

## **Regional Integration of South Asia through Trade Facilitation: Challenges and Opportunities**

**Khan Ferdousour Rahman\***

**Sabina Yeasmin\*\***

### **Abstract**

*South Asia has long been significant in global affairs and the world community cannot be safe or happy unless it involves all the people of South Asia in the critical decisions regarding peace, security and development. This article deals with an important area of research in understanding the processes and structures of regionalism in South Asia and aims to demonstrate the gains to trade in the region from reform and capacity building in trade facilitation at the regional level. It is found that the progress in regional cooperation has been far short of potential though there are considerable greater scopes of South Asian countries to increase the share of intra-regional trade and investment flows as has been witnessed in East and South-East Asia. The article shows the relatively poor state of trade facilitation in South Asia and the high transaction cost associated with cross-border exchange in the region. This also highlights the lack of adequate initiatives, both unilaterally on the part of individual South Asian countries, as well as broader regional trade initiatives. However, there exists a general perception that SAFTA will facilitate economic gains for all member countries of SAARC through trade. But unfortunately this has hardly made any substantive progress since its founding. It remains practically stagnant as the member countries are yet to take the necessary initiatives to give a spur to it. The article plans to analyze the scope of trade in South Asia critically and to identify the bottlenecks for non-implementation and recommend measures to overcome it. Finally, it is found that the South Asian region's expansion of trade can be substantially advanced with programs of concrete action to address barriers to trade facilitation to advance regional goals.*

**Keywords:** South Asia, Stagnant, Trade, Economic Gains, Progress etc.

### **Introduction**

### **Background**

Though regionalism has been a significant phenomenon in post-Second World War international relations, but received a renewed impetus after the end of the Cold War and with the push of globalization (Sahasrabuddhe, 2012). South Asia, most part of which was a single state before 1947, emerged as multiple states thereafter and then moved apart politically, culturally and economically. South Asia - as a melting pot of races, cultures and traditions - has been a cradle of

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\*Assistant Professor, State University of Bangladesh

\*\*Associate Professor, Bangladesh Open University

major civilization and religions of the world starting from the Indus Valley Civilization at around 2500 BC and the arrival of Aryans from 2000 BC. The mixing of various races from all over the world – Europe, Africa and Asia (whole of central, eastern and western Asia) – has endowed South Asia with unique diversities and distinctiveness with regard to physical features, religions, traditions and spirituality. Over 500 million people, most of them very poor, live in the Indus and the Ganges–Brahmaputra river basins. These great basins are shared by six nations and are characterized by almost no cooperation and, instead, marked political sensitivity and tension. Several attempts to promote cooperation have failed, whereas the cost of weak regional cooperation tends to hurt the poor more than the other segment of the population. But through the creation of South Asian Association of Regional Cooperation (SAARC), the regional identity of South Asia was accorded prominence both inside and outside the region. However, South Asia developed as a regional complex even before the colonial period.

In the world of today peace, development and cooperation have become the trend of the times, and the discourse of economic liberalization has got momentum (Panagariya, 1999). Some recent initiatives even show the promise of taking economic integration beyond continental boundaries, e.g. the IBSA (India, Brazil and South Asia) initiative (De et al, 2008). South Asia has long been significant in global affairs and the world community cannot be safe or happy unless it involves all the people of South Asia in the critical decisions regarding peace, security and development. In the past 65 years, the life span of most countries of South Asia has remained in a state of tension. The eight SAARC countries that make up this geopolitically sensitive region, where a one third of the humanity lives, do not enjoy the kind of friendly and harmonious relationship with each other, as one would have expected. This despite efforts of the then leadership of South Asian countries tried to bring the people and the countries together on a single platform of SAARC, the largest regional organization in the world by population, on the pattern of the European Union to help develop the region into a major economic and political block.

**Figure 1**



Source: Collected

Regional cooperation and integration, like globalization, can facilitate the way for expanding markets and creating trade opportunities (ADB and AusAID 2009). Regional integration in the

form of economic cooperation and political harmony are mutually reinforcing. As the driver of economic integration everywhere is investments that are the only way by which the weak neighbors can hope to manage trade deficits with large size country. In the age of liberalization and deregulation, trade promotion remains one fertile field for the growth of regionalism. Liberalization of trade would encourage foreign direct investment (FDI) flows, integration of national economy more effectively, and reduce income and other disparities within and among countries (Arnold, 2007).

## **Statement of Problem**

Currently, over half of world trade takes place between members of regional trade agreements, and South Asia is no exception. However, here, as in other parts of the world, regional integration is uneven. Combining the low level of economic development with political and social disparities makes this region economically and politically very sensitive. The fundamental premise of regionalism among SAARC countries is rooted in the recognition that the various challenges that the region faces cannot be resolved through action in national domains alone. To resolve them it was imperative to develop a regional vision of cooperation in different areas such as trade, which is not only instrumental to bring people close together but also made people prosperous. Trade in South Asia faces innumerable barriers, some of which are purely economic in nature. Intra-regional trade in the South Asian region (broadly from Kabul to Chittagong) was as high as 19 percent in 1948, soon after the countries achieved independence from British rule. But this declined to a mere 2 percent by 1967. Intra-regional trade has perked up a bit in recent years but still remains below 6 percent of South Asia's total trade with the world. This is far below levels of intra-regional trade in other regions such as East Asia and the Pacific (about 52 percent), Latin America and Caribbean (about 17 percent) and even Sub-Saharan Africa at nearly 11 percent (World Bank, 2007).

