

Unlocking the Potential of Regional Economic Cooperation and Integration in South Asia

Potential, Challenges and the Way Forward





The shaded areas of the map indicate ESCAP members and associate members

ESCAP is the regional development arm of the United Nations and serves as the main economic and social development centre for the United Nations in Asia and the Pacific. Its mandate is to foster cooperation between its 53 members and 9 associate members. ESCAP provides the strategic link between global- and country-level programmes and issues. It supports Governments of countries in the region in consolidating regional positions and advocates regional approaches to meeting the region's unique socioeconomic challenges in a globalizing world. Headquartered in Bangkok, Thailand, ESCAP has established subregional offices in Fiji, Incheon, Almaty and New Delhi to serve the respective subregions.

Please visit the ESCAP website at www.unescap.org for further information.

United Nations publication

Sales No.: E.17.II.F.14

Copyright © United Nations 2017

This edition, September 2018

All rights reserved

ISBN: 978-92-1-120748-4

eISBN: 978-92-1-060629-5

ST/ESCAP/2779

Unlocking the Potential of
**Regional Economic Cooperation and Integration
in South Asia**
Potential, Challenges and the Way Forward



PREFACE

Regional economic cooperation and integration, with regional trade and investments as primary drivers, has been an influential transformative force in bringing about inclusive and sustainable development outcomes and welfare gains in many parts of the world. Nearer home, South East Asian subregion, is the developing world's leading example of how rich development dividends can be reaped from regional cooperation. The ASEAN has progressively deepened economic cooperation for sharpening its collective competitive edge and thereby create policy space to address domestic socio-economic challenges. Future directions for the achievement of the Sustainable Development Goals especially in South Asia would critically depend on how state and non-state actors and stakeholders are brought together under regional economic cooperation and integration (RECI) frameworks.

As this Report argues, the South Asian subregion has a lot of ground to cover in terms of regional economic integration. The volatile and uncertain external environment ever since the onset of the global financial crisis sets a new context to revisit policy priorities in this regard. The subregion has been making progress on some indicators of trade and investment, notwithstanding certain inter-country differences in performance. But the progress has been slow at best, enabling it to exploit only less than a third of potential of intra-subregional trade.

Through the UNESCAP resolution 68/10 on "Enhancing regional economic integration in Asia and the Pacific", countries of the Asia-Pacific region have acknowledged the potential of regional economic cooperation and integration in eliminating poverty and, in achieving inclusive and sustainable development. The Bangkok Declaration of December 2013 on Regional Economic Cooperation and Integration in Asia and the Pacific, endorsed through UNESCAP resolution 70/1, subsequently helped in securing commitment of Asia-Pacific countries to work together for economic integration. South Asia also has a number of institutional frameworks for regional cooperation like SAARC and BIMSTEC.

This Report tracks the status of regional economic cooperation and integration in the South Asia subregion and identifies policy priorities for the future in this regard. In doing so, it covers four broad areas of international collaboration as identified by the Bangkok Declaration; (i) market integration through enhanced cross-border trade and investments, (ii) development of transport, energy, ICT and people-to-people connectivity, (iii) greater financial cooperation for closing infrastructure gaps and liquidity support; and (iv) increasing economic and technical cooperation to address shared vulnerabilities and risks.

Taking into account the low baseline scenarios and massive socio-economic challenges faced by South Asia, the report underscores the need to accelerate reforms for deepening subregional economic integration with utmost urgency. This could be achieved through putting in motion a South Asia Comprehensive Economic partnership (SACEP), recommended in this report to consolidate and build upon initiatives such as trade facilitation measures for formation of production networks and regional value chains, measures for liberalization of trade in services and improvement of investment climate, and necessary reforms for overall procedural ease of trade and investment.

South Asian countries also need to take bold steps to broaden the horizons of economic relations with neighboring subregions of Central Asia, South East Asia and beyond. In this regard, South Asia's economic integration can benefit from institutional arrangements provided under overlapping regional organisations such as SAARC, ECO, and BIMSTEC. By building synergies between various related bilateral and plurilateral initiatives and agreements for economic integration which are currently in progress, the subregional countries will have greater opportunities to secure their position in the broader Eurasian economic space. With its convening authority, multi-sectoral agenda of work and strategic presence in the subregion, UNESCAP is uniquely placed to assist in strengthening regional economic cooperation in South Asia and beyond, with a larger goal of uniting Asia and the Pacific for sustainable development.



EXECUTIVE SUMMARY

As the persistent slowdown becomes the new normal for advanced economies and as the centre of gravity of the world economy shifts eastwards, regionalism within and between subregions becomes a critical strategy for sustaining the Asia-Pacific region's dynamism. With intraregional trade stagnating at around 6% of total trade of the subregion, the bulk of South Asia's intraregional potential remains to be exploited. Broad-based regional economic cooperation could enable far more effective responses to the subregion's developmental challenges. Under the framework of regional economic cooperation and integration, key priorities for the subregion are intraregional trade and investment flows, transport and information and communication technology (ICT) connectivity, and financial integration, as well as subregionally coordinated policies for addressing shared vulnerabilities such as food insecurity and disaster risks. Progress in these areas would help prepare the subregion to better participate in and benefit from broader regionalism in Asia and the Pacific.

Intraregional trade and investments

South Asia is often described as the world's least integrated subregion, with the value of intraregional trade less than one third of its potential, at \$26.8 billion in 2014 against a potential of \$81.2 billion, as estimated by the UNESCAP South Asia Gravity Model. This means that more than 67% of trade potential is not being exploited. This potential could also more than double by 2020 to an estimated \$172 billion. It has been shown that regional trade liberalization and enhanced facilitation to reduce trade costs can generate substantial welfare gains for all member states, especially for the poorer and smaller countries of the subregion, leading to more balanced regional development. The results of the UNESCAP-SANEM South Asia Model suggest that reducing trade costs by 40%, to the levels prevalent across countries in the Association of Southeast Asian Nations (ASEAN) would alone generate a significant impact in terms of exports and welfare gains, yielding an increase of up to almost 11% in intraregional exports and a nearly 3% increase in South Asia's gross domestic product (GDP). The potential of intraregional trade in services, as well as investments, also remains untapped, as does the scope for forming regional production networks or value chains.

The low level of intraregional trade is explained by a number of factors such as the high costs of intraregional trade, poor supply capacity in the Least Developed Countries (LDCs) in the region, poor trade facilitation at borders, and the prevalence of a variety of non-tariff barriers. To foster regional production networks or value chains, this report recommends the consolidation and upgrading of existing trade and investment cooperation initiatives into a South Asia Comprehensive Economic Partnership (SACEP). SACEP could cover seven key policy priorities, namely

a) advancing the liberalization of trade in goods, b) strengthening facilitation of transport and trade at the land borders, c) effective liberalization of regional trade in services, d) investment promotion to foster regional value chains, e) harmonizing product standards and conformity assessment procedures, f) cumulative rules of origin and industrial cooperation, g) coordination of international payment arrangements and banking cooperation.

Several ongoing and new policy initiatives can contribute to the fulfillment of these priorities set under the composite SACEP framework. Some of the most important such policy programmes are: achievement of substantial cuts in sensitive lists within an agreed timeframe under the ongoing South Asian Free Trade Area Trade Liberalization Programme (SAFTA TLP) for advancing trade in goods; utilization of new policy tools such as the UNESCAP-led Framework Agreement on the Facilitation of Cross-Border Paperless Trade in Asia and the Pacific, adopted in 2016 for the digitization of trade procedures and establishment of single-window systems; formulation of a regional common schedule for services trade liberalization under SATIS negotiations in key service sectors of interest to the subregion; measures for transparency in investment rules; and adoption of an inclusive approach involving the private sector led by the SAARC Chamber of Commerce and Industry (CCI) towards reforms in the area of regional product standards. In this context, the possibilities of utilizing advanced technologies for critical policy solutions should be explored in detail, such as the usage of realtime gross settlements (RTGS) to save time and costs of cross-border payments in South Asia proposed by a recent UNESCAP study.

Transport, energy, ICT and people-to-people connectivity

Regional connectivity in South Asia is particularly important because of its potential to turn the subregion into a land bridge between Europe, Central Asia and South-East Asia. Two trunk corridors identified by UNESCAP, which have feeder links across the breadth of South and Central Asia, are: (1) Turkey–Iran–(Islamic Republic of) Pakistan–India–Bangladesh–Myanmar (TIPI–BM) road corridor and (2) Istanbul–Tehran–Islamabad–Delhi–Kolkata–Dhaka (ITI–DKD) Rail Corridor. Both corridors are integral parts of the Asian Highway (AH) and Trans-Asian Railway (TAR) networks and have connecting sublinks to major ports. Together they offer multimodal transport options, particularly for landlocked LDCs. Key challenges to making them operational include gaps in physical infrastructure, lack of transit and transport agreements, inadequate transport facilitation measures, and the absence of a comprehensive approach through a connectivity master plan.

Regional cooperation is also the most potent policy solution to overcome South Asia's energy challenges. By linking together native sources using regional grids and effectively utilizing supply-demand complementarities through trade, cross-border investments and technical cooperation, inefficiencies in the energy production-consumption cycle can be reduced to a large extent in a mutually beneficial manner. This is particularly so in the electricity subsector. The main avenues for fostering energy connectivity in the subregion are: (i) creation of a regional power market by pursuing SAARC Power Grid and SAARC Market for Electricity Trade in Energy Sources-Oil and Gas; (ii) cooperation in renewable energy technologies, including sharing of knowledge and best practices; and (iii) cooperation in energy resource exploration and management.

While South and South-West Asia have made notable advances in positioning the subregion as a major production hub and exporter of IT and IT-enabled services, more policy attention is required to improve the penetration of IT services within the subregion and establishment of cross-border infrastructural links for digital connectivity. The UNESCAP-led initiative for the Asia-Pacific Information Superhighway (AP-IS) aims to increase the availability and affordability of broadband

Internet across the region, by strengthening the underlying Internet infrastructure in the subregion. Capacity-building initiatives and sharing of national experiences are proposed to take this forward in partnership with the International Telecommunications Union (ITU), the Asia-Pacific Telecommunity (APT), the Internet Society (ISOC) and other organizations with relevant expertise.

Financial cooperation

Financial cooperation in the subregion could facilitate closing infrastructure gaps and building productive capacities. Establishment of SAARC Finance as a regional body of central banks, the Inter-Governmental Expert Group (IGEG) on Financial Issues, and the SAARC Public Debt Managers' Forum are some of the key initiatives that need further strengthening. The Regional Currency Swap Arrangement and affiliation with the Asian Clearing Union (ACU) are important prospects. With weak domestic capital markets and limited access to international capital markets, a notable impact could be made by allowing enterprises from South Asian LDCs to list and to raise capital in more developed capital markets in the subregion, such as in India, Pakistan, Sri Lanka or Turkey.

Addressing shared vulnerabilities

Regional cooperation should also be extended to cover shared challenges such as food insecurity and losses owing to increasing natural disasters. Food security requires policy action to: eradicate extreme poverty; to ensure better and less unequal access to food; to extend the coverage of social protection programmes; to improve household incomes and consumption and to increase smallholder agricultural productivity. Actions required at the subregional level include sharing country experiences and policy insights on these areas as well as strengthening of regional institutions such as the SAARC Food Bank. For South Asia, which account for almost a third of the deaths caused by disasters globally and second highest in terms of economic losses, the SDGs that seek disaster resilience are especially relevant. Building on the achievements of the Regional Integrated Multi-hazard Early Warning System (RIMES), which is supported by the UNESCAP Multi-Donor Trust Fund for Tsunami, Disaster and Climate Preparedness, there is a need to put in place a network of multi-hazard early warning systems. Similar cooperation for sharing information and knowledge towards building resilient cities in high seismic risk areas could also prove fruitful. In this area, the establishment of the Asian and Pacific Centre for the Development of Disaster Information Management (APDIM) in Tehran under UNESCAP can complement the institutions created within the frameworks of the SAARC and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC).

SAARC and beyond: South Asia and broader regionalism in Asia-Pacific

South Asia needs to integrate more broadly into Asia-Pacific and the possibilities for greater synergies in the broader Eurasian economic space. Firstly, the three overlapping groups of SAARC, ECO and BIMSTEC could create an institutional arrangement to facilitate cross-fertilization and learning, linking programmes to exploit synergies and network externalities that could become an arc of advantage. A broader and more open platform for regional cooperation could also help to diffuse the political sensitivities that have often held up progress towards South Asian economic integration. The lifting of sanctions on the Islamic Republic of Iran and democratic transition in Myanmar are also positive developments that can facilitate this shift. With its convening authority, multisectoral agenda of work and strategic presence at the subregional level, UNESCAP is uniquely placed to promote deeper cooperation in South Asia and beyond by providing a forum for fostering broader regional integration in Asia and the Pacific.



ACKNOWLEDGEMENTS

The preparation of the Report ***Unlocking the Potential of Regional Economic Cooperation and Integration in South Asia*** was led by Nagesh Kumar, Head, UNESCAP South and South-West Asia Office (UNESCAP SSWA). The core report team comprised Matthew Hammill, Joseph George, Swayamsiddha Panda and Wanphen Sreshthaputra of UNESCAP SSWA. Hongjoo Hahm, Deputy Executive Secretary for Programmes, Economics and Financing, provided valuable advice and guidance.

The Report benefited from inputs, extensive comments, feedback and suggestions provided by a group of external experts including at the meeting organized at the UNESCAP South and South-West Asia Office on 17-18 September 2015. Such feedback was also gathered during presentations made of earlier versions of the Report at the 8th South Asia Economic Summit held in Islamabad on 7-8 December 2015. These experts included: Selim Raihan, Professor of Economics, University of Dhaka and Executive Director of the South Asian Network on Economic Modelling, Bangladesh; Ramgopal Agarwala, Chairman, Pahle India Foundation, India; Indra Nath Mukherjee, former Dean, School of International Studies, Jawaharlal Nehru University, India; N.R. Bhanumurthy, Professor, National Institute of Public Finance and Policy, India; Ram Upendra Das, Professor, Research and Information System for Developing Countries, India; Posh Raj Pandey, Executive Chairman, South Asia Watch on Trade, Economics and Environment, Nepal; Rabi Shankar Sainju, Joint Secretary Ministry of Commerce and Industry, Nepal; Abid Qaiyum Suleri, Executive Director, Sustainable Development Policy Institute, Pakistan; Muhammad Iqbal Tabbish, the then Secretary-General, SAARC Chamber of Commerce & Industry, Pakistan; and Saman Kelegama, Executive Director, Institute of Policy Studies of Sri Lanka.

