

SOUTH ASIA'S PATH TO RESILIENT GROWTH



**ASIA AND PACIFIC
DEPARTMENT**

Unlocking Structural Transformation in South Asia

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Session 2: Based on Chapters 8-10

Editors

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Outline

Part II. Unlocking Structural Transformation

Chapter 8: A Diversification Strategy for South Asia

Weicheng Lian, Fei Liu, Katsiaryna Svirydzenka, and Biying Zhu

Chapter 9: Reviving Trade and Investment

Shanaka Jayanath Peiris, Weicheng Lian, Pragyan Deb, Patrick Blagrove, and Naihan Yang

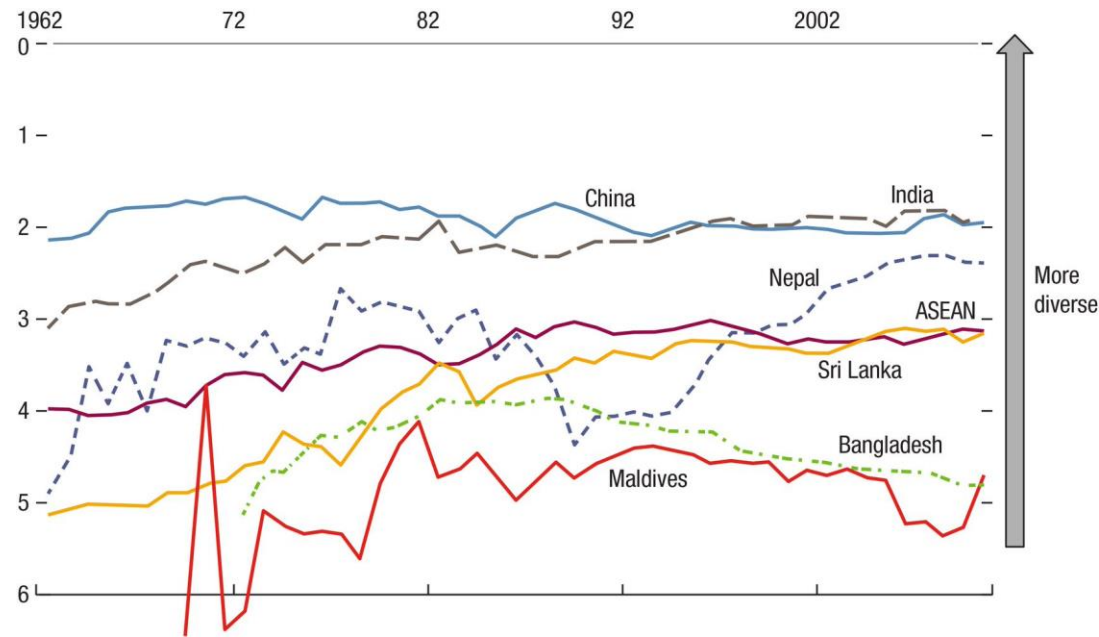
Chapter 10: Fostering Regional Trade Integration between South Asia and East Asia

Ganeshan Wignaraja

Diversification and Complexity

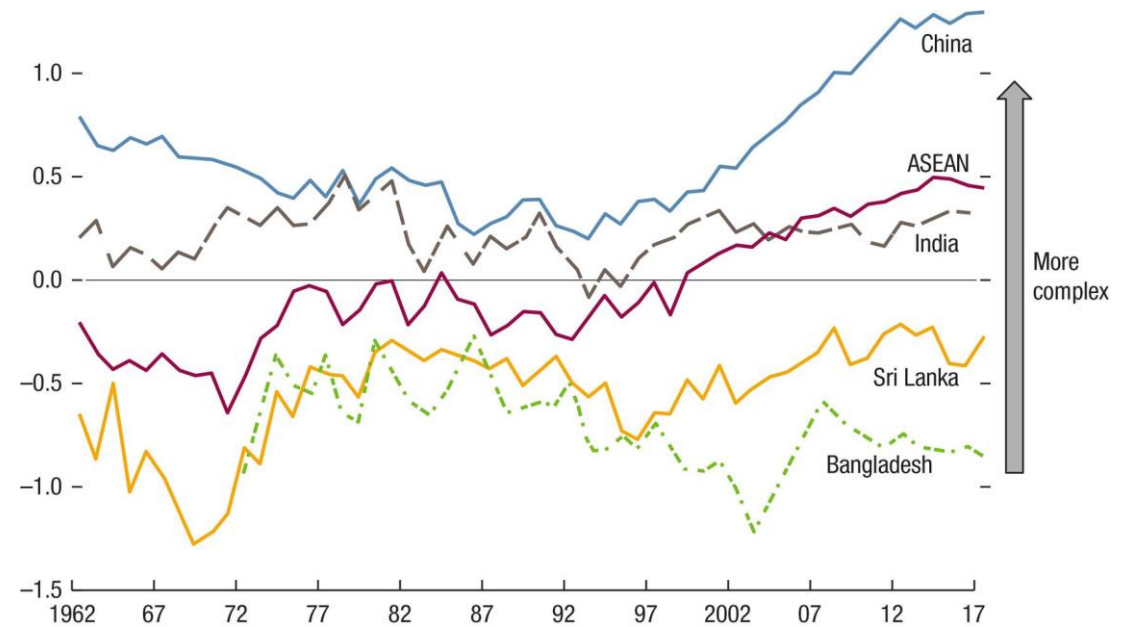
Enhancing diversification and complexity

Export Diversification



Source: IMF 2014.
Note: ASEAN = Association of Southeast Asian Nations.

