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Impact of Globalization on South Asian Economic Development

by

G.P. ISSER

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About the Author

G.P. Isser, a former member of Indian Foreign Service (IFS) and former Ambassador of India, is currently engaged in Research in various aspects of development economics. The missions where he served during his diplomatic career included among others, Indian mission in : Brussels, Colombo, Muscat, Rabat, Tokyo, and Khartoum. He was awarded fellowship from the Indian Institute of Foreign Trade, New Delhi on the basis of his thesis on "The Role of Trade in Economic Development", He also served as Joint Secretary in Policy-Planning Division in the Ministry of External Affairs.

He has authored three books on Development Issues. These include: Role of Trade in Economic Development; Stages in Development Thinking; Emerging Challenges for Development Economics – Bookwell, Delhi 2001; and Changing Face of Poverty and Globalisation – Gyan Publishing House – 2002.

Professor Isser had worked as Honorary Adjunct Research Professor at the Centre for Policy Research during the period January 2003 to May 2004.

Foreword

Globalisation has significantly influenced economic growth in developing countries. However, its impact on development has been diverse. The growing divergence in the impact of globalisation on developing countries has been noticeable. The Centre for Policy Research in its research program of 2003-04 had approved a research study entitled "Impact of Globalisation on South Asian Economic Development" to be undertaken by Professor G.P. Isser, a former IFS Officer and Ambassador of India. This Working Paper is the result of this research study.

In this Working Paper Professor Isser has carried out intensive research work in assessing the opportunities that globalisation has created and examined the extent to which South Asian countries have been able to avail the opportunities through participation in global trade, investment and technology. He concludes that, while there has been a positive impact of globalisation on economic growth in South Asia, the impact has been weak in comparison to its impact on developing countries in East Asia and South-East Asia.

In addition to the identification of the factors contributing to linkages between South Asian economies and globalisation, Prof. Isser has made valuable suggestions in this Working Paper for a suitable policy – framework which will enhance the capabilities of South Asia to play more important role in the global economy. The road-map drawn by Professor Isser will enable the region to increase its share in the dividends of globalisation. Professor Isser's contribution is very timely in view of the growing debate on the pros and cons of globalisation and on growing regionalism in global economy. I trust that this work will get the attention it deserves from the policy makers and the academia.

Centre for Policy Research
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Charan Wadhva
President

Impact of Globalization on South Asian Economic Development

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PREFACE

The interaction between development and globalization as a theme of research work is a complex subject. The complexity arises from the need for a researcher to adapt and relate mainstream economic indicators and documents to the study of globalization. The present research work relates to the regional dimension of globalization, which is still a very young area of inquiry as compared with other aspects of regional studies. These factors considerably added to the constraints in identifying documents of direct relevance for conducting the research. I must submit that the research conducted by me is a very modest endeavor and it lays down basic structures for further research and unfolds several areas of studies for further research. The growing divergence in the impact of globalization on developing countries has brought to focus the need for intensive research of this subject in development studies. In the new millennium, South Asia has achieved and sustained high rate of economic growth which strengthens its trade, investment and technological linkages with the global economy. With the advent of New Economy and especially with the advances in information technology, South Asia's potential for integration with the global economy has further increased. These positive developments call for organized research work which will provide useful inputs to the formation of development policies in South Asia.

Before I conclude preface to the research paper, I must acknowledge the support that I received from various quarters in my work. First and foremost, I owe words of gratitude to Dr. C.D. Wadhava, the President of Center for Policy Research who extended strong support and cooperation in my endeavor. My research work was considerably constrained by very limited availability of relevant documents on the topic of my research. I must express my grateful thanks to the Director General of Research and Information System for Developing Countries (R.I.S.), Dr. Nagesh Kumar for facilitating use of R.I.S. documentation centre. I have extensively drawn on the documents of the R.I.S. for inclusion in Annexures attached with the research paper. In course of my research work, I consulted the documentation centers and libraries at Ministry of External Affairs, I.C.R.I.E.R., Confederation of Indian Industries, World Bank, I.M.F., A.D.B., ESCAP, FICII, Etc. I was considerably benefited by attending various seminars and conferences organized by Center for Policy Research, Confederation of Indian Industries and R.I.S. I express my grateful thanks for the invitations extended to me from these institutions.

INTRODUCTION

Globalization has played a major role in sustaining the economic expansion of global economy in the latter half of the 20th Century. There are several dimensions of globalization. The most important dimension, which impacts economic development, is increased internationalization of economic markets as reflected in expanding trade and financial capital flows. The world trade has expanded significantly since 1960s. Three factors have been behind this explosive growth. First, artificial barriers to international trade such as tariffs and quotas have fallen by as much as 80-90 per cent after the end of the Second World War. The costs of transportation and communications have dropped substantially. Ocean shipping costs have fallen in the last 50 years by as much as 75-80 per cent. Communications costs have also reduced significantly, stimulating greater trade in services. Along with expanding trade. Increased internationalization of global economy also witnessed enormous increase in the flow of the Foreign Direct Investment.

The increased flows of goods and services and investment funds across national boundary resulted in rising world economic growth. It is through openness of national economy that globalization accelerates the development – process in the world economy. Openness allows economy to make better use of its resources through greater specialization in production of the goods and services that it produces relatively cheaply. In particular, trade enables developing countries to import capital and other intermediate inputs that are critical to long-run growth. These critical inputs bring with them new technology. A more open trade regime also encourages competition between local and foreign firms, thereby raising the level of efficiency of domestic firms. There is adequate empirical evidence to support this view of the positive impact of globalization on national economic growth and per capita income.

The developing countries shared the dividends of globalization by increasing their participation in the process of internationalization of trade and investment. In total international trade, the share of developing countries increased from 7.5 per cent in 1960 to 12.6 per cent in 1999. Similarly in total inflows of foreign direct investment, developing countries increased their share from 5.8 billion dollars in 1980 to 212 billion dollars in 1999. However, among the developing countries, there emerged a wide divergence in capitalizing on dividends of globalization. In East Asia, few economies such as Hong Kong, Republic of Korea, Singapore etc. now grouped under Newly Industrialized Economies (NIEs) and some countries in South East Asia such as Malaysia, Indonesia, Thailand achieved spectacular economic growth which was propelled by globalization. The high rate of economic growth achieved by these economies was unprecedented and unique.

The development experience of high performers in economic growth has been the subject of intensive research and has led to voluminous development – literature. There has been adequate empirical evidence to suggest that i.) Globalization very closely influenced the high rate of economic growth in East Asian Developing Countries and also in South East Asian Developing Countries ii) The Positive impact of globalization on economic growth resulted from the adaptation in trade and investment policies of the high growth countries.

The path of economic growth in South Asia greatly diverged from the robust growth performance of developing countries grouped under NIES and of some developing countries in South East Asia such as Indonesia, Malaysia and Thailand etc. This divergence raises some important issues regarding interaction between the forces of globalization and economic development in South Asia. In other words the study of regional dimensions of globalization becomes important for the assessment of the role and potential of globalization in influencing the path of economic development.

The main objective of the research paper entitled “Impact of Globalization on South Asian Economic Development” is to dissect into the various factors contributing towards the prevailing asymmetry in the impact of globalization on developing countries. The analysis in this research paper is based on the premise that it is through three important linkages that globalization impacts the process of economic growth in developing countries. These linkages include the participation of the developing countries in the expanding flows of (i) trade (ii) Foreign Direct Investment (iii) Technology. Through the various chapters in this research paper, the application and working of these linkages in respect of South Asian economies is analyzed and after identification of the various inhibiting factors in this process, a policy frame work for securing more effective impact of globalization is chartered.

Research paper is organized in five chapters. Chapter-I Surveys macro - economic landscape of South Asian Economies and brings out the salient features of these economies, which are later related to the process of globalization. Chapter-II identifies the response of South Asian economies to the requirements of a globalizing world economy in terms of trade – liberalization and analyses the positive outcomes of South Asian adaptation to the forces of globalization in terms of trade expansion and economic growth.

In Chapter-III South Asian efforts to adapt their policies to the requirements of globalization as reflected in the liberalization in the investment regime of these countries are analyzed. The study shows that whereas economic liberalization has resulted in increase in the inflow of Foreign Direct Investment, the level of inflow has been much lower than the requirement of external resources by South Asia for filling up the gap between savings and investment required.

The study in Chapter-IV draws attention to the distortion in trade in Agriculture, Services and Textiles sectors, which results from the policy of protection of developed countries. The analysis points out to the need for opening of market in these products – categories in order to enable South Asian Countries to take advantage of the opportunity that the globalization has created.

Chapter-V draw attention to the need for South Asia to increase the level of connectivity, which is necessary for globalization, to effectively impact South Asian Economic Development. The revolution in information technology (ITC) has opened new opportunities for developing countries in South Asia to leapfrog the stages of economic development and to catch-up with the developed countries. This convergence requires a very high level of participation by South Asia in information technology.

In summing up, main findings and conclusions of the research are presented. An attempt has been made to draw a road map for South Asian economies in terms of an appropriate policy frame work which will enable this region to effectively participate in the speeding globalization and which will result in increase in the share of South Asia in the dividends of globalization. Towards this end, this chapter analyses the competitive strength of South Asia in terms of its resources and suggests that it will be necessary to undertake policy initiatives at three levels viz. Global, Regional and National in order to realize the opportunities generated by globalization.

The prospects for South Asian integration with the global economy will depend on the policy initiatives, which have three dimensions viz. National, Regional and Global. Through national policy initiatives, South Asia needs to increase the competitiveness of its product and services. Regional co-operation is needed to increase the size of market and to increase the scale of production so that the flow of Foreign Direct Investment increases. Global policy initiatives under WTO and other multilateral fora will be needed to remove the barriers erected by protectionism which impede the realization of comparative advantage by the region in international trade. Policy initiatives at global level are also required to fill-up the external resources gap in some of the South Asian Countries where the flow of Foreign Direct Investment has been very much limited.

Chapter –I

Macroeconomic Performance of South Asia During Initial Years of New Millennium

The South Asian economies entered the new millennium with a sound macroeconomic performance in 1990s. Earlier, during the decades preceding 1990s, the rate of economic growth of South Asian economies had greatly diverged from the spectacular economic growth achieved by miracle economies in East Asia. While the South Asian economies on average achieved the GDP growth at the rate of 3 to 4 per cent, the East Asian economies and later the South East Asian economies registered on average 8-9 per cent rate of economic growth during 1970s and 1980s. It was in 1990s that South Asia embarked on a series of economic reforms in domestic and external sector and that led South Asia to a higher growth path. The growth rates of GDP of the South Asian countries during the 1990s averaged at a healthy 5.5 per cent and a growth rate of this order made the region comparable to the high performing developing economies. The South Asian entry into the higher growth trajectory concealed marked inter - country variations in the rates of economic growth achieved by individual countries. The divergence in the rates of growth during the decade preceding the new millennium is shown in the table 1.1 at Annexure : I

Notwithstanding the variations in the rate of economic growth of South Asian countries, the decade of nineties for South Asia can be described as a decade marked by macroeconomic stability and higher economic growth as compared to earlier decades. The improved performance of South Asia as a region was supported by the launching of economic reform measures in the various sectors of the economy such as Trade, Investment, Industry etc. The nineties witnessed a definite shift in the economic policy of the South Asian countries towards outward orientation from the Inward looking policies, which was adopted in earlier decades.

To evaluate the growth performance of South Asia during the initial years of the new millennium, we need to examine the changes in the rates of economic of growth, the strength and weakness of external sector, the state of fiscal situation, sectoral development and the trends of inflation. In what follows, these trends are analyzed in details. The statistical tables at Annexure (1 - 18) give details of trends in rate of economic growth, fiscal situation, sectoral developments and in external sector.

Trends in GDP Growth

A survey of changes in the rates of economic growth of South Asian economies during 2000 to 2002 shows wide variations across the countries in the region. In Bangladesh the GDP growth accelerated to 5.9 per cent in 2000-01 from 4.9 per cent registered in 1999-00. The growth momentum was sustained in 2001-02 and the economy grew at the rate of 5.3 per cent. The higher rate of economic growth achieved by Bangladesh at the turn of 21^{st} century was mainly the result of successive good crop harvest. In 2002-03 the rate of economic growth declined to 4.8 per cent. This marginal decline was the result of falling exports and poor performance of agriculture. In 2003-04 the rate of economic growth was estimated at 5.5 per cent provisionally.

In India, the economy grew at 4 per cent in 2000-01 and at 5.6 per cent in 2001-02. The growth rate was much below the 6.5 per cent average of mid 1990s. The global economy slowdown and poor agricultural performance were some of the factors, which weakened the rate of economic growth in India in the beginning of new millennium. In 2002-03 the Indian economy grew at the rate of 4.3 per cent. In 2003-04 the rate of economic growth is estimated at 8.1 per cent.

As the new century began, Sri Lanka achieved a substantial gain of 6 per cent in GDP in 2000-01. But there was sharp deterioration in the rate of economic growth in 2001-02 when the economic growth declined to 1.5 per cent. This reverse trend was attributable to several external and domestic factors, which included sharp decline in export demand, and hence earnings. The trend was compounded by weak agricultural production. In 2002-03 the economy registered higher rate of economic growth at 4 per cent. In 2003-04, the estimated rate of economic growth is at 5.8 per cent.

Maldives registered a deceleration in its growth during the starting year of 21st century. While in 1998 – 1999 GDP growth had averaged at 7.8 per cent, in year 2000-01 it was under 5 per cent. The deterioration in the rate of economic growth was mainly due to fall in tourism revenue. In 2002 - 2003 Maldives registered economic growth at the rate of 6 per cent.

In Nepal GDP growth rose to 6 per cent in 2000-1 from 4.5 per cent in 1999-00. The higher rate of economic growth was achieved primarily because of agricultural recovery. However the rate of economic growth at this level was not sustained in 2001 and the economy registered only 4.9 per cent during this year and less than 1 per cent in 2002. The decline in the rate of economic growth was mainly the result of loss of revenue from tourism.

Pakistan registered 3.9 per cent of economic growth in 2000–01 as compared to 4.2 per cent in 1999-00. In 2001 and 2002-03 the GDP grew at the rate of 2.2 per cent and 3.4 per cent. Higher rate of growth in agriculture, manufacturing and services supported pick-up in the rate of economic growth in Pakistan, which is estimated at 5.5 per cent in 2003-2004.

Fiscal situation

As South Asia entered new millennium, fiscal imbalance continued to remain a major concern for the region. High fiscal deficits and large government debt burdens characterized the government budget of these countries. The persistence of relatively large fiscal deficits ranging between 8 – 9 per cent in Sri Lanka to 5- 6 per cent in India and Pakistan constrained the process of economic development in the region. However the trends in fiscal deficits among the economies in the South Asian region varied widely. Since 2000, Bangladesh incurred high fiscal deficits at the rate of 6.9 per cent of GDP. The large fiscal shortfall was also accompanied by increase in government borrowing from the banking system. Despite Sri Lanka's healthy economic growth, significant fiscal slippage was recorded in 2000 that continued through 2001. The overall fiscal deficit, excluding grants, rose to 9.9% of GDP (the highest since 1995 when the deficit was 10.1%). Four factors led to the increased fiscal deficit and domestic borrowing, especially in the latter half of 2000: rising international oil prices, increase in defense expenditures, unusually low rainfall that reduced hydropower generation and increased dependence on relatively costly thermal power generation, and delays in the privatization process because of depressed international market conditions.

