

# The sorry state of South Asian Economic integration

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## 1) PYQs linkage:

- ❖ What are the impediments in the development of South Asian Free Trade Area (SAFTA)? [10 \(2017\)](#)
- ❖ Outline the reasons of low volume of trade in the SAARC region. [10 \(2020\)](#)
- ❖ Why South Asia is considered as the world's politically and economically least integrated region? Explain. [20 \(2021\)](#)
- ❖ Discuss the ways and means to realise greater economic co-operation among the Member states to South Asia. [10 \(2022\)](#)

## 2) Theory application: [\(theories of regionalism\)](#) functionalism, Neo Functionalism and Neo liberalism,

## 3) Concepts and keywords:

Economic and national security landscapes, reciprocal tariffs, comprehensive regional approach to security and economic stability, intraregional trade, inefficient trade governing mechanism, cost of trading, intraregional trade costs, political diversity

## 4) Important facts:

- ❖ South Asia, one of the least economically integrated regions in the world: Intraregional trade of South Asia (SAFTA) accounts for 5% to 7% of its total international trade.
- ❖ Current trade among SAARC countries is around \$23 billion.
- ❖ A study by UNESCAP, South Asia's potential trade could have reached \$172 billion by 2020
- ❖ South Asia most populous region of the world and represents a combined market of only \$5 trillion in GDP.
- ❖ South Asia trade to GDP ratio decreased from 47% in 2022 to around 43% in 2024.
- ❖ The trade deficit of the region has widened from \$204 billion (2015) to \$339 billion (2022).



**5) Important quotes or statements:** “Lesser trade opportunity means lesser capacity for innovation, production and investment in the people of the country”.

**6) Brief analysis and key points from the news or editorial :**

- ✓ **Benefits of economic integration in south Asian region:**
  - i. Underexploited capacity of the south Asian region
  - ii. The trade deficit of the region has widened, it can be lowered with greater economic integration of the region.
- ✓ **Potential of economic integration:**
  - a) Over 86% of South Asian intraregional trade capacity remains unexploited.
  - b) South Asia most populous region of the world
  - c) Intraregional trade in South Asia is less than a third of its potential. (estimated by UNESCAP South Asia Gravity Model of intraregional trade)
  - d) High intraregional trade costs create high incentives for interdependence in SAARC region.
  - e) The potential of trade in services and investments in the region remains untapped.
- ✓ **Why low integration in south Asian region? (challenges):**
  - a. Inefficient trade governing mechanism
  - b. Uncompromising political environment
  - c. Increasing cost of intraregional trade: 114% of the value of the goods being exported. (it makes trading with neighbouring countries more expensive or less competitive, as compared to trading with distant partners)
  - d. Absence of strategic policies
  - e. Trust deficits and regional conflicts hinder the full implementation of SAFTA like agreements.
  - f. Political diversity,
  - g. Regional disputes
  - h. Minority issues
  - i. Terrorism
  - j. Most SAARC countries are in conflict with each other



✓ **Comparative analysis vis-à-vis EU and ASEAN:**

	South Asia	ASEAN	EU
1) Intraregional trade of international trade	5% to 7%	22%	45%
2) Intraregional trade costs	76%	40%	

✓ **Suggestions or way forward:**

1. SAFTA and other regional agreements have the potential to create greater economic linkage.
2. SAARC members must work actively to enhance intra-regional trade, keeping aside their bilateral conflicts.

- ✓ **Conclusion:** greater regional cooperation could facilitate the development of complementary and mutually beneficial export sectors by focusing on lowering trade barriers.

**7) Practice question (framed on the basis of PYQs dimensions):**

**The growing number of regional conflicts in the South Asian region makes a strong case for regional economic cooperation. Comment. 15 Marks. (Probable question in Mains 2025 or 2026)**

