SAFTA: REASSESSING SOUTH ASIAN TRADE IN THIS GLOBAL SITUATION

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INTRODUCTION

Since the entry into the 21st century, there has been an emergence of Regional Trade Agreements (RTAs), which include Free Trade Agreements (FTAs) as well. This has been observed globally in all parts of the world. The significance of WTO is declining over time and hence parallelly the number of regional FTAs is increasing. Terms like regionalism, regional trade agreement, and free trade agreement often appear in discussions of international trade.[1] Regional or bilateral arrangements generally provide preferential treatment among participating countries, whereas the WTO framework is based more broadly on the principles of non-discrimination[2]. The expansion of these arrangements is particularly relevant to South Asia, where economic integration remains considerably below its potential, despite geographical proximity and a large common market. The South Asian Association for Regional Cooperation (SAARC) brings together Bangladesh, India, Bhutan, Maldives, Sri Lanka, Nepal and Pakistan, representing more than one-fifth of the world's population[3]. India and Pakistan, the two rival countries in one organisation, are working together. This is a matter of fact that brings SAARC to the forefront. In this essay, we are going on to discuss three research questions:

1. How have trade restrictions imposed by the USA affected the South Asian economies?
2. How does reciprocity act as a factor for trade agreements?
3. How is the expansion of SAFTA beneficial for South Asia?

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[1] Jiangyu Wang, *China, India, and Regional Economic Integration in Asia: The Policy and Legal Dimensions*, Vol. 10, S.Y.B.I.L., 269 (2006).

[2] Alan Winters, "Regionalism versus Multilateralism" World Bank Policy Research Working Paper 1687 (Washington D.C.: The World Bank, 1996).

[3] South Asian Association for Regional Cooperation, *About SAARC*, available at https://www.saarc-sec.org/#/about (Last visited on September 25, 2026 Time: 00:51).

IMPACT OF US TRADE RESTRICTIONS

Donald Trump started his second term as the 47th President of the US on January 20, 2025. He has given his presidential assent to more than 540 executive orders, memoranda, and other documents by mid-May 2026. One of the biggest shifts of his administration has been a sharp change in how the U.S. approaches trade in goods, under what it calls the America First policy. While celebrating 2nd April as Liberation Day, Trump declared two new kinds of tariffs:

- A 10% import duty on all the goods coming to the USA
- Reciprocal tariffs on imports from 90 nations.

The reason stated by him was to erase the trade deficit between the US and its trading partners. He, claiming the right under the International Emergency Economic Powers Act (IEEPA), granted this Presidential assent without any approval by Congress. These measures escalated into a tit-for-tat with China; for example, when China retaliated against the tariff by raising it to 34%, the US further raised it to 84%. Countries such as South Africa (30%), Bangladesh (35%), Brazil (50%) and India (50%) were penalised for political issues with the US. Trump threatened an additional tariff of 10% on BRICS.[4] The Court of International Trade ruled that IEEPA gives no authority for these tariffs, on which appeals were raised. This caused the tariff to continue for approximately a year. Only when the Supreme Court ruled against the duties did they end, but the suspension on de minimis remained.[5] During this time, developing countries bore a heavy burden on their economies.

Oil, a prominent source of global energy, is a vulnerability for India. India meets its demand mostly by importing oil, i.e., 87% of crude oil. India had, for a long time, traded with Iran as one of the major suppliers, accounting for more than 10%. India had even invested in the refinery infrastructure of Iran. Due to pressure from the Obama Administration and the first tenure of Trump in the USA, India had to scale down its crude purchases to a negligible level from Iran by 2019.[6] Similarly, the US imposed sanctions on Venezuela, which created

[4] Trade Law Centre (tralac), *US President Donald Trump's New Tariff Regime*, available at https://www.tralac.org/news/article/16783-us-president-donald-trump-s-new-tariff-regime.html (last visited Oct. 2, 2026).
[5] Business Standard, *'Exceeded Authority': US Supreme Court Strikes Down Trump's Global Tariffs*, Feb. 20, 2026, available at https://www.business-standard.com/world-news/trump-tariffs-struck-down-a-timeline-of-the-unending-global-trade-shock-126022001352_1.html (last visited Oct. 2, 2026).
[6] Kabir Taneja, "Did India need to stop buying oil from Iran?," Observer Research Foundation, February 27, 2023. https://www.orfonline.org/expert-speak/did-india-need-to-stop-buying-oil-from-iran .

