

South Asian Countries in Regional Integration Perspective: A Critical Review

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ABSTRACT

This article focuses on regional integration among the eight South Asian countries i.e. Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka. This study attempts to undertake an in-depth assessment of the potential of South Asian Free Trade Agreement (SAFTA) in South Asian Association for Regional Cooperation (SAARC) countries. The study is based on secondary data collected from different reliable sources. SAFTA can be a strong source of economic development and it can also enhance socio-economic opportunities throughout the region. Larger and economically stronger countries can achieve better bargaining power on trade negotiations by utilizing existing competitive advantages and regional expertise of the region as a unit. This approach can also help less developed countries to develop their economies and also can ensure the best possible use of the existing resources.

Key Words: Regional Integration, SAFTA, Para-tariff, Economic cooperation.

1. INTRODUCTION

Regional integration means the agreements among the countries in the same geographic region to reduce and finally remove tariff, para-tariff and nontariff barriers to the free flow of goods, services and factors of production among the countries. A step forward to greater regional integration can ensure greater consumer benefits and economic benefits for the countries as a whole. The last decade has witnessed huge proliferation of regional trade and economic agreements. South Asia comprises eight countries – Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka – which are members of the South Asian Association for Regional Cooperation (SAARC) and they have started their journey through making effective South Asian Free Trade Agreement (SAFTA) on 6 January 2004, which marked the unification of their efforts to achieve greater economic integration in the region. Afghanistan is the newest entrant to SAARC. The objectives of the treaty are supposed to be achieved through removing barriers to trade and facilitating cross-border movement of goods, encouraging fair competition and ensuring equitable benefits, creating effective mechanisms for the implementation and application of the agreement.

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At the very beginning, SAARC did not cover the issues of greater trade and economic cooperation rather it was focusing to nine areas of regional cooperation which included transport, communication, science and technology, education, culture, health, population, sports and arts. However, with the huge proliferation of regional agreements and cooperation around the world and greater reforms towards liberalization of the economies, member countries came to the consensus to deepen economic ties among South Asian countries which led to penetrate through signing South Asian Preferential Trading Agreement (SAPTA) in 1993 at the seventh SAARC summit held in Dhaka. SAPTA became effective in December 1995 after the beginning round of negotiations in April 1995. The 19th session of the SAARC Ministerial Council in December 1995 generated the idea to create SAFTA which was subsequently signed on 6 January 2004 during the 12th SAARC Summit. This study attempts to make an in-depth assessment of the potentials of SAFTA in SAARC member countries.

2. OBJECTIVE OF THE PAPER

The prime objective of this study is to portray the potentials of SAARC member countries through an effective implementation of SAFTA. The specific objectives are:

- 1) To represent an updated progress on SAFTA agreement
- 2) To put forward the economic implications of SAFTA from different angles for the member countries
- 3) To estimate existing economic, political and social barriers in implementation of SAFTA
- 4) To recommend some policy-suggestions.

3. METHODOLOGY

The study is basically based on secondary data collected from different reliable sources of published journals, reports and websites. The whole study has been conceptualized in four dimensions namely economic, social, political and legal. On the basis of secondary data existing situation has been identified. Throughout the analysis process prevailing barriers have been scrutinized on the basis of which a set of recommendations have been made. The clear indication has been given about our progress on SAFTA and ways have shown to exceed the existing layer to compare the prevailing achievement of SAFTA.

4. REVIEW OF LITERATURE

There are different regional integrations around the world like ASEAN, NAFTA, European Union (EU), MERCOSUR, and SAARC etc. European Union (EU) is the successful model of regional integration in the world. European Union and the European Free Trade association are the two trade blocs of European countries. In South Asia (SAARC) has been in remarkable

progress in economy. This region (SAARC) has become the second fastest growing regional economy in the world. Although SAARC member countries are hindered with poverty, illiteracy, corruption and underdevelopment but it is covering nearly 23 percent of the total world population.

The proponents (Varshney, 1987; Batliwalla, 1987; Hussain, 1987; Panchamukhi et al, 1990 for example) of regional integration argue that regional economic cooperation among the South Asian Countries would help reduce the economic dependence of these countries on the developed countries in the future. Intra regional trade could facilitate growth and development of the South Asian countries on the basis of regional self-reliance. Considering the empirical evidences, Waqif (1987) mentions that almost all countries have possibilities to increase their respective trade with the partner countries in the SAARC region. Waqif has noted that regional collective self-reliance can be achieved through exploiting horizontal and vertical economic integration among these countries to induce self-generating growth among the member countries. RIS (2004) reports the result of studies conducted in the framework of gravity model which suggests that complete elimination of tariffs under SAFTA may increase the intra-regional trade 1.6 times. By using a gravity model, Rahman, et al. (2006) showed that elimination of trade barriers and structural rigidities originating from adverse political relationship could lead to substantial increase in intra-SAARC trade.

