

Economic Integration in South Asia: Opportunities and Challenges

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Abstract

Regional economic integration stimulates cooperation to uplift socio-economic quality of a region. Although economic integration may, sometimes, result in lesser independence of states, the benefits often outweigh the limitations. Despite encouraging growth in South Asia (pre-Covid-19 period), its contribution in global GDP remains minimal. Trust deficit, reluctance of states, political and security issues, lack of sustaining infrastructure, are some factors affecting gainful integration. Regional economic integration, nevertheless, offers exciting prospects to synergise mutual comparative advantages, trade and commercial gains, investment opportunities in other states. This paper analysis various initiatives within the South Asian region and their impact on regional integration. The pandemic of Covid-19 has worsened socio-economic predicament and trade transactions in the region. Given the socio-economic and poverty issues, SAARC integration can aid in political stability, socio-economic development thus ensuring overall growth of the region and individual countries.

Keywords: Regional integration, Socio-economic prospects, Covid-19, Free Trade Agreements, SAARC.

Introduction

Regional economic integration is predominantly economic in its character, encompassing trade and investment between states in a particular geographic region. Such integration remains a distinguishable attribute of international trade relations. A step towards wider regional integration has prospects for larger benefits for consumers and socio-economic dividends for the countries involved, and for world at large (Sultana & Asrat, 2014).

A greater trend of integration has been seen entailing trade in the region and various cooperative agreements. Both, the economic and political factors, have served to bring the countries together but pre-dominantly it is the economic factor that influences the integration process. Manifestation of this fact is the EU and ASEAN amongst many fora, where the economic interests have improved relations and brought the conflicting states together. Ongoing global economic situation displaying retarded growth,

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prevalent recession and, at times, the protectionist mindset of some of the nations, call for unanimous joining of trade and fiscal goals, both at regional and global levels, to ameliorate cooperation (Sultana & Asrat, 2014). Significantly, and unexpectedly, the Corona Virus 2019, with its genesis in city of Wuhan (China), has engulfed the globe including South Asia. Already poor and struggling economies of the countries of the South Asian region and overall crawling regional trade and economic activities are estimated to suffer the worst. Thus, it makes good reason for the countries of the region to engage themselves in the regional initiatives for better cooperation and improved trade.

Economic Integration in South Asia

South Asian region encompasses eight countries of varying economies, differing cultures, ethnicities and political approaches. This region includes Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. South Asian Association for Regional Cooperation (SAARC) is the platform established by the countries to promote common good. In January of 2004, these SAARC countries embarked on a much sought after collaborative trade journey and commissioned South Asian Free Trade Area (SAFTA). It symbolized the objectives to accomplish more and wider integration, in terms of economy, trade and investment, amongst these South Asian countries. This key aim of the SAFTA was to be accomplished by diminishing interstate barriers to economic cooperation and trade. The SAFTA aimed to facilitate cross-border shipment of goods, to promote fair trade approaches and to implement mechanisms for just and equal benefits, and steering correct measures for enforcement of the SAFTA objectives (Kabir, 2007).

Significance of Integration in Conflict-Ridden South Asia

Necessity of economic integration in the region of South Asia, marred with conflicts and mistrust or political blocking, has been increasingly acknowledged by the politicians, statesmen, industrialists and businessmen. Initially, towards this aim, the South Asian Preferential Trade Agreement (PTA) was implemented in year 1995 by the SAARC to promote trade and economic cooperation and cohesion. The scope and reach of economic integration in South Asia is too low despite their geographic proximity and socio-economic conditions (Rosal, 2009).

South Asian economies, continue to struggle under an environment of military conflicts and colossal blend of interstate differences as well as domestic divergences. India has shown some promise in pre-Covid era, whereas smaller countries have not been able to do that well. Pakistan is also trying to cope with unending security and socio-economic issues. Sri Lanka has recently come out of a civil war with Liberation Tigers of Tamil Ealam (LTTE) in its own territory and still in the recovery phase.

Although a platform in the form of SAARC exists, the level and speed of integration in South Asia is definitely unsatisfactory. Political, military, social and ethno-religious problems are characteristic of the region. The South Asian unit of the World Bank has indicated four pre-conditions that integrate a region, particularly to become a Free Trade Area (FTA). Firstly, the pre-FTA tariffs must be high; secondly, the FTA members must be significant partners prior making an arrangement. Thirdly, there demands should be complementing each other. Lastly, their economic structural differences should be based on 'true' competitiveness. Except for the first condition, South Asian region barely satisfies the criteria. The trade amongst the states of South Asia has been, in contrast, more competing and to a lesser degree complementary to each other. Such circumstances indicate lesser likelihood to maximize dividends from South Asian PTAs (Bhatta, 2004).