compliance risks and constraints in shipping and payment.[7] After the Russia-Ukraine War, India expressed its interest in Russia for imports. In response, the US is exerting pressure by imposing tariffs. On March 4, 2026, the Iranian army ordered the closure of the Strait of Hormuz, threatening to attack ships. The UK Maritime Trade reported 10 attacks on ships passing through the strait. It was found that approximately 30% of oil in the global market and one-third of LNG pass through this strait daily.[8] The closure of the strait affected trade routes, requiring an alternative, longer path.

The 2026 US-India trade agreement 2026 is highlighted everywhere as a "$ 500 billion trade agreement". However, looking at the statistics of growth, even approaching a smaller fraction will be difficult without sustained capex cycles and favourable price dynamics. India–U.S. merchandise trade has carried an imbalance for many years. India is relatively in a better position because exports to the US since 2019 have grown by more than 50%, while imports have risen by less than half. There is tension in the domestic agreement, i.e. the trade deal opens the market to the US, creating greater competition. The tariffs have been lowered, which further amplifies the problems for people. Agriculture is still the most sensitive part of the agreement. Balancing the interests of consumers and farmers' income turns out to be a difficult part for the government. Automobile sectors face substantive competition, particularly in the premium two-wheelers. Energy could account for a large share of additional imports if India reasonably substitutes Russian oil with US barrels. If we take the total analysis, the USD benchmark of $ 500 billion will be viewed as more of an idealistic goal rather than a realistic one.

RECIPROCITY AS AN IMPORTANT FACTOR IN TRADE AGREEMENTS

In the contemporary global economy, reciprocity helps explain why countries engage in bilateral trade across various sectors. Reciprocity is a universal mechanism for comparing international cooperation[9]. With the growing use of protectionist measures to promote trade surpluses, understanding the reciprocal aspect of trade becomes equally necessary. Understanding its role is especially important because it can facilitate trade between countries

[7] S. Saurav Anand, "From 6.7% to 0.3%: Why Venezuela Has Almost Disappeared from India's Crude Basket," ETEnergyWorld (The Economic Times), January 8, 2026, https://energy.economictimes.indiatimes.com/news/oil-and-gas/from-6-7-to-0-3-why-venezuela-has almost-disappeared-from-indias-crude-basket/126405665.

[8] The Economic Times, *Blocking of Strait of Hormuz Will Impact India's Energy Procurement: Experts*, Jun. 22, 2025.

[9] Zhao, Changping, et al., *Is there reciprocity between India and RCEP member countries' goods trade?*, Vol. 29, Journal of the Asia Pacific Economy, 112 (2024). relations.

while also supporting lasting and stable cooperation. [10]Frank decided to analyse the relationship on the basis of cooperation, the influence they have and reciprocity between the EU and the world[11]. He found that many countries have reciprocal relations between them. This reciprocity between two countries has become the foundation for multilateral agreement. Although powerful countries try to exert dominance in the cooperation, though agreement results out on mutual terms rather than unilaterally. This also gives another realism to reciprocity an this effective for analysing trade relation and trend change among countries. In recent years, it has been observed that the withdrawal behaviour of countries from trade agreements is common; for example, the US withdrawal from Brexit.

In November 2019, India announced its resignation as part of RCEP Agreement, giving the reason of non-reciprocal trade agreement with the countries. This development has led to significant discussion between India and the international community. As WTO negotiations have moved slowly in recent years, countries have increasingly looked towards wider regional trade agreements as an alternative. However, this new wave of nationalism has given rise to an increase in trade barriers, trade wars and the breakaway from Mega-regions of various economic powers in the world.[12] India followed the path as the UK broke away from the European Union and the USA from the Trans-Pacific Partnership on the grounds of trade deficit and failed negotiations to address important concerns. There is also a political angle involved in this: to retain the voter base, the Modi administration was forced to change the policy preferences.[13] This was because of great pressure on the government from mainly the agricultural and trade sectors. However, it is found that many agreements are not reciprocal; in fact, reciprocity acts as an exception rather than a rule. RTAs act as an alternative to multilateral trade agreements, which often face political and economic obstacles. The challenges faced during the Doha Round highlight the difficulties involved in reaching agreement on contentious