Aparna and Rajiv (2008) argued that the low level of intra-regional trade in South Asia has been driven by a gamut of restrictive policies maintained by the SAARC nations that restrict the flow of goods, services, labour and capital. While SAPTA and now SAFTA has attempted to liberalize the flow of selected product groups (the sensitive products mostly in textiles and food being kept out of the liberalization), the potential for enhancing trade in other areas has not been taken into account as yet. Mehta and Kumar (2004) argued that signing of SAFTA agreement was a landmark in the evolution of SAARC since its formation in 1985. SAARC would benefit from regionalism if its cooperation would extend beyond formal trade.

Using a link model for Pakistan, India, Bangladesh and Sri Lanka Naqvi et al (1988), attempts to analyze the prospects of regional trade expansion. Regional trade expansion shows that India gave more importance on their benefits in terms of export import rather than intra-regional trade benefits. The least oriented country toward regional trade is Bangladesh. It imports more from extra-regional sources rather than intra-regional sources with the increase in GNP. 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. (Mel, 2011).

Raihan and Razzaque (2007) using CGE modeling estimate the trade creation and trade diversion effects of SAFTA shows that a full implementation of SAFTA will lead to welfare gains for India, Sri Lanka and rest of South Asian countries, though Bangladesh suffers from welfare loss. Bangladesh's welfare loss is mainly driven by the negative trade diversion effect which can be undermined by some associated unilateral trade liberalization measure. Bangladesh and other LDCs in South Asia will have to raise their export share into the Indian market substantially in order to increase welfare through positive terms of trade effect. Export diversification in this regard is very important.

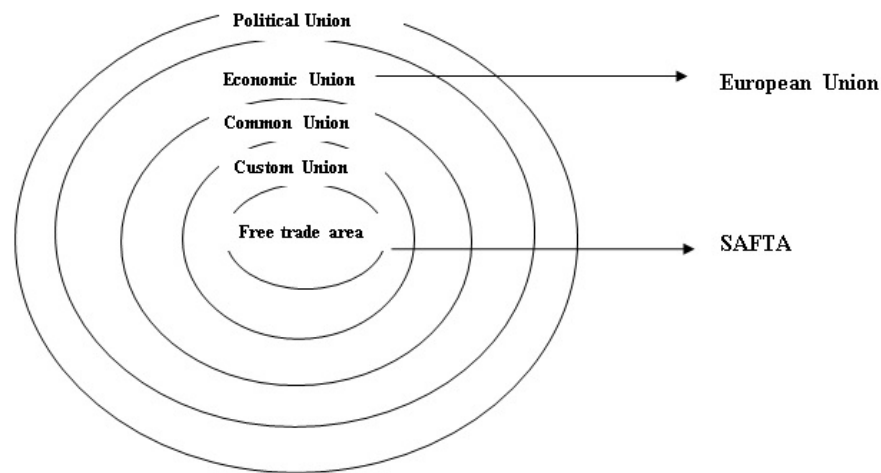
Guru-Gharana (2000) also analyzed the possibilities of trade expansion helps south asian countries to dramatically benefited by regional trade expansion. Though this study is much improved in terms of content and coverage compared to the study of Naqvi et al (1988), it is also not free from limitations. Quoting from Srinivasan and Canonero (1993) Ahmed (1999) notes that principal gains would come from preferential arrangements with bigger block like NAFTA and EU for the larger economies like India and Pakistan. On the other hand, smaller economies like Bangladesh and Nepal would be more benefited from regional integration. Referring to Hossain and Vousden (1996), the author also mentions that small partners – Bangladesh and Sri Lanka- suffer and the bigger partners- India and Pakistan- gain if a custom union is formed among these four countries.

Besides the above mentioned factors there are some other problems which create problem 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, Consequently, World Bank considers improvements in all aspects of supply chain performance as trade facilitation (World Bank, 2007).

Theoretical Framework

Regional Integration is a process entailing several layers. Any successive integration must proceed step by step these phases. The different levels of economic integration are ranging from least integrated to most integrated, they are a free trade area, custom union, common market, economic union and a fully political union.