The staff members of UNESCAP who provided inputs and comments include Susan Frances Stone, Mia Mikic and Witada Anukoonwattaka (Trade, Investment and Innovation Division); Hamza Ali Malik, (Macroeconomic Policy and Financing for Development Division); Yuwei Li (Transport Division); Donovan Storey, Katinka Weinberger and Kohji Iwakami (Environment and Development Division); Shamika Sirimanne, Sanjay Srivastava and Atsuko Okuda (ICT and Disaster Risk Reduction Division).

A group of interns at the UNESCAP South and South-West Asia office provided useful research assistance, including Ron Bouman, Benedetta Ottavio, David Toth, Nasir Ali, Xin Liu, Joan Wanjiku, Rohan Ray, Junchen Li, Suman Kumar Sourav, Dominika Safin, Joseph Chiriyankandath, Anshuman Bhargava, Aakriti Bhardwaj and Mohammed Taher.

Tomohiro Iwabuchi, Uma Rao, Raju Rana, Rakesh Raman and Surya Prakash Narayanamurthy provided administrative support.

The report was edited by Christopher Dickson. The graphic design and layout were provided by New Concept Information Systems Pvt. Ltd.



CONTENTS

Preface	iii
Executive Summary	v
Acknowledgements	ix
Explanatory notes	xiii
Abbreviations	xv
Introduction	1
1. Trade and market integration	3
1.1 Patterns of trade in South Asia	3
1.2 Potential for Regional Economic Integration in South Asia	5
1.3 Challenges to intraregional trade in South Asia	7
1.4 Harnessing the potential of regional value chains in South Asia	9
2. Transport, Energy, ICT and People-to-People Connectivity	15
2.1 Transport Connectivity	15
2.2 Energy Connectivity	19
2.3 ICT and People-to-People Connectivity	20
3. Financial Cooperation	23
4. Addressing Shared Vulnerabilities	25
4.1 Addressing Food Security	25
4.2 Regional Cooperation for Disaster Risk Reduction	26
5. SAARC and beyond: South Asia and Broader Regionalism in Asia-Pacific	29
6. Concluding remarks	31
Endnotes	33
Annexure: Unexploited Export Potential in South Asia	35
References	37

Tables

Table 1: Proportion of trade in goods and services in GDP in South Asia	3
Table 2: Merchandise trade balance and growth in South Asia	4
Table 3: Services Trade Balance in South Asia	5
Table 4: Unexploited Trade Potential in South Asia	6
Table 5: Intraregional and extra-regional trade costs in the Asia-Pacific region, excluding tariff costs	8
Table 6: Estimated Gains from Trade Liberalization and Facilitation in South Asia	10

Figures

Figure 1: ITI–DKD–Y Cargo Corridor on the Trans-Asian Railway Network	17
Figure 2: Potential Arc of Advantage in South and South-West Asia	30



EXPLANATORY NOTES

The designations employed and the representation of the material in this publication do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city, or area, or of its authorities, or concerning the delimitation of its frontiers or boundaries.

Mention of firm names and commercial products does not imply the endorsement of the United Nations.

The term UNESCAP “region” in this publication refers to the group of countries and territories/areas comprising Afghanistan; American Samoa; Armenia; Australia; Azerbaijan; Bangladesh; Bhutan; Brunei Darussalam; Cambodia; China; Cook Islands; Democratic People’s Republic of Korea; Fiji; French Polynesia; Georgia; Guam; Hong Kong, China; India; Indonesia; Iran (Islamic Republic of); Japan; Kazakhstan; Kiribati; Kyrgyzstan; Lao People’s Democratic Republic; Macao, China; Malaysia; Maldives; Marshall Islands; Micronesia (Federated States of); Mongolia; Myanmar; Nauru; Nepal; New Caledonia; New Zealand; Niue; Northern Mariana Islands; Pakistan; Palau; Papua New Guinea; Philippines; Republic of Korea; Russian Federation; Samoa; Singapore; Solomon Islands; Sri Lanka; Tajikistan; Thailand; Timor-Leste; Tonga; Turkey; Turkmenistan; Tuvalu; Uzbekistan; Vanuatu; and Viet Nam.

The term “South and South-West Asia” in this publication refers collectively to Afghanistan, Bangladesh, Bhutan, India, Islamic Republic of Iran, Maldives, Nepal, Pakistan, Sri Lanka and Turkey.

Values are in United States dollars unless specified otherwise.

The term “billion” signifies a thousand million. The term “trillion” signifies a million million.

Reference to “tons” indicates metric tons.

In the tables, two dots (..) indicate that data are not available or are not separately reported, a dash (-) indicates that the amount is nil or negligible, and a blank indicates that the item is not applicable.

In dates, a hyphen (-) is used to signify the full period involved, including the beginning and end years, and a stroke (/) indicates a crop year, fiscal year or plan year.

Bibliographical and other references have not been verified. The United Nations bears no responsibility for the availability or functioning of URLs.



ABBREVIATIONS

ACU	Asian Clearing Union
AH	Asian Highway
AMAF	Additional Market Access frontier
APCTT	Asia-Pacific Centre for the Transfer of Technology
APDIM	Asian and Pacific Centre for the Development of Disaster Information Management
AP-IS	Asia-Pacific Information Superhighway
APT	Asia-Pacific Telecommunity
ASEAN	Association of Southeast Asian Nations
BBIN	Bangladesh-Bhutan-India-Nepal
BCIM	Bangladesh–China–India–Myanmar Forum for Regional Cooperation
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
BTILS	BIMSTEC Transport, Infrastructure and Logistics Study
CAPSA	Centre for the Alleviation of Poverty through Sustainable Agriculture
CASA	Central Asia-South Asia
CPEC	China-Pakistan Economic Corridor
CSAM	Centre for Sustainable Agricultural Mechanization
CTH	Change of Tariff Heading
DKD	Delhi-Kolkata-Dhaka
ECO	Economic Cooperation Organization
ECOTA	ECO Trade Agreement
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GIS	Geographical Information Systems
HVDC	High Voltage Direct Current
ICT	Information and Communication Technology
IGEG	Inter-Governmental Expert Group
IMT	India-Myanmar-Thailand

INSTC	International North-South Transport Corridor
IPI	Iran–Pakistan–India
ISA	International Solar Alliance
ISOC	Internet Society
ITI	Istanbul–Tehran–Islamabad
ITU	International Telecommunications Union
IXPs	Internet Exchange Points
LDCs	Least Developed Countries
NTBs	Non-Tariff Barriers
RCEP	Regional Comprehensive Economic Partnership of East Asia
RIMES	Regional Integrated Multi-hazard Early Warning System
RTGS	Real Time Gross Settlements
SAARC	South Asian Association for Regional Cooperation
SACEP	South Asia Comprehensive Economic Partnership
SAF	South Asian Federation
SAFTA	South Asian Free Trade Area
SARSO	South Asian Regional Standards Organization
SATIS	SAARC Agreement on Trade in Services
SAU	South Asian University
SDGs	Sustainable Development Goals
TAPI	Turkmenistan–Afghanistan–Pakistan–India
TAR	Trans-Asian Railway
TFA	WTO's Trade Facilitation Agreement
TIPI-BM	Turkey–Iran (Islamic Republic of)–Pakistan–India–Bangladesh–Myanmar
TTFA	ECO Transit Transport Framework Agreement



INTRODUCTION

Regional economic cooperation and integration has assumed a new urgency for countries in South Asia in the context of the adoption of the 2030 Agenda for Sustainable Development. The 2030 Agenda commits countries to pursuing sustained and inclusive economic growth for elimination of poverty and hunger and to providing a life of dignity to all. The external economic environment has turned less benign following the global financial crisis, with the advanced economies, traditional locomotives of the world economy, facing a new normal of slowdown. With the emergence of Asian countries as new engines of global growth, regional and subregional economic integration becomes a more viable strategy for sustaining dynamism and generating resources for pursuing the Sustainable Development Goals (SDGs) in South Asia. Shared vulnerabilities of South Asian countries in terms of food and energy security, disaster risks and many different manifestations of climate change also call for regionally coordinated responses.

While regional economic integration has worked as a powerful tool in empowering neighbourhoods of nation states along the length and breadth of the Asia-Pacific region, the South Asia subregion has lagged in harnessing its potential. South Asia is often characterized as the least integrated in the Asia-Pacific region, with intraregional trade accounting for only 6.1% of total trade in 2015, which is appallingly low in comparison to 27.4% in ASEAN.¹ Inability to harness the opportunities of cooperation in South Asia,

partly due to trade barriers, infrastructural deficits and chronic political differences, cost the subregion some \$54.5 billion in lost export opportunities in 2014, as simulation results presented in this report indicate. Given that South Asia is home to over 300 million people living on less than \$1.90 per day (2011 PPP),² the largest concentration of poverty in the world, the opportunity costs of neglecting regional integration are very high.

South Asian countries have much to gain from sharing resources and knowledge and deepening economic integration, not only in the subregion but also in the broader region. This would allow them to make the most of their strategic geographic location at the confluence of Central Asia and South-East Asia on the Eurasian continent. Through improved connectivity within the subregion and with contiguous subregions, South Asia can emerge as an important hub of trade between Europe and Central Asia, on the one hand, and South-East and East Asia, on the other, thereby contributing to broader regionalism in Asia and the Pacific. The geopolitical conditions are now more conducive to harnessing broader cooperation possibilities, with the lifting of sanctions on the Islamic Republic of Iran and democratic transition in Myanmar, among other recent developments.

This report discusses how South Asian countries can capitalize on opportunities to cooperate on regional economic integration

in four broad areas: trade and market integration, regional connectivity, financial cooperation, and addressing the shared risks and vulnerabilities through collective action, as identified in UNESCAP Resolution 70/1.³

It concludes with a brief discussion of the prospects for South Asian countries to play a stronger role in broader regionalism in Asia and the Pacific, and the role of UNESCAP in facilitating this process.



TRADE AND MARKET INTEGRATION

Though South Asia has been making steady progress on most indicators of regional economic integration, the pace of change has been slow. Though growth rates have fluctuated since the onset of the financial crisis in 2008, South Asian economies have been resilient in the face of the global crisis and have managed to diversify their exports to some extent. While South Asia has improved its internal economic integration, the subregion is still a long way from catching up with the higher levels of integration achieved by neighbouring subregions of East and South-East Asia. Lower levels of integration signified by relatively low volumes of intraregional trade and greater challenges in terms of regulatory preparedness for liberalization of regional trade and investment mean that the

subregion must prioritize and accelerate its reforms for economic integration to harness its potential in a meaningful way.

1.1 Patterns of trade in South Asia

The global financial crisis has deeply affected the growth and patterns of global trade since 2008. The most important aspect has been a dramatic decline in the growth of world trade to an average of 2.6% per annum in the post-crisis years, compared to 12.6% during 2003-2007.⁴ The softening of commodity prices and the slowdown in the Chinese economy have also affected world trade.⁵ The average annual trade growth of South Asian countries has declined from 22% during 2003-2007 to 8.1% during 2008-2015. However, trade

Table 1: Proportion of trade in goods and services in GDP in South Asia

(percentage)

	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka	South Asia
1990	..	19.7	57.5	15.2	168.1	32.2	38.9	68.2	19.4
1995	..	28.2	80.4	22.5	169.9	59.5	36.1	81.6	26.1
2000	..	33.2	82.5	26.4	161.1	55.7	28.1	88.6	28.8
2009	56.9	46.0	107.9	45.5	160.9	47.1	32.1	49.1	44.2
2010	54.9	37.8	113.2	48.3	159.3	45.9	32.9	46.4	46.4
2011	50.3	47.4	111.7	55.6	204.6	41.8	32.9	54.9	53.0
2012	44.7	48.1	101.8	55.7	184.3	43.7	32.6	51.5	52.9
2013	56.1	46.3	102.6	53.6	190.8	48.2	33.3	49.3	51.3
2014	52.9	44.5	93.6	48.8	198.9	52.4	31.2	49.8	47.1
2015	53.2	42.1	116.0	50.2	200.8	53.2	28.1	48.5	50.6

Source: World Bank, World Development Indicators.

Table 2: Merchandise trade balance and growth in South Asia

Country/ subregion	Exports (millions of US dollars)			Imports (millions of US dollars)			Trade balance (millions of US dollars)		Total trade (millions of US dollars)	
	2005	2015	Compound annual average growth rate (%)	2005	2015	Compound annual average growth rate (%)	2005	2015	2005	2015
Afghanistan	235	657	10.8	3086	6536	7.8	-2852	-5879	3321	7193
Bangladesh	8494	29925	13.4	13851	39476	11.0	-5357	-9551	22345	69401
Bhutan	258	585	8.5	386	1170	11.7	-128	-585	644	1755
India	98202	266169	10.5	139754	392237	10.9	-41552	-126068	237955	658406
Maldives	99	214	8.0	745	1821	9.4	-646	-1608	844	2035
Nepal	813	784	-0.4	2070	5921	11.1	-1257	-5137	2883	6705
Pakistan	16050	25877	4.9	25411	63996	9.7	-9361	-38119	41461	89874
Sri Lanka	6384	2771	-8.0	8863	19919	8.4	-2480	-17148	15247	22690
SAARC	130534	326982	9.6	194166	531076	10.6	-63632	-204095	324700	858058

Source: UNESCAP, based on International Monetary Fund, Direction of Trade Statistics
The figures for Bhutan are from the World Bank, World Development Indicators

has grown faster than GDP, resulting in an increase in the trade-to-GDP ratio of South Asia from 28.8% to 50.6% during 2000-2015 (Table 1). In fact, South Asia has recorded the fastest increase in exports-to-GDP ratio among developing regions since 1990.⁶

Trade has clearly emerged as one of the key drivers of growth in the subregion, underlining the importance of trade policies for future prospects.⁷ Recent trends of trade-to-GDP ratios among South Asian countries show either deceleration or a marginal decline only in the cases of Pakistan and Sri Lanka, despite a steady increase in their trade volumes in absolute terms, suggestive of relatively less intense trade-oriented growth strategies pursued in these two countries.⁸ As imports have grown faster than exports for all South Asian countries, the trade deficit of the subregion has widened from \$63.6 billion in 2005 to \$204.1 billion in 2015. The value of overall trade, covering both exports and imports, almost tripled between 2005-2015 to \$858 million (Table 2).