Economics Complexity

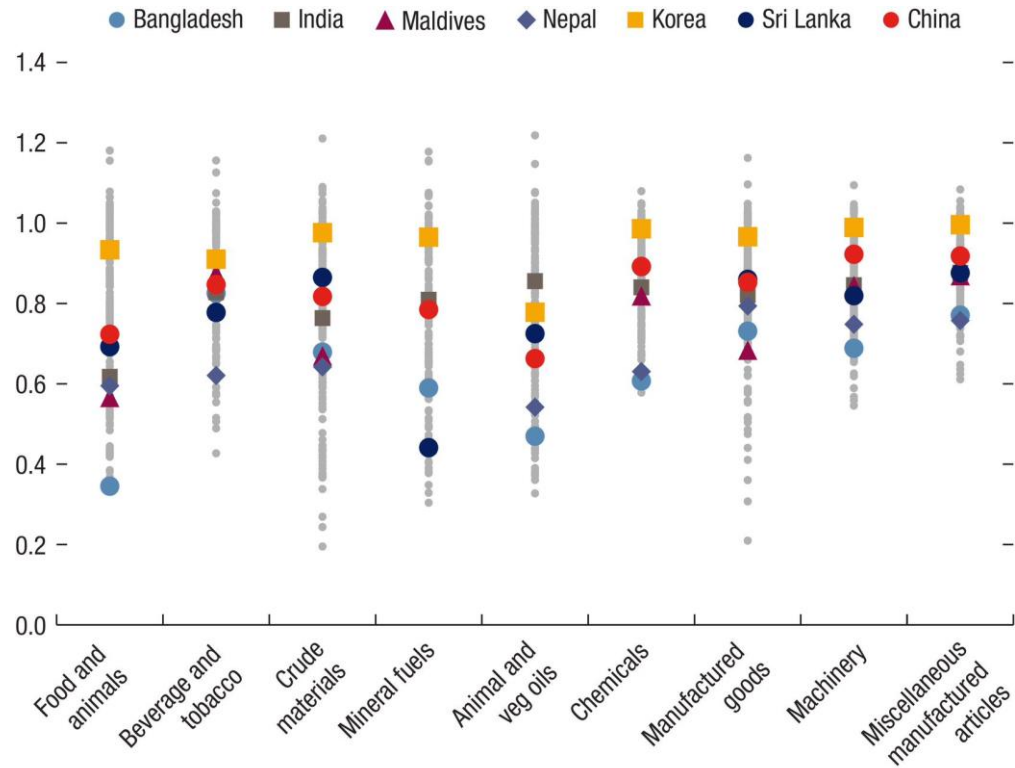


Source: The Atlas of Economic Complexity.
Note: ASEAN = Association of Southeast Asian Nations.

Improving quality and moving to more complex products

Moving up the quality ladder

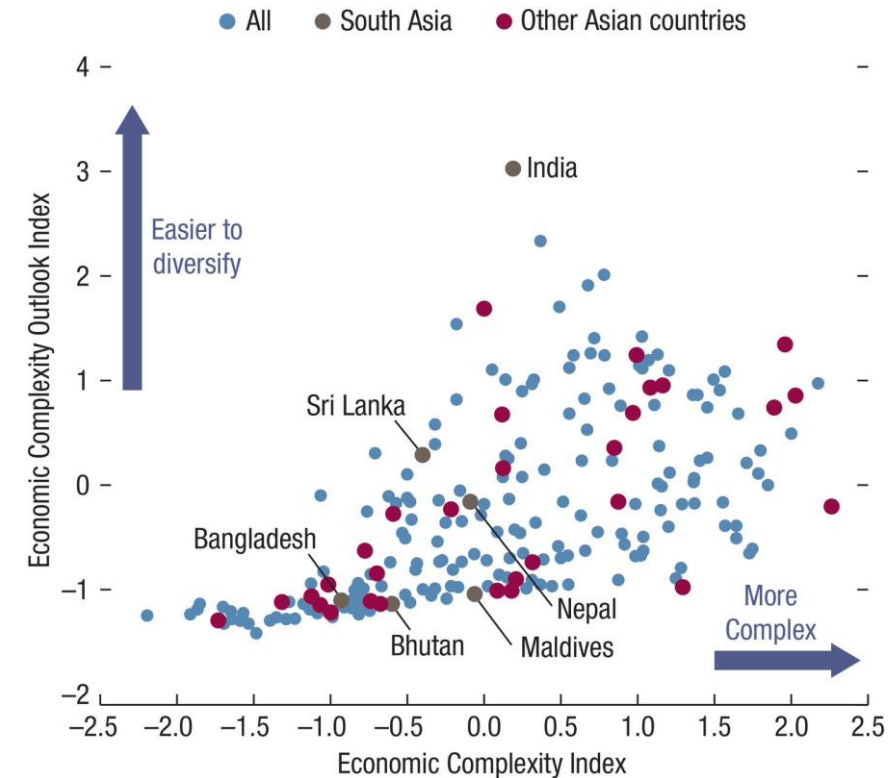
Quality Ladder, 2014



Source: IMF 2014.