FIGURE 1: LEVELS OF ECONOMIC INTEGRATION



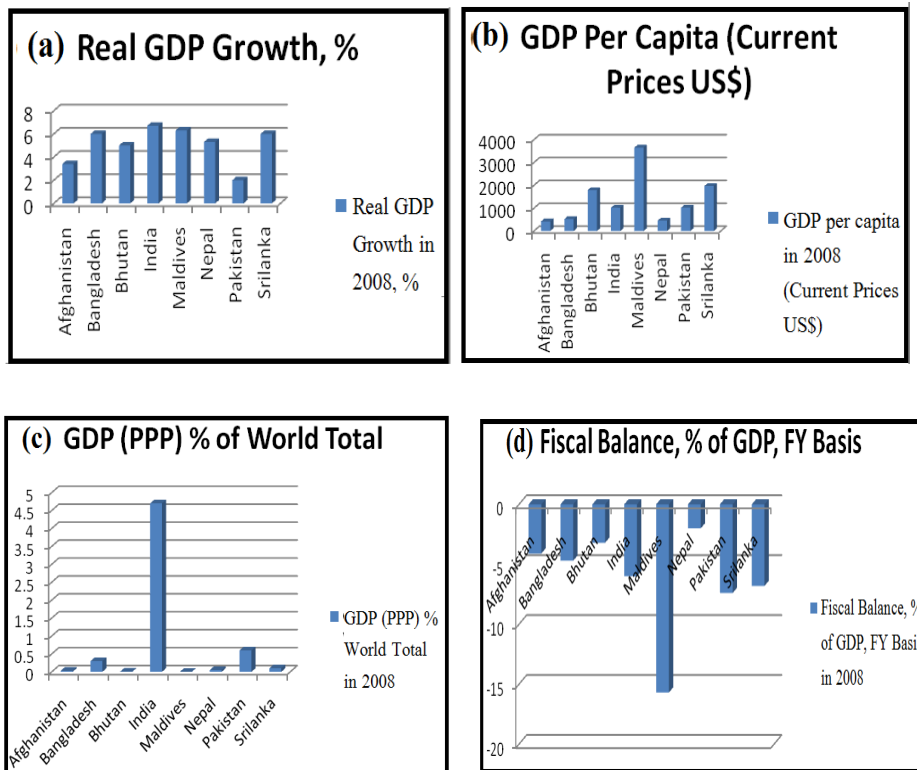
Source: Charles W. L. Hill “International Business” Fourth Edition.

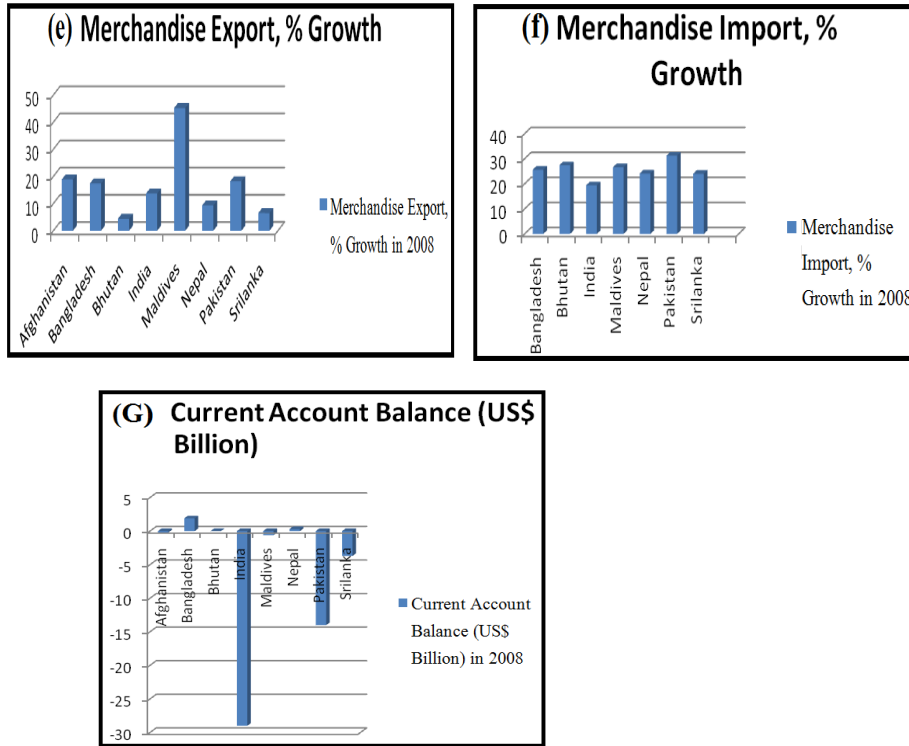
Free Trade Area (FTA) is a situation where tariffs and quotas are abolished for imports from area members, which, however, retain national tariffs and quotas against third countries. In 1992 ASEAN countries launched the ASEAN Free Trade Area (AFTA) plan. On 1 January 2002 six out of ten ASEAN countries reduced internal tariffs on most goods to levels ranging between zero and five percent. The whole ASEAN area is scheduled to become a full-fledged free trade area in the coming years. The USA, Canada, and Mexico are in the process of completing a North-American FTA (NAFTA): many tariffs were eliminated already in 1994, with others being phased out over periods of 5 to 15 Years. Custom Union (CU) refers to a FTA setting up common tariffs and quotas for trade with non-members. For an example European Economic Community since 1968. The MERCOSUR (Southern Common Market: Argentina, Brazil, Uruguay, Paraguay) aims at becoming a fully-fledged CU by 2006. A Common Market (CM) refers to a CU abolishing non-tariff barriers to trade (product and services markets integration) as well as restrictions on factor movement (factor market integration) European Community since 1993 (establishment of the European Single Market). The CM was already set up as an objective under the Treaty of Rome. Economic Union (EU) refers to a CM with a significant degree of coordination of national economic policies and/or harmonization of relevant domestic laws.

