Module-1

Basic Features of South Asian and Sub-Saharan Economies

Pranav Kumar*

This module is written under a research grant from the Economic Affairs Division of the Commonwealth Secretarial, London to CUTS International, Jaipur. Views expressed in this module are those of the author and not necessarily reflect those of their institutions and of the Commonwealth Secretariat and CUTS International.

* Deputy Head & Policy Analyst, CUTS Centre for International Trade, Economics & Environment (CUTS CITEE), Jaipur; Email: pk@cuts.org

Table of Contents

List of Tables

Acronyms

ASEAN	Association of Southeast Asian Nations
BLP	Below the Poverty Line
GDP	Gross National Product
FDI	Foreign Direct Investment
LDCs	Least Developed Countries
MDGs	Millennium Development Goals
NTBs	Non-Tariff Barriers
RTAs	Regional Trade Agreement
SOEs	State-Owned Enterprises
SSA	Sub-Saharan Africa
SAARC	South Asian Association of Regional Cooperation
SAFTA	South Asian Free Trade Area
SMC	SAFTA Ministerial Council
UNCTAD	United Nations Conference on Trade and Development

1. Introduction

Sub-Saharan Africa (SSA) and South Asia are the two poorest regions of the world. Despite some upturn in economic growth rates in recent years, poverty is still widespread and in many parts of the region it is extremely acute. On average, 40 to 45 percent of the total population of the two regions lives below poverty line (BPL). Economic growth rates with a few exceptions are still not high enough to make a real dent in the pervasive poverty and enable these countries to catch up with other developing nations. What is needed is a sustained and substantial increase in real per capita gross domestic product (GDP) growth, coupled with significant improvements in social conditions.

The economic and social situation in SSA remains fragile and vulnerable to domestic and external shocks, and the region has a long way to go to make up for the ground lost over the past two decades. Investment remains subdued, limiting efforts to diversify economic structures and boost growth. Furthermore, a number of countries have only recently emerged from civil wars that have severely set back their development efforts. SSA countries, therefore, face major challenges: to raise growth and reduce poverty, and to integrate themselves into the world economy.

With a combined population of some 1.4 billion, South Asia is home to half the world's poor. Economic growth in South Asia has been accelerating since the early 1990s and has contributed to significant reduction in poverty in the region. Although the share of South Asia in the world's total poor declined by roughly 10 percentage points between 1990 and 2000, the region still accounts for about 40 percent of the total poor. Using the headcount ratio, about one third of the population in South Asia was under the poverty line in 2000. The success of poverty reduction in South Asia will be crucial in the achievement of the Millennium Development Goals (MDGs) of halving poverty by the year 2015.

The paper briefly narrates the basic features and characteristics of the economies of SSA and South Asia. Section 1 is the introductory overview, while Section II gives an account of the present growth and poverty situation in the two regions. Section III makes an analysis of current trends in economic growth, presenting a comparative picture of the two regions in terms of various economic indicators *vis-à-vis* other regions of developing country. Section IV tries to evaluate the current state of regional cooperation on trade and investment in the two regions separately.

2. Economic Growth and Poverty Situation in the South Asia and SSA

2.1 Sub-Saharan Africa

Africa has been undergoing a major transformation. The SSA of present day is quite different from what it was in the early 1980s. The clearest indicators of this transformation are the growth and expansion of democratic governments aided by significant economic reforms and liberalisation. Africa's problems, however, remain daunting. Africa is the only region of the world where poverty has increased in the last one decade. Some of these African countries still struggle with civil strife, high population growth rates, an impoverished human resource base, large debt burdens, and minimal investment flows. For example, 35 of SSA's 48 countries are still classified as low income and 28 countries are classified by the World Bank as severely indebted. Much of Africa is not fully integrated into the global economy as their share in world trade and investment is miserably low. In fact, the share of SSA in world merchandise trade has decreased over the years (see Table 3).

Table 1: Gross Domestic Product (Real)

	Constant Prices (2000 $Millions)							Average Annual Growth (%)		
	1980	1990	2000	2001	2002	2003	2004	1980-89	1990-99	2000-04
Sub-Saharan Africa	222,703	269,422	334,895	346,453	358,273	372,971	391,961	1.8	2.4	4.0
Angola	6746	8464	9129	9416	10768	11139	12378	3.5	1.0	8.1
Benin	1084	1412	2255	2368	2474	2571	2650	2.7	4.7	4.1
Botswana	1130	3175	5251	5526	5804	6193	6494	10.9	4.7	5.5
Burkina Faso	1263	1750	2601	2754	2875	3062	3182	3.9	4.1	5.2
Burundi	559	865	709	724	756	747	783	4.5	-3.2	2.3
Cameroon	6339	8793	10,075	10530	10952	11393	11815	4.5	1.3	4.1
Cape Verde		303	531	552	577	613	640	6.3	5.9	4.9
Central African Republic	730	809	953	967	959	886	898	1.6	1.8	-2.0
Chad	661	1099	1383	1527	1655	1902	2463	6.7	2.3	14.7
Comoros	136	181	204	209	213	218	222	2.9	1.2	2.2
Congo, Dem. Rep.	7025	7670	4306	4215	4363	4612	4925	2.1	-5.0	3.7
Congo, Rep.	1727	2765	3220	3342	3496	3524	3651	3.8	0.9	3.1
Cote d Ivoire	7706	8274	10425	10436	10266	10095	10261	0.7	3.5	-0.6
Djibouti		608	553						-1.7	
Equatorial Guinea		248	1341	1361	1600	1835	2019		20.7	11.8
Eritrea			634	692	697	724	738		7.9	3.6
Ethiopia		6241	6528	7104	7239	6972	7904	2.1	4.0	3.7
Gabon	3265	3904	4932	5055	5055	5187	5259	0.5	3.2	1.6
Gambia, The	213	305	421	445	431	460	484	3.5	2.7	3.2
Ghana	2640	3267	4978	5187	5420	5675	5959	2.6	4.3	4.6
Guinea		2113	3112	3237	3373	3413	3505		4.5	3.0
Guinea-Bissau	115	186	215	216	201	202	206	3.8	1.4	-1.5
Kenya	7087	10557	12705	13262	13314	13683	14276	4.1	2.2	2.7
Lesotho	400	614	859	887	918	946	976	4.1	4.2	3.2
Liberia	1391	433	561	577	599	411	422	-3.3	0.2	-8.7
Madagascar	3099	3266	3878	4111	3590	3941	4149	0.8	1.7	0.9
Malawi	1000	1243	1744	1657	1704	1808	1936	2.4	3.8	3.0
Mali	1536	1630	2422	2716	2828	3039	3105	0.5	3.9	6.3
Mauritania	582	686	1081	1120	1146	1219	1303	1.9	4.5	4.7
Mauritius	1517	2676	4465	4713	4851	4992	5212	5.9	5.3	3.7
Mozambique	2157	2189	3778	4273	4621	4986	5360	-0.9	6.3	8.9
Namibia	2002	2263	3414	3495	3729	3858	4088	1.1	4.0	4.7
Niger	1523	1507	1798	1956	1984	2090	2090	-0.4	2.4	3.9
Nigeria	29112	32376	42078	43382	44054	48766	51692	0.8	2.4	5.4
Rwanda	1457	1782	1811	1933	2114	2133	2218	2.5	-1.6	5.2
Sao Tome and Principe		38	46	48	50	52	54		1.7	4.0
Senegal	2417	3281	4385	4591	4642	4946	5251	3.2	3.0	4.4
Seychelles	290	393	615	601	609	571	559	3.1	4.5	-2.4
Sierra Leone	754	824	634	588	754	828	908	0.5	-3.7	11.2
Somalia										
South Africa	95,503	110,945	132,878	136,512	141,549	145,761	152,276	1.4	2.0	3.4
Sudan	5538	7079	12330	13082	13867	14699	15581	2.4	5.3	6.0
Swaziland	554	1024	1389	1414	1455	1490	1521	6.5	3.3	2.4
Tanzania		6801	9079	9646	10345	11081	11822		2.7	6.9
Togo	964	1071	1329	1327	1382	1419	1461	1.5	3.6	2.6
Uganda		3077	5926	6219	6622	6912	7300	2.3	7.2	5.4
Zambia	2730	3028	3238	3396	3508	3688	3887	1.0	0.2	4.6
Zimbabwe	4376	6734	7399	7199	6883	6167	5908	3.3	2.7	-5.9

