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SAARC: CHANGING REALITIES, OPPORUTNITIES AND  
CHALLENGES

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PAPER PRESENTED AT  
DIE CONFERENCE ON  
REGIONAL ECONOMIC INTEGRATION BEYOND EUROPE

19-20 DECEMBER

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# SAARC: CHANGING REALITIES, OPPORTUNITIES AND CHALLENGES

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## I. INTRODUCTION

There is a perceptible change in the environment for promoting regional cooperation and economic integration in South Asia. The change perhaps started in about 2002, with the previous government in India, but has gained more momentum since India acquired the Chairmanship of SAARC in April 2007. Among the several factors that are perhaps responsible for this positive movement, the more important ones are: the acceleration in economic growth in all major regional economies specially India since 2002-03; the positive demonstration effects of bilateral trade agreements in the region in recent years; recognition by India and other governments that a South Asia lagging in regional cooperation, cannot expect to play its due role in the global community; and last but not the least the growing impact of a resurgent Chinese economy that has necessitated a deep rethink of neighbourhood policies both by India and other countries.

These changing realities in South Asia require a fresh look at the prospects and challenges for regional economic integration in the region. In this context, the two central arguments of this paper are, first that there have been and continue to be some very strong arguments in support of regional economic integration in South Asia. Second that in the context of the changing realities, mentioned above, it is the right time to provide the needed push and impetus to this process to make it move beyond the 'tipping point' after which the virtuous impulses generated by the regional cooperation will push the region in to a higher growth trajectory.

The next section provides a historical background for regional cooperation in South Asia including the formation of South Asia Association for Regional Cooperation (SAARC). Section III looks at the motivations for regional cooperation in South Asia while Section IV gives some explanations for the current low levels of intra South Asian trade and economic cooperation. The changing global and regional realities that are now providing fresh impetus to the regional dynamics are discussed in Section V. The penultimate section highlights the imperatives from an Indian perspective for pushing forward the agenda of regional economic integration. This has some significant implications for India's neighbourhood policies. The last concluding section brings together the main arguments and summarizes the discussion.

## II. The Background

South Asia is home to about one and half billion people or 23% of the world population.<sup>1</sup> The eight countries have diverse features with India and Pakistan being the two largest economies in terms of the regional gross domestic product and population. In terms of economic well-being, as measured by the human development index, Sri Lanka and Maldives<sup>2</sup> are better off than the other six. However, the region shares the dubious credit of having the second largest concentration of the world's poor after Sub-Saharan Africa, with 47% of the South Asian population living on less than \$1/day.<sup>3</sup> Recent estimates in India put the share of population with less than \$0.5 per day at more than 50%.<sup>4</sup> Alleviating widespread poverty, sustaining employment generation, improving infrastructure, and sustaining rapid economic growth remain the common challenges in all the countries of the region.

These countries had strong trade and cultural ties had strong economic and cultural ties for centuries because many of them were seen by their inhabitants and rulers as a connected land mass and integrated economic space well before the British colonised them as components of the British Indian Empire. Thus, well before the most successful regional bloc of the European Common Market was established in 1958, the three largest South Asian countries of India, Pakistan and Bangladesh had a common market with integrated monetary and communication system until 1947. These ties were disrupted and significant political differences emerged during the second-half of the twentieth century. The situation worsened further in the seventies and eighties with ethnic strife resulting in the break up of Pakistan and continued violence in Sri Lanka and parts of India and Pakistan. Afghanistan has also seen enormous instability and disruption over the last three decades. Thus, despite their common heritage, South Asia has today emerged as the least integrated region in the world.

The establishment of the South Asian Association for Regional Cooperation<sup>5</sup> (SAARC) in 1985 was an attempt to reverse the conflicting tendencies of the post-Independence era. The move was initiated by Ziaur Rahman in Bangladesh and taken forward by young leaders like Benazir Bhutto in Pakistan and Rajiv

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*Development Indicators Database* July 2006. Data on Afghanistan which joined in 2006 is not available. Historically, this region has been referred to as the Indian sub-continent, which results in some level of apprehension in the smaller countries about their ability to retain their individual identity in the post SAARC context.

<sup>2</sup> Maldives has long moved beyond the threshold levels of income and quality of life for being part of the group of least developed countries. In 2004, the UN General Assembly decided to graduate Maldives out of the LDC group, but revised the decision following the devastation caused by the tsunami a few days later. Maldives will be graduated out of the LDCs group in 2011. UNCTAD (2006) *The Least Developed Countries Report 2006*, page 47.

<sup>3</sup> Source: <http://ddp-ext.worldbank.org/ext/GMIS/gdmis.do?siteId=2&menuId=LNAV01REGSUB5>

<sup>4</sup> See Report of the Informal Sector Commission or the Arjun Sengupta Commission Report.

<sup>5</sup> Established by the seven countries of Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. Afghanistan became the 8<sup>th</sup> member more recently in 2005.

Gandhi in India. It could be seen a premature and top-down attempt at promoting regional cooperation, since ground realities in terms of trade and investment flows, and political will were not really in place to support such an effort. In any case with the political demise of these leaders in the latter eighties, the SAARC process lost its champions and became somewhat directionless. This loss of political support at the top, combined with the usual degree of mutual mistrust and preoccupation with domestic fire-fighting resulted in lack of real progress in the last 22 years since SAARC was established.

Today the region has emerged as perhaps one of the most troubled and unstable neighbourhoods. Six (Afghanistan, Bangladesh, India, Nepal, Pakistan and Sri Lanka) of the eight current members are grappling with racial, communal, extremist or regional strife. Some of this strife is now decades old and well entrenched. With two of the major powers being armed with nuclear weapons and armed conflict in many of the sub-regions, it will be fair for an outsider to characterize South Asia as a potential flashpoint for major conflagration. India cannot assume that its own economic growth and prosperity will remain unaffected by the disturbed conditions in the region and needs to ensure greater peace and stability in order to achieve its objectives of rapid and sustained improvement in the people's living standards.

In the above context, this paper evaluates the economic-political-strategic benefits from deeper integration among the eight South Asian countries, especially from the Indian perspective. Section 2 summarizes the motivation for regional integration in South Asia, Section 3 reviews the level of intra-SAARC trade, and the reasons underlying low economic integration in the region. Section 4 focuses on the changing global context of SAARC today, and section 5 summarizes the political-economic and strategic rewards for India to rejuvenate integration efforts and revive regional cooperation in South Asia.

### **III. The Motivations for Regional Cooperation in South Asia**

India's size and central location in South Asia makes the region quite unique and complicates the case for regional integration. For instance, in 2005 India accounted close to four-fifths of the regional GDP by value, while Bhutan and Maldives accounted for less than one-hundredth. Pakistan, the next largest economy after India, accounted for 11% of the regional GDP, followed Bangladesh and Sri Lanka (see chart below and Table A1 at the end of the paper). Similarly, India accounts for 74% of the regional population, Pakistan for 13%, Bangladesh for 10%, Nepal for 2% and Sri Lanka for 1%. The smaller South Asian countries are far less diversified and relatively under-developed in their industrial structure than India. This makes them reluctant to push forward with regional liberalization due to (in our view a completely misplaced) fear of being swamped by Indian businesses, resulting in a de-industrialization of their economies. India on the other hand, had so far held back on further regional

liberalization for two reasons. First due to lack of full-reciprocity from partner countries. Second, and perhaps more important due to a perception, which has only changed in the last three years, that regional cooperation is a mere euphemism for the smaller countries to 'gang up' against India and not recognizing its claims to be the pre-eminent regional power. This was reflected in the persistence of the Indian establishment on using the term the "Indian Sub-Continent' rather than the more neutral South Asia that has come to be used only in the last two to three years. This has changed and India today clearly sees the advantages in seeing itself and other regional countries as equal partners in any regional cooperation initiative. This movement has to be further strengthened and can be seen as a major motivation for regional cooperation in South Asia.