5. DISCUSSION AND ANALYSIS

South Asian countries, being considered as the promising economies in the twenty first century are not evolving with same shape and indicators. The region is evolving with a blend of inter and intra country differences. India is emerging as the upcoming tiger in global economy where as countries like Bangladesh is still struggling to come out from the marginally developed countries in global economy. Pakistan has been busy with emphasizing to gear up its effort to tackle the problems of terrorism whereas Sri Lanka has recently come out from the sufferings of civil war with Tamil tigers in her own country. The following graphs summarize macro-economic status of the South Asian countries.

Graph 1: Macro-economic status of the south Asian countries: 2008
(in million/Billion)

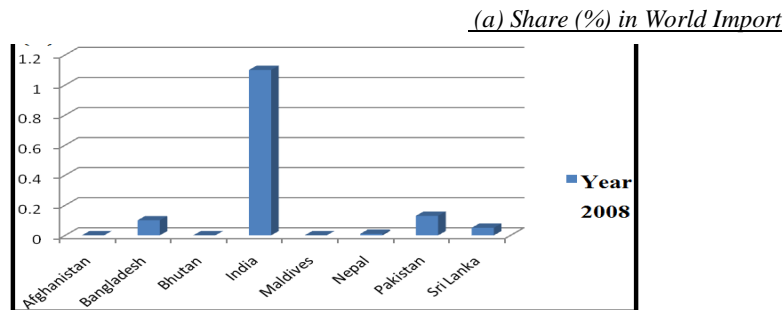




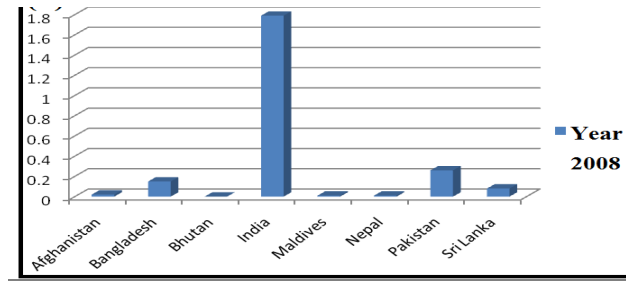
Source: World Economic Outlook, International Financial Statistics, IMF and Asian Development Outlook, ADB.2008

From the above information it is clear that India is leading SAARC region with consistent economic growth of around 6.7%. Considering per capita income, Maldives conquer highest position with US\$ 3653. In term of global GDP India is claiming 4.7% with 5.7% merchandise deficit. Due to high inflow of remittance from migrant workers abroad and continuous growth of RMG export, Bangladesh has 1.9% current account balance.

Graph 2: Present Share of SAARC Region in world Export/Import 2008



(b) Share (%) in World Export



Source: Data calculated from UN comtrade database, United Nations Commodity Trade Statistics, August 2007

SAARC members have an insignificant share in global trade. Most members have increasing growth of import than export which leads to the higher trade deficit. Because of her being the largest economy in SAARC and also a country characterized by steady development, India has the highest contribution to the world trade than other members of SAARC.

