

Towards regional economic integration in South Asia: Prospects and problems

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Abstract

The concept of regional economic integration has slowly gained acceptance in South Asia. South Asian Preferential Trading Arrangement was operationalized in 1995 under the South Asian Association for Regional Cooperation (SAARC) to promote trade and economic integration among the member countries. Despite geographical proximity and similar cultural attributes among the South Asian countries making economic integration feasible, the level of economic integration in the region is low. This paper attempts to explore the reasons of low economic integration in South Asia. The data show that the volume of intra-regional (formal) trade among the SAARC countries is very low resulting only five and half percent of the total. However, there is huge amount of informal trade ongoing. The analysis revealed that weak physical infrastructure, poor transport and communication, tariff and non-tariff barriers and complicated rules and regulations impose huge costs on trade and also restrict movement of people. For deeper economic integration, it is necessary to create enabling condition by expanding and harmonizing transport and communication infrastructure, such as railway and road networks. Accordingly, transit facilities across the territories of the member countries and integration of the labor and capital markets is essential. Similarly, the customs and transit procedures need to be harmonized and simplified. The areas under economic cooperation also need to be enhanced through greater cooperation among the member countries in the use of trans-boundary rivers and investment and trade in hydropower and transportation sectors.

Keywords: economic integration, South Asia, tariff and non-tariff barriers, transaction cost, trade facilitation