Trade facilitation in South Asia has become increasingly important as the region has adopted more open trade policies since the late 1980s. The formation of the SAARC in December 1985 was hailed as a major diplomatic breakthrough. But its slow progress and modest achievements over the past decades have evoked different reactions among different people. However, the Fourth SAARC Summit held in Islamabad in December 1988 emphasized the need for concrete and result-oriented activities within SAARC framework to include trade, manufacture and services as new areas of cooperation (Dhungel, 2004).

This started initially with the SAARC Preferential Trading Agreement (SAPTA) in 1993 and followed by formation of the South Asian Free Trade Area (SAFTA) pact in Islamabad, which came into effect on January 1, 2006. Steps to reduce barriers to trade logistics in the region promise expanded trade opportunities with the rest of the world. As such, collective action under regional initiatives is particularly important. The South Asia region has a significant opportunity to accelerate economic growth and reduce poverty through concrete actions to facilitate trade. These include taking steps to realize the promise of collective gains through platforms that advance regional integration. There are significant potential gains to trade for South Asia

associated with collective efforts to raise capacity in trade facilitation. These include specifically investments in upgrading ports, and information and communication technology (ICT) infrastructure in the region. There are also gains directly related with continued reform in customs clearance procedures and regulatory harmonization. SAFTA and BIMSTEC (Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation) are the two trade-related regional agreements currently in place in South Asia. But both SAFTA and BIMSTEC disappoint in terms of their scope, ambition and commitment to trade facilitation. There are also sub-regional and bilateral initiatives aimed at liberalizing trade among SAARC countries and promoting trade and investment facilitation efforts (RIS, 2008). So, there is an urgent need to take policy measures by the governments to promote intra SAARC trade.

## **Objective**

The broad objective of this article is to explore the potential for economic interdependence in the region by analyzing the regional integration of South Asia through trade. However, the specific objectives are as follows:

- To measure the impact of trade facilitation;
- To examine the challenges and opportunities in promoting the economic integration of South Asia; and
- To recommend measures in making regional integration of South Asia successful through trade facilitation.

## **Approaches to the Problem**

### **Literature Review**

Although the definition of ‘trade facilitation’ varies according to the forum in which the term is used, emerging international practice tends to give it a broad reading, including the full set of policies designed to reduce trade transaction costs (Maur, 2011). It, therefore, encompasses a range of at- and behind-the-border policy reforms, of which customs and border procedures, which are the focus of the ongoing World Trade Organization (WTO) negotiations in this area, are just one element. Given the wide range of policies covered by trade facilitation, its importance as a potential source of trade gains, and its increasing inclusion in preferential trade agreements (PTAs), the interplay between regionalism and trade facilitation is likely to be a significant feature of the international economy in years to come.

South Asia continues to face, however, critical constraints to trade and the need for coordinated programs to address common goals. For example, continued impediments are important along a logistics chain in the South Asia sub-region, consisting of Bangladesh, Bhutan, Nepal and eastern India and the seven northeastern Indian states. The empirical results provide mixed results regarding the potential gains of regional trade liberalization for SAARC members. However, most studies arrive at the common conclusion that SAFTA will facilitate economic gains for all member countries through trade. A primary goal of trade cooperation in South Asia has been to encourage India to open up its import regime to imports from its neighbors through significant

trade concessions and to help the smaller countries to enhance as well as diversify their production and export capacity to exploit emerging market opportunities in India (Sobhan, 2005).

The role of trade in driving economic growth and that of trade facilitation in increasing trade has been widely acknowledged. The overall trade structure in South Asia is however, dominated by extra-regional trade with intra-regional trade being very low, hovering around 5 percent. With regional economic integration being identified as a driver of economic prosperity and a mechanism for smaller economies to handle increasing competition in the global market, it is necessary to improve trade within South Asia. A crucial area that has been identified as a factor that can bolster economic integration in the region is trade facilitation (Mel, 2011).

Four indicators are identified that measure four different categories of trade facilitation efforts (Wilson et al, 2003), i.e. port efficiency that is designed to measure the quality of infrastructure of ports and airports; custom environment that is designed to measure direct custom costs as well as administrative transparency of customs and border crossings; regulatory environment that is designed to measure the country's approach to regulations; and e-business usage that is designed to measure the extent to which an economy has the necessary domestic infrastructure such as telecommunications, financial intermediaries, logistics firms etc., and is using networked information to improve efficiency and transform activities to enhance economic activity. Consequently, World Bank considers improvements in all aspects of supply chain performance as trade facilitation (World Bank, 2007).

The importance of trade facilitation to the region has been endorsed by many studies with simulations showing large gains for the region. Intra-regional trade within South Asia would rise by almost 60 per cent and trade with the rest of the world by more than 30 per cent, if projected levels of trade facilitation efficiency were attained (World Bank, 2008).

It is evident that countries with inadequate trade infrastructure are less capable of benefiting from the opportunities of expanding global trade. In most countries, the difficulty is not due to presence of high-tariffs, but due to the persistence of administrative, bureaucratic, and physical bottlenecks along their export and import supply chains (Ikenson, 2008), which are commonly called as Trade Facilitation measures. Trade Facilitation has become a significant part of the current debate on trade liberalization policy. On the other hand, another study indicates that although potential gains from regional trade liberalization are substantial, they are larger for smaller economies (Srinivasan, and Canonero, 1995). Researchers also argue that South Asia stands to gain more by dealing with other regional arrangements as a group rather than individually (Srinivasan, 1994).

Quantifying the gains of trade facilitation is complex and challenging. It is impossible to measure the income gains from trade facilitation in absolute USD-terms while they point out that the degree of potential benefits of trade facilitation vary across countries, sectors and types of traders (Walkenhorst and Yasui, 2003). Therefore, instead of measuring overall welfare impacts of trade facilitation, their study focuses on looking at the distribution of gains among groups of countries and comparing the income effects of trade facilitation in various scenarios determined by different combinations of countries, sectors, and types of traders.