TABLE 1
RANKING FIVE MAJOR TRADING PARTNERS OF SOUTH ASIAN COUNTRIES, 2005

Reporter Partner	Top 5 Exporters	Top 5 Importers
Bangladesh	European Union, United States, Canada, Japan, India	China, India, European Union, Japan, Singapore
Bhutan	India, Bangladesh, United states, Nepal, European Union	India, Singapore, Japan, Thailand, European Union
India	European Union, United states, UAE, China, Singapore	European Union, China, United states, Switzerland, Australia
Maldives	UAE, European Union, Thailand, Japan, Sri Lanka,	Singapore, UAE, European Union, India, Malaysia
Nepal	India, United states, European Union, China, Bangladesh	India, China, Singapore, European Union, Malaysia.
Pakistan	European Union, United States, UAE, Afghanistan, Hong Kong	European Union, Saudi Arabia, UAE, China, Japan
Sri Lanka	United states, European Union, India, Russian, UAE.	European Union, India, Singapore, Hong Kong, China.

Source: Data compiled from WTO database files, April 2007

SAARC countries export merchandise especially to developed countries like EC, USA, Canada, Australia and Japan. India and Pakistan are especially marked for the worldwide exports. India is the leading destination market for

Afghanistan, Bhutan and Nepal. India maintains the highest applied MFN (Most Favored Nation) tariffs on the traded goods within the region compared to other markets and only a small share of the bilateral imports (by value) from the regional partners are duty-free in India. For example, India is the second largest export market for Afghanistan, but a weighted average MFN tariff of 45.5 percent applicable for imports from Afghanistan and only 17.8 percent imports from Afghanistan were duty-free. Although India has a PTA with Afghanistan but in reality only a few merchandises enjoy the benefits. In comparison India-Nepal free trade agreement is considered as the most liberal among all countries. But still the weighted average MFN on imports is 22.4 percent for Nepal, and only 14.7 percent of the merchandise imports are duty-free. The only exception is observed on the two-sided imports into India from Sri Lanka, where 93 percent of the imports was duty-free.

TABLE 2
WORLD-WIDE TRADE IN INTRA-REGIONAL GROUP TRADE

Regional Group	Trade in Intra-Regional Group Trade							
	1950	1960	1970	1980	1990	1995	2000	2008
MERCOSUR	6.1	7.6	9.4	9.7	11	19.2	19.9	15.5
NAFTA	35.5	30.4	36	33.2	37.2	42	46.8	40
ASEAN	2.8	12.7	22.4	15.9	17	21	22.7	25.8
ASEAN+3	16.1	21.9	25.8	29	26.8	34.9	33.7	34
GCC	-	-	4.6	3.9	8.1	7.5	6.2	5.5
SAARC	11.6	5	3.2	3.5	2.7	4.3	4.5	4.8
EU25	47.9	51.8	61	61.8	67.4	66.4	67.2	66.7
Euro zone	36.1	41.2	53.7	48.1	54.5	53.2	50.3	49.2
APEC	44.2	47	57.4	57.5	67.7	71.7	72.5	65.5
CIS	-	-	-	-	-	33.4	28.4	22.7

Source: UNCTAD (2008)

Though the growth of intra-regional trade has been remarkably increasing in EU25 and Euro zone, from the above statistics we found among the ten regionally integrated organizations over the world, SAARC have comparably a minor share in terms of intra-regional trade. When the intra-trade increased between Europe, SAARC region has taken a decreasing trend from sixties. The growth and progression in intra-regional trade became relatively slower after foundation of WTO.

SAARC members are in continuous process of promoting multilateral trade as WTO members. Only Bhutan and Afghanistan is in the process of becoming WTO members. The Factual Summary of Points Raised, prepared by the Secretariat, was circulated in May 2012. The Working Party met for the second time in June 2012 to continue the examination of Afghanistan's

foreign trade regime. For SAARC developing countries, SAPTA or SAFTA is helping and encouraging for forming trade alliance outside of SAFTA. The objective of the SAARC charter aims: “to strengthen cooperation among themselves in international forums on matters of common interest”, except that such strong cooperation is yet to emerge. The structural and institutional benefits for small SAARC countries from regional integration, and political-economy benefits for all countries from greater regional cooperation can be considered as stepping stones in the integration process. Moreover, since each of the South Asian countries are increasingly looking outward (both for multilateral and regional treaties), greater intra-regional trade will occur simultaneously and not as a substitute for extra-regional integration.

Globalization of trade demands for better bargaining power to sustain and gain advantages in the trade industry. Achieving and maintaining bargaining power is very difficult as an individual entity whereas unity of regional blocks has better possibility to achieve desired advantages. At the multilateral trading forum regional unity allows for enhance bargaining power during negotiations. European commission (EC) is a group of 27 countries which represents as a single entity and EC is the most prominent among other regional unit. Small and weaker economy can have remarkable advantages and can build their economy in the multilateral trading system. South Asian nations did not negotiate as a single unit at GATT or WTO but coincidentally the interests and concerns on discussion were similar at the global forum, particularly in terms of improved market access for products and removal of trade-distortionary subsidies in the developed countries.