Table 2: Gross Domestic Product Per Capita (Real)

	Constant Prices (2000 $Millions)							Average Annual Growth (%)		
	1980	1990	2000	2001	2002	2003	2004	1980-89	1990-99	2000-04
Sub-Saharan Africa	581	523	507	512	517	526	541	-1.1	-0.2	1.6
Angola	861	804	660	662	737	740	799	0.5	-1.8	5.1
Benin	292	273	313	319	323	325	324	-0.7	1.3	0.9
Botswana	1077	2222	2994	3130	3277	3496	3671	7.5	2.4	5.3
Burkina Faso	192	205	230	237	239	247	248	1.3	1.2	1.9
Burundi	135	153	109	109	111	106	107	1.1	-4.4	-0.6
Cameroon	724	755	678	695	709	723	737	1.6	-1.2	2.1
Cape Verde		852	1179	1196	1221	1267	1292	4.1	3.4	2.4
Central African Republic	314	270	252	252	247	225	225	-1.0	-0.6	-3.3
Chad	143	182	168	180	188	208	261	3.9	-0.8	10.8
Comoros	405	416	377	378	379	379	378	0.3	-1.0	0.0
Congo, Dem. Rep.	251	203	86	82	83	85	88	-0.8	-7.7	0.8
Congo, Rep.	958	1113	937	942	956	935	940	0.6	-2.3	0.0
Cote d Ivoire	924	654	623	612	592	573	574	-3.5	0.6	-2.3
Djibouti		1089	774						-3.8	
Equatorial Guinea		703	2988	2961	3403	3815	4101		17.8	9.3
Eritrea			178	187	180	179	174		6.2	-0.9
Ethiopia		122	122	129	126	120	132	-1.1	1.1	0.8
Gabon	4689	4078	3877	3897	3830	3867	3860	-2.7	0.2	-0.2
Gambia, The	327	325	320	328	308	320	327	-0.2	-0.8	0.2
Ghana	234	211	251	255	261	268	275	-0.6	1.7	2.4
Guinea		340	369	376	383	379	381		1.2	0.7
Guinea-Bissau	144	183	158	154	138	135	134	1.4	-1.6	-4.5
Kenya	435	451	414	423	416	418	427	0.3	-0.6	0.5
Lesotho	310	386	481	494	510	526	543	1.8	3.0	3.1
Liberia	744	203	183	183	187	128	130	-4.9	-3.3	-9.9
Madagascar	342	271	239	247	209	224	229	-2.0	-1.3	-1.8
Malawi	162	131	151	140	141	146	154	-1.9	2.0	0.7
Mali	220	183	208	226	229	239	237	-1.9	1.2	3.2
Mauritania	362	338	409	411	408	422	437	-0.5	1.8	1.6
Mauritius	1570	2532	3762	3927	4009	4085	4223	4.9	4.0	2.7
Mozambique	179	163	211	234	247	262	276	-1.9	3.0	6.7
Namibia	2029	1619	1802	1811	1902	1943	2035	-2.3	0.8	3.2
Niger	246	178	153	158	157	160	155	-3.4	-0.9	0.4
Nigeria	425	358	358	360	358	387	402	-2.0	-0.3	3.1
Rwanda	280	251	226	231	245	244	250	-1.2	-1.7	2.6
Sao Tome and Principe		330	332	338	344	349	354		-0.1	1.6
Senegal	406	411	424	433	428	445	461	0.2	0.4	2.0
Seychelles	4507	5614	7579	7405	7277	6893	6688	2.3	2.9	-3.2
Sierra Leone	233	202	141	126	154	162	170	-1.9	-4.3	6.5
Somalia										
South Africa	3463	3152	3020	3046	3122	3181	3346	-1.2	-0.3	2.5
Sudan	277	272	375	390	405	422	439	-0.4	2.8	4.0
Swaziland	981	1330	1329	1324	1337	1347	1358	3.3	0.1	0.6
Tanzania		259	261	272	286	300	314		-0.2	4.8
Togo	346	270	248	240	243	243	244	-2.1	0.5	-0.2
Uganda		173	244	248	255	257	262	-1.3	3.9	1.9
Zambia	451	361	303	311	316	327	339	-2.3	-2.2	2.8
Zimbabwe	599	637	587	567	538	479	457	-0.5	0.8	-6.5

Table 3: Exports of Goods and Services (Real)