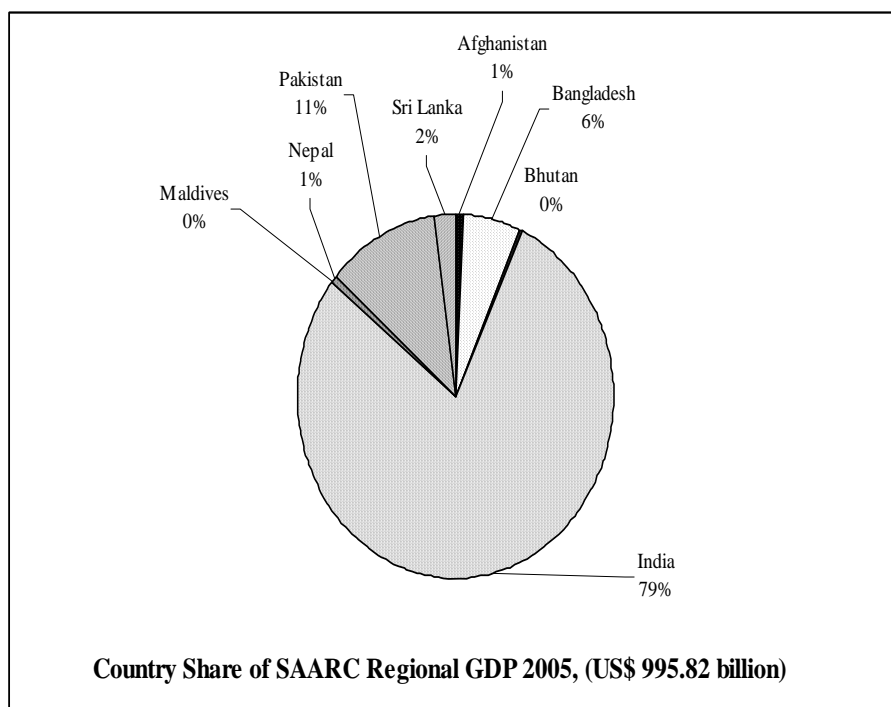


Figure 1. SAARC Country Shares of Regional Gross Domestic Product, 2005

A common feature of the South Asian economies has been the closed-economy approach followed since the fifties and its replacement by a more open economic stance since the beginning of the nineties. (Sri Lanka led the way by adopting such open and liberal policies in the eighties itself. ) Six South Asian countries of Bangladesh, India, Maldives, Nepal, Pakistan and Sri Lanka are WTO members and consequently wedded to a rule based multilateral trading regime. Nevertheless, the region remains a small player in global markets, accounting for a little over 1% of total global trade. During the eleven-year period of 1995 to 2005, South Asia's share in world merchandise exports marginally increased from 0.9% to 1.2% (see Table A3 for details).<sup>6</sup> In commercial services exports,

<sup>6</sup> WTO *International Trade Statistics 2006*.

the region emerged more competitive with its share in total world exports increasing from 0.87% in 1995 to 2.5% in 2005.<sup>7</sup>

The low share of South Asia in total world trade is largely driven by the low share of India as well as Pakistan, Bangladesh and Sri Lanka in world trade flows. (Tables A3 and A4). Within the region too, the persistence of trade barriers has led to abysmally low levels of intra-SAARC trade. Even the bilateral free trade agreement of India with Sri Lanka is not really completely “free” despite the bilateral free trade agreement, considering the rather limited list of zero-tariff items (Weerakoon 2001). Similarly, gravity models indicate that India’s bilateral trade potential with its neighbours remains largely untapped (Batra 2004) and regional trade can increase significantly with regional cooperation.

The launching of the South Asian Preferential Trade Agreement (SAPTA) in 1995 was the first major breakthrough for the SAARC, But despite SAPTA, intra-regional trade has failed to pick up. A decade later, in January 2006, SAARC succeeded in launching the South Asian Free Trade Agreement (SAFTA). SAFTA is not an ambitious free trade agreement, given the negative and sensitive lists of commodities that are excluded from preferential treatment and the non-inclusion of services. Even then, its implementation has faced political hurdles, for instance, the denial of the MFN status by Pakistan to India when both are WTO members.<sup>8</sup>

Yet the potential strategic significance of a unified South Asian region is obvious from the keen interest shown by China, Japan, South Korea and United States in the SAARC forum. While China and Japan were given observer status at the Dhaka Summit in 2005, the United States and South Korea made formal requests to obtain observer status in 2006, and the EU has indicated its interest in a similar status. Most analysts have shown that pure economic gains from freer trade regime that results from regional integration in South Asia will at best be modest. However, the political-strategic implications of South Asian integration and possible economic gains from the emergence of regional production networks and concomitant intra-industry trade within the region could be significant enough to attract the attention of global economic players.<sup>9</sup>

The motivation for greater integration in the South Asian region follows from four distinct factors: First, pure economic gains through efficient use of capital and labour and freer cross-border movement of goods and services. Second, other non-traditional gains from greater regional integration like increased flow of

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<sup>7</sup> Indeed, while South Asia’s share in total Asian merchandise exports was only 4% in 2005, its share in Asian services exports was 11.6% by value in the same year (see Table A4 for details).

<sup>8</sup> Implementation of SAFTA began July 1, 2006. Indian has provided MFN to Pakistan, however, the latter has refused to grant the Most Favoured Nation status to India, based on their continued territorial conflict over the state of Kashmir.

<sup>9</sup> There is some on-going work at ICRIER (T. N. Srinivasan and Vani Archana) that is attempting to show the possible impact of a change in trading regime on firm behaviour in the region’s economies.

foreign direct investment. Third, strategic gains when the South Asian countries negotiate as a unified group in multilateral fora. Fourth, developmental and environmental efficiency gains arising from adopting a regionally integrated approach towards provision of regional public goods like environment, water conservation and other natural resources including the regional ecosystem and related biodiversity. These regional issues cannot be effectively addressed individually and are best addressed in a cooperative framework.

While the economic and less traditional economic gains that arise from intra-industry trade and investment flows are well discussed in the literature, it is useful to point to the political and security motivations for regional cooperation in South Asia. These considerations are often the main driving force behind the emergence of regional blocs (Crawford and Fiorentino 2005: 16). For example, it was the fear of China's dominance that drove the Southeast Asian economies in to forming the ASEAN and even the EU was seen as a response to the emergence of the United States and the East European bloc under the USSR. In both these cases economic gains followed regional integration that was perhaps motivated initially by non-economic rationale. To the extent that political considerations dominate economic considerations in the formation of regional blocs, it is political commitment (or the lack thereof) that determines the success (or failure) of free trade agreements (Hossain and Duncan 1998). Greater regional and bilateral cooperation within emerging economies can also be seen as a response to the slow progress in multilateral trade regimes and increasing recourse to regionalism within developed economies.<sup>10</sup>

The other main driver of economic integration in South Asia is the need for greater energy security. All these countries are heavily dependent on energy imports and even more specifically on hydrocarbon imports from West Asia. At the greater Asian regional level the SAARC economies can be seen to offer a unified market for hydrocarbon imports from Central and West Asian gas and oil fields by overland pipelines, and hydrocarbon resources can then be exploited on a regional demand and stock supply. Energy trade in the region can also be seen as a confidence-building measure and a lock-in mechanism for irreversible economic interdependence (Pandian 2005). With Afghanistan's membership in the SAARC, the region can expect further potential gains through alliance with Central Asian countries. In particular, it provides greater connectivity with Central Asia and beyond, and brings in significant energy security payoffs.

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<sup>10</sup> A total of 211 regional trade agreements for goods and services are in force today. While 124 regional trade agreements for goods were notified in the GATT (some no longer in force) during 1948-94, more than 130 agreements covering trade in goods and services have been notified since 1995 under the WTO. As of September 15, 2006, WTO website [http://www.wto.org/english/tratop\\_e/region\\_e/summary\\_e.xls](http://www.wto.org/english/tratop_e/region_e/summary_e.xls), accessed December 6, 2006.

#### IV. Low Level of Integration in South Asia: Some Explanations

In 2005, the total value of merchandise trade reported by the South Asian countries (excluding Bhutan) was US\$ 318.28 billion, of which only US\$16.93 billion was destined for SAARC Members states.<sup>11</sup> This implies that intra-regional trade in South Asia accounted for barely 5.3% of its total world trade. Over the last fifteen years, between 1991 through 2005, the intra-SAARC merchandise trade has been stagnating between 3-5% of the region's total world trade.

