Regional Integration

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- Politics
- Regional cooperation
- Factor mobility
- Trade and production
  - Relocation
    - Costs and comparative advantage
    - Market access and geography
  - Productivity
    - Scale, competition, selection
    - Clusters and agglomeration
Relocation: Costs and comparative advantage

- Marginal cost differences & trade creation
  - Intra-regional trade volumes low
  - Gains increasing and convex in initial barriers
  - India / Pakistan
  - Myanmar

- Trade diversion
  - Global comparative advantage vs regional comparative advantage
  - Losses for ‘extreme’ country: e.g.
    - India imports garments from B-desh: regional & world cheapest source
    - B-desh imports machinery from India: regional but not world cheapest source
  - Costs not likely to be large – but importance of low external tariffs
Relocation: Market access and geography

- Trade liberalization causes activity to move towards areas of high market access
  - Within the region: centralising force
    - EU concerns about centre / periphery
    - Unlikely to be important in region the size of S. Asia?
    - Gains for a regional hub?
  - Within each country: decentralising force
    - Primate city becomes relatively less important
    - Border effects
    - Conditional on geography
Productivity (& relocation)
Scale, competition and selection

Productivity of firms increased by integration as:

- Scale / competition trade-off shifted:
  - Trade → more firms supplying each market, fewer producing in each country → more competition, larger scale, lower average cost
- Selection: higher cost firms will be those that exit

- Importance for S. Asia?
  - Markets large already?
  - Intra-industry trade small (<10% total)– scope for increase?
  - Will require sector-by-sector study
Productivity (& relocation)  
Clusters and agglomeration

- Trade facilitates clustering of sectors (or tasks): productivity gains from agglomeration effects
- ‘Factory Asia’: high levels of intermediate goods trade as plants/clusters locate in different countries
- Regionalism no longer ‘exchange of market access’ but ‘trade-investment-services nexus’:
  - Countries exchange:
    - commitment to business environment & services to support production network (infrastructure, telecoms, logistics, customs)
    - for FDI in plants, training, technology
  - Deep integration: ‘behind the border’ commitments.
  - Integration in S. Asia and towards E. Asia?
Concluding

- Relatively low levels of regional trade → some gains from ‘traditional’ regional integration.
  - Bringing in relatively closed areas

- Transformative effects require ‘deep integration’
  - Infrastructure
  - Openness to FDI
  - Business environment
  - ….. requires political commitment