

South Asian Economic Integration

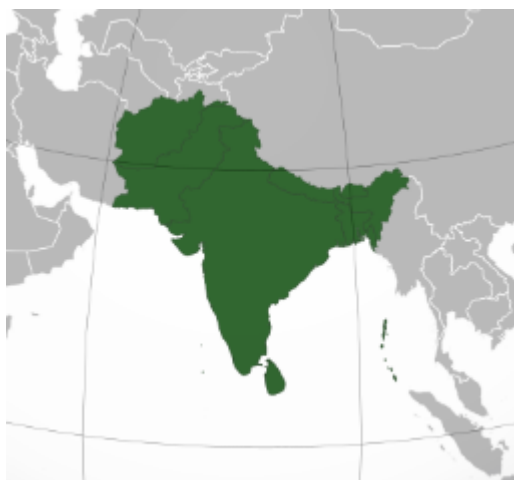
Mains Syllabus : GS II – Bilateral, regional and global groupings and agreements involving India and/or affecting India's interests.

Why in the News?

Reciprocal tariffs imposed by the Trump administration and the terror attack in Pahalgam, highlights the urgent need for a comprehensive regional approach to security and economic stability.

What is the status of economic integration in the region?

South Asia include Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan, and Sri Lanka, with Afghanistan.



- **Least Integrated** - The South Asian region is one of the least economically integrated regions in the world.
- **Intraregional Trade** - Trade in South Asian Free Trade Area (SAFTA) accounts for barely 5% to 7% of its total international trade, which is the lowest when compared to other trading blocs.
- In contrast, intraregional trade accounts for approximately 45% of total international trade within the European Union (EU), 22% within the Association of Southeast Asian Nations (ASEAN), and around 25% within the North American Free Trade Agreement (NAFTA).
- **SAARC Trade** - Current trade among South Asian Association for Regional Cooperation (SAARC) countries is just around \$23 billion, far below the estimated \$67 billion.

- **Market Value** - South Asia, the most populous region of the world (25% of the world's population), represents a combined market of only \$5 trillion in GDP.
- On the other side, the EU, with 5.8% of the world's population, accounts for \$18 trillion in GDP, and NAFTA has a GDP of \$24.8 trillion.
- **Untapped Potential** - According to a United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) study, South Asia's potential trade could have reached \$172 billion by 2020, which means over 86% of its capacity remains unexploited.
- Bangladesh has the highest unexploited proportion, at 93%, followed by the Maldives (88%), Pakistan (86%), Afghanistan (83%), and Nepal (76%).

What are the challenges in South Asian Economic Integration?

- **Border Disputes** - South Asia experiences various border disputes, stemming from historical conflicts, unresolved colonial-era boundaries, and ongoing territorial claims.
- These disputes significantly hamper trade and economic cooperation, preventing the region from achieving its full potential.
- **Regional Conflicts** - Most SAARC countries are in conflict with each other, preventing effective regional integration.
- Political diversity, regional disputes, minority issues and terrorism are major obstacles to regional cooperation.
- Because of terror insurgencies and border disputes, trade between India and Pakistan has seen a significant decline over the years from \$2.41 billion in 2018 to \$1.2 billion in 2024.
- **Trust Deficits** - There is large scale trust deficit among countries of south Asia particularly India, Pakistan, Afghanistan and Sri Lanka.
- **China Factor** - China intervention in the region, especially trade, development, defence partnerships with Pakistan, Bangladesh and Sri Lanka affects the role in India in the region.
- **High Trade Cost** - The inefficient trade governing mechanism and an unpromising political environment increase the cost of intraregional trade, which is one of the major reasons for significantly smaller intra-regional trade.
- Costs of trading within South Asia remain high at 114% of the value of the goods being exported, making trading with neighbouring nations more expensive or less competitive, compared to trading with distant partners.

It is about 20% more costly for a company in India to trade with Pakistan than with Brazil, which is 22 times farther away.

- **Inadequate or Lack Of Value Chains** - The high cost of trade discourages the formation of regional value chains despite the geographic contiguity.
- **Lack of Strategic Policies** - The low level of intraregional trade in South Asia demonstrates the absence of strategic policies.
- **Ineffectiveness of SAARC** - It had the aim of ending distrust and tension, but trust deficits and regional conflicts hinder the full implementation of agreements such as SAFTA.

What lies ahead?

- SAFTA and other regional agreements have the potential to create greater economic linkages.
- Over two-thirds of the potential of intraregional trade in goods, the potential of trade in services, and investments in South Asia remain untapped.
- To this end, greater regional cooperation could facilitate the development of complementary and mutually beneficial export sectors by focusing on lowering trade barriers.
- To exploit the full potential of the South Asian region, members must work actively to enhance intra-regional trade, keeping aside their bilateral conflicts.

References

[The Hindu | South Asian economic integration](#)