	Constant Prices (2000 $Millions)							Average Annual Growth (%)		
	1980	1990	2000	2001	2002	2003	2004	1980-89	1990-99	2000-04
Sub-Saharan Africa	66,392	72,535	110,601	112,092	112,871	120,689	127,834	0.0	5.0	3.7
Angola	3618	4804	8182	7951	9753	9443	10632	1.6	7.2	7.2
Benin	391	247	342	359	359	376	378	-4.5	2.0	2.5
Botswana	691	1993	3222	3063	2736	2603	2595	13.8	4.0	-5.8
Burkina Faso	226	253	237	244	273	300	307	-1.7	-0.1	7.5
Burundi	10	18	55	69	66	116	89	3.8	5.2	16.0
Cameroon	1054	1870	2343	2387	2363	2453	2495	6.5	2.7	1.5
Cape Verde	31	42	146	167	182	208	226	0.3	13.9	11.5
Central African Republic								-1.3		-8.4
Chad	159	214	234	225	211	481	1301	7.4	2.8	52.1
Comoros	9	28	31	27	28	24	32	11.0	-2.2	-0.2
Congo, Dem. Rep.	667	1224	964	983	1062	1065	1279	11.2	-2.5	6.7
Congo, Rep.	1118	2024	2586	2635	2917	2800	3027	4.9	5.6	3.8
Cote d Ivoire	3048	4084	4211	4152	4372	4263	4997	1.2	1.5	3.8
Djibouti										
Equatorial Guinea										
Eritrea			96	131	127	86	80		-1.4	-7.4
Ethiopia		579	984	1032	1172	1351	1842	3.6	5.9	14.6
Gabon	1118	1647	1825	1857	1915	1976	2041	1.8	2.3	2.9
Gambia, The	112	182	202	160	183	200	211	0.5	-1.1	3.2
Ghana	853	1005	2429	2430	2389	2453	2547	1.4	10.5	1.0
Guinea		501	735	791	781	739	765		4.4	0.1
Guinea-Bissau	22	17	68	71	71	76	79	-3.9	14.2	3.7
Kenya	1479	2374	2743	2878	3134	3340	4002	3.3	1.2	9.5
Lesotho	58	83	256	339	430	395	447	4.7	10.7	13.5
Liberia										
Madagascar	976	756	1190	1304	706	993	1008	-1.8	3.3	-5.9
Malawi	315	354	446	491	499	480	465	2.1	4.8	0.6
Mali	175	266	649	811	1067	907	905	4.7	10.1	8.1
Mauritania	338	412	379	365	338	306	332	3.5	-1.5	-4.3
Mauritius	732	1739	2801	3101	3394	3632	3570	10.1	5.8	6.6
Mozambique	436	237	744	1127	1310	1485	1840	-8.9	10.5	23.2
Namibia	1096	954	1558	1525	1739	2139	1994	1.4	4.3	8.7
Niger	257	214	320	298	286	282	287	-3.2	3.1	-2.7
Nigeria	21726	16042	22416	21536	19138	25252	26045	-1.5	5.1	4.7
Rwanda	171	210	151	264	279	274	304	4.2	-6.4	15.5
Sao Tome and Principe		9	15	22	26	28	34		1.5	19.6
Senegal	520	807	1310	1424	1470	1472	1526	3.7	6.2	3.4
Seychelles		252	464	503	533	613	638		4.9	8.7
Sierra Leone	199	144	115	128	128	232	261	-1.1	-7.8	25.0
Somalia										
South Africa	19504	22613	37034	37687	37888	37991	38937	1.6	5.6	1.1
Sudan	764	334	1891	1736	1790	2135	2434	-5.0	8.8	7.4
Swaziland	424	778	1133	1318	1345	1264	1278	7.5	3.5	2.0
Tanzania		685	1307	1500	1559	1649	1534		7.8	4.2
Togo	499	414	409	460	476	508	523	0.4	1.4	6.1
Uganda		229	663	757	844	911	968	1.4	16.0	9.9
Zambia	812	559	682	880	939	1034	1164	-3.0	3.5	13.1
Zimbabwe	638	1011	2660	2521	2210	1942	1981	4.3	10.8	-8.2

Since mid-1990s, the SSA countries have been experiencing a steady economic growth of 3-4 percent per annum, a clear departure from the erratic growth in GDP of past decades. This also reflects to a certain extent the implementation of appropriate economic policies accompanied by political stability and good governance. However, this upward trend in economic growth hides more than what it reveals. The region's economic activity is highly concentrated in only a few countries. Out of 49 countries of the group, only a few countries account for a major share in GDP, exports and foreign direct investment (FDI-inflow – the three main indicators of economic prosperity. South Africa, the single largest economy of the region alone accounted for almost one-third of GDP and export earnings of the entire SSA countries (see Table 3).

Table 4: Major Economic Indicators (Year 2003)

	GDP (current US$bn)	Exports of goods and services (current US$bn)	FDI (current US$bn)
Sub-Saharan Africa	**439.29**	**135.48**	**10.10**
Angola	13.19	8.95	1.41
Kenya	14.38	3.57	0.08
Nigeria	58.39	13.86*	1.20
Tanzania	10.30	1.69	0.25
Sudan	17.79	2.58	1.35
South Africa	159.89	45.30	0.82

Source: World Development Indicators 2005, World Bank
**the figure is of year 1999*

Table 5: Sub-Saharan Africa's Share in World Merchandise Trade (in percentage)

	1980	1985	1990	1995	2000	2001	2002
Exports	3.7	2.5	1.9	1.5	1.5	1.5	1.5
Imports	3.1	2.1	1.6	1.6	1.3	1.4	1.4

Source: UNCTAD, Handbook of Statistics

Despite this upturn in economic growth, the achievements on poverty reduction front have been rather disappointing. The SSA countries' poverty gap with the rest of the world has widened significantly. According to World Bank's World Development Indicators 2005 database, in SSA, the percentage of population living below US$1 a day income has increased from 41 percent in 1981 to 46 percent in 2001 (See Table 6). The study of Chen and Ravallion (2000), however, finds that the share of Africa's population earning less than US$1 per day fell by 1.4 percentage points over the 1990-98 period. But at the same time this decline was by 10 percentage points in South Asia and by 14.9 percentage points in East Asia. This meant that SSA's share of the world's population living below US$1 per day increased from 19 percent in 1990 to 24 percent in 1998 (Moser and Ichida, 2001).

Table 6: Population Living Below US$1 per day

	Percentage of Population living below US$1 per day		
	1990	**2001**	**Change (1990-01)**
East Asia and Pacific	29.60	14.90	-14.7
Eastern Europe and Central Asia	0.50	3.60	3.1
Latin America and Caribbean	11.30	9.50	-1.8
Middle East and North Africa	2.30	2.40	0.1
South Asia	41.30	31.30	-10
Sub-Saharan Africa	44.60	46.40	1.8

Source: World Development Indicators 2005, World Bank

Africa and MDGs

Another important issue in this context is to meet the MDGs target by 2015. Despite a steady economic growth of recent years, the SSA's economy is still missing the target of seven percent annual growth set by the UN among its eight MDGs for ending poverty by 2015. The island of Mauritius, hardly a mainstream African country and Ghana may be the region's only two countries to halve the proportion of its people living on less than US$1 a day. For majority of SSA countries stemming the tide of HIV/AIDS by 2015 is still a dream. Only a handful of countries, such as the Cape Verde islands, Mauritius, Namibia and the Seychelles look set to meet half the targets. Even Botswana, a shining example of stability that has been spending its diamond wealth wisely, is likely to fail to meet most of them. The goals are ambitious, but other once very poor regions have been doing far better (see Table 7).