In Pakistan, the trend of widening fiscal deficits was observed in 1990s. During last 3 years the average fiscal deficits were at 5 per cent which was comparatively less than 7 per cent of GDP in 1990s. The debt to GDP ratio in Pakistan in year 2001 was 51 per cent and the interest payments alone absorbed 39 per cent of budget revenue in Pakistan.

Nepal registered a modest fiscal deficit at the rate of 3.6 per cent of GDP in 2000. Similarly Maldives registered a fiscal deficit of4 per cent in year 2000. The fiscal deficit expanded to 5.1% of GDP in 2001 from 4.1 per cent in the previous year because of increased capital investments on large projects, including a housing project, an expressway project, and a renovation project for a former capital city.

Inflation

Unlike fiscal situation, which remained a major concern in South Asia in 1990s and in the beginning of the 21st century, the South Asian countries on the whole succeeded in keeping the inflation at very moderate rate. In Pakistan, India, Nepal and Maldives, inflation did not pose any serious problem. Stable food prices and sound monetary management contributed towards controlled inflation in South Asia region except in Sri Lanka. Inflation remained around 4 to 5 per cent in India and Pakistan in 2001. In Sri Lanka however, inflation increased by 12 to 13 per cent in year 2001. As compared to the year 1999 when inflation in Sri Lanka was only 5 per cent, the high rate of inflation at 13 per cent in 2001 was a matter of concern for Sri Lanka. The main reason for high rate of inflation in Sri Lanka was the increase in the prices of agricultural products including food as well as higher imports cost of consumer items. In Bangladesh also the inflation rate declined significantly during 2000 – 2001. The factors contributing to reduced rate of inflation was comfortable food supply, liberal import of consumer goods and good harvests. Consumer prices inflation was only 1.5 per cent in fiscal year 2001. In Bhutan also rate of inflation was 3.6 per cent in 2000 - 2001. Similar trend prevailed in Nepal where the national urban consumer prices index was only 2.4 per cent higher in 2001 as against an increase of 3.5 percent in 1999.

Inflation remained at relatively low levels in both India and Pakistan compared with other countries of the subregion. Consumer prices in these countries eased to 3.5 per cent in 2002. In India, the inflation rate for food products, with a relative weight of 57 per cent in the consumption basket, remained modest at 3 per cent, down from 3.4 per cent in 2001, owing to the large surplus stock of food grains in the country. The price of manufactured products also rose moderately in line with the global decline in the prices of manufactured items, the removal of quantitative restrictions and the reduction in import duties in India. Inflation in Pakistan fell to 3.5 per cent in 2002 from 4.4 per cent in 2001, owing to better availability of essential commodities as a result of improved production of food and non-food products and the ample stocks carried over from previous years.

Sectoral Developments

During the process of economic development, the South Asian economies have undergone massive structural transformation from being primarily agrarian economies; they have moved to industrial and service economies. The share of agriculture in G.D.P. as compared to industry and services has declined in all economies of South Asia. In the relatively less industrialized countries of the region such as Bangladesh, Bhutan, Maldives and Nepal, there has been very sharp decline in the share of agriculture. The other common trend in sectoral development has been the increase in the share of services in the economies of the South Asian countries. Since 1990s the share of services in the GDP has increased in all countries in varying degree in South Asia.

One striking feature of the development pattern of the South Asian countries over the past decade has been an increasing convergence in the nature of the economies. At the beginning of the decade the Least Developed Countries (LDCs) of the region were highly dependent on agriculture and had lower share of industry and services. By the turn of the century, the sectoral composition of the national incomes across the South Asian countries was more even as the Least Developed Countries of the regions speeded up the process of structural transformation towards industrialization and modernization of their economies.

The trend towards relative increase in the share of manufactures and services in the sectoral composition of the national economies in South Asia which, was observed in 1990s, has continued by the turn of 21^{st} century. The structure of Bangladesh's economy shifted substantially during 1980-2001. The contribution of agriculture to GDP declined from as much as 50 per cent to just 30 per cent, while the share of services increased from 34 per cent to 53 per cent, and that of industry remained virtually unchanged at just under 20 per cent. In India the services sector have registered robust growth of 8 per cent in 1990s an on average about 7 per cent between 2001 to 2002. The economy of India has been led by services sector, which is now the largest sector of the economy.

The economic growth has been accompanied by a steady structural transformation of the Indian economy where the dependence of the economy on agriculture has gradually gone down from 39 per cent in 1980 to 25 per cent in 2000 with a corresponding increase initially in the share of industry and later in the share of services. In 2000 industry contributed 27 per cent of GDP and services 48 per cent.

While relatively the agricultural sector has declined in its share of GDP in South Asia, it has continued to remain important for its contribution to the absorption of manpower in these economies. In India agriculture accounts for employment of over 60 percent - ~~cent~~ of manpower. In Sri Lanka it employs 36 per cent of its labour force. In Bangladesh also it is a major employer of labour force~~s~~. In Bhutan and Nepal agriculture employs majority of labour force.

The initial years of the new millennium witnessed divergent trends in the external sector of the South Asian Economies. For some countries in the region, external sector emerged as a very sound and strong sector, which had a very positive impact on the parameters of economic growth. Some countries in the region continued to experience serious constraints on the availability of foreign exchange and external resources for financing development etc.

The rate of export earnings growth fluctuated sharply in India and it declined from almost 20 per cent in 2000 to about 1 per cent in 2001. Export performance was adversely affected almost across the board. In particular, garments and textiles have traditionally been a major foreign exchange earner for many countries, in the region including India. Their exports faltered as a result of the external economic slowdown and demand contraction in the developed region. In addition, the bursting technology bubble led to a steep fall in external demand for IT products, including software.

The growth of merchandise exports and imports at 11.4% and 6.3% respectively, in April - September 2002 was a marked improvement over the contraction witnessed in the corresponding period of 2001 The trade deficit narrowed to \$6.9 billion in this period from \$7.5 billion during April - September 2001. During 2002-03 Indian exports registered further increase : estimated at......20%

The current account realized a small surplus of 0.3% of GDP for the first time in 23 years in FY2001, and it continued to improve during the first half of FY2002 with a surplus of \$1.7 billion, mainly due to a surplus on the invisible account.

The year 2002 witnessed a marked improvement in the external debt position of India, which, according to a World Bank classification, had been transformed from a "moderately indebted country" to a "low indebted country" as of 1999. The debt-to-GDP ratio declined continuously from 38 per cent in 1991 to just over 20 per cent in 2002 and the debt-service ratio fell from 35 per cent in 1990 to 13.3 per cent in 2002. It was estimated that India's external debt, both short-term and long-term will amount to around $102.3 billion at the end of March 2003.

The beginning of the New Millennium also witnessed rising Foreign Exchange Reserves of India which reflected soundness of its external sector. India's foreign exchange reserves increased steadily from about $40 billion at the end of 2000 to around $51 billion at the end of 2001 and further to nearly $70 billion as of 31 January 2003. Towards the end of 2003 India's foreign Exchange Reserves increased to app. 100 billion US dollars. The Foreign Direct Investment also registered increase in 2001. Foreign Investment flow increased from $1.5 billion in 2001 to $2.4 billion in 2002.

In 2000 Sri Lanka's exports increased by 19.8 per cent as against 3.9 per cent contraction in 1999. Merchandise import's surged by 22.4 per cent in 2000 after 1.5 per cent growth in 1999. Imports of consumer goods, except rice, increased. Intermediate goods imports, representing a little more than 50 per cent of total merchandise imports rose faster than imports of consumer goods and investment goods. Imports of petroleum went up by 76 per cent.

As a result, the trade deficit widened to 8.7 per cent of GDP, while the current account deficit deteriorated to 6.0 percent. The capital account also worsened, because foreign direct and portfolio investment fell and long-term capital flows declined. Reduced inflows of foreign funds required the central bank to draw down on its reserves, with the result that by the end of 2000 official reserves were only sufficient to finance 1.5 months of imports of goods and services. In subsequent years also viz. in 2001 and in 2002. Sri Lanka experienced falling export earnings

The textiles and garment sector, which accounted for a little over half of the total receipts on merchandise exports, remained depressed. It experienced a large contraction in 2001 and production further declined by 8 per cent in 2002. Tea exports, which accounted for about 15 per cent of the total export earnings, also fell, although at a slower pace, in 2002.

Even though Bangladesh registered stable and positive economic growth during initial years of Millennium, the persistence of weakness in external sector, especially fragile foreign exchange reserves dampened the macro-economic performance. In 2000, with recovery in the growth of experts of 8.2 per cent and with lower level of imports, the trade deficit of Bangladesh declined to some extent. With strong growth of worker's remittances the current account deficit in 2000 declined to 1 per cent of GDP from 1.4 per cent of GDP in 1999.

Despite an improvement in the current account, the overall balance-of-payments position remained fragile, and foreign exchange reserves were a mere $1.6 billion (2.3 months equivalent of imports) at the end of June 2000.

During FY2002, the lower trade deficit was accompanied by a 32.9% increase in overseas worker's remittances due, in a large measure, to government efforts to encourage the flow of remittances through official channels. As a result of these developments, the current account balance (excluding official grants) moved to a surplus of $171 million (0.4% of GDP) in 2002, from a deficit of $1,090 million (2.3% of GDP) in FY2001. Following improvement in the overall balance, foreign exchange reserves increased to $1,583 million at the end of June 20002 from $1,307 million a year earlier.

In Year 2000, Maldives exports increased by 32.2 per cent and there was a slight increase in imports. The trade deficit fell from 45.1 per cent of GDP in 1999 to 39.1 per cent in 2002. The increase in tourist arrivals positively impacted current account balance. The current account deficit decreased from 11.1 percent of GDP in 1999 to 4.6 percent in 2000. The overall balance also improved, due to a stronger inflow of foreign grants and loans. The total external debt position improved slightly from 36.6 percent of GDP in 1999 to 36.2 percent in 2000. External debt comprised almost entirely medium-and long-term debt. The debt-service ratio of 3.7 percent in 1999 deteriorated slightly to 3.8 percent in 2000.

Nepal's current account balance, which registered a surplus in 1999 of 0.1 percent of GDP, switched to a deficit in 2000 of 1.5 percent of GDP, largely due to strong growth in imports. Non-aid imports increased in 2000. Loan disbursements from aid agencies decreased slightly from the 1999 level, but foreign exchange reserves continued to rise. By the end of the year, such reserves amounted to $981 million (sufficient to cover more than six months of imports). External debt as a proportion of GDP declined slightly in 2000 to 48.0 percent. However, because of the concessionary nature of this lending, the debt-service ratio for external debt declined and remained a manageable 5.3 percent of exports in 2000.

The trade account deficit increased from 16.7% of GDP in 2000 to 22.6% 2001. However, the improvement of services and transfers helped narrow the current account deficit from 30.6% of GDP in 2000 to 27.5% in 2001. Capital inflow in the form of grants and loans, primarily to fund the power sector continued to exceed the current account deficit by some margin, despite the lack of FDI. Grants, having surged in 2000, returned to the 1999 level in 2001, while the volume of loans increased. The net effect was to keep foreign exchange reserves at a level equivalent to 16 months of merchandise imports. In 2001, India accounted for 94% and 74% of total exports and imports, respectively, and 70% and total grants and loans. Total external debt increased by 37%, largely in response to loans from India for the new hydropower projects. The debt services ratio declined marginally from 5.7% of GDP in 2000 to 5.6% of merchandise exports in 2001.

The initial years of new millennium witnessed improvement in Pakistan external sector over the decade of nineties when Pakistan suffered from a serious foreign exchange situation, continued trade deficit and from increasing external debt. The narrowing of current account deficit from 3.9 per cent of GDP in 1999 to 1.6 per cent in 2000 reflected this improvement. The trade deficit shrank to 2.3 percent of GDP because exports grew strongly while imports were contained. Exports, recovering from a contraction in 1999 and responding to a strong external demand, grew by 8.4 per cent in dollar terms. Exports of cotton manufactures, which account for about 60 per cent of the total value of exports, expanded by over 12 per cent. The near doubling of the import bill for petroleum products was offset by reductions in virtually every other category of imports, in part because of lower non-oil commodity prices.

Pakistan managed to sustain its export momentum, although the rates of growth in exports earnings declined somewhat, from about 10 per cent in 2000 to under 8 per cent in 2001. Traditional items such as rice, raw cotton, leather and non-traditional products (for examples, chemicals and pharmaceuticals) continued to dominate Pakistan's export receipts. Cotton products, for example, contributed over $2.1 billion, and rice over $0.5 billion, to the total export value of $9.2 billion in 2001.

External debt services on medium and long-term debt rose as a percentage of exports of goods, non-factor services, and private transfers to 30.4 percent in 2000 from 29.4 percent in 1999.

Gross official reserves fell by nearly half from $1.7 billion in 1999 to $0.9 billion in 2000, or about four weeks of imports of goods and services, as large capital outflows swamped an improvement in the current account deficit.

Pakistan faced a serious external debt situation in 2001, with the debt-to-GDP ratio standing at over 44 per cent. However, it was successful in debt-rescheduling negotiations with creditors both with and outside the Paris Club. In consequence, the debt-service ratio was brought down from 20 per cent of export earnings in 1999 to 17.5 per cent in 2001.

Pakistan achieved a distinct improvement in its external debt profile, reflecting the country's adherence to the debt reduction and management strategy. The successful completion of the IMF standby arrangement had paved the way for a medium-term IMF assistance programme and higher aid inflows from other international financial institutions. Moreover, Pakistan also obtained a stock re-profiling of bilateral debt from the Paris Club of creditors on generous terms. While the absolute decline in external debt and liabilities of $607 million was marginal, the debt re-profiling and the replacement of expensive commercial loans by cheaper credits led to a significant drop in the net current value of the outstanding external debt and liabilities, between 28 and 44 per cent depending on the interest rate negotiations with individual creditors.

According to Pakistan's Economic survey during July-April 2002-03, Pakistan's exports grew by 20.8 per cent as against a decline of 1.8 per cent during 2001-02. Imports also grew by 22.5 per cent during the period as against a decline of 6.9 per cent during 2001-2002. Pakistan had a trade deficit of $ 1.5billion during 2002-03. During 2002-03 there was a sharp increase in worker's remittances, which played a critical role in the country's balance of payments. The worker's remittances stood at approximately $3.5 billion. The year 2002-03 ended with a surplus in current account balance worth $2562 million or 3.7 per cent of GDP. Heavy inflow of remittances with a sharp increase in exports resulted in surplus current account. The foreign exchange reserves stood at $10.5 billion sufficient to finance eleven months of imports.

Along with improvement in the trade performance, Pakistan also improved its external debt situation during 2002-03. As compared with the decade of 1990s when external debt had reached alarming proportions, the total external debt decreased from $36 billion in 2000 to $ 26billion in 2002. The debt – services payments was projected at 2.1 per cent of GDP.