[10] González, Germán H., Alexis E. Esposto & Valentina Viego, *Reciprocity in Bilateral Trade Flows: An Empirical Analysis for Trade between Australia and Latin American Countries*, Vol. 15, Applied Econometrics and International Development, 31 (2015).
[11] Frank, Morgan R., et al., *Detecting Reciprocity at a Global Scale*, Vol. 4, Science Advances, eaao5348 (2018).
[12] Gaur, Pankhuri, *India's Withdrawal from RCEP: Neutralising National Trade Concerns*, Vol. 27, Journal of the Asia Pacific Economy, 270 (2022).
[13] Verma, Raj, *The Regional Comprehensive Economic Partnership and India: A Test Case of Narendra Modi's Statesmanship*, Vol. 74, Australian Journal of International Affairs, 479 (2020).

sectors, particularly agriculture and services.[14] As the number of countries increases, it becomes more difficult to reach common ground.

EXPANSION OF SAFTA OUT OF SOUTH ASIA

In the past two decades, there has been a rise of PTAs/RTAs in different regions of the world. There is a consensus on the view that the openness of trade under the right conditions promotes economic growth. This resulted in a multilateral trading system by countries involved combining the PTAs. The history of PTAs in South Asia dates back to the formation of SAARC. In the continuance of the ongoing trend of PTAs, the SAARC members establish the SAFTA, effected by July 1, 2006. [15] The SAFTA member countries, while adhering to the principles of the Marrakesh Agreement which led to the establishment of the WTO, emphasise reciprocal commitments and mutual advantages so that the benefits of regional trade are available to all parties.[16] Two institutions of SAFTA regulate its overall operations:

- SAFTA Ministerial Conference (SMC)[17]: the highest decision-making body, mainly responsible for administration and implementation.
- Committee of Experts (COE)[18]: to support the SMC and serve as the dispute settlement body.

The SAFTA agreement also has provisions for the sensitive list products. These lists are reviewed every four years, so as not to restrict the size and scope of lists. There is a special provision adopted in SAFTA which says that there is compensation for loss in revenue of small countries. There will be an arrangement made where other states will develop a mechanism of compensation until an alternative arrangement is made. The agreement elaborates further the dispute settlement provisions.

These restrictive rules, extensive sensitive lists and uncoordinated efforts only threaten to limit the potential of that region of trade. SAPTA, predecessor of SAFTA, was a clear example of

[14] Rodriguez-Delgado, Jose Daniel, *SAFTA: Living in a World of Regional Trade Agreements*, IMF Working Paper No. WP/07/23 (2007).
[15] Agreement on South Asian Free Trade Area (SAFTA), signed January 6, 2004, SAARC Secretariat.
[16] Agreement on South Asian Free Trade Area, art. 3.2(c), Jan. 6, 2004.
[17] Agreement on South Asian Free Trade Area, art. 10.2(c), Jan. 6, 2004.
[18] Agreement on South Asian Free Trade Area, art. 10.6(c), Jan. 6, 2004.

this limitation and restriction, which ultimately had a negative influence that covered the vast majority of existing trade.[19]

The rivalry between India and Pakistan, the two largest members of the bloc, has cast a grey cloud over the future of SAFTA as an effective instrument of economic cooperation among nations of the South Asian region. [20]Trade between these two countries has never been easy, mainly due to political differences. Therefore, SAFTA is facing a major hurdle over trade concessions.

Discussing over the rise of the problem, it all started with India accusing Pakistan of violating the provisions of SAFTA. India claimed that Pakistan offered trade concessions only on the positive list, not on all items outside the sensitive lists, as per the SAFTA agreement. At the SAARC Council of Ministers meeting in Dhaka in August 2006, points were also raised on Pakistan's alleged non-compliance with Article 23 of the SAFTA Agreement.[21] Pakistan does not give the Standing Committee jurisdiction to discuss the issue. It has even put forward a counter-allegation stating that India had departed from the spirit of SAFTA.[22]

According to the available data, it can be inferred that South Asian countries do not trade with each other as with many other countries of almost identical economic levels or locations. While other agreements include expansion provisions, it is absent in SAFTA, which do not discuss about inclusion or working with other agreements. As per the experimental data, it was found that SAFTA will likely be in a better position with the entry of Afghanistan.[23] Baysan and others argue that SAFTA is relevant only when it includes a large community, not restricted to South Asia, such as China and ASEAN.