Preconditions for Enhanced Trade Probability

Barring the downturn caused by Covid-19, India economically has been in lead within SAARC countries with a stable economic growth rate of 6-7% at average. With per capita income of US\$ 3653/-, Maldives stands at top in the region. In terms of global Gross Domestic Product, India has been maintaining 4.7% growth but its production shortfall is also around 5.7%. If we talk of Bangladesh, it is owing to two factors that the country has maintained 1.9% of the account balance: firstly, due to higher inbound remittance from its diaspora; and secondly, due to its rising and expanding exports (Bhatta, 2004).

Intra-Regional Trade within SAARC

Intra-regional trade amongst SAARC states continues to be on its ebb. Interestingly, during initial period of their becoming independent countries, India, Pakistan and Sri Lanka were having relatively higher trade figures amongst them. As a proportion of their collective trade, the trade figures were in two digits. Today, it has reached too low a figure, compared to trade between ASEAN countries that is at 30% and EU, which reached 65%. Another worth noting point is that in South Asian region, a great proportion of trade that happens in the region falls under category of 'Informal Trade' (Ewing-Chow & Islam, 2007). Such a significant volume of informal trade rejects the proposition that South Asian countries cannot engage in systematic, formal and wholesome agreements of trade and investments, through SAFTA.

Today, in contemporary international trends, trade in services continues to be more important and is on rise than the trade of goods. It is yet another startling fact that SAFTA has utterly failed to bring about any trade in services and there is zero trade in services amongst the South Asian region. As the technology continues to evolve and grow it facilitates trans-frontier exchange of services. In addition, as stated, the removal

of statutory hurdles may incentivize the regional trade market to address regional demand. The prospects for this natural trade seems good (Ewing-Chow & Islam, 2007).

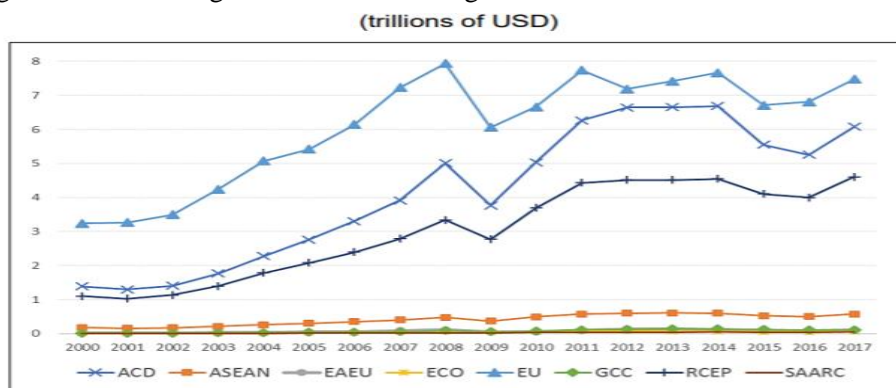
Amongst all the regional blocks including Gulf Cooperation Council, Regional Comprehensive Economic Partnership established in November 2020, SAARC stands at the bottom. Even it failed to reach its predicted trade volume of 67 billion \$ and is hovering around 32 billion \$.

Lack of Formal Trade in South Asia

Another worth mentioning point is that in South Asian region, a great proportion of trade that happens in the region falls under category of ‘Informal Trade’ (Ewing-Chow & Islam, 2007). Dearth of ‘Formal Trade’ entails unrecorded trade while not using capital, unskilled and skilled labour in production of traded good as an investment and a consumption good. Such a significant volume of informal trade, focused on consumption good and unrecorded trade only, rejects the proposition that South Asian countries cannot engage in systematic, formal and wholesome agreements of trade and investments, through SAFTA.