South Asia's trade in services has grown even faster and produced a more favourable

balance than its merchandise trade, reflecting a transformation in the service industry. Except for Bangladesh and Pakistan, service exports of most of the South Asian countries have grown faster than total imports, turning the trade deficit into a surplus (Table 3). The subregion's share of service exports globally has surged from 2.8 to 4.7% in only 11 years. Sectoral composition of the subregion's services trade shows inter-country differences in competencies spread across IT and communication services, transport, travel and tourism, construction and business services. In tourism-dependent economies such as the Maldives, Bhutan, Nepal and Sri Lanka, the services trade boom has been concentrated in transport and travel. Growth in trade of IT-enabled services, which contributed 42% of India's services exports in 2014, has been an important factor for India taking the lead in export of services from the subregion. Divergence of comparative advantages in services exports across South Asian countries is indicative of potential opportunities for enhancing intrasubregional services trade which have yet to be fully used.

Table 3: Services Trade Balance in South Asia

(In US\$ millions)

	Exports			Imports			Trade Balance	
	2003	2014	Average annual growth rate (2003-2014), %	2003	2014	Average annual growth rate (2003-2014), %	2003	2014
Afghanistan	..	2895	2064	831
Bangladesh	1012	1431	3	1711	7180	14	-700	-5749
Bhutan	20	131	18	108	215	6	-87	-84
India	23902	155627	19	24878	146930	18	-976	8697
Maldives	432	2975	19	120	765	18	312	2210
Nepal	372	1043	10	266	1051	13	106	-8
Pakistan	2968	3498	2	3294	7747	8	-326	-4249
Sri Lanka	1411	5574	13	1679	5590	12	-268	-16
SAARC	30116	173174	17	32057	171542	16	-1940	1632

Source: UNCTAD, online database

Note: Data for Afghanistan are for 2013

1.2 Potential for Regional Economic Integration in South Asia

The share of intraregional trade in total trade of South Asian countries is stagnating at about 5% (compared to over 20% for South-East Asia), in spite of the fact that South Asian countries have established a number of institutional frameworks to promote regional economic integration over the past three decades. The most comprehensive is the South Asian Association for Regional Cooperation (SAARC), established in 1985, which brings together all eight South Asian countries. It adopted a programme of economic cooperation in 1991, and four years later created the SAARC Preferential Trading Arrangement (SAPTA). In 2004, the Agreement on South Asian Free Trade Area (SAFTA) was established under SAARC, with the vision of implementing a borderless economic zone and eliminating tariffs on traded goods between 2006 and 2016.⁹ At the 16th SAARC Summit in Bhutan in 2010, SAARC adopted the SAARC Agreement on Trade in Services (SATIS) and created the \$300-million SAARC Development Fund with social, economic and infrastructure windows.

Other overlapping frameworks for regional cooperation include the Economic Cooperation Organization (ECO) in which two of the 10 members, Afghanistan and Pakistan, are SAARC countries. The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) involves five countries in South Asia (Bangladesh, Bhutan, India, Nepal and Sri Lanka) and two countries in South-East Asia (Myanmar and Thailand). Another multilateral framework for preferential trade is the Asia-Pacific Trade Agreement (APTA), originally named the Bangkok Agreement, which was negotiated under the auspices of UNESCAP, and signed in 1975 between Bangladesh, India, the Lao People's Democratic Republic, the Republic of Korea and Sri Lanka. China joined APTA in 2000. A year before APTA was established, UNESCAP had also helped to establish the Asian Clearing Union, a payment arrangement to ease central bank transfer and foreign exchange costs for its nine members, viz., Bangladesh, Bhutan, India, the Islamic Republic of Iran, the Maldives, Myanmar, Nepal, Pakistan and Sri Lanka.

ECO, SAARC and BIMSTEC address various issues covering trade, investment and transport connectivity through specific agreements, regular work programmes of their respective secretariats, specialized institutions created by them, and other related initiatives. ECO has adopted a preferential trade arrangement, viz. the ECO Trade Agreement (ECOTA) of 2003 and has established the ECO Bank. While tariff liberalization in the ECO region is in progress under ECOTA, some of the critical non-tariff impediments to trade, particularly those related to shortfalls in trade and transport facilitation, are addressed through the ECO Transit Trade Agreement (TTA) and ECO Transit Transport Framework Agreement (TTFA).

In the framework of SAARC, SAFTA remains the principal framework for trade liberalization. However, tariff reduction under SAFTA has been undermined by the large sensitive lists that the member states have generally maintained to exclude products from preferential treatment, especially for non-LDCs. Implementation of SATIS for the liberalization of trade in services through requests and offers is at an early stage. Under the SAARC framework, a South Asia Regional Standards Organization (SARSO) has been established and working groups have been created for financial cooperation and customs reforms. The conceptualization of SAARC transport corridors to address issues of connectivity and policy tools used

under SAFTA to address non-tariff barriers to trade are among other notable initiatives of SAARC.

After its establishment in 1997, BIMSTEC took more than 15 years to establish its permanent secretariat in Dhaka, Bangladesh. The regular work programmes under BIMSTEC, particularly in the areas of trade and transport, are currently in progress, with a renewed interest following the retreat of BIMSTEC leaders held in India in October 2016.

These intersecting arrangements are complemented by a number of bilateral preferential transit and trade or free trade arrangements, as between: India and Nepal; Bhutan and India; India and Sri Lanka; Afghanistan and Pakistan; and Pakistan and Sri Lanka. But SAFTA is the only overarching subregional trade agreement that brings together all of the South Asian countries under a functioning FTA.

Potential of Intraregional Trade in South Asia:

In spite of trade liberalization under SAFTA, intraregional trade in South Asia is less than one third of its potential as estimated by the UNESCAP South Asia Gravity Model of intraregional trade (Table 4). The UNESCAP Model demonstrates that the potential of intraregional exports in 2014 was \$81.2 billion. However, only \$26.8 billion was realized in

Table 4: Unexploited Trade Potential in South Asia

(2014, in millions of US\$)

Reporter	Actual Exports to SAARC countries	Potential Exports	Unexploited Potential	Unexploited Potential (%)	Potential Exports 2020
Afghanistan	398.13	2397.44	1999.30	83.39	4609.35
Bangladesh	532.70	7735.21	7202.51	93.11	24651.03
Bhutan	521.70	573.36	51.67	9.01	732.11
India	20486.20	41151.71	20647.34	50.17	81908.46
Maldives	13.61	110.16	96.56	87.65	332.07
Nepal	569.65	2390.08	1820.42	76.17	6386.69
Pakistan	3403.73	24479.83	21157.31	86.43	47466.82
Sri Lanka	880.96	2326.64	1445.68	62.14	6476.40
South Asia	26806.67	81164.43	54420.78	67.05	172562.92

Source: UNESCAP computations and projections based on UNESCAP Gravity Model for South Asia. See Annexure for details.

that year, leaving over 67% of trade potential unexploited. Furthermore, the model estimations indicate that intraregional export potential could more than double by 2020 to an estimated \$172 billion. Bangladesh has the highest unexploited proportion, at 93%, followed by the Maldives (88%), Pakistan (86%), Afghanistan (83%) and Nepal (76%). The computations also show that bilateral trade between India and Pakistan could be 12 times its current value, which in 2014 was \$2.6 billion. Trade barriers, including high trade costs, as well as the lack of capacity to supply goods being demanded by neighbouring countries, have contributed to unexploited trade potential in the subregion. To this end, greater regional cooperation could facilitate the development of complementary and mutually beneficial export sectors by focusing on lowering trade barriers.

The low level of intraregional trade is not indicative of the low level of complementarities between countries, rather it demonstrates the absence of strategic policies to tap into proximate sources of increased income. SAFTA and other regional agreements harbour the potential to create greater economic linkages, leading to stronger growth and enhanced welfare for the poorer participating countries, including Afghanistan, Bangladesh, Nepal, Bhutan and the Maldives.¹⁰ The experiences of the European Union and ASEAN have demonstrated that RECI can create a more balanced and equitable regional development, which benefits smaller and poorer parts of the region. In both of these contexts this has been achieved through a process of efficiency-seeking industrial restructuring across borders. This has aimed at exploiting the economies of vertical specialization and regional value chains in a manner that leads to balanced regional development.

Besides over two thirds of the potential of intraregional trade in goods, potential of trade in services and investments in South Asia

also remains untapped. The main challenge to increasing economic activities between the SAFTA members is boosting and diversifying regional production networks, which remain undeveloped except for in a few sectors such as textiles and garments. The low level of intraregional trade is not an indication of a lack of complementarity, but instead a demonstration of the work that needs to be done.

1.3 Challenges to intraregional trade in South Asia

The low level of intraregional trade can be explained in terms of a number of factors, as described below.

High level of informal border trade: The levels of intraregional trade may be higher than recorded in statistics due to informal trade, which has thrived in border areas. Countries in South Asia share long, porous borders and the history, language and culture of geographically proximate communities tends to blur across politically-drawn boundaries in ways that facilitate informal trade regardless of formal ties between the two countries. UNESCAP analysis shows that figures of formal intraregional trade vastly underestimate the extent of trade, as official data cannot capture informal exchanges made by entrepreneurial communities at the frontiers.¹¹ Informal trade could be formalized through lowering the costs of formal cross-border trade.

High costs of intraregional trade: Costs of trading within South Asia remain high at 114% of the value of the goods being exported (Table 5), making trading with neighbouring nations more expensive or less competitive, compared to trading with distant partners. For instance, South Asia's bilateral trade cost with the United States is only 109% despite the vastly greater distance. This discourages the formation of regional value chains despite the geographic contiguity. Intraregional trade costs for ASEAN are some 40% lower than intra-SAARC trade costs, at 76%, creating

Table 5: Intraregional and extra-regional trade costs in the Asia-Pacific region, excluding tariff costs

(percentage ad-valorem)

	ASEAN-4	East Asia-3	North and Central Asia-4	SAARC-4	EU-3
ASEAN-4	76				
East Asia-3	75	51			
North and Central Asia-4	351	177	121		
SAARC-4	128	125	282	114	
EU-3	108	85	152	114	43
United States	85	63	180	109	67

Source: UNESCAP (2015c), based on the UNESCAP-World Bank International Trade Costs Database.

Notes: The trade costs shown are average trade costs during 2008-2013 and may be interpreted as tariff equivalents.

ASEAN-4 = Indonesia, Malaysia, the Philippines and Thailand; East Asia-3 = China, Japan and the Republic of Korea; EU-3 = France, Germany and the United Kingdom; North and Central Asia-4 = Georgia, Kazakhstan, Kyrgyzstan and the Russian Federation; SAARC-4 = Bangladesh, India, Pakistan and Sri Lanka.

high incentives for interdependence in that bloc. Poorly developed land transportation infrastructure is a key reason behind high trade costs, and regional cooperation to facilitate transit would both dismantle this barrier and allow costs to be shared among benefiting nations.

Poor supply capabilities in LDCs: Trade imbalances between India and other SAARC countries also persist due to the poor capacity of those to supply products that would be of interest to India's import market. The productive capacities of South Asian LDCs have actually declined in terms of technical complexity and product variety when compared to other countries globally.¹²

The India-Sri Lanka FTA indicates the potential that SAFTA has to create balanced regional development and address the poor supply capabilities through FDI flows between FTA partners. The India-Sri Lanka FTA since its implementation in 2000 has led to a massive expansion of bilateral trade, while reducing imbalances by enabling Sri Lanka to export value-added goods often produced by Indian companies in Sri Lanka through FDI. By exploiting economies of scale and specialization, it is this kind of efficiency-seeking industrial restructuring that boosts supply capacities and jobs in less-developed locations, and strengthens the overall competitiveness of products.

Poor trade facilitation at the borders:

A number of non-physical barriers that hamper goods shipments across borders still pose significant challenges for regional integration. Excessive delays, high costs and uncertainties stemming from inconsistent and complex border-crossing procedures and documentation need to be addressed if South Asia is to reach its trade potential. Goods are often inspected on both sides of the borders by different authorities, and sometimes during transit as well as at loading or unloading points. Unilateral measures have had a limited impact on improving transport facilitation, since gains on one side of the border may be lost on the other. The only way to ensure that such barriers are removed is through standardized procedures established bilaterally.

Non-tariff barriers: One of the most challenging and complex obstacles to further regional integration include non-tariff measures (NTMs), including quotas, standards and sanitary measures, testing, labelling and other requirements that are often poorly defined and classified. The application of NTMs has increased worldwide, partly in response to falling tariff barriers that governments fear will cause import surges. Measures that are not aligned with the existing bilateral, multilateral and regional agreements and are intentionally protectionist, are classified as non-tariff barriers (NTBs). They can be hard to identify because they include licensing requirements, product

standards and even labelling restrictions that prohibit or limit imports. According to the ADB, as much as 86.3% of all NTMs in SAARC countries were related to labelling and sanitary measures introduced to limit the spread of diseases.¹³ Developing and implementing systematic approaches to identify NTBs and eliminate those which inhibit the free flow of trade must be the first step to reform. Mutual recognition agreements and harmonized conformity assessment procedures that could address NTBs should also be utilized.

1.4 Harnessing the potential of regional value chains in South Asia

A recent study by UNESCAP showed that active participation in global or regional value chains requires lowered trade costs, infrastructure development (including soft infrastructure), improved market access through regional trade agreements and the mutual recognition of standards.¹⁴ Within the framework of SAARC and other multilateral arrangements, South Asia has developed a number of initiatives in recent decades to facilitate trade. South Asia is facing rapid development challenges including heightened vulnerability to climate change-induced natural disasters, unmet care requirements for ageing populations, and unplanned urbanization leading to deteriorating quality of growth. To effectively face these, the subregion must deepen and consolidate current arrangements within a new framework that creates synergies to foster the growth of regional value chains and strengthen South Asian participation in global markets.