Table 7: Africa Still Lags MDGs Progress up to September 2005

	Sub-Saharan Africa	South Asia	Latin America & Caribbean
Reduce extreme poverty by half	↓	√	X
Reduce hunger by half	**X**	X	√
Reduce mortality of under 5-year olds by two-thirds	↓	X	√
Measles immunisation	↓	X	↑
Halt and reverse spread of HIV/AIDS	↓	↓	X
Halt and reverse spread of malaria	↓	X	X

Source: United Nations

*Notes: ↓ No progress; **X** Target not expected to be met by 2015 if prevailing trend persists; √ Target expected to be met by 2015 if prevailing trend persists; ↑ Target already met or very close to being met*

2.2 South Asia

South Asia's economy performed well in the 1990s and during the past five years it has done even better. The growth rate has improved steadily, and is today among the highest in Asia. Similar improvements have taken place in the macroeconomic fundamentals (lower inflation, smaller current account deficit, and declining fiscal deficit in the last fivw years), in the saving and investment rates, and in the integration with the global economy. While developments in India are clearly the predominant factor in the improved economic performance of South Asia, most other countries in the region have been on a similar trend although their improvements generally are more modest (see Table 8).

Table 8: Major Economic Indicators (Year 2003)

	GDP (current US$bn)	Exports of goods and services (current US$bn)	FDI (current US$bn)
South Asia	765.08	121.65	5.16
Afghanistan	4.71	..	..
Bangladesh	51.91	7.91	0.10
Bhutan	0.70	0.13*	0.00
India	600.64	90.57	4.27
Maldives	0.72	0.58	0.01
Nepal	5.85	1.07	0.01
Pakistan	82.32	14.84	0.53
Sri Lanka	18.24	6.54	0.23

Source: World Development Indicators 2005, World Bank
** 2002*

In many ways, the 1990s was a decade of reforms in South Asia – reforms that covered most areas of the economy and were broadly similar across many of the countries in the region. Key areas of reforms included:

- enhancing macroeconomic stability by improving revenues through tax reforms and curbing of fiscal deficits, strengthening the independence and capacity of central banks for more effective monetary policy and bank supervision, and managing exchange rates more flexibly to avoid appreciation of the real exchange rates;
- improving the environment for private sector development through measures such as abolition of the investment-licensing regimes, deregulating and eliminating most price controls, privatising or providing greater managerial autonomy for state-owned enterprises (SOEs), and generally expanding space for private sector activities including areas that were traditional government monopolies such as telecommunications, electronic media, and power generation and distribution;
- revitalising the banking sector by strengthening prudential regulations, deregulating interest rates, enhancing competition by liberalising entry of private banks, and introducing professional management for public banks and/or privatizing them; and
- reversing the highly protective trade policies of the past by dismantling trade protection instruments, reducing tariffs, and simplifying the trade regime.

Undoubtedly, the annual economic growth has been impressive in most of the South Asian countries in the last one decade (see Table 9). However, its contribution in poverty reduction has not been very uniform across the region. During the 1990s, only India and Pakistan have been able to translate the high economic growth into significant poverty reduction. While in India the percentage of population living below US$1 a day income decreased from 42.31 percent in 1993 to 35.30 percent in 1999, in Pakistan this decrease is much sharper from 47.76 percent in 1990 to 13.36 percent in 1998. In Bangladesh and Nepal, the poverty rate remains very high despite achieving a reasonably good economic growth. Sri Lanka, which has the lowest incidence of poverty in South Asia, too has witnessed a rise in poverty in recent years. Between 1990 and 2000, the percentage of population living below US$1 a day income increased from 3.82 percent to 7.60 percent in Sri Lanka (see Table 10).

What will it take to end poverty in South Asia? Although, the South Asian countries are growing at the rate of 5-6 percent per annum, they still need to accelerate and sustain their economic growth rates. If they can maintain growth rates of 8 percent a year, income poverty in the subcontinent could fall to single-digits in two decades (Devarajan and Nabi, 2006). This may not be easy for all South Asian countries as the region faces severe infrastructure constraints such as power cuts, blocked ports, congested roads, and inefficient rail and air transport. These bottlenecks will make it difficult to even maintain current growth rates. Another problem for South Asia is low savings and investment rates, which could be an impediment in achieving high growth rates.

Table 9: GDP Growth (Annual %)

	1990	1995	2000	2003
Afghanistan	..	..	..	..
Bangladesh	5.94	4.93	5.94	5.26
Bhutan	7.71	6.84	7.00	6.70
India	5.81	7.65	3.94	8.60
Maldives	..	..	4.39	9.19
Nepal	4.47	3.30	6.12	3.09
Pakistan	4.46	4.96	4.26	5.15
Sri Lanka	6.40	5.50	6.00	5.90

Source: World Development Indicators 2005, World Bank

Table 10: Poverty Headcount Ratio at US$1 a day (PPP) (% of Population)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Afghanistan	..	..	..	..	..	..	..	..	..	..	..
Bangladesh	..	35.86	..	..	..	28.61	26.70	..	..	..	36.03
Bhutan	..	..	..	..	..	..	..	..	..	..	..
India	..	..	..	42.31	..	..	..	..	..	35.30	..
Maldives	..	..	..	..	..	..	..	..	..	..	..
Nepal	..	..	..	..	..	39.13	..	..	..	..	..
Pakistan	47.76	..	33.90	..	..	..	6.82	..	13.36	..	..
Sri Lanka	3.82	..	..	..	..	6.56	..	..	..	..	7.60

Source: World Development Indicators 2005, World Bank

2.3 Sub-Saharan Africa and South Asia: A Comparison

Table 11 and 12 provide a comparative analysis of the economies of South Asia and SSA. In Table 11, where a comparison has been made on the basis of three indicators, viz. annual GDP growth, annual GDP per capita growth and poverty rate, the trend clearly shows that South Asia has been more consistent in terms of accelerating economic growth rate over the past two decades and translating this growth into poverty reduction. The trend of economic growth in SSA countries has been inconsistent and erratic except for a brief time period in 1990s. As a result, their efforts on poverty reduction front have failed miserable. The SSA countries have been witnessing a rising trend in poverty since 1980.

Table 11: Major Economic and Social Indicators – A Comparison between Sub-Saharan Africa and South Asia

	South Asia			Sub-Saharan Africa		
	GDP Growth (Annual %)	GDP Per Capita Growth (Annual %)	Poverty Headcount ratio (% of population)	GDP Growth (Annual %)	GDP Per Capita Growth (Annual %)	Poverty Headcount ratio (% of population)
1980	6.30	3.88	..	-0.48	1.58	..
1981	6.28	3.90	51.50	-1.51	0.85	41.60
1982	3.90	1.62	..	3.21	-3.34	..
1983	6.58	4.27	..	0.04	-4.34	..
1984	4.43	2.22	46.80	2.12	-0.34	46.30
1985	5.66	3.46	..	2.58	-2.79	..
1986	4.86	2.54	..	4.32	-0.11	..
1987	4.43	2.16	45.00	3.10	-0.27	46.80
1988	8.61	6.27	..	1.09	1.43	..
1989	5.77	3.54	..	0.71	0.23	..
1990	5.64	3.44	41.30	-1.11	-2.36	44.60
1991	1.84	-0.21	..	0.48	-2.09	..
1992	5.56	3.53	..	1.91	-3.85	..
1993	4.44	2.42	40.10	3.82	-1.68	44.10
1994	6.61	4.58	..	5.05	-0.38	..
1995	6.95	4.92	..	3.67	1.02	..
1996	6.71	4.71	36.60	2.43	2.26	45.60
1997	4.16	2.24	..	2.51	0.82	..
1998	5.43	3.51	..	3.16	-0.07	..
1999	6.42	4.50	32.20	3.29	0.11	45.70
2000	4.21	2.37	..	3.36	0.83	..
2001	4.52	2.72	31.30	3.91	0.89	46.40
2002	4.45	2.70	..	-0.48	1.05	..
2003	7.49	5.74	..	-1.51	1.64	