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Figure-1: Trade Integration Volume in Regional Forums



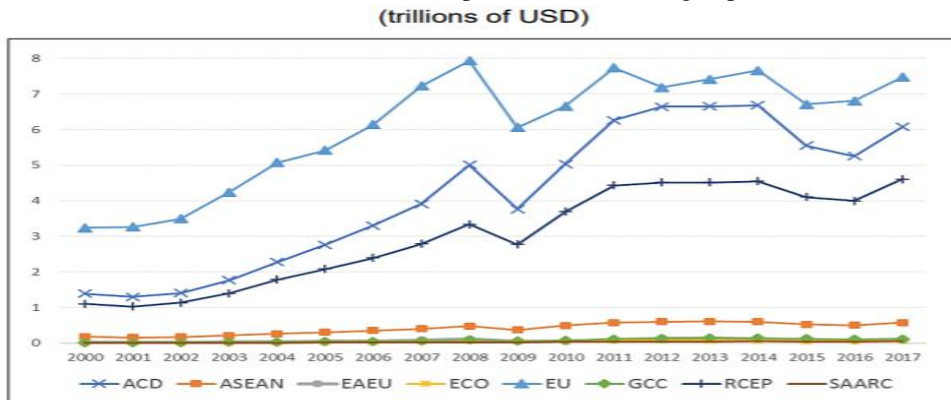
Note: ACD = Asia Cooperation Dialogue; ASEAN = Association of Southeast Asian Nations; EAEU = Eurasian Economic Union; ECO = Economic Cooperation Organization; EU = European Union; GCC = Gulf Cooperation Council; RCEP = Regional Comprehensive Economic Partnership; SAARC = South Asian Association for Regional Cooperation.
 Source: Author's calculation and compilation based on International Monetary Fund, Direction of Trade Statistics.

Source: Asian Development Bank Working Paper, 2020.

Even the intra-trade amongst the SAARC regional countries is the lowest in comparison to member countries of other regional integrational forums, as reflected below:

Figure-2: Total Intraregional Trade Share (%)

Source: Asian Development Bank Working Paper, 2020.



Note: ACD = Asia Cooperation Dialogue; ASEAN = Association of Southeast Asian Nations; EAEU = Eurasian Economic Union; ECO = Economic Cooperation Organization; EU = European Union; GCC = Gulf Cooperation Council; RCEP = Regional Comprehensive Economic Partnership; SAARC = South Asian Association for Regional Cooperation.
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Unilateral Trade liberalization in South Asia

Trade liberalization is the most significant policy reform in the South Asian region. Economic effects of this liberalised policy indicate that imports in the region, significantly in states of Bangladesh and Nepal, is falling due to transaction in the local currency. The most increase in the imports demand has been witnessed by Bangladesh. India follows Bangladesh in the imports demand figures. Talking about the rise of total domestic demand, Pakistan stands second after Bangladesh. Indian statistics show that it has seen the maximum increase in nominal return to capital. The second highest figure in rise in nominal return is that of Bangladesh. It is worth noting that the GDP price deflator has shown upward trends in all the regional states. It is its highest figure of increase as shown by Bangladesh, then India followed by Nepal. The reason is that though tariff reduction caused reduction in the costs of investment goods, but it has been marginalised due to “rise in the primary costs, wages, return to capital and return to land”. Also, actual exchange rate has dipped in the countries of the region whereas Bangladesh suffered maximum depreciation. What are the results? The resultant outcome is very competitive exports if seen in the global perspective. The greatest positive impact on GDP, along with that on increased employment rates, has been seen in Bangladesh whereas Sri Lanka remains the least beneficiary of the effect of GDP.

Similarly, there are number of production effects; such as due to tariff liberalization, Bangladesh has undergone more pronounced effects on its outputs. Again, it is Sri Lanka seeing the least production effect. The result has been that the average output rates in the domain of agriculture have increased in these countries (Seth, 2020). Again, Bangladesh has seen the most significant effect. Likewise, the cost of manufactured goods, at average, is also low in Pakistan, Nepal as well as in Bangladesh. On the other hand, the industrial goods have seen rise of cost in both India and Sri Lanka. Talking of services sector, it is Pakistan only where cost of services has dipped whereas whole SAARC region has witnessed increase of cost in services (Seth, 2020).

Trade Linkages - Maritime and Land Routes

Maritime routes. Oceans carry around 90% of world trade. Thus, seaports and sea routes become vital for inter-regional and intra-regional trade. So is the case for South Asia. Generally, seaports can be classified into 3 categories: trans-shipment hubs, regional-hub ports, and thirdly the regional ones. Bigger shipping liners normally ply on or in vicinity of the principal sea routes and use the trans-shipment hubs, the first category of seaports. In South Asian region, Colombo port of Sri Lanka is the only trans-shipment hub. Colombo is also the most developed one. Nevertheless, its standing amongst the container ports has been witnessing decline, as it has to face competition with Chinese ports. Indian Nhava Sheva port, which is the largest one in India, comes under category of the regional hub port. Regional seaports administer feeder services from the major trans-shipment hubs. In South Asia, the Regional seaports are Indian ports of Calcutta, and Haldia, and Bangladesh's Chittagong. At regional hub ports, there are number of discouraging facts that cause disruption of trade flow. These include excessive turn-around time, delayed shipments, crowding, unfixed weekly schedule and adjournments. If a trader opts for an air route, it would add 40% to the cost of a traded item. Thus, it is a negative outcome of limited trade infrastructure in the region (Wilson, 2007).

