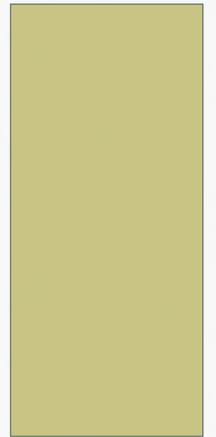


REGIONAL COOPERATION AND INTEGRATION IN
SOUTH ASIA:
PROGRESS, PROSPECTS AND WAY FORWARD

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THE PROGRESS

- South Asia is a late starter and slow mover, but there has been some progress in the following areas:
 - Emerging new narratives
 - Trade and investments
 - Private sector cooperation
 - Energy
 - Tourism
 - Information and Communications Technology

EMERGING NEW NARRATIVES

- Indian policy-makers now think that regional economic integration can help reduce poverty in the border regions and promote sustainable peace in the region.
- Pakistan's move to grant MFN status to India and trade liberalization with India has a greater support from Pakistani business community and intelligentsia.
- India's attempt to easing of visa restrictions in relation to Pakistani visitors is yet another example of changing narratives.
- Indian business community has openly been advocating for enhanced regional integration.

TRADE AND INVESTMENTS

- Bhutan-India, Nepal-India, India-Bangladesh and Nepal-India-Bangladesh trade infrastructures have been improved as regional projects or linked projects.
- Under SAFTA phase-I and II, all countries in the region implemented tariff reduction and rationalization bringing down the number of items in the sensitive list.
- Countries are working on a mutual basis for the reduction of non-tariff and procedural barriers to trade.
- Railway connectivity improvement between Bangladesh, India and Nepal (with Indian government proactively helping Nepal)
- Afghanistan-Pakistan Transit Trade Agreement

PRIVATE SECTOR COOPERATION

- SAARC Chamber of Commerce and Industries, South Asia Business Forum and networking of apex-level trade associations.
- India-Sri Lanka private sector cooperation and joint investment significantly improving. India recently lifted the restriction on Pakistani investments into India. Indian private sector is taking up hydropower development projects in Nepal and Bhutan.

ENERGY

- New cross-border transmission projects between India-Bangladesh, India-Nepal and India-Pakistan have either been complete or in the process of implementation.
- Power trading was almost non-existent in the past, except between India and Bhutan and at a smaller scale between India and Nepal, is now increasing.

TOURISM

- Implementation of SASEC Tourism Infrastructure Project

ICT

- Information highway corridor project.
- Preparation of ICT Master Plan.
- Harmonization of regulations.

PROSPECTS

- The number of middle class population is rising in South Asia, which is estimated to be over 50 percent of the population by 2025. This is going to be a huge consumer market giving good base for increased intraregional trade, which is less than 5 percent now.
- Younger demographic profile: right policies and economic integration can produce good growth.
- Service sector in South Asia is growing contributing more than 50 percent to GDP in most countries. Similarly share of service trade in the total trade is around 26 percent, which is higher than in any other region. This has prospect for further growth.

PROSPECTS

- Energy shortage is serious problem in South Asia, rated as second worst problem by many business-people after political instability. Peak shortages in Bangladesh around 1 GW, Pakistan around 4 GW, India around 12 GW and Nepal has power outage of 12 to 14 hours every day during winter. There is a huge energy market and at the same time there is huge untapped renewable resource for energy production in Afghanistan, Nepal and Bhutan.
- South-Asia lies at the center of Asian connectivity (between Central Asia and South-east Asia)

PROSPECTS

- South Asian merchandise trade consists of mostly finished goods. There is a prospect of trading in intermediary goods that can accelerate vertical specialization for global competitiveness.

WAY FORWARD

- Current focus on trade integration by improving trade infrastructures, eliminating non-tariff barriers, simplifying procedures, reducing and streamlining tariffs need to continue.
- Countries in South Asia should encourage private sector to move to vertical specialization by introducing right policies and a system of seamless trade-flows.
- With better transmission linkage, private sector will lead the energy market development. By creating competitive market conditions, the hydropower potentials of Bhutan, Nepal and Afghanistan can be fully tapped.

WAY FORWARD

- A network or coalition of different regional groupings (SASEC, SAARC, ASEAN, CAREC, GMS, etc.) can be helpful for exchange of experience and also in improving inter-regional economic integration.
- In South Asia, many donors have been having regional programs, but there's hardly any coordination. ADB should be considered a frontrunner in RCI in South Asia. In order to promote donor harmony and avoid duplication, ADB should lead the donor coalition for South Asian RCI.

Thank you