Source: World Development Indicators 2005, World Bank

International trade and FDI are today considered as the two most powerful engines of economic growth. Both South Asia and SSA countries have fairly open trade and investment regime. Again South Asia countries have been doing much better than SSA countries. The exports from South Asia have increased from US$34.80bn in 1990 to US$127.9bn in 2005, a four fold increase in a time period of 12 years. Contrary to this, SSA has been only able to increase its export earnings from US$77.72bn in 1990 to US$135.48bn in 2003 (see Table 9). This is despite the fact that most of the Sub-Saharan African countries have preferential market access in major developed countries. As regards FDI in, there is nothing to cheer about as both regions have failed to attract sufficient FDI.

Table 12: External Sector Indicators: A Comparison between Sub-Saharan Africa and South Asia

	South Asia			Sub-Saharan Africa		
Years	Exports (US$bn)	Imports (US$bn)	FDI (net inflows, US$bn)	Exports (US$bn)	Imports (US$bn)	FDI (net inflows, US$bn)
1990	34.80	47.77	0.54	77.72	71.96	1.01
1991	36.42	46.61	0.39	74.34	74.39	2.08
1992	39.89	51.35	0.75	74.09	75.65	1.54
1993	43.02	53.12	1.11	71.09	74.07	2.39
1994	49.22	62.32	1.58	74.14	78.96	3.29
1995	58.71	78.04	2.93	87.39	95.10	4.33
1996	62.60	86.35	3.51	97.46	95.90	4.21
1997	67.62	88.46	4.90	99.01	103.95	8.42
1998	68.20	88.10	3.55	87.11	103.12	6.96
1999	74.05	92.55	3.07	93.99	98.74	9.07
2000	86.89	107.63	3.27	110.40	104.42	6.34
2001	91.27	106.37	4.41	108.07	106.08	14.89
2002	104.22	114.90	4.78	114.93	109.72	8.99
2003	121.65	133.38	5.16	135.48	134.43	10.10
2005	127.9	185.8	9.8			

Source: World Development Indicators 2005, World Bank

3. Recent Trends in Socio-economic Development in South Asia and SSA in Comparison with Other Economies

3.1 Sub-Saharan Africa

Africa is the world's poorest continent. But for the first time in a generation amid all the bad news there is hope for a better Change. An increasing number of countries in SSA are showing signs of economic progress, reflecting the implementation of better economic policies and structural reforms aided by debt relief. These countries have successfully cut domestic and external financial imbalances, enhancing economic efficiency. They have given greater priority to public spending on health care, education, and other basic social services. In addition, there has been a growing movement toward more open and participatory forms of government that encourage cooperation between the state and civil society.

Strong global growth, improved macroeconomic performance, significant aid flows, rising FDI, and a continued spell of relative political stability helped GDP in SSA expand by 5.6 percent in 2006, the third consecutive year that growth exceeded 5 percent (see Table 13). Despite high oil prices, oil-importing countries in the region (even when excluding South Africa) continued to grow rapidly, with output increasing by close to 5 percent. Output growth among oil exporters was also strong, but the expansion slowed from 7.4 percent in 2005 to 6.9 percent in 2006 as some countries pushed against production constraints and unrest in the Niger Delta undermined growth in Nigeria's oil sector.

Table 13: SSA Forecast Summary: Annual Percent Change Unless Indicated otherwise

	1991-2000[a]	2004	2005	2006e	2007f	2008f	2009f
GDP at market prices (2000$)[b]	2.3	5.3	5.8	5.6	5.8	5.8	5.4
GDP per capita (units in $)	-0.4	2.9	3.4	3.5	3.7	3.8	3.4
PPP GDP[c]	3.4	5.5	6.0	5.9	6.2	6.0	5.7
Private consumption	1.2	5.6	5.9	5.9	4.9	4.7	4.8
Public consumption	2.6	4.4	6.5	6.7	6.3	6.3	6.4
Fixed investment	3.7	9.0	10.0	15.5	11.6	12.3	9.4
Exports, GNFS[d]	4.7	6.4	7.4	5.8	6.9	6.4	6.8
Imports, GNFS[d]	4.4	9.4	10.2	12.7	8.6	8.6	8.4
Net exports, contribution to growth	0.5	-1.4	-2.4	-4.8	-5.5	-6.5	-7.2
Current account balance / GDP (%)	-2.1	-1.1	-0.1	-0.5	-1.4	-2.3	-2.7
GDP deflator (median, LCU)	10.1	7.0	6.7	7.2	5.0	4.5	4.5
Fiscal balance / GDP (%)	-4.0	-0.7	1.1	3.3	0.9	-1.4	-3.0
Memo items: GDP							
Sub-Saharan Africa excluding South Africa	2.6	5.5	6.2	5.9	6.6	6.2	5.7
Oil exporters	2.7	6.0	7.4	6.9	8.3	7.4	6.6
CFA countries	2.6	4.1	3.8	3.2	3.4	4.2	3.5
South Africa	1.8	4.8	5.1	5.0	4.4	5.2	4.9
Nigeria	2.8	6.0	6.9	5.6	6.4	6.6	5.9
Kenya	1.9	4.9	5.8	5.9	5.1	5.2	4.9

Source: World Bank.
Note: e = estimate; f = forecast; LCU = local currency.
Growth rates over intervals are compound average; growth contributions, ratios, and the GDP deflator are averages.
GDP measured in constant 2000 $.
GDP measured at PPP exchange rates.
GNFS denotes goods and non-factor services.

Growth was broadly based, with output in half of the countries in the subcontinent advancing by 5.0 percent or more. Only 7 of 34 oil-importing economies grew by less than 2.0 percent: the Comoros, Eritrea, Guinea-Bissau, Swaziland, the Seychelles, Togo, and Zimbabwe. While export growth has been strong, domestic demand has provided the largest contribution to growth. Investment is estimated to have contributed more than two percentage points to the growth of oil importing economies in 2006 and investment has risen to represent some 20 percent of GDP among oil-importing countries from an average of 17 percent in the 1990s. Resource-poor and landlocked countries, typically expected to perform poorly in an environment characterised by high oil prices, have also recorded stronger economic growth from a historical perspective (3.8 and 5.9 percent, respectively).