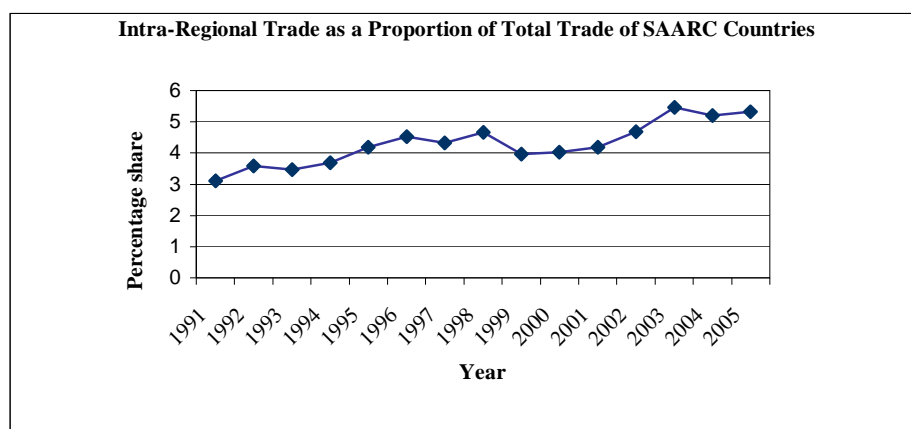


Figure 2. Share of Intra-regional Trade in Total Trade of SAARC Countries, 1991-2005

Given the prospect of trade diversion and unequal sharing of benefits, the literature is replete with references on how minimal the gains could be from trade expansion in the framework of a regional free trade agreement in South Asia,<sup>12</sup> Thus the epitaph for SAFTA had already been written even while it was being conceived. Regional trade agreements can be welfare reducing when it results in substantial trade diversion, and given the relatively high levels of protection in the region, most analysts predicted that trade diversion would be a dominant effect of SAFTA.<sup>13</sup>

Remarkably enough, much of the low level of intra-regional trade observed in South Asia stems from the restrictions directly imposed within the agreements. These have been in the form of limited product coverage, existence of negative

<sup>11</sup> Based on IMF DOTS data on exports from Afghanistan, Bangladesh, India, Maldives, Nepal, Pakistan, and Sri Lanka.

<sup>12</sup> Bandara and Yu (2003) use a general equilibrium model to show that gains under SAFTA are skewed with only India gaining substantially, while Pitigala (2005) and Baysan, Panagariya and Pitigala (2006) argue that given the level of protection in South Asia vis a vis the rest of the world, risk of trade-diversion is rather high.

<sup>13</sup> Hirantha (2003) being a notable exception, finds evidence of significant trade creation under SAPTA using the gravity model analysis and no evidence of trade diversion effect with the rest of the world.



list, and restrictive rules of origin and destination (more commonly called port restrictions), which together reduce the scope of any trade arrangement.

Regional integration agreements and free trade agreements in particular, can also fail when the impact of liberalization is asymmetric across partners and corrective redistribution mechanisms are absent. Asymmetric benefits and costs associated with regional integration create political tension and leads to defaults in commitment among the member countries (World Bank 2005). In South Asia, in particular, the economic gains from integration are perceived to be asymmetric and potentially adverse in the smaller members.

Another remarkable feature of South Asia is its substantial informal or border trade, which in the case of some SAARC members is reportedly even larger than the official trade reported between the countries.<sup>14</sup> The thriving illegal trade is mainly driven by differences in the tariff structures among the South Asian countries, as well as the incidence of high transactions costs in the formal routes. For example, relatively low tariff rates in Nepal has prompted smuggling of foreign merchandise into countries like Bangladesh and India, which have relatively high import tariffs on these products. Similarly, illegal imports from Sri Lanka into India consist largely of third country goods that face high import duties in India.

If one takes into account the informal trade of the region together with the reported formal trade, the total intra-regional trade would be certainly higher than 5% of the region's total (world) trade, but it would still remain less than a tenth of the region's total trade. These low levels of intra-regional trade are rooted in restrictive trade agreements and other factors that are discussed below.

- (i) *Weak port and transport infrastructure:* The poor port and transport infrastructure, regulatory environment and service-sector infrastructure in South Asia has been another cause of low-integration in the region (as well as an obstacle to growth for the region)<sup>15</sup>. Delays in transit due to road or port congestion, and customs procedures (non-tariff barriers) raise the costs for exporters. The limitations are in both physical (lack of cargo/ship handling equipment) as well as non-physical infrastructure (excessive and cumbersome border procedures). One estimate shows that if South Asia's infrastructure capacity is increased even halfway to East Asia's level, then intra-regional trade can increase by 60% (Wilson and Ostuki 2005).

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<sup>14</sup> For instance, bilateral unofficial trade (exports plus imports) of India with Bhutan, Nepal, Pakistan, and Sri Lanka were estimated to be more than their respective official trade in the 1990s See Taneja (1999) for a good overview of the causes, pattern and extent of informal trade among SAARC countries. The study provides a review of earlier estimates of illegal bilateral trade and also reports trade estimates from a survey done in 1999 among customs officials, chambers of commerce and traders.

<sup>15</sup> De (2005).

- (ii) Persistence of high levels of overall protection: The South Asian region as a whole has been a relatively protected region in the world. In particular, India is considered to be the least open among the group in terms of trade-weighted average applied tariff rate of 30.1%, followed by Bangladesh with 21.3%, Pakistan with 17.4%, and Nepal with 15.5%, while Sri Lanka is the most open with an average applied tariff of 6.2% (UNCTAD 2005, see Table A2 for details).
- (iii) Difficult business environment: Besides the high levels of protection in the region, the procedural delays stemming from institutional requirements have been a major factor inhibiting trade and business across borders. In particular, South Asia ranks second last among regions across the world in terms of ease of trading across borders (the last being Sub-Saharan Africa).<sup>16</sup> In particular, India ranks abysmally low in “ease of trading across borders” at 139<sup>th</sup> position compared to China’s rank of 38<sup>th</sup> in the world. India’s poor rank relative to other emerging countries reflects the excessive number of documents required by exporters and importers, the time delays in exports and imports and the high costs per value per container. Indeed any liberalization effort would fail to boost trade unless institutional and procedural reforms are also undertaken.
- (iv) Restrictive rules of origin and destination: Rules of origin in preferential or free trade agreements help determine the products for tariff preferences, but tighter rules of origin often reflect protectionist intention. The co-existence of high tariff barriers and tight rules of origin raises the risk of trade-diversion.<sup>17</sup> SAARC Members specify the port of entry sometimes for all products or for selective products. While this approach has been implemented to curb illegal flow, it also seems to be driven by inadequate administrative capacity. But the port-specific restrictions have increased transactions costs of trading across border.
- (v) Fear of India: India could potentially have been as an influential representative in international negotiations for the South Asian region, but unfortunately has failed to inculcate such trust among the SAARC partners. There is also real fear of de-industrialization in some sectors where Indian manufactures could compete out domestic products in the smaller countries, which are far less diversified than India. For example, in Pakistan where textiles and clothing sector is considered to be the major driving force for economic growth, and contributed more than 65% in total export value in 2004 (State Bank of Pakistan 2006), a business section feels threatened by the prospect of freer Indian imports.<sup>18</sup>

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<sup>16</sup> “Ease of Doing Business 2006”. Website: <http://www.doingbusiness.org/EconomyRanking> accessed January 12, 2007.

<sup>17</sup> Baysan, Panagariya and Pitigala (2006) contend that a persuasive case for SAFTA can be made if the countries in the region lower their overall tariff down to 5% or below, along with easing of the restrictive rules of origin and sectoral exceptions.

<sup>18</sup> In Pakistan, as in most of the other SAARC nations, the export sector is far less diversified than that of India. Hence the threat of a more competitive partner (namely India) eroding competitiveness in their core export segments is a significant concern.