The analysis of macro-economic performance of South Asian economies during initial years of the new millennium brings out several challenges faced by the region to achieve a sustained high rate of economic growth, which is necessary for wiping out poverty and deprivation from the region. The challenges include constraints on external and domestic resources, which are reflected by low savings-investment ratio and by persistent deficit in current account balance and fragile foreign exchange situation faced by some countries of the region. The survey also highlights the emergence of sound and strong external sector of some countries in the region which enable the region to take advantage of the forces of globalization. Analysis from Chapter-II to Chapter –V of the research paper shows the interaction between the forces the globalization and the economic development imperatives of South Asian region.

Chapter-II

Responding to Globalization:
Trade Liberalization in South Asia and Recent Trends in South Asian Trade.

Globalization influences the momentum of economic development through creating new opportunities for developing countries to share the expanding trade, investment, technological and organizational innovations. The development experience of East Asian and South East Asian economies during 1970s, 1980s & 1990s demonstrates the interaction between globalization and acceleration in the rate of economic growth. The positive impact of globalization on the accelerated rate of economic growth of these economies was fostered to a great extent by change in the policies of these economies from inward-looking policies to outward oriented policies.

The fast growing economies liberalized their trade regime by significantly reducing tariff and non-tariff barriers and exports became increasingly important in these economies. Most of East Asian economies had a ratio of exports to GDP exceeding 30 percent, significantly higher than the average ratio of approximately 23 percent for the developing economies in 1997. ASEAN-4 countries, consisting of Indonesia, Malaysia, Philippines, and Thailand, exhibited an increase in the ratio of exports to GDP, reflecting faster growth of exports compared with GDP.

Trade and economic growth are closely inter-related. Export expansion provides a developing economy with an opportunity to improve the use of its productive resources. It also benefits these economies by increasing productivity. Export expansion also leads to greater productivity. Export also puts pressure on producers to achieve internationally competitive prices and quality. An expansion in imports is also likely to improve the technical efficiency of domestic firms as imports create competitive pressures. In order to survive under competitive pressures, domestic firms have to improve their productivity by adopting strategies such as the introduction of new technologies and new products.

The opening up of the economy in South Asia, which commenced in 1980s, continued through 1990s. The region embarked on an out-ward oriented trade policy which is an important pre-requisite for participation in a global economy. Average tariff rates, which were among the highest in the world at the start of the 1990s, fell rapidly in all countries of the region by the end of the decade. Since the early 1990s, South Asia moved gradually away from a strategy of industrialization through import-substitution and public sector production to a more open, market-oriented trade and investment regime.

Prior to 1991, India's import duties were among the highest in the world. The Government lowered its average applied tariff rate from 125 per cent in 1990 to 71 percent in 1993, to 41 percent in 1995, and to 35 percent in 1997. The corresponding levels of average import-weighted tariffs were 87 percent in 1990, 47 percent in 1993, 25 percent in 1996, and 30 percent in 1998. The average imported-weighted tariff on consumer goods was also reduced from 153 percent in 1990s to 39 percent in 1998. On the other hand, the maximum tariff rate declined from 355 percent in 1990s to 45 per cent in 1997 and to 40 per cent in 1999. It was reduced to 35 per cent in 2000 but has been subjected to a 10 per cent surcharge, thus making it 38.5 percent. The reduction in tariff also coincided with the removal of quantitative restrictions on imports in phases, and by 2001, 94% of tariff lines were free from restriction.

The comprehensive market-oriented reforms pursued in India through the 1990s aimed to rationalize resource allocation, improve productivity and competitiveness in all spheres of economic activity, and move the economy to a sustained rate of higher growth. The reforms ranged from macroeconomic stabilization and fiscal reforms, trade liberalization, and industrial deregulation, to financial sector reforms, dis-investments, and privatization. The economy did in fact attain higher rates of growth in the 1990s led by services, which is now the largest sector of the economy. The economy has become much

in GDP

more open with share of imports of goods and services going up from 9.9 per cent in 1990 to 16.6 per cent in 2000 and of exports from 7.3 per cent to 14 per cent. Export and imports have grown at 11.7 and 9.5 per cent respectively during 1990s.

India's economic reforms have led to stronger economic growth, higher foreign investment inflows, Economic growth accelerated from 5.9 percent per year during 1980-90 to 6.7 percent per year during 1992-96, and then slowed to 5.8 percent per year during 1997-99. Real per-capita GDP grew from 3.8 percent per year during 1980-90 to 4.7 percent per year during 1992-96, slowing to 4.1 percent per year during 1997-99. Inflation declined from almost 14 per cent in the early 1990s to 6 per cent in 1996-97 and has remained at or below 6 percent since then. Foreign exchange reserves increased to $32 billion in 1999, from $1 billion in 1990. India's total external debt of $95.2 billion at the end of March 1999 represented approximately 25 percent of the GDP, down from 38 percent in fiscal year (FY) 1991-92. The debt service ratio of debt payments to export earnings also declined from 30 percent in FY 1991-92 to 25 percent in FY 1998-99. As has been,

I to IX

Annexure ..... during initial years of New Millennnium, India sustained

in

its improved economic performance in trade, F.D.I. and its foreign

which

exchange reserves surged to over 100 billion dollars. touched, the end of 2003.

Since late 1980s, Pakistan took a major shift in trade and industrial policy from the inward-looking import substitution policy to an outward-looking export promotion policy. The following reforms were initiated to liberalize foreign trade regime since July 1988:

- In 1987-8, most of the non-tariff barriers on imports were replaced with tariffs; maximum tariff rate was reduced from 225 to 100 per cent in 1990-1, tariff slabs were reduced from 17 to 10; and various sales tax rates across commodities was replaced by a uniform sales tax rate of 12.5 per cent.
- The maximum tariff (except automobiles) was further brought down to 70 per cent in 1994-5, 65 per cent in 1995-6, 45 per cent in 1997-8 and finally to 35 per cent in 1998-9. All para-tariffs have been merged into the statutory tariff regime. All items are now allowed for import with the exception of few on religious, health and security grounds.
- In May 1999, from the managed float exchange rates, operative since 1982, Pakistan switched over to a marked-determined inter-bank floating rate, with currency convertibility extended to trade account.

There has been a radical pruning of the "negative list" i.e. items subject to import bans/QR's. As a consequence, there are now only 57 items whose import is not allowed. These restrictions are strictly on grounds of public health, environmental concerns and national security considerations. Similarly, there are 192 items on the "restricted list".

Bangladesh carried out wide-ranging trade policy reforms during the past two decades covering both tariff and non-tariff barriers.

Trade liberalization included the following:-

- Reduction in the number of commodity categories in the control list. Measured at four digit level, from 200 in 1990-91 to 150 in 1991-92 and finally to 50 by the end of 90s.
- Reduction in the average nominal protection rate from 94 per cent in 1988-89 to 50 per cent in 1992-93 and 16 per cent in 1998-99.
- Elimination of QRs. In 1992-93; nearly 11.5 per cent of 10,000 tariff lines were subject to QRs, compared to only 3.4 per cent in 1998-99.
- Maximum tariff (custom duty) has been reduced from 350 per cent in 1991-92 to 40 percent in 1998-99.

Bangladesh trade regime has become quite liberal in terms of removal in the level of interventions and transactions. In the post reform period the economy performed fairly well as measured by the importance of trade in the economy and the macro-economic performance. The share of merchandise plus non-factor services trade in the economy, having remained around 19 per cent of GDP during the 1980s, has risen rapidly to 30 per cent in 1997-98. Exports being only 4-6 per cent of GDP in the 1980s, rose to 12.2 per cent of GDP in

1997-98, while imports rose from 12 per cent to 17.8 per cent during the same period.

The people of Bangladesh have benefited from the improvement in policies, with growth in GDP per capita accelerating to 3.2 percent per annum during 1991-98 compared with 1.7 per cent during 1984-90. Per capita GDP growth rates in both periods would have been higher had it not been for the disaster proneness of the country, which saw the devastating floods of 1987, 1988 and 1998 and the catastrophic cyclone in 1991.

Sri Lanka's shift to outward oriented trade policy started in late 1970s. International trade was liberalized, tariffs were reduced and simplified and quantitative restrictions were almost abolished. From a situation where all imports were subject to licence, less than 3 per cent of all imports remained under licence in 1977, with a rate of 500 percent on luxury items and zero per cent on essential consumer goods. In 1991, the number of bands was cut to four. A three-band tariff structure with 10 percent, 20 per cent and 35 per cent was introduced in 1995. The proportionate value of all imports subject to import duty fell from 71.8 per cent in 1978 to 36.5 per cent in 1995. Sri Lanka is South Asia's most open economy with total trade accounting for more than 70 per cent of GDP.

Spurred by the economic liberalization in 1977 industrial exports became more significant beginning the early 1980s, and the share of plantation agricultural commodities in total exports declined from 74 per cent in 1977 to 15 per cent in 2000. Industrial exports continued to be the major contributor to expanding exports, the share of which increased from 14 per cent in 1977 to 78 per cent in 2000.

Nepal opened up its economy in the early 1990s with the adoption of reforms. The reform measures have since covered almost all sectors of the economy including trade and investment, fiscal and monetary policies, financial and capital markets and other economic and social sectors. The support licensing system and quantitative restrictions were eliminated and tariff rates and structure were reduced and rationalized to make the trade sector competitive. The trade weighted nominal rate of protection declined from about 80 per cent in the early 1980s to about 31 per cent in 1994. Similarly, the average rate of protection has declined from about 11 per cent in 1989 to 16.0 per cent in 1992. In a similar manner, the number of slabs subject to protection fell from more than 100 in the 1980s to 5 in 1996. Additional measures initiated to promote international trade include the introduction of a bonded warehouse, duty-drawback scheme, initiation of the multi-model facility (dry port) and an export-processing zone.

Economic performance is the result of the influence of a host of factors – quantitative and qualitative. It is rather difficult to disentangle precisely the contribution of trade liberalization to economic performance. However, the significance can be indicated by associating trade liberalization to the change in some macroeconomic indicators like GDP growth rate, the rate of inflation, export performance, current account balance, etc. Thus, trade liberalization appears to have contributed, together with other market-oriented reforms and sound macroeconomic management, to improved macroeconomic performance.

Compared to 1970s and 1980s, South Asia's export performance has improved rapidly. The share of exports in regional GDP expanded from 7.6 per cent during the 1980-84 period to 12.4 per cent during the 1995-98 period. Exports grew extremely fast at 10 per cent per annum during the 1990s, almost double the rate of growth a decade earlier and among the highest in the developing world.

Trade liberalization also impacted the export structure of South Asian Countries. Fast integrating countries, such as those in East Asia, have progressively increased the share of manufactured goods in merchandise exports, Over the past two decades, South Asian merchandise exports have also followed this trend, gradually shifting away from primary commodities, such as, unprocessed cotton, jute and tea, towards more manufactured goods. The share of manufactured goods in the region's total merchandise exports grew from 53.8 per cent in 1980 to nearly 77.6 per cent in 1997, comparable to the world (79.6 per cent). The ratio in 1998 ranged from 91 per cent in Bangladesh to 73 per cent in Sri Lanka.

Trade liberalization also positively impacted trade balance in 1990. South Asia's trade deficit actually improved from an average of 4.6 per cent of GDP during the 1980s to –3.5 per cent during the 1990s, the result of strong and sustained export growth that out paced import growth by one per cent per year on average. The current account moved broadly in line with the trend in the trade balance, remaining in deficit over the past two decades, but also improving during the 1990s in most of countries in South Asia. There was a large variation in current account deficits, ranging from quite low in India (1.2 per cent of GDP) during the 1990s, to quite high in Bhutan (13.3 per cent). The external payments situation in several countries remains vulnerable to cyclical downturns, as they have poorly diversified export bases. By the term of the new millenium the trade balance of some South Asian countries improved.

The trade liberalization process in SAARC countries during the past decade and a half also implied integration with the world economy more intensively, as is clear from the rising trade-to-GDP ratios. Table below shows that the trade-orientation ratio for most of the countries has increased. Despite varying base values, the trade-GDP ratios have increased substantially between the mid-1980s and late 1990s for Bangladesh (from 16 per cent to 28 per cent), India (from 12 per cent to 21 per cent), Nepal (23 per cent to 43 per cent). Sri Lanka (54 per cent to 72 per cent). Pakistan is the only exception to this pattern where the trade-to-GDP ratio has actually declined from 38.5 per cent in the early 1990s to 33.7 per cent in the late 1990s.

Proportion of Trade in GDP of South Asian Economies

			(In the percent)
	1985-7	1990-2	1996-8
Bangladesh	15.81	17.2	20.92
India	11.80	16.13	20.92
Nepal	23.34	29.82	42.90
Pakistan	32.75	38.53	33.73
Sri Lanka	54.22	58.94	71.74

Source : South Asian Development Coop Report 2001-2002
(RIS)

The above table shows increasing of South Asia.

e degree of trade integration

~~of trade in national income~~. Countries that are highly integrated in the world economy tend to exhibit a high trade to GDP ratio.

Trade to GDP ratios for the region as a whole rose from

19 per cent during the 1980s to 26 per cent during the 1990s. The rate of integration has been rapid, with trade to GDP ratios increasing from an average of 0.1 per cent per year during the 1980s to 3.6 per cent per year during 1990s, only slightly slower than East Asia (5 per cent), but faster than Latin America (2.2 per cent).

Chapter-III

Responding to globalization: Liberalization in Foreign Direct Investment Regime in South Asia and Recent Trends in the Flow of F.D.I. to the Region

One of the salient features of globalization has been a tremendous increase in the global flow of FDI as compared with other forms of external resources. Compared to the average annual growth of trade in goods and services of about 6-7 per cent over the 1990s. FDI inflows have grown at an average annual rate of 20 per cent over 1991-95 and at 32 per cent during 1996-99 despite the economic crisis in some important regions of the world. As a result, the magnitude of global FDI inflows has increased from US$ 259 billion in 1991 to $1.27 trillion in 2000. The trend of expanding global flow of Foreign Direct Investment is shown at Table 14 at Annexure XIV.........

Foreign Direct Investment (FDI) contributes to economic growth through various channels. It contributes to the expansion of productive capacity because it brings foreign exchange, which the economy can use to import foreign items necessary for the expansion of productive capacity such as high quality foreign capital goods, intermediate goods, and technologies. FDI improves the productivity of the recipient economy because it brings technologies and managerial know – how.

Compared to other modes of External resources, FDI has certain advantages for economic development. These advantages include (i) as demonstrated by 1997 East Asian crisis, FDI has proved a less volatile source of finance. (ii) The servicing burden of FDI inflows arises only when the investee enterprise makes profit, and so these inflows are non-debt creating. (iii) FDI inflows are also expected to bring to their host countries the much-needed technology, skills organizational and entrepreneurial resources and sometimes even assured market access along with financial resources.

FDI inflows received by developing countries have expanded from under US$ 42 billion in 1991 to $240 billion in 2000. The growth of FDI inflows in developing countries seems to have been slower than that of global inflows, especially in the late 1990s. The share of developing countries in FDI inflows rose sharply during the early 1990s from 26 per cent in 1991 to over 40 per cent in 1994. The sharp rise in the share of developing countries in the early 1990s was largely owing to the emergence of China as the most important host of FDI in the developing world. Annexure V. shows increasing share of developing countries in FDI. South Asia had a negligible share of FDI primarily because of high degree of restrictiveness in investment regime. Since 1980s, the economic policies of South Asian countries witnessed a visible shift towards liberalization of investment regime.