TABLE 3
**INTRA -REGIONAL TRADE SHARE (% OF THE TOTAL) OF SOUTH-
 ASIA'S TOTAL TRADE, 1985-2007**

Intra -regional Trade Share (% of the Total) of South-Asia's Total Trade						
Country	1985	1990	1995	2000	2004	2007
Afghanistan	11.4	14.5	11.1	29.7	35.3	43.1
Bangladesh	4.7	6	12.8	7.9	10.5	9.4
Bhutan						
India	1.7	1.6	2.7	2.5	3	2.7
Maldives	12.5	12.7	14.3	22.2	19.8	12.2
Nepal	34.3	11.9	14.8	22.3	47.2	60.5
Pakistan	3.1	2.7	2.3	3.6	5	6.6
Sri Lanka	5.5	5.6	7.8	7.4	15.1	18.9

Source: Regional Co-operation Strategy and Programme, South Asia (2006-2008) ADB.

From the above statistics it is clear that in terms of regional dependence Afghanistan and Nepal has high level of association to the SAARC countries, which is 43.1% and 60.5% and it is consistently increasing. Only 2.7% of India's total trade dependent on South Asian Countries. Sri Lanka and Maldives are holding third and fourth position with 18.9% and 12.2% trade within SAARC countries. Having Ready Made Garments (RMG) as prime trading goods, Bangladesh is targeting USA and European market and it has only 9.4% trade dependence on this region. Considering the market dependence Afghanistan gets the logical mandate to be a member of SAARC and it is an appropriate decision to the onward progress of forming SAARC.

SAARC also engages in developing new trade treaties and the members countries follow the momentum of pursuing bilateral and extra-regional preferential trade treaties.

India, Bangladesh, Bhutan, Sri Lanka and Nepal are also involved in Bay of Bengal Initiative for Multi Sectorial Technical and Economic Cooperation (BIMSTEC) and the initiative includes two ASEAN Members Myanmar and Thailand. BIMSTEC is a well-thought-out link between the two regional groups, ASEAN and SAARC. India has also negotiated preferential trade agreements with Chile, and is now engaged in negotiations for preferential trade/comprehensive economic cooperation agreements with the ASEAN, EU, Gulf Cooperation Council (GCC), Malaysia, Mauritius, South Africa and Thailand.

The SAFTA tariff liberalization initiative also allows Members (as in the SAPTA) to retain a sensitive or negative list of items that are not offered for reduction treatment. This arrangement of limited product coverage and the presence of negative list reduced the scope of intra-regional trade in South Asia. It is estimated that almost 53 percent of the total import trade in SAFTA members has been subject to the negative lists of the respective countries. Large member countries as India and Sri Lanka have restricted up to 38% and 52% from the SAFTA members under the sensitive list category. The negative/sensitive lists significantly limit the core advantages and purpose of the South Asian "Free Trade" unity.

Another significant barrier for SAARC region is procedural delays. This self-destructing procedure for institutional requirements has inhibited trade and business across borders. In particular, South Asia ranks second last among regions across the world in terms of ease of trading across borders (the last being Sub-Saharan Africa). In particular, India ranks 139 which is awfully low in "ease of trading across borders" whereas China accomplished 38th position. Poor port and transport infrastructure, regulatory environment and service-sector infrastructure in South Asia has been an obstacle to growth for the region as well as its integration (De 2005). Delays in transit due to road or port congestion and customs procedures (NTBs) raise the costs for

exporters. The limitations are in both physical (lack of cargo/ship handling equipment) as well as non-physical infrastructure (excessive and cumbersome border procedures).

Theoretically free trade between borders enhances economic efficiency, growth and protects domestic market failures in imbalanced competitive industry. However, free trade facility has supplementary costs. One of the major supplementary costs is loss of tax revenue which is remarkably important for government revenue collection. Tariff loss due to free trade agreement may be substantial for SAFTA member countries, therefore welfare implications of free trade become an important issue. Bangladesh and other SAARC countries have positive impact for 100% tariff reduction by Bangladesh. Welfare gains for all seven countries amounts to \$795.82 Million.

Welfare gains for all seven countries amount to be \$ 81.95 Million for 100% tax reduction by India. Total trade increased by approximately \$71.94 Million. Actual trade opportunity can be lower as India import significant merchandise at zero duty from other south Asian countries.

Welfare gains for all seven countries amounts to be \$3.4 million. In case of 100% tariff reduction by Maldives, trade increased for all seven countries by \$ 26.17 Million. There are welfare gains for all seven countries amounts to be \$ 24 million. 100% tariff reduction by Nepal increased total trade effect by approximately \$ 14.39 Million

India has highest positive effect due to the 100% tax reduction by all south Asian countries. Except India other countries have almost no gain due to tax reduction by Pakistan and Sri Lanka.