Improving complexity

Economic Complexity Outlook Index, 2016

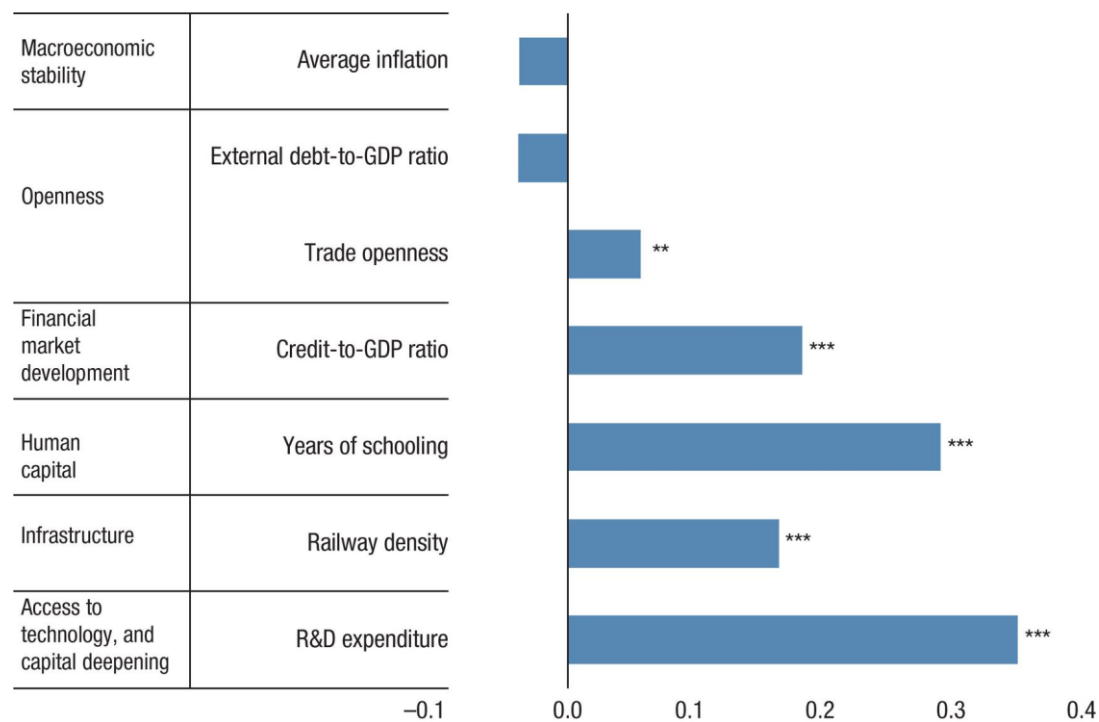


Source: The Atlas of Economic Complexity.

Note: The Economic Complexity Index measures how diversified and complex a country's export basket is. The Economic Complexity Outlook Index measures the ease of diversification for a country, captured by how many complex products are near a country's current set of productive capabilities.

Drivers of complexity and diversification

Impact of structural indicators on economic complexity

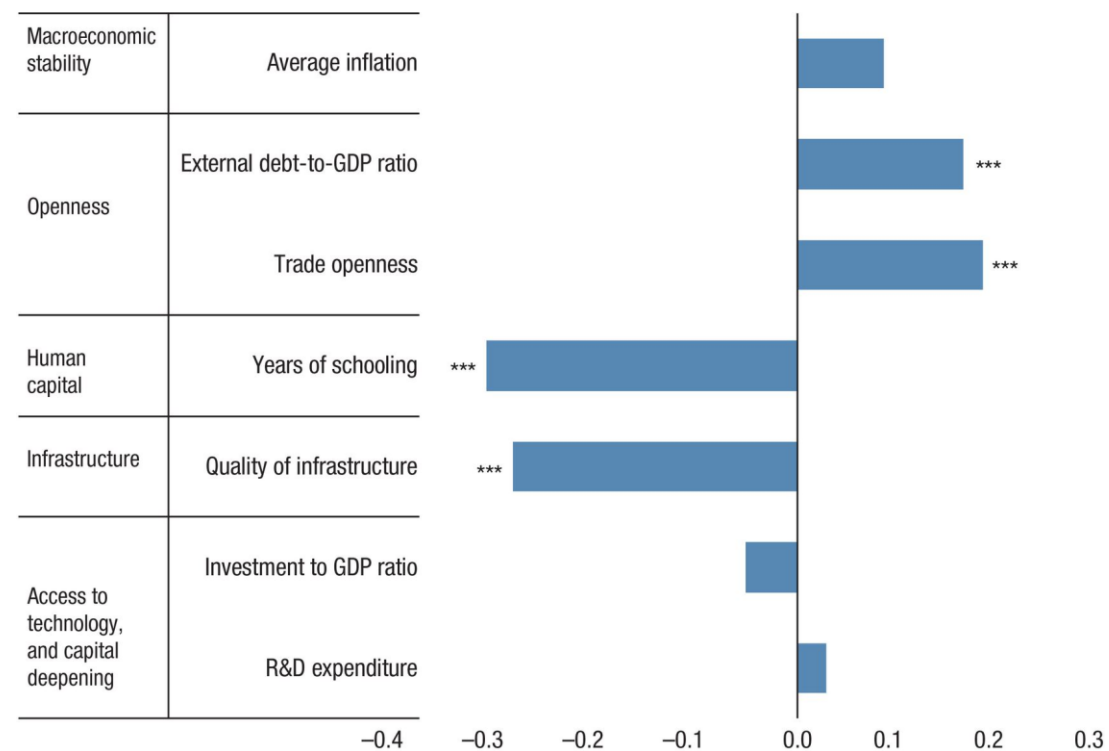


Source: Authors' calculations.