The performance of South Africa, the region's largest economy, continued to surprise on the upside, with GDP expanding by five percent for the third consecutive year. Robust domestic demand underpinned this growth, with consumer demand and investment responding to low interest rates, rising real incomes, and public-sector investment in transportation and sports infrastructure in the run-up to the FIFA World Cup in 2010. GDP grew at a 5.6 percent annualised clip in the fourth quarter, despite an 8.4 percent contraction in the agricultural sector, due to particularly rapid growth in mining and manufacturing.

Several underlying factors can affect the rate of output change. Key among these are the rate of investment, increase in the size of the workforce, and changes in economic policies. A country's macroeconomic policies will affect its growth performance through their impact on certain economic variables. For example, a high rate of inflation is generally harmful to growth because it raises the cost of borrowing and thus lowers the rate of capital investment; but at low, single-digit levels of inflation, the likelihood of such a trade-off between inflation and growth is minimal. At the same time, highly variable inflation makes it difficult and costly to forecast accurately costs and profits, and hence investors and entrepreneurs may be reluctant to undertake new projects. Likewise, given that financial resources in the form of domestic savings and foreign grants and loans are limited, a larger budget deficit will mean that more of those limited resources must be devoted to financing the budget deficit. Fewer resources will thus be available for the private sector. If the fiscal deficit increases to an unsustainable level, private investors' perception of country risk is likely to become increasingly negative and hurt private investment.

Finally, outward-oriented trade polices are conducive to faster growth because they promote competition, encourage learning-by-doing, improve access to trade opportunities, and raise the efficiency of resource allocation.

The evidence for SSA suggests that the recent economic recovery was underpinned by a positive economic environment influenced – either directly or indirectly – by improvements in macroeconomic policies and structural reforms. The estimated growth equation indicates that per capita real GDP growth is positively influenced by economic policies that raise the ratio of private investment to GDP, promote human capital development, lower the ratio of the budget deficit to GDP, avoid overvalued exchange rates, and stimulate export volume growth.

3.2 South Asia

GDP in South Asia expanded a robust 8.6 percent in 2006, reflecting generally expansionary policy conditions, although down slightly from 2005 due primarily to a deceleration of growth in Pakistan (see Table 14). Inflation remains high and has shown limited signs of declining, despite lower oil prices in the second half of the year and a modest tightening of fiscal and monetary policies. Price pressures are partly being kept in check by product-specific tax cuts and direct and indirect subsidisation of consumer energy prices, but by supporting real incomes these measures are contributing to strong domestic demand. Higher oil prices in the first half of 2006 and strong domestic demand contributed to deterioration in the region's current account balance despite strong exports and remittances inflows.

Table 14: South Asia Forecast Summary: ***Annual percent change unless indicated otherwise***

	1991-2000a	2004	2005	2006e	2007f	2008f	2009f
GDP at market prices (2000 $)b	5.2	7.8	8.7	8.6	7.9	7.5	7.2
GDP per capita (units in $)	3.2	6.1	7.0	7.0	6.4	6.0	5.8
PPP GDP	6.4	7.9	8.8	8.7	8.0	7.5	7.3
Private consumption	4.0	5.7	7.3	8.5	7.1	6.5	6.2
Public consumption	3.9	5.3	8.9	5.6	5.3	4.8	4.6
Fixed Investment	5.5	10.2	14.0	12.3	11.2	10.5	10.2
Exports, GNFSd	9.0	14.5	19.1	21.8	13.5	13.0	12.7
Imports, GNFSd	7.9	32.9	21.7	24.2	12.9	12.0	11.7
Net exports, contribution to growth	-3.6	-2.6	-3.4	-4.4	-4.4	-4.4	-4.3
Current account balance/GDP (%)	-1.6	-1.3	-1.9	-2.4	-2.3	-2.1	-2.1
GDP deflator (median, LCU)	8.0	4.9	4.6	7.6	8.6	6.7	6.1
Fiscal Balance/GDP (%)	-7.8	-6.7	-6.7	-6.2	-5.9	-5.6	-5.3
Memo items: GDP							
South Asia excluding India	4.4	6.1	6.8	6.4	6.1	6.2	6.2
India	5.5	8.3	9.2	9.2	8.4	7.8	7.5
Pakistan	3.9	6.4	7.8	6.6	6.4	6.3	6.1
Bangladesh	4.8	6.3	6.0	6.2	6.0	6.1	6.4

Source: World Bank
Note: e = estimate; f = forecast; LCU = local currency units.
a. Growth rates over intervals are compound average; growth contributions, ratios, and the GDP deflator are averages.
b. GDP measured in constant 2000 US$.
c. GDP measured at PPP exchange rates
d. GNFS denotes goods and non-factor services

With the exception of Nepal, which is only now emerging from political strife, growth throughout the region was strong in 2006. In India, GDP increased by 9.2 percent, although signs of slowing appeared toward the end of the year. In the fourth quarter, GDP growth slowed to 8.6 percent, due mainly to weak (1.5 percent) agriculture growth (down from 8.7 percent in the fourth quarter of 2005), despite a firming in manufacturing output to 10.7 percent (relative to 8.2 percent in the fourth quarter of 2005). In Pakistan, GDP increased by 6.6 percent in 2006, significantly down from the 7.8 percent growth rate recorded the previous year. In part, the slowdown reflects a weakening of industrial production in the third quarter, itself likely a reflection of the waning effect of the boost to production provided by the reintroduction of quotas on Chinese clothing and textile exports the year before. Indeed, growth in the value of merchandise exports in the region declined from 30 percent in mid-year to 16 percent by the end of the year.

Output among the smaller countries in the region increased a strong 6.4 percent, the notable exception being Nepal, where economic activity expanded a disappointing 1.9 percent on account of political turmoil. Output in the Maldives was supported by a rebound in tourism and post-tsunami reconstruction efforts, while a new hydroelectric plant helped boost output in Bhutan.

3.3 Comparison with Other Economies

Developing economies across all continents have been growing at the rate of more than five percent per annum for the last couple of years. Growth, however, is particularly strong in China, which grew 10.7 percent, and India, where output rose 9.2 percent in 2006. Both South Asia and SSA also recorded vigorous GDP growth in 2006. While in South Asia growth was propelled by strong exports and burgeoning domestic demand, caused in part by low real interest rates and strong capital and remittance inflows, in SSA high oil prices have fueled an investment boom among regional oil exporters, supporting a 6.9 percent increase in their GDP.

The non-oil exporting countries of SSA benefited from increased aid flows over the past several years, strong commodity prices, a period of relative peace, improved macroeconomic policies, and the cumulative effects of several years of microeconomic policy reform have combined to yield three years of growth of five percent or more among oil importers. This robust performance has been broad based, with more than half the countries in the region growing by five percent or more and only six growing by less than two percent.