World Integrated Time Solution (WITS) have conducted study on bilateral potential and actual trade, taking average of the period 1995–2005, for different trading partners in SAFTA. Report states that gap between actual and potential trade on an average for each trading countries is around 55%. The trading partners have very little bilateral trade and have strong possibility to increase trade among them by almost 100%. Countries have the greater opportunities of trade developments are - Bhutan with Maldives and Sri Lanka; Maldives with Nepal and Bangladesh and Bangladesh with Maldives and Nepal. On the other hand, some trading partners are trading more than their potential trade, e.g. Sri Lanka with India and Maldives. A free trade agreement between India and Sri Lanka in year 2000 enhanced the trade substantially (till 2005 it was almost 300%) between these two countries. On contradictory scenario, signing a Free Trade Agreement may not always enhance trade significantly, e. g after an FTA between Sri Lanka and Pakistan in the year 2002, trade between these two countries still remains low. Highest

trade potential exists between India and Bangladesh followed by India and Pakistan.

The eighteenth summit of 'South Asian Association of Regional Cooperation' (SAARC):

After an interval of three years, the eighteenth summit of SAARC was organized in Kathmandu, Nepal during 26-27 November 2014. With the theme of “Deeper Integration for Peace & Prosperity”, this summit was focused on the enhancing connectivity between the member states for easier transit-transport across the region. In these summit, SAARC framework Agreement for Energy cooperation (Electricity), was signed and many more upcoming projects were discussed which will be reviewed again in 2016 summit. But the SAFTA issue was not discussed.

As we have seen China as an observer of this group, promoting active roles for this summit by providing proposal of Asian Infrastructure Investment Bank (AIIB) and promoting Maritime Silk Road project for South Asian Region.

6. FINDINGS

1. In article-3 of SAFTA, it says that the agreement i.e. SAFTA shall involve the free movement of goods, between countries through; inter alia, the elimination of tariffs, para-tariffs and non-tariff restrictions on the movement of goods, and any other equivalent measure. India is the only country that imposes specific duties on a wide range of textile fabric and readymade garments (RMG). In spite of some achievement in the areas of trade, still the member countries are maintaining a long negative list which is significantly deterring the progress of this regional block toward its advancement.
2. Apart from economic barriers, political condition of the member countries particularly the volatile scenario in Pakistan and Nepal as well as the bilateral political situations between India and Pakistan, have been playing a negative role in the advancement of SAFTA.
3. Agricultural products dominate the export baskets of South Asian countries; high tariff rates on these items seriously inhibit intra-regional trade.
4. There is high trade concentration of India and Pakistan with the developed countries (EC, USA) vis-a-visa member countries of SAFTA. As a consequence, other SAARC countries do not feel motivated to enhance intra-regional trade among themselves.
5. Poor port and transport infrastructure, regulatory environment and service-sector infrastructure in South Asia has been an obstacle to growth for the region as well as its integration. The South Asian countries are labor-intensive in their economic activities. The skill level is quite dissimilar across the region. Service sector has been emerging with a

larger pie within the trade scenario among the member countries reducing the gap of skill variety; it would enlarge the scope of trade.

6. Third country diverted (trade using a separate country rather than the trading countries) trade will not yield direct benefits to the consumers in the member countries of SAFTA. The member countries of SAFTA can generate relatively greater advantage through developing synergetic effort. But is SAFTA yet to exploit synergies in production across the borders in sectors where they have comparative advantages. There will be revenue losses for all members of SAFTA due to 100% tariff reduction. Except Bangladesh and Nepal, most of the South Asian countries are achieving adequate welfare for covering revenue loss. Welfare and total trade effects are found to be positive in all member countries. Economically strong county like India is gaining more than LDC's, which should be opposite way due to the 100% tariff free trade across South Asian countries.
7. There are greater possibilities to increase trade throughout the South Asian Countries. There are still 55% trades potentials yet to realize.

7. CONCLUSIONS

The South-Asian region has become the second fastest growing regional economy in the world. Although the member countries of SAARC, has been facing severe problems like poverty, illiteracy, corruption and underdevelopment but covering the 23% of the total world population. Various researches have suggested that regional integration would help reduce the economic dependence of these countries on the developed countries in the future. Since the formation in 1985, SAARC countries have various collaboration to improve the scenario, but the most significant landmark was signing of SAFTA agreement in 1993. Though several objectives has been set for the SAFTA, many of them is not fulfilled due to various limitations till date. Throughout this review, we have tried to analyze the current situation of SAFTA and have found several challenges.