As stated earlier, trade facilitation has been defined in a narrow sense as the transportation logistics and custom administration associated with cross border trade. In the recent past, this definition was broadened to include environment where the trade transactions take place. This

includes the transparency of trade policy and regulation as well as product standards, infrastructure and technology as it applies to lowering trade costs.

World Bank identifies a number of constraints in South Asia in terms of trade facilitation: (i) limited road density, rail lines, and mobile tele-density per capita, (ii) lengthy customs and port clearance times, (iii) poor transport and communications, (iv) the fact that trucks of one country are not allowed across the border to deliver cargo, (v) regulatory constraints introduced at the gateways and border crossings, (vi) costly domestic transport owing to the distance between the production area and the major ports, and (vii) fragmented trucking industries and old and inefficient truck fleets. Consequently, World Bank considers improvements in all aspects of supply chain performance as trade facilitation (World Bank, 2007). For transforming the region and making it socially, economically, and intellectually prosperous it is important to take lessons from multiversity of regionalism in South Asia (Ahmed, 2012).

## **Research Questions**

After literature review, gap has been identified and few questions have come in the mind of the researcher as follows:

- To what extent do factors affecting trade transactions costs matter?
- What are the potential gains to trade in the region with programs to raise capacity in trade facilitation?
- How can the interplay of national, regional, and multilateral trade facilitation initiatives best be managed from a global welfare standpoint?

## **Methodology**

This is basically a qualitative study based on critical analysis of secondary literature. Several triangulation methods were used to enhance the study's validity and reliability, which enabled to examine the accuracy of the collected data, and reduce the possibility of researcher bias in drawing conclusions from these. Data collected for this study have been processed in a scientific manner, then analyzed and summarized according to content and context of the study.

## **Discussion and Findings**

### **Regionalism through Trade Facilitation**

'Regions' can be defined as primarily geographical entities, emerging as more or less integrated units on the basis of shared interests or identities, whereas 'Regionalism' is a political process that leads to enhanced integration in a geographical region. The goal of regionalism is to enhance each member state's development and security. However, the intent to regionalize South Asia has been missing among key members (Dossani et al, 2010).

**Table 1: SAARC Member States' Key Issues for Regionalism**

<b>Collective action challenge Country</b>	<b>Common resources</b>	<b>Market enlargement</b>	<b>Security</b>	<b>India's asymmetric power as a driver of regionalism</b>
Bangladesh	Water, transport, environment	Trade, investment and labor flows	None	High
Bhutan and Nepal	Hydropower, transport, environment	Trade, investment and labor flows	None	High
India	Water	None	Nuclearization (P), migration (BD, BH, N), trafficking (N), Kashmir (P), China (BH, N)	NA
Pakistan	Water	None	Nuclearization, Kashmir	Medium
Sri Lanka	None	Trade and investment	Tamil insurgency	High

Source: Dossani et al, 2010

The definition of trade facilitation varies depending on the extent of measures to be included. In a narrow sense, trade facilitation simply addresses the logistics of moving goods through ports or at customs checkpoints at national borders. A broader framework for understanding trade facilitation and its impact on international commerce includes a number of interrelated factors. These include port reform and modernization and streamlining regulatory requirements and harmonizing standards, as well as customs regimes. Common to all these areas is expanding the use of ICT to lower trade transactions costs. Security is also an important part of trade facilitation in modern commerce. Terrorism and threats to security can disrupt global supply chains across borders and damage economic progress.

Trade plays an important role for economic growth of a region in three primary ways. First, trade encourages flow of resources from low-productive sectors to high-productive sectors, leading to an overall increase in output. Second, with unemployed resources, an increase in export sales leads to an overall expansion in production and a fall in unemployment rate. Third, international trade also allows for the purchase of capital goods from foreign countries and exposes an economy to technological advances of industrialized countries. Trade facilitation encompasses a broad range of initiatives to improve the delivery of exports and thereby improve competitive advantage. It is important to coordinate strategies for trade growth with initiatives to improve logistics.

It is evident that countries with inadequate trade infrastructure are less capable of benefiting from the opportunities of expanding global trade. In most countries, the difficulty is not due to presence of high-tariffs, but due to the persistence of administrative, bureaucratic, and physical bottlenecks along their export and import supply chains (Ikenson, 2008). It is argued that

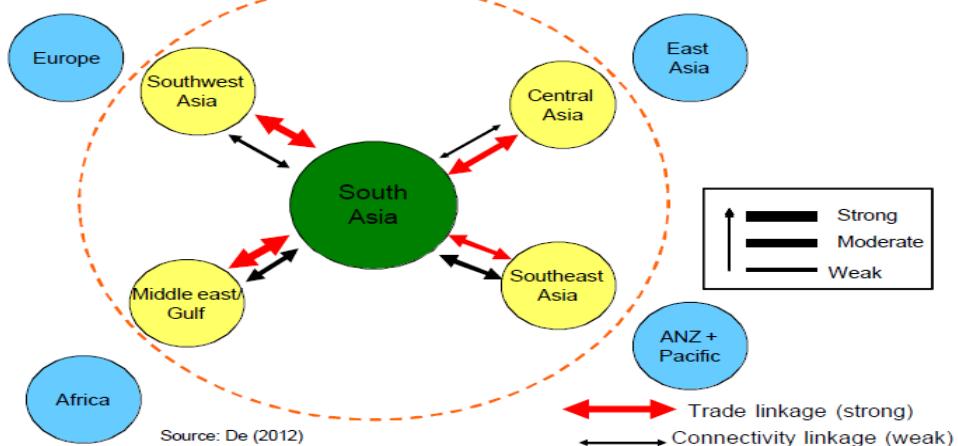
everyone gains from this measure. Governments gain because efficient border procedures make them able to process more goods and improve control of fraud, thus increasing government revenue. Businesses gain because if they can deliver goods more quickly to their customers they are more competitive. Finally, consumers gain because they are not paying the costs of lengthy border delays. If a trade process gets delayed and cost rises, it is ultimately the consumers who bear the loss. However, it is not appropriate to aim for balanced trade with each trading partner. The beauty of international trade is that it enables every country to specialize in what it does best, export these specialties, and use the money to import what other do best. All countries end up specializing in what they do best, improving global productivity and reducing prices for everybody, a win-win situation (Sawhney and Kumar, 2008).