Effects of security regimes. Other than ports and associated infrastructure, regulatory framework and its compliance is also an aspect worth attention. "International Maritime Organization (IMO)" enacted the "International Ship and Port Security Code (ISPS)". A large number of states – around 102 – have ratified the Code and have implemented it. The regional airports and maritime ports appear less competitive than the ports of East Asia. The port efficiency is highly associated with shipping costs. Tariffs of port entry make part of shipping costs and are thus higher in South Asia. Since the current level of port efficiency is very low in South Asia, the region could not expect significant benefits now. However, with improved port regulations and performances, it can cause lower transaction costs and facilitate trade.

Newer frameworks for regional cooperation as well as improved regional security mechanism remains vital for enhanced cooperation and trade.

Land routes & land-based trade. Lack of trans-frontier transit stations and road networks within South Asian region are prominent hurdles in growth of regional integration. For instance, Afghanistan lacks road infrastructure and goods transshipment facilities. For shipment between India and Bangladesh, there is an established inland waterway. Talking about India and Pakistan, normally a third party route is used other than Wagah border. The shipping cost remains on rise because of lack of regional transport linkages. This issue is much relevant in states without a seaport, like Afghanistan, Bhutan, & Nepal. Furthermore, industry strikes are also a major reason for trade transit as well as bottlenecks along land connections. Thus, time and price of shipment remain major factors of consideration with the entrepreneurs for trade shipments.

Implications of lack of connectivity. Largely, Inland road network forms principal routes for goods transportation in South Asia. In regional context, negligible maintenance, old bridges, network growth system and limited capacity exist. Resultantly, it causes increase in the cost of movement, maintenance of vehicles, licensing restrictions and cost of goods. Thus, limitations are imposed on cargo carrying vehicles and the weight of goods too. Accordingly, the shipment efficiency is marginalised and done at higher costs. Again, the traders determine the shipping means considering only two factors i.e. time and cost. Such limitations in road connectivity in the region puts tremendous hurdles in enhancing regional and supra-regional trade and commerce prospects (Wilson, 2007).

Non-Cooperation and its Implications

Political crises. Unfortunately, in South Asian region, after-effects of political dynamics with respect to intra-state remains too discouraging. These effects show that undesirable external interference in domestic affairs may cause non-cohesive prepositions not only for a country but also for the region itself. A struggling state can be more diluted because of a surge in its domestic issues. As example, unwanted meddling of United Nations in the crisis of Nepal (in Nepalese perspective), resulted in increased differences amongst the government, the political parties and the populace during the 1996-2006 armed conflict between Maoist insurgents and Nepalese law enforcement agencies (Human Rights Watch, 2020) . Earlier, where state actors have been the significant characters in regional i.e. trans-frontier and domestic politics, the ongoing leanings indicate that there are many non-state actors such as politico-religious factions and terrorist organisations, that influence the political dynamics of a state (Khan, shaheen, Yusuf, and Tanveer, 2007). Generally, the expanse of intermittent

incidents of violence or law & order in the South Asian region pose serious questions about the effectiveness of a country in alleviating the problems. Number of actors in a state choose to follow their respective agenda, unconcerned of the probable rise of conflict and the dividends of the cooperative engagement (Khan et al, 2007).

Security conditions and conflicts in the region. South Asian region is besieged with manifold regional, interstate as well as domestic clashes either based on territorial reasons or factors entailing faith, ethnicity, or parochial outlook. Historically, such issues cumulatively form a barrier in growing any worthwhile integration in SAARC. Such issues have resulted in negatively affecting the objective of economic development in the SAARC states. For instance, although a cordial relationship exists between India and Nepal, they still have mutual disputes. The “1950 Treaty of Peace and Friendship” mandated the parties i.e. both Nepal and India, to collaborate while developing effective strategies to combat security threats in case of foreign aggression (Nayak, 2010). Such provisions cause concern in Nepal, as these may cause restrictions on autonomy of Nepal and enhanced probability that India might intrude into Nepalese independent identity. Nepal thus employed its geographical leverage with China as a strategic measure to avoid complete strangulation by India. Following 1962 Sino-Indian war, Nepal authorised China for constructing the Lhasa-Kathmandu connection. India viewed, however, this decision of Nepal as Nepalese inclination towards China as well as interference of China in the internal affairs of South Asia. India sees it as a grave threat to its security interests (Tandan, 2020).