- (vi) *Lack of coverage and commitment in the merchandise trade agreement:* The liberalization in merchandise trade as envisioned in SAFTA is much less ambitious than what the South Asian countries have been autonomously pursuing under the multilateral trading system. The trade integration observed today is a result of the preferential trade agreement, SAPTA (and bilateral free trade agreements) implemented in the nineties - whose limitations in the form of restrictive rules of origin, and destination (port restrictions) and product coverage effectively reduced the scope of these arrangements. The SAFTA tariff liberalization programme also allows Members to retain a negative list of items that are not offered for concessional treatment. Almost 53% of the total import trade between SAFTA members has been subject to the negative lists of the respective countries. Among the large Member countries India and Sri Lanka have restricted up to 38% and 52% respectively of their total imports by value from the SAFTA members under the sensitive list category (Weerakoon and Thenakoon 2006). The negative lists thus continue to significantly limit the scope of the South Asian “Free Trade” regime.
- (vii) *Services not included in regional trade agreement:* Conspicuous by omission is the trade in services in the SAFTA, especially considering that the region as a whole is emerging as a stronger exporter of commercial services worldwide (as evident from its increasing share in global commercial service exports, see appendix table A4). Most of the South Asian countries have been negotiating liberalization of the services sector under the WTO, and a liberalization exercise at the regional level would have been a good testing ground for this dynamic sector.
- (viii) *Too small and too few with similar revealed comparative advantage:* The South Asian region comprises of only eight countries compared to more than twenty in East Asia and Latin America, coupled with the dominance of a large country namely India, which tends to trade less as a share of GDP (Newfarmer 2004). While the NAFTA has even less number of member countries (and is dominated by a large country), the difference lies in the fact that it is a free trade agreement that was driven by the US aggressively in the move towards North American integration, in sharp contrast to India’s relatively passive role in South Asia. Trade analysis of South Asia indicates that the countries have almost identical pattern of revealed comparative advantage in a relatively low range of products, and bilateral trade structure exhibit low levels of trade complementarity (Kemal 2005).

## **V. Changing Realities in South Asia**

While SAARC has floundered for the last two decades, yet amazingly enough, the forum managed to push through a new free-trade agreement (though watered down) in its twenty-first year. It indicates that there remains sufficient political-will among the participating countries to keep the forum alive. It also

shows that SAARC has got its goals and priorities correct, even if achievement has not been commensurate with its potential. The coverage of the issues under the annual agenda in the past fourteen summits indicates that the focus has been right by giving priority for regional cooperation, especially in sectors such as energy, security, water usage, counter- terrorism and tourism among others. Moreover the new trade pact of SAFTA, although imperfect, has potential to be nurtured into a more robust trade deal to ensure greater regional liberalization and minimization of risks of extra-regional trade diversion. With extra-regional partners like the US, Japan and China now apparently keen to join the forum; it seems that SAARC will get a new lease of life in the new century.

Over the past twenty-one years, it is clear that two principal drivers determined India's part in promoting SAARC, namely: First, India's perception of the usefulness of the forum or more appropriately the lack of it. India, perhaps with good reason to begin with, saw SAARC as a modality suited to the smaller countries for achieving a better strategic balance with India and thus directed against India's national interests. But over the years it has become reasonably evident that any attempt at coalition formation by the neighbouring countries has not been successful because of the dynamics between these countries themselves and their inevitable need to deal with India directly given the geographic and economic realities. The acceptance by external players of India's relatively dominant position in the region and their backing off from using either their bilateral or regional relationships with India's neighbours to 'redress the asymmetry' within the region has also helped to bring about a change in India's perception about the usefulness of SAARC.

The other two most important factors that have led to the recent change in the Indian establishment's perception of SAARC are first the growing influence of China in the region and second the understanding in Delhi that its national interests of securing territorial integrity in the peripheral regions and fighting poverty in its border states are best served through collective regional initiatives. China has not only achieved a greater penetration of global markets but has also emerged as a hub for production networks in South East Asia. This change has not gone unnoticed in India. More significantly, bilateral trade volumes between some of the South Asian economies and China are larger than with India. This has finally caused the positive response within the Ministry of External Affairs in India to secure its own interests in South Asia and even South East Asia as reflected in the BIMSTEC initiative and the Indo-Thai free trade agreement. The change in India's perception about regional cooperation in South Asia is best seen by the Indian government's recent acceptance of a role of multilateral organizations in infrastructure development and improving connectivity in its border regions.

The second determinant or constraint on regional cooperation has been the state of India's relationship with Pakistan. The political tension between the two countries has hindered regional cooperation and continues to hold hostage the

full implementation of SAFTA today. Thus the dominant countries' problem has also dominated the dynamics of the regional forum and inhibited its full implementation. However, even this is clearly changing with perceptible improvement in Indo-Pak relations and growing trade relations and success in confidence building measures between the two countries.

Twenty-two years after the birth of SAARC, the global and regional conditions have changed drastically. Most significantly, with the demise of the cold war the world has become unipolar, there is accelerated pace of economic globalization; China has emerged as a dominant global and regional player; and there is an urgent need to alleviate persistent poverty and combat the growing terrorist threat. Thus the nature of the two principal drivers of South Asian cooperation from the Indian perspective mentioned above are rapidly changing in support of South Asian economic integration. For the last two decades all the South Asian economies have been pursuing economic liberalization. The liberalization process has, on the one hand reduced their fear of opening up to the external world and on the other has increased the possible dividends from regional cooperation (including reduced risk of trade diversion).

In the new global context, one cannot miss China's continued pursuit of deeper integration with the world economy in general and some South Asian partners in particular. Indeed since 2004 China's bilateral trade with some SAARC countries (Pakistan and Bangladesh) has surpassed India's bilateral trade with these countries, even though China did not have any preferential/ free trade agreement with any of these countries as India did. Of course, China has long pushed for a strategic political-economic relationship with Pakistan since the middle of the twentieth century, and signed a FTA in 2006 is part of a multi-dimensional economic partnership on energy, communication, agriculture, technical cooperation, joint investment company, etc.<sup>19</sup>

The changing realities of a globalizing world have prompted India to accept countries from outside the region to become observers in SAARC and also stop treating South Asia as its exclusive backyard in which it would only pursue bilateral interaction and not brook any outside intervention. The rise of China and its growing relations with South Asian countries is yet another factor that has changed and will continue to influence India's position in favor of supporting an active and substantive SAARC forum. The terrorist threat to India and Pakistan is prompting the establishment in the two countries to improve their relationship and support political dialogue to ensure political stability and social harmony. Moreover, there is pressure from the growing industrial and middle class in emerging South Asian economies to expand business and social contacts with

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<sup>19</sup> The two countries signed an FTA in November 2006 that is expected to increase their bilateral trade from US \$4.3 billion (in 2005) to US\$15 billion in five years. "China, Pakistan sign free trade agreement", *People's Daily online* (English), 25<sup>th</sup> November 2006.  
[http://english.people.com.cn/200611/24/eng20061124\\_324918.html](http://english.people.com.cn/200611/24/eng20061124_324918.html)

the SAARC regional partners, and also to take advantage of the burgeoning Indian market.

The size differential of the SAARC countries can actually provide an impetus to regional trade and investment if India takes into account its own economic dynamism and the size of its market that gives it the capability to absorb additional imports from its neighbours (especially since this in turn creates the climate for greater imports from India into these countries). The overall positive experience from the bilateral free trade agreement with Sri Lanka, has been in effect for more than six years, should convince the Indian industry and government that an integrated and open South Asian regional market can only be supportive of its own interests as this offers a greater scope for building competitiveness of our firms that are now striving to be global players. Therefore, a unilateral or asymmetrical move from India in lowering trade and non trade barriers to imports from neighbouring countries with due regard to rules of origin, will give a significant boost to economic gains from regional cooperation and create a support for it in the region. This is especially true for the more open SAARC countries members like Maldives, Bhutan and Sri Lanka, where merchandise trade constitutes more than 65% of their GDP by value (see Table A2 for details).

In the twenty-first century, therefore, the changing global context has changed the nature of both the principal determinants of regional cooperation for India towards supporting further progress in regional integration in South Asia. Other countries like Bangladesh, Nepal, Sri Lanka, Maldives also stand to gain from any forward movement in SAARC. The biggest potential gainer today could be Afghanistan with better access to Indian investment and other resources and by reclaiming its historical role as the bridge between Central and South Asia. Thus, the changing realities not only make SAARC a viable undertaking but one with significant positive immediate and longer term outcomes for its members.

## **VI. Looking Ahead: Is SAARC Better Alive or Dead for India**

While there is clearly some change in response to changing realities in the perception of the Indian establishment towards the usefulness of SAARC for India's national interests, the stance still remains some what equivocal and unclear. The principal argument still being made is that SAARC cannot really move forward with Pakistan in it as the Pakistani rulers will simply not let it progress. Therefore, some in the policy circles argue that a stronger support to other regional or bilateral relationships is more effective in serving India's interests. This perhaps accounts for the growth and some movement in formations like the BIMSTEC, the Indian Ocean Rim and Swarnbhoomi initiatives. With India assuming the SAARC chairmanship in April 2007, it is incumbent that the government gives SAARC its fullest and unstinted support. In the following paragraphs we try and summarize the reasons for India to put all its

weight behind and indeed to lead the effort for promoting regional cooperation and economic integration in South Asia.