Most of the South Asian countries have drastically changed the entire spectrum of industrial policies and their attitudes towards foreign investment. Several factors have led to this shift. These included (i) increasing resource gap and a resultant foreign debt burden of a huge magnitude. (ii) Inability of the previous industrial policies, investment regimes and institutions to deliver the goods. (iii) High growth performance of the countries in the South East and East Asia in the 1980s based on their outward looking policies also introduced the economic policies of South Asian countries.

The FDI flow to South Asia started picking up in the mid 1990s. As compared to inflow in 1986 inflow of FDI increased almost 17 fold from $255 million to $ 4379 million in 1996. As a result, the share of South Asia in the global FDI flows gradually reached over one per cent from a mere 0.33 per cent. Similarly, its share in the total FDI inflows to Developing countries and Asian countries also recorded a remarkable increase from 1.8 to almost 3 per cent and from 3.6 to over 4 percent respectively during the twelve year period of 1986-98. Annexure XV shows increasing flow of FDI to South Asia. The increasing trend of FDI since 1990s was visible in several countries of region.

Foreign investment played a very limited role in Indian economy prior to 1991. It was permitted in industries where the foreign technology was necessary for economic growth. Foreign equity participation was regulated, usually limited to 40 per cent of total equity capital. A new industrial policy announced in July 1991 liberalized foreign direct investment in Indian economy. Automatic approval was permitted for investments of up to 51 percent equity in 34 industries. In February 2000, the Government took a major decision to place all items under the automatic route for foreign direct investment except for a small negative list. This was an important step in dispensing with the previous case-by-case approval procedure and in imparting greater transparency to the foreign investment process. Furthermore, subject to sectoral policies and caps, the automatic route was made available to all foreign and nonresident Indian investors who could secure 100 per cent foreign investment. Policies relating to investments by foreign institutional investors and to global depository receipts (GDRs) have undergone various changes since 1991. Indian companies were permitted to raise capital through Euro-market issues of GDRs and foreign currency convertible bonds, and to have access to international capital markets, in 1992.

FDI inflows since the liberalization of policy in 1991 registered a significant increase. ...... FDI inflows to India have grown from a magnitude of around US$ 200 million in the early 1990s to a peak of $3.6 billion in1997. India has been able to increase her share in FDI inflows to developing countries that peaked in 1997.

Despite the continuing weakness in the global economy, FDI flows into India grew by 2.4 per cent, to $4 billion, in 2002, reflecting the ongoing improvement in infrastructure, further liberalization of foreign investment policies and the removal of economic sanctions on India by the United States. The bulk of FDI went into ICT activities, engineering industries, services, electronics and electrical equipment, chemicals and allied products, food and dairy products.

The 1990s witnessed several liberalization measures in investment regime of Bangladesh. In 1991 a comprehensive reform in economic policy was introduced. The package included tax reform liberalization of tariff, and liberalization of industrial sector. The Industrial Policy of 1991 emphasized the role of private sector to accelerate the rate of industrialization and simplify procedures of private investments.

Major liberalization provisions of this new direction in policy include.

- No limit on foreign equity participation (i.e. up to 100 per cent)

- No obligation for joint venture or wholly-owned foreign companies to sell shares through public issue irrespective of the amount of paid-up capital
- Allowing foreign investors to obtain working capital loans equivalent to their foreign equity amount.
- Allowing foreign investors to buy shares through stock exchanges
- Provision for rules to protect intellectual property rights such as patents, designs and trademarks and copyrights.
- Tax exemption on royalties, technical know-how and technical assistance, interest on foreign loans, and capital gains from transfer of shares.

The policy initiatives and other macroeconomic reforms have led to greater foreign capital inflows. The number of private foreign investment projects approved and the amount of foreign capital inflow increased dramatically, especially during 1993-94 to 1995-96. The investment inflows in EPZs also increased significantly during this period. The average investment inflows in EPZs during the 1991-92 to 1995-96 period exceeded US$30 million per annum compared to US$5.98 million per annum during the 1983-84 to 1990-91 period.

Bangladesh has one of the most liberal FDI regimes in South Asia, with no limits on foreign equity participation. According to estimates by the World Bank, annual FDI in Bangladesh has quadrupled during 1994-98, increasing from US$83 million in 1994/95 to US$386 million in 1997/98, thereby fostering economic development.

Policy towards foreign investment in Nepal was relaxed significantly during the 1980s. The Industrial Policy and Industrial Enterprise Act of 19987, marked a departure from previous thinking with a focus on outward-looking private sector-oriented strategy. Private foreign investment was welcomed in every sector of medium and large-scale industry with the exception of defence activities. Joint ventures were the preferred from of investment and limitations were set on the level of foreign equity holdings. In the case of medium-sized industries foreign equity of up to 50 per cent was allowed. In large industries with at least 90 per cent export sale there could be 100 per cent foreign ownership. In other large industries 80 per cent was normally the maximum.

Under the 1987 Act, a new set of incentives was introduced to attract foreign investors. Full remittance of dividends for investments in convertible currency was allowed. Repatriation of capital was also permitted with an annual limit of 20 per cent of the initial investment. A five year tax holiday from taxation on profits was available for investment inmost activities and exporters were allowed to import their input requirements duty-free either through a duty drawback or a bonded warehouse facility.

The 1990s also witnessed liberalization of FDI regime in Pakistan. In early 1990s the Govt. took a number of policy and regulatory measures to improve the business environment and attract FDI, which are detailed below:

- The requirement for government approval of foreign investment was removed with the exception of few industries.
- Foreign equity participation of upto 100 per cent was allowed and foreign investors were allowed to purchase equity in existing industrial companies on repatriable basis.
- Foreign investors were allowed to negotiate terms and conditions of payment of royalty and technical fee suited to them as well as acceptable to the multinationals for transferring technology.
- The government also liberalized the foreign exchange regime. Foreigners were allowed to bring in, possess and take out foreign currency and to open accounts and hold certificates on foreign currency. Remittance of principal and dividends from FDI and from portfolio investment made by foreign investors

were also allowed without prior permission or clearance from the State Bank of Pakistan.

- The government has also given an extensive set of investment incentives including credit facilities, fiscal incentives and visa policy.
- Import policy was liberalized and the maximum tariff rate was reduced considerably. A large number of quantitative restrictions and non-tariff barriers were removed.

In 1997, the government also opened the agriculture, services/infrastructure and social sectors for foreign investment on repatriable basis. While there was no immediate impact of liberalization on the flow of FDI to Pakistan, the new millennium witnessed a visible trend towards increasing FDI. FDI Increased by 50 per cent, from $322 million in 2001 to $485 million in 2002.

The promotion of FDI inflows, particularly export-oriented ones, assumed centrestage in Sri Lanka's reforms process since 1977. This included the establishment of various institutional structures, like Greater Colombo Economic Commission and Foreign Investment Advisory Committee, for establishing export processing zones and for speedy clearance of foreign investment. The first investment promotion zone, at Kutunayake near the Colombo International Airport (henceforth KEPZ) was opened in June 1978. The remarkable success of KEPZ paved the way for setting up a second EPZ in Biyagama (BEPZ) in 1982 and a third in Koggalal (KGEPZ) in June 1991. The investment promotion policy package offered by the GCEC to EPZ investors included allowing complete foreign ownership of investment projects; a tax holiday for up to 10 years with complete tax exemption for remuneration of foreign personnel employed, royalties, and dividends of shareholders during that period; duty exemption for the importation of inputs and assistance with customs clearances; industrial services at subsidized rates and unlimited access to foreign-currency credit at interest rates prevailing in world financial markets.

While the Greater Colombo Economic Commission programme was to act as the major instrument of promoting Export Oriented FDI, many other elements of the 1977 policy package were aimed at improving the general investment climate in the country for export-oriented production by both local and foreign firms. These elements included the removal of most of the quantitative restrictions on import, considerable relaxation of controls on capital and profit repatriation etc. In addition, a wide range of export promotion schemes, including an all-encompassing duty rebate scheme with a flexible operational procedure, was introduced under a newly established Export Development Board (EDB). With regard to these concessions and incentives, the non-EPZ joint-venture firms were treated equally with locally-owned firms.

The beginning of 1990s witnessed significant move towards further market-oriented policy reforms. A new Investment Policy Statement announced in 1990 introduced several important changes in the foreign investment policy framework in line with the increased outward orientation of the economy. These included abolition of various restrictions on the ownership structures of joint-venture projects outside EPZs, providing free-trade-zone status to export-oriented foreign ventures in all parts of the country (in addition to in the area demarcated by the original GCEC Act), and the establishment of a new Board of Investment (BOI) in order a facilitate and speed up investment approval within a unified policy framework applicable to both import-substituting and export-oriented investors.

Most countries in the region have reformed their investment regimes to encourage ~~these~~ F.D.I inflows by reducing foreign ownership restrictions, domestic-equity and licensing requirements, and by introducing fiscal and financial incentives. In response to these measures and owing to improving macroeconomic fundamentals more generally, the flow of foreign direct investment to South Asia countries has increased over the past decade. Most of these flows have originated from either the developed countries or from the newly industrialized countries of East and Southeast Asia. The United States and Europe have been the main providers of FDI to India and Pakistan during the 1990s, while Japan, Hong Kong, Korea and Malaysia have been important for Bangladesh and Sri Lanka.

However, Cross-regional comparisons, point out to South Asia's stagnating share of total FDI to developing countries. During the 1990s, South Asia's share of these flows remained less than 2 per cent of the developing countries total, the lowest among developing regions. In contrast, Central and Eastern Europe, Latin America, the Middle East and North Africa, and sub-Saharan Africa all managed to increase their shares over the same period.

With the reforms of FDI policy regimes undertaken during the 1990s, South Asian countries have now emerged as more important destinations of FDI inflows than they were before. Their share in FDI inflows to developing countries has increased from just over one per cent in 1991 to a peak of 2.6 per cent in 1997,before declining to 1.26 per cent in 2000. However, as the magnitude of FDI flows has in general, expanded sharply over these years, FDI flows to the South Asian countries have also risen from US$463 million in 1991 to a peak of $4.9 billion in 1997 before declining to $3 billion in 1999 and in 2000.

In the region, India has increased her share of FDI inflows from 41 per cent in early 1990s to nearly 74 per cent in the led 1990s.

Similarly Bangladesh has also increased the absolute magnitude of FDI. The analysis of recent trends in the flow of FDI to the developing countries however, shows that South Asia has been marginalized in global trends in the expansion of foreign direct investment. The four Least Developed Countries viz. Bangladesh, Nepal, Maldives and Bhutan will need increasing flow of Foreign Direct Investment in order to reduce the gap in the external resources. As a whole the integration of South Asia with the global economy appears to be at a very low level when assessed in comparative terms.

Chapter – IV

Economic And Trade Potential of Agriculture, Services and Textiles for South Asian Economies and need for further trade liberalization in these sectors under W.T.O.

For globalization to effectively impact the development – process of South Asian economies, it is necessary that South Asia shares expanded trade opportunities in sectors where this region has comparative advantage. There are three important sectors where South Asia has immense potential for trade expansion and playing a dominant role in the world economy. These sectors include Agriculture, Services and Textiles.

Even though the comparative share of agriculture has been declining in the total GDP of the South Asian economies, it continues to remain a primary source of livelihood for the millions in South Asia. In 2000, agriculture accounted for 25 per cent of the South Asian combined GDP and employed over 300 million people equivalent to about 60 per cent of their combined work-force. India has the largest agricultural economy followed by Pakistan, Bangladesh, Sri Lanka and Nepal. Bhutan and Maldives have very small agricultural area.

Agriculture has emerged as the key sector for the creation of employment opportunities in South Asia where poverty and unemployment have continued to remain major concerns for policy makers. In Sri Lanka, agriculture sector employs 36 per cent of Sri Lanka's labour force and contributes around 20 per cent of the GDP. In Pakistan also agriculture has maintained its dominant position in the economy. The sector provides work for 47 per cent of the active population of Pakistan. In Bangladesh agriculture accounts for 30 per cent of GDP and employs 63 per cent of the labour force. In India over 63 per cent of the labour is engaged in agricultural activities. Statistical tables from Annexure XVI ..... to Annexure XXII .... may please the seen.

While agriculture plays a crucial role in the economic development of South Asia, it has failed to generate sufficient income for South Asian economies which can eliminate poverty ~~for~~ from the region one of the constraints on the capacity of agriculture to generate sufficient income for South Asian countries has been falling prices and reduced export earnings for agricultural commodities. One of the factors which has contributed to the decline in the contribution of agriculture to the economic growth of South Asian countries is the persistence of severely distorted international market. These distortions result from high tariffs, domestic support and export subsidies in the developed countries. ..

3.

Developed countries provide significant domestic support to agricultural production along with substantial export subsidies. The extent of subsidies given by industrialized countries has in fact increased recently. The agricultural subsidies by OECD countries have increased from $235 billion a year on average during 1986-88 to $ 266 billion during 1997-99, i.e., roughly equivalent to 60 per cent of total world trade in agriculture and twice the value of agricultural exports from developing countries. In 2001, subsidies to the agricultural sector in the OECD countries amounted to US$ 311 billion, adding up to as much as 31 per cent of the agricultural output in these countries. Annexure XLI .... To Annexure... XXII give statistical details of protection to agriculture given by industrialized countries.

By artificially depressing international prices, these subsidies erode competitiveness and lower farm income of efficient producers in many developing countries, such as those in South Asia, and thus adversely affect their livelihood.

Several commodities like wheat, coarse grains, oil seeds, vegetables oils, sugar, dairy products, fruits and vegetables, which are of great significance for food security in developing countries, have been subjected to high levels of subsidies by developed countries.

Over 90 per cent of the world's farmers live in developing countries and 70 per cent of the poor in the world is in the rural areas of developing countries. Many developing countries specialize in the production of agricultural commodities and are dependent on farming for their food security, rural livelihood, and subsistence as well as export revenue. They have experienced continuously deteriorating terms of trade and mounting trade deficits. Over the past two decades, as indicated in table below, world agricultural commodities prices have fallen significantly. According the some estimates, the falling prices have led to a loss of agricultural export earnings of over US$ 60 billion annually for developing countries. In most developed countries, high levels of support to agricultural, exceeding US$330 billion, encourage overproduction and cause world price levels to fall close to, and even undercut, producer costs in developing countries. Table below shows the falling of prices.

Indices of International Prices of Agricultural Commodities

Commodities	Price index (Base 1990-91)		Change (%)
	1996	1999	
Cereals	147.8	81.1	43.1
Wheat	152.8	82.7	45.8
Maize	150.6	82.6	45.1
Rice	124.9	92.0	25.7
Vegetable oils and protein meals	136.9	94.0	31.3

Source : IMF

The tariff structure of developed countries is subject to significant tariff escalation so that market access for processed products remains restricted. In Canada, the tariff on fully processed food products is twelve times higher than the average MFN tariff. Similarly, in case~~s~~ of the EU and Japan the tariffs are much higher on processed items than for the first stage of processing.