### Trade Performance of South Asia

South Asia is the least integrated when measured as a share of gross domestic product (GDP) despite its attempts to liberalize trade using various unilateral, bilateral, regional and multilateral arrangements. When the value of total trade was nearly 24 million in the world, then it was only 0.4 million in South Asia in 2006.

Figure 2

### **Trade and connectivity flow – South Asia with neighbouring regions – *rising trade not supported by adequate connectivity***



Intra-regional trade in South Asia is only 0.8 percent of GDP. The region accounts for just 2 percent of world trade and 1.7 percent of world foreign direct investment (FDI), while its intraregional trade makes up less than 6 percent of its total trade, making it one of the least integrated regions in the world.

**Table 2: Average Share of Trade in GDP (%)**

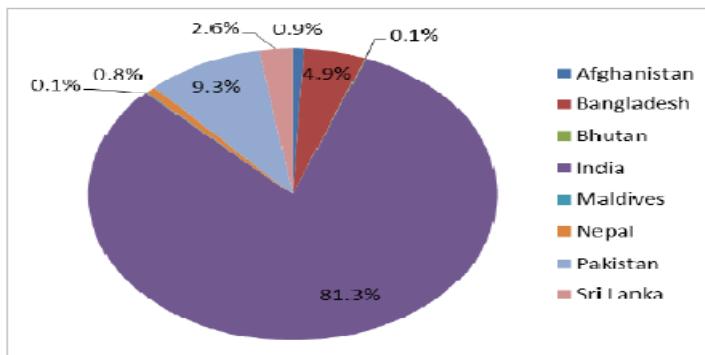
<b>Country</b>	<b>1970</b>	<b>1980</b>	<b>1990</b>	<b>2000</b>	<b>2010</b>	<b>2011</b>
Afghanistan	21.7				69.0	0.0
Bangladesh	20.8	23.4	19.7	33.2	43.4	53.9
Bhutan			61.3	81.8		
India	7.5	15.1	15.2	26.5	49.7	54.5
Maldives		358.7	168.1	161.1	107.6	
Nepal	13.2	30.3	32.2	55.7	46.0	41.7
Pakistan	22.4	36.6	38.9	28.1	32.3	27.8
Sri Lanka	54.1	87.0	68.2	88.6	52.5	60.3
South Asia	11.7	20.6	20.0	29.4	47.5	51.3

Source: World Bank, 2012a

It takes 32 days on average to complete trade-related procedures in South Asia, which is among the highest in the world. Nearly 70 percent of the time is spent on the assembly and processing of large number of documents indicating high inefficiency at an institutional level (World Bank, 2012a). Improving trade facilitation systems to international standards could potentially see intraregional trade within South Asia rise by 60 percent and trades with the rest of the world grow by over 30 percent (World Bank, 2004).

South Asia has demonstrated high economic growth and poverty reduction. At the current growth rates in per capita income, the average per capita income is doubling every 12 to 18 years and this is reducing poverty across the region. Amongst the focus countries, India accounts for 85 percent of the population, 90 percent of the GDP and 93 percent of the FDI. But the northeastern India is geographically contiguous to Bangladesh, Bhutan and Nepal. There is a strong economic case for greater trade and investment. The region has made rapid strides to better integrate with rest of the world and these five focus countries conducted global trade of \$500 billion during 2009. However, only 2.8 percent of this trade was amongst these countries, which is a small fraction of its potential in an economically vibrant region. The World Bank estimates \$50 billion additional annual trade opportunity with South Asia integration.

According to the World Bank's recent poverty estimates, about 571 million people (nearly one-third of the total) in the region survive on less than \$1.25 a day (World Bank, 2012b). South Asia's participation in international trade has been significantly limited; in 2010, its total trade with the world was \$951 billion (ADB, 2012), and its share of total world exports accounted for a mere 2.3 percent (World Bank, 2012c). Much of the region's potential is yet to be tapped. When considering intraregional trade, if the countries of South Asia raise their capacity halfway to East Asia's average, their trade would rise by an estimated \$2.6 billion. This is approximately 60 percent of the total intraregional trade in South Asia. As of 2011, the region accounts for about 24% of global population but only 3.25% of total world GDP (World Bank 2012). In terms of economic size, the eight members vary significantly. India holds more than 80% of total South Asian GDP, whereas smaller economies such as Afghanistan, Bhutan, the Maldives, and Nepal account for less than 1% each (Figure 3).