The ten most important reasons for which India should proactively support the SAARC process are:

- i) *Make de facto the de jure*: De facto, India already has extensive informal interaction with its neighbours in the form of border trade. By activating SAFTA and following it with an agreement on trade in services, India will only convert the present de-facto situation to a de-jure one, which will have therefore no additional impact on the Indian industry or services sectors.
- ii) *Increased FDI*: South Asia's low level of regional integration as well as with the world economy is also reflected in the relatively low level of foreign direct investment inflows in to the region. In recent years FDI inflow has increased rapidly, with gross FDI reaching \$10 billion in 2005-06, but continues to be below the potential especially considering India's economic performance and policy change (UNCTAD 2006). There is no doubt that a more peaceful, stable and regionally integrated South Asia will attract greater volumes of FDI, which will be beneficial to all.
- iii) *Dynamic trade gains*: The economic case for greater merchandise trade still holds, not withstanding that econometric studies tend to highlight rather small gains from SAFTA. The Indo-Sri Lankan bilateral trade agreement shows that contrary to findings of quantitative models, trade between India and Sri-Lanka increased significantly following their bilateral free trade agreement.<sup>20</sup> Trade grew because of an increase in trade of new products that were not earlier traded and could not thereby be captured in the modelling exercises.<sup>21</sup> Moreover, these quantitative exercises singularly lack the ability to capture gains from intra-industry trade, the scope for which is significant in the region.
- iv) *Enhanced security*: Increasing inequity fuels insecurity and cross-border terrorism. Thus it is in India's interest to help improve the standard of living and reduce poverty in the smaller South Asian economies as she continues to pursue the path of high growth. India can hardly hope to remain an island of sustained economic growth if the growth impetus is not shared with or transferred to neighbouring countries.<sup>22</sup>
- v) *Promoting development of the least developed countries*: As the new Chair of SAARC, India should promote economic development of the least developed countries and of lagging regions within India and its

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<sup>20</sup>The gravity model analysis of Batra (2004) found that India's bilateral trade with Sri Lanka and Nepal has gone far beyond the level of trade predicted on the basis of natural factors (distance, landlocked ness, population, and income) based on 2000 database.

<sup>21</sup> How much of this trade expansion represents trade diversion or trade creation is still an open question. Baysan, Panagariya and Pitigala (2006).

<sup>22</sup> ADB (2006): page 146.

- neighbouring states (for example, through greater intra-regional investment as included in SAFTA Article 8, and Annex II for investment promotion for least developed contracting states). Promoting well-being of the region and reducing poverty of member states are among the core principles of SAARC.
- vi) Returns to scale: Regional integration will provide a larger market and also scope for intra-industry trade. Both features will benefit the Indian and South Asian industry to lower costs and become more competitive in global markets by exploiting economies of scale and scope. Even the small and medium sized companies will benefit by improving their global competitiveness in a phased manner by initially producing for the SAARC markets and then striking out for a greater share in global markets.
  - vii) Increased efficiency in the provision of public goods and services: The South Asian subcontinent is an integrated geo-ecological system. In this context, it can be easily seen that some public goods and services like energy, water management and conservation, prevention against pandemics and maximizing tourist earnings are best achieved on a regional basis. Given that India shares its borders with almost all SAARC members, it is in her interest to ensure that a cooperative approach is taken to address these issues of the delivery of regional public goods and markets.
  - viii) Connectivity payoffs with the rest of Asia: Today, regional cooperation is gaining momentum in other sub-regions in Asia. The South East Asian countries have come together under GMS initiative and this is helping build the regional infrastructure from Myanmar eastwards and southwards. The Central Asian economies are coming together under the CAREC program that is being actively pushed by China. A regionally integrated South Asian space will help realize trans Asian connectivity and greater energy security as resources from Central and West Asia could be moved eastwards up to China. In such a scenario India along with its neighbours would benefit significantly from greater flow of trade, commerce and investment from West and Central Asia to East and South East Asia via South Asia.
  - ix) Achieving greater social cohesion within India: By connecting the diverse ethnic groups within India with their counterparts across the borders, India's multi-religious, multi ethnic and pluralistic society would be greatly strengthened. This pluralistic polity will be further preserved and nurtured if the various ethnic and religious communities within India can freely interact with their communities across the Indian borders and as a result feel less isolated or pressurized as a minority within India. This is an important reason for India to support SAARC as its functioning has the potential to facilitate India's on going modernization. This would also



contribute to a greater enrichment of the cultural diversity that is a hallmark of the South Asian subcontinent.

- x) *Defining and defending India's regional space*: Regional integration has been used to achieve strategic objectives rather than simply economic gains. If India does not establish stronger ties with its immediate neighbours and thus secure its regional space, it will soon find itself isolated. China is now making significant efforts to improve its access to South Asian economies and markets. South Asian countries, acutely aware of China's advances in Tibet, Myanmar and Xingjian, see significant advantages in improving their ties with China rather than wait indefinitely for South Asia to move forward. For example, the China-Pakistan agreement signed in November 2006 envisions a multi-dimensional economic partnership on energy, communication, agriculture, technical cooperation, joint investment company, etc, besides trade.<sup>23</sup> Therefore, it is important for India to ensure greater integration of the South Asian space. We and we should be open to all interested bilateral and multilateral agencies who may want to play a role in achieving this.

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<sup>23</sup> The FTA will reduce or eliminate tariffs on all products in two phases beginning July 2007, and is expected to increase their bilateral trade from US \$4.3 billion (in 2005) to US\$15 billion in five years. "China, Pakistan sign free trade agreement", *People's Daily online* (English), 25<sup>th</sup> November 2006. [http://english.people.com.cn/200611/24/eng20061124\\_324918.html](http://english.people.com.cn/200611/24/eng20061124_324918.html)

## **VII. Conclusion**

In the rapidly changing global environment, regional integration in South Asia has assumed a new strategic significance. Not surprisingly, it has altered the potential political-economic and strategic gains from SAARC for all the country partners. As the largest economy of the region, it is imperative and an opportune time for India to inculcate an environment of trust among SAARC partners, which would encourage greater commitment to regional integration among all the countries. India stands to gain substantially from greater economic integration in the region, in terms of both economic non-economic payoffs. Indeed, India emergence in the world economic order in the twenty-first century is not possible until and unless she ensures a stable and secure regional economy. , and her forthcoming chairmanship of SAARC in 2007 holds the door of opportunity for her to demonstrate her own commitment to regional cooperation and integration.

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**Table 1: Some Selected Indicators of Development.**

Country	Composition of GDP (2005) (%)			Per Capita Income, (2005)		GDP growth, (2000-05)	GDP as % of South Asia's Total	Adult Literacy Rate	Life Expectancy at Birth		% of Population Bellow \$ 1 a day
	Agr.	Ind.	Ser.	US \$	US \$, PPP				Male	Female	
<i>India</i>	19	28	54	720	3460	6.9	79.28	61	63	64	34.7 (1999-00)
<i>Pakistan</i>	22	25	53	690	2350	4.8	10.9	50	64	66	17.0 (2002)
<i>Bangladesh</i>	21	28	52	470	2090	5.3	5.91		63	64	36.0 (2000)
<i>Sri Lanka</i>	17	26	57	1660	4520	4.2	2.31	91	72	77	5.6 (2002)
<i>Nepal</i>	40	21	38	270	1530	2.6	0.73	49	62	63	24.1 (2003-04)
<i>Bhutan</i>				870			0.08		62	65	
<i>Maldives</i>				2390			0.08	96	68	67	
<i>Afghanistan</i>							0.72	28			
<b>China</b>	13	46	41	1740	6600	9.6		91	70	73	16.6 (2001)
<b>South Korea</b>	4	41	55	15830	21850	4.6			74	81	< 2 (1998)
<b>Thailand</b>	10	47	43	2750	8440	5.4		93	67	74	< 2 (2002)
<b>Indonesia</b>	14	41	45	1280	3720	4.7		90	66	69	7.5 (2002)