India and Other States of SAARC. India versus other SAARC states is a regional concern vis-à-vis dynamics of Indian foreign politics. Sri Lanka has no major dispute with any of the South Asian states. With India, key dispute of Sri Lanka has been the denial of citizenship to Tamils and Indian suspicious involvement in Sri Lanka’s fight against LTTE and recent lease of Hambantota port to China (Herskovitz, Marlow, and Bloomberg, 2019). India and Bangladesh also have conflicts such as Chittagong Hill tracts marred with illegal migration, waters dispute as well as delimitation issues of boundaries between the two states (Ahmad, 2020). Division of Bengal on pre-partition is also a bitter issue (Kher, 2012). India and Pakistan share strained relations. Their relationship is marked with insecurities. There have been number of failed initiatives to ease the tense relations and number of unresolved bilateral conflicts, the core issue being the Kashmir dispute. Being the major countries of South Asia, their bilateral conflicts, especially insensitivity of India (Ganguly, 2020) evidently affect not only their mutual trade benefits, but negatively impact the regional integration and overall growth of the region. Recent China-India face-off in disputed Laddakh region of Sino-

Aksai chin has reignited the Sino-Indian dispute, further strained the relations between the two major powers, and heated the region (Goldman, 2020).

Social Uprisings & Unrest in the Region. In South Asia, almost all the countries are combatting serious security challenges; be it civil violence, insurgency, separatist movements, extremism or ethno-religious conflicts. The largest country of the region, India is struggling with such issues in Kashmir, Punjab, eastern states of Mizoram, Assam as well as Nagaland (Pritam, 2020). Recent Indian Citizenship Enactment and annexation of Indian-Occupied Kashmir have further raised security issues for India (TRT World News, 2020). Viewing Indian politics, federalism, its secular proclamation vis-à-vis Hindutva doctrine being followed, religious extremism being displayed even in ongoing Corona pandemic crises, by present regime of Mr Narinder Modi, is likely to cause more serious challenges for the State. Talking of Pakistan, it is struggling with economic crises, federal-provincial rifts and extremism despite earlier military operations, governance incompetence and international geo-political issues. Afghanistan is on the crossroads of instability, prolonged military action, political divides, and ethnic conflicts, dominance of international forces, terrorism and socio-economic downfall. The smaller states such as Nepal and Sri Lanka are also facing domestic conflicts and failures in their economic and monetary systems. While such conflicts pose a challenge to integration, we believe that growing economic cooperation can help all the states mutually not only to address their domestic issues but also help in toning down their inter-state political conflicts.

Economic instability. South Asian states economic policy hinged upon the aim of self-sufficiency through import substitution (Kher, 2012). In the opinion of the smaller states, increased trade would mean that larger states such as India might dominate the economic interests of smaller states and result in over-dependence of these states on India. However, the other perspective, which remained subdued, was that it was indeed an opportunity leading to bigger markets in countries like India as well as Pakistan (Kumar & Sharma, 2015). Relatively more compact states, in economic terms, such as Nepal or Bangladesh preferred that extra-regional suppliers provide them goods, even at higher prices showing significant reservations to welcome any investment by India or Pakistan. Notwithstanding that, the latent hydropower capacity of Nepal is around 70,000 MWs, the regional countries have not benefitted from this latent energy despite continuing rise in Indian energy demands. It is only 1% of this capacity that has been utilized by these countries (Kumar & Sharma, 2015). Another example is of Sri Lanka which imports bulk of railway coaches from Romania whereas regional products of the same quality are also available at the costs that are lesser than that in Romania. Likewise, in the fields of shipbuilding and cement industry, trade with both Pakistan

and India can result in more dividends for Sri Lanka rather than the latter engaging with South Korea (Kumar & Sharma, 2015). Sadly, both India and Pakistan, have repeatedly ignored the well-being of their masses by not engaging with each other purposefully. The credit of even the existing limited level of trade, formal or informal, goes primarily to the industrialists and entrepreneurs on both sides rather than the states (Kumar & Sharma, 2015).