**Figure 3: Share of Individual Countries' GDP in South Asia's Total GDP 2011**

Source: World Bank, 2012

**Table 3: Intra-regional Total Trade, 2004 (In US \$ thousands)**

	<b>Bangladesh</b>	<b>Bhutan</b>	<b>India</b>	<b>Nepal</b>	<b>Maldives</b>	<b>Pakistan</b>	<b>Sri Lanka</b>
Bangladesh		229.394 (143.784)	105,206.068 (127,8712.080)	66.590 (129.410)	17.20 (402.80)	44663.08 (142378.96)	10212.71 (9567.14)
Bhutan	4,866.870 (6,92,744)		109,509.078 (136,943.023)	596,070 (557,922)	NA NA	NA NA	2,941 (2,364)
India	1,593,313.764 (58,754.536)	83,880.161 (70,402.860)		736,905.688 (342,882.634)	42,177.575 (573.767)	505,070.219 (91,952.757)	1,344,050.070 (361,306.620)
Nepal	6,106,596 (4,854,636)	1,366,282 (568,456)	341,798.323 (954,908.121)		NA NA	994,246 (3,301,730)	1,189,394 (1,990,622)
Maldives	NA (6,193)	NA	457,965 (65,833.279)	NA NA		NA (2200,953)	15,120,671 (68,464,407)
Pakistan	197,650,475 (45,077,822)	351,615 (379,499)	158,335,039 (454,408,247)	3,036,645 (3,710,456)	1,036,187 (61,079)		134,693,623 (45,657,907)
Sri Lanka	13,378,370 (7,704,451)	11,803 (0.050)	385,800,500 (1,360,084,49)	275,269 (78,113)	60,084,021 (19,838,733)	39,250,282 (108,059,31)	

Notes: 1. Figures are for year 1999; 2. Figures are for year 2003. Numbers in brackets are net imports while those outside brackets are net exports.

Source: Comtrade Database, United Nations Commodity Trade Statistics Database.

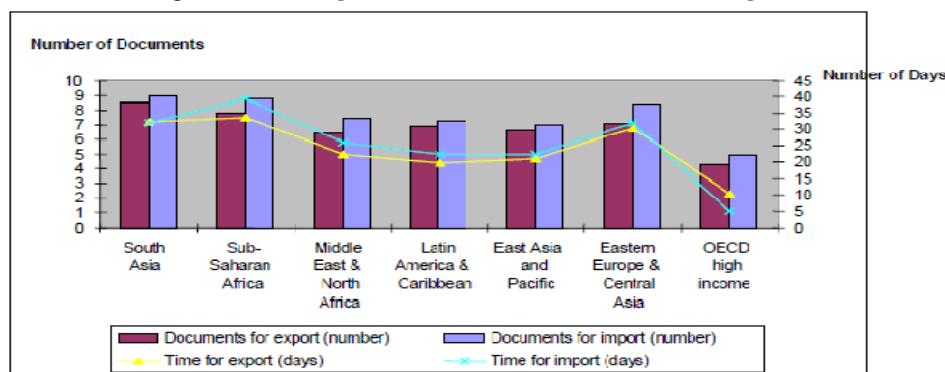
The progress till date in regional integration has been limited as compared to other sub regions in Asia and elsewhere. The Intra-SAARC trade has not increased much. Despite its improvement in performance over time, South Asia performs weakly when compared to other regions on ‘trading across border’ measures of the World Bank’s ‘Doing Business’ report. It assesses the costs; procedures and time taken to trade.

**Table 4: Share of Intraregional Trade in South Asia**

Country	1990	1995	2000	2005	2010	2011
Export Share (%)						
Afghanistan	14.2	13.1	42.4	42.8	54.4	62.4
Bangladesh	3.7	2.7	1.7	2.2	2.9	3.3
India	3.1	5.1	4.3	5.3	4.9	4.4
Maldives	14.0	22.6	18.1	17.4	34.3	19.0
Nepal	7.7	9.2	42.9	67.4	65.5	61.0
Pakistan	4.0	3.4	4.6	11.2	12.4	12.5
Sri Lanka	3.8	2.7	3.5	10.3	7.4	8.2
Import Share (%)						
Afghanistan	14.5	10.2	27.3	44.7	28.4	26.1
Bangladesh	6.8	17.7	11.7	15.2	15.7	15.6
India	0.5	0.6	0.9	0.9	0.5	0.5
Maldives	12.2	13.2	23.0	17.4	15.2	14.4
Nepal	13.4	17.2	37.4	59.7	57.4	57.4
Pakistan	1.7	1.6	2.7	3.0	6.3	4.3
Sri Lanka	7.0	12.2	10.6	22.4	25.7	27.4
Trade Share						
Afghanistan	14.5	11.1	30.1	44.6	29.8	27.6
Bangladesh	5.8	12.8	7.9	10.3	11.3	11.3
India	1.6	2.7	2.4	2.7	2.2	2.0
Maldives	12.7	14.3	22.2	17.4	17.1	14.9
Nepal	11.9	14.8	39.1	61.9	58.8	57.9
Pakistan	2.7	2.3	3.5	6.2	8.4	7.0
Sri Lanka	5.6	7.8	7.4	17.3	19.3	21.1

Source: ADB 2012

South Asia has been considered as the least integrated region in the world despite its attempts to liberalize trade using various unilateral, bilateral, regional and multilateral arrangements. More recent studies indicate that smaller trade gains in South Asia is mainly due to the fact that inadequate attention was paid to trade facilitation measures such as efficiency of customs and other border procedures, quality of transport, and cost of international and domestic transport.

