



DAILY EDITORIAL ANALYSIS

TOPIC

**STATE OF SOUTH ASIAN
ECONOMIC INTEGRATION**

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STATE OF SOUTH ASIAN ECONOMIC INTEGRATION

Context

- South Asia, despite being home to **over a fifth of the world's population** having cultural and historical linkages, remains **one of the least economically integrated** regions in the world.

State of the South Asian Economy

- South Asia, comprising countries like **India, Pakistan, Bangladesh, Sri Lanka, Nepal, Bhutan, and the Maldives**, is home to **over 1.8 billion people** and represents a **combined GDP of around \$5 trillion**.
 - ♦ **EU**: \$18 trillion with only about 5.8% of the global population.
 - ♦ **NAFTA**: \$24.8 trillion
- **Growth Amidst Divergence**: Indian economy has rebounded strongly, driven by robust **domestic demand, infrastructure investment, and digital innovation** (Economic Survey 2024–25).
 - ♦ **Bangladesh** has maintained steady growth, particularly in its **garment exports and remittance inflows**.
 - ♦ **Other nations** — such as **Sri Lanka and Pakistan** — have faced **economic crises, high inflation, and debt distress**, highlighting the region's economic divergence.
- **Low Regional Trade**: Intra-regional trade under the **South Asian Free Trade Area (SAFTA)** accounts for **just 5% to 7% of total trade** — among the lowest globally.
 - ♦ It is far below the **EU (45%), ASEAN (22%) and NAFTA (25%)**.
 - ♦ High tariffs, poor connectivity, and bureaucratic red tape discourage cross-border commerce.
- **Trade Gaps**: Even countries like **Bangladesh (93% unutilized potential), Pakistan (86%), and Afghanistan (83%)** have enormous room for economic collaboration.
 - ♦ Meanwhile, the **region's trade-to-GDP ratio** fell from **47.3% in 2022** to **42.94% in 2024**, indicating **declining interdependence**.
- **High Cost of Being Neighbours**: Paradoxically, **it is more expensive to trade within South Asia than with distant partners**:
 - ♦ **Intra-SAARC trade cost**: 114% of goods' value
 - ♦ **Trade cost with the U.S.**: 109%
 - ♦ **India-Pakistan trade cost is 20% higher than India-Brazil, despite Brazil being 22x farther**
 - ♦ **ASEAN's intra-trade cost**: 76% — about 40% cheaper than SAARC
- **Missed Opportunities**: South Asia's current intra-regional trade among SAARC countries stands at around **\$23 billion**, far below the potential **\$67 billion**, and drastically lower than the estimated **\$172 billion potential** identified by **UNESCAP** for 2020.

Other Key Challenges

- **Geopolitical Tensions & Distrust**: Long-standing rivalries — especially between India and Pakistan — have severely undermined regional cooperation initiatives like SAARC and SAFTA.
 - ♦ Political disagreements often spill over into economic decision-making.
- **Protectionist Trade Policies**: High tariffs, restrictive quotas, and non-tariff barriers discourage trade between neighboring countries.
 - ♦ Many South Asian economies have prioritized self-reliance over interdependence.
- **Poor Connectivity & Infrastructure**: Inadequate transport links, cumbersome customs procedures, and underdeveloped logistics networks limit the flow of goods, services, and people across borders.
- **Asymmetry Among Member States**: India's economic dominance within the region has created power imbalances, leading to concerns among smaller countries about unequal benefits and influence.
- **Weak Institutional Frameworks**: Regional cooperation mechanisms often lack teeth, enforcement capability, or political will to deliver on integration promises.

- ♦ SAARC, for instance, has been largely dormant.
- **China's Growing Influence:** The growing involvement of external powers, particularly China, has led some South Asian countries to prioritize bilateral engagements over intra-regional collaboration.
- **Climate vulnerability:** The region is highly susceptible to climate shocks, from floods to heatwaves, which threaten agriculture and livelihoods.

Initiatives By India Supporting South Asian Economy

- **Development Partnerships and Lines of Credit:** For infrastructure, energy, and capacity-building projects, that include road and rail links with Nepal and Bangladesh, power-sharing agreements, and port development in Sri Lanka and the Maldives.
- **Infrastructure and Connectivity Projects:** Projects like the India-Bangladesh Maitree Power Plant, the India-Nepal cross-border petroleum pipeline, and the Kaladan Multi-Modal Transit Transport Project (linking India to Myanmar and beyond) are designed to boost regional trade and integration.
- **SAARC Development Fund (SDF):** It finances regional projects in areas like energy, transportation, and social development.
- **BIMSTEC and BBIN Initiatives:** These sub-regional groups aim to promote trade, connectivity, and energy cooperation.
- **Startup India and Digital Outreach:** India's Startup India initiative has **inspired cross-border collaboration**, with Indian incubators and digital platforms offering mentorship and market access to entrepreneurs from neighboring countries.

Way Forward: Strategic Regionalism

- South Asia's development hinges on genuine regional cooperation. To tap into its potential:
 - ♦ **Reform SAFTA** and focus on actionable enforcement;
 - ♦ **Address border and trust issues** through sustained diplomacy;
 - ♦ **Create regional value chains** to boost employment and innovation;
 - ♦ **Develop trade infrastructure** that supports integration over division;
 - ♦ **Separate economic cooperation from political conflict**, as seen in the EU model.

Source: TH

Mains Practice Question

[Q] To what extent do political rivalries and historical tensions contribute to the failure of economic integration in South Asia, and how might regional actors overcome these challenges to unlock shared prosperity?