Effects of Indo-Pak Conflict on Economic Integration

In geopolitical terms, the South Asian region is undoubtedly a very hot neighbourhood of ideological, political, people-to-people, military and geopolitical animosity between the two nuclear rivals. In addition to the interests of the global powers; the ethno-religious, sectarian and parochial actors are major contributors to the intra-regional relations in this part of the world. Such highly volatile trends in Pak-India relations and historic divide between Hindus and Muslims are main features of their bilateral relations. Parochialism and ongoing religious extremism sour the declared secular stance of India towards Pakistan. Pak-India divide reflects several dimensions including territorial issues and demarcation of boundaries – both land and maritime. Other issues of rivalry include water distribution, illegal immigration, military stand-offs and suspicions of hegemonic designs of a larger nation over other states of the region. Be it the core issue of Kashmir, delimitation issues in Sir Creek, construction of Baglihar Dam, highest military stand-offs at Siachen Glacier, or the issue of Wullar Barrage - all make probable flashpoints of conflict (Jabeen, Mussarat, and Goraya, 2007).

One major barrier in regional integration is a range of politico-military conflicts among the countries of the region. Mutual fears, animosity and bitterness mark the inter-state political relations. Tense relations prevail between nuclear states of India and Pakistan on Kashmir and terrorism. These countries spend huge exchequer on procurement of arms and military hardware. Extraneous military budgets directly shrink the amount to be spared on socio-economic sectors. Emerging nature of threats such as cyber warfare and cybercrimes have also caused suspicions between the regional countries (Kumar & Sharma, 2015). The new forms of warfare, such as the 4th and 5th generations of warfare, non-state actors including armed networks or combatants etc. have caused rise in tensions between India and Pakistan. This, cumulatively, casted too negative ripples on their full-fledge economic integration (Hussain et al, 2019).

Cooperation and Integration in South Asia

Bilateral and regional trade agreements are fast-growing trend in global market. It manifests in all major geographical bounds of the contemporary world including greater Asia. Regional cooperation and integration provides prospects for expanding trade and

economic avenues. Nevertheless, market-oriented cooperation characterised in the region is too low compared to other parts of the world. It is an agreed fact that South Asia offers great prospects of an integrated trade avenues, production, and investment opportunities.

Initiatives at SAARC level

As discussed earlier, SAARC launched the initiatives for stimulating regional integration. Such initiatives include The SAARC Preferential Trading Arrangement (SAPTA) and SAFTA, as well as “the SAARC Agreement on Trade in Services (SATIS)” (Kumar & Sharma, 2015).

Although the trade between the SAFTA members has risen, it is too slow to feel satisfied about it. The policymakers and businesspersons of the region are growing interest in SAFTA and its prospective dividends. Sceptics have been suspicious of the potential of the economic cooperation between the regional countries. However, South Asia’s current commercial and fiscal vitality along with its outward-looking policies have caused some interest in South Asian economic integration. The regional integration in economic terms will result in South Asian principal goals of poverty alleviation and socio-economic development (Moinuddin, 2013). South Asian economies are obliged to conceptualize such integration to be an evolving phenomenon. SAARC displays a clear aim to steer towards growing economic community in the region. Recent economic growth trends in South Asia offer both opportunities and challenges to be surpassed for more comprehensive and overarching integration in harmony with the global economy.

Replicating global regional integration models

EU and ASEAN are largely better manifestations of regional cooperation. They set aside their political differences and made efforts for regional integration. Increased integration offered direct and indirect ways of communication and progress. In initial years of formation of ASEAN, almost all states of the region were combatting some form of insurgency and ethnic conflicts with their nearly turbulent and unstable mutual ties (Kher, 2012). Nevertheless, their concerns for stagnant growth in the region, socio-economic standards and their perceptions and concerns on rising dominance of China unified them to solve their disputes through dialogue. South Asia needs to replicate ASEAN and EU by ignoring differences.

Corona Pandemic and its Economic Fallout

The Corona pandemic has casted everlasting effects on every aspect of human activity; and it would have, for sure, strong and severe implications for the world and the South Asian region. Apart from human sufferings due Novel Corona Virus resulting in Corona Virus Disease (COVID-19), a new world order is being swiftly written while

towing behind new social, political and economic norms. On February 15, 2021, as per COVID-19 Situation Report, the number of confirmed cases of COVID-19 worldwide has reached 108,579,352 whereas 2,396,408 human beings have lost their lives due this fatal pandemic. For the South Asian region, 12,567,129 people are suffering from the pandemic whereas around 184,393 South Asians have died due COVID-19. India is the worst hit in the region with 10,916,589 cases and 155,732 deaths as of February 15, 2021 (WHO, 2021).