Note: Positive values mean the factor leads to higher complexity. R&D = research and development.

*** $p < 0.01$; ** $p < 0.05$; * $p < 0.1$.

Impact of structural indicators on export diversification



Source: Authors' calculations.

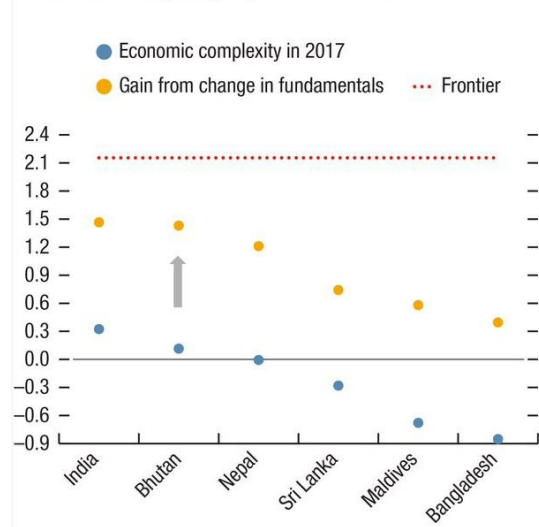
Note: Negative values mean the factor leads to higher diversification. R&D = research and development.

*** $p < 0.01$; ** $p < 0.05$; * $p < 0.1$.

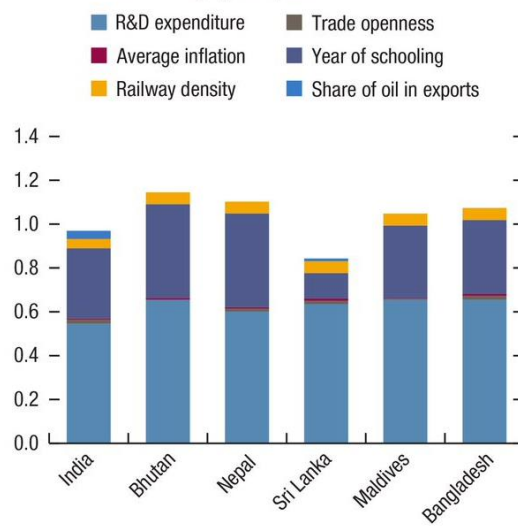
Potential gains from improvement in underlying structural indicators

Economic complexity improvement scenario

1. Economic Complexity Improvement Scenario

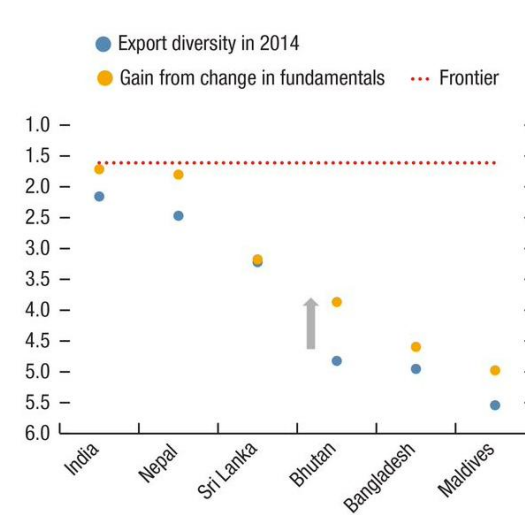


2. Breakdown in Gain, by Component

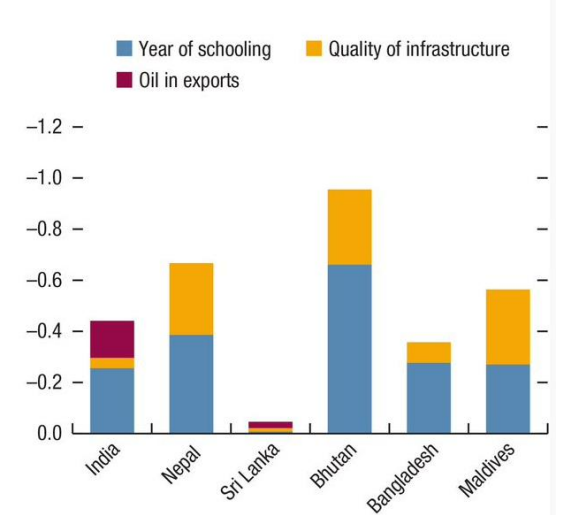


Export diversity improvement scenario

3. Export Diversity Improvement Scenario



4. Breakdown in Gain, by Component



Source: Authors' calculations.

Note: R&D = research and development.

