

# WHY BUILDING ECONOMIC BRIDGES IN THE NEIGHBOURHOOD MATTERS

Relevant for: International Relations | Topic: India - China

At a time when it is increasingly worried about growing Chinese economic and strategic relationships in the region, India is missing a “costless” trick. As the numbers show, it can trade a lot more within the region, both in terms of exports and imports. This piece focuses more on India’s imports from South Asia, because larger and more sophisticated economies usually open up their markets before their smaller and less industrialised trading partners do. In effect, the former provide the latter with an “early harvest”. Indeed, India has accepted such “asymmetric” liberalisation, and, in 2012, provided unilateral duty-free access to its market for the least developed countries from South Asia (Afghanistan, Bangladesh, Bhutan, Maldives and Nepal). Can India take any measure to follow up on such liberalisation, and try to increase its \$4.6 billion imports from South Asia? Incidentally, its exports to the region were \$24.6 billion. (This note should not be confused as an attempt to balance bilateral exports and imports, which makes little sense in economic terms.)

However, trade is an autonomous, private sector driven activity, based on the principle of comparative advantage. So how does the “Can-India-import-more-from-South-Asia” question become valid? It becomes valid when there are artificial barriers to trade, which affect one set of countries more than others.

India’s trade regime, like that of many other countries in South Asia, discriminates against fellow South Asian countries, as pointed out in the World Bank report — A Glass Half Full: The Promise of Regional Trade in South Asia. An index of overall trade restrictiveness developed in the report is two to nine times higher for Indian, Nepalese, Sri Lankan and Pakistani imports from South Asia than for imports from the rest of the world. This is also reflected in the calculation of potential intra-regional goods trade, which was estimated at \$67 billion versus actual trade of \$23 billion in 2015.

India can focus on three broad sets of measures to encourage imports from South Asia.

One, encourage the Indian private sector to invest more in the neighbourhood. This is perhaps the measure with the highest long-run payoffs for both India and its neighbours. Trade and investment are intimately linked, especially in the form of cross-border value chains. By investing in neighbouring countries, Indian firms can help accelerate regional value chains, which will increase regional trade in parts and components. Such opportunities can arise in sectors like IT services, tourism, spices, garments, leather products, agriculture products, to name just a few. Likewise, firms from neighbouring countries can invest in India, to create the same positive impact on regional trade and value chains.

Two, keep improving the hard and soft infrastructure that enables trade and investment. Trade costs between countries in South Asia are disproportionately high. The average trading cost between country pairs in South Asia is 20 per cent higher than among country pairs in [ASEAN](#), and it is cheaper for India to trade with Brazil than with Pakistan. To address this, India could accelerate its border post upgrading programme, but the soft measures are as important. These include introducing electronic data interchange, risk management systems and single windows at more locations along India’s borders. The eventual goal should be to have seamless clearance of imports at the borders, with only random (say 2-3 per cent) checking of consignments. This system will work best if both exporting and importing country authorities are

on the same page, sharing data electronically, and setting up agreed and preferably harmonised systems for cargo clearances.

Three, take pro-active steps to help neighbours address India's non-tariff measures (NTMs). NTMs are policy measures other than tariffs that affect trade, and include quotas, sanitary regulations, and licensing. Even though NTMs are legitimate and are imposed by all trading nations, border authorities can create burdens for traders in their implementation; even if implemented efficiently, NTMs can be more difficult to tackle in poor capacity environments. India could undertake campaigns and workshops in exporting countries to disseminate information about its NTMs, and also listen to concerns about its NTMs from exporters. While such sessions have been done on a somewhat ad-hoc basis, as in Sri Lanka, they could be made more systematic and regular.

Another positive step could be for India to help with capacity building for standards and testing, so that exporters from neighbouring countries can more easily certify their products as conforming to Indian standards. For instance, the Bureau of Indian Standards (BIS) has been providing technical support to the Bangladesh Standards and Testing Institution to help in standardisation and conformity assessment. The BIS has similarly worked with its counterparts in Nepal and Afghanistan. Such capacity building support could be made more systematic and intensive.

The importance of these measures should not be underestimated. Size and capacity asymmetry make its neighbours view India with suspicion and mistrust. A more pro-active India, seeking to encourage imports and build economic bridges in its neighbourhood — a win-win for all sides — will generate much goodwill in the region. So far, India imports more from the seven other South Asian countries than [China](#) (\$4.6 billion vs \$3.6 billion), but it could be only a matter of time before it is overtaken, even in this regard.

A stated intention to increase imports from South Asia will go down well with India's neighbours. And as trade and cross-border investment are interlinked and mutually beneficial, it will be good for India as well.

*The writer is Senior Visiting Fellow, Centre for Policy Research, New Delhi, and former Lead Economist, World Bank*

***The Indian Express is now on Telegram. Click [here to join our channel \(@indianexpress\)](#) and stay updated with the latest headlines***

**END**

Downloaded from [crackIAS.com](#)

© **Zuccess App** by crackIAS.com