Simple average applied tariff rates on agricultural products compared to those on industrial goods have been higher by 641 per cent in Japan, by 353 per cent in the European Union and by 100 per cent in the case of the US. A very high proportion of the agricultural products is subject to peak tariffs and specific duties in the developed countries. Nearly 98 per cent of tariff peaks in case of the European Union and as many as 85 per cent in Japan are related to agricultural products. The rate of import duly on rice and milk products illustrates very clearly. Please see Annexure XVI to XXII.

Japan levies 550 per cent import duty on rice. United States imposes 865$ import duty on import of one tonne of milk. European union imposes $1188 import duty on one tonne of milk and milk products.This amounts of 171 per cent of import duty on milk and milk products, Canada levies import duty of the level of 300 per cent.

The benefits to developing countries in terms of increasing their exports will occur only after complete elimination of export subsidies and substantial reduction in domestic support in the developed countries. It was expected that ~~Cancun~~ negotiations in Cancun (Sept. 2003) to liberalize agricultural trade could bring about important gains for developing countries by eliminating the high levels of agricultural support in developed countries and by reducing tariff barriers to agricultural trade. The negotiations did not succeed in achieving this objective and collapsed because the developed countries did not accept the demand from the developing countries to eliminate domestic support and export subsidies. Thus the objective set in the Doha Ministerial Declaration to achieve "substantial improvements in market access; reductions of, with a view of phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support" remains un-fulfilled. It has been observed that the developed countries have been resisting elimination of agricultural subsidies and domestic support, which they provide to their agricultural sector.

While the negotiations for the reduction in the tariff and non-tariff barriers at ~~and~~ Cancun collapsed, a favourable development for the exporters of agriculture products ~~exports~~ was the formation of group 22. India, a leading member of group –22 played a crucial role in projecting the case for reduction in the subsidies and tariffs which distort the market for countries in the South Asian Region. For the first time it was also noticed that developing countries can build-up solidarity in negotiations with the developed countries.

Services

One of the salient features of the globalization has been the emergence of services as the most dynamic sector in the global economy. This has offered expanded trade opportunities for the developing countries. According to an estimate by the World Bank Report entitled "Global Economic Prospects For Developing Countries – 2001", liberalization of services could provide as much as $6 trillion in additional income to the developing world by 2015, four times the gains that would come from trade in goods liberalization. According to "World Development Indicators – 2001" between 1990 – 2000 growth of world services output was 2.9 per cent double that of agriculture which, was only 1.4 per cent. As a result, the contribution of the service sector to GDP was 64 per cent in the 2000 compared to 57 per cent in 1990. Services account for approximately 50 per cent of GDP in the developing countries.

In middle – and low-income economies, the service sector accounts for the largest share of total economic output. According to data published by the World Bank, the service sector accounted for 54 per cent of middle-income economy's total GDP in 2000, while industry and agriculture accounted for 36 per cent and 11 per cent, respectively. In that same year, services, industry, and agriculture respectively accounted for 44 per cent, 33 per cent, and 23 per cent of total GDP in low-income economies. Services typically accounted for a larger share of total output in small, open markets, such as the Caribbean Island countries.

In South Asia the services sector has been also growing at a higher rate than agriculture and industry. While there are inter-country variations, the services sector at present accounts for over 50 per cent of the GDP in South Asia. High rate of growth on average of services sector in 1990s can be seen from the table at Annexture XVI. 16

Services trade has undergone considerable growth in India. Over the past two decades, the service sector has replaced agriculture as the dominant sector in India. The share of service sector in GDP has risen from 38 per cent in 1980's to 49 per cent in 2000. The average annual growth rate of the sector increased from 7 per cent in the 1980's to 8 per cent in the 1990's making it one of the driving forces of the Indian Economy. The service sector in India accounts for nearly one quarter of trade in Goods and Services, with services constituting about twenty-five per cent of total exports and imports respectively.

The service sector contributes most to the growth of GDP in Bangladesh. Service sector's share rose from 39% of GDP in 1976/77 to 62% in 1997-98. Within the service sector, professional and miscellaneous services made the largest contribution followed by transport-storage-communication services, housing services and so on. On the other hand, services like power-gas-water-sanitation, public administration, professional and miscellaneous services recorded relatively high growth rates.

Services make up the largest part of the Pakistani economy. The share of services (including construction, electricity/gas distribution) in GDP rose from 57.2 per cent in 1995/96 to 58.7 per cent 2000/01. Between 1995 and 2000, the sector's share in total employment remained stable at around 42.7 per cent. Wholesale and retail trade, and transport, storage, and communications have been by far the leading service activities in Pakistan; other important service activities were public services, ownership of dwellings, distribution of electricity, gas and water, and construction.

The huge potential of global trade in services has found recognition in the General Agreement on Trade in Services (GATS) which currently lists out 12 sectors and 161 sub-sectors of services. Global trading is presently taking place in all these sectors and sub-sectors. Under Article XIX of GATS, Member-nations "shall enter into successive rounds of negotiations beginning not later than five years from the date of entry into force of the WTO Agreement, and periodically thereafter, with a view to achieving a progressively higher level of liberalization".

The GATS recognizes 4 modes of delivery of services, viz.: Mode 1: cross-border supply, e.g. supply of diskettes, architects' blue prints etc.; Mode 2: consumption abroad, e.g. a tourist availing services abroad; Mode 3: commercial presence, e.g. in the form of legal entity established abroad like a bank branch; Mode 4: movement of natural persons, e.g. physical movement of professionals, skilled and unskilled labour for temporary period, etc. not covering permanent migration.

As far as the liberalization of services is concerned, liberalization has progressed in mode three of services in which developed countries have substantial comparative advantage. In the increasingly globalized and liberalized world, most developing countries are seeking investment and technology from the developed countries and, they are opening their economies to the latter.

For the developing countries in general and especially in South Asia, the major mode of interest is mode IV, which relates to the movement of natural persons. Considering the abundance of skilled manpower and professionals that South Asia possesses across a vast range of services, opening of access in mode IV of services is crucial for the South Asia. The extent of liberalization by the developed countries in mode IV is very much limited Please see Annexure..XXII

Complex administrative procedures and strict entry and stay conditions further restrict market access for professionals from the developing countries. There are the immigration laws and labour market policies of individual countries, which add to the list of entry barriers. For professionals seeking access, many developed countries not separating temporary movement of labour from the permanent category in their immigration rules aggravate the situation. The restrictions they impose include strict eligibility conditions for application and processing of visas and work permits, control over length of stay and transferability of employment in the overseas markets, etc. These restrictions naturally raise the direct and indirect cost of entry of professionals from the developing countries, thereby eroding the cost advantage of service suppliers of such countries. Besides, insistence on wage parity by the developed countries neutralizes the cost based advantage of the developing countries in exporting labour intensive services. These restrictions thus become major barriers at the point of issue of work permits and visa itself.

The existing restriction on market access for the supply of services under mode IV Viz. movement of natural persons include Economic Needs Test (ENT), insistence on Social Security Contributions from temporarily resident workers and professionals, strict visa regime in several developed countries, lack of mutual recognition agreements etc.

The liberalization in services sector has not so far addressed the requirements of developing countries in South Asia who have considerable comparative advantage in exporting skilled and unskilled labour. As we have seen above, the market – access for the movement of natural persons under mode IV of the recognized categories of supply is highly restricted. The objectives of the GATS agreement to expand the service exports of developing countries remain far from being fulfilled. The preamble of the GATS agreement states as follows:

(a) That multilateral rules in services should take place under conditions of progressive liberalization and as a means of promoting the economic growth of all trading partners and the development of developing countries;

(b) Negotiations should be 'aimed at promoting the interests of all participants on a mutually advantageous basis and at securing an overall balance of rights and obligations, while giving due respect to national policy objectives';

(c) That the GATS should 'facilitate the increasing participation of developing countries in trade in services and the expansion of their service export' 'through the strengthening of their domestic services capacity and its efficiency and competitiveness'.

According to an assessment of UNCTAD in 1999 developing countries have made substantial commitments under GATS with respect to many service industries such as telecommunication, banking etc. but they have not received concessions of meaningful economic value under the movement of natural persons mode of supply. The developing countries in South Asia have big potential to export of services in sectors, which include professional, business services, health services, tourism, construction, audiovisual services, and transport services.

The export of services through the movement of natural persons by South Asian Countries is of crucial importance for the economic development of this region. The worker's remittances constitute a very important part of foreign exchange earnings of South Asian Countries. In some cases the flow of foreign exchange through worker's remittances, corrects the deficit in the balance of payment which arises from merchandise trade – deficit. The table at Annexure XVII Gives the related statistics.

The export of manpower significantly contributes to the strengthening of external sector in Bangladesh, Sri Lanka, Pakistan & India. The South Asia region has also made significant advance in information technology and this has enable the region to participate in the growing market for the export of skilled and technical manpower to developed countries. Among the countries in South Asia India has emerged as a pioneer in the development of information technology.

For India, further liberalization of services sector is of crucial importance because of its great advance in information technology. In the recent past, the computer and related services sector has witnessed significant growth. In India, it is amongst the fastest growing sectors. It is a thrust area for generating employment and exports.

Due to the development of advanced information and communications technology, firms are now able to procure services that they once performed in-house – such as computer and related services, financial services and professional services – from services providers in foreign economies. Low labour costs and the falling price of information and communications technology are among the factors that have enabled many developing economies to become important cross-border suppliers of these services.

The South Asian economies face serious challenges in absorbing the un-employed labour force. In Bangladesh e.g. about 2 million people enter the labour force annually. One of the avenues of employment for this growing labour force has been the overseas job market. In recent years the overseas job market employed about 250 thousand Bangladesh's annually and their remittances constituted about 4 per cent of GDP. Similarly in other countries of South Asia such as India, Pakistan, Sri Lanka overseas job market contributes towards the creations of employment opportunities on the one hand and also contributes to the much needed foreign exchange.

The structural transformation in the economies of the developed countries such as U.S.A and E.U. has resulted in a situation when they are finding it difficult to ensure competitiveness in their products because of lack of manpower and high cost of local work-force. The emergence of outsourcing in the form of Business Processing Overseas (B.P.O.) by developed countries clearly indicates that developing countries have the comparative advantage in providing services to be developed countries.

Outsourcing has created new opportunities for South Asia to realize its comparative advantages in skilled manpower. India has shared the new opportunities and has made significant progress in capturing the market for services through B.P.O. The recent opposition to the supply of services under BPO in the USA and in other development countries on the ground of loss of jobs in those countries, poses a threat for India and other countries who have the potential for utilizing the new opportunities in the global economy.

TEXTILES

The Textiles sector ranks next after the agricultural sector in terms of importance for the most of the South Asian countries. It has the potential for remaining the lead sector for income generation, employment creation and exports in the region. Fibres, textiles and clothing, in particular, have become extremely important to South Asia's exports. Given the importance of textiles and clothing in exports, the gradual phasing out of the Multi-Fibre Arrangement (MFA) by 2005 holds important consequences for South Asia's world shares in these sectors. The potential effect of removing the imposed quotas on exports of garments to developed countries depends on a number of factors, but the gains to South Asian countries from phasing out of the MFA are expected to be large because they are severely constrained by quotas and are among the lowest cost producers.

The Indian Textile industry is the second largest in the world. It has the largest cotton acreage of 9 million hectares and is the third largest producer of this fiber. It ranks fourth in terms of staple fiber production and sixth among filament yarn production. The country accounts for about one fourth of global trade in cotton yarn.

The table below shows the importance of Textiles Industry in Indian economy. The textiles and clothing industry is the largest manufacturing sector in India, accounting for around 20 per cent of India's industrial output and 37 per cent of total exports. The Indian textiles and clothing industry enjoys comparative advantage because of its large skilled workforce, low wages and abundant supply of cotton.

Indian Textiles Industry (2001)	
Employment	15 million people
Share in India's Exports	30%
Share in National Industrial Production	20%
Share in Global Textile Trade	3%
Land under cotton cultivation	9 million hectares
Rank in world cotton output	3rd

Source : C.I.I. documents.

The textiles and clothing branch has remained Pakistan's single most important industry (accounting for 23.7% of sectoral value added, 40% of manufacturing employment and 73% of total exports). Based on locally grown cotton, and concentrated in the preliminary stages of processing, it is dominated by cotton textiles (cotton yarn and cloth, made-up textiles) but it also produces apparel, polyester yarn, carpets, and jute products. Textiles and clothing (mainly cotton cloth, cotton, yarn, knitwear, woven garments, towels, synthetic textiles, bed linen, carpets, etc.) have continued to dominate Pakistan's exports, although, their share has dropped slightly, from about 76% (1994) to 73% (2000). In 1998, Pakistan was the world's eighth largest exporter of textiles.

The textiles and clothing industry has been the driving force behind Bangladesh's export since the early 1990s, accounting for over 83.5% of total exports in 1998. The sector is dominated by the ready-made garment sub-industry, which was responsible for 73% of the country's foreign exchange earnings in 1997/98, up from 50% at the beginning of 1990s. Woven garments, such as shirts, trousers and jackets, still make up a large part of the RMG exports; however, the share declined from 85% in 1990/91 to 66% in 1997/98, while the share of knitwear increased from 15% to 34% during the same period. There are some 3,000-garment factories in Bangladesh, employing around 1.5 million people, most of them women; an additional 15 million people are directly dependent on the RMG industry.

Between 1990 and 1997 Bangladesh's Ready made Garment (RMG) exports increased by 200% in terms of volume and 295% in terms of value, achieving one of the highest growth rates among major garment exporters worldwide. Despite its high export growth, Bangladesh's export-oriented RMG industry depends on imports for 85% of its fabric requirement, thus spending approximately 65% of its exports earnings.

One of the major Agreements in GATT 1994 was the Agreement on Textiles and Clothing (ATC). It replaces the Multi-Fibre Agreement (MFA) and provides for the removal of restrictions on textiles in four phases over a period of 10 years, to be completed by 1st January 2005. This will integrate the entire textile trade into WTO rules and disciplines.

Implementation of the Urguay Round Agreement on textile and clothing is expected to offer significant opportunities for the expansion of developing countries trade in textile and clothing. It has been estimated in some studies that South Asia, as a region would benefit significantly from the abolition of the MFA. Hertel and others concluded that the gains to the region would be about US$2 billion per year. In post M.F.A. phase need for South Asian countries to improve productivity in these sectors because countries that do not reform to increase their efficiency will face greatly increased competitive pressure as other exporters currently repressed by the quotas will also be liberalized.

It is worth pointing out that the abolition of these quotas will not necessarily generate automatic benefits to South Asia. Quota abolition will create opportunities for countries in this region, but will also expose them to additional competition from other, restrained exporters. The outcome for any individual country will depend heavily on its policy response. Countries that take opportunity to streamline their policies and improve competitiveness are likely to increase gains from the abolition of quota. The prospects for increase in South Asian exports of Textiles will also depend on further reduction in tariffs especially when the access to developed countries markets is adversely affected by tariff peaks and by tariff escalation.