South Asia: Key policy messages

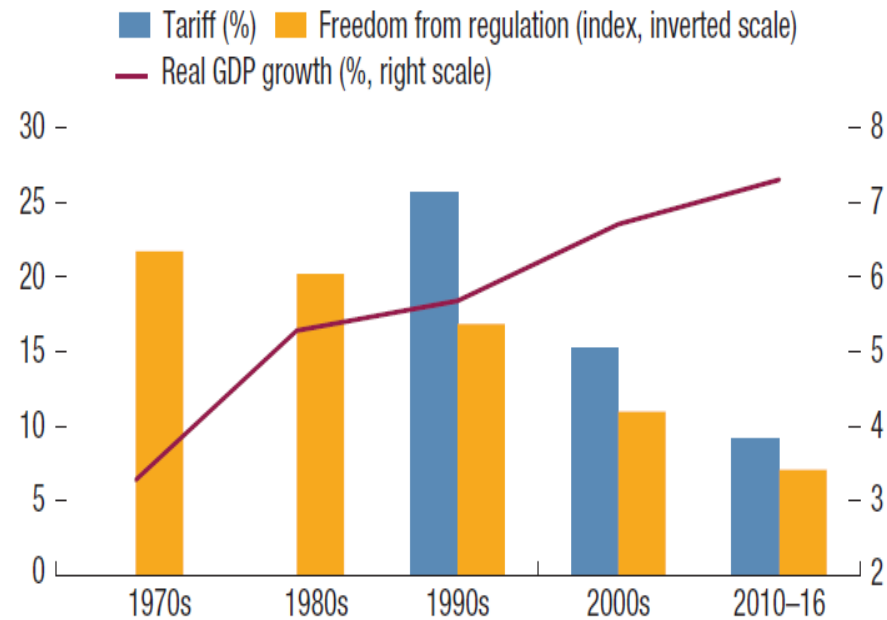
- South Asia successfully leap-frogged from exporting raw agricultural products to garments and services.
- South Asia can increase diversification and move to more complex products by:
 - Improving education
 - Investing in capital and infrastructure
 - Supporting innovation and R&D
 - Opening to trade

Trade and Value Chain participation: Trade, GVCs, productivity and growth

Context

Reforms led to growth take-off

Growth, Trade Liberalization, and Deregulation in South Asia

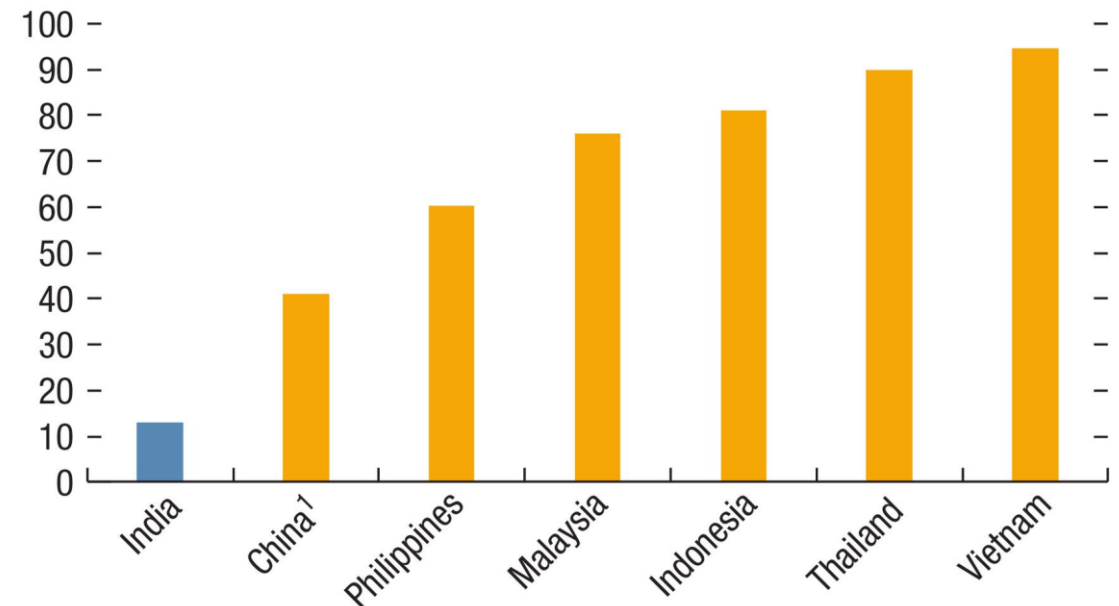


Sources: Fraser Institute, Human Freedom Index; World Integrated Trade Solution database; World Economic Outlook database; and IMF staff calculations.

However, job creation has remained low

Cross-Country Job Creation

(Percent of increase in the working-age population, as of 2018)

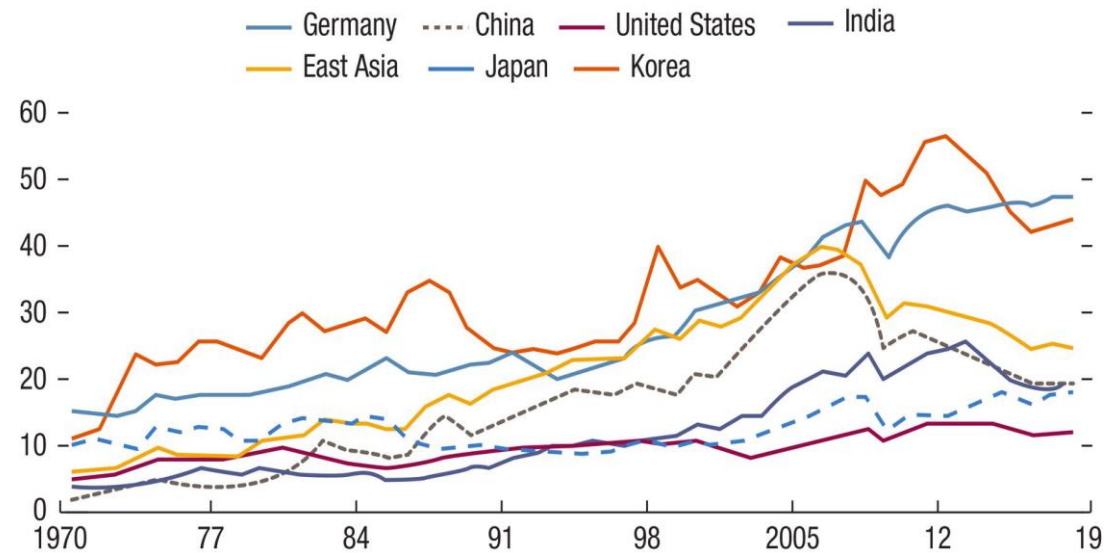


Sources: United Nations *World Population Prospects 2019*; International Labour Organization; and IMF staff calculations.
 Note: Data are calculated as the change in employees in 2018 or the latest over 2000 as a percent of change in the working-age population (15–64 years) in 2018 over 2000.
¹As of 2017.