**Source:** World Development Report 2007 (2006).

**Table 2: Intra-regional and World Trade of South Asian Countries, 1991-2006.**

<b>Year</b>	<b>% Share of Intra South Asian Imports in total imports of South Asia Countries</b>	<b>% Share of Intra South Asian Exports in total exports of South Asia Countries</b>	<b>% Share of intra South Asian trade in total trade of South Asia Countries</b>
<b>1991</b>	2.63	3.70	3.11
<b>1992</b>	3.20	4.08	3.59
<b>1993</b>	3.29	3.68	3.47
<b>1994</b>	3.46	3.94	3.68
<b>1995</b>	3.91	4.52	4.18
<b>1996</b>	4.57	4.47	4.53
<b>1997</b>	3.83	4.94	4.32
<b>1998</b>	4.73	4.57	4.66
<b>1999</b>	3.72	4.33	3.97
<b>2000</b>	3.72	4.43	4.03
<b>2001</b>	3.82	4.65	4.18
<b>2002</b>	4.24	5.23	4.69
<b>2003</b>	4.71	6.40	5.46
<b>2004</b>	4.45	6.23	5.20
<b>2005</b>	4.54	6.45	5.32
<b>2006</b>	3.85	6.16	4.73

**Source:** *IMF DOTS Database*

**Notes:**

- (1) The values column 2 are in US \$ millions and the above figures do not include the data from Bhutan as it does not report its data.
- (2) The Countries included are Afghanistan, Bangladesh, India, Maldives, Pakistan, Nepal and Sri Lanka.

**Table 3: Annual GDP growth rate of South Asian Countries (Constant 2000 US \$).**

<b>Year</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>1991-2000</b>	<b>2001-2005</b>
<b>Afghanistan</b>												28.6	15.7	7.5	14.0		16.45
<b>Bangladesh</b>	3.34	5.04	4.57	4.08	4.93	4.62	5.39	5.23	4.87	5.94	5.27	4.42	5.26	6.27	6.0	4.80	5.44
<b>Bhutan</b>	3.76	4.34	5.89	8.09	6.84	5.49	7.78	7.07	7.00	7.00	7.00	6.68	6.70	4.90	6.06	6.32	6.27
<b>India</b>	0.91	5.27	4.87	7.46	7.65	7.39	4.48	5.99	7.13	3.94	5.15	4.09	8.61	6.90	9.23	5.51	6.80
<b>Maldives</b>						8.82	11.52	9.30	7.78	4.39	3.26	6.08	9.13	10.81	-5.19	8.36	4.82
<b>Nepal</b>	6.64	4.34	3.50	8.56	3.30	5.34	5.26	2.94	4.48	6.12	5.50	- 0.58	3.09	3.47	2.71	5.05	2.84
<b>Pakistan</b>	5.06	7.71	1.76	3.74	4.96	4.85	1.01	2.55	3.66	4.26	1.86	3.22	4.95	6.38	7.78	3.96	4.84
<b>Sri Lanka</b>	4.60	4.40	6.90	5.60	5.50	3.80	6.40	4.70	4.30	6.00	-1.55	3.96	6.02	5.36	5.30	5.22	3.82

Source: World Development Indicators 2006.

**Table 3a: Annual GDP growth rate of some selected Asian Countries (Constant 2000 US \$).**

<b>Year</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>1991-2000</b>	<b>2001-2005</b>
<b>China</b>	9.20	14.20	14.00	13.10	10.90	10.00	9.30	7.80	7.60	8.40	8.30	9.10	10.00	10.10	10.20	10.45	9.54
<b>Korea, Rep.</b>	9.39	5.88	6.13	8.54	9.17	7.00	4.65	-6.85	9.49	8.49	3.84	6.97	3.10	4.64	3.96	6.19	4.50
<b>Thailand</b>	8.56	8.08	8.25	8.99	9.24	5.90	-1.37	-10.51	4.45	4.75	2.17	5.32	7.03	6.17	4.46	4.63	5.03
<b>Philippines</b>	- 0.58	0.34	2.12	4.39	4.68	5.85	5.19	-0.58	3.40	5.97	1.76	4.34	3.58	6.07	4.97	3.08	4.14
<b>Malaysia</b>	9.55	8.89	9.89	9.21	9.83	10.00	7.32	-7.36	6.14	8.86	0.32	4.35	5.42	7.14	5.16	7.23	4.48

Source: World Development Indicators 2006.

**Table 4: Per capita GDP growth rate of South Asian Countries (Constant 2000 US \$).**

<b>Year</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>1991-2000</b>	<b>2001-2004</b>
<b>Country</b>																
<b>Afghanistan</b>																
<b>Bangladesh</b>	1.00	2.66	2.22	1.78	2.66	2.43	3.24	3.12	2.80	3.87	3.24	2.42	3.26	4.29	2.58	3.30
<b>Bhutan</b>	0.75	1.31	2.82	4.96	3.74	2.43	4.66	3.98	3.91	3.91	4.01	3.81	3.93	2.28	3.25	3.51
<b>India</b>	-1.07	3.33	2.95	5.54	5.74	5.52	2.67	4.18	5.32	2.21	3.47	2.49	7.00	5.39	3.64	4.58
<b>Maldives</b>						5.65	8.32	6.23	4.83	1.61	0.58	3.41	6.43	8.10	5.33	4.63
<b>Nepal</b>	4.03	1.74	0.89	5.84	0.74	2.76	2.72	0.50	2.07	3.73	3.20	-2.69	0.96	1.38	2.50	0.71
<b>Pakistan</b>	2.43	5.04	-0.76	1.17	2.41	2.31	-1.38	0.11	1.19	1.78	-0.57	0.76	2.45	3.85	1.43	1.62
<b>Sri Lanka</b>	3.09	3.45	5.57	4.15	4.07	2.67	5.08	3.54	2.83	4.27	1.75	2.46	4.67	4.46	3.87	3.33

Source: World Development Indicators 2006.

**Table 4a: Per capita GDP growth rate of some selected Asian countries (Constant 2000 US \$).**

<b>Year</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>1991-2000</b>	<b>2001-2004</b>
<b>Country</b>																
<b>China</b>	7.72	12.81	12.70	11.83	9.70	8.85	8.19	6.77	6.59	7.64	7.52	8.37	9.32	9.44	9.28	8.66
<b>Korea, Rep.</b>	8.38	4.92	5.19	7.57	7.62	5.98	3.67	-7.52	8.71	7.58	3.08	6.38	2.59	4.14	5.21	4.05
<b>Malaysia</b>	6.68	6.03	7.02	6.37	7.01	7.21	4.64	-9.61	3.66	6.44	-1.79	2.27	3.41	5.17	4.55	2.26
<b>Thailand</b>	7.04	6.62	6.83	7.62	7.94	4.71	-2.43	-	3.42	3.75	1.21	4.36	6.09	5.26	3.41	4.23



								11.42									
<b>Philippines</b>	-2.86	-1.94	-0.17	2.09	2.42	3.61	3.01	-2.59	1.35	3.91	-0.18	2.39	1.69	4.19	0.88	2.02	

Source: World Development Indicators 2006.

Table 5: Gross Capital Formation as a % of GDP.

Country	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	1991-2000	2001-2004
<i>Afghanistan</i>																
<i>Bangladesh</i>	16.90	17.31	17.95	18.40	19.12	19.99	20.72	21.63	23.01	23.86	23.09	23.15	23.41	24.02	19.89	23.42
<i>Bhutan</i>	32.04	46.64	46.06	47.45	46.84	44.68	34.10	37.56	42.98	48.38	51.97	53.28	..	..	42.67	52.63
<i>India</i>	21.93	23.79	21.25	23.38	26.53	21.77	22.57	21.38	23.66	22.67	22.41	22.65	23.03	24.05	22.89	23.03
<i>Maldives</i>					31.29	30.54	33.17	30.05	33.64	26.32	28.07	25.53	27.21	36.10	30.84	29.23
<i>Nepal</i>	20.25	20.70	22.57	22.40	25.20	27.21	25.34	24.84	20.48	24.31	24.05	24.07	25.83	26.31	23.33	25.07
<i>Pakistan</i>	19.03	20.24	20.82	19.55	18.55	19.00	17.92	17.71	15.56	17.38	17.19	16.77	16.94	17.33	18.57	17.06
<i>Sri Lanka</i>	22.87	24.27	25.56	27.03	25.73	24.25	24.39	25.14	27.29	28.04	22.00	21.16	22.07	24.99	25.46	22.56
<b>Philippines</b>	20.22	21.34	23.98	24.06	22.45	24.02	24.78	20.34	18.75	21.17	18.76	17.56	16.99	17.42	22.11	17.68
<b>Thailand</b>	42.84	39.96	40.01	40.25	42.09	41.82	33.66	20.45	20.50	22.84	24.10	23.80	24.92	27.09	34.44	24.98
<b>China</b>	34.77	36.17	42.45	39.96	39.28	37.75	36.03	35.01	34.24	32.76	34.16	35.16	37.83	38.67	36.84	36.46
<b>Korea, Rep.</b>	39.73	37.29	35.73	36.95	37.67	38.87	35.97	25.00	29.12	31.00	29.33	29.08	29.96	30.22	34.73	29.65
<b>Malaysia</b>	37.79	35.36	39.18	41.20	43.64	41.48	42.97	26.68	22.38	27.30	23.92	24.00	21.59	22.65	35.80	23.04

Source: World Development Indicators, 2006.