UNESCAP proposes a South Asia Comprehensive Economic Partnership (SACEP) as a unifying framework consolidating different initiatives and building on them. Such a framework calls for focus on pulling together different aspects of South Asian progress to date to liberalize trade in goods and services as well as boost investment, transport connectivity and trade facilitation, among other aspects of partnership. It could also

focus on harmonizing border procedures and import standards and facilitating payments, while addressing other NTBs as well. Various components of this policy framework, and the existing and required subregional initiatives and policy actions for the fulfillment of its goals, are discussed in the following subsections of this report.

a) Advancing the liberalization of trade in goods: Despite several overlapping frameworks for trade liberalization, tariffs continue to obstruct trade. In South Asia, countries are making incremental progress towards the full implementation of the tariff liberalization agenda under the Tariff Liberalization Programme of SAFTA (Article 7). The number of items on sensitive lists, which limit trade expansion and undermine openness, has been reduced significantly for the subregional LDCs.

The Working Group on Reduction in the Sensitive Lists under SAFTA (Phase III) has a critical role to play in offering SAARC member countries guidance on phasing out items from sensitive lists without causing sudden disruptions to domestic industries.¹⁵ In order to make the subregional tariff concessions meaningful, zero duty should be applied to at least 90% of the total product lines or 'substantially all trade' in WTO parlance. This would mean countries have to substantially cut sensitive lists within an agreed time frame of, for example, five years. In this context, India's initiative to reduce the sensitive list for the SAARC LDCs and to stamp out tariffs is encouraging. Other non-LDCs, such as Pakistan and Sri Lanka, may follow suit, with Pakistan already cutting its list by at least 233 items since August 2014. The sensitive lists for non-LDCs continue to be large and they need to be phased out in an expedited manner. The other critical pending reform concerns the implementation of full non-discriminatory treatment of India's exports to Pakistan, which are currently governed by positive lists, which enumerate the allowed items rather than the prohibited ones, and are consequently more restrictive.

Table 6: Estimated Gains from Trade Liberalization and Facilitation in South Asia

Country	Tariffs elimination				40% Reduction in Trade Costs			
	Welfare Gains		Intraregional Export Gains		Welfare Gains		Intraregional Export Gains	
	US\$ million	% of GDP	US\$ million	% of exports	US\$ million	% of GDP	US\$ million	% of exports
Bangladesh	173.15	0.25	34.70	5.51	5463.03	7.99	71.11	11.29
India	1950.44	0.16	263.82	1.33	16612.35	1.35	1063.23	5.36
Nepal	595.12	5.79	202.91	32.70	5831.39	56.71	657.75	106
Pakistan	433.34	0.30	155.90	4.82	4574.83	3.20	600.94	18.58
Sri Lanka	284.66	0.88	26.46	2.60	6943.42	21.46	123.36	12.12
Rest of South Asia	294.14	2.45	63.24	12.41	3808.53	31.69	215.19	42.23
South Asia	3730.85	0.25	747.03	2.89	43233.55	2.89	2731.58	10.57

Source: UNESCAP SANEM CGE Model Estimations.

Note: Global Trade Analysis Project simulation with closure of fixed wage rate of unskilled labour in South Asian countries.

As estimated within the framework of the UNESCAP-SANEM model, all member countries will benefit from the full implementation of the Trade Liberalization Programme. Minimum intraregional export gains to the tune of \$3.5 billion may be expected from tariff elimination and reduction of trade costs by achievable targets. However, regional export and welfare gains will be particularly significant for smaller trading partners and LDC members of SAFTA, compared to those for the larger economies, such as India (Table 6). This pattern is consistent with observations from other regional groups that demonstrate proportionately higher welfare and export gains for smaller trade partners as trade integration obviates the limitations of smaller markets. These estimates indicate particularly pronounced welfare gains for Nepal of close to 6% of GDP due to greater allocative efficiency gains from deeper tariff cuts.

b) Strengthening facilitation of transport and trade at the land borders: As observed earlier, the high cost of intraregional trade is a major barrier that continues to stall the economic gains market integration would bring. The costs of doing trade within and with South Asia are found to be comparatively higher than those of most other developing and least developed subregions of the world.¹⁶

Even though South Asia is blessed with a long coastline and access to international shipping routes, the subregion's overall trade costs remain comparable to those of the landlocked countries of Central Asia, which suffer from severe transport constraints. These are indicative of the prevalent shortcomings related to both transport and trade facilitation in the subregion, which hurt its trade prospects.

Simulations conducted within the framework of the UNESCAP-SANEM South Asia Model suggest that a 40% reduction in trade costs (to make it comparable to ASEAN levels) would alone generate a greater impact than trade liberalization in terms of exports and welfare gains, yielding an increase of up to nearly 11% in exports and a nearly 3% increase in GDP (Table 6). The favourable effect would be even greater in the subregion's smaller countries, both in terms of GDP growth and welfare gains for the population.

Trade costs could be lowered by improved surface transport infrastructure and facilitation at the border. This would take advantage of the geographical proximity of demand and supply centres across the borders, as discussed later.

Trade facilitation measures to reduce or remove non-tariff, institutional, administrative,

technical and procedural barriers to trade should be built around modern and effective customs administration, streamlined and transparent trade processes and procedures, and improved services and information for private-sector traders and investors. Though countries in South Asia have undertaken a number of unilateral trade facilitation measures in recent years, a holistic and structured trade facilitation programme at the regional level has yet to take shape. Several trade facilitation issues are outlined under Article VIII of SAFTA, but they have been left in the domain of “agree to consider”.

The South Asian subregion still ranks low among Asia-Pacific subregions in terms of the implementation of trade facilitation measures.¹⁷ The implementation of the WTO’s Trade Facilitation Agreement (TFA) is one of the leading opportunities to streamline and upgrade trade documentation and inspection procedures, as well as to expedite the movement, release and clearance of goods, including goods in transit. India, Nepal, Pakistan and Sri Lanka have already ratified the TFA and other countries are expected to follow suit.

Most of the subregional countries are currently undertaking unilateral trade and transport facilitation reforms, which provide an enabling environment for such reforms at the regional level. Recent research by UNESCAP highlights the opportunity for South Asian countries to combine national and regional efforts for establishing a regional single window which integrates trade procedures into an easily accessible and unified system. Towards this goal, the new Framework Agreement on the Facilitation of Cross-Border Paperless Trade in Asia and the Pacific was developed for the facilitation of electronic data exchange among UNESCAP member states in 2016. This can assist member States by providing a dedicated intergovernmental framework to develop legal and technical solutions. Along with unilateral reforms under the WTO TFA, reforms for the modernization of customs procedures by the

SAARC Sub-Group on Customs Cooperation can serve as important building blocks in this regard. South Asian countries can also draw on various trade capacity-building and assistance programmes provided under the international mechanism. At the Asia-Pacific level, UNESCAP and ADB are spearheading a number of initiatives including projects to reduce trade transaction costs by establishing paperless trade systems.

c) Effective liberalization of regional trade in services: As observed earlier, the services sector has emerged as the most dynamic sector for South Asian economic exchanges. Service capabilities are more balanced and appear to complement the needs of respective SAARC countries more than goods, indicating the outstanding potential for mutually beneficial trade in services within the subregion. The service trade is already taking place vigorously, and only needs to be further liberalized under a common agenda to maximize the economic and social benefits. For instance, following the liberalization of air services and the visa facility between India and Sri Lanka in 2003, India emerged as the largest market for Sri Lanka for tourism.

Significant trade also takes place in health and education services contributing to consistently high growth rates in these sectors. Greater flows of goods and people would expand the economic benefits and boost industries even more, as regulatory barriers such as visa restrictions and poor communication and transport links continue to dampen movement. For example, if the number of intraregional travellers increased by just 0.5% of the South Asian population, it would increase tourism by 8 million people annually.¹⁸

The SAARC Agreement on Trade in Services (SATIS) was signed at the 16th SAARC Summit in the Bhutanese capital of Thimphu in 2010 and came into force two years later in November 2012 as a means to deepen regional economic integration through internal services trade liberalization.

However, the actual liberalization has yet to take place as the Member States have been slow to finalize the schedules of specific commitments, with only Bangladesh, Bhutan and India consolidating their final offer lists.¹⁹ Based on the current offers made under SATIS, Member States have only committed to a small range of service sectors, with numerous limitations.²⁰ In order to jump-start service trade liberalization, a regional common schedule for SATIS negotiations in key service sectors of interest to the subregion, such as tourism, transport and logistics, civil aviation, construction, health, education, banking, electric power and telecommunications, is desirable. Mutual recognition of academic and professional degrees would further unlock the flow of human resources to mitigate demand supply mismatches.

d) Investment promotion to foster regional value chains: The real gains from a regional trading arrangement arise from industrial restructuring and regional value chains, which also help to boost productive capacities, especially in less developed economies. Many of more recent free trade arrangements combine trade in goods and services with foreign direct investment to rapidly expand production networks. In South Asia, a number of countries are now emerging FDI sources and some intraregional FDI flows are taking place, for example, from India, Pakistan and Sri Lanka to Bangladesh and Nepal among others. Bangladesh has become the fastest-growing destination for intraregional FDI for its textiles and garments sector, partly because of the preferential access it is granted in the world markets as an LDC.²¹ India has also become one of the most important sources of FDI to Sri Lanka, following the establishment of the bilateral FTA. Efficiency-seeking industrial restructuring has led to the export of value-added products from Sri Lanka back to India. In this context, the South Asian agreement on the promotion and protection of investments, the draft of which has been under negotiation, needs to be concluded

expeditiously to further stimulate sluggish production capacities in LDCs. The SAARC Limited Multilateral Agreement on Avoidance of Double Taxation and Mutual Administrative Assistance in Tax Matters has already been signed. South Asia also needs to address the lack of public access to information about favourable market conditions and investment rules within the subregion, a lack which currently acts as a barrier to intraregional investments.

e) Harmonizing product standards and conformity assessment procedures:

The WTO Agreement on Sanitary and Phytosanitary Measures and the Agreement on Technical Barriers to Trade permit national product standards to deviate from international standards when justified by environmental and health considerations. Nonetheless, they can act as trade barriers, especially when partner countries lack the capacities to comply with them. Several measures can help to mitigate any adverse impact that standards may have on trade, such as strengthening standards-related capacities, establishing accreditation bodies and regional standards, and developing regional conformity assessment procedures and mutual recognition agreements. The South Asian Regional Standards Organization (SARSO), established in Dhaka in 2011, works towards developing regional standards and has the potential to play an important role in establishing uniform product standards throughout the subregion. Nevertheless, a multilateral arrangement for conformity assessment, or product compliance with technical standards, should be adopted within the SAARC framework as soon as possible to alleviate phytosanitary barriers to trade while protecting populations. The private sector can also help to overcome the challenges posed by NTBs.²² Strengthening the SAARC Chamber of Commerce and Industry, the top industry body in South Asia, would allow it to report, mediate, and monitor NTBs to alleviate the burden on governments.²³

f) Cumulative rules of origin and industrial cooperation: Besides high trade costs, the rigidity of the SAFTA rules of origin restricts the formation of regional value chains. The SAFTA rules allow preferential treatment if at least 50% cumulative value is added with 20% generated in the final exporting country, along with the necessary change of tariff heading (CTH). This provision for regional accumulation could be made more flexible to allow regional value chains to draw upon the synergies between countries in the subregion to create shared products that can truly be termed “made in South Asia.”²⁴ Another reform could be to provide preferential treatment under SAFTA to trade in intermediate products between the member countries for further processing even if such products are otherwise included in sensitive lists. To facilitate efficiency-seeking industrial restructuring, products of joint venture projects established through intraregional investments could be accorded preferential treatment in their home countries without waiting for the implementation of the SAFTA trade liberalization.

g) Payment arrangements and banking cooperation: An inclusive clearing and payments arrangement between all countries in the subregion would facilitate the expansion of intraregional trade by

reducing the need to transfer hard currencies for mutual trade. Though nine countries in the region (Bangladesh, Bhutan, India, the Islamic Republic of Iran, the Maldives, Myanmar, Nepal, Pakistan and Sri Lanka) already cooperate under the Tehran-headquartered Asian Clearing Union (ACU), the mechanism should consider opening its membership to other ECO and SAARC countries that are not yet members. ACU can also drive financial and monetary cooperation in South Asia, and it should coordinate with SAARC Finance, a body comprising the central banks of the region. A recent UNESCAP study proposes to use advanced technologies to revolutionize the settlement of payments, using real time gross settlements (RTGS) to save time and costs.²⁵

The subregion has very perfunctory cross-border banking links that fail to capitalize on their ability to facilitate trade and investments between countries. The absence of reciprocal banking links makes it difficult for banks to accept letters of credit issued by importers' banks. Countries in South Asia can expedite the liberalization of banking and financial linkages without waiting for negotiations under SATIS to be completed by giving national treatment to designated banks on a reciprocal basis.



TRANSPORT, ENERGY, ICT AND PEOPLE-TO-PEOPLE CONNECTIVITY

Regional connectivity is especially significant in the South Asian context because of the subregion's strategic geographical location between Europe and South-East Asia. South Asia is home to one of the world's biggest concentrations of poverty. The subregion's 1.7 billion people live with limited internal connectivity that remains fragmented and poorly organized. Without upgrading its internal connectivity, the subregion will be unable to capitalize on its potential to be a land bridge connecting Europe with the East, as well as serving as an economic gateway to and through the Central, South-West and South-East Asian countries situated at its boundaries.

Improvements in cross-border connectivity would benefit South Asian countries beyond just economic gains. Besides the direct impact on trade and economic growth, transport networks would have several positive externalities, or unintended benefits. Enhanced intraregional connectivity will open up possibilities for production networks and value chains to develop within the subregion, enhancing the competitiveness of final products from the region on world markets. With the bulk of all South Asia trade focused on Europe, North America and East Asia, creating final products in South Asia through subregional value chains would create interdependence, boost productive capacity in LDCs of the subregion, foster balanced regional development, and enhance competitiveness for accessing

markets across the Eurasian continent. South and South-West Asia's transport corridors possess the potential to achieve massive efficiency gains and energy savings, thus opening up new pathways towards sustainable development.