Despite this impressive growth performance of recent years the two region trails behind East Asia and Pacific region (Table 15). In the East Asia and Pacific region, growth, led by China, was very strong. The region has been consistently growing at the rate of over eight percent per annum since 1980 and as per the forecast this growth would continue in the coming years. Contrary to this while South Asia has achieved eight percent real GDP growth in 2005, SSA still managing an annual GDP growth of 5-6 percent. For both the region, achieving an over eight percent annual economic growth is extremely crucial in order to meet MDGs target of halving the poverty by 2015.

As regards FDI inflow, the two regions – SSA and South Asia – are at the bottom of the ladder among developing countries (Table 16). In the year 2005, the two region combined together could attract only US$24bn FDI as against the whopping US$96bn of East Asia & Pacific and US$70bn received by Latin America and Caribbean. FDI inflows to developing countries reached a record US$325bn in 2006, up US$44bn from 2005. Virtually all of the gains occurred in Eastern Europe and Central Asia. Moreover, FDI continues to be concentrated in a few of the largest middle-income countries, although the degree of concentration has declined somewhat over the past few years. FDI to China declined slightly in 2006, but China still accounted for almost one-quarter of FDI inflows to developing countries, down from almost one-third in 2002. Almost half of FDI inflows went to the five top destinations in 2005-06, down from almost two-thirds in 2000.

Table 15: Real GDP† Growth of Developing Countries: A Comparison

	1980-2000	2005	2006e	2007f	2008f	2009f
East Asia and Pacific	8.0	9.0	9.5	8.7	8.0	7.9
Eastern Europe and Central Asia	NA	6.0	6.8	6.0	5.7	5.8
Latin America and Caribbean	2.2	4.7	5.6	4.8	4.3	3.9
Middle East and North Africa	3.9	4.3	5.0	4.5	4.6	4.8
South Asia	5.4	8.7	8.6	7.9	7.5	7.2
Sub-Saharan Africa	2.1	5.8	5.6	5.8	5.8	5.4

Source: Global Development Finance 2007, World Bank
Note: e = estimate; f = forecast; NA = Not Available

Table 16: Net FDI Flows to Developing Countries: A Comparison

	2000	2001	2002	2003	2004	2005	2006e
East Asia and Pacific	45.1	47.7	57.0	53.5	65.8	96.4	88.3
Eastern Europe and Central Asia	25.2	25.4	26.4	34.2	62.7	73.2	116.4
Latin America and Caribbean	79.8	70.6	51.0	43.0	62.5	70.0	69.4
Middle East and North Africa	4.8	4.1	4.9	8.1	6.8	13.8	19.2
South Asia	4.4	6.1	6.7	5.6	7.3	9.9	12.9
Sub-Saharan Africa	3.5	12.1	5.3	9.1	7.1	13.8	12.5

Source: Global Development Finance 2007, World Bank.
Note: e = estimate

4. Regional Trade and Investment Cooperation in the Two Regions

4.1 Sub-Saharan Africa

The majority of SSA countries are members of one or more regional or sub-regional arrangements that seek to promote economic coordination, cooperation or integration among the member countries concerned. The various African regional economic blocs, and indeed the individual countries that comprise their membership, are at varying stages of development and implementation of their regional arrangements. The blocs' scope covers various socio-economic, developmental and political considerations, including the promotion of intra-regional trade, socio-economic policy coordination, and management or development of shared physical infrastructure and the environment. Some of the African regional arrangements also cover issues of common interest in the areas of public governance, defense and security, among other socio-economic and political dimensions.

Some of the many African sub-regional arrangements have a long history of existence, dating back to the pre-independence era, which has been punctuated by occasional stagnations or reversals in a few cases, and only modest achievements at best in others.

† GDP in 2000 constant dollars; 2000 prices and market exchange rates

Some African countries have only recently rekindled their interest in economic integration, but for different reasons from the initial de-colonisation agenda, including the desire to overcome the colonially imposed "artificial" boundaries. They have been inspired by the success of integration efforts in Europe and the Americas.

Much of African regional integration history shows that they initially arose from political rather than economic or developmental agendas, but more recently they have been re-launched with an economic focus. Some regional economic groupings have been shallow arrangements that have tended to "skip" the necessary sequencing (progression through the development stages).

African integration includes, as one of its objectives, the promotion of intra-regional trade, including preparing members for greater global competition and bargaining power. However, liberalisation in Africa's regional trade has been limited by, among other factors: costly overlapping memberships, including some bilateral agreements; different time horizons for full liberalisation of trade among member states and sub-regions implying that considerable trade barriers – both tariff and NTBs – continue to inhibit intra-regional trade and cross-border trade; delays by some member states in signing trade treaties and protocols, followed by additional delays in implementation.

There has been relatively more biases towards participation in international trade negotiations at the expense of efforts at the regional level, resulting in a decline of Africa's share of global trade from five percent in the 1980s to only two percent by 2002. Although some groupings have launched free trade areas enabled by trade protocols and other instruments and steering and overseeing committees, de facto substantial barriers to intra-regional trade still exist.

Overall, as a share of the continent's global trade, intra-regional trade in Africa is generally low (see Table 17), even where changes in membership are taken into account. Trade is also constrained by lack of diversification, due to the high concentration on similar primary commodities and lack of value adding, as well as the exclusion of informal sector trade.

Some countries face a difficult trade-off between public revenue losses from trade liberalisation and the long-term benefits from trade integration. This tends to delay the ratification of trade protocols and postpone their implementation. Also, some countries, e.g. South Africa in SADC, overwhelmingly dominate intra-regional trade.

Table 17: Intra-regional Trade as percentage of Total Trade (1970-2003)

	1970	1980	1990	1998	2003
Exports:					
COMESA	9.7	9.1	8.1	8.9	8.6
SADC	9.4	2.7	6.9	6.0	6.0
Imports:					
COMESA	6.7	2.8	3.4	3.9	5.8
SADC	4.9	3.8	6.0	6.1	6.3

Source: IMF Direction of Trade Statistics, cited in Y. Yang et al. (2005).

4.2 South Asia

South Asia has experienced unprecedented growth, averaging close to 6 percent per annum since the 1990s. This growth is impressive because many developing countries grew more slowly during this period. As India accounts for more than three quarters of the region's gross domestic product (GDP), its growth has had a decisive impact on the overall regional growth. India grew at 3.2 percent during 1965-81, accelerated to 5.1 percent during 1981-87, and then to 6 percent during 1987-2004. While India has led the way, the other South Asian countries including Bangladesh and Pakistan have also shown remarkable improvements in economic growth. It is this steady rise in growth that has attracted the world's attention to the South Asia region.

While South Asia made significant progress in integrating with the global economy, integration within the region remained limited. South Asian countries have maintained a higher level of protection within the region than with the rest of the world. Restrictive policies within the region have neutralised the beneficial effects of common cultural affinity, common geography, and the "gravitational" pull of proximity on movement of goods and people within the region.