**Figure 4: Trading Across Borders: Values Across Regions**

Source: World Bank, Doing Business Report 2010

The South Asian countries are more involved in trading with countries outside the region than countries within the region that incurs higher transportation cost with low profit margin. The principal export destination of all South Asian countries remains North America and the European Union (EU). The details are presented in Table 5 as follows:

**Table 5: Top 5 Exporters and Importers of SAARC members**

Country	Top 5 Importers*	Top 5 Exporters*
<i>* Countries were selected on the basis of the value of exports/imports as percentage of South Asian countries trade with world</i>		
Afghanistan	Pakistan, Iran, USA, Germany, India	Pakistan, USA, India, Denmark, Finland
Bangladesh	China, India, Japan, Singapore, Korea	USA, Germany, UK, France, Italy
Bhutan	India, Japan, Germany, Thailand, USA	India, Hong Kong, Thailand, USA, Israel
India	China, Saudi Arabia, USA, Switzerland, UAE	USA, UAE, China, Singapore, UK
Nepal	India, China, Singapore, Malaysia	India, USA, China, Germany, UK
Maldives	Singapore, UAE, India, Malaysia, Sri Lanka	Thailand, Japan, Sri Lanka, UK, Taiwan
Pakistan	UAE, Saudi Arabia, China, USA, Kuwait	USA, UAE, Afghanistan, UK, Germany
Sri Lanka	India, Singapore, Hong Kong, China, Iran	USA, UK, India, Germany, Belgium

*Source: Trademap, 2008*

South Asia has high unrealized trade; as such some major challenges (micro level) to trade in South Asia include cumbersome procedures, archaic laws and non-transparency in domestic regulations, large trade and investment barriers (e.g. visa restrictions, domestic regulations etc.), lack in simplification and harmonization of trade procedures, more particularly at the border, inadequate infrastructure – national and regional (inadequate and poor stock and missing link in infrastructure), complex supply chain (high time and cost to export and import), unfavorable payment system, mistrust and high bank and insurance premium, no regional transit as yet, absence of regional corridor and modern corridor management techniques, no master plan for SAARC connectivity as yet, high trade costs (transport costs outweigh tariffs), lack of financing and no resource mobilization plan for implementing regional connectivity projects; and no regional institution for trade facilitation.

But South Asia's true potential can be unlocked through faster and deeper economic integration so that the region can play its due part in the resurgence of Asia in the new era. SAARC has true potential, but it is yet to reap the benefits of free movement of services, capital and labor, which other regions have managed. Therefore, it is the time that South Asian region takes adequate cognizance of the economies of the neighborhood just as different regions across the world have adopted the strategy of regional economic integration to exploit the synergies for mutual benefit in a balanced and equitable manner. Moreover, in order to make SAARC successful, substantial progress towards its economic integration is very important. There are a number of barriers to promoting intraregional trade and expanding exports as a whole. Tariff rates are one of the highest among developing countries. Again, it is not new in South Asia to pay speed money or informal payments at check points along the routes and to cargo handlers at ports.

### **Political Economy of Regional Integration in South Asia**

Although it has been almost three decades since the creation of the SAARC, regional integration in South Asia is still a long distance for South Asian countries. The change in the world economic order and recent developments in South Asia make it pertinent to re-look at the case of integration in South Asia. Despite common heritage, history, linguistic, cultural and social practices shared by eight nations, South Asia has emerged as the least integrated region in the world. South Asia is distinctly characterized by complex security issues, multiple inter-state disputes and yet a high untapped economic potential. The challenges faced by the region are based deep rooted and historic differences. Consequently political issues and conflicts have not allowed economic and strategic interests to take precedence in matters of policy and development (Kher, 2012).

The regional trade in South Asia is dismally low at 4 percent as compared with the regional trade of the European Union at 67 percent, the North American Free Trade Agreement (NAFTA) at 62 percent, the Association of Southeast Asian Nations (ASEAN) at 26 percent, the Common Market for Eastern and Southern Africa at 22 percent, Gulf Cooperation Council at 8 percent, Latin America and Caribbean at 22 percent (World Bank, 2007).

Inspired by the success of economic integration agreements in other parts of the world South Asian countries decided to create the SAARC, which is the main vehicle for moving towards greater integration in the region. But so far, SAARC has been an ineffective institution, vulnerable to regional politics and with inadequate capacities. There is a divergence of opinions on the prospect of increasing economic integration in South Asia. Some authors argue that unilateral liberalization as is currently underway in South Asia offers greater benefits than regional integration would. Others believe that regional integration will create exciting opportunities and will allow countries to develop comparative advantage, coordinate programs to address challenges in governance, environment, social development, and other areas that most often spill over national boundaries.

### **Challenges**

There are many challenges with regards to trade facilitation in South Asia. The region ranks the last among all world regions in terms of road density, rail lines, and mobile tele-density per capita. Poor transport and communications still hinder the integration of many rural areas into the wider economy. Presently, the trucks of one country are not allowed across the border to deliver cargo, with the exception of Nepal which allows Indian trucks to stay for 72 hours. Almost all road-based intra-regional trade has thus to be transshipped between one vehicle and another. An important impediment to both regional and international trade has been the regulatory constraints introduced at the gateways and border crossings.

South Asian countries, with the exception of Sri Lanka, have costly domestic transport owing to the distance between the production area and the major ports. Trucking industries remain fragmented and truck fleets are old and inefficient. Complying with rising security standards in

international trade is also a challenge for South Asia. There are various bilateral agreements covering the trade between the South Asian countries as well as some multilateral agreements, which have been introduced though not fully adopted.

## **Opportunities**

The challenges confronted by South Asia can be realized by creating opportunities for market expansion in trade facilitation. The region has a significant opportunity to accelerate economic growth and reduce poverty through concrete actions to facilitate trade through platforms that advance regional integration. The countries have already recognized the importance of harmonization of standards in the context of trade facilitation. In order to be effective, initiatives for trade facilitation need to be focused. A corridor focus is useful, since the majority of trade is concentrated along relatively few corridors.