Implications of COVID-19 on the Region

Corona virus, despite invention of vaccines by some countries, continues to pose serious threat to the world. As per a report titled “South Asia: the road ahead in 2021” (Atlantic Council, 2021), “the shadow of 2020 is likely to loom large over the coming year for South Asia, which faces unprecedented economic challenges...” Last year, in another report, “South Asia in the Corona Crisis”, published by “German Institute for International and Security Affairs” in April 2020, there would be too severe and drastic ramifications on the regional economies and would cause rise in the inequality and poverty (Wagner & Scholz, 2020).

As per the report, the World Bank and the International Monetary Fund (IMF) have updated their growth predictions for South Asian states with ebbing and negative trends. It goes to state that pandemic and resultant economic crises can drastically affect the agricultural sector that is the principal earning sector in South Asian countries. Due lockdowns, the sudden closing down of major factories and industries, like textiles which have strong economic influence in Bangladesh, or the tourism in countries such as Sri Lanka and the Maldives, are likely to rely on further debt and may push recession (Wagner & Scholz, 2020). The World Bank forecasts year 2021-22 to be perplexing period for the region in terms of economy and trade (World Bank, 2021). The “South Asia Economic Focus”, in its report issued on April 12, 2020 expected an economic nosedive in the region, due low trade and economy (SAEF: “The Cursed Blessing of Public Banks”, 2020). It proved correct. Covid-19 would further result in almost failing trade, as well as much of the pressure on financial institutions and banking fields. It also forecasted South Asian growth dip between 1.8 and 2.8% in last year (2020); whereas prior COVID-19, the forecasted regional growth, in October 2019, was around 6.3%. Result is the worst regional statistics in last four decades (SAEF, 2020). The World Bank sees South Asian economic outlook gloomy and glim in coming couple of years and estimates that socio-economic levels would further plunge close to poverty lines (World Bank, 2021).

As the current pandemic situation goes on, and lockdowns may be easing out due to economic and livelihood concerns, stress would be again on national economies

having health care and socio-economic implications. The report cautions the worst consequences for South Asian countries and the region with further falling growth rates in 2020. India, the largest economy of South Asia, is already witnessing downfall in its growth that was under 5% by December 2019 (SAEF, 2020). Along with India, Pakistan is in severe economic predicament. The country was already struggling with governance, socio-economic distress, and monetary policymaking; and now, this COVID-19 has added to the woes of the region. Bangladesh and Sri Lanka feel deeply stressed due to the pandemic (SAEF, 2020). For the fact that economic conditions of each South Asian state differ, each state may, follow a customized roadmap to combat the Covid-19 and its economic battle. In nutshell, individual and regional economic growth is severely bruised and it requires substantive efforts to face the crisis. The answer lies in collaborative and cooperative approach, a compulsion under Covid-19.

Given all above factors and the prevalent Covid-19 effects, the economic outlook of the South Asian region is gloomy and grim. In addition, as per the forecasts by the World Bank, the regional economies are likely to continue with their downfall trend in general, and due Covid-19 fallout. The table below (World Bank, December 2020) reflect the GDP forecast of the economies of regional countries. The result would be thrusting a large number of regional masses to poverty line or below.

Figure 3: Real GDP Growth 2019 & Beyond

		Real GDP forecasts (percent)				Revisions to forecasts from October 2019 (percentage point)	
		2019	2020(e)	2021(f)	2022(f)	2020(f)	2021(f)
South Asia		4.1	-7.7	4.5	4.6	-14.0	-2.2
Afghanistan	December to December	3.9	-5.5	2.5	3.3	-8.5	-1.0
Maldives	January to December	5.9	-19.5	9.5	12.5	-25.0	3.9
Sri Lanka	January to December	2.3	-6.7	3.3	2.0	-10.0	-0.4
Fiscal year basis		18/19	19/20(e)	20/21(f)	21/22(f)	19/20(f)	20/21(f)
Bangladesh	July to June	8.1	2.0	1.6	3.4	-5.2	-5.7
Bhutan	July to June	3.8	1.5	1.8	2.0	-5.9	-4.1
Nepal	mid-July to mid-July	7.0	0.2	0.6	2.5	-6.2	-5.9
Pakistan	July to June	1.9	-1.5	0.5	2.0	-3.9	-2.5
		19/20	20/21(e)	21/22(f)	22/23(f)	20/21(f)	21/22(f)
India	April to March	4.2	-9.6	5.4	5.2	-16.5	-1.8

Note: (e)=estimate, (f)=forecast. For India, FY2020/21(e) runs from April 2020 through March 2021. June 2020 forecasts are from World Bank (2020a) and October 2019 forecasts are from World Bank South Asia Economic Focus Fall 2019. Pakistan is reported at factor cost. **Source:** World Bank

Source: World Bank data (<https://www.worldbank.org/en/region/sar/overview>)

Opportunities for Synergizing Regional Integration

There exists an array of opportunities for South Asian states to pursue economic integration. Accordingly, the dividends of such regional integration would vary as determined by the phase of development and political stability of each state and growing mutual trust.