2.1 Transport Connectivity

Transport connectivity is a cornerstone of regional economic integration, shaping regional production networks and trade patterns through its impact on competitiveness. While transport infrastructure and services have been improving in all South Asian countries at varying paces, cross-border transport facilitation still has much room for progress. Recent studies²⁶ have shown that all countries in South Asia would derive huge economic benefits from transport connectivity improvements, irrespective of their size. Nepal, for instance, could have GDP gains of as much as 14%.²⁷

Linking inland production centres and manufacturing hubs scattered across South Asia is essential to foster intraregional trade. The bulk of trade takes place through maritime corridors rather than inland corridors because of poorly developed road and rail connectivity, requiring multiple trans-shipments and explaining the high cost of bilateral trade within the subregion. A number of inland cross-border transport corridor development projects have already been proposed to remedy this situation. The corridors identified

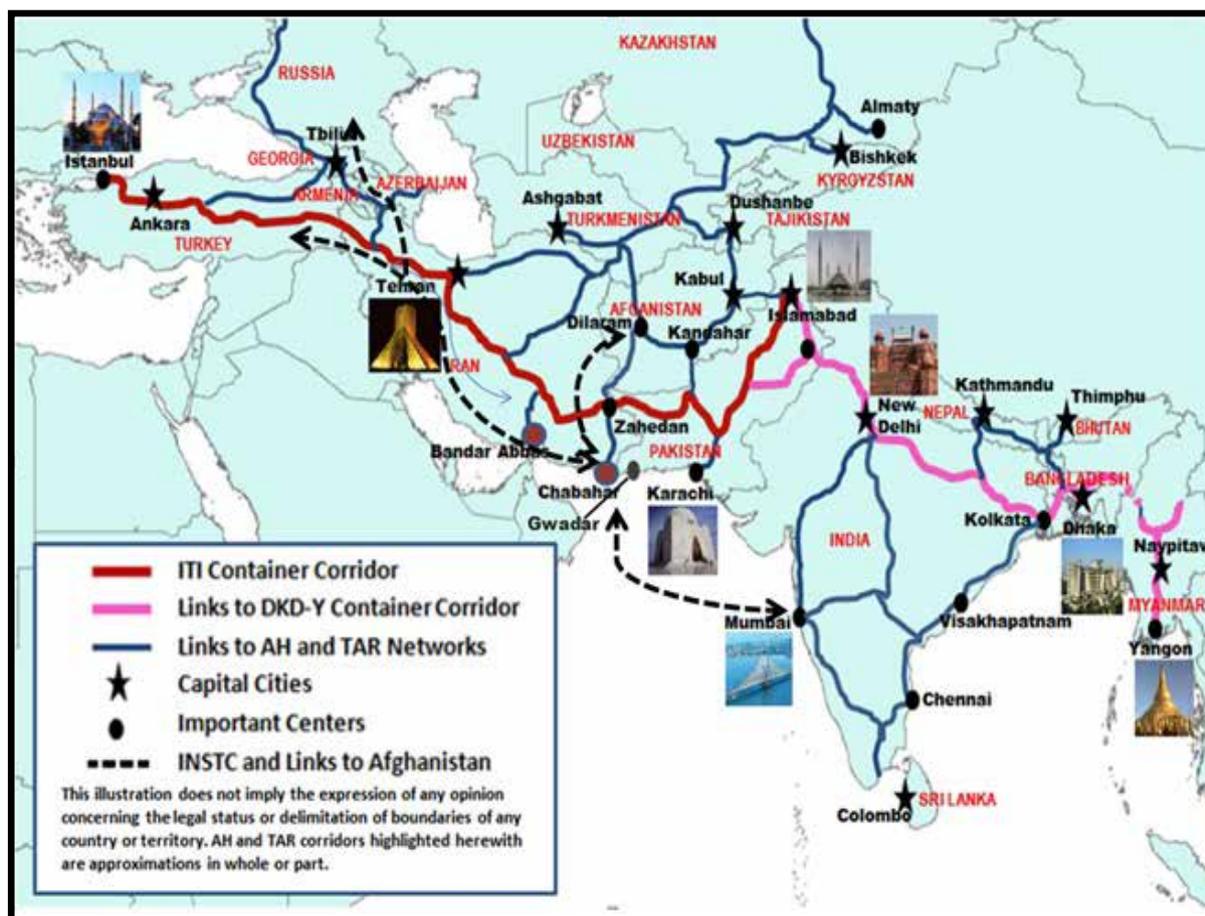
under the SAARC Regional Multimodal Transport Study, BIMSTEC Transport, Infrastructure and Logistics Study (BTILS), the Bangladesh–China–India–Myanmar Forum for Regional Cooperation (BCIM), the International North-South Transport Corridor (INSTC) connecting India with Iran and Central Asian countries and the Economic Cooperation Organization’s (ECO) regional transport framework are all at various stages of development. India, Myanmar and Thailand have been developing a trilateral highway (the IMT Highway) that links the key trade centres. Though already accessible, the upgrading of certain segments of this 1,400 km highway remains unfinished and is expected to be completed by 2020. Having agreed on the draft provisions on the movement of buses, cars and trucks along the highway in September 2015, the three member countries are working together towards an IMT Motor Vehicle Agreement (IMT MVA).

Bangladesh, Bhutan, India and Nepal (BBIN) concluded a Motor Vehicles Agreement in 2016 to facilitate cross-border transit and transport. Pakistan and Afghanistan are seeking to extend their bilateral APTTA agreement to Tajikistan, to utilize it as a gateway to Central Asia. The \$46 billion China-Pakistan Economic Corridor (CPEC) also includes building transport corridors to connect Gwadar Port in Pakistan to China through the western Chinese city of Kashghar. Afghanistan, the Islamic Republic of Iran and India concluded a trilateral agreement in 2016 to develop Chabhar Port in Iran to serve Afghanistan and Central Asia connecting it with INSTC. To maximize the network externalities or synergies, extended corridors following trunk route-feeder links, connecting more countries than just the members of a particular group, are more appropriate. The Asian Highway (AH) and Trans-Asian Railway (TAR) networks, developed by UNESCAP and backed by a series of intergovernmental agreements, offer the possibility of joining subregional corridors.

One of the two trunk corridors identified by UNESCAP, which connect economic hubs while using the existing infrastructure to connect SAARC countries across the breadth of South and Central Asia, is an extension of the already operational Istanbul–Tehran–Islamabad (ITI) Container Train Corridor to Yangon through Delhi, Kolkata and Dhaka (ITI-DKD-Y Container Rail Corridor). The other is to link the national highways along the Asian Highway routes across Turkey–Iran (Islamic Republic of)–Pakistan–India–Bangladesh–Myanmar to develop a TIPI–BM Road Corridor. The ITI-DKD-Y and TIPI-BM corridors are integral parts of AH and TAR projects, and can be interlinked at various locations longitudinally covering the whole of South Asia. Both corridors will have connecting sublinks to the major ports of Chittagong, Kolkata, Mumbai, Karachi, Gwadar, Chabahar and Bandar Abbas, and will connect with other corridors under development including the INSTC, CPEC and BCIM. Together they will offer a multimodal transport corridor that will boost intraregional trade across South and Central Asia and connect some of the most populous areas as well as remote rural hinterlands in the subregion.

These corridors have the potential to particularly enhance the lives and livelihoods of populations in the landlocked countries of Afghanistan, Bhutan and Nepal as well as those in Central Asia. The two trunk corridors additionally offer onward connectivity to European markets through the western boundaries and to South-East Asian markets through Myanmar in the East. Recent assessments conducted for UNESCAP have found these corridors to be more efficient than alternative routes.²⁸ According to UNESCAP’s simulations, if trade costs in South Asia (found to be predominantly owing to transport-related barriers) can be brought down to the levels enjoyed by ASEAN countries, intraregional trade could increase by nearly 11%, more than three times what

Figure 1: ITI-DKD-Y Cargo Corridor on the Trans-Asian Railway Network



Source: UNESCAP

would accrue from the elimination of tariffs, as shown in Table 6.

Key challenges to make the corridors operational include closing the gaps in physical infrastructure, transit and transport agreements and transport and trade facilitation. Other factors that have in the past impeded the creation of transport corridors are: (i) lack of planning to develop and implement sub-routes and feeder networks to main corridors, especially for the more isolated, remote or economically sluggish areas, negating the prospects of boosting their market integration and productivity; (ii) difficulties financing investments in physical infrastructure; and (iii) lack of coordination between various disparate corridor development projects sponsored by governments, regional groups, and multilateral donor agencies.

The strategic location of the South Asian subregion within the Eurasian continent and historical trade patterns along the Silk Road or the Grand Trunk Road between Chittagong and Kabul are proof that immense possibilities for inter-regional connectivity exist. Furthermore, inter-subregional connectivity in the region will offer alternative transit routes to connect with EU and ASEAN markets. The north-west boundaries of South Asia are already well connected to European transport networks through Istanbul, and projects for improving connectivity with south-eastern regions are under way. Extending South and Central Asian transport corridors can thus multiply inter-regional trade by revitalizing ancient trade links that could turn the subregion into an economic powerhouse.

Improved inter-regional connectivity will make products originating from the subregion more

competitive in destination markets such as the EU and ASEAN. Extended connectivity has the potential to transform transport corridors into economic corridors. While feeder networks give strength to the trunk corridors, increasing the volume of goods and services, extended corridors empower strategic localities along the corridor to attract local investment into productive sectors. This will have spillover effects on other economic activities, extending cities and towns in urban expansion. The shores of the trunk corridors can potentially host economic hubs, serving as industrial parks, special economic zones, or clusters of small- to medium-scale industries. Through carefully framed and administered industrial policies, host governments can use the transport corridors for industry and trade growth that will serve to foster livelihood security for communities.

Towards a Regional Connectivity Master Plan:

Connectivity links both places and people by creating the physical infrastructure necessary for the flow of goods, labour and information. The Master Plan on ASEAN Connectivity is one of the first comprehensive strategic policy frameworks to bring together the policy elements required for broad-based connectivity.²⁹ The SAARC leaders at their 18th Summit in Kathmandu recognized the importance of extending the subregional corridors to the contiguous subregions of Central Asia and South-East Asia, moving in the direction of extended transport corridors guided by an agreed master plan. To support this, UNESCAP is developing a comprehensive master plan for the subregion in collaboration with the SAARC Secretariat and in consultation with the stakeholders.

The essential elements of this plan will include: (i) identifying corridors that can be developed using existing physical infrastructure and with minimum investment requirements; (ii) identifying the physical infrastructure requirements of the identified corridors and their sublinks; (iii) developing a

strategy for institutional coordination between important regional institutions such as ECO, SAARC and BIMSTEC that are currently operating with overlapping memberships in the subregion; (iv) planning to implement region-wide multimodal transit and transport agreements along the lines of the ECO Transit Transport Framework Agreement (TTFA); (v) planning for institutional cooperation between multilateral agencies engaged in corridor development projects including UNESCAP, ADB, World Bank and various governmental authorities; (vi) planning for coordination and resource-sharing while finding synergies between ongoing corridor development projects such as the Euro-Asian Transport Links (EATL) project of UNESCAP and UNECE, and CAREC and SASEC projects led by ADB; (vii) planning for ICT development and digitization of the documentation required for cross-border transit and transport in the subregion; (viii) planning for enhancing people-to-people connectivity including through strengthening civil aviation connectivity, international business travel, increased mobility of academics, professionals and tourists, including through liberalization of visas and liberalization of civil aviation among other measures; (ix) planning for resource mobilization for funding corridor development projects and creating a cooperation framework between governmental and multilateral agencies and the private sector.

While civil aviation links in South Asia have improved over the years, many gaps remain, for instance between India and Pakistan. In the absence of effective direct connections between the two neighbouring countries, business travellers have to take more circuitous routes through the Middle East, adding cost and time. Besides affecting business links, such poor aviation links also do not allow the potential of tourism to be exploited between the two countries. The potential of inland waterways also remains to be exploited even though India and Bangladesh have begun to explore some opportunities using Ashuganj inland port in Bangladesh.

2.2 Energy Connectivity

Given the indispensability of energy to harnessing growth prospects, addressing the problem of limited and inequitably distributed energy resources in South and South-West Asia is crucial for development. South Asia suffers from energy constraints not only on account of insufficient energy resources but also because of poor cross-border transmission links, bottlenecks in domestic energy infrastructure, lack of investment mobilization in the energy sector and inferior operational quality. Sudden power outages and frequent interruptions are common in the subregion, resulting in large economic losses every year.

Energy demand is closely linked to access to food, water, health and education services, and all dimensions of governance. Energy has the capacity to bring about structural transformation, environmental sustainability, human well-being and global security. Given the high incidence of multidimensional poverty in South Asia, energy consumption in the subregion is persistently below world average. For instance, India's per capita energy consumption stood at about 500 kgoe (kilogram oil equivalent) in 2013, which was only one fifth of the world average. Of the 1.3 billion global population without access to electricity, about 449 million live in Bangladesh, India and Pakistan.³⁰

Regional cooperation is the most promising policy solution to South Asia's challenges and supply constraints in the energy sector. Sharing energy sources and building on supply-demand compatibility through trade, cross-border investments and technical cooperation will reduce inefficiencies in the energy production-consumption cycle. Particularly in the electricity subsector, cooperation enhances reliability and stability to ensure that resources are equitably distributed.³¹

The proximity of transmission networks among South Asian countries and complementary hydro and thermal power

resources with varying demand peaks and seasonal power requirements create the ideal conditions for regional energy cooperation. In the electricity subsector, the potential benefits include: (i) lower costs of electricity through more efficient utilization of domestic energy endowments; (ii) lower operating costs of integrated systems with less risk of system malfunction; (iii) greater efficiency from larger scale production; (iv) dependability through centralized management of reserves; and (iv) minimal environmental damage by better usage mix of grid-connected renewable energy sources, including hydro, solar, wind, marine and geothermal power. Lower costs of power would be a catalyst for increasing access and per-capita energy usage, which in turn would have region-wide socio-economic impacts.

The main avenues for fostering energy connectivity in the subregion are: creation of a regional energy market including through the SAARC power grid and SAARC market for electricity trade and in other energy sources such as oil and gas; cooperation in renewable energy technologies; cooperation in energy resource exploration and management; and sharing development experience, knowledge and best practices.

The existing cooperation for a common energy market is currently limited to bilateral electricity trade arrangements, such as between India and Bhutan, and Nepal and Bangladesh. Similarly trade in refined petroleum products happens on a bilateral basis between India as the principal exporter and Bangladesh, Bhutan, Nepal and Sri Lanka as importers. The electricity trade is predominantly based on indigenous hydropower resources. Indian exports of refined, imported crude oil drive the regional petroleum trade. Initiatives to share energy include new infrastructure links between India and Bangladesh and a proposed marine cable between India and Sri Lanka. The SAARC Framework Agreement for Energy Cooperation (Electricity) has created a legal framework that now requires policies and investment to become a reality.