Bilateral or regional arrangements are needed which allow the vehicles of one country to collect/delivery cargo in other countries, together with bonding systems for the cargo. Simplification and harmonization of border procedures is critical for more trade. Currently there is a lack of transparency but there are ongoing efforts to reform customs and to standardize cargo documents. Perhaps the most important, but also the most difficult, is negotiation of effective bilateral and multilateral trade and transit agreements. These would facilitate trade in a more diverse range of goods.

It is necessary for governments to recognize the importance of rail transport in international trade and to allow commercial operators to participate in the provision of unit container train operations. Construction of intercity expressways would allow high-speed travel with minimal roadside friction and thereby let long distance trucking operations flourish. It is important to develop high capacity, limited access highways along the major trade corridors in order to allow the introduction of modern truck transport. Private sector involvement in road construction and maintenance has been successful whereas its involvement in rail track construction and maintenance has had mixed results. Private operation of transport services has provided significant gains in efficiency.

## **Findings**

Of late, it has been realized that the world community cannot be safe or happy unless it involves all the people of South Asia in the critical decisions regarding peace, security and development. With this in mind, after analyzing the collected data the findings for this study are as follows:

- There are significant potential gains to trade for South Asia associated with collective efforts to raise capacity in trade facilitation. These include specifically investments in upgrading ports, and ICT infrastructure in the region. There are also gains directly related with continued reform in customs clearance procedures and regulatory harmonization.

- The true potential of South Asian integration can only be achieved by making trade facilitation, easing visas restrictions, simplifying customs and standard procedures besides improving connectivity through rail, road and direct flights. Intraregional trade would give South Asia greater chances to not only benefit from trade.
- Bangladesh, India and Pakistan suffer from lack of market integration. Having population of over 1 billion, India is Pakistan's main missing market, as this is easy to export to India than to United States and European Union. Similarly, Pakistan is also a main missing market for India with second largest market in South Asia. On the other hand, Pakistan and India are the main missing markets for Bangladesh.
- Unlike European Union, South Asia does not have a regional transit arrangement, although partial transit exists for landlocked countries like Afghanistan, Bhutan and Nepal. India and Bangladesh do not have transit arrangement even though they are adjacent and share a common border. The inflexible visa regime and in absence of trade facilitation mechanism, South Asian countries could not exploit the true potential.
- To reduce their dependency on developed countries' economies, South Asian countries need to diversify their export markets and take advantage of the efficiencies and growing demand that sub-regional trade offers. The US and EU are the two major trading partners of South Asian countries and limited trade with its neighbouring countries of South Asia. There is more risk for it in case the economies of the US and the EU did not recover from present economic crisis like situation.
- Even though attempts have been made to improve intra-regional trade in South Asia through trade formation of RTAs, they are considered to be not successful in improving trade in South Asia. Therefore, in order to reap the benefits of increased regional trade, all SAARC states have to prepare themselves for the new challenges of the FTA.
- The formation of SAFTA has generated guarded optimism about the relevance of SAARC in promoting regional economic cooperation in South Asia. But lack of awareness hinders SAFTA implementation. Again, though SAFTA is chiefly concerned with tariff liberalization, there are a large number of trade and investment barriers such as non-tariff barriers (NTBs) which in effect negate tariff liberalization.
- There is hardly any benefit of SAFTA so far availed by its member states (Bhargava and Khatri, 2001). The main issue for failing to implement SAFTA is ignorance about the rules and provisions of the agreement. Second issue is the mentality of not to welcome any new idea whether it will be beneficial or not for the greater interest of the country. An estimate shows that if it is effectively implemented, SAFTA could help to raise the value of intra-regional trade to \$14 billion from its current level of \$6 billion.
- The South Asia region, despite its recent progress, is still home to large number of the poor people in the world. The north-eastern sub-region of South Asia comprising of Bhutan, Nepal, Bangladesh, Sri Lanka, and eastern and northeastern states of India, has one of the least integrated regional markets in the world.

- South Asia has lowest people-to-people contact ratio in the world. As such, progress on SAARC's goal of a South Asian Economic Union by 2020 remains slow. South Asian countries, with the highest number of poor in the world, cannot afford to keep SAARC as a meaningless coalition. The need of the hour is to make SAARC a strong economic block by setting aside bilateral disputes.
- Interestingly, the South Asian case inverts the hypothesis that trade promotes peace. The paradigm here seems to be that conflict hinders trade and economic integration. South Asia continues to face, however, critical constraints to trade and the need for coordinated programs to address common goals.
- Harmonization of standards and procedures relating to customs, non-tariff barriers and political mindset are the major bottle-necks in trade facilitation issues in South Asia. Tariff rates are one of the highest among developing countries in South Asia. Specifically, constraints in supply chains and trade logistics include a number of increasingly important barriers to exports for South Asian countries.
- The lack of harmonized transport systems, frequent reloading of goods, port congestion affecting turnaround time for ships, complicated customs-clearance procedures, and nontransparent administrative procedures at customs are often at the center of trade constraints. In order to realize the benefits of improving transport or customs administration "at the border," regulatory and institutional reforms are essential.
- Inadequate infrastructure exists both at national and regional levels. Regional transit trade is absent indeed and no regional transit found; high trade costs is found as transport costs outweigh tariffs (RIS, 2004); no adequate funding for regional projects is made; poor or no institution for regional cooperation; no initiative for SAARC community building process comes to the notice; and SAFTA has already lost a great deal of momentum in the evolving dynamics of regionalism in Asia. However, the critical factor in determining whether SAFTA would raise or lower the real incomes of the SAARC countries depends on whether it will be predominantly trade creating or trade diverting. The 'behind-the-border' restrictions are another challenge SAFTA must overcome.
- While it is more difficult to establish a direct link between intra-state strife and stunted trade growth, there is little disagreement that almost all major intra-state tensions in South Asia have had spillover effects on inter-state relations (Moinuddin, 2013).
- India is the largest player in the region in terms of size, GDP and trade capacity. The importance of India in ensuring the success of SAFTA is derived both from the country's geographic position at the centre of the region and the size of its economy. So the importance of India in ensuring any South Asia wide regional arrangements through an exhaustive analysis of trade liberalization under SAFTA cannot be overemphasized (Mukherji, 2000). The policymakers in the smaller countries of South Asia are also deeply concerned that economic integration will lead to India's dominance over the region.

