

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
 - Implementation? Deep-integration.

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