South Asia's subregional energy trade initiatives are clustered around two main market integration processes: the western energy market consisting of the electricity and natural gas trade between Afghanistan and Pakistan with Central Asian countries and the Islamic Republic of Iran and the eastern energy market involving trade in hydropower and petroleum by-products between Bhutan, Bangladesh, Nepal, India and Myanmar.

Recent developments in regional energy cooperation include South Asia's first ever HVDC (High Voltage Direct Current) interconnection with a 400KV AC link linking India's eastern electrical grid (Bhrampur) to Bangladesh's western grid (Bheramara), a project commissioned in October 2013 under the India-Bangladesh power exchange programme. India has also been assisting Bhutan in developing several hydropower projects and importing surplus power. Bangladesh is also seeking to join India-Bhutan cooperation in hydropower. The recently signed India-Nepal Power Trade Agreement has opened up avenues for greater cooperation between India and Nepal in hydroelectricity. There are also a handful of major energy trade projects that would link South Asia with neighbouring regions including the Central Asia-South Asia (CASA-1000) electricity trade project launched in May 2016, the Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline signed in 2015; and the Iran-Pakistan-India gas pipeline (IPI) projects. Future cooperation in energy should cover developing a subregional grid building on the bilateral interconnections, creating a mechanism to share best practices in enhancing energy efficiency and renewable technologies. In this direction, the SAARC Energy Centre and UNESCAP's Asia-Pacific Centre for Transfer of Technology can play an important role. Intergovernmental platforms for cooperation in the area of renewable energy, such as the International Solar Alliance (ISA), which started functioning from

an interim secretariat based in India in 2016, should be used for fostering partnerships among institutions and government bodies engaged energy research and policy.

2.3 ICT and People-to-People Connectivity

The South Asia subregion has positioned itself as a major production hub and exporter of IT and IT-enabled services. ICT has the potential to provide new solutions to diverse development challenges faced by the subregion. ICT can improve services in an array of sectors such as health, education and business development. Though internet access is constantly expanding, with millions in South Asia now online on a regular basis, the progress has been uneven, with the subregion's richer countries making rapid gains to expand ultra-high-speed broadband.³² Very few people living in urban slum areas have access to a basic connection. Within countries, disparities in ICT penetration are also prevalent, creating gaps in education, career opportunities and other benefits of the digital age.

A major obstacle to ICT connectivity has been the poor quality of cross-border IT and telecommunications infrastructure, including international calling, as reflected by low usage rates. Only 7% of the international calls made from South Asian countries are regional compared to about 71% in East Asia.³³ In some cases, the tariffs for intraregional telephone calls are markedly higher than to more distant destinations. Roaming facilities are also not available between India and Pakistan. Skewed access to communication services, with the benefits of the technological revolution in ICT primarily benefiting the urban elite, obstructs greater cross-border connectivity. Investments to improve infrastructure and services to narrow the digital divide would lead to greater opportunities for populations and businesses.

The UNESCAP-led initiative for the Asia-Pacific Information Superhighway (AP-IS) aims to increase the availability and affordability of broadband internet across the region by strengthening the underlying internet infrastructure in the region. The master plan for the AP-IS will consist of a long-term vision, targeted goals, specific activities and milestones to strengthen a regional broadband terrestrial back-bone network, establish Internet Exchange Points (IXPs), harmonize internet traffic management systems and policies, enhance transmission infrastructure resilience, and provide inclusive access to broadband internet for all.³⁴ The International Telecommunications Union (ITU), the Asia-Pacific Telecommunity (APT) and the Internet Society (ISOC) have proposed to take the AP-IS forward. The fact that South Asia subregion accounts for about 10 major international internet gateways underscores the high potential and feasibility of AP-IS. Several ongoing projects, such as the new submarine optic fibre connectivity through Cox's Bazar in Bangladesh with the aim to link the north-eastern states of India with international

internet gateways, can potentially contribute to the achievement of high-speed digital connectivity for South Asia.

In the broader context of connectivity, the importance of subtler drivers of connectivity should not be overlooked. This includes South Asia's shared popular culture that unites people such as the prolific subregional entertainment industry; from movies to music, dance, other performing arts and television shows. Common sports, such as cricket and the South Asian Federation (SAF) Games, also reinforce the collective South Asian identity. The "soft power" of mass entertainment can fortify track II diplomacy and bind together key constituencies spread across the subregion. Furthermore, the potential of cultural tourism in integrating the subregion largely remains unexploited. The subregion's shared colonial past and geographical identity offer compelling unifying elements that transcend borders. These elements can be further harnessed through the proliferation of television channels and increasing use of ICT. Regional institutions, such as the South Asian University, could play an important role in this regard.



FINANCIAL COOPERATION

Greater financial cooperation can also help to close infrastructure gaps and build the productive capacities of domestic industries. A number of initiatives have been adopted under the SAARC framework, including the establishment of SAARC Finance, a regional body composed of central banks, the Inter-Governmental Expert Group (IGEG) on Financial Issues, and the SAARC Public Debt Managers' Forum. The Reserve Bank of India announced its Regional Currency Swap Arrangement in 2012, contributing \$2 billion to address temporary liquidity problems affecting SAARC members. Most of the South Asian countries are also members of the ACU, which clears payments multilaterally and could be further improved with new technology for transactions such as real-time gross settlements, as observed earlier.

One option for South Asia to address infrastructure deficits is to use funding from the SAARC Development Fund. The Fund has three windows for financing: a social window for poverty alleviation and social development projects; an infrastructure window for projects in the energy, power, transportation, environment, telecommunications, tourism and other infrastructure areas; and an economic window devoted to non-infrastructure economic projects. Considering its rather small capital base of \$300 million, the SAARC Development Fund should team up with other financial institutions to catalyze,

rather than fund, regional infrastructure projects with wide-reaching impact across the subregion. Another option is to transform it into a SAARC Development Bank, enabling it to raise capital from the markets and catalyzing much larger infrastructure projects through a co-financing arrangement with the Asian Development Bank or the Asian Infrastructure Investment Bank, among other financing institutions.

A major limitation to expanding industrial development in LDCs is limited access to capital by their enterprises. Local capital markets are shallow, if they exist at all, and access to international capital markets is constrained by poor sovereign credit ratings and currency risk. Raising capital on the stock exchanges of advanced countries by enterprises registered in developing countries is made difficult by high initial expenses. Only a handful of larger well-known enterprises from countries such as India have been able to raise capital on the Western bourses such as the New York Stock Exchange, NASDAQ or Luxembourg Stock Exchange. Allowing enterprises from South Asian LDCs to list and to raise capital in more developed capital markets in India, Pakistan, or Sri Lanka may be fruitful. Cross-listing securities on the subregion's stock exchanges should also be encouraged, as it would provide more options for raising capital for enterprises towards building productive capacity.



ADDRESSING SHARED VULNERABILITIES

South Asia is a hotspot for natural disasters, with at least eight fatal earthquakes and cyclones hitting the subregion in the past two decades, killing hundreds of thousands of people while causing huge economic losses. The increased frequency and severity of natural disasters in the subregion call for regional cooperation to combat climate change, food security, and infrastructural devastation. Given the shared risks and vulnerabilities of the densely-populated eight nations, working together to reduce exposure is one of the only ways to sustain growth in the face of an increasingly volatile natural environment.

4.1 Addressing Food Security

South Asia is home to two thirds of the world's 795 million chronically malnourished people, and creating food security and eradicating hunger (SDG-2) are key development challenges that require policy action in four priority areas. These comprise: a) policies to eradicate extreme poverty to ensure better access to food and reduce inequality; b) combating the high levels of anaemia and vitamin A deficiency that exist in the subregion by providing more nutritious food; c) extending social protection programmes to improve household incomes and boost consumption; and d) increasing smallholder agricultural productivity to enhance food security for the 70% of the working population employed in agriculture.

UNESCAP analysis shows that doubling agricultural productivity through sustainable agriculture by 2030, a target under SDG-2, would increase South Asia's GDP by an additional 5-16%, while sparking a 4-14% surge in exports and an 11% rise in household incomes.³⁵ It would also pull an additional 16 million people out of poverty compared with a business-as-usual scenario. With natural ecological systems spreading beyond national boundaries, pooling together information and technology to sustainably manage natural resources for agriculture and food security is critical. Greater regional cooperation can reduce food price volatility and focus production systems to bridge the gaps between supply and demand. The combination of rapid population growth and water-intensive agriculture systems has reduced per capita water availability in the subregion by 70% in the past six decades. With the vast majority of food production in South Asia dependent on seasonal harvests, the threat of monsoons, cyclones and other climate change impacts to food security cannot be underestimated, with forecasts for some countries predicting a drop in annual agricultural production of 23% by 2080.

UNESCAP has already identified a number of opportunities for South Asian cooperation for food security,³⁶ including operationalizing and strengthening regional institutions such as the SAARC Food Bank and SAARC Seed Bank. A collaborative regional approach

to food-related research and development and sharing of good agricultural practices can improve crop productivity and reduce land use. Regional cooperation should spur innovation in diverse areas from geographical information systems (GIS), to seed production, livestock rearing and disease management. SAARC Member States could also draw upon and strengthen linkages with Asia-Pacific institutions for capacity-building, including UNESCAP's Centre for the Alleviation of Poverty through Sustainable Agriculture (CAPSA), the Centre for Sustainable Agricultural Mechanization (CSAM), and the Asia-Pacific Centre for the Transfer of Technology (APCTT).

Other agriculture-related negotiations that need to take place in the subregion include a South Asian consensus on intellectual property rights for plant varieties, and systems protecting farmers' rights. The subregion should also exploit the potential of intraregional food trade, which currently covers 85-90% of regional agricultural trade and may alleviate some of the tension surrounding land ownership. An assessment of the potential additional market access frontier (AMAF), conducted for UNESCAP, shows \$9.8 billion more could be gained in food trade for 397 food products that are currently traded with countries outside the subregion.³⁷ Negotiations to address transboundary disease management, while developing a common SAARC stance in multilateral negotiations would also reduce trade-distorting practices and secure market access for South Asian food producers.

4.2 Regional Cooperation for Disaster Risk Reduction

Being categorized as a disaster-prone subregion, South Asia requires greater policy focus on SDG targets for reducing mortality risks and asset losses out of natural calamities, particularly targets set under SDGs for disaster resilience (SDG-1), resilient infrastructure (SDG-9), resilient

urbanization (SDG-11), and action to combat climate change and its impacts (SDG-13).³⁸ The 2015 earthquake in Nepal is a crucial reminder of the subregion's vulnerability. The 7.8 magnitude quake wrought damage and losses equivalent to one third of Nepal's GDP, pushing around 700,000 people back into poverty and upsetting the country's LDC graduation plan. Nearly 45% of the world's flood-affected population live in India, Bangladesh, Pakistan and Afghanistan.³⁹ Cities and river basins, areas that continue to attract migrants in search of better socio-economic opportunities, are the most disaster risk-prone. Unplanned urbanization to accommodate internal migrants increases urban vulnerability to disasters. Enhancing resilience to disasters is at the core of achieving the SDGs in South Asia.

UNESCAP estimates, based on past trends, that South Asian governments will need to set aside significant proportions of GDP and social expenditures, up to 4% of GDP in Bhutan and 1.6% in Bangladesh, for disaster mitigation. The subregion needs to mainstream disaster risk reduction using a multi-disciplinary and public-private-partnership approach with risk-sensitive investments, innovative insurance schemes, and finances that are readily available for recovery and a building-back-better approach. As demonstrated by the 2004 Asian Tsunami, the epicentres of earthquakes, cyclones, floods, drought and landslides are often transboundary, calling for enhanced regional cooperation. A joint regional multi-hazard early warning system, created by pooling resources, expertise, and information, would be a major step forward. The subregion shares nine river basins originating in the Himalayas, and with the rise in floods affecting a number of countries, improved flood forecasting systems that use advanced technology, observational networks and hydrology modelling would benefit all countries.

Some achievements have already been made by the UNESCAP Multi-Donor Trust Fund for

Tsunami, Disaster and Climate Preparedness, supported by the Regional Integrated Multi-hazard Early Warning System (RIMES). This initiative now needs to be further strengthened by establishing a network of multi-hazard early warning systems. A similar collaborative network of subregional institutions is needed for sharing information and knowledge

towards building resilient cities in high seismic risk areas. The establishment of the Asian and Pacific Centre for the Development of Disaster Information Management (APDIM) in Tehran under UNESCAP auspices is another timely initiative that complements the institutions created within the SAARC and BIMSTEC framework.



SAARC AND BEYOND: SOUTH ASIA AND BROADER REGIONALISM IN ASIA-PACIFIC

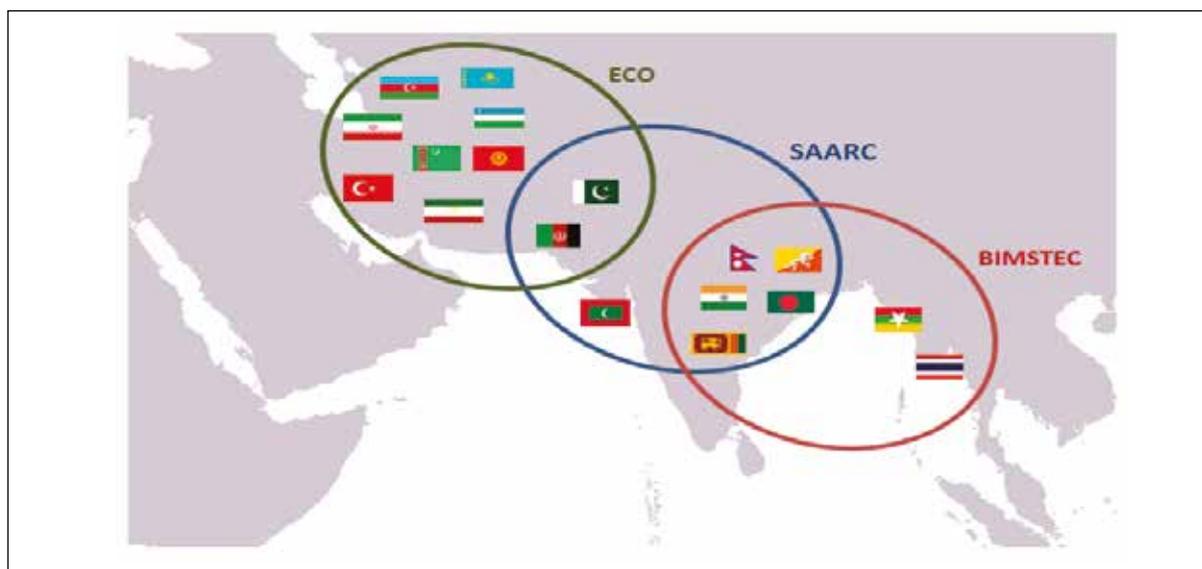
As slowdown becomes the new normal for advanced economies, the traditional locomotives of the world economy, and as the centre of gravity of the world economy shifts eastwards, regionalism within and between subregions becomes a critical strategy for sustaining the Asia-Pacific region's dynamism. For subregional groups, it is important to adopt a long-term vision and take incremental steps to achieve goals. ASEAN, for instance, has successfully moved towards the goal of the ASEAN Economic Community, achieved by 2015 in advance of its initial 2020 target. In SAARC's case, an Eminent Persons Group back in 1999 proposed a long-term vision of a South Asian Economic Union to be achieved by 2020. SAARC now has the opportunity to revisit those proposals and articulate a vision and deadline. ECO could develop a similar vision for itself.