Chapter-V

Development of Information Technology in South Asia and level of connectivity in the region.

One of the key features of globalization is the emergence of global information economy. Information is one of the nation's most critical economic resources, for service industries as well as for manufacturing. In an economy a large number of people are involved in either information-related jobs, or are working in industries that rely heavily on information. In the era of globalization, leading towards global competition, the technologies to create and manipulate, information help and economy to remain competitive. They also fuel economic growth and thereby contribute towards efforts of a developing economy to eradicate poverty.

Information technology has big potential of acting as an effective linkage between globalization and South Asian economic development. The emergence of information technology (IT) offers new opportunities to South Asia for realizing the benefits of globalization. Through the development of IT, South Asia can participate in the global information structure. IT applications provide new tools for improving access to information and knowledge. The IT revolution has enormously lowered long distance communications costs and has enabled the global economy to rapidly access knowledge, information and ideas from anywhere in the world. The 1990s have witnessed a digital revolution of the kind, which was unprecedented. The enormous advance in information technology can be assessed from the following table:-

Million Units	**1991**	**1996**	**2001***
Telephone main lines	545	741	1000
Cellular phone subscribers	16	135	400
Personal computers	123	245	450
Internet host computers	1	16	110
PCs with internet access	5	60	300

*Projected by the International Telecommunication's Union, Geneva.

The level of connectivity in South Asia is at present very low. The table below shows the limited connectivity that South Asia has so far achieved. According to World Development Report 2000-2001, average availability of telephones, mobile telephones and personal computers in 1998 in South Asia is far behind that of high income and low income countries. Please see the table below: —

South Asia and the World in Terms of the Indicators of Communications and Information.

Groups and Countries	Per 1000 people			Hosts per 10,000 people January 2000
	Telephone mainlines 1998	Telephones 1998 Mobile	Personal Computers 1998	Internet
High income countries	567	265	311.2	777.22
Middle Income	109	31	22.9	9.96
Low Income	23	2	3.2	0.37
South Asia	19	1	2.9	0.22
Bangladesh	3	1	-	0.00
India	22	1	2.7	0.23
Nepal	8	0	-	0.12
Pakistan	19	1	3.9	0.34
Sri Lanka	28	9	4.1	0.63

Source : World Development Report 2000-2001

One of the key factors that keeps the level of connectivity in South Asia is the lack of infrastructure which is necessary for providing adequate connectivity to the region. Telecommunications form the backbone of any information – infrastructure. While there has been progress in the connectivity provided by telecommunications in South Asia as a region, there are sharp inter-country variations in the attainment of access by the people. The current scenario in the countr~~y~~ies in the region for which data is available is detailed below.

The current teledensity in Bangladesh is approximately 0.5 per cent. The~~y~~ key issue in Bangladesh's telecommunications sector is the limited availability of connections. Current fixed line connections number only some 600,000. Without significant fixed network expansion in Bangladesh, the population faces the prospect of being excluded from the benefits of the global information revolution.

The access to the Internet is very limited for several reasons, such as poor teledensity, a poor electricity network, weak affordability of computer ownership and access, and poor knowledge about the Internet. Public Internet access is available on limited scale in the private telephone centers and cyber cafes. The divisional head quarters, and some district towns have access to the Internet.

The telecommunications sector of Sri Lanka made significant progress during the last decade. Fixed line telephone connections have grown more than six-fold since 1992. In addition there has been tremendous growth in cellular services. The entire telecommunications sector is now open to competition. The telecommunications Regulatory Commission of Sri Lanka (TRCSL) has brought forward a new telecommunications policy to increase competition and strengthen the regulations. Fixed line telephone services are presently being provided only by SLT, while two private sectors operators are licensed to provide fixed wireless telephone services. Meanwhile, there are four private sector companies licensed to provide cellular mobile telephone services.

The fixed access telephone network expanded by 36 per cent in 2002. Telephone density (telephones per 100 persons), including cellular phones, increased to 9.5 in 2002 from 8 in 2001. The penetration of mobile telephones in relations to fixed access telephones increased to 103 in 2002 from 81 in 2001. Internet/e-mail services are also expanding rapidly. Subscribers to Internet and e-mail services, provided by 29 operators, increased by 14 per cent in 2002.

The SLT customer base increased by 9 per cent to 758,620 after adding 69,258 subscribers to the network. The demand for fixed line telephones provided by SLT grew faster outside the Colombo Metropolitan area, reducing the disparity of distribution. The number of SLT telephone lines in service rose by 7 per cent in the Colombo Metropolitan area while in other areas it grew by 9 per cent. Of the total number of subscribers to SLT telephones, 45 per cent were in the Colombo Metropolitan region at end 2002. The national telephone density for fixed access telephones was 4.7 at end 2002. Please see the Table below: –

Telecommunications and Postal Service

ITEM		2000	2001	2002(a)	Percentage	
					2001	2002(a)
Telecommunications Services						
1	**Fixed Access Services**					
	SLT Telephone lines in Service (No.)	653,144	708,200	768,620	8	9
	New Telephone connections given by SLT (No.)	90,647	77,535	69,258	-14	-11
	Application on waiting list for SLT telephones (No.)	248,486	257,707	306,268	4	19
	Wireless local loop telephones					
	Operators (No.)	2	2	2	0	0
	Subscribers (No.)	114,267	121,082	114,488	6	-5
	Telephone density (Telephones per 100 persons)	4.2	4.4	4.7	5	7
2	**Other Services**					
	Cellular Phones					
	Operators (No.)	4	4	4	0	0
	Subscribers (No.)	430,202	667,662	907,422	55	36
	Public pay phones					
	Operators (No.)	6	6	6	0	0
	Telephone booths (No.)	8,222	7,281	6.681	-11	-8
	Radio paging services					
	Operators (No.)	4	4	4	0	0
	Subscribers (No.)	7,009	6,535	5,516	-7	-16
	Internet & e-mail					
	Operators (No.)	21	27	29	29	7
	Subscribers (No.)	40,497	61,532	70,082	52	14

Source : **Sri Lanka Telecom Ltd.**

The growth of telecommunications since the liberalization has been rapid in India. In 1990-91 the total direct exchange lines (DELs) were 5.07 Million. By 1995-96 they doubled to 11.98 Million lines and subsequently the growth accelerated to reach 22.81 Million lines in 1990-00. By December 2002 there were over 50 million lines. In the 12 years since liberalization the direct exchange lines alone had grown from five million to fifty million.

The physical infrastructure for telecommunication now provides 50.93 million connections consisting of 41.27 million from the public sector operators and 9.66 million from the private sector ones. The equipped capacity of the public sector units is 49.77 million; the basic DELs rose from 37.94 million to 39.48 million by the end of 2002. The other parts of this infrastructure include cellular phones: 10.48 million, PCOs 12.7 lakhs and rural DELs 10.66 million. Several operators have started with broadband servces for high speed Internet access, video broadcast, video-on-demand, etc.

Recent trends indicate that the mobile telephone is racing faster than the growth of the basic fixed line phone. Also the share of private sector operators in the telecom market is rising rapidly. Between March 1999 and December 2002, the share of mobile phone in the telecom network as a whole increased from 5 to 21 per cent. Though the fixed telephones had been growing during the entire 1990s and in the first two years of the 21st century, the fixed DELs had a negative growth in the first nine months of 2002-03 over the corresponding period of the previous near while the cellular mobile phones grew by 113 per cent during the same period.

The year witnessed continued progress on policies in telecom, resulting in a growth of new telephone connections by 17 percent and reduction in tariffs of national long distance (NLD) and international long distance (ILD) telephony by 56 percent and 47 percent, respectively and a sharp decline by almost 70 percent in NLD tariffs for cellular – to – cellular calls. A major shift towards mobile telephony is now apparent, where the share of cellular connections in new connections over the period of April-December 2002 stood at 63 percent, up from 43 percent during the corresponding period of the preceding year.

The two important goals of the telecom sector are: delivering low-cost voice telephony to the largest possible number of individuals, and delivering low-cost high speed computer networking to the largest number of firms. The number of phone lines per 100 persons of the population, which is called teledensity, has improved rapidly, from 3.6 in march 2001 to 4.9 in December, 2002. This is still a level which greatly lags behind other developing countries-please see table below:-

In particular, China started out with a higher teledensity than India as of 1995, and obtained a higher growth rate over the following years.

Teledensity International comparison

Country	1995	2001	Compund Average Growth Rate (Percent)
Brazil	8.5	21.8	17.0
China	3.3	13.8	26.9
India	1.1*	3.6*	22.3
Indonesia	1.7	3.7	14.0
Pakistan	1.7	2.4	5.8
U.K.	50.2	58.8	2.7
USA	60.7	66.5	1.5
Sri Lanka	1.1	4.3	25.0
World	12.3	17.2	5.8
4.89 as on December 31,2,2002 (Cellular + Fixed + WLL)			

Source : ITU, 2002 and STT section for India

Globalization has offered new opportunities for South Asia, which can be utilized through the development of connectivity. For example South Asian participation in the ICT can enable the region to share the global export potential of ICT based industries such as computer software.

Indian success in computer software development show-cases how globalization and IT industry can contribute to economic development through a virtuous interaction. By the turn of new millennium, India is firmly on the global IT scene. In 1998-99 more than 203 of the Fortune 1,000 companies, out-sourced their software requirements from India. IT-enabled services generated 40,000 jobs and earned revenues of Rs. 2030 crores during 1999. India in Year 2000 has 18.5 per cent of the market share in the global cross-country customized software market. It is expected that by 2008, exports from software would contribute 35 per cent of India's total exports and provide employment to 2.2 million people and would have a total market capitalization of US $ 225 billion.

India has seen a dramatic rise in the computer software industry in the 1990s from a total revenue of lessthan US $ 200 million in 1990 to over $8 billion at the end of the decade, with 75 per cent of the revenue coming from exports. IT is of increasing importance in the Indian economy, in terms of both export revenue and employment generation. The highly dynamic IT industry grew at an average annual rate exceeding 50 per cent from 1991 until 2001. In 2001, computer software and services, which are the main drivers of the industry and account for the bulk of IT products, generated over $10 billion in sales revenue, up from a mere $15 million 10 years earlier. In addition, the industry created 92,000 new jobs and provided 250'000 people with indirect employment during that period. The industry is highly export-oriented; its export –revenue was $7.6 billion in 2001. With a projected growth of 30 per cent in 2002, export revenue could reach $10 billion. Overall, IT software and service exports accounted for over 16 percent of India" total exports in 2001. It is expected that by 2008 the industry will account for 7.7 per cent of India's GDP and 35 per cent of its total exports. India's IT software and service industry represents a mere 2 per cent of the global software market. The Government and the software industry, however have set an ambitious goal for software exports of $50 billion by 2008, a share equivalent to 6 per cent of the relevant global market.

Software is one of the important sub-sectors of ICT industry. Indian success in the export of software under-lines the prospect for IT becoming a significant source of foreign exchange. South Asia enjoys huge reservoir of manpower and its transformation into a skilled manpower resource can enhance the export-capability of IT enabled services. The outsourcing of skilled and technical services by USA and by other developed countries has increased potential of IT for economic development.

Indian experience in ICT is also relevant for South Asia in bridging the digital divide between rich & poor. The poor lack access to information about income-earning opportunities. This is reinforced by the lack of access to knowledge, education and skills to improve their livelihoods. These observations have been confirmed in several projects where ICT has been applied in breaking the poverty, low productivity cycle and bringing some hope to their ages of darkness. At the village of Manchal in the Ranga Reddy district of Andhra Pradesh, the farming community has learned to use computers to manage their water resources, updating of village records, gain access to vegetable prices, etc. All this is managed by village women themselves in self-help groups. The National Institute of Agricultural Extension Management and the NIIT has helped train school drop outs to become computer operators.

The lack of information infrastructure in South Asian Countries considerably limits the capacity of South Asia in realizing the new opportunities that revolution in IT has offered. South Asia cannot participate in the global ICT revolution, if they are not connected to the global information infrastructure. The ICT potential of South Asia can not be realized without adequate connectivity. South Asia should be able to obtain access to global information and share its information though being connected. The lack of connectivity can further marginalize South Asia in global trade.

For the development of information technology in the region, massive investment in the development of IT infrastructure is needed. Indian telecom industry has succeeded in attracting increasing flow of foreign direct investment in response to several measures of liberalization recently adopted by India. There is a need for enhancing

Main Findings and Conclusions :

Prospects for South Asian Integration with the Global Economy in the New Millennium.

For Globalization to positively impact the economic growth of South Asia, it is necessary that the trade, financial and technological linkages of this region with the global economy should be strengthened. Globalization has led to expanded trade opportunities, increased flow of global finance and enhanced technological capabilities. It is through the deepening of these linkages that South Asian countries will be progressively integrated with the global economy. The growth – experience of South Asia in 1990s has amply demonstrated that by responding to globalization and adopting appropriate economic reforms and liberalization in the field of trade and investment, the region was able to achieve strengthening of external sector, macro – economic stability and enter higher growth – trajectory as compared to 1970s and 1980s. A survey of macro – economic landscape of South Asia shows that the rate of economic growth in South Asia has not been at the level which can meet the challenges of the elimination of widespread poverty and deprivation suffered by people in this region. What is therefore needed is to chart-out a policy framework, which can enable this region to integrate with the global economy and thereby increase its rate of economic growth on a sustainable basis. In specific terms to reap the dividends of globalization, South Asia needs make further progress in integration with the global economy by strengthening trade, financial and technological linkages with the global economy. Towards this end main findings of the research are summarized below:-

1. Despite expansion of South Asia Trade during post – reform era South Asia's share of total World exports remained minimal both before and after reforms, comprising only about one per cent. In comparison, the relevant shares for East Asia and Latin America in 1997 were 8.7 per cent and 4.4 per cent, respectively.
2. To enable South Asia to harness the forces of globalization for economic development it is necessary that the region is enabled to realize its comparative advantages in international trade. For South Asia, trade has to play the role of engine of growth in order to fill-up savings investment gap and earn sufficient foreign exchange to meet capital and technological requirement.
3. In the above context it has been noted in Chapter-IV that even though South Asia has comparative advantages in agriculture, services and textiles, the market access for the products under these categories has been blocked by trade – distorting policies of developed countries. The loss of trade opportunities weakens the impact of globalization on South Asia.
4. Increasing integration of South Asia with the global economy requires a well-diversified export base, geographically as well as by

product. Dependence on a few exports and export markets increases significantly the risks associated with market fluctuations. The study of trade of South Asian Economies in Chapter-I has amply shown the fluctuation in the growth of exports.

5. Most South Asian countries are now less dependent on primary commodity exports and have increased the share of manufactured goods in exports. Only Bhutan and the Maldives still had primary commodities comprising more than 50 per cent of total exports during the 1990s.

6. Although most South Asian countries have shifted away from primary commodities, their export structures remain relatively concentrated in a limited number of exports. The percentage of total exports accounted for by the three most important products in 1994-95 was above 60 per cent in the Maldives and Nepal, and 40 per cent or more in Bangladesh and Pakistan. Only India had a ratio of less than 30 per cent.

