# 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

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