export in Apr-Oct 2018	Growth (%)
Iron and Steel	941.68	755.80	-19.7%	6131.94	5807.09	-5.3%
Electric Machinery	556.75	672.76	20.8%	3340.62	5041.92	50.9%
Motor Vehicle/cars	570.00	646.88	13.5%	4329.36	4956.91	14.5%
Products of Iron	504.43	567.30	12.5%	3808.38	4129.17	8.4%
Industrial Machinery	419.36	497.97	18.7%	2875.58	3391.00	17.9%
Aluminium and products	406.93	487.41	19.8%	2553.42	3431.35	34.4%
Auto Components/Part	382.98	454.42	18.7%	2818.22	3283.44	16.5%
IC Engines and Parts	159.17	235.75	48.1%	1456.26	1583.95	8.8%
Other Misc. Items	176.44	232.67	31.9%	1386.96	1506.41	8.6%
Two and Three Wheelers	155.36	176.71	13.7%	1130.36	1284.37	13.6%

Source: DGCIS

Product group-wise analysis of Indian engineering exports to South Asia showed that 'Iron and Steel' remained the highest exported engineering product group to South Asia in October 2018 followed by Electric machinery, Motor Vehicle/Cars, Products of iron and steel and Industrial machinery. Barring iron and steel all the top 10 engineering product groups exported to South Asian region recorded year-on-year growth.

On a cumulative basis during April to October of 2018-19, Iron and Steel, Motor Vehicle/cars, Products of iron and steel, Electric machinery and Industrial Machinery topped the list of engineering product groups exported to South Asia. Substantial growth was witnessed in Electric machinery (50.9%) followed by Aluminium and its products (34.4%). All the top 10 exported panels recorded positive year-on-year growth during Apr - October 2018-19 barring Iron and steel.

Country-wise Share (%) during Apr-Oct 2018-19



Source: DGCIS Data, EEPC Research

Major Importers of India's engineering products to South Asia during Apr-Sep 2018-19

Nepal: Nepal was the largest destination for Indian engineering products among all South Asian nations during Apr - Oct 2018-19 with around 40% share.

Top exported Products: Iron and Steel, Motor Vehicle/cars, Other Construction Machinery, Industrial Machinery, Two and Three Wheelers.

Bangladesh: Second largest importer of Indian engineering products among all South Asian nations during Apr - Sep 2018-19 with over 35% share.

Top exported Products: Iron and steel, Motor Vehicle/Cars, Industrial Machinery, Two & three wheelers and Other construction machinery.

Sri Lanka: Sri Lanka was the third largest export destination for India's engineering exports in the South Asian region during Apr - Sep 2018-19 with a share of 16%.

Top exported Products: Two and Three Wheelers, Industrial Machinery, Motor Vehicle/cars, Ships Boats and Floating Structure and Products of Iron and Steel.

Anti-dumping measures

- At present, no anti-dumping case on Engineering product being investigated by Nepal, Bangladesh or Sri Lanka, the top three importers of Indian engineering products in South Asian region, against India as per the WTO website.
- On the other hand the WTO website shows no anti-dumping case is being investigated by India at present on imports of engineering products from those three nations.

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