According to him, an Asian bloc could act as an incentive for European and American trade, thereby opening multilateral trade for all. Bandara and Yu, however, took a different position, arguing that establishing preferential trade relations between SAFTA and blocs such as the EU or NAFTA could generate benefits for all South Asian countries. [24] An agreement between

[19] T. Baysan, A. Panagariya & N. Pitigala, *Preferential Trading in South Asia*, 23 World Bank Economic Review 1 (2006).
[20] Shahid Zahid, *Trade Liberalisation and Regional Integration under SAFTA*, 12 South Asian Journal of Economics 45 (2006).
[21] Agreement on South Asian Free Trade Area, art. 23, Jan. 6, 2004.
[22] Alam, B.,"The SAFTA Syndrome", in Probe News Magazine, Dhaka, Vol. 5, Issue 06, August 4─10, 2006.
[23] Agreement on South Asian Free Trade Area, Jan. 6, 2004, *as amended by* Protocol on the Accession of the Islamic Republic of Afghanistan to SAFTA, Aug. 3, 2008.
[24] J.S. Bandara & W. Yu, *How Desirable is the South Asian Free Trade Area? A Quantitative Economic Assessment*, 25 The World Economy 1293 (2003).

SAFTA and ASEAN will, however, adversely affect South Asian countries. NAFTA and the EU are considered to be the two most important export destinations for South Asian goods. The main rationale behind it is that in North-South agreements, developing and developed countries produce different commodities, which will benefit all. [25] The SAFTA agreement should therefore be open to further countries, and better analysis needs to be done to get the maximum benefit.

CONCLUSION

The "gravity" model is said to be used by economists for analysing international trade. This model tells us that distance directly plays an important role in trade. In line with this model, a large number of trades occur within the radius of three thousand kilometres. However, for South Asia, this cannot be said because here the members export goods mainly to the developed states in the EU or the USA. This deviation is mainly due to political tension between the two largest rivals, India and Pakistan. It is important to observe that SAFTA will turn out to be an ineffective trade agreement if the political dispute is not settled.

Despite the rekindling of interest recently in South Asia by academics and policymakers to make sense of the emergence of BICs (Brazil, India, China) and the "Next 11", South Asia has attracted little attention in the international relations literature broadly. Scholars and others often lay interest on momentary issues, mainly because of India and Pakistan's brittle relations due to the Pahalgam attack and the Indus Water Treaty, Sri Lanka's change of party in government, and the Gen Z protest movement which led to the overthrow of the ruling government in Nepal. The success of a state in the current scenario is measured in terms of providing a beneficial and better environment for transnational companies to do business.[26]

We have seen in this global era how there is instability created by the US. As analysed in the first research question, it was observed that the US tried to show its dominance by imposing tariffs and, as a result, forcing other states to make a trade agreement. Obviously, the US, being the global power, will try to make this agreement in its favour. The reason that the US had a trade deficit was that it could bear that burden; however, for other countries, if that balance is tried to be achieved, it will lower the profit of those small developing countries, which is not

[25] Jayanta Roy, *South Asian Regional Trade Agreements: Perspectives, Issues and Options* (Presented at the International Trade Roundtable "The WTO at 10 years—The Regional Challenge to Multilateralism", Brussels, Belgium, June 27, 2005).
[26] Stein Tonnesson, "Globalising National States", Nations and Nationalism, No.10, 2004, p.180.

on par with the USA. Lastly, it was concluthat how SAFTA, which started on a regional level should expand its territory to include the outer regions too. There were some other parties like the EU, NAFTA, and ASEAN, which were analysed by scholars and, in turn, showed that SAFTA will benefit more by expanding. The major battle it needed to overcome is not to let political rivalry among members take a major role that it turns out to be collapsed. The critics will view the regionalisation of South Asia as a threat to the multilateral system, but instead it can be viewed as a basis for improving the multilateral system.