South Asia also needs to integrate more broadly into the Asia Pacific. As part of this process, economic partnerships have budded with ASEAN. As a part of its Look East Policy adopted in the 1990s, India has gradually deepened its partnership with ASEAN through the ASEAN+1 FTA; membership in the East Asia Summit; participation in the Regional Comprehensive Economic Partnership of East Asia (RCEP) negotiations; and Comprehensive Partnership Agreements with Japan and the Republic of Korea. The

India-Myanmar-Thailand (IMT) Highway and initiatives under Mekong Ganga Cooperation (MGC) and BIMSTEC are further signs of expanding linkages. Similarly, Pakistan has also been a sectoral dialogue partner of ASEAN and has signed FTAs with China and Malaysia. In 2015, the \$46-billion China-Pakistan Economic Corridor was launched. A series of electricity and energy pipeline projects between Central and South-West Asian countries with South Asian countries consisting of Afghanistan, Pakistan, and India (CASA1000, TAPI and IPI) provide evidence of growing energy trade and interdependence.

These developments demonstrate the immense possibilities for building greater synergies in the broader Eurasian economic space. Firstly, the three overlapping groups of SAARC, ECO and BIMSTEC could create an institutional arrangement to facilitate cross-fertilization and learning, linking programmes to exploit synergies and network externalities, which could become an arc of advantage. A broader and more open platform for regional cooperation may also help to diffuse the political sensitivities that have often held up progress towards South Asian economic integration. The lifting of sanctions on the Islamic Republic of Iran and democratic transition in Myanmar are also positive developments that can facilitate this shift.

Figure 2: Potential Arc of Advantage in South and South-West Asia



Source: UNESCAP

SAARC, ECO and BIMSTEC should also take note of the broader trends in regionalism in Asia-Pacific. The RCEP, currently under negotiation, brings together the 10 ASEAN countries and their six FTA partners, creating one of the world’s largest trading areas, covering about 30% of world trade. The RCEP has an open accession clause to enable any country to participate in the future. While the open accession clause provides an opportunity for South and Central Asian countries to join RCEP in future, their own deeper integration within SAARC and ECO frameworks respectively will improve their chances of being able to join. For South Asia, this would mean implementation of the SACEP framework proposed in Section 1.4 of this Report. In other words, it would mean simultaneous and coordinated action on various priority areas of regional economic cooperation covering trade, investment, connectivity, development finance, etc. through instruments provided by or being developed under the SAARC framework. Other South Asian countries — specifically Bangladesh, Pakistan and Sri Lanka — could seek accession to RCEP in future by using their engagement with India, a founding member. Broadening RCEP to include South Asia will unleash the enormous potential of regional value chains in the greater South Asian region. Extended transport connectivity

corridors passing through South Asia, linking South-East Asia with South-West and Central Asian countries, as discussed earlier, will also facilitate regional production networking.

The role of UNESCAP in broader regionalism

As the universal regional apex body in Asia and the Pacific with convening power, with its multisectoral agenda of work and strategic presence at the subregional levels, UNESCAP is uniquely placed to not only promote the ideal of deeper cooperation in South Asia and other subregional groups but also provide them with a forum to come together for fostering broader regional integration in the Asia-Pacific, such as creating an arc of advantage linking ECO-SAARC-BIMSTEC. Several of the strategically located and important constituent nations of the Asia-Pacific are now in a better position to participate and play an important role in the region’s economic integration. The knowledge pool of UNESCAP and its various regional institutions and cooperative mechanisms, including the Asian Highways, Trans-Asian Railways, Dry Ports Agreements, and AP-IS, would be of immense value for promoting regional integration and cooperation towards the greater goal of uniting the Asia-Pacific for sustainable development.

6

CONCLUDING REMARKS

Trade and regional economic integration are critical for meeting the SDGs. This is especially so because of the pervasive role of cross-border trade and investments in achieving the goals of inclusive and sustainable economic growth and employment for all. While economic cooperation and integration at the subregional level have worked as a powerful tool in empowering neighbourhoods of states in many parts of Asia-Pacific, particularly in East and South-East Asia, the South Asia subregion has lagged in harnessing its full potential, and still remains an underperformer in terms of poverty reduction and other indicators of development.

South Asia's trade enjoyed high growth rates prior to the global economic crisis of 2008, and the fall in growth rates of the subregion in the post-crisis period was less in comparison with that of other developing subregions of the world. South Asia experienced steadily improving trade-to-GDP ratios over the past two decades and has exhibited product and market diversification to some extent during this period. However, in recent years South Asia's trade growth has slowed due to external market volatilities. It is of great concern that signs of an onset of another slump in trade are appearing at a time when South Asia should be accelerating its trade reforms to reach much greater levels of trade integration, especially given that the intraregional trade potential of the subregion remains largely unexploited.

UNESCAP estimated that the intraregional export potential in South Asia was \$81.2 billion in 2014 against actual exports of only \$26.8 billion, indicating that nearly 67% of the potential remained untapped. Bilateral trade between India and Pakistan could be as high as 12 times the current level, while substantial intraregional export gains are found for all countries, provided that comprehensive trade reforms are made. Intraregional trade could grow to nearly \$172 billion by 2020. Low levels of intraregional trade have been due to, among other things, the high proportion of unreported, informal and third-country trade, poor supply capabilities in LDCs and high costs of doing trade in the subregion, which deny the full benefits of geographic proximity and contiguity to intraregional trade.

To harness the potential of regional economic integration and formation of value chains in South Asia, UNESCAP has proposed to consolidate and build on the different initiatives to create a unifying framework, namely the South Asia Comprehensive Economic Partnership (SACEP). This could pull together the various aspects of liberalization, trade facilitation and cooperation under seven key priorities that are more fruitful than the sum of their parts. These priorities are: a) advancing the liberalization of trade in goods; b) strengthening facilitation of transport and trade at the land borders; c) effective liberalization of regional trade in services; d) investment promoting to foster regional value chains; e) harmonizing product standards

and conformity assessment procedures; f) cumulative rules of origin and industrial cooperation; and g) payment arrangements and banking cooperation. As discussed in this report, most of the essential elements required for bringing about reforms for achieving these policy priorities have been initiated in one form or the other.

In addition, coordinated efforts at the subregional level are required to make progress in the areas of connectivity, development finance and to address shared vulnerabilities of disaster risks and food insecurity. By expanding the scope of regional economic cooperation and integration, the SACEP framework could be deepened further over time into a South Asian economic union, which has been a goal of SAARC. By developing extended transport and energy corridors across the subregion, and by linking the Islamic Republic of Iran and Myanmar, countries in South Asia can harness their strategic geographic location to emerge as the hub of trade and economic exchanges between South-East Asia and East Asia, on the one hand, and Central Asia and Europe on the other.

South Asia, while deepening its sub-regional economic integration, also needs

to be conversant with incipient broader regionalism in Asia and the Pacific, especially through the RCEP, which is creating a large economic space by bringing together ASEAN countries and their six dialogue partners, including India, in a single regional arrangement. Other subregional countries can seek entry into the RCEP in due course by using the open accession clause in the agreement. However, ECO, SAARC and BIMSTEC will have a better chance to play an important role in the broader regionalism through their own deeper integration. Greater collaboration between these regional organizations can open up creation of a connected economic space in South and Central Asia, leading eventually to broader Asia-Pacific integration. Such an open platform for regional cooperation may also help in diffusing the political sensitivities that have often held up progress towards South Asian economic integration. With its convening authority, its multi-sectoral agenda of work, various regional institutions and cooperative mechanisms, UNESCAP promotes a strategic presence at the sub-regional levels. It can therefore act as an important catalyst for regional economic cooperation in South Asia and beyond for the greater goal of uniting Asia and the Pacific for sustainable development.



ENDNOTES

- ¹ UNESCAP based on ITC Trade Maps Database (2017).
- ² UNESCAP based on World Development Indicators (2017), World Bank.
- ³ UNESCAP (2014).
- ⁴ WTO (2016).
- ⁵ UNESCAP (2016).
- ⁶ See World Bank (2014). Merchandise export-to-GDP ratio of South Asia grew by 173% since 1990, overtaking that of Latin America and the Caribbean in 2013.
- ⁷ Per capita income growth along with human capital, financial and infrastructural development played their part in mutually reinforcing trade growth and domestic economic development. See Goswami (2013) for a Panal data exposition for South Asia for the period 1980-2010 to find income growth and infrastructure as key determinants of trade growth.
- ⁸ Bhattarai (2011) notes countries with strong export oriented growth strategies such as India, Bangladesh and the Maldives have steadily raised the share of exports in GDP compared to Sri Lanka and Pakistan. Also see Athukorala and Jayasuriya (2012) for a critique on Sri Lanka's focus shifts from trade liberalization.
- ⁹ Tariff liberalization under SAFTA still remains an unfinished agenda. For current status and the ongoing process under SAFTA Tariff Liberalization Programme (TLP), see SAARC (2015). Also see section 1.4 (a) of this report for an exposition on this issue.
- ¹⁰ UNESCAP SSWA (2012)
- ¹¹ Ibid. Chapter 4.
- ¹² UNESCAP (2015).
- ¹³ ADB and UNCTAD (2008)
- ¹⁴ UNESCAP (2015b)
- ¹⁵ The Working Group is mandated to devise modalities of reduction in the sensitive lists and to make its recommendations for the consideration of the SAFTA Committee of Experts.
- ¹⁶ See Table 5.
- ¹⁷ UNESCAP (2015b).
- ¹⁸ Kathuria (2015)

- ¹⁹ SAARC (2015).
- ²⁰ Pandey (2012).
- ²¹ Evidences suggest that cross the border liberalization of trade and investment has set the stage for the emergence of vertical FDI in the region. See Athukorala (2014).
- ²² Keane and others (2014), and Consumer Unity and Trust Society (2013).
- ²³ See Consumer Unity and Trust Society (2013), and Raihan and others (2014) for proposals on addressing non-tariff barriers.
- ²⁴ Ratna (2015).
- ²⁵ Goyal (2014).
- ²⁶ Bhattacharyay and others (2012), and De and Iyengar (2014).
- ²⁷ These results are generated using a computable general equilibrium model and predicts pro-poor outcomes from a household level analysis. See Gilbert and Banik (2012).
- ²⁸ UNESCAP SSWA (2012).
- ²⁹ ASEAN (2011).
- ³⁰ The Energy Resource Institute (2013).
- ³¹ Integrated Research and Action for Development (2013) notes from the experience of linked power grids in India that even if all subsystems suffer from power shortages, there are still opportunities to trade electricity as it provides appropriate signals for the more economic utilization of existing capacities and utilizes change in consumption behaviour to suit the market conditions.
- ³² Lang and Bonapace (2014).
- ³³ Ahmed and Ghani (2008).
- ³⁴ UNESCAP (2016a).
- ³⁵ UNESCAP SSWA (2017).
- ³⁶ UNESCAP SSWA (2013).
- ³⁷ Mukherji (2014).
- ³⁸ UNESCAP (2015a).
- ³⁹ The risks of economic crises are increasing, as countries are failing to implement measures to reduce vulnerabilities at the pace of risk expansion. The annual GDP exposed to floods in South Asia was estimated to be \$15.4 billion in the period 2000-2009, up from \$5.4 billion in the period 1980-1989. Similarly, the annual GDP exposed to cyclones in South Asia almost doubled from \$2.6 billion to \$4.3 billion in the same period. See United Nations Office for Disaster Risk Reduction (2011).