## Recommendations & Concluding Remarks

### Recommendations

Followings are the recommendations for way out:

- A regional integration agenda can never succeed without proper trade facilitation. Trade integration needs to be expedited through faster implementation of SAFTA. Regional objectives need to be prioritized and streamlined with national priorities. Exploring opportunities to expand intraregional trade would give South Asia greater chances to not only benefit from trade but also increase stability against external shocks. The region can and should take steps to move toward accelerated growth paths—leveraging both intra and interregional trade.
- To be successful, the regional trade facilitation agenda must include measures that are mandatory on the contracting parties and set a specific time-frame for achievement of these measures. Focus will have to be on at the border issues of custom modernization and the development of cross-border rail, road and ship linkages. Equally important are behind the border issues like providing decent logistics and transport networks that feed into the regional transport corridors. While such behind the border issues are best handled unilaterally, setting region specific targets will provide incentives to policy-makers to prioritize. Acceptance of sub-regional and subsequently regional transit is necessary. Greater regional cooperation is also important for creating sub-regional market in order to tackle the fallouts from any financial crisis.
- There is a huge gap between policy level decisions and their implementation. Investment is very important and South Asian countries need to create increased trade opportunities and export potential amongst them. There is a need to strengthen cross-border infrastructure (move from road corridors to economic corridors) and also for a giant leap from ‘border trade’ to ‘trade at border’. Policy programs and action to reduce corruption in the region is also an issue which must be addressed within this context. Fast track lane and priority of goods in transit to cross the border to be established. In order to streamline the customs procedure, it is very important to set-up SAARC Single Window.
- There is a requirement to simplify and harmonize the trade procedures, more particularly at the border. Modern corridor management techniques in selected corridors need to be introduced. Multimodal transportation with rail transit, regular container train in the region need to be promoted. The efficiency of border corridors is required to be improved with both side of border improvement in integrated check post (ICP) project in parallel. Visa regime need to be liberalized; no visa if possible, if not then port entry or at least hassle free multiple entry visa should be issued.
- Trade integration needs to be expedited through faster implementation of SAFTA, which should also be expanded to include services and investment. Effective project coordination among government stakeholders need to ensured and stronger institution (public-private interface) for trade facilitation is urgently needed. It is important to

simplify the domestic regulations, which perform the role of tariffs in regulating services. This is also required in order to be disciplined to help the growth of the service sector and growth.

- Regional study for SAARC Master Plan of Connectivity should be made and SAARC connectivity coordination committee to be set-up to coordinate the Master Plan and its feasibility. Given the current low level of port efficiency in the region, South Asia could expect significant gains from improving ports to lower transactions costs and facilitate trade. Introducing ‘open skies’ in South Asia, which is an international policy concept that calls for the liberalization of the rules and regulations of the international aviation industry, especially commercial aviation, in order to create a free-market environment for the airline industry.
- The member countries of the SAARC need to realize that benefits of trade liberalization can only be maximized if factors of production like labour and capital are allowed to move freely and adjust to the demands of the market. However, at the regional level, the countries are reluctant. Trite as it may sound, the border problems between India and its neighbours seem to have cast a dark shadow on the progress of regional integration. Pakistan, for instance, has refused to grant the most-favoured nation status to India under the SAFTA which hampers India’s market access into Pakistan.
- There is no need to reiterate the importance of political stability and harmony in the region, to promote trade and investment linkages. For SAFTA to be the catalyst for the process of integration the two economies that remain the least integrated in the SAARC region, i.e. India and Pakistan, will need to enforce an expanded trade liberalization program.
- Last but not the least, to be successful, the regional trade facilitation agenda must include measures that are mandatory on the contracting parties and set a specific time-frame for achievement of these measures. Focus will have to be on border issues of custom modernization and the development of cross-border rail, road, and ship linkages. Equally important are behind-the-border issues like providing decent logistics and transport networks that feed into the regional transport corridors. While such behind-the-border issues are best handled unilaterally, setting region specific targets will provide incentives for policymakers to prioritize.

### **Concluding Remarks**

No country’s globalization is sustainable without partnership in the region (Subramanin, 2001). South Asian countries cannot hope to reap the full benefits of globalization without some degree of regionalization of their economies (Dash, 1996). The people of South Asia urgently need to overcome the bitter legacies of the past in order to create an environment for peace and security and build a better tomorrow of economic prosperity for the people. The twin phenomena of strategic peril and economic promise throw a daunting challenge to all of them. But it is a

challenge that must be met, so that South Asia can be in sync with the great global transformations of present times (Ali and Talukder, 2009). Promoting regional integration in South Asia entails efforts in key areas such as infrastructure, trade facilitation, investment, governance and implementation. The most critical element of the integration process in South Asia is building confidence and filling the huge trust deficit between the countries. Economic interests (i.e. the potential of increasing trade and investment) and strategic interests (i.e. better positioning to have a say in global governance) have the potential of uniting South Asian countries, sidelining political differences to pursue regional integration. In this respect, India will have to take on disproportionately greater responsibility while the other South Asian countries will have to commit to cooperation and openness.

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