7. The major source of the region's export concentration has been, in the textiles and clothing industries, which in some countries accounted for more than 75 per cent of export revenue. The concentration of exports on cotton fibre, fabric and garments leaves countries vulnerable to swings in cotton prices. In the post MFA phase, it will be necessary to enhance competitiveness of these items so that in a quota – free

market, the comparative advantage of South Asian Textiles is not eroded.

8. In terms of the destination of exports, South Asian Exports are also concentrated in few markets. The developed countries absorbed nearly 50 per cent or more of total exports in 1990s. The United States and European Union have become especially important markets for Bangladesh, Pakistan and Sri Lanka. The growing concentration of exports to industrial countries has been particularly acute in Bangladesh and Sri Lanka, where they make up more than three-quarter of total exports. As an offshoot of globalization, there has been liberalization in trade regime in most parts of the world and that has created opportunities for South Asia to diversify its trade destination. Most of the developing countries have increased ~~there~~ their capacity of imports and as a result opportunities for diversification have further increased.

9. With significant decline in official financial Aid and the instability of private financial flows, FDI is increasingly seen as a solution to the problem of resource - gap and external financing in South Asia. The significant upturn of FDI flows to developing countries since the beginning of the decade, the success of some developing countries in attracting large amounts of FDI, and the relative stability of such investment flows in the aftermath of the East Asian financial crisis.

make FDI very attractive mode of external resource financing for South Asian Countries.

10. A study of Macro-economic performance of South Asian Countries during 1990s and in the beginning of the new millennium shows that for some countries in the region liberalization in trade and investment resulted in positive impact of globalization. For example annual FDI flows to India expanded six folds from $470 million in 1991-94 to $2.7 billion in 1995-98, according to data of the United Nations Conference of Trade and Development (UNCTAD). India's share of total FDI inflows to Asia and the pacific region during 1991-99 tripled from 1.1 percent to 3.3 percent. India's FDI share increased significantly exactly when economic liberalization gathered momentum. At the same time, the ratio of exports to GDP that had remained stable at about 6-7 per cent throughout the 1980s increased to 10.6 per cent in 1993/94. Per capita income growth rose to 4.2 per cent a year in 1992-97, compared to 2.8 per cent in 1987-91.

11. For some countries of South Asia, low level of Foreign Exchange resources, negligible flow of private capital and high level of external debt and trade deficit continued to constrain their ability to integrate with global economy. For four members of South Asian region viz. Bangladesh, Nepal, Bhutan and Maldives, the increased availability of global finance did not lead to increased private capital flow and they continued to depend on foreign aid to meet their

requirement of external resources. Foreign aid continues to remain the main source of financing development and trade deficit in the LDC members of South Asia.

12. Maldives's foreign Aid in 1990s averaged over 8 per cent of GDP annually. The foreign exchange reserves at the end of 2000 were only sufficient to pay for 4.3 months of imports of goods and services and total external debt was around 36 per cent of GDP in 2000. In Nepal, the outstanding external debt amounted to 49 per cent of GDP in July 2001 and debt servicing has not so far become a critical problem, as most of this debt is concessional in nature. The debt-servicing ratio had been growing over the years to reach 10.8 per cent of merchandise exports in 2001. Private capital inflows have generally been low in Bangladesh. FDI amounted to $166 million in 2001, 14.4 per cent below the figure for 2000. Portfolio investment has been also negligible. The Foreign Exchange which have been under pressure owing to the widening current account deficit and reduced official capital inflows, amounted to just over $1 billion in October 2001, down from nearly $1.5 billion at the end of 2000. For the Least Developed Countries in South Asia such as Bangladesh, Nepal, Maldives and Bhutan, the availability of external resources through private resources has been very much limited and therefore, increase in the level of Official Development Assistance (ODA) appears to be an alternative mode of financing the savings –investment gap in these countries.

In this context the enhancement of ODA flows, which are currently equivalent to only 0.22 per cent of the GNP of the developed countries, is an important objective.

13. The global economy has recently witnessed marked progress in regional integration. The experience of several regional economic groupings such as ASEAN, NAFTA, MERCASOUR etc. shows that regional economic integration can act as a vehicle for progress towards the integration of developing economies with the global economy. There are three directions in which, SAARC, can contribute towards increasing participation of the region in the global economy. First SAARC can build-up a joint front in trade negotiations for greater market access. There are several areas where a common South Asian approach in negotiations can be useful. The south Asian countries can build-up a joint front to demand reduction in support to agriculture, which distorts trade in agriculture. Similarly in the Agreement on Trade in Services, South Asian Countries can come up with a collective response as regards facilitation of movement of natural persons to enter the job market of the developed countries. This is of heightened interest to all the South Asian countries and could go a long way in correcting the current imbalance in the treatment of labour and Capital. In this contest it is noteworthy that during trade negotiation at Cancun in September 03 some developing countries which included India from South Asia, known as group –22 projected a joint front in asking the

developed countries for reduction in the protection to agriculture. Because of solidarity these countries, succeeded in bringing the concerns of the developing countries to the forefront of negotiations.

14. Increasing financial integration in the global economy offers new opportunities for South Asia to increase the availability of external resources for development. For four LDCs Bangladesh, Nepal, Maldives and Bhutan, the flow of FDI has been at low level. In view of falling O.D.A. it is imperative that these economies are able to attract more foreign direct investment. In this context apart from economic reforms in the form of liberalized investment regime, it is necessary to build-up sound infrastructure to attract foreign investment for economic development. There are many areas in which joint projects among South Asian countries can be launched. These include Telecommunication, Shipping, Road Transport, Flood Control projects, energy etc. A recent development of significance in South Asia has been the finalization of SAFTA, which after implementation will increase the size of market. This development will contribute towards increase in the impact of globalization on South Asia through strengthening the linkage of the region with global finance.

15. The revolution in information technology has offered new opportunities for South Asia to participate in the global economy. India's emergence on IT scene as analyzed in Chapter-V,

underlines the potential for South Asia to be a part of the revolution in information technology. To realize full impact of opportunities in this sector, the level of connectivity in the region will have to be increased.

16. The prospects for South Asia's increasing participation in the process of globalization have further increased because of recent developments in the global economy. The fast growing service sector in the world economy has increased the need for supply of manpower from South Asia to the developed countries. This opportunity is also the outcome of demographic dividend, which the South Asia has got because of lack of manpower in the required age groups in the developed countries. In this new synergy, the export of manpower with appropriate technological skill has emerged as a strong force of integration of South Asia with the global economy.

17. The above development can ~~have~~ contribute to positive impact of globalization on South Asia only if the market access for the supply of services in the mode IV of the supply of natural persons can be ensured. It has been pointed out in Chapter-IV of this paper that there has not been meaningful liberalization under WTO in this area.

18. The technological and structural changes in the production system in industrialized country have also created in new set of opportunities for South Asia to integrate with the global economy. Globalization that swept the manufacturing field in the past is now transforming the services sector. Decentralized production of

information – intensive services for global markets coupled with the integration of labour markets via the internet has led to labour intensive work moving across national borders to countries where it can be done efficiently.

Annexure I -----

Table 1 ----

Growth Rates of GDP in South Asian Countries

												Annual averages		
	1994/ 95	1995/ 96	1996/ 97	1997/ 98	1998/ 99	1999/ 00	2000/ 01	2001/ 02	2002/ 03	2003 /04P	2004 /05P	1994- 97	1997-01	2001- 03
Bangladesh	4.2	4.9	4.9	5.4	5.2	4.9	5.9	5.3	4.4	5.5	5.9	4.6	5.4	4.9
Bhutan	6.4	7.4	5.2	7.2	6.4	7.6	5.3	6.6	7.7	.8	7.9	6.3	6.6	7.2
India	7.8	7.3	8.0	4.8	6.5	6.1	4.4	5.6	4.3	7.2	7.8	7.7	5.5	5.0
Maldives	6.6	7.2	9.1	10.4	9.8	7.2	4.8	3.4	6.0	4.3	3.0	7.6	8.1	4.7
Nepal	8.2	2.9	5.6	5.1	3.2	4.5	6.0	4.6	-0.5	4.2	4.5	5.6	4.7	2.1
Pakistan	3.9	5.2	6.8	1.7	3.5	4.2	3.9	2.2	3.4	5.5	5.7	5.3	3.3	2.8
Sri Lanka	5.6	5.5	3.3	6.3	4.7	4.3	6.0	-1.5	4	5.1	5.8	4.8	5.3	1.3
South Asia	7.0	6.8	7.2	4.5	6.0	5.7	4.5	5	4.2	6.9	7.2	7.1	5.2	4.6

Source : South Asia Development & Coop Report - 2004 (RIS)

Annexure II

Table 2

Inflation Rate (Percentage)

Country	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
Year							
1997	8.3	12.3	13.8	14.7	9.8	12.7	12.2
1992	4.6	16.0	11.8	16.8	21.1	10.6	11.4
1993	2.7	11.2	6.4	20.2	8.8	9.9	11.7
1994	3.3	7.2	10.2	3.4	9.0	11.2	8.4
1995	8.9	9.5	10.2	5.5	7.6	13.1	7.7
1996	6.7	8.8	9.0	6.2	8.1	10.7	15.9
1997	2.5	6.5	7.2	7.5	8.1	11.8	9.6
1998	5.4	10.6	13.2	-1.4	8.3	7.8	9.4
1999	11.7	6.8	4.7	3.0	11.4	5.7	4.7
2000	4.1	4.0	4.0	-1.2	3.5	3.6	6.2
2001	1.0	3.4	3.9	0.7	2.4	4.4	14.2
2002	1.2	2.5	4.1	0.9	2.9	3.5	9.6
2003p	5.1	-	5.8	-	4.5	3.1	6.5
2004p	4.5	-	5.0	-	5.0	4.0	6.0

Source : ADB Reports (Various Issues) 2003

Annexure 10.

Table 3.

Selected South and South-West Asian economies: growth rates 1999-2002

	Rates of Growth				
		Gross domestic product	Agriculture	Industry	Services
India	1999	6.1	0.3	4.8	10.1
	2000	4.4	-0.4	6.6	5.6
	2001	5.6	5.7	3.3	6.8
	2002	4.4	-3.1	6.1	7.1
Pakistan	1999	2.8	-5.6	2.3	4.5
	2000	5.9	3.8	9.1	5.0
	2001	4.8	4.7	5.0	4.8
	2002	6.5	5.5	7.0	7.4
Sri Lanka	1999	4.3	4.5	4.8	4.0
	2000	6.0	1.8	7.5	7.0
	2001	-1.4	-3.0	-2.0	-0.5
	2002	3.0	2.8	1.3	3.9

Source: Economic and Social Survey of Asia and the Pacific 2003

Annexure IV

Table 4

Select South and South-West Asian economies: rates of gross domestic savings and investment of GDP, 1999-2002

	Percentage			
	1999	**2000**	**2001**	**2002**
Savings as a percentage of GDP				
India	23.1	2.4	24.0	25.0
Pakistan	12.3	15.6	15.9	15.2
Sri Lanka	19.5	17.4	15.3	15.5
Investment as a percentage of GDP				
India	24.2	24.0	23.7	23.9
Pakistan	15.6	16.0	15.9	13.9
Sri Lanka	27.3	28.0	22.0	24.1

Source: Economic and Social Survey of Asia and the Pacific 2003

Annexure..V..

Table..5.

Selected South and South-West Asian Economies : Inflation and money supply growth (M2) 1999-2002

	Percentage			
	1999	**2000**	**2001**	**2002**
Inflation				
India	3.4	3.8	4.3	3.5
Pakistan	5.7	3.6	4.4	3.5
Sri Lanka	4.7	6.2	14.2	9.5
Money supply growth (M2)				
India	17.1	15.2	14.3	17.2
Pakistan	433	12.1	11.7	14.8
Sri Lanka	13.3	12.8	14.4	19.5

Source: Economic and Social Survey of Asia and the Pacific 2003

Annexure V..A

Table .5.A

GDP Growth Rates in the World Economy, 1996-2004

	1996	1997	1998	1999	2000	2001	2002	2003p	2004p
World	4	4.2	2.8	3.6	4.8	2.4	3	3.2	4.1
Advanced economies (G7)	2.7	3.2	2.8	3	3.5	0.8	1.6	2.1	3.1
Developing countries	6.6	5.9	3.5	3.9	5.7	4.1	4.6	5.1	5.9
Developing Asia	8.3	6.6	4	6.2	6.8	5.8	6.4	7.4	7.8
ASEAN-4	7.3	3.4	-9.4	2.9	5.2	2.9	4.3	4.5	5.9
South Asia	7.5	4.5	6	5.7	4.5	5	4.2	6.9	7.2

Source : South Asia Development & Cooperation Report - 2004

Annexure VI

Table 6

Selected South and South-West Asian economies: budget and current account balance as a percentage of GDP, 1999-2002

Percentage

	1999	2000	2001	2002
Budget balance as a percentage of GDP				
India	-5.4	-5.6	-5.9	-6.5
Pakistan	-6.1	-6.4	-5.3	-7.0
Sri Lanka	-6.9	-9.5	-10.5	-8.5
Current Account balance as a percentage of GDP				
India	-1.1	-0.6	0.3	1.1
Pakistan	-4.1	-1.9	-0.9	2.2
Sri Lanka	-3.6	-6.4	-1.7	-3.6

Source: Economic and Social Survey of Asia and the Pacific 2003

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Annexure VII

Table 7

Selected least developed countriesin South and South-West Asia: budget and current account balance as a percentage of GDP, 1999-2002

Percentage

	1999	2000	2001	2002
Budget balance as a percentage of GDP				
Bangladesh	-4.8	-6.2	-5.5	-4.3
Bhutan	-1.6	-4.1	-11.8	-6.8
Maldives	-4.2	-4.9	-5.3	-7.6
Nepal	-5.3	-4.7	-5.8	--
Current account balace as a percentage of GDP				
Bangladesh	-0.8	-0.7	-1.0	-0.6
Bhutan	-22.5	-26.8	-23.4	--
Maldives	-14.6	-9.5	-10.7	--
Nepal	-5.1	-5.6	-6.2	-6.0

Source: Economic and Social Survey of Asia and the Pacific 2003

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Annexure VIII

Table 8

Selected least developed countries in South and South-West Asia: growth rates, 1999-2002

Percentage

		Rate of Growth			
		Gross domestic product	Agriculture	Industry	Service
Bangladesh	1999	4.9	4.7	4.9	4.9
	2000	5.9	7.4	6.2	5.2
	2001	5.3	3.1	7.4	5.3
	2002	4.8	2.8	6.1	5.1
Bhutan	1999	7.4	5.3	11.6	5.2
	2000	5.7	4.7	4.0	9.1
	2001	6.6	3.2	13.4	6.6
	2002	5.7	--	--	--
Maldives	1999	7.4	3.3	6.8	7.8
	2000	4.6	-0.2	-4.4	-6.3
	2001	2.1	1.6	3.7	1.6
	2002	2.0	1.4	--	--
Nepal	1999	4.5	5.9	6.0	5.4
	2000	6.4	5.0	8.9	6.2
	2001	4.9	4.2	2.7	7.0
	2002	0.8	1.7	0.2	--

Source: Economic and Social Survey of Asia and the Pacific 2003

Annexure IX

Table 9

Overall Fiscal Position of the

South Asian Economies (% of GDP)