Finally, apart from the high levels of protection in the region, institutional and infrastructure deficiencies have undermined the economic integration in the region. Building confidence and minimizing lack of trust between member countries will lead to explore the greater economic interest and hence increase the potentiality of South Asian countries in regional perspective.

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APPENDIX

TABLE-I

MACRO-ECONOMIC STATUS OF SOUTH ASIAN COUNTRIES: 2008

(in million/Billion)

Variables	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	PAK	SRI
Real GDP Growth, %	3.4	6	5	6.7	6.3	5.3	2	6
GDP Per Capita (Current Prices US\$)	419	522	1789	1020	3653	455	1022	1972
GDP (PPP) % of World Total	0.03	0.3	0.01	4.7	0.002	0.05	0.6	0.1
Fiscal Balance, % of GDP, FY Basis	-4.1	-4.7	-3.2	-6	-15.7	-2	-7.4	-6.8
Merchandise Export, % Growth	18.9	17.4	4.4	13.7	45.2	9.3	18.2	6.5
Merchandise Import, % Growth	12.1	25.6	27.4	19.4	26.6	24.1	31.2	24
Current Account Balance (US\$ Billion)	-0.2	1.9	-0	-2.9	-0.6	0.3	-14	-3.7

Source: World Economic Outlook, International Financial Statistics, IMF and Asian Development Outlook, ADB 2008.

TABLE 2

SHARE OF SAARC REGION IN WORLD EXPORT/IMPORT (IN PERCENT)

Share of SAARC Region in world Export/Import (Percent)				
Country	1980	1990	2000	2008
Afghanistan	0.03/0.04	0.01/0.03	0.002/0.02	0/0.02
Bangladesh	0.04/0.13	0.05/0.1	0.1/0.13	0.1/0.15
Bhutan	0/0	0/0.002	0.002/0	0/0
India	0.42/0.72	0.52/0.66	0.66/0.77	1.1/1.79
Maldives	0/0	0/0.004	0.002/0.01	0/0.01
Nepal	0/0.02	0.01/0.02	0.01/0.02	0.01/0.01
Pakistan	0.13/0.26	0.16/0.21	0.14/0.16	0.13/0.26
Sri Lanka	0.05/0.1	0.05/0.07	0.08/0.09	0.05/0.08
SAARC	0.68/1.26	0.8/1.09	1/1.21	1.39/2.31

Source: Data calculated from UN comtrade database, United Nations Commodity Trade Statistics, August 2007

TABLE 3
RANKING FIVE MAJOR TRADING PARTNERS OF SOUTH ASIAN
COUNTRIES, 2005

Reporter Partner		Rank-1	Rank-2	Rank-3	Rank-4	Rank-5
Bangladesh	Export	European Union(56.1)	United states (26.2)	Canada(4.0)	Japan(1.5)	India(1.3)
	Import	China(13.9)	India (12.0)	European Union(9.9)	Japan(9.6)	Singapore(4.3)
Bhutan	Export	India (94.4)	Bangladesh(4.2)	United states(0.5)	Nepal(0.5)	European Union(0.1)
	Import	India (74.4)	Singapore(12.7)	Japan(3.3)	Thailand(3.1)	European Union(1.3)
India	Export	European Union(22.5)	United states(16.9)	UAE(8.3)	China(6.6)	Singapore(5.3)
	Import	European Union(17.2)	China(7.3)	United states(6.3)	Switzerland(4.4)	Australia(3.3)
Maldives	Export	(24.2)	European Union(18.1)	Thailand(15.3)	Japan(14.6)	SriLanka (12.5)
	Import	Singapore(24.1)	UAE(15.1)	European Union(14.2)	India(11.3)	Malaysia(7.2)
Nepal	Export	India(52.4)	United states(29.1)	European Union(9.6)	China(3.4)	Bangladesh (0.9)
	Import	India(53.0)	China(8.4)	Singapore(6.3)	European Union (6.3)	Malaysia(3.3)
Pakistan	Export	European Union (26.5)	United states (24.8)	UAE(7.8)	Afghanistan (6.6)	Hong kong (3.7)
	Import	European Union (17.4)	Saudi Arabia(10.6)	UAE (9.9)	China (9.4)	Japan (6.5)
Sri Lanka	Export	United states (32.2)	European Union(31.0)	India (9.1)	Russian Federations(2.6)	UAE (2.4)
	Import	India (17.3)	European Union(15.5)	Singapore (8.9)	Hong kong (7.8)	China (7.6)

Source: Data compiled from WTO database files, April 2007