With low export and manufacturing export intensity

Exports Intensity

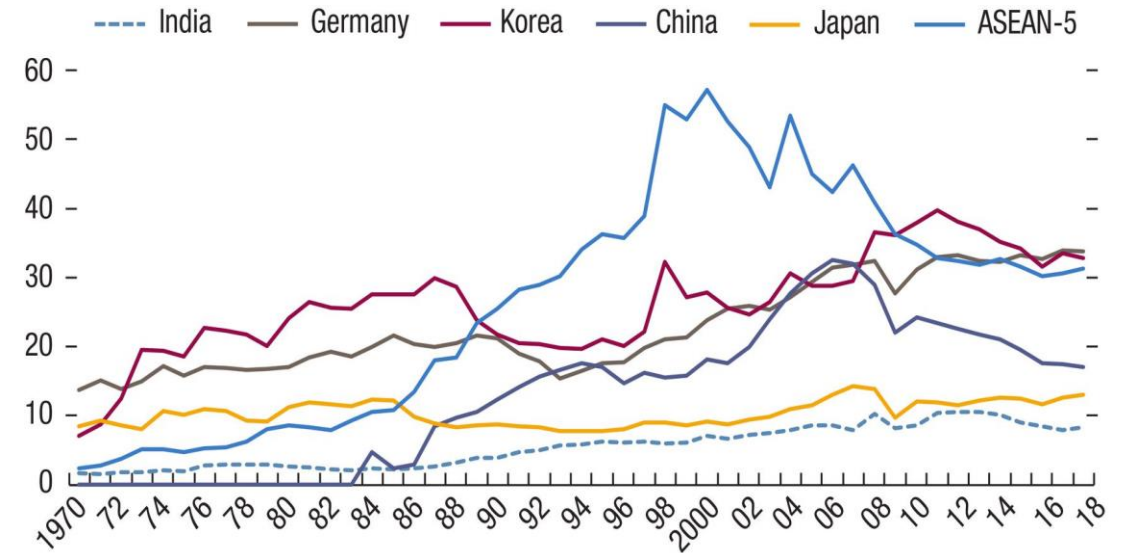
(Exports of goods and services as a percent of GDP)



Source: World Bank's World Development Indicators.

Manufacturing Export Intensity

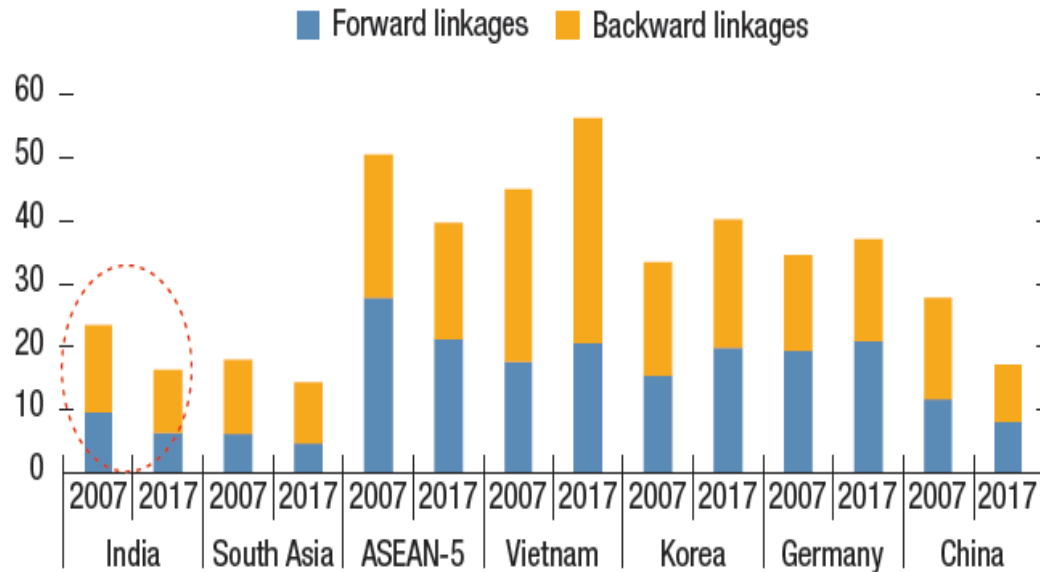
(Export of manufacturing goods as a percent of GDP)



Sources: World Bank's World Development Indicators; and IMF staff calculations.
 Note: ASEAN-5 = Indonesia, Malaysia, Philippines, Singapore, and Thailand.