Country	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
Year							
1997	-4.3	-2.6	-7.3	-1.4	-3.9	-6.4	-7.9
1998	-4.1	1.0	-9.0	-1.9	-4.6	-7.6	-9.2
1999	-4.8	-1.9	-9.5	-4.1	-3.9	-6.1	-7.5
2000	-6.2	-4.1	-9.5	-4.4	-3.3	-6.6	-9.9
2001	-5.0	-11.8	-9.9	-4.7	-4.5	-5.2	-10.8
2002	-4.6	-6.8	-10.1	-7.3	-3.9	-5.2	-8.9
2003p	-4.2	-6.0	-9.5	-	-2.8	-4.4	-7.5

Source : ADB Data

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Annexure-X

Table.10

Growth Rates of merchandise Trade of South Asian Countries, 1991-2004

Year	South Asia		Bangladesh		Bhutan		India		Maldives		Nepal		Pakistan		Sri Lanka	
	Export	Import	Export	Import	Export	Import	Export	Import	Export	Import	Export	Import	Export	Import	Export	Import
1991/92	5.2	-11.8	12.7	-7.4	7.9	-14.4	-1.1	-24.5	1.9	17	12.8	-0.2	19.8	13.1	8.1	20.7
1992/93	8.0	9.2	16.1	0.5	-9.6	14.0	3.3	10.3	10	18.4	56.1	15.8	14.6	7.3	20.6	15.3
1993/94	15.3	14.3	19.5	15.5	4.9	50.4	20.2	15.1	-19	5.9	18	14.9	0.3	11.7	16.4	14.4
1994/95	21.3	38.7	6.3	2.9	-4.1	-25.7	18.4	34.3	43.1	9.7	3.6	21.9	-1.4	-13.6	12	18.9
1995/96	20.2	21.6	37.1	39.2	10.2	4.6	20.3	21.6	12.7	20.9	-9.7	21.7	16.1	18.5	18.6	11.4
1996/97	6.5	12.5	11.8	19.1	39.6	14.1	5.6	12.4	-6	12.6	1.9	5.8	7.1	16.7	7.6	2.4
1997/98	4.8	2.3	14.0	-7.5	1.7	18.4	4.5	4.6	15.8	15.6	10.2	21.6	-2.6	-6.4	13.3	7.8
1998/99	-0.1	-5.7	16.8	5.4	12.0	3.7	-3.9	-7.1	3.4	1.5	11.9	-12.4	4.2	-8.4	3.4	0.4
1999/00	5.8	10.5	2.9	6.6	-5.9	20.5	11.6	16.5	-4.3	13.6	18.2	-10.3	-10.7	-6.7	-3.9	1.5
2000/01	15.5	11.4	8.2	4.4	6.6	12.8	17.0	13.0	13.2	-1.0	42.3	20.1	8.4	-0.2	19.8	22.4
2001/02	1.1	-1.8	11.4	11.3	-12.9	6.1	0.1	-2.8	1.4	1.3	4.6	-0.2	9.1	6.2	-12.8	-18.4
2002/03	7.0	2.5	-7.6	-8.7	-1.8	-4.0	11.4	6.3	18.1	-2.4	-18.0	-11.4	2.2	-6.9	-2.4	2.2
2003/04p	11.5	11.0	9.5	3.5	6.7	8.5	11.5	12.0	6.3	8.5	5.0	5.0	12.0	14.0	6.5	9.0
2004/05p	12.5	11.5	10.0	7.5	8.5	9.3	13.3	13.8	8.5	11.0	10.0	10.0	10.0	10.0	9.0	12.0

Source : RIS based on Asian Development Outlook 2003

Annexure XI

Table 11

Structure of Merchandise Exports

	Merchandise exports ($ mn.)		Food (%of total)		Agricultural raw materials (% of total)		Fuels (%of total)		Ores and metals (% of total)		Manufactures (% of total)	
	1990	2001	1990	2000	1990	2000	1990	2000	1990	2000	1990	2000
Bangladesh	1671	6530	14	7	7	2	1	0	-	0	77	91
Bhutan	-	-	-	-	-	-	-	-	-	-	-	-
India	17969	43611	16	13	4	1	3	4	5	3	71	77
Maldives	-	-	-	-	-	-	-	-	-	-	-	-
Nepal	204	7.7	13	10	3	0	-	0	0	0	83	67
Pakistan	5615	9242	9	11	10	2	1	2	0	0	79	85
Sri Lanka	1912	4817	34	21	6	2	1	0	2	0	54	77

Source : South Asia Development & Coop Report - 2004

Annexure: ..*X.II*

Table --*12*---

Region-wise Share in Global Exports in Percentage

	1980	1985	1990	1998	2000	2001	2002
Industrial Countries	65.01	67.91	71.37	67.77	63.15	63.19	62.39
Developing Countries	34.99	32.09	28.63	32.23	36.85	36.81	37.61
Africa	4.93	3.47	2.44	1.81	1.98	1.94	1.89
Asia	8.18	10.91	13.06	18.09	19.8	19.3	20.03
South Asia	0.68	0.76	0.8	0.9	0.99	1.03	1.08
East Asia	6.58	8.7	10.45	14.28	14.86	18.28	18.95
China Mainland	0.93	1.45	1.81	2.91	3.95	4.34	5.11
Western Hemisphere	5.46	5.48	4.07	4.37	5.58	5.59	5.37

Source : South Asia Development & Cooperation Report - 2004

Annexure XIII

Table 13

Share of Manufactured Exports to Total Exports of Selected DMCs, Selected Years.

Economy	19675	1980	1985	1990	1995	1999
Hong Kong, China	97.9	97.8	98.1	98.6	99.3	99.6
Korea	81.9	90.5	91.8	94.1	94.3	92.9
Singapore	50.2	51.9	53.9	73.6	86.4	88.5
Taipei, China	81.4	88.2	90.7	93.6	94.1	96.6
People's Republic of China	-	49.7	49.4	74.4	85.6	89.8
Indonesia	-	4.0	13.9	38.4	52.2	58.3
Malaysia	31.4	28.4	32.1	55.8	77.0	82.2
Philippines	22.1	39.7	62.2	72.6	82.7	93.8
Thailand	23.8	39.8	42.7	64.8	74.2	78.0
India	50.9	59.0	58.3	74.7	76.4	-
Pakistan	52.1	50.3	67.4	77.3	84.7	83.8
Sri Lanka	11.1	18.6	33.8	62.0	-	76.1

Source: Staff Estimates

Annexure XV

Table 15

Trends in Long Term External Resource Flows to South Asia, 1994-2000

(Million of dollars)

	1994	1995	1996	1997	1998	1999	2000
Net Resource Flows	15224	9862	13909	13284	12617	7157	16195
Net flow of long-term debt (ex. IMF)	4850	2063	2884	3542	6465	362	8370
Foreign direct investment (net)	1587	2940	3510	4899	3549	3070	3198
Portfolio equity flows	6224	2340	5198	2477	351	1312	2127
Grants (excluding technical coop)	2562	2519	2318	2366	2253	2413	2500
Memo Technical coop grants	1513	1564	1454	1250	1140	1175	1100
Official net resource flows	6055	3089	4888	3542	5068	4984	4041
Private net resource flows	9170	6772	9021	9742	7549	2173	12154

Source : South Asia Development and Cooperation Report - 2004 (RIS)

Annexure : XXII

Table - 22

Summary of Commitments under GATs made by Countries by Modes of Supply (Percentage of commitments on service activities)

Country Group	Cross-border			Consumption abroad			Commercial presence			Natural persons		
	No Limits	Limites	Un-bound	No limits	Limits	Un-bound	No limits	Limits	Un-bound	No limits	Limits	Un-bound
Market Access												
Total	56	10	34	80	8	13	30	66	4	2	92	6
Developed	65	11	25	87	12	2	39	60	1	0	100	0
Developing	44	10	46	70	2	28	20	75	5	5	81	14
Transition	52	11	37	79	11	10	37	61	12	0	99	1
National Treatment												
Total	63	4	33	83	2	15	11	83	6	30	61	9
Developed	70	5	25	95	3	2	0	97	3	17	83	1
Developing	52	3	45	66	1	33	28	63	9	45	34	21
Transition	70	3	27	93	3	4	0	88	12	51	48	1

Source : South Asia Development & Coop Report - 2003 (RIS)

Annexure XIV

Table 14

FDI Inflows in South Asian Countries, 1991-2002

(Million dollars)

	Annual Average 1991-1996	1997	1998	1999	2000	2001	2002
World	254326	481911	686028	1079083	1392957	823825	651188
Developing economies	91502	193224	191284	229295	246057	209431	162145
Developing Asia	59411	109092	99983	105529	142091	106778	94989
Bangladesh	8	139	190	180	280	79	94989
Bhutan	1	-1	-	-	-	-	-
India	1085	3619	2633	2168	2319	3403	3449
Maldives	8	11	12	12	13	12	12
Napal	8	23	12	4	-	21	10
Pakistan	501	713	507	530	305	385	823
Sri Lanka	125	433	150	201	175	82	823
South Sia	1735	4938	3504	3095	3092	3961	4559
South Asia's share in Developing Asia	2.92	4.53	3.50	2.93	2.18	3.71	4.78
South Asia's share in developing countries	1.90	2.56	1.83	1.35	1.26	1.89	2.81

Source : South Asia Development and Cooperation Report - 2004 (RIS)

Annexure XVII

Table 17

Tariff Escalation in the "Quad" by 2-digit ISIC (Industry)

		United States 2001	Canada 2002	EU(15) 2002	Japan 2002/03
Food beverages and tobacco	First stage of processing	3.2	7.9	12.4	25.4
	Semi-processed	9.0	6.8	19.1	30.3
	Fully-processed	13.1	34.3	18.8	22.6
Textiles and leather	First stage of processing	2.2	1.0	0.9	9.8
	Semi-processed	9.8	7.0	6.7	6.8
	Fully-processed	10.3	13.5	9.7	12.0
Non-metalic mineral products	First stage of processing	0.0	0.0	0.0	0.0
	Semi-processed	2.3	0.7	2.9	1.5
	Fully processed	5.4	3.8	4.0	1.1
Basic metal	First stage of processing	0.3	0.0	0.0	0.4
	Semi processed	2.1	0.9	1.9	1.1
	Fully processed	2.5	3.0	0.0	3.0

Source : WTO Annual Report – 2003

Annexure XVI

Table......16

Sectoral Composition of Production in South Asia (as per cent of GDP)

Region	Agriculture		Industry		Services	
Country	1991	2002	1991	2002	1991	2002
South Asia	30.7	24.6	25.6	26.3	43.7	49.1
Bangladesh	29.5	21.9	21.1	25.5	49.4	52.6
Bhutan	43.1	33.9	25.0	37.4	32.9	31.6
India	31.3	25.0	27.9	25.9	40.9	49.2
Maldives	20.6	9.5	17.1	15.5	62.3	75.0
Nepal	48.6	40.6	17.9	21.8	35.5	40.8
Pakistan	25.7	24.2	25.8	22.4	48.6	53.4
Sri Lanka	22.2	20.1	26.6	26.3	51.3	53.6

Source : ADB Report (several issues)

Annexure XXI

Table 2.1

Average workers' remittances per year (US$ million)

	1980-84	1985-89	1990-94	1995-98	1980-89	1990-98
East Asia & Pacific	56	90	129	319	73	214
Latin America & Caribbean	145	282	691	1170	213	9041
Middle East & North Africa	557	668	1119	1159	612	1137
South Asia	558	558	725	1389	558	1020
Bangladesh	41	60	88	135	50	109
Bhutan	0	0	0	00	0	0
India	254	234	410	1000	244	672
Maldives	0	0	0	0	0	0
Nepal	4	6	6	10	5	8
Pakistan	234	225	165	156	229	161
Sri Lanka	25	34	55	89	29	70
Sub-Saharan Africa	74	84	105	202	79	149
Low income	641	643	935	1878	642	1354

Source : World Bank, World Development Indicators

Annexure : XVIII

Table ...18

Contribution of Different Sectors to Output Growth of South Asian Countries (per cent)

Country / Year	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
Agriculture							
1985-90	26.12	34.37	29.01	9.6	51.57	22.73	21.41
1990-95	19.48	37.85	26.32	n.a.	32.75	26.27	14.86
1995-02	17.62	30.29	21.37	7.2	39.23	22.34	21.36
Industry							
1985-90	20.78	31.18	30.41	13.0	17.16	28.61	27.72
1990-95	28.79	42.97	26.77	n.a.	28.70	22.65	28.85
1995-02	27.87	39.17	23.76	20.8	20.77	21.17	24.73
Services							
1985-90	53.10	34.75	40.58	77.40	34.11	28.61	50.87
1990-95	53.73	22.80	46.91	n.a.	41.45	51.08	56.13
1995-02	54.57	33.57	54.87	72.0	43.89	56.49	53.99

Source : ADB ~~data~~. Reports (Several Issues)

Annexure XIX

Table 19

Annual Average Growth of Primary commodity Prices of Direct Relevance to the LDCs.

	1989-1993	1994-1997	1998	1999
Total	-3.8	6.0	-13.0	-14.2
All Food	-2.8	7.3	-14.3	-18.3
Food	-1.7	4.8	-13.8	-18.1
Tropical beverages	-8.2	23.3	-17.3	-20.9
Coffee	-10.8	31.3	-28.5	-23.2
Tea	1.9	4.9	4.3	-0.7
Agriculture raw materials	-1.3	2.6	-10.8	-10.3
Tobacco	3.1	7.6	-5.5	-7.0
Cotton	-0.6	10.4	-8.3	-22.9
Jute	-1.5	5.8	-14.2	-2.0
Ores and metals	-7.4	5.6	-16.5	-1.8
Copper	-5.6	6.3	-27.3	-4.9
Crude petroleum	4.2	5.0	-31.8	-7.6

Source UNCTAD - 2000

Ch IV

Annexure XX

Table 20

Post-UR Tariffs in Quad Countries on Select Items of Exports from Developing Countries

Production description	EU	Japan	USA	Canada
Milk (>3%fat)	113	220	66	241
Milk in powder with or without sugar	55-66	160-280	55-85	243-243
Yogurt and Butter	69	300-620	63-80	238-300
Cereals and Preparation	32-84	70-900	0-2	1-77
Groundnuts, shelled	0	470	132	0
Cane sugar, raw and white	71-73	85-100	77-90	7
Grape juice	215	30	14	10
Coffee preparations	8	130	27	0
Tea preparations, essences	0	100	91	0
Smoking tobacco	52	30	310	5
Industrial products				
Woven fabrics of >80% combed wool	12	8	25	14
Babies garments, knitted or croch synthetic fibres	11	22	16	18
Women's blouses and trousers knitted or croch., man-made fibres	11	9-11	32	18
Men's shirts, woven, of cotton and man made fibres	11	7	20-28	17-18
Waterproof footwear	13	27	38	20
Footwear with Leather uppers	6	140	10	18
Ceramic tables, kitchen,-ware, etc. Drinking glasses of glass glassware for kitchen, toilets, etc.	8-9	0	28-29	0

Source : UNCTAD/WTO, 2000

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