Table 18 shows the comparison between various Southern regional trade agreements (RTAs). All these RTAs have been formed over the last two decades. South Asia has the lowest level of intra-regional trade among all. ASEAN and Mercosur have done extremely well by increasing their share to 22.4 and 20.8 percent respectively in 2001. Even the African RTAs, all of which were formed in 1990s, have done reasonably well in promoting their intra-regional trade.

Table 18: Intra-Regional Export Shares: A Comparison of SAARC with other Southern RTAs

	1990	2001	Year in Force
Latin America			
Andean Group	4.2	11.2	1988
Mercosur	8.9	20.8	1991
Africa			
COMESA*	6.3	5.2	1994
SADC**	3.1	10.9	1992
UEMOA	12.1	13.5	2000
Asia			
ASEAN/AFTA	19.0	22.4	1992
SAARC/SAFTA	3.2	4.9	1985

**Prior to 2000, data unavailable for Namibia and Swaziland*
*** Prior to 2000, data unavailable for Botswana, Lesotho and Swaziland*
Sources: UNCTAD, Handbook of Statistics 2002; WTO, International Trade Statistics 2002

South Asia is the least integrated region in the world, where integration is measured by intra-regional trade in goods, flow of capital and ideas. Intra-regional trade as a share of total trade is the lowest for South Asia. There is little cross-border investment within South Asia. The flow of ideas, crudely measured by the cross-border movement of people, or the number of telephone calls, or the purchase of technology and royalty payments, are all low for South Asia. In South Asia, only seven percent of international telephone calls are regional, compared to 71 percent for East Asia. Poor connectivity, cross-border conflicts, and concerns about security, have all contributed to South Asia being the least integrated region in the world.

The rapid growth that South Asia has experienced, however, has generated interest in, and political support for, increased regional integration. On January 6, 2004, the South Asian countries signed a South Asia Free Trade Agreement (SAFTA). The Agreement on SAFTA has entered into force on January 01, 2006, upon completion of formalities including ratification by all the Contracting States and issuance of notification by the SAARC Secretariat. Overall objective of SAFTA is to secure free trade in SAARC region by 2016.

The Article 7 of SAFTA provides for the schedule of tariff reductions for the Non-LDCs and LDCs. Non-LDCs Members of SAARC (India, Pakistan and Sri Lanka) would reduce their tariffs to 20 percent within a time frame of two years (by January 2008) from the date of coming into force of the Agreement i.e. July 2006. If the actual tariff rates are below 20 percent, then there shall be an annual reduction on Margin of Preference basis of 10 percent on actual tariff rates for each of the two years. The subsequent tariff reductions from 20 percent or below to 0-5 percent shall be done within a period of five years i.e. by 2013 (for Sri Lanka, it is six year i.e. by 2014) years, beginning from the third year from the date of coming into force of the Agreement.

LDCs Members of SAARC (Bangladesh, Bhutan, Maldives & Nepal) would reduce their existing tariff to 30 percent within a time frame of two years (by January 2008) from the date of coming into force of the Agreement i.e. July 2006. If the actual tariff rates are below 30 percent, then there would be an annual reduction on Margin of Preference basis of five percent on actual tariff rate for each of the two years (by January 2008). The subsequent tariff reductions from 30 percent or below to 0-5 percent shall be done within a period of eight years (by 2016), beginning from the third year from the date of coming into force of the Agreement. Notwithstanding against the above provisions the Non-LDC member states shall reduce their tariffs to 0-5 percent for the products of the LDC member states within a period of three years beginning from the date of coming in to force of the Agreement (see Table 18).

In principle, by January 2015, the provision of SAFTA would fully supersede SAPTA and free trade would be the rule rather than the exception. In practice, each country is allowed to maintain a sensitive list to protect the interests of the domestic stakeholders. This would be subject to a maximum ceiling and shall be finalised after negotiations among the contracting states with flexibility to the least developed contracting states to seek protection in respect to the products of their export interests. Non-LDC Member states would maintain smaller sensitive List for the LDC Member states. The sensitive Lists are subject to review every four years or earlier with a view to reducing the number of items, which are to be traded freely among the SAARC countries.

The SAFTA Agreement also provides for Institutional mechanism of SAFTA Ministerial Council (SMC), Safeguard Measures in case of surge in imports of product(s) covered under SAFTA concessions, and a detailed Dispute Settlement Mechanism. Apart from provisions for longer phase out schedules and longer sensitive Lists to be maintained by the LDCs, it provides for technical assistance in trade related areas and some relaxations for imposing safeguard measures against LDCs. The Agreement also provides, as mandated in the 10th SAARC Summit, for compensation of revenue due to the implementation of the Trade Liberalisation Programme.

Table 19: Tariff Reduction Proposed Under SAFTA

SAARC Countries	**First Phase (Two Years)[a]**	**Second Phase**	
	1/7/2006-1/7/2008	**1/7/2008-1/7/2013**	**1/7/2008-1/7/2016**
LDCs (Bangladesh, Nepal, Bhutan, Maldives)	Reduce maximum tariff to 30 percent		Reduce tariffs to the 0-5 percent range in 8 years (equal annual reductions recommended but not less than 10 percent)
Non-LDCs (India, Pakistan, Sri Lanka)	Reduce maximum tariff rate to 20 percent	Reduce tariffs to the 0-5 percent range in 5 years (Sri Lanka in 6 years) Reduce tariffs to 0-5 percent for the products of LDCs within a time frame of 3 years	s

[a] *These phased tariff cuts for intra –SAFTA trade may not apply to items on each country's sensitive list'*
Source: Compiled from World Bank Report, Trade policy in South Asia

Regional integration also provides opportunities to make progress in areas that otherwise would not take place in the absence of regional cooperation. Some of these opportunities include addressing the problems of energy shortage, relaxing the mobility constraints for lagging and land-locked regions, overcoming high transaction cost due to poor trade facilitation across regions, and reaping the positive benefits emerging from regional cooperation. The gains from these opportunities can contribute to higher sustained growth. Importantly, better economic cooperation can lead to better political relations thereby reducing conflicts and associated social and economic costs.

References

Chen, Shaohua and M. Ravallion, (2000). *"How did the World's Poorest Fare in the 1990s?"* World Bank Policy Research Working Paper, No. 2409.

International Monetary Fund, (2007). *"World Economic and Financial Surveys: Regional Economic Outlook of Sub-Saharan Africa",* IMF.

Moser, G. and T. Ichida, (2001). *"Economic Growth and Poverty Reduction in Sub-Saharan Africa",* IMF Working Paper WP/01/112.

Devarajan, S. and I. Nabi, (2006). "*Leveraging Growth to End Poverty in South Asia",* India Development Policy Review 2006, World Bank.

World Bank (2005), *"World Development Indicators 2005 Database",* the World Bank.

World Bank, (2006). "*Africa Development Indicators 2006",* the World Bank.

World Bank, (2007). *"Global Development Finance 2007: The Globalisation of Corporate Finance in Developing Countries"*, the World Bank.

World Trade Organisation, (2006). "*International Trade Statistics 2006",* WTO.