ANNEXURE

Unexploited Export Potential in South Asia

(2014, in millions of US\$)

Reporter	Partner	Actual Exports	Potential Exports	Unexploited Potential	Unexploited Potential (%)	Potential exports 2020
Afghanistan	Bangladesh	0.25	65.84	65.60	99.63	154.07
	Bhutan	0.00	1.49	1.49	99.93	3.57
	India	220.13	1569.71	1349.58	85.98	3300.46
	Maldives	0.00	1.10	1.10	99.91	2.42
	Nepal	0.15	15.33	15.18	99.01	29.54
	Pakistan	177.58	721.02	543.44	75.37	1071.33
	Sri Lanka	0.02	22.94	22.92	99.90	47.96
	South Asia	398.13	2397.44	1999.30	83.39	4609.35
Bangladesh	Afghanistan	5.85	67.26	61.40	91.30	158.23
	Bhutan	3.40	49.82	46.43	93.18	187.04
	India	432.00	6447.40	6015.40	93.30	21200.00
	Maldives	0.00	8.09	8.09	99.99	27.78
	Nepal	20.50	252.53	232.02	91.88	761.08
	Pakistan	48.82	697.03	648.22	93.00	1620.21
	Sri Lanka	22.13	213.08	190.95	89.61	696.70
	South Asia	532.70	7735.21	7202.51	93.11	24651.03
Bhutan	Afghanistan	0.00	1.45	1.45	99.93	3.50
	Bangladesh	21.91	47.53	25.62	53.90	178.47
	India	497.72	497.72	0.00	0.00	477.68
	Maldives	0.02	0.14	0.12	89.07	0.48
	Nepal	2.01	7.62	5.61	73.63	23.54
	Pakistan	0.03	15.49	15.46	99.83	36.92
	Sri Lanka	0.02	3.43	3.41	99.50	11.51
	South Asia	521.70	573.36	51.67	9.01	732.11

Reporter	Partner	Actual Exports	Potential Exports	Unexploited Potential	Unexploited Potential (%)	Potential exports 2020
India	Afghanistan	443.05	1647.17	1204.12	73.10	3477.32
	Bangladesh	6579.88	6623.10	43.22	0.65	21800.00
	Bhutan	303.35	303.35	0.00	0.00	513.59
	Maldives	139.84	139.84	0.00	0.00	247.18
	Nepal	4405.08	4405.08	0.00	0.00	5438.54
	Pakistan	2181.82	21600.00	19400.00	89.81	45100.00
	Sri Lanka	6433.18	6433.18	0.00	0.00	5331.83
	South Asia	20486.20	41151.71	20647.34	50.17	81908.46
Maldives	Afghanistan	0.00	1.08	1.08	99.91	2.38
	Bangladesh	0.41	7.74	7.33	94.71	26.55
	Bhutan	0.00	0.14	0.14	99.27	0.48
	India	4.06	74.69	70.63	94.56	230.28
	Nepal	0.00	1.23	1.22	99.92	3.46
	Pakistan	0.01	9.70	9.69	99.90	21.14
	Sri Lanka	9.13	15.59	6.46	41.45	47.77
	South Asia	13.61	110.16	96.56	87.65	332.07
Nepal	Afghanistan	0.00	15.32	15.32	99.99	29.61
	Bangladesh	17.67	247.07	229.40	92.85	742.91
	Bhutan	3.38	7.81	4.43	56.74	24.08
	India	547.31	1915.32	1368.01	71.42	5174.51
	Maldives	0.01	1.25	1.24	99.08	3.54
	Pakistan	1.25	172.50	171.25	99.28	329.33
	Sri Lanka	0.03	30.80	30.76	99.89	82.72
	South Asia	569.65	2390.08	1820.42	76.17	6386.69
Pakistan	Afghanistan	2221.77	2221.77	0.00	0.00	1099.33
	Bangladesh	439.61	700.29	260.68	37.22	1618.90
	Bhutan	0.00	16.31	16.31	99.99	38.67
	India	481.20	21100.00	20700.00	98.10	43900.00
	Maldives	5.84	10.19	4.35	42.72	22.10
	Nepal	1.16	177.12	175.97	99.35	337.11
	Sri Lanka	254.15	254.15	0.00	0.00	450.72
	South Asia	3403.73	24479.83	21157.31	86.43	47466.82
Sri Lanka	Afghanistan	0.14	23.24	23.10	99.41	48.76
	Bangladesh	90.16	211.26	121.11	57.33	689.83
	Bhutan	0.02	3.57	3.55	99.51	11.94
	India	624.64	1753.94	1129.31	64.39	5145.84
	Maldives	87.99	87.99	0.00	0.00	49.49
	Nepal	3.80	31.21	27.41	87.83	83.90
	Pakistan	74.22	215.42	141.20	65.55	446.63
	South Asia	880.96	2326.64	1445.68	62.14	6476.40
South Asia		26806.67	81164.43	54420.78	67.05	172562.92

Source: UNESCAP estimations based on IMF, World Bank and CEPII

Notes: Estimation based on a gravity model using Pooled Ordinary Least Squares Estimator, with export variable dependent on economic sizes (Gross Domestic Product) of trading partners and their bilateral distance.

Bilateral exports data is sourced from IMF Direction of Trade Statistics (DOTS). GDP and distance variables are extracted from World Development Indicators (World Bank) and CEPII respectively.

Unexploited potential (%) is calculated as gap between actual and potential exports as proportion of potential exports.



REFERENCES

Ahmed, Sadiq and Ejaz Ghani (2008). Making regional cooperation work for South Asia's Poor. Policy Research Working Paper, No. 4736, The World Bank. Washington D. C.

Asian Development Bank and United Nations Conference on Trade and Development (2008). *Quantification of Benefits from Economic Cooperation in South Asia*. Manila: Asian Development Bank.

Association of Southeast Asian Nations (2011). *Master Plan on ASEAN Connectivity: One Vision, One Identity, One Community*. Jakarta. The ASEAN Secretariat.

Athukorala, Prema-chandra (2014). Intraregional FDI and Economic Integration in South Asia: Trends, Patterns and Prospects. *South Asia Economic Journal*, vol. 15, No. 1, pp. 1–35.

Athukorala, Prema-chandra and Sisira Jayasuriya (2012). Economic Policy Shifts in Sri Lanka: The Post-conflict Development Challenge. *Working Papers in Trade and Development*, No. 2012/15. Crawford School of Public Policy, Australian National University.

Bhattacharyay, B.N, M. Kawai, and R. Nag (2012). *Infrastructure for Asian Connectivity*. Edward Elgar for Asian Development Bank Institute and Asian Development Bank. Available from <https://www.adb.org/sites/default/files/publication/159325/adbi-infra-asian-connectivity.pdf>

Bhattarai, Keshab (2011). Trade, Growth and Poverty in South Asia. In *Routledge Handbook of South Asia Economics*, Raghbendra Jha, ed. Routledge, New York.

Consumer Unity and Trust Society (2013). *Reforming NTBs: Case for a Participatory Approach in South Asia*. Jaipur, India.

De, Prabir and Kavita Iyengar (eds) (2014). *Developing Economic Corridors in South Asia*. Mandaluyong City, Philippines: Asian Development Bank. Available from <https://www.adb.org/sites/default/files/publication/162073/developing-economic-corridors.pdf>

De, Prabir (2014). Strengthening Regional Trade and Production Networks through Transport Connectivity in South and South-West Asia. *UNESCAP South and South-West Asia Development Papers*, No. 1401. New Delhi. United Nations Economic and Social Commission for Asia and the Pacific. Available from http://www.unescap.org/sites/default/files/140903_Regional%20Connectivity_Prabir%20De_Final2.pdf

Gilbert, J. and N. Banik (2012). Socio-economic impacts of regional transport infrastructure in South Asia. In *Infrastructure for Asian Connectivity*, Biswa Nath Bhattacharyay, Masahiro Kawai and Rajat M. Nag, eds. Cheltenham, United Kingdom: Edward Elgar for Asian Development Bank Institute and Asian Development Bank. Available from <https://www.adb.org/sites/default/files/publication/159325/adbi-infra-asian-connectivity.pdf>

Goyal, Ashima (2014). Payment Systems to Facilitate South Asian Intra-Regional Trade. *UNESCAP South and South-West Asia Development Papers*, No. 1403. New Delhi. United Nations Economic and Social Commission for Asia and the Pacific. Available from http://www.unescap.org/sites/default/files/Development%20Paper_1403.pdf

Goswami, Nilotpal (2013). Determinants of Trade Development: Panel Evidence from South Asia. *South Asia Economic Journal*, Vol: 14 (1), pp. 17-33.

Integrated Research and Action for Development (2013). *Prospects for Regional Cooperation on Cross-Border Electricity Trade in South Asia*. Background paper for the South Asia Regional Initiative for Energy Integration programme. New Delhi. Available from <http://www.irade.org/Background%20Paper%20revised,%20Write%20Media,%20Oct18.pdf>

Kathuria, Sanjay (2015). *Boosting trade in the South Asian region*. South Asia Economic Conclave Blog. Available from <http://saec.in/blog/boosting-trade-in-south-asia.html>

Keane, Jodie, Jane Kennan, Sheila Page and Christopher Stevens (2014). Dealing with Non-tariff Barriers in South Asia. In *Regional Integration in South Asia: Trends, Challenges and Prospects*, Mohammad A Razzaque and Yurendra Basnett, eds. Commonwealth Secretariat, London.

Lang, Rémi and Tiziana Bonapace (2014). Progress towards the WSIS Targets in ESCAP and Regional Perspectives on Measuring ICT Development Objectives. *Staff Working Papers 2014*. Bangkok. ICT and Disaster Risk Reduction Division. United Nations Economic and Social Commission for Asia and the Pacific. Available from http://www.unescap.org/sites/default/files/ESCAP%20review%20of%20the%20WSIS%20Targets%20and%20regional%20perspectives_0.pdf.

Mukherji, I.N (2014). Agricultural trade liberalization for food security in South Asia. *UNESCAP South and South-West Asia Development Papers*, No. 1404. New Delhi: United Nations Economic and Social Commission for Asia and the Pacific. Available from http://www.unescap.org/sites/default/files/Development%20Paper_Agricultural%20Trade_1405.pdf

Pandey, P. R. (2012). SAARC Agreement on Trade in Services (SATIS): Status of Request and Offer. Presentation at the Regional Seminar on Emerging Issues on Trade, Climate Change and Food Security: Way Forward for South Asia. Institute of Policy Studies of Sri Lanka, Colombo, May 31-June 1.

Ratna, Rajan Sudesh (2015). Ten Years of SAFTA and Way Forward. Presentation at the Eighth South Asia Economic Summit. Islamabad, 7-8 December.

Raihan, Selim, Mostafa Abid Khan and Shaquib Quoreshi (2014). *NTMs in South Asia: Assessment and Analysis*. SAARC Trade Promotion Network. Kathmandu. Available from http://sanemnet.org/sanemafeefcontainer/uploads/2014/06/NTM_Ebook-.pdf

South Asian Association for Regional Cooperation (2015). Note by the Secretariat on Economic and Financial Cooperation. Kathmandu: South Asian Association for Regional Cooperation Secretariat.

The Energy and Resources Institute (2013). Regional cooperation for energy access and energy security in South and South-West Asia: Prospects and challenges. *South and South-West Asia Development Papers*, No, 1302. New Delhi: United Nations Economic and Social Commission for Asia and the Pacific. Available from http://www.unescap.org/sites/default/files/Regional-cooperation-forenergy-Dev-Paper_0.pdf

United Nations, Economic and Social Commission for Asia and the Pacific (UNESCAP) (2014). *Declaration on Regional Economic Cooperation and Integration in Asia and the Pacific*. Bangkok. E/ESCAP/RES/70/1. Available from www.unescap.org/sites/default/files/E70_RES1E.pdf

_____ (2015). *Economic and Social Survey of Asia and the Pacific 2015: Making Growth More Inclusive for Sustainable Development*. Bangkok. Available from <http://www.unescap.org/sites/default/files/Economic%20and%20Social%20Survey%20of%20Asia%20and%20the%20Pacific%202015.pdf>

_____ (2015a). *Disasters without Borders: Regional Resilience for Sustainable Development – Asia-Pacific Disaster Report 2015*. Sales No.E.15.II.F.13.

_____ (2015b). *Asia-Pacific Trade and Investment Report 2015: Supporting Participation in Value Chains*. Sales No.E.15.II.F.15.

_____ (2016). *Asia-Pacific Trade and Investment Report 2016: Recent Trends and Developments*. Sales No.E.16.II.F.23.

_____ (2016a). *Master Plan for the Asia-Pacific Information Superhighway*. E/ESCAP/CICTSTI(1)/2. Available from http://www.unescap.org/sites/default/files/APIS_Master_Plan_4.pdf

United Nations, Economic and Social Commission for Asia and the Pacific, South and South-West Asia (UNESCAP SSWA) (2012). *Regional Cooperation for Inclusive and Sustainable Development: South and South-West Asia Development Report*. New Delhi. ST/ESCAP/2644. Available from <http://www.unescap.org/resources/regional-cooperation-inclusive-and-sustainable-development-south-and-south-west-asia-0>

_____ (2013). *Regional cooperation for strengthening national food security strategies in South Asia: a policy agenda*. South and South-West Asia Development Papers, No. 1307. New Delhi. Available from http://www.unescap.org/sites/default/files/ESCAP-SSWA-Development-Paper_1307.pdf

_____ (2017). *Achieving Sustainable Development Goals in South Asia: Key Policy priorities and Implementation Challenges*, ST/ESCAP/2740.

United Nations Office for Disaster Risk Reduction (2011). *Global Assessment Report on Disaster Risk Reduction 2011: Revealing Risk, Redefining Development*. Geneva. Available from <https://www.unisdr.org/we/inform/publications/19846>

World Trade Organization (2016). *World Trade Report: Levelling the trading field for SMEs*. Geneva. Available from https://www.wto.org/english/res_e/booksp_e/world_trade_report16_e.pdf

World Bank (2014). *The Export Opportunity: South Asia Economic Focus*. Washington D.C. The World Bank Group.

At a modest 6% of total trade, intraregional trade in South Asia stands at less than one third of its full potential. Trade barriers, inadequate infrastructure and a lack of political commitment to finding common solutions to support cross-border commercial activity have cost South Asia over US \$54 billion per year in lost export opportunities. With 309 million people living on less than \$1.90 a day – one of the largest concentrations of poverty in the world – South Asia should urgently pursue broad-based regional economic cooperation that could enable far more effective responses to the subregion’s developmental challenges.

Unlocking the Potential of Regional Economic Cooperation and Integration in South Asia examines the state of economic integration in South Asia and identifies potential areas for further strengthening subregional linkages. Focusing on the four pillars of ESCAP strategy to deepen regional cooperation and integration, the publication provides recommendations on policy actions urgently needed to increase market integration, improve connectivity, boost investment in infrastructure development and tackle shared vulnerabilities and risks. It calls for the consolidation and upgrading of existing trade and investment cooperation initiatives into a South Asia Comprehensive Economic Partnership (SACEP).

The publication also highlights the need for South Asia to integrate more closely with the Asia-Pacific economy and build greater synergies in the broader Eurasian economic space. Toward this, the three overlapping subregional organizations of SAARC, ECO and BIMSTEC could create an institutional arrangement to exploit synergies and network externalities, creating an arc of advantage. Working together, the countries of South Asia could make a major contribution towards meeting the 2030 Agenda for Sustainable Development.



Economic and Social Commission for Asia and the Pacific, South and South-West Asia Office
C-2, Qutab Institutional Area,
New Delhi 110 016, India
Email: escap-sswa@un.org

ISBN: 978-92-1-120748-4