**Table: 6: Gross Domestic Savings as a % of GDP.**

<b>Country</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>1991-2000</b>	<b>2001-2004</b>
<i>Afghanistan</i>																
<i>Bangladesh</i>	11.33	12.54	12.86	13.54	12.64	12.38	14.70	16.68	17.34	18.42	16.97	18.38	17.58	18.67	14.24	17.90
<i>Bhutan</i>	23.81	22.17	33.57	37.65	42.09	35.01	24.62	22.29	24.97	19.54	27.40	32.37			28.57	29.89
<i>India</i>	21.94	23.03	21.27	23.07	25.33	20.59	21.32	19.69	21.70	21.91	21.78	22.27	21.56	20.65	21.98	21.56
<i>Maldives</i>					46.75	49.15	45.93	46.71	44.22	44.18	44.93	46.34	49.22	47.59	46.16	47.02
<i>Nepal</i>	8.56	10.93	12.25	9.96	15.66	14.38	13.96	13.77	13.61	15.17	14.98	13.55	13.71	12.43	12.83	13.66
<i>Pakistan</i>	17.47	17.07	14.68	16.78	15.83	14.47	13.23	16.67	13.95	16.12	16.12	16.68	17.54	18.39	15.63	17.18
<i>Sri Lanka</i>	13.86	14.99	16.01	15.22	15.29	15.32	17.32	19.13	19.48	17.43	15.77	14.44	15.90	15.90	16.41	15.50
<b>Philippines</b>	17.23	16.44	15.53	17.75	14.63	15.23	14.44	13.71	18.91	23.07	15.65	17.05	14.91	18.00	16.69	16.40
<b>Thailand</b>	36.30	35.95	35.77	35.41	35.35	35.54	35.08	36.33	33.07	31.47	30.59	30.49	31.69	31.80	35.03	31.14

<b>China</b>	38.38	37.95	40.37	41.78	41.49	39.80	40.53	39.31	37.06	35.17	36.28	37.73	40.03	41.22	39.18	38.82
<b>South Korea</b>	37.08	36.13	36.12	36.21	36.57	35.40	35.37	37.87	35.81	34.16	31.63	30.46	32.34	34.57	36.07	32.25
<b>Malaysia</b>	34.13	36.72	39.08	39.60	39.71	42.86	43.89	48.67	47.43	47.25	42.31	42.26	42.46	43.93	41.93	42.74

**Source:** *World Development Indicators, 2006.*

**Table 7: Net Foreign Direct Investment Inflow.**

<b>Country</b>	<b>FDI Net Inflow (millions US \$ (2005))</b>	<b>FDI Net Inflow % of GDP</b>	<b>% of Each Country in total South Asian FDI Net Inflow</b>
<b>Afghanistan</b>			
<b>Bangladesh</b>	802	1.34	8.17
<b>Bhutan</b>	0.7	0.08	0.01
<b>India</b>	6598	0.82	67.17
<b>Maldives</b>	9	1.17	0.09
<b>Nepal</b>	2.45	0.03	0.02
<b>Pakistan</b>	2183	1.97	22.23
<b>Sri Lanka</b>	227	0.97	2.31
<b>South Asian Countries</b>	9822.15	0.96	
<b>China</b>	79127	3.52	
<b>South Korea</b>	4339	0.55	
<b>Malaysia</b>	4527	2.56	
<b>Thailand</b>	1132	1.14	
<b>Philippines</b>	3966	3.04	

**Source:** World Development Indicators in World Bank Website:  
<http://ddp-xt.worldbank.org/ext/DDPQQ/showReport.do?method=showReport>

**Table 8: Merchandise Imports as a % of GDP.**

<b>Country</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
<i>Afghanistan</i>											40.62	37.16	50.04	39.92	43.78
<i>Bangladesh</i>	11.02	11.77	12.04	13.63	17.64	17.29	17.16	17.00	18.79	19.51	19.19	18.06	20.09	21.25	23.10
<i>Bhutan</i>	34.31	50.99	38.15	33.61	36.09	38.41	34.75	33.25	40.89	35.94	35.65	32.92	41.81	59.42	47.39
<i>India</i>	7.66	9.66	8.32	8.32	9.77	9.84	10.11	10.39	10.51	11.27	10.58	11.11	11.86	14.08	16.33
<i>Maldives</i>	65.88	66.34	59.24	62.36	67.17	67.05	68.67	65.54	68.22	62.31	62.88	61.18	68.18	85.65	96.99
<i>Nepal</i>	18.79	22.82	24.32	28.40	30.29	30.92	34.42	25.66	28.25	28.63	26.36	25.51	29.98	27.88	25.16
<i>Pakistan</i>	18.65	19.37	18.54	17.21	18.99	19.25	18.66	15.00	16.21	14.82	14.25	15.71	15.83	18.67	22.87
<i>Sri Lanka</i>	33.94	36.07	38.68	40.68	40.72	39.16	38.86	37.38	38.07	43.94	37.93	36.92	36.57	39.76	38.24
<b>South Asian Countries</b>	<b>12.34</b>	<b>12.34</b>	<b>11.23</b>	<b>11.07</b>	<b>12.78</b>	<b>12.77</b>	<b>12.86</b>	<b>12.52</b>	<b>12.83</b>	<b>13.54</b>	<b>12.69</b>	<b>13.12</b>	<b>13.88</b>	<b>16.01</b>	<b>18.31</b>
<i>Thailand</i>	38.24	36.50	36.86	37.68	42.16	39.81	41.66	38.42	41.15	50.46	53.63	50.95	53.04	58.97	66.89
<i>Philippines</i>	28.31	29.19	34.53	35.33	38.24	41.19	46.90	48.33	42.76	48.78	48.47	48.45	50.85	50.07	47.87
<i>China</i>	16.94	19.27	23.60	20.67	18.14	16.22	14.94	13.76	15.30	18.78	18.38	20.30	25.15	29.05	29.48
<i>South Korea</i>	26.45	24.79	23.14	24.17	26.13	26.96	28.01	27.00	26.89	31.36	29.28	27.81	29.41	33.03	33.61
<i>Malaysia</i>	74.59	67.38	68.24	80.02	87.46	77.76	78.90	80.80	82.08	90.75	83.94	83.84	80.44	88.99	87.23

Source: World Development Indicators, 2006.