...and limited GVC participation

1. GVC Participation of the Goods Sector
(Percent of GDP)



2. GVC Participation of the Services Sector
(Percent of GDP)

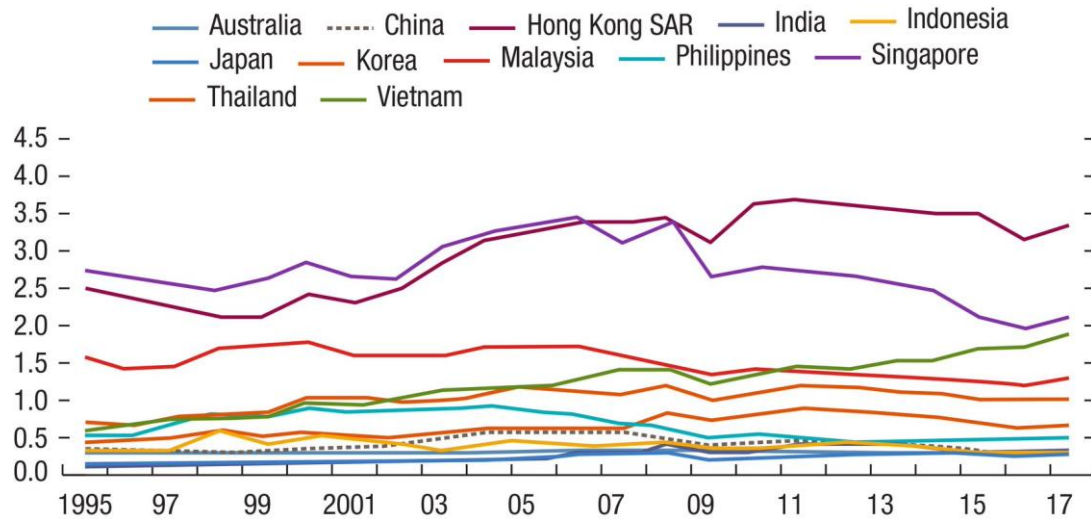


Source: Asian Development Bank database.

Note: ASEAN-5 = Indonesia, Malaysia, Philippines, Singapore, and Thailand; GVC = global value chain.

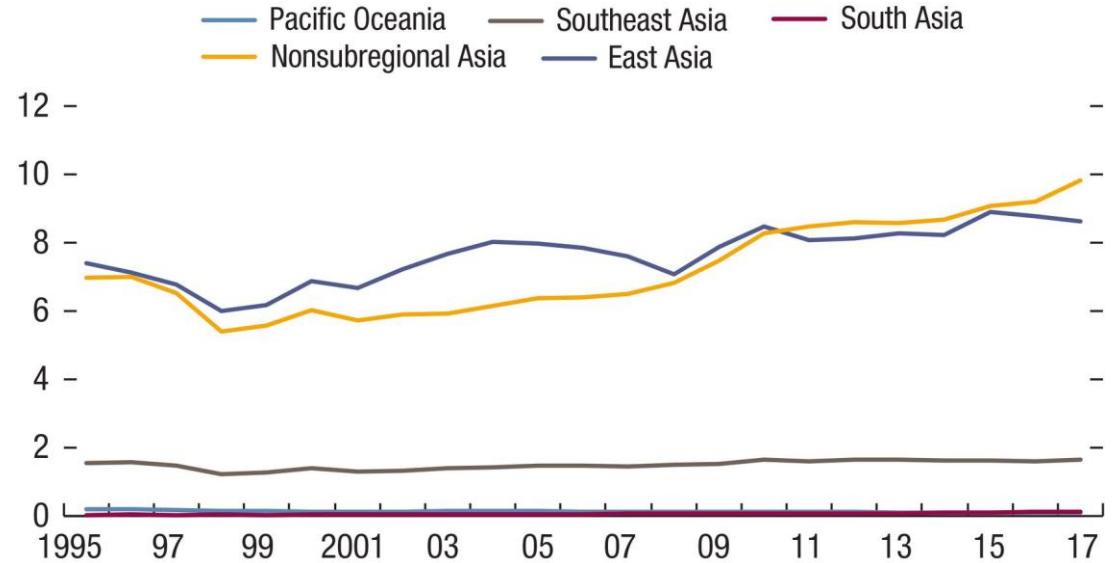
Trade remains low

Trade Openness in Asia (index)



Sources: IMF, World Economic Outlook database; IMF, Direction of Trade database; and IMF staff calculations.

Asia's Subregional and Interregional Trade (Percent of global trade)



Sources: IMF, World Economic Outlook database; IMF, Direction of Trade database; and IMF staff calculations.

Raising productivity to speed up growth convergence

Drivers

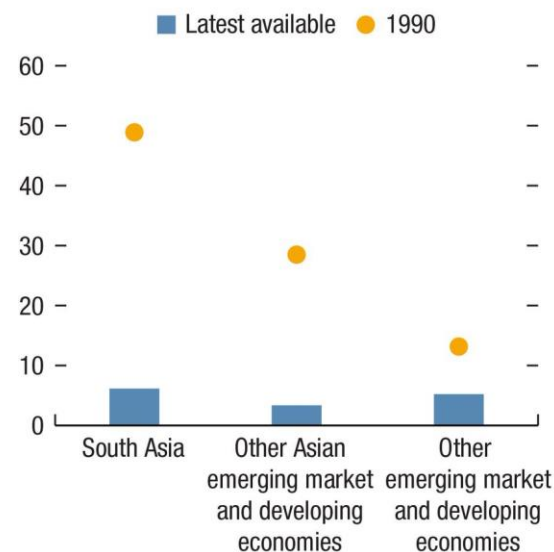
- Growth
 - Lower tariffs
 - FDI inflows
 - GVC participation