Cross-border Investment

Enhanced economic cooperation amongst SAARC states will aid in number of domains like customs regimes, tariffs, taxation, market opportunities as well as framework of legal systems. Such arrangements are bound to result in increased facilitation and thus increased profitability. It shall broaden other trade opportunities due to the region's geographical location - at the crossroads of Asia and connecting the world's energy hub in Middle East, Western and Central Asian region to some of the largest consumers of energy (SAARC Report, 2020). It is evident given socio-economic stagnancy of South Asia that its resource requirements to develop infrastructure in the region is colossal (Kabir, 2007). Indian assessment for its resource needs in future of around \$500 billion is very significant. The larger markets can be the dividend of regional trade framework and make the private sector more attractive in establishing the physical infrastructure in the region. Because of policy of self-sufficiency, the regional countries remain reluctant in trade complementarities (Kabir, 2007). In the regional perspective, say, Bangladesh has jute industry so the country may benefit from its production, whereas Indian region of the West Bengal having its production infrastructure should focus on fabric processing.

In the region, economic aspects are growingly determining the political linkages amongst states; other than being in constant state of turmoil in recent past due economic struggles, terrorism and security.

Pakistan has been on the path of consolidating its relations with the Gulf countries, capitalizing on its relations with China and growing relations with Central Asia. Alternatively, the fact that increased bilateral linkages between India and China, strengthening nexus between Iran and India make good ground that increased cooperation with India is in the interest of Pakistan and India both and for the region. To promote foreign direct investment, it is important to not only have an integrating approach above political and military differences but also to create a safe and secure environment internally for economic and trade dividends (Kher, 2012).

Trade and Economic Cooperation

Trade in past twenty years in South Asian region continues to be extraordinarily low in comparison to other regions. During this period, the exports in ASEAN have grown ten times whereas in South Asia, it remained hovering around \$100 billion. If

the regional countries increase their trading capacity even half of the ASEAN's average trade, the regional trade figure can hike by another \$2.6 billion (Wilson, 2007). It makes around 60% of total trade being done in the region. Similarly, if the South Asian region in conjunction with the supra-regional world increase their trade halfway to that of ASEAN's average trade figures, dividends to the region are assessed to be of \$36 billion (Wilson, 2007). The growth of regional trade can be promoted if the regime, trade, customs, tariff barriers and infrastructural limitations such as ports and routes of trade are addressed positively in a cooperative framework.

Conclusion

South Asia is amongst the dynamic regions of the world in terms of its resources, human capital, growth potential, trends of urbanization, and evolving industrialization. Increasing population is a boon and a bane simultaneously. This has caused an increase in the demand for resources while posing serious implications on socio-economic prosperity that encompasses food, water, agriculture, industrial products and energy security. Integrated regional economic planning and management of trade, like ASEAN, NAFTA and EU etc. offer great prospects of overall regional economic improvement, and potential for socio-economic development while mitigating political differences. Ongoing volatile security and political situation in the region makes it imperative to strengthen regional integrated coordination mechanisms to optimize synergies and mitigate trade-offs. Number of impediments retard regional growth. South Asia has its characteristic poverty, socio-economic concerns, limited technological base, absence of robust and established infrastructure, inter-state linkages, political distrust and disharmony, illiteracy, unemployment, population, military hazards affecting overall growth. Above all, the unparalleled COVID-19 catastrophe has resulted as a reality, and it would continue to challenge, the already weak economy of South Asia. The pandemic has pushed down the regional growth to about 2.8%. If the regional states aspire to improve upon their individual growth rates, particularly post-Corona timeframe, they would have to engage with others. This undoubtedly, would alleviate poverty as well as result in enhanced quality of living of the habitants of the region.

An integrative approach in South Asia; is bound to result in huge opportunities and bring socio-economic prosperity in the region which offers prospects of collective growth and uplift for the region and for individual states. Integration is not a zero-sum but a wholesome game, with win-win and shared dividends.

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