**Table: 9: Merchandise Export as a % of GDP**

<b>Exports</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
<i>Afghanistan</i>											4.06	6.19	7.62	7.29	7.66
<i>Bangladesh</i>	5.46	6.62	7.67	8.69	9.23	10.45	11.42	11.61	12.40	14.03	12.94	12.93	13.46	14.40	15.30
<i>Bhutan</i>	26.04	26.92	27.56	24.11	33.19	30.01	29.93	26.80	26.06	21.13	19.79	18.89	22.33	24.51	29.62
<i>India</i>	6.64	8.04	7.87	7.76	8.62	8.59	8.55	8.08	7.98	9.27	9.10	9.68	9.50	10.94	11.15
<i>Maldives</i>	31.18	22.85	16.35	21.19	21.31	17.75	17.64	17.71	15.53	17.41	17.60	20.60	22.00	22.84	20.88
<i>Nepal</i>	6.55	10.84	10.49	8.90	7.84	8.51	8.25	9.76	11.96	14.63	13.19	10.21	11.31	11.27	11.22
<i>Pakistan</i>	14.43	15.11	13.05	14.26	13.24	14.79	14.03	13.69	13.38	12.31	12.92	13.87	14.49	13.92	14.39
<i>Sri Lanka</i>	22.08	25.30	27.61	27.37	29.15	29.47	30.74	30.45	29.34	33.25	30.59	28.42	28.09	28.71	26.71
<b>South Asian Countries</b>	<b>8.00</b>	<b>9.51</b>	<b>9.19</b>	<b>9.24</b>	<b>9.89</b>	<b>10.14</b>	<b>10.10</b>	<b>9.74</b>	<b>9.58</b>	<b>10.75</b>	<b>10.41</b>	<b>10.58</b>	<b>10.78</b>	<b>11.89</b>	<b>12.11</b>
<i>Thailand</i>	28.94	29.14	29.57	31.32	33.62	30.67	38.02	48.68	47.77	56.27	56.23	53.68	56.21	60.25	62.37
<i>Philippines</i>	19.38	18.41	20.47	20.76	23.61	24.63	30.22	45.13	48.03	52.41	45.34	47.57	47.66	46.93	41.61
<i>China</i>	19.09	20.31	20.83	21.64	20.44	17.64	19.19	18.02	17.99	20.79	20.09	22.40	26.71	30.72	34.04
<i>South Korea</i>	23.32	23.23	22.71	22.67	24.18	23.26	26.37	38.30	32.26	33.67	31.22	29.71	31.87	37.35	36.10
<i>Malaysia</i>	69.91	68.93	70.46	79.01	83.21	77.67	78.61	101.57	106.70	108.76	100.00	98.73	100.98	106.92	108.24

Source: World Development Indicators, 2006.

**Table 10: Total Merchandise Trade as a % of GDP.**

<i>Entry</i>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
<i>Bangladesh</i>											44.69	43.35	57.66	47.21	51.7
<i>Bhutan</i>	16.48	18.39	19.72	22.32	26.87	27.74	28.58	28.61	31.19	33.55	32.13	30.99	33.55	35.66	38.1
<i>China</i>	60.35	77.91	65.71	57.72	69.28	68.42	64.69	60.05	66.96	57.06	55.44	51.81	64.14	83.92	77.1
<i>India</i>	14.30	17.70	16.19	16.08	18.40	18.43	18.66	18.47	18.49	20.53	19.68	20.78	21.37	25.02	27.1
<i>Indonesia</i>	97.06	89.20	75.59	83.54	88.48	84.80	86.31	83.25	83.75	79.72	80.48	81.79	90.19	108.49	177.1
<i>Japan</i>	25.35	33.66	34.81	37.30	38.13	39.43	42.67	35.42	40.21	43.26	39.54	35.73	41.29	39.15	36.1
<i>Korea</i>	33.09	34.49	31.60	31.47	32.23	34.04	32.69	28.69	29.59	27.13	27.17	29.58	30.32	32.59	37.1
<i>Sri Lanka</i>	56.02	61.37	66.30	68.05	69.87	68.62	69.60	67.83	67.41	77.19	68.52	65.34	64.65	68.46	64.1
<b>With Asian Countries</b>	<b>18.37</b>	<b>21.85</b>	<b>20.43</b>	<b>20.31</b>	<b>22.66</b>	<b>22.90</b>	<b>22.26</b>	<b>22.95</b>	<b>22.41</b>	<b>24.29</b>	<b>23.10</b>	<b>23.96</b>	<b>24.66</b>	<b>27.90</b>	<b>30.1</b>
<i>Maldives</i>	67.18	65.64	66.43	69.00	75.78	70.48	79.68	87.10	88.92	106.73	109.86	104.63	109.25	119.22	129.1
<i>Philippines</i>	47.69	47.60	55.00	56.09	61.85	65.82	77.12	93.46	90.79	101.18	93.81	96.03	98.52	97.00	89.1
<i>Thailand</i>	36.03	39.58	44.43	42.31	38.58	33.86	34.13	31.78	33.29	39.57	38.47	42.70	51.86	59.77	63.1

<i>ith Korea</i>	49.77	48.02	45.85	46.85	50.31	50.22	54.38	65.31	59.15	65.03	60.50	57.52	61.28	70.37	69.
<i>aysia</i>	144.50	136.31	138.70	159.03	170.66	155.42	157.50	182.37	188.79	199.50	183.94	182.57	181.42	195.90	195

Source: World Development Indicators, 2006.

**Table 11: Growth Rate of Merchandise Exports.**

<b>Country</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>1991-2000</b>	<b>2001-2002</b>
<i>Afghanistan</i>	-19.9	-30.4	-19.1	58.5	-7.1	10.9	16.2	4.0	-20.1	10.8	-45.9	150.0	40.0	20.0	33.3	0.4	39.5
<i>Bangladesh</i>	1.1	24.2	21.3	15.3	19.3	21.4	13.7	6.0	7.3	16.2	-4.8	1.1	13.7	16.6	12.8	14.6	7.9
<i>Bhutan</i>	-10.0	4.8	-1.5	1.5	56.1	-2.9	18.0	-8.5	7.4	-11.2	2.9	6.6	17.7	24.1	51.5	5.4	20.6
<i>India</i>	-1.3	10.7	9.9	16.0	22.4	8.1	5.7	-4.5	6.7	18.8	2.3	13.6	15.9	32.4	18.8	9.3	16.6
<i>Maldives</i>	-2.3	-14.6	-19.0	43.1	12.7	-6.0	12.1	6.7	-4.3	18.8	1.2	20.0	15.2	13.2	-7.0	4.7	8.5
<i>Nepal</i>	26.0	43.5	4.1	-5.7	-4.7	11.6	5.5	16.7	27.0	33.6	-8.3	-22.9	16.5	14.2	9.8	15.8	1.9
<i>Pakistan</i>	16.8	12.1	-8.6	10.1	8.5	16.6	-6.5	-2.8	-1.1	7.2	2.3	7.3	20.3	12.1	19.2	5.2	12.3
<i>Sri Lanka</i>	3.9	23.6	16.5	12.2	18.4	7.8	13.3	3.7	-4.5	18.2	-11.3	-2.4	9.1	12.3	9.0	11.3	3.3
<b>South Asian</b>	<b>2.9</b>	<b>12.7</b>	<b>6.7</b>	<b>14.4</b>	<b>18.9</b>	<b>10.5</b>	<b>4.8</b>	<b>-2.4</b>	<b>4.5</b>	<b>16.8</b>	<b>0.2</b>	<b>10.1</b>	<b>16.0</b>	<b>26.7</b>	<b>17.9</b>	<b>9.0</b>	<b>14.2</b>



<b>Countries</b>																	
<b>Thailand</b>	23.2	14.2	13.8	22.4	24.7	-1.3	3.0	-5.1	7.3	18.2	-5.9	4.8	17.9	21.3	13.1	12.1	10.2
<b>Philippines</b>	8.4	10.8	14.1	19.5	31.6	16.6	21.9	18.2	24.3	8.8	-17.9	11.7	1.4	7.2	3.8	17.4	1.3
<b>China</b>	15.8	18.1	8.0	31.9	23.0	1.5	21.0	0.5	6.1	27.8	6.8	22.4	34.6	35.4	28.5	15.4	25.5
<b>Korea, Rep.</b>	10.5	6.6	7.3	16.8	30.3	3.7	5.0	-2.8	8.6	19.9	-12.7	8.0	19.3	31.0	12.0	10.6	11.5
<b>Malaysia</b>	16.6	18.7	15.6	24.9	25.6	6.0	0.5	-6.9	15.2	16.3	-10.4	6.9	11.6	20.5	11.4	13.2	8.0

**Source:** *World Development Indicators, 2006.*

**Table 12: National Poverty Ratios in South Asian Countries**

<b>Country</b>	<b>Year</b>	<b>Poverty Ratio</b>	<b>Year</b>	<b>Poverty Ratio</b>
<i>India</i>	93-94	36	99-00	28.6
<i>Pakistan</i>	1993	28.6	1998	32.6
<i>Sri Lanka</i>	90-91	20	95-96	25
<i>Nepal</i>	95-96	41.8	03-04	30.9
<i>Bangladesh</i>	95-96	51	2000	49.8
<i>Bhutan</i>				
<i>Maldives</i>				
<i>Afghanistan</i>				
<b>China</b>	1996	6	1998	4.6
<b>Thailand</b>	1990	18	1992	13.1
<b>Indonesia</b>	1996	15.7	1999	27.1

**Source:** *World Development Report 2007 (2006)*