- Sectoral productivity
 - Trade liberalization (reducing tariffs)
 - GVC participation

Challenges

1. Applied Import Tariff Rates

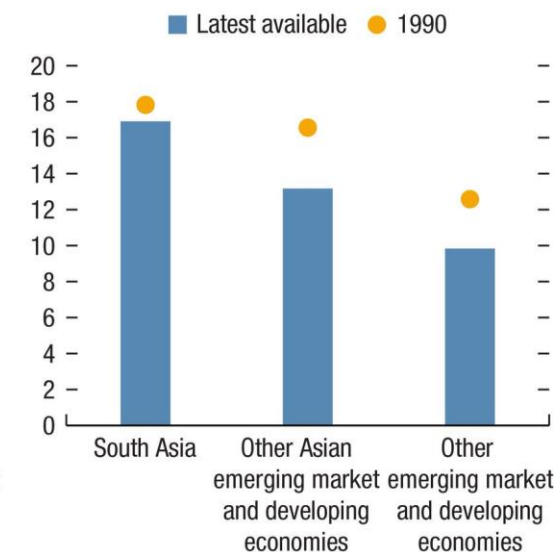
(Weighted average, percent)



Source: Furceri and others 2019.

2. Nontariff Barriers Index

(Weighted average, percent)

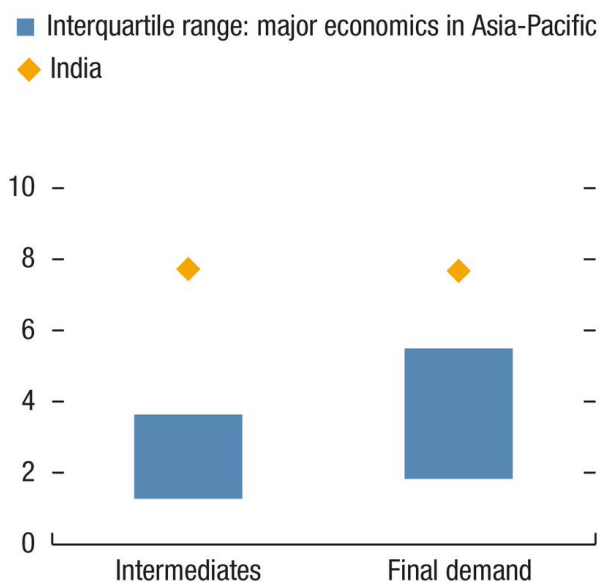


Source: Estefania-Flores and others 2022.

Gains from Reforms: India

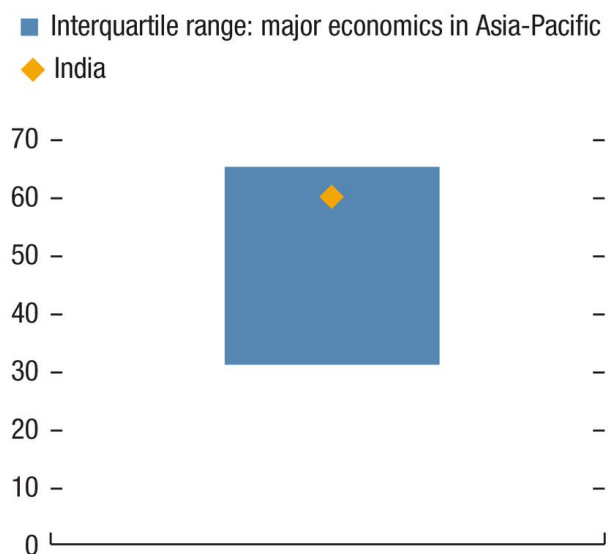
Average Effective Tariff and Tariff-Equivalent Nontariff Barriers

1. Average Effective Tariffs across Type of Goods
(Import-weighted, percentage points)



Sources: World Integrated Trade Solution; UNCTAD-Eora Global Value Chain database; and IMF staff estimates.

2. Average Tariff-Equivalent Nontariff Barriers on Services Imports
(Import-weighted, percentage points)



Sources: Fontagne and others 2016; UNCTAD-Eora Global Value Chain database; and IMF staff estimates.

Two reforms scenarios

- Scenario 1:** Tariffs on imports of intermediate goods lowered to 25th percentile
 - Real GDP increases by around 2 percent
 - Real exports increase by around 37 percent
- Scenario 2:** NTBs on imports of services lowered to 25th percentile
 - Real GDP increases by around 2 percent
 - Real exports increase by around 36 percent

Policy Implications

- Trade and higher GVC integration can boost productivity growth and be fostered through continued tariff, NTB and FDI liberalization.
- Regional integration and connectivity (BIMSTEC, SAARC or SASEC) and liberalization can help South Asia benefit as did China's rise to neighbors through regional supply chains.
- Manufacturing exports and GVCs could provide payoff in terms employment generation and be supported by “service revolution”.
- Structural reforms would facilitate the adjustment of labor reallocations, access to finance and firm entry/exit and scale.

Topics for discussion

- Understanding the impact of COVID-19 and Russia's war in Ukraine on trade
 - Key emerging challenges and opportunities for South Asia
- Learning from the experience of Korea
 - Priorities and sequencing of reforms to boost exports, diversification, and GVC participation
- Fostering trade integration
 - Key challenges of regional trade agreements

Thank you!